

IGU Presentation: Memorandum of Understanding with AIDEA for the Financing of the IEP and Integration of the FNSB Natural Gas Utilities

January 3, 2017



1/3/17 Final Rev 11

IEP PURPOSE AND GOALS

“ . . . to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible . . . ”

Improve air quality within the FNSB non-attainment area

Purpose of Presentation

- To update IGU Board Members on the current status of the negotiations between AIDEA and IGU on the Memorandum of Understanding (MOU) with AIDEA for the financing and integration of the FNSB natural gas utilities, including IGU purchase of Pentex
- To provide citizens information on the details of the IEP plan, including the capital program, the financing plan and the integrated utility plan and layout the vision for the way forward
- To seek feedback from the local community and leadership regarding the IEP implementation program represented by the MOU

Definitions

■ Titan LNG plants

- Titan 1 Current LNG plant providing FNG with approximately 1B* in LNG
- Titan 2 New LNG plant, integrated into Titan 1 that will provide 3B in LNG
- Titan 3 Expansion of the LNG plant (Titan 1 & 2) to meet increase demands as demands materialize. Will provide additional 3B in LNG

■ Distribution System by Phase

IGU

- 1 Customer service lines and meters for the 73 miles of gas mains installed in 2015
- 2 Install 68 miles of gas mains along with customer service lines and meters
- 3 Install 128 miles of gas mains along with customer service lines and meters

FNG

- Customer service lines and meters for the existing 134 miles of gas mains and expansion of up to 40 miles of gas main.

■ Storage

- 5.2 Million gallons of storage located in Fairbanks
- Two 75,000 gallon bullet tanks located in North Pole

***1B = 1 billion ft³ of liquid natural gas = approx. 7.46 Million Gallons of fuel oil**

Utility Integration MOU (1 of 2)

SCOPE (CREATES FULL INTEGRATED FNSB NATURAL GAS UTILITY)

- Titan 1 upgrades, Titan 2 and Titan 3 - construction
 - Fairbanks LNG Storage - 5.2 million Gallons - construction
 - North Pole LNG Storage – 150,000 Gallons - construction
 - Full buildout of IGU Phases 1-3 Distribution System & FNG Expansion Area
 - Services and Meters
 - Customer Conversion Program
-
- **NOTE:** MOU is contingent upon an Economically sufficient Gas Supply Contract and Due Diligence.

Utility Integration MOU (2 of 2)

Establishes Key Business & Financial Terms

- **Overall financing plan**
 - Commitment of \$330M in total to IGU's development & startup
 - Structure of \$125M SETS Loans
 - Standards and process for issuance of \$150M of AIDEA bonds for IGU capital program
- **IGU purchase of Pentex (including Titan, FNG, all Pentex assets)**
- **Process and timing of system integration**

By the Numbers

Customers*	8,840
Existing FNG	1,140
FNG Buildout	4,000
IGU Buildout	3,700
Demand (BCF)	5.3
LNG Deliverability (BCF)	5.4
LNG Plant Capacity (BCF)	7.5
Estimated Gas Cost (\$ / MCF) **	15.50
Revenue/Yr (\$M)	88
Capital Plan (\$M)	333
Air Quality Improvement ***	
Fairbanks/FNG (%)	8.6
North Pole/IGU (%)	26.4

* Conversions based on Cardno Report, Sensitivity Analysis 2015

** Includes a volumetric charge of \$15 / MCF and a customer charge

*** "Order of Magnitude" Preliminary AQ Improvement forecast – Sierra Research

Financials – Fund Sources

SOURCE OF FUNDS -- CAPITAL FINANCING

Item	Amount
(a)	(b)
Capital Appropriations (HCS CSSB 18)	\$ 42,800,000
SETS Financing (SB 23 SLA 2013)	125,000,000
AIDEA Bonds (SB 23 SLA 2013)	140,614,200
Other Sources	
Commercial Financing (bridge & LNG trailers)	4,745,000
State Storage Credits - Fairbanks & North Pole	<u>20,500,000</u>
Other Sources	\$ 25,245,000
Total Source of Funds	\$ 333,659,200

Financials –Use of Funds

USE OF FUNDS -- MOU Appendix C - Integrated Gas Utility Capital Program -- 2016-28

Item	Amount
LNG Supply	
Titan 2 LNG Plant (inc. Titan 1 upgrades)	\$ 46,200,000
Titan 3 LNG Plant (future)	25,000,000
LNG Supply	<u>\$ 71,200,000</u>
Transportation	
LNG High-capacity Trailers & Equip	\$ 4,745,000
Storage & Regas	
FBKS 5.2mgal Storage	42,000,000
NP 150kgal Storage & Regas	11,000,000
Storage	<u>\$ 53,000,000</u>
Pentex Acquisition	
AIDEA sale of Pentex to IGU	\$ 58,206,000
Distribution	
Phase 1-3 IGU Buildout	87,360,000
FNG Expansion/Infill - Gas Mains	23,000,000
FNG - Future Peak Shaving Plant	2,000,000
IGU & FNG - New Services and Meters	19,648,200
Program Management	11,500,000
Customer Conversion Program	3,000,000
Distribution	<u>\$ 146,508,200</u>
Total Use of Funds	<u><u>\$ 333,659,200</u></u>

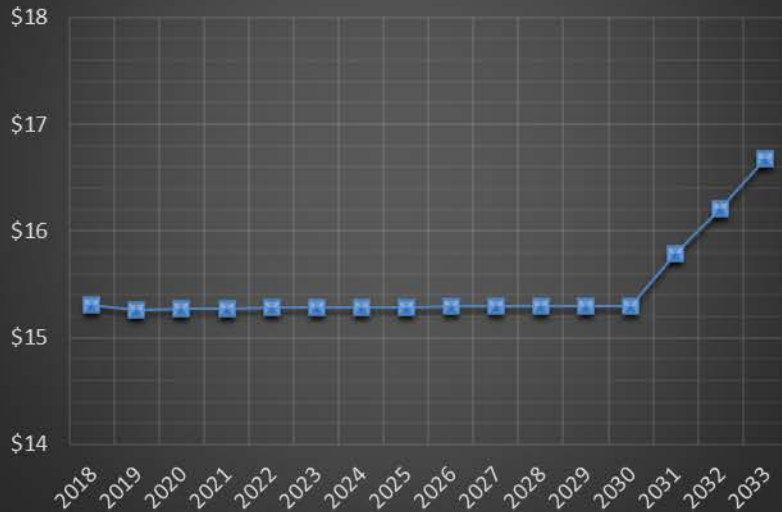
Why pay full price for Pentex?

- FNSB Resolution No. 2015–03 Adopted 2/26/15
- City of Fairbanks Resolution No. 4661 Adopted 3/9/15
- City of Fairbanks Resolution No. 4674 Adopted 5/18/15
- City of North Pole Resolution No. 15–11 Adopted 5/18/15
- **North Pole Resolution 15-11**
 - WHEREAS, Alaska Industrial Development and Export Authority(" the Authority") proposes to purchase in the amount in excess of \$53, 000,000 to provide the funds to and acquire Pentex Corporation and assets to advance the Interior Energy Project, (IEP), for the development, acquisition, and operation of various facilities that supply natural gas from the Cook Inlet area to residents of the Fairbanks North Star Borough and other existing supply contracts

MOU Plan – Average Rate and Cash Position

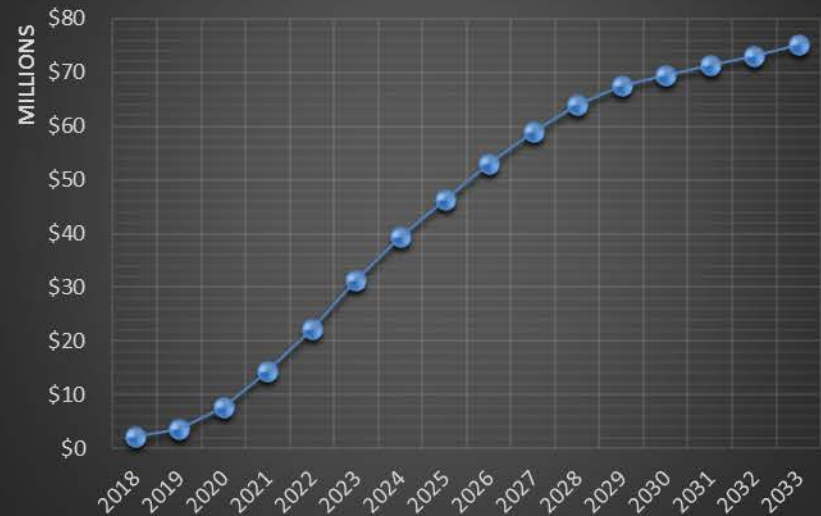
Average Rate (\$ / MCF)

MOU Plan - 12/18/2016



Cash Position

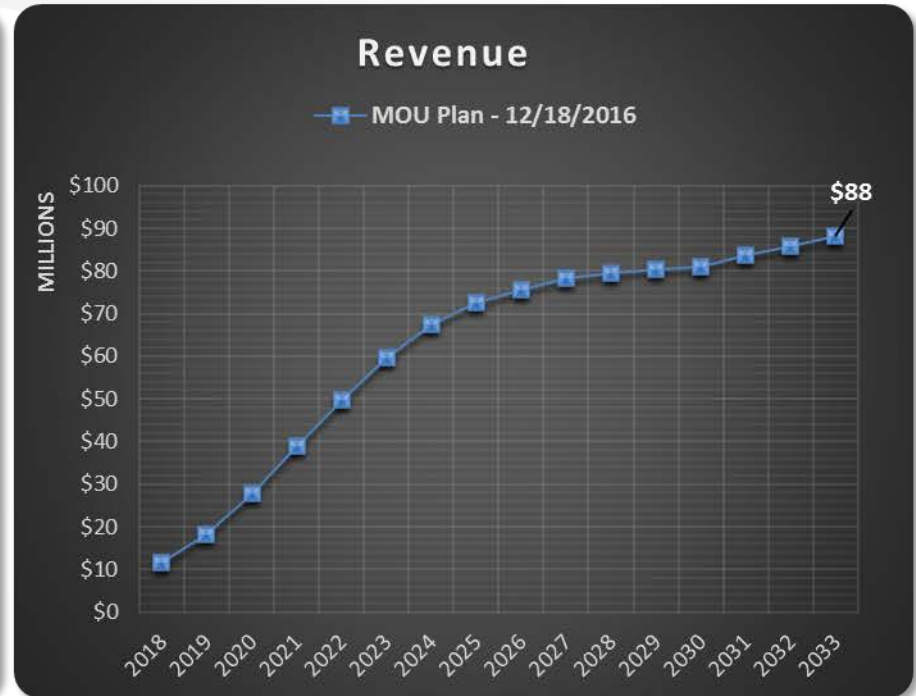
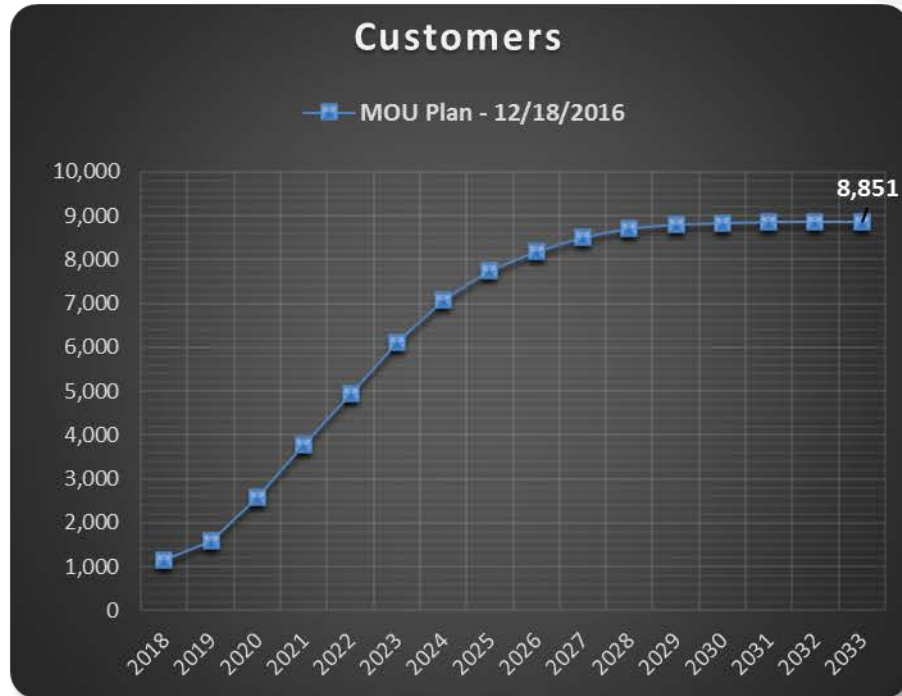
MOU Plan - 12/18/2016



Proposed MOU (12/16/2016):

- High probability of meeting goal of \$15 per MCF rate for a 10-year period
- Generates cash reserves for stronger financial position and future buildout of Phases 4-6

MOU Plan – Customers and Revenue



Proposed MOU (12/16/2016):

- Provides natural gas service to **8,850 customers** in Fairbanks/North Pole area
- Expected revenues are sufficient to cover operating costs and debt service while generating margins for future buildout

SETS Financing Terms

- **SETS financing flexibility includes:**
 - **15 Year Deferment**
 - **0.25% Interest Rate**
 - **50-year payback term ***
 - **SETS repayment is in a secondary position to AIDEA Bonds**
- **Summary of Proposed SETS Loan Terms**

Item	Deferment	Repayment Term	Total Loan Term	Interest Rate	Annual Debt Service
SETS Loan Terms (12/19/16)	15 yrs	35 yrs	50 yrs	0.25%	\$3.73 m

* Under Negotiations

What is the difference between 15 + 50 vs 15 + 35 (Deferment + Term)

- 15 years deferred at .25% interest rate with a pay back of 50 years, after the deferral period, vs. 15 years deferred with a 35 year payback after the deferral period at same interest rate equates to:
- \$1.1 M additional annual costs to IGU, starting 15 years from now
- An increase of 20 cents per MCF to the resident, starting 15 years from now
- Assuming an average usage of 151 MCF per resident per year, that would mean an increase in the heating bill of the residents of \$30 per year, starting 15 years from now.

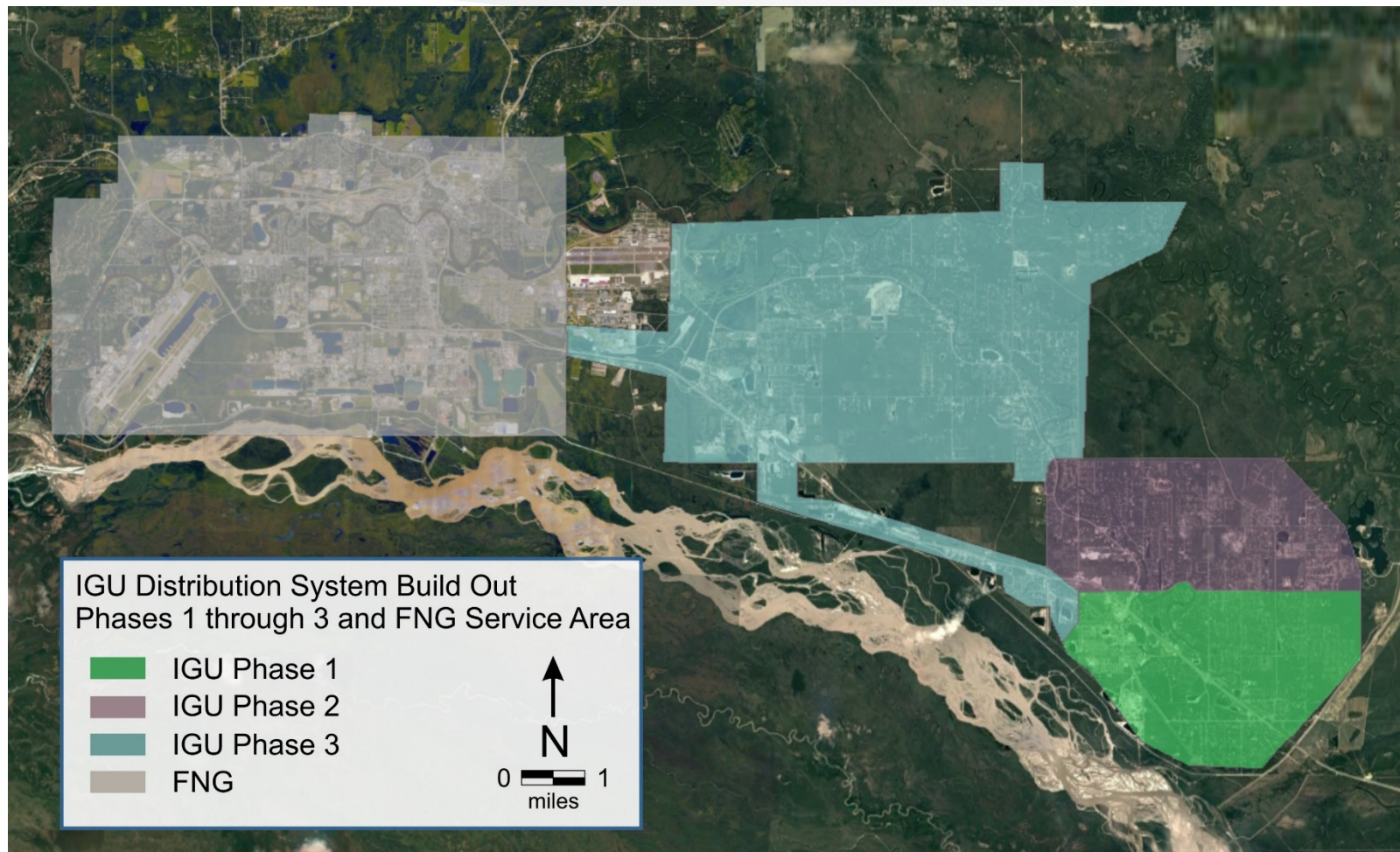
Bond Financing Terms

- Bonds financing assumptions include:
 - Term – 30-year payback term
 - Interest Rate – 4%
 - Deferment – payment of principal and interest is deferred for a 3-year period with capitalized interest at 4% during deferment period

- Summary of Bond Financing Terms

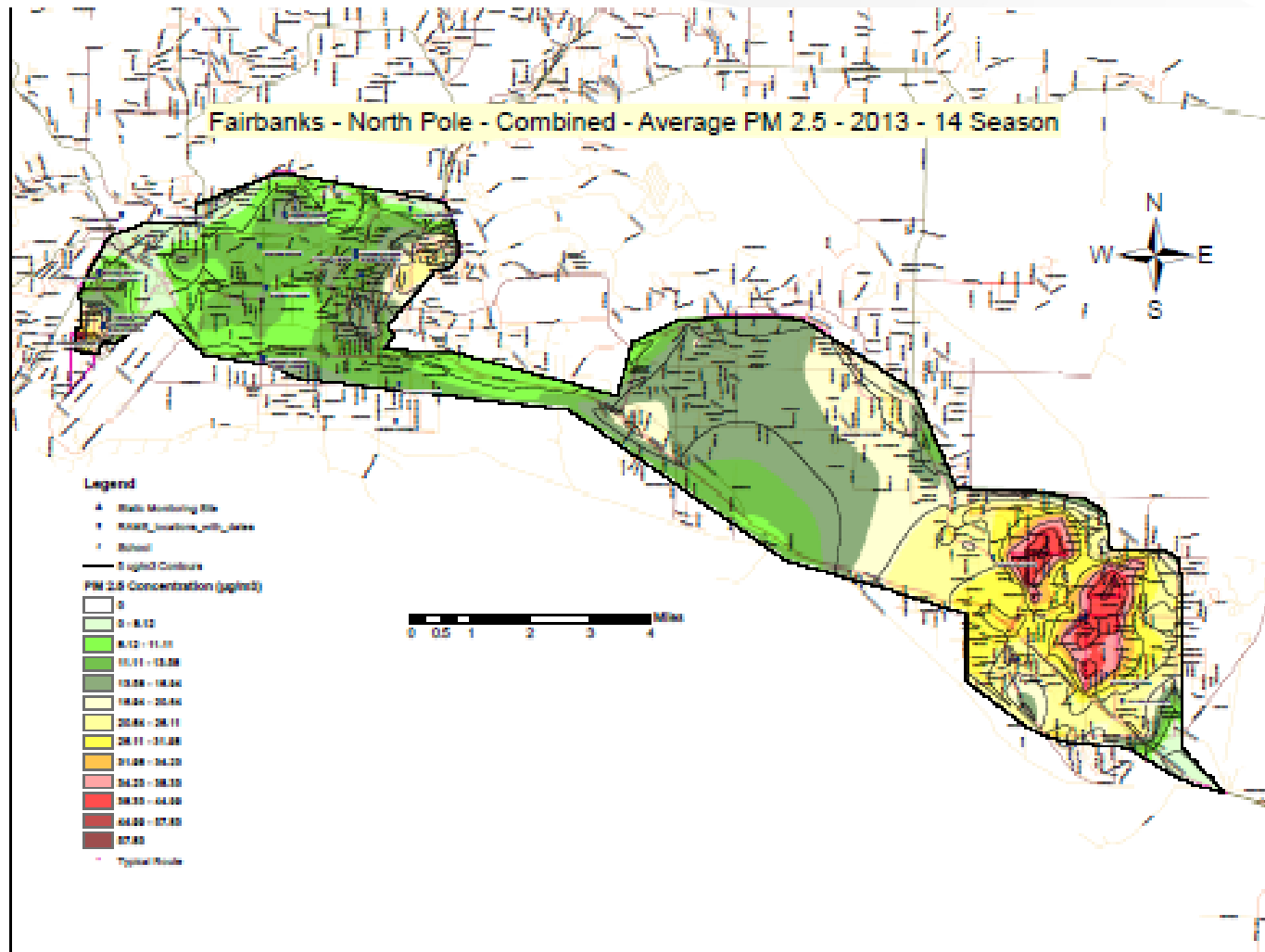
Item	Deferment	Repayment Term	Total Loan Term	Interest Rate	Annual Debt Service
AIDEA Bonds (or mkt equiv)	3 yrs	27 yrs	30 yrs	4.0%	\$8.6 m

IGU CAPITAL PLAN – 2017 thru 2022



Note: Service lines, meters and Conversion Program will be ongoing

AIR QUALITY 2013-2014 SEASONS




NEXT STEPS (SHORT TERM)

- 5 Jan, IGU briefs FNSB Assembly
- 10 Jan IGU Boards meets to vote on MOU
- 11 Jan AIDEA Board meets to vote on MOU
- Gas Supply contract ongoing
- AIDEA certifies HB 105
- Executed Agreements based on MOU to be completed NLT March 31
- Due Diligence (ongoing)
- IGU / FNG Integration
- Immediate Capital Programming
 - LNG Plant Facility Front End Engineering & Design (FEED)
 - LNG Storage Development in FNSB

Look Forward: “HB 105 Compliant Plan”

AIDEA Resolution Required to allow expenditure of further IEP Funds



LAWS OF ALASKA
2015

Source
SCS CSFB 105720, ss.5

Chapter No. _____

AN ACT
Relating to the program and bonds of the Alaska Industrial Development and Export Authority; relating to the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund; repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; amending the definition of “qualified energy development”; relating to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; requiring the Alaska Industrial Development and Export Authority to deliver to the legislature reports relating to the liquefied natural gas project; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

THE ACT FOLLOWS ON PAGE 1

Enrolled HB 105

the State of Alaska enacted by sec. 11(a), ch. 26, SLA 2013,

Industrial Development and Export Authority, through the
ment and Export Authority sustainable energy transmission
and (AS 44.88.660), may provide financing up to a principal
for the development, construction, and installation of, and the
and maintenance for, a liquefied natural gas production
ated infrastructure in the state that will provide natural
a primary market [ON THE NORTH SLOPE] and [A]
distribution systems [SYSTEM] and affiliated infrastructure
gas to [IN] Interior Alaska, if the members of the Alaska

Industrial Development and Export Authority approve by resolution a project
plan. The project plan must

(1) identify the source of the natural gas;
(2) include the estimated cost of the project; and
(3) include the estimated price of natural gas supplied to natural
gas utilities in Interior Alaska before distribution to consumers.

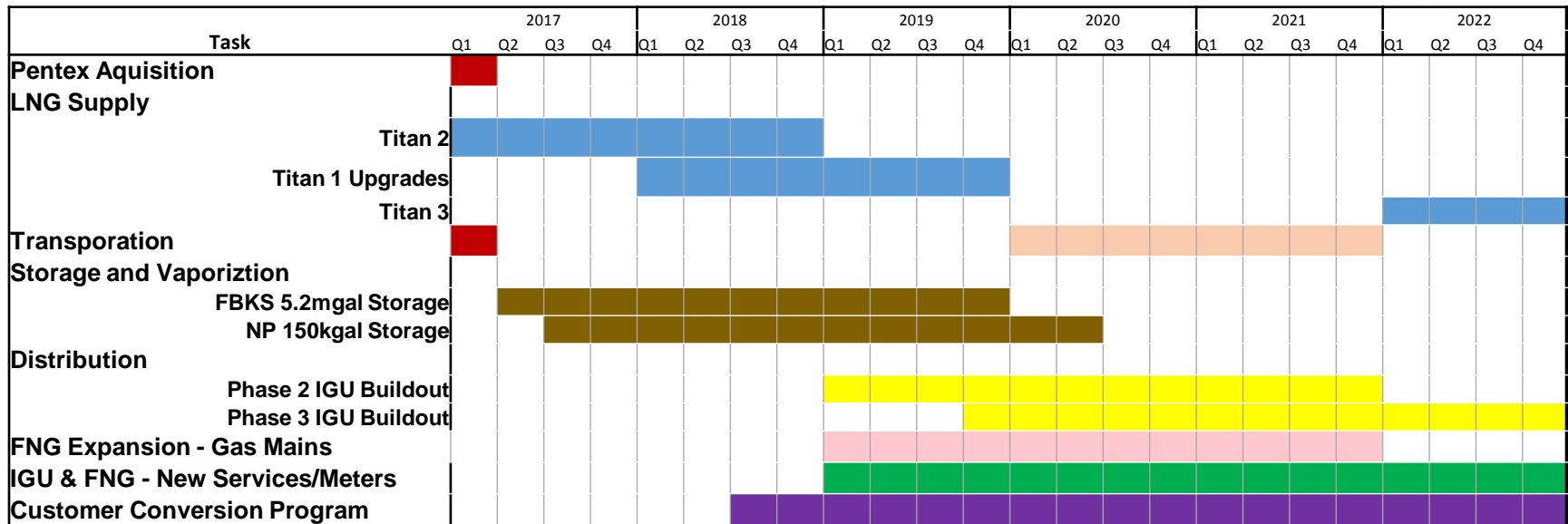
HB 105 requires a project plan within the AIDEA Board Resolution to include:

1. Source of natural gas
2. Estimated total project cost
3. Estimated “pre-distribution” cost of supplied gas

Next Steps (Longer Term)

- Conversion program
- Storage tanks constructed
- LNG plants constructed
- Finalize transportation plan
- Distribution system expansion planning and construction

BUILDOUT FORECAST



Updated 01-3-2017

QUESTIONS



INTERIOR GAS UTILITY