



IGU Quarterly Update – Q2 2017

FNSB Assembly

July 20, 2017



IGU Has Issued Stop Work Orders

IGU Work Stoppage

IGU has Stopped All Meaningful Work on Interior Energy Project, including:

- Pentex Acquisition
 - Pentex Purchase & Sale Agreement & IEP Financing Agreement (June 26)
 - Pentex Asset, Corporate & Legal Due Diligence (June 26)
 - IGU/Pentex Utility Integration Planning (June 26)
- Gas Supply Acquisition
 - Cessation of Discussions with Alternative Supply Seller (June 26)
 - Cessation of Term-Sheet Negotiations with Natural Gas Seller (July 7)
 - Cessation of Term-Sheet Negotiations with State of Alaska (July 7)

Why

AIDEA is now questioning **\$850K** SETS Loan Expenses incurred by IGU in advancement of Pentex Acquisition Costs and Gas Supply Acquisition Costs

Allowed:	Construction Project Management Conversions NP Storage	
Questioned:	Gas Supply Due Diligence Integration Planning Pentex Purchase Agreements	\$850,000

Why it Matters: The Math

IGU Approved Budget	
	APPROVED FY 18 7mo Budget
Income	
Total Income	284,540.00
Expenses	
Total Contractual Services	185,540.00
Total Materials Expenses	13,700.00
Total Payroll Expenses	77,000.00
Total FY18 7Month Budget	286,240.00

FNSB Grant Balance	
Total Contract Amount	2,997,920.27
Spent FY 2013	(303,364.00)
Spent FY 2014	(1,304,556.00)
Spent FY 2015	(111,061.00)
Spent FY 2016	(130,574.00)
Spent FY through April 30, 2017	(382,976.51)
Funds available after April 30, 2017	765,388.76
Estimated amounts to spend May & June 2017	(120,986.61)
Budgeted contract revenues - excluding interest and deprecation expense not reimbursed by FNSB	
Remaining contract funds after June 30, 2017	644,402.15

Questioned Expenses:	\$850,000
Gas Supply Grant:	<u>- \$150,000</u>
Expense Exposure:	\$700,000
7 Month Budget:	<u>+ \$286,240</u>
Total Potential Obligation:	\$986,240
Operating Funds (FNSB Grant):	\$644,402
Reserve Funds:	<u>+ \$300,000</u>
Total Operational Funds:	\$944,402
Total Potential Obligation:	\$986,240
Total Operational Funds:	<u>- \$944,402</u>
Balance (Exposure):	- \$ 41,838

AIDEA Administration Denial of IGU's Request and Failure to give Assurance have resulted in a substantial negative exposure for IGU

Work Stoppage, in this instance, is the **only prudent course of action available to the IGU consistent with our fiduciary responsibilities.**

Background: Evolution of Project and Work Requirements

- 2013
 - IGU acquires RCA Certified Service Area (CPCN) for North Pole, Badger Road and the “Hill, Loop and Ridge”
- 2014
 - IGU acquires Original SETS Loan
 - Submission of Required Quarterly Reports, detailing IGU expenditures under SETS Loan, to AIDEA commences
 - Pentex announcement and restatement of intent to Sell
 - Titan LNG facility to Hilcorp
 - Local assets to whomever will meet asking price

Background: Evolution of Project and Work Requirements

- 2015
 - IGU Amended & Restated SETS Loan (Attachment 1)
 - Legislative passage of HB 105 (Attachment 2)
 - Increasing AIDEA Legislative Reporting requirements
 - Making future financing with SETS Loan funds contingent on:
 - Definition of a complete project plan
 - AIDEA passage of a “HB 105 Resolution” describing that plan
 - Transition of IEP to Cook Inlet project Configuration
 - Salix selected as development partner
 - AIDEA announces intent to purchase Pentex “to facilitate its transfer to local control”
 - North Pole Distribution System Construction
 - State (AIDEA) purchases FNG/Pentex
 - AIDEA Solicitation for “Local Control Entity (LCE)” (Attachment 3)
 - IGU formally expresses interest in being LCE (Attachment 4)
 - AIDEA and IGU initiate discussions of AIDEA resale of Pentex to IGU as LCE
 - IGU asks, and AIDEA denies, if in the interest of saving time and money, if it may “rely on AIDEA’s Pentex purchase Due Diligence” (Attachment 5)
 - Submission of Required Quarterly Reports detailing IGU expenditures under SETS Loan to AIDEA

At the time IGU took out the SETS Loan, IGU was - and was expected to remain - a relatively small independent utility with core of service in North Pole.

FNG/Pentex, the larger utility, was in private hands.

State of Alaska Administration was supposed to acquire gas supply for the utilities

Background: Evolution of Project and Work Requirements

- 2016
 - AIDEA formally opens negotiations with IGU for purchase of Pentex with Term-Sheet proposal
 - At AIDEA request, IGU engaged in planning assessment and document review of Salix Agreements and Gas Supply Agreements
 - Gas Supply Invoices submitted to and Approved by AIDEA in SETS Loan Quarterly Report - Q2
 - IGU Due Diligence of Pentex Assets commenced
 - Due Diligence Invoices submitted to and Approved by AIDEA in Required SETS Loan Quarterly Report – Q3
 - IGU drafts and submits Salix facility design criteria to AIDEA
 - IGU attends Salix “face-to-face” with AIDEA
 - IGU invited by AIDEA to join IEP Gas Team
 - AIDEA IGU Negotiations on Pentex Purchase and IEP Financing re-start under Memorandum of Understanding (MOU) framework

IGU has a Fiduciary Responsibility to perform Due Diligence on Pentex assets it considers purchasing.

AIDEA insistence on sale of full Pentex corporation expands scope of DD to include corporate and legal due diligence.

Under either scenario, an agreed utility integration plan is requisite within MOU and for both AIDEA & IGU Board approval

Early 2017: AIDEA First Questions Expenses

- **January**

- AIDEA and IGU Enter MOU (Attachment 6)
- AIDEA and IGU negotiations of Pentex Purchase & Sale Agreement (PSA), IEP Financing Agreement (FA) and other MOU-related Agreements commenced

- **February**

- AIDEA alerts IGU the MOU mandates IGU must “pay its own expenses” relative to negotiation of Pentex Purchase & Sale, IEP Financing and other MOU-related Agreements
- AIDEA “questions” IGU’s historic and continuing use of SETS Loan funds for gas supply, due diligence and utility integration planning efforts
- Negotiations with AIDEA on PSA/FA continue

- **March**

- IGU and AIDEA act to extend effective date of MOU to April 30

AIDEA claims that MOU “pay your own expenses” clause precludes use by IGU of its only available capital funding - SETS Loan proceeds.

2nd Quarter 2017: IGU Pursues Solutions

- **April**

- AIDEA staff recommends Loan Modification as its desired course of action to address questioned expense
- At AIDEA Executive Director's request, IGU submits letter:
 - Describing circumstances underpinning change in project scope and work requirements
 - Formally initiating discussions to resolve "question(s)" relative to IGU gas supply, due diligence and utility integration planning efforts
- AIDEA/IGU Full-Team Face-to-Face Negotiation Session 1 – April 19
- AIDEA/IGU Full-Team Face-to-Face Negotiation Session 2 – April 27

Possible solutions to expense issue offered by AIDEA staff included:

Staff Level:

Identify Task(s) within Loan which can reasonably accommodate expanded work requirements

Executive Director Level:

Modification of Loan for Non-Material Change (Attachment 7)

Board Level:

- a) Loan Modification for Material Change
- b) Authorization of use of Grant Funds

Mid-Quarter: Seeking to Advance Pentex Purchase

- **May**

- Interparty Management Meeting I – May 8
 - Pentex Gas Supply: Agreement on conduct of future gas supply acquisition activities
 - MOU Extension – IGU Resolution: Agreement on IGU actions to effectuate MOU extension
 - Use of IGU SETS Loan Proceeds:
 - AIDEA pledges to define course of action toward resolution
 - IGU to provide AIDEA staff segregated costs breakdown for past efforts and estimate of cost of future efforts
 - AIDEA pledges to work cooperatively to reach resolution
 - PSA/FA Negotiations: Agreement to hold interparty “Technical Team” meeting(s) to expedite negotiations
- AIDEA/IGU Full-Team Face-to-Face Negotiation Session 3 – May 15
- AIDEA/IGU Full-Team Face-to-Face Negotiation Session 4 – May 22
- AIDEA/IGU Technical Team Negotiation Session 1 – May 31
 - Without attorneys, core negotiators-only
 - “Come to deal”, be creative
 - Tentative Agreement on most outstanding items

Close of 2nd Quarter

- **June**

- AIDEA/IGU Technical Team Negotiation Session 2 – June 2
 - Limited to discussion of (6 or 8) items remaining in dispute
 - IGU submission of draft language on 5 items to AIDEA – June 8
- AIDEA/IGU Full-Team Face-to-Face Negotiation Session 5 – June 19
 - Failure to gain acceptance, by full AIDEA team, of AIDEA Technical Team agreements
 - AIDEA legal to create new redline
- IGU Letter to AIDEA Executive Director Springsteen officially requesting Clarification of Terms within IGU SETS Loan – June 21 (Attachment 8)
 - Drafted in consultation with AIDEA staff
 - Requests: Inclusion of budget components “(Pentex) Acquisition Costs” and “Gas Supply Efforts”, and amendment of internal budget line-item totals to accommodate
- IGU provides AIDEA with draft “Response Letter” detailing IGU needs – June 27 (Attachment 9)
 - Acknowledgement of appropriateness of questioned expenses
 - Assurance that administration and staff will support Loan Modification at time of HB 105 resolution adoption
 - Assurance that no action to request return of questioned funds would be taken by AIDEA
- IGU Issues Cessation of Work Orders to Stantec Contractors – June 26
For tasks relative to gas supply, due diligence, utility integration and PSA/FA

Close of 2nd Quarter

- **June Continued**
 - Interparty Management Meeting II – June 27
 - Hosted at FEDC
 - Attended by AIDEA Board-level Representatives, local AIDEA negotiators and Governor's Office representative
 - Called in attempt to resolve issues related to outstand PSA/FA and questioned expenses
 - IGU hands-over Gas Supply Work Products to Pentex – June 28
 - AIDEA Board Meeting of June 29
 - Pentex Budget and Rate increase
 - Resolution Authorizing \$1,500,000 IEP grant funds to Pentex for LNG Storage FEED
 - Resolution Authorizing IGU \$150,000 IEP grant fund reimbursement to IGU for Gas Supply efforts

Current Status

- **July**

- IGU Issues Cessation of Work Orders to Gas Supply Team – July 6
- Per Board direction, IGU Attorney submits Letter to AIDEA outlining IGU position – July 10 (Attachment 10)
 - HB 105 does not bar modification of IGU SETS Loan
 - MOU does not bar use of SETS Loan proceeds for efforts relative to the Pentex purchase
 - Requests Written Assurance AIDEA does not consider the questioned expenses a “liability”
- Per AIDEA \$150K Grant Resolution, IGU submits Invoices related to Gas Supply – July 12

Current Status

- **July**

- AIDEA Letter Response to IGU Attorney – July 18 (Attachment 11)
 - Claims HB 105 bars Loan Modification
 - Disavows AIDEA knowledge of IGU's use of Loan proceeds for:
 - Pentex Acquisition efforts (including Due Diligence and Utility Integration Planning)
 - IEP Gas Supply Acquisition
 - Denies IGU request for Loan Modification

Conclusion

IGU, pursuant to its fiduciary responsibilities, has been forced to issue Stop Work Orders on activities related to:

- Pentex Purchase & Utility Integration
 - PSA/FA
 - Due Diligence
 - Integration Planning
- Gas Supply Acquisition

AIDEA Administration has Failed to provide Requested Relief or Assurances

IGU Board will be meeting to consider its options...