

Pentex Alaska Natural Gas Company, LLC
2016 Year to Date Operations Report – As of 2/29/2016

Prepared for: AIDEA Board of Directors

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Operations

Pentex operating companies provided continuous LNG and natural gas deliveries to its customers without disruption or interruption. No significant equipment failures or damages to assets were reported.

There have been 0 lost time injuries and 0 at-fault vehicle accidents reported in 2016.

On January 20, 2016, FNG received notice from the National Labor Relations Board (NLRB) that a petition had been filed by the IBEW, Local Union 1547 to represent “All natural gas operators and natural gas operator leads”. Ballots were counted by the NLRB on February 25, 2016, at which time FNG operators voted in favor of being represented by the IBEW. A time frame for negotiations regarding a collective bargaining agreement has not yet been set.

Pentex has continued to test the HEIL trailer for compatibility and enhanced transportation efficiency, through increased LNG capacity. To date 21 roundtrip deliveries between Pt. Mackenzie and Fairbanks have been completed with an average payload of 41,358 lbs. or 12,165 gallons. In addition, two roundtrip test runs were completed between Fairbanks and Prudhoe Bay, one with the trailer full and one empty. No major areas of concern were noted by the Driver with an overall impression that the unit was suitable for hauling product on the haul road.

Financial

Pentex implemented the interim approved rate reductions approved by the AIDEA Board of Directors effective January 1, 2016 resulting in an average rate reduction of 10.4%. Fairbanks has experienced unseasonably warm weather, resulting in a significant reduction in Heating Degree Days (HDD's) in the first part of 2016. HDD's for January and February were 1,844 and 1,599 respectively compared to a budget for January and February of 2,321 and 1,828 respectively. Year to date HDD's are 706 HDD's or 17% lower than budgeted.

Overall gas sales for the month of January and February were 93,100 and approximately 78,600 Mcf respectively. The budgeted sales for January and February were 112,854 and 93,712 respectively. The combined budget deficit for sales volume to date of this report is 34,866 Mcf, approximately 17% or \$700K in sales dollars. The sales deficit is consistent with a warmer winter, but further hindering sales is small commercial interruptible customers that have switched to their respective alternate fuel, heating oil. In the development of the 2016 budget it was anticipated that the Fairbanks North Star School District would remain using natural gas as the cost of heating oil had yet resulted in significant savings. The School district has 14 facilities that generally use natural gas. Of those 14 facilities only 2 facilities were using natural gas in January and February. In addition to those lost sales, State of Alaska - Department of Fish and Game has chosen to switch to heating oil in its Ruth Burnett Hatchery. We have also identified three firm customers that have switched to alternate fuels, of which two are small commercial and one large commercial facility.

In response to below budget sales, management will scrutinize expenses and capital investment so as to minimize the overall negative impact resulting from reduced sales.