



Alaska Industrial Development and Export Authority

**Overview of Interior Energy Project and Potential
Purchase of Pentex Alaska Natural Gas Company, LLC**

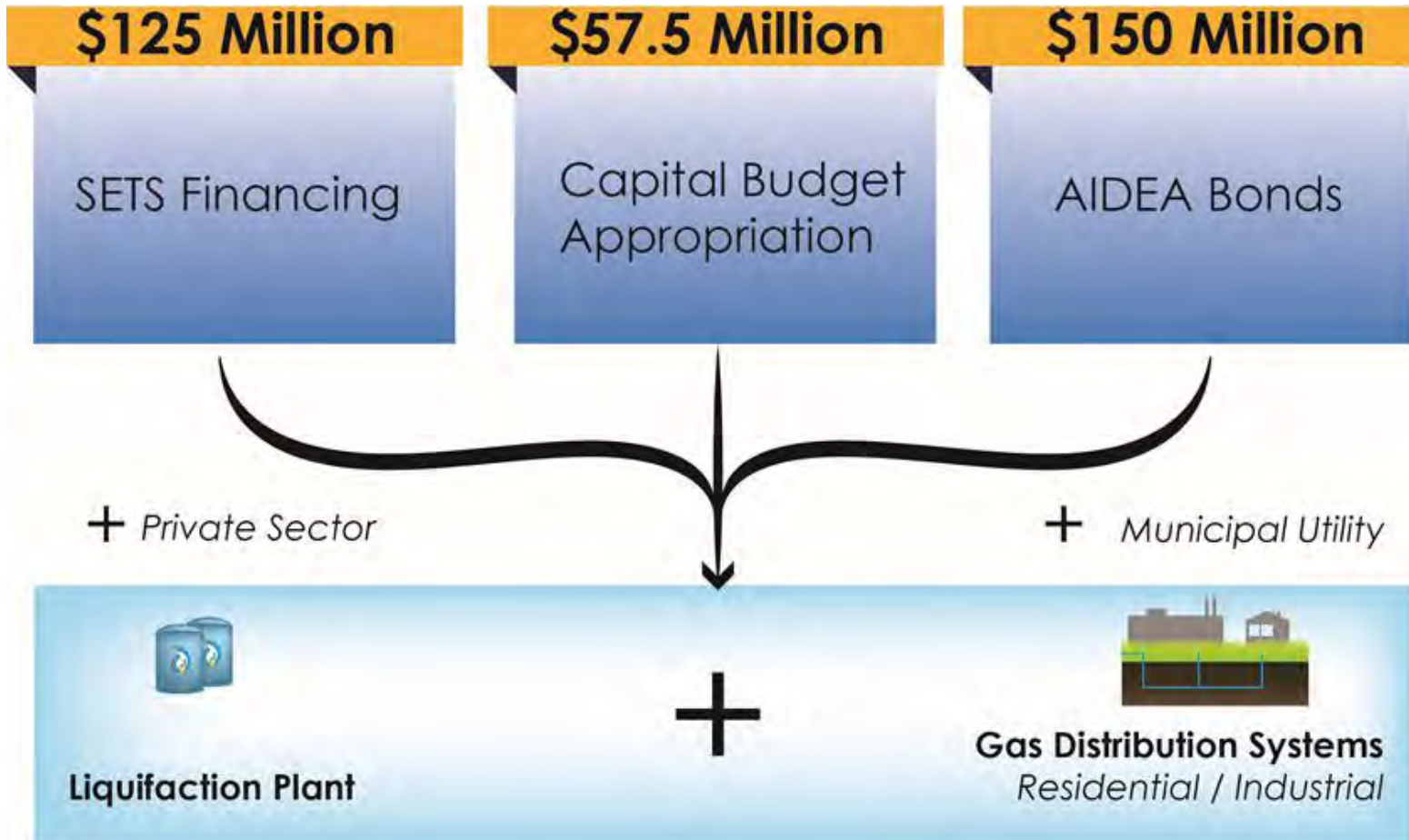
Senate Special Committee on Energy

February 5, 2015

IEP Goals

- Supply natural gas to Interior Alaska:
 - At the lowest cost possible
 - As many Alaska customers as possible
 - As soon as possible
- IEP investments compliment alternative sources of gas supply from a natural gas pipe line
- Lower PM2.5 in nonattainment areas of Interior

SB23 Finance Package



Interior Energy Project: Full Supply Chain Focus

Natural Gas
Supply and
Liquefaction



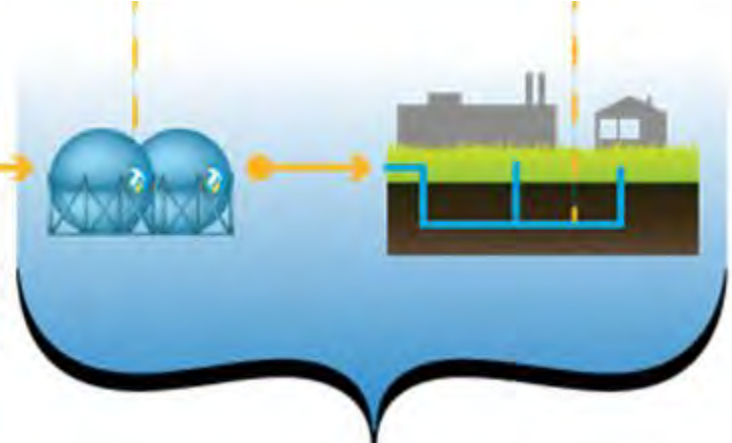
AIDEA and
Private
Industry

Transportation:
Trucking or
Railroad



Private Trucking
Contractors or
Alaska Railroad

LNG Storage
and
Regasification



Interior Gas Utility
Fairbanks Natural Gas

IEP: Current Status

- Pursued development of a North Slope supply of LNG with a private partner through a concession agreement format
- AIDEA and AEA are now leading an effort to evaluate alternative sources natural gas
- AIDEA is financing the buildout of natural gas distribution in Fairbanks and North Pole
- AIDEA and AEA is working with parties to optimize each aspect of supply chain

Concession Agreement Overview

- Concession Agreement was a legal framework for a public-private partnership
 - MWH was the project developer
 - Northleaf, a Canadian investment firm, was the private partner which would provide financing, construct, and operate LNG facility through Northern Lights, LLC
 - AIDEA would provide financing and would own LNG facility
 - AIDEA would take the risk of a natural gas pipeline
- Concession Agreement set out conditions required for financial close
 - AIDEA had to agree to project costs and commercial terms
 - MWH would provide construction and operating agreements
 - Negotiate and secure LNG supply with utilities
 - Develop a financial model with an agreed LNG price

Concession Agreement Results

- Concession Agreement terminated due to inability to complete financial close by December 31, 2014
 - Higher capital cost than projected
 - EPC cost for North Slope LNG plant: \$228 million not including \$20 million contingency and capitalized fees
 - Utilities could not commit to buy sufficient LNG at commercial terms presented to them
 - Present low oil prices increased the utilities' demand risk
 - Delivered projected price of \$13 to \$14 per Mcf in conjunction with projected distribution cost of utilities didn't meet community price goals
- Progress achieved on the North Slope project
 - Detailed Design & Cost for North Slope LNG Facility
 - LNG plant operations team formed
 - Estimated trucking and storage costs

Focus on Full Supply Chain

- Natural Gas Supply
 - Existing North Slope natural gas supply agreements
 - Exploring concepts to purchase low price Cook Inlet natural gas
- LNG Plant
 - Exploring costs of new LNG capacity in Cook Inlet
- Transportation
 - Working with private trucking contractors and AK. Railroad on costs and logistics for a Cook Inlet solution
- Storage
 - AIDEA will work to build FNG's cancelled storage project
- Distribution
 - Ongoing AIDEA financing of buildout
 - Integrating the Interior utilities to lower costs
- Conversions
 - Existing natural gas conversion working group

Natural Gas to Interior: Next Steps

- Alternative sources of natural gas supply are being evaluated
 - Deliberate and public process, led by AIDEA and AEA
 - A new Project Charter outlines the process
 - Interior utilities & community will be heavily involved
- Potential LNG sources include both the North Slope and Cook Inlet
 - Also investigating non-LNG supply (e.g., small diameter pipeline, propane, etc.)

Natural Gas Conversions

- Conversion Working Group meets regularly to discuss home and business conversions as part of the Interior Energy Project
 - Formed on July 8, 2014
 - Regular participation from representatives of Alaska Energy Authority, Alaska Housing and Finance Corporation, the Fairbanks North Star Borough, Fairbanks Natural Gas, and the Interior Gas Utility
- Surveyed the community's willingness and cost to convert
 - Estimate the total community conversion rate and gas use
 - Estimate the demand for conversion financing
- Working towards a comprehensive program to coordinate the financing of conversions to natural gas

Natural Gas Distribution

- In 2014, AIDEA financed:
 - FNG's build out of 33.4 miles of pipe in Fairbanks
 - IGU's system design and purchase of pipe
- The AIDEA Board is considering IGU's application for a \$30 million financing
 - Summer 2015 construction of Phase 1 (North Pole build out – 72 miles reaching 2,177 customers)
- In 2015, FNG projects to build out approximately 26.2 miles of pipe in Fairbanks
- With the proposed purchase of Pentex, AIDEA would acquire FNG

Pentex Acquisition Overview

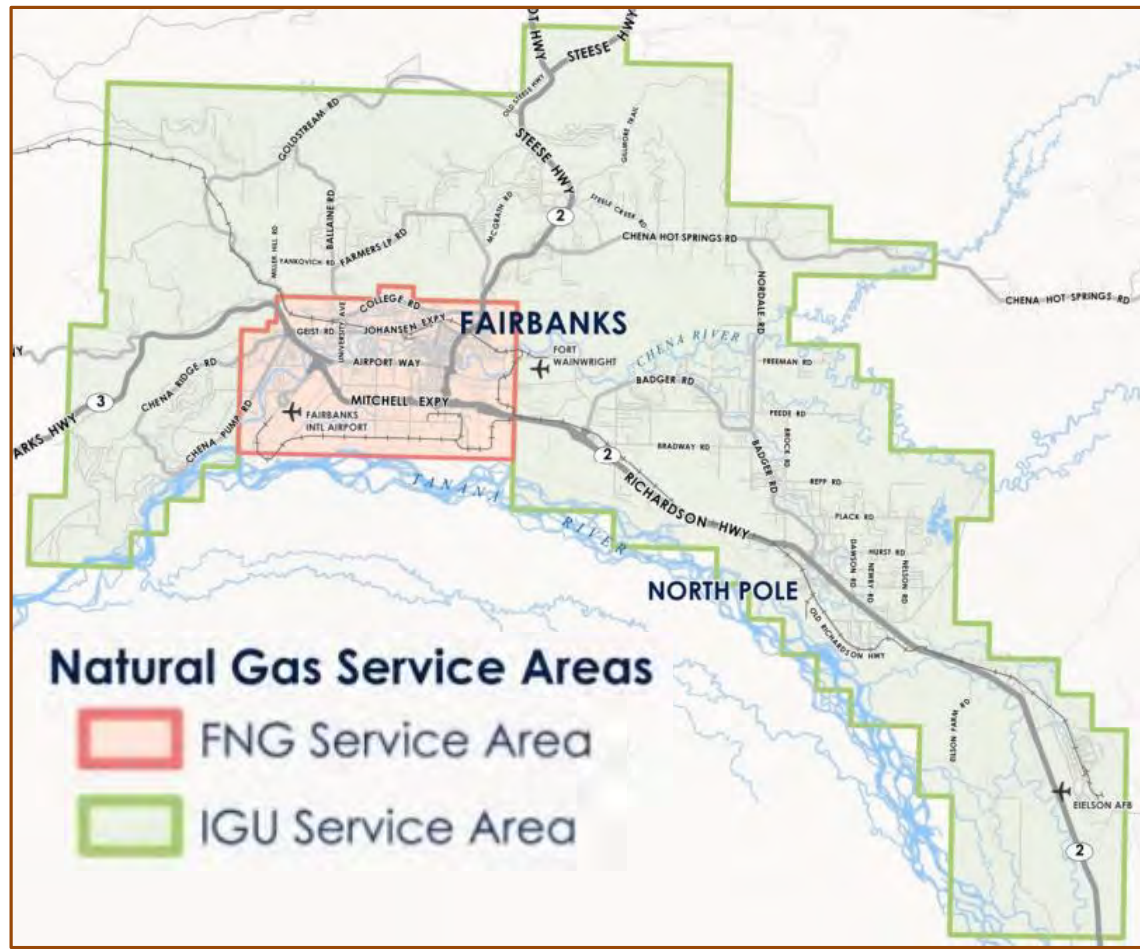
- AIDEA signed a Letter of Intent to purchase Pentex Alaska Natural Gas Company, LLC
 - Signed January 26, 2015
 - Non-binding
 - \$52.5 million price includes all Pentex assets
- Letter of Intent provides framework for evaluating the proposed purchase through a public process
- Subject to AIDEA due diligence, AIDEA Board vote, and regulatory approval
- Intended to reduce distribution costs by creating an integrated system which will accelerate expansion and reduce operating cost
- Opens up options for new LNG supply

Pentex Acquisition: Key Points

- Strategic investment that can play a critical role in achieving the long-term success of the IEP
- Expecting to integrate distribution systems by ensuring coordination between utilities, avoiding duplication
- Investment is expected to provide immediately price relief to existing FNG customers due AIDEA's cost of capital being substantially lower than that of FNG
- Investment will allow AIDEA to restart construction of LNG storage in Fairbanks. Expanded storage is key in creating an integrated and efficient distribution system for Fairbanks
- Investment would be of short duration with the goal of working with community to transition to a single utility serving the Interior
- AIDEA would not directly operate the utility

Benefits of Utility Coordination & Integrated Distribution System

- Reduce construction cost
- Reduce O&M and overhead costs
- Restart FNG's efforts to build storage
- Unified effort to purchase LNG
- Faster expansion of service to customers through coordinated build out of system



Impact on the Pending Sale of the Titan LNG

- AIDEA will acquire Pentex as an entity, inclusive of Pentex's interest to sell the LNG facility and trucking assets to a Hilcorp subsidiary
 - AIDEA's acquisition of Pentex would not displace any pre-existing contractual obligations for asset sale and LNG supply agreements
 - AIDEA will carefully review these agreements as part of its due diligence
 - LNG supply agreement under consideration by RCA
 - Existing LNG supply agreement provides less than 20% of Interior needs
- Pentex, under AIDEA ownership, may explore with Hilcorp expanding the Titan LNG plant
 - Acquisition of Pentex may provide an opportunity to quickly bring more LNG to the Interior

AIDEA Due Diligence

- Full due diligence will be completed before the deal is approved
 - Full financial, technical, and legal review
 - Ensure proposed purchase price reflective of fair market value
 - Examine the existing agreements with Hilcorp
 - Complete finance plan that shows AIDEA will recover its investment with rate of return under AS: 44.88.172
 - Ensure purchase will advances the Interior Energy Project goals and promotes economic development
 - Solicit review and advice of local governments

AIDEA's Next Steps

- Commence due diligence review to confirm whether the Pentex acquisition is a prudent investment for AIDEA
- Negotiate definitive agreement with Pentex
- Solicit advice from local governments
- Submit due diligence and finance plan to Board through AIDEA's public hearing process
- Proposed transaction would be considered by Board and voted on by Board in a public meeting



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Questions?