



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Tuesday, October 29, 2013
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on October 29, 2013 at 10:02 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Anchorage: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Wilson Hughes (Public Member); Crystal Nygard (Public Member); Michael Pawlowski (Department of Revenue); and Gary Wilken (Public Member)

3. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Michael Lamb (Deputy Director-Finance & Operations); Gene Therriault (AEA Deputy Director-Energy Policy Development); Jennifer Haldane (Human Resources Manager-AIDEA & AEA); Karl Reiche (AEA Project Manager); Karsten Rodvik (External Communications Officer); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (Project Manager, Project Development & Asset Management "PDAM"); Nick Szymoniak (Energy Infrastructure Development Officer); Kirk Warren (AEA Project Manager); Sherrie Siverson (Executive Assistant); and Krin Kemppainen (Administrative Assistant).

Public present in Anchorage: Rick Adcock, Chris Brown, and Jeff Coon (MWH); Kiel Beloy (Kiewit); Brian Bjorkquist (Department of Law); Elwood Brehmer (Alaska Journal of Commerce); Mark Gardiner (Western Financial Group); Keith Hand (Spectrum LNG); Jeff Logan (Public); Stewart Osgood (DOWL HKM); Jan Sieberts (Washington Capital Management); and Sunny Morrison (Accu-Type Depositions).

Public participating via teleconference: Mayor Luke Hopkins (Fairbanks North Star Borough "FNSB"); John Davies (FNSB Assembly); and unidentified (Petroleum News).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Mayor Hopkins, FNSB, said he assumes the Board was apprised of the letter that he and Diane Hutchison, Presiding Officer of the FNSB, submitted to Mr. Leonard and copied to the Board regarding the municipal gas utility that was enabled by adoption of an ordinance and the effect that has in the FNSB. He noted there was a recent issue concerning the Governor asking for the two utilities to move forward and work on a settlement because it's impacting the timeline of the project. Mayor Hopkins hopes the AIDEA Board has a full understanding of the volume of gas needed and actions required to keep this project moving forward on the fast timeline in order to deliver gas in the winter of 2015/2016.

Mayor Hopkins said another concern is the amount the timeline issue is costing the community. Residents are under continued pressure trying to find ways to lower their individual costs for space heating needs. Mayor Hopkins thanked Mr. Szymoniak for coming to Fairbanks to answer questions regarding conversion factors.

Mayor Hopkins expressed his appreciation to the AIDEA Board members and senior staff who came before the FNSB Assembly a few weeks ago. He noted it has been 20 days and the data files for the mapping of the remaining potential service areas have not been delivered per the stated agreement. He requested the Board direct staff to deliver these documents so they can begin work on the right-of-way issues. Mayor Hopkins said a model of optimization was committed to be delivered to the FNSB government and it has not yet been received. He believes this model was provided to the Interior Gas Utility and requests the Board direct staff to deliver the model, as agreed.

Mayor Hopkins hopes there is adequate time for the AIDEA Board to review the Interior energy project before their action to adopt in mid to late November. Mayor Hopkins said his understanding of the complex components of liquefied natural gas projects is limited, but believes take or pay and commitments of utilizing the commodity are critical in terms of the burner-tip cost.

Mr. Wilken requested Mayor Hopkins repeat his opening statement because he did not hear it clearly over the speakerphone. Mayor Hopkins repeated his opening statement. Mr. Wilken asked Mayor Hopkins if there are specific issues he would like addressed. Mayor Hopkins noted one of the issues in the letter addresses community transparency with regard to the status of the Interior Energy Project. He said the letter was written because many of the answers provided by AIDEA executive staff were unclear and he wants to ensure the community receives definitive answers regarding this project.

Mr. Wilken asked Mayor Hopkins to provide specific questions for the Board to answer. Mr. Wilken expressed his appreciation for the letter as an offer of help from the people of the Borough. He noted the letter is general and did not read in the letter that the Board is not aware of its role. Mr. Wilken requested the Board answer the two specific questions Mayor Hopkins asked regarding the availability of the map files and the optimization model. Mr. Therriault said corrections to the map files had to be made with regard to a six-year build out and the map files are now available. Mr. Therriault stated the optimization model was sent to the Interior Gas

Utility and Fairbanks Natural Gas. A video conference was held yesterday to assist the Interior Gas Utility with the modeling and requested their comments for suggested changes to the model before it is widely distributed.

Mr. Wilken asked Mr. Therriault to provide a specific date when the map files will be sent to Mayor Hopkins. Mr. Therriault said he is ready to send them today or tomorrow. Mr. Wilken asked Mayor Hopkins if he wants to be added to the distribution list which includes the Interior Gas Utility and Fairbanks Natural Gas. Mayor Hopkins stated it would work if items came to the Interior Gas Utility, as long as the items are not held as "not for distribution." The intent is for the community and the leaders in the community to be able to see the work that is occurring. He understands the map files had to be corrected and will now be delivered. Mayor Hopkins noted the optimization model was reviewed only by the Interior Gas Utility and asked when they will be available for community leaders to review.

Mr. Wilken asked Mr. Therriault what date the model was delivered to the Interior Gas Utility. Mr. Therriault stated it was delivered eight days ago. Mr. Wilken said he does not believe the Mayor's office is being intentionally excluded. He stated the Board and staff believe the Interior Gas Utility is "carrying the water" for FNSB. Mayor Hopkins stated he talked with the Interior Gas Utility today and they stated they could not share any of the modeling information with him.

Mr. Davies, FNSB Assembly, said he is concerned about the incentive to complete the build out to the entire high and medium density areas. He is not convinced this issue has been addressed. Public funds are being used for the build out and requested an explanation of what structure will be used to assist in the distribution so that the last mile gets built out. He recommended bond monies be used to build out the areas that are economically the easiest and then use public funds for building out the last mile. Mr. Davies does not believe a satisfactory answer has been given to address how the last mile gets incentivized.

Mr. Davies said the second concern he has is regarding the conversion incentive. He noted this is inside the meter and is not generally thought of as part of the distribution problem. The whole enterprise is conditioned on how fast conversion happens, which is partly determined by the individual home owner's economic factors and whether it makes sense to convert if the cost is between \$10,000 to \$20,000. The FNSB has some legislative priorities to put forward regarding conversion incentives and requested to be included in the work AIDEA is developing on this issue. Mr. Davies said this is an important and complicated concern and there have been no answers to address the conversion incentive. He believes it is very important to the success of the overall enterprise that people decide to convert sooner, rather than later. The three most important points regarding this project from FNSB's point of view is to get the lowest possible cost to the burner-tip to the most number of people in the high and medium density areas as soon as possible. Mr. Davies expressed his appreciation to the Board and the staff for their dedicated work.

Mr. Wilken noted that a few weeks ago, Mayor Hopkins suggested a way to structure the public comment meetings. Mr. Wilken explained to Mayor Hopkins that his feedback is being discussed at the Board level.

6. NEW BUSINESS

6A. Update on Interior Energy Project

Mark Davis provided a detailed update on the Interior Energy Project.

Mr. Hughes asked how long a 9 Bcf North Slope liquefaction plant would last. Mr. Davis said the 9Bcf should last until about 2017/2018 and then expansion could take place at the Slope or from South Central.

Chair Pruhs asked if there will be a tie between the build out model presented and what the utility company actually does. Mr. Therriault noted that once the utility structure is determined, that could impact where storage is placed or how many storage units are needed. Chair Pruhs asked what would happen if a utility company wants to do something different from the proposed model build out map. Mr. Therriault said this is AEA's view of a potential mock build out and AEA is seeking buy-in from Fairbanks Natural Gas and Interior Gas Utility that the model is based on reasonable assumptions and they will be able to utilize the model.

Mr. Leonard commented once the plan is released and negotiations begin with the utilities, the Board could place loan covenants on the bond monies providing direction to the management of the utilities on the build out.

Mr. Wilken asked Mr. Therriault if the demand of the build out was high density and medium density only. Mr. Therriault said the mapping hits on high and medium density. Mr. Wilken asked for explanation of the sentence that reads, "exclusive of certificate applicant models already developed." Mr. Therriault explained this mapping has been developed independent of what either of the utilities have suggested. Mr. Wilken asked if that was Mr. Warren's work. Mr. Therriault agreed. Mr. Wilken asked if the independent model was AEA's model. Mr. Therriault agreed.

Chair Pruhs asked for the definitions of low density, medium density and high density, and if it is residents per square mile, per block, or per lineal feet. Mr. Therriault said they are using a map that was produced by the local community identifying their definition of high and medium density. He does not know what matrix was used. Mr. Warren said Michael Baker completed the work and it is based on a certain number of residents per square mile. Mr. Davis said the definition was also correlated against the number of structures per square mile, which includes commercial structures. Mr. Therriault said the modeling of the distribution system calculated the number of miles of pipe to the boundaries of the largest proposed service territory and then they calculated the number of miles of pipe that were in the low density area and subtracted that number from the total.

Chair Pruhs asked if any study was performed using the matrix of heat and fuel oil use per structure. Mr. Therriault said that is a key component in determining the average size of a single family residence in the FNSB. He reported that based on information provided by existing providers, AEA has revised down the amount of energy a single family residence uses on a

yearly basis. Mr. Leonard advised the six-year build out will have an estimate of gas per section based on the formula that Mr. Therriault is discussing.

Chair Pruhs asked if the conversion of the public facilities would be in FY2014 or FY2015. Mr. Therriault said there could be a request to the state in this next legislative session for funds to prepare a number of the public facilities for conversion.

Mr. Pawlowski commented he is aware of two specific programs at Alaska Housing Finance Corporation (AHFC) that would meet these needs and encourages Mr. Therriault to follow up with AHFC on their Second Loan for Energy Efficiency and the performance contract in the public facilities for conversions. Mr. Therriault said AIDEA has had meetings directly with AHFC and they have teams in place continuing those conversations. The problem with the second mortgage is it is taken out by the homeowner. The homeowner is then personally liable to repay that. Mr. Therriault noted there is quite a turnover in ownership in the FNSB, and the question becomes, will the homeowner take on that conversion loan if they plan on leaving that residence sometime soon? Mr. Therriault noted programs have been reviewed from the Lower 48 where the obligation to pay the conversion loan attaches to the structure and so the new owner pays off the remainder of the loan. The intent is to have the user of the infrastructure pay for the conversion. Mr. Therriault said the residential owners in the focus group were attracted to this provision.

Chair Pruhs asked if real estate appraisers have been interviewed regarding what value conversion adds to the home because of the lower cost for utilities. Mr. Therriault said real estate appraisers have not been consulted in the FNSB area, but conversations have taken place internally regarding home values and conversions. Chair Pruhs suggested reviewing that issue because it could be an incentive to conversion if it adds value to the home. Chair Pruhs asked if there was any data from Homer regarding their conversion process that could be applied to Fairbanks. Mr. Davis said they have some Homer data, but not the information regarding home values and they will research that. He believes the value of the home is not affected by the inclusion of new equipment, but rather the remediation of the oil tank. He noted an oil tank could turn into a Phase One environmental issue, which can depress property values. If the tank is a certain size, the owner can cut the tank in half and fill it with sand and it is considered remediated by law. Chair Pruhs believes the tank size is either 500 or 1,000 gallons. Mr. Davis agreed and said the conversion rate in Homer is about 65% to gas and the conversion rate in Kachemak is about 80%. Mr. Therriault noted the individual properties in Homer were assessed at a little over \$3,000 for the build out of the distribution system. Mr. Leonard said Homer performed a local improvement district for the entire city with a loan from the borough. Mr. Davis commented this demonstrates that cooperation between the local governments and the distribution system tend to be effective. Chair Pruhs requested this information be provided to the FNSB. Mr. Davis agreed.

Mr. Wilken requested Mr. Leonard share the information regarding the conversion progress with Assemblyman Davies and Assemblywoman Dodge so they receive the most current information, as per their recent request. Mr. Leonard said Mr. Szymoniak is in contact with Mr. Davies and

Ms. Dodge and is working with them. Mr. Therriault said information from the white paper, the Interior Gas Utility survey and the focus group will be available within the coming weeks.

Chair Pruhs asked if Coldfoot would be the mid-point for refueling the liquefied natural gas tractors. Mr. Davis said he would recommend Coldfoot, but will defer to the engineers who are working on the project. Mr. Hughes asked if the five dollars of trucking costs is an unsubsidized number. Mr. Davis agreed. Mr. Leonard said the trucking costs range from \$4.50 to \$6.00 dollars. Mr. Davis said the liquefied natural gas trucking charrette is a meeting that focuses on the technical aspects of the project. Chair Pruhs appreciated the explanation.

Chair Pruhs asked if all the trucking companies are available and do they have to have specific carrier requirements, licenses and approvals from Department of Transportation of federal highways to haul liquefied natural gas. Mr. Davis said as far as he knows right now, the answer is no. If the configuration of trailers is changed and modifications to the regulations are changed, then specific carrier requirements may be necessary. The model is good, but the details have to be reviewed, which is the purpose of the trucking charrette meeting.

Mr. Wilken requested AEA focus on the hitch comparison table on page seven of the feasibility analysis to determine how to get the lowest cost price per M and maximize the cost of the trucking. He noted this could be achieved through legislation, regulation or policy. Mr. Davis agreed the chart should open the dialog because it models important differences.

Chair Pruhs commented the trucking could be 40% of the entire program and requested staff zoom in on this important issue in order to be efficient. Mr. Wilken believes the trucking component provides the largest potential for catastrophe and liability, but cannot be modeled.

Mr. Hughes asked if there is a goal of what the price would be out of the plant in Prudhoe. Mr. Davis said the modeling being performed is of the burner tip price. Mr. Hughes asked if the \$15 burner tip price is the sum of everything. Mr. Davis agreed. Mr. Hughes asked if there is a target price for the gas plant portion of the project. Mr. Davis said they essentially know what it will cost to buy the fuel gas on the Slope and they know the trucking costs, which leaves a range of adjustment. The current negotiations are focused on that range of adjustment.

Chair Pruhs noted Mr. Davis provided a scenario to the Board that shows the different components of the price that make up the \$15. He requested it be given to the Board again. Mr. Davis agreed.

Mr. Wilken asked if the results of the final refined business terms from each respondent will be presented to the public and AIDEA Board at the November 19, 2013 meeting. Mr. Davis agreed and said if the Board wishes to make a selection at that meeting, final terms could be reached by December.

6B. 2014 Strategic Planning Work Session Schedule

Mr. Leonard said after polling the Board, he recommends the regular meeting be held on January 14, 2014 and a full day work session be held on January 15, 2014 which is a week before the

legislative session begins on January 21, 2014. Mr. Leonard noted Mr. Hughes is the only Board member who cannot be in attendance on January 14, 2014 but is available for the full day work session on January 15 2014. Mr. Wilken asked if January 14, 2014 is scheduled for AIDEA and AEA and the work session is scheduled for January 15, 2014. Ms. Siverson said the dates will not be confirmed until the AEA meeting today.

Mr. Leonard said staff will work with the Chair and Vice-Chair on the work session agenda to be distributed in November providing enough time to receive feedback from the Board. Chair Pruhs asked for input and suggestions from the Board. Chair Pruhs asked Mr. Leonard to conduct a survey on the availability of possible room locations for the work session.

6C. Executive Session

MOTION: Vice-Chair Dick moved to enter into an Executive Session to discuss confidential information regarding the Healy Clean Coal Plant, the Interior Energy Project, AIDEA and AEA Personnel Guidelines, and the AIDEA and AEA Building. Motion seconded by Commissioner Bell. The motion passed.

The Board entered executive session: 11:25 a.m.

The Board reconvened its regular meeting at 2:40 p.m.

Everything covered in executive session was appropriate to the motion.

7. DIRECTOR COMMENTS

Mr. Leonard said financial reports and project updates were provided in their packets and will entertain any questions.

The next regularly scheduled meeting will be at 10:00 a.m. on Tue. November 19, 2013.

8. BOARD COMMENTS

Commissioner Bell said she spoke with the Chair regarding the Executive Directors' evaluations and will work with Jennifer Haldane to review the evaluations of Director Leonard and Director Fisher-Goad. A process will be initiated in November for board members to provide feedback.

Chair Pruhs said he requested Commissioner Bell to spearhead the Executive Directors' evaluations and provide continuity since he and Vice-Chair Dick are both new to the Board. Chair Pruhs expressed his appreciation to Commissioner Bell for taking on the task.

Mr. Pawlowski commented he is trusting AIDEA will perform the necessary calibration work that is needed before it goes beyond the group to the public. He encourages the good work and the due diligence to continue because bad numbers create bad policy.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 2:44 p.m.



Ted Leonard, Secretary
Alaska Industrial Development & Export Authority