



Alaska Industrial Development and Export Authority  
**BOARD MEETING MINUTES**  
**Wednesday, June 4, 2014**  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on June 4, 2014 at 10:03 a.m. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community and Economic Development); Crystal Nygard (Public Member); Michael Pawlowski (Deputy Commissioner, Department of Revenue); and Gary Wilken (Public Member).

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

AIDEA Staff present: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Loans); Mark Davis (Deputy Director-Infrastructure Development (IFD)); Jim Hemsath (Deputy Director-Project Development & Asset Management (PDAM)); Michael Lamb (Deputy Director-Finance and Operations); Mike Catsi (Business Development & Communications Officer); Tom Erickson (Chief Procurement Officer); Jennifer Haldane (Human Resources Manager); Matt Narus (PDAM); Jeff San Juan (IFD Finance Officer); John Springsteen (IFD Development Officer); Lori Stender (PDAM); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

AEA staff present: Gene Therriault (Deputy Director-Energy Policy Development); Kirk Warren (Project Manager);

Members of the public present: Rick Adcock, Dennis Ahrens, Amy Broughton, Chris Brown, Monique Garbowicz; Alan Krause, Jim Kuiken, and Frank Roach (MWH); Eddie Berdon, Donald Lemoine, and Allen Snyder (TIC Kiewit); Cory Borgeson (Golden Valley Electric Association (GVEA)); Elwood Brehmer (Alaska Journal of Commerce); Chris Clark and Katriina Timm (HDR Alaska); Jerry Juday (Department of Law); Jeff Logan (Jeff Logan and Associates); Miranda Studstill (Accu-Type Depositions); John Tichotsky (Department of Revenue); Nancy Wainwright (Village of Ambler); and Bill Young (LINC Energy).

Public participating via teleconference: Dave Domansky (Bracewell Giuliani, LLP); John Gaedeke (Brooks Range Council); Mark Gardiner (Western Financial Group); Jason Rutman (NANA Development Corp); Margaret Schaeffer (Nana Region); Chris Schuerch (NANA Regional Corporation); Bob Shavelson (Cook Inletkeeper); Matthew Smith (KNOM Radio in Nome); and Ron Yarnell (Wilderness Guide).

#### **4. AGENDA APPROVAL**

The agenda was approved as amended.

#### **5. PUBLIC COMMENTS**

Mr. Gaedeke noted his family has lived in the Brooks Range for 40 years. He stated there is overwhelming opposition to building the Ambler Mining District Road across Brooks Range which has been voiced at meetings in the affected villages to the east. The road will go through area where people hunt and recreate. The prospect of a road and gravel pits every 10 miles is an absolute nightmare to the people in the region. Mr. Gaedeke stated AIDEA staff and DOT have consistently smiled and waved at these meetings and promised more meetings. He believes the state is ignoring public opposition to put forth this project. Mr. Gaedeke believes the mining company is a new company, but the management personnel in place are responsible for failed mines, including environmental damages and fines in Alaska and previous class action lawsuits in both Canada and the United States. This project going forward is disturbing.

Ms. Schaeffer said for century's people from the villages in her region, including Anaktuvuk Pass, have traded food and goods, and these decisions could affect that regional trading. The caribou may also be affected and the entire region relies heavily on caribou. She believes these communities need information and need to be involved in these decisions.

Mr. Yarnell, of All About Adventure in Fairbanks, said he has been a wilderness guide and business owner for 43 years. The road to Ambler will be extremely detrimental to his business and the proposed route crosses many rivers he uses for guide trips. He believes the statement that the road will be for industrial use only and not used after the mining is complete is a misleading, fallacious claim and a ploy to reduce the opposition to the road. He believes this road will open up the Brooks Range permanently. Mr. Yarnell does not believe AIDEA is listening to the comments of the local communities. He believes the amount of local opposition to this road is being downplayed and AIDEA needs to change the way they are approaching this entire road proposal.

Mr. Shavelson with Cook Inletkeeper expressed his appreciation for the work AIDEA does. He noted concern regarding the investment in the jackup rig with Buccaneer. Mr. Shavelson believes it is important for AIDEA to ask in detail about the partners with whom they work, including fiscal means and ethical outlooks. He noted Buccaneer came into his community and misled the government officials, lied to local residents, conducted activities in important salmon habitats without permits, and failed to pay contractors, which are some examples of Buccaneer's behavior. Mr. Shavelson encourages AIDEA to embrace some sort of filter or social contract in the permitting regime which allows review of the ethical and fiscal means of partnering companies. He requested AIDEA be more forthright and transparent in its disclosures, particularly regarding AIDEA's or the state's interest in the jackup rig.

Mr. Smith of KNOM Radio in Nome asked if there will be a question and answer session at the end of the meeting or when it is appropriate to ask questions. Chair Pruhs noted this is a public comment period and there is no public question and answer period. Mr. Smith asked if there will

be any response to the public comments given today. Chair Pruhs said no responses at the Board level will be provided.

Mr. Pawlowski encouraged the appropriate AIDEA staff take down Mr. Smith's contact information to answer any of his questions. This is an AIDEA staff level function, rather than a Board level function. Chair Pruhs agreed. Mr. Smith said he will contact AIDEA to get his questions answered.

Ms. Wainwright, on behalf of the Native Village of Ambler, stated she will address three issues; the Ambler Road was taken off the agenda today, the public outreach and accountability, and a potential conflict of interest with one of the AIDEA contractors. She believes the reason there is testimony today regarding the Ambler Road is because the staff, at the April 24th meeting, committed to providing an update on the Ambler Road to include alternative and preliminary route selections at this meeting. The Ambler Road update was taken off today's agenda for unknown reasons and this is of great concern, particularly in this critical time period when AIDEA is moving forward with an RFP for the Environmental Impact Statement (EIS).

Ms. Wainwright commented people are very concerned that AIDEA has not been responsive to the public. The presentations given in the villages are somewhat of presenting a road that is a fait accompli and a unified project between Nova Copper and AIDEA, which is of concern because it does not appear there is any consultation and true interaction with the public. The Tanana Chiefs and five or six villages have passed resolutions against this road. Ms. Wainwright urges AIDEA to be responsive and listen to those comments. The conflict of interest question is regarding AIDEA's contractor DOWL HKM and their studies for DOT regarding this project. DOWL HKM is also a consultant for Nova Copper shown on their Affidavit of Annual Labor. Ms. Wainwright requests full disclosure of the relationship between DOWL HKM and Nova Copper, per AIDEA's RFP document Provision 15.2, and before any further actions are taken on the EIS process. It was made clear at the request for proposals meeting that DOWL HKM will be working very closely with the EIS team.

Mr. Wilken thanked Ms. Wainwright for her testimony and asked if she is stationed in Anchorage. Ms. Wainwright stated she lives in Anchorage.

## **6. NEW BUSINESS**

### **6A. Interior Energy Project (IEP) Status Update - MWH and AIDEA staff**

Mr. Leonard invited MWH to the table to provide an IEP Status update presentation. The concession agreement is expected to come before the Board at the June 26, 2014 meeting. Mr. Leonard said staff are meeting with North Slope and Cook Inlet gas suppliers over the next two weeks and will provide a detailed report at that meeting.

Mr. Pawlowski asked if staff will be requesting actions from the Board at the meeting on June 26, or are these reports for review? Mr. Leonard said a resolution will be presented to the Board on June 26.

Mr. Wilken requested he receive answers to the questions he asked of Chair Pruhs on May 12, 2014, and the questions asked of Mr. Davis on May 21, 2014. Mr. Wilken stated he will check off his list as the meeting continues and requested discussion concerning the questions that do not get answered. Mr. Leonard noted there will not be answers today regarding the gas supply. Work is ongoing with Department of Revenue and AIDEA consultants to receive those answers. Mr. Leonard advised staff's goal today is to provide as many answers as possible to Mr. Wilken's questions. Any unanswered questions will be addressed at the June 26th meeting.

Mr. Davis of AIDEA, Mr. Brown, Mr. Adcock and Mr. Krause of MWH, Mr. Borgeson of GVEA, Mr. Berdon, Mr. Lemoine, and Mr. Snyder of Kiewit provided a detailed IEP status update presentation and answered questions.

Mr. Krause expressed his appreciation to the Board and reinforced the importance of this project to MWH. He stated MWH is excited about the project and understands the urgency and importance to the Interior. Mr. Krause committed MWH's resources, talents and efforts to push this project forward.

Mr. Wilken asked for the significance of the color orange within the presentation. Mr. Brown explained the color scheme. Green signifies the future, blue signifies the past, red signifies MWH's activities, and orange signifies that activity is to be defined and may or may not be part of MWH's activities.

Mr. Pawlowski requested clarification of the early indicative work. Mr. Adcock noted there are current term sheets, and sales and purchase agreements (SPA). AIDEA is working with utilities, industrial, and the federal government to better understand their demand profiles and timing. The last final price will not be available until just before closing, but the terms and conditions are currently being negotiated. Mr. Leonard noted all of the information is being input into a very complicated financial model to provide an estimated cost throughout the negotiation process.

Chair Pruhs requested an economic explanation regarding the lag time at the plant between the anticipated volume and the start-up volume and asked if the Board needs to be concerned about this issue. Mr. Adcock stated the capital stack has been designed so that AIDEA will be involved during that lag time. There will be enough start-up cash flow to pay off the private investor and as the demand grows in years two, three, four and five, then AIDEA's portion of the capital stack will be serviced. When the price is finally determined, the amount of AIDEA's subsidy in the first few years can then be determined, which is labeled as a decision point on the timeline.

Mr. Pawlowski believes three months to negotiate all the terms and conditions, not including a final price, is incredibly aggressive. Mr. Davis agreed and noted the concession agreement will create a financial structure for the capital stack of the project to move forward. The final financial commitment to the project will be brought before the Board in October after all precedent conditions have been satisfied. The intent is to have commitment agreements which include a range of price to meet the schedule deadlines. These commitments will be used to size the plant. The fixed costs can be adjusted by the operating costs, given the design of the plant.

Mr. Nygard requested a key be provided at the bottom of the presentation for clarity.

Mr. Wilken asked if the price range provided to potential off-take commitment entities during the July timeframe is the price at the meter. Mr. Adcock stated the price range does not account for distribution costs. Mr. Brown stated the price range provided will be at the place the entity wants to take it. Mr. Wilken requested further discussion on how the commitments are expected to be obtained by the July timeframe. Mr. Adcock stated there is a high degree of trust in their legal counsel who have completed many plans such as this in the past. The commitments have to be and will be locked in to move this project forward.

Mr. Borgeson stated a big issue for discussion during the concession agreement is why should entities sign up for the take or pay agreements now if they can get the same price later. The current model designed by AIDEA does not give any incentive to sign up for a take or pay contract. The incentive given to FNG is a higher interest rate if they do not sign up for a take or pay contract for .5 Bcf. Mr. Borgeson believes a solution to getting initial take or pay contracts is having a set price for entities who sign up now and having a price to be determined for entities who want to sign up later. At this point, there is no long-term supply gas contract available from the Cook Inlet. Conoco has made no commitment and Mr. Borgeson noted that situation could change, but does not believe they are willing to do anything different at this point. Mr. Borgeson stated the gas under their gas contract appears to be significantly cheaper on the North Slope than in the Cook Inlet. He noted GVEA is optimistic this schedule could work and agrees it is very ambitious.

Mr. Davis stated Mr. Borgeson's concerns were discussed at the previous meeting in which Mr. Borgeson was present for part of the meeting. AIDEA staff is discussing ways in which to encourage entities to sign up. Mr. Leonard said AIDEA's commitment is to provide the best type of pricing structure for the preferred customers.

Mr. Borgeson stated GVEA offered early on to take the completion risk and operational risk of the project in return for certain conditions. The Legislature made their decision and AIDEA now has the completion risk and operational risk for the project.

Mr. Krause noted MWH has spent significant money on the project and is completing all project work at their cost until closure. He recognized the project is working under a critically tight schedule.

Commissioner Bell requested additional clarification on AIDEA's involvement with trucking and storage. Mr. Leonard stated AIDEA may be involved in financing storage through SETS loans or through a loan participation program. Mr. Davis noted AIDEA may employ financial tools to support the distribution and storage. Prototype trucking alternatives are being reviewed to help with trucking and AIDEA will be involved in every way possible to make the project work beyond the SB 23 funds. The SB 23 funds will largely be going toward the bonding for distribution or into the plant, and possibly bonding for storage with no ownership model.

Mr. Wilken asked if a deal like this close on a range of prices and AIDEA could participate if it is greater than the high price. Mr. Adcock stated anything is possible, but the entities who are

making financial decisions are going to review the risk and rate of return for this project and the deal has to be viewed from an investment committee's point of view. Mr. Leonard stated through this process, AIDEA and the Board's direction so far is to work within the limitations of the SB 23 SETS funds. If the Board wants to utilize the revolving funds; that would become a completely different type of model the Board would have to review on the risk allocation.

Chair Pruhs asked if Kiewit will be involved on the North Slope in the early works of the project. Mr. Snyder stated Kiewit will be used again to facilitate work on the North Slope and to help organize those efforts. Chair Pruhs asked if there is a timeframe on the engineering and procurement contracting (EPC) work on the pad. Mr. Berdon shared the dates addressing that timeframe and are indicated in the RFP released last week. Chair Pruhs asked if the contracts on the North Slope for the EPC are fixed costs. Mr. Berdon stated the contracts will be lump-sum fixed cost. Chair Pruhs requested additional information on the pad size. Mr. Berdon stated the pad size will be able to accommodate a 6 Bcf to 9 Bcf plant size. Chair Pruhs asked if there is an ability to expand the pad above 9 Bcf for additional modules. Mr. Snyder believes expansion is possible. Mr. Davis noted expansion is included in the big picture, but there are currently no plans or design for expansion.

Chair Pruhs reminded the Board the construction of the pad is part of the at-risk dollars because the construction will occur before commercial agreements are obtained.

Ms. Nygard asked if there was any preference for Alaska companies in the RFP and how much experience of North Slope work is being required for the contractors. Mr. Berdon stated the contractors selected in the RFP are both Alaskan companies. There was not a stated Alaska company preference in the RFP.

Mr. Wilken requested a date be given for the record of when to expect the gas supply agreement, the EPC price and the trucking costs. Mr. Davis believes there will be a formal term sheet including the price for gas by June 30, 2014. Mr. Adcock stated the indicative price of the EPC is mid-July and the final cost of the EPC is early October. Mr. Brown stated the indicative trucking costs will be a range and out on July 25, 2014. The indicative costs become precise and final when the actual contract is in effect. Mr. Wilken asked if the buy-it price per Mcf of gas and the EPC number will be a fixed price or a range of pricing. Mr. Davis stated that fixed price of the term sheet should be known through negotiations by the end of this month. Mr. Snyder noted the EPC number will be a firm price.

Mr. Wilken asked if it is necessary to have sessions with AEA to understand how they are starting to refine the distribution costs, because the meter price is important. The question was not answered. Mr. Davis stated this is a fuel substitution business model. Fuel oil in Fairbanks is about \$3.90. Some of the factors that will affect people's decision to convert include, substantial savings when they convert, convenience, and lower pollution.

Mr. Pawlowski asked if the off-take agreements have to be approved by the Regulatory Commission of Alaska (RCA). Mr. Davis believes, but is not certain, if the off-take agreements will be subject to RCA scrutiny.

Chair Pruhs requested staff and consultants provide timely notification to the Board if these milestone dates change and the reasons for the changes. Mr. Leonard agreed to update the Board every week.

Mr. Leonard stated a project development team will be formed between AIDEA and MWH to work on a daily basis to ensure this schedule moves forward.

Mr. Pawlowski stated the Board is expected to act on the concession agreement resolution at the next meeting and requested staff provide the necessary information to the Board prior to the meeting in order for the Board to have sufficient time to make an informed decision.

Mr. Wilken asked, for the record, what is the date of the allocation of funds meeting. Mr. Leonard believes that meeting could occur in August. Mr. Wilken requested a date on when to have a public or private executive session discussing the update on trucking. Mr. Leonard believes that meeting should occur at the end of July.

Mr. Wilken asked, for the record, five questions; 1) what does the Alaska Oil and Gas Conservation Commission (AOGCC) say that it costs BP field operators to handle the 8 to 9 billion cubic feet a day of gas that comes up with the oil and water, which is then put back in, and if AOGCC does not have that cost information, then who does have that cost information, 2) how much field gas is used every day by the operators, 3) what is the cost of the gas used by the operators every day, 4) is the price paid to the operators for that gas that is coming up a net price based on raw gas, which includes 15% of CO<sub>2</sub> and hydrogen sulfide.

Mr. Davis stated he is able to answer question four now. The price offer in the contracts from both producers is based on raw gas and the contract makes no representation of the composition of the gas. However, the composition of the raw gas has a number of impurities and some of those impurities can be monetized, including propane. Other impurities could be burned to run the plant. All of these factors are part of the indicative price. Mr. Springsteen advised the contract is dictated in a BTU context, price per liter of BTU. Mr. Wilken asked if it is a net price. Mr. Springsteen noted the price is strictly based on the thermal energy content of the gas, not the composition, including CO<sub>2</sub> and hydrogen sulfide.

Mr. Wilken asked his fifth question; what is the demand for field liquefied natural gas (LNG) to replace the low sulfur diesel that is being trucked in. Mr. Davis stated he does not know the answer to that question at this time. His assumption is there are no fuel sales for that kind of production usage on the North Slope, but there could be other sales on the North Slope, including propane sales to the North Slope Borough. Mr. Adcock noted MWH is reviewing the commercial liability of the plant to see who is going to buy what gas and displacing diesel on the North Slope is of interest, but there are no good numbers on that possibility currently. The transportation market is of keen interest.

Mr. Wilken commented there are, according to DOT, 40 trucks a day filled with gas that go from Tesoro and Valdez, and there must be a way to convert that usage to LNG and provide a market. Mr. Wilken requested to know how many BTUs are in those 40 trucks a day. Mr. Davis does not know the answer to that question today. Mr. Wilken again requested responses to each of the

five questions he just outlined on the record from his May 21, 2014 email. Mr. Leonard stated the answers are being compiled with the assistance of MWH, HDR and other agencies.

**6B. Executive Session - Spectrum Alaska, LLC:**

**MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential status of negotiations to purchase Spectrum Alaska, LLC, and to consult with legal counsel. Motion seconded by Commissioner Bell. The motion was approved.**

Executive Session was entered at 1:24 p.m. The Board reconvened its regular meeting at 1:52 p.m. Chair Pruhs stated no formal action was taken during executive session.

**6B1. Resolution No. G14-13 Authorizing the Waiver of Conditions to the Purchase of Spectrum Alaska, LLC**

**MOTION: Vice-Chair Dick moved to approve Resolution No. G14-13. Motion seconded by Commissioner Bell.**

Mr. Leonard said Resolution No. G14-13 is asking for a waiver of Section 3.3 of the Member Purchase Agreement in purchasing Spectrum Alaska, LLC, which will allow the permitting process to move forward for the IEP project gravel pad.

Chair Pruhs asked if due diligence has been performed on Spectrum Alaska, LLC. Mr. Juday and Mr. Leonard agreed the due diligence has been performed.

**The motion passed with board members Wilken, Nygard, Bell, Dick, and Pruhs voting yea.**

**6C. Endeavour Jackup Rig Update**

Mr. Leonard reported he gave a status update to Chair Pruhs last night and requested Mr. Hemsath give the Board a briefing and answer any questions. Chair Pruhs requested Mr. Juday also be available to answer any questions.

Mr. Hemsath provided a detailed update and stated Buccaneer filed Chapter 11 for reorganization this past Saturday and claimed the date of the filing was to prevent 100% of their funds from their Kenai Loop Road to go into an escrow account as required by AOGCC. In that filing, Buccaneer would like to be released, retroactive to May 31, 2014, from the Charter Agreement, which KOV has with Kenai Drilling, a Buccaneer Energy subsidiary, to lease the rig for five years. AIDEA is considered a secured creditor. Earlier this year, Buccaneer sold their common membership share of KOV to Ezion. Buccaneer has no legal standing with KOV or with the rig. AIDEA is in the process of engaging bankruptcy counsel in Texas. KOV and Ezion are doing the same. The current rig operator is Spartan. Mr. Hemsath believes it would be advantageous to get a new rig manager who would be able to manage and market the rig in Cook Inlet. There is current interest.

Chair Pruhs asked if KOV's due diligence for interested rig managers will be different than the due diligence for Buccaneer, so this situation is not repeated. Mr. Hemsath agreed the due diligence will be different because the project specifics are not the same. The rig managers will

be looking to hire the rig out to people with leases as opposed to a lease owner coming in with a rig. Chair Pruhs asked if these interested rig managers have interest in an equity position in the rig. Mr. Hemsath stated one of the interested parties does have an interest in an equity position. Chair Pruhs asked if that party would be interested in AIDEA's position. Mr. Hemsath noted the interest is in purchasing half of the common interest back from Ezion. Chair Pruhs asked why AIDEA has not looked into selling AIDEA's interest. Mr. Hemsath noted that just has not yet been approached in the negotiations. Chair Pruhs asked if that is a possibility. Mr. Hemsath agreed. Mr. Leonard noted there are a number of issues, including legal issues; that have to be resolved in order to sell AIDEA's interest.

Mr. Wilken requested further explanation on how the competition claims success while Buccaneer is claiming bankruptcy. Mr. Leonard does not believe the projects are comparable because the competitor's rig was solely to drill on their project. Mr. Hemsath explained the rig selected was purposefully a much larger rig for deeper waters and broader use than the competition's rig. The rig that was purchased, the Endeavour, required substantially more refurbishment work than was initially anticipated under inspection. Mr. Hemsath believes the competition was better financed than Buccaneer to do the development work.

Chair Pruhs asked if there were any red flags when it was portrayed to AIDEA that the rig was going to cost X to be refurbished and then it really cost Y, equaling a \$20 million difference. Mr. Hemsath reported Buccaneer selected the party to provide the inspection and the projected cost of refurbishment. The inspection could only occur in Malaysia with no power. AIDEA contracted with DNV to do a third-party inspection of the rig under limited conditions and found it was a fit rig that could be refurbished. The bank required a second appraisal, which came in at a value of \$127 million as a Singapore-based rig under conditions of being refurbished. The refurbished costs at that point were estimated to be a \$104 million.

Mr. Hemsath stated it was not a red flag that there was more work than anticipated. The red flag was when it reached Homer and the work that was shown, documented and looked to be complete was, in fact, not complete or was not done correctly, hidden, and required a much more aggressive refurbishment. One of these included a defective life boat covered under warranty, which took additional time to reconcile. These factors contributed to arriving in the Inlet later, moving off of their programmatic drill site, and going to work in the Cosmopolitan lease. The Cosmopolitan lease provided tremendous results for both gas and oil plays.

Mr. Hemsath noted the rig moved to the second site last summer and put legs down, but the current undercut the legs, which is a problem with any jackup rig in Cook Inlet. The rig was then floated to a different location and necessary actions were taken, but could not get sufficient work done by the end of the drilling season and went to shore to work, at which point the lease was lost.

Commissioner Bell commented Buccaneer's financial vulnerabilities were known to the Board from the beginning and their cash flow was going to be the tax credit. The Board discussed exit strategies from the very beginning, because it was known this rig would need to have other clients in order to maintain operations. Commissioner Bell believes the main contributor to this situation is when Buccaneer lost time during the season and then during a second season and not

getting the cash flow needed. The work by the Board, staff, and consultant team included a disciplined plan of exits if the operating plan was not successful and a situation like this occurred.

Vice-Chair Dick requested the exit strategies be provided again to the Board. He also requested the Board think longer-term as to whether or not this asset should be retained. Mr. Hemsath will provide the exit strategies to the Board and advised the next strategy in moving forward with the program as designed is getting the rig under charter, getting revenues coming in starting with the end of the summer, having the rig used in Cook Inlet, getting back the payments in terms of the repurchase of the member obligations and dividends, and moving forward with the exit strategy as defined in the five to six-year period from now. The ultimate exit strategy is to sell the rig.

Commissioner Bell believes it is important to review the risk analysis to determine if the risk taken was appropriately rigorous. She stated the rig ownership is not affected by Buccaneer's bankruptcy.

Chair Pruhs asked what is the anticipated cost of legal representation in order to protect AIDEA's position, where is that on the operating budget, and how will it affect the income statement. Mr. Juday stated it is difficult to project at this point, but it would not be unheard of for \$100,000 or more in legal fees to be incurred. Chair Pruhs requested a conservative budget for legal fees as a line item so it can be tracked. Mr. Juday agreed and noted the Department of Law may do a procurement to engage a Texas bankruptcy attorney. That procurement will have a not to exceed dollar amount and will have an RSA budget number with AIDEA to finance that. Mr. Leonard stated that will come into the regular operating budget as part of the development cost.

Chair Pruhs requested the costs AIDEA is incurring and anticipated to incur regarding the bankruptcy be placed as a separate line item at every update on Buccaneer. Those updates can occur every two weeks, unless an important item needs to be communicated. Mr. Leonard agreed.

Chair Pruhs requested more information on the legal dispute between Archer and KOV. Mr. Hemsath reported the work managed by Archer brought a rig to Alaska that was nonfunctioning when it was supposed to be functioning. Buccaneer refused to pay Archer and Archer subsequently brought a lawsuit against Buccaneer for approximately \$20 million. KOV is named in that suit and AIDEA is not names. Ezion is now financing the defense for that lawsuit.

Chair Pruhs requested an update on Mr. Hemsath's meeting with Ezion, especially since AIDEA is relying on their business decisions in the near future. Mr. Hemsath stated Ezion wants to maintain this rig, believes the rig can be successful, and understand the value in Cook Inlet. Ezion bought 50% of the common ownership from Buccaneer and are looking to pursue a buyer of that 50% common ownership. Chair Pruhs asked if AIDEA has to approve that transaction. Mr. Hemsath and Mr. Leonard agreed.

Ms. Nygard asked if the Board had to approve the operator. Mr. Hemsath noted that was part of the decision, because the presumed operator at the beginning was Buccaneer, who was the

project proponent. Mr. Leonard noted due diligence was performed on Ezion, which was part of the process the Board reviewed in going forward with this project.

## **7. DIRECTOR COMMENTS**

### **7A. Director's Status Report**

Mr. Leonard stated the reports have been provided to the Board and will answer any questions. He noted outstanding failed projects are at \$9.1 million.

Vice-Chair Dick requested the timeline for the comprehensive credit framework and the financial capacity model. Mr. Leonard stated progress is being made and the goal is to have completion sometime this summer. Vice-Chair Dick asked when do projects get placed on the project matrix. Mr. Hemsath stated it begins with a reimbursement agreement approved by the Board.

Mr. Davis stated there will be an EIS primer, explaining the process, on June 25, 2014, in Kotzebue and another meeting on the eastern side. There is a no-build option within the EIS. A website has been created and posted that goes through the EIS process. Mr. Leonard noted before AIDEA could move forward with the project, the Northwest Arctic Borough has to give their approval. The Governor will have to select a committee from the unorganized area to provide advice to the Board. Mr. Davis stated AIDEA will work closely with the Department of Commerce and Commissioner Bell.

### **7B. The next regularly scheduled board meeting will be Thu. June 26, 2014 immediately following the AEA board meeting.**

## **8. BOARD COMMENTS**

Chair Pruhs expressed his appreciation to MWH and Kiewit and is sensitive to their desire for a successful project. He requested Mr. Leonard and the executive staff, when a Board member asks a question or requests information, if the information cannot be provided immediately to give a timeframe for when the response can be expected, where the information is coming from, and the reason why the response would take no more than a couple of days. Mr. Leonard agreed.

Commissioner Bell stated she just returned from the International Economic Development Council Conference in Minneapolis. The larger fall conference will be in Fort Worth this October and will be held in Alaska next year. The planning team is working on making the Alaska conference successful with approximately 1,500 people in attendance. She thanked AIDEA for assistance in logistics and some of the costs for participation. Commissioner Bell advised she will be in Nome and Unalakleet the week of the June board meeting and will be in Kotzebue for the EIS primer meeting. Given the logistics, she may be phoning into the Board meeting. She is looking forward to the July meeting in Ketchikan and connected AIDEA staff with the Chamber and Ketchikan Visitor's Bureau, with a possible mixer or presentation with boards and staff. They are very excited AIDEA is coming to Ketchikan.

Ms. Nygard expressed her appreciation to AIDEA and the developers who moved the City Center Wasilla investment forward. She said the FAA moved approximately 12 of their staff out to the City Center.

Mr. Wilken suggested the possibility of starting at noon for the next meeting and considering adding a meeting on the 25th if additional time is needed to address all of the issues. Mr. Wilken said he is comfortably uncomfortable about the IEP. He remains comfortable with MWH, believes they are working hard and their presentations today were really good. Mr. Wilken noted, in Fairbanks this project is expected to go forward, expected to benefit, and expected to be at a certain price. He wants to be fully aware of the process so there are no surprises.

Mr. Leonard requests the Board's support on the stated feasible range from AIDEA between \$14 and \$18, not a precise \$15.

Chair Pruhs requested Vice-Chair Dick to ask Mr. Therriault send an email to the Board regarding the EPA ruling on the carbon issue that came out yesterday and how it affects AIDEA's energy projects.

## 9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:05 pm.

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