



**Alaska Industrial Development and Export Authority**  
**BOARD MEETING MINUTES**  
**Monday, August 11, 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 August 11, 2014 at 10:05 a.m. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Crystal Nygard (Public Member); Mike Pawlowski (Deputy Commissioner, Department of Revenue); and Gary Wilken (Public Member).

Members participating via teleconference: Vice Chair Russell Dick (Public Member); and Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).

**3. ROLL CALL: STAFF, PUBLIC**

AIDEA Staff present: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management (PDAM)); Michael Lamb (Deputy Director-Finance and Operations); Tom Erickson (Chief Procurement Officer); Jennifer Haldane (Human Resources Manager); Matt Narus (PDAM Project Manager); Karsten Rodvik (External Affairs Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Rick Adcock, Sarah Moist, Amy Broughton, Chris Brown, and Glenn Lindgren (sp), (MWH); Dan Britton (Fairbanks Natural Gas (FNG)); Dave Domansky (Bracewell & Giuliani, LLP); Mark Figura (Rose & Figura); Mark Gardiner (Western Financial Group); Jerry Judy (Department of Law); and Miranda Studstill (Accu-Type Depositions).

Public participating via teleconference: Larry Balasac (Air Products and Chemicals); Cory Borgeson (Golden Valley Electric Association (GVEA)); Chris Clark (HDR); Katherine Eldemar (Representative Doug Isaacson's Office); Mayor Luke Hopkins (Fairbanks North Star Borough); Jaime Loucks and Ken Rowey (MWH); Dean Reynolds (The Industrial Company (TIC)); and Gail Sorenson (Bristol Bay Native Association).

#### **4. AGENDA APPROVAL**

The agenda was approved as presented.

#### **5. PUBLIC COMMENTS (3 minutes per person)**

Ms. Eldemar, Committee Aide for the State House of Representatives Special Committee on Energy, Representative Doug Isaacson, Co-Chair, expressed her appreciation to the Board for allowing participation via teleconference and commented AIDEA is tasked with significant Interior Energy Project (IEP) responsibilities. This project must be managed with such scrutiny that the \$15 or less price per thousand cubic feet is met. Alaskans are depending on successful negotiations of terms so Alaskan gas is available for Alaskans to use at the forecasted price. Ms. Eldemar wished AIDEA the very best in negotiations and endeavors regarding the Interior Energy Project.

Mr. Pawlowski commented for the record, that the Board does not make decisions in executive session. There are confidential strategy discussions, but any contractual decisions will be made in open session by the Board.

Ms. Eldemar requested any documents presented at the meeting be made available online so they can be read as the Board is in discussion. Mr. Leonard noted the presentation by MWH was just received. Chair Pruhs noted staff will do their best to get the presentation(s) online.

Mayor Hopkins, Fairbanks North Star Borough, expressed his appreciation to AIDEA for traveling to Fairbanks to give an update on the IEP and to answer questions from the public. He hopes the Board can continue those discussions with the residents of the Interior. Mayor Hopkins expressed his concern with the project timeline and urges the Board take action to shorten the timeline. He noted his concern and residents' concerns regarding the price of gas to the meter being as close to the goal of \$15 per MMBTU as possible.

Mr. Wilken expressed his appreciation to Mayor Hopkins for his continued push on this project. Mr. Wilken assured that the Board is working as fast as they can, but are not going to hurry to a project that is not correct. Mr. Wilken commented he would rather take another year to get the project right, than spend 20 years doing it wrong.

Mayor Hopkins thanked the Board for their valued determination of the project and expressed his faith the Board will be as informed as possible in making the right decisions.

#### **6. NEW BUSINESS**

##### **6A. Eligibility Resolution No. ER14-01 AKBEV Group, LLC**

**MOTION: Mr. Pawlowski moved to approve Resolution No. ER14-01 AKBEV Group, LLC. Motion seconded by Ms. Nygard.**

Mr. Leonard requested Mr. Lamb come to the table to provide an overview and to answer any questions. Mr. Leonard said the steps that have to be taken on a conduit bond are very complicated. This current step is laying the foundation for moving forward and provides the ability to set a timeframe for the IRS of when project expenditures can be reimbursed. By approving this resolution, the Board is not saying the conduit bond will be issued or will move forward. This is a procedural step so that if the Board moves forward with the bond, this date can be referenced to include expenditures to be paid by the proceeds of the bond.

Mr. Lamb said the resolution declares the official intent, as required by the IRS, of the lookback period. This resolution also gives authorization to the Executive Director to sign the memorandum of agreement between AIDEA and the bond organization. He said nothing can move forward without coming back before the Board and this resolution provides the IRS documentation for reasonable intent of moving forward.

Chair Pruhs asked if there is road map explanation of the conduit bond process for the Board members. Mr. Lamb stated he will create such a document, if one does not already exist.

Mr. Pawlowski believes the explanation of the process for conduit bonds is important for the Board members, as well as for the public. Mr. Leonard commented the explanation could be provided on the website.

Mr. Wilken noted for the record, AKBEV Group is Alaskan Brewing Company and he would like to support their efforts and vote yes on this resolution. Mr. Wilken stated that he is an investor in the craft brewery in Fairbanks and will abstain or recuse himself if the Board believes there is a conflict of interest.

Chair Pruhs stated there was no objection from the Board and believes Mr. Wilken should be allowed to vote on the resolution.

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

## **6B. Interior Energy Project**

Mr. Leonard said MWH is present to provide an update on IEP and will be referring to the one-page document entitled, "Driving Toward Financial Close." Ms. Kemppainen said this document is now on the website.

Mr. Brown, Mr. Adcock, and Mr. Rowey of MWH gave an update on IEP highlighting recent occurrences. In maintaining the schedule for this project, it is critical to keep Kiewit moving forward with their engineering and procurement work. MWH very much desires to get into a signed concession agreement with AIDEA, which is necessary for standing in the negotiations of off-take agreements and triggers some of the core due diligence activities of the investor. Mr. Adcock expressed the desire to have the concession agreement signed by the next Board meeting.

Mr. Brown acknowledged the request from AIDEA to provide information on timing of funding commitments, development of cost estimates, and other decision points. MWH is in close discussion with AIDEA staff to provide that information and it is forthcoming.

Chair Pruhs thought the concession agreement was slated to be signed at financial close and asked if that understanding was incorrect. Mr. Adcock believes the concession agreement would be signed in the near-term, and this triggers a lot of activities that are required for financial close. The concession agreement gives MWH the mandate and the standing to negotiate off-take agreements with FNG, GVEA, IGU, and to enter into a gas supply agreement and other commercial agreements. After the concession agreement is signed, there are multiple other steps, including commercial agreements, agreement on the financial model and the pricing, the EPC contract, the operations contract, investor due diligence and investor committee approval, to get to the targeted fall financial closing. Mr. Brown advised there are conditions precedent to closing that are embodied in the concession agreement that have to be satisfied prior to closing.

Chair Pruhs asked if MWH expects any changes to the concession agreement between when it is signed and financial closing, and if changes do occur, how will they be addressed. Mr. Adcock believes the concession agreement anticipates potential changes and allows for integration into the final terms. Mr. Rowey advised all of the unresolved matters concerning the project are condition precedent and each party has to approve the matters. If no approval occurs, the condition is not fulfilled and the parties are not obligated to go forward.

Mr. Pawlowski asked if there are outcomes in the development of these condition precedents that change the financial architecture of the concession agreement, and do AIDEA and MWH have the mutual ability to either amend or expand the agreement without upsetting the concession agreement. Mr. Rowey explained there would be no need to amend the concession agreement because there are no hard-wired results or outcomes for the unresolved matters. It is simply an approval right on behalf of either party.

Mr. Brown requested Mr. Britton, of FNG, and Mr. Borgeson, of GVEA, participate in the discussion update because they have been involved in meetings regarding common issues of re-gas, storage, and the trucking components of this project. Mr. Borgeson said GVEA is very serious about working with FNG and IGU on this project. Mr. Britton said FNG is open to working together and providing support to all the parties with regard to the critical integration and coordination of the liquifaction, trucking, storage, and delivery aspects of the project.

Chair Pruhs encouraged the parties continue to work together for the benefit of the residents and users in the Interior. He expressed his appreciation to the parties for coming together and offered AIDEA's assistance in these endeavors.

Mr. Wilken requested Mr. Britton provide a status update on the storage tank and the current pipe laying. Mr. Britton said a request for rebid on the project was sent out and pricing indications were received in late July. The project is still within the economic scope, but is coming in higher than anticipated. Discussions with the bank are ongoing. The preliminary

engineering is holding strong. The final geo-technical report that supports the foundation designs for the construction has been received.

Mr. Britton reported about 15 miles of the 30 miles of scheduled distribution for this year has been completed and additional mileage will be coming on very quickly. FNG has brought on 30 to 40 seasonal staff in-house to complete distribution, as well as two Alaskan contractors who have significant experience working with Enstar. All the crews are actively working quickly and efficiently. Directional drilling is being used to the greatest extent possible to try to minimize the disruption to neighborhoods.

Mr. Brown said the indicative cost information from Kiewit was received on July 11, 2014. The validation process was performed and the intent was to have a validated number by July 18, 2014. An additional engineering step had to be performed as part of the validation with the participation of AIDEA, Kiewit, and technical representatives. The EPC costs and validated numbers are not yet ready and are anticipated to be discussed no later than the next Board meeting. This effort has pushed back the receipt of the final contract and target price information on the schedule. The anticipated closing is now going to be on or about November 21, 2014. This does not affect a change in the delivered schedule for gas, but the closing date has changed. Mr. Brown said that in order to preserve the third quarter 2016 delivery date, the schedule must be maintained. This includes continuing to obtain the long-lead items.

Regarding operations procurement, a request was received from the proposers to extend the proposal deadline by two weeks to August 15, 2014. The extension was granted. The selection process will then occur and a contract will be determined mid-September and will result in an effort to develop the final cost for operations.

Mr. Wilken requested the definition of "operations procurement." Mr. Brown explained that operations procurement is the procurement of an entity who will provide North Slope operation services on contract to the project. Mr. Wilken asked if this is an operator. Mr. Brown said yes, this is procurement of an operator.

Chair Pruhs asked if MWH sees any issues with the utilities in obtaining off-take agreements that would be commercially acceptable. Mr. Adcock stated there are currently no issues, but it is dependent upon the demand levels from each utility. The goal is to fill capacity as quickly as possible, making the plant operate more efficiently and lowering the gas prices to Fairbanks. Mr. Brown noted that in order for any off-taker to enter into a credit worthy agreement to buy gas on a take-or-pay basis, they are required to have appropriate financial backing, balance sheets, and guarantees, if needed. Mr. Adcock stated that this was a challenging issue with IGU initially, and options are being discussed to address possible collaboration among the off-takers for a creative solution.

Mr. Wilken requested more information and asked if active discussions are ongoing with IGU. Mr. Adcock noted active discussions are occurring with IGU and GVEA. The good news is IGU's off-take in the early years is relatively small at .3 BCF, which makes the issue easier to

resolve. However, IGU's growth trajectory is greater than any other utility, and if they meet that growth trajectory, their revenue flows and credit worthiness increases.

Mr. Wilken asked Mr. Leonard to what extent AIDEA is involved in the discussion regarding the credit worthiness of IGU. Mr. Leonard said AIDEA is being advised by MWH of their ongoing discussions with IGU. AIDEA is reviewing the option of assistance through capital financing, but currently AIDEA does not have the ability per statute to provide that back-up. Mr. Wilken asked who from AIDEA is responsible for this issue. Mr. Leonard said the responsible staff are Mark Davis and Nick Szymoniak.

Chair Pruhs requested the schedule contain more focused milestones for the off-take agreements between now and the final date in November, especially since the ultimate ramifications of IGU's financial viability is unknown. Mr. Adcock agreed. Mr. Brown said the slide represents a greatly simplified schedule. There are a number of intermediate milestones and he will provide that detailed information to the Board. Mr. Adcock said the term sheets will be put in place in the very near-term and a solution to this issue will be created. Chair Pruhs asked where the solution fits into the schedule. Mr. Adcock stated that technically, a solution has to be in place prior to financial close, but optimally, the solution needs to be in place in late September or early October.

Chair Pruhs requested information regarding the ramifications to the project if the economic issues are not resolved concerning IGU. He asked if more financial risk to the other utilities will drive up the return, which then drives up the cost to everybody. Mr. Adcock believes that theory is correct, but in practice, it has not been a consideration, because Mr. Adcock is confident a solution can be found to the credit worthiness of IGU. Mr. Borgeson said he has been working on this issue with the Borough Mayor and Mr. Leonard in realizing IGU will need a balance sheet to be considered a viable credit risk. Mr. Borgeson noted there is not a solution yet, but somebody has to be a back-stop to IGU's obligation.

Chair Pruhs asked if the Borough would be a logical back-stop. Mr. Borgeson believes the Borough is a logical back-stop and that some of the grant money to IGU could be used as a back-stop. He believes this is logical, but not everybody else agrees this is logical.

Mr. Pawlowski asked if the grant money was set aside as a back-stop, then that money would not be available to drive down the cost in other parts of the project. Mr. Adcock agreed. Mr. Pawlowski asked if the possibility of integration with a consortium in the off-take agreements in the early stages of deliverability is being considered. Mr. Adcock replied, at this point, the off-take business decisions are being made by the individual utilities.

Mr. Wilken requested an explanation of what the balance sheet of IGU would have to look like to be credit worthy for the .3 BCF. Mr. Lundgren stated the balance sheet would need to have approximately one million dollars in cash. Ms. Broughton noted IGU's growth projections increase to above one BCF within a couple of years and the cash amount would have to increase to approximately \$3 million.

Mr. Borgeson stated that the financial liability to the off-takers is also going to apply under the gas contracts. GVEA is in the middle and is taking that risk. This is not only an issue for the investor, but is also an issue for the gas supplier.

Ms. Nygard asked if there is an expectation that more than one operator will be considered for the operations procurement. Mr. Brown explained the current path is to select an operator based on their experience, qualifications, and inherent ability to provide fairly unique services in a unique environment. The development of the plant and the operator will work in parallel. An operator will be selected and the target price will be developed. Mr. Adcock commented there is competition for the operations procurement and there are multiple interested parties.

Chair Pruhs asked if the pricing from the operator will be transparent. Mr. Brown believes the pricing will be transparent. Mr. Adcock agreed.

Mr. Wilken requested further explanation of the provided schedule and how off-take agreements will be entered into before knowing the cost of the trucking and storage, the cost of the plant, the cost to operate the plant, and the cost of distribution. Mr. Brown explained the orange bar indicates there will be a satisfactory plan in place for the off-takers to know where their gas is going and how it will be trucked. This has a no-later-than date of the second week of November.

Mr. Wilken noted Kiewit has said they will have the feed by the end of October and asked if that is when the cost of that plant and the cost of operation will be known. Mr. Brown stated Kiewit has provided initial cost estimates and those will be validated by the end of August. Kiewit will continue to refine their costs, which will culminate in a contract price as shown on the schedule in November.

Mr. Wilken requested there be a go/no-go point in the calendar schedule, other than November 21, 2014, and a sanctioning meeting to provide the price at the meter for the person in North Pole, for example. This project is driven by offering expense at the plant and demand. If customers choose not to convert because the gas price is not enticing, the project is dead. It is better to find this out at a sanctioning meeting than to find it out when nobody shows up to the table to convert. Mr. Wilken expressed concern that the distribution cost is not shown on the provided schedule update, nor is there an all-in cost of what the price at the meter will be.

Mr. Adcock believes Mr. Wilken's rationale is completely accurate and asked Mr. Rowey to provide examples of typical projects he has worked on where the development of projects have proceeded along in a similar manner. Mr. Rowey explained the current process is unusual in one sense because of project-financing of the asset and normally the cost inputs would be known before price negotiations with off-takers occur. However, it is not unusual to run that process in parallel and off-take agreements can be signed with built-in condition precedents, including price parameters. If those price parameters were exceeded, the off-takers would then have a choice about going forward or not. Mr. Rowey noted developing a project with multiple works running in parallel is customary. Parameters are created and further negotiation does not need to occur unless those parameters are exceeded. Mr. Rowey explained this methodology is functional and works. It was adopted because of the need for this project within a short timeframe. The parties

need to have some tolerance for uncertainty and rely on the contractual parameter mechanisms. The alternative to this methodology is to set out a longer period of time.

Mr. Wilken asked when the pricing parameters will be available on the schedule. Mr. Brown said the intent of the process was that the costs of all the parameters through storage and re-gas would be known by early August. There have been a couple of events that have delayed that by some weeks, including the additional effort into validating the EPC contract price and the new options presented by the utilities cooperating more closely. The clarified cost ranges are anticipated and intended to be established no later than August 25, 2014, the next regular Board meeting, and sooner if responsibly possible.

#### **6C. Executive Session: Interior Energy Project**

**MOTION: Ms. Nygard moved to go into Executive Session to discuss confidential information related to the Interior Energy Project. Motion seconded by Mr. Pawlowski. The motion was approved.**

The Board entered Executive Session at 11:34 a.m. The Board reconvened its regular meeting at 1:51 p.m.

Chair Pruhs stated that the Board had not taken any formal action on the matters discussed while in Executive Session.

#### **7. DIRECTOR COMMENTS**

The next regularly scheduled AIDEA board meeting will be Mon. August 25, 2014. Mr. Leonard noted, for the record, the next regularly scheduled AIDEA board meeting was changed from Tuesday, August 26, 2014, to Monday, August 25, 2014, at 10:00 a.m.

#### **8. BOARD COMMENTS**

Chair Pruhs expressed his appreciation to MWH for their presentation and to Mr. Britton and Mr. Borgeson for working together on the consortium endeavor. Chair Pruhs noted he is looking forward to the concession agreement. He requested Mr. Leonard keep the Board informed of any changes. Mr. Leonard agreed.

#### **9. ADJOURNMENT**

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



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