



## **Alaska Industrial Development and Export Authority**

### **BOARD MEETING MINUTES**

**Wednesday, May 27, 2015**

Anchorage and Juneau, Alaska

#### **1. CALL TO ORDER**

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on May 27, 2015 at 9:06 a.m. He noted three members were still in route and would arrive after 9:30 a.m. A quorum was established.

#### **2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Wilson Hughes (Public Member); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Joined the meeting in progress at 9:45 a.m. Vice-Chair Russell Dick (Public Member); at 10:33 a.m. Jerry Burnett (Deputy Commissioner, Department of Revenue) and Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development).

#### **3. ROLL CALL: STAFF, PUBLIC**

AIDEA staff present: John Springsteen (Executive Director); Ted Leonard (Director Emeritus); Chris Anderson (Director-Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Director-Project Development & Asset Management (PDAM)); Michael Lamb (Chief Financial Officer (CFO)); Mike Catsi (Director-Business Development & Communications); Gene Therriault (AEA Director-Energy Policy & Outreach); Tom Erickson (Chief Procurement Officer); Matt Narus (Project Manager-PDAM); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Nick Szymoniak, (Energy Infrastructure Development Officer); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Dan Britton (Fairbanks Natural Gas/Pentex); Mark Figura (Rose & Figura); Mark Fineman, Bob Petersen, and Bob Scanlon (Blood Bank of Alaska); Mark Gardiner (Western Financial Group (WFG)); Jerry Juday (Department of Law); John Moosey (Matanuska-Susitna Borough); Bob Shefchik (Interior Energy Project (IEP) Team Leader); Miranda Studstill (Accu-Type Depositions); and Ken Vassar (KEVL).

Public participating via teleconference: Susan Barry (Orrick, Herrington & Sutcliffe); Paul Bloom and Brian Olin (Goldman Sachs); Elwood Brehmer (Alaska Journal of Commerce); Dan Bross (KUAC Radio); John Collette (Alaska Works Engineering); Mike Craft (Public); Fred Eoff (PFM); Jimmy Fox; Mayor Luke Hopkins (Fairbanks North Star Borough); Connie Hulbert and Tim McCloud (Alaska Electric Light & Power (AEL&P)); Kathy Mayo (Public); Kristen Nelson (Petroleum News); Merrick Pierce (Public); Tim Rattigan and Benjamin Selberg

(Citigroup); Lisa Ross (Birch Horton Bittner & Cherot); and Pamela Throop (Alaska Commercial Properties).

#### **4. AGENDA APPROVAL**

The agenda was approved as presented.

#### **5. PUBLIC COMMENTS**

Chair Pruhs asked that any questions to the Board be presented in writing. A subsequent response will be provided.

**Mike Craft** of Fairbanks expressed concerns with the gas deal in Fairbanks. He questioned the timing of a meeting addressing energy and finance problems that will occur before the next transition team meeting. He believes it is important the people in Fairbanks have an opportunity to attend meetings, but it is difficult for Fairbanks residents to come to Anchorage.

Mr. Craft expressed his concern there is no gas contract for the brand new utility planned. He believes the solution this presents is only going to affect about 5% of the people in Fairbanks. Mr. Craft stated the opportunity of using propane in Fairbanks has been ignored, and he believes the propane option would affect a broader amount of people in Fairbanks.

**John Collette**, of Alaska Works Engineering in Fairbanks, expressed his concern with the rapid roll-out of the Pentex purchase and having no gas contracts. He believes the project is overpriced by three times the industry standard. Mr. Collette noted his company has completed over 600 energy audits in the Fairbanks area over the last few years, and he is intimately familiar with the issues being outside the core area in North Pole. He believes the only way to address this in the short-term is to roll out propane. Propane is at a historic low price and would address Fairbanks and North Pole concurrently. Mr. Collette recommended the air quality issue for Fairbanks be addressed first, then address the energy cost issue in the Bush. Mr. Collette suggested the Board postpone the Pentex purchase and review the propane option seriously. He requested the final decision be made at the June 25, 2015 meeting in Fairbanks.

Mr. Wilken asked Mr. Collette how, as an engineer, he handles the issue that propane liquefies at 40-below. Mr. Collette stated he has lived in Fairbanks his entire life and has put a 100-watt light bulb with a blanket over his propane tank numerous times. He believes any tank which is buried properly with heat tape will easily withstand 40-below.

Mr. Wilken asked Mr. Collette if there are other ways besides burying the tank, heat tape, and a light bulb and blanket, to handle the problem that propane liquefies at 40-below. Mr. Collette noted the propane line to the home needs to be in contact with earth, which will never get to 40-below. Another option is utilizing propane in cars and truck with heat from the exhaust. Mr. Collette believes issues with 40-below temperatures do not pose the problems they used to and there are simple technical fixes.

**Pamela Throop**, of Alaska Commercial Properties, believes the proposed purchase of Fairbanks Natural Gas (FNG) is premature. She stated there are incredible opportunities to pursue propane and the problems with propane are rare. A 72% conversion rate is overly optimistic, and FNG does not service people in the outlying areas. Propane could be made available to everyone immediately. She expressed her concern, as a Fairbanks commercial broker, to have energy cost parity with Anchorage to attract economic development and industry to Fairbanks. Ms. Throop encouraged the Board to seriously consider propane in the same way the FNG proposal was reviewed.

**Jimmy Fox** of Fairbanks encouraged the Board to review propane as an option as quickly as possible. He said relief is needed immediately because he has two children who attend school in one of the heavily-polluted areas of Fairbanks. Mr. Fox believes propane can be installed quickly, with minimal infrastructure. This could provide a bridge to liquefied natural gas (LNG).

**Mayor Luke Hopkins**, Fairbanks North Star Borough (FNSB), informed the Board of the affirmed resolution from the Fairbanks North Star Borough Assembly, passed on May 21, 2015, reaffirming the purchase of Pentex, which provides the community an economic development project. Mayor Hopkins believes this is the first step in offering a cost of service local utility for gas distribution in the community.

Mayor Hopkins commented on the request for proposal (RFP) considered by AIDEA to go out for a large supply and delivery contract for larger volumes of natural gas for Interior Gas Utility (IGU), FNG and others. He expressed understanding the purchase of Pentex uses AIDEA funds and does not use SETS, SB 23 or HB 105 funding. Mayor Hopkins believes the ability for a not-for-service acquisition of a utility is an opportunity that does not come by very often. This is an important step to take.

Mayor Hopkins noted there is much discussion in the community about propane. Any vendors and suppliers who are interested in putting forth a serious proposal will be able to go forward with that in a public RFP process. There are residents outside of the medium density area that will not be served with any natural gas distribution. Mayor Hopkins encouraged the Board to pass the resolutions today, and give direction to AIDEA executive team to go forth and sign the agreement for the Pentex purchase.

**Merrick Pierce** of Fairbanks commented on agenda Items E., F., G., and H. He noted a 10-page presentation was compiled by citizens in Fairbanks and provided to the Board for distribution this morning. Mr. Pierce directed the Board to page nine illustrating the costs of the various fuel sources. He noted the proposed price of the fuel as a consequence of the Pentex acquisition will be a city gate cost of \$15 and over \$20 at the burner tip. This is a very high cost proposal and it is higher than the price for wood pellets, propane, fire wood, and fuel oil. Mr. Pierce does not believe a 72% conversion rate is likely because of the cost of fuel is higher than practically all other alternatives.

Mr. Pierce stated the Board has not provided a plan that addresses the high particulates in the air, making Fairbanks one of the worst air-quality cities in the nation. He indicated studies show the poor air quality causes 50 to 100 premature deaths per year in Fairbanks. Mr. Pierce commented the Governor has called for energy parity between Anchorage and Fairbanks. He believes this is an important step and is critical to creating jobs in Fairbanks. Mr. Pierce noted the Board has not vetted all of the alternatives delineated in HB 105. He believes it is inappropriate to go forward with the Pentex acquisition without evaluation of the alternatives. Mr. Pierce stated one of the engineering solutions to address the issues of propane at 40-below is to add a little bit of ethane to the mix, which will lower the point at which propane liquefies to about 70-below.

## **6. PRIOR MINUTES - April 30, 2015**

The minutes were approved as presented.

## **7. NEW BUSINESS**

### **7A. Blood Bank of Alaska Presentation**

Mr. Springsteen said the Blood Bank of Alaska (BBA) has requested the opportunity to provide a brief presentation of their activities in advance of their loan request, which will come before the Board at the June meeting in Fairbanks. BBA representatives will not be able to attend the Fairbanks meeting. Bob Peterson, Chairman of the Board for BBA, Bob Scanlon, Chief Executive Officer (CEO) BBA, and Mark Fineman, Project Manager, gave a presentation describing the history of the BBA. A review was given of the needed AIDEA loan request of \$8.5 million for the completion of the \$45.1 million new facility located at 1215 Airport Heights Drive in Anchorage.

Chair Pruhs asked from which areas of the state is blood collected. Mr. Scanlon explained mobile operations go out all over the state to collect blood.

Mr. Peterson described the repayment funding sources, including foundation grants of \$1.2 million, sale of current building of \$2.7 million, and major donor ConocoPhillips of \$1 million. He believes the AIDEA loan will term out at about \$2 million. The premise behind construction of the new building is to complete this project without raising the price of blood to Alaskan customers.

Mr. Wilken asked if the BBA has any federal funding sources funneled through tribal organizations and if Native corporations have stepped up to help fund this shortfall. Mr. Peterson stated the BBA is just recently approaching the Native organizations, as the next industry in line on the capital campaign endeavor. Any funding promised will not be received by next month. Mr. Peterson noted federal appropriations was one funding source targeted that has not manifested. Mr. Wilken expressed appreciation to the BBA for opening a nice facility in Fairbanks.

Ms. Nygard requested additional information regarding the new markets tax credit BBA will utilize. Mr. Peterson said no community development entity (CDE) has received a new markets tax credit allocation in Alaska for many years. BBA does not expect an allocation to Alaska CDE this year, but outside CDEs are interested in BBA. BBA is currently positioned to receive the new markets tax credit this year, if they are given.

Mr. Hughes asked for the terms of the loan. Mr. Peterson said the current terms are for a line of credit for the first 18 months. The remainder of the loan after 18 months would be termed out for 35 years.

Chair Pruhs inquired if the in-house laboratory work that will occur provides a savings or if it is cost neutral. Mr. Scanlon stated there will be a savings over the long-term by increasing efficiencies and allowing the BBA to be more responsive to the hospitals.

Ms. Nygard asked for the projected volumes of the in-house laboratory. Mr. Scanlon said discussions with the hospitals are ongoing regarding specific volumes. The hospitals have required testing which is currently sent out of state that could immediately be transferred to the new local facility and would provide a positive cash flow.

**7B. Resolution No. G15-08 Authorizing Power Revenue Refunding Bonds, Second Series (Snettisham Hydroelectric Project)**

**MOTION: Vice-Chair Dick moved to approve Resolution No. G15-08 Authorizing Power Revenue Refunding Bonds, Second series (Snettisham Hydroelectric Project). Motion seconded by Mr. Wilken.**

Mr. Springsteen stated Resolution No. G15-08 authorizes AIDEA to issue refunding bonds for the Snettisham Hydroelectric Project in Juneau. He invited Michael Lamb, CFO, to present this resolution. Mr. Lamb introduced Ken Vassar, AIDEA bond counsel, Susan Barry, the underwriters bond counsel, Connie Hulbert and Tim McCloud with AEL&P, Tim Rattigan of Citigroup, Paul Bloom and Brian Olin of Goldman Sachs, all of whom are available today to answer questions. Mr. Lamb said the sole purpose of this refunding is to accomplish net economic savings on the debt service of AEL&P. Mr. Lamb noted the Board has been provided with the bond resolution, the bond purchase agreement, and the preliminary official statement.

Chair Pruhs requested further information regarding the principal amount of the bonds and terms. Mr. Lamb said he believes the principal amount should not be increased and the term remains the same. Less debt service means lower cost to the consumer for electricity. The interest rate market is currently changing, and the refunding will not advance if there is not a net savings for AEL&P on the date the bonds are to be sold. The maximum total interest cost (TIC) within the resolution is set at 5.5%. Mr. Vassar noted the principal amount is approximately \$69 million. There will be some costs incurred to issue the refunding bonds, which will cause the aggregate principal amount of the refunding bonds to be slightly larger, by about \$1.2 million. Utilizing the refunding bonds will still provide a savings to AEL&P, even with the larger principal amount.

Mr. Hughes asked for the current interest rate. Mr. Lamb explained there is a different coupon rate for every year, and they range from 5% to 6%. Mr. Hughes request additional information on how and when the consumer's costs will be lowered from this resolution. Mr. Lamb stated the debt service paid on an annual basis will be lower, and therefore, the rate collected to pay the operating costs, including debt service, ought to be less on the rate payer's bill.

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

**7C. Resolution No. G15-12 Adopting new regulations 3 AAC 99.103 related to the Arctic Infrastructure Development Fund**

**MOTION: Vice-Chair Dick moved to approve Loan Resolution No. G15-12 Adopting new regulations 3 AAC 99.103 related to the Arctic Infrastructure Development Fund. Motion seconded by Ms. Nygard.**

Mr. Springsteen said Resolution No. G15-12 adds a new chapter to AIDEA's regulations to implement the Arctic Infrastructure Development Fund. These regulations discuss eligible projects, eligible applicants, approval processes, and terms and conditions for the program. Mr. Springsteen requested Mr. Davis, Chief Infrastructure Development Officer, to present the resolution.

Mr. Davis stated the Arctic Infrastructure Development Fund is an unfunded fund within AIDEA set up by the Legislature. This is very similar in structure to the SETS fund created by the ACES legislation. The statute indicates AIDEA is to adopt regulations for this fund. Mr. Davis explained these regulations mirror the regulations of the SETS fund. One comment was received on the proposed regulations from PT Capital requesting consideration for low-income communities and/or high-unemployment communities. On page 12 we added, "The authority may treat more favorably, than otherwise would be the case, an Arctic infrastructure development that will provide employment in an area of chronic or high unemployment," in response to their comment. Mr. Davis explained this fund can be funded by issuing bonds, by utilizing monies from the revolving fund, or by appropriations. No applications have been received.

Mr. Wilken asked if the Arctic Infrastructure Development Fund has the potential to produce dividends. Mr. Davis said the Legislature decided this should be a dividend development fund. Mr. Wilken expressed his concern and disagreement with this fund being specifically for the defined Arctic area because he sees this as opening the door for separate development funds for Southcentral, Interior, and Southwestern Alaska. Mr. Wilken believes this creates tension between the different diverse areas of the state because it is a law which gives priority that other areas of the state do not have. Mr. Wilken said he will vote against this resolution because he is not comfortable with the way the Arctic Infrastructure Development Fund has been set up.

Ms. Nygard asked for clarification of the definition “Arctic” because in the redlined version it is referenced as a statute, it removes the geographic location. Mr. Davis stated the Department of Law recommended this because the definition in the regulations is the same as has been defined in statute AS 44.88.900.

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

#### **7D. Interior Energy Project Update**

Mr. Springsteen invited Bob Shefchik, IEP Team Leader, to provide an IEP update. Mr. Shefchik reviewed the items that have changed since the update last week. Pre-solicitation meetings for the RFP process have been held with potential vendors. There were 13 different parties out of 21 who responded and expressed interest in the open proposal invitation. Mr. Szymoniak, Mr. Warren, and Mr. Erickson spent an hour with these parties outlining AIDEA's expectations of the process and answering questions. The 13 different parties represented North Slope LNG, Cook Inlet LNG, propane, and a small diameter pipeline.

Mr. Shefchik said the only substantive change made to the RFP draft was to extend the length of time to submit proposals from 30 to 60 days. The intent is to issue the RFP at the end of this week. The request for information (RFI) for gas supply will go out either concurrently with the RFP or early next week.

Mr. Gardiner said the technical, legal, and commercial teams from AIDEA and Pentex have drafted language for the purchase and sale agreement that satisfactorily addresses the technical issues at the plant. The details of the language will be discussed during executive session.

Mr. Wilken asked if it is public knowledge to reveal the 13 different interested parties. Mr. Shefchik said the proposal process calls for confidentiality. Mr. Wilken asked if the utilities sat in on any of those recent discussions. Mr. Shefchik stated the discussions were held only by the AIDEA team, not the utilities. The utilities have been provided draft RFP documents during this process and asked to provide feedback. All three of the utilities are invited to be on the proposal evaluation team.

Chair Pruhs inquired if the proposals are open-ended to any form of energy source. Mr. Shefchik stated the RFP invites alternatives. It describes a 6 Bcf LNG plant as the base case and specifically calls out North Slope gas, propane, or a small diameter pipeline. These were the specific alternatives in HB 105. There is also an "Other" category for alternatives not specifically mentioned.

**7E. Executive Session: Interior Energy Project**

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

The Board entered Executive Session at 10:33 a.m. Participants included board members Dana Pruhs, Fred Parady, Gary Wilken, Crystal Nygard, Jerry Burnett (by phone); AIDEA staff John Springsteen, Ted Leonard, Mark Davis; Jerry Juday (LAW), Mark Gardiner (WFG), and Bob Shefchik IEP Team Leader.

The Board reconvened its regular meeting at 12:19 p.m. Chair Pruhs stated no formal action was taken during executive session.

Chair Pruhs said consideration of the Pentex resolutions is being postponed because the technical issues that arose from AIDEA's due diligence work have been partially, but not fully, resolved. There remains an engineering issue that has not yet been worked out. He is directing AIDEA staff to engage engineering experts needed to complete work on the technical issue and then, at the call of the Chair, the board will take up the Pentex resolutions.

There were no objections from the Board.

**7F. Resolution No. G15-09 Approving the Acquisition of Pentex Alaska Natural Gas Company, LLC**

Postponed to the call of the Chair.

**7G. Resolution No. G15-10 Regarding Operating Agreement of Pentex Alaska Natural Gas Company, LLC**

Postponed to the call of the Chair.

**7H. Resolution No. G15-11 Approving the Transfer of Certain RCA Certificates of Public Convenience and Necessity to AIDEA**

Postponed to the call of the Chair.

**7I. Eligibility Resolution No. ER15-01 Pentex Membership Interest Acquisition**

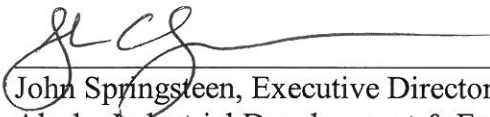
Postponed to the call of the Chair.



Ms. Nygard asked for clarification of the definition "Arctic" because in the redlined version it is referenced as a statute, it removes the geographic location. Mr. Davis stated the Department of Law recommended this because the definition in the regulations is the same as has been defined in statute AS 44.88.900.

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

**The motions was approved with members Pruhs, Dick, Hughes, Nygard, voting yea and Wilken voting nay.**



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John Springsteen, Executive Director  
Alaska Industrial Development & Export Authority