



Alaska Industrial Development and Export Authority

BOARD MEETING MINUTES

Thursday, October 26, 2017

Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on October 26, 2017, at 12:18 p.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]); Jerry Burnett (Deputy Commissioner, Department of Revenue [DOR]); Elaine Brown (Public Member); Dan Kennedy (Public Member); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO/Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Tom Erickson (Chief Procurement Officer); Liz Greer (PDAM Project Manager); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Finance Development Officer); Linda Senn (Human Resources Manager); Gene Therriault (Interior Energy Project [IEP] Team Lead); Sherrie Siverson (Executive Assistant); and Krin Kemppainen (Administrative Assistant).

Public: Alan Bailey (Petroleum News); Travis Bowman, Kelly Laurel, John Saams, and Michael Walhof (Siemens Government Technologies [Siemens]); Tim Bradner (Legislative Digest); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Pentex); Tim Gallagher (HDR); Mark Gardiner (PFM Group Consulting); Tom Harris, Alfred Tellman and Raymond Theodore (Knikatnu, Inc.); Matt Hickman (Anchorage Press); Jerry Juday (Department of Law); Ladonna Lindley (Accu-Type Depositions); David Nufer, Roger Purell, and Verne Rupright (East-West Pacific Consulting); and Jomo Stewart (Interior Gas Utility [IGU]).

Public present via teleconference: Dan Bross (KUAC Radio, Fairbanks); Patrice Lee, and Pamela Throop (IGU).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Tom Harris, CEO Knikatnu, Inc, introduced members of his team who were also present. Mr. Harris stated Knikatnu, along with Siemens, has been coordinating a new alternative Liquefied Natural Gas (LNG) production chain located in Houston, Alaska, specifically designed to provide increased diversity, security, safety, and reliability of a natural gas supply to Fairbanks and other markets. Mr. Harris offered to share and disclose information with AIDEA in efforts to bring lower cost energy to Interior Alaska. He noted none of the team is responding to any open AIDEA request for proposal (RFP).

Kelly Laurel, Director of Energy and Infrastructure, Siemens, stated Siemens' extensive global experience and expertise in oil and gas, and industry sector solutions will benefit the IEP challenge. The Siemens' multi-disciplinary team reviewed the Titan expansion plan and recognized serious critical deficiencies that could cause undue hardship and jeopardize lives. The current plan is not utility grade due to several single points of failure, to include only one location for production. The Siemens team concluded the most critical factor in achieving House Bill (HB) 105 compliant plan that efficiently, effectively, and safely delivers a utility grade supply of LNG is to leverage the railroad's existing infrastructure, thus creating the virtual pipeline to Fairbanks. Ms. Laurel reported the financial model includes three modular systems, which can economically deliver LNG to storage in Fairbanks at or below \$16 per Mcf, and continue to reduce in price as the volume and demand grows.

Michael Walhof, Dresser-Rand Group within Siemens, stated he has been working closely with local partners for the past year to evaluate the alternative modularized LNG product to the proposed Titan expansion. The developed concept is aligned with the priorities of Alaska and will utilize a multiple train delivery mechanism out of Houston. The team is experienced in developing and installing this type of project, and is experienced in working in Alaska. Discussions with local partners and stakeholders, including Fairbanks Natural Gas (FNG) and IGU, occurred and basic solution criteria was developed, such as utility grade reliability, avoiding hidden costs, maximizing use of existing assets, and maximizing safety for all operations.

John Saams, Siemens, discussed the concept of utility grade reliability. He noted the urgency for a reliable system increase, as the system gets larger. The reliability has to be built into all of the stages of the larger utility, the production, the storage, and the distribution systems. Mr. Saams believes the AIDEA Board should carefully evaluate the risks and assess whether there are more reliable solutions to the current planned approach. One example focuses specifically on the investment in a large storage facility. Mr. Saams believes the size of the storage investment could be reduced in a way that actually increases the overall system reliability. The money saved could be redirected toward making a more reliable production process. Mr. Saams stated a number of these types of opportunities exist throughout the process. Building in reliability or energy security will avoid issues that could negatively impact the conversions necessary to keep the cost of natural gas low in the Fairbanks area.

Roger Purell, East-West Pacific Consulting and current Mayor of the City of Houston, stated he was in charge of getting the railroad into Houston and developing 3,000 acres of heavy industrial area. The comprehensive plan submitted to AIDEA five years ago included an LNG plant on the rail in Houston. Phase one funding was designated to the Houston area for this type of facility that would provide for trucking and railroad ability. Mr. Purell discussed the hidden costs in the current plan, including the upgrade of roads, realignment of recent road modifications, and wear and tear of roads. The State does not have the funding to fix the roads. As the demand increases, the truck traffic will increase. No plan has been submitted by AIDEA or the Titan Plant on the Department of Transportation (DOT) costs or problems with the roads on the current route. DOT capacity for the road is less than 10,000 cars a day, and is currently over capacity at 20,000 cars a day. Mr. Purell noted the Big Lake community received grant money to build a residential-style roundabout on the Burma route to prevent LNG trucks from traveling through Big Lake to the highway.

Verne Rupright, East-West Pacific Consulting and former Mayor of Wasilla, commented on the importance of safety of the process and safety of the community in a project of this magnitude. Mr. Rupright noted one safety issue that impacts operational costs is the 5A ISO rating of the Point McKenzie location of the LNG production facility. Houston's ISO rating is at 8A. The truck congestion issue is a hidden cost and presents a significant safety risk. Mr. Rupright described the secondary and residential road system outside of Wasilla to the Parks Highway. Mr. Rupright noted the backup plan for an interruption in production of LNG is a 1,400-mile land roundtrip to and from Canada and delayed delivery of LNG could pose a significant risk to the larger served community. The alternative site in Houston is zoned for industrial use and the proposed technology will not have flaring of gas. All gas will be consumed by the system. Mr. Rupright noted the rail system is licensed to carry LNG and the proposed plant in Houston is less than a mile from the Parks Highway for truck transportation.

David Nufer, East-West Pacific Consulting, expressed understanding of the Board's daunting responsibilities regarding economic growth and development for the State of Alaska. Mr. Nufer stated East-West supports the sale of Pentex/Titan to IGU. East-West views the Houston plan as a completing interest and not a competing interest. The Houston plan meets and supports AIDEA's goals and objectives for the state. Mr. Nufer requested the Board give IGU support and encouragement to expand and grow LNG for all Alaskans. Mr. Nufer provided John Springsteen with a white paper regarding the proposed Houston project.

Ms. Laurel, Mr. Saams, and Mr. Purell answered Board members' questions reviewing high-level specifics of the alternative proposed project system and financial model, including the current capacity delivery charge to storage in Fairbanks, meter price, cost per Mcf for rail transport, sources of project funding, status of pipeline, and project timeline. Deputy Commissioner Parady believes the postulation of risk to life and safety is close to hyperbole. The other arguments are conceptual and should be settled within a process.

Chair Pruhs recommended the proposed project's representatives meet with Mr. Springsteen for further discussions.

Jomo Stewart, General Manager IGU, requested the AIDEA Board amend Resolution No. G17-16 to allow the Executive Director, Mr. Springsteen, the latitude to finalize negotiations on the agreements before action by the Board. Provisions to the document include an attachment to default provisions, subject to acceleration of loan and an up to 12-fold increase in the interest rate. Mr. Stewart stated AIDEA is currently operating FNG outside of its rate covenant and operating covenant. If IGU signs the document as expected today, IGU will immediately be in violation of the operating covenant and will be subject to acceleration of the loan and a 12-fold increase in the interest rate.

Mr. Stewart reviewed highlights from the Due Diligence Report dated September 5, 2017. To include: missing comprehensive legal register on environmental health and safety (EHS) regulations and compliance calendars for EHS; high rates of total recordable incidents (TRRI), which are double the Alaska utility average and over five times the industry standard; equipment lacking inspection notices; electrical shutoffs blocked by conduits; tanks and piping not labeled; missing handrails; un-provided spill control measures; and no schematics for the system.

Mr. Stewart noted he received the final documents yesterday at 2:00 p.m., and received Resolution No. G17-16 today at this meeting, which includes two new covenants. Mr. Stewart read one new covenant, 11.1.9, aloud to the Board, which he feels places IGU in violation of the contract.

Deputy Commissioner Parady objected to negotiating the agreement during the public comment period.

Mr. Wilken requested Mr. Stewart explain for the record the meaning of Mr. Stewart's reference to "Take it or leave it." Mr. Stewart read Resolution No. G17-16, Section 1, and interpreted that section as a best and final offer, take it or leave it, with no room for further negotiation or discussion of any fine points by the Executive Director, up to and including the typographical errors within the document.

6. PRIOR MINUTES - September 21, 2017

The minutes from September 21, 2017 were approved as presented.

7. NEW BUSINESS

7A. IEP Update

Mr. Springsteen requested Gene Therriault and members of his team as needed present the IEP Update. Mr. Therriault reviewed the components of the HB 105 plan. A new gas supply contract has been entered into and is effective January 1, 2018. Some of the key benefits of the new contract include, a shorter duration term requested by IGU, elimination of the 4% price increase, flexibility on growing volume without take-or-pay obligations, no price escalations during the contract term, and avoidance of differential peak pricing.

Mr. Therriault stated Dan Britton, as authorized by the Board, released an RFP for engineering work on the expansion of storage in Fairbanks. The RFP is due to close the end of October. Storage facility operation must occur by January 1, 2020, in order to qualify for the potential storage tax credit. The construction period for the expansion is estimated at 18 months to two years.

Mr. Therriault reported an RFP will go out for the authorized plant capacity expansion. The proposals will include expansion of the existing Titan site or any new site, as referenced during public comment. Mr. Therriault stated FNG continues to work with DOT and the City of Fairbanks to place pipe in the ground during ongoing construction projects. To-date a small number of interruptible customers have been hooked up. The latest quarterly report was distributed to members of the Legislature, with the HB 105 Plan Memo attached.

Chair Pruhs asked if there will be a proper balance sheet after the combination of the utilities in order to operate successfully. Mr. Therriault believes the expectations of rapid growth are questionable due to the current price of fuel. The current modeling reflects fuel prices to decrease. Mr. Therriault believes FNG has good management and good cash flow. He believes the combination of utilities can meet the covenants in the documents and maintain an investment grade utility status with carefully planned and sensible expansion.

Mr. Wilken requested an update on the IGU Board members relative to the recent Fairbanks election. Mr. Therriault noted the local election in Fairbanks resulted in one of the existing IGU Board members elected to the Fairbanks Borough Assembly. He resigned from the IGU Board before taking his seat on the Assembly to avoid any conflict of interest. This left an IGU Board seat open until January 1, 2018, when the new member's term begins. The appointment of an interim member is planned to come before the Assembly this evening to facilitate the necessary decision-making processes between now and January.

Mr. Wilken expressed his thanks, for the record, to Bob Shefchik for assisting AIDEA with the IEP and applauded Mayor Kassel for his temporary appointment of Bob Shefchik.

7B. Executive Session: Interior Energy Project, MOC1

MOTION: Deputy Commissioner Parady moved to go into Executive Session to discuss confidential and financial information related to Interior Energy Project and MOC1.

Motion seconded by Mr. Kennedy.

The Board entered Executive session at 1:42 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, at different times, for related topics: John Springsteen, Brenda Applegate, Gene Therriault, and guests, Dan Britton, Mark Gardiner, and Jerry Juday.

The Board reconvened its regular meeting at 3:27 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7C. Resolution No. G17-16 Approving the Sale of Pentex Alaska Natural Gas Company, LLC to the Interior Gas Utility; Approving a Financing Agreement with the Interior Gas Utility; Authorizing the Transfer of the North Slope Pad and North Slope Material Sale Contract to the Interior Gas Utility; and Authorizing the Extension of the Maturity Date on the Interior Gas Utility's existing Line of Credit

MOTION: Vice-Chair Dick moved to approve Resolution No. G17-16 Approving the Sale of Pentex Alaska Natural Gas Company, LLC to the Interior Gas Utility; Approving a Financing Agreement with the Interior Gas Utility; Authorizing the Transfer of the North Slope Pad and North Slope Material Sale Contract to the Interior Gas Utility; and Authorizing the Extension of the Maturity Date on the Interior Gas Utility's existing Line of Credit. Motion seconded by Deputy Commissioner Burnett.

Mr. Springsteen requested a friendly amendment to Resolution No. G17-16 section 2, allowing himself, as Executive Director, to make technical corrections to the Financing Agreement. Section 2, would read, "The Financing Agreement between the Authority and IGU, in the form presented to the Board, is hereby approved. In the name of and on behalf of the Authority, the Executive Director is authorized to sign and deliver the Financing Agreement, along with appropriate appendices and exhibits to the agreement, and necessary technical corrections."

The friendly amendment was accepted by the Maker of the Motion and the Second to the Motion with no objections.

Mr. Springsteen provided an overview of Resolution No. G17-16, and requested Mr. Therriault review recent discussions regarding these agreements. Mr. Springsteen stated AIDEA has a fiduciary responsibility to maintain financial oversight for loan disbursement of approximately \$100 million related to construction. At the request of IGU, AIDEA negotiated in good faith and procured a medium-term natural gas three-year contract. AIDEA believes this satisfies the natural gas supply issues. Mr. Therriault noted IGU requested language be contained in the

document reserving the right not to move forward with the project before closing if IGU determined the gas supply contract entered into was not acceptable.

Mr. Springsteen stated IGU requested the use of funds currently loaned to IGU to cover due diligence costs. The Memorandum of Understanding (MOU) clearly states each party will bear its own due diligence costs. Mr. Therriault noted IGU expenses are separated into three categories; expenses related to looking for the gas supply, expenses related to the physical and business integration of the two utilities, and the due diligence costs. The due diligence costs would be an allowable expense or use of loan funds in the new SETS loan, upon closing.

Mr. Springsteen stated AIDEA needs to ensure the ongoing operation of an investment grade utility and the covenants in the agreement are necessary to meet this responsibility. Mr. Therriault explained the legislative body has a right to make appropriations and cannot be infringed upon. In the document, AIDEA acknowledges the Fairbanks North Star Borough (FNSB) cannot be compelled to expend from the public purse, nor is the FNSB responsible for IGU debts. Mr. Therriault explained default consequences could be triggered if FNSB uses its legislative powers and causes the utility to be in default.

Jerry Juday clarified the comment earlier in the meeting regarding a misunderstanding of an immediate default if the document was signed today. The covenants that speak to debt service and to rates are tied to the debt service ratio, which is employed where there is debt that has to be serviced. The SETS loan proposed and written in the agreement has no payment and no interest for the first 15 years. Mr. Davis stated AIDEA is acting as a passive lender.

Mr. Wilken expressed concern the IGU Board is comprised of seven elected members and three appointed members. He stated the possibility is bothersome that rates could be set by seven elected officials within five or 10 years. Mr. Wilken commented on the previous colossal failure of a similar scenario and stated, for the record, he understands it will not happen with this utility without a fight.

Chair Pruhs stated the goal of AIDEA's purchase of Pentex/FNG was to create a single utility to help the ratepayer reduce the cost for space heat. AIDEA is now at the point of passing a resolution with a purchase and sale agreement and a financing agreement. Chair Pruhs noted revolving fund dollars were used with a rate of return of 5.06%. For the record, the price of the utility increases over \$200,000 each month the sale lags. AIDEA is pushing hard to bring the goal to fruition in an expedited manner.

Deputy Commissioner Parady stated he has been involved in this project since 2014. He reminded everyone the source of the SETS funds was from a time when Alaska had a capital budget beyond imagination. AIDEA has been hard at work in good faith with a process that has brought forward approximately a 100-page agreement that reflects most of the concerns of each party.

Deputy Commissioner Parady believes it is now time to bring this to closure. The terms are generous for a 50-year loan at .25% interest, interest-free and principal-deferred for 15 years.

AIDEA has provided IGU loans of \$8.1 million and \$29.7 million, and has provided FNG loans of \$15 million. AIDEA has been in the forefront of moving the IEP to fruition. This is the opportunity of a generation to secure clean power and fuel into the Interior at a reasonable cost.

Mr. Wilken requested association with Deputy Commissioner Parady's comments.

Deputy Commissioner Burnett stated the IEP has consumed a considerable amount of energy from the Board and management during his current service period. He noted millions of dollars from the revolving loan fund are tied up in the IEP and are unavailable for other job-producing projects. Those funds need to get back into the economy. The AIDEA Board needs to move forward with its mission. Deputy Commissioner Burnett reported \$349,000 was spent on negotiations outside of regular staff costs over the last 10 months. He believes it is time for AIDEA to move this to the IGU Board and let them complete the process.

Mr. Kennedy expressed support of the resolution. He believes the people and the businesses of the Interior should be very appreciative of this huge subsidy and the positive benefits associated with clean air. Mr. Kennedy considers the future potential of helping Department of Defense (DOD) protect the nation as an additional benefit. Mr. Kennedy encouraged the IGU Board to embrace the resolution and move forward.

Ms. Brown and Vice-Chair Dick concurred with previous comments.

Chair Pruhs expressed appreciation to staff and Board members for their patience and diligent analysis of all the different issues. His hope is to facilitate expansion of a combined utility in Fairbanks.

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

8. DIRECTOR COMMENTS

Mr. Springsteen stated the dashboard; loan; delinquencies-to-outstanding reports; IFD and PDAM project matrices and Project Fact Sheets were included in the packet. Please contact Ms. Siverson regarding the continuing education calendar. The next Board meeting is scheduled for Thursday, December 7, 2017.

9. BOARD COMMENTS

Mr. Wilken recognized the staff for adding project location to the report. He believes it is a helpful addition.

Ms. Brown expressed appreciation to Mr. Springsteen and staff for continued work and incredible patience.

Deputy Commissioner Burnett concurred and also expressed appreciation to Board members. He directed the Board's attention to previous member Brian Andrews, who was lost in a plane accident with his son in 2008. The wreckage was found today. Deputy Commissioner Burnett requested a moment of silence.

Mr. Kennedy stated the rough draft of the Audit Report is nearly 100 pages. The Audit Subcommittee will receive an electronic copy of the draft around November 1, 2017, and will meet on November 8, 2017 at 10:00 a.m. Chair Pruhs had no objection.

Vice-Chair Dick expressed appreciation to Mr. Springsteen, staff, external consultants, and Mr. Britton for their diligent efforts.

Chair Pruhs echoed previous comments. He expressed condolences to Mr. Britton for the recent loss of his father.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:12 p.m.



John Springsteen, CEO / Executive Director
~~Secretary-Treasurer~~
Alaska Industrial Development & Export Authority