



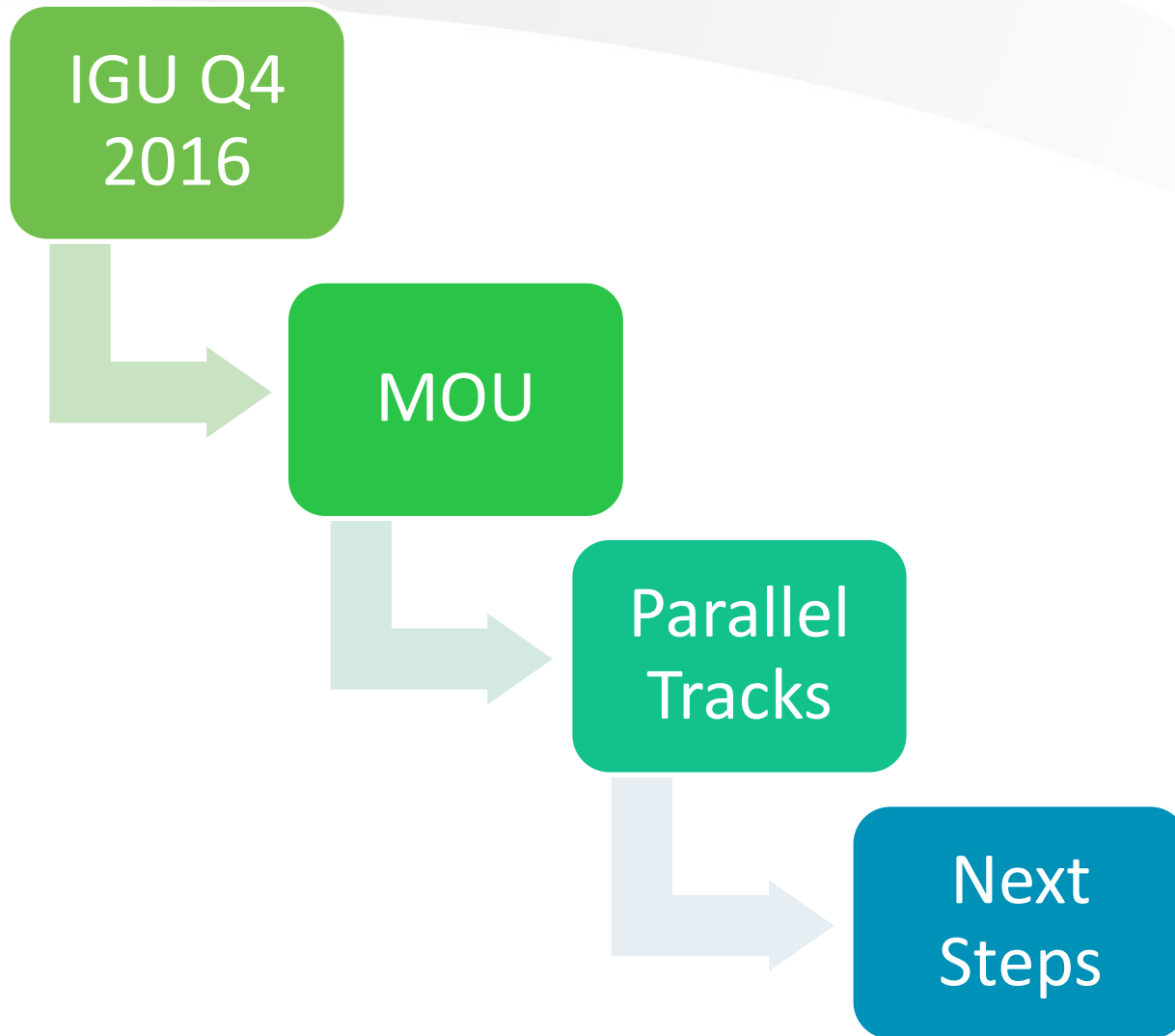
# **IGU Quarterly Update – Q1 2017**

## **FNSB Assembly**

April 6, 2017



# Presentation Summary



# Reminder Notes from IGU 4<sup>th</sup> Quarter 2016 Update

## 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.

## 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

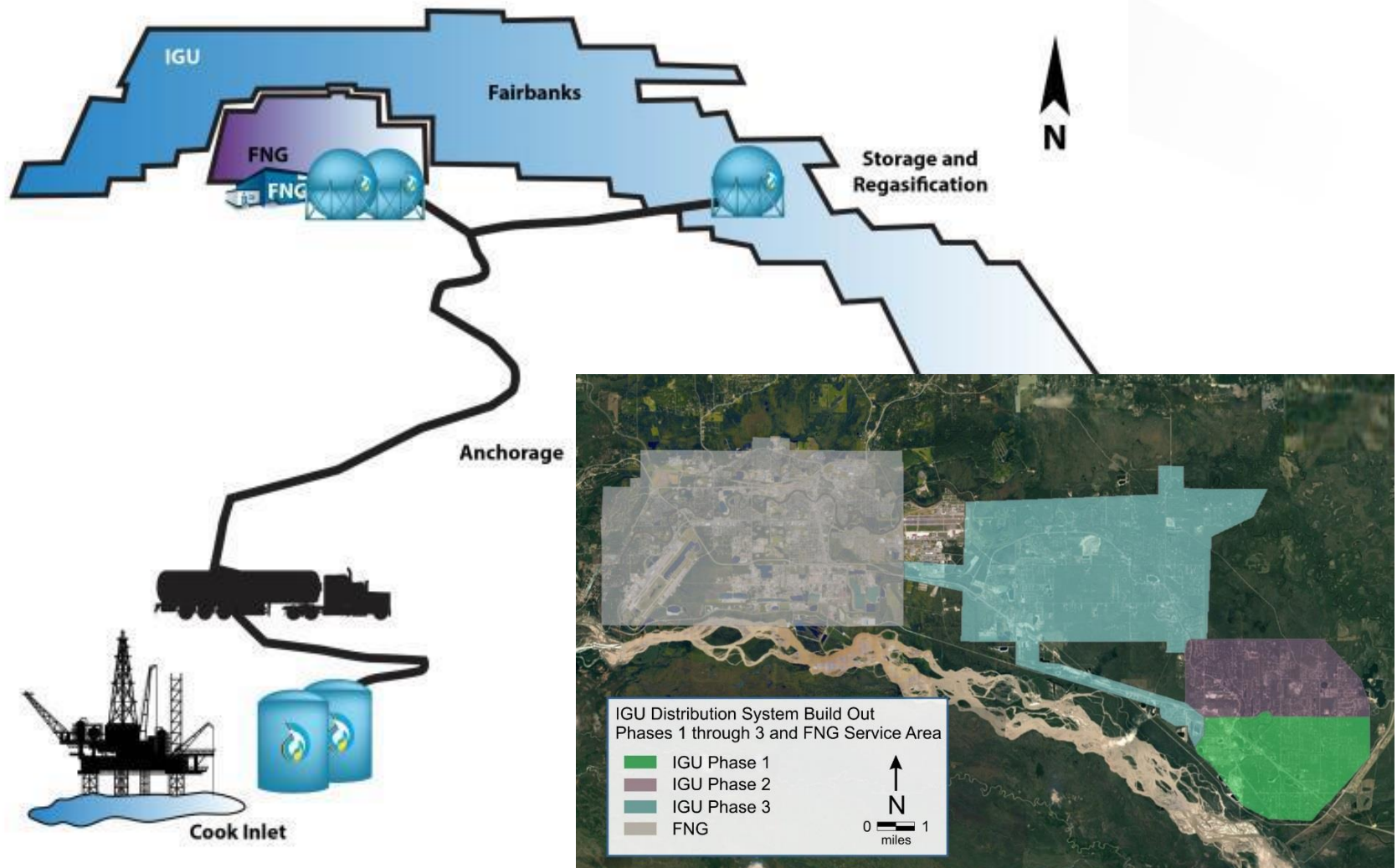
# Memorandum of Understanding for Pentex Acquisition and IEP Financing

# Utility Integration MOU (1 of 2)

## **SCOPE** (CREATES FULLY INTEGRATED FNSB NATURAL GAS UTILITY)

- Titan 1 upgrades, Titan 2 and Titan 3 - construction
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- Full build-out of IGU Phases 1-3 Distribution System & FNG Expansion Area
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# SCOPE defined under MOU





# 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**
- **Contingent upon**
  - Economically Sufficient Gas Supply Contract
  - Due Diligence
  - RCA Approval

# 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 SETS Loan Terms**

Item	Deferment	Repayment Term	Total Loan Term*	Interest Rate	Annual Debt Service
SETS Loan Terms	15 yrs	35 yrs	50 yrs	0.25%	\$3.73 m

# By the Numbers

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

\* Conversions based on Cardno Report, Sensitivity Analysis 2015

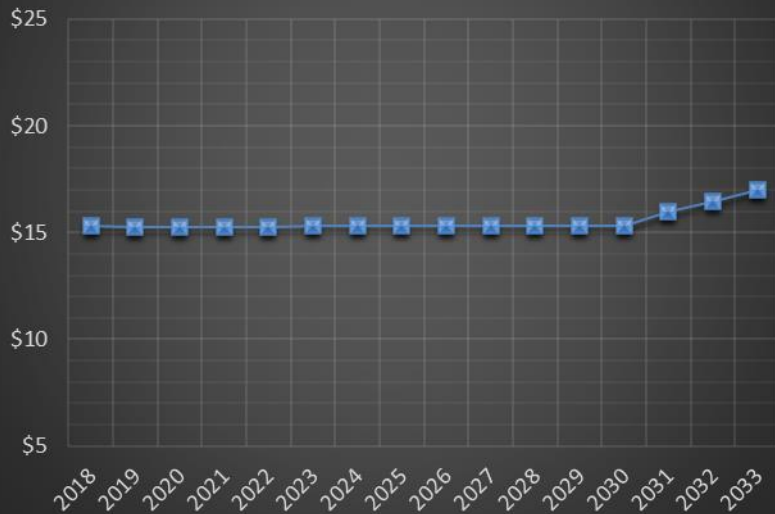
\*\* Includes a volumetric charge of \$15 / MCF and a customer charge

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

# MOU Plan – Economic Impact

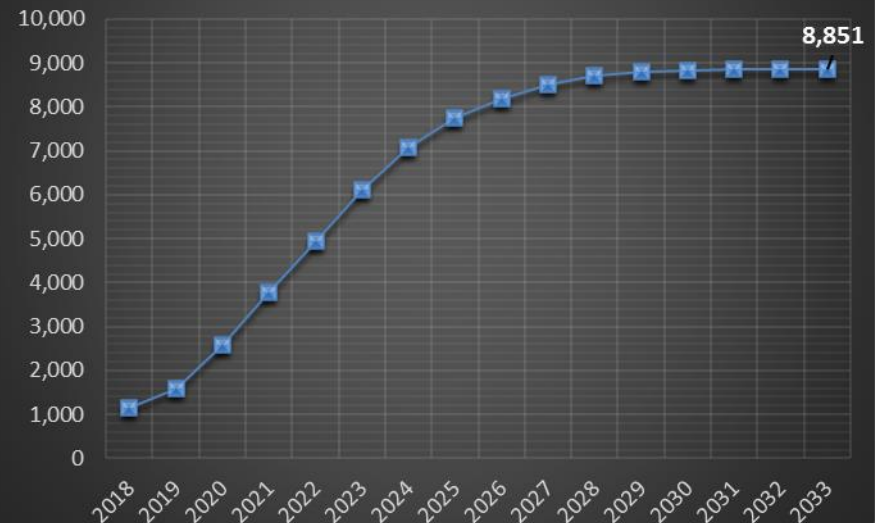
Average Rate (\$ / MCF)

MOU Plan - 1/3/2017



Customers

MOU Plan - 12/18/2016

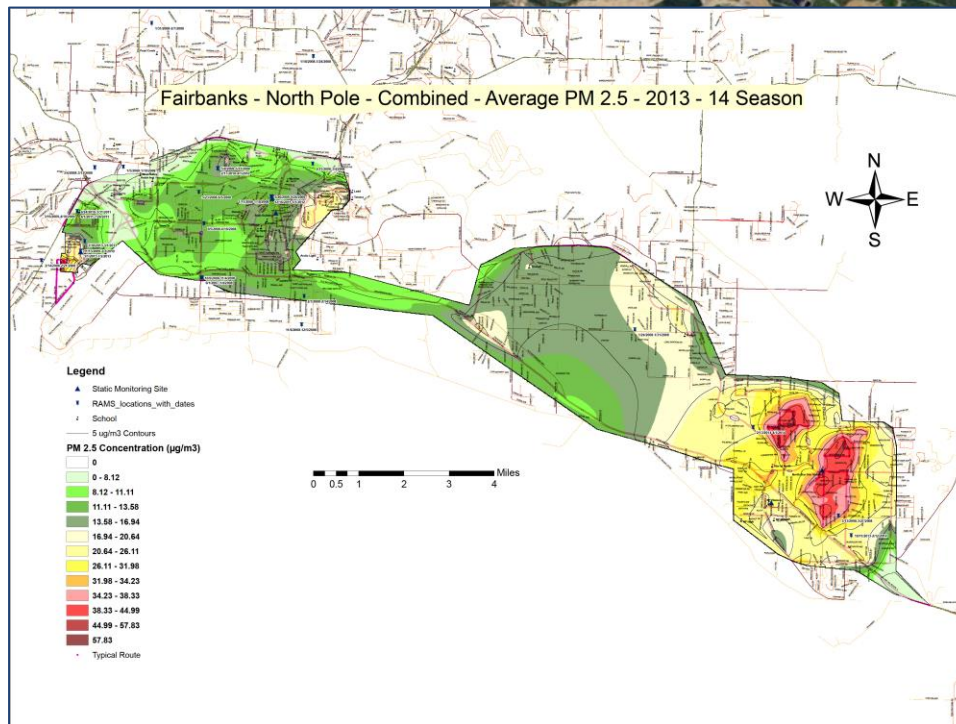
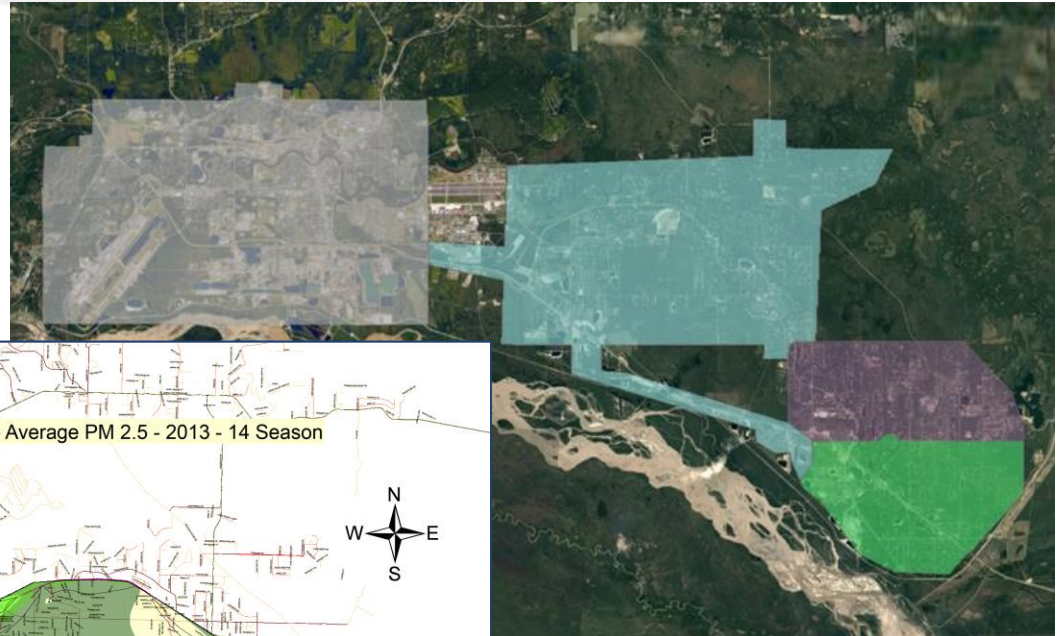


## Proposed MOU (12/16/2016):

- High probability of meeting goal of \$15 per MCF rate for a 10-year period
- Provides natural gas service to **8,850 customers** in Fairbanks/North Pole area
  - Based on Conversion Analyses performed in 2014 & 2015 by Cardno Entrix

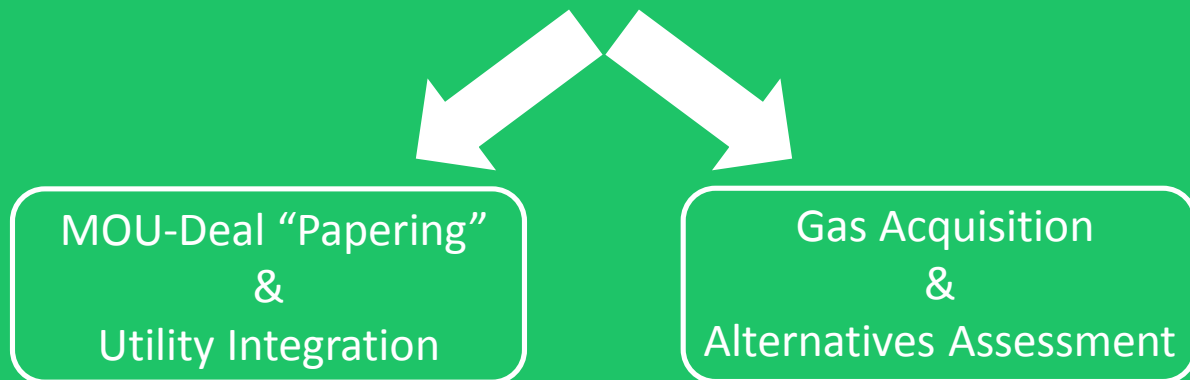
# MOU Plan – Air Quality Impact

By the Numbers	%
<b>Air Quality Improvement *</b>	
Fairbanks/FNG (%)	8.6
North Pole/IGU (%)	26.4



\* “Order of Magnitude” Est.  
Preliminary AQ Improvement  
forecast – Sierra Research

# Advance on Parallel Tracks



# Utility Integration MOU Conditions Precedent

- IEP Supporting Gas Supply Contract
- Mutual Due Diligence
- Plan of Development for Titan 2 & 3
- Adoption of Integrated Utility Capital Program
- Adoption of Integrated Utility Natural Gas Demand Forecast
- Adoption of Integrated Gas Utility Comprehensive Plan
- Execution of Purchase & Sale Agreement Pentex and North Slope Pad
- Execution of Financing Agreement(s).
- RCA Approval of Pentex Acquisition by IGU

# ■ Due Diligence and Utility Integration Planning

## **Due Diligence:**

- Asset Due Diligence
- Commercial Due Diligence
- Legal Due Diligence

## **Utility Integration Planning:**

- Administration
- Finance
- Rates & Tariffs
- Customer Service
- HR & Employee Relations
- Information Technology
- Operations & Maintenance
- Engineering & Infrastructure Development



# ■ MOU-Related Transaction Agreements

- **Pentex Purchase & Sale Agreement**
- **Financing Agreement**
- **North Slope Pad Transfer Agreement**
- **Other Agreements**

- **First Drafts Received from AIDEA**
  - PSA – Mid-February
  - FA – Mid-March
- **IGU Redline Responses Near Completion**
  - Coordinated Inter-Agreement Review
  - ETA for Reply – April 7<sup>th</sup>
- **Scheduling of face-to-face Negotiations**
  - Week Ending April 14<sup>th</sup>

## Gas Supply – Pursuing All Options

- Talked or Talking to Minor Suppliers
- Talked or Talking to Major Basin Suppliers
- Initiated Discussions with Out-of-State Suppliers
- Initiated Discussions with Non-Conventional Suppliers
  - Gas Supply Team includes representatives of both IGU and Pentex
  - Efforts again being directly driven &/or supported by Office of the Governor

# Assessing Alternative Configurations

- Houston AK & Houston AK LNG
  - Alternative Titan Facility Siting
  - LNG Tolling
  - City Gate Delivery
- ConocoPhilips Nikiski Facility
  - Tolling & Storage Agreement
  - City Gate Delivery
- Other Alternatives as Proposed

# Other Highlighted Activities within Quarter

## ■ IGU Policies

- Reviewed, Amended and Recertified
- Ethic Policy Adopted by Resolution

## ■ Ordinance Amendment

- Expressly certifying IGU ability to incur indebtedness
- Clarify disposition of IGU assets in case of dissolution

## ■ MOU Amendment

- Extending Internal Deadline from March 31<sup>st</sup> to April 30<sup>th</sup>

## ■ Budget

- Classification Revision
- Formulation of FY18 Commenced

## ■ Conversions

- Partnership with ESSi
- Research in On-Bill Repayment
- Research Utility on Comparables
- Est. Resource Loading

## ■ Meetings

- Governor and Administration
- Municipal Mayors
- Organized Labor
- GVEA
- Legislators and Staff

## ■ Presentations

- Local Civic Organizations
- Environmental Protection Agency
- AK Senate Resources Committee

# Next Steps

# NEXT STEPS

- Gas Supply Acquisition
- AIDEA certification of HB 105
- Complete Due Diligence
- Complete IGU / FNG Integration Planning
- Prepare for RCA Filing
- Refresh Immediate Capital Programming
  - LNG Plant Facility Front End Engineering & Design (FEED)
  - LNG Storage Development
  - Distribution system expansion planning
- Execute MOU-based Transaction Agreements
- Continue Interface with Policy Makers

# Next Steps (LONGER TERM)

- Initiate LNG Storage tank construction
- Initiate LNG plant construction
- Distribution system expansion planning and construction
- Extend AIDEA Bonding Authority
- LNG Storage Reimbursement
- Conversion program

# QUESTIONS



INTERIOR GAS UTILITY