



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, July 25, 2013
Anchorage, Alaska

1. CALL TO ORDER

Chair Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on July 25, 2013 at 10:02 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Anchorage: Chair Hugh Short (Public Member); Vice Chair Susan Bell (Commissioner - Department Commerce, Community, and Economic Development); Bryan Butcher (Commissioner - Department of Revenue); and Gary Wilken (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management); Michael Lamb (Deputy Director-Finance & Operations); Gene Therriault (AEA- Deputy Director-Energy Policy Development); Jay Drewry (Chief Procurement Officer); Jennifer Haldane (Human Resources Manager); Matt Narus (Project Manager); Bill Phelan (Loan Officer); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (Project Manager); Karl Reiche (AEA-Project Manager); Aaron Rhodes (Human Resources Manager); Karsten Rodvik (Project Manager-External Affairs); Sherrie Siverson (Executive Assistant); Krin Kemppainen (Administrative Assistant); and Liza Murfin (Administrative Assistant).

Staff present via teleconference: Nick Szymoniak (Energy Infrastructure Development Officer).

Public: Wanetta Ayers (Department of Labor); Brian Bjorkquist and Jerry Juday (Department of Law); Cory Borgeson and Rick Schikora (Golden Valley Electric Association); Tim Bradner (Alaska Journal of Commerce); Richard J. Cathriner (Norgasco Inc.); Justin Charon and Mark Smith (Vitus/Central Alaska Energy); Chris Clark (HDR); Mark Gardiner (Western Financial Group); Jeff Helmericks and Ray Latchem (Spectrum LNG); Luke Hopkins (Mayor, Fairbanks North Star Borough); Sunny Morrison (Accu-Type Depositions); Richard Peterson (ANRTL); Bernie Smith (RCA); and Stacy Tomuro (First National Bank Alaska).

Public present via teleconference: Paul Bloom, Brian Olin and Max Vaghan (Goldman Sachs) and Eric Lidji (Petroleum News).

5. PUBLIC COMMENTS

Mayor Luke Hopkins, Fairbanks North Star Borough (FNSB) said he was one of the members of the initial meeting the Governor had in Fairbanks concerning the components of the Interior gas plan. The priorities were to ensure the lowest possible cost of gas to the most customers in the shortest time possible, which would address the concerns of the Fairbanks community, including air quality issues. He expressed his concern regarding unanswered questions from himself, the Borough Assembly and the community about the amount of gas lines in the expanded area, market penetration, scope of the project, and the project timeline. He commented public money is being spent on public information and yet, the information is not being released because of claims of confidentiality. He questions those claims and requests the Board review their position on confidentiality. He hopes this information is made available so those in the community who are involved in this project and need to study it can have a fair and timely review in order to take any necessary action.

Mayor Hopkins said he expects the FNSB Assembly to pass a resolution this evening which would ensure there is adequate positioning for the needs of the community involving the Interior Gas Utility. Mayor Hopkins noted FNSB has an incredible wealth of GIS data on roads, parcels, and many layers of accurate public information which he encourages AIDEA to utilize. He is concerned that Google maps may not be very accurate.

Mayor Hopkins believes a huge component of the success of this project is answering the consumers questions regarding what is it going to cost and is it worthwhile to convert from oil to gas. He asked the Board to make sure their eyes are wide open because decisions detailing how to move forward are imminent.

Mayor Hopkins raised the issue of risk analysis and what risk factors are being identified in terms of how long the gas supply will last when it's 50° below for two weeks and there are two or three complicating components which lead to the unfortunate event of pilot lights going out. He requested the Board consider the risk factors while evaluating this project.

Mr. Wilken thanked Mayor Hopkins for attending the meeting today and for his continued involvement on behalf of his family and neighbors. He said the confidentiality issue has been discussed since February and over the last month, information that could be released, has been released. The information that could not be released was addressed by creating a schedule to release it. Mr. Wilken requested Mayor Hopkins provide the "big three" questions that are currently being withheld because of confidentiality, so he can get a reason as to why those questions cannot be answered or determine if there is a schedule to release that information.

Mayor Hopkins said he will provide those questions as quickly as he can. He commented some of the answers to the questions could be found in reports that are deemed confidential and he believes that the line of confidentiality was drawn too restrictively.

Mr. Leonard reported all information has been released to Interior Gas Utility (IGU) on storage and distribution. Most of the confidentiality issues are in the valuation of the different plans on being a partner in the plant and in the facility side from potential project managers. Mr. Therriault will speak on that issue as well during that portion of the presentation.

Mr. Ray Latchem, President of Spectrum LNG, commented Spectrum is a gas developer, who has built natural gas companies in Alaska, including Fairbanks Natural Gas. Spectrum is also a low-cost LNG producer. He expressed concern regarding the market penetration and conversion rates. As the past President of Fairbanks Natural Gas (FNG), it was a painful experience as an investor and founder of that company to watch the very slow rate of market penetration. Spectrum responded to the RFP and would like to see a transparent and competitive process. Mr. Latchem suggested developing programs that would incentivize home owners or end users to make the conversion and become customers. If the home owner had to pay for half of the conversion and funding was provided for the other half, the gas will most likely be used, which would help eliminate "idle overhang", where a plant is sitting idle and not being fully utilized because of low conversion. If the goal is to get cheap energy into the houses of Fairbanks, then look at spending the money in multiple areas, including distribution.

6. PRIOR MINUTES - June 25, 2013

The minutes of the June 25, 2013 board meeting were adopted as presented.

7. NEW BUSINESS

7A. Interior Energy Project (IEP) Update and Feasibility Analysis

Mr. Leonard said this feasibility report is provided in order to move the LNG facility portion of this project forward, and the potential construction and modeling for the LNG facility. He invited Mr. Davis forward to brief this report and Mr. Therriault to discuss the parallel path moving forward by assisting with the distribution and storage components. Mr. Leonard reminded the Board that AIDEA's role in the distribution efforts is to help provide information to the community and to the Legislature and to provide assistance in the financing of those systems of up to \$150 million in bonds.

Mr. Davis gave his PowerPoint presentation highlighting the Interior Energy Project's schedule. Affirming that AIDEA's goals are the same as Mayor. Hopkins; to move the project along as quickly as possible, and make it accessible by as many customers as possible. Mr. Davis then broke down the specific steps AIDEA has taken to create a public outreach plan to increase awareness and interest in the community. Details were outlined in the process of setting up a business structure/partner selection process, distribution efforts, feasibility report and next steps.

Mr. Therriault provided detailed information regarding the current distribution efforts. He explained AEA is conducting independent internal GIS work to determine the expected number of miles of pipe necessary for this project because of the wide difference of opinion between the current two proposers of 500 miles from FNG and 1,000 miles from IGU. This may be driving angst in the community that the financing package is not large enough to accomplish the goal of serving the high-density and medium-density locations in the FNSB.

Mr. Therriault said HDR evaluated the processes the proposers used to calculate the suggested number of miles, and using a proprietary system to calculate actual pipe required to build the line; HDR determined the process FNG used was likely to be more accurate. AEA has not completed the independent study, but it seems the result will be above 500 miles, but substantially lower than 1,000. Most of this work was based on GIS information received from the Borough and Google maps for satellite imagery of subdivisions and roads platted to ensure the planned distribution was adequately positioned.

Mr. Therriault said the plan is to provide all the information at a community meeting and have the technical representatives from AEA, FNG and IGU review the maps and discuss ways to significantly narrow the range of uncertainty regarding the miles of pipe. Mr. Davis added that their calculations are based on using only those amounts required to complete the project, to ensure a higher likelihood of approval. Mr. Leonard said AEA is working with IGU and FNG to provide a more accurate schedule and demand model for the plant.

Chair Short said the goal is making the most cost-effective plan to reach the end user, if getting the gas from the road to the house was fairly inexpensive at roughly \$500. The main cost driver in this conversion seems to be the heating system, ranging from \$6,000 to \$10,000 to the home owner. He asked if a plan to incentivize the home owner to make the change has been addressed. Mr. Leonard said AIDEA is working with AEA, who is working with the legislators on that issue. Representative Wilson currently has a bill which includes a long-term loan program that provides funding assistance to home owners for gas conversions statewide. AIDEA will also be working with Alaska Housing to encourage consumers to utilize their energy rebate programs.

Mr. Therriault agreed it is a substantial cost for the home owner to convert and it is important to help with that conversion. This can be accomplished in a number of ways, including state funding or a utility-sponsored loan assistance program. He said the priority is providing the lowest monthly fuel bill to the customer in order to quickly recoup their conversion cost because the success of the project is driven by volume. He mentioned Alaska Housing Authority will have involvement with providing rebates to the consumers for converting to gas. Mr. Therriault noted IGU is creating a consumer survey to determine at what price it is beneficial for the consumer to convert and how price impacts the consumers' decision to hook up to the system.

Mr. Davis said the feasibility report concludes this plan is technically and economically feasible to deliver competitively priced gas to as many residents as possible within a short period of time. He noted AIDEA is well aware of the community's concern regarding interruption of supply and is performing an independent review of storage requirements and costs. The feasibility report concludes a 9Bcf plant would meet the projected demand while limiting the risk of stranded

assets. The plant is a flexible design to work with an alternative source of gas, but could be expanded, if the alternative source of gas does not arrive. The schedule is aggressive, partly because of the air quality issues, to provide the first gas in 4th quarter of 2015. Research indicates that there will be a substantial cost savings to the consumer of roughly 50% by converting to gas. This would indicate that the initial investment by the consumer would be recouped in less than three years without an incentive program. He believes this savings will incentivize people to make the conversion. In conclusion, the Feasibility Report indicates that this is technically achievable and commercially feasible, and economically feasible to deliver competitively priced gas to as many residents as possible within that necessary short period of time.

Mr. Davis said the next steps are to select the necessary business partners, develop a finance plan, and work with DNR for the pipeline right-of-way applications. AIDEA's IEP Team has met with the Department of Environmental Conservation. Mr. Leonard said it is fair to state that DEC believes the aggressive gas schedule will assist in the air quality model that is put forward to the EPA.

Mr. Therriault said this Tuesday the RCA will be hearing testimony and making a decision in October with regards to the expansion territory that will comprise of 25% to 30% of the demand in the high and medium density areas. He commented on the concern raised by Mayor Hopkins regarding storage and explained if there is a disruption in the trucking, it is important to ensure continued service in the winter months, without overbuilding storage infrastructure. Continued service could be attained from sourcing gas out of Cook Inlet or the possibility of sourcing gas out of the existing Conoco plant in an emergency situation.

Commissioner Butcher commented residents, in all likelihood, will need to convert to the gas pipeline distribution system at some point, whether it is in six years or 16 years. Mr. Wilken asked what involvement AIDEA and AEA will have in the RCA meeting on Tuesday. Mr. Davis said this is an important RCA public hearing designed to receive comments from the community. All of the Commissioners were requested to attend and listen to the comments and concerns. He prefers hearing the comments in person, rather than reading a transcript and will be in attendance. Mr. Therriault stated it is likely that Kirk Warren from AEA, who has led the independent pipe mileage study, will attend the hearing and possibly provide a statement describing AEA's efforts to narrow the cost drivers between the two project proposals.

Mr. Wilken commented it is outside the realm of the RCA to travel to a community and he believes it speaks well that they are taking these issues seriously. Mr. Wilken expressed concern regarding the RCA's decision timeframe being October because the RCA have two other hearings scheduled in October.

Mr. Wilken posed a question he does not expect to get answered today. "Why are we paying \$3.30 for gas and why can't we get it for free? What would be the costs and to whom would those costs accrue if we got free gas?" He asked Mr. Leonard to review the question to determine if gas to this plant could be gotten for free. Mr. Leonard said after the business partner(s) is brought online, the process will move forward by negotiating with the operators

regarding the current contract. The cost of gas is very important to this project, totaling about 50% of the cost coming out of the plant. Gas price reduction results in a direct savings to the end use consumer. It is a policy decision in terms of working with the owners of the gas or the owners of the resource. This can be discussed with the Administration and with the operators.

Commissioner Butcher appreciated seeing a conservative pricing for gas, since there are no commercial deals or contracts for the gas in any of the projects being discussed. He said Mr. Wilken may be referring to the 12.5% royalty gas that the state owns and not referring to a commercial company giving free gas, DNR is in charge of that issue. He has not had any discussions with DNR regarding the specifics of the issue, but believes it would be a comparison between what is done for a state and what is done for one community or a handful of communities and weighing the policy call of what's in the best interest of Alaskans. A legislative solution would be a much cleaner way to reach the decision because it would not be a policy call by a department. He believes the issue warrants further discussion.

Mr. Wilken asked what the estimated difference in cost is for building a storage facility now, as opposed to five years from now, if additional storage is needed. Mr. Therriault said there are many dynamics to consider and he does not have an estimated cost, but it is in the tens of millions of dollars for an additional storage facility. Mr. Leonard commented the proposed financing for the five million of storage with the private utility and estimated cost for that storage and regasification facility is approximately \$35 million. Mr. Therriault stressed the importance of not overbuilding due to expense.

Mr. Wilken requested information about the relationship with GVEA and Flint Hills. Mr. Leonard said AIDEA is working with GVEA and Flint Hills. He discussed part of the due diligence is determining the demand and if they are willing to commit. It is also very important to have seasonal customers that can utilize the gas between the swing times, because that could lower the cost of gas by approximately \$1.00. Mr. Wilken asked if the 9Bcf plant includes GVEA and/or Flint Hills as customers. Mr. Therriault said the decision that 9Bcf was correctly sized was without GVEA and Flint Hills being customers, but there is capability of serving some of their needs. This could also provide a justification for the first expansion.

7B. Resolution No. G13-13 Skagway Ore Terminal - Eagle Whitehorse, LLC

Mr. Leonard and Mr. Hemsath reviewed Resolution No. G13-13, which allows AIDEA to invest up to \$7.5 million in the expansion of its Skagway Ore Terminal with an agreement from Eagle Whitehorse, LLC to pay for the use of that facility, thus providing the financing for AIDEA to repay the investment of the expansion. A handout was provided to the Board outlining the components of the resolution.

Commissioner Bell commented, as a former Skagway resident of 30 years ago, the diversification of Skagway's economy is significant and the relationship with the Yukon is very important. She believes this resolution would help maintain those economic connections. She appreciated Mr. Hemsath framing the context from the potential of future mines. In addition to the \$10 million Skagway has as a legislative grant, there is also bonding authority from the 2012

session. This is a small piece of a much larger vision. She expressed appreciation for the information provided in writing and for the summary. She supports the resolution and encourages questions.

Chair Short noted he traveled with Governor Parnell during the 2012 session to Skagway. The Governor asked about the timeline and there were issues regarding land acquisition, which are still unresolved. He inquired about the status of those negotiations and stated he owes Governor Parnell an email saying this work is finally moving. Mr. Hemsath said the existing ground lease allows for the project to get started and paid for. The Municipality has promised in a letter that there will be a new agreement by the end of July.

Mr. Wilken expressed his concern regarding the level of impact that 1,000 tons a day will have on the highway over time. He does not believe the letter from DOT addresses the concerns of the impact upon on the highway and feels DOT is not aware of the implications over the next 10 to 20 years in this case or in other cases and that affects the entire state economically. He asked if four votes are required or if a majority is required to pass this resolution. Chair Short said four votes are needed to pass. Mr. Wilken commented he does not want to stunt this process and will vote yes, but wished he had more comfort in how DOT views these projects and how they will ensure the road lasts as a regular STIP item for improvement.

Commissioner Bell said, as Commerce Commissioner, she will be sure the discussions continue. She noted the brevity of Commissioner Kemp's letter does not fully reflect their ongoing involvement, including a meeting last week with Mr. Leonard and the Governor's Office specifically on this project. The letter also does not reflect that Alaska and Yukon DOT's have begun meeting regularly with other agencies, like our own minerals development specialist, to understand how the transportation systems relate to mineral development. Commissioner Bell complimented Commissioner Kemp for being very engaged in this process. She believes there has been good multi-agency effort and support on this project.

Mr. Leonard suggested inviting Commissioner Kemp to attend the September Board meeting to discuss these issues. He said DOT has received the feasibility analysis and specifics were stated regarding the tonnage per truck, the number of trucks, the length of time for this project and other projects and DOT has responded that the bridge and the road can handle this weight and this number of trucks for this project and for the expansion.

Chair Short suggested adding a sixth condition precedent to this resolution in response to Mr. Wilken's concerns. Mr. Wilken appreciated the suggestion of including language that would keep this issue in the forefront.

MOTION: Mr. Wilken moved to amend Resolution No. G13-13 adding a sixth condition precedent to read as follows: "The Department of Transportation and Public Facilities must provide written recognition of the ability of Alaska's road systems to support the traffic resulting from this project." The motion seconded by Commissioner Butcher. The amendment passes unanimously.

MOTION: Commissioner Bell moved to adopt Resolution No. G13-13 as amended; Mr. Wilken seconded the motion. The motion was approved with Board members Wilken, Butcher, Bell and Short voting yea.

Chair Short expressed his gratitude to Mr. Leonard, Mr. Hemsath and their teams for their hard work on this project.

Mr. Hemsath introduced the newest project manager in the project development group, Matt Narus. He comes from Jacobs Engineering and has a background in chemistry, chemical engineering and environmental science.

7C. Resolution No. G13-11 Re-adopting AIDEA Procurement Practices and Regulations

MOTION: Mr. Wilken moved to adopt Resolution No. G13-11; Commissioner Bell seconded the motion.

Mr. Juday said this resolution is a technical fix of a drafting problem and the regulation attorney in Juneau recommended that readopting the procurement practices and regulations will correct these problems. The substance of the regulations remain the same.

The motion was approved with Board members Wilken, Butcher, Bell and Short voting yea.

7D. Loan Resolution No. L13-01 Central Alaska Energy, LLC

Mr. Leonard said Resolution No. L13-01 to participate in a loan with First National Bank of Alaska. The participation is \$13,912,560 out of \$15,458,400 loan. This is a new style of loan participation. This type of financing became available through the adoption of the SETS statute, which added a new definition of the types of loans AIDEA can participate and be involved in, including qualified energy projects. Mr. Davis, Deputy Director-Infrastructure Development, is present to answer questions. Ms. Anderson gave a presentation to the Board reviewing the components of Loan Resolution No. L13-01.

Chair Short commented this loan is a good use of the new authority and the direction AIDEA is heading. He appreciates the experience of the borrowers, especially Mr. Smith's heroics in getting fuel to Nome two years ago. He noted the credit presentation was well done. Mr. Leonard expressed his appreciation to the staff for working together across three divisions and making this truly a team effort in assisting AEA with financing energy projects.

MOTION: Commissioner Bell moved to adopt Resolution No. L13-01; Commissioner Butcher seconded the motion. The motion was approved with Board members Wilken, Butcher, Bell and Short voting yea.

7E. Executive Session: Update on office space requirements

7F. Executive Session: Healy Clean Coal Project

MOTION: Mr. Wilken moved to go into Executive Session to discuss the update on office space requirements and confidential negotiations concerning the Healy Clean Coal Plant. Motion seconded by Commissioner Bell. The motion was approved.

The Board entered executive session at 12:24 p.m.

The Board reconvened its regular meeting at 12:55 p.m.

Everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AIDEA Programs and Projects

Mr. Leonard said Project Status reports are in the board packet and he is available to answer any questions. The projects moving forward include the Interior Energy Project, the Ketchikan Shipyard metal shop expansion, the project regarding new ferries, and the efforts for completing the new lease agreement on the Skagway project.

Mr. Wilken asked how Buccaneer is doing. Mr. Hemsath said the drilling has gone very well and the rig has performed very well. The Cosmopolitan prospect should be closed sometime this week, and then the next exploration process in northwest Cook Inlet will begin. Additional financing for some of the wells has been acquired and things seem to be moving well.

8B. The next AIDEA board meeting will be by teleconference on August 9, 2013.

9. BOARD COMMENTS

Chair Short announced this is his last meeting. Commissioner Butcher said Chair Short has done a great job and she has enjoyed working on the Board with him. He said being Chair is not easy and takes a lot more time and commitment than people realize. He appreciates the work Chair Short has done.

Commissioner Bell expressed her gratitude to Chair Short and said it has been great working on the Board with him and she looks forward to crossing paths professionally in future ventures.

Mr. Wilken agreed with the previous remarks and commented that 10 years from now when his family is able to settle down and his business is underway, let Mr. Wilken know when Chair Short is going to run for Governor and he will give the first \$500. He said there will be a hole left with Chair Short is gone and hopes his friendship and leadership continues for many years.

Mr. Leonard commented that staff and management agree with everything that has been said and appreciated Chair Short's leadership.

Chair Short said it has been a pleasure serving on this Board and it has been a full Ph.D. in Alaska Economic Development and Energy Policy, based on what Ms. Fisher-Goad and Mr. Leonard have taught him over the years. He is excited to see what happens over the next five years and wishes the Board good luck.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 1:01 pm.



Ted Leonard, Executive Director/Secretary
Alaska Industrial Development and Export Authority