



Alaska Industrial Development and Export Authority

BOARD MEETING MINUTES

Wednesday, April 20, 2011

Anchorage and Juneau, Alaska; Dallas, Texas; Lima, Peru

1. CALL TO ORDER

Acting Chairman Mike Felix asked Mr. Hugh Short to chair the meeting. Mr. Short called the meeting of the Alaska Industrial Development and Export Authority to order on April 20, 2011 at 10:32 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Bryan Butcher (Commissioner, Department of Revenue); Hugh Short (Public Member); and Gary Wilken (Public Member).

Member participating from Juneau: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).

Member participating from Texas: Acting Chair Mike Felix (Public Member).

Member participating from Peru: Robert Sheldon (Public Member).

Absent: Ron Arvin (Public Member).

3. AGENDA APPROVAL

Mr. Leonard requested two additions to New Business after 7E, an update on the SharePoint site and Appointment of Officers. The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Mark Davis (Economic Development Officer); Chris Anderson (Deputy Director-Commercial Finance); Valorie Walker (Deputy Director-Finance); Mike Harper (Deputy Director-Rural Energy); Emily Binnian (Project Manager-Energy Data Inventory); Amber Converse (AEA Energy Data/GIS Intern); Terry Johnson (Grants Assistant); Michele Hope (Procurement Manager); Shauna Howell (AEA Executive Assistant); Linda MacMillan (Accountant); Bill Phelan (Loan Officer II); Aaron Rhoades (Human Resources Administrator); Karl Reiche (Project Development Manager); Chris Rutz (Procurement Officer); Mark Schimscheimer (Project Manager); Karsten Rodvik (External Affairs Project Manager); Sherrie Siverson (AIDEA Executive Assistant); Sandy Burrows (Administrative Assistant); and Teri Webster (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Dianne Kiesel (Office of the Governor); Jamey Cagle (Allen Marine Tours); Joe Everhart and Luke Fanning (Wells Fargo); and Ray Dinger (Northrim Bank).

Others participating via conference call: Garry White (Sitka Economic Development Association); and Karen West (Wells Fargo).

Joined the meeting in progress: Rich Alonso and Dave Domansky (Bracewell & Giuliani) and Charlie Cole (Attorney).

Listen to the full audio recording of the 4/20/2011 meeting at <http://www.aidea.org/boardmin.html>

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The February 14, 2011 and February 23, 2011 meeting minutes were approved as presented. The March 2, 2011 meeting minutes were approved as amended.

7. NEW BUSINESS

7A. Resolution No. L11-04 Allen Marine Tours, Inc.

Mr. Leonard said Loan Resolution No. L11-04 is a recommendation for AIDEA to participate in a \$23 million loan to Allen Marine Tours. The request is for AIDEA to fund \$16.1 million which is 70% of the total amount. He said with this loan included AIDEA will be over target by approximately \$15 million dollars on loans funded for the year. Based on the economic value of this loan staff is recommending to go over the target and asks the Board to take this under consideration as they work on targets for Fiscal Year 2012.

Ms. Anderson reviewed the information regarding Loan Resolution No. L11-04 as outlined in the Memo to the Board. Mr. Leonard said this loan increases AIDEA's investments into the Southeast so the loan portfolio will be more diversified. This has an added positive impact on the loan. Mr. Felix asked about the job count. If these are seasonal jobs, will be people from out-of-state or filled by state of Alaska residents? Mr. Cagle, Vice President of Allen Marine Tours, said it will be a general make-up of both in-state and out-of-state people who fill the positions.

Mr. Wilken asked where the funding target of \$92 million came from. Mr. Leonard stated that in the Strategic plan set in 2008-2009, a target was set to increase the loan participation portfolio by approximately \$50 million over the 2009-2011 period. We are coming to the end of that period and based on the fact there have been lower participations in 2009 and 2010 there is more capacity in 2011 to meet that target. In addition, it was known this would happen based on where interest rates are. As AIDEA moves forward in the next year, probably in the June Work Session, new targets will be set for loan participation.

Mr. Wilken asked if this is something the Board does on an annual basis. Mr. Leonard said it will be and staff is finalizing it now. Mr. Wilken asked where the 5.76% interest rate came from and if it was a result of what came out of the first meeting. Mr. Leonard replied that it is set in regulation. On fixed rates, there is a floor of the five-year performance plus 32 basis points to cover the operations. The 5.76% is a formula which comes from the regulations when AIDEA's interest rates are set. The 70/30 percent came from prior discussions.

Mr. Wilken said at the first meeting in January something was done with the rates which increased to 200 basis points. He asked if that had anything to do with this. Mr. Leonard replied that the rate increases dealt with variable rates. The floor has been higher than the index used

and fixed rates have been consistent for the last four months. Mr. Davis added that in the last session the Legislature let AIDEA change the way it sets rates. Traditionally, it set rate by looking at what it would have charged if it had floated a bond to fund the loan, which is the way it has been done for years. Now, the Legislature has given AIDEA permission to set rate on an index for an internal rate of refund. In January a new process was started to go to a different way to set rates. Ms. Anderson said it also includes the cost of operations.

Commissioner Bell provided input regarding Allen Marine, noting that she is very familiar with this company, their products, and their quality. She said they are highly respected in the communities in which they operate, Sitka, Juneau, and Ketchikan, as well as with the cruise lines and independent tour operators. She pointed out that it is really quite an asset to have Allen Marine based in Sitka. It is not just the vessels listed in the memo that are included in the package, there are other vessels including the nineteen that were sold to NY Waterway. This was a really important piece of diversifying the economy. She said there was a significant loss to Alaska when Cruise West declared bankruptcy last fall. As news began to emerge that Allen Marine was going to be engaged in the small ship market, she saw them as having the best chance of success. She noted her background in this industry and this region and wanted others to hear that from her. She is in favor of this and can also speak to their experience and presence in this region.

Mr. Sheldon noted that there is a reference to job increases to be attributed to the improvement of the national economy and asked how much of a reliance on improvement of the national economy is factored into this head-count estimate? Mr. Phelan said the fixed full-time positions are needed to expand the cruise line. The variable factor will be the seasonal number of positions and that will be more dependent upon sales, and sales are based upon the national economy. There will be a certain floor of seasonal employees that would be hired for these positions.

Mr. Sheldon rephrased his question. He asked if the economy expands by 2.5% or contracts by 2.5%, what effect on the temporary seasonal hires would that have on this loan project. Mr. Phelan replied that it would have the greatest factor on seasonal employees as those are based on sales tied to the local economy. As to the number, it would be very speculative at this point.

Mr. Sheldon stated he appreciated what Mr. Leonard did on AIDEA's capacity and clarification on how this might affect our portfolio. He noticed this is a fixed interest rate. He asked how much interest rate risk that adds to the overall portfolio. Mr. Leonard stated that 5.76% is a better interest rate than what AIDEA is getting right now on investments. In essence, the fixed rate is actually increasing the set type of income that AIDEA would get. If Mr. Sheldon is talking about interest rates vs. inflation, Mr. Leonard stated that he did not have an immediate answer. He added that as they compare that to their purpose, the purpose on these types of loans is to give a fixed interest rate that helps businesses be able to plan for a fixed term and have the ability to know what their rates are going to be over the long period. That is one of the purposes of the AIDEA mission in supporting smaller and mid-range businesses like Allen Marines.

Mr. Sheldon would like to know the effect on duration. As the board is moving forward, he would like to know how much that potentially affects AIDEA, given a one percent move up or down in interest rates. He suggested when planning for the future, looking more carefully at what the fixed vs. variable mix is, noting that AIDEA has a public purpose here but also a legal purpose to preserve the purchasing power of the authority.

Mr. Sheldon stated he is delighted AIDEA is focusing on funding additional job creation rather than providing funding for equity extractions that would be new-job creating.

Mr. Short stated that on the collateral package the market value was used for a loan to value. He asked if Wells Fargo discounts it in a liquidation scenario or would you take the full market value when calculating the loan to value. Ms. Anderson replied that they would take the full market value. Mr. Davis said the question is do we take the full market value to the collateral as a chattel vs. real property. Do we discount chattels? Ms. Anderson replied no. Mr. Short said from his experience selling boats, they generally do not go for market value. So that loan to value number is a little deceiving. Mr. Davis said there is a real difference between Coast Guard registered vessels and non-registered vessels. These are Coast Guard registered vessels and they tend to sell closer to appraised value unless there has been a tremendous drop in the economy. That can be seen with the purchasing license of the Cruise West ship. The Cruise West ship did very well in bankruptcy sales. They are repatriating one of the Cruise West ships back into Alaska, which is an attractive part of this loan.

Mr. Short asked about the Wells Fargo position, if they are taking a second position behind us. Ms. Anderson replied no, both would be in first. It is one loan, first deed of trust with common documents. AIDEA is taking a true percentage interest at 70%. As an additional comment, she believes economic development is being enhanced by providing this kind of financing.

Mr. Bjorkquist stated that under the regulations for a refinance, the regulations require that there be some economic benefit provided to the borrower as part of that and wanted to make sure that it was on the record that the requirement had been fulfilled.

MOTION: Mr. Wilken moved to approve Resolution No. L11-04. Commissioner Butcher seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Felix, Commissioner Bell, and Commissioner Butcher voting yea.

Ms. Anderson circulated the book *Bob & Betty Allen's Alaska* to the board members from Allen Marine Tours.

7B. Report on Office Building Renovations and Major Repairs

Mr. Leonard stated in the last few meetings time has been spent talking about the need to expand office space and whether or not to move forward with renovating the office space we have or whether to look at the option of finding new space, either through expanding the current building through construction or through purchasing a new building. If the goal of the board is to keep all of AIDEA and AEA employees in one building and not have satellite locations, it would cost an estimated \$30,000 to do a further investigation on those potentials. At this point, they are looking for direction from the board.

There was discussion regarding expanding the footprint of this building or building an annex and the parking requirements upon expansion. The \$30,000 would retain people to help identify the costs for these ideas.

Mr. Wilken stated there will be an increase in head count and he strongly favors keeping everyone together. He asked if the pending legislation would impact the head count. Mr. Bjorkquist replied the bill on the floor is the one that would authorize Susitna and there is every

expectation that will pass the house and that will be enacted. There are other component parts of the AEA legislation that might be brought up next year but they would not impact head count.

Commissioner Butcher pointed out that he came from a corporation that was in a similar situation that moved into a building and were trying to figure out if everyone would fit. Ultimately they decided that it was not good to try to cram everyone in. Even though the satellite office is not ideal, it worked better with staff having the room. He wanted to make the point that sometimes as we are weighing what the costs are, we really have to think about the comfort level of the employees and how their satisfaction is.

Mr. Sheldon asked if he can get a rough estimate how jobs might ramp-up in relation to the Susitna Hydro. Would it be everyone all at once or is it over a period of time? Ms. Walker replied it is understood there will be a ramp-up to approximately twenty people. She does not believe it would be twenty in the next couple of years, but maybe three to five years from now it would ramp up to twenty and be that way until construction completion (approximately five years). Eight positions will be located here since they are support systems. Because of the timing they anticipate leasing space for Susitna personnel for a short period of time. There is no room for those additional people in the current building. There would be no intention of any long term leases.

The staff believes that purchasing another building or building on the current facility would be cheaper options than selling and leasing for AIDEA and AEA.

Mr. Sheldon stated that he was looking at numbers that are related to protecting our purchasing power. He stated that since November when this first became an issue, AIDEA started to interface with some of the advisors such as Callan and Associates. For example, the U.S. Dollar has declined roughly 8% in their purchasing power and then major infrastructure commodities have increased to roughly 22-25% over that same period of time in just these last six months. If inflationary numbers are not priced into this right now, it would make sense to own this project. He will be very interested to see what that impact may be.

MOTION: Commissioner Butcher moved to instruct staff to spend \$30,000 of authorized funds to do a further investigation of the building expansion and purchase or construction. Seconded by Mr. Wilken. There being no discussion, the question was called. The motion passed unanimously.

7C. Recognition of Retiring Employees

Mr. Leonard recognized three employees that are retiring after many years of service. He said it is a sad day for us but a happy situation for them. He expressed appreciation for the dedication these employees have shown AIDEA and AEA.

Terry Johnson – She has 30 years of State employment and has worked with AIDEA for the last 20 years in the Grant department.

Chris Rutz – He has been with the State of Alaska for 30 years and with AIDEA for the last 7 years as the Procurement Manager. He was very valuable in redoing purchasing. Commissioner Butcher thanked him for his work on AGIA as well.

Mike Harper - He has been with AEA for 10 years as the Deputy Director of Rural Energy and has over 21 years of State employment.

The board thanked all three individuals for their dedication and service to the state. They also thanked Mr. Rutz for the hard work he put in to help the Board search for the Executive Director of AEA and added he is irreplaceable. They thanked Mr. Harper for his leadership in the gap of an Executive Director and how he very humbly stepped up and served so well.

7D. Legislative Update

Mr. Leonard and Mr. Davis reviewed the two bills the Governor sponsored for AIDEA and AEA. House Bill 119 will allow AIDEA to write its own procurement regulations. It will help AIDEA be more efficient and effective with the private sector with development projects. It also allows AIDEA to invest in projects through LLC corporations and setting up some subsidiaries. AIDEA will be able to work in new technologies, health care, communications, industrial roads, and also in prototypes. One amendment to the bill authorizes bonds up to \$65 million dollars for the expansion to the Skagway Ore Terminal. This bill also helped Alaska Housing to get approvals for a subsidiary. Other amendments were added for harbor facility grants and regional port housing authorities. It passed unanimously on the Senate side and only had one dissenting vote on the House side. AIDEA received many positive comments from the legislators on how AIDEA is being used as a way to push economic development and financing. That is what really differentiates AIDEA from other agencies, how they can lend money or put money into a project.

Senate Bill 66, New Markets Tax Credits, passed unanimously through the Senate. It was in House Finance when the regular session ended. Mr. Davis met with House Finance and he does not see any opposition to the bill. Everyone understood it was an important tool and staff is positive it will be passed in the next session.

Mr. Wilken asked which bill is the one that addresses the military installation.

Mr. Davis replied HB119 will give AIDEA the ability to build facilities for the military. Military spending is now a greater portion of federal spending than ever in the state. They say they have money to rent, but they don't have money to build a facility. Some states are trying to attract federal facilities, including the military, by offering to build those facilities. This bill gives us the ability to do the same. AIDEA has been approached by the Coast Guard and they are interested in building a substantial facility which would increase employment in this state.

Mr. Wilken suggested AIDEA write a press Release regarding HB119 and highlight how we, the State through AIDEA, are addressing military needs. He mentioned a conference on May 17 in Fairbanks that is hosted by three-star General Atkins as a possible broadcast point.

Mr. Leonard noted the bill's passage has been a concentrated team effort between Ms. Fisher-Goad, the Governor's office and Mark Davis, who was away from his home for over 30 days in order to get this done. Mr. Short thanked Mr. Leonard for his time and effort and thanked both gentlemen for living part-time in Juneau.

7E. Executive Session

A public presentation on Healy Clean Coal was scheduled prior to the executive session which was then scheduled to talk about the current status, negotiations, etc.

Mr. Mark Schimscheimer gave a presentation to update the board on the Healy Clean Coal Project (HCCP). He introduced Rich Alonso and Dave Domansky, attorneys with Bracewell & Giuliani, who are counsel for AIDEA with regard to the after-purchase, sale agreement and environmental permitting. Charlie Cole is the AIDEA litigation attorney from Fairbanks.

The Presentation Outline: What is HCCP?; A Brief History; Current Status; Future Activities. The last two subjects will be covered in Executive Session.

What is HCCP? The Basic Facts:

- 50 MW Coal-Fired electric generation plant
 - Mine mouth – Usibelli Coal Mine (UCM)
 - Co-located next to Golden Valley Electric Association (GVEA) 25 MW Unit #1
 - Shares Air Permit, systems, & land with Unit 1
 - Constructed 1994-97
 - “test mode” operations 1998-99
 - “Mothballed” December 1999 to present
 - Construction cost approximately \$300M
- “Warm Layup” Custodial Services provided by GVEA
(Annual cost approximately \$2M)

Mr. Wilken asked how the amount of \$300 million was arrived at, Federal, State or rate-payer money. Mr. Schimscheimer stated the Department of Energy (DOE) Grant was about \$117 million dollars, \$25 million came from direct state appropriation from the legislator, and AIDEA bonded around \$85 million plus cash. There were minor contributions in the very early stages from Usibelli Coal Mine, in the low millions and about \$9 million from Golden Valley. The total for this project came in right around \$290-295 million. The sale of \$13 million dollars of power during the test mode to Golden Valley was taken as a reduction off the price.

Mr. Leonard said AIDEA’s net investment based on the project sheet is \$126,434,000.

Mr. Schimscheimer added the current book value is in the low \$40 million. AIDEA has taken at least two major depreciation write-offs on this plant. The bonds were called about three or four years ago and are now debt free with a book value around \$40 million and depreciating it around \$2 million dollars a year.

Mr. Schimscheimer presented slides of the inside and outside of the plant. HCCP, which is owned by AIDEA, is connected directly by an overhead conveyor with Unit #1, owned by GVEA. It is a joint shared system that is vital to HCCP for input and handling. The control room is also a shared system.

He explained what happened to this clean coal technology. It was created by TRW in 1990 to capture sulfur. When TRW was sold the new buyer, Northbrook Grumman, had no interest in coal technology at that time and this technology died out. This is a different technology used today which captures CO₂ and Mercury.

Mr. Short asked what the expected remaining life of this system is. Mr. Schimscheimer replied that this plant originally had a design life of 40 years. There is at least 25 years left on it. This plant will most likely never run to the end of its designed life. It will suffer a regulatory death, not a physical death.

Mr. Short asked what Golden Valley's total appetite for electricity is. Mr. Schimscheimer replied around 170-190 MW.

Mr. Leonard asked if Healy would be a base load or peak load plant. Mr. Schimscheimer replied it would be a base load plant.

Mr. Leonard asked if the goal of GVEA was to replace diesel power generated energy with coal, not actually expanding the growth of their demands. Mr. Schimscheimer replied yes. The price of coal is very stable over time.

Mr. Cole asked what the inability of this plant to function costs the Fairbanks electric consumer. Mr. Schimscheimer answered that what he heard from Golden Valley is that at high oil prices, their rate payers are paying \$2 million dollars a month more because this plant is not online. This is costing Golden Valley \$2 million dollars a month.

In reference to earlier staff testimony Mr. Sheldon asked if anyone has looked at this terrible asset that belches mercury and CO₂. He stated that it apparently doesn't work right now and it sounds like it may never work. He continued with there were parties that were interested at one point but because of antiquated technology, they are not interested now. He asked if it has occurred to anyone to deconstruct it, sell off the turbine, scrap the iron and move on, because at \$24 million dollars a year, what it is being carried on the books for, it might as well be scrapped. He asked if anyone has done this analysis because if this is such a terrible asset, should liquidation be a consideration?

Mr. Bjorkquist stated that this topic would be appropriate for executive session so staff and attorneys can give a full indication of the strategies that have been contemplated, where it is at presently, and options available. It would be inappropriate to do that in public session because the immediate knowledge of where AIDEA staff is and those considerations could have a negative impact on AIDEA's financial position.

Mr. Sheldon asked about Homer Electric's interest in this plant. Mr. Bjorkquist gave a brief history of Homer Electric involvement. Mr. Sheldon asked what the rationale behind their terminating the agreement was and whether or not AIDEA staff agreed with that rationale. Mr. Leonard answered that Homer Electric had a change of board during those agreements and that Board moved to go away from coal and toward gas. Mr. Schimscheimer added that in the May 2009 Board meeting, the Homer Board directed the staff of Homer Electric to "transition away from Healy Clean Coal". This was a change of the board's position. AIDEA had negotiated that purchase sales agreement, a three party agreement with Golden Valley and Homer Electric. In earlier 2009, the staff was directed to transition away. It was left not knowing what that meant in terms of the sale. Time was spent with Homer Electric in the summer of 2009 to determine what that meant and it became quiet. In August 2009, a termination notice was put out. They had an opportunity to question it, comment on it and an option to reject it. They remained silent throughout the termination period and that effectively ended the relationship with Homer Electric. General media covered the event and put it down as Homer moving away

from unfriendly environmental technologies like coal toward renewables and their board was following suit. AIDEA has nothing in writing or any verbal explanation for their actions.

Mr. Sheldon asked if this plant might have worked for Homer in the capacity that they wanted to use it for. He asked did staff have confidence that Homer could properly incorporate this plant into their infrastructure. Mr. Bjorkquist replied that when dealing with Homer, Homer had confidence that they could and there was no basis for disbelieving them.

Mr. Sheldon stated the reason he asked is because throughout this presentation he has heard how this is terrible technology and it effectively doesn't work. He said he is sensitive to what seems to be a dichotomy between potential buyers who might have been able to incorporate it if it weren't for turning away from "dirty technologies". He asked to hear how this plant might actually be able to work. Mr. Bjorkquist commented that those topics would be better suited for executive session because it deals with the status of where we are and the strategy of what we are doing. Mr. Schimscheimer said it is not terrible technology; it is experimental technology that had some challenges, but it does work and it did work for two years and sold \$13 million dollars of power. This project is challenged not solely because of the technology. There are a lot of political and legal challenges that this project is subject to in addition.

Mr. Schimscheimer continued his presentation by going over the history of HCCP.

HCCP: A Brief History: 1991-99

1991 Original agreements between GVEA and AIDEA: Power Sales Agreement and Ground Lease

1994 Department of Energy Grant to AIDEA for \$117 million

1995-1997 Plant Constructed, costs exceed \$280 million

1998 GVEA initiates civil litigation

1998-1999 Plant operated in test mode; GVEA purchases \$13 million of power

1999 "90 day test" is conducted: results are inconclusive

December 1999 the plant is taken off-line due to commercial contract dispute with power purchaser, GVEA

Mr. Bjorkquist added that failure of the test period, from a legal standpoint, was due to a failure of the contract. A failure of putting into the contract a sufficiently detailed, specific agreement as to what the plant had to achieve. There was ambiguity that allowed Golden Valley to make assertions that it was not successful and AIDEA the ability to argue that it was successful. The inconclusiveness, resolved by an independent engineer, found that for two reasons the plant did not meet the test. One, too many people were involved in operating and secondly the coal was not of a low enough quality over the period of the test to qualify under a test. Those were not clear determinations made in the agreement itself, but because of ambiguity in the agreement there was vagueness in what was necessary to be achieved.

Mr. Schimscheimer stated this coal was financed and conceived to be a waste coal burning plant. It would burn the coal that Usibelli could not sell to anyone else. This is coal that comes with a low BTU content, high sulfur content, high ash content and a high degree of impurities caused by where it is on the seam. If it is stripped from the top or bottom of the seam, rocks get in it. This plant was designed to burn coal that probably no other plant in the U.S. would even allow through the front door. It was designed to burn waste. At the time this plant was put into operation, they "dumbed down" the coal by adding impurities into it. This plant burned rock which does not burn; it flags and messes everything up. They literally have to mix dirt into the

coal. Mr. Cole stated the problem in the coal had a very high BTU content and in order to get the general average of the BTU coal being burned they had to “dumb down” the coal with impurities.

Mr. Wilken asked if there were two test periods. Mr. Schimscheimer replied there was one 90-day test period. Mr. Bjorkquist added the Department of Energy had a number of tests that had to be conducted during the 98-99 time period but the power sales agreement had a 90-day test for commercial operation. Mr. Schimscheimer stated that it was run in test mode, so you could construe the entire initial operations as a test.

Mr. Schimscheimer continued his presentation.

HCCP: A Brief History: 2000-05

March 2000 Settlement Agreement between GVEA and AIDEA allowing for the parties to bring HCCP back online: all other agreements are terminated. Settlement is a result of GVEA litigation.

August 8, 2001 Custodial Agreement: GVEA would maintain the plant in “warm layup status”

2000-2005 GVEA and AIDEA attempt to resolve differences. All attempts fail.

2005 AIDEA concludes that GVEA, based on their representations and actions, is no longer interested in HCCP and searches and finds a new utility partner in Homer Electric Association (HEA)

2004-2005 Per the Settlement Agreement AIDEA seeks a Ground Lease from GVEA to operate the plant. Efforts to obtain a lease are unsuccessful.

November 7, 2005 AIDEA files suit against GVEA

HCCP: A Brief History: 2005 Complaint

AIDEA v. GVEA (current)

- November 7, 2005 – Superior Court
- AIDEA: Plaintiff
- GVEA: Defendant

Complaint:

- Five Counts: GVEA Breach of 2000 Settlement Agreement

Prayer for Relief:

- Damages in excess of \$167 million
- Ground Lease
- Other agreements as necessary “to provide AIDEA a full opportunity to maximize the economic utility of HCCP...”

HCCP: A Brief History: 2006-08

November 16, 2006 AIDEA and HEA sign a Project Development Agreement and Power Sales Agreement allowing HEA the opportunity to restart HCCP at AIDEA’s expense.

- **2006-2008** The Court imposes Mediation on the parties. The parties mediate the dispute for 2 years and craft 5 agreements that would allow for separation of the plants. Agreements are taken to the GVEA Board in May 2008. They take no action.
- **May 2008** GVEA offers to purchase HCCP for the same value in the HEA PSA: \$65.8 million. AIDEA, under contract to HEA, cannot accept or negotiate offer without HEA permission

HCCP Sale: 2009

Term Sheet January 9, 2009:

- Three Parties: AIDEA-GVEA-HEA
- \$50M sale “as-is”, financed by AIDEA over 30 years at 5%
- \$45M line of credit, financed by AIDEA over 25 years at a rate to be fixed by agreed formula (range of 5% to 6.5%)

Mr. Wilken asked what the cost would be to take out the TRW technology and put in traditional coal technology. Mr. Schimscheimer stated that the concept of retrofitting to conventional technology was abandoned in the early 2000s. The price was estimated at \$80 to \$100 million in early 2000. There is no possibility of permitting conventional technology. The \$45 million was just a combination of different things that needed to be done in the plant and in the Golden Valley system to accept the plant.

Mr. Schimscheimer continued his presentation.

Asset Purchase Agreement (February 2009)

- HEA-AIDEA-GVEA

HEA terminates involvement: Summer 2009

Asset Purchase & Sale Agreement (August 25, 2009)

- Revised to AIDEA-GVEA
- Additional documents signed and dated February 19, 2010

Mr. Bjorkquist stated that under statute it is appropriate to go into executive session to review negotiation strategy, current status, and attorney-client conversations. If the public and other parties knew this information, would clearly have an adverse effect on the finances of AIDEA.

Motion: Mr. Wilken moved to go into executive session to discuss confidential matters relating to the Healy Clean Coal Project. Seconded by Commissioner Butcher.

7E. EXECUTIVE SESSION: 12:53 pm.

The Board reconvened at 1:55 pm.

Mr. Bjorkquist commented that in his opinion, everything discussed in executive session was appropriate.

7F. Update on SharePoint

Mr. Leonard stated that as AIDEA moves forward in how we communicate with the board and how we work on projects, the staff has utilized SharePoint which is a software package that allows members to look at shared documents. The site was first used in March to work on the jack-up rig project, the SMOG project and board packets. At the time of this board meeting, the site had been active for about twenty days and there were questions regarding security. Based on concerns of the board, SharePoint security was changed. Ms. Linda MacMillan and Mr. Leonard reviewed the changes and how staff monitors the system.

AIDEA is working on confidentiality protocol where everyone will sign a document stating these documents are confidential. On the sites there will be the warnings that say, “This information is confidential and remains confidential”. The IT committee is also arranging training for key staff

on the functionality of the SharePoint site. Mr. Leonard stated that this is powerful software and he feels it will be a great communication device for the board and staff to work together.

Commissioner Butcher and Mr. Short commented that they have worked with SharePoint in the past and found it highly confidential and an excellent way to share information.

In response to Mr. Wilken's question, Ms. MacMillan said the State of Alaska buys Microsoft license rights under a large procurement contract under the state's umbrella.

Mr. Sheldon posed questions to staff. He stated that if he understands correctly, three groups were set up originally for group access. He asked if there were any legislators that were given access rights. Mr. Leonard replied no, only the commissioners involved as board members. Mr. Sheldon expressed his concerns with security on this site, especially because of the confidential information. As this has become an agenda item, he thinks the public deserves to know whether there was a secure process in place and asked for an accounting of IP addresses that logged in. His concern is due to the credit reports and other sensitive information and he would like to make certain that the integrity of this authority is always upheld. He thinks we owe the public an examination to ensure that unauthorized people have not logged on. Ms. MacMillan replied that if you look at a daily login of activity, it could produce a stack of paper six inches high. This would detail the type of computer that went on the site, but the IP addresses remain confidential. She stated that she could talk to the IT administrator about the list of IP addresses that we use. He assigns a user name with an address. She stated she could get a list of those if needed.

Mr. Short said he did not think the Board members would want to review a large stack of IP addresses, but thinks if AIDEA has the processes in place to monitor that and ensure the security, he feels confident in the fact that staff has the checks and balances in place.

Mr. Leonard added that anyone would have to identify himself through the user ID and through the password. They would need those two items to get into the system. Ms. MacMillan stated that she has been given an IP address, but still has to log on with her user name and password which changes every ninety days.

Mr. Sheldon said that he was mildly confused with the explanation from Mr. Leonard that there was the ability to "block" certain sources and said it seems there is a process to identify where people are logging on from. He asked for an explanation and if there is the ability to do that, then why can't they identify where people are coming from? Mr. Leonard said what he was saying was that by user name, areas of the network can be blocked. For example, Commissioner Butcher could not go into AIDEA's shared folders for employees, which is accessed by a user ID and password. He can only go into the SharePoint site. That is what he meant by "blocking." Ms. MacMillan added that this has always been the standard practice.

Mr. Sheldon said he remains very concerned and staff needs to be able to establish that the system is secure. He said going forward it sounds like it is secure, but he was generally concerned with the past.

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7G. Appointment of Officers

MOTION: Mr. Felix made a motion to recommend Mr. Hugh Short as the new chairman. Seconded by Mr. Sheldon. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Commissioner Butcher, Commissioner Bell, and Mr. Felix voting yea.

MOTION: Mr. Wilken made a motion that Commissioner Susan Bell be nominated as Vice-Chair. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Commissioner Butcher, Commissioner Bell and Mr. Felix voting yea.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AIDEA Programs and Projects

Mr. Leonard stated that with the meeting going so long, he would be willing to write a report to the board regarding his comments. He will report on where AIDEA is at in certain activities, and on the Buccaneer project.

Mr. Wilken received a call from a person who said they understood Buccaneer would not be in Cook Inlet for at least another year, to which he replied that that was not what they have heard from Buccaneer, which is that drilling will begin in September / early October. Mr. Wilken asked if anyone else has heard anything along those lines. Mr. Leonard stated that AIDEA is moving ahead based on having them up here still by the end of the summer. As has been stated, there is always the potential, based on permitting or other items that it would be pushed back, but the negotiating team is still going on the assumption that the project will start this year.

Mr. Wilken asked if things have changed since we took our vote two or three weeks ago. Mr. Leonard replied they have not. He added that they are still working on issues.

Commissioner Bell asked if a team should be declared for the Healy Clean Coal meeting on the 26th. Mr. Bjorkquist stated attendees will be Mr. Schimscheimer and outside counsel. They will be meeting with Golden Valley staff and attorneys with the EPA and the Sierra Club. It is not contemplated to be a board level meeting.

Mr. Short commented that at some point a couple of board members will need to be identified as key points of contact for the board of directors. Maybe at the June meeting a couple board members can be identified to be key negotiators for the board of directors and be involved at that level. Mr. Leonard added that it worked very well in the negotiating to have an executive committee that the negotiators could go to. Mr. Bjorkquist added that with the increase in the size of the board, you could have up to three board members as a part of that sub-committee without running into the quorum issue.

Mr. Sheldon noted that in the tear sheets he was delighted to see that Zazu will be coming back perhaps in June with something that we can work with. He added that this is the exact type of project that is a large jobs-creating opportunity in an area of the state that sorely needs it and he is very excited to see that that has gone one more step towards us being able to make a decision.

Mr. Short stated that the agenda for the June 9th meeting is getting excessive and asked about the possibility of making that a two-day meeting. Mr. Leonard suggested one day as a work session. The board was polled and decided to have June 9th and 10th as the next meeting dates.

Mr. Sheldon replied that some items which will be on that agenda are of such importance to him that he is willing to return to Anchorage at any point in time to meet with people willing to discuss them. He referred to the recent downgrades in the US Treasury debt, the S&P downgrading the negative outlook for Freddie Mac, Fannie Mae, the Federal Home Loan Bank and the Farm Credit System. He noted that the US dollar has declined significantly during various periods of time.

Mr. Sheldon said he has addressed his concerns to AIDEA's external managers, and financial advisor, Callan and Associates, who in turn have provided answers to some of his concerns, but not what he considers the most critical. He feels the issues need to be addressed very quickly.

Mr. Sheldon suggested the Board contract with two private economists, whom he recommended, to provide input to the Board. He named John Williams, a private economist for major Fortune 500 companies, and Axel Merk, who has vast experience in foreign highly-rated money market instruments.

He noted that both gentlemen would probably be available to meet in late May or early June and urged AIDEA to find the budget to bring these highly respected financial advisors to Alaska to provide AIDEA a competing view with the existing external managers and financial advisor.

Mr. Short suggested a working group to do some work between now and the June meeting who will present the Board with options the Board could then consider. This issue has the potential of taking an entire day of the two-days planned. He suggested one or two Board members join AIDEA staff and the financial consultants to draft recommendations for moving forward to use as guide for the Board to consider in June. If there is something more urgent before June, the group could potentially call a special meeting.

Mr. Sheldon volunteered and will fly back for any meetings that are needed because this is that important. He is 14,000 miles away right now and would get on a plane tomorrow if that's what it takes.

Mr. Felix referenced his past experience in moving items through the Board. He believes Mr. Short's suggestion is probably correct and it would be easier to get it through with a subset of Board members who are keen to really look at this issue, deal with it and if the matter is even urgent enough, request an emergency or interim board meeting, with enough notice, between now and June to deal with the matter.

Mr. Short suggested that Mr. Sheldon and Deputy Commissioner Burnett represent the AIDEA Board on the task force. He would leave it up to those two to constitute the rest of the group necessary from AIDEA staff and consultants and organize that process. He asked if that was something that the AIDEA Board would be interested in. Mr. Wilken indicated that he liked the direction this is headed but thinks the board needs to use all of the talent available. He expressed hopes that Mr. Short would be able to spend some time on this, perhaps not as Chair, but as someone with expertise in this area.

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9. BOARD COMMENTS

Mr. Sheldon said that he is looking forward to meeting the new employees replacing the retiring employees. He is very eager to find out the caliber of people hired and their job experience.

Mr. Felix commented on a great board meeting. He thanked Mr. Leonard and staff for preparing the right amount of information getting through a pretty tough agenda. He congratulated Mr. Short on being elected Chairman, noting that he is gifted and steady-handed and feels that he will do a good job leading the board. He expressed his pleasure to work with this board for a few months. He is coming up on two years serving on the board and shared that this will be his last board meeting as he has resigned. His duties in Dallas are overwhelming. He is involved in three multi-billion dollar projects, not the least of which is the T-Mobile acquisition and integration. He expressed that it has been a real honor to serve on this board and to be part of moving this authority forward on behalf of the state. He stated he will miss everyone.

Mr. Short thanked Mr. Felix and said that it has been a pleasure serving with him, thanked him for his kind words and noted that he had set a standard high as far as good communication with Board members. Through Mr. Leonard he hopes to continue that and facilitate the strategic plan as they do new and exciting things. He thanked Mr. Felix for his service. Mr. Felix made a personal commitment to Mr. Short to be available to him if he has questions, or needs any information from him.

Commissioner Bell expressed her appreciation to Mr. Felix for all of his service, especially in the last four or five months as they conducted a search for an AEA Executive Director. She recognized what was a nearly full-scale change of the entire board, leading the Board to this point. She recognized the difficulty that he must have experienced in his new role and in keeping his commitment to this Board.

Mr. Wilken thanked Mr. Felix for his service to AIDEA and to the people of Alaska. He noted that in their brief association, he has been very appreciative of his efforts and talents and stated that AT&T has a great man pushing on. He reminded Mr. Felix that once an Alaskan, always an Alaskan, and said he hopes to see him back here and wished him Godspeed. To the new Chair, Mr. Short, congratulations were given. He feels very comfortable with Mr. Short at the helm of what really amounts to a new AIDEA. He noted that there is a lot to do there and a lot to do with AEA. We've got good people here, good people at the helm.

Deputy Commissioner Burnett echoed Mr. Wilken. In the short time that he has been on the board, he appreciates the leadership of Mr. Felix and noted that they are really going to miss him but also looks forward to the leadership of Mr. Short and is sure that it will be an effective transition.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 2:32 p.m.



Ted Leonard, Executive Director/Secretary
Alaska Industrial Development and Export Authority