



# Interior Gas Utility

Board of Directors Meeting  
October 2, 2018 @ 4:00PM  
100 Cushman Street, Suite 512, Fairbanks, Alaska

## Minutes

A Meeting of the Board of Directors of the Interior Gas Utility was held Tuesday, October 2, 2018 at 100 Cushman Street, Suite 512, Fairbanks, Alaska. IGU Board Chairman, Pamela Throop, presiding.

Others in attendance were: Dan Britton (IGU/FNG), David Prusak (Stantec), Zane Wilson (CSG – IGU Attorney), Laura Steel (IGU), Gene Therriault (AIDEA, telephonic), and..... Sign-in Sheet is attached.

### I. **Call to Order @ 4:04 pm**

- Roll Call

#### Board Members:

Madam Chair, Pamela Throop  
Vice Chair Jack Wilbur, excused  
Director Bill Butler  
Director Steve Haagenson  
Director Patrice Lee  
Director Mike Meeks  
Director Gary Wilken

- Approval of Agenda and Consent Agenda

Moved by Director Lee to remove the August financial report from the Consent Agenda.

Seconded by Director Butler...No Objection.

Agenda and Consent Agenda with Minutes from September 18, 2018 and September 25, 2018 was approved with August financial report removed from the Consent Agenda.

August financial report:

Discussion: Director Lee wanted the entire board to go through the report. Director Meeks wanted the details to go to the committee, not all 7 on the Board trying to get into the details, and asked what specifically Director Lee wanted to point out. Director Lee stated there were questions at the finance committee meeting and pointed out the money spent on legal fees, and the reconciliation on Tria Road, page 40. Dan explained the legal fees go up because we meet every week and request legal counsel attend, and the consultations with legal counsel add to the cost.

Moved by Director Butler to approve August financial report as presented. Seconded by Director Lee.

Approved as presented.

- Public Comment – *limited to three minutes*

No Public Comment.

## **II. New Business**

- Bonding
  - Financial Advisor Presentations

Director Wilken asked how we selected these companies. Madam Chair stated that Rene Broker contacted the FNSB financial people and these names came from them. There may be a conflict of interest as PFM also does financial advising for AIDEA, so Mark Gardner is part of that group.

### PFM Group Consulting, Director's Russ Branson and Fred Eoff (telephonically)

PFM is headquartered in Philadelphia, with offices on the West Coast. #1 nationally rated financial advising firm for 24 years. They have lots of Alaska experience.

Madam Chair asked what the process will be, what they would look at for us and how would that assist us in getting where we need to go, when we get there.

Looking at financial forecast (specifically the income statement and proforma determination of funds avail for debt service) in starting, they would be making sure of what the basis is for all of the projections of capacity, rates, and revenues, and assumptions relative to operating costs going forward. Typically they do a timeline, bring bond counsel into the picture regarding legal perspective, and ultimately get into the market with underwriting team. Big stumbling blocks will be what the rate is and how many we have converted by the time we want to sell bonds; higher cost of debt is more difficult. They would walk through projections and really dissect our capacities for binding, determined by the certainty of our revenue source.

Director Lee asked what criteria categories are used to determine IGU's bondability?

Ultimate driver is projection of funds available for debt service, which is identified in the proforma, and the need to factor a debt service coverage.

Director Lee asked if either is more important than the other, debt to customer ratio or debt to asset ratio? Are those things we need to consider?

Debt coverage is more of a factor than debt to asset because, with investors, you have the cash flow to service the debt.

Director Wilken asked 1. To supply a sheet of paper regarding your corporate structure, 2. Name who you would expect your Alaska team leader to be on this project, and any subordinates under that person, provide their names and resumes, primarily Alaska experience, 3. Name your Muni contact and Alaska Railroad contact names so we may call them for

references, (Yes, they deal with Devin Mitchell as their primary contact and Chip is the PFM Financial Advisor with the Muni Bond Bank) and 4. Provide a schedule once we get the project going. They may be able to provide a more generic schedule on how the bond process will work.

Director Haagenson asked; with the tax credit up to \$20 million, (\$15 million per project maximum), \$21 million in bondability, is there a decision point when you look at bonds and then look at alternates like governmental loans? Yes, you accomplish this financing without a predetermined solution, and they will make sure they understand everything involved, and at some point make a recommendation of our options for financing this project.

Madam Chair asked, if we need bonding more than once, would they look at that and would the comprehension of what we need be included in what they look at? Overall as a part of finance, they expect to work through a couple of the financings in the time it takes to get it done.

#### **Five minute break...Reconvened at 5:12 pm.**

##### Northwest Municipal Advisors, Alan Dashen (telephonically)

He has done a lot of background reading on IGU, lots of issues to address. Twenty years ago he started Northwest Municipal Advisors under a different name.

What he found to be most valuable was financial forecast done last May showing what the debt looks like in 20 years. It showed \$125 million from the AK SETS program, and \$150 million from bonding of some type. The report assumed debt service coverage of 1.20 times...that would never work, the market just wouldn't accept it. He proposed taking a look for the next 2-4 weeks at different alternatives and reporting back to us. There may be federal funding available because of environmental issues. They looked at documents this afternoon and have done a few in this scope, but it can be a risk.

Director Haagenson commented that the State of Alaska is going to back the moral obligation bonds. Alan thought that was a big plus. He would look at USDA and others...they have very low interest rates, and tend to be a bureaucracy. He wants to talk more to the State of Alaska regarding moral obligation bonds.

Director Lee asked what the criteria is to determine bondability. Alan stated it depends on how quickly people will hook up to gas, and how much the coverage factor is if after a few bad years there is still money to pay it back.

Director Wilken asked 1. Please provide description of your company and general corporate structure, (Alan believes he sent a brochure to Pam Throop) 2. Who would be assigned to this Alaska project; please provide their resume and experience with Alaska, 3. Please provide references you have dealt with so we can get a sense of Northwest Municipal Advisors, and 4. I think the schedule starts with us getting the project started.

Alan is in a 3 person firm, and 2 have done work in AK and can provide AK work references. They would want to walk with us from the beginning to end, and want to propose for X number of dollars they will look at this and come back with recommendations in maybe a few weeks.

Call ended with Northwest Municipal Advisors at 5:31 pm.

#### **Discussion:**

Dan recommends looking at NewGen for bonding help and financial advising as that is part of what he does, and it may prevent duplicating our work.

Zane sees we have an exemption under our code for any of these services so may be able to move forward.

Director Lee is uncomfortable with our conversions.

Director Wilken has comfort there are people out there to help us but stated we don't need this now as we don't have the revenue flow now, he suggested we tell them politely thank you and we will be back to you when we are prepared.

Madam Chair asked if we would get conversions first.

Director Wilken asked if we are a good bet. In 6 months, we will not have the unknowns and uncertainty in the project.

Director Butler agreed it is too early to start hiring financial advisors.

Director Meeks stated that conversions aren't until Summer 2020, we will get people signed up in May or June 2020 and that is when we start converting.

Madam Chair asked if we are waiting until our conversion to start our feed and our design process on the build, and stated we need the idea where we are going before we start our project.

Director Haagenson suggested a question they will ask is can they pay me back? They are going to see if they can get their money back. What's their recourse if we default on the payment?

Director Wilken stated we want to be talking to the underwriters, they will look at our project and say yes, and it will cost you X. But if we have so many variables, they aren't going to be able to do that.

Director Butler stated they want their money back. We are hopefully closing in on it, we have not yet decided the project as we have Plan A and Plan B; we need to make up our mind which project.

Director Lee asked what the value is of the Siemens name when we go out to the bond market. They are 3<sup>rd</sup> party financing, they would be looking at this down the road for us. We aren't in a position to move forward.

Dan stated that underwriters and bond counsel have looked at this before, we have a lot of what is necessary to start the conversation. We do have the uncertainties and need to know what project we are looking to finance.

Director Wilken stated we have 210 miles of pipe in the ground...isn't our goal to get gas in all 210 miles and get the revenue stream, and show this is a viable utility? Don't we need to do this before we go to market?

Dan stated that North Pole needs additional capital beyond what is available from the SETS, we are going to need a Bridge loan. The financing of the utility led liquefaction will require bonding or some other form of debt to do that. We are moving down the path rather quickly and would want to know how it will be financed.

Director Wilken asked how much it would take to build out the 210 miles. Dan stated maybe \$70 million over and above what we have. The bond market will accept prospective revenues depending on rate covenant, which states you will set your rate high enough to pay your debt, cash flow, and other factors.

Director Haagenson stated to be careful of bridge financing, it's not going to be a low percentage so bond may not come through in the future.

Director Butler suggested we put out RFP's, and have a selection to choose from.

Director Haagenson agreed with RFP's, and to let those who presented know we are going to be sending them out at a later time.

Madam Chair asked if we want to come up with a scope of work in the next couple weeks.

Director Wilken suggested not until we decide which path we are on.

Dan will talk with Brown and get feedback what his firm provides in bondability assistance.

### **III. Unfinished Business**

- Gas Supply Term Sheet (Board Discussion/Possible Executive Session)

Moved to end of Agenda, to discuss confidential information in Executive Session.

- Storage Project Budget
  - Reconciliation

Moved to end of Reports.

### **IV. Reports**

#### **Air Quality Advisory Committee**

Director Lee reported that all but one are not in favor of Proposition 4, and that Citizens for Clean Air filed a 60 day notice for a lawsuit against the EPA for not enforcing the Clean Air Act.

#### **IEP Update**

Gene Therriault reported telephonically; they have received the appraisal on the North Slope pad and anticipate DNR accepts it and gives it to the Commissioner for review. The Commissioner can take 21 days to make their decision. The sublease is ready to issue late-November and would get them to the site and start the process for them to pay fees. That would put AIDEA in a position to transfer the lease and sub-lease to IGU.

Director Lee asked what the appraisal came in at. Gene thinks it was 3.4 million dollars. For the rate DNR is going to charge them, the lower number is helpful.

### **III. Unfinished Business, continued...**

- Storage Project Budget
  - Reconciliation

Dan presented pages 37-44 of the Board Packet.

Director Haagenon was looking for the root cause of where the money went. He wanted to understand so we can avoid that in the future. Dan stated that the way to avoid this is to do a higher level of engineering, and even if we had EPC'd the whole plant, we are still building this economically. The key areas where assumptions were made were much higher than expected. In North Pole we are doing 95% design before bidding balance of plant work. Two biggest challenges were engineering and the civil works, at the end of the day they were underestimated.

Director Meeks asked what the probability is of more cost overruns, is the probability of additional costs high, medium, or low? Dan replied the probability is Medium to High that we

will be able to stay within the budget. Not bid yet is mechanical, electrical, Phases 3 B & 4 of the civil, and instrumentation. Most of the major equipment is being manufactured right now. All the mechanical guys are heading to Eielson, there is a shortage of proposals.

Director Wilken asked if the large storage project is projected to be 10.2% over budget. Yes, and we are in various percentages of completion on page 43, Attachment 3.

Madam Chair asked why project wasn't started before it was, before we got into a panic to get it finished. Dan stated it was because of intermediary time of Pentex to IGU purchase, AIDEA vs IGU approach. Madam Chair stated that \$32 million doesn't have cost overruns, and the part that was not bid does have the cost overruns. Signing an EPC contract may not have saved money when the changes happened.

Madam Chair prepared a couple of motions a week ago because she has been so distressed.

1. To have an independent 3<sup>rd</sup> party selected by the BOD to review what happened with these overruns and to make us a report.
2. To have a construction Project Manager that is not Dan so he can do the other things he is supposed to be doing for this Board and not doing construction management.

These motions were not seconded, but there was discussion on the subject.

Dan stated that we do have David Prusak as the Project Manager on the site, but it's a balance. There's not the level of experience on LNG storage facilities that he has. Day to day management has been pushed on to David, and we are doing the same with North Pole and Bruce Robson out there.

Director Meeks stated that Dan ran a for-profit (FNG) and did a great job. As this expands, we have got to build a bench to carry this on, what does this management company look like? We don't have anyone to take Dan's place. Dan stated that we are interviewing next week for the Director of Operations. That is where our biggest hole is. We have Zach and Wes as CPA's. Director Meeks thinks we should have a plan moving forward. Director Butler commented this is not on the agenda. Zane considered this underneath the umbrella of Budget Reconciliation on the Agenda. Director Haagenenson suggested a Project Manager, not a Construction Manager, as David is doing a great job with the tanks. Who is in charge of the overall budget? We can bring on a construction manager for a short time. How do we keep Dan's workload, build a construction wing, and then let them go after they are no longer needed?

Madam Chair asked Dan to come back to the BOD and discuss what his plan is for going forward.

Director Wilken wanted to see the results of the process of who we get for the Director of Operations interviews, and subsequent hire. Dan stated we had the ad open for well over a month now and have candidates worthy of interviews. He has no intention of settling. Director Butler stated we can't keep asking Dan to do what he truly has to do until we have made a choice. We have got to get focused, make this choice, do it quickly, it can't keep going on. We are at the Y in the road.

Dan stated there are discussions with multiple gas suppliers in the Cook Inlet interested in meeting our needs now and into the future. These items are subject to a confidentiality agreement, and would need an Executive Session to discuss them.

Motion to go into Executive Session to discuss a potential gas supply contract, the immediate knowledge of which would clearly have an adverse effect upon the finances of IGU. Moved by Director Butler, Seconded by Director Haagenon. No objections.

Phone will be shut off, Board Secretary is not needed to take minutes, and Executive Session will be recorded.

**V. Other Business**

- Next Agenda (October 9, 2018 Work Session)

**VI. Director Comments**

None.

**VII. Adjournment**

Moved by Director Butler, Seconded by Director Haagenon.

*Meeting Adjourned at 8:30 pm.*