IGU UPDATE

Presented to AIDEA

March 1, 2023

IGU BOARD OF DIRECTORS

Gary Wilken
Chair,
City of Fairbanks
Appointed Seat

Bob Shefchik
Vice Chair,
At-Large Seat B

Bert Bell
At-Large Seat D

Steve Haagenson
FNSB Appointed Seat

Luke Hopkins
At-Large Seat C

Mike Miller
City of North Pole
Appointed Seat

Jack Wilbur
At-Large Seat A

CONSTRUCTION

2022 Construction Season

- 635 new service lines
- 450 of those already turned on
- More than 3 miles of main line extensions

2023 Construction Season

- 600 new service lines
- Nearly 250 committed
- More than $1MM in main line extensions (proposed)

COMMUNITY SAVINGS ANALYSIS

	FY22	FY23 at last 12 month average oil prices
Natural gas sales (MM BTUs)	990,000	1,100,000
Heating oil cost/gallon (delvered, avg)	$3.83	$4.73
Natural gas cost/ccf	$2.05	$ 2.16
Cost if using heating oil	$28,000,000	$38,500,000
Cost if using natural gas	$20,300,000	$24,000,000
Gross Savings	$7,700,000	$14,500,000
IGU Service Charges	$(400,000)	$ (600,000)
Net Savings	$7,300,000	$13,900,000

Notes:

- Heating oil was calculated at 135,000 BTUs per gallon
- Natural gas was calculated at 100,000 BTUs per ccf
- Natural gas price was calculated as monthly revenues/sales, actual in FY22 and budgeted in FY23
- All amounts were rounded up

CURRENT STATUS

Feed Gas

IGU has a feed gas contract with Hilcorp in the Cook Inlet that satisfies the utility's current customer needs until 2032.

Liquefaction

IGU operates a Liquefaction facility (Titan) located in the Cook Inlet that has the capacity to produce 50,000 gallons of LNG per day. The LNG is then transported to Fairbanks and North Pole via truck on the Parks Highway.

FUTURE NEEDS

Liquefaction

In order to support its projected growth and to continue fulfilling its mission, IGU needs additional liquefaction capacity as soon as 2024.

Feed Gas

Hilcorp informed all utilities sourcing natural gas in the Cook Inlet that they should not rely on contractual renewals moving forward.

GAS SUPPLY EXPANSION OPTIONS

Titan 2 or No Action

Expansion of the Titan facility as evaluated in 2019 (improbable) or no action

Pt. McKenzie Incremental Expansion

Installation of a modular, temporary plant next to Titan

Canadian LNG Import

Purchasing LNG from Canadian producers

North Slope LNG supply

Contractual agreement with a third party LNG producer

NORTH SLOPE LNG - PARTIES

Hilcorp provides Harvest with gas supply on IGU's behalf. The two are not contractually-bound for the purpose of this agreement

Hilcorp North Slope, LLC
Gas Producer/Seller

Interior Gas Utility
Customer

Harvest Alaska LNG, LLC
LNG Producer/Seller

Gas Sale and Purchase Agreement

LNG Manufacturing Service Agreement

MAJOR TERMS

Contract term

20 years:
October 2024-June 2045;
ability to increase term under both contracts

Capacity

150,000 gallons/day, additional LNG production trains as necessary with potential for increased capacity

Commitments

IGU to be the priority customer and to exclusively buy LNG from Harvest, unless IGU's needs exceed Harvest capacity

Schedule

IGU will not need all the LNG the plant can produce in the earlier years. The plant will shut down in the summer to account for smaller demand

Trucking

Potential options: contracts with trucking companies; IGU trucking or Harvest trucking

ROFR

IGU has the right of first refusal in the event of an LNG plant sale.

PRICE AND RATE IMPACT

Feed stock (Hilcorp)

$2.50/MCF - Contract Years 1-5 (fixed)
2% annual escallation - Contract Years 6 -20

Liquefaction (Harvest)

Cost/MCF for Base Volumes: $8.75
Cost/MCF for Excess Volumes: $4.25

- for contract years 1 through 5 - 1%;
- for contract year 6 and thereafter floor of 0%, ceiling of 2%,

Customer rates

While two of the major cost components have set, negotiated prices, one important element remains variable - trucking.

Preliminary estimates indicate a customer rate range between ~$21.8/MCF (current pricing) and ~$26/MCF for the duration of the contract. At the highest estimated cost, natural gas will remain competitive if heating fuel is $3.51 or more.

IGU will do everything in our power to keep rates low and avoid the projected increases if possible.

HISTORIC MOMENT

This will be the first time natural gas from the North Slope has been commercialized outside of the North Slope.

FORT WAINWRIGHT EIS

Curent Status

The Combined Heat and Power Plant at Fort Wainwright, completed in 1955, is one of the oldest operational coal-fired power plants in the United States, and is operating approximately 30 years beyond the average design life of similar facilities

Next Steps

- Demolition of the existing power plant
- Installation of distributed natural gas boilers
- Purchase of electricity from the local electric utility
- Targeted completion date: 2026
- Estimated natural gas load: 1.5 BCF

Interior Alaska Natural Gas Utility
IGU Financial Summary:
Income Statement and Funds Available for Debt Service
Base Case - 07/27/2020 (Last Board Review)

Line No.	ITEM		FY 2023 (Proforma)	FY 2023 (Projected)	Difference
				(Unaudited)	
	Total Customers		**2143**	**2358**	**215**
1	**Gas Sales (MCF)**		1,426,188	1,123,539	(302,649)
2					
3	**Average Rate Revenue per MCF ($/MCF)**		$ 18.99	$ 22.13	$ 3.14
4					
5	**Operating Revenues**				
6	Sales/Charges for Service		$ 27,078,316	$ 24,860,381	$ (2,217,935)
7	Other Income		-	-	-
8	**Total Operating Revenues**		**$ 27,078,316**	**$ 24,860,381**	**$ (2,217,935)**
9					
10	**Operating Expenses**				
11	Cost of Gas (delivered to Fairbanks)*		21,417,107	17,010,087	(4,407,020)
12	ST - Revenues less Cost of Gas	[1]	$ 5,661,209	$ 7,850,294	$ 2,189,085
13					
14	Distribution				
15	Storage & Vaporizing		756,741	1,431,706	674,965
16	Distribution Operations		933,309	645,539	(287,770)
17	Customer Accounts		296,589	395,678	99,089
18	Administrative & General/Engineering*		2,225,824	3,435,124	1,209,300
19	ST - Distribution		$ 4,212,463	$ 5,908,047	$ 1,695,584
20					
21	**Operating Margin**	[2]	**$ 1,448,746**	**$ 1,942,247**	**$ 493,501**
22					

Line No.	ITEM		FY 2023 (Proforma)	FY 2023 (Projected)	Difference
				(Unaudited)	
	Total Customers		**2143**	**2358**	**215**
23	**Non Operating (Revenues) Expenses**				
24	Depreciation and Amortization		7,452,553	5,542,285	(1,910,268)
25	Interest Expenses (Excludes Capitalized Interest)		96,147	156,365	60,218
26	Interest/Investment Earnings/Other Income		(265,705)	(186,770)	78,935
27	ST - Non-Operating Items		$ 7,282,995	$ 5,511,880	$ (1,771,115)
28					
29	**Net Income**	[3]	**$ (5,834,249)**	**$ (3,569,632)**	**$ 2,264,617**
30					
31	**Funds Available for Debt Service**	[4]	**$ 1,714,451**	**$ 2,129,017**	**$ 414,566**
32					
33	**Debt Service**				
34	SETS				
35	Bonds				
36	Commercial Debt		454,201	595,749	141,548
37	**Total Debt Service**		**$ 454,201**	**$ 595,749**	**$ 141,548**
38					
39	**Debt Service Coverage - SETS**	[5]	-	-	
40	**Debt Service Coverage - Bonds**	[6]	-	-	
41	**Debt Service Coverage - Commercial**	[7]	3.77	3.57	
42	**Total Debt Service Coverage - Combined**	[8]	3.77	3.57	
43					
44	Depreciable Assets		$ 221,078,977	$ 178,880,840	$ (42,198,137)

Footnotes:
[1] Line 12 = Line 8 minus Line 11
[2] Line 21 = Line 12 minus Line 19
[3] Line 29 = Line 21 minus Line 27
[4] Line 31 = Line 29 plus Line 24 plus Line 25
[5] Line 40 = SETS debt service set at 1.0
[6] Line 41 = Funds remaining after SETS and Commercial debt service divided by Line 36
[7] Line 42 = Commercial debt service set at 1.2
[8] Line 43 = Line 31 divided by Line 38

* The Proforma includes the LNG Plant Administrative & General expenses of approximately $530K in the Cost of Gas while the Projection includes Administrative & General expenses inclusive in Administrative & General/Engineering expense line.

BONDING STATUS

$5.2 MM

SERVICE LINE INSTALLATIONS

$2.3 MM

MAIN LINE INSTALLATIONS

$1.8 MM

PIPE, METERS & PARTS

$9.3 MM

BOND FUNDS CONSUMED

$700 K

BOND FUNDS REMAINING

FUTURE FINANCING NEEDS

$10MM

GAS MAINS & SERVICES

$6.75MM

LNG TRANSPORT TRAILERS

IGU

Breathe Easy

ADDRESS

2525 Phillips Field Road
Fairbanks, Ak 99709

EMAIL ADDRESS

Info@interiorgas.com

PHONE NUMBER

(907) 452-7111