



Interior Gas Utility

Board of Directors Special Board Meeting

May 29, 2018

4:00PM

100 Cushman Street, Ste. 501, Fairbanks, Alaska

DRAFT Minutes

A Special Meeting of the Board of Directors of the Interior Gas Utility was held Tuesday, May 29, 2018, at the IGU, Fairbanks, Alaska. IGU Board Chairman, Pam Throop, presiding.

Others in attendance were: Jomo Stewart (IGU General Manager), David Prusak (Stantec), Rene Broker (CSG – IGU Attorney), Dan Britton (FNG), Gene Therriault (AIDEA - telephonic), Jim Dodson (FEDC), Gary Wilkin (AIDEA Board), Mike Craft (Public), Mayor Brice Ward (City of North Pole), Mayor Jim Matherly (City of Fairbanks), Mindy O’Neill (Labor Union), Bruce Robson (Stantec – telephonic), Brown Thornton (NewGen – telephonic), Karl Hough (public), Sean McGuire (public), Alici Mural (public), Liz Greig (public), Robin Brena (BBC- telephonic), Richard Theilmann (public), Suzanne Rich (public).

I. Call to Order

- Roll call

Board Members Present:

Pamela Throop
Jack Wilbur
Frank Abegg
Bill Butler
Steve Haagenson
Patrice Lee
Mike Meeks

- Approval of Agenda and Consent Agenda

Mr. Stewart brought to the Boards attention the fact that he had included North Pole Storage Land Purchase to the Agenda but, it not having been publicly noticed, it should stricken from the Agenda, update to provided either in Director comments or the next meeting. Chair Throop said she would speak to it under her comments.

Director Lee moved to adopt the Agenda, Director Abegg seconded. The Agenda was adopted.

- Public Comment

- Shawn McGuire – expressed concern about the funds spent to move forward with gas and not including alternative energy. Feels this is important. There is a need to also include looking at climate change.
- Ms. Liz Greig – related this decision to child birth and wished the Board the best in raising the child.
- Mayor Jim Matherly – first wanted to thank the Board for their serving on the Board no matter how they decide to go. Expressed excitement because it has been coming for a long time, and now is a time for action. Expressed optimism for moving this favorably forward. Encourage the Board to vote yes.
- Ms. Alici Mural – wonder how much education is being done for the public, particularly related to the health of the community. Considering alternative energy sources is important.
- Ms. Suzanne Rich – all for renewable energy, feels we need to make changes for the community. Feels there is a lot of money being spent on gas and we need to change the focus away from fossil fuel. Grew up in Kansas and was there when natural gas came, it was a big deal.
- Mr. Luke Hopkins former FNSB Mayor – feels fortunate to be here today to move this project forward with funding in place. Understands the discussions about renewable energy but gas is much cleaner than other fossil fuels. Feels natural gas allows for clean burning energy in the short term while supporting renewable efforts for the future. Encouraged the Board to vote to support this effort to move forward
- Mayor Brice Ward – after 5 years it is an important day. North Pole is impacted either way that the project moves forward. Understands there are some contingency ideas (conditions in Letter Agreement) going forward and that's fine as long as they do not put the project in jeopardy. Looks forward to connecting to gas in the near term.
- Mr. Richard Theilmann – after listening of the Siemens discussion, he feels we should encourage this private funding source being spent in Fairbanks. Encourage the Board do the right thing.
- Mr. Robert Shields – there are financial options out there that have been available for over a decade. Feels the option that the Board has before them will not solve the problem. Feels the Board has the opportunity look at alternatives and encourages the Board to do so.
- Mr. Mike Craft – has not told his grandchildren they will have to pay off the debt. Feels this will not fix the air problem, and the debt is not worth it as it will not solve problems. Are we putting the community at risk? Feels the Board did not look hard enough at other options such as propane.
- Mr. Gene Therriault – as the AIDEA IEP team leader he wants to make the Board aware of the contingent requirement (Letter Agreement) that AIDEA will be asked to act upon to allow for closing. This was sent to AIDEA last Friday and outlined the letter (attached in the Board packet). Explained the process that has been gone through to this point, and what was outlined in the MOU, PSA and FA, and expressed AIDEA's position that the conditions in the Letter Agreement are not consistent with those requirements.
 - Director Wilbur asked about how IGU may explore further the Siemens plan in the future if they did not move forward with the contingent offer. Mr. Therriault said that the changes would require concurrence by both Boards as outlined in the agreement from

December of 2017. It can be brought forward but was not part of a contingent offer.

- Director Lee discussed a 12 page document received last Thursday evening from AIDEA, and asked how AIDEA may bring changes forward. Mr. Therriault explained he did not anticipate AIDEA would be bringing changes forward.
- Chair Throop asked who is speaking for AIDEA, Mr. Therriault said it is the Board of AIDEA and tells the staff how to direct negotiations. Chair Throop said she looks at Siemens bringing their numbers and assumption to true them up compared to other alternatives.
- Regarding NS Pad section of Letter Agreement, Mr. Therriault noted existing language, calling for DNR entering into Letter Agreement, will likely be problematic and will definitely pose a challenge.
- Mr. Therriault explained that it appears in the Letter Agreement that Siemens has a vote at the table and, as a vendor, that would be inappropriate.

II. New Business

- Removed from agenda – North Pole Storage Land Purchase

III. Unfinished Business

- Board Information Memorandum 2018-04: Final Investment Decision on PSA/FA

Mr. Stewart reviewed the BIM in the packet and the process gone through to make the recommendation. A draft of the BIM was included in the meeting packets for the past two weeks. Reference the financial proforma (starting on page 35 of the packet) and stepped through that and what it means to the project. Also reviewed the due diligence and condition precedent (the remaining item not completed related to the transfer of the North Slope Pad from AIDEA to IGU from the ADNR).

Mr. Stewart recommended that the Board approve the Resolution 2018-04R.

- PSA/FA Conditions Precedent – Approve as Satisfied, Waive or Waived with Conditions

As waiver of Condition Precedent is inclusive to the resolution, Director Lee moved to approved Resolution 2018-04R: Authorization for the General Manager to Execute Final Closing Documents relative to the Pentex Purchase and IEP Financing.” This was Seconded by Director Meeks and without further objections was so moved:

Discussion:

Director Meeks said looking at page 61 (Item 2.) of the packet about the \$6M and if it is not recovered with approximately \$500K going back to ADNR for the gravel, what will happen? Chair Throop said if for example if \$3M were recovered that amount would be given to IGU less the \$500K for the gravel. Mr. Brena was asked to clarify as the language appeared confusing, he explained how the cost of the gravel will go

back to the ADNR. Board members provided alternative language that the attorney could use to clarify. The intention is to cover the cost of the gravel going back to the ADNR. Director Wilbur said we cannot bind the ADNR to anything, but only request AIDEA on how to work to address the issue, suggesting a rewrite of the paragraph to not suggest a binding of ADNR. Mr. Brena suggested the language not be soften too much: it needs to provide clear direction and a clear statement as to the IGU goal. He feels it should not be too difficult to accomplish what is desired from each of the three parties and what AIDEA should do to resolve the issue. Mr. Brena said this can be waived for closing, and still be eligible to get the funds back when this is resolved. Various language was discussed and considered for clarifying the issue.

Director Butler moved to amend the agreement to include language presented by Ms. Broker in item (2): “2. AIDEA, on behalf of ~~and~~ IGU, will ~~enter into a letter agreement negotiate~~ with DNR ~~terms on mutually agreeable terms~~, which permits IGU to recover the Interior Energy Program’s project funds used to improve the ROW Lease up to ~~(approximately \$6,000,000,)~~ less the amount of fees DNR originally discounted for the gravel used for those improvements (approximately \$530,000). Seconded by Director Haagenson and accepted by unanimous affirmative voted.

Director Meeks discussed section 8.8.2 (page 61 of packet) and concern “timely report back” is too open ended. Director Haagenson indicated the AIDEA representative to be involved with this is out until mid-June. The discussion that followed was focused on trying to bring the assumption truing up process quickly to conclusion and not allowing it to be dragged out. Mr. Brena commented on the section of 8.8 impacting language: rather than leaving AIDEA in a position where it may veto change, it creates a situation where concurrence from both IGU and AIDEA is required and a process where consensus will be achieved. Mr. Brena then discussed the issue of Siemens having undue status and offered an avenue to mitigate the concern: deletion of Siemens as a named party on the small group. Mr. Stewart offered the alternative of, rather than limiting official participants in section 8.8.2, specifying that it is IGU and AIDEA’s recommendations that matter in sections 8.8.3 and 8.8.4. Director Wilbur suggested amending 8.8.2 to clarify how the voting status of the group is limited to AIDEA and IGU, with a purely participatory role for Siemens.

Director Haagenson moved to modify 8.8.3 and 8.8.4

“8.8.3 In the event the **IGU and AIDEA representatives on the** technical and financial modeling group advance a common recommendation, AIDEA and IGU agree to advance the common recommendation to the degree doing so is in the best interests of IGU’s future ratepayers and is consistent with their legal or fiduciary duties.

8.8.4 In the event the **IGU and AIDEA representatives on the** technical and financial modeling group do not advance a common recommendation, AIDEA and IGU agree (1) each representative will advance separate...”

seconded by Director Meeks. The amendment was approved by unanimous voted in the affirmative.

Director Meeks moved to amend the last sentence of section 8.8.4.

“...a mutually agreeable independent consultant to review and report on the recommendations, ~~by each of the representatives of the technical and financial modeling group~~ and make an independent recommendation to the IGU and AIDEA boards.”

This was seconded by Director Haagenson and the amendment was approved by unanimous voted in the affirmative

Director Lee asked what will happen if AIDEA does not sign the agreement and it was stated that it will come back to the IGU Board. Hence AIDEA would be deciding not to close on the agreement, and a time extension on the loans would be required or IGU may be in danger of losing financing and AIDEA of losing a buyer.

A five minute recess was called at 6:07 PM

- Resolution 2018-04R: Authorization for the General Manager to Execute Final Closing Documents relative to Pentex Purchase (PSA) and IEP Financing (FA)

Discussion

Director Wilbur moved to delete paragraph 3 of the letter agreement (Page 60), this failed for lack of a second

Director Meeks, moved to amend Resolution 2018-04R the last paragraph on page 59 of the packet, line 56 to 58, as follows:

WHEREAS, the IGU Board agrees to waive the condition precedent concerning the North Slope Pad ~~in exchange for the satisfaction of the conditions set forth~~ in the attached Letter Agreement, *that lays out a path forward to evaluate options.*

Second by Director Haagenson. In discussion, Director Meeks stated his desired avoid the appearance of a line in the sand and to leave minor latitude.

Vote:

Lee	No
Butler	No
Abegg	No
Haagenson	No
Meeks	Yes
Wilbur	No
Throop	No

Motion fails 1-6

Director Wilbur moved to add a section 3 to the Resolves of Resolution 2018-04R to include language “or other mutually acceptable agreement.”

Seconded by director Meeks.

Vote

Lee	No
Butler	No
Abegg	No

Haagenson	Yes
Meeks	Yes
Wilbur	Yes
Throop	No

Motion fails 3-4

Chair Throop asked if there were any further amendments to be offered. There being none, the Board discussed the main Motion:

Director Abegg: Stated that most of the project funds were being used to really support the City of Fairbanks area and not the entire service territory. The IGU will be responsible for all the service area customers. With the risks identified in the LNG assets during due diligence and because of the utility's lack of backup LNG supply, he is not ready to support accepting the PSA/FA.

Director Haagenson discussed what it was like when oil prices were so high and how the community could be served. We need to look at this not just as FNG but rather as the whole service territory – upon purchase, there are no “FNG” or “IGU” areas, just IGU. At the end of the day, what is best thing for the community: that this come into local control and IGU be involved in determining how the money is spent.

Director Wilbur agreed with Director Haagenson. He discussed how funds are accounted for within the model. In particular that, because of the state financing and the way the deal is structured, capital cost risk is not a huge risk as it has a muted effect on the cost of gas to the customer. Discussed the proforma and the capital available.

Director Meeks said that the time to act is now and he will support the Resolution.

Director Butler said there are four people (Directors) who are still involved today who have been involved all along. He discussed the governmental subsidies involved and proposed that there is not another way to make a project like this happen. He noted that all be things involve taking some level of a leap of faith; this is pretty big one but he's prepared to make it/.

Director Lee discussed debt-to-customer ratio and this is higher than most across the USA. Asked how this will be covered moving forward. Feels if IGU does not have the power of the purse, we may lose our vote (control) to AIDEA.

Director Abegg talked about the Governor's commitment to bring \$15/ mcf gas to the meter. The proforma today does not provide for \$15/mcf gas.

Director Haagenson discussed debt for utilities. Particularly public utilities and the effect to build out. It is much higher than private utilities. The Board will have to take risk, all utilities do.

Director Wilbur discussed the impact of the deferral and what that looks like per customer.

Chair Throop stated she got involved three years ago. Fairbanks has not enjoyed the benefits that the Anchorage has and we deserve to. Feels too much has been paid for

Pentex but that is not negotiable now. This is a beginning for air quality; this, perhaps, will not address it as fast as some would like but will help. Feels she must vote yes on this issue, as we have too much to lose if we vote no. IGU can run this best if we keep control.

Vote:

Lee	No
Butler	Yes
Abegg	No
Haagenson	Yes
Meeks	Yes
Wilbur	Yes
Throop	Yes

Motion passes 5 - 2

Resolution 2018-05R: Extension of IGU Ethics and Procurement Policies to Pentex:
Director Wilbur moved to approve the resolution, seconded by Director Meeks.

Char Throop asked if there was discussion. There being none, the vote was called

Lee	Yes
Butler	Yes
Abegg	Yes
Haagenson	Yes
Meeks	Yes
Wilbur	Yes
Throop	Yes

Motion passes 7 - 0

IV. Other Business

- Next Agenda
 - i. North Pole Storage Land Purchase
 - ii. Transition Plan component discussion

V. Director Comments

Chair Throop discussed reaching an agreement on the land purchase for storage. It is before the GVEA Board this evening.

Director Meeks will not be at the next meeting.

Director Wilbur discussed the letter from Mark Gardiner about Siemens. Said it should be looked at as insightful and not necessarily negatively. Reminded Board that Zane Wilson had previously cautioned the Board regarding procurement path.

Director Haagenson thanked all for getting IGU to this point.

VI. Adjournment

Director Meeks moved to adjourn at 7:17 PM. This was seconded by Director Butler
And, without objection, the meeting Adjourned.