Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, April 3, 2014
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 3, 2014 at 10:02 am. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Susan Bell (Commissioner, Department of Commerce, Community and Economic Development); Wilson Hughes (Public Member); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Members present via teleconference: Michael Pawlowski (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: Ted Leonard (Executive Director); Sara Fisher-Goad (AEA, Executive Director);Chris Anderson (Deputy Director - Commercial Finance); Mark Davis (Deputy Director - Infrastructure Development); Jim Hemsath (Deputy Director - Project Development & Asset Management); Brenda Applegate (Controller); Jennifer Haldane (Human Resources Manager); Bill Phelan (Loan Officer); Matt Narus (Project Development & Asset Management); Jeff San Juan (Infrastructure Development Finance Officer); Karsten Rodvik (External Communications Officer); John Springsteen (Infrastructure Development Officer); Kirk Warren (AEA, Project Manager); Sherrie Siverson (Executive Assistant), and Krin Kemppainen (Administrative Assistant).

Public: Bill Bittner and Kathy Black (Birch Horton Bittner & Cherot); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton and Mark Figura (FNG); Chris Clark and Tim Gallagher (HDR Alaska); Dave Domansky (Bracewell & Giuliani LLP); Orion Fultone and Alfonso Mendez (ARUP); Mark Gardiner (Western Financial Group); Jerry Juday (Department of Law); Steven Klein (First Infrastructure); Shannon Miller and Mark Morones (DNR/State Pipeline Coordinators Office); Sunny Morrison (Accu-Type Depositions); David Prusak (MWH/IGU); Rob Reiman (SCIC); Bruce Robson (MWH); Bob Shefchik (IGU); Nancy Wainwright (Attorney Trustees for Alaska).

Phone: Brian Albach; Alicia Caroll; Jim McKenzie; Jack Russo; and Nick Szymoniak (PT Capital).

4. AGENDA APPROVAL

The agenda was approved as amended.

5. PUBLIC COMMENTS

There were no public comments.

6. NEW BUSINESS

6A. G14-06 Authorizing SETS Loan to Fairbanks Natural Gas for construction of Distribution system

MOTION: Commissioner Bell moved to approve Resolution No. G14-06. Motion seconded by Mr. Wilken.

Mr. Leonard reported Resolution G14-06 is to provide a $15 million loan to Fairbanks Natural Gas (FNG) for the 2014/2015 expansion of its natural gas distribution system. This loan is made through authorization received in statute last year from the Legislature. Mr. Davis explained the purpose of the loan is for the initial development and build-out of FNG expanded system.

Mr. Wilken asked if this is a $15 million interest-free loan for 20 months. Mr. Davis agreed. Mr. Wilken asked if after the 20 months, this would be considered for long-term financing. Mr. Davis agreed and noted this could also convert to a different type of loan depending on FNG's decisions.

Mr. Wilken asked in order for this to be considered for long-term financing, if FNG has to enter into an agreement to purchase at least .5 Bcf of North Slope natural gas. Mr. Davis agreed. Mr. Leonard explained the take or pay agreement has to be completed before July 15, 2014, which is tied into the financial close of the LNG facility.

Mr. Wilken commented FNG has to enter into an agreement for .5 Bcf of gas and asked Mr. Leonard how to get all of FNG's business on the Slope. Mr. Leonard stated that would be a good question for Mr. Britton of FNG when he speaks. Mr. Leonard explained FNG has the equivalent of 3.5 to 4.5 Bcf based in their full distribution build-out system. It is critical for that distribution to get built out and conversions to begin for the plant to bring in the lowest cost of gas possible. This resolution is an incentive for FNG to build out their systems by providing low cost financing to assist.

Mr. Davis noted the agreement states "to purchase at least 500,000 Mcf," and hopes over time, FNG will expand further and will buy more gas. This commitment is based upon early projections for the initial demand.

Mr. Wilken asked for the plan to drive FNG's remaining 3.5 Bcf to the Slope and avoid a stranded asset. Is FNG anticipated to request future loans, which have additional take or pay agreements attached. Mr. Leonard agreed that is the intent for both FNG and Interior Gas Utility

(IGU). Any expansion or funding AIDEA provides for the distribution system has to be tied to utilizing gas from the North Slope plant. He noted FNG is committing to utilize gas from the North Slope for their distribution system until an alternative source of a gas line comes through. He believes at that point in time, the mines and other demands would take over. This process is the same for loans with IGU. The financing provided to assist with the build-out will drive the gas demand to the North Slope.

Chair Pruhs requested clarification regarding FNG's current 1 Bcf plant which is providing the existing system. This will provide 50% volume to the existing system. He stated there is an ultimate demand of 4.5 Bcf, which means there is an additional 3.5 Bcf coming. Mr. Leonard agreed. Chair Pruhs asked if there was discussion regarding the existing 1 Bcf plant and if it will always be in operation or does it go to a stand-by basis. He asked if 3.5 Bcf is the ultimate that FNG could be incentivized to use out of the North Slope. Mr. Leonard believes that is a question Mr. Britton would be able to answer. The current loan terms are based on providing financing for the expansion with the understanding the gas used in the expansion must be from the North Slope. Negotiations have not been addressed regarding FNG's 1 Bcf plant.

Mr. Wilken stated he is concerned about determining whether the North Slope plant should be a 4.5 Bcf plant or a 9 Bcf plant because of the possibility of FNG, IGU or Golden Valley (GVEA) making an economic decision to get their gas from somewhere other than the North Slope. Mr. Wilken asked if the 3.5 Bcf from FNG can be locked in to ensure the LNG plant on the North Slope is built to the appropriate size.

Mr. Leonard stated there will be a take or pay agreement in place. The plant size needs to be determined based on the take or pay agreements created and based on the believed demand. This is challenging because of the timing of build-out and the economics of build-out. The financial advisors and consultants are working with FNG, IGU and GVEA on a full financing structure regarding the build out of the distribution system. The commitment from the utilities to use AIDEA's monies for the distribution system would provide reliability for the sizing of a 6 Bcf or a 9 Bcf plant. The factors to make that decision are currently incomplete and will be completed by late fall before the final project is sanctioned. The take or pay contracts are the foundation for the size of plant and for the cost of the gas coming from that plant.

Mr. Wilken commented he loves competition, but hates stranded assets and those two lines could cross as the project moves forward. He noted there is only a guaranteed customer for .5 Bcf. Mr. Leonard stated GVEA is a critical anchor to this project and will provide their contract before the project moves forward. Mr. Leonard believes IGU believes in this project and will ask Mr. Shefchik to discuss further when his loan is reviewed. He stated there has always been a very large risk on the plant and on the demand. This is a stop-gap project that does have large risks based on the type of plant.

Mr. Wilken asked if the demand risk is from the North Slope plant, rather than demand risk at the meter. Mr. Leonard agreed. Mr. Wilken requested clarification on page 6 of the loan document regarding the $85 million reserve for the LNG facility. He thought $35 million was set aside. Mr. Leonard explained there was $57.5 million for capital appropriation, $125 million for low-cost financing and $150 million for bonds. The initial structure being negotiated with the project sponsor is $35 million allocated from the capital appropriation, approximately $65 million for SETS financing, and the project sponsor contributing approximately $82 million. Mr. Leonard noted there is a $25 million reserve allocated as the optimum financing structure of the plant is completed. Out of the $141 million of SETS funds, he believes up to $85 million could be utilized for the plant, which leaves $56 million of the SETS financing and does not include the $150 million of the bond. There are enough funds to finance the initial loan to FNG and IGU and still have funds available for financing next year.

Mr. Wilken requested clarification on which numbers equal the $85 million his original question referred to. Mr. Leonard explained it is estimated $85 million of SETS funds will be loaned for the plant and that number is not related to capital appropriation funds.

Mr. Wilken asked Mr. Britton if the $15 million allows FNG to complete the 2014/2015 expansion distribution plan provided. Mr. Britton agreed and noted that is approximately 2,500 added residents. Mr. Wilken commented FNG's expansion distribution plan is aggressive and is welcomed. Mr. Britton noted the permitting process has begun.

Deputy Commissioner Pawlowski wanted to remind members the exclusivity for the North Slope plant is limited to the SETS funding directed by the Legislature and the Interior Energy Project (IEP) monies, but the Board has supported other financing for FNG which is not limited to the North Slope facility. He emphasized AIDEA is doing everything they can to support development of energy in the Interior.

Commissioner Bell requested clarification from Mr. Britton regarding the project description on page two allowing FNG to connect to 100 commercial and 1,250 residential services, which does not seem to include the entire expansion of C1 through C9. Mr. Britton does not know from where the 1,250 residential services number was derived. Mr. Leonard noted that number could be the original conversions from the application. Mr. Britton stated there are 2,500 available structures. The 1,250 could be the expected conversion in that certain timeframe. Residential conversion is expected to be slower than commercial conversion. Mr. Davis stated Commissioner Bell's comment was correct, but it is possible to reach 2,500 residential and 100 businesses.

Commissioner Bell asked Mr. Britton if FNG is comfortable with placing the description of their expansion on the record to be reviewed by the public. She believes the public will be very pleased. Mr. Britton stated FNG is comfortable describing the general plan on the record and noted it is still subject to change. FNG worked with the city and Department of Transportation (DOT) on this plan to coordinate if any road projects and piping could occur simultaneously. He commented FNG is excited to share this good news and begin the expansion.

Mr. Wilken asked Mr. Britton when will FNG be ready to come to AIDEA for the 2015/2016 monies. Mr. Britton commented FNG was ready two months ago and the 2015/2016 plan is the same one which addresses areas and pipe projected. Mr. Davis stated that FNG has requested AIDEA consider other loans and AIDEA is amenable to approaches by FNG for other lending. Mr. Leonard noted that will be tied into the full financial structure.

Chair Pruhs stated he asked staff to provide the Board a big-picture summary of available funds and how those funds will be allocated after these two current loans are considered. Chair Pruhs asked how this build-out phase relates to the existing storage facility. Mr. Britton stated the existing storage facility is not large enough to support an additional firm customer base. This build-out phase provides an additional customer base and will be served by FNG's new storage facility.

Chair Pruhs asked if there have been any discussions regarding the west Fairbanks service area. Mr. Britton stated there have not been any detailed discussions regarding the west Fairbanks service area. He believes IGU is working on solidifying some of their plans. There has been no real look at collaboration.

Chair Pruhs asked if FNG would be agreeable to that collaboration. Mr. Britton stated FNG wants as many people in Fairbanks to get service and they are open to collaboration discussions if it makes sense. FNG is happy to be moving in a direction of expansion and bringing gas to more customers.

Ms. Nygard asked if the small consumers comprise of small businesses and the large consumers comprise of state offices. Mr. Britton agreed a small commercial consumer would be a small office building or small restaurant and examples of a large commercial consumers would be Home Depot, Lowes, Fred Meyers, hotel or schools. The focus of the expansion is on densely populated residential areas.

Mr. Hughes asked what the estimated timeline to reach the projected 50% of the homes. Mr. Britton stated the 50% is estimated to be reached within the first two years of gas being available, then an additional 20% in the third year, and an additional 10% in the year after.

Chair Pruhs asked Mr. Britton what is the rough estimate of the cost of conversion. Mr. Britton stated a conversion for a home that has had a recent boiler replacement will be in a $1,500 range to replace the oil burner with a gas burner. For a complete residential change-out, it could be in the $10,000 range to replace the entire boiler system.

A vote was called and the motion passed with board members Wilken, Pawlowski, Nygard, Hughes, Bell, and Pruhs voting yea.

6B. G14-07 Authorizing SETS Loan Interior Gas Utility for Start-up Costs

MOTION: Commissioner Bell moved to approve Resolution No. G14-07. Motion seconded by Ms. Nygard.

Mr. Leonard stated this is to provide $8.1 million financing to assist IGU for start-up and engineering costs in order to begin building their distribution system. This loan has the same terms as FNG's loan with a 20-month financial that will convert into a loan in conjunction with their distribution build-out in 2015/2016. Mr. Leonard noted Mr. Shefchik, IGU Board Chair, is available to answer any questions.

Mr. Davis commented this loan is unique because usually AIDEA loans are for hard assets. This loan is for engineering, design and permitting. SB 23 expressly allows the Board to make these kinds of loans. IGU is a start-up gas utility authorized by the Regulatory Commission of Alaska (RCA). The requested loan amount should provide the initial development of their system and provide an understanding of IGU's demand.

Mr. Hughes asked Mr. Davis what is the security if this was converted to a 40-year loan. Mr. Davis noted there is possible credit backing by the Fairbanks North Star Borough (FNSB) because IGU is a department of the FNSB. The ordinance that created IGU expressed the FNSB would not go into debt for IGU and Mr. Davis believes this to mean debt as in bonds, rather than backing of this kind of financing.

Mr. Shefchik stated the terms in the term sheet explicitly say Fairbanks North Star Borough line of credit is not collateral for this loan. It is available as bridge financing as support for take or pays. Mr. Davis noted the collateral is on all the designs, property and equipment paid for by the loan.

Chair Pruhs asked if there is any value to the certificate itself if, for some reason, IGU was not able to repay the loan and AIDEA owned the operating utility. Mr. Davis clarified AIDEA would not own the certificate, but AIDEA would own all of the engineering. Mr. Shefchik stated RCA controls and issues the certificate. Mr. Davis noted the certificate would become stranded and is, of course, not hoping this scenario occurs.

Chair Pruhs asked if IGU is owned by the Borough. Mr. Shefchik agreed. Chair Pruhs asked if the Borough could transfer IGU to AIDEA. Mr. Shefchik explained IGU is a governmental component unit to the Borough equivalent to the school district and he does not have enough of a municipal law background to explain any further.

Mr. Davis noted if there is a default on an operation, then the certificate is not being used and there are procedures which would go into effect with the RCA for resolution of the non-use of the certificate. Mr. Leonard stated whoever would take over the certificate would need the design and drawings. Mr. Leonard commented this type of loan was specifically developed while working with the Legislature last year based on the possibility of two utility systems and start-up costs for distribution systems and facilities. This is a policy legislative-directed financing under SB 23.

Mr. Hughes asked if IGU is capitalized. Mr. Davis stated IGU has grant funds of approximately $422,000 of unrestricted assets. Mr. Leonard informed IGU has a $7.5 million line of credit from the Borough that was passed last week. Mr. Hughes asked if AIDEA will be in front or behind the line of credit. Mr. Davis believes AIDEA will be parallel to the line of credit because AIDEA's collateral is on the property and on the specifications.

Mr. Shefchik stated the Borough's line of credit is unsecured and will be used for bridge funding for eligible project costs, security for take or pay in the out years, and/or unanticipated expenses before cash flows begin in 2016/2017.

Mr. Hughes asked if the business plan through 2017 has been shared with AIDEA and available to the Board. Mr. Shefchik stated both a three-year and a six-year business plan has been provided. Mr. Leonard noted the demands are in the detailed write-up provided to the Board.

Mr. Hughes asked what funds will be available to continue the project until the revenues begin. Mr. Leonard noted that will be a challenge as IGU works through their long-range plan. He reminded that the goal of SB 23 and the financing realized there would be higher risk in providing the initial start up of the distribution systems for the facilities.

Mr. Hughes asked if Mr. Leonard is confident that point will be remembered. Mr. Leonard hopes so because this financing was placed in a specific fund which is not part of the revolving fund and is not based on AIDEA's regular criteria and statutes. Mr. Hughes commented this sounds like a grant. Mr. Shefchik stated this represents a structured compromise between IGU and AIDEA management.

Ms. Nygard asked if IGU's area represents about 11,000 residents. Mr. Shefchik agreed. Ms. Nygard asked what the delineation of large base and small base. Mr. Shefchik stated it is almost all residential with some small and large commercial in the North Pole area.

Mr. Wilken asked if the nature of the loan is the reason AIDEA is not asking IGU for a commitment like FNG. Mr. Leonard agreed and noted IGU will have to have a gas contract that matches the Phase 1 build-out before July 15th. Mr. Shefchik stated IGU has already committed to an all-requirements build-out. Mr. Wilken asked if the Phase 1 green layout is expected to be in the dirt in 2015. Mr. Shefchik stated the expectation is the summer of 2015. He noted the longest lead time will be for pipe and will come back to AIDEA in the fall to cover that preorder of pipe.

Mr. Wilken requested Mr. Shefchik provide an overview of the Assembly's actions, including the line of credit granted last week. Mr. Shefchik stated the Assembly authorized the Administration to use IGU to develop this project and has provided current funding of $1.3 million over the last 18 months. The most recent action was the line of credit granted. IGU must report to the Assembly any withdrawals on that line of credit. Mr. Shefchik goes before the Assembly quarterly and will report to them at that time. He believes the Assembly's biggest concern was how to accelerate the build-out timeframe.

Mr. Wilken asked about the status of the change-out program the Borough was going to fund. Mr. Shefchik noted there are funds for wood stove change-out, but it is uncertain if a wood stove could be replaced with gas. A few Assembly members have been working hard on developing financing for conversions. He believes some type of conversion program will be necessary to help people who cannot write a $10,000 check. He expects the next session will address that work.

Mr. Wilken asked if the Borough was still considering using the Solid Waste funds to be the backstop for a conversion program. Mr. Shefchik disagreed and noted there is not enough money in the Solid Waste fund so would not be a likely long-term source of funding. Mr. Wilken asked if it was still an active discussion. Mr. Shefchik agreed.

Mr. Wilken requested Mr. Shefchik discuss IGU's relationship with MWH. Mr. Shefchik stated MWH is acting as the owner's representative and staff, who developed the six-year plan, layout and financial models, but are separate from the MWH supply team working on the plant.

Mr. Wilken commented he is embarrassed to admit he did not know west Fairbanks was an issue. He asked if there are ongoing discussions that makes the logical step of FNG complete the purple section of the plan. Mr. Shefchik stated he and Mr. Britton have talked and are keeping the door open on how extend potential partnerships including use of transmission lines, shared storage, and developing a common set of standards. Mr. Shefchik asked Mr. Britton if that was a fair characterization. Mr. Britton agreed and noted FNG is open to the discussion that is in the customers' and community's best interest. Mr. Wilken asked if the RCA would have to approve any agreements between FNG and IGU. Mr. Shefchik noted there are many different ways to come to agreements.

Chair Pruhs commented he is a big proponent of a fuel consortium concept among IGU, FNG and GVEA, which includes common ownership, shared storage and shared trucking so the distribution systems are filled out bringing the cost down. Mr. Shefchik noted Mr. Chris Brown from MWH is leading that effort.

Ms. Nygard requested clarification of what AIDEA would have if the loan was not paid back. Mr. Leonard stated AIDEA would get assets like the engineering, permits, and right-of-ways, but would not receive the RCA certificate.

Chair Pruhs asked what the mechanics are if the Borough wanted to sell IGU. Mr. Shefchik noted it would take a vote of the Assembly and approval of the RCA. Chair Pruhs asked Mr. Hughes what it took to sell Anchorage Telephone Utility. Mr. Hughes stated it took a vote of the people.

Mr. Davis noted IGU is an entity of the FNSB, but it does not have the legal authority to create an entity of that type and so it needed the permission from the city of North Pole and city of Fairbanks, which gave that authority to FNSB and the ordinance was passed thereafter. Mr. Shefchik stated there are three IGU appointed Board members, one from the city of Fairbanks, one from the city of North Pole, and one by the Mayor.

Mr. Hughes asked if the Board should look further at why this is not just a grant. Mr. Shefchik stated a grant would have to come from the capital funding. There cannot be a grant under the SETS Program. There can be a 0% loan, but not a grant. Mr. Davis stated under this agreement, the funds will begin to be paid back when a cash flow is reached. The terms will be renegotiated by the end of 2015 on that basis. He believes the current agreement is consistent with the legislative direction to own any plans and assets if IGU cannot go forward and hopefully an alternative vehicle can be determined to utilize those plans to provide gas to the consumers.

Mr. Leonard again stated this is a unique legislative-directed loan whereby AIDEA has very broad authority in how the terms of the financing and payment structure are set up. The goal is to provide the type of financing that will assist with meeting the burner-tip goals.

Commissioner Bell commented she likes that AIDEA is setting up parallel loans for IGU and FNG, even though there are differences between their structures. AIDEA is a financing organization and not a granting agency. She is comfortable with the current structure and believes AIDEA is utilizing the tool within SETS as intended.

Mr. Wilken asked where the interest would go if AIDEA were to charge up to 3% for a SETS loan. Mr. Leonard stated any interest would go back into the SETS fund that could be used for other projects.

Mr. Hughes requested seeing the 5-year cash flow plan in order to understand how the funds will be paid back. He is puzzled how $8 million is loaned on a total equity of $200,000 and there ought to be some form of capitalization with the entity who has the authority to provide energy to a large portion of Fairbanks. Mr. Hughes advised he is going to have a problem voting yes until he sees the cash flow and is more convinced.

Chair Pruhs asked Mr. Shefchik if there is already $1.3 million into IGU. Mr. Shefchik agreed and noted IGU has access to a total of $3 million, of which $800,000 has not yet been requested.

Mr. Hughes noted the end of December numbers he is reviewing shows an equity totaling $270,000. Mr. Shefchik stated the current equity is approximately $473,000 as of the end of March.

A vote was called and the motion passed 4 to 2 with board members Wilken, Pawlowski, Bell, and Pruhs voting yea and Nygard and Hughes voting nay.

6C. (Removed from agenda)

6D. G12-02B Revising the Amortization Period on Financing Agreement with the Department of Military Veteran Affairs for the Camp Denali Readiness Center

MOTION: Commissioner Bell moved to approve Resolution No. G12-02B. Motion seconded by Mr. Hughes.

Mr. Leonard explained this resolution is to extend the amortization for the contract from 25 years to 30 years. The rate of return is 7%. Congress has set the actual amount that could be paid on a yearly basis at an amount that would amortize closer to a 30-year period. He noted it would be very difficult to change what Congress has authorized for their yearly payments. The Department of Military Veteran Affairs (DMVA) is asking the Board to extend the amortization period to 30 years to match the Congress-set payment fund. Mr. Leonard requested Mr. Hemsath come to the table to answer questions.

Mr. Hemsath stated the operating agreements and guarantee of payment by DMVA still remain. The only difference is the change in the amortization period.

Mr. Hughes noted the project came in ahead of schedule and almost a $1 million under budget, so that is not the problem. Mr. Hemsath agreed and noted there was a $1 million change order that was completed on time and inside the budget.

A vote was called and the motion passed with board members Wilken, Pawlowski, Nygard, Hughes, Bell, and Pruhs voting yea.

6E. Resolution No. G96-02 Financial Disclosures

MOTION: Commissioner Bell to approve Resolution No. G96-02. Motion seconded by Mr. Hughes.

Mr. Leonard stated this is not a new resolution for the Board today. He is coming forward to seek advice regarding the Board's direction on financial disclosure reporting on directors and executive directors. Mr. Leonard noted 18 years ago AIDEA's Board established working with the Alaska Public Offices Commission (APOC) to provide financial disclosure reporting on its directors and executive directors on a voluntary basis. APOC has decided that since that financial disclosure practice is not expressed in the statute, AIDEA should no longer utilize the APOC system. Mr. Leonard requested Ms. Jennifer Haldane to come to the table and provide an overview.

The motion was removed by Commissioner Bell because there is no resolution in front of the Board to approve. The second was withdrawn by Mr. Hughes.

Mr. Hughes recalled the intent of the reporting was to provide a mechanism for disclosure by staff who were dealing in significant financial transactions. He noted APOC was willing to be the repository of that information. The information is not reviewed by the Board. Mr. Hughes believes there still needs to be an avenue for disclosures of any financial interests that could shade, temper or give the appearance of anything less than 100% ethical transactions.

Mr. Leonard noted AEA and AIDEA employees do have an obligation to disclose any financial interests which may present a conflict of interest. He explained the disclosure is not proactive and does not show the financial interests, but the employees have an obligation to report any conflicts of interest. If an employee has a conflict of interest, that information would be directed to Mr. Leonard or Ms. Fisher-Goad. If Mr. Leonard or Ms. Fisher-Goad have a conflict of interest, it would have to be reported to the Chair.

Ms. Haldane stated she spoke with APOC's Executive Director who advised the passage of time and change in management resulted in the request to AIDEA not to file with APOC. They recommended if the Board would like to continue this requirement, the document should be internal. Ms. Haldane reported she has spoken with some of the Deputy Directors regarding the reporting required and received varying degrees of opinions. She noted one Deputy Director feels strongly the reporting is overly invasive because it is not a statutory requirement. The Ethics Act requires all AIDEA employees to disclose any financial conflicts of interest and the information is not available for public review. Ms. Haldane commented the Board needs to decide whether the Ethics Act meets the intent of the financial disclosure and if not, the Board needs to direct staff on how to proceed.

Chair Pruhs asked for clarification on what decision the Board is being asked to make was requested. Mr. Leonard stated the Board is requested to decide whether or not the Board wants to continue gathering financial disclosures which may present a conflict of interest. If the Board chooses to continue this practice, the details of reporting and storage need to be determined.

Commissioner Bell noted the information collected via the Ethics Act is very different from the information currently being collected. She requested the current APOC form and Ethics Act forms be provided to the Board in the next packet in order for the Board to determine the appropriate level of information needed.

Ms. Haldane stated that although AIDEA's Executive Directors and Deputy Directors are not currently statutorily required to file their financial information, those positions are comparable to other executive branch agencies who are required to file. Mr. Leonard noted he could also provide information to the Board regarding whether or not other entities such as the Permanent Fund, Alaska Housing, the Railroad and the Student Corporation require filing of financial information. Chair Pruhs stated that is a good plan and this issue can be visited at the next Board meeting.

Chair Pruhs asked what are the Railroad's procedures regarding financial disclosures. Commission Bell stated the Railroad Board, Commissioners and Deputy Commissioners are required to file financial disclosures, but she does not know the procedure at the staff level.

6F. IEP Update

Mr. Leonard invited Mr. Davis to assist in providing the IEP update. He noted the negotiations with MWH are continuing regarding the financial structure and the structure of the agreements. Work on the pad and permitting is ongoing. Discussions with gas contract suppliers are ongoing to negotiate a newer contract with different terms. There is continued work with the utilities, GVEA, IGU and FNG as was shown in the two loans. Another critical area is the trucking and discussions have taken place with Carlile and FNG regarding the design of a trailer. The hope is to purchase a trailer that would increase the amount of gallons to 13,500. An agreement to work on this issue will be brought to the Board at a future meeting. MWH is working with GVEA, IGU and contacting FNG regarding storage and a fuel consortium concept.

Mr. Leonard noted the Board will need to make critical decisions during the summer regarding the capital structure of the plant and the financial structure of the distribution system with the goal of providing the lowest cost possible for the burner-tip to as many people as possible, as soon as possible.

Commissioner Bell expressed her appreciation to staff for making the Board aware of the open house next week. She relayed the open house information to the Fairbanks Chamber of Commerce and to the Alliance.

Mr. Leonard noted AIDEA has requested MWH to attend the AIDEA monthly meetings to provide updates to the Board and answer any questions.

Mr. Wilken commented regarding the feedstock negotiations and stated the cycle is 8 Bcf to 9 Bcf a day of gas as oil is produced. This project wants 9 Bcf a year, which is 1/365 of what is being handled in a year. He believes the gas to the project should be received for free. Mr. Wilken asked who and what levels of state government is at the table as Mr. Leonard is negotiating with the owners of that gas.

Mr. Leonard commented the Administration has discussed issues with potential gas suppliers. The gas this project will be drawing from is from the fuel lines. He believes there is a limit of that total gas supply that goes to Flow Station 3. Mr. Leonard requested further explanation from Mr. Hemsath and Deputy Commissioner Pawlowski to Mr. Wilken's question.

Deputy Commissioner Pawlowski stated the Administration has started to look at the way SB 138 is structured and the opportunities for the state. The Administration has made initial outreach to some of the producer parties and asked to be available as a resource and support to AIDEA moving forward in those discussions. Mr. Leonard noted AIDEA is working with Deputy Commissioner Pawlowski and the Administration as terms are discussed with potential gas suppliers.

Mr. Hemsath stated the unit owners have advised AIDEA they would not approve a tap on the main fuel gas header. If the gas is received from a line that goes to Flow Station 3, it has to be determined the flow volume will not interfere with Flow Station 3 production. This information is unknown at this point.

Mr. Wilken commented the gas this project is asking for is not a big piece of what is being handled every day. He asked for the next step in narrowing down the cost of trucking to Fairbanks. Mr. Leonard noted the next step is for MWH to start working with GVEA and IGU to create an RFP for the market regarding pricing.

6G. Executive Session - Interior Energy Project

MOTION: Commissioner Bell moved to go into Executive Session to discuss confidential status of negotiations regarding of the Interior Energy Project and to consult with legal counsel. Motion seconded by Mr. Hughes. The motion was approved.

Executive Session entered at 11:58 a.m. The Board reconvened its regular meeting at 1:32 p.m. Chair Pruhs stated everything covered in executive session was appropriate to the motion and no action was taken.

7. DIRECTOR COMMENTS

7A. Director's Status Report of AIDEA Programs and Projects

Mr. Leonard commented AIDEA continues to move forward on evaluating projects and are still working with potential mining companies for resource development projects. An oil processing facility project is being reviewed and may come before the Board at the next meeting. The loan activity reports are included in the packet. He is available to answer any questions.

Mr. Wilken asked how AIDEA is reimbursed for the work completed on the shipyard on page 2 of his report. Mr. Leonard stated those funds were a state appropriation and is a pass-through to build the facility. The facility becomes AIDEA's asset and would be paid back through the lease payments. The lease payments are 1% of gross profits for repairs and maintenance and the lease formula payment of revenue sharing when the facility makes over 7% on a three-year average. He noted there will be revenue sharing once the new Alaska class ferry is built and negotiations are occurring with the state.

Mr. Wilken asked when is the report due to the Board on the gas to liquids consultant study. Mr. Hemsath stated that will be completed at the end of the summer.

Mr. Leonard stated he may request an AIDEA Board meeting by teleconference to approve a resolution of the early work discussed with Mr. Juday. Chair Pruhs encouraged not to have a teleconference meeting because the next scheduled meeting is only three weeks away.

Ms. Nygard asked Mr. Leonard to direct her to where she can review the reports used as sources for the IEP constructions. Mr. Leonard agreed. Ms. Nygard asked what the protocol of the fees is in the terms and conditions. Mr. Leonard stated the fee is set by regulation and the size of loan. Ms. Nygard noted the application fee does not reference a regulation. She asked if a conversion loan fee is ever charged. Mr. Leonard stated there would not be on the current loans because they were designed for conversion, but on regular SETS loan participation, there are change fees. These loans are unique and are not going to be consistent with other loans because SB 23 states the Board can waive almost any regulation to make this project work.

Chair Pruhs asked if it is standard practice the investment measurement services quarterly review be brought in front of the Board. Mr. Leonard stated at the end of the year is when Mr. Michael O'Leary would present a review from Callan. Chair Pruhs asked if end of the year means the first quarter of the following year to review what happened the past year. Mr. Leonard agreed. Chair Pruhs advised the Board quarterly reports are received and there is also an annual review. Mr. Leonard stated Mr. O'Leary can come up for a review at any point at the request of the Board.

7B. The next regularly scheduled board meeting will be Thursday, April 24, 2014

8. BOARD COMMENTS

Mr. Wilken expressed his appreciation for the vigorous report on employment that was asked for a couple of years ago. He asked on the conflict of interest issue; what is the mechanism that makes Mr. Leonard; for example, have to disclose conflict of interest information and if Mr. Leonard, for example, does not disclose the information, what is the penalty. Mr. Juday stated the requirement for disclosure of a conflict of interest by every AIDEA employee is created by the Alaska Ethics Act. He noted the disclosure is to the Ethics Supervisor and no action can be taken unless there is clearance from the Ethics Supervisor and/or the Department of Law. Ms. Siverson stated she files a quarterly ethics report for the agency.

Mr. Davis noted the state also has an ethics reporting form that is different from the ethics reporting from APOC. APOC disclosures are mainly financial disclosures and the ethics disclosures are mainly potential conflicts, such as serving on a board.

Mr. Pawlowski realizes the Board is in uncharted territory with a stand-up utility like IGU where the Board is being asked to consider loans or financial incentives under SB 23. He encourages the Board going forward to support IGU to look for alternative and creative collateral mechanisms by working with the FNSB or the affected cities. Mr. Pawlowski believes this is putting AIDEA is a tricky position. Chair Pruhs agreed the passage of SB 23 put AIDEA in a tricky position.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 1:45 pm.

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