



Interior Gas Utility

Board of Directors Work Session

February 16, 2016

4:00PM

Interior Gas Utility

100 Cushman Street, Suite 501, Fairbanks, Alaska

AGENDA

I. Call to Order

- Roll call
- Approval of Agenda
- December 2015 Financial Reports pg. 2
- Public Comment

II. Committee of the Whole

- General Manager Update
- MWH Update pg. 10
- Policy on Board Member Submission of Agenda Items
- Conversions Plan Presentation pg. 15
- Business Plan pg. 19
- Potential Acquisition of PENTEX and Commitments for LNG Supply

Executive Session

An executive session may be called to discuss the financial model and potential terms and conditions that if were discussed publically would violate the non-disclosure agreement with AIDEA.

III. Special Business Meeting

- BM 2016 – 03 Contract Modification IFB 2014-D-01 PDC (\$325,546) pg. 37

IV. Adjournment

- Next Agenda

V. Director Comments

VI. Adjourn

Interior Alaska Natural Gas Utility

FINANCIAL STATEMENTS

**December 31, 2015
and Supplemental Schedules**

Interior Alaska Natural Gas Utility
Statement of Net Position
December 31, 2015

	<u>Capital</u>	<u>Operating</u>	<u>Total</u>
ASSETS			
Current Assets			
Checking/Savings			
13100 · Mt. McKinley	520,571.64	288,431.47	809,003.11
13103 · Mt. McKinley - AIDEA Reserve	5,828,975.66	0.00	5,828,975.66
13104 · Mt. McKinley - FNSB Reserve	500,483.52	0.00	500,483.52
Total Checking/Savings	6,850,030.82	288,431.47	7,138,462.29
Accounts Receivable			
14600 · Accounts Receivable	0.00	24,017.42	24,017.42
Total Accounts Receivable	0.00	24,017.42	24,017.42
Total Current Assets	6,850,030.82	312,448.89	7,162,479.71
Other Assets			
10100 · Utility Plant in Service			
30300 · Intangible Asset - CPCN	729,676.00	0.00	729,676.00
39100 · Office Furniture and Equipment	0.00	19,523.74	19,523.74
Total 10100 · Utility Plant in Service	729,676.00	19,523.74	749,199.74
10700 · Construction Work In Progress			
18330 · Phase 1	22,601,869.76	0.00	22,601,869.76
18340 · Phase 2	737,857.88	0.00	737,857.88
Total 10700 · Construction Work In Progress	23,339,727.64	0.00	23,339,727.64
10800 · Accumulated Provision for Depn	0.00	-3,693.79	-3,693.79
16600 · Prepayments	0.00	4,130.00	4,130.00
Total Other Assets	24,069,403.64	19,959.95	24,089,363.59
TOTAL ASSETS	30,919,434.46	332,408.84	31,251,843.30
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable			
23200 · Accounts Payable	0.00	300.70	300.70
Total Accounts Payable	0.00	300.70	300.70
Other Current Liabilities			
23700 · Interest Accrued	282.55	0.00	282.55
Total Other Current Liabilities	282.55	0.00	282.55
Total Current Liabilities	282.55	300.70	583.25
Long Term Liabilities			
22400 · Other Long-Term Debt			
22401 · LOC - AIDEA	29,689,475.91	0.00	29,689,475.91
22402 · LOC - FNSB	500,000.00	0.00	500,000.00
Total 22400 · Other Long-Term Debt	30,189,475.91	0.00	30,189,475.91
Total Long Term Liabilities	30,189,475.91	0.00	30,189,475.91
Total Liabilities	30,189,758.46	300.70	30,190,059.16
Equity			
21600 · Unrestricted Net Position	0.00	329,322.29	329,322.29
21610 · Net Investment in Capital Asset	729,676.00	0.00	729,676.00
Changes in Net Position	0.00	2,785.85	2,785.85
Total Equity	729,676.00	332,108.14	1,061,784.14
TOTAL LIABILITIES & EQUITY	30,919,434.46	332,408.84	31,251,843.30

Management has elected to omit substantially all of the disclosures and the statement of cash flows ordinarily included in financial statements prepared in accordance with the accrual basis of accounting.

RJG, A Professional Corporation provides no assurance on these financial statements.

Interior Alaska Natural Gas Utility
Statement of Operating Revenues and Expenses
Six Months Ended December 31, 2015 and Year Ended June 30, 2015

	July 2015 - December 2015	July 2014 - June 2015
Income		
42110 · Misc Nonoperating Income		
42111 · FNSB Contract	49,864.68	111,061.05
42114 · Interest	2,522.17	1,893.29
Total 42110 · Misc Nonoperating Income	<u>52,386.85</u>	<u>112,954.34</u>
Total Income	52,386.85	112,954.34
Expense		
42120 · Misc Nonoperating Expense		
42130 · Contractual Services		
42131 · Advertising	536.60	4,111.36
42133 · Legal Fees	0.00	557.73
42134 · Office Services	572.50	11,584.44
42135 · Travel Expenses	0.00	2,582.99
42136 · Rent	24,780.00	35,172.00
42137 · Insurance	0.00	3,123.00
42138 · Financial Services	16,580.54	22,598.72
42139 · Communications	1,478.62	8,144.48
42140 · Membership - Fees	1,420.00	1,113.00
Total 42130 · Contractual Services	<u>45,368.26</u>	<u>88,987.72</u>
42160 · Materials Expenses		
42161 · Office Supplies	2,012.80	899.40
42162 · Information Technology	0.00	1,835.00
42164 · Depreciation Expense	1,594.92	2,098.87
42165 · Interest Expense	625.02	1,250.00
Total 42160 · Materials Expenses	<u>4,232.74</u>	<u>6,083.27</u>
Total 42120 · Misc Nonoperating Expense	<u>49,601.00</u>	<u>95,070.99</u>
Total Expense	<u>49,601.00</u>	<u>95,070.99</u>
Changes in Net Position	2,785.85	17,883.35
Total Operating Net Position		
Beginning of period	<u>329,322.29</u>	<u>311,438.94</u>
End of period	<u><u>332,108.14</u></u>	<u><u>329,322.29</u></u>

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Interior Alaska Natural Gas Utility
Statement of Operating Revenues and Expenses - Budget to Actual
Six Months Ended December 2015

	Actual	Budget	Variance	Actual	Budget	Variance	
	December 2015	December 2015	December 2015	July 2015 - December 2015	July 2015 - December 2015	July 2015 - December 2015	Annual Budget
Income							
42110 · Misc Nonoperating Income							
42111 · FNSB Contract	8,090.74	39,573.17	-31,482.43	49,864.68	256,809.02	-206,944.34	544,798.04
42112 · Corporate Contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
42114 · Interest	990.84	162.50	828.34	2,522.17	325.00	2,197.17	650.00
Total 42110 · Misc Nonoperating Income	9,081.58	39,735.67	-30,654.09	52,386.85	257,134.02	-204,747.17	545,448.04
Total Income	9,081.58	39,735.67	-30,654.09	52,386.85	257,134.02	-204,747.17	545,448.04
Expense							
42120 · Misc Nonoperating Expense							
42130 · Contractual Services							
42131 · Advertising	130.70	2,200.00	2,069.30	536.60	14,000.00	13,463.40	27,600.00
42133 · Legal Fees	0.00	3,500.00	3,500.00	0.00	12,000.00	12,000.00	12,000.00
42134 · Office Services	37.50	118.50	81.00	572.50	711.00	138.50	1,422.00
42135 · Travel Expenses	0.00	0.00	0.00	0.00	4,000.00	4,000.00	7,500.00
42136 · Rent	4,130.00	4,500.00	370.00	24,780.00	27,000.00	2,220.00	54,000.00
42137 · Insurance	0.00	0.00	0.00	0.00	0.00	0.00	21,000.00
42138 · Financial Services	2,800.00	3,666.67	866.67	16,580.54	22,000.02	5,419.48	69,000.04
42139 · Communications	306.54	300.00	-6.54	1,478.62	1,800.00	321.38	3,600.00
42140 · Membership - Fees	70.00	100.00	30.00	1,420.00	1,520.00	100.00	2,120.00
Total 42130 · Contractual Services	7,474.74	14,385.17	6,910.43	45,368.26	83,031.02	37,662.76	198,242.04
42160 · Materials Expenses							
42161 · Office Supplies	616.00	600.00	-16.00	2,012.80	3,600.00	1,587.20	7,200.00
42162 · Information Technology	0.00	500.00	500.00	0.00	3,000.00	3,000.00	6,000.00
42163 · Miscellaneous	0.00	0.00	0.00	0.00	2,000.00	2,000.00	3,000.00
42164 · Depreciation Expense	265.82			1,594.92			
42165 · Interest Expense	104.17			625.02			
Total 42160 · Materials Expenses	985.99	1,100.00	114.01	4,232.74	8,600.00	4,367.26	16,200.00
42170 · Payroll Expenses							
42171 · Salary Expenses	0.00	14,167.00	14,167.00	0.00	85,002.00	85,002.00	170,004.00
42172 · Employee Benefits	0.00	3,833.40	3,833.40	0.00	23,000.40	23,000.40	48,000.80
42173 · Payroll Tax Expenses	0.00	4,250.00	4,250.00	0.00	25,500.00	25,500.00	51,000.00
Total 42170 · Payroll Expenses	0.00	22,250.40	22,250.40	0.00	133,502.40	133,502.40	267,004.80
42190 · Budget Reserve							
42191 · AIDEA Hold-back	0.00	0.00	0.00	0.00	20,000.00	20,000.00	40,000.00
42192 · Contingency	0.00	2,000.00	2,000.00	0.00	12,000.00	12,000.00	24,000.00
Total 42190 · Budget Reserve	0.00	2,000.00	2,000.00	0.00	32,000.00	32,000.00	64,000.00
Total 42120 · Misc Nonoperating Expense	8,460.73	39,735.57	31,274.84	49,601.00	257,133.42	207,532.42	545,448.84
Total Expense	8,460.73	39,735.57	31,274.84	49,601.00	257,133.42	207,532.42	545,448.84
Changes in Net Assets	620.85	0.10	-620.75	2,785.85	0.60	2,785.25	1.20

Management has elected to omit substantially all of the disclosures and the statement of cash flows ordinarily included in financial statements prepared in accordance with the accrual basis of accounting.

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Interior Alaska Natural Gas Utility
Statement of Operating Revenues and Expenses by Month
January through December 2015

	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	TOTAL
Income													
42110 • Misc Nonoperating Income													
42111 • FNSB Contract	4,857.62	9,874.62	11,648.99	981.56	16,002.80	7,647.99	8,176.99	7,529.51	10,140.76	5,403.61	10,523.07	8,090.74	100,878.26
42114 • Interest	0.00	0.00	412.62	0.00	0.00	1,027.49	0.00	0.00	1,531.33	0.00	0.00	990.84	3,962.28
Total 42110 • Misc Nonoperating Income	<u>4,857.62</u>	<u>9,874.62</u>	<u>12,061.61</u>	<u>981.56</u>	<u>16,002.80</u>	<u>8,675.48</u>	<u>8,176.99</u>	<u>7,529.51</u>	<u>11,672.09</u>	<u>5,403.61</u>	<u>10,523.07</u>	<u>9,081.58</u>	<u>104,840.54</u>
Total Income	<u>4,857.62</u>	<u>9,874.62</u>	<u>12,061.61</u>	<u>981.56</u>	<u>16,002.80</u>	<u>8,675.48</u>	<u>8,176.99</u>	<u>7,529.51</u>	<u>11,672.09</u>	<u>5,403.61</u>	<u>10,523.07</u>	<u>9,081.58</u>	<u>104,840.54</u>
Expense													
42120 • Misc Nonoperating Expense													
42130 • Contractual Services													
42131 • Advertising	183.60	0.00	180.16	104.56	0.00	338.00	0.00	0.00	78.42	13.80	313.68	130.70	1,342.92
42134 • Office Services	65.00	1,322.00	1,534.22	752.00	5,442.80	-4,529.43	150.50	91.50	36.00	175.00	82.00	37.50	5,159.09
42136 • Rent	0.00	8,260.00	4,130.00	0.00	8,260.00	0.00	4,130.00	4,130.00	4,130.00	4,130.00	4,130.00	4,130.00	45,430.00
42138 • Financial Services	4,546.52	0.00	5,829.61	0.00	2,300.00	4,600.00	398.94	2,550.00	5,100.00	131.60	5,600.00	2,800.00	33,856.67
42139 • Communications	37.50	292.62	50.00	0.00	0.00	5,718.04	100.00	293.01	235.86	245.82	297.39	306.54	7,576.78
42140 • Membership - Fees	0.00	0.00	0.00	0.00	0.00	0.00	510.00	0.00	100.00	640.00	100.00	70.00	1,420.00
Total 42130 • Contractual Services	<u>4,832.62</u>	<u>9,874.62</u>	<u>11,723.99</u>	<u>856.56</u>	<u>16,002.80</u>	<u>6,126.61</u>	<u>5,289.44</u>	<u>7,064.51</u>	<u>9,680.28</u>	<u>5,336.22</u>	<u>10,523.07</u>	<u>7,474.74</u>	<u>94,785.46</u>
42160 • Materials Expenses													
42161 • Office Supplies	0.00	0.00	0.00	0.00	0.00	0.00	403.93	465.00	460.48	67.39	0.00	616.00	2,012.80
42164 • Depreciation Expense	0.00	0.00	0.00	0.00	1,138.32	960.55	265.82	265.82	265.82	265.82	265.82	265.82	3,693.79
42165 • Interest Expense	0.00	0.00	0.00	0.00	0.00	1,250.00	104.17	104.17	104.17	104.17	104.17	104.17	1,875.02
Total 42160 • Materials Expenses	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,138.32</u>	<u>2,210.55</u>	<u>773.92</u>	<u>834.99</u>	<u>830.47</u>	<u>437.38</u>	<u>369.99</u>	<u>985.99</u>	<u>7,581.61</u>
Total 42120 • Misc Nonoperating Expense	<u>4,832.62</u>	<u>9,874.62</u>	<u>11,723.99</u>	<u>856.56</u>	<u>17,141.12</u>	<u>8,337.16</u>	<u>6,063.36</u>	<u>7,899.50</u>	<u>10,510.75</u>	<u>5,773.60</u>	<u>10,893.06</u>	<u>8,460.73</u>	<u>102,367.07</u>
Total Expense	<u>4,832.62</u>	<u>9,874.62</u>	<u>11,723.99</u>	<u>856.56</u>	<u>17,141.12</u>	<u>8,337.16</u>	<u>6,063.36</u>	<u>7,899.50</u>	<u>10,510.75</u>	<u>5,773.60</u>	<u>10,893.06</u>	<u>8,460.73</u>	<u>102,367.07</u>
Changes in Net Assets	<u>25.00</u>	<u>0.00</u>	<u>337.62</u>	<u>125.00</u>	<u>-1,138.32</u>	<u>338.32</u>	<u>2,113.63</u>	<u>-369.99</u>	<u>1,161.34</u>	<u>-369.99</u>	<u>-369.99</u>	<u>620.85</u>	<u>2,473.47</u>

Management has elected to omit substantially all of the disclosures and the statement of cash flows ordinarily included in financial statements prepared in accordance with the accrual basis of accounting.

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Interior Alaska Natural Gas Utility
A/R Aging Summary
December 31, 2015

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>
Fairbanks North Star Borough*	8,090.74	0.00	10,523.07	5,403.61	0.00	24,017.42
TOTAL	<u>8,090.74</u>	<u>0.00</u>	<u>10,523.07</u>	<u>5,403.61</u>	<u>0.00</u>	<u>24,017.42</u>

Management has elected to omit substantially all of the disclosures and the statement of cash flows ordinarily included in financial statements prepared in accordance with the accrual basis of accounting.

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Interior Alaska Natural Gas Utility
A/P Aging Summary
December 31, 2015

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>
Fairbanks Daily News-Miner	130.70	0.00	0.00	0.00	0.00	130.70
Greater Fairbanks Chamber of Commerce	0.00	70.00	0.00	0.00	0.00	70.00
Technology Group of the North	50.00	50.00	0.00	0.00	0.00	100.00
TOTAL - All Operating	<u><u>180.70</u></u>	<u><u>120.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>300.70</u></u>

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Interior Gas Utility

Finance Committee Meeting

January 26, 2016

12 PM

100 Cushman, Suite 501, Fairbanks, Alaska

Meeting Minutes

DECEMBER FINANCIALS REVIEWED

I. Roll Call

- a. Meeks, Bishop, Durham, Lojewski
- b. Others: Sam Trotzke, David Prusak

II. Review Draft Policy Statements

- a. Capitalization
 - i. Recommendation is to set at \$750.00 based on National Associations of Regulatory Utility Commissioners (NARUC).
 - ii. Finance Committee (FC) will continue to work on this policy for future consideration as utility operations occur.
- b. Collateralizations
 - i. Recommend rewriting 6.c.to read as follows, “All investments outside of the banking agreement(s) with the primary financial institution shall be collateralized or swept into securities of the U.S. Government and its agencies. Any exception must be approved by the Board.

The FC recommends the IGU Board accept these Policies as amended.

III. Monthly Financials –

- a. Statement of Net Position
 - i. Cash is drawing down as Draw # 8 did not occur.
 - ii. Invoice for last quarter has been prepared to send to the FNSB.
- b. Statement of Operating Rev /Expense
 - i. Most items are still running under budget, with slowdown in construction it is anticipated the year is likely to finish as such.
 - ii. Trotzke prepared a memorandum of explaining the AIDEA contract has a requirement for an audit and reviewed this with the committee.
- c. Bank Statements
 - i. No comments

IV. Closing Comments

- a. The FC recommended that the IGU Board accept the December Financial Report as presented at their meeting.
- b. Next meeting will be February 23, 2016.

Schedule Update

				IGU Gas Distribution Project Schedule_Updated_Data Date_05Feb16										Data Date 05-Feb-16 Printed 12-Feb-16																											
ID	Activity Name	Activity % Complete	Duration	Start	Finish	2016												2017												2018											
						Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep			
IGU IGU Gas Distribution Project Schedule_Updated_Data Date_05Feb16																																									
IGU.1 IGU Support																																									
A1050	MANAGEMENT: Project Management Tasks and Coordination	1.41%	1006	18-Jan-14 A	08-Jan-18	MANAGEMENT: Project Mana																																			
A1180	PRODUCE: Project Schedule and Updates	1.41%	1006	21-Jan-14 A	08-Jan-18	PRODUCE: Project Schedule																																			
A1190	MEETING: Bi-weekly Project Coordination Meetings	1.41%	1006	21-Jan-14 A	08-Jan-18	MEETING: Bi-weekly Project C																																			
A1175	Local Control Entity (LCE)	0%	186	22-Feb-16*	10-Nov-16	Local Control Entity (LCE)																																			
A1520	MWH Contract POP	0%	0		01-May-16*	♦ MWH Contract POP																																			
A1040	PROJECT FINISH	0%	0		08-Jan-18	♦♦ PROJECT FINISH																																			
IGU.1.1 Board Meetings																																									
A5480	IGU Board Work Session: 3rd Tuesday of the Month	4%	26	17-Nov-15 A	12-Dec-17	IGU Board Work Session: 3rd Tue																																			
A5470	IGU Board Meeting: 1st Tuesday of the Month	8%	27	01-Dec-15 A	05-Dec-17	IGU Board Meeting: 1st Tuesday of																																			
IGU.1.5 Hire IGU Management																																									
IGU.1.5.1 Hire GM																																									
A3280	CONTRACT: Execute Employee Contract or Direct Hire for GM	0%	35	01-Mar-16*	18-Apr-16	CONTRACT: Execute Employee Contract or Direct Hire for GM																																			
A3620	START: GM Starts	0%	0		18-Apr-16	→ START: GM Starts																																			
IGU.1.5.2 Hire CFO																																									
A4040	CONTRACT: Execute Employee Contract or Direct Hire for CFO	0%	5	06-Jul-16	12-Jul-16	CONTRACT: Execute Employee Contract or Direct Hire for CFO																																			
A4050	START: CFO Starts	0%	0		19-Sep-16	→ START: CFO Starts																																			
IGU.1.6 P&P Manual																																									
A5520	Prepare Recommendations for P&Ps Ongoing	27%	486	01-Jun-15 A	28-Apr-17	Prepare Recommendations for P&Ps Ongoing																																			
A5540	Present Draft P&Ps Ongoing	27%	486	01-Jun-15 A	28-Apr-17	Present Draft P&Ps Ongoing																																			
A5550	Incorporate Changes to P&Ps	0%	10	01-May-17	12-May-17	■ Incorporate Changes to P&Ps																																			
A5560	Submit Recommendations for P&P Manual to Board	0%	1	01-May-17	01-May-17	→ Submit Recommendations for P&P Manual to Board																																			
A5590	Incorporate other P&Ps as needed	0%	15	01-May-17	19-May-17	■ Incorporate other P&Ps as needed																																			
IGU.1.7 IT Master Plan																																									
A5570	Prepare Draft IT Master Plan	0%	24	09-Nov-16*	13-Dec-16	■ Prepare Draft IT Master Plan																																			
A5630	Prepare Final IT Master Plan	0%	30	21-Dec-16	06-Feb-17	■ Prepare Final IT Master Plan																																			
A5640	Present Final IT Master Plan to Board	0%	0		08-Mar-17	→ Present Final IT Master Plan to Board																																			
IGU.2 Program / Project Management																																									
IGU.2.1 Coordination with PHMSA																																									
A5690	File PHMSA Annual Distribution pipeline Report	0%	0	01-Mar-16*		♦ File PHMSA Annual Distribution pipeline Report																																			
A5680	MEETING: PHMSA Quarterly Meeting Q1-2016	0%	1	07-Mar-16*	07-Mar-16	↑ MEETING: PHMSA Quarterly Meeting Q1-2016																																			
IGU.2.2 Task Scoping																																									
AA3770	2015/2016 Task Scoping (add'l SOW descriptions, schedules, estimates)	45%	289	16-Mar-15 A	02-May-16	■ 2015/2016 Task Scoping (add'l SOW descriptions, schedules, estimates)																																			
IGU.2.3 Update Project Schedule																																									
A5850	Submit Monthly Schedule Update - Dec 2015	0%	0		15-Mar-16	♦ Submit Monthly Schedule Update - Dec 2015																																			
IGU.3 Business Plans																																									
IGU.3.1 Six Year Plan																																									
A1530	Update Six Year Plan	0%	26	26-Apr-16*	01-Jun-16	■ Update Six Year Plan																																			
IGU.3.2 Business Plan																																									
A1930	PRODUCE: Six Year Capital Program	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Six Year Capital Program																																			
A1940	PRODUCE: Capital Project Prioritization	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Capital Project Prioritization																																			
A1950	PRODUCE: Asset Mgmt Program	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Asset Mgmt Program																																			
A1960	PRODUCE: Six Year Operational Budgets	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Six Year Operational Budgets																																			
A1970	PRODUCE: Establish Debt Capacity	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Establish Debt Capacity																																			
A1980	PRODUCE: Draft Equity Mgmt Plan	5%	630	17-Jun-14 A	08-Dec-16	■ PRODUCE: Draft Equity Mgmt Plan																																			
A1990	PRODUCE: Cost of Service Study	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Cost of Service Study																																			
A2000	PRODUCE: Revenue Requirement Study	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Revenue Requirement Study																																			
A2010	PRODUCE: Cash Flow Analysis	10%	629	17-Jun-14 A	07-Dec-16	■ PRODUCE: Cash Flow Analysis																																			
A2060	Prepare & Submit Business Process Recommendations	0%	20	08-Dec-16*	09-Jan-17	■ Prepare & Submit Business Process Recommendations																																			
A2020	PRODUCE: Long Range Financial Plan	0%	19	09-Dec-16	09-Jan-17	■ PRODUCE: Long Range Financial Plan																																			
A2024	MEETING: Prepare for and Meet with AIDEA to discuss Pro Forma/LRFP	0%	5	09-Jan-17	17-Jan-17	■ MEETING: Prepare for and Meet with AIDEA to discuss Pro Forma/LRFP																																			
A5600	Prepare Draft Data Management Plan	0%	20	09-Jan-17*	07-Feb-17	■ Prepare Draft Data Management Plan																																			
A2030	PRODUCE: Analyze LRFP Scenarios to Meet Financial Goals	0%	20	17-Jan-17	14-Feb-17	■ PRODUCE: Analyze LRFP Scenarios to Meet Financial Goals																																			
A5620	Prepare Final Data Management Plan	0%	34	07-Feb-17	27-Mar-17	■ Prepare Final Data Management Plan																																			
A2050	Prepare and Submit Draft Business Plan	0%	20	14-Feb-17	14-Mar-17	■ Prepare and Submit Draft Business Plan																																			
A5610	Present Draft Data Management Plan to Board	0%	0		22-Feb-17	→ Present Draft Data Management Plan to Board																																			
A2071	APPROVE: Board Approval of Draft Business Plan	0%	0		14-Mar-17	■ APPROVE: Board Approval of Draft Business Plan																																			
A2081	Prepare & Submit Final Business Plan	0%	5	14-Mar-17	21-Mar-17	■ Prepare & Submit Final Business Plan																																			
A5650	Present Final Data Management Plan to Board	0%	0		29-Mar-17	→ Present Final Data Management Plan to Board																																			
IGU.3.3 Rate Design																																									
A2550	Prepare Initial Tariff Rate Design	0%	138	03-Jan-17*	18-Jul-17	■ Prepare Initial Tariff Rate Design																																			
A2580	Prepare Draft Equity Management Plan	0%	128	03-Jan-17*	03-Jul-17	■ Prepare Draft Equity Management Plan																																			
A2590	Submit/Present Draft Equity Mgmt Plan	0%	0		05-Jul-17	→ Submit/Present Draft Equity Mgmt Plan																																			
A5890	Prepare & Submit Final Equity Management Plan	0%	9	06-Jul-17	18-Jul-17	■ Prepare & Submit Final Equity Management Plan																																			
A2600	Submit/Present Initial Tariff/Rate Design	0%	0		18-Jul-17	→ Submit/Present Initial Tariff/Rate Design																																			
A5880	Prepare & Submit Final Tariff Rate Design	0%	33	19-Jul-17	01-Sep-17	■ Prepare & Submit Final Tariff Rate Design																																			
A2120	Prepare Draft Cost of Service Study (COSS)	0%	20	02-Aug-17	29-Aug-17	■ Prepare Draft Cost of Service Study (COSS)																																			
A2630	Submit/Present COSS Study	0%	0		29-Aug-17	→ Submit/Present COSS Study																																			
A5900	Prepare & Submit Final COSS	0%	13	30-Aug-17	18-Sep-17	■ Prepare & Submit Final COSS																																			
IGU.4 Financial Planning																																									
IGU.4.2 Cost Modeling																																									

Remaining Level of Effort

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					IGU Gas Distribution Project Schedule_Updated_Data Date _05Feb16												Data Date 05-Feb-16 Printed 12-Feb-16																									
ID	Activity Name		Activity % Complete	Duration	Start	Finish	2016												2017												2018											
							Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep			
A2255	NEGOTIATE: FNSB NG Conversions Loan Backstop		100%	233	01-Dec-15 A	28-Oct-16	NEGOTIATE: FNSB NG Conversions Loan Backstop																																			
A2210	PRODUCE: Create Database for Plan Preparation		0%	5	21-Aug-17	25-Aug-17	PRODUCE: Create Database for Plan Preparat																																			
A2230	PRODUCE: Basis of Cost Model		0%	10	28-Aug-17	11-Sep-17	PRODUCE: Basis of Cost Model																																			
IGU.4.3 Cash Flows / Data Management Plan																																										
A2220	PRODUCE: Cash Flow Analysis		0%	10	28-Aug-17	11-Sep-17	PRODUCE: Cash Flow Analysis																																			
A2240	TRANSMIT: Cash Flow Analysis and Basis of Cost Model to Board		0%	0		11-Sep-17	TRANSMIT: Cash Flow Analysis and Basis o																																			
IGU.5 Gas Operator																																										
IGU.5.1 Gas Operator Selection																																										
A1910	CONTRACT: Execute Gas Operator Contract		0%	65	15-Mar-16	15-Jun-16	CONTRACT::Execute Gas Operator Contract																																			
A1900	APPROVAL: Board Approval of Gas Operator Contract		0%	0		15-Jun-16*	APPROVAL: Board Approval of Gas Operator Contract																																			
IGU.6 Gas Supply, Transport, Delivery																																										
IGU.6.1 AIDEA Gas Supply / Delivery to FNSB																																										
A1573	PRODUCE: IEP Final Contract Costs to AIDEA		100%	57	30-Sep-14 A	03-Jan-17	PRODUCE: IEP Final Contract Costs to AIDEA																																			
A1550	PRODUCE: Conditional Contract Terms for Take/Pay Agreements		0%	109	05-Feb-16*	08-Jul-16	PRODUCE: Conditional Contract Terms for Take/Pay Agreements																																			
A1574	APPROVAL: AIDEA Acceptance of Final IEP Costs		0%	0		11-Jul-16	APPROVAL::AIDEA Acceptance of Final IEP Costs																																			
A1570	NEGOTIATE: Negotiate Conditional Contract Terms with AIDEA		0%	255	12-Jul-16	12-Jul-17	NEGOTIATE: Negotiate Conditional Contract Terms																																			
A1571	CONTRACT: Sign Conditional Contract Terms		0%	0		07-Aug-17	CONTRACT: Sign Conditional Contract Terms																																			
A1575	PRODUCE: IEP Final Contract Terms to Off-Takers		0%	2	09-Aug-17	10-Aug-17	PRODUCE: IEP Final Contract Terms to Off-Take																																			
A1576	REVIEW: Board accepts FINAL Contract Terms with IEP		0%	0		18-Aug-17	REVIEW::Board accepts FINAL Contract Terms s																																			
IGU.7 LNG Storage, Trucking, Regas																																										
IGU.7.Task 4 LNG Truck Unloading, Storage & Re-gasification																																										
A1750	PRODUCE: Negotiation Strategies		10%	544	30-Jun-14 A	19-Aug-16	PRODUCE: Negotiation Strategies																																			
A1762	PRODUCE: Memo of Understanding with GVEA		5%	499	03-Sep-14 A	19-Aug-16	PRODUCE: Memo of Understanding with GVEA																																			
A1770	NEGOTIATE: Pursue GVEA Alliance Contract		0%	66	01-Mar-16*	01-Jun-16	NEGOTIATE: Pursue GVEA Alliance Contract																																			
A1780	APPROVAL: Board Approval of GVEA Contract		0%	0		01-Jun-16	APPROVAL: Board Approval of GVEA Contract																																			
A1790	CONTRACT: Execute Contract with GVEA		0%	21	02-Jun-16	30-Jun-16	CONTRACT::Execute Contract with GVEA																																			
A1763	MEETING: Board Work Session GVEA MOU		0%	1	19-Aug-16	19-Aug-16	MEETING: Board Work Session GVEA MOU																																			
IGU.7.4 LNG Storage Engineering																																										
A2380	PRODUCE: Analysis of Short Term Storage Scenarios		95%	412	07-Oct-14 A	20-May-16	PRODUCE: Analysis of Short Term Storage Scenarios																																			
A1860	PRODUCE: Develop RFP for Engineering of LNG Storage		0%	21	23-Mar-16	20-Apr-16	PRODUCE: Develop RFP for Engineering of LNG Storage																																			
A2070	COMMUNICATE: Advertise RFP		0%	18	22-Apr-16	17-May-16	COMMUNICATE: Advertise RFP																																			
A2100	REVIEW: Review RFPs and Select Firm		0%	12	18-May-16	06-Jun-16	REVIEW: Review RFPs and Select Firm																																			
A2330	APPROVAL: Award Contract for LNG Storage Engineering		0%	1	09-Jun-16	10-Jun-16	APPROVAL: Award Contract for LNG Storage Engineering																																			
A2350	CONTRACT: Execute Contract for LNG Storage Engineering		0%	13	10-Jun-16	29-Jun-16	CONTRACT: Execute Contract for LNG Storage Engineering																																			
IGU.8 Design																																										
IGU.8.8.1 Phase II Design																																										
IGU.8.8.1.1 PH II Design																																										
A4640	REVIEW: 65% Design, PH2		20%	299	30-Apr-15 A	05-Jul-16	REVIEW: 65% Design, PH2																																			
A4650	MEETING: 65% Design, PH2		0%	1	01-Jun-16*	01-Jun-16	MEETING: 65% Design, PH2																																			
A4710	PRODUCE: 100% Design (ROW Permitting), PH2		0%	85	06-Jul-16	03-Nov-16	PRODUCE: 100% Design (ROW Permitting), PH2																																			
A4810	APPROVE: AIDEA Authorizes 100% Design, PH2		0%	0		06-Jul-16	APPROVE: AIDEA Authorizes 100% Design, PH2																																			
A4720	TRANSMIT: 100% Design, PH2		0%	0		03-Nov-16	TRANSMIT: 100% Design, PH2																																			
A4730	REVIEW: 100% Design, PH2		0%	39	03-Nov-16	30-Dec-16	REVIEW: 100% Design, PH2																																			
A4740	MEETING: 100% Design Review, PH2		0%	1	05-Jan-17	05-Jan-17	MEETING: 100% Design Review, PH2																																			
IGU.8.8.1.2 PH II ROW and Permitting																																										
A4890	Phase II ROW and Permitting		10%	413	24-Apr-15 A	08-Dec-16	Phase II ROW and Permitting																																			
IGU.8.2 Phase III Design																																										
A5960	Develop RFP for Eng/Permitting		0%	45	03-Jan-17*	07-Mar-17	Develop RFP for Eng/Permitting																																			
A5950	Phase III Design		0%	0	17-Mar-17		Phase III Design																																			
IGU.8.3 Transmission Design																																										
IGU.8.3.Task 18 Permitting																																										
A5980	Develop RFP for Eng/Permitting Prelim Layout		0%	45	03-Jan-17*	07-Mar-17	Develop RFP for Eng/Permitting Prelim Layout																																			
A5920	Prepare & Submit US Army and USAF Construction Permits		0%	60	01-Mar-17*	23-May-17	Prepare & Submit US Army and USAF Construction Permits																																			
A5930	Prepare & Submit BIA Revocable Use Permit & ROW		0%	60	01-Mar-17*	23-May-17	Prepare & Submit BIA Revocable Use Permit & ROW																																			
A5940	Prepare & Submit USACOE Section 401/10 Permit for Wetlands		0%	60	01-Mar-17*	23-May-17	Prepare & Submit USACOE Section 401/10 Permit for Wetl																																			
A5910	Prepare & Submit BLM ROW & Temp Use Permit		0%	60	08-Mar-17*	31-May-17	Prepare & Submit BLM ROW & Temp Use Permit																																			
IGU.8.4 Design Standards																																										
IGU.8.4.1 Design Standards Development																																										
A3530	PRODUCE: Additional Design Standards		25%	388	13-Feb-15 A	23-Aug-16	PRODUCE: Additional Design Standards																																			
A3540	REVIEW: Design Standards		0%	10	23-Aug-16	07-Sep-16	REVIEW: Design Standards																																			
A3550	TRANSMIT: Design Standards		0%	0		07-Sep-16	TRANSMIT: Design Standards																																			
IGU.9.1 Construction Contract Management																																										
IGU.9.1.1 Gas Distribution Construction, Phase 1 (PDC)																																										
A3870	CONSTRUCTION: Gas Distribution Construction, PH 1		80%	681	01-May-15 A	08-Jan-18	CONSTRUCTION: Gas Distrib																																			
A3890	END: Construction Complete, PH 1		0%	0		08-Jan-18	END: Construction Complete, F																																			
A3920	DELIVER: Delivery of Phase 1 Gas		0%	0		08-Jan-18	DELIVER: Delivery of Phase 1																																			
IGU.Task 10 Public Outreach																																										
A5990	AHFC Program Outreach		48%	133	31-Aug-15 A	09-Mar-16	AHFC Program Outreach																																			
IGU.Task 10.1 Crisis Communication Plan																																										
A3690	APPROVAL: Board Approval of CCP Revision		0%	0		09-Nov-16*	APPROVAL: Board Approval of CCP Revision																																			
A3700	TRANSMIT: CCP Revision		0%	0		09-Nov-16	TRANSMIT: CCP Revision																																			
IGU.Task 10.3 Communication Plan																																										

Remaining Level of Effort

Actual Level of Effort

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Conversions Presentation

IGU Conversion Program
February 16, 2016

IGU Conversion Program Tactical Plan Presentation to IGU Board




IGU Conversion Program Team

Steering Committee <ul style="list-style-type: none"> • Eric Chase • Gene Therriault • Jim Laiti • John Davies • John Anderson • Karl Gohlke • Wes Smith 	IGU <ul style="list-style-type: none"> • Steve Haagenson • David Prusak • Mindy O'Neill • Brown Thornton • David Carlisle • Monique Garbowicz
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IGU Conversion Program Tactical Plan

Why "Tactical"?

To present a systematic strategy that employs limited resources to develop a Conversions Program that supports the ultimate goals of the Utility.





IGU Conversion Program: Income Restricted

- Definition of "Income Restricted"
- Current levels of poverty in IGU territory
- Estimated cost of program
 - Potential funding scenarios
- Current research
- Timeline of program

IGU Conversion Program Tactical Plan

Recommendations

- Continue to develop the Conversion Program in concert with the evolution of the IEP and Utility operational strategy.
- Develop a Request for Information for issuance to lending institutions seeking information relative to the establishment of a Utility-facilitated financing program.
- Coordinate development of operational plans, policies, procedures, and practices with operating entity.

IGU Conversion Program Tactical Plan

Recommendations (cont.)

- Continue development of the program management strategy for the Conversion Program.
- Continue development of the Program Plan and associated plans.
- Continue evaluation of customer needs, including Income Restricted and renters.

IGU Conversion Program Tactical Plan

Questions?

Draft Business Plan

-DRAFT- IGU Business Plan

February 01, 2016

EXECUTIVE SUMMARY: With the significant decline in world oil prices and the AIDEA acquisition of Pentex, the IGU business strategy will shift away from the 50% lower energy costs to a pricing that is competitive with low diesel costs to encourage conversions, and address the integration of the Interior Gas Utility and Fairbanks Natural Gas to develop:

- Competitive rates to encourage conversions
- Secure long-term low cost energy rates
- Customer focused services and facilitate conversions
- Installation of infrastructure to gain advantage when a large diameter pipeline is constructed
- Improved air quality through the reduction of PM2.5 concentrations
- Access to a convenient clean burning natural gas

Conversions are critical to achieve sales goals that will drive lower unit costs by spreading fixed costs over a larger sales volume. The financial model has quantified the ability to obtain a rate of \$12.60/mcf that is 10% below the current costs of diesel fuel of \$1.94 gallon (\$14.00/mcf). The sale of natural gas at a reduced price of 10% below current oil prices is anticipated to encourage customer heating conversions. This rate reduction is available through the flexibility that was provided by the Legislature to AIDEA in the management of the SETS funds which include reduction of interest rates and the deferral of principal and interest payments. Conversion assistance through grant funding will be required so the 10% savings will not be eroded by financing conversion costs. The SETS deferrals with a 10% pricing point reduction will continue as diesel prices rise in the future, until the natural gas rate reaches \$15/mcf, at which point the \$15/mcf rate will maintain the long term savings over diesel fuel, as originally desired.

Long term rate levels are projected in the financial model to return SETS financing, while the rates remain near the \$15/mcf target. The full buildout using revenue bonds could affect the price point but this impact will be evaluated once local demands and conversion rates can be better quantified. The installed infrastructure and resulting sales will be critical to the participation in a large-diameter pipeline that will require an open season nomination for local purchase volumes.

Convenience, pricing and conversion assistance will all influence the reduction in solid-fuel use and air quality improvements.

Storage build out will follow a just-in-time strategy that can be responsive to demand growth rates for security storage. Security storage is a requirement of the RCA and sized to provide 5-days of liquid LNG storage to meet the peak demand levels. Golden Valley has stated their interest in purchasing 0.58 bcf during the summer months, which will require a storage tank to be built in North Pole and will be available to IGU for security storage in the winter months.

When peak winter demands exceed the liquefaction plant capacity a determination will be made to either add liquefaction storage or add levelizing storage.

Distribution buildout will consider the community build out that recognizes the existing distribution piping that can serve additional customers, once an additional gas supply is available. The legacy FNG system currently serves approximately 1,135 customers. Initial SETS financing has funded an additional 135 miles of natural gas mains that could serve an additional 4,479 customers for a total customer base of 5,614 combined IGU-FNG consumers. An additional 247 miles of mains would complete the build out on the FNG area and Phases 2 and 3 of the IGU area serving North Pole and Badger Road area for a total of 7,175 consumers. A consumer can decide to convert to gas based on a number of criteria, but current estimates indicate limits of about 1,500 boiler conversions that can be conducted in a summer season and 1,500 services and meters that can be installed. Assuming the potential 4,479 unserved customers that will have access to future gas supply, it appears that there are three years of conversions before additional distribution piping would be required.

The next phase of distribution build out will require evaluation and balance of several different levels including customer usage and density, customer desire to convert, environmental air quality conditions and funding. The immediate construction of Phase 2- (Plack and Repp) and Phase 3 (Badger Road) should be considered to address the severe air quality issues in that area.

VISION: (Board Approved xx/xx/2016)

Economic growth and health in the FNSB through the predictable reduction of energy costs in residential, commercial, industrial and governmental sectors.

MISSION: (Board Approved xx/xx/2016)

Develop a fully functional and sustainable community-wide gas utility that provides affordable natural gas to reduce energy costs and improves air quality for visitors and residents.

OBJECTIVES: (Board Approved xx/xx/2016)

- Define and promote an optimized plan for the development of service area-wide gas distribution infrastructure in the FNSB
- Leverage state assistance to maximize community value
- The rapid build-out of the FNSB's energy distribution infrastructure, one that natural gas as affordably as possible, to the largest number of borough residents, business and residential properties; and

- To help reduce the impact of the poor air quality in the Fairbanks North Star Borough PM2.5 non-attainment zone.
- To obtain a sustainable, affordable, reliable fuel supply
- Incorporate rural areas in energy cost reduction opportunities.

VALUES: The eight IGU Board effectiveness Values and Principles:

1. Focus on most important responsibilities
2. Annually prioritize strategies that support the vision and mission
3. Committees limited but aligned to strategies such as Conversions or Board Improvement
4. Concise information to monitor performance
5. Board Meetings: decisions, discussion or education (always have a meeting outcome)
6. Support healthy dissent
7. Continuous Board Improvement process through a Board Improvement Committee
8. Open and transparent business

BUSINESS STRATEGY STATEMENT: IGU plans to provide natural gas service with postage stamp rates that are based on the RCA principle of “Cost Causer is Cost Payer.” Most investor-owned, regulated gas utilities have a rate structure that is developed based on gas supply costs, operation and maintenance costs, interest and depreciation, debt service coverage, regulatory fees, taxes and profits. IGU is a consumer-owned not-for-profit municipal utility that is tax-exempt on a distribution plant. Rates will be developed on a cost-to-serve cash basis and will use generally accepted rate making practices but will not be economically regulated. at the RCA. Under local ownership and control, the IGU board will fill the regulatory role as it pertains to utility ratemaking. Compared to the regulated utility model, IGU rates will not have a regulatory charge, income taxes, or investor return on equity.

The Interior Energy Project has \$125 million of SETS funds which can have interest between 0-3% and can also defer both principal and interest payments. Full deferral is a valuable tool allowing for reduced rates that cover gas supply costs, operations and maintenance costs only during low diesel periods. As diesel costs rise over time, IGU will be able to make principal and interest payments on deferred SETS loans while maintaining a cost advantage over diesel. This strategy will insure cost competitive rates that will incentivize conversions. SETS deferral will also allow for rates that are based on interest and principal rather than interest and depreciation. The interest and principal approach will provide rate relief for the deferred SETS loans, rather than charging rates that include depreciation on plant placed in service.

SCORECARD:

- Employees: Provide a safe, progressive work environment with opportunities for advancement and meaningful work, through direct hire or contracting with local service providers.
 - Measurement: # of lost time accidents Target: zero
 % of local hires Target: 95%
 % Trained for position Target: 100%
 % Trained for next level Target: 50%

- Processes: Provide optimal value to the “customer” through efficient delivery of services.
 - Measurement: % of services provided on-time Target: 100%
 # of Conversions completed Target: 1,500
 % member involvement in planning Target: 100%

- Shareholders: Listen to customers and collaboratively provide cost effective solutions to meet their needs.
 - Measurement: Customer Loyalty Target: 100%
 Delivered cost of gas Target: \$15/mmBTU
 % of requested services provided Target: 100%
 Time to full build out Target: __ years
 Funding available for next season Target: Y/N
 % of Customer based served Target: 100%

- Financial: Provide sustainable revenue while ensuring cost saving solutions through grants and low interest loans, and build permanent equity while meeting TIER and DSC required by lenders.
 - Measurements: % of delivered gas to Diesel Costs Target: 10%

 - Ask Brown for financial targets
 - Permanent Class B Equity Target: 30%

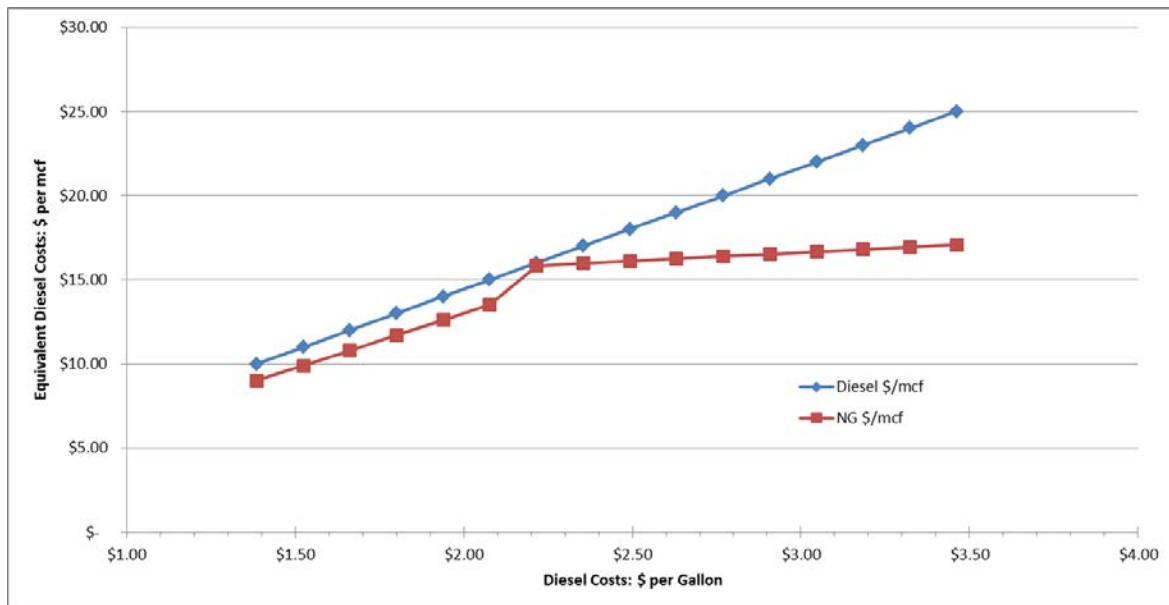
MARKETING PLAN: The dramatic reduction in diesel prices requires a major shift in the marketing strategy to achieve a 50% conversion rate. The revised strategy will encourage conversions to build market by offering cost savings on natural gas of approximately 10% below the low liquid fuel prices until the fuel prices increase to \$2 per gallon or \$15/mcf equivalent price point.

The cost reduction to allow for this strategy will require the full flexibility on all of the SETS funds through the complete deferral of principal and interest payments, until the price of oil reaches \$15/mcf, and sufficient cash flow results for full debt service coverage. The following table shows the savings that would be available to promote conversions and shows the increase of gas supply costs increasing from \$2/mcf to \$4/mcf as diesel increases from increases from \$2/gallon to \$4/gallon.

Additional work needs to be conducted that will predict the conversion rate with the 10% cost differential. Marketing natural gas to customers requires building relationships and trust, education, and is based on community outreach initiatives driven by customer needs.

	Cap	\$ 15.00		
	Discount	10%		
Diesel \$/gal	Diesel \$/mcf	NG \$/mcf	Savings/mcf	
\$ 1.39	\$ 10.00	\$ 9.00	\$ 1.00	
\$ 1.52	\$ 11.00	\$ 9.90	\$ 1.10	
\$ 1.66	\$ 12.00	\$ 10.80	\$ 1.20	
\$ 1.80	\$ 13.00	\$ 11.70	\$ 1.30	
\$ 1.94	\$ 14.00	\$ 12.60	\$ 1.40	
\$ 2.08	\$ 15.00	\$ 13.50	\$ 1.50	
\$ 2.22	\$ 16.00	\$ 15.83	\$ 0.17	
\$ 2.35	\$ 17.00	\$ 15.97	\$ 1.03	
\$ 2.49	\$ 18.00	\$ 16.11	\$ 1.89	
\$ 2.63	\$ 19.00	\$ 16.25	\$ 2.75	
\$ 2.77	\$ 20.00	\$ 16.39	\$ 3.62	
\$ 2.91	\$ 21.00	\$ 16.52	\$ 4.48	
\$ 3.05	\$ 22.00	\$ 16.66	\$ 5.34	
\$ 3.19	\$ 23.00	\$ 16.80	\$ 6.20	
\$ 3.32	\$ 24.00	\$ 16.94	\$ 7.06	
\$ 3.46	\$ 25.00	\$ 17.08	\$ 7.92	
\$ 3.60	\$ 26.00	\$ 17.22	\$ 8.78	
\$ 3.74	\$ 27.00	\$ 17.35	\$ 9.65	
\$ 3.88	\$ 28.00	\$ 17.49	\$ 10.51	
\$ 4.02	\$ 29.00	\$ 17.63	\$ 11.37	
\$ 4.16	\$ 30.00	\$ 17.77	\$ 12.23	

The table is depicted on the following graph:



Assuming that conversion curve is a function of the percent reduction in price and using the original Cardno sensitivity graph with a 10% reduction of \$30/mcf to \$27/mcf yields a 40% conversion rate. A 15% reduction from \$30/mcf to \$25.50/mcf yields a 50% conversion rate.

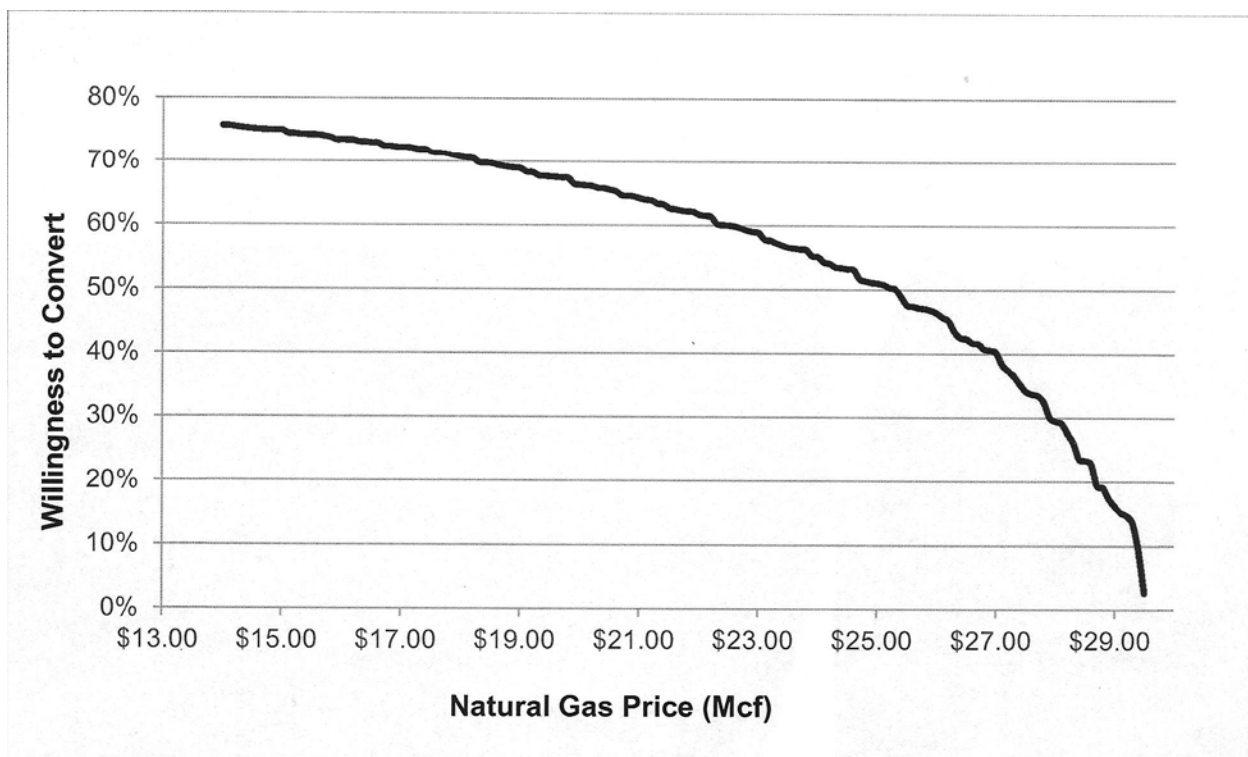


Figure 1.1 Single-Family Residential Willingness to Convert at Select Natural Gas Prices

Distribution Buildout:

The distribution buildout will consider the community build out that recognizes the existing distribution piping that can serve additional customers, once an additional natural gas supply is available. The legacy FNG system currently serves 1,135 customers. Initial SETS financing has been used to install an additional 135 miles of natural gas main that could serve 4,479 new customers for a total customer base of 5,614 consumers. An additional 247 miles would complete the build out on the FNG area and Phases 2 and 3 of the IGU system serving North Pole and Badger Road area for a total of 7,175 consumers.

A consumer can decide to convert to gas based on a number of criteria, but there are limits of 1,500 boiler conversions that can be conducted in a summer season and 1,500 services and meters that can be installed. Assuming the 4,479 unserved customers that will have access to future natural gas supply, it appears that there could be about three years of conversions before additional distribution piping would be required.

The following table shows the number of potential consumers, incremental costs per consumer and the capital requirements for the remaining buildout.

	FNG	IGU	Combined	
Total Potential Customers	6,957	2000		
near existing mains				
Potential Conversions 50%		50%		
Expanded System New Customers	3,479	1000	4,479	2.99 years
Expanded System (Pipe in the ground)	62 miles	73 miles	135 miles	
Capital Cost	\$ 15,000,000	\$ 21,000,000	\$ 36,000,000	
Density Expanded System	56 meters/mile	14 meters/mile	33.17 meters/mile	
Service Line Capital Costs/meter	\$ 2,100.00	\$ 2,100.00	\$ 2,100.00	
Feeder/Service Line Capital Costs/meter	\$ 6,412.20	\$ 23,100.00	\$ 10,138.41	
Future Customers needing distribution				
Next Distribution Expansion	40 miles	207 miles	247 miles	
Total Potential Customers	2,403 consumers	4,772 consumers	7,175 consumers	
	\$ 9,677,419 Capital Costs	\$ 59,547,945 Capital Costs	\$ 69,225,365 Capital Costs	
		Phase 4-6		
		414 miles	661 miles	
		8,549 consumers	15,724 consumers	
		\$ 119,095,890 Capital Costs	\$ 188,321,255 Capital Costs	

Based on an assumed limitation of installing 1,500 new services each year, the following table estimates the capital requirements for full buildout and the resulting sales.

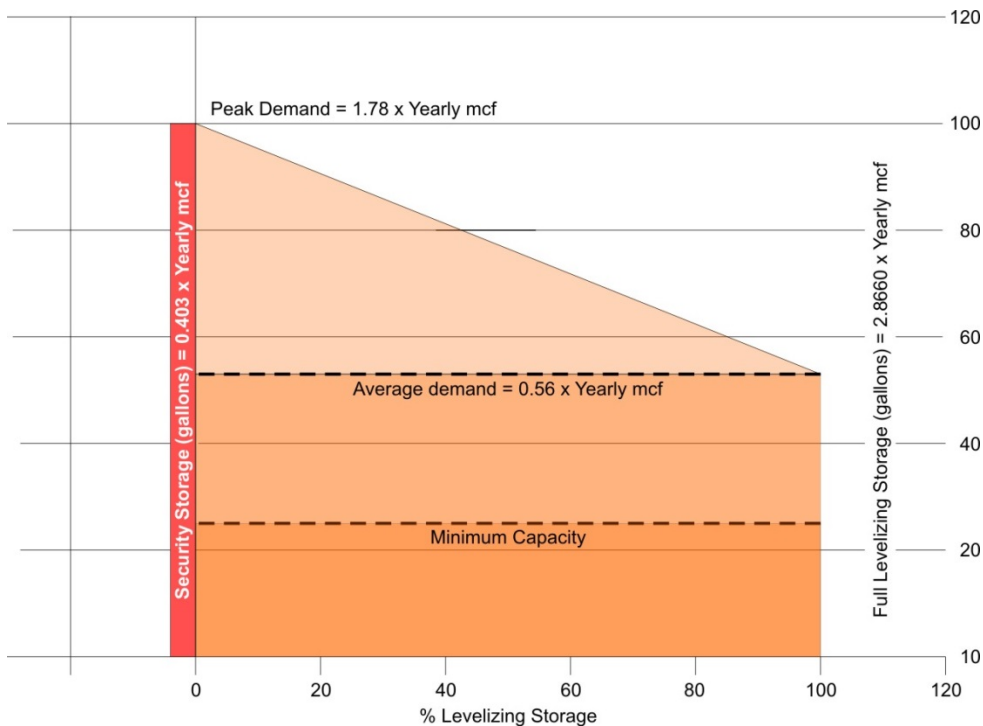
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Conversions/Yearly	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
Conversions Cumulative	1500	3000	4500	6000	7500	9000	10500	12000	13500	15000
Yearly Capital	\$ 3,150,000	\$ 3,150,000	\$ 9,618,305	\$ 9,618,305	\$ 34,650,000	\$ 34,650,000	\$ 34,650,000	\$ 34,650,000	\$ 34,650,000	\$ 34,650,000
Sales (mcf)	150	225,000	450,000	675,000	900,000	1,125,000	1,350,000	1,575,000	1,800,000	2,025,000

The areas outside the service area could be served with CNG (compressed natural gas) transported by truck. The CNG would be delivered to the customers using wheeled vehicles for storage in appropriate tanks.

Storage:

Storage build-out will follow a just-in-time strategy that can be responsive to demand growth for security storage. Security storage is a requirement of the RCA and sized to provide 5-days of liquid LNG storage to meet the peak demand levels. Golden Valley has stated their interest in purchasing 0.58 bcf during the summer months, which will require a storage tank to be built in North Pole that will be available for use by IGU for security storage in the winter months. When peak winter demands exceed the liquefaction plant capacity a determination will be made to either add liquefaction storage or add levelizing storage.

The insert shows an empirical approach using annual sales to determine peak capacity, sizing of security and levelizing storage. The insert is based on the load shape of the existing FNG monthly demand curve. The demand curve has a 24% fixed component with the remainder tracking closely to the historical Heating Degree Days. The number of trucks can be determined using the peak demand with security storage or average demand if there is full levelizing storage.

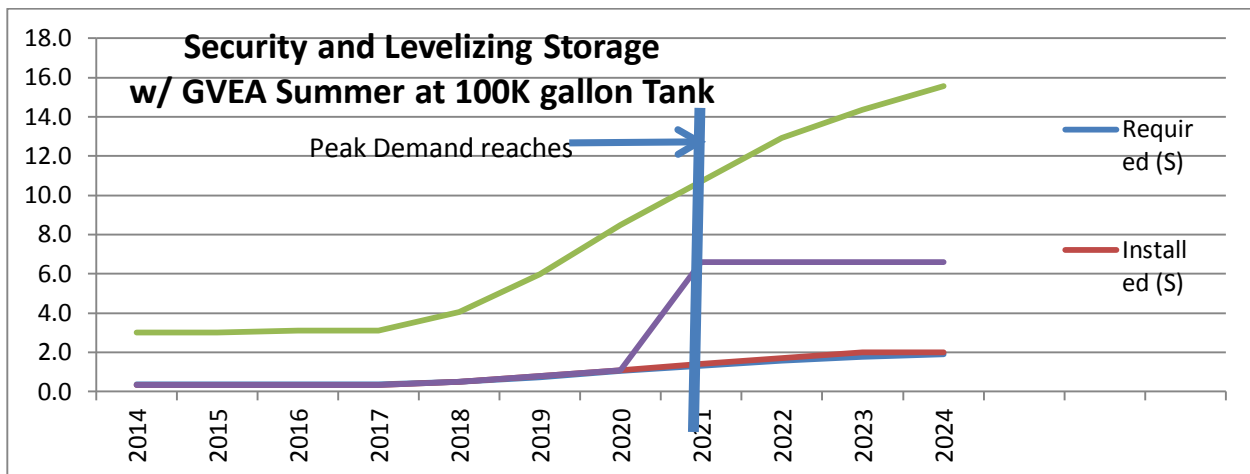


The following table and chart uses the empirical insert to show the expected security storage additions required to provide the required 5-day security storage.

The estimated cost for an 80,000 gallon the security storage tank is \$1,000,000. An 80,000 gallon tank is the largest tank that can be delivered on the road system. We will investigate local construction of the 100,000 – 300,000 gallon storage tanks that could be constructed locally and moved to the local storage site. The local construction would also support build local efforts and retain the fabrication jobs in the local marketplace.

There is an LNG Storage Tax Credit from the State of Alaska established in AS 43.55.028 of up to \$15 million or 50% of the cost incurred to establish or expand the liquefied natural gas facility.

	bcf	bcf	Mgal	Mgal	Mgal					
	Annual demand	Peak	Levelizing	Storage 5 days?	Total Mgal	GVEA		Security Storage Required (S)	Installed (S)	Level (S)
2014	0.925	1.6	2.65105	0.3728	3.0	0.1		0.4	0.34	
2015	0.925	1.6	2.65105	0.3728	3.0	0.1		0.4	0.34	
2016	0.95	1.7	2.7227	0.3829	3.1	0.1		0.4	0.34	
2017	0.95	1.7	2.7227	0.3829	3.1	0.1		0.4	0.34	
2018	1.24	2.2	3.54958	0.4991	4.0	0.1		0.5	0.50	
2019	1.83	3.3	5.248903	0.7381	6.0	0.1		0.7	0.80	
2020	2.60	4.6	7.442396	1.0465	8.5	0.1		1.0	1.10	
2021	3.27	5.8	9.380221	1.3190	10.7	0.1		1.3	1.40	
2022	3.96	7.0	11.33937	1.5945	12.9	0.1		1.6	1.70	
2023	4.40	7.8	12.59832	1.7715	14.4	0.1		1.8	2.00	
2024	4.76	8.5	13.64553	1.9188	15.6	0.1		1.9	2.00	



Fairbanks Natural Gas Integration:

Integration of the two utilities at the governance and operational level will effectively form a single gas utility that serves the entire community.

The following was extracted from an IGU letter that was sent to AIDEA in response to their proposed rate reduction to \$20/mcf:

“We reviewed AIDEA’s proposed interim rate plan for FNG and have prepared the following comments. In reviewing these comments, consider IGU’s concerns relative to potential purchase price, required rates, and timing of a future Pentex acquisition.

Proposed revenue requirements do not fully recover FNG’s operating costs including a return on AIDEA’s equity position. As proposed, revenue requirements include approximately \$280k for AIDEA’s return on investment. If a return of 5% and an AIDEA investment of \$41M for FNG’s assets are assumed, the annual revenue requirement related to investment would increase from \$280k to approximately \$2 million. This amount does not include any allowance for repayment of the original investment. By not including a full return on investment in revenue requirements, AIDEA’s proposed interim rates do not reflect full recovery of costs.

Any future purchase that involves bond financing will require recovery of principal and interest on the bonds plus some level of debt service coverage. If proposed revenue requirements are adjusted to reflect bond debt service (at 5% interest and 30 year term) and debt service coverage (at 1.25), the potential increase to annual revenue requirements is approximately \$3 million. Resulting rates will be in excess of \$24/MCF – a level that is above both the current FNG rates and the IEP target.

A comprehensive financing package should be evaluated that achieves IEP goals. Unfortunately, the IEP gas supply may not be available for approximately two years. The financial evaluation and rate plan should reflect the cost of alternative debt service options and incorporate any remediation discovered as a result of the pre-acquisition due diligence.

IGU is willing to work with AIDEA to identify a financial solution and schedule that will provide service to the most people possible and at the lowest possible price. “

SERVICES AND GOODS:

- NATURAL GAS (piped)
Sales
LNG Storage- Shared with others
- COMPRESSED NATURAL GAS (CNG)
Sales
- RURAL ENERGY SOLUTIONS (LNG, LPG)

STRATEGIC INITIATIVES based on SWOT Analysis:

1. Board- **Develop plan for community build out and operations** (First Priority)
Board training for excellence
2. Processes- **Scope of Work: transport, storage and distribution** (First Priority)
Determine financial and business targets

Contract with Operator and Supplier

3. Customer- Identify customer needs
Identify specific customer interest in converting to natural gas
Identify conceptual tariff terms for services that track diesel prices
Identify ways to assist in the conversion to gas.
Investigate early gas to consumers that need service only.
4. Financial- **Complete a Financial Model for the Integrated system** (First Priority)
Develop a Conversion Assistance Plan to drive sales and revenue
Identify traditional financing markets for additional funds
Complete Financial and Cash Flow Analysis of Integrated operations
Maximize the benefits of a Public – Private Partnership
Develop asset base and equity
5. Interrelations- Seek input and participation from public
Advance utility project needs and goals with the public and local, state and federal officials
6. Organization- Community wide integrated gas utility
Be asset owner to obtain tax-exempt financing and minimize taxes
Contract for Operations (Operations, Construction and Maintenance)
Contract for Supply and Liquefaction
Internal structure for utility integration

STRUCTURE AND ORGANIZATION:

1. Municipal Utility
2. Governance: Board (3 appointed, 4 elected)
3. Regulatory: RCA service area, not economically regulated
4. Margins: To be reinvested to minimize debt service
5. Tax Status: Federal: Tax-exempt
State: Tax-exempt
Local: Distribution assets - Tax Exempt
Capital Grants: tax-exemption

FINANCIAL AND COST OF SERVICE:

A pro forma financial model is in the process of being developed and has the ability to illustrate operating results over a broad range of variables including several forms of funding mechanisms that are available. The initial model will focus on achieving the target rate of \$15/mcf delivered to the meter and the revenue requirements to meet financial obligations.

After the long term pricing trajectory has been determined, the model will be used to determine the rate if the principal and interest payments for the all of the SETS loans are deferred. The goal of this reduction is to provide a rate that will be 10-15% below existing diesel prices to incentivize conversions during low diesel price periods.

Once the deferral strategy to incentivize conversions is finalized, the model will be used to determine opportunity and economics of delivery of gas in advance of the initial gas delivery from the liquefaction.

The financial model will be used to incorporate the following inputs and used to predict financial results. The following are basic categories for consideration:

1. CAPEX
2. OPEX:
3. Taxes
4. Debt and Grant Structure
 - State Loans and Grants:
 - Capital appropriations,
 - SETS Loans with low interest and deferrals
 - State sponsored tax-exempt bonds
 - State-sponsored tax credits for storage
 - Traditional Lenders: tax-exempt bonds,
 - Security: State backed debt in lieu of Backstops, Take-or-Pay, and Capacity Payments
5. Pro Forma Balance Sheets and Income Statements
6. Pro Forma Cash Flow Analysis
7. Pro Forma Equity Management Plan:
 - Distributions of Margins, purchase stored LNG or Pay Down Debt.
 - Grants- on balance sheet? (per governmental accounting practices)
8. Pro Forma Costs of Services
9. Pro Forma Tariff and Rates
10. Project Scope Definition and Schedule, with Incremental Benefit/ Cost Analysis

CONTINGENCIES:

Identify acceptable financing alternatives for conversion grants/loans.

EXIT STRATEGY:

The initial exit strategy proposed to exit the business if IGU is not well on its way to providing a sustainable revenue stream from providing services that meet the scorecard measures within four-years from the start-up of IGU.

IGU has an obligation for continued service as a result of the issuance of a certified service area from the RCA, and any exit from service would require the approval of the RCA.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS:

Strengths: (Bold are Board Approved xx/xx/2016)

- Workforce and Board
 - Engaged experienced board members
- Processes
 - Public Participation
 - Experienced Construction team
- Customer
 - One community wide gas utility
- Financial
 - Economic stabilization for the FNSB
 - RCA approval of CPCN
 - Flexible SETS financing tools
 - FNSB Line-of-Credit
- Interrelations (getting along with others)
 - Speak to Governor and Legislators with a unified voice for FNSB energy needs
 - Encourage optimized IGU system additions with existing FNG system
- Organization
 - Common municipal utility structure

Weaknesses: (Bold are Board Approved xx/xx/2016)

- Workforce and Board
 - No GM or management staff requiring more Board member day-to-day management
 - Rotation of Board members through election process
 - Need to develop Board policies and training
- Processes
 - Lack one community voice/position for project
 - Start-up with limited funds or internal processes
- Customer
 - Lack of basic infrastructure
 - Will need assistance in conversions
 - Promoting conversion and sales on pro forma estimates
 - Lack of belief the project is real

- Financial
 - **Lack of working capital**
 - **No assets**
 - **No source of revenues until sales begin**
- Interrelations (getting along with others)
 - **Ongoing Operator negotiations**
- Organization
 - **Municipal restrictions may be applied to IGU**

Opportunities: (Bold are Board Approved xx/xx/2016)

- Workforce and Board
 - Integration of existing FNG workforce with the Contract Operator
- Processes
 - Act as a focal point for energy infrastructure grants.
- Customer
 - Consolidating infrastructure needs
 - Economic Stability
 - IGU can provide services at a reduced cost
 - Improve air quality and stabilize the local economy
- Financial
 - State grants and low interest rates that can be deferred
 - Economic benefits
 - Better support for infrastructure monies from the state
 - Access to lower cost tax-exempt debt.
 - Power Project Fund can be modified for a Loan/Grant program.
 - GVEA buys gas in the summer months and shares storage.
- Interrelations (getting along with others)
 - “One Voice” carries leverage
- Organization
 - Integration of the IGU and FNG systems

Threats: (Bold are Board Approved xx/xx/2013)

- Workforce and Board
 - Legislature does not support IGU initiatives or financing plans
 - Limited Commitments available from Part-Time Board
- Processes

- GVEA North Pole gas demand declines and decides to not build LNG Storage tank.
- Customer
 - What role should the state play in assuring the availability of gas to the FNSB
 - How can we secure with certainty a gas supply for the next several years?
 - Determine the order of connecting new consumers.
- Financial
 - Low diesel prices
 - No state help
 - State runs out of money
 - Power Project Fund modifications will require statutory changes.
- Interrelations (getting along with others)
 - **Conflicting objectives among the membership**
- Organization
 - **Diverse business philosophies over “facilitate”, contract and provide**

Here are the eight components of a business plan that should serve this process well.

- 1) Executive Summary
Last section to be written will include strategic purpose of the business, legal authority to exist, and core financial indicators.
Core financial indicator should include payback period of initial investment, cash flow and profitability.
- 2) Marketing Plan
This portion of the plan looks at the market to determine sales volumes, pricing points and subscription rate. Construction phases and gas supply delivery schedule?
- 3) SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis
The SWOT analysis helps identify internal weaknesses that can be changed into strengths, and external threats that can be made into opportunities.
- 4) Services and Products
Identify technical implications of offering these services, and identify the best methods of distribution of the product.
Determine inventory management and additional infrastructure needed to support the product.
Determine how billing will be handled.
- 5) Structure and Organization
Identify the type of organization that provides the lowest cost option.
Identify human resource and board governance issues.
- 6) Financials
Develop pro-forma financial statements for the cash flow, net present value of the investment, operating statement and balance sheet.
Determine the payback period for the capital investment.
List all assumption used in preparing the financial calculations.
- 7) Contingencies
Identify what can go wrong and what can go too well.
Identify what we should do to prepare.
- 8) Exit Strategy
Identify conditions under which we leave the business.
Identify impact of leaving the business on consumers and employees.

BM 2016-03 Contract Modification 2014-D-01 PDC \$325,546



From: Project Manager, IGU

Subject: **Recommendation of Amendment No. 4 to the Contract with PDC Inc. Engineers for Professional Services for the Design of a Natural Gas System in the Fairbanks Area (RFP 2014-D-01) (\$325,546)**

The Interior Gas Utility (IGU) competitively solicited professional services by Request for Proposal (RFP 2014-D-01) for the above referenced project. Five firms responded to the RFP. IGU awarded a professional services agreement to PDC Inc. Engineers (PDC) on July 1, 2014, in the amount of \$1,189,985. This award was for the design of the first phase of a gas distribution system in the IGU Service Area as certificated with the Regulatory Commission of Alaska within the Fairbanks North Star Borough. The contract was issued Amendment No. 1 on October 7, 2014 for the amount of \$56,335; Amendment No. 2 on December 2, 2014 for the amount of \$55,000 and Amendment No. 3 on March 3, 2015 for the amount of \$1,675,584. Amendment No. 4 under consideration is recommended for an increase of \$325,546.

The initial project scope was to design a natural gas distribution system for approximately 80 miles of residential gas lines in the first of a six phase project. Basic services included pipeline and gas appurtenance design, field surveys, pipeline acquisition, environmental considerations, permitting and right-of-way acquisition services for the development of construction documents were taken to the bidding phase of the proposed work, as well as other related services as needed. The RFP allowed IGU to amend the contract to include construction management and inspection services and other additional works in association with design and construction related services. Proposers provided an overview of their capacity to provide construction management and inspection services; however, evaluation of the original RFP were based solely on the design through construction bidding support phases.

Amendment No. 1 (BM No. 2014-06) was executed on October 7, 2014 for an amount not to exceed \$56,355. The scope of work for this amendment addressed the development of the Standard Details necessary for the preparation of bidding documents for Phase 1. This amendment also provided analysis and recommendations for temporary LNG storage options in support of the Phase 1 project.

Amendment No. 2 (BM No. 2014-08) was executed on December 2, 2014 for an amount not to exceed \$55,000. This amendment was to advance field surveys to locate property lines prior to initiation of work for the gas line site clearing contract starting in March 2015. The survey work was necessary to identify the Right of Way limits and pipeline alignment to expedite the early clearing operations, which needed to be significantly completed prior to May 2015 to meet permit conditions for the project.

Amendment No. 3 (BM No. 2015-03R) was executed on March 3, 2015, for an amount not to exceed \$1,675,584. The scope of this work was to prepare additional bidding documents for early clearing in support of the construction of Phase 1, pay for permitting fees, redesign portions of the plans due to requests by the Alaska Railroad and the Alaska DOT&PF after the 95% plan set had been provided to them; this additional time included both field work and design services. Reporting requirements set forth by the State Historic Preservation Office (SHPO) for issuance of a permit were more excessive than originally budgeted for. This also provided for the construction management and inspection services for the Phase 1 Natural Gas Distribution System. These additional services were in support of the five (5) construction contracts, which include two clearing contracts and three pipe installation contracts, starting at the end of February 2015 through mid-October 2015.

Amendment No. 4 includes recognition of work during construction to provide for Owner furnished materials management; additional ROW compliance and permitting closeout reporting to the Alaska Railroad, the Alaska DOT&PF, and USACE (specifically for pipeline crossings); community liaison support during construction, particularly during clearing operations (estimated at \$55,990).

This amendment also provides interim support for gas line location services as part of the Alaska Digline call locate center (until such services are contracted with FNG), assistance for the installation of a pressure monitoring system for each of the three zones within Phase 1; preparation of additional gas standards necessary to prepare for the pipeline to be put into operation; additional requirements by ADNOR for as-built surveys specific to the various slough crossings; conversion of the record drawings and data into the FNSB GIS system and database; and assisting in engineering review of the AIDEA supplied information for due diligence for pipeline infrastructure and LNG storage.

For further consideration of these additional services, the following information is also provided for the construction costs and the construction management services delivered:

Phase 1 Construction estimate	\$16,500,000
Clearing Zone A/C	\$522,806 (actual)
Clearing Zone B	\$507,863 (actual)
Zone A	\$6,965,332 (pending)
Zone B	\$5,158,517 (pending)
Zone C	<u>\$3,843,449 (pending)</u>
Subtotal	\$16,997,967 (1.8% increase from bid)
Materials	
Pipe	\$1,013,581
Fittings and Locate Materials	\$355,039
Subtotal	<u>\$1,368,620</u>
Total Phase 1 Construction and Materials	\$18,366,587

PDC Current Contract: (including Amendment 1 thru 3)	Dollar Value	% of Const. Cost
Total Design/ROW/Environmental/Construction	\$2,976,924	(16.2%)
Design	\$675,000	(3.7%)
Design ROW/Environmental/Survey	\$737,000	(4.0%)
Construction Management/Office Engineering	\$495,000	(2.7%)
Const. Inspection	\$650,000	(3.5%)
Const. ROW/Environmental/Public Involvement/Closeout	\$420,000	(2.3%)

Proposed Amendment No. 4:

Total Construction Management and Operations Support	\$325,546	(1.8%)
Construction Management/Office Engineering	\$31,444	(0.2%)
Const. Inspection	\$25,083	(0.1%)
Const. ROW/Environmental/Public Involvement	\$51,135	(0.3%)
Project Closeout/Update ROW/Gas Align./GIS to FNSB	\$58,934	(0.3%)
Build Gas System GIS	\$70,505	(0.4%)
Digline Locate Support	\$25,000	(0.1%)
Add'l Gas Stds/Eng. Support/FNG due diligence review	\$64,446	(0.4%)

1 It is recommended that the Board approve Amendment No. 4 to PDC, Inc. Engineers for a not to
2 exceed amount of \$325,546 for a total contract amount not to exceed \$3,302,470.
3

4 The Project Manager, with concurrence of the General Manager, requests change order authority
5 without further Board approval in the not to exceed amount of \$16,000. This represents
6 approximately 5% of the value for this contract Amendment No.4, to address unforeseen needs for
7 purposes of benefiting the project.
8
9

10 Prepared by: David J. Prusak, Project Manager,
11 Submitted by: Steve Haagenson, P.E., General Manager
12

13 Approved:
14

15 _____ \ _____
16 Michael T. Meeks
17 Chair, IGU Board of Directors

Date