



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, December 3, 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 December 3, 2015 at 1:07 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Elaine Brown (Public Member); Dan Kennedy (Public Member); and Gary Wilken (Public Member).

Members participating via video teleconference: Vice-Chair Russell Dick (Public Member); 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 (AIDEA Executive Director); Chris Anderson (AIDEA Director-Commercial Finance); Mike Catsi (AIDEA Director-Business Development & Communications); Mark Davis (AIDEA Chief Infrastructure Development Officer (IFD)); Jim Hemsath (AIDEA Director-Project Development and Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Gene Therriault (AEA Director-Energy Policy & Outreach); Brenda Applegate (AIDEA Finance Controller); Tom Erickson (Chief Procurement Officer); Karsten Rodvik (AIDEA External Affairs Officer); Nick Szymoniak (AIDEA Energy Infrastructure Development Officer); Kirk Warren (AEA Project Manager); Sherrie Siverson (AIDEA Executive Assistant); Elizabeth Hodges (AIDEA Finance Administrative Assistant); and Krin Kempainen (AIDEA Administrative Assistant).

Public present: Alan Bailey (Petroleum News); Brian Bjorkquist and Jerry Juday (Department of Law); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Fairbanks Natural Gas (FNG)); Cory Borgeson (Golden Valley Electric Association (GVEA)); Marcia Davis and Sterling Gallagher (Governor's Office); Tim Gallagher (HDR); Mark Gardiner (Western Financial Group); Keith Hand (Spectrum); Amber Rae McCampbell and Beth Stuart (KPMG); Lisa Ross (Birch Horton Bittner & Cherot); Bob Shefchik (Interior Energy Project (IEP) Team Leader); Jane Smyth (Accu-Type Depositions); and James Wilson (Mat-Su Borough).

Public participating via teleconference: Brett Bartholomew (public); Merrick Peirce (Fairbanks); and Brown Thornton (Interior Gas Utility (IGU)).

4. AGENDA APPROVAL

John Springsteen requested adding the topic of attorney/client communications regarding the Ambler Mining District Industrial Access Project to Item 7D. Executive Session. The agenda was approved as amended.

5. PRIOR MINUTES - September 24 and October 22, 2015

MOTION: Mr. Wilken moved to approve the Minutes of September 24, 2015. Motion seconded by Ms. Brown. The motion was approved, with Mr. Kennedy abstaining.

MOTION: Mr. Wilken moved to approve the Minutes of October 22, 2015. Motion seconded by Mr. Dick. The motion was approved, with Mr. Kennedy abstaining.

6. PUBLIC COMMENTS

Merrick Peirce stated the presentation by the IEP finalists at Pioneer Park showed the gas from the project will be more expensive than all other fuel sources, at over \$20 per MMBtu. He expressed disappointment that two of the finalists did not appear to comprehend the distinction between the meter price and the burner-tip price. Mr. Peirce explained the meter price is the city gate price plus distribution costs. The burner-tip price is what the consumers pay, the city gate distribution plus the amortized costs of conversion. He does not believe consumers in Fairbanks will convert to gas while it is the most expensive type of energy.

Mr. Peirce stated there are three areas of concern for the IEP to be successful: supply cost has to decrease; distribution cost has to decrease; and conversion costs have to be subsidized. A pressing issue for the local community is the air quality problem. IEP does not address the air quality problem. Mr. Peirce believes the community needs to convert between 3,000 and 5,000 wood stoves to gas for the air quality in Fairbanks to comply with the national ambient air quality standards for particulate pollution. This cannot happen if the IEP gas is substantially more expensive than fire wood.

Mr. Peirce noted commodity prices are subject to fluctuation. The current IEP plan is so rigid it cannot succeed when commodity prices fluctuate. Mr. Peirce stated IGU reported to the Regulatory Commission of Alaska (RCA) 24 months ago that the IEP would save consumers 4% if fuel oil prices were \$4.82 per gallon. The current price for fuel oil is about \$2.00 per gallon. Mr. Peirce is concerned IGU's business plan does not address the achievement of the 72% voluntary conversion rate and does not model the dynamic market forces that remain in play. He stated he has paid attention to this project for many years and desperately wants it to succeed. His last concern was Fairbanks may not develop a viable gas distribution system to effectively engage in binding take or pay contracts from a future large-line gas project. Mr. Peirce recommended the onus be placed on the Legislature to provide adequate funding for a successful project.

Mr. Wilken expressed his appreciation for Mr. Peirce's continued interest in the project. Mr. Wilken recognized the Board is aware of all of Mr. Peirce's concern and understands this project

is driven by early demand. Mr. Wilken requested Mr. Peirce put any of his suggestions in writing and email them to the Board. Mr. Wilken stated this is a challenging project and the Board continues to work diligently to address solutions.

Cory Borgeson, President & CEO, GVEA, expressed his appreciation to AIDEA for their continued work on IEP. Mr. Borgeson reaffirmed GVEA's commitment to creating a successful project and noted ongoing negotiations in fulfilling this goal. The BP gas contract is secured and available for this project if North Slope gas is utilized.

Mr. Wilken commented GVEA's commitment to 2 Bcf of gas is needed. Mr. Borgeson stated the discussions included price scenarios and if the price was as low as \$8 an Mcf, GVEA could take 2 Bcf. If the price is at \$10 a Mcf, GVEA could take .6 Bcf. It would be difficult for GVEA to use much of the gas at all at the current price level. The fuel supply needs to be at a prudent cost for the utility. Mr. Borgeson indicated the view of this project has to be long-range. The GVEA model is for 10 to 20 years and the project makes sense.

Mr. Wilken asked if it would be appropriate to request a lower rate from BP for the first 10 years and pay the difference back over the last 10 years. Mr. Borgeson commented that approach does not make sense because it puts the burden on the future rate payers. Mr. Borgeson suggested subsidies be provided for the conversions and pay the real cost of the service.

7. NEW BUSINESS

7A. FY 2015 AIDEA Financial Statements presentation, KPMG

Mr. Springsteen introduced Michael Lamb and Beth Stuart who provided a detailed presentation on the FY 2015 AIDEA financial statements. Ms. Stuart stated the final documents provided to the Board members today and the documents emailed in November are substantially the same and contain no changes to the numbers nor the content. The timeline for the issuance of the report was delayed because of implementation of the new accounting requirement standard of GASB 68, which recognizes future pension liabilities for AIDEA employees. The items of significance related to this year's audit are described on page two of the letter to the Board.

Ms. Stuart reported the results of an unmodified, clean opinion. The financial statements are materially correct and include all of the necessary disclosures. Ms. Stuart explained the inclusion of the debt pension liability line on AIDEA's balance sheet of \$8.6 million. Debt pension liability is now being reported on all state retirement participants' individual financial statements. Further explanation was provided regarding the financial impact of the debt pension liability on the balance sheet.

Ms. Stuart noted two impacts to FY 16 included the acquisition of Pentex and its activity, and the accounting standard on the fair value of investments. Anticipated for FY 17 is the impact of the post-retirement health benefits offered through the PERS system, which will be brought onto the balance sheet as a liability. Ms. Stuart does not know the specific amount of the post-retirement health benefits liability, but believes it will be at least as large as the pension liability.

Mr. Kennedy commented Schedule 5 is helpful in understanding the financial performance of the entity. Mr. Kennedy requested an explanation of the process for the dividend payments to shareholders be included on the next agenda. Mr. Lamb noted the dividend payment is based on a three-year cycle.

Mr. Lamb expressed his appreciation for the quality of work staff continues to provide.

Mr. Wilken expressed his appreciation to all who contributed to bringing forward a clean audit.

7B. Pentex Rate Setting presentation

Mr. Springsteen stated the Pentex acquisition was a strategic and short-term investment for AIDEA, with the intent to transfer the utility to local control as quickly as practical. The transfer goal is June 30, 2016. As part of the process of the temporary ownership of Pentex, the AIDEA Board becomes the rate-setting authority for the FNG gas utility. The proposed rates will be discussed today and the resolution will be voted on on December 17, 2015, to become effective January 1, 2016. He invited Dan Britton and Mark Gardiner to the table to make the presentation.

Mr. Britton stated the overall goals of the budget are to maintain a healthy utility, to reduce rates to customers in Fairbanks, particularly residential customers, and to identify key areas of AIDEA involvement at reduced costs. The work involved in developing the rates is supportive of establishing a permanent rate structure. An overall rate reduction to the 464 residential customers is approximately 13.5%, from \$23.35 Mcf to \$20.20 Mcf, an average savings of \$450 per year. The rate reduction to the 615 small commercial customers is approximately 12%, from \$22.91 Mcf to \$20.16. The rate reduction to the 31 large commercial customers is approximately 11.3%, from \$22.66 Mcf to \$20.10 Mcf. The rate reduction to small interruptible customers is approximately 2%, from \$20.39 Mcf to \$20.03 Mcf.

Mr. Britton reported the 2016 budget is challenged primarily due to the reduction in oil prices, leading to a reduction in volumes, specifically from the two largest interruptible customers, the University of Alaska Fairbanks (UAF) and Fairbanks Memorial Hospital. The rates are being recommended without volumes from UAF and Fairbanks Memorial Hospital. Mr. Britton noted expenses remain consistent with previous years and reviewed the five-year comparative schedule included in the Board packet. The proposed rates contain a return to AIDEA of approximately \$900,000. The proposed budget maintains a neutral cash position and is considered a capital reserve. The amount is slightly higher than normally maintained. Mr. Gardiner explained the revolving fund and target return.

Deputy Commissioner Parady inquired about anticipated capital improvements. Mr. Britton stated the only anticipated capital expenditures are for maintaining status quo.

Chair Pruhs asked if there is a possibility to increase production of the facility and requested additional discussion at a later date. Mr. Britton pointed out there is potential to increase the liquefaction facility production from 50,000 gallons per day to 60,000 gallons per day. The CO2 unit is currently at capacity.

Mr. Wilken expressed his pleasure and appreciation for delivering the approximate 13% rate reduction as promised.

7C. Interior Energy Project Update

Mr. Springsteen invited Bob Shefchik and Gene Therriault to give the monthly update summarizing the IEP work. Mr. Shefchik reviewed the summary memorandum provided to members and noted the competitive process of the RFP is driven by the intent language of HB 105. The five finalists submitted best and final offers (BAFO) by the October 30, 2015 deadline. Those offers were immediately provided to the evaluation committee members. The five finalists were invited to present at a town hall meeting in Fairbanks on November 4, 2015. Four of the finalists agreed to present. There were approximately 120 to 150 people in attendance.

The evaluation committee met in mid-November to review each proposal and rank them in a first, second, and third order. The top two respondents from this process scored very closely and are Spectrum LNG, offering an LNG plant on the North Slope, and Salix Inc., offering an LNG plant in Cook Inlet. The committee decided to request additional information from the top two respondents before committee recommendation of a single project. The additional information items requested include commercial and finance terms, proposed rate structures, capital and operating expense estimates, and third-party verifications of the estimates.

The target date for respondents to provide the additional information is January 10, 2016, after which the committee will reconvene. Mr. Shefchik added the Board can expect to act on a recommendation at a special meeting in early February. This timeline provides for public input, review and questioning by the Board.

Mr. Therriault stated all of the confidentiality agreements have been signed concerning the transition from his position at AEA to AIDEA. He is now able to be aware of information as the evaluation committee finalizes the RFP recommendation to the Board. Mr. Shefchik intends to decrease his project hours after the selection of the RFP and as construction begins. The transfer of the IEP Lead will then go to Mr. Therriault. Mr. Shefchik will be available for negotiations regarding the combination of the two utilities set for the middle of calendar year 2016.

Chair Pruhs believes it is good to have two close finalists. He asked for an update on the integration of a third party with FNG if the Cook Inlet alternative is chosen. Mr. Shefchik explained the ability to coordinate operations or dispatch out of a Titan and Cook Inlet plant is one of the benefits from a Southcentral approach. Depending on site location, the operational savings of a co-managed facility could be substantial.

Mr. Wilken noted the town hall event in Fairbanks was very well-attended. The positive feedback he received was appreciation for the event to keep the public informed. The negative feedback included the public not having the ability for a question-and-answer section. The absence of Hilcorp's representation was noticed, but not explained. Mr. Wilken requested Tom Erickson's name be added to the summary as attending.

Mr. Wilken asked for an update on the large capacity LNG trailer. Karsten Rodvik noted the truck and large capacity LNG trailer will be available for AIDEA Board and staff to view from 11:00 a.m. to 2:00 p.m. on Friday, December 11, 2015, at the Crowley facility in Anchorage. Other industry representatives will be present for discussion and questions. The truck and trailer will be available in Fairbanks on December 14, 2015 from 5:00 p.m. to 7:00 p.m. at a Chamber after-hours event. The invitations will be distributed soon. Work continues on the opportunity for the truck and trailer to go to North Pole on December 15, 2015. Advertising on this event will occur. Mr. Rodvik indicated heightened media interest during this trailer evaluation period.

Chair Pruhs asked if there is the ability to load the trailer with 13,000 gallons at the LNG facility. Mr. Britton agreed, provided the trailer can legally transport 13,000 gallons according to Alaska's weight restrictions. The tests and determinations will occur after the viewing on December 11, 2015.

7D. Executive Session: Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), and Attorney/client communications regarding the Ambler Mining District Industrial Access Project

MOTION: Mr. Wilken 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), and attorney/client communications regarding the Ambler Mining District Industrial Access Project. Motion seconded by Mr. Kennedy. The motion was approved.

The Board entered Executive Session at 3:02 p.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Jerry Burnett, Dan Kennedy, Fred Parady, and Gary Wilken. AIDEA staff invited to join the session: John Springsteen, Mark Davis, Jim Hemsath, Gene Therriault, Nick Szymoniak, Kirk Warren and guests Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 4:59 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. OLD BUSINESS

8A. Resolution No. G15-19 Regulations 3 AAC 103 Arctic Infrastructure Development Program

Mr. Springsteen stated Resolution No. G15-19 re-adopts Chapter 103 of AIDEA's regulations to implement the Arctic Infrastructure Development Program. The regulations discuss eligible projects, eligible applicants, approval processes, and the terms and conditions for the program.

MOTION: Mr. Wilken moved to take from the table Resolution No. G15-19 Regulations 3 AAC 103 Arctic Infrastructure Development Program and approve. Motion seconded by Ms. Brown.

Mr. Springsteen explained the re-adoption allowed for a sufficient reissuance of the public notice period. Due to a change in staff of one of the publishers, only two of the three public notices occurred.

Mr. Wilken commented he made an error at the September 24, 2015 meeting when he described his reason for his intent to vote against Resolution No. G15-19. Mr. Wilken stated he erroneously interpreted Exhibit D as allowing regions of the world to compete for limited resources that should benefit Alaska. He clarified the funding is restricted to the orange area on Exhibit D, and is for Alaska only.

Mr. Wilken stated he intends to vote against this resolution because it is bad public policy and sets an unintended precedent to the creation of other state sector funds which would compete for precious state resources. He explained the expenditures of those state resources would be removed from the legislative process and governed by the fund management, not by the Legislature. Mr. Wilken noted it is not his job to second guess the Legislature, nor to create public policy. He reported if this vote does not pass this Board, he will change his vote to yes.

Deputy Commissioner Parady expressed his concern that section 3AAC 103.040 regarding eligible applicants is too lax. He questioned the reasoning for allowing an appeal process in section 103.150. Deputy Commissioner Parady believes an appeal process opens the door to litigation. He suggested tabling this resolution again to allow additional time to review the details line-by-line. Jerry Juday explained the draft Arctic Infrastructure regulations essentially copy the SETS regulations. Mr. Juday noted both concerns identified by Deputy Commissioner Parady are existent in the SETS regulation. If a specific change is to be made, it should be made in all AIDEA regulations. Mr. Juday explained the appeal process is included because people involved in governmental action are required to follow due process. Mr. Juday encouraged the Board to approve the regulations. Deputy Commissioner Parady expressed his appreciation to Mr. Juday for the explanation and will follow his recommendation.

The motion was approved with members Dick, Brown, Burnett, Kennedy, and Parady voting yea. Pruhs and Wilken voted nay.

9. DIRECTOR COMMENTS

Mr. Springsteen expressed his appreciation to Mr. Britton for his tangible and immediate contributions, and to Mr. Therriault as he moves into his new role and leads the charge on conversion. The loan, dashboard, delinquencies-to-outstandings reports, IFD and PDAM project matrices, and the Callan Quarterly Review were included in the packets and he is available to answer any questions. Board members interested in continuing education opportunities should contact Ms. Siverson.

Deputy Commissioner Parady requested the Dashboard Report be updated for the anticipated MOC1 finance schedule. Mr. Springsteen agreed to provide the request in a deliberative format.

Vice-Chair Dick indicated he will not be present at the next meeting but may participate telephonically. Deputy Commissioner Parady added he will not be present at the next meeting and will participate telephonically.

The next AIDEA board meeting is scheduled for Thursday, December 17, 2015.

10. BOARD COMMENTS

Vice-Chair Dick commented he voted yes on the Arctic Infrastructure Fund, and noted for the record, he shares the same public policy concerns as Mr. Wilken.

Deputy Commissioner Parady requested a copy of the policies or regulations that govern the executive sessions, including how they are called and who attends. Mr. Juday stated the statute outlines why executive sessions can be called. The Chair and/or other Board members have discretion as to who attends. All attendees in executive session are obligated to keep the information confidential. Mr. Juday does not believe there is written policy regarding AIDEA's executive sessions. Deputy Commissioner Parady indicated he will take up his concerns with the Chair.

Mr. Wilken suggested creating a table illustrating available options for conversions. Mr. Springsteen agreed.

Ms. Brown echoed Mr. Wilken's public policy concerns regarding the Arctic Infrastructure Fund.

11. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 5:21 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority