



Alaska Industrial Development and Export Authority

Draft Financial Plan

Pentex Alaska Natural Gas Company, LLC Acquisition

April 30, 2015

Project Overview

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

Business Case & Financing

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

Structure

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

Structure (cont.)

- \$2.675mm deposit
- Converts to “Holdback Amount” closing
- Remainder of purchase price paid at closing
- Planned closing by 7/31/15
- Typical reps & warranties
- Pre-closing business
 - Ordinary business
 - AIDEA to seek expedited RCA approvals
 - AIDEA approval of certain changes to disclosures

Structure (cont.)

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

Structure (cont.)

- Conditions precedent
 - Standard conditions +
 - RCA approval of FNG change of control
 - Satisfactory results of environmental assessments
 - No unapproved changes
- Sellers Indemnity Obligations
 - Recovery any losses due to:
 - breach, pre-closing environmental liability, tax liability or pre-closing liability under Harvest agreements

Structure (cont.)

- **AIDEA recovery from:**
 - Holdback Amount (for 1 year)
 - Indemnity from Harrington Partners (for 3 years)
 - Capped at \$12mm
 - Certain matters for the time allowed under the statute of limitations
- **AIDEA indemnity**
 - 3 years for breach
 - subject to appropriation
 - capped at \$12mm

Termination

- Conditions precedent not satisfied by 7/31/15
- AIDEA
 - Material adverse effect
 - Amended disclosures
 - Environmental assessment satisfaction
- Deposit
 - Retained by Sellers if AIDEA breaches
 - Returned to AIDEA otherwise

Project Funding

- Economic Development Account (AS 44.88.172)

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

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

Project / Investment Schedule

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

Business Plan

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

Business Plan

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

Projected Financials - FNG

FNG Rates

	Pentex / FNG		AIDEA then LCE	
	Current	Rate Case	2016	2020
Rate per Mcf	\$ 23.35	\$ 24.96	\$ 20.00	\$ 16.80
\$ Reduction from Current			\$ 3.35	\$ 6.55
% Reduction from Current			14.3%	28.1%
\$ Reduction from Rate Case			\$ 4.96	\$ 8.16
% Reduction from Rate Case			19.9%	32.7%

FNG CAPITAL FINANCING

SOURCES OF FUNDS (000)

Accumulated Revenues	\$	3,000
Bond Financing		68,848
SETS Financing		30,000
State Appropriation		-
Total - Sources	\$	101,848

USES OF FUNDS (000)

FNG System Acquisition	\$	41,848
Storage		30,000
Distribution System		30,000
Total - Uses	\$	101,848

Transition to LCE

- AIDEA and FNSB parties plan for integrated / consolidated natural gas utility
 - Capital plans
 - Operating utility
- AIDEA assists LCE(s) with financing structure
- LCE buys (or leases) FNG from AIDEA

Utility Consolidation Savings

	AIDEA FTE	AIDEA Operations Cost	IGU Operations* Cost	Total Separate Cost	Combined Operations FTE	Combined Operations Cost	Total Savings
Personnel Expenses	12	\$1,458,000			20	\$2,170,125	
Other Operating Exp.		\$922,000				\$1,372,329	
Total Operating Expenses		\$2,380,000		\$2,339,970		\$3,542,454	\$1,162,454

* Breakdown for IGU operation expenses not available.

Utility Consolidation Savings

Consolidated Utility Rates

	Pentex / FNG		AIDEA then LCE	
	Current	Rate Case	2016	2020
Rate per Mcf	\$ 23.35	\$ 24.96	\$ 20.00	\$ 15.89
\$ Reduction from Current			\$ 3.35	\$ 7.46
% Reduction from Current			14.3%	31.9%
\$ Reduction from Rate Case			\$ 4.96	\$ 9.07
% Reduction from Rate Case			19.9%	36.3%

CONSOLIDATED SYSTEM CAPITAL FINANCING

SOURCES OF FUNDS (000)

Accumulated Revenues	\$ 4,300
Bond Financing	131,058
SETS Financing	72,778
State Appropriation	15,000
Total - Sources	\$ 223,136

USES OF FUNDS (000)

FNG System Acquisition	\$ 41,848
Storage	50,000
FNG Distribution System	30,000
IGU Distribution System	101,288
Total - Uses	\$ 223,136

Economic Development & AIDEA Suitability

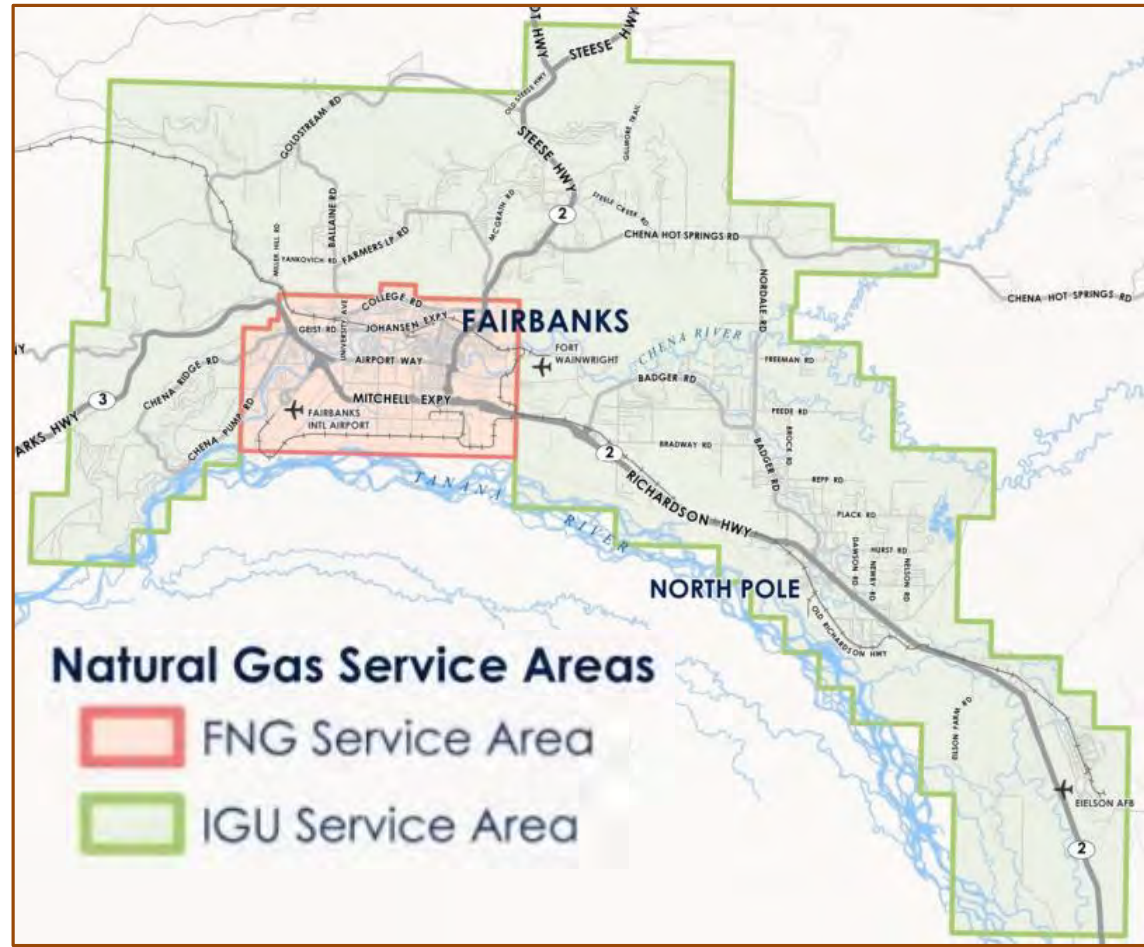
- Provides the opportunity for immediate and long term rate relief for FNSB customers
 - AIDEA's cost of capital is lower than Pentex's
 - An AIDEA (or local publicly owned) utility is not subject to Federal income tax
 - Certain non-cash expenses (e.g. depreciation) can be eliminated from the rate structure
- AIDEA's preliminary financial plan indicates that FNG rates could be reduced
 - 2015 rates could be reduced by ~8% from current rates or ~14% from proposed rates in pending rate case
 - Estimated FNG 2019 rates could be 15-20% lower

Support of IEP Goals

- Increases likelihood of reaching IEP's \$15/Mcf goal
- Even with first .95 Bcf at the higher Harvest price, goal can be achieved with savings on expansion capital and operating costs and new LNG supply
- Ensures effective leverage of IEP financing tools – support both the FNSB distribution system and expanded supply from Cook Inlet or North Slope
- Local government consultation underway

Economic Development & AIDEA Suitability

- Reduce construction cost
- Reduce O&M and overhead costs
- Restart FNG's efforts to build storage
- Unified effort to purchase LNG
- Faster expansion of service to customers through coordinated build out of system



Due Diligence Review of the Proposed Purchase of Pentex

- Full due diligence has been conducted and will be completed before the financing is approved
 - Full financial, technical, and legal review
 - Ensure proposed purchase price reflective of fair market value
 - Examine the existing agreements with Hilcorp
 - Complete finance plan that shows AIDEA will recover its investment with rate of return under AS: 44.88.172
 - Ensure purchase will advances the Interior Energy Project goals and promotes economic development
 - Solicit review and advice of local governments

Valuation Due Diligence

- The Brattle Group
- Experts in utility economics and valuation
- Comparables
 - Traded
 - Transactions
- Valuation ratios
 - EV / BV
 - EV / EBITDA

Risks & Risk Mitigation

Risks	Issues	Mitigation
Environmental	<ul style="list-style-type: none"> Limited environmental risk Known spill @ Port MacKenzie 	<ul style="list-style-type: none"> Phase I / Phase II assessments Conditions precedent Indemnification
Regulatory	<ul style="list-style-type: none"> RCA approval of FNG change of control RCA and AG approval of Harvest Agreements 	<ul style="list-style-type: none"> Conditions precedent Contingency plans re gas supply / IES
Economic / Financial	<ul style="list-style-type: none"> Ordinary business risks Political pressure on rates . Financials Oil prices 	<ul style="list-style-type: none"> AIDEA-planned reduction in costs improves on already cash-flow-positive business Financial plan restrictions Base-case operating plan
LNG / Natural Gas Supply	<ul style="list-style-type: none"> Harvest agreements dis-approved 	<ul style="list-style-type: none"> IES alternative sources Current contract thru March '18

Next Steps

- Final technical and environmental due diligence
- Meeting with community groups – with input back to board
- Finalize financial plan
- Board tours of Pentex facilities
- Present to Board for decision in May



Alaska Industrial Development and Export Authority

Questions?