



## MEMORANDUM

**To:** John Springsteen, AIDEA Executive Director

**From:** Dan Britton, Fairbanks Natural Gas

**Date:** November 29, 2017

**Re:** Interior Energy Project – Fairbanks Large Storage Project

This memorandum provides the background and a project plan summary, for the design, construction and commissioning of Fairbanks LNG Storage facility consisting of a 5.25 MM gallon tank and auxiliary equipment (the “Storage Project”) to be located adjacent to an existing Fairbanks Natural Gas (FNG) storage facility. The construction of the Storage Project is a critical step in the overall IEP Project which provides for an increased level of LNG supply and security, as well as facilitating improved utilization rates related to LNG production and transportation assets. In addition, the Storage Project completion is time critical in order to possibly qualify for State of Alaska tax credits that could total up to \$15MM, that requires such a facility to commence commercial operation before January 1, 2020. The Storage Project is a key component of the HB 105-Compliant project plan for the IEP that was approved by the Alaska Industrial Development and Export Authority (the “Authority”) through Resolution No. G17-13 on September 21, 2017. FNG recommends the AIDEA Board approve Resolution No. G17-20, authorizing the modification of FNG’s existing Sustainable Energy Transmission and Supply (“SETS”) loan to allow for the financing of up to \$45.5MM for the completion of the Storage Project. The FNG SETS loan would be converted to a long-term loan associated with the financing agreement currently being finalized with the Interior Gas Utility. The Interior Gas Utility (IGU) management team has been apprised of the project status, and support’s the Authority’s approval of the Storage Project funding conditioned upon IGU Board of Director’s concurrence.

### Background

FNG and its subsidiary, Cassini LNG Storage, LLC (“Cassini”) began development of the Storage Project in 2012 and since such time have expended approximately \$1.7MM completing geotechnical evaluations and preliminary design and permitting work related to the Storage Project. The project was put on hold given the decline in oil prices, the status of the IEP and the formation of the Interior Gas Utility. Given the likely advancement of the IEP, and the progress being made towards the sale of Pentex to the Interior Gas Utility, the Alaska Industrial Development and Export Authority approved Resolution No. G17-09, on June 29, 2017. The resolution authorized FNG and Cassini to proceed with front end engineering and design (FEED) work for the Storage Project and allowed the expenditure of up to \$1.5MM for this purpose.

FNG subsequently began additional engineering activities and developed and issued an updated Request for Proposal to Engineer, Procure and Construct (“EPC”) the tank and its associated civil

works and foundation. FNG received responses to its request on October 31, 2017. Evaluations of responses are complete, and FNG is prepared to move forward with final EPC contract negotiations and issuance of a notice to proceed on the Storage Project.

In addition, FNG has been advancing balance of plant (BOP) designs and scope and has revised the budgets for the completion of this work and is sufficiently satisfied that the budget provided under separate confidential communication accurately reflects the expected cost of the Storage Project.

### **Project Plan**

FNG / Cassini will construct a new 5.25 million LNG storage facility in Fairbanks. This project's cost estimate total is \$48.7 million which includes the \$1.7MM spent to date for the preliminary work. The storage facility is expected to qualify for a State of Alaska storage credit of \$15 million. This storage project will meet the RCA's requirement for five days of storage and provide some level of seasonal supply by storing LNG produced in the summer for use in the winter. FNG previously advanced the same storage project.

The project is separated into two major components, including the EPC of the Tank, foundation and associated civil works and the balance of plant, which includes transport loading and offloading, vaporization equipment, boil-off gas compression, control room and appropriate security and safety components.

The attached updated project development plan provides further background related to the project execution.

### **Recommendations for AIDEA Board action**

FNG management with concurrence of the IEP Team and the AIDEA administration recommend the AIDEA Board vote to pass resolution No. G 17-20 approving the modification of FNG's existing SETS loan to provide for the financing of the Fairbanks Storage Project.

This resolution will accomplish the following actions:

- Authorize the financing of the Fairbanks Storage Project from the AIDEA SETS Fund
- Enable the construction of the Fairbanks Storage Project, a key component of the HB-105 plan to proceed

### **Attachment**

Attachment A: Updated Project Development Plan, Fairbanks Storage Project