



May 12, 2015

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## Town Hall Meeting



# IEP: GOALS UNDER SB23



- **Supply natural gas to Interior Alaska:**
  - At the lowest cost possible
  - As many Alaska customers as possible
  - As soon as possible
- **IEP investments compliment eventual sources of gas supply from a natural gas pipe line**
- **Lower PM2.5 in nonattainment areas of Interior**
- **Achieving the Goals leads to:**
  - Clean Air + ~\$200 million annually in fuel savings

# LEGISLATIVE ACTIONS



## • **HB105 – the IEP portion of this bill**

- **Expanded the geographic flexibility for the use of AIDEA financing tools to allow for options other than the North Slope**
- **Expanded the options allowed for use of the financing tools to include propane and small diameter gas lines**
- **Provided intent language that the financing tools only be used for the advancement of IEP goals and that AIDEA use an open and competitive process to select its private partner(s)**
- **Set restrictions on AIDEA ability to enter into gas contracts and hold interests in gas leases or reserves**
- **Required AIDEA Board approval, by resolution, of an IEP plan prior to further use of the financing tools authorized in SB23**
- **Provided for reporting requirements to the Legislature**



# LEGISLATIVE RESULTS



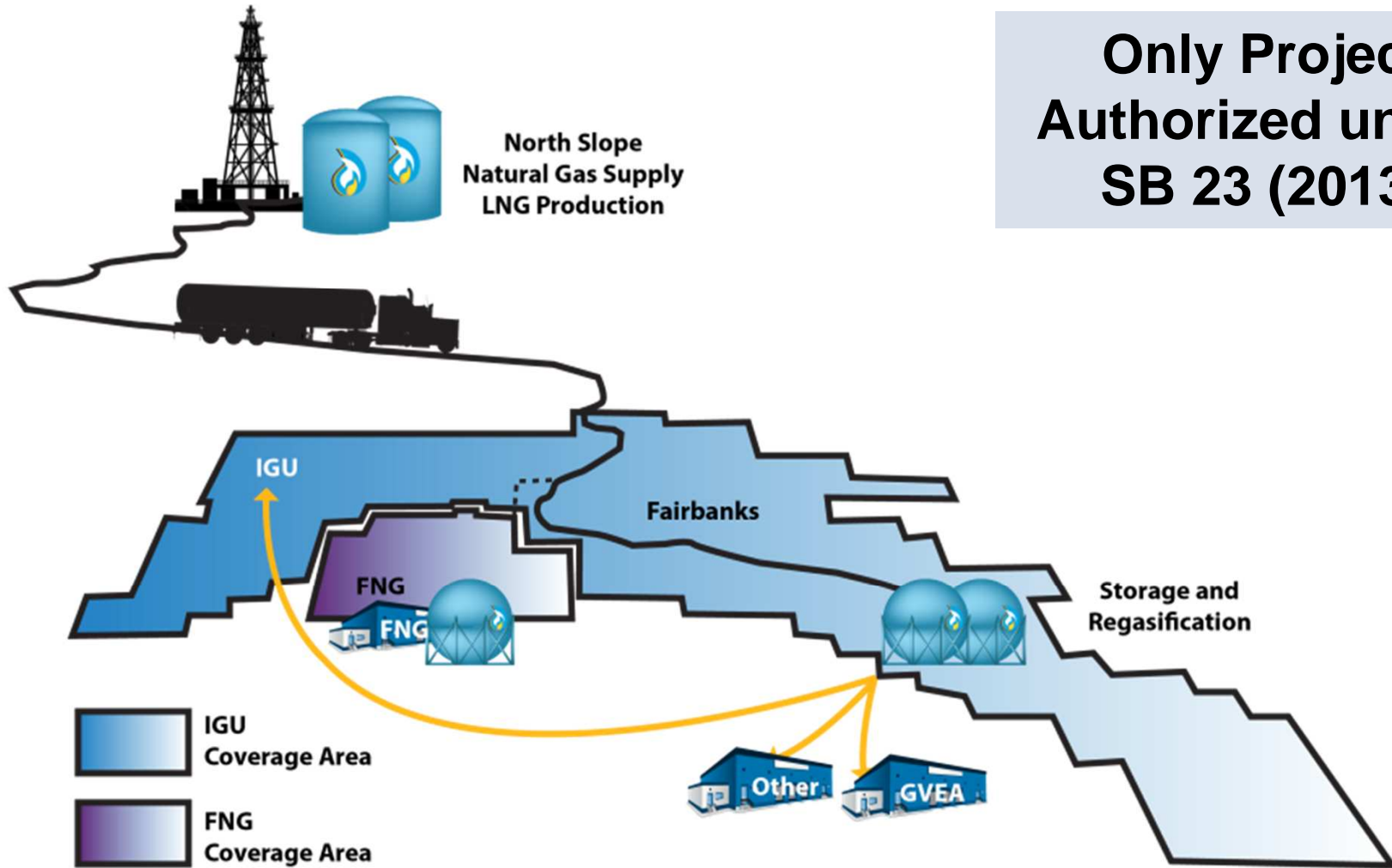
- **Considerable Review and Questioning by Legislators**
- **Approach was to respond as completely and fully as possible to all questions and concerns.**
- **Time consuming and, on occasion, frustrating. (being held to the end)**
- **In the end – the bill resulting provides AIDEA the tools to advance the IEP and assurance to the legislature that due consideration was given to the concerns raised**
- **HB105**
  - **Passed the House 37-2**
  - **Passed the Senate 20-0**
  - **Concurrence by the House 38-0-2**
- **Capital Reappropriation – Included in final capital budget**



# RECAP - NORTH SLOPE PROJECT MAP



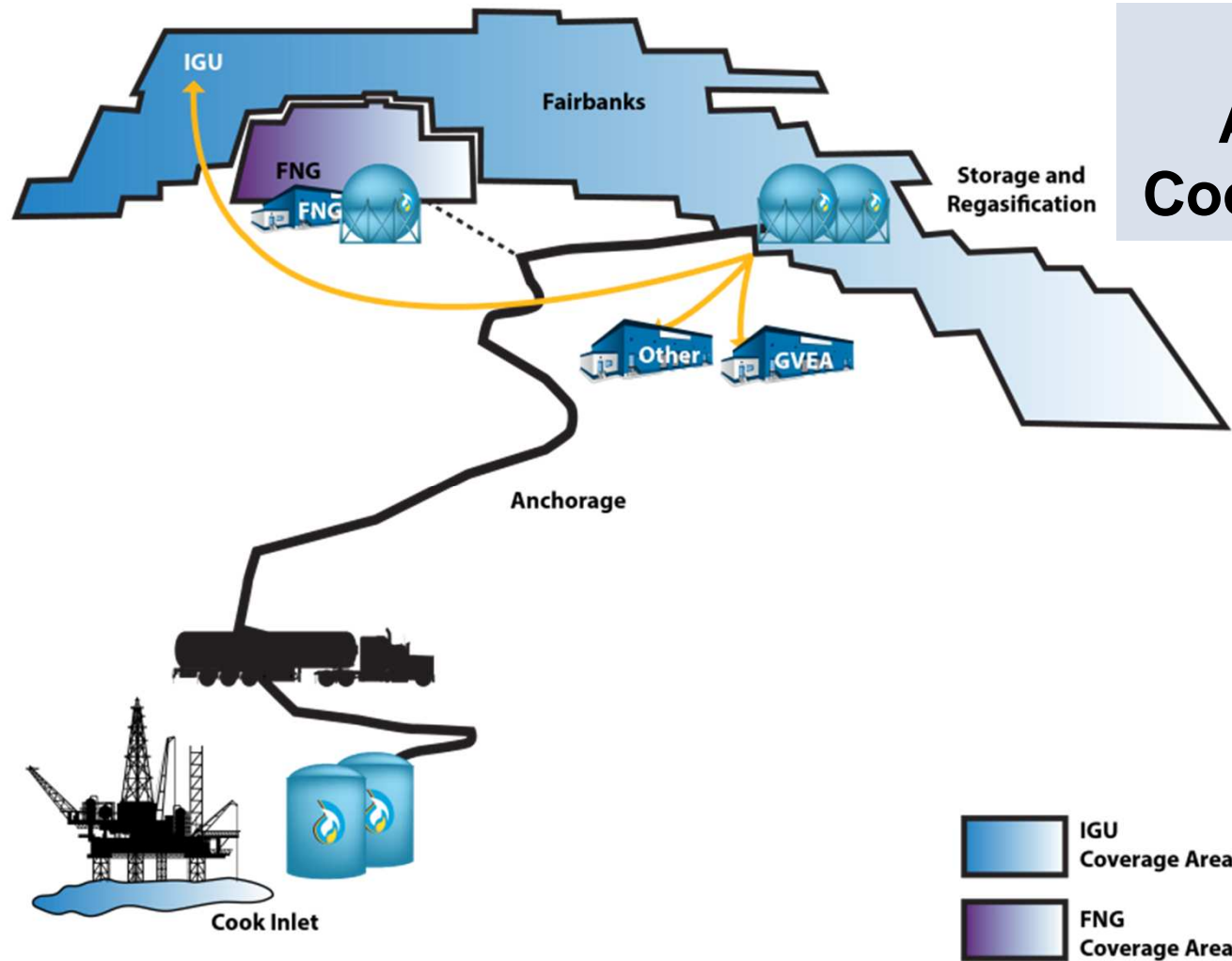
**Only Project  
Authorized under  
SB 23 (2013)**



# COOK INLET PROJECT MAP



**HB 105  
Authorizes a  
Cook Inlet Project**



# NEXT STEPS



- **Conclude Due Diligence on Pentex, including input from the Community**
- **Issue the RFP for private partners as discussed with the Board at the March meeting. Timeline is**
  - Pre-solicitation meetings with potential vendors 5/18-5/19.
  - Issue the solicitation after 5/20– with a 30 day response timeline.
  - Based on proposal evaluations, select 2-4 private parties enter into negotiations
  - Status report to AIDEA Board at June meeting
  - Bring recommendation to AIDEA Board for selected partner July/August 2015
- **DCCED/DNR/DOR/AIDEA to issue solicitation for gas supply**
  - Expression of interest to gas supply companies working in Cook Inlet.
  - Negotiate directly with suppliers on behalf of Interior Utilities
  - Timeline on this is not totally within AIDEA control, but expect it will parallel, but lag slightly behind the RFP timeline.
  - Full report at June meeting; with updates to Board as the solicitation process proceeds
- **Transportation; Storage/Regas; and Distribution optimization**
- **Pending Pentex Acquisition – Begin efforts on LDC consolidation and financing**
- **Distribution build-out Summer 2015 – FNG ~30mi; IGU ~70mi.**

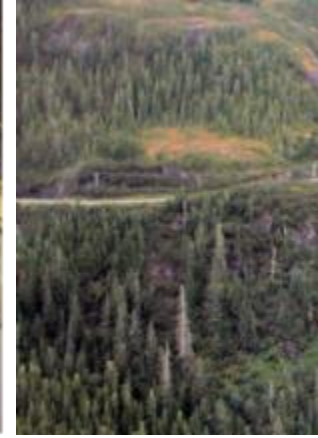
# SUMMARY



- **Financing tools authorized by Legislature**
  - ~\$45 million capital appropriation
  - \$72.2 million in SB23 SETS financing
  - \$150 million in AIDEA bonds
- **Competitive solicitations for LNG capacity and gas supply to be issued in mid-May, finalists in June/July**
- **Private Partner Selection in July/August**







# Alaska Industrial Development and Export Authority

## Draft Financial Plan

## Pentex Alaska Natural Gas Company, LLC Acquisition

May 12, 2015 – Town Hall Meeting

# Project Overview

- Strategic acquisition of Pentex, promoting an integrated natural gas distribution system in FNSB
- Benefits all Interior residents & businesses
- Plan for transition to “Local Control Entity” within 2 years.
- Immediate rate reductions - ~14% - and progress toward Interior Energy Project goals
- Long term lower capital & operating costs, enabling more economic & rapid system expansion

# Common Questions

- Why is AIDEA buying a private company?
- Is the amount negotiated a fair deal?
- Why not just buy it with grant money?
- Who will run it and what will prevent it from becoming a state/community liability?
- What about propane, pipelines, North Slope, AKRR, and other options?
- How does the deal with Hilcorp plant purchase work – and won't the LNG supply contract that goes with it prevent the IEP from achieving its \$15/mcf goal?
- How does spending money on existing system advance the provision of low cost gas to the rest of the community?

# Business Case & Financing

- \$54 million investment (\$52.5mm + working capital)
- Expected sale of Titan/AET for \$15.15mm, Q3 2015
- Continued operation by current team under AIDEA ownership while negotiating transition to Local Control Entity by end 2016
- Structure “exit” through SETS, State Appropriation, bonds
- \$2.91mm estimated AIDEA return (5.06%)

# Structure

- 100% of membership interests of Pentex Alaska Natural Gas Company, LLC (“Pentex”)
  - Fairbanks Natural Gas Company, LLC (“FNG”)
  - Titan Alaska LNG, LLC (“Titan”)
  - Arctic Energy Transportation, LLC (“AET”)
  - Polar LNG, LLC (“Polar”)
  - Cassini LNG Storage, LLC (“Cassini”)
- **Sellers**
  - Harrington Partners, L.P. (85%), Pentex Alaska Natural Gas Company (10%), Dan Britton (5%)

## Structure (cont.)

- Harvest Alaska Contracts
  - Sale of Titan and AET assets to Harvest Alaska for \$15.15 million
  - Harvest Alaska 10-year LNG supply agreement to FNG
    - \$15/Mcf, adjusted
    - Price opener after year 5
  - AIDEA can negotiate re cost, supply with Harvest after PSA signed
  - Expected to close by 9/30/15
  - Subject to RCA + AG review/approval



# Project Funding

- Economic Development Account (AS 44.88.172)

	\$000	Jul-15	Sep-15	Q1 '17
<b>AIDEA Pentex Acquisition Cash Flows</b>				
Initial Purchase		\$(54.00)	\$ -	\$ -
Titan / AET Sale		\$ -	\$ 15.15	\$ -
AIDEA return on investment		\$ -	\$ -	\$ 2.91
AIDEA FNG sale to Local Control Entity		\$ -	\$ -	\$38.85
<b>AIDEA Investment Balance</b>		<b>\$(54.00)</b>	<b>\$(38.85)</b>	<b>\$ -</b>

*Estimated return rate (as of 4/21/15) 5.06%*



# Project / Investment Schedule

MILESTONE	APPROXIMATE DATE(S)
AIDEA Board Approval	May 2015
Signed Purchase Agreement	5/31/15
RCA change of control approval	June / July 2015
Closing of Pentex purchase	7/31/15
Closing of Titan / AET sale to Harvest	9/30/15
Agreement for FNSB utility consolidation completed	12/31/15
Consolidated utility financing structured	6/30/16
Consolidated utility implementation completed / AIDEA sale of Pentex	12/31/16

# Business Plan

- Acquire Pentex
- Sell Titan / AET
- Operate (as-is) FNG
- Eliminate “corporate” costs:
  - Taxes
  - Return on equity
  - Investor management fees & overhead
  - Regulatory affairs expenses
- Reduce rates to existing rate-payers

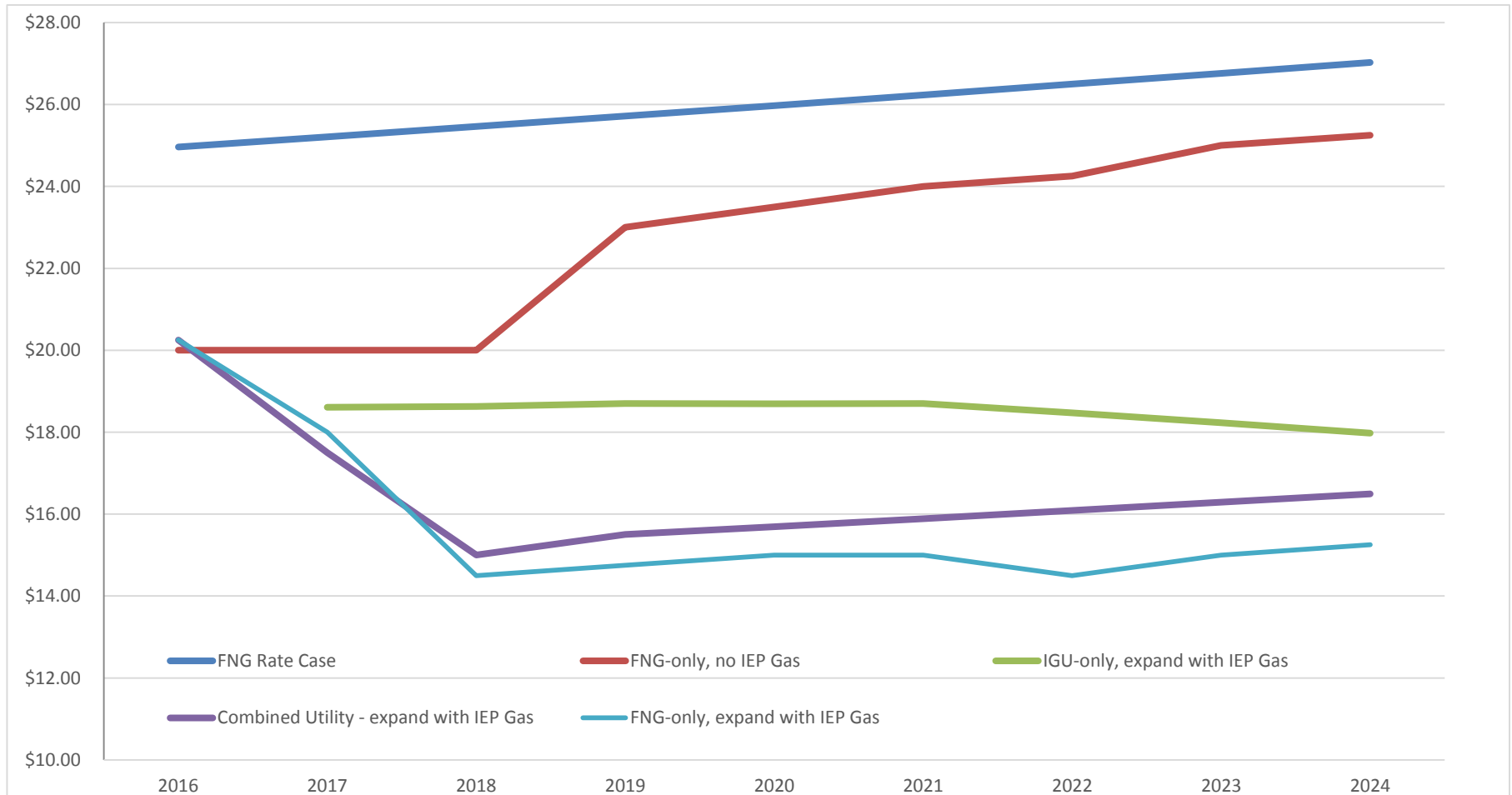
# Business Plan

- Plan for integrated/consolidated system
  - Operations
  - Capital
- Implement long-term FNSB gas utility financing
- Transition to LCE control and operation

# Utility Consolidation Savings

- Operational savings estimated \$1.5 million to \$2.0 million annually
- Reductions in equity return, taxes, cost of capital, and non-operational expenses
- Reductions in capital expenditures for combined system estimated between \$5 million and \$11 million
- Storage optimization will lead to efficiencies in supply chain economics between liquefaction, transportation, and storage

# System Modeled Costs “At the Meter” Under 5 Scenarios



# Valuation Due Diligence

- The Brattle Group
- Experts in utility economics and valuation
- Comparables
  - Traded
  - Transactions
- Valuation ratios
  - $EV / BV$  (Enterprise Value / Book Value)
  - $EV / EBITDA$  (Enterprise Value / Earnings Before Income Taxes and Depreciation Allowance)

<http://www.aidea.org/Portals/0/PDF%20Files/Pentex-BrattleGroupValuationReport.pdf>

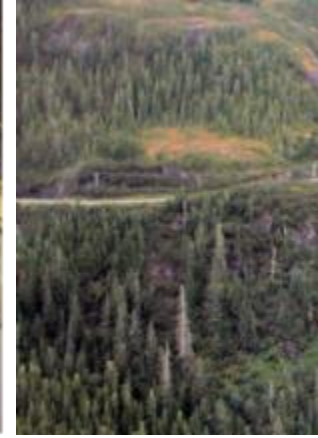
# Valuation Due Diligence

Pentex Compared to the Brattle Group Market Valuation Ratios			Converted to \$ for Comparison to PENTEX Price (in \$millions)		Comparable Pentex Price
	EV/BV	EV/EBITDA			
Based on mkt. value debt	1.49	-			
Based on 5-year average		13.79	Based on EV/BV (2014)	Based on EV/EBITDA (5 yr. avg.)	Based on Market Value Debt
<b>Brattle Group Trading Multiples</b>					
Max	1.75	18.59	\$ 71.4	\$ 90.6	
Median	1.42	11.29	\$ 57.9	\$ 55.0	\$ 57.78
Min	1.19	7.41	\$ 48.6	\$ 36.1	
<b>Brattle Group Transaction Multiples</b>					
Max	2.33	11.82	\$ 95.1	\$ 57.6	\$ 57.78
Mean	1.54	9.19	\$ 62.8	\$ 44.8	
Median	1.47	9.57	\$ 60.0	\$ 46.6	
Min	1.01	6.17	\$ 41.2	\$ 30.1	
FNG-only Compared to The Brattle Group Market Valuation Ratios			Converted to \$ for Comparison to FNG Price (in \$millions)		Comparable FNG Price
	EV/BV	EV/EBITDA			
Based on mkt. value debt	1.44	-			
Based on 3-year average		10.36	Based on EV/BV (2014)	Based on EV/EBITDA (3 yr. avg.)	Based on Market Value Debt
<b>Brattle Group Trading Multiples</b>					
Max	1.71	19.08	\$ 54.4	\$ 73.5	
Median	1.44	9.95	\$ 45.8	\$ 38.3	\$ 42.63
Min	1.20	7.80	\$ 38.2	\$ 30.0	
<b>Brattle Group Transaction Multiples</b>					
Max	2.33	11.82	\$ 74.1	\$ 45.5	
2014 transactions only Median	1.92	11.49	\$ 61.1	\$ 44.2	
	1.47	9.57	\$ 46.8	\$ 36.9	\$ 42.63
Min	1.01	6.17	\$ 32.1	\$ 23.8	

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# Alaska Industrial Development and Export Authority

**Questions?**