1. CALL TO ORDER
Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on December 16, 2014 at 9:59 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS
Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russel Dick (Public Member); Jon Bittner (Deputy Commissioner, Department of Community, and Economic Development); Jerry Burnett (Deputy Commissioner, Department of Revenue); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC
AIDEA Staff present: Ted Leonard (Executive Director); Chris Anderson (Director - Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Director - Project Development & Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Brenda Applegate (Finance Controller); Tom Erickson (Chief Procurement Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (PDAM Project Manager); and Nick Szymoniak (Energy Infrastructure Development Officer). Kirk Warren (AEA Project Manager); Sherrie Siverson (Executive Assistant); Catherine Bliss (Administrative Assistant); and Krin Kemppainen (Administrative Assistant).

Members of the public present: Rick Adcock, Dennis Ahrens, Amy Broughton, Chris Brown, Monique Garbowicz, Alan Krause, Glen Lindgren, and Alec Ross (MWH); Alan Bailey (Petroleum News); Irene Biese (Walsh Sheppard); Tim Bradner and Elwood Brehmer (AK Journal of Commerce); Kathryn Black (Birch Horton Bittner & Cherot); Cory Borgeson (Golden Valley Electric Association (GVEA)); Dan Britton (Fairbanks Natural Gas (FNG)); Rick Cathriner (Norgasco); Kord Christianson and Ken DeBerry (TDX); Mark Figura (Rose & Figura); Sterling Gallagher (Governor’s Office); Tim Gallagher (HDR); Mark Gardiner (Western Financial Group); Craig Greene (Northern Drafting and Design); Jerry Juday (Department of Law); Steve Klein (First Infrastructure); Jeff Logan (Jeff Logan & Associates); Eiji Maezawa and Mary Ann Pease (Resource Energy, Inc. (REI)); Richard Peterson (ANRTL); Bob Shefchik (Interior Gas Utility (IGU)); Tammy Sherwood (Kiewit); Beth Stuart (KPMG); Miranda Studstill (Accu-Type Depositions); John Walsh (Municipality of Skagway); John Unidentified (WesPac).
Public participating via teleconference: Dave Domansky (Bracewell & Giuliani, LLP); Tim Fiddle (JP Morgan); Mayor Luke Hopkins (Fairbanks North Star Borough (FNSB)); Merrick Pierce (Alaska Gasline Port Authority); Joe Thomas; and Pamela Throop (Alaska Commercial Properties).

4. AGENDA APPROVAL
Chair Pruhs requested moving Item 7A. FY 2014 AIDEA Financial Statements to after Item 7E. and moving Items 7B. through 7E. up one in order. The agenda was approved as amended.

5. Prior Minutes - November 6, 2014
The minutes were approved as presented.

6. PUBLIC COMMENTS (3 minutes per person)
Chair Pruhs requested questions from the public to the Board be submitted in writing so the appropriate response can be given.

Merrick Pierce of Fairbanks stated he is affiliated with the Alaska Gasline Port Authority. Mr. Pierce expressed his appreciation to the members and noted he has been reviewing the trucking idea of moving liquefied natural gas (LNG) off the North Slope for quite a while and he does not believe the plan of bringing affordable gas to Fairbanks is working. Fairbanks has a significant air pollution problem, especially during the winter, which is due to wood and coal being used as a source of heat since the price of fuel increased in 2003. He expressed his concerns of air pollution and its effect on human health and premature death. He quoted Dr. Owen Hanley’s information regarding 2013, "The number of deaths in the Fairbanks North Star Borough attributable to air pollution is 50 to 100 people per year." This does not count the non-lethal illnesses through hospitalization and loss of work for those who are suffering from the health effects of air pollution. Mr. Pierce emphatically recommended improving the air quality in Fairbanks. He does not believe it is cost effective for the 58% of the people who collect and burn wood to convert to LNG at the current prices. He endorsed REI as an outstanding company and believes it is important to develop their Cook Inlet infrastructure.

Pamela Throop of Fairbanks noted she is a commercial broker and expressed her appreciation to the members for their service. She discussed her grave economic concerns regarding the challenge to attract industry to Fairbanks with gas at $15.

Mayor Hopkins expressed his appreciation to the Board and to Mr. Leonard for his work and service to the State of Alaska. He shared his concern this project is becoming unsustainable as it is getting closer to the December deadlines and possible business close. Mayor Hopkins noted there are concerns from residents regarding the costs of the project and not being able to deliver the expected lowest costs to the community. Market penetration will be affected by this cost. The community continues to request the lowest cost of gas at $15 per MMBtu delivered to the
most residents in the shortest amount of time. Mayor Hopkins noted there are other markets beginning to implement business deals south of Fairbanks, which may influence this gas project. He requested the Board seriously consider not moving forward in action past the end of calendar year 2014 to determine the best project configuration for getting natural gas into the community. Mayor Hopkins discussed the importance of addressing the air quality issues. He informed the state implementation plan that will be submitted soon anticipates a very large market penetration of natural gas to meet EPA standards.

7. NEW BUSINESS

7A. Resolution No. G14-21 FY 2016 Dividend Recommendation

MOTION: Vice-Chair Dick moved to approve Resolution G14-21 FY 2016 Dividend Recommendation. Motion seconded by Mr. Wilken.

Mr. Leonard said, per statute, the Board must declare a dividend amount to pay to the state. The dividend amount is declared in a resolution every year in December. The formula is 20% to 50% of the statutory net income. Staff recommended a $17,650,000 dividend.

Chair Pruhs commented this dividend amount is good news and expressed his appreciation to staff for their efforts.

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

7B. Resolution No. G14-10A Resource Energy Inc.

MOTION: Vice-Chair Dick moved to approve Resolution No. G14-10A Resource Energy Inc. Motion seconded by Ms. Nygard.

Mr. Leonard stated this resolution is to provide for continuation of the reimbursement agreement with REI. Staff requested an increase to the reimbursement agreement. Mr. Leonard invited Mr. Davis to offer further explanation. He also invited REI representatives, Eiji Maezawa and Mary Ann Pease, to give a brief presentation.

Mr. Davis noted this reimbursement agreement with REI is for the project working on the potential development of a substantial amount of the Cook Inlet gas for export primarily to Japan. Staff has been working with Steve Klein of First Infrastructure and REI has provided their detailed reservoir economic model. The project manager John Springsteen traveled to Japan in November to meet with potential off-takers and explore Japanese interest. The reports received were very positive. Mr. Davis believes the project continues to have merit and additional work needs to be completed. The split will remain 75/25 between REI and AIDEA. The increased commitment is approximately $110,000.
Chair Pruhs inquired about the viability of this project considering the current price of oil. Mr. Davis noted this project will take time to develop because it is a medium size plant by international standards, but a large plant by U.S. standards. He explained there is a disconnect between the price of gas in Asia and the worldwide oil markets because of the long-term requirement contracts in place between Japan utilities and other markets. He believes the Cook Inlet gas can be competitive over the long-term because of those contracts and this is a viable project.

Ms. Pease and Mr. Maezawa gave a detailed PowerPoint presentation regarding REI's pursuit of an LNG project in the Cook Inlet. It is a one million-ton facility in Port MacKenzie with a 2P reserve supporting a daily production rate of 160 Mcf a day for REI and that is after all of the in-state demand has been met for 20-plus years. A dedicated facility, dock and marine terminal will be constructed. REI has been in Alaska for over two-and-a-half years, after the Fukushima nuclear reactor plant disaster. She noted REI felt a strong alliance to Alaska because of the 40-year historical relationship between Alaska's LNG exports and Japan, and participation during the TAPS pipeline construction. Other benefits to Alaska include the very short shipping distance to Japan and no controversy over Native land claims.

Ms. Pease explained the key components necessary for the REI project are the gas supply, which is the aggregation of the Cook Inlet stranded reserves today, the plant site and land acquisition at Port MacKenzie, the regulatory issues with FERC and DOE, the timeline and schedule, partnerships and joint venture relationships.

Japan is in a crisis situation with their energy and they cannot continue to support the very high LNG prices. The goal and objective of this project is to deliver gas to Japan prior to 2020. This is a mega project requiring many collaborative efforts with Japan and U.S. partners. There are several critical government-to-government agreements in place, including the AIDEA agreement and the DNR cooperation agreement. The Japan buyers include government entities, Hyogo and Kyoto prefectures, industrial and city gas and electric companies.

Some of the new milestones and next steps that have been completed include the detailed technical cost and plant site analysis by KBR, a leading EPC contractor for LNG plants. The land acquisition is in process, with the hope of completion within the next several months. The joint venture partnerships are underway. Preliminary discussions with DOE and FERC are ongoing. Ms. Pease noted Alaska will not be part of DOE's lengthy and protracted process per U.S. Secretary Ernest Moniz. She quoted Secretary Moniz, "Getting Alaskan gas monetized is good for the Alaska economy, good for the country, and good for our international security obligations." She noted the REI project is definitely achievable and its size, scale, and timeline makes sense. This project is first and foremost an export project, with the agreement that any surplus gas will be made available at the off-take point of the LNG facility to instate utilities with demand.

The motion was approved with members Pruhs, Dick, Bittner, Burnett, Nygard, and Wilken voting yea.
7C. Interior Energy Project Update

Mr. Leonard invited representatives Rick Adcock, Dennis Ahrens, Chris Brown, and Monique Garbowicz from MWH, Cory Borgeson from GVEA, Dan Britton from FNG, and Bob Shefchik from IGU to provide an update of the Interior Energy Project (IEP). Mr. Adcock said a series of meetings have occurred between MWH and the utilities in Fairbanks regarding current status and a possible path forward. Mr. Borgeson noted the utilities have worked together toward a trucking consortium and have developed a term sheet. IGU’s engineers are moving forward with the storage and rags. There has been concern this project will not serve all the utilities. Mr. Borgeson hopes the commitment by the utilities to work together will continue. GVEA's board requests AIDEA move forward with this project.

Mr. Adcock stated this project has to work for the community. There are many challenges to this complex project, including current negotiations for commercial agreements with 10 counterparties. GVEA's gas supply agreement with BP will be used, with some perfecting amendments. The gas supply agreement will be under the joint venture company Northern Lights Gas, who will on-sell gas through separate gas supply agreements to the two gas utilities.

Mr. Adcock noted much time has been spent focusing on the draft term sheets for the services agreements detailing who is sharing risk, where the risk lies, and what sorts of demand profiles can be expected.

Mr. Borgeson stated GVEA has agreed to the term sheet for the services agreements. He commented BP is comfortable with the current structure. He informed this is a very good gas price from BP.

Mr. Adcock noted the joint development agreement with Northern Lights Energy defining the terms for investor participation and their commitment has been signed. The equity commitment agreement with North Leaf will come after their board's approval. Mr. Brown reported the selected operator is CDX Power. The contract is largely agreed to, but has not yet been signed. The primary issue to be resolved for finalization is regarding plant performance, which has to be resolved in harmony with the EPC contract and the off-take agreements. The EPC contract negotiations are ongoing. The price commitment of $2.28 is used in the financial modeling and has been checked by a third-party independent consultant.

Ms. Garbowicz said there has been a late, but very compelling vendor proposal which has undergone vetting. The long-lead equipment price has been reduced and the delivery expectation is sooner. High level and in depth reviews of the project have continued with the contractors and has added to the certainty of the project.

Chair Pruhs asked what is the project's hard number cost without margin, overhead, or profit? Mr. Adcock said the hard number cost is $1.83. Mr. Brown noted the insurance, performance bond, G&A, margin and risk are not included in the $1.83 cost. Mr. Ahrens explained Larkspur provided a third-party independent review of Kiewit's engineering estimates. The report noted consistency with other construction projects on the North Slope. They reported being light on contingencies and owner costs. The operator and operations are equally important to the
economic viability of any project. The operator of this plant is a joint proposal of TDX Power and Norgasco. Both are currently operating on the North Slope and representatives are present today.

Chair Pruhs asked for an update on the property tax issue. Mr. Adcock stated discussions with the North Slope Borough and advisors continue regarding the critical issue of getting property tax relief through payment in lieu of taxes (PILT). He noted the Borough is sensitive to the fact that property tax adds a significant amount to the Opex, which has a tremendous impact on the gas price. Mr. Adcock believes the number being used in the model, which is in the lower end of the range, is reasonable.

Mr. Wilken stated he disagrees the number being used in the modeling is correct, because the number in the model is one million a year and the number under today's North Slope Borough tax structure is 4.3 million a year. The swing between those two numbers is 70 cents on liquefaction. Mr. Adcock explained the process of narrowing the range of uncertainty around the input parameters for the model is an ongoing and diligent process. He believes the price is still too high and needs to be lowered.

Mr. Adcock reviewed the five parts of the supply chain, which include the gas, the liquefaction, the trucking, the storage and rargas, and the distribution. The gas price will be indexed to oil and will fluctuate. The gas price being used is $2.75. The fuel gas is an additional 10% and an administrative fee of about 2%, which totals $3.09 for the gas price. The trucking price being used is $5.00. The storage and rargas price being used is $1.00. The distribution price for each of the utilities is different because of the differences in infrastructure costs. The distribution price being used without SETS funds is $6.50 and with SETS funds is $4.00. The latest best case analysis for the liquefaction plant price is $5.00. This price could increase because of variables, including construction price overruns.

These are the current structural challenges in reaching the $15 target price goal. The current model totals are a low of $18 and a high of $20.50. Mr. Adcock recognizes that the cost of capital has to be lowered through creative efforts, possibly shifting state money around or taking advantage of AIDEA bonds. Capex and Opex also has to be reduced.

Chair Pruhs requested a cost comparison if the gas price was $18, what would the heating oil price have to be to match it. Mr. Britton stated heating oil would have to be at $2.40 a gallon to match an $18 gas price, and $2.70 a gallon to match a $20.50 gas price. Mr. Britton noted the current heating oil price is approximately $3.40, but is lagging current oil prices. It is expected to decrease rapidly over the next number of weeks to below $3.00 a gallon.

Mr. Adcock explained the elements in order that have the most effect on gas price are demand, Opex, Capex, and cost of capital. Raw gas is penny-for-penny. The model considers GVEA with a 5B commitment for 10 years, FNG with a beginning commitment of .1B and growing by .1B per year until 1.2B in year 12, IGU with a zero beginning commitment and growing to about .6 in year 10. Mr. Adcock noted the commitments from FNG and IGU may not equal their estimated demand, which could potentially introduce a seasonal swing issue that could affect gas prices.
Mr. Borgeson noted the risks that remain are demand capacity and customer conversion rates. He noted the GVEA board has to deliberate on the proposal of taking those risks. GVEA's model still shows there is a substantial savings to their members.

Mr. Wilken commented negotiations for a gas contract with BP has been a source of frustration for the project for eight months and now it is two weeks before the deadline. He noted the North Slope oil and gas fields handle 8 Bcf of gas a day and this project is asking for 6 Bcf of gas per year. He stated he does not want to deal with BP because of their quibbling and he does not have confidence in how the project will be treated in a compromised position. There is no tap off of the line. No decision has been made on who will take the supply risk. Mr. Wilken noted for the record that if his memory serves him correctly in 2006 when working on AGIA legislation it costs operators on the Slope $2.00 a Bcf to handle the 8 Bcf a day.

Mr. Borgeson stated GVEA does have a gas contract with BP and AIDEA did not want to use GVEA's gas contract. AIDEA instructed staff to get another gas contract with BP, which created confusion and angst at BP. Now the plan is to use the GVEA/BP gas contract, with some revisions.

Mr. Shefchik commented the intent of this project was to fundamentally change the impact of $4.00 diesel on the entire economy of the Interior and to do that, the gas needed to be broadly distributed throughout the community at a price that draws a high conversion rate. Mr. Shefchik believes this very expensive 6 Bcf plant has significantly changed from the expectations outlined in January 2014. He understands the Board has to make the decision on the project as it stands today, which is not affordable and has an expiring concession agreement. IGU recommends concluding this process because the deliverables have not been met and the costs are too high. Mr. Shefchik does not believe there is a probability of success by extending two or three more months. He suggested an abbreviated alternatives approach to solving this problem that is competitive with other choices. Mr. Shefchik stated IGU is still scheduled to discuss the tolling services agreement at their board meeting tonight.

Mr. Britton stated this project's vision has shifted dramatically over the years and FNG recognizes the significant challenge in accomplishing the aspects of liquefying gas, trucking gas, storing gas, and distributing gas to customers in an economically meaningful way. The high cost of capital, lower demand profile, higher LNG price, and lower oil prices are all challenges to this project. Mr. Britton noted FNG's feedstock in the Cook Inlet is not adjusted to oil prices. It is a consent-agreed negotiated price between the state and Hilcorp.

Mr. Britton stated Fairbanks still needs an LNG supply source. He does not like the current position of the project and struggles to find a better alternative to this project. He believes a North Slope solution still provides for the longest security of supply and the opportunity for lower costs if the issues around the high capital costs can be solved. Mr. Britton noted the original project envisioned the LNG plant as an essentially free plant from state funds, including $125 million of SETS funds and $57.5 million of grant funding for a $170 million capital budget on the North Slope. That has shifted now to there being a significant amount of private investment and private debt requiring demand commitments to satisfy those private investments.
This has created some of the challenges as far as bringing the pricing down to be able to meet the $15 goal for the community.

Mr. Britton expressed disappointment with the number of questions that are still unanswered and noted FNG has not seen the GVEA/BP gas contract, which is a risk profile. FNG recently signed a CA (Confidentiality Agreement) that will enable FNG to view that contract. Mr. Britton noted concerns regarding other unknowns, including pricing that assumes full demand out of the plant and the property tax issue. FNG is willing to agree to a three-month extension to the concession agreement to try to resolve the issues and to determine if this project is viable. He believes the utilities have made good progress working together over the last couple of months and that level of communication needs to continue. Mr. Britton believes this project would not be moving forward without GVEA's willingness to pay for the excess demand that exists in the early years. The details surrounding that arrangement have not been determined.

Chair Pruhs asked what FNG is currently charging per Mcf. Mr. Britton informed the residential customers are charged $23.35 per Mcf. The lowest charges are to the two interruptible customers at $19.50. Chair Pruhs asked if Mr. Britton sees a possibility of Cook Inlet gas being available in Fairbanks at a $15 price. Mr. Britton noted the Cook Inlet is currently in a high-priced environment and it would take a shift in the gas market to see the price decrease. The benefits to the Cook Inlet are the trucking expenses are substantially less and there is an existing liquefaction facility that could be leveraged resulting in lower capital costs.

Chair Pruhs asked if the target price of $15 still makes sense from a conversion standpoint. Mr. Britton noted FNG looks are markets as indicators and the forward curve on oil is showing the price staying at $70. Based on that, the $15 price for gas provides only a 10% margin to oil affecting conversion rates. The air quality issue in Fairbanks is also a driver and needs to be resolved.

Mr. Shefchik responded to Chair Pruhs' question regarding the target price of $15, noting IGU takes a longer-term price look than FNG because they do not have the same return requirements. He believes Fairbanks will be faced with $4 diesel again in the foreseeable future. The current prices are providing a respite at the individual's paycheck level and is slowing the conversion growth rate during the near-term. Mr. Shefchik stated the modeling shows more challenges for a $15 gas price, but it is still viable in the long-run. He explained GVEA's willingness to take the most capacity truly is a potential portion of any solution and will bring in the lowest possible liquefaction price in year two or three of the project, instead of waiting until year six. Mr. Shefchik believes the hard work to find a solution needs to continue through this low oil price environment.

Mr. Borgeson stated price is really important to get this project to the Interior. This project is important to the community to improve air quality and provide economic development opportunities. This is an expensive project and it was under-funded by the Legislature, but there are no other alternatives on the table. Mr. Borgeson expressed hope that IGU will continue to work on this project if the Board grants the requested extension.
Mr. Borgeson noted GVEA, IGU, and FNG have developed a term sheet for trucking. FNG has agreed to manage the trucking consortium. There is an anticipation of $10 million of funding from AIDEA for the trucking consortium and its initial capital outlays. The consortium will be equally-owned by the partners. Mr. Britton informed the utilities are having good discussions and have made progress in areas that benefit the rate payers in Fairbanks. The high level trucking consortium structure seems to work well for all the utilities.

7D. Executive Session - Interior Energy Project

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

The Board entered executive session at 12:21 p.m. The Board reconvened its regular meeting at 1:27 p.m. Chair Pruhs stated no formal action was taken during executive session.

7E. FY 2014 AIDEA Financial Statements

Mr. Leonard explained a financial audit occurs every year and results in the financial statements. He invited Chief Financial Officer Michael Lamb and KPMG representative Beth Stuart to report on the financial statements and answer questions. Mr. Lamb stated a large amount of work goes into the audit, including management representation of all the activities and financial positions. This is a complex organization with multiple unique assets that are valued in different ways. Mr. Lamb noted this was a very good year and resulted in a clean audit.

Ms. Stuart said the audited financial statements are included in the Board packet. The audit produced an unmodified clean opinion on the financial statements, which means the financial statements are presented in accordance with the appropriate accounting policies. This unmodified clean opinion is the best opinion that can be given on a set of financial statements. The financial statements will become the basis for the annual report and will ultimately become public information.

Ms. Stuart stated the Board packet also contains a letter to the Board summarizing the overall audit results and the process that was followed. Management made an estimate of the current portion of revolving fund loans that would be prepaid early and included that within current assets. This is different from past presentations. During the year, KPMG consulted with their national office relating to the accounting for the Mustang Operation Center (MOC) One investment because that transaction was not consummated until after fiscal year end. No accounting conclusions were met and follow-up is expected for FY15 with management. No other areas were significant and no indicators of bias were identified.

Mr. Wilken expressed his appreciation for a clean audit and staff’s good work.

Chair Pruhs noted the non-project personnel general administrative costs decreased about .7% and asked if this trend is anticipated to continue. Mr. Lamb stated staff tries to be good stewards in use of the assets given for the mission. The feasibility of projects next year could alter that
number. The general operating expenses are stable and the professional and legal services related to reviewing potential projects are included in that number.

8. DIRECTOR COMMENTS
Mr. Leonard said the loan and dashboard reports are included in the Board packet. He noted the Mustang Operations Center (MOC1) is an oil processing plant. It is a feasible project and is going forward. Mr. Leonard reported the loan request for storage commitment for the IEP project on the paperwork has been terminated. The portion of that loan was $20 million. The termination of the loan request is due to the passing of the decision deadline, questionable project feasibility, and declining oil prices.

The next regularly scheduled AIDEA board meeting will be on Wednesday, January 14, 2015, subject to the call of the Chair.

9. BOARD COMMENTS
Mr. Wilken expressed his appreciation for all of the work and effort on the IEP.

Chair Pruhs welcomed Deputy Commissioner Burnett back to the Board. Chair Pruhs formally recognized Mr. Leonard for his service to AIDEA.

10. ADJOURNMENT
There being no further business of the Board, the AIDEA meeting adjourned at 1:42 p.m.

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