



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, April 26, 2018
Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on April 26, 2018, at 12:28 p.m. 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); and Gary Wilken (Public Member).

Members present via teleconference: Mike Barnhill (Deputy Commissioner, Department of Revenue [DOR]); and Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development [DCCED]).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO/Executive Director); Brenda Applegate (Chief Financial Officer); Mike Catsi (Business Development & Communications Director); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Katherine Beale (Finance); Yulia Ellsworth (Assistant CFO/Controller); Tom Erickson (Chief Procurement Officer); Elizabeth 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); Rich Wooten (PDAM Project Manager); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public: Dan Britton (Pentex); Fred Eoff and Mark Gardiner (PFM Group Consulting); Lois Epstein (Wilderness Society); Tim Gallagher (HDR); Neil Gunn (Venture North Group); Jerry Juday (Department of Law); Ladonna Lindley and Sunny Morrison (Accu-Type Depositions); Nancy Wainwright (Public); and J.R. Wilcox (Prudhoe Bay Chemical).

Public present via teleconference: John Gaedeke (Brooks Range Council).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

John Gaedeke, Brooks Range Council, said his comments are regarding the Ambler Road project, which is not on the agenda today, nor on any of the agendas this spring. The Board needs to provide more oversight on the project. I keep hearing that the Ambler Project is

patterned after the DeLong Mountain Transportation System (DMTS). The board that approved DMTS locked it with contracts, and locked it to a bond and locked it to a shared EIS and a shared commitment but that is not happening either. We are over 4 years and \$20 million into the proposal.

The Department of Transportation (DOT) walked away from this proposal multiple times over multiple decades and in all of the literature I have read there are still not any contracts or commitments, so I am not sure what the pattern is here and how it fits with past work.

Four mines are listed and needed to move the project forward in the 2017 prospectus. In all of the literature, I cannot find four mines in the area that are ready to move forward. Teck has land interest in the area, but they have publicly confirmed that they will not be moving forward anytime soon.

How can you develop a bond structure with such a low percentage of immediate participation? So Board, please take the time to discuss why an Alaskan megaproject is moving forward without land usage rights to cross Doyon land in the east at the road's proposed inception or even agreement with Alaska villages facing the loss of their social land and food sources.

AIDEA is supposed to support economic diversity but this proposal adversely impacts the thriving and growing tourism industry in the Brooks Range. Local villages need open country to survive and published reports show that road development impacts their food sources and those sources cost money to replace but the road won't connect to the villages. The villages do want development but not this one. They say that in every meeting that they've had in the region with AIDEA.

Mr. Wilken expressed appreciation to Mr. Gaedeke and requested he send his written testimony to John Springsteen to become part of the permanent record. Mr. Gaedeke agreed.

Lois Epstein, licensed engineer and Arctic Program Director for the Wilderness Society, reported she attended the April 6, 2018, House Resource Committee oversight hearing in Juneau and helped develop a letter regarding the Ambler Road Project signed by seven organizations and sent to the Committee, the Lieutenant Governor and Governor yesterday. (*Letter attached at the end of the minutes*) She highlighted three key points from the letter.

The first is Doyon has not committed to providing a needed Right-of-Way (ROW) across Doyon lands for the road and AIDEA has not reflected this fact in its proposed route. And that is an important question.

The second is there are notable differences between the Ambler project and the Red Dog project that need to be examined. Including the planned public-private contractual agreement; the road's different terrain; subsistence impacts and costs; employing phased upgrades for the Ambler road potentially three phases unlike building the Red Dog road all at once. The environmental impact statement processes are different; and the fact that Ambler Mining District involves less certain mineral resources for development in a less certain timeframe compared to Red Dog.

The third is the Ambler Road project represents a bad financial deal for the State of Alaska, and that comes from testimony. Trilogy seeks to assume zero risk for road cost overruns and road repayment shortfalls while the State assumes 100% of those risks via AIDEA. Trilogy projects full pay back on its mine investment in few years while the state would wait 30 years or more to recoup its investment, if it ever is recouped. Additionally, Trilogy's estimated NPV of over \$1.4 billion after tax for the mine using an 8% discount rate but the State has only an estimated NPV of \$84-90 million for the road using a 3.9% discount rate, and a negative NPV by using an 8% discount rate.

J.R. Wilcox, President Prudhoe Bay Chemical, commented on Resolution G18-03 approving a sublease of the North Slope pad with Prudhoe Bay Chemical. He provided a background of the proposed gas to methanol plant and the difficulties for land purchase or leasing on the North Slope. This process has been ongoing since 2015. He noted the drafted sublease is contingent on the Department of Natural Resources (DNR) approval and will not be presented to DNR until AIDEA approves the lease. Mr. Wilcox hopes cooperation can occur to develop this value-added project on the Slope. He will be available to answer questions during the agenda item.

Neil Gunn, Venture North Group, stated he is consulting with Mr. Wilcox, and is passionate about the sublease of the North Slope pad. He read AIDEA's mission statement and believes this project aligns fully within AIDEA's mission statement. He echoed the comments of Mr. Wilcox and will also be available for questions.

6. PRIOR MINUTES - March 1, 2018

The March 1, 2018 minutes were approved as presented.

7. NEW BUSINESS

7A. Executive Session: Mustang Operations Center (MOC1), Skagway Ore Terminal, and IEP

MOTION: Mr. Wilken moved to go into Executive Session to discuss confidential and financial information related to MOC1, Skagway Ore Terminal, and IEP. Motion seconded by Ms. Brown.

The Board entered Executive session at 12:45 p.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Fred Parady, and Gary Wilken. Deputy Commissioner Barnhill did not participate in the Executive Session regarding MOC1 due to a conflict of interest. AIDEA staff invited to join the session, at different times, for related topics: John Springsteen, Brenda Applegate, Jim Hemsath, Gene Therriault, and guests, Dan Britton, Mark Gardiner, and Jerry Juday. Mike Barnhill recused himself from the discussion regarding MOC1 due to a conflict of interest.

The Board reconvened its regular meeting at 2:57 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7B. Resolution No. G18-03 Approving a Sublease of the North Slope Pad with Prudhoe Bay Chemical, LLC

Mr. Springsteen stated Resolution No. G18-03 authorizes a sublease of approximately 1/3 of the North Slope pad and the associated pipeline right-of-way for the installation and operation of the methanol production facility. Further required approvals from DNR for the sublease are pending. Mr. Springsteen invited Jim Hemsath and his team to present.

MOTION: Mr. Wilken moved to approve Resolution No. G18-03 Approving a Sublease of the North Slope Pad with Prudhoe Bay Chemical, LLC. Motion seconded by Ms. Brown.

Mr. Hemsath stated staff has studied the project needs and developed a lease, which has been reviewed by Department of Law and the Interior Gas Utility (IGU). The comments have been adopted. The request to DNR is to amend the lease from an LNG facility to a methanol facility, using the current ROW. DNR approval is conditional and if DNR makes changes to the pad or have requirements unacceptable to AIDEA, the lease will not go into effect. Moving ahead at this time provides surety to Prudhoe Bay Chemical so they can finalize financing and sales agreements, and establishes action on the extension of the lease. The term of the lease is 30 years, divided into three 10-year leases. The acreage of the lease is 5.2 acres of the pad and approximately an acre of the ROW lease for the pipeline. The amount of the monthly lease was derived from 1/3 of AIDEA's capital costs using premium gravel amortized over 30 years at an 8% rate, and 100% of the ROW. The sub-lessee is responsible for taxes and maintenance of the pad, as well as the State Pipeline Coordinating Office (SPCO) lease administration costs and the lease of the land, in addition to the gravel.

Mr. Hemsath explained DNR requires a survey be conducted every five years to reevaluate the fair market value for a lease. The next survey is due in a year. The increase or potentially decrease in the fair market value of the lease will be reflected in the amount charged to Prudhoe Bay Chemical.

Chair Pruhs inquired as to AIDEA's status with the lending agency if Prudhoe Bay Chemical utilizes capital financing for facility construction or improvements. Jerry Juday stated AIDEA is unsubordinated with any lending agency.

Mr. Wilken requested additional information regarding the project. Mr. Hemsath stated methanol is imported into the state and brought to the North Slope by truck. This will lower the operating cost to North Slope producers and provides a less risky supply because it is local. He noted the price of crude is a global market price and this project will not affect the price of crude. Mr. Hemsath explained the project produces royalty product and the value of the royalty products increase because the operating costs decrease.

Mr. Wilken requested the value amount increase of the royalty product from this project. Mr. Wilcox explained an oil company gets to deduct their operating costs from taxes. This project would provide an estimated \$5-6 million annual aggregate savings.

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

7C. IEP Update

Mr. Springsteen requested Gene Therriault and members of his team to present the IEP Update. Mr. Therriault stated the most recent quarterly report was supplied to the Legislature April 9, 2018. IGU is currently in discussions with an additional gas supply source. AIDEA was denied a request to the supplier to be involved in those discussions. AIDEA will submit concerns and contract requests. The LNG plant has maintained status quo. AIDEA requested to be included in discussions between IGU and Siemens. Siemens agreed. IGU is advocating Siemens put forth public information regarding expanded supply out of the Titan facility.

Chair Pruhs requested more information about the timeline for LNG expansion in order to meet the anticipated demand curve. Dan Britton explained authorization to move forward with the feed on liquefaction expansion is necessary to meet the timeline for steady growth after the storage tank is completed. IGU is supportive of moving forward with the feed proposal, at which time Mr. Britton will bring the proposal before both the IGU Board and AIDEA Board.

Mr. Britton continued the update with a power point presentation. He stated the backfilling was completed. The tank slab, forms, and rebar are complete. Mr. Britton provided a detailed review of the successful foundation pour. The flat loop evaporators are operating and are keeping the ground frozen below the tank. The next phase of the work regarding the 88-foot long by 8-foot wide by 10-inch thick precast panels is underway in Anchorage. The panels weight approximately 90,000 pounds each. He showed pictures and gave a thorough description of the panel construction. The in-tank pumps have been ordered. The vaporizers and compressors are being quoted. The third submittal to the Fire Marshal is being prepared. The project is both on schedule and on budget sans contingency. There is one issue related to steel tariffs that could affect the contingency budget. Materials with 9% nickel are on order from Belgium. This material is not made within the U.S. The hope is an exemption will be established. Mr. Britton showed a time-lapse video regarding work completed to date.

Mr. Therriault noted House Bill (HB) 374 regarding on-bill financing of energy improvements will be brought before the Senate Community and Regional Affairs Committee tomorrow. It is poised to move to the Senate Rules Committee and pass. The separate bond extension bills are bottled up in the House Labor and Commerce Committee. Members of the delegation are working together to continue moving the bills forward as a key issue this year.

8. DIRECTOR COMMENTS

Mr. Springsteen stated the loan and dashboard reports, IFD and PDAM project matrices were included in your packet. Please contact Ms. Siverson regarding the continuing education calendar.

The next AIDEA Board meeting is scheduled for Thursday, May 31, 2018.

9. BOARD COMMENTS

Mr. Wilken requested an update on Ambler Road be presented at the next meeting.

Mr. Wilken inquired if Bokan was an active project in AIDEA's efforts and asked if AIDEA consults with a mine advisory representative to provide viability reporting. Mr. Springsteen stated AIDEA continues to track the progress of Ucore, who is the proponent of the Bokan development project. The legislative-authorized amount of up to \$145 million of bonds for support of infrastructure has not been utilized. A bond consultant will be accessed at the appropriate time in the process.

Deputy Commissioner Parady expressed appreciation to staff for their work. He is especially grateful for the efforts and direction regarding the lease of the pad.

Chair Pruhs expressed his appreciation to members, staff, and participants.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:29 p.m.



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