



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, January 14, 2015
Atlanta, Georgia and Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on January 14, 2015 at 10:01 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Board members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Jon Bittner (Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED)); Jerry Burnett (Deputy Commissioner, Department of Revenue); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Board member participating via teleconference: Wilson Hughes (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA and AEA staff present: Ted Leonard (Executive Director); Chris Anderson (Director - Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Michael Lamb (Chief Financial Officer); Gene Therriault (Director - Energy Policy & Outreach AEA); Tom Erickson (Chief Procurement Officer); Jennifer Haldane (Human Resources Director); Matt Narus (Project Development & Asset Management (PDAM) Project Manager); Bill Phelan (Loan Officer); Karsten Rodvik (EAO); Jeff San Juan (IFD); John Springsteen (Infrastructure Development Officer); Lori Stender (PDAM Project Manager); Kirk Warren (Project Manager AEA); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

AIDEA staff participating via teleconference: Jim Hemsath (Director - PDAM).

Public present: Alan Bailey (Petroleum News); Dan Britton (Fairbanks Natural Gas (FNG)); Elwood Brehmer (AK Journal of Commerce); Dave Domansky (Bracewell & Guiliani); fMark Dalton and Tim Gallagher (HDR); Alex DeMarban (Alaska Dispatch News); Mark Figura (Rose & Figura); Sterling Gallagher (Governor's Office); Jerry Juday (Department of Law); Alex Marks (Public); Jay Page (First National Bank Alaska (FNBA)); Fred Parady (Commissioner, DCCED); Mark Schimscheimer (Public); Jan Sieberts (WMC); Mark Slaughter (Cook Inlet Energy); Miranda Studstill (Accu-Type Depositions); and Bruce Webb (Furie Operating Alaska).

Public participating via teleconference: Dan Bross (KUAC Radio Fairbanks); Edward Gooden Jr. and Colleen Sheldon (Native Village of Kobuk Council Members); Gary Hanchett (Mayor, Bettles); Joe Hardenbrook (Fairbanks North Star Borough); Representative Doug Isaacson; Tina Sam (A); Tony SlatonBarker (Coffman Engineers); Ron Yarnell (All About Adventure); and Jill Yordy (Northern Alaska Environmental Center).

4. AGENDA APPROVAL

Chair Pruhs requested deleting Item 6C. Cordova Gas Project Update and adding the Interior Energy Project to Item 6F. Executive Session.

The agenda was approved as amended.

5. PUBLIC COMMENTS

Ron Yarnell, owner of All About Adventure, said he attended the AIDEA Ambler Road meetings held in Fairbanks, Alaska on December 16 and 17, 2014. He informed the board that the villages of Allakaket, Bettles, Evansville, Kobuk and one other have passed resolutions against the Ambler Road. Permission has not been given to pass through the 70,000 acres of Evansville, Inc., which is private land. Mr. Yarnell does not believe AIDEA is listening to the people who are speaking at the public hearings, because during the Bettles-Evansville meeting, there were 18 people who spoke against the Ambler Road and two people who spoke in favor of the Ambler Road.

Mr. Yarnell stated he is aware of AIDEA's recent four-page summary to Governor Walker, implying the state must continue to spend money on this highly controversial road that does not have sufficient public support, does not have a legal right-of-way, and has far too many concerns to proceed. He reported, of the \$7.8 million spent to-date, DOWL has received \$5.7 million and is projected to receive an additional \$3.5 million, even if the road never gets built. He believes Alaska can no longer continue to spend money like this. Mr. Yarnell requested AIDEA rescind the resolution approving the commission of the application to the Department of Interior. He believes this is the wrong road at the wrong time.

Mayor Gary Hanchett of Bettles expressed his appreciation to the people he has met from DOWL HKM, NovaCopper, Nana, and others. He noted, for the public record, Bettles issued a resolution opposing the Ambler Mining District Road. Mayor Hanchett said the recent findings are the property of the people and he would like to examine and disseminate the findings of these studies. The methods used to make the conclusions must pass muster with the people and not be hidden from the inconvenient public. He believes the exaggerated inflations of personnel employed, real product, private investments, and involvements are questionable. Mayor Hanchett said the portrayal of the features and benefits have been entertaining and would be humorous, were it not for the magnitude of the undertaking. The trivializing of Alaska's Interior people creates an overabundance of illegitimacy and many feel they are being bullied by money and numbers used by arrogant know-it-alls.

Mayor Hanchett said that at one meeting, the public's questions were not addressed, because AIDEA imposed their interpretation of possible questions and provided few answers. He suggested Alaska stop this repetitious pattern of exploitation and conversion of lives. Mayor Hanchett requested that the EIS not be submitted, that the Ambler Mining District Road project be halted, and that all materials remaining, including funds and findings, be made the public's property from which it was divined.

Jill Yordy, Clean Water and Mining Program Director at the Northern Alaska Environmental Center in Fairbanks expressed her appreciation for the opportunity to make public comments. Ms. Yordy requested AIDEA rescind the resolution which gives approval to file a right-of-way application for the proposed Ambler Mining District Industrial Access Road. She will also submit her comments in writing to the AIDEA Executive Director with a request that the comments be provided to each Board member.

Ms. Yordy shared her concerns regarding the Ambler Road project and noted that the justification for passing the resolution to provide funding for the EIS is no longer true. The allocation for the Ambler Mining District Road has been removed from the draft budget for FY 16. Administrative Order 271 requests additional detailed project budget and spending information. Ms. Yordy stated her concern regarding AIDEA's response to the order because the numbers are not supported by the project team's documentation, nor by Nova Copper's preliminary economic assessment of the Arctic deposit. For instance, AIDEA's response cites if the Arctic deposit were to come online as a mine, it would provide over 1,000 operations and supporting jobs. Whereas, Nova Copper's preliminary economic assessments state that the operating and related jobs created by the mine would only be 142. Another instance is AIDEA's response cites there would be nearly 500 jobs created for road construction. Whereas, the fact sheet available on the project website states up to 300 jobs would be created for road construction. Ms. Yordy requested an investigation regarding the discrepancy of the numbers cited in AIDEA's response to the administrative order and to provide supporting documentation for any claims made.

Ms. Yordy noted there is a resolution by Evansville, Inc., one of the land owners along the proposed route, stating they will not allow a road for this purpose cross their land. The project team has consistently ignored this resolution, other opposing resolutions, and public testimony opposition. She believes it is irresponsible to submit a right-of-way application for a route where one of the private land owners will not grant access.

Ms. Yordy noted AIDEA staff hosted a very significant meeting in Fairbanks recently regarding the Ambler Road, and the meeting was scheduled on the same day and time as the AIDEA Board meeting. This is the second Ambler Road meeting scheduled concurrently with an AIDEA Board meeting. Comments at the Ambler Road meeting were made expressing concern the Board is not hearing the substance of the Ambler Road meetings, and statements were made expressing concern that anyone attending the Ambler Road meeting could not call into the AIDEA Board meeting to provide public comments.

Joe Hardenbrook from the Fairbanks North Star Borough said he is a newly appointed Special Assistant to Borough Mayor Luke Hopkins. The mayor asked Mr. Hardenbrook to provide a statement on his behalf in support of Resolution No. G15-02. Mr. Hardenbrook said Mayor Hopkins remains committed to the purpose of the Interior Energy Project which is to deliver energy to Fairbanks at the lowest cost possible, as soon as possible, to as many people as possible. Mr. Hardenbrook stated Mayor Hopkins encourages the Board to support Resolution No. G15-02.

Edward Gooding, Jr., Council Member from the Native Village of Kobuk, asked what the procedure would be for the Native Village of Kobuk to request a seat on the AIDEA Board. Chair Pruhs said the Native Village of Kobuk would have to talk to the Governor's Administration.

Colleen Sheldon, Council Member of the Native Village of Kobuk, asked why AIDEA did not answer the question regarding the private land owner denying access to a proposed Ambler Road. Chair Pruhs requested questions be put in writing and sent to AIDEA's Executive Director for a proper response.

Mr. Gooding asked if it is true Governor Walker is putting the money on hold for the Ambler Road project. Chair Pruhs stated that question would have to be addressed to the Governor's Office.

Chair Pruhs encouraged all questions be provided in writing or email to AIDEA so a proper response can be given.

Representative Doug Isaacson said he is in favor of Resolution No. G15-02 authorizing a SETS funds expenditure for the Interior Energy Project. He said now that the concession agreement has been terminated, the Fairbanks Economic Development Corporation has been hosting Tuesday morning meetings to discuss the next steps.

6. NEW BUSINESS

6A. Resolution No. L15-01 The Zehrung Living Trust

Mr. Leonard stated Resolution No. L15-01 will allow AIDEA to participate in a loan of \$3,975,000 at 90%, which is \$3,415,500. This is long-term financing for the acquisition of a retail restaurant project in the Anchorage area.

Ms. Anderson said this loan participation request will be titled The Zehrung Living Trust dated July 15, 2010. The co-borrowers and the financial strength behind the loan are Edward and Terrie Zehrung. The real estate firm, EZ, LLC, owned by Mr. Zehrung, will be managing the property. Mr. Zehrung is an experienced owner, investor, and manager of commercial properties in Alaska. Thirty jobs will be retained, in addition to 30 construction jobs that were created during the remodel of both GCI and the restaurant. The block of improved land is at the northwest corner of "C" Street, between Northern Lights and Benson. A first deed of trust will be against the collateral, which is defined as Lots 1, 2, and 3, of Blueberry Lake Subdivision. The property appraised at \$7.3 million and is at a 52% loan to value. The debt service coverage of 1.51 to one is above the standard 1.25 to one. There is no related debt and no known environmental issues. There is currently a good mix of leases on the property.

Ms. Anderson noted the perceived weaknesses include a potential market risk with the lower oil prices. She believes this is mitigated by the diversified nature of Alaska's economy with government, tourism, and transportation. The statewide portfolio diversification of restaurant type will increase from 1.9% to 2.8%. The Anchorage region portfolio diversification will

increase from 2.3% to 4.3%. AIDEA has sufficient funds that are unencumbered for this loan participation request. Staff recommends the approval of Resolution No. L15-01, under the conditions all leases are to be subordinate to the lender's deed of trust, the repayment terms are to require accelerated amortization, and the loan amount is not to exceed the balance of the seller's note.

MOTION: Vice-Chair Dick moved to approve Resolution No. L15-01 The Zehrun Living Trust. Motion seconded by Mr. Wilken.

The motion was approved with members Pruhs, Dick, Bittner, Burnett, Hughes, Nygard, and Wilken voting yea.

6B. Resolution No. G15-01 Furie Operating Alaska, LLC

MOTION: Vice-Chair Dick moved to approve Resolution No. G15-01 Furie Operating Alaska, LLC. Motion seconded by Deputy Commissioner Bittner.

Mr. Leonard said Resolution No. G15-01 authorizes a cost reimbursement agreement between AIDEA and Furie, allowing AIDEA to do a prefeasibility analysis on the project and to be reimbursed for those expenditures. Mr. Leonard invited Mr. Hemsath and Mr. Narus of AIDEA and Bruce Webb of Furie to provide a description and to answer questions regarding the reimbursement agreement and potential project.

Mr. Hemsath stated Resolution No G15-01 is a cost reimbursement agreement for \$100,000 for a prefeasibility/feasibility analysis for the project, including confirmation of the size of the field, estimated production, verification of engineering and construction work, business plan and other outside financing. Third-party consultants will be engaged for preparation and completion of financing plan documents. The cost will be covered under the reimbursement agreement, which can be woven into the investment from AIDEA or paid back right away off the first revenues.

Mr. Hemsath noted a project summary sheet has been provided and explained the project is the development of the Kitchen Light natural gas field in Cook Inlet. Phase One is for design and construction of the pipeline to handle 100 million cubic feet of gas per day (mmCF/d). It will be designed with the ability to be doubled to 200 mmCF/d, as the market allows. The facilities include the installation of a monopod platform, 15-mile sea bottom pipeline from the platform to the onshore facility north of Agrium, Tesoro, and ConocoPhillips LNG facility in Nikiski.

Mr. Hemsath stated the request from Furie is for AIDEA's participation of \$50 million in the gas production infrastructure as a preferred owner/limited equity partner. Furie requests this not be processed as a project financing loan because of interference with some of their ongoing debt financing. This request is the same model as the Brooks Range production facility. The projected economic impact includes up to 200 construction jobs for the facility, up to 30 development drilling jobs over two to three years, 10 to 15 full-time operations and management jobs, more than 100 indirect long-term jobs, based on AOGA ratios, property tax base for Kenai Peninsula Borough, and state of Alaska taxes.

Mr. Hemsath discussed potential risks, including gas sales contracts, facility/equipment outages, insufficient field production, unknowns with the production process, and increases in construction costs. He provided an overview of the potential mitigation measures for each of the risks. Staff recommends the Board approve Resolution G15-01 to ensure this is an appropriate project with the appropriate economics for AIDEA.

Mr. Wilken requested more information about the project providing natural gas to sustain electric and heating utilities, and existing contracts, if any. Mr. Hemsath noted the gas contracts are a key part of the conditions. Furie has discussed the confidential terms with staff and if the contracts in negotiation become firm, there will be sales contracts for the production of the gas prior to the final construction of this facility.

Mr. Wilken asked if AIDEA's \$50 million participation would occur prior to the contracts being negotiated. Mr. Hemsath stated some capacity of the contracts will be a condition precedent prior to AIDEA funding.

Mr. Wilken asked if this is the drill rig that ran afoul of the U.S. Jones Act, and if so, he requested to know the status of that issue. Mr. Hemsath agreed the Spartan 151 is the drill rig that was brought to Alaska in conflict to the Jones Act. The rig has been operating for the last two years in Cook Inlet and all issues have been resolved. The monopod is in Seattle and is not under a Jones Act restriction.

The motion was approved with members Pruhs, Dick, Bittner, Burnett, Hughes, Nygard, and Wilken voting yea.

6C. Deleted from agenda

6D. Interior Energy Project Update

Mr. Leonard invited Mr. Davis and Mr. Therriault to provide the update for the Interior Energy Project (IEP). Mr. Davis reported per the Board's instruction in January 2014, staff has been working on the IEP with MWH as a public/private partner in conjunction with the SB 23 funding. The option of a joint development agreement was discussed, with AIDEA being a finance arm into the project. The proponent would be an LLC, owned in part by MWH and an investor. The proponent would then design, build, and operate the project. AIDEA's involvement would be a lender.

Mr. Davis stated one of the risks to the financial structure was the possibility of an alternative source of gas reaching Fairbanks. The investor agreed to take that alternative gas supply risk, in terms of taking a security in the plant and they also asked for the possibility of forgiveness of any lending. Then the investor informed forgiving the SETS loan would create a potential tax liability for the investor and suggested utilizing a concession agreement. Under the concession agreement, AIDEA would own the project, but not operate the project. At the end of 30 years, when the loan has ended and the concession agreement has ended, it will revolve back to AIDEA. There is additional risk created if AIDEA is the potential owner.

Mr. Davis believes the concession agreement affected the dynamics of the negotiations. Under the concession agreement, the LLC set up by MWH and AIDEA agreed to a series of conditions precedent that had to be met for financial close, including a target delivery price for the gas, an engineering procurement construction (EPC) price for the gas. Mr. Davis noted there was an acknowledgement at the December 16, 2014 meeting that AIDEA was not coming to terms on the project. The concession agreement has been terminated. The conclusions are that AIDEA works best as a finance development agency. It is prepared and can invest in partnership with private proponents and make use of private capital. Staff believes the focus going forward needs to be on the gas delivered to the Interior utilities.

Mr. Davis discussed the demand risk the utilities face with this project and conversion rates from fuel oil to gas. The price of fuel oil has been decreasing and is at approximately three dollars. The model uses the price of fuel oil at four dollars, which means the demand risk for conversion inordinately shifted to the utilities, making the concession agreement structure less viable.

Mr. Therriault stated AEA has been working as partner with AIDEA on this project, primarily focused on the distribution work. AEA was also involved with the demand surveys completed, utilizing information that was supplied by IGU to estimate the price sensitivity of the consumers for conversion costs. Mr. Therriault noted AEA has been involved with FNG and IGU on the loans that have been provided and AEA has been looking at their proposed plans.

Mr. Therriault informed this is an opportunity to take a fresh look at ideas for supplying the communities' needs. Staff has developed a project charter document that AEA can use to interact with the three utilities. The three utilities will be the customers for the plant. AEA now has a much better understanding and more information of the cost of sourcing the product off the North Slope and delivering it in the community. The changes in the source of gas in Cook Inlet continues to be monitored. The uncertainty regarding supply and price remains.

Mr. Therriault believes the development of the relationship among the three utilities over the course of the last year has been beneficial. AEA proposes working closely with the three utilities, other stakeholders, the local community, and reviewing the different concepts to determine the true potential supplies for the Interior energy space heat needs, in particular, as well as potential energy supplied used for generation of electricity.

Mr. Therriault noted the documents brought forward today for consideration include the charter document, a suggested budget, and the IGU-developed grid of potential sources and evaluation matrix.

Mr. Wilken asked for more information regarding the purpose of the document provided to the Board entitled "Report to the AIDEA Board, Termination of the IEP Concession Agreement." Mr. Wilken said a discussion needs to occur if this report is intended to be a summary of the last 10 months' of work, but if it is intended to be purely a point-in-time report having no longevity, further discussion is not necessary. He does not believe this report should be part of the IEP summary.

Chair Pruhs stated he believes the intent of the document was to provide a bullet point highlight based on staff's conception of what transpired. Mr. Leonard agreed with Chair Pruhs and noted a complete analysis of the IEP project is being compiled.

Mr. Wilken requested a purpose statement be included on the current document, a date be placed on the document, and it be marked as a working draft. Mr. Leonard agreed. Mr. Wilken stated he will provide comments regarding the document and suggested other Board members also provide comments. Mr. Leonard noted the comments can be incorporated in the document.

6E. Resolution No. G15-02 Evaluate Alternatives to the North Slope LNG Concession Agreement

MOTION: Vice-Chair Dick moved to approve Resolution No. G15-02 Evaluate Alternatives to the North Slope LNG Concession Agreement. Motion seconded by Ms. Nygard.

Mr. Leonard stated Resolution No. G15-02 is to allow AIDEA to budget funds in the amount of \$700,000 to move forward with reviewing the potential alternatives for this project, other than constructing a North Slope plant with a concession agreement. The source of funds for \$500,000 would come out of the original SETS funds and \$200,000 would come out of the Economic Development Account. A budget of the funds is included in the documents. He noted some of the budgeted amounts may not have to be utilized. For example, DNR may be able to provide expertise of reserve risk and price information without the budgeted RSA of funds.

Deputy Commissioner Burnett inquired about the timeline of the provided budget. Mr. Warren stated the budget is based off of a two-month effort.

The motion was approved with members Pruhs, Dick, Bittner, Burnett, Hughes, and Wilken voting yea. Member Nygard voted nay.

6F. Executive Session – Confidential Personnel Matters and Interior Energy Project.

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential personnel matters and confidential financial information and negotiations related to the Interior Energy Project. Motion seconded by Mr. Wilken. The motion was approved.

Board members present: Dana Pruhs, Russell Dick, Jon Bittner, Jerry Burnett, Crystal Nygard and Gary Wilken. Board member participating via teleconference: Wilson Hughes

Joining the board in Executive Session: Fred Parady, Acting Commissioner DCCED.

Invited by the board to attend the executive session to discuss confidential financial information and negotiations related to IEP: Ted Leonard (AIDEA Executive Director); Mark Davis (Chief Infrastructure Development Officer); and Jerry Juday (Department of Law).

Invited by the board to attend executive session to discuss confidential information related to personnel matters: Jennifer Haldane (Human Resources Director).

The Board entered executive session at 11:15 a.m. The Board reconvened its regular meeting at 12:32 p.m. Chair Pruhs stated no formal action was taken during executive session.

7. DIRECTOR COMMENTS

Mr. Leonard said the loan and dashboard reports are included in the Board packet and he is available to answer any questions.

Chair Pruhs asked if there is enough working capital in the revolving fund to continue the revenue stream. Mr. Leonard stated currently there is enough working capital to continue the revenue stream and AIDEA needs to continue to build the assets and the loan portfolios to increase the rate of return of the investments. Chair Pruhs asked what percentage more of the revolving fund balance needs to be put to work. Mr. Leonard noted the goal this year was to get out at least \$100 million, equaling \$50 million in loans and \$50 million in projects. He believes those targets can be met.

Mr. Leonard stated the next regularly scheduled meeting is February 25, 2015. A potential loan to IGU may be brought forth prior in order to meet the building season. Mr. Leonard requested a teleconference meeting be scheduled the end of January or the first week of February to review the potential loan package. There was no objection to the request.

Mr. Wilken asked if the FNG storage loan is complete. Mr. Leonard noted that specific FNG storage loan is complete. In the future, potential financing of other storage for the area has to be addressed.

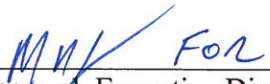
The next regularly scheduled AIDEA board meeting will be on Wednesday, February 25, 2015, subject to the call of the Chair.

8. BOARD COMMENTS

Ms. Nygard believes the Board needs to proceed with caution regarding the IEP to ensure the true benefit to Fairbanks, to Alaskans, and to the private sector. She expressed her appreciation for Board comments about the necessity of reviewing lessons learned. It is important to be very clear about those lessons going forward.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:37 p.m.



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