



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, October 5, 2011
Anchorage, Alaska;
Sacramento, California; and Milwaukie, Oregon

1. CALL TO ORDER

Chairman Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on October 5, 2011 at 11:25 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Chair Hugh Short (Public Member); Curtis Thayer (Deputy Commissioner, Department of Commerce, Community, and Economic Development); Ron Arvin (Public Member); Wilson Hughes (Public Member); and Robert Sheldon (Public Member).

Member participating from Sacramento, California: Bruce Tangeman (Deputy Commissioner, Department of Revenue).

Member participating from Milwaukie, Oregon: Gary Wilken (Public Member).

3. AGENDA APPROVAL

Mr. Leonard requested changing 7B to 7D allowing two resolutions to be added. Item 7B regarding procurement and change Endeavour Project (Buccaneer) to 7C. The public portion of the Endeavour presentation will be made prior to entering an executive session.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Credit); Mark Davis (Deputy Director-Investment Finance and Analysis); Jim Hemsath (Deputy Director-Project Development and Asset Management); Valorie Walker (Deputy Director-Finance); Karsten Rodvik (Project Manager, External Affairs); Mike Catsi (Business Development Officer); Mark Schimscheimer (Project Manager); Chris Rutz (Chief Procurement Officer); Sherrie Siverson (Executive Assistant); Sandy Burrows (Administrative Assistant); and Teri Webster (Administrative Assistant).

Staff participating via conference call: Aaron Rhoades (Human Resource Administrator).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Pat Clancy (Western Financial Group); Dennis Fenerty (Groh Eggers); and Robert Schwartz (Thermo-Kool).

Participating via conference call: Mark Gardiner (Western Financial Group).

Listen to the full audio recording of the 9/5/2011 meeting at <http://www.aidea.org/boardmin.html>

5. PUBLIC COMMENTS

Robert Schwartz, Resource Processing Systems, LLC

Mr. Schwartz presented an outline and reviewed his business plan of bringing a true recycling business to Alaska. He said it is not his intent to compete with existing programs, but to do a more thorough job of marketing recyclable materials. His intent is to recycle 100% of the waste stream, not just paper and cardboard. He came to this board seeking financial backing. Chair Short thanked him for his presentation and asked Mr. Leonard and staff to work with Mr. Schwartz and said he is looking forward to hearing more about this in the future. (*Listen to the full audio recording of Mr. Schwartz' presentation of 9/5/2011 at <http://www.aidea.org/boardmin.html>*).

6. PRIOR MINUTES – Aug. 22, 2011 Board Meeting, Aug. 22, 2011 Board Work Session, Aug. 23, 2011 Board Tour Summary

Minutes from the August 22 board meeting, August 22 board work session and the August 23 board tour summary were adopted as amended.

7. NEW BUSINESS

7A. Discuss process for Executive Director Review

Chair Short explained the process and timeline to develop an evaluation review system for the Executive Director. He said he would like this process concluded at the December 14 Board meeting. Commissioner Bell, himself and another board member will meet to develop questions and an instrument tool to provide some feedback. He asked for a board member to serve on the committee. Mr. Wilson Hughes volunteered.

7B. Resolution No. G11-10A Adopting Procurement Regulations for the Authority

7C. Resolution No. G11-11A Delegating Procurement Authority to the Executive Director and Chief Procurement Officer

Mr. Bjorkquist verified that both resolutions G11-10A and G11-11A could be discussed and voted on at the same time.

MOTION: Mr. Arvin made a motion to adopt Resolutions No. G11-10A and No. G11-11A. Motion seconded by Deputy Commissioner Thayer. Chair Short called for discussion.

Mr. Bjorkquist said the regulations attorney in the Department of Law reviewed the regulations adopted for procurement on August 22 and suggested two contextual changes and several stylistic changes. One contextual change is, rather than allowing the Board to delegate to the Executive Director appeals from protests and claims that this function should remain with the Board. Recently a conclusion was made under which decisions on appeals from protests and claims can have a substantial impact, effectively similar to a regulation, on how the program operates in the future for other applicants or participants of a program. Because the decisions on appeals can rise to that level, the opinion was that it is inappropriate for a Board to delegate this responsibility and therefore, this responsibility needs to remain with the board.

The second contextual change was a change in the delegation of power under AS 36.30 to make it clear the power did not include adopting regulations, which was never intended.

Mr. Bjorkquist said the stylistic changes are formatting and deletion of some language that puts into context why AIDEA was adopting the procurement regulations.

Resolution No. G11-10A would adopt these regulations as its procurement regulations. Since the regulations attorney has already reviewed these thoroughly, it would be a relatively quick process to get them to the Lieutenant Governor. Mr. Leonard needs to sign another order adopting the regulation and they could go forward.

Resolution No. G11-11A is a companion resolution similar to what the board adopted at its August 22 meeting delegating various functions to the Executive Director and the Chief Procurement Officer. Changes were made in section 1 in the chart of the statutes under AS 36.30. Reference 36.30.040--adopt procurement regulations, 36.30.590-640--Hear and make decisions on a protest appeal, and 36.30.620-635--Hear and make decisions on a contract claim were changed from the Executive Director to the AIDEA Board for authority.

Mr. Bjorkquist read two edits into the record: Resolution No. G11-10A - Page 1, first "WHEREAS" clause, in the second line after "Resolution No. G11-10" add "and Resolution No. G11-10A" because the resolutions are going to be adopted under both. Resolution No. G11-11A - Page 3, Section 2, third line, after "Resolution G11-10" add "and Resolution No. G11-10A".

A vote was called on both resolutions. The motion passed with Mr. Wilken, Mr. Sheldon, Mr. Hughes, Mr. Arvin, Deputy Commissioner Thayer and Mr. Short voting yea. Deputy Commission Tangeman was not present during this vote.

7C. Endeavour Project (Buccaneer) Presentation – Public Session

Mr. Hemsath gave an update on the progress of obtaining the Cook Inlet Jack-up Rig. Presently the project is called "Endeavor," but there may be a different name for the rig later because a "naming contest" was recently held in Kenai. Mr. Hemsath covered the current status of the project.

- Closing scheduled for October 25, 2011
- JOA deadline on the Conditions Precedent has been extended to October 31, 2011
- AIDEA investment is less than \$24 million
- First wave of inspections occur this week
- Second wave (DNV for AIDEA) October 12, 2011

Mr. Arvin asked about DNV. It stands for Det Norske Veritas. It is a world-wide shipping inspection company based in Norway. A drill rig can either be American-Euro Shipping certified or DNV certified. DNV is one of the two agencies who certify off-shore drilling rigs in the world. AIDEA has a contract with the DNV Houston office to perform technical services. They are working directly for AIDEA. Mr. Arvin asked if they were vetted for somebody else and Mr. Hemsath replied no, they were hired by AIDEA. Mr. Arvin asked if their inspection is for safety and sea worthiness for travel, or operations. Mr. Hemsath said the inspector of note and certification is the American Bureau of Shipping (ABS), not DNV. DNV is acting simply as AIDEA's technical representative. They will do a visual inspection of the rig to assure AIDEA the information received to date on the preliminary inspections--the condition of the rig as well as the capability of the rig--are as they seem prior to the sale of the rig and prior to the movement of the rig to Singapore for refurbishment.

Mr. Arvin asked who is doing the inspection of the modifications to the rig in Singapore prior to its transport to Alaska. Mr. Hemsath said this rig is being bought by our partner and they will be responsible for assuring the rig does what it does. Keppel FELS have their own internal inspection and certification of papers, but more importantly, this rig will be certified by ABS as being sea-worthy and drilling-worthy as a drilling rig and that will occur in Singapore. Additionally, once the rig moves into Alaska waters, the Coast Guard will make an evaluation. The Alaska Oil and Gas Commission will also do a rig evaluation when it is on site, to confirm the rig is capable of working in Alaskan waters.

AIDEA needs to get a final signoff on the modification and conditions subsequent confirming the work was done in accordance with the scope of work presented. DNV will serve as our eyes, but they are not inspectors. Buccaneer and Ezion are delivering a rig appropriate to work in Alaska waters and will be responsible for all costs associated with bringing the rig up to completion.

Mr. Fenerty discussed which conditions precedent have been completed. Four out of eighteen conditions precedent have been finalized. They relate to selection of the manager of the LLC; the Mobile Offshore Drilling Unit (MODU) purchase agreement signed by Kenai Offshore Ventures (KOV); and Ezion's commitment to lending KOV \$3.3M to fund payments against an OCBC Bank loan until KOV starts generating income; the loan agreement with Ezion has been signed; and approval of the Buccaneer entity's organizational documents that will be the manager of the LLC.

The signed JOA anticipates AIDEA will roll into a limited liability company (LLC) which is Kenai Offshore Ventures, LLC (KOV). Presently KOV is composed of Ezion and Buccaneer as owners. AIDEA will roll into the LLC when conditions precedent are satisfied and when AIDEA is prepared to fund.

He emphasized the LLC agreement is imposing strict constraints on the manager and gives AIDEA the right to take over if the manager does not perform the duties that were spelled out. The LLC agreement is still in negotiation and Mr. Fenerty is not aware of any contest over control of the manager.

The LLC agreement itself will address five additional conditions precedent. Three conditions precedent relate to Buccaneer's guarantees to AIDEA: (1) they are guaranteeing they will use this rig to drill four wells; (2) for any work beyond the four wells in Alaska, they will exclusively use this rig if the rig possesses the characteristics necessary to drill wells they are proposing; and, (3) the unconditional guarantee that the Buccaneer parent entity is guaranteeing every commitment made to AIDEA. The last one is still under review but the all of the documents are very close to final. The remaining two conditions precedent relate to AIDEA's acceptance of the condition of the rig.

One of the conditions precedent is our subjective satisfaction with the collateral, not the value of the collateral. Mr. Fenerty said that if Buccaneer cannot financially drill the four wells, the entire premise of this deal falls apart. He received significant financial information from Buccaneer satisfying this condition precedent. The Buccaneer collateral is the state incentives to secure their obligations, but AIDEA has a right to receive their first \$3M in state incentives awarded. The second lien on the rig is collateral and the rig equipment is the collateral. AIDEA is taking a lien against 3.5% of the overriding royalty interest (ORI) in all of Buccaneer's holdings in Texas and Alaska. This is additional collateral.

Mr. Arvin asked if Buccaneer has ORI's with other companies. Mr. Fenerty said, to his knowledge, Buccaneer has not pledged or created any ORI's on anything they own.

The final condition precedent relates to insurance. Buccaneer made an insurance proposal to AIDEA and the details are still being worked out between the two insurance consultants.

Two conditions subsequent were added: (1) allow AIDEA to have a final inspection of the rig in Singapore to verify the work done is in accordance with the work plan agreed upon and that standards of inspection have been followed; and (2) the rig has to be completed in a timeline to allow the rig to operate in Cook Inlet during the 2012 season. The rig should ship the first of April and be in Cook Inlet the first of May.

Mr. Fenerty said they just learned that Buccaneer is going to approach the seller of the rig and ask for a two-week delay in closing the deal. The new closing date would be November 8, 2011. He did not know if the seller was going to agree or not. Mr. Leonard asked if that will cause a shift in the timeline for the drilling schedule. Mr. Hemsath said that it should not but it will be tight.

Deputy Commissioner Thayer asked why the schedule was delayed two weeks. Mr. Fenerty said they need time after inspections by all parties to develop the scope of work, the budget and the schedule. The two weeks would give the people time to write up the required reports to satisfy AIDEA's two conditions precedent.

Mr. Sheldon asked how long the \$3.3M loaned to KOV will last and if they can take out interim loans to make scheduled payments. Mr. Clancy said \$3.3M represents the amount of interest due on that loan between the time they close to the time they become operational in the inlet. Since the operational time is not being delayed, every day they do not close is a less amount they have to be loaned.

Mr. Sheldon asked if AIDEA has any recourse if the rig does not operate as advertised five, or seven years from now. Mr. Hemsath said AIDEA's recourse is twofold. One is Ezion and Buccaneer are responsible for any cash calls necessary to bring the rig up to the condition necessary to operate. Two is the fact that AIDEA has purchased a rig. The conditions precedent say we go into a default and work through the collateral, including all of the ORI's.

An update on Escopeta was given based upon public record. The Escopeta rig had a target of 14,000 feet, but they stopped at 1,800 feet due to mechanical and encasing problems. They do not know when it will be resolved. They expected to reach 4,800 feet this year before they are required to stop drilling at the end of October.

7D. Executive Session: Endeavor Project (Buccaneer); DeLong Mountain Transportation System (DMTS); Healy Clean Coal Plant (HCCP)

MOTION: Deputy Commissioner Thayer moved to go into executive session to discuss business and proprietary information regarding the Endeavor Project (Buccaneer), DMTS and HCCP. Seconded by Mr. Hughes. There being no opposition, the motion passed.

EXECUTIVE SESSION: 12:30 p.m.

The Board reconvened its regular meeting at 2:45 p.m. Chair Short departed during the executive session and appointed Deputy Commissioner Thayer, who is representing Commissioner Susan Bell, as acting Chair. Mr. Sheldon and Mr. Tangeman also departed during the executive session. A quorum was met.

Mr. Bjorkquist said everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

Mr. Leonard said the next regularly scheduled AIDEA Board meeting is Wednesday, November 9, 2011.

9. BOARD COMMENTS

Mr. Wilken referred to the Lik project fact sheet and the statement on economic and social effects. He said he would like staff to develop this statement and add details on which tax base is used and back it up with facts and dollar amounts.

Mr. Arvin will be departing for Asia for a month. He asked for a snapshot of the Skagway Ore Terminal. Mr. Hemsath will provide him a copy of a map he has of this project site.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 2:48 p.m.



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