

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G17-16

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 INTERIOR GAS UTILITY; AUTHORIZING 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 10 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; and

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.

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

Section 1. The LLC Membership Purchase and Sale Agreement between the Authority and IGU, in the form presented to the Board, 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 form presented to the Board, 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. The authorizations granted to the Executive Director under Sections 1 through 4 of this Resolution are automatically revoked if IGU's Board of Directors does not approve, by no later than November 30, 2017, the LLC Membership Purchase and Sale Agreement and the Financing Agreement in the same form as approved by this Board.

Section 6. 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 26th day of October, 2017.



ALASKA INDUSTRIAL DEVELOPMENT
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Chair



Secretary