



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Tuesday, June 25, 2013
Anchorage, Alaska

1. CALL TO ORDER

Chair Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on June 25, 2013 at 10:01 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Anchorage: Chair Hugh Short (Public Member); Vice Chair Susan Bell (Commissioner, Department Commerce, Community, and Economic); Ron Arvin (Public Member); Bryan Butcher (Commissioner, Department of Revenue); Wilson Hughes (Public Member); Robert Sheldon (Public Member); and Gary Wilken (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management); Michael Lamb (Deputy Director-Finance & Operations); Karsten Rodvik (Project Manager-External Affairs); Lori Stender (Project Manager); Nick Szymoniak (AEA-Project Economist); Kirk Warren (AEA-Project Manager); Sherrie Siverson (Executive Assistant); Krin Kempainen (Administrative Assistant); and Liza Murfin (Administrative Assistant);

Public: Bart Armfield and Tom Habermann (Brooks Range Petroleum Corporation-BRPC); Brian Bjorkquist and Jerry Juday (Department of Law); Cory Borgeson (Golden Valley Electric Association-GVEA); Mark Gardiner (Western Financial Group-WFG); Mayor Luke Hopkins (Fairbanks North Star Borough-FNSB); and Sunny Morrison (Accu-Type Depositions).

Public via teleconference: Chris Brown (MWH).

5. PUBLIC COMMENTS

Mayor Luke Hopkins, Fairbanks North Star Borough, thanked the Board for continuing to push the Interior Energy Project forward. He asked for a reasonable statement regarding expanding the certificated area in Fairbanks. Mayor Hopkins said the RCA will make the decision and does not believe this project is losing any ground by having two entities submit for approximately the same new area to serve residents who need gas. He believes it sets a very unfortunate tone by

saying this is causing a delay and there are enough obstacles to overcome. He understands there are many pieces that have to be put in place for this project. He looks forward to hearing from AEA and AIDEA representatives again and asks for consideration regarding the tone and image while talking about different complications in this project.

Mr. Wilken said Mayor Hopkins is trying to be a moderate voice, who is focused on getting the lowest cost power as quickly as possible to the people of Fairbanks. Mayor Hopkins is fully engaged in the Interior Energy Project, and he thanked Mayor Hopkins for his leadership, even though it hasn't been easy. The RCA decision may be a delay, but it is a necessary delay.

6. PRIOR MINUTES - May 30, 2013

The minutes from May 30, 2013 board meeting were adopted as presented.

7. NEW BUSINESS

7A. Interior Energy Project (IEP) Update

Mr. Leonard said the Governor has signed SB 23, the bill for AIDEA to move forward with this project. He asked Mr. Davis and Mr. Gardiner to come forward to provide the presentation and answer any questions on the project.

Mr. Wilken asked if the commercial yellow bars on slide five represent Flint Hills and/or GVEA. Mr. Davis said no, they are the buildings in Fairbanks that are not residential. Mr. Wilken asked if the annual demand would be greater than 8.5 Bcf if Flint Hills and/or GVEA came online. Mr. Leonard and Mr. Davis said that would be correct. Mr. Davis said AIDEA has talked to Flint Hills and GVEA, but have no hard numbers or commitment from either of them.

Mr. Wilken asked why there is a \$50 million ceiling on the equity for the partner RFP. Mr. Davis said that ceiling would be for the partner in order to keep the cost down and to utilize SB 23 to its maximum benefit. Mr. Leonard said by having the equity up to \$50 million and the remainder of at least 50% at the low interest rate from SETS will bring the cost of gas within the range the community wanted, AIDEA will have reserved the right to look at offers different from this RFP.

Chair Short asked what is the assumed interest rate. Mr. Leonard said the SETS is 3%. Chair Short asked if it was good to assume no one could provide a better interest rate. Mr. Leonard and Mr. Davis said yes.

Commissioner Bell asked if the RFP was specific to a special purpose entity to construct and operate a facility or is it was more specific to the liquefaction and regasification process. Mr. Davis said this RFP is primarily directed at the plant. The SPE is set up to own, but not operate the plant. The trucking would be independent by the customer and the distribution side would primarily be financed by bonds and other investments. Mr. Leonard said the only equity position AIDEA would have in this project is on the facility side.

Mr. Hughes asked if there is a target cost per Mcf at the plant, hauling, and delivery. Mr. Davis said the consultant PROLOG provided figures and ranges of what it would cost to truck. AIDEA has some idea of what the cost of storage would be. AIDEA is trying to reach a target rate for what has been called the "burner tip" to Fairbanks. Mr. Leonard said that is a key part of the feasibility study. The initial cost to the burner tip is between a range of 13.50 and 17.50, and gas is in the range of \$10 to \$11 delivered to Fairbanks.

Chair Short asked for the biggest risks in this project. Mr. Davis believes product substitution risk is the biggest risk and that would happen if an alternative supply source of gas came into effect around 2020 that was less expensive. Another risk is if the demand is not as great as projected.

Mr. Arvin said this is a bridge project and the ultimate goal is to have cheaper gas. So the question is when the cheaper gas comes being too near the start of this initiative. Mr. Davis said it would affect how long to run the project. It would be better if there was an alternative source of gas that was less expensive. AIDEA has worked on modeling what would happen with the plant in that scenario. Mr. Leonard believes the Governor and the Legislature realizes the potential alternative supply risk involved with this project.

Chair Short said his biggest area of interest is in the feasibility study with the partners is the \$20 million to \$50 million equity. Mr. Davis believes the plant has long-term use and is not a long-term risk. The risk is in the timing of the conversion. Mr. Leonard said the capital structure is complicated in order to bring the gas in at the target area.

Mr. Gardiner said the nature of this project includes non-trivial transaction risk and many different agreements have to come together before November for the final presentation. He is confident the plan will complete the objectives and wants the Board to be aware it is not going to be a walk in the park.

Mr. Sheldon believes this is a good approach and asked what the actual capability is of retasking the module. Mr. Gardiner said there are two strategies about redeployment if there is an alternative gas source. One is using the plant in place and repositioning it to provide LNG for industrial and transportation uses. The other is to redeploy the transportable liquefaction module to another site.

Commissioner Bell requested the feasibility study include AIDEA's financial responsibility on this project. She also requested the feasibility study include things in AIDEA's control that would accelerate the conversion. Mr. Leonard said a reasonably cost distribution system could be built out through a five to six-year period. It could be built out in three years, but the cost to do that would be tremendously higher and then the cost to the consumers would be much higher. The high density areas would be reached by 2017.

Mr. Wilken requested the plan be explained for converting residential customers who are currently happy with burning wood. He also asked what residential areas are included when

Fairbanks is cited. Mr. Leonard said Fairbanks includes the high and medium density areas, including North Pole. Mr. Wilken said he needs to better understand the maps. Mr. Gardiner said he will give him an update on the map. The distribution system plan is to fully pipe the high and medium density areas of the entire borough. Mr. Davis said that goes beyond the certificated area currently served by FNG, but does not include all the area for which certification is sought by the IGU.

Mr. Arvin said it is very important to handle how property owners are compelled to engage in this initiative. Mr. Leonard said the utilities will be provided \$150 million through the finance project to build out the main lines and the lines into the neighborhoods. The land owners would then pay to connect into the neighborhood line and pay for the conversion. Mr. Davis said the tariff rates to connect to the lines would be in the range of hundreds of dollars rather than thousands of dollars. This is different than using a Local Improvement District and is the model used in the Municipality of Anchorage.

Mr. Wilken said he doesn't want this project to turn to a problem in financing because homeowners are not going to spend the money to hook into the system and spend money on a new boiler. He believes the projected numbers are optimistic. Mr. Leonard said the key to convince homeowners to convert from wood is providing the economic savings range of \$13.50 to \$17.00.

Mr. Hughes said it is fair to observe the problem has been pushed down to the other side of the meter. The homeowner has to decide whether to save \$3,000 a year, but has to spend \$6,000 to \$10,000 to convert the home. He doesn't see this problem being addressed. Mr. Leonard said there are programs with Alaska Housing that deal with energy conservation. The Legislature is looking at potential ways to assist with those conversion. That was not part of the mandate for AIDEA to come up with a financing program, but AIDEA is talking with Alaska Housing to see how they could assist. This project is on AEA's agenda. Mr. Davis said AIDEA will be working with AEA to get a figure for what it would take to convert and replace the furnace and appliances.

Commissioner Butcher is concerned with the thousands of homes in Fairbanks who have not taken advantage of AHFC's energy rebate program possibly because the homeowners don't have the upfront lump sum of money needed. This is a scary issue because it could potentially raise the cost to the users. Mr. Davis said they are aware there is a regional difference between the penetrations of the Alaska Housing Finance program. Mr. Szymoniak said an average house is using about \$6,000 to \$7,000 worth of heating and this program would reduce that by about \$3,000.

Chair Short commented there is an impact on the private sector with this plan that hasn't been discussed regarding those who have gone out and taken risk in business to provide space heat in this region. Different people have said, "The state is coming in and directly competing with me." A number of people have contacted him and said that is an issue for them.

Mr. Wilken asked why the timeline for the air permitting is so long and what is the expectation that timeline could grow. Mr. Davis said the projection is for obtaining a major air permit for the plant which is in the range of at least a year. AIDEA is modeling other alternatives for a permit that will work for the project and would only take four months. His expectations are very high the alternative percentage of use permit will be used. It will be explained further in the feasibility report. Mr. Wilken asked if equipment can be ordered without an air permit. Mr. Davis said the equipment can be ordered, but construction can't begin without the air permit.

Mr. Leonard said there is a long lead time to order and receive the equipment, especially the trains. AIDEA is looking at the feasibility and does the due diligence, the project is moving forward so they are not losing the ability to bring gas to Fairbanks by the end of 2015.

Mr. Wilken asked about Mr. Davis' expectations regarding RCA meeting their objectives on the timeline and the importance of those objectives. Mr. Davis said the RCA Service Area Resolution refers to the overlapping applications that have been made by the Interior Gas Utility and by Fairbanks Natural Gas. Two hearing dates have been scheduled, October 9 and October 19, 2013, to resolve that issue.

Mr. Wilken asked for the options of what the RCA could decide. Mr. Davis said the RCA has the option of rejecting the petition that they deem to be defective, the ability to grant a service area as applied for or as modified by the Commission, and has the ability to accept one application and reject the other application.

7B. Brooks Range Petroleum Corporation Mustang Road - Update

Mr. Leonard said BRPC requested to give an update on the Mustang Road project. Mr. Hemsath said construction of the road is complete and the project went exceptionally well. He introduced Mr. Armfield and Mr. Habermann who gave a PowerPoint presentation entitled "Mustang Road and Pad Winter Construction Completion Report."

Mr. Arvin noted Mr. Armfield's enthusiasm is refreshing and is glad the project went well.

7D. Executive Session: Healy Clean Coal Plant

MOTION: Mr. Sheldon moved to go into Executive Session to discuss business and proprietary information regarding the Healy Clean Coal Plant. The motion was seconded by Mr. Wilken. The motion was approved.

The Board entered executive session at 11:53 p.m.

The Board reconvened its regular meeting at 12:17 p.m.

Everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AIDEA Programs and Projects

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

Mr. Hemsath gave updates on four AIDEA projects. He introduced Ms. Stender, a Project Manager in the Project Development Division.

Mr. Wilken asked what the return is on the capital for the Eagle, LLC project. Mr. Hemsath said it is an 8% nominal return. Mr. Wilken asked how many loaded trucks will be on the road. Mr. Hemsath said it is 30 loaded trucks, which is 60 trucks on the road per day. Mr. Wilken asked if DOT is involved. Mr. Hemsath said DOT is very well aware of the traffic and seem to be relatively unconcerned about this. DOT's concern is tag fees on the license and what that kind of revenue provides and allows them to do. Mr. Wilken requested AIDEA get DOT on record that they are involved in the planning process, so that people can look back five years from now and see there were no health and safety issues. Mr. Hemsath said he will get a letter from DOT in that regard.

Mr. Wilken asked if the \$10 million has been sent out for the shipyard expansion. Mr. Leonard said that is in the process, but they are not AIDEA funds. They are federal funds or state funds that AIDEA manages. Mr. Wilken commented the report from the shipyard regarding their employment was well done and enjoyed the footnotes. He thanked Mr. Leonard for the report.

8B. Next regularly scheduled meeting is tentatively Thursday, July 25, 2013.

9. BOARD COMMENTS

Mr. Arvin's term expires June 30, 2013 and today is his last board meeting. Mr. Arvin appreciated the meeting today. Mr. Wilken wished Mr. Arvin Godspeed and thanked him for serving.

It is also Mr. Sheldon's last meeting. He said it has been a pleasure serving the Board and the staff has been tremendous over the last few years.

Chair Short said his appointment as a Board Member expires on June 30, 2013, and he will not seek reappointment. He will stay on as long as it takes Mr. Hooley to appoint another public member. He noted the work of this Board is very important and the workload of members is significant. He believes the evolution of this Board will be a Board that supervises both AEA and AIDEA. Chair Short recommends Commissioner Bell and Mr. Leonard think about that as far as future legislation.

Commissioner Butcher said he is on a dozen boards and commented the level of engagement of this Board has been very impressive. He thanked those who are leaving for the work they have done.

Commissioner Bell said the responsibilities from the Governor and the Legislature have really grown since she has been on the Board. She believes AIDEA has set a new high in its working relationship with staff and partners. Commissioner Bell thanked those who are leaving for building excellent relationships and carrying forth the AIDEA and AEA message into their careers.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:38 pm.



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

