



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, December 7, 2017
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on December 7, 2017, at 10:02 a.m. He welcomed new Board Members Bernie Karl, Fairbanks, and Deven Mitchell, Department of Revenue. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Elaine Brown (Public Member); Bernie Karl (Public Member); Deven Mitchell (Department of Revenue [DOR]); 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 (CEO/Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Katherine Beale (Accounting Analyst); Jen Bride (Financial Systems Analyst); Terence Cato (Information Technology Manager); Yulia Ellsworth (Assistant CFO/Controller); Tom Erickson (Chief Procurement Officer); Liz Greer (PDAM Project Manager); Karsten Rodvik (External Affairs Officer); Linda Senn (Human Resources Manager); Lori Stender (PDAM Project Manager); Gene Therriault (Interior Energy Project [IEP] Team Lead); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Alan Bailey (Petroleum News); Dan Britton (Pentex); Mark Gardiner (PFM Group Consulting); Tony Izzo (Matanuska Electric Association [MEA]); Jerry Juday (Department of Law); Ladonna Lindley (Accu-Type Depositions); Brian Murkowski (Public); Frank Murkowski (Public); David Nufer, Roger Purcell, and Verne Rupright (East-West Pacific Consulting); David Prusak (Interior Gas Utility [IGU]); and Bikky Shrestha (BDO).

Public participating via teleconference: Merrick Pierce (Public); Bernie Smith (public); Jomo Stewart (IGU); and Robin Wood (Fairbanks Daily News Miner).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

David Prusak, Project Manager for IGU with Stantec, spoke on behalf of IGU's CEO Mike Meeks and General Manager Jomo Stewart, informing that IGU's Board voted to allow the Purchase & Sale Agreement (PSA) and Financing Agreement (FA) for the advancement of IEP and the purchase of Pentex. A robust public process was undertaken to inform the community. Mr. Prusak expressed appreciation and excitement to AIDEA Board to execute the plan.

Frank Murkowski, former Governor of Alaska, stated his interest is in the development of Alaska's resources. He believes the process of AIDEA's contribution in the development of those resources could be very significant. Governor Murkowski expressed concerns for the potential effects from potential occurrences such as Doyon hitting gas within six to nine months, the price of heating oil staying at its current level, propane coming in as an energy source, and the ratepayers declining to sign up at the level necessary to amortize the cost. Governor Murkowski stated the burden is put on ratepayers at a high risk and the price has to be competitive. He believes it is important to move ahead and try to eliminate as much risk as possible in using public money for the benefit of development scenarios. Governor Murkowski stated he has no financial interest in any aspect of the project.

Mr. Wilken stated it is nice Governor Murkowski continues to help shape public policy in Alaska. He noted, for the record, the questions Governor Murkowski articulated have been reviewed fully and answered. He is very comfortable with the answers and will support the resolutions today.

Governor Murkowski stated he hopes there is a forum for the answers. Mr. Wilken stated there has been a forum for the answers and there will continue to be.

Mr. Karl expressed agreement with Governor Murkowski's comments. He stated he has attended many of the public hearings during which vetting occurred. He informed he would vote in favor of the resolutions today. Mr. Karl does not believe the project is perfect, but does believe it is the right step to take.

Merrick Pierce of Fairbanks discussed the air quality problem in Fairbanks contributing to illness and death. Illnesses include cancer, heart attacks, DVT, stroke, and stunting of growth in children. The air pollution in the winter violates federal law and contains high levels of particulate matter from more than 12,000 wood stoves. The Board's actions with regard to the energy plan will directly impact people getting sick or dying due to the air pollution problem.

Mr. Pierce stated the intent language of HB 105 requires affordable energy be made available. He does not believe the current industry plan is credible to resolve the air pollution problem. The \$18 gas plus the \$12,000 conversion results in a final cost to the homeowner of between \$23 and \$28, which would be the most expensive energy in Fairbanks. The due diligence conducted on propane shows it can be brought to Fairbanks homeowners for around \$15, including FNG customers who are now paying over \$21 for gas. Mr. Wilken reminded Mr. Pierce of the RFP

two years ago. He stated that no viable propane proposal was submitted and subsequently no opportunity for vetting has occurred.

An unidentified speaker on the phone attempted to make a comment, but was disconnected before he could state his name. The unidentified speaker did not return telephonically.

6. PRIOR MINUTES - October 26, 2017

Mr. Wilken asked to amend the Minutes of October 26, 2017, on page seven, removing the word “seven”, and inserting the word “four,” to read, “comprised of four elected members,” and amending sentence seven to read, “possibility is bothersome that, if the Borough government was to become involved, rates could be set by 10 elected officials.” The minutes were approved as amended.

7. NEW BUSINESS

7A. Resolution No. G17-18 Relating to the Employment of Janet Reiser as the Executive Director of the Alaska Energy Authority

John Springsteen stated Resolution No. G17-18 regards the employment of Janet Reiser as the Executive Director of the Alaska Energy Authority, effective January 2, 2018. Mr. Springsteen reported Ms. Reiser is a chemical engineer by training and has work experience with Dow Chemical, Clorox, and NANA Pacific. He noted Ms. Reiser has considerable Railbelt experience and is currently serving as Chair of the Chugach Electric Board. Ms. Reiser will complete her service with Chugach prior to beginning as Executive Director. Mr. Springsteen believes she will be a welcomed addition to AEA.

MOTION: Vice-Chair Dick moved to approve Resolution No. G17-18 Relating to the Employment of Janet Reiser as the Executive Director of the Alaska Energy Authority. Motion seconded by Deputy Commissioner Parady.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7B. Resolution No. G17-19 Approving Funding for the Navision Upgrade and Server Upgrade Project

MOTION: Mr. Wilken moved to approve Resolution No. G17-19 Approving Funding for the Navision Upgrade and Server Upgrade Project. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. G17-19 regards funding for an upgrade and the purchase of a new server for AIDEA’s enterprise financial software system. The amount of the request is \$100,000. The upgrades and new server are needed to continue to meet the requirements of AIDEA’s business processes and reporting, including financial statements, budgets, loans, project management, investment management, human resources, and payroll systems. Further, the upgrade is needed in anticipation of the retirement of mainstream support for AIDEA’s

existing Nav 2013 enterprise financial software system. Mr. Springsteen requested Brenda Applegate and staff answer questions from the Board.

Mr. Mitchell inquired if AIDEA interacts with the State of Alaska regarding IT consolidation. Ms. Applegate believes AIDEA has a completely separate system from the State of Alaska; AIDEA complies with the State IT standards. Terence Cato stated all of AIDEA's software licenses go through the State's business model.

Chair Pruhs asked about the anticipated frequency of upgrades and whether or not it is prudent to create a budget item for reserve. Ms. Applegate believes upgrades occur every three to four years. She indicated creating a budget item for a reserve is a possibility. She noted the upgrades traditionally have been expensed in the year the maintenance cost was incurred, but the system and hardware could be depreciated. Chair Pruhs requested depreciation occur to provide a better reflection of the annual real costs. Financing does not usually occur for smaller levels of expenditures. Mr. Mitchell noted the State engages in lease-purchase financing for smaller expenditures.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7C. IEP Update

Mr. Springsteen requested Gene Therriault and members of his team present the IEP Update. Mr. Therriault provided a project background for the benefit of new Board members, including the purchase of Pentex and the expectation of future consolidation. He noted IGU's Board approved the amended documents in front of members today. May 2018 is the target for closing with IGU. This will allow for the consolidation of the two existing gas utilities in Fairbanks.

Mr. Wilken requested Mr. Therriault review his current analysis of the price of oil and gas. Mr. Therriault referred to a current FNG survey of delivered fuel prices going back to 2004. As of December 4, 2017, the local average price for residential delivered fuel oil is \$2.78, which is equivalent to \$21.03 natural gas. Currently, FNG's residential customers pay \$21.81 for natural gas. Mr. Wilken requested information on the efficiency levels of using gas versus oil. Mr. Therriault noted new gas appliances perform between 5% and 10% greater efficiency than fuel oil-fired appliances. The maintenance on gas appliances is lower than maintenance of fuel oil-fired appliances. Mr. Wilken believes it is important to note the efficiencies from gas lower the parity price by about \$2.

Deputy Commissioner Parady referenced an assertion during public testimony regarding waiting for Doyon to drill for gas. He believes the structure of the project accommodates for Doyon and requested Mr. Therriault discuss the structure. Mr. Therriault stated he was reminded of a briefing with the Governor about two years ago, the last time Doyon was going out to drill a well. The IEP is structured not to preclude Doyon's ability, should they find gas in the future at a competitive price, to fuel the system in Fairbanks and North Pole. The IEP does not ask the

community to wait in hopes Doyon finds a resource in a quantity that is commercial, at a price that is competitive, and to continue to wait for the resource to be developed and the means of the transmission built. The IEP secured a shorter-term supply of gas out of Cook Inlet that could dovetail nicely with a future supply from Doyon, if found and brought into production.

Deputy Commissioner Parady requested Mr. Therriault address the discussion regarding conversion. Mr. Therriault stated the combination of the two utilities provided the right economy of scale. The delivery price is as low as possible and the next step is focusing on assistance with the conversion process. He noted business consumers in Fairbanks have expressed interest in conversion at today's prices. Once the quantity is available to serve the businesses, their projected 70% participation will help decrease the per unit price for all consumers. The modeling is based on 50% of the eligible residential consumers hooking up to natural gas over time. Dan Britton stated the current business model does not include usage by Golden Valley nor the hospital in Fairbanks. He believes there is a substantial opportunity to improve the targeted pricing with their participation as customers. Mr. Britton commented on the benefit of natural gas to new construction.

Mr. Therriault reported Senator Murkowski crafted language in the EPA Air Shed Nonattainment Grants, which provides eligibility for Fairbanks to use grant dollars to replace inefficient wood-burning apparatus. If the Treasury continues to make EPA funds available, they could be used to help with residential conversions in future years. Mr. Therriault reported the local working group has reviewed the possibility of decreasing cost of units by purchasing in bulk, utilizing local lenders for conversion, on-bill repayment mechanisms, or low interest rate federal funds. The conversion cost could range between \$10,000 to \$13,000. Mr. Therriault stated the local government and local utilities are ready to address the conversion challenge.

7D. Executive Session: Interior Energy Project, MOC1, Personnel Matters, Financial Matters

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential and financial information related to Interior Energy Project, MOC1, Personnel Matters, and Financial Matters. Motion seconded by Ms. Brown.

The Board entered Executive session at 11:04 a.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Bernie Karl, Deven Mitchell, 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 1:10 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7E-1 Resolution No. G17-16A 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: Mr. Wilken moved to approve Resolution No. G17-16A 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, including the two attachments of the Purchase and Sale Agreement and Financing Agreement. Motion seconded by Mr. Karl.

Mr. Springsteen stated Resolution No. G17-16A regards the sale of Pentex to IGU and the financing agreement with IGU. He believes the resolution and agreements meet multiple important objectives for AIDEA as it works with IGU in furthering the IEP, including meeting the fiduciary responsibilities of AIDEA, promoting the ongoing operation of an investment grade utility, and maintaining the ability to bond.

Mr. Wilken expressed support for the resolution. Deputy Commissioner Parady spoke in favor of the resolution. Mr. Karl indicated he would vote in favor of the resolution.

Mr. Wilken announced receipt of an email from Jomo Stewart, IGU, stating Mr. Stewart was unable to complete his telephonic public testimony earlier in the meeting. Mr. Wilken read the email into the record, "If you would please accept a repeat of thanks below, add thanks to Ms. Black and Director Springsteen and the members of the IEP Subcommittee, and allow special amplified thanks for Mark and Gene, it would be greatly appreciated. Compliments, Jomo Stewart."

Chair Pruhs expressed support of the resolution.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7E-2 Resolution No. G17-21 Approving Amendment to Loan Agreement with the IGU to Cover Due Diligence Costs

MOTION: Vice-Chair Dick moved to approve Resolution No. G17-21 Approving Amendment to Loan Agreement with the IGU to Cover Due Diligence Costs. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. G17-21 regards an amendment to the loan agreement with IGU to cover up to \$350,000 of IGU's due diligence expenses from SETS loan proceeds.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7E-3 Resolution No. G17-22 relating to Costs Incurred in Proposed Transactions with the IGU

MOTION: Mr. Wilken moved to approve Resolution No. G17-22 relating to Costs Incurred in Proposed Transactions with the IGU. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. G17-22 regards covering up to \$350,000 the costs incurred in the proposed transactions with IGU from the FY14 capital budget appropriation to cover AIDEA costs.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7F. Resolution No. G17-20 Authorizing Additional Loan to Fairbanks Natural Gas, LLC for LNG Storage Facility in Fairbanks

MOTION: Mr. Wilken moved to approve Resolution No. G17-20 Authorizing Additional Loan to Fairbanks Natural Gas, LLC for LNG Storage Facility in Fairbanks. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. G17-20 regards authorizing an additional SETS loan of \$45.5 million to FNG for the design, construction, and commissioning of an LNG storage facility, consisting of a 5.25 million-gallon tank and auxiliary equipment, requiring IGU's concurrence. The maturity date of the existing line of credit with FNG will be extended until the closing of the financing agreement or until cancellation of closing. Mr. Springsteen stated Mr. Britton is available to answer questions.

Mr. Britton explained the storage project provides a crucial piece of infrastructure for the IEP and for the community. Important benefits of the storage include; security of supply, management of peak and seasonal demands of supply, definitive date of additional supply availability, efficient use of existing LNG production capacity, and the ability to review potential additional sources of gas. The storage project is a key component in providing the best service to customers.

Mr. Britton stated the updated RFPs for tank construction have been completed and he is pleased with the status of negotiations. Construction could begin almost immediately after approval of financing and civil works could begin within weeks. July 2019 is target completion. To be

available for LNG storage tax credits the project needs to be completed and in service by January 1, 2020.

Mr. Karl suggested a thorough review of utilizing LNG as refrigeration for the pad. He recommended talking to locals regarding the mixed results of passive thermal syphons in the area. Mr. Britton reported the design has not been finalized and he is open to further conversation and ideas.

Mr. Britton explained approximately \$30 million of the budget is a firm bonded price for the engineering, procurement, and construction (EPC) contract for the tank. IGU management is supportive and concluded the size of the storage tank is the most economical approach for the IEP. IGU management will request concurrence from the IGU Board on Tuesday.

Chair Pruhs requested reports and updates continue regarding the status of progression, completion, schedule, and budget. Mr. Britton stated reports on the status of the project would be provided as directed. Mr. Springsteen stated reports could be incorporated into the IEP update.

Mr. Karl reiterated, for the record, the desire for Doyon to be successful in finding gas. Mr. Britton fully agreed. He believes the storage project plays well into the opportunity for Doyon gas and allows for the continued building of the market.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

7G. AIDEA Audited FY17 Financial Statements

Mr. Springsteen requested Ms. Applegate and Bikky Shrestha, BDO, provide the presentation on AIDEA Audited FY17 Financial Statements. Mr. Shrestha expressed appreciation to AIDEA staff for their excellent cooperation, competency, and efficiency during the audit process. The report is as of November 27, 2017.

Mr. Shrestha explained the objective of the audit is to obtain reasonable assurance the financial statements are free from material misstatements. Mr. Shrestha stated there were no corrected misstatements. The one uncorrected misstatement has remained for many years and is a management decision to report a certain portion of the notes receivable at the historical amount, which is consistent to the actual receipt. Mr. Shrestha reviewed the internal control evaluation, which resulted in nothing to report. There were no disagreements with management and no significant difficulties encountered.

Deputy Commissioner Parady noted under former member Dan Kennedy's leadership, an Audit Committee meeting was held, during which this audit was reviewed in depth. He expressed appreciation for the work performed resulting in a clean audit.

Ms. Applegate expressed appreciation to Yulia Ellsworth and staff for their efforts on the audit.

7H. Resolution No. G17-17 Determining Dividends to be made available to the State for Fiscal Year 2019

Mr. Springsteen stated Resolution No. G17-17 regards the dividends to be made available to the State by AIDEA for fiscal year 2019. Staff recommends AIDEA provide a dividend of \$4,792,000, which is the maximum amount allowable under statute.

MOTION: Deputy Commissioner Parady moved to approve Resolution No. G17-17 Determining Dividends to be made available to the State for Fiscal Year 2019. Motion seconded by Mr. Karl.

Deputy Commissioner Parady noted AIDEA is forwarding to the State the maximum amount that can be made available under statute. The pursuit is expected to continue in the next session for appropriate legislation to modify the statute with regards to unrealized gains and losses.

The motion was approved with members Pruhs, Dick, Brown, Karl, Mitchell, Parady, and Wilken voting yea.

8. DIRECTOR COMMENTS

Mr. Springsteen stated AIDEA has been working with the Fairbanks North Star Borough Tiger Team on planning for the arrival of military personnel and their families at Eielson Air Force Base, related to the arrival of two F-35 squadrons between 2020 through 2022. Information of the Eielson Regional Growth Plan is available at www.eafbregionalgrowth.com.

The dashboard, loan, delinquencies-to-outstanding reports, IFD, PDAM project matrices, and Callan 3rd Quarter Report were included in the Board packet. Please contact Ms. Siverson regarding the continuing education calendar. The next regularly scheduled board meeting is Thursday, January 11, 2018.

9. BOARD COMMENTS

Mr. Wilken recognized staff again for the success in bringing forth a clean audit. He wished Merry Christmas to everyone.

Chair Pruhs stated a hard copy of the 2018 meeting dates is included in the Board packet. He extended deep appreciation to the entire IEP team and Subcommittee for their continued efforts. Chair Pruhs echoed the gratitude to Ms. Applegate and staff for the clean audit. He welcomed Mr. Karl and Mr. Mitchell to the Board.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 1:53 p.m.



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