



**Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES**

Thursday, October 22, 2015
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on October 22, 2015 at 11:57 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED)); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

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

Public: Alan Bailey (Petroleum News); Elwood Brehmer (Alaska Journal of Commerce); John Gaedeke (Brooks Range Council); Tim Gallagher (HDR); Mark Gardiner (Western Financial Group); Jerry Juday (Department of Law); Sunny Morrison (Accu-Type Depositions); Bob Shefchik (Interior Energy Project (IEP) Team Leader); Nancy Wainwright (Public); and James Wilson (Mat-Su Borough).

Public participating via teleconference: Mayor Luke Hopkins (Fairbanks North Star Borough (FNSB)).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Mayor Luke Hopkins, FNSB, expressed his appreciation to AIDEA for moving the sound process of the IEP forward. He believes it is important to maintain focus and momentum in selecting the proposed best and final offers. There are 130 miles of pipe in the Fairbanks community to provide the needed gas as soon as possible. Mayor Hopkins encouraged AIDEA to stay on track during this project phase and communicated the importance of the IEP for Fairbanks.

Mr. Wilken thanked Mayor Hopkins for his steady hand on the tiller and passionate participation with AIDEA and elected officials to move this project forward. Mr. Wilken requested his comments to Mayor Hopkins during the AEA meeting be copied into the AIDEA minutes; "Mr. Wilken expressed his appreciation to Mayor Hopkins for his efforts in assisting AEA with their endeavors over the last few years, and for participating in making the Interior and Alaska a better place."

Chair Pruhs expressed his appreciation to Mayor Hopkins for his efforts on all fronts with the IEP, and looks forward to working with him in the future.

Nancy Wainwright, spoke on behalf of P.J. Simon, first Chief of Allakaket Tribal Council. She said Chief Simon is out of town and requested Ms. Wainwright express his concerns to the Board regarding the recent developments with the Ambler Road. The money being spent by AIDEA to move forward with the Ambler Road only benefits a Canadian mining company and does not benefit the Allakaket people, nor the people of the region. This is not in the best interest of Alaska. The money is better spent on investing in education for the future of Alaskans or on the basic human necessities of water and sewer infrastructure needed in the villages. AIDEA is responsible to assist in infrastructure in the villages for these basic necessities and Allakaket still uses honey buckets. Ms. Wainwright highlighted the fact that most of the villages in the region have passed resolutions against the Ambler Road, and noted that Mr. Gaedeke listed these villages in his remarks at the AEA meeting.

Ms. Wainwright addressed the mysterious and changing costs for this project. In July 2013, AIDEA asked for an appropriation of \$8.5 million. In April 2014, Mr. Leonard, as reflected in the meeting minutes, noted he will provide the budget at the next meeting, and it is approximately \$42 million, including forecasted expenses through the EIS. Ms. Wainwright searched the AIDEA minutes and has not found any provided follow-up on the budget. She said the Administrative Order 271 response by AIDEA indicates \$26.5 million has been spent thus far by DOT and AIDEA. It identified \$17 million in AIDEA's budget, of which \$7.8 million was spent to-date, and \$5.5 million has been encumbered, which should leave \$3.7 million. However, the text of the submittals indicates AIDEA has \$9.7 million left and needs \$6.8 million to complete the permit process. Ms. Wainwright noted all of these numbers are conflicting, and at a minimum, before the Board authorizes any further progress on this project, it is requested that the commitment in 2014 be honored to provide the budget numbers to the public.

Ms. Wainwright reported the conflict of interest of DOWL Engineering, who has been or will be the recipient of more than half of the money AIDEA has received, was highlighted at the June 26, 2014 meeting and Mr. Wilken requested a formal response be provided regarding the

potential conflict. Ms. Wainwright stated no response has been provided, and requested AIDEA follow up on its commitment about the potential conflict of interest.

Chair Pruhs requested AIDEA staff revisit the budgets to ensure they are provided to the public and are clear and understandable. Mr. Springsteen agreed.

Mr. Wilken said he forgot about the conflict of interest issue.

The comments from John Gaedeke were moved forward from the AEA meeting as follows; "Mr. Gaedeke, Chairman Brooks Range Council, stated the Council was formed a couple of years ago to fight the proposed road to the Ambler Mining District. He reminded the Board that over 2,000 petitions against the Ambler Mining Road were submitted at the last AIDEA public meeting in Fairbanks in December 2014. Mr. Gaedeke indicated AIDEA's meetings along the proposed industrial road route have resulted in village resolutions against the road from Evansville, Bettles, Allakaket, Hughes, Kobuk, and the Tanana Chiefs Conference.

Mr. Gaedeke believes any more funds spent by AIDEA on scoping suggests the last two years' worth of meetings have been wasted, or AIDEA has not listened to the villages and their resolutions, or AIDEA is lying about its intentions, or a combination of these. Mr. Gaedeke commented AIDEA is supposed to promote viable economic opportunity for all Alaskans, not just Canadian mining companies. Mr. Gaedeke urged Board members to rescind its intentions to continue wasting millions of dollars on scoping for the proposed road to the Ambler mining district. Mr. Wilken gave Mr. Gaedeke his email address and requested to be copied on any correspondence with AIDEA on this subject. Mr. Gaedeke agreed."

6. NEW BUSINESS

6A. Seward Industrial Marine Center Update

Mr. Springsteen introduced Jim Hemsath, who provided a detailed presentation on the Seward Marine Industrial Center (SMIC). Mr. Hemsath said development of a business plan with Seward regarding the marine industrial center has been ongoing for the last six-to-eight months. A Memorandum of Understanding (MOU) has been formed between Seward and AIDEA. This utilizes some of the G11-18 funds through a cost-sharing mode, where AIDEA would contribute \$75,000 and Seward would contribute \$150,000. Arcadis Engineering has been contracted to develop the business plan. He noted the PDAM group is working on an outline of an additional high risk fund or study fund that could be used as an expansion of G11-18, and hopes to have an update for the Board in December.

Mr. Hemsath described the study area which is off of the cruise ship terminal, past the prison, and encompasses the Seward shipyard. The focus is to determine what development could occur to maximize revenues for this area and what infrastructure is necessary for that development. The establishment of a breakwater for Seward is necessary, which will be state-funded. The contractor is Hamilton Construction. The contract amount is \$15 million on a two-year construction schedule and will create a harbor area.

Mr. Hemsath reviewed the table listing interviews of potential users and businesses. He showed a graphic indicating the current revenue sources and potential future revenue sources. The area is approximately 50% encumbered with leases.

Deputy Commissioner Parady requested an update on the long-term interest of Dutch Shell and Edison Chouest. Mr. Hemsath said the interview results indicated Dutch Shell and Edison Chouest did not see any utility in Seward because oil and gas equipment is generally too large.

Mr. Hemsath reported the findings show strong support for further development of the current leases and organic growth. Crowley is storing tugs and barges at SMIC. Spartan 51 is moored at SMIC. Opportunities may be present for AvTech to move some of their work into SMIC. The Coast Guard is considering the facilities as a possible home port for new Sentinel class cutters. The vessels could be maintained at Vigor in Seward and also at Vigor in Ketchikan.

Mr. Hemsath said the next phase for Seward is to find appropriate lease rates for some of the properties and to determine what is necessary to make Seward a truly efficient place to winter over and conduct maintenance work on jack-up rigs. Chair Pruhs asked if the Railroad is a competing player for leasing uplands. Mr. Hemsath said the Railroad could be a competing interest for tenants. He believes the Railroad is focusing on incoming cruise ships and cargo.

Mr. Hemsath said the suggestion to Seward is to have third-party management that could also market the shipyard to other users. Modest improvements at the dock could result in some growth. Chair Pruhs asked if each tenant was responsible for its own security. Mr. Hemsath said yes. He said the study did not go into details regarding security issues, and none of the interviewees expressed security as an issue. Mr. Hemsath described the conceptual build-out for maintenance and repair (M&R) facilities. The current lease/rent revenue is \$156,000, and the potential lease/rent build-out revenue would be \$415,000. The potential total revenue from the M&R build-out could be \$1.5 million. This is a revenue projection and no cost estimates have been reviewed.

Chair Pruhs asked if there are utilities along the existing roads. Mr. Hemsath said the core of water, sewer, and power is in place, making the location advantageous. The final aspect of the study is to hold workshops with stakeholders as a group, to seek additional input regarding possible future SMIC opportunities. The business plan will then be provided to Seward.

Mr. Wilken requested information about the possibility of Seward being developed into the home port for the fishing fleet that resides in Newport and Bellingham. Mr. Hemsath said that study resulted in the potential tenant not wanting to pay additional costs and signed a new lease elsewhere. Fishing fleets have a temporary nature to their docking and this area is better suited for an industrial focus.

6B. Interior Energy Project Update

Mr. Springsteen invited Bob Shefchik and Nick Szymoniak to provide a monthly update summarizing work on the IEP. Mr. Shefchik said the 80-page quarterly report provided to the Legislature can be viewed at www.interiorenergyproject.com. He will spend time reviewing this information with the Interior Delegation at the end of the current legislative session. Mr. Szymoniak said the four required elements of the report includes a description of the project progress on all components, an update on the local distribution, an update on to-date and anticipated conversions, and an update on financial accounting.

Mr. Szymoniak noted the consideration of either a North Slope or a Cook Inlet gas supply remains. North Slope gas is available from an existing supply contract between Golden Valley Electric Association (GVEA) and BP Exploration. Cook Inlet gas is offered by independent producers in response to the request for information (RFI). Direct discussions have begun with those respondents. Liquefaction is being driven by the request for proposal (RFP) process. The five finalists are Harvest Alaska, Phoenix Clean Fuels, Salix, Spectrum LNG, and WesPac Midstream.

Three rounds of discussions have occurred with each of the finalists, reviewing proposals, economic models, and engaging in specific dialog with the three Interior utilities. The request for best and final offers was submitted on October 16, 2015 and are due October 30, 2015. Each finalist is invited to present an abridged version of their best and final offer to the public in Fairbanks on November 4, 2015. The public will be asked to provide feedback to the evaluation committee. One finalist will be selected by the evaluation committee in mid-November. The finalist will be engaged with the utilities before presentation to the Board on December 3, 2015. Work on commercial terms between the finalist and the utilities will continue, while considering feedback from the AIDEA Board. On December 17, 2015 approval of the finalist and overall project plan will be brought before the Board.

Regarding liquefaction, Mr. Szymoniak said AIDEA has acquired Pentex and its subsidiaries, Fairbanks Natural Gas (FNG) and the Titan LNG facility at Port MacKenzie. The process of including the plant into the ultimate IEP project is ongoing. Trucking continues to be the base-case assumption for proposal evaluation. Rail options did receive limited approval from the Federal Railroad Administration (FRA) for transporting liquefied natural gas (LNG). AIDEA is working directly with the Railroad to determine the best path forward.

Deputy Commissioner Parady requested additional information regarding the approval limitations. Mr. Szymoniak explained the rail is limited to transportation of eight ISO containers round-trip per week, approximately 80,000 gallons. A 3Bcf LNG plant will produce 100,000 gallons per day. The current approved rail transportation amount does not meet the output of a new LNG plant, nor does it meet the output of the existing LNG plant. In addition, the rail approval is only for two years, expiring October 2017. Deputy Commissioner Parady asked for the next steps to making these options adequate. Mr. Szymoniak stated AIDEA will provide the Railroad all the information and support they request. The Railroad will be the lead agency interfacing with the FRA. The possibility is the Railroad will provide a limited piece of the supply chain in the future.

Mr. Wilken noted the rail terms are problematic and there are bigger issues. He asked if the proof of concept is to put the ISOs on a truck and take them to the railhead to move. Mr. Shefchik stated that was one of the proposals. Another proposal looked at a Greenfield plant co-located with rail. The logistics are dependant upon the finalist. Mr. Wilken believes this continues to be a distraction in the short-term to moving ahead with trucks and trailers, and the Railroad can make their case in the future when they can save money to the consumer. Chair Pruhs asked if any portion of the railroad component affects the decision-making on storage and the storage capacity in Fairbanks. Mr. Szymoniak stated the railroad component could provide a small level of storage of ISO containers. It would not impact the larger storage build-out expected for the seasonal swing. The existing FNG site has constrained rail access.

Mr. Szymoniak believes it is important the design understands the implications for rail access. Mr. Shefchik described the different approaches submitted by the vendors.

Mr. Szymoniak said the 13,000-gallon trailer is expected to arrive in Anchorage on November 9, 2015. Mr. Wilken requested a public outreach plan be developed in writing to utilize the trailer as an indication of the future of natural gas in the Interior. Mr. Szymoniak indicated conversations regarding a public outreach plan are occurring.

Mr. Szymoniak explained the two components of storage include the five-day supply of security storage required by the Regulatory Commission of Alaska (RCA) and the seasonal load-leveling storage. Chair Pruhs asked for the existing emergency 9-1-1 plan if an interruption of LNG occurs, and what the proposed emergency 9-1-1 plan will be for the new scenario, including the additional liquefaction. Mr. Shefchik believes the current backup plan for FNG is a negotiated agreement with the ConocoPhillips plant. Mr. Shefchik will provide the Board with the current backup plan, including the recommended provider. Chair Pruhs asked if the emergency plan affects the decision-making process for the finalist. Mr. Shefchik noted the level of firm supply and the proposal's reliability will contribute to the decision-making process.

Mr. Szymoniak reported a design charrette with FNG and Interior Gas Utility (IGU) to optimize the distribution system expansion and storage facilities will occur in October. AIDEA has begun the transition process with the FNG management team. This is going smoothly. In the 2015 construction season, FNG installed almost 30 miles of pipeline in downtown Fairbanks and IGU installed their full 73 miles of pipeline.

Mr. Shefchik stated the Conversion Working Group continues to meet, lead and encourage the conversion planning efforts. No conversions are currently ongoing prior to any increase of the gas supply. Advertising for the Alaska Housing Finance Corporation (AHFC) conversion program has begun and the program eligibility ends June 30, 2016. Deputy Commissioner Parady asked if it is possible to push for an initial demonstration of conversion projects or a conversion pilot program for houses with wood burning heat. Mr. Shefchik stated the challenge is firm supply in the winter. FNG is currently at its maximum number of firm customers during the winter because of the supply. Investment in storage would increase capacity. Deputy Commissioner Parady requested information on how often FNG has been confronted with the five-day threshold over the last three years. Mr. Shefchik agreed to find out and provide the information.

Mr. Szymoniak described the financial accounting of funds of IEP expenditures related to the three funding sources - capital appropriation of \$57.5 million, IEP SETS funding of \$125 million, and SETS bonding authorization of \$150 million. Phase I includes funding spent before HB 105 and totals approximately \$14 million of capital appropriation. Phase II includes funding spent after HB 105 and totals approximately \$115,000 of capital appropriation. The SETS funding has been entirely associated with the distribution loans through FNG and IGU. No bonds have been issued for the project.

Chair Pruhs asked if any revenues are currently being generated from the North Slope pad. It was noted there are inflows from short-term storage and ongoing outflows for DNR permitting and other costs. The intent is to use the inflows to pay the outflows.

Chair Pruhs requested a report on the community support for the IEP. Mr. Shefchik said the community is following the project closely. The visible progress and willingness to hold meetings in Fairbanks has been well-received.

Mr. Wilken requested to announce the date the rates are going to drop. Mr. Shefchik stated FNG and AIDEA management are to bring a recommended rate schedule to the AIDEA Board hopefully by December 3, 2015. Mr. Wilken requested Mr. Shefchik provide an update on that information at the Fairbanks public meeting on November 4, 2015. Deputy Commissioner Parady suggested memorializing the rate drop announcement at the December Board meeting in Fairbanks.

Gene Therriault described the benefits of the AHFC conversion program. He noted the Property Assessed Clean Energy (PACE) legislation is complete and a potential source of federal funds has been identified that will help the consumer if they need to finance the conversion. A request has been submitted, and a response is forthcoming, to determine if AEA or AIDEA could qualify as the entity that would receive the federal funds and pass them off to the gas utility. Mr. Therriault described the potential of another low interest-rate funding source which is tied to the issue of lowering emissions and lowering the impact to water bodies.

Chair Pruhs requested the 2016 budget for Pentex be presented at the December meeting and quarterly reports be given in a timely manner. Mr. Springsteen agreed.

6C. Executive Session: Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), BlueCrest Energy drill rig loan, and Skagway Ore Terminal

MOTION: Deputy Commissioner Parady moved to go into Executive Session to discuss confidential and financial information related to the Interior Energy Project, Brooks Range Petroleum (BRP) Mustang Operations Center (MOC1), BlueCrest Energy drill rig loan, and Skagway Ore Terminal. Motion seconded by Mr. Wilken. The motion was approved.

The Board entered Executive Session at 1:30 p.m. Participants included board members Dana Pruhs, Russell Dick, Fred Parady, and Gary Wilken. AIDEA staff invited to join the session: John Springsteen, Mark Davis, Jim Hemsath, Nick Szymoniak; and guests Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 3:47 p.m. Chair Pruhs stated no formal action was taken during executive session.

7. DIRECTOR COMMENTS

Mr. Springsteen expressed his appreciation to Crystal Nygard for her advice and service, and for introducing him to AIDEA. He welcomed new members Dan Kennedy and Elaine Brown. Mr. Springsteen noted resource development continues to be an important economic engine for the state of Alaska, providing employment opportunities and revenues from taxes and royalties. He stated Governor Walker has permitted AIDEA to begin the Federal Environmental Impact Statement (EIS) process for access to the Ambler Mining District, specifically for the scoping

portion. This is necessary for the state to preserve the value of the studies completed to-date and to determine the most appropriate access to the Ambler Mining District.

Mr. Springsteen said the loan, dashboard, delinquencies-to-outstandings reports, IFD and PDAM project matrices, and the third quarter project fact sheets were included in the Board packet. Board members interested in continuing education opportunities should contact Ms. Siverson.

Deputy Commissioner Parady commented the loan portfolio is shrinking and could be an opportunity to push the anticipated loans. The delinquencies-to-outstandings have been below 1% for the last decade. He inquired if this reflects being too risk averse in how and where credit is extended.

The next AIDEA board meeting is scheduled for Thursday December 3, 2015.

8. BOARD COMMENTS

Mr. Wilken complimented Mr. Springsteen on his calm and knowledgeable briefing of AIDEA to the Fairbanks Economic Development Corporation on Tuesday.

Chair Pruhs welcomed the new Board members. He expressed his appreciation to Ms. Nygard for her contributions and guidance to AIDEA.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:52 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority

