

May 3, 2018

Capital Improvement Plan and Storage Credits

Interior Gas Utility

# IGU Capital Improvement Plan and Financing Agreement

- The IGU Capital Improvement Plan includes several adjustments when compared to the Financing Agreement
- The North Slope Pad and Due Diligence Work were added to reflect asset transfer or planned capital expenditures
- Other adjustments included refined budget estimates and labor cost adjustments to reflect the Little Davis Bacon Act
- The four adjustment categories, in order of significance, are:
  - North Slope Pad \$15.0 m
  - Budget Refinements \$10.8 m
  - Little Davis Bacon Act \$ 9.3 m
  - Due Diligence Work Items \$ 7.3 m
  - Total \$42.4 m

# Four Main Adjustment Categories

- **North Slope Pad** – showing the ownership transfer of the North Slope Pad from AIDEA to IGU is consistent with Financing Agreement language and has no impact on IGU financing, costs, or rates. Item amount is offset by already-spent Appropriations Funds
- **Budget Refinements** – since the Financing Agreement was approved in December 2017, IGU and FNG have made budget refinements to items such as the estimated Pentex Purchase Price, the Fairbanks and North Pole storage projects, and Program Management. Budget adjustments are intended to better reflect expected costs and a conservative planning approach.
- **Little Davis Bacon Act** – as an additional measure of conservatism, project budgets were adjusted to reflect potential increases associated with Little Bacon Davis Act compliance.
- **Due Diligence Work Items** – these items were added as a result due diligence recommendations at the Titan LNG plant, Tria Road storage, and Donald Road storage.

# DRAFT - FOR CLIENT REVIEW AND COMMENT

## Comparison of IGU Capital Improvement Plan (Apr 2018) to AIDEA-IGU Financing Agreement (Dec 2017)

Item	IGU Capital Improvement Plan	AIDEA-IGU Financing Agreement	Adjustment	Basis for Adjustment
<b>LNG Supply</b>				
Titan 2 LNG Plant (inc. Titan 1 upgrades)	\$ 48,987,000	\$ 46,200,000	\$ 2,787,000	Little Davis Bacon Act (LDBA) adjustment to project labor costs
Titan 3 LNG Plant	26,500,000	25,000,000	1,500,000	LDBA adjustment
ST - LNG Supply	\$ 75,487,000	\$ 71,200,000	\$ 4,287,000	
<b>Transportation</b>				
LNG High-capacity Trailers & Equip	\$ 4,745,000	\$ 4,745,000	\$ -	
<b>Storage and Vaporization</b>				
FBKS 5.25mgal Storage	47,016,000	42,000,000	5,016,000	Revised project budget (December 2017)
NP 150kgal Storage	11,660,000	10,000,000	1,660,000	Revised project budget and LDBA adjustment
ST - Storage	\$ 58,676,000	\$ 52,000,000	\$ 6,676,000	
<b>Acquisition &amp; Due Diligence</b>				
IGU Purchase of Pentex, LLC	61,286,400	59,575,000	1,711,400	Additional accrued AIDEA return to closing on 5/31/2018
Transfer North Slope Pad to IGU	15,060,000	-	15,060,000	Amount is offset by already-spent Appropriations Funds; no impact to IGU financing
CHI Due Diligence Work Items	7,285,000	-	7,285,000	Reflects due diligence items for Titan 1, Donald Rd. (storage), and Tria Rd. (storage)
ST - Acquisition & Due Diligence	\$ 83,631,400	\$ 59,575,000	\$ 24,056,400	
<b>Distribution</b>				
Phase 1 IGU Buildout	23,400,000	23,400,000	-	
Phase 2 IGU Buildout *	27,210,200	25,670,000	1,540,200	LDBA adjustment
Phase 3 IGU Buildout *	40,587,400	38,290,000	2,297,400	LDBA adjustment
FNG Expansion/Infill - Gas Mains *	23,000,000	23,000,000	-	
FNG - Future Peak Shaving Plant *	2,000,000	2,000,000	-	
New Services and Meters *	19,892,600	19,149,000	743,600	Difference in customer count at \$2,600 each
ST - Distribution	\$ 136,090,200	\$ 131,509,000	\$ 4,581,200	
<b>Program Management</b>				
Program Management	11,860,000	9,200,000	2,660,000	Revised project budget and LDBA adjustment
Customer Conversion Program	3,180,000	3,000,000	180,000	LDBA adjustment
ST - Program Management	\$ 15,040,000	\$ 12,200,000	\$ 2,840,000	
<b>Total Capital Program</b>	<b>\$ 373,669,600</b>	<b>\$ 331,229,000</b>	<b>\$ 42,440,600</b>	

### Adjustment Summary

Adjustment	Amount	% of Total
North Slope Pad	\$ 15,060,000	35%
Budget Adjustments	10,771,000	25%
Little Davis Bacon Act	9,324,600	22%
Due Diligence Items	7,285,000	17%
Total	\$ 42,440,600	100%

# Storage Credits and Benefit to Rates

- As currently legislated, storage credits apply to new storage projects completed on or before December 31, 2019.
- The credit is 50% of total project costs up to \$15 million per project
- For IGU's two storage projects, the assumed storage credit amounts are:
  - \$15.0 million for the Fairbanks project, and
  - \$5.83 million for the North Pole project

## Estimated Range of Storage Credit Benefit to IGU Rates

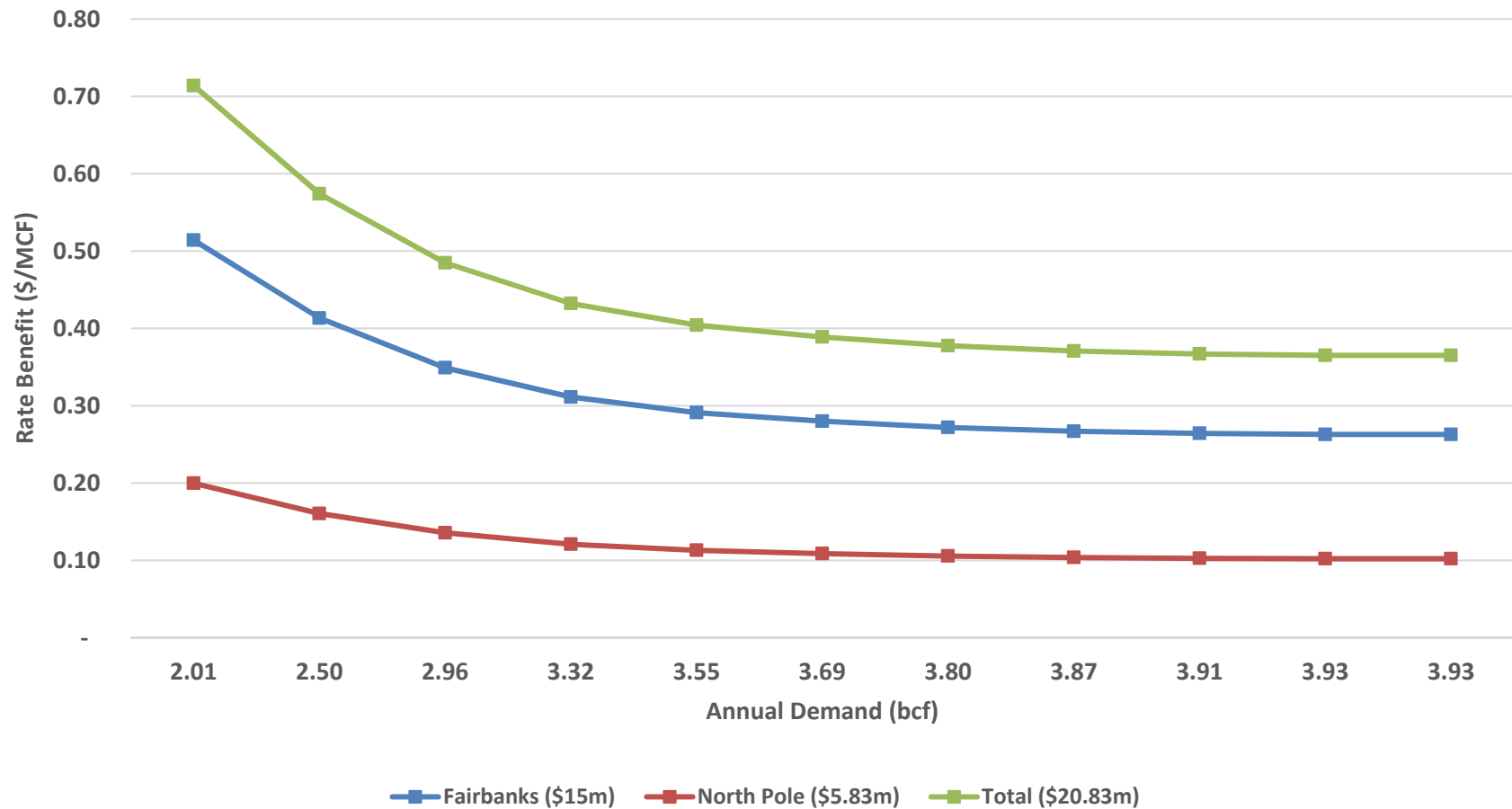
- The storage credit benefit to IGU rates is estimated to be:

Storage Project	Anticipated Storage Credit	Base Case Range of Rate Benefit <sup>1</sup>
Fairbanks	\$ 15,000,000	\$0.26 - 0.51 per MCF
North Pole	\$ 5,830,000	\$0.10 - 0.20 per MCF
Total	\$ 20,830,000	\$0.36 - 0.71 per MCF

[1] Rate benefit is estimated using bond debt in lieu of storage credits and Base Case demand

*Without storage credits, IGU will incur \$20.83 million in additional debt with an estimated rate impact of \$0.36 to \$0.71 per MCF depending on customer conversions and associated demand*

# Storage Credit Benefit to Rates versus Demand - Base Case



# DRAFT - FOR CLIENT REVIEW AND COMMENT

## Calculation of Estimated Storage Credit Benefit to IGU Rates

ITEM	(units)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Demand													
Base Case	(bcf)	0.75	1.06	1.51	2.01	2.50	2.96	3.32	3.55	3.69	3.80	3.87	3.91
Lower Gas Cost	(bcf)	0.75	1.19	1.83	2.55	3.25	3.90	4.41	4.75	4.95	5.11	5.20	5.26
Annual Debt Service (in lieu of Storage Credits)													
Fairbanks	(\$)	-	-	-	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275	\$ 1,033,275
North Pole	(\$)	-	-	-	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600	\$ 401,600
Total	(\$)	-	-	-	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875	\$ 1,434,875
Debt Service Rate Impact - Base Case													
Fairbanks (\$15m)	(\$/MCF)	-	-	-	0.51	0.41	0.35	0.31	0.29	0.28	0.27	0.27	0.26
North Pole (\$5.83m)	(\$/MCF)	-	-	-	0.20	0.16	0.14	0.12	0.11	0.11	0.11	0.10	0.10
Total (\$20.83m)	(\$/MCF)	-	-	-	0.71	0.57	0.48	0.43	0.40	0.39	0.38	0.37	0.37
Debt Service Rate Impact - Lower Cost Gas													
Fairbanks (\$15m)	(\$/MCF)	-	-	-	0.41	0.32	0.26	0.23	0.22	0.21	0.20	0.20	0.20
North Pole (\$5.83m)	(\$/MCF)	-	-	-	0.16	0.12	0.10	0.09	0.08	0.08	0.08	0.08	0.08
Total (\$20.83m)	(\$/MCF)	-	-	-	0.56	0.44	0.37	0.33	0.30	0.29	0.28	0.28	0.27
Modeled Storage Credits													
Fairbanks	(\$)	\$ 15,000,000											
North Pole	(\$)	\$ 5,830,000											
Total	(\$)	\$ 20,830,000											
Bond Financing													
Interest Rate	(%)	4%											
Term	(years)	30											
Deferred P&I	(years)	3											



# Discussion and Questions