

# Quarterly Report to the Alaska State Legislature Interior Energy Project

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InteriorEnergyProject.com

Quarterly Report to the Alaska State Legislature



### TABLE OF CONTENTS

INTRODUCTION
DESCRIPTION OF PROJECT PROGRESS ON ALL COMPONENTS
Supply
Liquefaction4
Transportation4
Rail option update4
Trucking update4
Distribution4
Systems expansion4
Systems consolidation
Conversion
Consumer interest in conversion assistance5
Property Assessed Clean Energy financing
On-bill financing
Identified funding sources for conversion assistance7
UPDATE ON THE STATUS OF LOCAL DISTRIBUTION INFRASTRUCTURE BUILD-OUT7
TO-DATE AND ANTICIPATED CONVERSIONS / CONNECTIONS
To-Date Conversions / Connections7
Anticipated Conversions
Anticipated / Potential Connections
FINANCIAL ACCOUNTING OF FUNDS EXPENDED AND FUNDS ANTICIPATED TO BE SPENT, INCLUDING LOANS, GRANTS, AND BONDS
SUMMARY

### LIST OF TABLES

Table 1: Summary Cost of Gas with Storage Tax Credit	. 2
Table 2: Natural Gas Customer Projection	. 8
Table 3: Expenditures from and Remaining Funds of Legislative Appropriation &	
Authorization(s)	. 9



## Quarterly Report to the Alaska State Legislature



### LIST OF ATTACHMENTS

Attachment A:	House Bill 105 Plan Memorandum

- Attachment B: IGU Resolution 2017-06R
- Attachment C: AIDEA Resolution G17-16A

Attachment D1: LNG Storage Memorandum

- Attachment D2: Large Storage Tank Project Development Plan
- Attachment D3: AIDEA Resolution No. G17-20
- Attachment E: AIDEA Resolution No. G17-14
- Attachment F: AIDEA Resolution No. G17-21
- Attachment G:
- AIDEA Resolution No. G17-22



## Quarterly Report to the Alaska State Legislature



## **ACRONYMS LIST**

ADOT&PF	Alaska Department of Transportation & Public Facilities
AIDEA	Alaska Industrial Development and Export Authority
ARRC	Alaska Railroad Corporation
CDBG	Community Development Block Grant
FA	Financing Agreement
FEED	Front End Engineering and Design
FID	Final Investment Decision
FNG	Fairbanks Natural Gas
FNSB	Fairbanks North Star Borough
HB	House Bill
IEP	Interior Energy Project
IGU	Interior Gas Utility
lng	Liquefied natural gas
MMCF	Million cubic feet
MOU	Memorandum of Understanding
PACE	Property Assessed Clean Energy
Pentex	Pentex Alaska Natural Gas Company, LLC
PSA	Purchase and Sale Agreement
RUS	Rural Utilities Services
SETS	Sustainable Energy Transmission and Supply Development Fund
SLA	Session Laws of Alaska
Titan	Titan Alaska LNG, LLC
USDA	United States Department of Agriculture





## INTRODUCTION

House Bill (HB) 105 passed the 29<sup>th</sup> Alaska Legislature on April 27, 2015, and was signed by Governor Bill Walker on June 30, 2015. This legislation was enacted to advance the Interior Energy Project (IEP), a project designed to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible. The financing package designed by this legislation provided the Alaska Industrial Development and Export Authority (AIDEA) the tools necessary to develop an integrated supply chain bringing low-cost natural gas or propane to residents and businesses through local utilities.

A critical component of the original financing for the IEP is the ability to provide financing for the project that will permit the development of a unified gas utility with competitive rates (Chapter 26, SLA2013). HB 105 provided AIDEA with several financial tools and a designated deposit of \$125,000,000 into the Sustainable Energy Transmission and Supply Development (SETS) Fund (AS 44.88.660). The legislation included a limitation on interest charged for the project financing and an allowance for AIDEA to waive "any limitations or requirements of its regulation that are otherwise applicable to the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund." This language was retained in the IEP financing tools when HB 105 became law on June 30, 2015.

HB 105 requires AIDEA to provide written quarterly reports to the Alaska State Legislature on the status of the IEP. The specific bill language includes:

"The Alaska Industrial Development and Export Authority shall submit quarterly to the legislature a written report on the Interior Energy Project. The authority shall deliver the report to the senate secretary and the chief clerk of the House of Representatives and notify the legislature that the report is available. The report must include:

- (1) a description of project progress on all components;
- (2) an update on the status of local distribution infrastructure buildout;
- (3) to-date and anticipated conversions; and
- (4) a financial accounting of funds expended and funds anticipated to be spent, including loans, grants, and bonds."

On September 21, 2017, the AIDEA Board considered and approved a development plan that met the requirements of HB 105 outlined above. Reaching this milestone provided the Authority access to the remaining IEP financial tools. AIDEA continued to advance the IEP goals by pursuing consolidation of the existing natural gas utility infrastructure owned by AIDEA, under Pentex LLC, and infrastructure owned by the Interior Gas Utility (IGU). The combined utility is proposed to be owned and controlled by IGU. If IGU chooses to not proceed with assuming the IEP responsibility, AIDEA will be able to advance the project under its own authority.

A copy of the HB 105 plan memorandum is included with this report as Attachment A. The projected cost of delivered natural gas to residential customers from the HB 105 plan memorandum is included as





Table 1. Information contained in Table 1 is based on reduced expectation of customer conversions down to 50% over an eight-year period of time.

Summary Cost of Gas - With Storage	Тах	Credit														
Anticipated Demand (Bcf)		0.75		0.75		1.19		1.83	2.55	3.25	3.90	4.41		4.75		4.95
Cost of Gas (\$/Mcf nominal)		2018		2019		2020		2021	2022	2023	2024	2025		2026		2027
Natural Gas - Cook Inlet		\$7.72		\$7.72		\$7.72		\$7.72	\$7.87	\$8.03	\$8.19	\$8.36		\$8.52		\$8.69
Pipeline Trans. Cost to Pt. Mac. (3rd-party)		0.65		0.66		0.68		0.69	0.70	0.72	0.73	0.75		0.76		0.78
LNG Production - Titan Plant		4.28		4.34		3.22		2.53	2.19	2.02	1.92	1.88		1.87		1.89
Trucking - Pt. Mac. To Fairbanks		2.48		2.53		2.58		2.63	2.68	2.73	2.79	2.84		2.90		2.96
Subtotal - Cost to Utilities	\$	15.12	\$	15.25	\$	14.19	\$	13.57	\$ 13.45	\$ 13.50	\$ 13.64	\$ 13.83	\$	14.06	\$	14.32
Distribution, Storage, Vaporization		4.76		4.85		3.13		2.07	1.51	1.21	1.03	0.93		0.88		0.86
Total Cost of Gas before Financing	\$	19.88	\$	20.10	\$	17.31	\$	15.64	\$ 14.96	\$ 14.71	\$ 14.67	\$ 14.76	\$	14.94	\$	15.18
Debt		-		-		-		0.72	0.51	0.40	0.43	 0.78		1.34		1.69
Total Cost of Gas (nominal)	\$	19.88	\$	20.10	\$	17.31	\$	16.35	\$ 15.48	\$ 15.11	\$ 15.10	\$ 15.54	\$	16.28	\$	16.87
Total Cost of Gas (real)	\$	19.11	\$	18.94	\$	16.00	\$	14.81	\$ 13.74	\$ 13.16	\$ 12.88	\$ 13.00	\$	13.36	\$	13.57
Equivalent Fuel Oil Price (nom. \$/gal)	\$	2.74	\$	2.77	\$	2.39	\$	2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$	2.25	\$	2.33
Equivalent Fuel Oil Price (real \$/gal)	\$	2.64	\$	2.61	\$	2.21	\$	2.04	\$ 1.90	\$ 1.81	\$ 1.78	\$ 1.79	\$	1.84	\$	1.87
Planned Average Customer Rates*		\$20.20		\$20.20		\$17.31	:	\$16.35	\$15.48	\$15.11	\$15.10	\$15.54	-	16.28	1	\$16.87
Equivalent Fuel Oil Price (nom. \$/gal)	\$	2.79	\$	2.79	\$	2.39	\$	2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$	2.25	\$	2.33
*Differs from Total Cost of Gas in 2018 and 20	)19 di	ue to utili	ty c	onsolidati	on											

#### Table 1: Summary Cost of Gas with Storage Tax Credit

The supporting documents for the HB 105 plan can be downloaded at <u>www.interiorenergyproject.com/resources.html</u>.

This is the tenth quarterly report submitted under the requirements of HB 105. Each section of the report will correspond to one of the four items required by HB 105. This report augments the information previously provided, and covers the period from October 1, 2017 through December 31, 2017.





## DESCRIPTION OF PROJECT PROGRESS ON ALL COMPONENTS

The IEP effort is structured on the following project components: Supply, Liquefaction, Transportation, Distribution (including Storage and Regasification), and Conversions.

Following negotiations in 2016, a non-binding Utility Integration Memorandum of Understanding (MOU) was approved by the IGU and AIDEA Boards in January 2017. The purpose of the MOU was to provide guidance and structure for a separate Financing Agreement (FA) and Purchase and Sale Agreement (PSA) designed to form a single, investment-grade natural gas sourcing and distribution utility within the Fairbanks North Star Borough (FNSB), through the consolidation of IGU with the AIDEA-owned Pentex natural gas system commonly referred to as FNG.

Negotiations continued on the FA, PSA and supporting documents through much of 2017. Work concluded in November 2017 leading to IGU Board approval of the FA and PSA on December 5<sup>th</sup>, through the adoption of IGU Amended Resolution # 2017-06R (Attachment B), and AIDEA Board approval of the documents on December 7<sup>th</sup> through the adoption of AIDEA Resolution G17-16A (Attachment C). As authorized, the PSA and FA documents were signed on December 13, 2017. The signed PSA and FA can be found at <u>www.interiorenergyproject.com</u>. Final closure of these agreements will utilize the IEP project financing authorized under Chapter 26, SLA2013 and capital funds appropriated in sec. 11, ch. 38. SLA 2015, page 32, lines 17–25.

As required by HB 105, the status of Supply, Liquefaction, Transportation, Distribution (including Storage and Regasification), and Conversions are summarized below.

## Supply

Titan Alaska LNG, LLC (Titan), a Pentex subsidiary, has a current natural gas supply agreement for the existing Titan facility through April 2018.

Titan concluded negotiations on a new gas supply contract with Hilcorp to provide the current liquefaction facility with a term beginning April 1, 2018 and expiring March 31, 2021. The "All Requirements" Agreement provides Titan with enough capacity (5 million cubic feet [MMCF]/ day) for its existing customers, and allows for the expansion of up to 15 MMCF/Day upon 18 months' advance notice to Hilcorp. The terms of the contract:

- Allow the IEP to engage with other Cook Inlet producers as early as 2021.
- Amend the existing supply contract to avoid a scheduled price increase of 4 percent slated to start on January 1, 2018.
- Offer the IEP a great deal of volume flexibility without any take or pay risk.
- Contain no price escalation over its duration.
- Remove a price differential for peak winter gas that is contained in the current supply contract.





### Liquefaction

Under the terms of the signed FA and PSA documents, steps will now be taken to finalize the optimal design and commercial structure to increase the availability of liquefied natural gas (LNG) through a Front End Engineering and Design (FEED) process. At the completion of FEED, a determination will be made whether to make a Final Investment Decision (FID). If the FID is approved, a commercial solicitation will be initiated to increase the capacity of LNG available for shipment to the Interior.

### Transportation

#### Rail option update

FNG continues to explore the potential for future shipments of LNG with the Alaska Railroad Corporation (ARRC) as part of the overall IEP effort. As work proceeds to increase LNG storage capacity in the FNSB, consideration will be given to facilitate delivery by rail in the future.

#### Trucking update

Three new large-capacity HEIL trailers have been fully integrated into the Pentex LNG transportation fleet. In order to enhance future options, the new trailers are configured to facilitate adding a hitch at a later date. This modification will allow pulling an additional "pup" trailer with each LNG load if this proves to be feasible.

### Distribution

#### Systems expansion

No major changes have been made to the distribution system since the October 1, 2015, IEP Quarterly Report. Detailed maps of the build-out accomplished in 2015 are included in that report, available at <u>www.interiorenergyproject.com</u>.

FNG continued to work with the City of Fairbanks, FNSB, and the Alaska Department of Transportation & Public Facilities (ADOT&PF) to perform minor pipe installs in conjunction with major roadwork.

On June 29, 2017, the AIDEA Board approved Resolution No. G17- 09 authorizing Pentex subsidiaries FNG and Cassini to proceed with FEED work for the proposed Fairbanks LNG storage facility expansion in an amount not to exceed \$1,500,000. Funds for this effort are available from the FY 2014 capital appropriation made to the Authority to advance the Interior Energy Project.

On December 7, 2017, the AIDEA Board was presented with a memorandum outlining the Interior Energy Project – Fairbanks Large Storage Project plan to expand the existing LNG storage in Fairbanks through the construction of a 5.25 million gallon LNG tank. Following discussion, the AIDEA Board approved Resolution No. G17-20 authorizing additional IEP





financing of up to \$45,500,000 for LNG storage expansion. The LNG storage memorandum, project plan, and AIDEA Resolution No. G17-20 are included with this report (Attachments D1, D2, and D3).

Under the terms of the signed consolidation FA and PSA, IGU concurrence on the LNG storage expansion was required before construction could begin. This concurrence was provided by the IGU at a Board of Directors Special Meeting on December 12, 2017.

A competitive request for proposals was issued for this work with a close date of October 31, 2017. Following the end of this period, proposals received were evaluated and a contractor selected. The contract for engineering, procurement and construction of the tank and associated foundation and civil works was executed on December 22, 2017. Preliminary construction activities have begun.

#### Systems consolidation

As detailed above, negotiations continued throughout 2017 resulting in the signing of the Financing and Purchase and Sale agreements on December 13, 2017. These documents allow the consolidation of the AIDEA-owned Pentex assets and the IGU assets into a single, investment-grade natural gas sourcing and distribution utility within the Fairbanks North Star Borough. Closure under these contractual agreements is anticipated to take place before May 31, 2018.

Costs incurred by IGU, in its review of the technical and business integration of IGU and the Pentex assets into a single consolidated natural gas utility, and associated IGU due diligence, were approved by the AIDEA Board for inclusion in the existing IGU SETS loan. Actions to approve these inclusions were taken through the adoption of AIDEA Resolution No. G17-14, on September 21, 2017 (Attachment E) and adoption of AIDEA Resolution No. G17-21 on December 7, 2017 (Attachment F).

Cost incurred by AIDEA to facilitate and achieve signing of the FA and PSA on December 13, 2017 were authorized to be covered with IEP funds through the adoption of AIDEA Resolution No. G17-22 (Attachment G).

### Conversion

Efforts to assist consumers with conversion to natural gas have centered primarily on identification of low-cost loan funds and access to favorable financing mechanisms. Work has also been done with furnace and boiler manufacturers regarding new boiler components that may reduce the cost of individual customer conversion to natural gas.

#### Consumer interest in conversion assistance

The Cardno Entrix *Interior Energy Project Natural Gas Conversion Analysis*, finalized in January 2014, identified a high level of interest in converting to natural gas as a lower cost,





cleaner source fuel for space heat if the delivered price approached the target of \$15 Mcf. At the time the Cardno Entrix analysis was performed, many homeowners indicated a desire to forego financing conversion and instead expressed a willingness to fund this action from personal savings due to the high cost of fuel oil. For individuals without personal funds for this purpose, the ability to finance all, or a portion, of the cost over an extended period of time scored high as a necessary tool to support their conversion to gas.

The ability to pass the obligation for repayment of conversion financing to a new owner of a building proved to be very attractive to residential owners. The ability to spread natural gas conversion costs over a 10- to 20-year period and the use of transferable financing are both attributes of two energy efficiency financing mechanisms described below that have achieved widespread use across the Lower 48.

The current low price of home heating fuel oil increases the importance of conversion assistance that will incentivize individual property owners in the FNSB to switch to natural gas when it becomes available. The original Cardno Entrix conversion estimates and demand model was modified to reflect the lower price of fuel oil and expected reduction in natural gas conversions. However, just as the price of home heating oil declined unexpectedly, the future price is uncertain.

#### Property Assessed Clean Energy financing

Property Assessed Clean Energy (PACE) is a means of financing improvements that increase the energy efficiency of commercial buildings. The improvements are financed with repayment accomplished through a voluntary assessment placed on the annual property tax bill. PACE financing is often structured to allow a longer payback period than is possible with conventional business loans. The strength of the PACE collection mechanism results in low default/low risk loans, which may justify a lower interest rate.

PACE legislation (HB 80) was passed by the 30<sup>th</sup> Alaska Legislature on April 17, 2017. HB 80 was signed into law by Governor Walker on October 6, 2017. The Alaska Energy Authority is now working with municipalities to determine how to best implement the law.

#### **On-bill financing**

On-bill financing allows utility customers to borrow funds that are repaid via a voluntary line item added to their standard utility bill. This financing mechanism is often used by utilities to assist new customers in overcoming the initial cost of accessing a utility service.

The current ownership and governance structure of IGU and FNG allow these local utilities the flexibility to offer an on-bill financing mechanism. Previous conversion surveys and focus groups indicated that access to such a transferable financing mechanism would help incentivize conversion to natural gas. Coupling this tool with low cost loan funds will be helpful.





Although FNG and IGU currently have access to on-bill financing as a means of assisting consumers with conversion to natural gas, it is unclear whether utilities that are rate-regulated by the Regulatory Commission of Alaska have such latitude. As a result, there is interest in legislation that would amend existing Alaska statutes to clearly allow this opportunity.

#### Identified funding sources for conversion assistance

The Local Conversion Working Group has identified the following possible funding sources for conversion assistance:

- I. Commercial lenders
  - a. Commercial loans as part of a community-wide conversion program
- II. Local government
  - a. PACE-enabled conversion loans
  - b. Possible local government back-stop funding for PACE loans
- III. State sources
  - a. Air quality programs
  - b. Community Development Block Grants (CDBG)
- IV. Federal sources
  - a. United States Department of Agriculture (USDA) Rural Utilities Service (RUS) Energy Efficiency and Conservation Loan Program
  - b. USDA RUS Rural Energy Savings Program loans
  - c. Clean Water Fund
  - d. United States Environmental Protection Agency Targeted Airshed Grants

CDBGs were added as a potential funding source based on work performed by IGU staff that identified specific areas within the combined FNG and IGU service territory with income characteristics that may support access to CDBG funds.

# UPDATE ON THE STATUS OF LOCAL DISTRIBUTION INFRASTRUCTURE BUILD-OUT

No major changes were made to the distribution system in the last quarter other than work with the City of Fairbanks, the FNSB, and the ADOT&PF to coordinate pipe installs that could be efficiently constructed along with roadwork taking place. Detailed maps of the build-out accomplished in 2015 were included in the October 1, 2015 IEP Quarterly Report.

## TO-DATE AND ANTICIPATED CONVERSIONS / CONNECTIONS

### **To-Date Conversions / Connections**

Due to limited gas supply, no conversions are currently occurring. Until the supply is increased, there is not sufficient gas in the winter to ensure uninterrupted service to additional customers. Expanded





distribution lines installed previously have been pressurized and are available to supply gas to homes and businesses when additional natural gas is available.

### **Anticipated Conversions**

The number of anticipated conversions provided in the October 1, 2015 IEP Quarterly Report was based on the analysis undertaken by Cardno Entrix. The report assessed "willingness to convert" based on a number of factors related to conversion costs, prior conversion history, survey data, and potential savings. A copy of that report can be found at interiorenergyproject.com/Resources%20and%20Documents/IEP Conversion Analysis Final.pdf.

The significant change in the price of heating fuel required a fresh look at the "willingness to convert" with specific attention paid to the closing of the cost gap between heating fuel and the IEP natural gas price targets. Cardno Entrix was engaged to update the analysis of "willingness to convert" based on a range of scenarios of lowered heating oil prices. In the most conservative scenario, expected conversions were projected to drop by approximately one-third from the original analysis.

The change in projected willingness to convert, combined with an extension of the time needed to reach conversions from six years to eight years, results in a revision to the number of anticipated conversions and the anticipated demand for the project. Table 2 depicts the anticipated number of conversions, by year, based upon the revised Cardno Entrix analysis.

	2015	2016	2017	2018	2019	2020	2021	2022	2023
FNG	959	959	1,506	2,183	3,031	3,732	4,362	4,635	4,807
IGU	-	-	167	576	1,285	2,255	3,502	4,818	5,998

Table 2: Natural Gas Customer Projection

### **Anticipated / Potential Connections**

The anticipated mission expansions to the Department of Defense bases in the FNSB provide an opportunity to add significant natural gas demand for the consolidated utility system by installation of natural gas heating systems in the new housing units that will be required. The IEP team is working with the FNSB and the cities of Fairbanks and North Pole to explore mechanisms to ensure those new housing units use natural gas space heating. Options to be considered include incentives (e.g., reduced cost connections) and potential building code or other mandates. The financial viability of the consolidated FNSB natural gas utility – and its ability to offer low rates attractive enough to drive conversion of existing residences – can be substantially enhanced by adding demand from the new housing units.





## FINANCIAL ACCOUNTING OF FUNDS EXPENDED AND FUNDS ANTICIPATED TO BE SPENT, INCLUDING LOANS, GRANTS, AND BONDS

Table 3 outlines the IEP expenditures related to the \$57.5 million capital appropriation, the \$125 million of SETS fund capitalization, and the \$150 million of SETS bond authorization.

		Expenditures	* from and	Remaining F	unds	
		of Legislative Ap	opropriation	n & Authoriza	ation(s):	
			HCS CSSB 18	SB 23 SLA 2013	SB 23 SLA 2013	
			\$57.5 mill Cap	\$125 mill	\$150 mill	
			Approp	SETS	Bonds	Total
		IEP Phase 1 (Pre HB 105)				
		LNG Plant	7,585,150	-	-	7,585,150
	10	North Slope Pad	6,003,418	-	-	6,003,418
	ŝ	Distribution	500,005			500,005
	ő	Total	14,088,573	-	-	14,088,573
	to	IEP Phase 2 (Post HB 105)				
	S	Commodity	91,673	-	-	91,673
	Ĕ	LNG Plant	430,030	<u>~</u>	-	430,030
	ā	Trucking	14,075		-	14,075
	ŝ	Storage	1,517,594	-	-	1,517,594
	Š	Distribution Project Management	26,000	-	-	26,000
	e	Project Management	444,375	-	-	444,375
	-	Due Dilligence & Deal Structuring	534,388			534,388
		Total	3,058,135	-	-	3,058,135
		Total	17,146,708		-	17,146,708
<u> </u>		I NG Plant		<u>a</u> :		
	ts	Trucking		-	-	-
∞	eu	Storage		-		
ິ	Ĕ	Distirubtion				-
ğ	st	FNG Loan	-	15,000,000	-	15,000,000
2	Š	IGU Loan		37,780,000		37,780,000
	Ē	Total	-	52,780,000	-	52,780,000
	al	Total Expenditure	17,146,708	52,780,000	÷	69,926,708
	Tot	Remaining Funds	40,353,292	72,220,000**	150,000,000	262,573,292
		Notes				
		Einancial data per unaudited accou	nting system record	is as of 01/02/2018		
		* Expenditures include Actuals End	umbrances and C	ommitments as of 01.	02/2018	
		Legislative Appropriation & Authoriz	ation(s) only includ	a those identified ob	we and do	
		not include AIDEA operating Econo	anon(s) only includ	Fund or other source		
		** As directed by adoption of AIDEA	Resolution G17-2	0 on 12/7/17 an addi	tional \$45 500 00	0
		of SETS financing has been authori	zed to Fairbanks M	atural Gas to expand	LNG storage	~
		in the FNSB.		and out to onpund	Lito diologo	

Table 3: Expenditures from and Remaining Funds of Legislative Appropriation & Authorization(s)





## SUMMARY

The adoption of a HB 105 Plan by the AIDEA Board on September 21, 2017 provided access to IEP financing tools necessary to finalize, approve, and sign:

- a Purchase and Sale Agreement, and
- a separate Financing Agreement.

As a result, steps are underway to expand LNG storage capacity and LNG production capacity, and to consolidate the separate natural gas distribution infrastructure owned by AIDEA (Pentex) and the IGU under ownership and operation of the IGU.

The next quarterly report is due in early April 2018.





# Attachment A: House Bill 105 Plan Memorandum



#### MEMORANDUM

To:	John Springsteen, Executive Director Alaska Industrial Development and Export Authority
From:	Gene Therriault, IEP Team Lead Mark Gardiner, IEP Team Member Dan Britton, CEO Pentex/Fairbanks Natural Gas
Date:	September 20, 2017

Re: Interior Energy Project – HB105 Required Project Plan

This memorandum and accompanying attachments constitute an IEP project plan that complies with specific requirements of Chapter 39, SLA 2015 (HB105). In addition, the documents assess the impact of current low fuel oil prices on the IEP. Finally, this memorandum recommends the AIDEA Board approve this plan through consideration and adoption of Resolution No. G17-13.

The IEP Team recommends adoption of the HB105 compliant plan for development of the natural gas system in the Fairbanks North Star Borough (FNSB) based on incremental investment in system capital and continued low-cost utility operations. The AIDEA IEP HB105 Plan achieves the IEP objectives for significant customer rate reductions sufficient to support a critical mass of space heating fuel conversion to natural gas. The plan is based on proven municipal utility principles, establishing the foundation for integration of the existing Fairbanks Natural Gas (FNG) and Interior Gas Utility (IGU) natural gas distribution infrastructure in the FNSB into a single, consolidated utility. The Plan invests the appropriated capital funds, deploys designated funds from the Sustainable Energy Transmission and Supply (SETS) fund and makes prudent use of authorized bond financing in the early years – thereby matching the financial requirements for capital investment to the conservative estimated conversion and gas demand growth rates.

#### Background

In 2013, the Alaska Legislature, at the request of Governor Parnell and the Interior community, acted to authorize a financing package designed to bring North Slope gas to the Interior via trucked Liquefied Natural Gas (LNG). Financing for the project (the Interior Energy Project or "IEP") included \$57.5 million of state appropriated funds and \$275 million of authorized project financing consisting of \$125 million appropriated to the SETS fund and an authorization of \$150 million in AIDEA bonds backed by a state "moral obligation" credit support. The financing portion of the project was contained in SB23 of the 2013 Legislative session.

In the remainder of 2013 and all of 2014, AIDEA proceeded to select a project partner and advance development of a LNG plant on the North Slope of Alaska. At the end of 2014, the project development Concession Agreement for the North Slope plant expired, leading to termination of the Concession Agreement in early 2015.

During the 2015 Legislative session, HB105 reauthorized the IEP financing with new language expanding alternatives (gas sourced from other than the North Slope, propane, or small diameter pipelines) for supplying energy to the Interior of Alaska. This legislation, introduced by Governor Walker and supported by the Interior community, passed both houses of the legislature unanimously and was signed into law June 30, 2015. One change in HB105 from the previous authorization was the addition of a requirement that the AIDEA Board approve, by resolution, a project plan for the Interior Energy Project. The specific language of that requirement states:

"(a) The Alaska Industrial Development and Export Authority, through the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660), may provide financing up to a principal amount of \$275,000,000 for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure in the state that will provide natural gas to Interior Alaska as a primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to Interior Alaska, if the members of the Alaska Industrial Development and Export Authority approve by resolution a project plan. The project plan must

- 1. identify the source of the natural gas;
- 2. include the estimated cost of the project;
- *3. and include the estimated price of natural gas supplied to natural gas utilities in Interior Alaska before distribution to consumers.* "

This memorandum, and the associated attachments, provide the documentation for Board Resolution No. G17-13, RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AN HB 105 COMPLIANT PROJECT PLAN FOR THE INTERIOR ENERGY PROJECT.

#### **Project Plan**

The project recommended by the IEP team to the AIDEA administration for action by the AIDEA Board is founded on a "Titan 2" LNG plant in the Cook Inlet area, co-located with the existing Titan LNG facility at Point MacKenzie presently serving Interior Alaska.

The proposed Titan 2 project will add approximately 100,000 gallons per day (3Bcf per year) of LNG capacity to the present output of the Titan facility. The existing Titan plant has a production capacity of 50,000 gallons per day. Estimated capital cost for the new plant capacity is \$46 million. That number will be refined and confirmed by early works Front End Engineering and Design (FEED) efforts prior to presenting a Final Investment Decision (FID) recommendation.

Additionally, FNG will construct a new 5.25 million gallon LNG storage facility in Fairbanks. The cost of this project component is estimated to be \$42 million and the storage facility is expected to qualify to receive a State of Alaska LNG storage payment of \$15 million under the provisions of AS 43.20.047. This storage project will meet the RCA's requirement for five days of storage and provide an increased level of seasonal supply by storing LNG produced in the summer for use in the winter. Completion of this storage facility will allow the existing LNG tanks in South Fairbanks to be re-deployed to North Pole for initial supply to the existing IGU system.

The structure of the commercial and supply chain arrangements is as follows:

- I. The IGU or AIDEA SETS fund will acquire Pentex Alaska, LLC from the AIDEA Revolving Fund. Pentex is the parent company of Fairbanks Natural Gas, LLC, Arctic Energy Transport, LLC, and Titan Alaska LNG, LLC. Pentex and its subsidiaries constitute an operating natural gas enterprise currently providing natural gas utility service to 1,100 customers in Fairbanks.
- II. IGU and/or Pentex will continue to operate expanded liquefaction, transportation, storage, regasification, and distribution of the gas to existing and new customers in the FNG and IGU service areas.
- III. AIDEA will provide financing to IGU and/or Pentex consistent with HB105 authorizations and IEP goals, maintaining fiscal controls through loan terms and covenants.
- IV. IGU and/or Pentex will construct the Titan 2 addition integrated with the current Titan LNG plant. A copy of the Titan Expansion Development Plan is included as Attachment A.
- V. Titan will purchase feed gas for the expanded liquefaction plant. Gas will be provided into the plant via a gas sales agreement between Titan and Hilcorp Alaska. A copy of the gas sales agreement executed by the parties is included as Attachment B.
- VI. Titan will arrange for transport of the LNG to the Interior. Initially, this transport is expected to be accomplished via trucking in a manner similar to the present trucking arrangement. A summary of the large capacity trailer pilot project results and projected costs are included as Attachment C.
- VII. FNG will construct new LNG storage capacity sufficient to meet the RCA required 5-day minimum storage requirement as well as provide increased seasonal supply during peak winter months. A summary of the LNG storage expansion project is included as Attachment D.
- VIII. IGU and FNG will distribute natural gas from the LNG storage facilities to existing and new customers.

#### **Specific HB 105 Required Components**

(1) Source of Natural Gas

Titan recently executed a new gas supply contract with Hilcorp to provide Titan's current liquefaction facility with a term beginning April 01, 2018 and expiring March 31, 2021. The All Requirements Agreement provides Titan with enough capacity (5 MMCF/ Day) for its existing customers, and allows for the expansion of up to 15 MMCF/Day after Titan provides 18 months' notice to Hilcorp. This is enough capacity to allow for the expansion of the Titan facility as described in this memo.

(2) Estimated Cost of the Project

The estimated costs of the project, including future expansions of the combined distribution systems and LNG plant, are outlined in Table 1. The capital costs are split into three categories: Already Invested, Immediate, and Demand Dependent. The immediate capital costs will be incurred upon project sanction in order to meet the goals of the IEP. The immediate capital investment will allow for demand and corresponding revenue growth. Upon sufficient revenue

growth, IGU and/or Pentex will have the financial ability to incur revenue-backed debt to finance additional expansion of the LNG plant and combined distribution systems within the FNSB.

IEP Capital Program	Already Invested			Stage 1 & 2 - Consolidated Utility - Immediate	Sta	ge 3 - Demand Dependent	Total
SOURCES OF FUNDS							
Capital Appropriation	\$	15,060,000	\$	42,440,000	\$	-	\$ 57,500,000
SETS Loans		42,400,000		82,600,000		-	125,000,000
Bond Financing - Capital		-		19,451,400		121,092,600	140,544,000
Storage Tax Credits		-		18,500,000		-	18,500,000
Commercial Financing		-		1,825,000		2,920,000	4,745,000
Utility Revenues		-		-		-	-
Total - Sources of Funds	\$	57,460,000	\$	164,816,400	\$	124,012,600	\$ 346,289,000
USES OF FUNDS							
Pentex Acquisition	\$	-	\$	59,575,000	\$	-	\$ 59,575,000
Liquefaction Development		-		46,200,000		25,000,000	71,200,000
Transportation		-		1,825,000		2,920,000	4,745,000
Storage & Regasification		-		52,000,000		-	52,000,000
Distribution		42,400,000		5,216,400		96,092,600	143,709,000
Other Project Costs (NS, etc.)		15,060,000		-		-	15,060,000
Total - Uses of Funds	\$	57,460,000	\$	164,816,400	\$	124,012,600	\$ 346,289,000

#### Table 1

(3) Estimated Price of Natural Gas Supplied to Natural Gas Utilities Before Distribution to Consumers

The estimated price of natural gas supplied to Interior customers is outlined in Table 2. Under the project plan, the LNG plant is owned by IGU and/or Pentex and the capital costs are integrated into the entire utility, including the storage and distribution system. For purposes of HB105, the estimated price of natural gas (LNG) supplied to utilities is shown in the line labeled "Subtotal – Cost to Utilities".

The cost of debt for the project recovers the pooled capital investment for all assets of the project identified in the category above. The total cost of gas is shown in nominal and inflation adjusted real dollars. The table below shows that after adjusting for inflation this project can meet the price goals of the IEP most years. It is anticipated that rates will be set slightly higher than costs in order to provide cash reserves and smooth out the impact to the end consumer of the year-to-year fluctuations in cost.

Summary Cost of Gas - With Storage	Тах	Credit													
Anticipated Demand (Bcf)		0.75		0.75		1.19		1.83	2.55	3.25	3.90	4.41	4.75		4.95
Cost of Gas (\$/Mcf nominal)		2018		2019		2020		2021	2022	2023	2024	2025	2026		2027
Natural Gas - Cook Inlet		\$7.72		\$7.72		\$7.72		\$7.72	\$7.87	\$8.03	\$8.19	\$8.36	\$8.52		\$8.69
Pipeline Trans. Cost to Pt. Mac. (3rd-party)		0.65		0.66		0.68		0.69	0.70	0.72	0.73	0.75	0.76		0.78
LNG Production - Titan Plant		4.28		4.34		3.22		2.53	2.19	2.02	1.92	1.88	1.87		1.89
Trucking - Pt. Mac. To Fairbanks		2.48		2.53		2.58		2.63	2.68	2.73	2.79	2.84	2.90		2.96
Subtotal - Cost to Utilities	\$	15.12	\$	15.25	\$	14.19	\$	13.57	\$ 13.45	\$ 13.50	\$ 13.64	\$ 13.83	\$ 14.06	\$	14.32
Distribution, Storage, Vaporization		4.76		4.85		3.13		2.07	1.51	1.21	1.03	0.93	0.88		0.86
Total Cost of Gas before Financing	\$	19.88	\$	20.10	\$	17.31	\$	15.64	\$ 14.96	\$ 14.71	\$ 14.67	\$ 14.76	\$ 14.94	\$	15.18
Debt		-		-		-		0.72	0.51	0.40	0.43	0.78	1.34		1.69
Total Cost of Gas (nominal)	\$	19.88	\$	20.10	\$	17.31	\$	16.35	\$ 15.48	\$ 15.11	\$ 15.10	\$ 15.54	\$ 16.28	\$	16.87
Total Cost of Gas (real)	\$	19.11	\$	18.94	\$	16.00	\$	14.81	\$ 13.74	\$ 13.16	\$ 12.88	\$ 13.00	\$ 13.36	\$	13.57
Equivalent Fuel Oil Price (nom. \$/gal)	\$	2.74	\$	2.77	\$	2.39	\$	2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.25	\$	2.33
Equivalent Fuel Oil Price (real \$/gal)	\$	2.64	\$	2.61	\$	2.21	\$	2.04	\$ 1.90	\$ 1.81	\$ 1.78	\$ 1.79	\$ 1.84	\$	1.87
Planned Average Customer Rates*		\$20.20		\$20.20		\$17.31	:	\$16.35	\$15.48	\$15.11	\$15.10	\$15.54	\$ 616.28	;	\$16.87
Equivalent Fuel Oil Price (nom. \$/gal)	\$	2.79	\$	2.79	\$	2.39	\$	2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.25	\$	2.33
*Differs from Total Cost of Gas in 2018 and 20	)19 d	ue to utili	ty c	onsolidati	on										

Table 2

#### Visual Comparison of Total Cost of Gas to customers (nominal vs real)

Graph 1 utilized values from Table 2 to provide a visual comparison of the Total Cost of Gas (nominal) and the Total Cost of Gas (real) over time.



Graph 1

#### **Comparison of AIDEA IEP Projected Gas Cost to Notional IEP Target Cost**

Table 3 provides a comparison of the projected AIDEA IEP cost of gas versus the pre-IEP Pentex gas price and the notional IEP price target. In order to reflect an apples-to-apples comparison, all of the costs in this table reflect an assumed 2.00% rate of inflation.

Cost of Gas (with inflation)	2.00%									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Pentex Rate (pre-IEP)	\$24.00	\$ 24.48	\$ 24.97	\$ 25.47	\$ 25.98	\$ 26.50	\$ 27.03	\$ 27.57	\$ 28.12	\$ 28.68
IEP Notional Target Rate	\$15.00	\$ 15.30	\$ 15.61	\$ 15.92	\$ 16.24	\$ 16.56	\$ 16.89	\$ 17.23	\$ 17.57	\$ 17.93
AIDEA IEP Rate - w/ Storage Credit	\$19.88	\$ 20.10	\$ 17.31	\$ 16.35	\$ 15.48	\$ 15.11	\$ 15.10	\$ 15.54	\$ 16.28	\$ 16.87
AIDEA IEP Rate - no Storage Credit	\$19.88	\$20.10	\$17.31	\$16.96	\$15.91	\$15.46	\$15.37	\$15.80	\$16.53	\$17.11
% of IEP Target Savings										
AIDEA IEP Rate - w/ Storage Credit	45.8%	47.7%	81.8%	95.4%	107.8%	114.6%	117.7%	116.4%	112.2%	109.8%
AIDEA IEP Rate - no Storage Credit	45.8%	47.7%	81.8%	89.1%	103.3%	111.1%	115.0%	113.8%	109.9%	107.6%

Table 3

As Table 3 shows, the LNG storage credit/payment enables the AIDEA IEP HB105 Plan to achieve the same level of savings as the IEP Notional Target rate by 2022.

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

The IEP Team and the AIDEA administration recommend the AIDEA Board vote to pass Resolution No. G17-13 approving this HB105 compliant project plan.

AIDEA Board passage of Resolution No. G17-13 will accomplish the following actions:

- Approve an IEP Project Plan with components specified in HB105
- Authorize AIDEA access to full IEP funding to be deployed in pursuit of the project goals
- Authorize AIDEA to consider sale of Pentex Alaska, LLC to the IGU or the AIDEA SETS fund under separate action

This action provides the commercial structure and financing tools for IGU or Pentex to control the IEP project. This includes constructing the Titan 2 LNG plant, building additional LNG storage in Fairbanks, integrating the existing FNG and IGU distribution infrastructure and, as demand and revenue permit, future expansions of the infrastructure needed to increase the natural gas availability and utilization in Interior Alaska.

The IEP Team and the AIDEA administration have determined that this project plan provides a path to lower the cost of natural gas to Interior residents and businesses.

#### Attachments

Attachment A: The development for the Titan 2 LNG plant expansion

- Attachment B: Gas Sale Agreement between Titan Alaska LNG, LLC and Hilcorp Alaska
- Attachment C: A summary of the large-capacity trailer pilot project results and projected costs
- Attachment D: The development plan for expansion of LNG storage in Fairbanks





#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-13**

#### **RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AN HB 105-COMPLIANT PROJECT PLAN FOR THE INTERIOR ENERGY PROJECT**

WHEREAS, the Alaska State Legislature authorized the Alaska Industrial Development and Export Authority (the "Authority") to provide financing up to a principal amount of \$275,000,000 for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure and natural gas delivery and distribution systems that will provide natural gas to Interior Alaska as a primary market (the entire project is known as the "Interior Energy Project");

WHEREAS, in 2015, the Alaska State Legislature passed chapter 39 of the 2015 Session Laws of Alaska (SCS CSHB 105(FIN) am S), hereafter referred to as "HB 105," which concerned the Authority and the Interior Energy Project

**WHEREAS,** among other things required by HB 105, Section 9 of the law specified that in order for the Authority to deploy the financing approved for the Interior Energy Project the Authority had to approve by resolution a project plan;

**WHEREAS,** the staff of the Authority, working in conjunction with the Authority's advisors, have developed a project plan for the Interior Energy Project, a complete copy of which with all attachments is appended to this Resolution;

WHEREAS, the proposed project plan for the Interior Energy Project meets all of the requirements of Section 9 of HB 105; and

**WHEREAS**, it is in the best interests of the Authority and in furtherance of the goals of the Interior Energy Project that the proposed project plan be approved.

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

The project plan for the Interior Energy Project that is appended to this Resolution is hereby approved.

Dated at Anchorage, Alaska, this 21st day of September 2017.



Chair



# Attachment B: IGU Resolution 2017-06R

INTERIOR GAS UTILITY

Introduce on: June 20, 2017 Reconsidered on: December 5, 2017 Amended on: December 5, 2017 Approved on: December 5, 2017

#### Amended RESOLUTION # 2017-06R

#### A RESOLUTION AUTHORIZING THE GENERAL MANAGER OF THE INTERIOR GAS UTILITY TO EXECUTE A PURCHASE & SALES AND FINANCE AGREEMENT WITH THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY FOR THE ACQUISITION OF PENTEX and FINANCING OF DEVELOPMENT OF THE INTERIOR ENERGY PROJECT

WHEREAS, the Fairbanks North Star Borough through Ordinance 2012-52 titled An Ordinance Acquiring an Areawide Natural Gas Utility Power By Transfer From The Cities of Fairbanks And North Pole, Establishing the Interior Alaska Natural Gas Utility and Providing For Its Management to action to create an areawide natural gas utility empowered to ensure its citizens affordable access to natural gas and/or propane; and

WHEREAS, the Interior Alaska Natural Gas Utility (IGU) 6-Year Plan dated May 20, 2014, states that the IGU mission is to provide low cost, clean burning, natural gas to the most people in the Fairbanks North Star Borough as soon as possible; and

WHEREAS, IGU Board through unanimous approval of Resolution 2017-01 titled A 26 Resolution Requesting Authorization for the General Manager of Interior Gas Utility to Execute a 27 Non-Binding Memorandum of Understanding With the Alaska Industrial Development Export 28 Authority for Acquisition of Pentex authorized the General Manager to execute a non-binding 29 Memorandum of Understanding (MOU) for the acquisition of Pentex Alaska Natural Gas Company, 30 LLC (Pentex) and financing of development of the Interior Energy Project with Alaska Industrial 31 Development and Export Authority (AIDEA), and to negotiate in good faith to finalize executable 32 agreements with respect to the purpose of the MOU; and 33 34 WHEREAS, the MOU for the acquisition of Pentex and financing of development of the 35 Interior Energy Project was executed by the IGU General Manager and Executive Director of the 36 AIDEA on January 25, 2017; and 37

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WHEREAS, the Fairbanks North Star Borough, through Ordinance 2017-25 titled *An Ordinance Amending FNSBC 11.04.020 Management of the Interior Alaska Natural Gas Utility*, took action clarifying the IGU enabling ordinance to expressly provide IGU with the power to borrow money, retroactive to the date of enactment; and further resolved that IGU has the authority to borrow money and, as evidence of that borrowing, to enter into loan agreements and issue bonds, notes or other obligations, and may pledge any of its assets or revenues to pay or secure the payment of any such borrowing; and

46

WHEREAS, the IGU and AIDEA negotiating teams have agreed to a LLC Membership
 Purchase and Sale Agreement, a Financing Agreement and other agreements for the acquisition

49	of Pentex by IGU and financing of associated development of the Interior Energy Project in
50	conjunction with AIDEA. (Attachments No. 1 and No. 2.); and
51	Whereas, to facilitate closing under the Agreements, the date of conversion (expiration of
52	Line Time Period and loan Maturity Date) under the Amended and Restated Loan Agreement
53	Number 1314002 between AIDEA and IGU is to be extended to Closing on Agreements and the
54	loan further modified to allow for Pentex acquisition due diligence and disclosure review
55	expenses.
56	
57	NOW, THEREFORE, BE IT RESOLVED BY THE IGU BOARD OF DIRECTORS AS
58	FOLLOWS:
59	
60	Section 1) The General Manager is authorized to execute the LLC Membership Purchase
61	and Sale Agreement, the Financing Agreement and other related agreements with Alaska
62	Industrial Development and Export Authority for the acquisition of Pentex Alaska Natural Gas
63	Company, LLC and financing of the development of the Interior Energy Project.
64	
65	Section 2) The Authorization to execute is contingent upon the IGU Amended and
66	Restated Loan Agreement Number 1314002 being modified to:
67	a) Extend the date of conversion (expiration of Line Time Period and loan Maturity Date) under
68	the IGU Amended and Restated Loan Agreement Number 1314002 to Closing on
69	Agreements; and
70	b) Allow for use of proceeds to pay for due diligence and disclosure review expenses
	)
71	Section 3) This authorization further requires the General Manager to bring a Final
72	Investment Decision (FID) recommendation to the Board at least 14 days prior to close. The FID
73	recommendation shall outline: the status of the Conditions Precedent of the PSA and whether or
74	not they have been satisfied; the status of the Disclosure Schedules and their acceptability; any

occurrences of Material Adverse Effect; and any additional information necessary to support the 75 recommended action. A vote of the IGU Board will be required to authorize the General Manager 76 77 to execute the final purchase closing documents.

78 79 80 Michael Meeks- Chair, IGU Board 81 82 83 Ma 84 David Prusak- Secretary to the IGU Board of Directors

<u>12/6/17</u> Date 12/6/17

85 86 87 88 89 PO Box 70200 Fairbanks, AK 99707 907 374 4474 interiorgas.com



# Attachment C: AIDEA Resolution G17-16A

#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-16A**

RESOLUTION OF THE ALASKA **INDUSTRIAL** DEVELOPMENT AND EXPORT AUTHORITY APPROVING THE SALE OF PENTEX ALASKA NATURAL GAS COMPANY, LLC TO THE INTERIOR GAS UTILITY; APPROVING A FINANCING AGREEMENT WITH THE GAS **UTILITY: AUTHORIZING** INTERIOR THE TRANSFER OF THE NORTH SLOPE PAD AND NORTH SLOPE MATERIAL SALE CONTRACT TO THE INTERIOR GAS UTILITY; AND AUTHORIZING THE EXTENSION OF THE MATURITY DATE ON THE INTERIOR GAS **UTILITY'S EXISTING LINE OF CREDIT** 

WHEREAS, in 2013 the Alaska State Legislature approved HCS CSSB 23 ("SB 23"), and in 2015 the Alaska State Legislature amended SB 23, to authorize the Alaska Industrial Development and Export Authority ("the Authority") to provide financing for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas ("LNG") production plant and system and affiliated infrastructure and a natural gas delivery and distribution systems and affiliated infrastructure to serve Interior Alaska as a primary market;

**WHEREAS,** the project the Authority is authorized to finance under SB 23 is known as the Interior Energy Project;

WHEREAS, in furtherance of the Interior Energy Project, the Authority purchased Pentex Alaska Natural Gas Company, LLC ("Pentex"), a Delaware limited liability company that is the 100% owner of various subsidiaries, including Fairbanks Natural Gas, LLC ("FNG"), which is a natural gas utility for Fairbanks, Alaska, and Titan Alaska LNG, LLC, which is the operator of the LNG plant in the Matanuska Susitna Borough;

WHEREAS, in purchasing Pentex, the Authority expected to own the company only for a limited period of time, until Pentex could be transferred to a local control entity for the Fairbanks area;

**WHEREAS,** in Resolution No. G17-01, adopted January 11, 2017, the Board approved of the Authority entering into a non-binding Utility Integration Memorandum of Understanding

("MOU") that concerned the Interior Gas Utility ("IGU") acquiring Pentex and the Authority providing financing to IGU;

WHEREAS, the Authority's Executive Director and IGU's General Manager signed the MOU on January 25, 2017;

**WHEREAS,** having IGU acquire Pentex, and having the Authority provide financing to IGU, furthers the goals of the Interior Energy Project by, among other things, facilitating the integration and the further development of the natural gas utility systems of IGU and FNG for the benefit of the ratepayers and the citizens of Interior Alaska;

**WHEREAS,** in Resolution No. G17-13, adopted September 21, 2017, the Board approved a project plan for the Interior Energy Project that satisfies the requirements of HB 105, and having IGU acquire Pentex and having the Authority provide financing to IGU, is consistent with project plan and one way in which the Authority can implement the HB 105 project plan;

WHEREAS, the Authority has negotiated with IGU for approximately 11 months to develop the definitive agreements contemplated in the MOU, and based on those negotiations, legal counsel has prepared two agreements, both of which have been provided to the Board: (1) the LLC Membership Purchase and Sale Agreement; and (2) the Financing Agreement;

WHEREAS, under the LLC Membership Purchase and Sale Agreement the Authority will sell the membership interests in Pentex to IGU for same amount the Authority paid to acquire those membership interests, \$54 million, plus a calculated return on that expenditure at the rate of 5.06% from the date the Authority acquired Pentex to the date of the closing on the sale to IGU;

**WHEREAS,** Pentex is an asset of the Revolving Fund and investments of the Revolving Fund are expected to earn a return, which enables the Authority to pay the statutorily mandated annual dividend to the State of Alaska;

**WHEREAS,** under the Financing Agreement the Authority will provide a \$125 million loan to IGU through the sustainable energy transmission and supply ("SETS") development program and fund, with the loan being on special financial terms permitted under SB 23 that are not available from commercial lending sources;

**WHEREAS,** the special financial terms for the \$125 million SETS loan are meant to enable IGU to establish an investment grade natural gas utility, and these terms include a zero percent (0%) interest rate for the first 15 years with no payments due during that period, an interest

rate of only 0.25% thereafter for 35 years, and the ability to defer principal payments for an additional five years if the expected natural gas demand is not realized;

WHEREAS, under the Financing Agreement the Authority may also issue bonds for IGU's benefit in the amount of \$150 million, which bonds may be moral obligation debt of the State of Alaska;

**WHEREAS,** the purchase price for Pentex would be paid to the Authority from the SETS loan and from the remaining balance of the FY2014 capital budget appropriation made to the Authority by the Alaska State Legislature;

WHEREAS, the staff of the Authority has consulted with and been advised by the local governments of the areas where the facilities affected by the proposed Pentex sale are located, specifically the Fairbanks North Star Borough, the City of Fairbanks, and the Matanuska Susitna Borough;

WHEREAS, in pursuing the Interior Energy Project, the Authority obtained from the Alaska Department of Natural Resources a Right-of-Way Lease for North Slope Natural Gas Pipeline and LNG Facility (ADL 419409), dated July 31, 2014, with the intent to use the leased premises to develop a North Slope LNG plant to supply Interior Alaska;

WHEREAS, the Authority had a gravel pad constructed on the leased premises using gravel obtained under the Material Sale Contract (ADL 419991) entered into with the Alaska Department of Natural Resources, dated May 2, 2014, and the Authority used funds from the FY2014 capital budget appropriation to pay for the gravel and the construction work;

WHEREAS, the Authority subsequently cancelled the development of an LNG plant on the North Slope and instead determined that natural gas from the Cook Inlet area would be used to supply the Interior Energy Project;

WHEREAS, IGU has asked that the Authority transfer to IGU the Right-of-Way Lease, the North Slope pad, and the Material Sale Contract as valuable assets that IGU can use to support its efforts to advance the development of an LNG plant and distribution systems to serve Interior Alaska as a primary market;

**WHEREAS,** the SETS line of credit the Authority provided to IGU in 2015 is expected to be superseded by the new SETS loan the Authority will make to IGU under the Financing

Agreement, but the 2015 SETS line of credit matures on December 31, 2017, which is before the expected closing date for the Financing Agreement;

WHEREAS, the maturity date for the 2015 SETS line of credit provided to IGU needs to be extended if the Authority and IGU sign the LLC Membership Purchase and Sale Agreement and the Financing Agreement;

WHEREAS, completing the transactions between the Authority and IGU as soon as possible is important to fulfilling the goal of the Interior Energy Project of providing the lowest cost natural gas to the ratepayers of Interior Alaska because delay in closing the transactions adds an average of approximately \$227,700 per month, or \$7,486.03 per day, to the Pentex purchase price and because delay causes unnecessary administrative costs for the Authority and IGU; and

**WHEREAS**, on October 26, 2017, in Resolution No. G17-16, the Board approved the LLC Membership Purchase and Sale Agreement and the Financing Agreement in the forms presented, and thereafter these proposed agreements were further refined through additional negotiations between the Authority and IGU.

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

<u>Section 1</u>. The LLC Membership Purchase and Sale Agreement between the Authority and IGU, in the revised form presented to the Board for its December 7, 2017 meeting, is hereby approved. In the name of and on behalf of the Authority, the Executive Director is authorized to sign and deliver the LLC Membership Purchase and Sale Agreement, along with the appropriate disclosure schedules and exhibits to that agreement.

Section 2. The Financing Agreement between the Authority and IGU, in the revised form presented to the Board for its December 7, 2017 meeting, is hereby approved. In the name of and on behalf of the Authority, the Executive Director is authorized to sign and deliver the Financing Agreement, along with appropriate appendices and exhibits to that agreement, and necessary technical corrections. To the extent that any provision of the Financing Agreement, or any aspect of the procedure the Authority utilized with respect to the Financing Agreement, deviates from the requirements of the Authority's SETS regulations (3 AAC chap. 101), those requirements of the SETS regulations are hereby waived pursuant to Section 11(d) of SB 23.

Section 3. The Authority's transfers to IGU of the Right-of-Way Lease for North Slope Natural Gas Pipeline and LNG Facility (ADL 419409), the North Slope pad, and the Material Sale Contract (ADL 419991), are approved. The transfers shall not be effective until the closings on LLC Membership Purchase and Sale Agreement and the Financing Agreement occur. In the name of and on behalf of the Authority, the Executive Director is authorized to sign and deliver all agreements and other documents necessary to accomplish the transfers.

Section 4. If the Authority and IGU enter into the LLC Membership Purchase and Sale Agreement and the Financing Agreement, the 2015 SETS Amended and Restated Loan Agreement entered into by the Authority and IGU shall be amended to extend the maturity date on the Line of Credit Note until the closings on LLC Membership Purchase and Sale Agreement and the Financing Agreement occur, or until the closings are cancelled. In the name of and on behalf of the Authority, the Executive Director is authorized to sign and deliver an amendment to 2015 SETS Amended and Restated Loan Agreement with IGU to so extend the maturity date.

Section 5. Once binding agreements with IGU regarding the matters described in Sections 1 through 4 of this Resolution are entered into, the Executive Director is authorized and directed to sign all documents and to take all actions necessary or convenient for the Authority to perform its obligations under those agreements.

DATED at Anchorage, Alaska this 7th day of December, 2017.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

Chair

Secretary



# Attachment D1: LNG Storage Memorandum



#### **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



# Attachment D2: Large Storage Tank Project Development Plan



## FAIRBANKS NATURAL GAS, LLC

## PROJECT DEVELOPMENT PLAN

Describes the program to develop large LNG storage in Fairbanks to facilitate the expansion of natural gas distribution



#### **INTRODUCTION**

The Fairbanks Large Storage Tank is part of the Interior Energy Project (IEP) designed to expand natural gas distribution in Fairbanks and Interior Alaska. A tank with a capacity of 0.44 Bcf (5.25 million gallons) is desired. A five-million-gallon tank represents a 15 fold increase compared to FNG's current storage capacity. The new tank is part of a program that will develop new, larger capacity production facilities, larger tanker fleet, and expanded distribution system. The development of the production facility, tanker fleet, and distribution system are under separate cover.

#### PROJECT

The Fairbanks Large Storage Tank is a project ("the Project") to design, construct and startup storage, truck offloading, and vaporization facilities at an existing FNG facility in south Fairbanks, Alaska. The existing storage tanks will be decommissioned and re-purposed after startup of the new facility. New vaporization is required to handle the planned increased volumes of gas sent out from the tank. The new tank and vaporization equipment will be tied into the existing and expanded metering run and distribution header.

### **PROJECT DEVELOPMENT PLAN**

This Project Development Plan describes the means, methods, and expenditures for accomplishing project goals. This plan will be updated periodically throughout the life of the project. This development plan may reference other agreements, contracts, and documents. In the event of conflict between the terms, conditions, and provisions of this Project Development Plan and any referenced document, the terms, conditions, and provisions of the referenced document shall control.

#### **SCOPE**

#### **Preliminary Engineering**

Preliminary engineering has evaluated the tank site for permit requirements, surrounding activity and zoning considerations, including vapor dispersion and thermal exclusion space. The vapor dispersion and thermal exclusion space requirements has determined the maximum size of the tank suitable for the site. Preliminary engineering developed a list of qualified tank bidders, identified a contracting plan, prepared requests for proposal for tank design and erection, determined site layout, conducted geotechnical investigation, analyzed the most cost-effective foundation design, and evaluated the bid results for tank design and erection.



#### **Tank Design-Erect Contract**

The LNG storage tank is a specialty item governed by several design codes including federal 49 CFR 193 – Safety Standards for LNG Facilities; NFPA 59A – Standard for Production, Storage and Handling of LNG; and API-620 – Standard for Design and Construction of Large, Welded, Low Pressure Storage Tanks.

The tank, its foundation and the site preparation will be designed and erected on a lump sum turnkey contract basis.

The bid specifications called for bidders to provide a refrigerated liquid tank suitable for storage of liquids at -325°F or warmer at a pressure of not more than 2.5 psig in general accordance with API-620 2006 edition.

The successful bidder will design, provide materials, and construct on-site the tank and associated appurtenances including foundation anchors, access stairs, top platforms, and maintenance lifting gear.

The successful bidder shall be responsible for testing the tank and the insulation space for leak-free condition. The successful bidder shall also provide technical personnel to supervise the initial cool-down of the tank with LNG provided by FNG. The initial cool-down is a critical step to ensure that metal shrinkage is properly controlled and the tank maintains integrity.

The successful bidder shall warranty materials and workmanship for a period of two years from the date of substantial completion. The successful bidder shall also warranty the tank rate of evaporation ("Heat Leak") at a rate mutually agreed to in the contract for a period of two years. Bidders were requested to provide a design with a rate of evaporation that approaches 0.05% at 50% tank capacity at the Fairbanks annual mean temperature of 27°F.

#### **Site Development**

Land clearing, access roads, and secondary containment dikes are required for the site. The work will be designed under the guidance of FNG's Owner Engineer. The work was included in the Tank bid.

#### Foundation

CHI Engineering in collaboration with Alaska-based engineering firms has completed geotechnical evaluations and studies necessary to establish a baseline for designing for permafrost conditions. The tank contractor will be responsible the final foundation engineering and construction.

#### Vaporization

FNG's Owners Engineer will design the vaporization equipment. The equipment will be purchased by FNG and installed by Alaskan contractors or added to the tank contractors scope of work.



#### **Truck offloading**

FNG's Owners Engineer will design improvements to truck-offloading to allow higher transfer rates and more frequent deliveries. Equipment will be purchased by FNG and installed by Alaska contractors or added to the tank contractors scope of work.

#### Send-out pumps

FNG's Owners Engineer has developed specifications for in-tank LNG send-out pumps. The pumps will be purchased by FNG and installed by Alaska contractors or the Tank contractor under factory supervision. The in-tank pumps are selected for reliability and reduced operating cost. External booster pumps can be added in the future if high-pressure delivery to future industrial users is required.

#### **CONTRACTS**

The contracting plan for development of the complete new storage site, including the tank is based on FNG serving as the project developer, and issuing and coordinating multiple prime contracts. In this manner, FNG can select the best value providers for portions of the scope. The contracts are:

- Owner's Engineer Currently CHI Engineering Services, Inc. Portsmouth, NH.
  - The Owner's Engineer is responsible for overall site development plans, including the vapor dispersion and thermal radiation studies, foundation design, equipment sizing
- Permitting Consultant Not Yet Selected
  - Permitting consultant responsible to identify and make application for all required permits
- Structural Engineer / Arctic Engineer Great Northern Engineering, Inc. Palmer, AK
  - The structural and arctic engineer provides the tank foundation support calculations, pile sizing, and cold weather details in support of work by Owner's Engineer.
- Geotechnical Engineer Golder Associates, Anchorage, AK
  - Geotechnical engineer provides subsurface investigation and determines soil bearing capacity for foundations and structures placed on the site
- Tank Designer / Erector Under Consideration
  - Tank designer / erector has responsibility for designing a tank and foundation of the specified size in compliance with all applicable codes, and Owner specifications, erecting the tank in a safe, timely manner, and testing and certifying the tank to applicable Codes and standards. Tank erector shall provide personnel to supervise the initial cooldown and commissioning of the LNG tank. Foundation scope will include supply, fabrication, and installation of foundation; installing cooling coils around foundation in accordance with final design, placement of embedded tank anchors; and completion of the tank foundation in a safe and timely manner. The Tank supplier will also be responsible to



prepare, rough grade, and fine grade site in accordance with plans prepared by Owner's Engineer. This work includes preparation of the tank foundation site; construction of temporary access roads; grading and site prep for truck offloading facilities

- Mechanical Contractor Not yet selected.
  - Mechanical contractor is responsible for setting all equipment other than LNG tank; installation of piping and supports in accordance with designs by Owner's Engineer from first flange at tank to tie-in to existing distribution header; coordination of shutdowns for tie-ins; testing and commissioning of all piping and equipment. Mechanical contractor shall provide personnel to assist Owner in functional checkout and commissioning of all equipment. FNG may increase the scope of the Tank contractor to include the balance of plant should this prove to be a more economical solution.
- Electrical Contractor Not yet selected.
  - Electrical contractor is responsible for providing and installing all temporary and permanent electrical service to the site in accordance with designs provided by Owner's Engineer. Electrical contractor will provide conduit, supports, wiring and terminations to all equipment and devices requiring electrical or signal power or communications. Electrical contractor shall provide personnel to assist Owner in functional checkout and commissioning of all components.
- Other Owner shall contract for other miscellaneous services including IT interconnecting and support; fencing, site security, security cameras and other services.

#### **SCHEDULE**

The schedule for project development is based on the following milestones

#### **Milestones**

June 15, 2017	Begin Preparing Updated RFP
September 15, 2017	Issue RFP for Tank Design & Erection
October 31, 2017	Tank proposals received
December 7, 2017	Final Investment Decision
December 18, 2017	Tank contract awarded
December 26, 2017	Final Foundation Design issued
December 18, 2017	Begin Civil Works
March 01, 2018	Begin Foundation Construction
June 18, 2018	Foundation complete and ready for tank erection
June 19, 2018	Commence tank erection
June 29, 2019	Tank ready for cool-down and commissioning



July 09, 2019	Begin Cool down
September 24, 2019	Cut over to new tank – send out begins

### **Budget**

The total project budget is \$48.7 MM. FNG has previously expended \$1.7 MM in preliminary development work. The AIDEA Board of directors has authorized the expenditure of up to \$1.5 MM on additional Engineering work necessary to finalize the project, and FNG is requesting AIDEA approval to modify its existing SET's loan to allow for an additional \$45.5 MM in funding to complete construction.



# Attachment D3: AIDEA Resolution No. G17-20

#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-20**

#### RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AUTHORIZING ADDITIONAL LOAN TO FAIRBANKS NATURAL GAS, LLC FOR LNG STORAGE FACILITY IN FAIRBANKS AND THE EXTENSION OF THE MATURITY DATE ON THE LINE OF CREDIT PROVIDED TO FAIRBANKS NATURAL GAS, LLC

**WHEREAS,** the Alaska Industrial Development and Export Authority (the "Authority") is pursuing the Interior Energy Project to bring additional supplies of natural gas to Interior Alaska;

WHEREAS, one of the planned components of the Interior Energy Project is a large LNG storage facility in Fairbanks, Alaska;

WHEREAS, Fairbanks Natural Gas, LLC ("FNG") and its subsidiary, Cassini LNG Storage, LLC ("Cassini"), have been working to develop the Fairbanks LNG storage facility;

**WHEREAS,** proceeding with the development of Fairbanks LNG storage facility is time critical in order to possibly qualify for State of Alaska tax credits that require any such facility to commence commercial operation before January 1, 2020;

WHEREAS, in Resolution No. G17-09, adopted June 29, 2017, the Authority approved the expenditure of up to \$1.5 million for front end engineering and design (FEED) work on the Fairbanks LNG storage facility;

**WHEREAS,** beyond the FEED expenditures, FNG President Dan Britton has developed a total budget of \$45.5 million to complete the construction of the Fairbanks LNG storage facility;

WHEREAS, through a Loan Agreement made between the Authority and FNG dated May 19, 2014, the Authority made a loan to FNG under the sustainable energy transmission and supply (SETS) program for the expansion of FNG's gas distribution system in Fairbanks;

WHEREAS, the 2014 FNG Loan Agreement can be amended to increase the amount of the loan by \$45.5 million and to revise the authorized scope of work under the loan to encompass the construction work to complete the LNG storage facility;

WHEREAS, the construction of the Fairbanks LNG storage facility is a "qualified energy development" eligible for financing under the SETS program and fund on the special terms authorized in SB 23 (HCS CSSB 23; ch. 26, SLA 2013);

**WHEREAS,** if the pending transactions with the Interior Gas Utility (IGU) are closed, the 2014 FNG Loan Agreement, as amended, will be superseded by the financing the Authority is to provide to IGU under the proposed Financing Agreement;

WHEREAS, the maturity date on the line of credit the Authority provided to FNG under 2014 FNG Loan Agreement is December 31, 2017, and this maturity date needs to be extended to allow sufficient time for the proposed Financing Agreement to be closed; and

**WHEREAS,** if IGU concurs in proceeding with the Fairbanks LNG storage project, the completion of the Fairbanks LNG storage facility will be in the best interests of the Authority.

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. If IGU concurs in proceeding with the construction of the Fairbanks LNG storage facility, the Authority's sub-subsidiaries FNG and Cassini are authorized to proceed with the construction of the proposed Fairbanks LNG storage facility. The budget of \$45.5 million for the completion of the Fairbanks LNG storage facility is approved, which amount is in addition to the \$1.5 million previously authorized for FEED work. On behalf of FNG or Cassini, or both, FNG President Dan Britton, once IGU has concurred in proceeding with the project, is authorized to

negotiate, execute and cause to be performed all construction contracts, purchase orders, and other agreements necessary or convenient to completing the Fairbanks LNG storage facility.

Section 2. Once IGU has concurred in proceeding with the project, the Authority shall lend FNG up to \$45.5 million for the completion of the Fairbanks LNG storage facility. The loan shall be under the SETS program and fund and shall be made through an amendment to the existing 2014 FNG Loan Agreement. The terms for the loan shall be the same as those specified under the existing 2014 FNG Loan Agreement. To the extent that any provision of the amended 2014 FNG Loan Agreement, or any aspect of the procedure the Authority utilized with respect to the amended 2014 FNG Loan Agreement, deviates from the requirements of the Authority's SETS regulations (3 AAC chap. 101), those requirements of the SETS regulations are hereby waived pursuant to Section 11(d) of SB 23.

Section 3. If the proposed Financing Agreement with IGU is executed, the 2014 FNG Loan Agreement shall be amended to extend the maturity date of the line of credit until the closing on the proposed Financing Agreement occurs or until that closing is cancelled.

<u>Section 4</u>. Once IGU has concurred in proceeding with the Fairbanks LNG storage project, the Executive Director is authorized to sign all documents and to take all other actions, necessary or expedient, in fulfilling the purposes of this Resolution.

Dated at Anchorage, Alaska, this 7th day of December 2017.



Chair

AIDEA Resolution No. G17-20



# Attachment E: AIDEA Resolution No. G17-14

#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-14**

#### **RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AMENDMENT TO LOAN AGREEMENT WITH THE INTERIOR GAS UTILITY**

WHEREAS, the Alaska Industrial Development and Export Authority (the "Authority") previously made a loan to the Interior Alaska Natural Gas Utility, which is also known to the Interior Gas Utility ("IGU");

WHEREAS, the loan to IGU was made under the Authority's sustainable energy transmission and supply development ("SETS") program, and the SETS loan was a part of the Interior Energy Project that the Authority has been pursuing;

WHEREAS, the SETS loan to IGU is documented in the Amended and Restated Loan Agreement dated as of April 2, 2015;

WHEREAS, IGU has requested that the scope of the existing SETS loan be modified so as to permit loan proceeds to be used to pay for costs IGU incurred in working on the physical and business integration of the two Fairbanks area natural gas utilities, IGU and Fairbanks Natural Gas, LLC ("FNG");

WHEREAS, the approval of a project plan for the Interior Energy Project as required by Section 9 of HB 105 (ch. 39, SLA 2015 (SCS CSHB 105(FIN) am S)) allows the Authority to legally consider modifying the existing SETS loan as IGU has requested;

WHEREAS, modifying the SETS loan as requested is in conformance with the governing statutes of the Authority's SETS program; and

**WHEREAS,** the integration of two Fairbanks area natural gas utilities is in furtherance of the goals of the Interior Energy Project and is in the best interests of the Authority;

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL **DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:**

Section 1. The Authority is authorized and directed to modify the existing SETS loan to IGU so as to permit loan proceeds to be used for costs IGU incurred in working on the physical and business integration of IGU and FNG.

Section 2. The Executive Director is authorized to negotiate and execute a loan modification agreement and all other documents and instruments that the Executive Director determines are necessary or convenient to carrying the purposes of this resolution.

Dated at Anchorage, Alaska, this 21st day of September 2017.

Chair





# Attachment F: AIDEA Resolution No. G17-21

#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-21**

#### **RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AMENDMENT TO LOAN AGREEMENT WITH THE INTERIOR GAS UTILITY TO COVER DUE DILIGENCE COSTS**

**WHEREAS,** the Alaska Industrial Development and Export Authority (the "Authority") previously made a loan to the Interior Gas Utility ("IGU");

WHEREAS, the loan to IGU was made under the Authority's sustainable energy transmission and supply development ("SETS") program, and the SETS loan was a part of the Interior Energy Project that the Authority is pursuing;

WHEREAS, the SETS loan to IGU is documented in the Amended and Restated Loan Agreement dated as of April 2, 2015, as recently amended pursuant to Resolution No. G17-14 to expand the scope of the loan to include IGU's utility integration costs;

WHEREAS, IGU has requested that the scope of the existing SETS loan be further modified so as to permit loan proceeds to be used to pay for costs IGU incurred in performing due diligence work regarding its potential acquisition of Pentex Alaska Natural Gas Company, LLC from the Authority, which acquisition will facilitate the integration of the two Fairbanks area natural gas utilities, IGU and Fairbanks Natural Gas, LLC;

**WHEREAS,** the Authority's approval of an HB 105 plan for the Interior Energy Project allows the Authority to legally consider modifying the existing SETS loan as IGU has requested;

**WHEREAS,** modifying the SETS loan as requested is in conformance with the governing statutes of the Authority's SETS program; and

**WHEREAS,** IGU's due diligence work was in furtherance of the potential integration of two Fairbanks area natural gas utilities, which serves the goals of the Interior Energy Project;

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The Authority is authorized and directed to modify the existing SETS loan to IGU so as to permit up to \$350,000 in IGU's due diligence expenses in evaluating its potential acquisition of Pentex Alaska Natural Gas Company, LLC to be paid from the SETS loan proceeds. To qualify for payment from the SETS loan proceeds, IGU's due diligence expenses must be appropriately documented.

<u>Section 2</u>. The Executive Director is authorized to negotiate and execute a loan modification agreement and all other documents and instruments that the Executive Director determines are necessary or convenient to carrying the purposes of this resolution.

Dated at Anchorage, Alaska, this 7th day of December 2017.

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# Attachment G: AIDEA Resolution No. G17-22

#### ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

#### **RESOLUTION NO. G17-22**

#### **RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY RELATING TO COSTS INCURRED IN PROPOSED TRANSACTIONS WITH THE INTERIOR GAS UTILITY**

WHEREAS, the Alaska Industrial Development and Export Authority (the "Authority")
is pursuing the Interior Energy Project to bring additional supplies of natural gas to Interior Alaska;
WHEREAS, the Alaska State Legislature, in the FY2014 capital budget, appropriated
\$57,500,000 to the Authority for use in advancing an Alaska liquefied natural gas production plant
and distribution systems to serve Interior Alaska as a primary market;

WHEREAS, the Authority has been working on proposed transactions with the Interior Gas Utility ("IGU") through which the Authority would sell Pentex Alaska Natural Gas Company, LLC to IGU and the Authority would provide financing to IGU for development of additional LNG production capacity and the expanded distribution of natural gas to Fairbanks and North Pole;

WHEREAS, the Authority's work on the proposed transactions with IGU is in furtherance of the HB 105 plan the Authority adopted for the Interior Energy Project and this work has advanced an Alaska liquefied natural gas production plant and distribution systems to serve Interior Alaska as a primary market;

WHEREAS, the Authority has incurred in excess of \$350,000 in costs to date in working on the proposed transactions with IGU, which costs were for the Authority's financial advisor, legal counsel and the Authority's own staff; and WHEREAS, using a portion of the FY2014 capital budget appropriation to pay for the Authority's costs in working on the proposed transactions with IGU is in accordance with the purpose for which the appropriation was made and is in the best interests of the Authority.

## NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The Authority is authorized to pay the costs it has incurred in working on the proposed transactions with IGU, up to a maximum amount of \$350,000, from the FY 2014 capital budget appropriation.

Section 2. The Executive Director is authorized and directed to sign all documents and to take all other actions necessary or convenient to accomplishing the purpose of this Resolution.





Chair

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