



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Monday, August 25, 2014
Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on August 25, 2014 at 10:03 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russel Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Members participating via teleconference: Mike Pawlowski (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

AIDEA staff present: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management (PDAM)); Michael Lamb (Deputy Director-Finance and Operations); Mike Catsi (Business Development & Communications Officer); Jeff San Juan (Infrastructure Development Finance Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Karsten Rodvik (External Affairs Officer); Kirk Warren (AEA Project Manager); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Bill Bittner and Kathy Black (Birch Horton Bittner & Cherot); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Fairbanks Natural Gas (FNG)); Chris Brown (MWH); Mark Figura (Rose & Figura); Mark Gardiner (Western Financial Group); Jeff Jones (Governor's Office); Jerry Juday (Department of Law); Bob Shefchik (Interior Gas Utility (IGU)); and Miranda Studstill (Accu-Type Depositions).

Public participating via teleconference: Rick Adcock, Amy Broughton, and Jaime Loucks (MWH); Eddie Berdon (TIC Kiewit); Rena Delbridge (Representative Hawker's Office); Dave Domansky (Bracewell & Giuliani, LLP); and Katriina Timm (HDR).

4. AGENDA APPROVAL

Chair Pruhs requested the agenda be amended by moving Item 7A. and 7B. to Director Comments directly after Item 5. Public Comments, to give Board Member Wilken and others arriving from Fairbanks a chance to participate.

The agenda was approved as amended.

5. PUBLIC COMMENTS (3 minutes per person)

There were no public comments.

7. DIRECTOR COMMENTS

Mr. Leonard noted the loan and dashboard reports and the project matrix updates are included in the board packets. Mr. Leonard invited Mr. Hemsath and Ms. Anderson to provide a brief update and answer questions. He noted the Brooks Range Project is getting close to completion of all deal structures.

Vice-Chair Dick requested a production schedule update. Mr. Hemsath stated the goal is to have the facility operating in the first quarter of 2016.

Chair Pruhs requested Mr. Hemsath provide an update on Buccaneer. Mr. Hemsath stated that the bankruptcy proceedings are ongoing and the attorneys are reviewing a request to consolidate the bankruptcies from nine Buccaneer entities into one Buccaneer entity. A decision is expected to be made within the next month.

Chair Pruhs requested an update on the status of the rig. Mr. Hemsath said the rig is currently in Port Graham. Spartan is working on refurbishment required for ABS certification. A letter of intent has been signed between BlueCrest Energy and Spartan for work next spring during the 2016 season. The contract and pricing details are being negotiated.

Mr. Wilken arrived at 10:15 a.m.

6. NEW BUSINESS

6A. Fairbanks Utilities Presentations

Mr. Leonard expressed his appreciation to Mr. Dan Britton, President and CEO of FNG, and Mr. Bob Schefchik, Chairman of the Board at IGU, for coming to Anchorage to give their presentations today and answer questions from the board.

Mr. Britton provided a PowerPoint presentation describing the status of work accomplishments, ongoing projects, and next steps involving AIDEA's \$15 million loan to FNG. All of the current expansion is being funded through that loan. Mr. Wilken asked if FNG has trouble with frost-

jacking. Mr. Britton stated the pipe is run four feet under roadways, three feet under right-of-ways, and two feet minimum under yards for a service line. There have not been any frost-jacking issues. The pipe is snaked in the ditch, which allows for expansion and contraction.

Chair Pruhs asked if any steel casing has been installed. Mr. Britton stated that every railroad crossing has a minimum of 100 feet of steel casing installed. There are currently 15 railroad crossings. Chair Pruhs asked if there has been any opportunity for a joint trench agreement with other utilities. Mr. Britton said joint trench agreements have been discussed and they have not been appropriate. No communication companies have approached FNG regarding a joint trench agreement.

Chair Pruhs asked if FNG is able to bring gas to the new storage facilities during weight restrictions at 100%. Mr. Britton stated FNG is able to bring gas to the new storage facilities and has worked diligently with Department of Transportation (DOT) to get an exemption from weight restrictions. Chair Pruhs asked if FNG anticipates the same working relationship with DOT trucking down from the North Slope. Mr. Britton hopes the working relationship will be maintained and FNG will be successful in utilizing their current blanket waiver. Local communities will also have to accept each exemption.

Mr. Wilken asked if IGU would be installing the same type of system FNG is installing and thus having two backup systems. Mr. Britton said that FNG, IGU, and GVEA are in discussions regarding the best way to operate storage facilities. There could ultimately be a tie-in between two storage facilities owned by a consortium or individually owned. The discussions are ongoing.

Mr. Wilken requested the status of the rate case in front of the Regulatory Commission of Alaska (RCA) and the schedule for the docket. Mr. Britton said the prehearing conference will probably take place in October. The Attorney General has elected to participate. The docket has been suspended and interveners are allowed until the end of September. The hearing is expected to be sometime in the summer of 2015. The process is long, including a required decision date of 540 days after the date of suspension or filing, which is approximately the end of September 2015.

Mr. Wilken asked if there is an industry in Fairbanks who is selling conversions or furnaces to potential customers for 2016 gas. Mr. Britton stated mechanical contractors have started the conversion process. FNG has made a decision to support the mechanical contractors, rather than get into the conversion business and compete with the existing mechanical contractors.

Chair Pruhs asked for the cost per lineal foot for the construction cost. Mr. Britton said the range is from \$23 to \$85 per lineal foot. The budget is \$200,000 a mile. The loan package allows for a 20% contingency. Mr. Britton believes FNG will come in below budget this year. Chair Pruhs asked if FNG has completed a comparative analysis with Enstar's cost per lineal foot. Mr. Britton noted a direct comparative has not been performed, but FNG's cost is comparable based on Enstar publications and estimates. Mr. Britton stated the tight timeframe for construction has been challenging, especially starting in May and getting the people trained and acquiring the

equipment to complete the work. FNG has been pleased with the level of work completed to date.

Ms. Nygard asked if the impact on the appraisal of real estate is known once the conversion is completed. Mr. Britton said he has not seen a definitive analysis, but has heard from realtors that gas availability is beneficial to the property value.

Mr. Schefchik provided a PowerPoint presentation describing the status of work accomplishments, ongoing projects, and next steps in the six-year plan involving AIDEA's financing to IGU. Chair Pruhs asked if the construction costs in North Pole will be similar to those in Fairbanks. Mr. Schefchik believes the costs will be similar to \$200,000 per mile for pipe. Chair Pruhs asked if IGU's design going to be different than FNG's design. Mr. Schefchik noted the type of pipe and burial depth will be the same. The pipe sizing may be different and has not been determined.

Chair Pruhs inquired if IGU has an idea of how many customers will self-finance. Mr. Schefchik expects to see up to half of the customers convert early on. Chair Pruhs asked if the estimated 800 miles of pipe build-out is divided equally over the six years. Mr. Schefchik said there will be about 80 miles of build-out in the first year and then approximately 100 miles each year after that. Mr. Schefchik noted that the volume per mile does not change much and is within a 10% range throughout. Chair Pruhs asked if Eielson will be served. Mr. Schefchik stated there was a pipe to Eielson in the original drawing, but that has been pulled out because of Eielson's recent replacement of all of their existing coal boilers with newer coal boilers. Mr. Schefchik believes Fort Wainwright is more likely to be a candidate for conversion, but it is still a federal procurement decision. None of IGU's plans expect military demand in terms of cash flow.

Chair Pruhs asked what percentage of the estimated local distribution of \$3.61 per Mcf is Opex. Mr. Schefchik noted most of the distribution cost is Capex. Chair Pruhs requested to see the breakdown of Opex and Capex. Mr. Schefchik stated that AIDEA staff has the breakdown and IGU is happy to explain the models at any point. Mr. Leonard advised that information is confidential and permission has to be sought. Mr. Schefchik said he provided the information to Mr. Szymoniak so the Board would have it independent of the loan application.

Mr. Wilken expressed his appreciation AIDEA and AEA staff for making the financial models available to IGU in working together to find the best solution for low-price gas. Mr. Schefchik noted the financial modeling between MWH and the supply plant will be made available in the next two or three weeks.

Mr. Wilken asked what the schedule is for IGU to have access to the models. Mr. Davis said each of the utilities has a confidentiality agreement with MWH so they can be shown the models. Mr. Davis believes IGU will be shown the models soon. Mr. Brown, of MWH, noted the models are forthcoming within weeks and agreements have been made and are being negotiated to continue the process to be able to share the models. Mr. Adcock, of MWH, stated MWH will absolutely provide access of their models to IGU in September.

Mr. Pawlowski requested an update on the relationship between IGU and the Fairbanks North Star Borough, in terms of additional financial support. Mr. Schefchik said IGU is separate from the North Star Borough on decisions, operations, and finance. The North Star Borough offered a \$7.5 million line of credit. IGU has made a single draw for \$500,000 for cash flow purposes. IGU has a contract with the North Star Borough. The Borough has a grant from the state for the development and creation of a gas utility, which IGU is using for operating costs through 2016. Discussions between IGU and the Borough have occurred regarding being a backstop on conversion programs. No agreements have been made.

Chair Pruhs asked if there are any anticipated hurdles for IGU on a commercial take or pay agreement with the LNG provider. Mr. Schefchik advised the hurdles include price and conditions precedent.

6B. Interior Energy Project

Mr. Leonard requested Mr. Davis and Mr. Brown provide an update on the Interior Energy Project. Chair Pruhs asked if the costs are in line with what was anticipated. Mr. Davis stated that there was a change order of approximately 20% overrun cost for the gravel. The topography of the site was the cause of the overrun and additional gravel had to be used because of water conditions.

Mr. Brown noted an RFP went out for an operations contract. Two responses were received, including a local response, and they are currently being evaluated. The anticipated recommendation for award is in the very near future. Kiewit is moving forward with the design and estimate work.

Mr. Wilken requested an update on the status of the agreement with British Petroleum (BP) for feedstock. Mr. Davis said BP contacted Mr. Leonard last week to schedule a meeting this week. Mr. Wilken asked if there were any significant changes to Mr. Brown's chart. Mr. Brown stated there have not been any impacts to the schedule and chart. Chair Pruhs requested the chart be updated for each IEP overview. Mr. Wilken requested the tornado diagram be updated for the next meeting, if appropriate and helpful.

MOTION: A motion was made by Vice-Chair Dick to go into Executive Session to discuss confidential information related to the Interior Energy Project. Motion seconded by Ms. Nygard. The motion was approved.

6C. Executive Session - Interior Energy Project (IEP): 12:03 p.m.

The Board reconvened its regular meeting at 1:44 p.m. Chair Pruhs stated no formal action was taken during executive session.

6D. Resolution No. G14-11A, Amendment Authorizing an Early Works Contract for the Interior Energy Project; and Resolution No. G14-16, Authorizing a Concession Agreement with Northern Lights Energy, LLC

MOTION: A motion was made by Vice-Chair Dick to approve Resolution No. G14-11A, Amendment Authorizing an Early Works Contract for the Interior Energy Project. Motion seconded by Ms. Nygard.

Mr. Leonard explained that this resolution is an amendment to the original Resolution No. G14-11, which provided funds for an early works contract. This amendment is to complete the early procurement process of getting the bids out for the long-lead items. That work has been projected to cost \$1,650,000, bringing the total funding amount to \$6.1 million.

A vote was called and the motion was approved with members Pruhs, Dick, Bell, Nygard, Pawlowski, and Wilken voting yea.

MOTION: A motion was made by Vice-Chair Dick to approve and amend Resolution No. G14-16, Authorizing a Concession Agreement with Northern Lights Energy, LLC, adding under the Now, Therefore, Be It Resolved section, Section I, third line from bottom, beginning "Concession Agreement presented to the Board," to continue to read, "or with any non-material changes to any of the terms and conditions," so forth. Motion seconded by Mr. Wilken.

Mr. Leonard advised this resolution allows the Executive Director to move forward with final negotiations of the concession agreement and to bring to the Board a fully implemented agreement that would be in substantial form. Mr. Davis and Mr. Brown were available to answer questions.

Mr. Wilken stated he intends to support this resolution and wants to voice his concerns on the record regarding the October 31st date and December 31st walk-away date, and the cascade of decisions that begin the first of November has to happen in a very short period of time. Mr. Wilken believes it can happen, but remains concerned about the possibility of a walk-away on December 31st. Mr. Wilken noted his second concern is the funding issue and his affirmation of this resolution is not an agreement to put \$100 million toward the plant. The allocation of the funds has not been determined. Mr. Wilken requested to see the effect of the January 7th statement by MWH in regard to using funds for the plant that would otherwise be monies used for distribution.

Mr. Pawlowski noted he intends to support this resolution and believes the provisions related to the alternative gas supply are a key policy part of this Interior Energy Project. The provisions enable the project to deliver gas to the Interior while providing the investors the certainty they need as the state advances sustainable solutions for low-cost energy.

A vote was called and the motion was approved with members Pruhs, Dick, Bell, Nygard, Pawlowski, and Wilken voting yea.

MOTION: A motion was made by Vice-Chair Dick to go into Executive Session to discuss confidential information related to the FY 2016 Budget preparation. Motion seconded by Commissioner Bell. The motion was approved.

6E. Executive Session - FY 2016 Budget preparation: 1:55 p.m.

The Board reconvened its regular meeting at 3:11 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. BOARD COMMENTS

Commissioner Bell noted the Alaska Bankers' Association's (ABA) annual meeting is October 1, 2014 in the board room at Wells Fargo, and AIDEA, the Division of Economic Development, AEA, other gas line development authorities and entities that engaged in business activity of interest to ABA, are invited to attend. Commissioner Bell announced that Mr. John Bittner, the new DCCED Deputy Commissioner and alternate for Commissioner Bell on the AIDEA Board, and Diane Kaplan with the Rasmuson Foundation, will both be recognized at the International Economic Development Council (IEDC) conference in Ft. Worth, Texas on October 19, 2014. Alaska will be hosting the IEDC Conference in the fall of 2015. Commissioner Bell expressed her appreciation to the staff in preparing the Ketchikan meeting.

Ms. Nygard believes the Ketchikan meeting was well received and expressed the importance of site visits.

Chair Pruhs expressed his appreciation to Board members and staff for their effort and participation today.

7C. AIDEA board meetings are currently scheduled at 10:00 a.m. Thursdays - Sept 25, Oct 30, and Dec 4, 2014.

9. ADJOURNMENT

There being no further business of the Board, the meeting adjourned at 3:15 p.m.



Ted Leonard, Executive Director/Secretary
Alaska Industrial Development and Export Authority