



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Tuesday, January 14, 2014
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on January 14, 2014 at 10:15 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Anchorage: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Wilson Hughes (Public Member); Crystal Nygard (Public Member); Michael Pawlowski (Deputy Commissioner, Department of Revenue); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff: 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 and Operations); Leona Hakala (Loan Officer); Jennifer Haldane (Human Resources Manager); Jean Kornmuller (Financial Analyst); Matt Narus (Project Manager, Project Development & Asset Management); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Krin Kempainen (Administrative Assistant); Sherrie Siverson (Executive Assistant).

AEA Staff: Gene Therriault (Deputy Director-Energy Policy Development). Sandra Moller Deputy Director-Rural Energy and Operations).

AIDEA Counsel and Consultants: Kathy Black and Bill Bittner (Birch Horton Bittner and Cherot); Dave Domansky (Bracewell Giuliani); Mark Gardiner (Western Financial Group); and Jerry Juday (Department of Law).

Public: Rick Adcock, Chris Brown, Jim Kuiken, and Jamie Louks (MWH Global); Dennis Ahrens, (Public); Ron Arvin (Mat-Su Borough Assembly); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Pentex Fairbanks Natural Gas (FNG)); Jim Culley, Ray Dinger, and Sue Wolfe (Northrim Bank); Cary Feldmann, Chris Clark, and Katriina Timm (HDR Alaska); Mark Figura (Rose & Figura, Inc.); Joel Fuller (Arcticorp); Doug Glenn (Glenn Air, Inc.); Keith Hand and Ray Latchem (Spectrum LNG); Daniel Hertrich (Hatch Energy); Bill Inscho and Nadine Winters (First National Bank of Alaska); Leslye Langla (Department of Commerce, Community, and Economic Development); Jeff Logan (Jeff Logan and Associates); Sara Longan and Mark Morones (Department of Natural Resources); Sunny Morrison and Miranda Studstill (Accu-Type Depositions); Stuart Parks (NANA Worley Parsons), Chad Powelson (Western Enterprise); and Bill Saporito (Alstom Power).

Participating via teleconference: David Izeck (Agrium); Eric Lidji (Petroleum News); Alan Sheppard (MEI), Mark Slaughter (Cook Inlet Energy); Barry Smith (Kachemak Resource); and Paul Sovron (Worley Parsons).

4. AGENDA APPROVAL

The agenda was approved.

5. PRIOR MINUTES - November 19, December 5, and December 18, 2013

The minutes from November 19, December 5, and December 18, 2013 were approved as presented.

6. PUBLIC COMMENTS

There were no public comments.

7. NEW BUSINESS

7A. Loan Resolution No. L14-01 City Center Wasilla, LLC

Mr. Leonard said in this loan participation AIDEA would be purchasing from the First National Bank of Alaska (FNBA) \$1,181,250 out of \$1,312,500. Mr. Leonard requested Ms. Anderson provide an overview to the Board and answer any questions.

Ms. Anderson said the borrower on this credit is City Center Wasilla, LLC. There are five guarantors involved. This loan is for long-term financing for a recently constructed retail project in Wasilla. She noted there are sufficient funds under the loan participation program to go forward with this credit. Staff recommends this loan for approval.

Vice Chair Dick asked a general question in terms of how does staff delineate the allocation of FNBA taking only \$131,000 of this note and AIDEA taking the remainder of the note. He noted this issue can be addressed in the strategic planning session.

Mr. Leonard replied, our statute states loan participations can be up to 90%. He noted the risk analysis and negotiations are completed after the banks present what they would like AIDEA to purchase. Mr. Leonard said this question has been brought to the Board previously and can be answered in the strategic planning session. He advised the regulation can be changed if the Board desires to go a different direction.

MOTION: Vice Chair Dick moved to adopt Resolution No. L14-01. Motion seconded by Mr. Wilken. The motion passed with board members Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

7B. Loan Resolution No. L14-02 Fairbanks Natural Gas, LLC and Cassini LNG Storage, LLC

Mr. Leonard explained this resolution is for AIDEA to participate in a loan total of \$35 million with AIDEA purchasing 57.1% equaling \$20 million. The loan is with Northrim Bank who are taking 42.9% equaling \$15 million. This is a construction loan and supports the Interior Energy Project (IEP) by bringing storage into Fairbanks for natural gas, which benefits the existing customers and helps move the expansion forward.

Mr. Leonard informed the board that this loan will not actually close until September 2015, and no AIDEA funds will be expended until that date. He requested Ms. Anderson give a presentation on Resolution No. L14-02 to the Board and answer any questions.

Ms. Anderson gave an overview of Resolution No. L14-02. The borrowing entity is Fairbanks Natural Gas, LLC, the co-borrower is Cassini LNG Storage, LLC, and the guarantor is Titan Alaska LNG, LLC. The use of the proceeds is for long-term financing for the construction of a natural gas storage and distribution facility in Fairbanks. Staff recommends this credit and will require the use of AIDEA's accelerated payment program. She said Mr. Culley from Northrim Bank is present and she expressed her appreciation for all of his time working on this credit. Mr. Britton, President and CEO of FNG, is also present today.

Commissioner Bell wanted to put the issue of the loan participation funding capacity for the year in context. She said in order to be active in this area, a target of \$50 million has been set annually, but this is not in regulations or statute. She also noted AIDEA's loan participation activity is very reflective of what is going on with the commercial banks and in the economy.

Mr. Hughes asked if he was correct in understanding this project is not dependent on the IEP going forward. Ms. Anderson replied that this project is not dependent on the IEP going forward. Mr. Hughes asked if there is adequate gas out of Cook Inlet to support this storage facility. Ms. Anderson said yes, and she believes FNG's cash flow is currently adequate. Mr. Leonard understands that by having this storage, it will allow them to add more customers. Mr. Britton, CEO, added, the additional storage allows for an increase in annual sales of about 40% to consumers in Fairbanks totaling approximately 400,000 Mcf per year.

Mr. Wilken asked how the five-million-gallon capacity was determined and at full build-out, how many days' storage is that capacity. Mr. Britton said the capacity provides a range of 10 to 15 days' storage. The 5.2 million gallons in context of a 9 Bcf liquefied natural gas (LNG) plant on the North Slope, it is about 17 days' of production capacity. The five-million-gallon tank was determined by comparing the existing production capacity and ability to fill during the off season from the excess capacity in Point McKenzie. The storage will be utilized during peak times to allow FNG to serve more customers.

Chair Pruhs said if the target numbers from the IEP project and the LNG plant on the North Slope are actually realized, it looks to him like the revenue to FNG will decrease if they maintain the current number of customers, but if FNG increases the amount of customers, the revenue will increase. He asked if FNG has enough cash flow at the lower pricing to cover this infrastructure. Mr. Britton replied, one of the main reasons for the lower pricing is the lower cost of the gas itself and the lower delivered price of LNG into Fairbanks compared to what it is today. The increased customer demand also affects the pricing. Fixed costs are spread over more volume and consumption. He noted the cash flows are strong enough to support the storage facility.

MOTION: Mr. Wilken moved to adopt Resolution No. L14-02. Motion seconded by Commissioner Bell. The motion passed with board members, Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

7C. Resolution No. G14-03 Authorizing Cost Reimbursement Agreement with Agrium U.S., Inc. regarding the restart of the Kenai Nitrogen Operation (KNO)

Mr. Leonard said Resolution No. G14-03 allows AIDEA to enter into a contract with Agrium U.S. Inc. to review a potential development finance project. Mr. Leonard invited Mr. Davis come forward to answer

any questions. Mr. Davis said this resolution is a typical reimbursement agreement for some of the upfront due diligence, including an appraisal.

Mr. Wilken asked Mr. Davis to expand on the fifth “Whereas” clause in the resolution, which speaks to the authority of AIDEA and the participation of Agrium in this process. Mr. Davis said this reimbursement agreement is being driven in good faith by AIDEA's decisions, not Agrium's decisions, on what reimbursement is being sought.

Commissioner Bell commented that she is excited about what this could mean in terms of restoring manufacturing employment.

Deputy Commissioner Pawlowski stated, at some point, but not today, it would be good for the Board to have a detailed discussion of the intent and the plan for going forward with Agrium and how AIDEA will be involved.

MOTION: Commissioner Bell moved to adopt Resolution No. G14-03. Motion seconded by Mr. Hughes.

Discussion: Mr. Wilken asked who would provide the cost reimbursement if AIDEA did not provide it for this project. Mr. Davis said he believes this would be a public/private partnership with potential capital contributions from a series of lenders. The security of that lending is dependent on the value of certain assets being offered, which is the reason for the appraisal.

Mr. Wilken asked if AIDEA stepped away, hypothetically, what Agrium would do to move this reopening forward. Mr. Davis believes his answer would be speculative, but noted AIDEA traditionally provides a form of gap financing.

Ms. Nygard asked for clarification regarding next steps of this process. Mr. Davis said consultants will be used to help with this project. There is currently a request for proposal (RFP) to hire a specialized industrial appraiser. The responses are due this week. Mr. Leonard added that this is the beginning of the phased approach before a full due diligence commences.

Ms. Nygard commented that AIDEA needs to be cautious and be really specific in the value of consultants that work in manufacturing. She believes this may take more effort, but is the best use of state dollars.

Vote: The motion passed with board members, Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

PUBLIC COMMENTS - IEP

There were no public comments.

7D. Resolution No. G13-14A Amended and Resaid Resolution Related to Approving Expenditures from the Fiscal Year 2014 Capital Appropriation for the Advancement of the Interior Energy Project

Mr. Leonard said the first initial appropriation through Resolution No. G13-14 was for \$2 million to move forward with the project for internal resources. AIDEA has also appropriated \$7.2 million for purchasing or making deposits on long-lead items. Resolution No. G13-14A replaced Resolution G13-

14, and will now allow AIDEA to ask for an additional \$1,890,000 for moving forward with financial structuring, permitting, engineering, and other listed items. He provided a spreadsheet showing the original budget, the requested amount, and what has been expended to date.

Commissioner Bell asked for clarification between the numbers. Mr. Leonard apologized, said he misspoke and the spreadsheet is correct. Deputy Commissioner Pawlowski said page five shows the balance of those numbers.

Mr. Hughes wanted to be clear the request is to move from \$7 million to \$11 million, which is \$4 million for pad and procurement, and to move from \$2 million to \$3.89 million to cover administrative. Mr. Leonard confirmed those numbers.

Deputy Commissioner Pawlowski asked if the point of this additional request is to keep the pace of the project moving forward. Mr. Leonard said yes. Deputy Commissioner Pawlowski asked if the \$4 million really provides direct benefit to the project in terms of pad improvements. Mr. Leonard said yes. Deputy Commissioner Pawlowski noted the additional administrative work is necessary to keep the project moving at pace and asked how much of that actually flows in to benefit the project. Mr. Leonard believes all of the administrative work benefits the project and noted that \$2 million of the total contracting is for the permitting. The remainder of the funds for engineering are to ensure the project moves forward in working with the potential participant. The monies in administration, contractual, financial advisors and legal are the structure in moving forward.

MOTION: Vice-Chair Dick moved to adopt Resolution No. G13-14A. Motion seconded by Mr. Hughes. The motion passed with board members, Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

Deputy Commissioner Pawlowski commented that AIDEA typically engages in sound financial management and requested the Board direct staff to be cautious and judicious with this additional authority because it comes out of the project with these contracts. He requested staff review actual versus encumbered and to be very careful with overhead expenditures related to this project.

7D. Resolution No. G14-01 Interior Energy Project - Selection of Private Participant for the Development of the North Slope LNG Plant

Mr. Leonard said Resolution No. G14-01 requests the Board to select a private participant to move forward with the development of the Interior Energy Project North Slope LNG plant. He advised board members of several blanks in the resolution and said after staff presents information to the Board, those blanks will be amended to include the Board-approved negotiating party. If negotiations fail with that party, there would be the ability to move forward with negotiations of a second and possibly a third Board-approved party. He advised that AIDEA is currently reviewing which participant the Board will approve in negotiating final financial structuring, including the size of the plant, and work with all parties with that participant to move the project forward.

Mr. Leonard explained this is a multi-phase process and said a letter of intent to moving forward with the participant is expected by the end of January. The project development agreement is due by March 15, 2014. The final financial closing is scheduled for the end of May 2014. During this time, AIDEA would be working with the participant and moving on a parallel process to have the engineering complete, the pad ready to go and other items completed so no steps are missed as in the negotiation process.

Mr. Leonard articulated a change to the resolution based on a previous comment by Vice-Chair Dick. Mr. Leonard requested the resolution state clearly that any final agreements reached with the participant will be approved by the Board. Once AIDEA has the structure and the final due diligence, AIDEA will come back to the Board before any financing of the full project is implemented.

Mr. Hughes asked for the target date. Mr. Leonard said the target date is the end of May 2014. Mr. Leonard invited Mr. Davis and Mr. Gardiner to present the information recommended by staff to the Board. Mr. Leonard advised Chair Pruhs the Board can go into Executive Session at any time to discuss any of the legal analysis with the attorneys.

Mr. Davis and Mr. Gardiner provided a detailed overview of Resolution No. G14-01, which included a review of the Interior Energy Project Commercial Participant Report dated January 14, 2014. The staff recommendation is that the first preferred participant is MWH, the second is Pentex, and the third is Spectrum. The report describes the determination process in detail.

Chair Pruhs asked if anyone from AIDEA has gone to visit these types of plants anywhere in the world. Mr. Gardiner and Mr. Leonard said no one from AIDEA has visited these types of plants.

Mr. Wilken asked about Section Four, Paragraph Six, beginning, "it is important to note," and asked if the confidence level on the cost estimates is plus/minus 10%, 20%, or 30%. Mr. Gardiner replied that the cost estimates are plus/minus 20%.

Chair Pruhs asked Mr. Gardiner to expand on the statement on page 25 that MWH has built relationships with utilities in the Fairbanks North Star Borough (FNSB). Mr. Gardiner said there are two parts to the response. The first part includes the engagement of the Interior Gas Utility (IGU) to assist in planning and development of the new utility's storage, regasification and distribution facilities. Chair Pruhs asked how much volume is being considered for IGU. Mr. Gardiner said about 30% of the potential total. He noted IGU is a new entity and not yet operating. IGU was granted the territory outside the existing FNG territory on December 20, 2013 by the Regulatory Commission of Alaska (RCA). Mr. Gardiner reported that IGU has been following AIDEA's process and providing information. IGU has participated in a process that was managed and structured by Golden Valley Electric Association (GVEA).

Chair Pruhs asked how much volume is being considered for GVEA. Mr. Leonard noted that GVEA is discussing 2 Bcf. The estimated total build-out for IGU would be 3 Bcf, GVEA would be 2 Bcf, and FNG would be 4.5 Bcf. Chair Pruhs asked if all of those are part of the relationship that is discussed in the report. Mr. Gardiner replied that letters were received from GVEA and IGU endorsing MWH as their preferred participant. FNG has also been engaged, and they are the other significant customer and participant in the LNG plant. There is currently no agreement among any of these parties. He explained that if the Board accepted staff's recommendation of MWH, a process would begin that would work through a relationship with MWH, AIDEA, and FNG as a major customer.

Mr. Gardiner provided the Board with a document showing a map of service areas based on the newest RCA order. AEA has worked very intensively with the Borough and the utilities to develop conceptual plans for the build-out of the area, including estimates of the miles of pipe needed and the cost. The FNG area in the map represents approximately 65% to 70% of the total volume and IGU is the area in the lighter color which is the remainder of the other 30% to 35%.

Commissioner Bell asked if this project is still on track with its original timeline and the answer can be given this afternoon or after the meeting. She requested an appendix to this report which would place

specific occurrences regarding engineering, feasibility and other processes into the 2013 timeline to memorialize for the Board and the public the tremendous amount of work completed. Commissioner Bell complimented the clarity of the selection criteria format and how the three proposals were measured against that criteria. Mr. Gardiner believes the timeline is being followed as presented. Mr. Leonard said more information will be revealed regarding the timeline on January 31st when the RFP's for the long-lead items will return.

Chair Pruhs asked if there is a potential possibility that based on 65% or 70% of the volume being condensed in a smaller area versus a separate utility in another rural, less dense area, that there will be two different rates of gas to the burner tip. Mr. Leonard invited Mr. Therriault the table to answer the question. Mr. Therriault said it is almost guaranteed the decision out of the RCA will have two rate bases, depending on the number of customers and miles of pipe. The rates will be applied for and approved separately. There may be some impact, depending on the level of joint development of the overall system and the degree to which the two utilities negotiate and interact with each other as far as where the connection points might be.

Chair Pruhs noted the financial models all show one burner tip price. He asked if the Board would want to consider the RCA ruling and the two burner tip prices for the two utilities, as far as making a business model. Mr. Leonard said the one burner tip price was devoted to an analysis of the term sheets. He believes where AIDEA can control the cost or assist in controlling cost is to the gate. The distribution costs are going to be controlled by the utilities.

Chair Pruhs said an assumption was made for distribution costs, but now the landscape has changed. He requested the Board be provided with the new assumption number for distribution costs. Mr. Gardiner said since the RCA has made their decision, AIDEA can now discuss with the parties how the systems will interact and how much of the SB 23 capital is applied to the distribution system.

Chair Pruhs is concerned with the statements provided of 40% to 50% savings and asked if those savings are for 70% of the residents or industrial. Mr. Gardiner said the savings is based on average cost for distribution and does not take into account the benefits that other customers might have from a meaningful amount of industrial interruptible demand. Those are the things that will be determined now, assuming there is a plan moving forward. Mr. Leonard said that information would be provided in the final due diligence before the Board moves forward with approving the final financing of this project.

Mr. Wilken requested an explanation between Table One, Table Two and Table Four and to what extent does the capital stack of the debt and the equity drive the fact that MWH on Table Four is the high priced spread. Mr. Szymoniak directed the Board to page 33, Table 5 showing the actual 9 Bcf model report that feeds the summary. Mr. Wilken restated his question asking if the increased capital MWH brings will drive the burner tip price. Mr. Szymoniak said one component is the distribution cost and any of the SETS loan that was not used in the plant could be used in the distributions system and would lower the distribution cost.

Mr. Wilken asked if the distribution cost should be higher for MWH if they are using less SETS. Mr. Gardiner said MWH would be using less SETS for the plant, which makes more SETS available for distribution. Mr. Szymoniak said using the SETS loan funds would be replacing 5% monies with 3% monies. He explained that MWH has a higher capital cost and it shows up with the private debt. The same 8% money assumptions for all three parties are used for the private debt. The term for MWH is 30 years. The term for Pentex is 12 years. There is no private debt for Spectrum. MWH has a 12% return over 30 years without any income taxes being paid until year 13 and at that point, it is 40% of equity

return. Mr. Leonard explained these numbers were run to provide a way to compare whether or not the participants would be in the range needed to move forward. Mr. Leonard cannot guarantee the price for MWH will be \$15.60. Negotiations on the capital stack and negotiations with the potential gas supplier, as well as knowing more of what the engineering and distributions costs are, could change the bottom number. Mr. Leonard said if the Board selects a participant to work with, AIDEA will have clearer burner tip number in May when AIDEA comes back to the Board for final approval.

Mr. Gardiner stated that AIDEA's \$150 million revolving fund financing for distribution is not highlighted in this report, but the RCA decision affects that as well.

Chair Pruhs requested further explanation of Tables Eight and Nine on page 35. Mr. Szymoniak said these tables were generated to highlight the aim of the project, which is to provide savings for energy cost for households. In Table Eight, there is a less than 3.8% difference in cost spread for the three participants. Table Nine shows the difference between fuel oil and the three participants and how much the average household would be saving per month. He noted there is only a \$14 difference between the three participants during the highest heating month of January. A higher efficiency is assumed for natural gas heating than for fuel oil, which increases the annual fuel savings beyond just the percentage decrease in the cost delivered to the home.

Chair Pruhs asked if there is any conversion cost in these numbers. Mr. Szymoniak replied that this is before conversion costs. Chair Pruhs asked if a scenario has been run assuming a model for conversion. Mr. Szymoniak said AIDEA has completed a scenario like that and is hoping to release a report within days that was produced on the conversion costs and conversion rates, which also feeds into the expected demand growth. He believes the cost of conversion with financing will be well below the annual fuel savings. Mr. Szymoniak noted with available financing even without a subsidy, he expects the houses would have a net positive cash flow with the conversion to natural gas in year one.

Vice-Chair Dick commented he is very impressed with the package MWH has put together, especially coming in at the last minute. He asked specifically what MWH brings to the table in this relationship. Mr. Gardiner said the proposing entity within MWH is a project finance and development enterprise. It is not the technical project development side, but rather the business, enterprise structuring and financial side. He noted the other benefit is the industrial relationship that MWH has and part of their team is the institutional investor who is providing the private capital. The MWH package includes the institutional investor representative, MWH as the overall manager of the project, which includes the business structuring and financial structuring, and then the NANA Worley Parsons' team, which is the technical development side.

Mr. Wilken commented he had some notes about the provided map back in November and asked if everyone could agree FNG's build-out in the red area would be 6.0 in 2019. Mr. Szymoniak said FNG's build-out would be 4.5 total in 2019. Mr. Leonard said that total includes their current build-out. Mr. Wilken asked if anyone knows where he got the number six. Mr. Szymoniak said he recalls the discussion during that meeting was in regard to how much plant capacity 4.5 Bcf might need, which includes about a 160% increase in the winter over the average.

Mr. Wilken asked if FNG's total needs for the year is 4.5 Bcf. Mr. Leonard said FNG's total needs are going to start increasing in 2015 to 2021 as conversions go forward. Mr. Wilken asked Mr. Britton if the 4.5 Bcf is a good number. Mr. Britton said he has not seen the report Mr. Leonard is referring to and cannot comment on that. He noted FNG is currently at about 1.9 Bcf and 10% of the market in their scenario and believes the 4.5 Bcf is conservative amount.

Mr. Wilken asked if the green area is 1.5 Bcf. Mr. Leonard replied the green area is estimated to be 3 Bcf, which starts from zero in 2015, and moves up to 3 Bcf in 2026. The numbers given to the Board previously were based on an old Northern Economics Report and through this process, AIDEA has been trying to get more accurate new demand numbers on which to build the models.

Chair Pruhs asked what the saturation rate is at 3 Bcf. Mr. Szymoniak believes the saturation rate would be near 100% by 2025 for both areas. Chair Pruhs asked if that was reasonable. Mr. Szymoniak said he will have to double check the numbers and believes that is reasonable for those who are burning fuel oil.

Mr. Wilken asked if it is agreed that GVEA is 2.0. Mr. Leonard agreed that for these purposes, GVEA is 2.0. This is based on negotiations with GVEA, who is wanting to get a 30% to 40% savings on their fuel through this process that would go to their rate payers.

Deputy Commissioner Pawlowski asked what fuel oil price was used. Mr. Szymoniak said they are using \$4.00 per gallon fuel oil price, which might be a slight premium to the current market.

Ms. Nygard wants to ensure she is understanding the terms correctly in the development process that if MWH is serving as owner's rep in the development and there is a 6% of the aggregate enterprise value that would be paid as part of the capital cost, what is that number. Mr. Szymoniak said if it is a \$175 million project, 6% would be \$10.5 million.

Ms. Nygard asked if MWH is also going to assume the role as being the plant operator. Mr. Gardiner said MWH would not be the plant operator. He said MWH provided clarifying information after the last Board meeting which explains MWH's concept for how they would get to an operator that has current North Slope operations.

Ms. Nygard asked if the notation that the plant will be operated by North Slope Gas (NGS) is accurate. Mr. Gardiner said NGS is the Special Purpose Entity (SPE) and they will contract for operations with experienced, capable North Slope operators. Ms. Nygard asked if MWH has had experience on the North Slope with operations. Mr. Gardiner said NANA Worley Parsons currently has operations on the North Slope. Chair Pruhs asked if NANA Worley Parsons currently has LNG plants on the North Slope. Mr. Gardiner said there are no LNG plants on the North Slope. NANA Worley Parsons has experience running LNG plants and they have experience operating on the North Slope.

Chair Pruhs asked for clarification. Mr. Gardiner explained there are entities within the NANA Worley Parsons' umbrella that develop LNG plants and that operate similar facilities on the North Slope. There are no LNG facilities on the North Slope, but NANA Worley Parsons does have North Slope operations. Mr. Leonard said a representative from MWH could answer that question, if the Board desires. Chair Pruhs does not believe that is necessary and just wanted to understand their actual experience on the North Slope operating LNG plants.

Mr. Hughes asked what the variable for the different distribution costs is for each of the three proposals listed on page 33. Mr. Gardiner said the variable is the cost of capital. Mr. Szymoniak noted the SETS funds that are not used in the plant can be used in the distribution and some have more SETS funds left over.

Mr. Hughes asked what the result would be if the remainder of the SETS funds was used on the trucking side. Mr. Leonard said a portion of the capital appropriation can be used on the trucking side, but SETS funds cannot.

Deputy Commissioner Pawlowski asked how the different term sheets compare when sensitivities like capital costs are moved. Mr. Szymoniak said that question results in where the actual capital comes from and each of the term sheets address that. He does not have the information in front of him, but it would be a very straightforward exercise to run, if requested. Mr. Leonard said that sensitivity can be controlled through negotiations with what funds the proposing entities would utilize.

Deputy Commissioner Pawlowski asked Chair Pruhs about the process and if legal questions can be discussed in Executive Session. Chair Pruhs requested a motion to go to Executive Session.

7E. Executive Session - Interior Energy Project

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss legal questions with the legal team regarding the selection of a private participant for the Interior Energy Project. Motion seconded by Mr. Wilken. The motion was approved.

Executive Session entered at 12:17 p.m. The Board reconvened its regular meeting at 2:34 p.m. Chair Pruhs said everything covered in executive session was appropriate to the motion and no action was taken.

MOTION: Deputy Commissioner Pawlowski moved adopt Resolution No. G14-01. Motion seconded by Commissioner Bell.

MOTION: Deputy Commissioner Pawlowski moved to amend Resolution No. G14-01 inserting MWH on page two in the first blank, inserting Pentex in the second blank, and inserting Spectrum in the third blank. Motion seconded by Mr. Hughes. There was no objection.

Commissioner Bell provided comments to Spectrum regarding their selection as the third preferred participant. She noted this proposal transfer's risk to AIDEA after project completion and believes that is material. She noted there are also a number of items in the business costs that have the potential to increase costs to the consumer. She commented there are a number of things that are unconventional in the way the term sheet is constructed. Commissioner Bell restated her support for having Spectrum in the third preferred participant position.

Mr. Wilken expressed he is in favor of the motion for four reasons. He finds the \$83.5 million in capital MWH brings to the project compelling and shows belief in the project being successful and "skin in the game" that is greater than the other potential participants. Mr. Wilken believes that capital allows for more money to be provided for distribution in the served area. Secondly, he is comforted by MWH's proposal should we not want to build a 9 Bcf plant. A smaller can be built and money will be set aside to what amount to a letter of credit that when the time for increased demand comes, we will not have to go through this process again and will have money for the expansion. The third reason is he believes the team MWH is putting together with NANA Worley Parsons is compelling. He thinks the other teams are fine, but it is a matter of degree of his confidence in MWH's team exposure and experience benefitting this project. Lastly, Mr. Wilken believes the MWH proposal is very straightforward, without issues to consider later. He noted his comfort in their proposal and will be favoring the motion.

Mr. Hughes expressed his appreciation for the exhaustive work of staff to create the participant report and take the Board through their selection thought process. He does not see there is a project until the final proposal comes before the Board to review and see the projected numbers for the funding dollars, demand, and operating costs. He believes the next three months will reveal those numbers. Mr. Hughes will support the motion in that it puts AIDEA on a path to a conclusion, but it is not a foregone conclusion based on the activity today.

Vice-Chair Dick expressed his appreciation to all three participants for their efforts and the work they have put into this process. This is not an easy process and he believes some of their ideas were very innovative. He commented that the Board has an obligation to keep this project moving forward and May is a key milestone, but this is not the final decision on this project. Vice-Chair Dick noted he relies on the work staff and consultants have completed over the course of this last year and their recommendations. He explained risk allocation and certainty for the project are key issues he considered in favoring the motion today. Vice-Chair Dick believes MWH provides the most certainty with regard to funding the different aspects of the project.

Ms. Nygard commented this has been a very tough situation and expressed appreciation to the staff for all of the work they have done. She believes it is important to have a partner who can access the capital fast and can meet the strict deadlines. She noted AIDEA has an obligation to the State of Alaska to continue forward and do it with the best investment of the dollar. She supports this motion to continue that forward momentum and have a good partner who has demonstrated they can bring in the tools and resources necessary for the success of this project.

Deputy Commissioner Pawlowski expressed his appreciation to the staff for the work they are going to do. This really is a beginning of what is going to become a deeper and deeper process. Deputy Commissioner Pawlowski noted his trepidation about this selection, even though he is the maker of the motion. He supports the motion and the selection, and notes the distribution is key. He would like this to continue to go forward and build support among all of the parties for the distribution to supply the project the demand.

Chair Pruhs expressed his appreciation especially to the three proposers and he knows there is a lot of money, time and effort being spent and believes the Board understands that. This is a very serious decision and the Board understands the ramifications. He noted he will support the motion, but would like to provide a few statements regarding caution. He believes moving forward relies on take-or-pay contracts for the players within the IEP boundaries, of which we have had letters of support from two. Chair Pruhs is concerned that 65% to 70% of the volume of the gas is to another utility that presented to the Board today. He is concerned from a philosophical standpoint that company has been in Fairbanks doing business for many years and about the weight given their proposal and not taking the consideration of how long they have been in business. He believes it is very important to weigh that experience appropriately.

Chair Pruhs encouraged FNG, staff and MWH to see if there is an alignment between their priorities to help this project move along. This is critical to the folks of the Interior. Chair Pruhs would like to see positive movement in that regard and if there is not an alignment, this may cause the construction of a smaller plant on the North Slope, which he does not believe serves the Interior energy folks well and poses a big risk. He noted this is the first step and there are many steps to go. He believes the Board is focused on what is best for the residents of the Interior and what we can do to help offset their costs. Maintaining that focus means the Board is looking at the big picture and not separating things out. Chair Pruhs is in support of this motion and hopes there are no insurmountable hurdles.

Deputy Commissioner Pawlowski commented he shares Chair Pruhs' opinion on those risks and concerns. He asked if he could amend his motion. Chair Pruhs said Deputy Commissioner Pawlowski can amend his motion as long as it is seconded.

MOTION: Deputy Commissioner Pawlowski moved to amend his motion to include, on page three, following the sentence, "discretion may determine to be reasonable and appropriate," insert the words, "after obtaining further Board approval," and the remainder of the sentence reads the same. Vice-Chair Dick seconded the amendment.

Roll call was taken. The motion to adopt Resolution No. G14-01 as amended passed with board members, Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

8. DIRECTOR COMMENTS

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

Mr. Leonard noted there have been significant changes to the 1999 Personnel Guidelines that are included in the report. Chair Pruhs noted that these changes were discussed in a prior meeting.

Mr. Leonard said loan and dashboard reports and AIDEA project fact sheets are included in the board packet. Mr. Leonard invited Mr. Hemsath to provide a quick update on Brooks Range. Mr. Hemsath said it was the intent to bring a resolution to the Board regarding a production facility on the North Slope. That process has been delayed and staff are planning to present a final due diligence report and resolution at the February board meeting. He said all of the pieces are coming together nicely and the Department of Law has been working diligently on the operating agreement.

Mr. Hemsath said he had a very nice day on the North Slope with Ms. Nygard and Vice-Chair Dick. The Mustang pad and road were being completely utilized by both ConocoPhillips and Repsol.

Mr. Hemsath said Buccaneer is in the process of selling their common shares and the rig to Ezion Holdings subsidiary. It is a matter of ensuring all current conditions in the operating agreement are maintained and AIDEA has been working with the attorneys to resolve any issues. Mr. Hemsath believes a change in consolidation will make them stronger. Deputy Commissioner Pawlowski asked if the intent is to keep the rig in the Inlet. Mr. Hemsath replied yes and he believes the move to the North Cook Inlet with predominantly oil prospects is a good decision.

Mr. Leonard stated that the work session tomorrow, January 15, 2014, is at the Embassy Suites, 600 E. Benson, Anchorage, Alaska and begins at 9:00 am. Mr. Leonard provided copies of the work session presentation to the board members.

8B. The next regularly scheduled board meeting will be held on Thu. February 20, 2014, in the board room at Sealaska, One Sealaska Plaza, Suite 400, Juneau, Alaska.

9. BOARD COMMENTS

Mr. Wilken said he will participate in the February 20, 2014 via teleconference. He said the Interior Energy Project continues to scare him with its multiple opportunities for failure. He said he respects the wisdom of the Legislature and the work of the staff and knows there is a need in Fairbanks to do something. Mr. Wilken suggested the Board bring the trucking component to the front of the focus and discuss it at every meeting. He believes the trucking component is currently the wild card and does not believe the Board understands it and would like everyone to be more educated. He would also like to determine the accuracy of the \$5.40 projection.

Chair Pruhs agreed with Mr. Wilken.

Commissioner Bell said she provided, as promised, examples of operational audits from the Railroad to Chair Pruhs, Vice-Chair Dick, Mr. Leonard and Ms. Fisher-Goad. She noted that the information could be used for strategic planning and believes that kind of operational focus is valuable. Chair Pruhs expressed his appreciation to Commissioner Bell for providing those examples.

Deputy Commissioner Pawlowski requested staff inform the Board when they receive inquiries and feedback from the public regarding today's decision.

Ms. Nygard said she has a lot of concern about how the IEP is moving forward and believes it is critical for the State of Alaska. During her recent trip to the North Slope, she saw the investment return available and how AIDEA can be a great partner to other companies around the world. She noted there is a very short timeline to produce great returns for the state. She encourages continued cooperation and expressed appreciation to Mr. Leonard for his leadership.

Chair Pruhs expressed his appreciation to the legal staff for their well-received input today and to the Board for their input and discussion on all of the subject matters. He said he looks forward to tomorrow's meeting being positive.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:06 pm.



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