

Alaska Gasline Port Authority Development Plan

**Incremental and Realistic Steps leading to
Economic Opportunity
&
Reasonably Priced Energy Now!
25% reduction in gas costs to consumers
Fuel cost reduction to GVEA**

Background

- 1999
 - Assembly passes Ordinance 99-059
 - Voters approved Ordinance 99-059
- 2000 - Borough Assembly passed Resolution 2000-08 approving the AGPA Development Plan
- 2006-08 - Natural gas market transformed by shale gas technology
- 2008 - APGA begins pursuing an incremental, feasible, realistic step; trucking LNG from the North Slope
- 2010 - Assembly considering Resolution 2010-19 approving another development plan

Who is the Port Authority?

- **BENEFIT DRIVEN PROJECT WHOSE HIGHEST PRIORITY IS TO BRING MAXIMUM BENEFIT TO ALASKANS WITH AFFORDABLE ENERGY AND ECONOMIC OPPORTUNITY**
- City of Valdez & Fairbanks North Star Borough
- Governance Structure
 - Board of Directors – appointed from local community
 - Bond Counsel and Underwriters ensure business model financeable
 - Construction managed by professional construction firms
 - Operated by experienced natural gas professionals

Why was the Port Authority established?

- Port Authority established to provide
 - Port facilities in Valdez
 - Economic opportunity
 - Access to reasonably priced energy
- Alaska's mindset has been to construct a mega pipeline that
 - Provides natural gas to market
 - Pays Alaska's bills
 - Creates jobs
 - Provides access to clean, affordable energy
- Natural gas distribution infrastructure are built
 - Incrementally
 - At the least expense to meet market demand
- **PHASE I PROJECT PROVIDES**
 - **INCREMENTAL STEP TOWARDS PIPELINE – AT LEAST EXPENSE TO MEET MARKET DEMAND**
 - **ECONOMIC OPPORTUNITY**
 - **ACCESS TO REASONABLY PRICED ENERGY**

Why an incremental project?

- AGPA continues to pursue a large diameter pipeline
- But AGPA is addressing the present day reality!
 - Also pursuing incremental natural gas distribution
- **Phase I: Smallest possible economic plan to deliver gas**
 - Gone from \$25 billion project to \$250 million – 100 time reduction in scope
 - This project can be capitalized to meet demand of a small market, economically
 - Creates infrastructure to deliver
 - Economic opportunity
 - Reasonably priced energy
 - Establish demand for a larger pipe

The Project: A pipeline on wheels



Target Project Cost: \$250 million

- Depends upon final negotiated
 - Construction contracts
 - Financing costs
- Revenue streams at 60% of capacity – makes this project work
 - Natural gas
 - Propane
- Future revenue streams
 - Transportation fuels (goal under \$2/gallon equivalent)
- No liability to borough

Development Plan

- **Component A** : Acquisition of Fairbanks Natural Gas proposed project
 - LNG and gas distribution facilities
 - Exxon gas contract supplies
- **Component B**: Development of North Slope gas facilities
 - Lease, acquire or construct gas processing, handling or liquefaction plants on North Slope
 - Arrange for delivery by truck, vessel, pipeline or other means of transportation related commerce

Development Plan, cont.

- **Component C** – Development of port facilities at Port Valdez
 - Develop port facilities to distribute North Slope and other Alaska gas to Alaska communities
 - Distribute up to 80% of propane to, at and from port facilities
- **Component D** - Development of port facilities to distribute LNG transportation fuels
 - Develop or cause to be developed natural gas fueling stations in Alaska

Relationship to approved 1999 Project definition

- “Acquisition, construction, financing, installation and improvements...including associated and related facilities for the conditioning, transportation...storage, and shipping of natural gas and other commodities to, at and from such facility [Port of Valdez]. ‘Project’ shall include conditioning plants...pipelines, spur lines, and liquefied natural gas facilities, ...for the operation of any of the facilities described above.”

Requisite timeline for next 45 days

- Assembly approve development plan
- AGPA finalize FNG contract
- RCA review and approve
 - certificate
 - transfer
- Execute construction/management contracts for production facilities
- AGPA/GVEA finalize contracts
- Bonds rated
- Bonds sold

Overall deal structure

- Production System

- Bonds

- 15-year amortization
- 1.20 Debt Svc Coverage
- 20% increase in debt svc yr 5

- GVEA Pays fixed costs (debt service, O&M)

- GVEA/AGPA pay proportionate share of variable costs (gas, trucking)

- AGPA pays portion of fixed costs as distribution system grows (Fixed Cost Contribution)

- Distribution System

- Bonds

- 20-year amortization
- 1.50 Debt Svc Coverage
- 20% increase in debt svc yr 3

- AGPA pays all costs (debt service, O&M, etc.)

FNG purchase

- \$55 million
 - Typical gas utility price - book value x1.75-2+
 - \$25 million book value
 - Current business plus 40% growth potential
 - Exxon contract – up to 17 BCF/yr
 - Evaluated by:
 - Underwriters and rating agencies – ensuring value to bond holders

Production system bond summary

	Production		
	RZ Bonds	Taxable	Total
Construction Fund	\$ 15,671	\$ 120,669	\$ 136,341
Capitalized Interest	1,771	17,019	18,790
Debt Service Reserve	1,945	15,355	17,301
Issuance Costs	208	1,640	1,847
Interest Earnings	(142)	(1,129)	(1,271)
Rounding	(0)	(0)	(0)
Total	\$ 19,453	\$ 153,555	\$ 173,008
Annual Debt Service			
Initial	\$ 1,769	\$ 15,189	\$ 16,958
Final	\$ 2,122	\$ 18,227	\$ 20,349
Interest Rate	5.75%	7.00%	

Production System Pro Forma

Volume	2012	2013	2014	2015	2016	2017	2025	2026	2027
Oil (\$/bbl)	80	80	80	85	85	85	95	95	95
Gas (\$/mcf)	2.61	2.61	2.61	2.81	2.81	2.81	3.44	3.44	3.44
Propane (\$/gal)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Usage									
GVEA (Million CF)	3,003	3,003	3,003	3,003	3,003	3,003	3,003	3,003	3,003
FNG (Million CF)	998	1,118	1,157	1,209	1,273	1,342	1,834	1,889	1,945
Other (Million CF)									
Total	4,001	4,121	4,160	4,212	4,276	4,346	4,837	4,892	4,948
Losses/Power	1,086	1,119	1,130	1,145	1,163	1,182	1,318	1,333	1,349
Total (Million CF)	5,087	5,240	5,291	5,357	5,439	5,527	6,155	6,225	6,298
Propane (000 Gal)	4,662	4,803	4,849	4,909	4,985	5,066	5,641	5,705	5,772
Revenue Requirements - Production System									
Debt Service									
RZ Bonds	\$ 1,769	\$ 1,769	\$ 1,769	\$ 1,769	\$ 1,769	\$ 2,122	\$ 2,122	\$ 2,122	\$ -
Taxable	15,189	15,189	15,189	15,189	15,189	18,227	18,227	18,227	-
Coverage	3,392	3,392	3,392	3,392	3,392	4,070	4,070	4,070	-
Fixed O&M	5,918	6,080	6,247	6,420	6,599	6,780	8,537	8,793	9,057
Variable									
Gas	13,287	13,687	13,819	15,069	15,300	15,548	21,161	21,402	21,651
Transportation	13,603	14,573	15,155	15,892	16,717	17,598	24,947	25,930	26,957
DSR Release	-	-	-	-	-	-	-	(17,301)	-
Earnings on DSR	(564)	(564)	(564)	(564)	(564)	(564)	(564)	-	-
Return of Coverage	-	(1,783)	(3,392)	(3,392)	(3,392)	(4,070)	(4,070)	(9,070)	-
Propane Revenues	(3,730)	(3,842)	(3,879)	(3,928)	(3,988)	(4,052)	(4,513)	(4,564)	(4,617)
Total	\$ 48,863	\$ 48,500	\$ 47,735	\$ 49,847	\$ 51,022	\$ 55,660	\$ 69,918	\$ 49,610	\$ 53,048
\$/mcf or \$/mmBtu	\$ 12.213	\$ 11.769	\$ 11.473	\$ 11.834	\$ 11.931	\$ 12.808	\$ 14.456	\$ 10.142	\$ 10.720

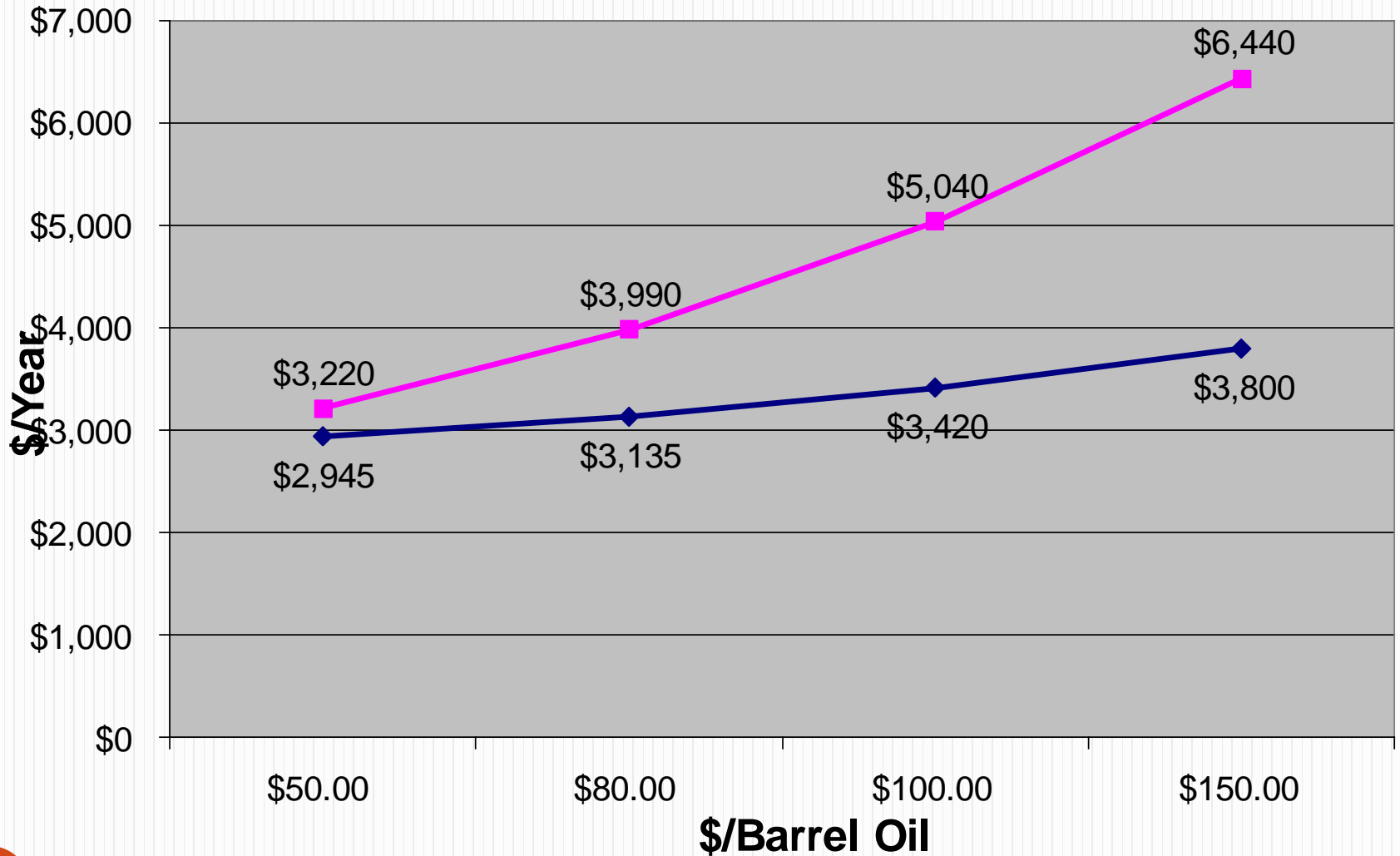
Production & distribution system revenue requirement

	2012	2013	2014	2015	2016	2017	2025	2026	2027
<u>Revenue Requirements Allocation</u>									
GVEA									
Debt Service	\$ 16,958	\$ 16,958	\$ 16,958	\$ 16,958	\$ 16,958	\$ 20,349	\$ 20,349	\$20,349	\$ -
Debt Service Coverage	3,392	3,392	3,392	3,392	3,392	4,070	4,070	4,070	-
Fixed O&M	5,918	6,080	6,247	6,420	6,599	6,780	8,537	8,793	9,057
Variable									
Gas	9,957	9,957	9,957	10,724	10,724	10,724	13,107	13,107	13,107
Transportation	10,194	10,602	10,920	11,310	11,718	12,138	15,452	15,880	16,319
Debt Service Reserve	-	-	-	-	-	-	-	(17,301)	-
Earnings on DSR	(564)	(564)	(564)	(564)	(564)	(564)	(564)	-	-
Return of Coverage	-	(1,783)	(3,392)	(3,392)	(3,392)	(4,070)	(4,070)	(9,070)	-
Propane Revenues	(2,795)	(2,795)	(2,795)	(2,795)	(2,795)	(2,795)	(2,795)	(2,795)	(2,795)
AGPA Contribution	-	(883)	(1,180)	(1,567)	(2,050)	(2,568)	(6,252)	(6,664)	-
Total	\$ 43,059	\$ 40,963	\$ 39,543	\$ 40,485	\$ 40,589	\$ 44,065	\$ 47,835	\$26,369	\$35,688
AGPA/Other									
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage	-	-	-	-	-	-	-	-	-
Fixed O&M	-	-	-	-	-	-	-	-	-
Variable									
Gas	3,330	3,729	3,861	4,345	4,576	4,824	8,054	8,295	8,544
Transportation	3,409	3,971	4,235	4,582	5,000	5,460	9,495	10,050	10,638
Debt Service Reserve	-	-	-	-	-	-	-	-	-
Earnings on DSR	-	-	-	-	-	-	-	-	-
Return of Coverage	-	-	-	-	-	-	-	-	-
Propane Revenues	(935)	(1,047)	(1,084)	(1,132)	(1,193)	(1,257)	(1,717)	(1,769)	(1,822)
Fixed Cost Contribution	-	883	1,180	1,567	2,050	2,568	6,252	6,664	-
Total	\$ 5,804	\$ 7,537	\$ 8,192	\$ 9,362	\$ 10,433	\$ 11,595	\$ 22,083	\$23,241	\$17,360

What is our return on investment?

- Remember! Port Authority Board wants 25% reduction in cost of energy to approve this deal
- Cost of Service model – not for profit – why it works!
- Propane
 - Revenue from propane reduces the cost of natural gas to GVEA and FNSB
 - When fully subscribed
 - Minimum 20% to FNSB
 - Maximum 80% to Valdez
- Natural Gas
 - 100% available to FNSB
 - Transportation fuels available along transportation corridor
- GVEA saves 25% on fuel cost vs. oil at North Pole Turbine
 - At least \$1.3 million per month at today's oil prices
 - Savings increase dramatically as oil prices rise

Annual Heating Cost for Typical Residential Consumer 1400 Gallons / Year



More return on investment

- **150 construction jobs created**
- **75 ongoing operations jobs created**
- Reduces PM 2.5
- Reduces costs to local commercial and industrial businesses – increasing their ability to compete and thrive
- Helps Fairbanks become competitive in BRAC situations
- Attractive to national retail chains with natural gas model
- Potential for natural gas based industry
- Potential for GTL plant in FNSB
- Many businesses coming to Mayor to subscribe

What is the legal basis for Resolution 2010-19?

- Section 15 of Ordinance 99-059
 - Prior to commencement of the Project AGPA is required to deliver development plan with respect to the acquisition, construction and installation of the Project. The Authority may not undertake, construct or acquire a project unless...the project appears in a development plan submitted to and approved by the governing body.
- Development Plan
 - Approved by the Assembly
 - A political not a legal decision
 - Not afraid of a vote
 - Opportunity for rate payers to benefit sooner rather than later
 - Cost of vote is high and born by citizens of community
 - Lose RZ Bonds
 - The project waits

What is the legal basis for Resolution 2010-19?

- The ballot summary said “a natural gas pipeline project” and we’re talking about trucks
- Voters mandate for economic opportunity and reasonably priced energy – in the only form they knew – a pipeline
- Until there is a pipeline we are moving gas by trucks
- Development Plan expands project to include additional increment in constructing the pipeline - trucking
- Closest we are going to get to pipeline for a long time
- Consistent with voters mandate for economic opportunity and reasonably priced energy

How does this fit within 1999 actions?

- Voters approved Ordinance 99-059 to establish a port authority to bring economic activity and affordable clean energy to our community
- AGPA worked to construct the pipeline and port facilities envisioned
- Natural gas markets transformed by shale gas
- AGPA proposes to undertake phase I project that will
 - Develop port facilities in Valdez
 - Construct liquefaction facilities and distribution system that can be used in future pipeline project
 - Deliver affordable energy
 - Provide economic opportunity

What is AGPA getting?

- FNG
 - Existing gas distribution asset
 - Certificate of public convenience
 - Pt McKenzie plant
- LNG North Slope production system
 - Increasing distribution assets
 - Increasing supply to meet demand
- Increased opportunity for our community
 - Improved PM2.5
 - Affordable energy & economic opportunity
 - Expanded distribution system
 - Increased role as regional hub

Effect of delay?

- The deal waits until the end of October – therefore:
 - Cost of money increases increasing cost to consumer
 - Lose \$26 million in RZ Bonds
 - FNG agreement lapses
 - RCA review of certificate and transfer delayed
 - Cannot finalize construction contract
 - Loss of GVEA fuel contract
 - Gas will continue to be \$23/mcf
 - Large diameter and bullet line continue to be improbable
- Lose hedge against energy uncertainty

What are the risks?

Very limited!

- Step in rights
 - GVEA has first step in rights on production facility
 - Bondholders have step in rights on distribution system
- Total ratepayer exposure limited
 - GVEA not obligated to pay after 3 years if no gas delivered
 - FNG consumers can switch back to oil

**WE END UP WITH THE SITUATION WE ARE IN NOW:
CONSUMERS PAY THE PRICE OF DIESEL FOR ENERGY**

The upside of the development plan

- No debt to the borough
- No Assembly financial allocation
- FNSB allocated RZ bonds
- Part of PM 2.5 solution
- Stable, sustainable, affordable clean energy
- Expansion of natural gas usage in the community
- GVEA takes the risk
- Economic opportunity
- Jobs
- Strengthens role as regional hub
- Utility savings to the FNSB and school district
- **A FUTURE!**

The consequences

- If we don't do this we lose our opportunity to transform our community and instead choose to remain hostage to our energy costs.
- **NONE OF US WANT THAT!**