

Alaska Industrial Development and Export Authority Alaska Energy Authority

AIDEA Development Project Financing for a Liquefied Natural Gas Production and Distribution System

AIDEA/AEA Policy Presentation

28th Legislative Session, 2013

Interior Energy Plan

- Opportunity to provide Alaskans with low-cost North Slope natural gas and propane
- Governor's finance package acts as a catalyst, bringing together LNG and propane customers with the private entities that will construct and operate the system
- AIDEA is investigating project feasibility and will only utilize their authorized finance tools if the project makes economic sense
- AIDEA will take an equity stake in project but will not outright build or operate the LNG plant or distribution system
- Governor's finance package is targeted at funding the initial capacity with future expansion funded by private/community investment

Project Goals

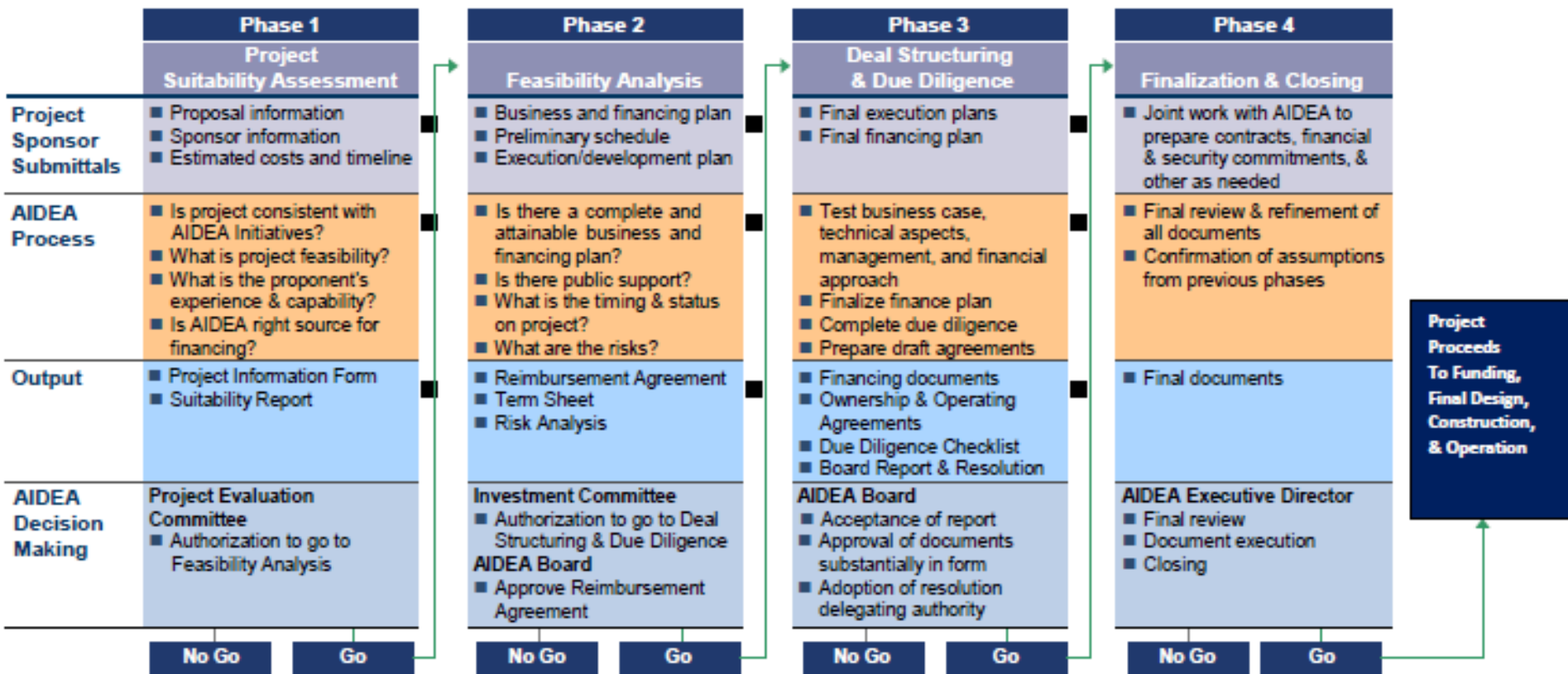
- Provide lowest-cost energy to Interior Alaska consumers as soon as possible
- Get gas first to the Interior while assuring long-term access to gas and propane from liquefaction plant for all Alaskans
- Utilize private sector mechanisms as much as possible

Project Description

- Natural gas will be liquefied on the North Slope and trucked to Interior Alaska
- Propane will be produced and delivered to Interior and Rural Alaskans
- Primary LNG demand anticipated to be Fairbanks and North Pole
- LNG will be temporarily stored and re-gasified in Interior Alaska
- Natural gas distribution system with storage to supply natural gas for heating

AIDEA Project Analysis Process: Due Diligence

This project will not proceed without passing AIDEA's due diligence process and approval of AIDEA's Board of Directors



Governor's Finance Package

\$150 Million
AIDEA Bonds

\$50 Million
General Fund

\$125 Million
SETS Capitalization

+ Private Sector

+ Municipal Utility

**9 Bcf North Slope
Liquefaction Plant**



Gas Distribution System
Residential/Industrial

Governor's Finance Package

- \$50 million General Fund appropriation
 - Directly reduces the cost of LNG
- \$150 million AIDEA bonds
 - 3% to 4.5% interest rate (depending on tax-exempt status of component financed and market rates)
 - \$125 million SETS capitalization
 - 3% interest rate (set by SB23/HB74)
 - Flexibility to provide optimal commercial structure
- **\$325 million total 2013 package**
- \$30 million natural gas storage credit
 - \$15 million tax credit per qualifying storage tank
 - Created through previous legislative action
- **\$355 million total Governor's package**

\$50 Million General Fund Appropriation

- **Purpose**

- Give AIDEA the needed equity ownership share in the North Slope LNG plant to ensure project is executed
- Directly reduce the price of natural gas to utility customers

- **How it Works**

- AIDEA owns \$50 million share of the plant. This ownership stake will be an AIDEA asset
- AIDEA will not charge a return on its owned share from LNG sales to utility customers
- AIDEA can earn a return from LNG sales to non-utility customers or a sale of the asset

\$150 Million AIDEA Bond Authorization

- **Purpose**

- Provide low cost capital for the build out of the natural gas distribution system
- Make sure the utility demand for LNG is created in order to ensure the North Slope plant is fully utilized

- **How it Works**

- AIDEA floats \$150 million in bonds as the distribution system is built out
- The bond payments are incorporated in the natural gas utility's rates
- The State of Alaska's moral obligation and the capital reserve fund reduces the bond's interest rate, directly lowering the utility price of natural gas
- 3% to 4.5% interest rate (depending on tax-exempt status of component financed and market rates)

\$125 Million SETS Capitalization

- **Purpose**

- Provide flexible, low cost financing for the North Slope LNG plant and/or the natural gas distribution system
- The SETS fund provides flexible repayment terms, allowing AIDEA to pursue the best business structure for utility customers

- **How it Works**

- The existing SETS fund is capitalized with an additional \$125 million
- The non-AIDEA owner(s) of the infrastructure are directly loaned the funds with an agreed upon payment plan
- The cost of repaying the SETS loan is included in the price of the LNG
- 3% interest rate (set by SB23)

\$30 Million Storage Credit

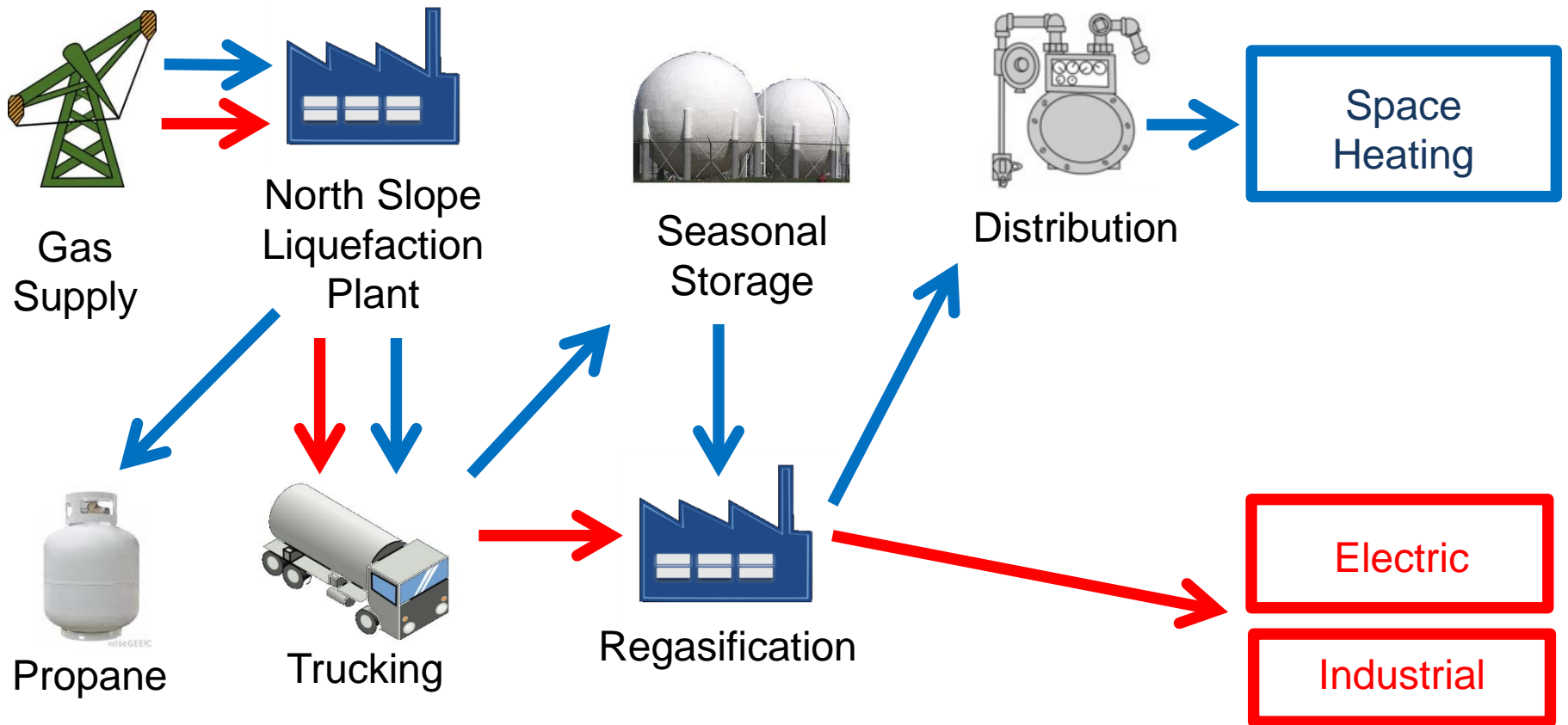
- **Purpose**

- Reduce the cost to build natural gas/LNG storage
- Directly reduce the price utility customers pay for natural gas

- **How it Works**

- \$15 million tax credit for each qualifying storage tank
- The project is expected to have two qualifying tanks totaling \$30 million
- The storage credit was created through previous legislative action

LNG Trucking Value Chain



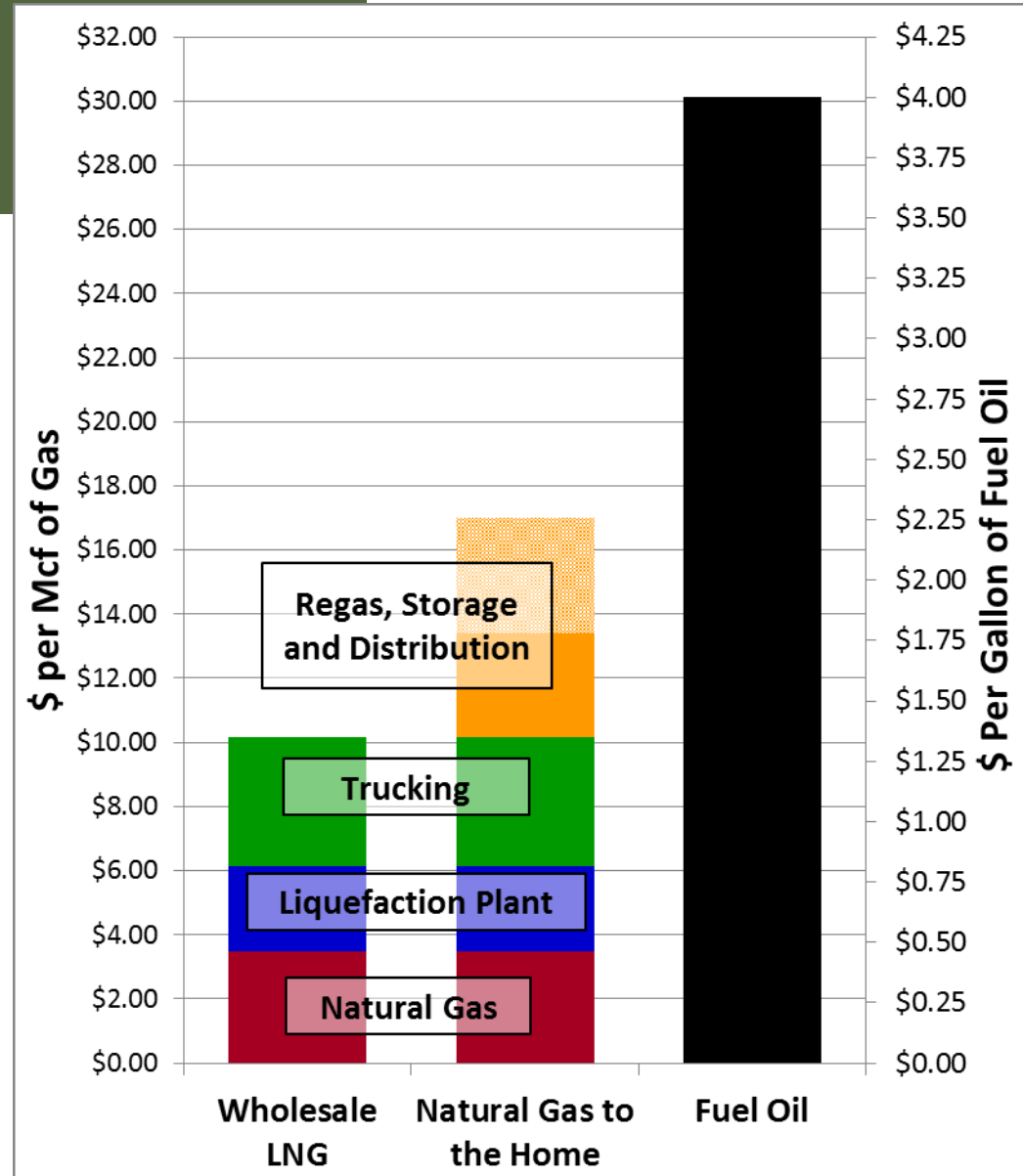
LNG Lowers Energy Costs

Expected Utility Price per Mcf

- Wholesale LNG: \$10.15
- Natural Gas to home: \$13.42-\$17.00 per Mcf
- Delivered price is equal to \$1.79 - \$2.27 per gallon of fuel oil

Key Assumptions

- Initial costs associated with a 9 Bcf plant at start up
- Snapshot in time, costs change with expansion
- LNG plant bifurcated into two sections (industry and utility)
- \$50 million capital cost reduction applied to 6.5 Bcf utility section



Heating Energy Supply Comparison

Trucked LNG is the lowest-cost option for Interior Alaska heating

- Electricity would need to be \$0.04 - \$0.06 per kWh to compete with trucked LNG
- Electricity would need to be much cheaper to compete with fuel oil



Plant Use and Expansion

Plant Expansion

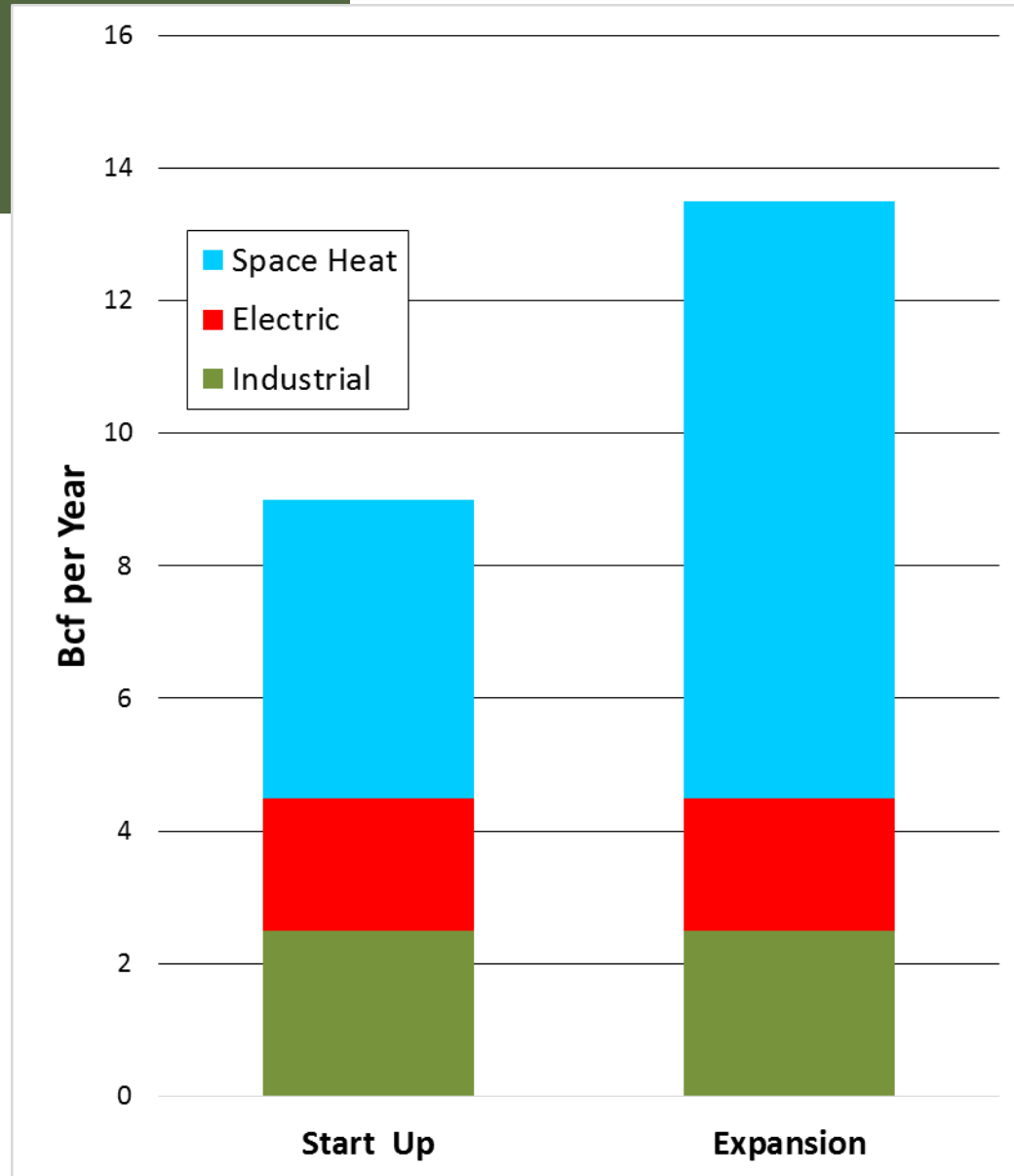
- LNG plant will expand as the demand for natural gas increases
- Size or timing of expansion is driven by demand
- Customer count includes residential and commercial users
- Second expansion is possible based on pipeline timing

Capacity (Bcf per year)

	Start Up	Expansion
Space Heat	4.5	9.0
Electric	2.0	2.0
Industrial	2.5	2.5
Total Demand	9.0	13.5

Estimated Customers

LNG	7,800	15,900
Propane	1,800	2,700



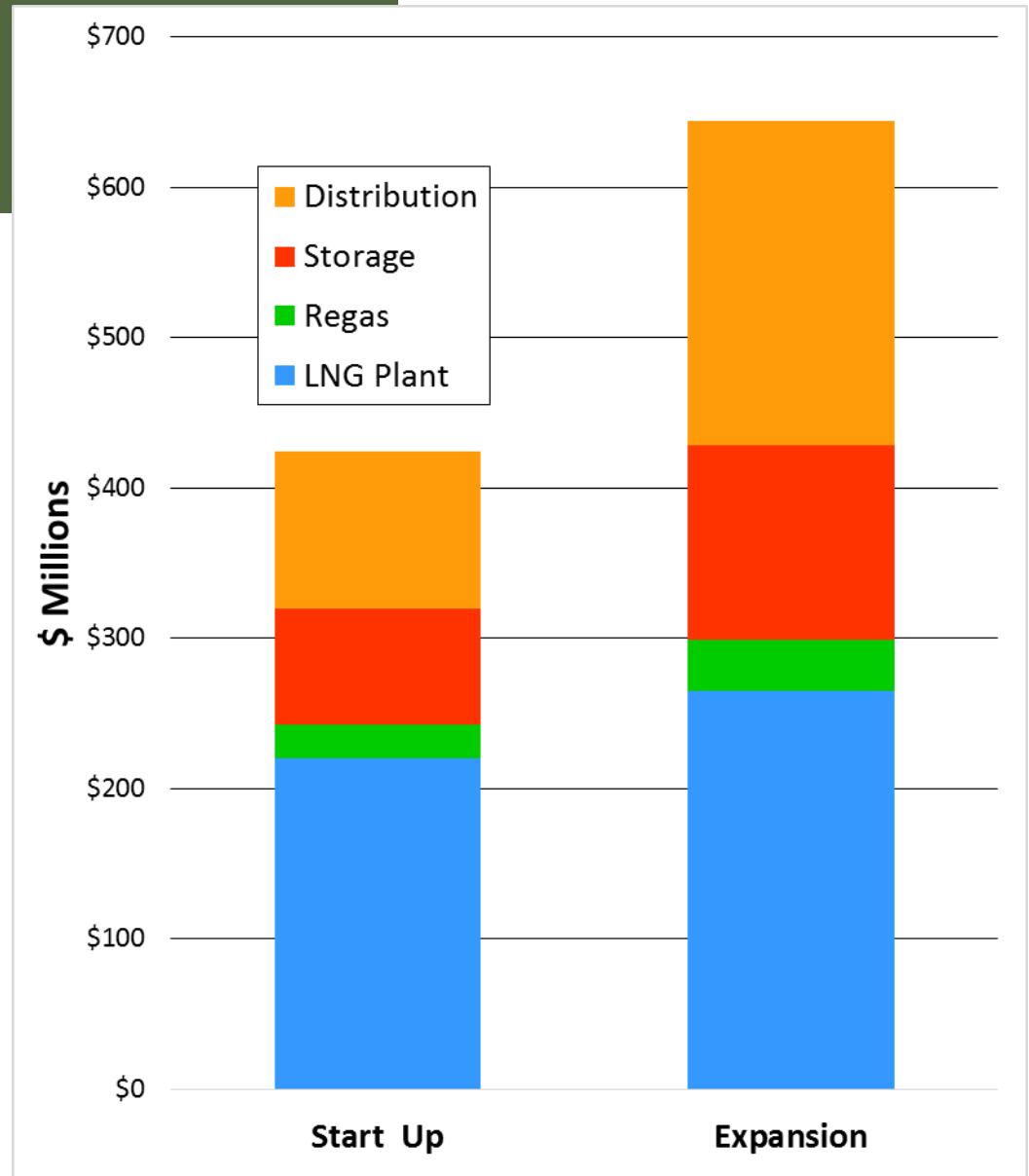
Capital Cost Breakdown

Capital Costs

- Based on “Mid Cost” scenario
- Economies of scale achieved in LNG plant as additional 4.5 Bcf trains are added
- Costs for expansions are cumulative
- Does not include trucking capital

Capital Costs (\$millions)

	Start Up	Expansion
LNG Plant	\$220	\$265
Regas	\$23	\$34
Storage	\$77	\$130
Distribution	\$105	\$216
Total	\$425	\$644
<i>Low Cost</i>	<i>\$368</i>	<i>\$522</i>
<i>High Cost</i>	<i>\$481</i>	<i>\$767</i>



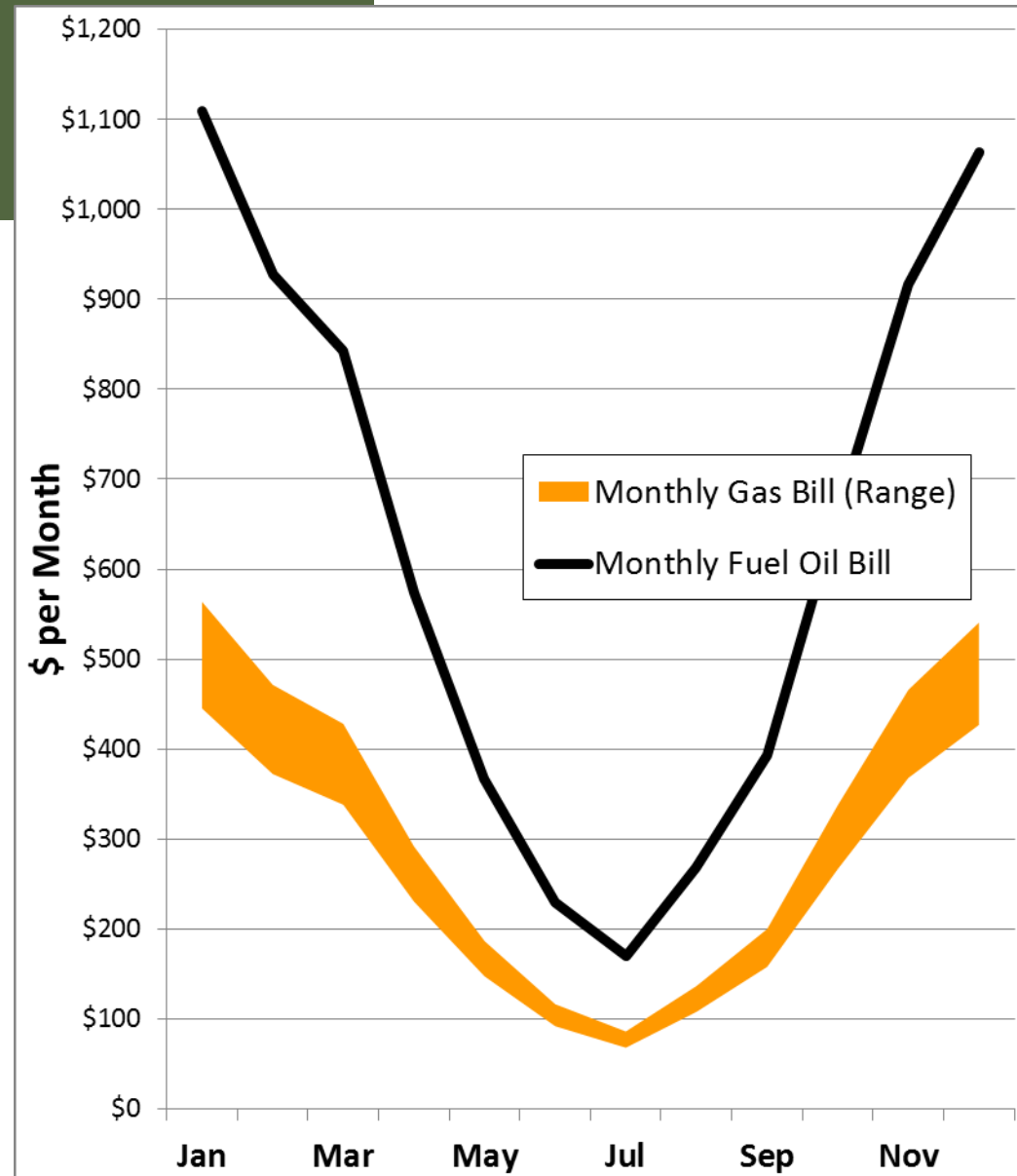
Household Heating Savings

Typical Home Heating Savings

- \$2,900 - \$3,750 annually
- 43% - 55% reduction in cost

Key Assumptions

- Typical Interior Alaska household will use 225 Mcf of gas per year (equivalent to 1,700 gallons of fuel oil)
- Does not account for expected improvement in heating efficiency with natural gas



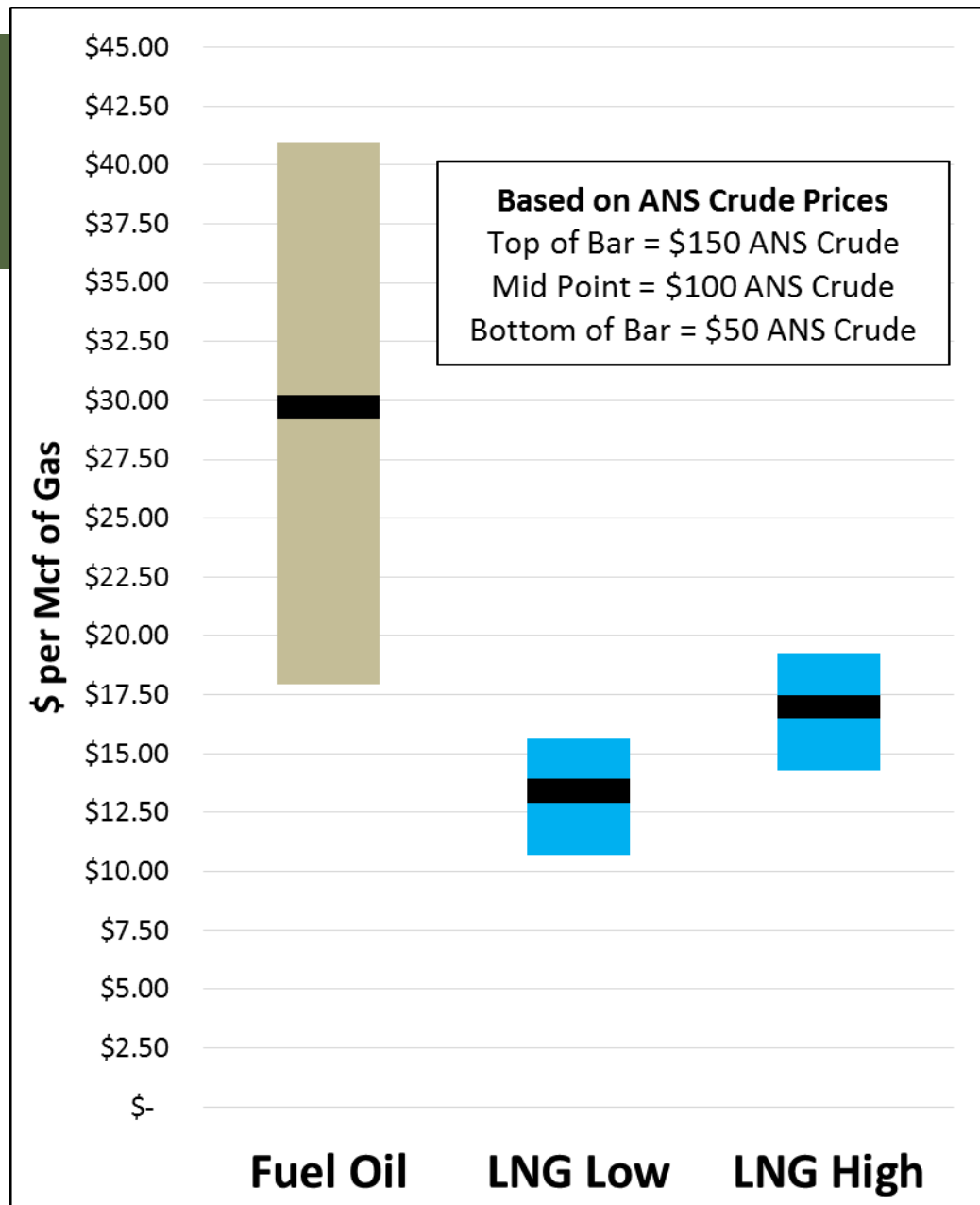
Reduce Fuel Price Uncertainty

Reduced price variability

- Small portion of delivered LNG price is natural gas cost
- Fuel oil prices are much more volatile than trucked LNG
- Trucked LNG is cheaper even when oil prices drop

Key Assumptions

- Fairbanks fuel oil price is based on linear regression analysis
- Natural gas price uses publicly available information on LNG supply contracts



Air Quality

Conversion to natural gas should reduce air pollutant emissions in Fairbanks and North Pole

- Will reduce overall emissions of PM 2.5
- Fairbanks is presently a non-attainment area for PM 2.5
- Potential public health benefits of natural gas is substantial

Impact on Federal funding and economic development

- The non-attainment area risks losing Department of Transportation and Public Facilities funding if State fails to submit an attainment plan to EPA
- Federal projects in the area face funding hurdles while area is non-attainment
- Cleaner, healthier air in Fairbanks will promote economic development



The screenshot shows the top portion of a Los Angeles Times article. The masthead reads "Los Angeles Times | NATION". Below the masthead is a navigation bar with categories: LOCAL, U.S., WORLD, BUSINESS, SPORTS, ENTERTAINMENT, HEALTH, and LIVING. Underneath, there are sub-categories: POLITICS, NATION NOW, POLITICS NOW, TOP OF THE TICKET, SCIENCE, and SCIENCE. A "TRENDING NOW" section lists: MIDWEST STORM | OSCAR PISTORIUS | TB OUTBREAK | JERRY BUSS | LAS V. The main headline of the article is "Fairbanks area, trying to stay warm, chokes on wood stove pollution". Below the headline is a sub-headline: "Wood-burning stoves give the Fairbanks, Alaska, area some of the worst winter air pollution in the country."

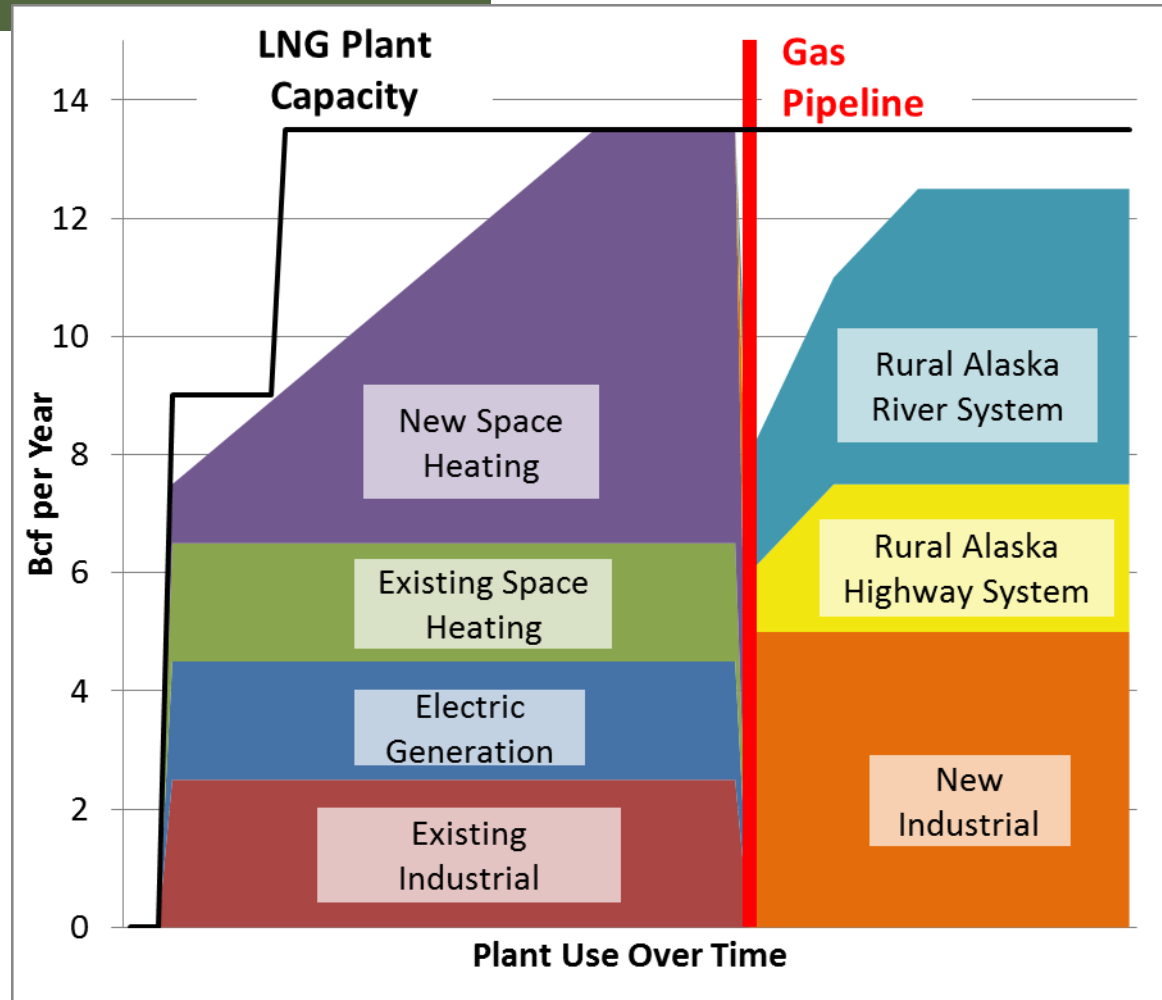
Savings for Public Buildings

- **Fairbanks North Star Borough School District expects immediate and significant school heating cost savings**
 - Expect schools to pay back cost of converting in less than two years
 - 8 schools will have immediate access to natural gas, with more switching as the distribution system builds out
 - The first 8 schools will immediately save \$25-\$60 thousand dollars a year in heating costs
- **Other State and municipal buildings should experience similar heating cost reductions**

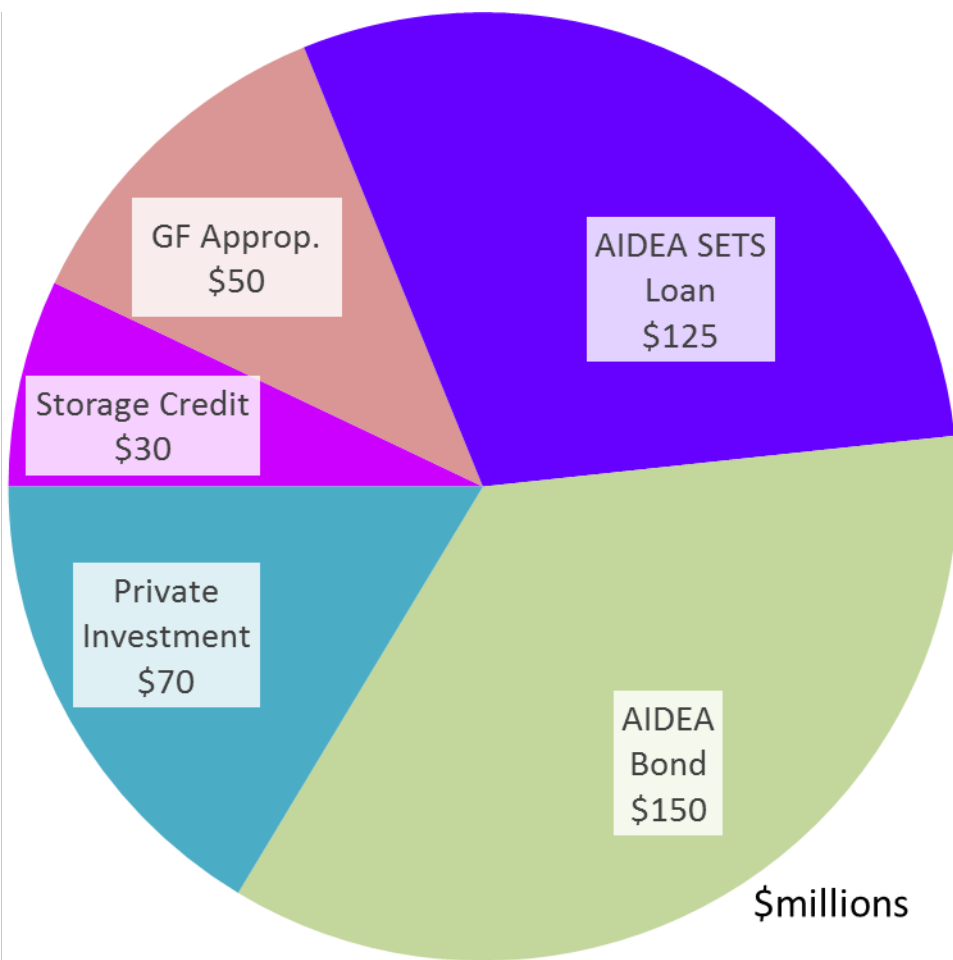
Long Term Use of LNG Plant

LNG Plant will be used after gas pipeline

- Plant can serve Rural Alaska before gas pipeline is constructed
- Expect opportunity to sell LNG to new industrial users both before and after pipeline
- Information in chart is for demonstration only



Potential Finance Options for Initial Buildout



- The initial buildout will be funded from multiple sources, the example used here is just one possibility
- Projected 30 years payback period
- Private/community investment will fund future expansion
- Authorization to use State funds will not be used if AIDEA determines the project is not feasible

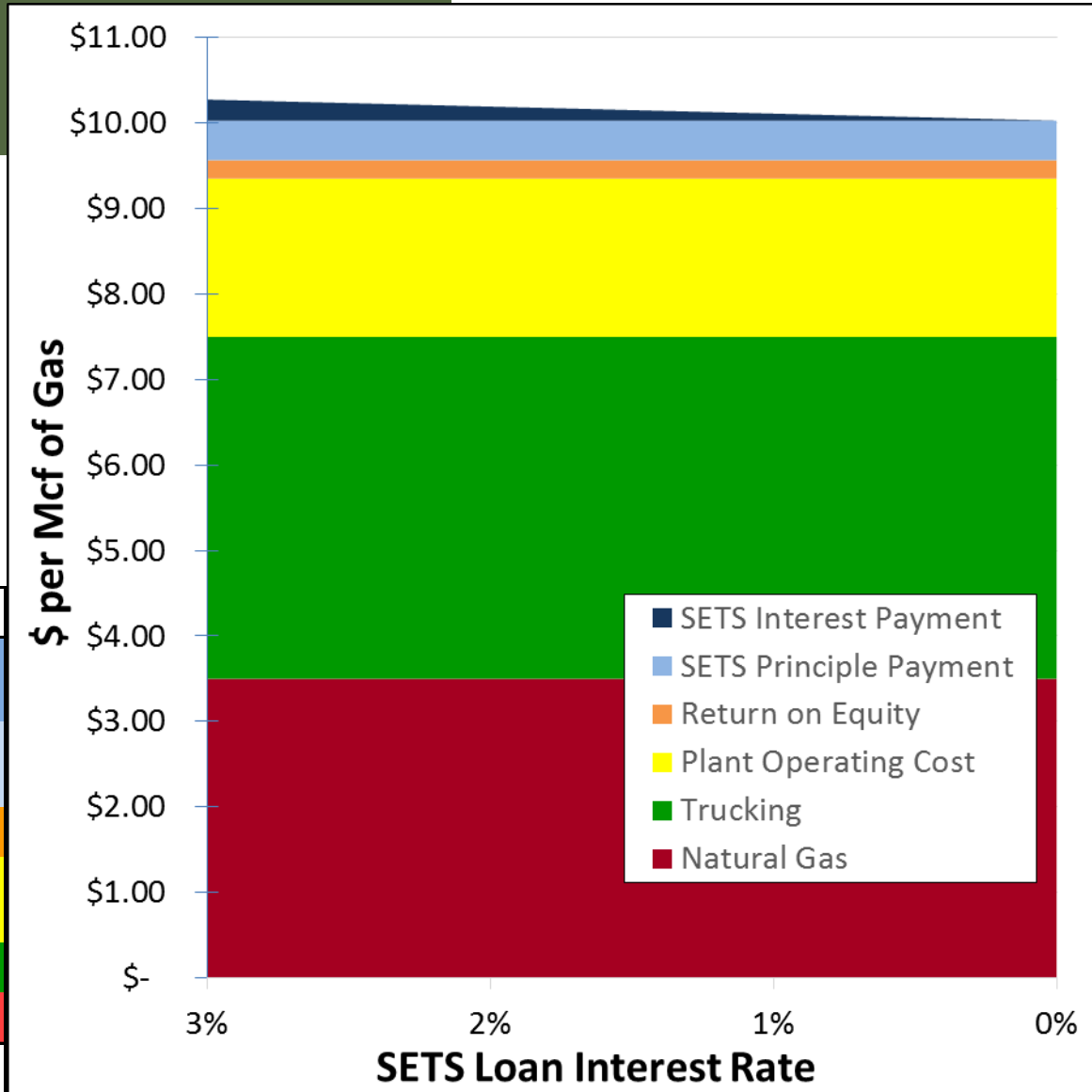
	LNG Plant	Regas, Storage & Distribution	Total
State Storage Credit	\$15	\$15	\$30
General Fund Approp.	\$50	\$0	\$50
AIDEA SETS Loan	\$125	\$0	\$125
AIDEA Bond	\$0	\$150	\$150
Private Investment	\$30	\$40	\$70
Total Capital	\$220	\$205	\$425

SETS Loan Interest Rate

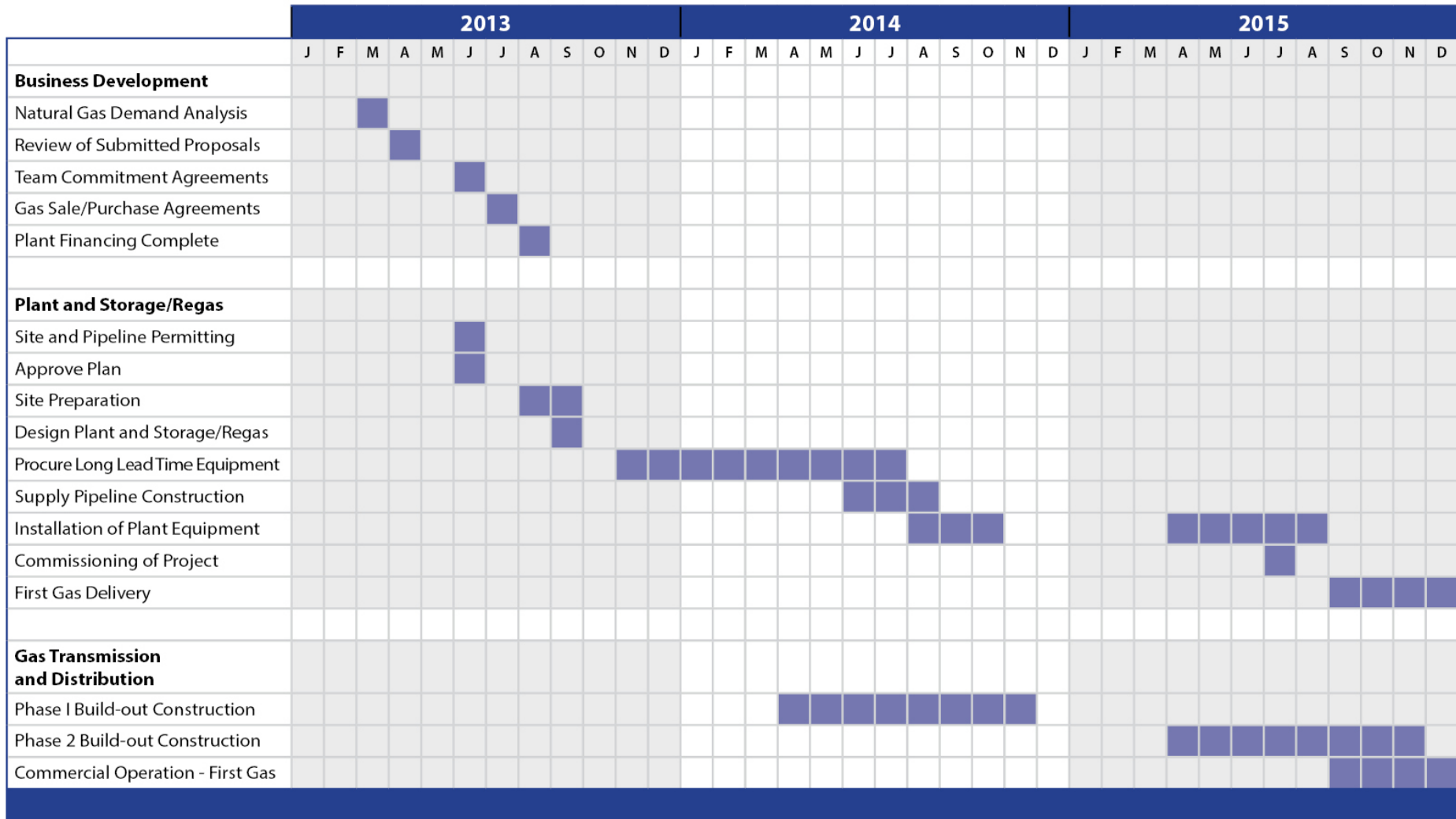
SETS Loan interest rate has minimal impact on LNG Price

- Assumes 30-year loan term
- Reduces natural gas price by \$0.25 per Mcf

	3.0%	2.0%	1.0%	0.0%
SETS Interest Payment	\$0.25	\$0.16	\$0.08	\$0.00
SETS Principle Payment	\$0.46	\$0.46	\$0.46	\$0.46
Return on Equity	\$0.21	\$0.21	\$0.21	\$0.21
Plant Operating Costs	\$1.85	\$1.85	\$1.85	\$1.85
Trucking	\$4.00	\$4.00	\$4.00	\$4.00
Natural Gas	\$3.50	\$3.50	\$3.50	\$3.50
Total	\$10.28	\$10.19	\$10.11	\$10.03



Project Timeline and Milestones



AIDEA and AEA

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