



Alaska Industrial Development and Export Authority
BOARD WORK SESSION MINUTES
Thursday, March 6, 2014
Juneau and Anchorage, Alaska

1. CALL TO ORDER

Vice-Chair Dick called the meeting of the Alaska Industrial Development and Export Authority to order on March 6, 2014 at 11:09 am. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Vice-Chair Russell Dick (Public Member); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Members present via video conference: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development), Michael Pawlowski (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

AIDEA and AEA staff present: Ted Leonard (AIDEA Executive Director); Jim Hemsath (AIDEA Deputy Director-Project Development & Asset Management); Michael Lamb (Deputy Director-Finance and Operations, AIDEA and AEA); John Springsteen (AIDEA Infrastructure Development Officer); Gene Therriault (AEA Deputy Director-Energy Policy Development); and Sherrie Siverson (AIDEA Executive Assistant).

Public present: Rick Adcock, Dennis Ahrens, Chris Brown, Karen Ditz, Monique Garbowicz, Bruce Howard, Jim Kuiken, Jamie Loucks and Frank Roach (MWH); Bill Bittner (Birch Horton Bittner and Cherot); Cory Borgeson, Tom DeLong, Bill Nordmark, and Mike Wright (Golden Valley Electric Association (GVEA)); Chris Clark and Katriina Timm (HDR); Deborah Engles (Alaska Interstate Construction (AIC)); Steve Haagenson (Interior Gas Utility (IGU)); Jerry Juday (Department of Law); Donald LeMoine (Kiewit Oil, Gas & Chemical North America); Brian Olin (Goldman Sachs); David Prusack (MWH consultant to IGU); Ben Selberg (Citigroup); and Miranda Studstill (Accu-Type Depositions).

Public participating via teleconference: Dave Domansky (Bracewell Giuliani); Rick Schikora and John Sloan (GVEA); Paul Sullivan (Global LNG and FLNG - Worley Parsons).

4. WORK SESSION - Interior Energy Project

Vice-Chair Dick invited Mr. Leonard to give an overview of the work session today. Mr. Leonard informed the Board the project sponsor MWH has been invited to discuss the project process and the efficient use of state resources. This project provides critically needed heat, stabilization and security of fuel sources for Interior Alaska and Fairbanks.

Mr. Adcock, Managing Director MWH, gave a detailed PowerPoint presentation on the 45-day update for the Interior Energy Project, and how MWH is driving to meet the project cost and scheduled goals. He noted MWH has been working closely with the contractors and with GVEA. He introduced Cory Borgeson, CEO for GVEA, who thanked the Board for being here today. Mr. Borgeson asked GVEA board members to participate in the work session and introduced Bill Nordmark, Tom DeLong, Rick Schikora, and John Sloan. Mr. Nordmark commented this project is very important in providing relief to the Interior. Mr. Borgeson noted GVEA is very interested in this project being successful to provide lower cost fuel. GVEA is a potential owner of a gas buy contract which is very suitable for this project. He said GVEA will participate and make that available for this project and at a minimum, GVEA will have a role as a take-or-pay customer in this project. Mr. Borgeson reported MWH has asked GVEA to participate in some other ways which are currently being discussed with GVEA's Board to maximize the benefit to the entire project.

Mr. Adcock introduced Steve Haagenson, Acting General Manager, IGU, and reported MWH held a workshop yesterday in which Mr. Haagenson participated. Mr. Haagenson commented IGU has been long-time supporters of AIDEA and their team. IGU is really excited to see MWH come onboard to help move this project forward.

Mr. Adcock introduced the delivery team present: Donald LeMoine, Vice President Kiewit Oil; Paul Sullivan, Worley Parsons; Frank Roach, MWH Operations Consultant; Jim Kuiken, Corporate Officer MWH; and Bruce Howard, Executive Vice President MWH. Mr. Howard commented he was a resident of Fairbanks years ago and it is good to be back. He stated this is currently one of the top projects in MWH and resources are committed to this project.

Mr. Wilken inquired as to the members of the special purpose company who will develop the joint development agreement. Mr. Adcock stated the members currently are MWH and North Leaf Capital, the investor. He noted GVEA will be welcome into the special purpose company when the MWH Board finalizes that arrangement.

Mr. Wilken requested further explanation regarding the special purpose company, the joint development agreement (JDA), and the development of take-or-pay agreements. Mr. Adcock explained the JDA is the precursor to the special purpose company that will own and operate the liquefied natural gas (LNG) plant. The special purpose company will have the project development agreement (PDA) with AIDEA, who is the project sponsor. AIDEA will loan state money to the special purpose company under many terms and conditions, including preferred customers. The special purpose company will enter into the take-or-pay agreements with the off-takers.

Mr. Wilken asked if the current special purpose entity is only the LNG plant. Mr. Adcock agreed and advised there will also be a relationship between AIDEA and the special purpose company through the PDA. Mr. Leonard stated the take-or-pay agreements are a requirement to complete the final closing for AIDEA's lending participation.

Mr. Pawlowski asked if he heard correctly that GVEA was willing to place a fixed price on the take-or-pay contracts. Mr. Adcock stated a fixed price is what is needed in order for GVEA to sign on. During the due diligence, MWH will be honing in on balancing a low price for the consumer, as well as meeting the return objectives of the investors. The commercial terms can be negotiated while the take-or-pay price is being determined. Mr. Pawlowski stated he was encouraged by GVEA's willingness to be open to a fixed price.

Mr. Wilken asked if there was any indication that GVEA, IGU or Fairbanks Natural Gas (FNG) is not going to pull LNG off the Slope. Mr. Adcock said he does not have any indication of that. Mr. Borgeson stated he has heard there is a potential for FNG to get LNG from other alternatives, including Conoco, but this is unconfirmed. Mr. Borgeson believes the gas from the Slope is going to be cheaper than the gas from Cook Inlet. He feels this project will be able to work with FNG and offer them what they need.

Mr. Wilken asked what the deadline date is when take-or-pay agreements need to be signed in order to go forward with building the plant. Mr. Leonard stated the deadline for the take-or-pay agreements is in May when the final commercial agreements between AIDEA, the special purpose entity (SPE) and North Leaf Capital are completed. The distribution build-out Sustainable Energy Transmission and Supply Development Fund (SETS) monies are also tied to the commitment to utilize North Slope gas.

Mr. Wilken asked if AIDEA will begin ordering long-lead time items after the March 27, 2014 Board meeting without knowing what is going to be built. Mr. Leonard said yes, and advised there is some risk capital that AIDEA will have to commit, which could even be prior to the Board meeting, if the intent is to have gas flowing in 2016 to GVEA. Mr. Leonard noted the Legislature is aware AIDEA can invest monies and still have the project not move forward. AIDEA's goal with working with MWH and Kiewit to ensure the pad is built. AIDEA has committed to keep this project online to meet the goal of gas flowing in the fourth quarter of 2015, if possible.

Mr. Wilken asked if the approximate expenditure of risk capital is \$12 million. Mr. Hemsath noted the risk capital is approximately \$10 million for long-lead items. Mr. Leonard stated there could be an additional \$3 million or \$4 million on the pads.

Mr. Wilken asked for an explanation if there will be an open season type of structure when a price is published and buyers will make a commitment. Mr. Borgeson stated he does not envision an open season bidding process. He sees this as a negotiation and marketing process. He underscored the quantities of the take-or-pay agreements in the beginning will make a significant difference on the price.

Mr. Wilken asked what kinds of prices will be used during the negotiations of the take-or-pay contracts. Mr. Adcock said there is a comprehensive financial model they have been working with that go through hundreds of different scenarios for different parameters and how the price is affected.

Mr. Pawlowski reminded the Board and the public that AIDEA has taken action with funds to support FNG activities as recently as two or three meetings ago. AIDEA has been broadly supportive of all efforts that are occurring. Mr. Leonard commented there have been discussions with FNG, IGU, and other communities that AIDEA is willing to investigate all available system financing of distribution in order for this project to move forward. AIDEA is still working on the parallel path of how all of the financing comes together and utilizing all of the monies the Legislature has provided through SB 23 and any other AIDEA programs.

Mr. Wilken asked if MWH's scope of work is from gas in the ground to the burner tip at North Pole. Mr. Adcock stated MWH's project is specifically around the gas plant, so from gas delivered to the facility to putting the gas into the gas, free onboard (FOB) North Slope. The trucking costs are then added to that. He said MWH is responsible for financing the liquefaction plant and putting LNG into the truck at a price that when trucking and distribution costs are added on, still meets the burner tip price policy goals.

Mr. Borgeson believes this process is evolving because the coordination of determining the burner tip price is complicated. Mr. Adcock stated the plant will not be economically viable if gas cannot be delivered to the burner tip. MWH is getting more involved in the integrated system that takes the gas to Fairbanks and understanding and analyzing how that is coordinated. MWH's project finance focus is on the LNG plant itself.

Mr. Wilken said all of the pieces of this project that do not seem to fit together are concerning to him. Mr. Borgeson stated there has been a longstanding dialog with Mr. Leonard regarding the extremely aggressive schedule and he shares in the concern about the many different pieces of the puzzles that have to be put together.

Mr. Wilken has told the Board and Governor that the goal of gas by the fourth quarter of 2015 is transparent to him. Mr. Wilken commented he would prefer to extend the project by six months or a year to do the project right, rather than spend the next 20 or 30 years doing the project wrong. He noted the roll out in '15 or '16 will be forgotten when customers are saving 40% on their energy. Mr. Wilken stated this is a legacy project and if it cannot be completed correctly, it should not be completed. Mr. Borgeson expressed his appreciation for Mr. Wilken's comments and agreed with him.

Ms. Nygard asked if she is correct in understanding that currently GVEA and IGU is committed to gas and FNG is in a collaborative stage. Mr. Adcock believes her assessment is correct.

Vice-Chair Dick asked which of the trucking elements is the easiest to determine in terms of the trucking costs having the biggest impact on the burner tip price. Mr. Adcock said the raw gas contract with BP is still being negotiated, but a firm fixed price is to be determined. Mr. Borgeson noted the BP contract has a floating cost to it, so the price is not fixed. Mr. Adcock explained he misspoke and the cost index will be known.

Vice-Chair Dick asked how hard it is for the trucking cost component of this equation to be determined. Mr. Adcock noted this process is moving from the feasibility stage to the execution stage. He stated MWH is going to the market now to determine what the trucking is going to cost. Mr. Brown explained the answer to that question should not come from a feasibility perspective. The answer should come from an execution perspective. The costs are known because a contract is sought. Mr. Leonard believes this will be more efficient with IGU, GVEA and MWH working together and consolidating what the possible demand is when the contracts are sought. Mr. Borgeson commented the project team will have to determine that the cost of trucking is at the lowest cost possible.

Mr. Wilken asked what the target is date for financial close of the project. Mr. Brown said financial close is scheduled for May 30, 2014.

Mr. Leonard requested an opinion regarding this project being the first LNG plant on the North Slope with regard to its success and effectiveness. Mr. Roach commented the unique part of this project is its location in the Arctic. He noted MWH is working to ensure the environment is initially incorporated into the design. Mr. Ahrens stated MWH intends to treat this plant and operation as any other plant on the North Slope to optimize operations going forward. There are tradeoffs between operational expenditures (OPEX) and capital expenditures (CAPEX). He believes there are very critical decisions to be made around CAPEX that relate to OPEX downstream. Mr. Ahrens noted the existing infrastructure must be utilized to optimize the plant.

Mr. Wilken asked if the amount of cubic feet of CO² that is going to be handled now for the first time is of concern. Mr. Roach stated the issue is how to handle the CO² appropriately. Mr. Wilken asked if the current plan is to vent the CO² to the atmosphere. Mr. Roach noted that issue has been discussed. Mr. Wilken requested further clarification on how the CO² will be handled. Mr. Roach stated that answer needs to be pursued with permitting, but the amount of CO² vented for this project is not material compared to the overall realm of venting at the North Slope. The CO² is combusted in the fuel gas, which is the supply to the LNG plant. Mr. Roach noted Prudhoe and down the pipeline is using all the same gas that is burned as fuel and which is 12% CO². This plant's amount of CO² will continue to be addressed through permitting. Mr. Therriault added if there is a CO² issue in the air shed on the North Slope, the producers may be looking for an alternative fuel, other than trucking out the low sulfur diesel. Mr. Roach commented if a net benefit is run, the CO² is not an issue.

Mr. Leonard requested Mr. Clark, who is conducting the permitting at HDR, to comment. Mr. Clark stated the project air permit application is at DEC. This is an ongoing issue and continues to be reviewed to ensure there is continuity with the project schedule.

Ms. Nygard asked what the timeline is for DEC to review the application and how does that fit into the project target date. Mr. Clark reported DEC has been extremely responsive in conducting their completeness review. He believes the report could be completed by August or September.

Mr. Wilken asked if the air permit is a state permit with no federal oversight. Mr. Clark stated the state has primacy over the air permit.

Vice-Chair Dick asked how the build-outs of FNG and IGU are amortized over the consumer base and reconciled to determine one burner-tip price. Mr. Leonard believes the information is now available because of the team with MWH, GVEA and IGU bringing forth their models and cost structures to determine the cost per volume for the distribution. The feasibility number that has been used is \$4.25 for the distribution side and that number will become clearer and more quantifiable as the models continue to be developed. Mr. Haagenson stated IGU and GVEA have both been to the Regulatory Commission of Alaska (RCA) and there is no guarantee they have to charge the same rate across the entire service area. He believes one fair way to approach the goal is to make sure each entity can get as close as they can to \$15 and this will take care of the whole community.

Mr. Leonard stated the goal for the burner-tip has been set for a range of \$17 down to \$14. After the commercial structure is completed with MWH and the SPE, an estimated burner-tip price will be brought back in front of the Board and the Board will decide if the financing will meet a cost range that is beneficial for the community.

Mr. Wilken asked how many miles of pipe FNG will put in and how much gas will be put through that pipe. Mr. Leonard said FNG will put in 125 miles of pipe. There will be 3.5 Bcf of new expanded area of gas, with a total of 4.5 Bcf of gas and will serve approximately 4,000 residents. Mr. Wilken asked the same question for IGU. Mr. Haagenson noted 3 Bcf of gas will flatten out at around 600 miles of pipe and serve approximately 11,500 residents. IGU understands there is a challenge going into this project and are working with the partners and AIDEA to keep the cost target in line. Mr. Leonard highlighted AIDEA's website under project update, the map has been updated showing the new pipe with commercial and residential structures for each of the service areas.

Mr. Haagenson said the goal of IGU is to get the gas out to the whole service area and there is a commitment to the community to get the gas out to everybody, which will help solve the PM2.5 issues

that are coming from the low-density areas. Mr. Wilken asked if the pipeline layout included the low-density areas. Mr. Haagenson stated the pipeline layout did not include the low-density areas, but the service area has some low-density areas and have gotten within 100-foot of every occupied lot in the medium density and high-density areas.

Mr. Wilken asked if IGU is focused on the medium-density areas. Mr. Haagenson reported IGU will begin with the north half of North Pole at Badger Road and continue onto Chena Hot Springs, which is the medium density and continue from there.

Commissioner Bell expressed her appreciation for the expertise during the presentation today.

Mr. Wilken asked if there will be a public session or an executive session to discuss the burner-tip price issue before the end of May. Mr. Leonard said more refined information on the potential cost of the plant will be brought to the Board at the next meeting. Mr. Adcock said every day new information is coming in and he will be able to get the Board updated information before the next Board meeting.

Mr. Wilken asked who in MWH is working on vetting the trucking information. Mr. Brown stated MWH will increasingly engage with the AIDEA consultants and HDR to understand in great detail the feasibility work that has been done. Dave Eberle will join the consultation team for the trucking component.

Mr. Haagenson provided a clarification between the terms burner-tip and meter. He noted IGU's target of \$15 gas is to the meter of the building. Burner-tip means inside the building and there has to be a boiler that can take the gas, which is still an issue and brings up a new discussion about conversions. Mr. Wilken noted the clarification is a good point.

Mr. Wilken asked if the Borough is still going forward with conversion bonding funds. Mr. Borgeson understands the Borough has drafted an ordinance for an inter-fund loan. Mr. Haagenson noted the inter-fund loan will be made available with conditions and provides working capital on the front end. He believes this project is a community solution and sees Fairbanks working together.

5. BOARD COMMENTS

Vice-Chair Dick expressed his appreciation to the experts for coming to the table today. He believes this meeting has provided a better comfort level regarding the developments of this project.

Mr. Wilken expressed his appreciation for the work that was presented and was pleased with level of expertise in attendance.

6. ADJOURNMENT

The next regularly scheduled board meeting will be Thursday, March 27, 2014. There being no further business of the Board, the AIDEA work session adjourned at 1:22 pm.



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