



Alaska Industrial Development and Export Authority  
**BOARD MEETING MINUTES**  
**Friday, February 15, 2013**  
Anchorage and Juneau Alaska,  
Tucson, Arizona, St. Helena, California,  
and NeiHu, Taiwan

**1. CALL TO ORDER**

Chair Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on February 15, 2013, at 10:04 a.m. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

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

Members participating via teleconference: Vice Chair Susan Bell from Juneau, AK (Commissioner Department of Commerce, Community, and Economic Development); Wilson Hughes from St. Helena, CA (Public Member); and Gary Wilken from Tucson, AZ (Public Member).

Joined the meeting in progress at 10:10 a.m., Ron Arvin from NeiHu, Taiwan (Public Member)

**3. AGENDA APPROVAL**

The agenda was approved as presented.

**4. ROLL CALL: STAFF, PUBLIC**

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management); Karsten Rodvik (Project Manager-External Affairs); and Sherrie Siverson (Executive Assistant).

Public: Bart Armfield and Tom Haberman (Brooks Range Petroleum Corporation (BRPC)); Tim Bradner (Alaska Journal of Commerce); Pat Clancy and Mark Gardiner (Western Financial Group); Tim Gallagher (HDR Inc. Alaska); Jerry Juday (Department of Law); and Donovan Walker (Accu-Type Depositions).

Other participating via teleconference: Eric Lidji (Petroleum News)

**5. PUBLIC COMMENTS**

There were no public comments.

## 6. NEW BUSINESS

### 6A. Resolution No. G13-01 – Authorizing execution of a Reimbursement Agreement to complete Due Diligence and Deal Structuring on a potential Mustang Development Production Facility

Mr. Leonard said Resolution No.G13-01 would allow AIDEA to enter into and execute a reimbursement agreement with BRPC to complete due diligence and analysis on the potential development of a Mustang production plant. This resolution allows AIDEA to go forward with Phase III of the project analysis. Mr. Leonard introduced Mr. Jim Hemsath and Mr. Mark Gardiner to review the feasibility analysis with the Board. BRPC representatives are also present to answer any questions. Mr. Hemsath updated the board on what has been accomplished so far and what Resolution No. G13-01 entails.

Mr. Sheldon asked if the potential for accelerated distribution of cash is the only stream available or is this something being independently explored in the due diligence phase? Mr. Hemsath said it will be explored further in the due diligence phase. The maximum production of the field is within the first three-to-five years when the production begins to drop relatively rapidly and the opportunity to do an accelerated payment would make sense. Mr. Sheldon requested to see the decline curves and accelerated repayment schedule in a graph to better visualize those numbers. Mr. Hemsath agreed to fulfill the request.

Mr. Sheldon asked if Ezion would be willing to provide a higher capital contribution and cap AIDEA's exposure. Mr. Hemsath said AIDEA will cap its exposure and believes Ezion would be willing to contribute up to \$120M.

Mr. Sheldon asked if anything was required from the Legislature before being able to participate. Mr. Leonard said because of the structure of this project, no legislative approval is needed. Even though there is a current legislative bill giving bonding authority to AIDEA for up to \$200M, he does not believe AIDEA needs legislative authority to move forward.

Mr. Hughes asked for the schedule of the road construction. Mr. Hemsath said the plans are in place, surveying has been done, and the contractor is ready to place an ice road from the existing Alpine Road to the gravel resource. The expectation is for gravel mining to begin in March and then construction of the gravel road will occur throughout the summer. Mr. Hughes asked if they will replace the ice road with the gravel road to get to the source. Mr. Hemsath said yes.

Mr. Hughes asked if by the time AIDEA contributes any funding to this project how many dollars will BRPC have contributed to the production facility. Mr. Hemsath said to date, BRPC has contributed between \$46-\$47M in exploration and pre-engineering for the facility. Mr. Hughes asked how much money will BRPC have invested in the road before AIDEA contributes any capital. Mr. Hemsath said less than \$1.5M. We will follow a 4:1 ratio, AIDEA to BRPC, up to our \$20M cap.

Commissioner Butcher asked what the expected completion date is for the due diligence and when the project would come back to the Board. Mr. Hemsath said he hopes to be ready for the March 28 board meeting, but most likely it will be April.

Chair Short asked if staff expects similar projects to be brought to AIDEA. Mr. Leonard said he sees AIDEA being involved on the macro level by being a catalyst for more investment to come in and assist the independent companies with additional projects going forward. Mr. Hemsath said Mr. Armfield from BRPC made a presentation recently and they feel there are at least 10 other similar projects in this area.

Chair Short invited Mr. Bart Armfield to elaborate on their position. Mr. Armfield, Chief Operating Officer, Brooks Range Petroleum Corporation, said AIDEA's role in Alaska is key in the industry. In their experience, companies coming to Alaska need three key elements in order to work in the industry in Alaska. The first element is for companies to have an aggressive desire to be in Alaska. The second is for companies to have a high knowledge base and understanding of how to operate in Alaska, including a geological sense, operational sense, political sense and what it takes to go into production. The third is for companies to have the financial capability to be able to compete with the stiff competition that is available in Alaska. AIDEA has all three of these key elements and provides surety and a level of understanding about the industry.

Mr. Sheldon requested a copy of Mr. Armfield's PowerPoint presentation. Mr. Armfield said it will become public on Monday. Mr. Leonard said he will provide it to the Chair and forward it to the Board members.

Chair Short asked Mr. Armfield what committee he will be presenting to in Juneau and about what issue. Mr. Armfield said SB 21 to both House and Senate Resource Committees.

**MOTION: A motion was made by Mr. Sheldon to adopt Resolution No. G13-01. Motion seconded by Commissioner Butcher. Motion passed unanimously.**

## **6B. Regulations Update**

Mr. Leonard said the SETS regulations will likely be ready to be brought before the Board at the March meeting. AIDEA has received some very constructive comments from the banking industry and independent power producers and will be bringing the committee back together to discuss the comments before moving forward. Also, the New Markets Tax Credit regulations and the Procurement regulations are moving forward with public hearings scheduled in mid-February. Mr. Leonard asked Mr. Mark Davis to provide an update.

Mr. Davis said he is speaking about ASSETS regulations, not SETS regulations. Mr. Davis said the ASSETS regulations are broken down to regulations that modify AIDEA's current loan participation regulations, allowing the agency to participate in energy loans. The SETS regulations is a program that will either issue direct loans for energy projects or issue bond or loan guarantees. Most of the comments received were regarding expansion of loan participation to energy conservation and efficiency projects. After reviewing the comments, staff determined it was necessary to make changes to the draft regulations. The changes are significant enough that extending the public comment period may be necessary.

## **7. DIRECTOR COMMENTS**

Mr. Leonard said the Fairbanks Gas Project is moving forward in the feasibility and analysis phase. A team will be meeting next week with interested parties who submitted proposals to the

letter of solicitation The plan is to have a Fairbanks Gas Project presentation for the Board on February 28, 2013.

Mr. Leonard said SB 23 and HB 74 are currently in the Senate and House Labor & Commerce Committees. He and Mr. Davis will be testifying on the bills next week in Juneau. The Legislature has given very positive opinions on the projects. He believes this will help Interior Alaska with energy costs.

Mr. Wilken asked for a status of the jack-up rig. Mr. Leonard said the jack-up rig is still moving forward with the modifications that were needed. The goal is to have the rig moved out of Homer and onto the Cosmopolitan site by the end of March. The litigation is going forward. He will send the Board an update tomorrow regarding a contingent from the shipyard in Ketchikan moving onto the rig to assist in completing the final modifications.

Mr. Wilken asked if the lawsuit has any operational bearing on moving the rig to Cosmopolitan. Mr. Leonard asked Mr. Hemsath to answer the question. Mr. Hemsath said the lawsuit is slowing down the paperwork for moving the rig to Cosmopolitan due mainly to documentation issues regarding certificates that can't be found, as well as work that was certified as being complete that was simply not complete. Work is ongoing now and anticipated to be finished by early March. The land use permit and water permit are in place.

Mr. Wilken asked if the lawsuit has any impact on anticipated drilling. Mr. Hemsath said no.

Mr. Arvin asked how AIDEA overlooked the paperwork issues with such a huge asset and investment. Mr. Hemsath said they were told by the contractor the paperwork was completed. He believes the contractor is "simply playing a game with the paperwork."

Mr. Leonard said AIDEA's role in this asset is as an investor. AIDEA is not the operational manager and is not on the rig on a daily basis. Mr. Hemsath said he is meeting with the litigation attorneys biweekly in order to stay informed. The owners have formally been requested to hold an owners' meeting in Alaska on February 27, 2013, and have been invited to meet the Board at the February 28 meeting.

Mr. Sheldon suggested placing milestones, which are backed up by documentation, into future agreements to avoid similar situations. He wants to find out why the past provisional operator has not made the documentation available and is eager to get the answer if they attend the next meeting. Mr. Hemsath said Archer was the previous operator and their services have been terminated. They are no longer on the rig. It was discovered that some certificates were not backed up by fact. Spartan has currently been approved to operate the rig.

Chair Short cautioned that any further discussion may require an executive session.

Mr. Leonard said AIDEA is an investor and has the right to review documents during the due diligence and after action review. There will be a more in depth review for the Board on February 28, 2013.

Next regularly scheduled board meeting is Thursday, February 28, 2013.

## 8. BOARD COMMENTS

Mr. Wilken apologized in advance for not being able to attend the February 28, 2013 meeting. He commented how nicely the AIDEA development project analysis and decision making flowchart is progressing. It is really well done and he appreciates the work.

Mr. Sheldon echoed Mr. Wilken's comments on the development project analysis and decision making process and looks forward to seeing it online and available to the private sector. He believes AIDEA's authority to act as a facilitator is important.

Commissioner Butcher echoed the praises of the development project analysis and decision making flowchart and is very pleased and impressed with the job staff is doing. He will not be able to attend the February 28, 2013 meeting. He will be attending the Permanent Fund Corporation Board meeting. Angela Rodell will likely attend the next meeting.

## 9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 11:00 am.



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

