



Interior Gas Utility

Board of Directors Board Meeting

November 7, 2017

4:00PM

100 Cushman Street, Ste. 501, Fairbanks, Alaska

Minutes

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

Others in attendance were: Jomo Stewart (IGU General Manager), David Prusak (Stantec-telephonic), Zane Wilson (CSG – IGU Attorney), Robin Brena (BBC-telephonic), Gene Therriault (AIDEA), Patrice Lee, Jeanne Olson, Mary Nordale, Joan Franz, Isaac Sinonelli, James Kowalsky, Karl Hough, Gary Newman, Liz, Greig, Anna Plager, and Nancy Kuhn

I. Call to Order

- Roll call

Board Members Present:

Mike Meeks
Jack Wilbur - excused
Frank Abegg
Bill Butler
Steve Haagenson
Pamela Throop

- Approval of Agenda and consent Agenda

Director Throop moved to adopt the Agenda, Director Abegg seconded. Without objection, the Agenda was adopted.

- Public Comment – *limited to three minutes*

Jeanne Olson- Stated she has been following the gas project for several years and expressed concern that the discussion is not enough about air quality. Also stated she would like to see gas mains placed with water mains extended as part of the Flint Hills water project. Desires to see the audio files on line. Lastly concerned about AIDEA is not the best deal. People are expecting gas to their stove and not to just the home.

Gene Therriault – Discussed the context of testimony given by proponents of a Houston-based LNG project to the AIDEA Board at its meeting of October 26, focusing mainly on representatives of East West Pacific Consulting, LLC and

Knikatnu, Inc. Mr. Therriault sought to refute what AIDEA believes to have been the implication AIDEA had been unreceptive to a Houston-based project configuration – deferring to the standard AIDEA process for project in-take, vetting and decision. Mr. Therriault stated he has asked the project proponents to submit information suitable for head-to-head comparison with the existing project configuration.

Mary Nordale – Stated her concern about bonds issued to finance the project will not receive market acceptance. Wanted to know if the system is being planned for industry or residential customers. Rates need to be set such that bonds can be paid off and retired. Air Quality has other means to be used to answer those issues. In follow-up questioning by the Board, Mrs. Nordale noted her substantial public service (former-Commissioner of Revenue, State Bond Committee, AIDEA Board, Municipal Bond Bank and Alaska Permanent Fund Board) directly related State finance and bonding evidencing her background to address these issues. She stated her understanding that Bond ratings are very important on a statewide basis and, recognizing reductions in rating could compromise the entire state, urged caution and care on the part of the IGU Board.

Joan Franz – Commented about cleaning up the air and her interest in the project. She stated her feeling that people do not know the project is to clean up the air. Stated concern about how many people will have access to natural gas and further concern the price may be too high. Mrs. Franz stated her uncertainty about the costs and admitted she needs to learn more about the project. Hopes the Board will take their time to make the decision. She expresses a concern that only industry would have access to the gas. Director Meeks asked where the information came from; and she stated she thought it was from a news story.

Karl Hough – Stated he wants to understand more about the project. Concerned about a bad deal for the FNSB residents being transferred from the state to the Borough. He also stated that it seems like the price is too high and that more money may have to be put in to make the project successful. Also concerned it may not address the issue of Air Quality.

Jim Kowalsky – Concerned the project will cost too much money and does not feel natural gas will solve the air quality issue. He stated he lives too far out of the population center (core Fairbanks or North Pole) to receive the benefit and feels most folks will not benefit.

Nancy Kuhn – Noted she has a very energy efficient home (made the upfront investment at time of construction to ensure lower future utility costs), and regularly speaks to her neighbors about the benefits of energy efficiency and encourages them to upgrade their homes likewise. She stated that her neighbors do not believe natural gas is something they can support and feel it is a joke. Does not feel people can afford to convert and this is not a good deal.

Liz Grieg – Stated most people do not understand why the IGU would want to move forward with this project. She said she understands from past experience gas can be a good thing but feels most people, like herself, do not understand the issues.

Concerned that a number of people in the area are living in poverty and, therefore, may not receive the benefits of gas.

II. Unfinished Business (4:48 PM)

- Purchase Sales / Finance Agreement Presentation to Purchase Pentex
 - Mr. Stewart stated that it had been his intent to focus on the issue at hand – review of IGU revisions requested of AIDEA for inclusion in the Financing Agreement – but felt that, with so many guests present, and all who testified stating their lack of understanding regarding the project and proposals, he would like to briefly review same for the Directors. To answer some of the questions raised during public comment. Mr. Stewart addressed first the numbers of structures in the FNSB, the amount of pipe currently installed, the number of structures in front of which pipe is now running and the proportion of total community market that represents. In follow-up, Chair Meeks asked why we cannot hook up people today. Mr. Stewart explained that, currently, there is not enough LNG storage to support taking on firm customers. Once more storage is built in Fairbanks, and storage installed out to North Pole, more homes can be served. He went on to explain the capacity bottleneck then becomes the production of LNG at Pt. McKenzie and the need to expand that plant (Titan 2). Chair Meeks then asked how it would be paid for. Mr. Stewart explained the Finance Agreement that allows for a 50 (to 55) year loan, 15 years deferred at 0% interest and then at 0.25% interest rate for 35 years. Chair Meeks asked what happens if IGU does not meet conversions at 15 years and Mr. Stewart explained the Agreements allow for an additional 5 year deferral, with interest-only payments during that time. Chair Meeks asked about conversions. Mr. Stewart responded that we are two years out from the time when, with additional storage and LNG capacity, residential conversions occur. The Cardno Study, which he explained is available on the IGU website, found a high degree of interest to convert \$4/gallon for fuel oil vs natural gas at a \$2/gallon equivalent there was an 80% residential interest. At \$2.75/ gallon fuel oil, there was a 50% residential and 100% commercial interest. At the current estimated rates of gas supply, the difference between the two fuels being very low, there is still an interest – 35% for residential, 70% for commercial. He stated that, for the IGU's part, on-bill pay opportunities and other low-cost-to-utility / increased convenience-to- customer program options are being looked at today.
 - Director Haagensohn wanted to discuss the \$60M payment for Pentex. Mr. Stewart explained the process AIDEA went through for the SB 23 sources and uses of funds and how the financing terms in the Agreements are meant to accommodate the costs of Pentex purchase and infrastructure construction. He explained that, to start, service would start out to customers in North Pole where gas mains are placed along with the locations where FNG mains serve. If there are conversions, such that it can be demonstrated bonds can be paid, Phase 2 and 3 would follow. Mr. Stewart explained that the deferral will help in allowing the project be viable while waiting for conversions to occur.
 - Director Butler called a point of order that we must stick to the agenda, stating a public meeting would be more appropriate to go through all the issues.
 - Chair Meeks agreed and asked Mr. Stewart to address the PSA/ FA.

- Mr. Stewart discussed his comments made to the AIDEA Board when they discussed the agreements. He explained that there are some items in the agreement that made it such that IGU could not sign it. Since the agreement would need to be amended, Mr. Stewart reviewed a redline version of items sent to AIDEA November 3rd, for the Directors to be considered as points that should be included in an amended FA. The demand deferral language is one, transaction costs needing further definition, and covenant terms being among the suggested changes.
- Mr. Stewart referred to Sections 8.1 about promises (covenants) by the IGU. He discussed the problematic nature of AIDEA's proposed language regarding rate setting and maintenance of the proper debt service coverage ratio, and that management has recommended taking the USDA Rural Utility Service (RUS) approach toward debt service.
- Director Throop asked what is meant by Net Operating Income, and was referred to Section 1.35 of the document that provides that definition. Mr. Brena explained it is based on net cash flows.
- Mr. Stewart talked about the areas of conflict that involve the role of FNSB and IGU's proposed solutions.
- In the gas supply portion of the agreement, he noted AIDEA's desire to have the Gas Contract condition precedent removed from the document, whereas the IGU Board wants it to remain. Mr. Stewart stated the IGU has offered some suggested language to reach compromise on the issue.
- Mr. Stewart again discussed default and cures. At Section 11.6.1, Mr. Stewart explained modifications that show it applying to the most blatant default items. This being done to avoid a 3% default interest rate triggered by immaterial or subjective causes.
- Under demand deferral, Mr. Stewart explained about a change to the additional 5 year deferral that came in just prior to the AIDEA Board meeting – the demand deferral eroding on a one-to-one basis the 35yr amortization period. IGU has offered language to bring it back into alignment with IGU understanding and previous agreements.
- Mr. Stewart noted additional offerings relate to the concept of “materiality”, with Messrs Brena and Wilson indicating the importance of retaining the word “material” in the document.
- Chair Meeks explained that he has had contact with AIDEA's Chair and Executive Director. Modifications will be forthcoming tomorrow, and he plans to attend a meeting with them next week.
- Mr. Stewart discussed having a tentative date of November 17 in FNSB chambers. However, since the document may not be finalized until sometime next week, opined it may be best to postpone the meeting to November 21 as part of the work session.
- Director Throop asked what the urgency was to make a decision on November 28. Mr. Stewart explained the bonding process should not be delayed, this along with the IGU budget and the costs that affect it.
- Director Butler suggested we also have a public meeting in North Pole area and Board agreed.
- Director Abegg asked if these documents would be made available to the public and Mr. Stewart noted they were and would continue to be.

- In response to numerous questions regarding project scope, Mr. Stewart discussed Section 8.8 and how the project scope can be described and changed.

III. New Business (6:17 PM)

- Short Term Fiscal Path
 - Acceptance of the Agreement & Exit Strategy
 - - Mr. Stewart, referring to the Approved Seven-Month Budget, provided information describing higher than anticipated legal and financial fees but noted that, with shuffling line items, this can address the shortfall.
 - He also provided a 12 month budget to the board for discussion and consideration.
 - Together, these budgets were meant to show how things will look for IGU if it does and do not move forward in purchasing Pentex.
 - Regarding a decision not to advance: There is an asset amount available for FY 18 of approximately \$712,000. Taking out the Approved Budget and a due diligence amount of approximately \$328,000, it is estimated IGU should have funds available to perform the wind down necessary to turn the information over to AIDEA.
 - Regarding a decision to advance: If IGU agrees to purchase Pentex, the operating budget will be very close to the end of available, unobligated funds by May 31 of FY 18 and, likely, will fall short. There is a risk that, in performing due diligence on disclosures, there will not be enough funds to cover the work – a situation similar to the June/July timeframe when exposure to unresolved expenses necessitated work stoppage.

Recessed for 15 minutes at 6:40 PM

Director Abegg moved to enter into Executive Session. Director Butler seconded and without objection the Board moved into Executive Session at 6:56 PM.

Move to go into executive session to discuss matters that if discussed in public would violate IGU's non-disclosure agreements and/or matters involving ongoing negotiations which if immediately known would clearly have an adverse effect on IGU finances. This includes IGU Finances, negotiation of contracts for natural gas supply, Financial Modeling, Purchase Sales and Financing Agreements for Pentex, and IGU/FNG Integration. Included to participate with the Board are Jomo Stewart, Robin Brena and David Prusak.

At 7:43 PM Mr. Stewart, Mr. Brena and Mr. Prusak were excused.

Director Butler moved to leave the Executive Session and continue the Board meeting, Director Haagenson seconded at 8:03 PM. Without objection, the board so moved.

III. Reports*

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

IV. Other Business

- Next Agenda

V. Director Comments

No comment.

VI. Adjournment

Director Butler moved to adjourn at 8:04 PM. This was seconded by Director Haagenon and without objection, the meeting Adjourned.