



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority (AIDEA)

From: Tom Boutin
CEO/Executive Director

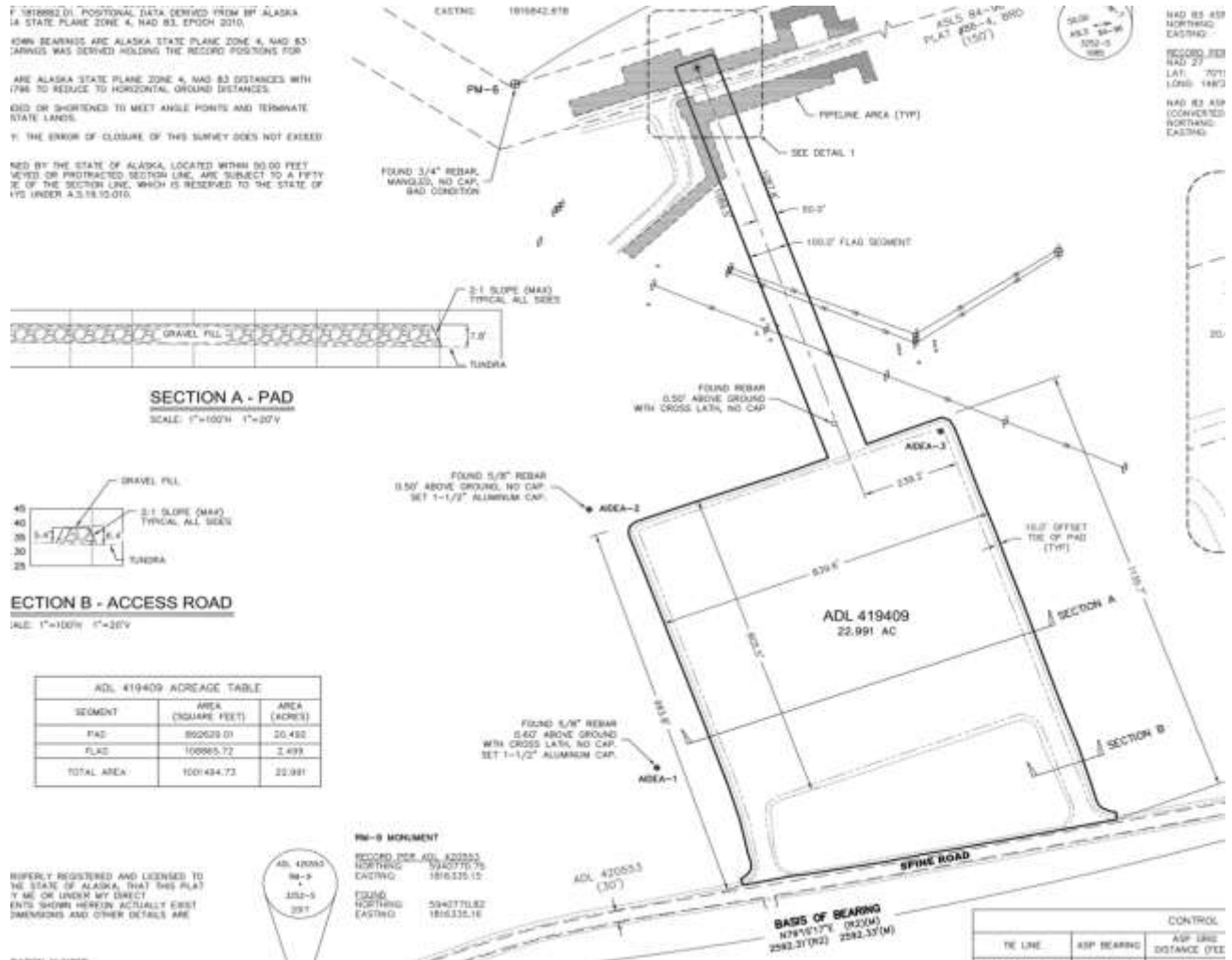
Date: June 26, 2019

Subject: AS 44.88.172 – North Slope Pad (NSP)
Resolution No. G19-13

REFERRED POSITIONAL DATA DERIVED FROM BY ALASKA STATE PLANE ZONE 4, NAD 83, EPOCH 2010. JOHN BEARINGS ARE ALASKA STATE PLANE ZONE 4, NAD 83. DIMENSIONS WERE DERIVED HOLDING THE RECORD POSITIONS FOR ARE ALASKA STATE PLANE ZONE 4, NAD 83 DISTANCES WITH 1796 TO REDUCE TO HORIZONTAL GROUND DISTANCES. SID OR SHORTENED TO MEET ANGLE POINTS AND TERMINATE STATE LANDS.

Y. THE ERROR OF CLOSURE OF THIS SURVEY DOES NOT EXCEED

RESERVED BY THE STATE OF ALASKA, LOCATED WITHIN 300.00 FEET SEWER OR PROTECTED SECTION LINE. ARE SUBJECT TO A FIFTY FEET OF THE SECTION LINE, WHICH IS RESERVED TO THE STATE OF ALASKA UNDER A.S. 18.10.010.



PROFESSOR REGISTERED AND LICENSED TO THE STATE OF ALASKA THAT THIS PLAN IS ON UNDEVELOPED SWIFT DIMENSIONS SHOW HEREIN ACTUALLY EXIST DIMENSIONS AND OTHER DETAILS ARE



CONTROL	
TR. LINE	ASP BEARING DISTANCE (FEET)

PROPOSAL AND PURPOSE OF BOARD RESOLUTION

AIDEA staff is requesting Board approval to:

1. Establish the NSP as a development project financing under AS 44.88.172;
2. Allow AIDEA to execute the Entry Authorization with DNR;
3. Pay DNR the Gravel Fee of \$531,750; and
4. Pay DNR the initial annual lease fee of \$104,000.

PROJECT DESCRIPTION

The NSP is a 22.991 acre land parcel located on the north side of Spine Road, approximately 4.5 miles northwest of the Deadhorse Airport and 1.7 miles southeast of Pump Station 1. It is industrial land owned by the State of Alaska under the Alaska Department of Natural Resources (DNR). The main area is roughly 840 feet by 1,060 feet improved with an in-place gravel pad (15.45 acres). There is a “flag” extension roughly 100 feet by 1,088 feet (2.5 acres) extending to a tie-in valve on the Endecott Pipeline. Zoning is within the Resource Development District, North Slope Borough.

PROJECT DEVELOPMENT

DNR’s lease of the NSP was originally given to Spectrum Alaska LLC under the Right-of-Way Leasing Act. In 2014, AIDEA purchased Spectrum Alaska LLC as a part of the Interior Energy Project and thereby took control of the property. Once AIDEA’s purchase of Spectrum was completed, DNR issued a replacement lease directly to AIDEA, naming AIDEA as the lessee. The replacement lease was also issued under the Right-of-Way Leasing Act.

Over 2014, AIDEA constructed the Pad on the site for a cost of approximately \$6 million, using mostly state capital budget appropriation money designated for the Interior Energy Project. The Pad was intended to be the site for the liquefied natural gas (LNG) production plant that would supply gas to Fairbanks and the Fairbanks North Star Borough (FNSB). This plan was subsequently abandoned due to unacceptable costs in favor of a decision to source the gas from the Cook Inlet area and to expand the Titan LNG facilities.

AIDEA’s capital expenditure for the NSP comprised of:

Land Investment	\$1,800,000	(Acquisition of Spectrum LLC)
Procured Services	3,209,128	(Design, Contractor, RSAs)
Gravel In-Place	922,306	
Miscellaneous	<u>26,711</u>	
TOTAL	\$5,958,145	

The NSP is currently on AIDEA’s balance sheet at a book value of \$5,252,998 (as of 3/31/2019).

AGREEMENT WITH IGU

The Sale and Purchase Agreement between AIDEA and IGU for the sale of Pentex was concluded in June 13, 2018. The closing of the transaction was conditioned on DNR approving the transfer of the lease for the NSP to IGU. The condition was not able to be satisfied at closing. In order for the agreed transfer to take place, DNR required that AIDEA apply for a new general lease of the NSP under the Alaska Land Act.

AIDEA and IGU subsequently closed the Pentex sale subject to a Letter Agreement in which:

- i) IGU agreed to waive the condition, and
- ii) AIDEA agreed, on behalf of IGU, to negotiate with DNR terms that would permit IGU to recover the Interior Energy Project funds used to improve the leasehold up to \$6,000,000, less the amount of fees DNR originally discounted for the gravel used for those improvements (\$531,750).

Initial terms for the new lease were jointly appealed by AIDEA and IGU. DNR provided its Final Finding and Decision (FFD) in December 2018, agreeing to issue a new 30 year general purpose lease with the following conditions:

- i) Increase in annual lease payment to \$104,000;
- ii) Payment of \$531,750 discount provided to AIDEA for gravel improvements (Gravel Fee); and
- iii) Sublease fee equal to 25% of payments received by AIDEA per new regulations [11 AAC 05.230(d)(6)]

In consultation with IGU, AIDEA staff filed an appeal of the December FFD with Commissioner Feige to remove requirements ii) and iii) above. Subsequently, IGU passed Resolution #2019-01 dated January 22, 2019 resolving that:

“...the IGU does not want and will not accept transfer of the lease for the North Slope pad to the IGU; that the IGU will not pay any expenses incurred by AIDEA in discussions to transfer the lease for the North Slope pad to IGU; and further, the IGU shall cease any and all discussions with AIDEA about transfer of this lease to the IGU at a future date.”

On May 28, 2019 AIDEA staff withdrew the appeal without prejudice which removed the stay on the FFD. We now have 60 days from that date to conclude discussions with DNR and execute the Entry Authorization.

FINANCE PLAN

AIDEA’s lease payment to DNR for the NSP runs through July 31, 2019.

AIDEA has been in negotiation with the Prudhoe Bay Chemical Co. (PBC) since early 2018 for the use of the NSP in the development of a small-scale methanol plant providing services to the North Slope. AIDEA’s board has previously reviewed this proposed development and Board

Resolution No. G18-03 (April 2018) approved staff entering into a long-term sublease of a portion of the NSP with PBC. The sublease was not executed pending DNR’s FFD and AIDEA’s appeal.

PBC is now in advanced discussions with a third party for potential investment and construction of the proposed methanol facility. PBC and this third party have expressed a strong interest to take control of the entirety of the NSP site and sub-lease or, through assignment, lease directly with DNR. Provided a final investment decision is taken within the next three months, active on-site development of the methanol facility could take place as early as fall 2019.

By executing the Entry Authorization with DNR, AIDEA is in the best position to facilitate the development on the NSP by quickly resolving the outstanding requirements of the FFD. Subsequently, AIDEA may assign the Entry Authorization or enter into a sub-lease lease with a development company like PBC, provided DNR is in agreement with the development plan for the site. The fair value of AIDEA’s capital expenditure and the costs incurred by AIDEA in fulfilling DNR’s requirements will be reimbursed by the development company through sub-lease payments or an assignment/transfer fee to be agreed and defined within a transfer agreement amongst all parties.

AIDEA staff has been approached by two other parties expressing an interest in the full NSP. PBC is the most advanced project for a near term development on the NSP.

In accordance with AS 44.88.173, AIDEA confirms the following:

AS 44.88.173	CRITERIA	DESCRIPTION
(a)	The finance plan must include an estimate of the total project cost	In 2014: \$5,958,145 In 2019: \$531,750 Gravel Fee plus \$104,000 Initial Annual lease payment
(a)	A description of the sources of money that will be used to finance the total cost of the project	AIDEA’s Revolving Fund
(a)	An estimate of the operational costs of the completed project and source of money that is to be used to pay operating costs	Operating costs are estimated at \$150,000 per year composed of the annual lease fee, RSAs with Legal and DNR, and internal staff time
(b)	The Authority shall give preference to a project that does not require financial assistance from the state	No financial assistance from the State will be required for the project

ECONOMIC DEVELOPMENT/JOB CREATION

As provided in the board memo accompanying Resolution No. G18-03, the PBC methanol project is consistent with AIDEA's mission and also is supportive of the State's interest in expanding energy production on the North Slope. The initial direct economic benefits to the region are approximately 40 construction and 12 permanent operating jobs being created, as well as annual property tax contributions to the North Slope Borough. However, the key benefits to Alaska's commerce base and economy are the following:

1. Replacing the import of over 30,000 gallons per day of methanol by creating a downstream, value-added product to the Oil & Gas sector in the North Slope;
2. Improving the efficiency and lowering the cost of production for Alaska's Oil producers;
3. Utilizing Alaska's constrained gas resources which provides incremental royalties to the State;
4. By producing methanol at the point of use, this reduces use and maintenance obligations for the State's transportation corridors
5. Investment in an independent service provider on the North Slope able to expand into other value-added services including locally generated cleaner fuels (DME) and industrial gases.

RECOMMENDATION

AIDEA staff recommends approval to establish the NSP as a development project financing under AS 44.88.172 and to provide AIDEA's Executive Director with the authority to execute the Entry Authorization with DNR. Any final terms with a third party for sub-lease or assignment of the NSP under the new lease will remain subject to board approval.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G19-13

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY APPROVING THE USE OF THE
NORTH SLOPE PAD AS A DEVELOPMENT FINANCE PROJECT
AND AUTHORIZING THE EXPENDITURE OF FUNDS FOR THE
PROJECT**

WHEREAS, the Alaska State Legislature, in Section 11 of Chapter 26 of the 2013 Session Laws of Alaska (HCS CSSB 23 (FIN)), authorized the Alaska Industrial Development and Export Authority (the “Authority”) to pursue the Interior Energy Project (IEP);

WHEREAS, the Alaska State Legislature, in Section 26 of Chapter 16 of the 2013 Session Laws of Alaska (HCS CSSB 18 (FIN)), appropriated \$57.5 million to the Authority to advance the use of North Slope natural gas for a liquefied natural gas production and distribution system (“State appropriation”);

WHEREAS, the Authority acquired a lease under the Right-of-Way Leasing Act (AS 38.35) for a tract of North Slope land owned by the State of Alaska Department of Natural Resources (DNR), and the Authority improved the land by constructing a gravel pad and driveways on it thereby creating the "North Slope Pad", with the improvements being substantially paid for from the State appropriation;

WHEREAS, the Authority originally planned to develop a liquefied natural gas (LNG) production plant on the North Slope Pad to supply Interior Alaska as a part of the IEP, but the Authority abandoned the plan and thereafter entered into contracts with the Interior Gas Utility (IGU) with respect to pursuing the goals of the IEP;

WHEREAS, the Board of Directors of IGU, in Resolution # 2019-01, adopted January 22, 2019, determined that IGU did not want the North Slope Pad from the Authority, would not pay

for any of the Authority's expenses with respect to the North Slope Pad, and would cease all further discussions with the Authority regarding the transfer of the North Slope Pad;

WHEREAS, to facilitate the use of the North Slope Pad for purposes other than those permitted under the Right-of-Way Leasing Act, the Authority applied to DNR for a new lease for the North Slope Pad under the Alaska Land Act (AS 38.05), which new lease is intended to supersede the Authority's exiting lease;

WHEREAS, on December 12, 2018, DNR issued a Final Finding and Decision in case file ADL 421055 that approved of the issuance of a new 30-year lease to the Authority for the North Slope Pad under the Alaska Land Act, subject to certain conditions;

WHEREAS, two of the conditions DNR imposed for the issuance of a new lease to the Authority were: (1) the Authority had to make a payment of \$531,750 to DNR as compensation for the commercial value of the gravel used to construct the North Slope Pad, and (2) the Authority had to pay DNR 25% of any sublease rents the Authority received from the North Slope Pad;

WHEREAS, the Authority is required to declare a dividend each year in favor of the State of Alaska, but the Board has the ability to set the amount of the dividend within broad statutory parameters and the Board may consider the overall financial condition of the Authority in doing so, including factoring in the payments the Authority had to make to DNR with respect to the North Slope Pad;

WHEREAS, Prudhoe Bay Chemical LLC (PBC), working in conjunction with a third-party investor, is proposing to develop a methanol production facility on the North Slope and PBC may desire to utilize the North Slope Pad as the plant location;

WHEREAS, the Authority has entered into discussions with PBC about the possibility of assigning or subleasing the North Slope Pad for the methanol production facility;

WHEREAS, the North Slope Pad can be used for a facility that will produce or process substances from natural resources and the North Slope Pad can therefore qualify as a "development project" under AS 44.88.900(6) and (13)(a) that the Authority can finance under AS 44.88.172;

WHEREAS, the staff of the Authority prepared a finance plan for the North Slope Pad consistent with AS 44.88.173 and the finance plan was previously provided to the Board;

WHEREAS, in compliance with applicable statutes and regulations, the Authority has requested that the North Slope Borough review and comment on the proposal to finalize a new lease with DNR and the possible development of PBC's facility on the North Slope Pad; and

WHEREAS, the use of the North Slope Pad for the PBC facility or any other development project is in furtherance of the Authority's statutory purposes of promoting, developing and advancing the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The North Slope Pad shall be a development finance project of the Authority under AS 44.88.172. The Authority shall proceed with obtaining a new lease from DNR for the North Slope Pad. The finance plan for the North Slope Pad previously submitted to the Board is approved.

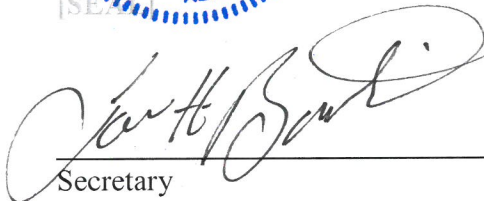
Section 2. The Authority is authorized to pay DNR \$531,570 from the Economic Development Account of the Revolving Fund for the additional gravel payment due on the North Slope Pad. The Authority is also authorize to pay DNR from the Economic Development Account the annual rent and other charges that are due under the new lease for the North Slope Pad.


Section 3. The Executive Director is authorized to sign a new lease with DNR for the North Slope Pad. The Executive Director is further authorized to sign all other documents and take all other actions necessary or useful in fulfilling the intent of this Resolution; provided, however, that the Executive Director must obtain subsequent Board approval of the final terms and conditions for the transfer or subleasing of the North Slope Pad to PBC or another project developer.

Section 4. At the time the Executive Director makes a recommendation to the Board about the dividend to be paid to the State of Alaska for FY2019, the Executive Director shall include, as a part of the calculations presented, a statement of the amounts the Authority paid to DNR with respect to the new lease for the North Slope Pad.

Dated at Anchorage, Alaska, this 26th day of June 2019.




Secretary


Chair