



Interior Gas Utility

Board of Directors Board Meeting

December 5, 2017

6:00PM

FNSB Assembly Chambers

Juanita Helms Administrative Center

907 Terminal Street, Fairbanks, Alaska

Minutes

A Meeting of the Board of Directors of the Interior Gas Utility was held Tuesday, December 5, 2017, at the FNSB Assembly Chambers, Fairbanks, Alaska. IGU Board Chairman, Mike Meeks, presiding.

Other Staff in attendance were: Jomo Stewart (IGU General Manager), David Prusak (Stantec), Zane Wilson (CSG – IGU Attorney), Robin Brena (BBC-telephonic), Brown Thornton (Stantec/NewGen - telephonic),

I. Call to Order

- Roll call

Board Members Present:

Mike Meeks
Jack Wilbur
Frank Abegg
Bill Butler
Steve Haagenson
Pamela Throop
Bob Shefchik

- Approval of Agenda and consent Agenda

Director Wilbur moved to adopt the Agenda, Director Butler seconded. The Agenda was adopted.

- Public Comment – *limited to three minutes*

Tim Cerny – President of Fountainhead, discussed the process of establishing and expanding the gas utilities and community's agreement in that effort. The State agreed to support the community, and appropriated funds, to move the gas project forward. The State has kept its end of the bargain; the community should too. Community has been discussing this since he arrived here in 1980. He is an owner of 19 buildings in

Fairbanks that are on gas and enjoys the benefits, even when not the cheapest fuel source. Will it be perfect? No, but no system is. Suggests moving this forward and urges the IGU to support this effort.

Nick Ferree – Fairbanksian and GM of an equipment dealership. Urges the IGU to move forward. Noted length of discussion on project, cost of space heating to residents and businesses (expensive) and chance project can help that. Recognizes there is uncertainty but believes the project is the best chance his generation has to address the issue, an opportunity that may never come again, and that we have to advance it now.

Jimmy Fox – Testified to support the project last week and continues to be supportive of this process moving forward. Did research on past economic growth and future projections. Gave statistics comparing Interior and Lower 48: Between 1970 and 2015, Fairbanks has experienced 117% growth in population, 147% growth in employment and 220% income growth. Stated this represents the transition from a pessimistic post-flood outlook to a good reality. Did energy research, also. Looking at IEA energy forecast: noted natural gas is projected to have strong growth both nationally and internationally to 2050. As communities look at being efficient, people again embrace this. Natural gas is not a “silver bullet” but this is a good effort and part of the mix of effort to meet community energy and clean air challenges.

Jim Whitaker – Stated it is decision time and urges the IGU to close the deal. If you do not, the future is questionable regarding cost of energy and air quality. Project does not solve the problems but is a good start. Costs can be lowered. Confident the project can succeed. Noted there is a big risk in losing these funds if you chose not to act and again urged the IGU to close the deal.

Roger Burgarff – Remember in the 50’s when natural gas was discovered and the headlines that gas was coming to Fairbanks. It is not here yet but sure hoping. A pipeline is not coming at this time, this is a good opportunity to move forward. This evening the Board gets to decide. Directors have worked hard to overcome obstacles and although not perfect, have come to good terms to get this ball rolling. I support the IGU moving forward with this opportunity. There are some reservation but combining these utilities will make the project more feasible. And hopefully improve Air Quality.

Joyce Potter – Concerned about AQ and active in improving it in the community. Hoped for years that bringing in natural gas would help in this effort. However, in watching the proceeding thus far, has more questions than answers: Why was an elected person not appointed immediately to the Board? If the gas becomes too expensive, how could it improve AQ? Finally, who is really standing to benefit? I am highly motivated to see improvement but concerned about the process and implementation.

Bernie Carl – Thank you Directors and the time you have put in. I am speaking in favor of the Resolution although does not like the price for Pentex. We should have cheap energy in this community. Don’t like the deal but you must pass this resolution, take it and proceed.

Patrice Lee – Thoughts to share: First, the legislature should not threaten to take their funds back - feels this is disrespectful. Second, agrees with Bernie that we needed gas 30 years ago. Has spoken to property owners hoping for more gas so they may develop it. But the project depends on conversions. Knows business will convert but what about residents? They could have benefited more if AIDEA had backed off from the price for Pentex; knows \$25M more funds (less spent on Pentex) could greatly aid in conversions. Noted finding assistance for conversions is important and stated her hopes that the other Directors will aide in the effort of finding/creating it.

Martha Rich – Exciting - Fairbanks wants cleaner air. But is opposed to gas - It is going forward in slow increments and we need radical change. With climate change, CO2 increases are running higher than ever. The last 3 years have been the warmest in the world, ever. Experts warn that, in the next 10 years, the biggest climate refugee crisis is predicted. Scientists have given warning to the public - immediate action must be taken. Fort Hood Texas, Burlington, VT and Kodiak Island are off fossil fuel, why cannot Fairbanks?

Jim Dodson – Thanks for your service. Knows this has taken a lot of time and effort to reach this decision point. Believes the right answer is yes – the project needs to move forward. Discussed the 1958 article saying the gas is right around the corner for Fairbanks. This is not a perfect project but, as it is today, it represents a great step forward to make it happen and a good foundation to build toward the future. If you do not move forward with this project, you will lose the funds you worked so hard to bring to the community. Urged the Board vote “yes” and move this forward.

Karl Golhke – Thanked to the Board. Have addressed the Board several times at many meetings and glad to support the project. Asked if not now, when? Discussed the legislative support to move this project forward and stated we cannot afford to let this project go. I support the project and encourage the Board to move forward.

Karl Hougf – Testified before and is leery about the deal. Wants to see the light at the end of the tunnel but still can't. I would not want to make this deal, seems if it was a good deal, then why could not AIDEA hold onto it longer until it is a good deal so that if it goes poorly they have the risk. Is concerned we may not have strong enough gas supply (demand) in the future to pay back the deb, one way or another. Anchorage has had good energy prices for 40 years. Why we are not getting this same deal? Feels we are being pushed into a corner. Hopes we are successful but not confident it will be.

Liz Gregg – Asked if there is a dwelling with 1000 sf and costs \$200/ month to heat, if converted to gas would it be cheaper because it is more efficient? If so, how much will the savings be? How much is it going to cost to convert? For people that are at or near the poverty level, this is a big concern. Attended the previous meetings and learned a lot.

Merrick Pierce – Long interested in the topic and supported the creation of IGU and HB 105. The IGU is charged with reduce heating bills and improve air quality. Referenced December 5 GM Memo and cost: Feels the cost for natural gas is higher than fuel oil. Costs are important to homeowners and the research regarding conversion rates appears flawed. He discussed PM 2.5: it will not be lowered.

Together, this is a failure to meet the IEP goals. Says we need to comply with HB 105. Director Throop asked him about propane and he responded he felt it could provide the solution as a cheaper alternative and not as vulnerable to failure as natural gas. Feels it is a lower risk in future if a pipeline were to come because there would be a lower capital cost to put in propane than natural gas. Thinks we can leverage our Air Quality: Feels we can ask Congress to assist in conversions to address air quality. Feels we can get access to other grant funds (private foundation) but only if we have a credible plan.

Jack Hebert – Appreciate all testimony tonight. His solution is not to use energy (energy conservation and efficiency). He trusts the Directors and although would like to see people use less, and promote programs that encourage efficiency, he supports the Board in moving forward. We are at a point to move this forward and recommends the Board move this forward.

Shawn McGuire – Concerned about the history of AIDEA and their reputation with Healy Clean Coal. They did not perform well at Healy and it feels like we are in a similar situation. Healy is a black mark on the public process. Pentex assets are over prices and is junk. AIDEA said we need to keep going with this because they have too much money invested in the project. Because they have a bad history, the plant is old, and everything is overpriced including trucking, no one will convert if it is the same price as oil. Not a good idea to trust AIDEA.

Doug Issacson – Was Mayor of North Pole when IGU was formed and aide in that formation. Was in the legislature when the funding was developed to support the project and aided in getting that funding. Old predictions were that oil was headed to \$100/ barrel for 2016. That did not happen but it is moving up in price. Today, this may not be cheapest commodity but I encourage the Board to move forward - so we will be ready for the future, as prices will go up. We need to be ready for tomorrow. This helps us be ready for tomorrow. Please move forward.

Mike Craft – Christmas show at Wood River Elementary, the kids are important and if he could wave a wand to not have PM 2.5 effect their lives, would not everyone do the same. Reminds us who we are going to impact by this decision. This may not be the best project but if we do not address AQ, we will be impacting them. Recommends to act aggressively to deal with wood burning homes. Concerned about the Parks Highway and asks consideration in dealing with trucking.

Joan Franz – Been to several meetings to understand the project better. Observation is the price is too high to impact AQ. If conversions costs are too high, you will not attract new customers. Access to natural gas will be limited and predictions of conversions are unrealistic. Asked about what happens if there is a spill and who is responsible to clean it up. The Borough cannot take that risk. Encourage the Board to vote no because not many residents can convert to do this and it is not a risk we should be taking.

Mayor Brice Ward – There is an opportunity here and there are some good things in the project deal. It may not be perfect but we should be able to work with it. Discussed conversions and asked that the Board not to overlook new construction: there is an

opportunity in North Pole with all the construction and additional customers which will help pay for this effort. Encouraged the IGU to vote for this. Has heard from commercial actors that lack of gas has limited North Pole to some extent. There is room for improvement but supports forward movement on the project.

Gene Therriault (AIDEA) – From the public policy side, Board members, you are representing thousands of people in the community, not just those providing testimony. With regards to a rush to judgment, the MOU was signed last January and negotiations have been going on before and after that. There has been a lot of information out there for the public, it is not a rush to judgment. Gas appliances are 5 to 10 % more efficient than alternatives. Newer heating systems can convert at a lower price than \$6000 to \$10,000, with just a swap out of parts of the furnace. Not all need a replacement. With regards to unfairly jumping over propane, when AIDEA requested proposals developing an energy source for the IEP, in the proposal process, only 1 of 13 received was for propane and was dismissed because it was incomplete. The evaluation team included an IGU Board member.

Mayor Jim Matherly – Was on city council when IGU was formed. It is time for a leap of faith. The project is not perfect but this has been vetted, analyzed and researched. This is the best time to strike the iron of this deal before it slips away for the community. This is the best way to help the most people. This can be tweaked as you go, it can be made better, but you need to start now. We need to look to the future and, to me, that future starts starts tonight with a yes vote.

II. New Business

- Board Memo 2017-02: Recommendation for IGU to enter Agreements to finance acquisition of Pentex Alaska, LLC., from the Alaska Industrial Development & Export Authority and construction of necessary Interior Energy Project natural gas liquefaction, transportation, storage, regasification and distribution infrastructure.

Mr. Stewart discussed the materials: Of the two packets that went out, the first was administrative. Part B, however, is the decision documents. The only new material is the Board Memo that has the GM recommendation; the other documents in support of it have been before the Board prior and have changed little. The Disclosures were sent to the Board. The Resolution was put before the Board in June, and Board action put it on hold on July 5th of this year.

BM 2017-02 is basically a review document for what the Board has seen prior, culminating in a recommendation to move forward on the agreements via approval of the Resolution.

Regarding the project summary, the timeline started in 2006 with an Energy Task Force. From that process several outcomes came such as a renewable energy project, an energy rebate program and increase natural gas to the community. This was a statewide effort as well.

The goals of the IEP were also part of the recommendation in the BM, including the purchase of Pentex. For the utility integration process, the IGU will replace AIDEA as the owner. To advance the project, it includes the building of LNG storage(s), LNG production train(s), new LNG trailers for delivery, peak shaving facilities as needed and gas main distribution networks. Reviewed funds provided by AIDEA for this deal and the terms to pay them back.

The Bonds will be determined by the market place. Reviewed demand deferral allowances and how they are integrated into the loan documents for payment of the loans. Noted a net present value analysis has been performed based on a 4% discount rate: for the \$125M SETS loan, NPV is about \$38 M.

Discussed that at the conversion rate of 35%, which is less than the loan document rate of 50%, the projected rate to the meter is the equivalent of \$2.35/ gallon. Discussed the AQ reductions that may be seen and noted the system certainly is a tool to address PM 2.5.

Noted Due Diligence for assets was completed and reviewed a variety of areas. Products of this effort were provided to the Board in September. The distribution system is operating according to code, and being and being competently maintained by trained operators. LNG storage has two sites. Their systems are satisfactory while a successor facility is being constructed. The LNG production in Pt. MacKenzie does not have an N+1 reliability but, having operated since 1997, is sound to serve while bringing a new facility on line. The short-term improvements to the existing facilities are built into the modeling for action within the first two years. The legal review of the corporation, contracts, subsidiaries, and other components have been reviewed and shared with the Board. The identified environmental contamination is an area IGU is looking to be covered by existing protections that AIDEA has been afforded from the previous owner and may possibly be extended moving forward.

Overall the systems and utility of Pentex is sound. Risks identified are costs, against which AIDEA expenses have been capped; IGU has committed to a defined SOW but, as changes occur or opportunities developed, that SOW may be modified. With conversions and gas demand, risk are major issues. These have been worked on since 2014 as IGU began working on conversion opportunities to aid customers in the community along with the working with the legislative officials for further assistance to support these efforts in a variety of programs. That work will continue.

Finally, IGU was worked to protect FNSB from risk and the current agreement does offer this protection. However, the FNSB continues to provide support with legal, purchasing, GIS and other services. They also provide a \$7.5 M Line of Credit to the IGU should it be needed to meet short term financial obligations.

Work will still continue on risk mitigation as the project advances and as they are identified.

Questions:

Director Abegg – Personally is disappointed in AIDEA. Feels the conditions in the MOU did not find it into the agreement; no long-term gas supply, for example. Feels there is not back up energy supply. Feels the business is a struggling business. Feels Pentex management worked well with what they had but it is limited.

As a point of order, Chair Meeks asked that this discussion be held until the resolution is moved.

III. Unfinished Business

- Director Wilbur moved to Approve Resolution 2017-06R “A Resolution authorizing the General Manager of the Interior Gas Utility to execute a Purchase & Sales and Finance Agreements with the Alaska Industrial Development and Export Authority for the Acquisition of Pentex.”, seconded by Director Butler, and without objection the Board discussed:

Director Abegg continue: The value of Pentex is what it is, member equity seems less than AIDEA wants IGU to pay for and wants these funds back immediately. This limits potential for Phase 2 and 3 expansion as they’ll be financed with revenue bonds - revenues which are down today (cited hospital not taking gas). Where is GVEA, they are not here because they feel the cost is too high. He feels the cost is too high and the plan spends too much to “fixing” FNG. Appears we will have to wait 10 years before we are in a financial position to expand into Phases 2 and 3. Feels AIDEA has not helped us get things in place or in a timely manner. Why does the decision have to be made today? Feels negotiations dragged on, with AIDEA not providing things in a timely manner, and forced IGU to have to make a decision today up against deadline. Would feel more comfortable with a clearer revenue picture - if large users like GVEA and the Hospital were present stating they’d contract for supply under longer-term (10 year) contracts.

Director Haagenon: Imagine are going on a road trip to Seattle, and there is a pothole in the road: Do you hit the breaks or hold the wheel and steer around it? Because if you hit the breaks every time you’ll never get there. We need creativity to address problems and how to navigate around them. Referencing professional background asks, how can we keep the lights on and cost down? Gas cost down and gas flowing? Hopes to explore options to optimize the system for cost, security, reliability, and potential partners and resources including Siemens or propane. When it gets cold, how can we best protect the community? Notes all the goals of the IEP and IGU are not fully fulfilled under plan but not utterly missed, either. Notes they are in play and asks how can we navigate a plan to help the project move forward.

Director Wilbur: Thanked the community to come out. Believes it time to take action. A lot of time and good thought has gone into the plan. Believes this project will work for us. It’s a good deal for our community. Maybe not the deal we hoped for but a good deal; not a bad one. The Financing package includes grants – that’s a free a gift. The SETS terms are an even bigger gift. The community has a huge amount to gain and much more to lose if we do not take advantage now. Success of our community is rooted in this project. Feels we have community support that will help steer around those potholes. Conversions is a big challenge but believes there is assistance out there and it will be forthcoming. Notes actors (EPA, State) will force community to deal with air quality problems but believes they will come with financial help to do so. Not the plan, project or package dreamed but, coming with lots of good work and strong community support, will be successful. He will support this resolution.

Director Throop: Thank everyone for being here. Got involved because she is concerned for the community. However, is aligned with Director Abegg. Want the community to have this project but do not like the terms under which we are receiving it at all. Believes

we are paying too much for the purchased utility; the Net Present Value of \$38M is still too high to pay for Pentex, with due diligence highlighting work needed to secure and make safe some of the assets. Conversions: Have heard from a number of people it will take \$12,000 to convert their home. \$12,000 amortized at 2% over 10 years over will add \$11/mcf to the cost of fuel, almost doubling the total cost of gas. Has heard the hope for future help from federal or state government but doesn't make personal financial decisions based on "hope". Discussed MOU and feels taking out long-term gas supply hurts the project. Regarding scope of work, feels AIDEA has designed the project as it is not designed as it would have been had IGU done so. Does not believe we have or have had the level of autonomy we should. Does not feel the financial package is a gift: Anchorage has received benefits and our terms do not makes up for what we lost out on in the past. Concerned about PM 2.5, this has come to the forefront of my thinking. Referenced a recently released large study linking it to colon and thyroid cancer and other ailments. Notes these effects are more acute for children. Will work hard on the PM 2.5 issue. Wants Governor Walker to fulfill his promise of delivering \$15/mcf to the community. Have been giving this a great deal of thought and is still deciding.

Shefchik: We all gravitate to the areas we understand best; my background is numbers and how the deal comes together. IGU is buying Pentex but, in the Financing Agreement, it will pay zero. For debt, it will take in \$33M of debt (\$18M to close the deal, the difference between purchase price and the grant, and \$15M of assumed Pentex SETS loan debt). So, the community will own a utility that has a \$46M book value for for \$33M, where the first payment on that \$33M likely won't occur until 2038. There isn't a businessman in the room who wouldn't take that deal in a heartbeat. The transaction also has refinancing of IGU debt - \$29M borrowed to put pipe in the ground in North Pole and to put together this project - with the first payment coming due in 2038. Further build out will be totally in IGU control moving forward, with \$63M in low cost financing available along with the ability to bond. When the deal closes, the combined utility will have a value of assets that will exceed the value of debt, with a debt to equity ratio of 13/87 or so - a little high on debt for a municipal utility but not unreasonable. Not being able to build out Phases 2 and 3 is not the fault of AIDEA or the Governor or IGU, but the economics of oil going from \$100/barrel to \$40/barrel and the change in timing that reduced difference in fuel prices creates. Looking through the wind shield, is the deal before us today one that allows IGU to buy a utility, operate one that generates cash (when AIDEA purchased Pentex it had \$1.5 M in the bank. It has \$5M on the books this year after operating under the stressed economic factors of the last several years.) Need to focus on the deal before us today. The IGU will own these assets and it will be the work of the community to advance conversions. There is an opportunity to have both natural gas and propane as you cannot serve all areas. Today the IGU has a \$29M loan due December 31, 2017. So, this is the time to choose: To take the utility and advance it in the way we feel is best for the community, or say no thanks. Before us we have utility we can buy but, due to terms, defer demand risk into the financing package. In terms of both how it's structured and how it works, it's a good deal for the community. There is a ton of work ahead to improve and optimize the project and finances but, on balance, our community will be better to do this than not.

Meeks: On the negotiating team and wants to set the record straight on the long-term gas contract: Because of expected price, IGU asked not to be locked into a long-term

contract. IGU also wanted to avoid take-or-pay, knowing it might create a price penalty. AIDEA did exactly what we asked for and even better: it got a 3 year contract, with no take-or-pay, with a slightly reduced price. Residents on gas will benefit. Let Doyon find gas, let that pipeline move forward, let Houston explore options, look at propane opportunities and see what are the possibilities are in the next 3 years. So, no, no long-term contract but, instead, opportunities. There are risks associated with the project but managing risk is our job. There are risks associated with owning the utility but there are risks in doing nothing, too. A “yes” tonight is not a mutually exclusive decision regarding other concepts. Instead, it’s an acknowledgement we have a plan, and will start moving forward, but, subject to proof and data, can modify course. This may not work but I’d rather us be known as a group that tried and failed than a group that failed to try. This project can work: 35% conversions in ten years is conservative and doable - natural attrition of oil boilers. We must act now and seize the opportunity in front of us; if lose this opportunity, it’s gone.

Mr. Stewart said that, due to an oversight on current resolution, there was an error. An amended was advanced to include a Section three (amendment distributed):

Section 3) This authorization further requires the General Manager to bring a Final Investment Decision (FID) recommendation to the Board at least 14 days prior to close. The FID recommendation shall outline: the status of the Conditions Precedent of the PSA and whether or not they have been satisfied; any occurrences of Material Adverse Effect; and any additional information necessary to support the recommended action. A vote of the IGU Board will be required to authorize the General Manager to execute the final purchase closing documents.

Mr. Stewart additionally suggested another modification with a reference to disclosure documents inserting “status of the Disclosure Schedules and their acceptability” in the second sentence.

In discussion, Director Butler felt the new added phrase was unnecessary as it was a management function.

Procedural discussion ensued.

Director Shefchik moved to amend Resolution 2017-06R adding Section 3;
In the NOW, THEREFORE BE IT RESOLVED BY THE IGU BOARD OF DIRECTORS AS FOLLOWS section;

Section 3) This authorization further requires the General Manager to bring a Final Investment Decision (FID) recommendation to the Board at least 14 days prior to close. The FID recommendation shall outline: the status of the Conditions Precedent of the PSA and whether or not they have been satisfied; status of the Disclosure Schedules and their acceptability; any occurrences of Material Adverse Effect; and any additional information necessary to support the recommended action. A vote of the IGU Board will be required to authorize the General Manager to execute the final purchase closing documents.

The amendment was seconded by Director Haagenson.

In discussion of the Amendment, Director Butler feels it is unnecessary. Director Wilbur feels Section 3 is in conflict with Section 1. Mr. Stewart explained his concern and how the amendment addressed it. Director Wilbur asked if we are voting on the PSA and FA, what else is being acted upon and those will not change which was confirmed. Mr. Stewart explained the two-gate process that must be gone through to close. Director Throop pointed out the Conditions Precedence and disclosures may bring out additional issues that may make it such that we would not move forward on the deal. Attorney Wilson confirmed this.

Voting on the Amendment:

Director Haagenson	yes
Director Butler	yes
Director Throop	yes
Director Wilbur	yes
Director Shefchik	yes
Director Abegg	yes
Chair Meeks	yes
Motion carries 7 - 0	

Voting on the Amended Resolution:

Director Haagenson	yes
Director Butler	yes
Director Throop	no
Director Wilbur	yes
Director Shefchik	yes
Director Abegg	no
Chair Meeks	yes
Motion carries 5 - 2	

- Exit Strategy by December 31, 2017, should Resolution 2017-06R be voted down. Dropped due to lack of continuing necessity.

III. Reports*

- General Manager
- Stantec consulting Services, Inc.
- Monthly Status Reports

IV. Other Business

- Next Agenda
 - i. Special Meeting next Tuesday, December 12 at 4 PM at IGU Offices about a large LNG Storage tank and approval of a contract.

- ii. The Work Session on December 19th, asking what topics may be, possibly integration and audit presentation, likely will be a Special Board meeting to accept the audit.

V. Director Comments

Wilbur happy to be proceeding with the project.

VI. Adjournment

Director Butler moved to adjourn at 8:35 PM. This was seconded by Director Haagenson and without objection, the meeting Adjourned.