

BEFORE THE BOARD OF THE
ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

REPORT
ON
GAS LDC MULTIPLES
BY
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THE BRATTLE GROUP
ON
BEHALF OF THE WESTERN FINANCIAL GROUP

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1 **I. QUALIFICATIONS AND PURPOSE OF THE REPORT**

2 **A. QUALIFICATIONS OF DR. BENTE VILLADSEN**

3 My name is Dr. Bente Villadsen and I am a principal at The Brattle Group (Brattle). My
4 business address is The Brattle Group, 44 Brattle Street, Cambridge, MA 02138, USA.

5 I have more than 15 years of experience consulting on regulatory finance for regulated
6 infrastructure companies in the electric, natural gas, railroad, water and wastewater
7 industries. I have acted as the regulatory advisor to several private equity and infrastructure
8 entities, where I have assisted in assessing regulatory risk and its impact on value. On behalf
9 of infrastructure entities, I have advised on the plausible value of their international
10 subsidiaries. Further, I have provided expert reports and testified on cost of capital in many
11 jurisdictions including state regulatory settings (including Alaska), Bonneville Power
12 Authority, Surface Transportation Board, U.S. and international arbitrations, U.S. federal
13 court, and in Australia, Canada, Italy, and the Netherlands. This work has pertained to
14 electric utilities, pipelines, railroads, telecommunications, water utilities and wastewater
15 utilities. Examples of my recent cost of capital work include reports or testimony on the cost
16 of capital methodology for Australian pipelines before the Australian Energy Regulator, and
17 cost of equity for regulated U.S. water utilities and a Canadian pipeline in arbitration. In
18 connection with a tax matter before U.S. federal court, I testified on the cost of capital for
19 infrastructure owned by municipal and state entities. I am an instructor at Edison Electric
20 Institute's Advanced Rate School teaching "Current Issues in Cost of Capital," at AGA /
21 EEI's "Advanced Utility Accounting Course", and a frequent speaker on regulatory finance
22 and regulation. I hold a Ph.D. from Yale University and joint MS and BS degrees in
23 mathematics and economics from University of Aarhus, Denmark.

1 **B. Qualifications of Dr. Michael J. Vilbert**

2 My name is Dr. Michael J. Vilbert. My business address is The Brattle Group, 201 Mission
3 Street, Suite 2800, San Francisco, CA 94105. I am Office Director of The Brattle Group’s
4 San Francisco office and have more than twenty years of experience as an economic
5 consultant. I received a Ph.D. in Financial Economics from the Wharton School of the
6 University of Pennsylvania, an MBA from the University of Utah, an M.S. from the Fletcher
7 School of Law and Diplomacy, Tufts University, and a B.S. degree from the United States
8 Air Force Academy. I joined The Brattle Group in 1994 after a career as an Air Force
9 officer, where I served as a fighter pilot, intelligence officer, and professor of finance at the
10 Air Force Academy.

11 I regularly serve as an expert in cost of capital, financial planning and valuation and have
12 advised clients on these matters in the context of a wide variety of investment and regulatory
13 decisions. In the area of regulatory economics, I have testified or submitted testimony on the
14 cost of capital for regulated companies in the water, electric, natural gas and petroleum
15 industries in the U.S. and Canada. My testimony has addressed the effect of regulatory
16 policies such as decoupling or must-run generation on a regulated company’s cost of capital
17 and the appropriate way to estimate the cost of capital for companies organized as Master
18 Limited Partnerships. I have analyzed issues associated with situations imposing asymmetric
19 risk on utilities, the prudence of purchased power contracts, the economics of energy
20 conservation programs, the appropriate incentives for investment in electric transmission
21 assets and the effect of long-term purchased power agreements on the financial risk of a
22 company. I have served as a neutral arbitrator in a contract dispute and analyzed the
23 effectiveness of a company’s electric power supply auction. I have also estimated economic
24 damages and analyzed the business purpose and economic substance of tax related

1 transactions, valued assets in arbitration for purchase at the end of the contract, estimated the
2 stranded costs of resulting from the deregulation of electric generation and from the
3 municipalization of an electric utility's distribution assets and addressed the appropriate
4 regulatory accounting for depreciation and goodwill. Additionally, I have co-authored
5 articles on the impact of revenue decoupling on the cost of capital for electric and natural gas
6 utilities.

7 **C. Purpose of the Report**

8 Western Financial Group ("WFG") is assisting the Alaska Industrial Development and
9 Export Authority ("AIDEA") with its due diligence review of AIDEA's proposed purchase
10 of all of the assets of Pentex Alaska Natural Gas Company, LLC ("Pentex"). We have been
11 asked by WFG to provide a range of plausible values for the ownership interests of Pentex
12 Alaska Natural Gas, LLC that AIDEA has announced its intent to purchase.

13 Specifically, we determined the range of current multiples for gas LDC transactions and
14 publicly traded entities comparable to the transacted assets.

15 Pentex and AIDEA signed a non-binding Letter of Intent on January 26, 2015 to purchase all
16 of Pentex for \$52.5 million.¹ We understand that this is a stock purchase, so that AIDEA
17 will become responsible for any outstanding debt. The final equity purchase price is to be
18 adjusted by net working capital (calculated as current assets less current liabilities) of the
19 Pentex subsidiaries acquired as of the closing date up to a maximum of \$1.5 million.
20 Because this is a stock purchase, the enterprise value (including cash) of Pentex is calculated
21 based on the \$54.0 million equity purchase price (including the net working capital

¹ AIDEA Potential Purchase of Pentex Alaska Natural Gas Company, LLC, Fact Sheet, February 3, 2015.

1 adjustment) plus total interest-bearing debt,² resulting in an estimated total asset purchase
2 price. This report is an input to AIDEA’s due diligence in considering the purchase of
3 Pentex. Once AIDEA has completed its due diligence, the proposed transaction will be
4 presented to the AIDEA Board (the “Board”) for approval.

5 For this analysis, we have relied primarily on information available in the public domain.
6 Such public information has been obtained from sources we believe to be reliable. For a few
7 Pentex specific numbers, we have relied on data provided by WFG. However, neither Brattle
8 nor we make representation as to the accuracy or completeness of such information and has
9 performed no procedures to corroborate the information.

10 **II. OVERVIEW OF THE TRANSACTION**

11 AIDEA signed a non-binding Letter of Intent (“LOI”) on January 26, 2015 to purchase all of
12 Pentex for \$52.5 million plus up to \$1.5 million for working capital.³ We understand that the
13 acquisition is a stock purchase; as such, we estimated a total asset purchase price based on
14 the total purchase price, including net working capital adjustment plus the value of interest-
15 bearing debt. In estimating the total value of debt, we considered both the book value and an
16 estimate of the fair (i.e., market) value of outstanding debt based on the terms of the debt
17 agreement. Book value of debt is based on the audited financial statement as of fiscal year
18 ended December 31, 2014. The estimation of the market value of debt is explained below.

² The long-term debt outstanding is largely owed to AIDEA. Interest payments on the debt owed to AIDEA are deferred until December 31, 2017, after which interest accrues at 1% per annum beginning January 1, 2018. If the debt were traded in the market, its market value is likely to be substantially less than its book (i.e., face) value. The AIDEA debt is expected to be fully amortized 40 years after the closing of the loan agreement, which was signed on April 30, 2014. We present multiples based on both an estimated market value of the debt and the book value of debt in our analysis.

³ AIDEA Potential Purchase of Pentex Alaska Natural Gas Company, LLC, Fact Sheet, February 3, 2015.

1 Pentex is a holding entity that owns Fairbanks Natural Gas (“FNG”) (a natural gas local
2 distribution company), Titan LLC (“Titan”), Artic Energy Transportation (“AET”), Polar,
3 and Cassini.⁴ FNG represents the largest portion, roughly 75 percent, of Pentex’s assets.
4 Titan and AET are the midstream part of FNG’s supply chain and include the Point
5 MacKenzie natural gas liquefaction facility and two LNG-power trucks and tanker trailers.⁵
6 Prior to AIDEA’s offer to purchase, Pentex had entered into agreements to sell Titan and
7 AET to Harvest Alaska LLC, which is a subsidiary of Hilcorp Alaska LLC, a major producer
8 of natural gas from the Cook Inlet basin for a reported price of approximately \$15.15
9 million,⁶ and for FNG to purchase LNG from Harvest. The transaction of Titan and AET is
10 structured as an asset purchase.⁷ (We refer to the sale of Titan and AET as simply Titan
11 going forward.)

12 These agreements remain subject to review by the Alaska Attorney General and the
13 Regulatory Commission of Alaska (“RCA”). We understand that AIDEA’s proposed
14 acquisition of Pentex would not affect any pre-existing contractual obligations for the asset
15 sale and LNG supply agreements.⁸

16 Because FNG represents the largest portion of Pentex’s assets, we provide an overview of the
17 relationships between the prices that acquirers and investors pay for gas local distribution
18 companies (“gas LDCs”) - that is, the acquisition prices and share prices - and various

⁴ AIDEA, “Overview of Interior Energy Project and Potential Purchase of Pentex Alaska Natural Gas Company, LLC, Legislative Budget and Audit”, February 12, 2015, Slide 9.

⁵ McClatchy-Tribute, citing “Reaction mixed on proposed AIDEA purchase,” Alaska Journal of Commerce, Anchorage, February 5, 2015, p. 1.

⁶ Purchase and Sale Agreement by and Among Pentex Alaska Natural Gas Company, LLC, Titan Alaska LNG, LLC, and Arctic Energy Transportation, LLC (As Seller), and Harvest Alaska, LLC (As Buyer) Dated as of November 5, 2014, Section 2.6.

⁷ Letter to Representative Mike Hawker from Sean Kolassa, Harvest Alaska, dated February 11, 2015, Fact Sheet.

⁸ AIDEA, “Potential Purchase of Pentex Alaska Natural Gas Company, LLC, Fact Sheet,” February 3, 2015.

1 measures of LDCs' financial value. According to Pentex's management, the total assets of
2 the companies would have an estimated market value of approximately \$75-80 million.⁹

3 Under the agreement with Harvest, FNG will purchase LNG from Harvest/Hilcorp up to a
4 maximum of 0.95 Bcf per year over a 10-year term at a cost equivalent to about \$15 per
5 thousand cubic feet, or mcf.¹⁰ This cost estimate does not include the costs of storage,
6 regasification and local distribution. These supplies represent less than 20 percent of the
7 total interior needs.¹¹

8 One of the expressed goals of the purchase is to develop a long-term supply of natural gas for
9 Fairbanks and the surrounding areas. The hope is that other companies will develop
10 additional gas supplies for delivery to FNG and to Interior Gas Utility ("IGU") which is a
11 municipal utility owned by the Fairbanks North Star Borough. IGU's service territory
12 completely surrounds the service territory of FNG. AIDEA is currently providing financing
13 for the build out of natural gas distribution in both FNG's and IGU's service territories.
14 Although the ownership of FNG would change, the current staff of FNG is expected to
15 continue to operate the utility.

16 AIDEA expects to realize certain cost synergies for FNG and IGU through economies of
17 scale and added efficiency from the transaction.¹² Our analysis does not value any synergies

⁹ See also, *McClatchy-Tribute*, citing "Reaction mixed on proposed AIDEA purchase," *Alaska Journal of Commerce*, Anchorage, February 5, 2015.

¹⁰ *McClatchy-Tribute*, citing "Reaction mixed on proposed AIDEA purchase," *Alaska Journal of Commerce*, Anchorage, February 5, 2015, p. 2.

¹¹ AIDEA, "Overview of Interior Energy Project and Potential Purchase of Pentex Alaska Natural Gas Company, LLC, Legislative Budget and Audit", February 12, 2015, Slide 11.

¹² *McClatchy-Tribute*, citing "Reaction mixed on proposed AIDEA purchase," *Alaska Journal of Commerce*, Anchorage, February 5, 2015, p. 7.

1 or other benefits from the purchase. The transaction is anticipated to close during third
2 calendar quarter of 2015.¹³

3 We consider two possible Enterprise Values (EV) for all of Pentex. First, we determine the
4 EV as the acquisition price, \$54 million (including \$1.5 million for working capital), plus the
5 market value of outstanding debt, \$3.78 million, for an EV of \$57.8 million (including
6 Titan). Second, we calculate the EV assuming the book value of outstanding debt is an
7 appropriate measure of its value for an EV of \$60.8 million (the acquisition price of \$54
8 million plus year-end 2014 outstanding debt of \$6.83 million). Further, as of the date of this
9 report, the sale of Titan has not been finalized. We, therefore, consider two scenarios
10 regarding Titan in our analysis: (i) Pentex including Titan; and (ii) Pentex excluding Titan.
11 The first scenario provides ratios for the acquisition of Pentex's assets including Titan, and
12 the second scenario provides ratios as if Titan had been sold. For the second scenario, we
13 reduce AIDEA's proposed asset purchase price by the \$15.15 million offer price for Titan
14 and correspondingly reduce the book value of Pentex's assets by \$10 million. We assume
15 that the sale of Titan would have a negligible effect on FNG's EBITDA. We calculate the
16 proposed price for Pentex's remaining assets by subtracting Titan's proposed purchase price
17 from AIDEA's proposed offer price and calculate the amount using both the estimated
18 market value \$3.78 and the book value \$6.83 million of the outstanding debt. Using the
19 market value of debt, AIDEA's purchase price of \$15.15 million for Titan leaves
20 approximately \$42.6 million for the rest of Pentex's assets. Using the book value purchase
21 price of \$60.8 million for Pentex leaves approximately \$45.7 million for the rest of Pentex's
22 assets.

¹³ AIDEA Executive Director Ted Leonard expects the agreement to be executed by April 30, 2015 with a closing date of July 31, 2015. *McClatchy-Tribute*, citing "Reaction mixed on proposed AIDEA purchase," *Alaska Journal of Commerce*, Anchorage, February 5, 2015, p. 8.

1 **III. SELECTION OF APPROACH**

2 In general, there are three approaches available when assessing the enterprise value of a
3 privately-held company: the cost approach, the income approach, and the market approach.
4 Although each of these general approaches was considered, we focus only on the market
5 approach in this report for reasons explained below.

6 **A. COST APPROACH**

7 The cost approach requires an estimate of the value of the assets if they were reproduced at
8 current market prices. We did not use this approach in our valuation of FNG because it
9 requires engineering expertise on the construction costs of a natural gas LDC and specifically
10 the additional costs faced by facilities built in the challenging physical environment of
11 Fairbanks, Alaska.

12 **B. INCOME APPROACH**

13 The income approach estimates the value of an asset or a company as the present value of
14 forecast cash flows reflective of the company's future operations discounted using an
15 appropriate risk-adjusted discount rate or capitalization rate. This approach requires
16 forecasting future cash flows including capital additions and changes in operating costs. The
17 accuracy of this approach requires access to either proprietary information on business or a
18 relatively extensive history of financial information. Although we did have access to
19 historical financial information, it was not used in this report, because the recent history of
20 cash flows may not be representative of the cash flow going forward.

21 In addition, the income approach in this situation is not appropriate because AIDEA is not a
22 profit maximizing entity. As a public, not-for-profit entity, AIDEA will have somewhat
23 different goals than a for-profit entity. Projecting historical results forward would not be

1 representative of the cash flow from the assets under AIDEA’s ownership. In addition, FNG
2 has transitioned from a non-regulated to a regulated entity making historical results
3 unrepresentative of future cash flows.¹⁴ Similarly, as a measure of the value of the assets, it
4 would perhaps be misleading to project or forecast the cash flows from the assets because
5 AIDEA would not be trying to maximize the market value of the assets but would instead be
6 attempting to maximize the benefits to stakeholders as opposed to shareholders. If FNG
7 were to continue to be owned by an investor owned utility, we expect that it would continue
8 to be regulated by RCA. Under fair regulation, a regulated firm is worth at least its book
9 value.¹⁵

10 C. MARKET APPROACH

11 The market approach consists of three primary methodologies: (i) the comparable public
12 company trading method, (ii) the comparable company transaction method and (iii) the
13 subject company transaction method. The first method, the comparable public company
14 method, involves identifying and selecting publicly traded companies with financial and
15 operating characteristics similar to the company being valued. Once companies are
16 identified, valuation multiples can be calculated, and then compared to those of the subject
17 company. We selected a sample of ten comparable gas LDCs for comparison to FNG. The
18 multiples from this sample are called the Trading Multiples. See the following sections for
19 more details. The second method, the comparable company transaction method, involves
20 determining valuation multiples from sales of companies with similar financial and operating
21 characteristics and comparing the valuation multiples from these transactions to those of the

¹⁴ U-12-095 (Order 8), issued January 31, 2013 ended FNG’s exemption from RCA regulation.

¹⁵ There were times in the past when the market values of regulated firms were less than their book values, but currently market values exceed the book values by a substantial amount as we show in Table 1 below.

1 proposed transaction. These multiples are called the Transaction Multiples. We identified a
2 set of eight comparable transactions.

3 The third method, the subject company transaction method, involves the utilization of a
4 company's own relevant stock transactions. Pentex does not have publicly traded stock, so
5 we did not use this method.

6 **IV. MEASURING THE MULTIPLES OF COMPARATORS**

7 We understand that the Board is undertaking due diligence on the acquisition price, as well as
8 how the purchase will support the goals of AIDEA, among other matters. As an input to the
9 Board's deliberations we are calculating the range of purchase prices paid for
10 assets/companies similar to Pentex and current market benchmarks for gas LDCs.

11 Fair market value is the standard of value that is commonly used to determine a range of
12 plausible values for a business such as the assets of Pentex, a non-publicly traded company.

13 In doing so, we applied the following definition:

14 *Fair Market Value:* The price, expressed in terms of cash equivalents, at
15 which such property would change hands between a hypothetical willing and
16 able buyer and a hypothetical willing and able seller, acting at arm's length in
17 an open and unrestricted market, when neither is under compulsion to buy or
18 to sell, and when both have reasonable knowledge of relevant facts.¹⁶

19 We considered various valuation methods in the analysis. The selected method is based on
20 the availability of information at the time of the proposed acquisition, and includes, but is not
21 limited to, the following:

- 22 • the value of tangible assets of the target;

¹⁶ *International Glossary of Business Valuation Terms.*

- 1 • the market value of equity interests or assets transacted by similar companies in
2 nondiscretionary, objective ways (such as through trading prices on an established
3 securities market or an amount paid in an arm's length private transaction);
- 4 • recent arm's length transactions involving similar companies; and
- 5 • other transaction specific factors such as control premiums

6 This report calculates the multiples for similar assets as well as for Pentex's assets. It is
7 common for acquisition prices to be put in perspective by placing them in a ratio such as: 1)
8 acquisition price / book value and 2) acquisition price / EBITDA, where EBITDA is
9 Earnings before Interest, Taxes, Depreciation and Amortization. EBITDA represents the
10 cash flow available to all investors in an enterprise.

11 The price to book ratio is typically greater than 1.0, indicating that the acquirer has paid more
12 for the utility than the company's book enterprise value (which will be referred to as the book
13 value). In this report, we compare the ratios for the proposed Pentex transaction to
14 comparable ratios based upon the market value of a sample of publicly traded gas utility
15 holding companies. These ratios are called Trading Multiples because they are based upon
16 the stock prices of the publicly traded sample companies' outstanding equity as traded in
17 capital markets. We also calculate ratios for recent transactions involving the acquisition of
18 natural gas LDCs. These ratios are called Transactions Multiples because they represent the
19 multiples in transactions involving target companies similar to FNG.

20 Trading Multiples are distinguished from Transaction Multiples in that Trading Multiples are
21 based on the aggregate stock price per share in the capital markets. Transaction Multiples are
22 based on the purchase price of assets generally including a change of control. As such,
23 Transaction Multiples often have an embedded acquisition premium whereas Trading
24 Multiples do not. For comparison to the Trading Multiples of the selected gas LDCs, we

1 include scenarios where we adjust AIDEA's offer price downward to consider the possibility
2 that the offer includes an acquisition premium. In other words, we need to consider the
3 possibility of an acquisition premium in AIDEA's offer to make the resulting value
4 comparable to the Trading Multiples we report. We are not asserting that there is an
5 acquisition premium included in AIDEA's offer price; we are simply considering the
6 possibility that there may be and report the representative Trading Multiples for different
7 assumed acquisition premia percentages (including no acquisition premium).

8 **A. Book Value and Enterprise Value**

9 Two important measures of investment value are book value and enterprise value. A
10 company's book value of long-term financing can be derived from its balance sheet. Long-
11 term financing represents the sources of funds used to purchase the enterprise's assets. It
12 includes the dollar value of stockholders equity (as provided on the company's balance sheet)
13 plus its long-term debt, the current portion of long-term debt and the value of any capitalized
14 leases.¹⁷ The values on the balance sheet are generally the historical costs of the assets
15 purchased for the business. Stockholders equity is defined as a company's total assets less
16 their liabilities. A company's enterprise value includes the same categories, except that the
17 equity component is reflected at the market value of the company's stock (i.e., shares
18 multiplied by the current price traded in the stock market). Thus, the difference between a

¹⁷ There are other definitions for book value that are used by financial analysts. The definition used herein is total assets. Total assets for Pentex including Titan use the consolidated assets for Pentex Alaska as provided by WFG. We apply this definition consistently throughout the analysis to ensure that calculations are sufficiently comparable across company performances and transactions.

1 company's book value and its enterprise value is the premium that the stock market has
2 placed upon its equity above that recorded on the company's balance sheet.¹⁸

3 One measure of comparison across entities is the ratio of enterprise value to the book value
4 of the assets. Essentially, all publicly traded companies have enterprise values that differ
5 from their book values. This is because, for the most part, book values simply reflect the
6 depreciated value of the assets relative to their original construction cost, while enterprise
7 values reflect the discounted present value of the cash flows from the assets in future use
8 under projected market conditions. Enterprise value is the value of the assets as a going
9 concern. For a sufficiently profitable company, enterprise value will exceed book value of
10 the assets.

11 The premium that investors place upon utility stocks above book value can reflect several
12 factors. First, companies have market value due to both their cash flow from existing assets
13 and operations as well as from the expected value of future growth options. Investors tend to
14 view utilities that are located in high growth market areas, or in areas which would benefit
15 from considerable infrastructure upgrades, as holding yet-unrealized future value, and so they
16 will pay a premium for that prospect. Second, net income retained from existing assets and
17 sales may be enhanced if utilities are able to reduce costs through deployment of better
18 technologies and/or efficiency-enhancing business processes.

19 Also, there can be times when utility stocks are appealing compared to other securities
20 available in the financial markets. Historically, utilities have been steady payers of
21 dividends, which recently have been a relatively attractive alternative to the low interest rates

¹⁸ There is also the impact from any differences between the book value and the market value of debt. However, the difference between the book and market values of debt is typically relatively minor for most publicly traded companies in comparison to the difference between the book and market values of equity. We treat debt in terms of its book value for the sample companies.

1 paid on fixed income securities, such as government and high quality corporate bonds, over
2 the last several years. At the same time, utility stocks have continued to be perceived as
3 relatively safe investments, probably leading investors to place a premium upon utility
4 equity. Finally, many utility assets (e.g., pipes, wires, power plants, etc.) are quite capital-
5 intensive, which may present tax depreciation benefits that can improve its cash flow.

6 Regardless of how many of these circumstances apply to a specific utility, it is generally true
7 that utility stocks trade at prices above their book values. The persistence of these market-to-
8 book ratios being greater than 1.0 indicates that utility investors are comfortable with these
9 disparities between the book accounting values used in ratemaking and the market prices
10 they have to pay to own shares of utility stocks. It also means that purchasers must pay
11 market prices to acquire assets such as these regardless of the reasons that the prices are as
12 high as they are.

13 These observations are relevant to the purchase of Pentex because the AIDEA's proposed
14 purchase price exceeds the estimated book value of Pentex's assets.¹⁹ This is not unusual
15 because comparison to transactions for comparable assets shows that the purchase price
16 nearly always exceeds the book value of the assets, sometimes by a considerable percentage.
17 It suggests that the market value of a gas LDC's equity would be greater than its book value.
18 As indicated above, this would be a normal outcome for stocks of publicly traded utilities.
19 Pentex is a privately held company without traded stock, so the ratio of its enterprise value to
20 book value cannot be directly observed. However, it would be unusual for a gas LDC such
21 as FNG to have a market value that did not to exceed its book value.

¹⁹ The book value of all of Pentex's assets is not publicly available but WFG has provided representative book values to use in our analysis. See Exhibits No. TBG-1 to TGB-4 attached to the report for the estimated book value of Pentex assets.

1 Therefore, an investor would expect to pay more than book value for ownership of a utility.
2 In addition, any company aspiring to acquire a utility in its entirety would expect to pay a
3 premium above and beyond the implicit market value to gain control. Investors value control
4 of a company because it allows them to change how the company operates in order to reap
5 the benefits of revised business strategies or other changes in the operation of the company.
6 Without control, an investor would share in the cash flows of the company as it is currently
7 operated not how it could be operated if the investor had control.

8 **B. Recent Ratios of Enterprise Values to Book Values for Traded**
9 **Natural Gas LDCs**

10 We identified the sample of ten comparable gas LDCs based using the following criteria:

11 The company

- 12 (i) must be publicly-traded and have recent price information available;
- 13 (ii) must have an investment-grade credit rating;
- 14 (iii) would be excluded if its operations consists primarily of electric utility assets,
15 natural gas storage, or diversified assets; and
- 16 (iv) must have more than 50 percent natural gas regulated assets.

17 We started with the universe of 24 natural gas LDCs in the United States as reported by
18 *Value Line*. Based on the selection criteria above, we eliminated companies that are not
19 publicly traded and/or do not have an investment-grade credit rating. Further, we removed
20 companies that have significant operation in electric utilities (more than 50 percent), as well
21 as companies without significant regulated assets.

1 The ten companies reported in Table 1 meet all of the selection criteria. The trading
2 multiples for the selected companies are provided in Table 1.²⁰ We report the enterprise
3 value (EV) to book value (BV) ratios for these ten companies at three different times:
4 February 25, 2015, December 31, 2014 and December 31, 2013. These ratios show how the
5 market value of natural gas LDC assets has changed over the last few years, a point which we
6 will discuss in more detail below.

7 Although there are many more than ten gas LDCs in the U.S., many gas LDCs are not
8 publicly traded or are parts of combined electric and gas utilities and/or holding companies.
9 We require market information to calculate enterprise values, so publicly traded stock is
10 required for inclusion in the sample. As a result, the sample of gas LDCs in Table 1 is less
11 than the universe of such utilities.

12 There are other financial ratios that are frequently considered in assessing a utility's
13 performance and/or value. One frequently used measure is the ratio of a company's
14 enterprise value to EBITDA. EBITDA is accounting net income with interest, taxes,
15 depreciation, and amortization added back in. Net income accrues to equity holders, while
16 these other amounts accrue to the rest of the financial stakeholders in a company (e.g.,
17 interest expense is paid to debt holders and taxes to the tax authorities). Thus, EBITDA is a
18 measure of total accounting returns to total invested capital and an approximation of cash
19 flow. Conversely, the ratio of market value to EBITDA is a measure of how much value a
20 company has per dollar of cash flow available to all of its investors.

²⁰ The ten LDCs included in the panel are the companies included in *Value Line Investment Survey's* Natural Gas Utility category. Several of the companies included are not "pure" LDCs in that the companies also have additional areas of operations, such as pipeline and/or storage operations. In one case, NiSource, *Value Line* included the company as a natural gas utility, although it also has some electric utility operations.

1 Because Trading Multiples do not have an embedded acquisition premium, we provide two
2 scenarios where AIDEA's offer price is adjusted assuming a range of embedded acquisition
3 premiums from the relevant transaction data. Based on relevant data from mergers and
4 acquisitions ("M&A") transactions, we estimated the embedded acquisition premiums
5 (calculated as a percentage of the pricing premium paid in comparison to the market
6 capitalization prior to the acquisition).²¹ They ranged from about 0% to 30%, so we consider
7 possible premiums (of 0% to 20%) to provide ratios that include the possibility of an
8 acquisition premium in the Pentex purchase.

9 **C. Market Value of FNG's Debt**

10 Because the AIDEA's proposed purchase of Pentex is a stock purchase, AIDEA will be
11 responsible for repayment of Pentex's long-term debt. The majority of FNG's long-term
12 debt is a line of credit owed to AIDEA, but this debt has terms that make its market value
13 substantially different than its book value. According to the Term Sheet for the line of credit,
14 the loan has a term of 40 years and an interest rate of one percent, but for FNG no interest
15 will accrue and no principal payment is required until January 1, 2018 at the earliest.²²
16 Beginning in 2018, the loan is to be amortized over the remaining 36 years in equal annual
17 installments. We calculate the present value of the stream of payments on the loan using the
18 yield on A-rate utility bonds as the discount rate.²³ The resulting market value of FNG's

²¹ Market capitalization is the total dollar market value of the shares outstanding of a publicly traded company. It is calculated at the market price of a share times the total number of shares outstanding.

²² "During the build out of the FNG's certificated area in 2014 and 2015, drawn amounts will not amortize and will not accrue interest until January 1, 2018. In the event the Interior Energy Project ("IEP") does not make additional LNG supplies available to FNG by December 31, 2017, interest accrual and payment amortization will be further extended until such time as additional LNG or alternative gas supplies are available to the distribution system expansion financed by the loan." Term Sheet, p. 1 of 5.

²³ We use a rate of 4.02 percent which is the 15-day average for Moody's A-rated utility bond with approximately a 20-year maturity as of year-end 2014. It is likely that a 40 year bond would have a higher yield to maturity but we don't have data for a longer term A-rated utility bond. A higher discount rate would produce a lower estimate of the market value of the debt.

1 debt is about \$3.78 million including a small amount of debt (about \$34 thousand) owed to
2 Wells Fargo Equipment Finance.²⁴ In our analysis, we present results using both the book
3 value of debt and the fair value of debt.

²⁴ See Fairbanks Natural Gas, LLC – Financial Statements – Years Ended December 31, 2014 and 2013, p. 4.

Table 1: Trading Multiples

Company Name	02/25/2015		12/31/2014		12/31/2013	
	EV/ BV (Incl. Cash)	EV / EBITDA (Incl. Cash)	EV/ BV (Incl. Cash)	EV / EBITDA (Incl. Cash)	EV/ BV (Incl. Cash)	EV / EBITDA (Incl. Cash)
AGL Resources Inc.	1.24x	7.41x	1.31x	7.80x	1.23x	10.34x
Atmos Energy Corporation	1.37x	9.53x	1.42x	9.83x	1.25x	9.58x
The Laclede Group, Inc.	1.19x	15.72x	1.20x	15.89x	1.20x	14.22x
New Jersey Resources Corp.	1.75x	8.91x	1.71x	8.68x	1.54x	22.84x
NiSource Inc.	1.46x	13.48x	1.45x	13.35x	1.30x	11.73x
Northwest Natural Gas Company	1.33x	9.22x	1.37x	9.48x	1.24x	9.08x
Piedmont Natural Gas Co. Inc.	1.53x	12.06x	1.58x	12.43x	1.47x	12.27x
South Jersey Industries, Inc.	1.47x	18.59x	1.51x	19.08x	1.50x	21.30x
Southwest Gas Corporation	1.37x	8.06x	1.43x	8.44x	1.42x	7.74x
WGL Holdings Inc.	1.53x	9.96x	1.55x	10.08x	1.33x	15.02x
Median	1.42x	9.75x	1.44x	9.95x	1.31x	12.00x
Max	1.75x	18.59x	1.71x	19.08x	1.54x	22.84x
Average	1.42x	11.29x	1.45x	11.51x	1.35x	13.41x
Min	1.19x	7.41x	1.20x	7.80x	1.20x	7.74x
Pentex Alaska Natural Gas Company, LLC. (incl. Titan, Using Book Value of Debt) ^[1]						
Pentex EV - (at acquisition price)	1.49x	13.79x	1.49x	22.47x	1.80x	11.51x
Pentex EV - (assuming 10% acquisition premium)	1.35x	12.54x	1.35x	20.43x	1.64x	10.46x
Pentex EV - (assuming 20% acquisition premium)	1.24x	11.49x	1.24x	18.73x	1.50x	9.59x
Pentex Alaska Natural Gas Company, LLC. (excl. Titan, Using Book Value of Debt) ^[2]						
Pentex EV - (at acquisition price)	1.44x	10.36x	1.44x	16.88x	1.61x	8.64x
Pentex EV - (assuming 10% acquisition premium)	1.31x	9.41x	1.31x	15.34x	1.46x	7.86x
Pentex EV - (assuming 20% acquisition premium)	1.20x	8.63x	1.20x	14.06x	1.34x	7.20x
Pentex Alaska Natural Gas Company, LLC. (incl. Titan, Using Estimated Fair Value of Outstanding Debt) ^[3]						
Pentex EV - (at acquisition price)	1.41x	13.10x	1.41x	21.34x	1.71x	10.93x
Pentex EV - (assuming 10% acquisition premium)	1.29x	11.91x	1.29x	19.40x	1.56x	9.94x
Pentex EV - (assuming 20% acquisition premium)	1.18x	10.91x	1.18x	17.79x	1.43x	9.11x
Pentex Alaska Natural Gas Company, LLC. (excl. Titan, Using Estimated Fair Value of Outstanding Debt) ^[4]						
Pentex EV - (at acquisition price)	1.34x	9.66x	1.34x	15.75x	1.50x	8.06x
Pentex EV - (assuming 10% acquisition premium)	1.22x	8.79x	1.22x	14.32x	1.36x	7.33x
Pentex EV - (assuming 20% acquisition premium)	1.12x	8.05x	1.12x	13.12x	1.25x	6.72x

Source: CapitalIQ.com

Notes:

EV = Enterprise Value. Calculated as the market capitalization (as of the specified date) plus interest-bearing debt (including capital leases) as of the latest fiscal quarter. EV includes cash.

2015 asset multiple (excl. acquisition premium) is based on 2014 asset multiple. 2015 EBITDA multiple (excl. acquisition premium) is estimated based on the average of 2010 through 2014 EBITDA multiples.

[1] See Exhibit No. 1 for details. We assumed that the Titan sale is NOT completed. Book value of debt is used.

[2] See Exhibit No. 2 for details. We assumed that the Titan sale is completed. Book value of debt is used.

[3] See Exhibit No. 3 for details. We assumed that the Titan sale is NOT completed. The estimated fair value of debt is used.

[4] See Exhibit No. 4 for details. We assumed that the Titan sale is completed. The estimated fair value of debt is used.

- 1 As is shown in Table 1, the ratios of enterprise value (EV) to book value of total assets (BV)
- 2 for the panel of publicly traded LDCs range from roughly 1.19 (in the case of The Laclede
- 3 Group) to a high of 1.75 (in the case of New Jersey Resources Corp.) for the multiples

1 observed in February 2015. Both the average and the median for the period are 1.42. The
2 EV to EBITDA ratio ranges from a low of 7.41 to a high of 18.59. The same ratios are
3 displayed for the periods ending December 31, 2014 and December 31, 2013. The book
4 value of assets for Pentex as of February 2015 is assumed to approximate that as of
5 December 31, 2014. Therefore, the February 2015 EV/BV multiple of Pentex Alaska
6 Natural Gas Company, LLC is the same as the 2014 multiple. The ratios for Pentex are
7 shown with and without the Titan sale and assuming acquisition premiums of 0, 10% and
8 20%.

9 The EBITA for Pentex in 2014 is substantially less than it was in 2013 and prior years. The
10 explanation for this change lies, in part, with the dramatic decline in the price of petroleum.
11 A number of Pentex's large clients as well as some residential customers have the ability to
12 switch between natural gas and other fuels—many residential customers have access to natural
13 gas but continue to use other fuels.²⁵ The decline in the cost of petroleum has made it
14 economical for some of these large customers to switch to fuel oil. The switch has resulted
15 in a lower EBITDA for 2014 than in previous years because FNG recovers some of its fixed
16 costs through the variable rate for natural gas consumption. Although the Company will
17 avoid the variable costs of distributing natural gas, the Company cannot avoid its fixed costs
18 and will not fully recover those fixed costs.

19 There are at least four reasons that the level of EBITDA recorded in 2014 may be unduly low
20 relative to the future. First, the lower the cost of natural gas, the more attractive natural gas
21 is as an energy source for residential customers. FNG has created the opportunity for more
22 residential customers to choose natural gas service through its investment in additional pipe

²⁵ See, for example, Prefiled Direct Testimony of Dan Britton in Docket No. U-14-102, before the Regulatory Commission of Alaska, June 30, 2014, p. 13.

1 for residential access. These potential new customers would offset the losses from those
2 customers who switched away from natural gas. Second, the price of petroleum could and
3 likely will increase at some point in the future. This will provide an economic incentive for
4 those customers to switch back to natural gas. Third, FNG is currently involved in a general
5 rate case. The RCA will consider whether a rate increase is required to restore the
6 Company's opportunity to earn its allowed return. A rate increase would, of course, be
7 expected to increase the Company's EBITDA. Fourth, to the extent that fuel oil (or wood) is
8 less environmentally favorable than natural gas, there may be new environmental regulations
9 that would increase the costs of using fuel oil or place restrictions on burning wood. If the
10 costs were large enough, they may make the use of these alternative fuels less economic than
11 natural gas.

12 Because the 2014 EBITDA is lower than recently observed and the year was unusual, we
13 normalized the 2015 EV to EBITDA ratio to equal the average 2010 through 2014 historical
14 EV to EBITDA ratios.²⁶ The normalized EV to EBITDA ratio for 2015 is within the range
15 of the EV to EBITDA ratios of the trading multiples and in-line with the median and average
16 EV to EBITDA ratio of the trading multiples if Titan is excluded.

17 The EV to BV ratio for Pentex cannot be derived directly because the company is privately
18 held and does not have stock that is traded in a capital market. We used the book value of
19 total assets in FNG's December 31, 2014 and 2013 financial statements as a proxy for the
20 aggregate book value of FNG (and Polar). We also used the book values provided by WFG
21 as asset values for Titan and AET.²⁷ Per management, intercompany receivables are not
22 expected to be paid at the closing of the acquisition, as such, we excluded intercompany

²⁶ This is mathematically equivalent to using the average EBITDA for 2010 to 2014 as the EBITDA in 2015.

²⁷ We had no book value information for Cassini so we assigned it a book value of zero.

1 receivables from the book values of assets for 2014. For 2012 and 2013, we assumed
2 intercompany receivables are paid and therefore we did not exclude them from the book
3 values. These book values are displayed in Exhibit No. TBG-1 and Exhibit No. TBG-2. (All
4 exhibits are at the end of this report.). In addition, we also estimated total enterprise value
5 using an estimated fair value of total outstanding debt as of December 31, 2014. The
6 enterprise value (based on an estimated fair value of debt) including the sale of Titan and
7 AET is displayed in Exhibit No. TBG-3. The enterprise value (based on an estimated fair
8 value of debt) excluding the sale of Titan and AET is displayed in Exhibit No. TBG-4.
9 Exhibit No. TBG-1 and Exhibit No. TBG-3 assume that Titan is included as part of Pentex
10 transaction, while Exhibit No. TBG-2 and Exhibit No. TBG-4 assume that the sale of Titan is
11 completed.

12 As proxies for Pentex's enterprise value, we use AIDEA's offer price for Pentex \$1.5 million
13 for working capital plus outstanding long-term debt plus. We consider both the sale of Titan
14 (excluding Titan) and the possibility that the sale of Titan (including Titan) is not completed.
15 Using the book values of debt in Exhibit No. TBG-1 and Exhibit No. TBG-2, the estimated
16 EV to BV ratios are roughly 1.49 and 1.44, without and with a sale of Titan. EV to EBITDA
17 ratios are 13.79 and 10.36, respectively. Using the estimated fair value of debt in Exhibit No.
18 TBG-3 and Exhibit No. TBG-4, EV to BV ratios are roughly 1.41 and 1.34, without and with
19 a sale of Titan. The corresponding EV to EBITDA ratios are 13.10 and 9.66, respectively.
20 We note that these figures assume that the working capital adjustment to the purchase price is
21 \$1.5 million, but does not consider any changes in the book value of Pentex's assets between
22 year-end 2014 and February 2015. Further, these ratios include any premium that AIDEA
23 may pay to acquire Pentex above the price that investors would have paid in the stock market
24 for Pentex stock if it were publicly traded. EV to BV ratios for Pentex for 2015 are

1 comparable to the median and average of the range calculated for the comparable companies
2 assuming no acquisition premium. The 2015 EV to EBITDA ratios are within the range of
3 the trading multiples and with a separate sale of Titan near the median. As noted earlier, the
4 2014 EBITDA was much lower than in earlier years resulting in the 2014 EV to EBITDA
5 being at or above the upper end of the range. Accounting for the possibility of acquisition
6 premiums of 10% to 20% reduces the ratios for the Pentex transaction. The scenario
7 including Titan but using an estimated fair value of debt is comparable to average ratio for
8 the Trading Multiples.²⁸

9 We identified M&A transactions involving target gas LDCs similar to Fairbanks Natural Gas
10 using Capital IQ, a provider of financial data. We used the following selection criteria in our
11 screening process:

- 12 • Transaction Types: Private Placement or M&A;
- 13 • Percent Sought: Over 50 percent which corresponds to a Change of Control;
- 14 • Target Financials - Total Revenue at announcement is greater than \$0;
- 15 • Add the following transactions involving private companies: New England Gas
16 Company, Equitable Gas Company, LLC, SEMCO Energy, Inc., and New Mexico Gas
17 Company, Inc. We obtained financial information for these transactions from
18 regulatory and SEC filings.

19 The ratios of enterprise values to EBITDA and enterprise values to revenue for the eight
20 recent gas LDC transactions are shown in Table 2 below.

²⁸ We caution that we do not have SEC filings for Pentex as we do for the publicly traded comparable companies, but we do have audited financial statements.

Table 2: Transaction Multiples

US Dollar (in \$Millions), unless otherwise noted

Announced Date	Closed/Registration Effective Date	Target/Issuer Name	Buyer/Investor Name(s)	Implied EV/BV (incl. Cash)	Implied EV/EBITDA (incl. Cash)
4/7/2014	9/1/2014	Alabama Gas Corporation	The Laclede Group, Inc.	2.33x	11.82x
5/28/2013	9/2/2014	New Mexico Gas Intermediate, Inc.	TECO Energy, Inc.	1.51x	11.15x
12/20/2012	12/17/2013	Equitable Homeworks, LLC and Equitable Gas Company, LLC	PNG Companies LLC	1.09x	10.92x
12/17/2012	12/13/2013	New England Gas Company	The Laclede Group, Inc.	1.01x	6.17x
2/1/2012	8/30/2012	SEMCO Energy, Inc.	AltaGas Ltd.	1.43x	9.57x
10/17/2011	1/12/2012	Heritage Operating, L.P. and Titan Energy Partners, L.P.	AmeriGas Partners LP	1.73x	-
12/7/2010	12/9/2011	Nicor Inc.	AGL Resources Inc.	1.98x	6.79x
4/17/2009	10/28/2009	Florida Public Utilities Company, Inc.	Chesapeake Utilities Corporation	1.25x	7.89x
		Median		1.47x	9.57x
		Max		2.33x	11.82x
		Mean		1.54x	9.19x
		Min		1.01x	6.17x
		Number of Observations		8	7
		Pentex Alaska Natural Gas Company, LLC (incl. Titan, Using Book Value of Debt) ^{[1],[2]}		1.49x	13.79x
		Pentex Alaska Natural Gas Company, LLC (excl. Titan, Using Book Value of Debt) ^[3]		1.44x	10.36x
		Pentex Alaska Natural Gas Company, LLC (incl. Titan, Using Estimated Fair Value of Debt) ^[4]		1.41x	13.10x
		Pentex Alaska Natural Gas Company, LLC (excl. Titan, Using Estimated Fair Value of Debt) ^[5]		1.34x	9.66x

Source: CapitalIQ.com and Bloomberg.

Notes:

[1] See Exhibit No. 1 for details. Multiples above include acquisition premium. 2015 asset multiple is assumed to approximate 2014 asset multiple. 2015 EBITDA multiple is estimated based on the average of 2010 through 2014 EBITDA multiples. EV multiples are based on EV including cash (i.e. debt plus equity).

[2] See Exhibit No. 1 for details of EV multiples. We assume the Titan Sale is NOT completed and used the book value of debt.

[3] See Exhibit No. 2 for details of EV multiples. We assume the Titan Sale is completed and used the book value of debt.

[4] See Exhibit No. 3 for details of EV multiples. We assume the Titan Sale is NOT completed and used the estimated fair value of outstanding debt.

[5] See Exhibit No. 4 for details of EV multiples. We assume the Titan Sale is completed and used the estimated fair value of outstanding debt.

1 As shown in Table 2, the ratio of EV to BV for the identified transactions ranges from 1.01 to
2 2.33, and the ratio of EV to EBITDA ranges from 6.17 to 11.82. The implied EV to BV
3 ratios estimated for Pentex transaction are 1.49 and 1.41 (including Titan) and 1.44 and 1.34
4 (excluding Titan), respectively. All are lower than the median (1.47) of the transaction
5 multiples identified above. The implied EV to EBITDA ratios estimated for the Pentex
6 transaction are 13.79 and 13.10²⁹ (including Titan) and 10.36 and 9.66 (excluding Titan),
7 respectively. The maximum value of the sample transactions observed is 11.82; assuming
8 the sale of Titan is completed, the Pentex's multiple will be within the range.

9 As noted previously, Pentex's EBITDA has declined substantially in 2014 and will likely
10 remain low until either the RCA authorizes a rate increase or the price of petroleum
11 increases. For utility companies, EBITDA is generally more variable than total assets. This

²⁹ The EBITDA value for all of Pentex's assets is not publicly available, so we rely upon the December 31, 2014 financial statement for 2014 EBITDA for FNG and Titan. We understand from WFG that the EBITDA from Pentex's other assets is minimal.

1 seems to be true for FNG. FNG's EBITDA for 2014 is depressed relative to its historical
2 values and perhaps to future expectations. Because of the variability in EBITDA, we used
3 the average EV to EBITDA ratio for 2010 through 2014 as a proxy for a normalized
4 EBITDA forecast for 2015. Nonetheless, the implied EV to BV multiple may provide a
5 more meaningful benchmark for the purchase price of Pentex than EV to EBITDA multiple.
6 Note that all transactions above involve acquisition of 100 percent of target equity, which
7 constitutes a change of control, similar to the Pentex transaction. Based on the Transaction
8 Multiples in Table 2, the implied EV/BV multiple from proposed purchase price for Pentex is
9 lower than the median EV/BV Transaction Multiples. While the EV/EBITDA multiples of
10 Pentex (including Titan) are higher than the range of the EV/EBITDA Transaction Multiples
11 from the recent transaction involving gas LDCs, if the Titan sale is completed, the multiples
12 for the Pentex transaction are somewhat above the median EV/EBITDA Transaction
13 Multiples for the sample.

14 **D. Acquisition Premium**

15 Prices paid to acquire a utility typically exceed the utility's enterprise value. The acquiring
16 company in a merger or acquisition often pays more than the enterprise value of the target
17 company that is observed in the market prior to their bid to acquire. The difference between
18 the acquisition price and a company's enterprise value is frequently referred to as an
19 acquisition premium; it is the markup over recent trading prices of the target company's
20 common stock. This markup is sometimes small (a few percent or perhaps even zero) for
21 mergers between companies that are of equivalent size and importance (i.e., "mergers of
22 equals"). However, in other cases the premium paid by an acquirer can be significant. These
23 acquisition premiums reflect the value that the acquirer places upon control and strategic
24 opportunities. For instance, the acquirer may expect that it can operate the acquired company

1 more efficiently (through operating synergies or employment of new technologies); utilize
2 the acquired company's assets more effectively; and/or take advantage of growth
3 opportunities.³⁰

4 In addition there can be reasons that have nothing to do with expected cost savings or growth
5 in the target company. In particular, the acquirer can be motivated by financial or risk
6 reasons, such as attaining a larger, more diversified scale (with a different overall risk profile
7 than the mix of businesses it has been relying on in the past) or creating geographic diversity.
8 These can create value (to justify part of or the entire premium) without requiring any
9 "harvesting" of the target company's costs, growth or quality of service.

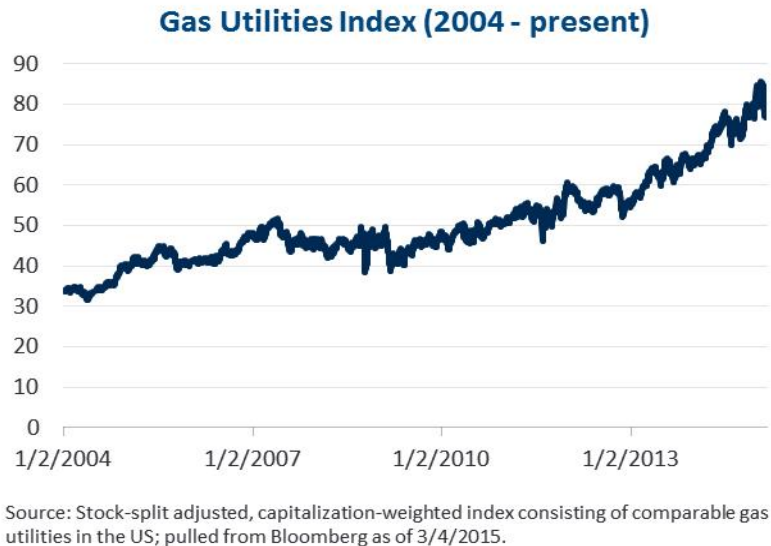
10 The EV to EBITDA ratios of Trading Multiples (Table 1) is higher than the EV to EBITDA
11 ratios for the Transaction Multiples (Table 2), contrary to our expectations. We believe that
12 the reported Trading Multiples are higher than the Transaction Multiples in this report
13 because the majority of the transactions closed prior to 2014. Only two of the eight
14 transactions were completed in 2014, two in 2013, and the remaining were completed in
15 2012 or prior (as early as 2009).

16 One of the reasons the multiples have been increasing lately is because the market value of
17 natural gas LDC assets has been increasing. This is shown in Figure 1 below which displays
18 the change in the market-capitalization-weighted index of the values of gas LDCs over time.
19 Market prices of gas LDC stocks have increased approximately 126 percent since 2004, 62

³⁰ Examples of recent premia paid in utility acquisitions are the approximate 15% above the stock price offer for Cleco (an integrated electric utility) and the approximately 17% above the stock price offered for Integrys (also an integrated electric utility). Sources: Streetinsider, "Investor Group to Acquire Cleco Corp.," October 20, 2014 and Fox News, "Merger: Wisconsin Energy Corp. Buying Integrys Energy Group for \$9.1 Billion," June 23, 2014.

1 percent since 2009 and 28 percent since 2012.³¹ Therefore, transaction multiples are likely to
2 increase over time as well, which means that the two transactions for 2014 are the most
3 relevant comparators for our analysis.

Figure 1



4 Many of the recent transactions involving LDCs have mostly involved privately held
5 companies that were acquired by publicly traded companies. In six of the eight transactions
6 we identified, the pre-acquisition EVs (or market capitalizations) were not directly
7 observable, so an acquisition premium could not be estimated. For the other two
8 transactions, because the targets were publicly traded prior to the acquisition, we calculated
9 implied acquisition premium from those transactions. They are (i) Nicor Inc. acquisition by
10 AGL Resources, closed December 2011; and (ii) Florida Public Utilities Company, Inc.
11 acquisition by Chesapeake Utilities Corporation, closed September 2014. The 1-day, 1-
12 week, and 1-month prior-to-closing implied acquisition premia for Nicor/AGL transaction

³¹ Based on Bloomberg data.

1 were in the range of 10 percent to 20 percent.³² The implied acquisition premia for
2 FPUC/Chesapeake transaction were in the range of 20 percent to 30 percent.³³

3 In other recent transactions involving LDCs, at least one party was a non-publicly traded
4 company and, thus, pre-acquisition EVs could not be observed. In the case of Laclede's
5 acquisition of New England Gas and Prime Infrastructure's acquisition of Equitable Gas, the
6 post-acquisition ratio of EV to BV for the acquired LDCs was approximately 1.0³⁴. In
7 another case, AltaGas acquired SEMCO Energy Holdings, a combined LDC, storage, and
8 pipeline part of a larger company. In that case, the post-acquisition EV to BV ratio for
9 SEMCO was estimated to be about 1.4.³⁵

10 Most recently, UIL Holdings Corp, the parent of United Illuminating, offered to acquire
11 Philadelphia Gas Works ("PGW") for \$1.86 billion³⁶. PGW is a municipal utility, and
12 therefore did not issue stock that was traded in a stock exchange. However, the post-
13 acquisition ratio of EV to BV for PWG was estimated to be 1.28³⁷. This transaction was not
14 completed. Based on the above transaction data, the EV to BV ratio of Pentex (1.34 to
15 1.49)³⁸ is in-line with the two most recent acquisition multiples and slightly below the
16 median of the comparable Transaction Multiples.

17 It is important to recognize that the comparable companies may have characteristics that
18 differ from those of Pentex's assets. First, the comparable companies are all located in the

³² Capital IQ, as of 3/5/2015.

³³ Capital IQ, as of 3/5/2015.

³⁴ Calculated from Bloomberg data and company filings.

³⁵ Calculated from Bloomberg data and company filings.

³⁶ Bloomberg data.

³⁷ Calculated from Bloomberg data and company filings.

³⁸ The book value of all of Pentex's assets is not publicly available but WFG has provided representative values for those not publicly available to use in our analysis. See Exhibits No. TBG-1 to TBG-4 for additional details.

1 lower 48 states and all are larger than the proposed acquisition at an estimated total asset
2 purchase price of \$60.8 million. If there are Alaska-specific factors that affect Pentex's
3 assets, the comparable companies' multiples may not fully reflect Pentex's circumstances.
4 We have not studied these issues. Second, as noted in FNG's rate filing with the RCA, FNG
5 faces some unique operating challenges. For example, unlike most gas LDCs, FNG is not
6 served by a pipeline but receives most of its natural gas via trucks and has customers with
7 dual fuel options, which may cause large swings in load.³⁹ Further, FNG serves an area,
8 where a number of customers have yet to sign up for natural gas service making expansion
9 more of an option than for many gas LDC.⁴⁰ These factors may impact FNG positively or
10 negatively. In addition, assuming that an acquisition premium would be necessary to acquire
11 Pentex's assets, the applicable ratios for comparison would be those of the most recent
12 Transaction Multiples.

13 **V. CONCLUSION**

14 Using the acquisition price to be paid by AIDEA for Pentex (including and excluding the sale
15 of Titan) as a proxy for Pentex's EV, we can estimate the implied multiples for Pentex
16 (including and excluding the proposed sale of Titan) and compare those to the Trading and
17 Transaction multiples for similar assets. These figures are summarized in Table 3 below.

³⁹ See, for example, Direct Testimony of Pauline M. Ahern on behalf of Fairbanks Natural Gas, June 30, 2014, pp. 6-9.

⁴⁰ Alaska Dispatch News, "Fairbanks homeowners would love natural gas, if the price is right," November 17, 2013.

Table 3: Summary of Multiples

<i>US Dollar (in \$Millions), unless otherwise noted</i>						
	2015	2014	2013	2015	2014	2013
Pentex (incl. Titan, Using Book Value of Debt) ^[1]	EV/ BV (Incl. Cash)			EV / EBITDA (Incl. Cash)		
Pentex EV - (at acquisition price)	1.49x	1.49x	1.80x	13.79x	22.47x	11.51x
Pentex EV - (assuming 10% acquisition premium)	1.35x	1.35x	1.64x	12.54x	20.43x	10.46x
Pentex EV - (assuming 20% acquisition premium)	1.24x	1.24x	1.50x	11.49x	18.73x	9.59x
Pentex (excl. Titan, Using Book Value of Debt) ^[2]						
Pentex EV - (at acquisition price)	1.44x	1.44x	1.61x	10.36x	16.88x	8.64x
Pentex EV - (assuming 10% acquisition premium)	1.31x	1.31x	1.46x	9.41x	15.34x	7.86x
Pentex EV - (assuming 20% acquisition premium)	1.20x	1.20x	1.34x	8.63x	14.06x	7.20x
Pentex (incl. Titan, Using Estimated Fair Value of Outstanding Debt) ^[3]	EV/ BV (Incl. Cash)			EV / EBITDA (Incl. Cash)		
Pentex EV - (at acquisition price)	1.41x	1.41x	1.71x	13.10x	21.34x	10.93x
Pentex EV - (assuming 10% acquisition premium)	1.29x	1.29x	1.56x	11.91x	19.40x	9.94x
Pentex EV - (assuming 20% acquisition premium)	1.18x	1.18x	1.43x	10.91x	17.79x	9.11x
Pentex (excl. Titan, Using Estimated Fair Value of Outstanding Debt) ^[4]						
Pentex EV - (at acquisition price)	1.34x	1.34x	1.50x	9.66x	15.75x	8.06x
Pentex EV - (assuming 10% acquisition premium)	1.22x	1.22x	1.36x	8.79x	14.32x	7.33x
Pentex EV - (assuming 20% acquisition premium)	1.12x	1.12x	1.25x	8.05x	13.12x	6.72x
Trading Comparables Sample ^[5]						
Median		1.44x	1.31x		9.95x	12.00x
Min		1.20x	1.20x		7.80x	7.74x
Max		1.71x	1.54x		19.08x	22.84x
Transactions Comparables Sample ^[6]						
Median		1.47x			9.57x	
Min		1.01x			6.17x	
Max		2.33x			11.82x	

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt. 2015 asset multiples are assumed to approximate 2014 asset multiples. 2015 EBITDA multiples are estimated based on the average of 2010 through 2014 EBITDA multiples.

[1] See Exhibit No. 1 for details of EV multiples. We assume the Titan Sale is NOT completed and used the book value of debt.

[2] See Exhibit No. 2 for details of EV multiples. We assume the Titan Sale is completed and used the book value of debt.

[3] See Exhibit No. 3 for details of EV multiples. We assume the Titan Sale is NOT completed and used the estimated fair value of outstanding debt.

[4] See Exhibit No. 4 for details of EV multiples. We assume the Titan Sale is completed and used the estimated fair value of outstanding debt.

[5] See Table 1 for details.

[6] See Table 2 for details.

1 The EV to BV ratios of Pentex are 1.49 and 1.41 (including Titan's assets) and 1.44 and 1.34
2 (excluding Titan's assets).⁴¹ The EV to EBITDA ratios are 13.79 and 13.10 (including
3 Titan) and 10.36 and 9.66 (excluding Titan). The 2015 EV to BV ratios are in-line with the
4 median of both trading and transaction multiples. The 2015 EV to EBITDA ratios (including
5 Titan) are above median but within the range observed for Trading Multiples of other LDCs,
6 while 2015 EV to EBITDA ratios (excluding Titan) are in-line with median. The EV to
7 EBITDA multiples of Pentex (including Titan) are higher than the maximum of the
8 Transaction Multiples range, while those excluding Titan are within the range – albeit at the

⁴¹ As noted in the attached exhibits, the estimated EV/EBITDA for Pentex in 2015 is set equal to the average EV/EBITDA from 2010 through 2014, based on the assumption that the cash flow of FNG will improve from its 2014 level going forward.

1 higher end. As discussed earlier, Pentex's EBITDA has declined substantially in 2014
2 relative to historical values. As such, we used the average EV/EBITDA ratio for 2010
3 through 2014 as a normalized proxy for 2015 EV/EBITDA ratio. Further, Pentex has
4 deferred loan at the acquisition date. The estimated fair value of the deferred outstanding
5 debt is much lower than the book value; therefore use of the book value of the long-term debt
6 may overstate Pentex's enterprise value and the EV-based ratios. Finally, due to the
7 variability in EBITDA leading up to the acquisition date, the EBITDA multiple might not be
8 a meaningful indicator for the value of Pentex at the acquisition date.

Fairbanks Natural Gas Company, LLC.
Book Value of Total Assets and EBITDA Calculations
Including Titan
Using Book Value of Debt
Exhibit No. TBG-1

US Dollar (in \$Millions), unless otherwise noted

Pentex Subsidiary	Book Value of Total Assets			EBITDA					
	2014	2013	2012	2014	2013	2012	2011	2010	
Fairbanks Natural Gas Company (FNG) and Polar LNG (Polar) ^{[1][2]}	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Titan Alaska and Arctic Energy Transportation (Titan) ^[3]	\$9.1	\$5.4	\$5.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Cassini LNG ^[4]	-	-	-	-	-	-	-	-	
Pentex Alaska Natural Gas Company, LLC. (Pentex)	\$40.8	\$33.8	\$35.4	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Pentex Enterprise Value (in \$Millions) ^[5]	\$60.8								
Pentex Enterprise Value (in \$Millions) ^[6]	Value	Est. Acq. Premium							
Pentex EV - (at acquisition price)	\$60.8	0%							
Pentex EV - (assuming 10% acquisition premium)	\$55.3	10%							
Pentex EV - (assuming 20% acquisition premium)	\$50.7	20%							
Implied EV Multiples	EV/ BV (Incl. Cash)			EV / EBITDA (Incl. Cash)					Average EV/EBITDA (2010-2014)
Pentex EV - (at acquisition price)	1.49x	1.80x	1.72x	22.47x	11.51x	9.30x	10.14x	15.54x	13.79x
Pentex EV - (assuming 10% acquisition premium)	1.35x	1.64x	1.56x	20.43x	10.46x	8.45x	9.22x	14.12x	12.54x
Pentex EV - (assuming 20% acquisition premium)	1.24x	1.50x	1.43x	18.73x	9.59x	7.75x	8.45x	12.95x	11.49x

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt.

Based on discussions with company's management, the sale of Titan had not closed as of the date of this report. In the Table above, we assumed that the Titan Sale is NOT completed.

[1] 2012 and 2013 Book value and EBITDA numbers are derived from "TA35-514 Fairbanks Natural Gas Revenue Requirement and Cost of Service Study.pdf".

The book value of Polar is included in the book value of FNG. 2014 FNG total assets are based on FNG Financial Statements as of the year ended December 31, 2014.

The consolidated book values of asset for Pentex is provided by WFG.

[2] Book value of total assets and EBITDA for FNG and Polar as of 2014 are assumed to approximate those of FNG. According to Western Financial Group (WFG), the EBITDA of Polar is not material. FNG's EBITDA from 2010 through 2014 are calculated as follows:

	2014	2013	2012	2011	2010
Total Operating Income (Loss)	\$1.931	\$4.152	\$5.258	\$4.730	\$2.635
plus: Depreciation Expense	\$0.777	\$1.136	\$1.283	\$1.271	\$1.281
Calculated EBITDA (in \$Millions)	\$2.707	\$5.287	\$6.542	\$6.002	\$3.916

* 2013 and 2014 income statement items are from 2014 audited financial statement. 2010 - 2012 income statement items are from unaudited summary financial statement.

[3] 2014 book value of assets and EBITDA, provided by Western Financial Group (WFG). Titan's EBITDA is negligible/zero.

[4] No information on the book value and EBITDA of Cassini LNG. We assumed a zero value for the purposes of this calculation.

[5] Per Letter of Intent as of 1/26/2015, total proposed purchase price for Pentex is \$52.5 million. We understand that the final purchase price is to be adjusted by net working capital (calculated as current assets less current liabilities) of Pentex subsidiaries acquired as of the closing date for up to \$1.5 million, and that the Pentex transaction is structured as a stock transaction.

The EV (including cash) of Pentex includes the addition of total interest-bearing debt to the equity purchase price of Pentex. In this scenario, we used book value of debt. See below for calculations.

Equity Purchase Price	\$52.5
Net Working Capital Adjustment	\$1.5
Total Equity Purchase Price (\$Millions)	\$54.0
Current Portion of Long-term Debt	\$0.0
Long-term Debt	\$6.8
Total Asset Purchase Price (\$Millions)	\$60.8

[6] Acquisition premium is estimated based on the range of implied acquisition premium from relevant M&A transaction data.

Fairbanks Natural Gas Company, LLC.
Book Value of Total Assets and EBITDA Calculations
Excluding Titan
Using Book Value of Debt
Exhibit No. TBG-2

US Dollar (in \$Millions), unless otherwise noted

Pentex Subsidiary	Book Value of Total Assets			EBITDA					
	2014	2013	2012	2014	2013	2012	2011	2010	
Fairbanks Natural Gas Company (FNG) and Polar LNG (Polar) ^{[1][2]}	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Cassini LNG ^[3]	-	-	-	-	-	-	-	-	
Pentex Alaska Natural Gas Company, LLC. (Pentex)	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Pentex Enterprise Value (in \$Millions) ^[4]	\$45.7								
Pentex Enterprise Value (in \$Millions) ^[5]	Value	Est. Acq. Premium							
Pentex EV - (at acquisition price)	\$45.7	0%							
Pentex EV - (assuming 10% acquisition premium)	\$41.5	10%							
Pentex EV - (assuming 20% acquisition premium)	\$38.1	20%							
Implied EV Multiples	EV / BV (Incl. Cash)			EV / EBITDA (Incl. Cash)					Average EV/EBITDA (2012-2014)
Pentex EV - (at acquisition price)	1.44x	1.61x	1.52x	16.88x	8.64x	6.98x	7.61x	11.67x	10.36x
Pentex EV - (assuming 10% acquisition premium)	1.31x	1.46x	1.38x	15.34x	7.86x	6.35x	6.92x	10.61x	9.41x
Pentex EV - (assuming 20% acquisition premium)	1.20x	1.34x	1.27x	14.06x	7.20x	5.82x	6.34x	9.72x	8.63x

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt.

The sale of Titan and Arctic Energy Transportation (Titan) had not been closed as of the date of this report. In the Table above, we assumed that the Titan Sale is completed. Management provided that the sale price for the assets of Titan is approximately \$15.15 million, and the book value of Titan's assets is approximately \$10 million at the time of the acquisition.

[1] 2012 and 2013 Book value and EBITDA numbers are derived from "TA35-514 Fairbanks Natural Gas Revenue Requirement and Cost of Service Study.pdf".

The book value of Polar is included in the book value of FNG. 2014 FNG total assets are based on FNG Financial Statements as of the year ended December 31, 2014.

The consolidated book values of asset for Pentex is provided by WFG.

[2] Book value of total assets and EBITDA for FNG and Polar as of 2014 are assumed to approximate those of FNG. According to Western Financial Group (WFG), the EBITDA of Polar is not material. FNG's EBITDA from 2010 through 2014 are calculated as follows:

	2014	2013	2012	2011	2010
Total Operating Income (Loss)	\$1.931	\$4.152	\$5.258	\$4.730	\$2.635
plus: Depreciation Expense	\$0.777	\$1.136	\$1.283	\$1.271	\$1.281
Calculated EBITDA (in \$Millions)	\$2.707	\$5.287	\$6.542	\$6.002	\$3.916

* 2013 and 2014 income statement items are from 2014 audited financial statement. 2010 - 2012 income statement items are from unaudited summary financial statement.

[3] No information on the book value and EBITDA of Cassini LNG. We assumed a zero value for the purposes of this calculation.

[4] Per Letter of Intent as of 1/26/2015, total proposed purchase price for Pentex is \$52.5 million. We understand that the final purchase price is to be adjusted by net working capital (calculated as current assets less current liabilities) of the Pentex subsidiaries acquired as of the closing date for up to \$1.5 million, and that the Pentex transaction is structured as a stock transaction.

The EV (including cash) of Pentex includes the addition of total interest-bearing debt to the equity purchase price of Pentex. In this scenario, we used the book value of debt. See Exhibit No. 1 for calculation details.

[5] Acquisition premium was estimated based on the range of implied acquisition premium from relevant M&A transaction data.

Fairbanks Natural Gas Company, LLC.
Book Value of Total Assets and EBITDA Calculations
Including Titan
Using Estimated Fair Value of Outstanding Debt
Exhibit No. TBG-3

US Dollar (in \$Millions), unless otherwise noted

Pentex Subsidiary	Book Value of Total Assets			EBITDA					
	2014	2013	2012	2014	2013	2012	2011	2010	
Fairbanks Natural Gas Company (FNG), Titan Alaska (Titan), and Polar LNG (Polar) ^{[1][2]}	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Titan Alaska and Arctic Energy Transportation (Titan) ^[3]	\$9.1	\$5.4	\$5.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Cassini LNG ^[4]	-	-	-	-	-	-	-	-	
Pentex Alaska Natural Gas Company, LLC. (Pentex)	\$40.8	\$33.8	\$35.4	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Pentex Enterprise Value (in \$Millions) ^[5]	\$57.8								
Pentex Enterprise Value (in \$Millions) ^[6]	Value	Est. Acq. Premium							
Pentex EV - (at acquisition price)	\$57.8	0%							
Pentex EV - (assuming 10% acquisition premium)	\$52.5	10%							
Pentex EV - (assuming 20% acquisition premium)	\$48.2	20%							
Implied EV Multiples	EV / BV (Incl. Cash)			EV / EBITDA (Incl. Cash)					Average EV/EBITDA (2010-2014)
Pentex EV - (at acquisition price)	1.41x	1.71x	1.63x	21.34x	10.93x	8.83x	9.63x	14.76x	13.10x
Pentex EV - (assuming 10% acquisition premium)	1.29x	1.56x	1.48x	19.40x	9.94x	8.03x	8.75x	13.41x	11.91x
Pentex EV - (assuming 20% acquisition premium)	1.18x	1.43x	1.36x	17.79x	9.11x	7.36x	8.02x	12.30x	10.91x

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt.

Based on discussions with company's management, the sale of Titan had not closed as of the date of this report. In the Table above, we assumed that the Titan Sale is NOT completed.

[1] 2012 and 2013 Book value and EBITDA numbers are derived from "TA35-514 Fairbanks Natural Gas Revenue Requirement and Cost of Service Study.pdf".

The book value of Polar is included in the book value of FNG. 2014 FNG total assets are based on FNG Financial Statements as of the year ended December 31, 2014.

The consolidated book values of asset for Pentex is provided by WFG.

[2] Book value of total assets and EBITDA for FNG and Polar as of 2014 are assumed to approximate those of FNG. According to Western Financial Group (WFG), the EBITDA of Polar is not material. FNG's EBITDA from 2010 through 2014 are calculated as follows:

	2014	2013	2012	2011	2010
Total Operating Income (Loss)	\$1.931	\$4.152	\$5.258	\$4.730	\$2.635
plus: Depreciation Expense	\$0.777	\$1.136	\$1.283	\$1.271	\$1.281
Calculated EBITDA (in \$Millions)	\$2.707	\$5.287	\$6.542	\$6.002	\$3.916

* 2013 and 2014 income statement items are from 2014 audited financial statement. 2010 - 2012 income statement items are from unaudited summary financial statement.

[3] 2014 book value of assets (excluding intercompany receivables) and EBITDA, provided by Western Financial Group (WFG). Titan's EBITDA is negligible/zero.

[4] No information on the book value and EBITDA of Cassini LNG. We assumed a zero value for the purposes of this calculation.

[5] Per Letter of Intent as of 1/26/2015, total proposed purchase price for Pentex is \$52.5 million. We understand that the final purchase price is to be adjusted by net working capital (calculated as current assets less current liabilities) of Pentex subsidiaries acquired as of the closing date for up to \$1.5 million, and that the Pentex transaction is structured as a stock transaction.

The EV (including cash) of Pentex includes the addition of total interest-bearing debt to the equity purchase price of Pentex. In this scenario, we used the fair value of outstanding debt. See below for calculations.

Equity Purchase Price	\$52.5
Net Working Capital Adjustment	\$1.5
Total Equity Purchase Price (\$Millions)	\$54.0
Fair Value of Total Debt Outstanding	\$3.8
Total Asset Purchase Price (\$Millions)	\$57.8

[6] Acquisition premium is estimated based on the range of implied acquisition premium from relevant M&A transaction data.

Fairbanks Natural Gas Company, LLC.
Book Value of Total Assets and EBITDA Calculations
Excluding Titan
Using Estimated Fair Value of Outstanding Debt
Exhibit No. TBG-4

US Dollar (in \$Millions), unless otherwise noted

Pentex Subsidiary	Book Value of Total Assets			EBITDA					
	2014	2013	2012	2014	2013	2012	2011	2010	
Fairbanks Natural Gas Company (FNG) and Polar LNG (Polar) ^{[1][2]}	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Cassini LNG ^[3]	-	-	-	-	-	-	-	-	
Pentex Alaska Natural Gas Company, LLC. (Pentex)	\$31.8	\$28.4	\$30.0	\$2.7	\$5.3	\$6.5	\$6.0	\$3.9	
Pentex Enterprise Value (in \$Millions) ^[4]	\$42.6								
Pentex Enterprise Value (in \$Millions) ^[5]	Value	Est. Acq. Premium							
Pentex EV - (at acquisition price)	\$42.6	0%							
Pentex EV - (assuming 10% acquisition premium)	\$38.8	10%							
Pentex EV - (assuming 20% acquisition premium)	\$35.5	20%							
Implied EV Multiples	EV/ BV (Incl. Cash)			EV / EBITDA (Incl. Cash)					Average EV/EBITDA (2012-2014)
Pentex EV - (at acquisition price)	1.34x	1.50x	1.42x	15.75x	8.06x	6.52x	7.10x	10.89x	9.66x
Pentex EV - (assuming 10% acquisition premium)	1.22x	1.36x	1.29x	14.32x	7.33x	5.92x	6.46x	9.90x	8.79x
Pentex EV - (assuming 20% acquisition premium)	1.12x	1.25x	1.18x	13.12x	6.72x	5.43x	5.92x	9.07x	8.05x

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt.

The sale of Titan and Arctic Energy Transportation (Titan) had not been closed as of the date of this report. In the Table above, we assumed that the Titan Sale is completed. Management provided that the sale price for the assets of Titan is approximately \$15.15 million, and the book value of Titan's assets is approximately \$10 million at the time of the acquisition.

[1] 2012 and 2013 Book value and EBITDA numbers are derived from "TA35-514 Fairbanks Natural Gas Revenue Requirement and Cost of Service Study.pdf".

The book value of Polar is included in the book value of FNG. 2014 FNG total assets are based on FNG Financial Statements as of the year ended December 31, 2014.

The consolidated book values of asset for Pentex is provided by WFG.

[2] Book value of total assets and EBITDA for FNG and Polar as of 2014 are assumed to approximate those of FNG. According to Western Financial Group (WFG), the EBITDA of Polar is not material. FNG's EBITDA from 2010 through 2014 are calculated as follows:

	2014	2013	2012	2011	2010
Total Operating Income (Loss)	\$1.931	\$4.152	\$5.258	\$4.730	\$2.635
plus: Depreciation Expense	\$0.777	\$1.136	\$1.283	\$1.271	\$1.281
Calculated EBITDA (in \$Millions)	\$2.707	\$5.287	\$6.542	\$6.002	\$3.916

* 2013 and 2014 income statement items are from 2014 audited financial statement. 2010 - 2012 income statement items are from unaudited summary financial statement.

[3] No information on the book value and EBITDA of Cassini LNG. We assumed a zero value for the purposes of this calculation.

[4] Per Letter of Intent as of 1/26/2015, total proposed purchase price for Pentex is \$52.5 million. We understand that the final purchase price is to be adjusted by net working capital (calculated as current assets less current liabilities) of the Pentex subsidiaries acquired as of the closing date for up to \$1.5 million, and that the Pentex transaction is structured as a stock transaction.

The EV (including cash) of Pentex includes the addition of total interest-bearing debt to the equity purchase price of Pentex. In this scenario, we used the fair value of outstanding debt. See Exhibit No. 3 for calculation details.

[5] Acquisition premium was estimated based on the range of implied acquisition premium from relevant M&A transaction data.