

PROJECT SUMMARY – PENTEX ALASKA NATURAL GAS COMPANY, LLC ACQUISITION

PROJECT OVERVIEW

- AIDEA’s acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses.
- AIDEA’s proposed temporary ownership of Pentex, Fairbanks Natural Gas (“FNG”) will be in a position to work closely with one or more “local control entities” in the Fairbanks North Star Borough (“FNSB”) to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers’ price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.
- The current return to Pentex’s owners is substantially higher than AIDEA’s cost of capital. AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers by approximately 14.3% and assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

MISSION SUITABILITY/ECONOMIC IMPACT

- AIDEA’s acquisition of Pentex, the eventual transfer of that system to a consolidated FNSB gas distribution utility, and the AIDEA/AEA effort through the Interior Energy Project to secure additional LNG sources provide some assurance to FNSB businesses that a diversity of energy sources, at potentially significantly lower costs, will be available for business expansion and location.
- AIDEA’s acquisition of FNG will result in significantly reduced costs due to the elimination of corporate-related expenditures – almost all of which “leaks” out of the FNSB. These costs include taxes, investor fees and profits. The benefits of these cost reductions can be passed on to FNSB commercial and residential ratepayers.

BUSINESS CASE AND FINANCING

- \$54 million dollar investment to purchase LLC membership interests
- Expected sale of Titan and AET assets for \$15.15 million, Q3 2015
- Pass on elimination of corporate costs (taxes, return, etc.) to ratepayers and to build capital for expansion
- Develop and negotiate process to transition FNG to a Local Control Entity (LCE) as soon as possible
- Secure additional LNG /natural gas supplies
- Structure financing, using SETS, State Appropriation, Bonds to take out AIDEA investment and finance distribution system expansion.
- Exit investment in two years with estimated return of \$2.91 million (5.06%)

RISKS & MITIGATION

Potential Risk	Mitigation
Regulatory approval	RCA approval of change of control (from Pentex to AIDEA) is a condition of closing. If RCA or Attorney General disapproves Titan/AET sale to Harvest, AIDEA / IEP has contingency plans.
Economic / Financial	<input type="checkbox"/> AIDEA’s Financial Plan, which must be approved by the AIDEA board, will contain provisions to protect against the risk of non-economic pressure on rates. <input type="checkbox"/> By lowering the overall cost of delivered gas through the FNG distribution system, AIDEA has enhanced the competitive position of natural gas as an alternative fuel. If market conditions keep alternative fuel costs low, AIDEA (and/or the LCE) can defer the system expansion program and focus on existing customer base, which can generate sufficient revenues to meet all costs.
LNG / Natural gas supplies.	<input type="checkbox"/> AIDEA’s acquisition of Pentex and FNG is not dependent on securing a supply of lower cost natural gas from Cook Inlet or using any particular supply of gas for expanded demand. <input type="checkbox"/> AIDEA and AEA are continuing to evaluate all other options for LNG supplies for the Interior space heating markets – for both IGU and FNG – and for potential electric generation purposes as well.