



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, April 25, 2013
Anchorage, Alaska

1. CALL TO ORDER

Chair Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on April 25, 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); Robert Sheldon (Public Member); Gary Wilken (Public Member).

Joined the meeting in progress at 10:09 a.m. Ron Arvin (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); Sara Fisher-Goad (AEA Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management); Gene Therriault (AEA Deputy Director-Energy Policy Development); Valorie Walker (Deputy Director-Finance); Brad Heaston (IT Manager); Karsten Rodvik (Project Manager-External Affairs); Jim Strandberg (Energy Development Finance Officer); Kelli Veech (Accounting Systems Analyst); Sherrie Siverson (Executive Assistant); Krin Kemppainen (Admin Assistant).

Public: Bill Allen and Bear Rimien (Resource Data); Brian Bjorkquist and Jerry Juday (Department of Law); Steve Klein (First Infrastructure); Jeff Logan (HDR); Peter Manuel (Ucore Rare Metals); Sunny Morrison (Accu-Type Depositions); John Wood (Senator Dunleavy's Office).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES - March 29, 2013

The minutes from March 29, 2013 board meeting were adopted as presented.

7. NEW BUSINESS

7A. Resolution No. G13-02 Adopt new regulations 3AAC Chapter 101 Sustainable Energy Transmission and Supply Development Program, and amendments to existing regulations for the Tax-Exempt Loan Participation Program, the Taxable Loan Participation Program, and Conduit Revenue Bond Program

Mr. Leonard said Resolution No. G13-02 is for the new SETS program given to AIDEA last legislative session. This program will provide financing for sustainable energy transmission and supply development. He asked Mr. Davis, Mr. Strandberg, and Mr. Klein to provide an overview and be available for questions.

Mr. Steve Klein from First Infrastructure summarized the process and outcomes from the comments received during the public comment timeframe. All comments were reviewed, collated and cross-referenced and in some cases individual conversations were held to clarify. Three main issues/concerns were raised and addressed: 1) Sequencing of documents in the purchasing of power; 2) Nature of security required on any real property associated with a new protect; and. 3) The most appropriate index for setting interest rates on loans.

There were no questions from the Board. Mr. Short thanked Mr. Leonard and staff for all the hard work put into the new regulations and for the session held the previous week.

MOTION: Mr. Sheldon moved to adopt Resolution No. G13-02. Seconded by Mr. Wilken. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Sheldon, Mr. Arvin, Commissioner Butcher and Mr. Short voting yea.

7B. Resolution No. G13-08 Navision Upgrade and Server Virtualization

Mr. Leonard said Resolution No. G13-08 is for a \$200,000.00 capital expenditure for a major software upgrade. He invited Mr. Heaston and Ms. Veech to the table to answer questions.

Commissioner Butcher asked for a brief explanation of what the software does. Ms. Veech said the software upgrade covers a wide range of systems including: loans; investments; receipt of grants; distribution of grants; project accounting; and audits. The upgrade has many benefits to the user and will provide additional access to project managers.

Mr. Wilken asked if the upgrade will have to be repeated once a transition is made to a new facility. Mr. Heaston said the upgrade will move seamlessly. Mr. Wilken asked if this software is shared with AEA. Ms. Veech said it is. Mr. Wilken asked if this upgrade is a single source acquisition from an existing vendor and Ms. Veech replied in the affirmative.

Chair Short asked if there are other state agencies using this software. Ms. Veech said she didn't know of any. The software is generally tailored to non-profits and government accounting uses.

MOTION: A motion was made by Commissioner Butcher to adopt Resolution No. G13-08. Motion seconded by Mr. Wilken. Motion passed with Mr. Wilken, Mr. Sheldon, Mr. Arvin, Commissioner Butcher and Mr. Short voting yea.

7C. Resolution No. G13-09 Authorizing expenditures from the Sustainable Energy Transmission and Supply Development (SETS) Fund

Mr. Leonard said Resolution No. 13-09 would authorize AIDEA to utilize up to one million dollars from the SETS fund to assist with pre-feasibility, feasibility and due diligence for the Interior Energy Plan. Mr. Leonard invited Mr. Davis and Mr. Strandberg to the table to answer questions.

Mr. Davis gave an overview of the resolution and said the statute explicitly states the Board can use funds for a due diligence review. These funds will be repaid. Chair Short asked for an estimate of the total cost for this due diligence process. Mr. Davis estimates approximately \$3 million dollars

at a minimum. Mr. Leonard believes that is a blended cost range for moving the project forward and thinks the due diligence process alone is closer to \$1.5 million dollars.

Commissioner Butcher asked if there is money in the upcoming budget and what amount. Mr. Davis said SB 23 legislation has an appropriation of \$57.5 million dollars and allows for use of some of those funds, but the funds will not be available until July. This resolution is gap funding.

Commissioner Butcher asked if the funding will go back into the SETS fund to replace the \$57 million dollars taken out of the corpus. Mr. Leonard said there are four parts to the funding: (1) \$57.5 million dollars will be transferred out of the corpus of the SETS fund to be utilized for this project through the capital appropriation; (2) \$125 million dollar transfer to the SETS fund for lending to the project at 3%; (3) AIDEA has authorization to issue bonds up to \$150 million dollars with a state moral obligation; and (4) the fiscal notes also include \$700,000 of receipts to utilize for project management.

Mr. Wilken asked for an explanation of the structure, i.e. who is doing what and who are the players in Fairbanks. Mr. Davis said staff has met with a number of entities, including the Interior Gas Utility, Fairbanks Natural Gas and GVEA. Mr. Leonard said staff has also met with borough and city representatives. Mr. Davis said staff would like to develop a plant that would produce the LNG on the Slope, but have not yet finalized a method of delivery. Mr. Leonard invited Ms. Fisher-Goad and Mr. Therriault to the table to answer questions as they are point personnel with the communities.

Mr. Wilken asked if staff in Anchorage are trying to put together a group in Fairbanks who will be able to utilize the SB 23 legislation. Mr. Davis said the goal is to accomplish what the Governor has set forth in the Interior Gas Plan. This includes getting the gas to Fairbanks in a timely manner in order to do the project, and delivering the gas at a rate so that a significant portion of Fairbanks will change over. Also, Mr. Therriault is based in Fairbanks and is available to the community.

Mr. Wilken asked if it is fair to say to constituents that AEA/AIDEA are calling in professional help to develop a structure that will then be presented to interested parties to pursue the goals of the legislation. Mr. Davis said yes and the consultants are HDR, MEI, Prologue, and Northern Economics (NEI).

Chair Short doesn't know enough about the project, the process and the timeline to answer the questions he is getting. He suggested having a work session with the Board to get clearer answers to give to constituents. Chair Short said his concern about the cost of the project and being able to produce a cheaper energy source. He believes the project has moved very quickly and he hasn't been able to keep up with the progress. Mr. Leonard said that even with the passage of SB 23, AIDEA still has to go through the same process as any other project and present the information to the Board and would be able to provide work sessions to the Board as needed.

Mr. Arvin asked why a Canadian company is being asked to provide trucking information about moving commodities from the North Slope to Interior Alaska when there are Alaskan companies, who are subject-matter experts and can help develop the cost model. Mr. Leonard said Prologue is being used only for the initial assessment to determine if the numbers provided by the participants are feasible numbers. Alaskan companies will be utilized as the process continues. Mr. Davis said AIDEA wants to make sure it does not give any person who might want to contract with the business an inside track by hiring them as a consultant.

Mr. Arvin understands there is a certain box that has to be worked in, but doesn't believe it is in AEA, AIDEA, the state of Alaska and the administration's best interest to revisit challenges on

services, sourcing and how information is gathered. Mr. Davis said he understands; staff are in Phase II of the project chart and at the end of this phase will come back to brief the Board in work groups.

Chair Short requested setting up the process of briefing the Board with Mr. Leonard.

Mr. Wilken requested there be data provided stating what area of the process each company is working on because it would be helpful to break the project down so people can understand it. He will be able to use the process chart to illustrate what steps are being taken. The team in place is excellent; his concern is spending this amount of money and having the price of energy remain the same.

Chair Short suggested setting up a project website with general information, contact information and contractor information, which would provide public transparency. Mr. Davis said that has been discussed and staff will come back with a proposal. Ms. Fisher-Goad said there is a team in place to address these issues. They are transitioning to post-session, public outreach and communication efforts. Mr. Davis anticipates there being formal agreements between AEA and AIDEA. Mr. Leonard said AIDEA's project financing expertise will be combined with AEA's energy development expertise for this project.

MOTION: A motion was made by Mr. Wilken to adopt Resolution No. G13-09. Motion seconded by Commissioner Butcher. Motion passed with Mr. Wilken, Mr. Sheldon, Mr. Arvin, Commissioner Butcher and Mr. Short voting yea.

7D. Rare Earth - Ucore

Mr. Leonard introduced Mr. Peter Manuel, Vice President and CFO of Ucore, which is a company that owns the rights or the reserve to the heavy rare earth find on Bokan Mountain on Prince of Wales Island. Mr. Manuel gave a PowerPoint presentation entitled Ucore Rare Metals.

Mr. Wilken asked if rare earth metals consist of 17 discreet elements. Mr. Manuel said some people will refer to 15 elements and some will refer to 17 because of one or two are not naturally occurring and there are other factors involved. This unique group is known as lanthanoids.

Mr. Wilken asked why the slide on near term capability doesn't show any deposits in China. Mr. Manuel stated the slide reflects only the deposits outside of China. Almost all of the heavy rare earths are coming out of China. Mr. Wilken asked how many icons would be on the slide if it included China. Mr. Manuel said there would be dozens of sites, but it is difficult to get information from China regarding the amount of their resources and how long they could be producing. The concerns with China are with the impact they are having on the environment and the possibility they could hoard supply to try to corner the downstream processing associated with the rare earths.

Mr. Sheldon asked if China can control downstream processing, does that also mean they can control automotive manufacturing and other facilities causing them to move to China if there is not an alternative source for the rare earths. Mr. Manuel said if taken to an extreme on the heavy side of the rare earths, China dominates the world's supply and if they decided to completely cut off the rest of the world, as of today, the rest of the world would be out of luck.

Mr. Sheldon believes since normal vehicles require 30 to 40 hits of HREEs per vehicle, China was successful in requiring Ford to build a brand new facility in China to have access. He asked if it would be consistent to say Alaska would potentially be helping to retain the automotive industry

in North America. Mr. Manuel believes that is an accurate statement and REEs are crucial in any vehicle. China has not cut off the rest of the world, but believes China wants the rest of the world to be self-sufficient.

Mr. Wilken asked how Bokan Mountain was discovered. Mr. Manuel said radiometric readings were being taken while flying over the mountain and an anomaly was found and investigated further.

Chair Short asked if the proposed recycling of nitric acid will happen at the mine site. Mr. Manuel said it will happen onsite. Chair Short asked how much energy it takes to separate the elements during the solid phase extraction. Mr. Manuel said it does not take a lot of energy for the final separation stage. It is a chemical reaction and goes through cylinders and the individual element is captured on the way through. Chair Short asked what sort of permitting is required. Mr. Manuel said there have been no problems in getting the exploration permitted. Baseline testing and studies are occurring now and the mine permitting process is just beginning.

Mr. Sheldon asked if the permitting process for the solid phase extraction would take less time than for solvent. Mr. Manuel believes the permitting process should be simpler because the footprint is much smaller and there is less effluent coming out of the process.

Chair Short asked what other mines use the same extraction separation technology. Mr. Manuel said this is a new technology and has been used in the pharmaceutical industry, but has not been applied to rare earth mining. It has been tested on a bench scale and a key step in finishing the feasibility study is to prove it up on a pilot scale.

Chair Short asked if the separation is the reason China has such an advantage because of their lax environmental laws. Mr. Manuel said it is prior to the separation step, in terms of the mining and the actual leaching process. China has expertise in this process. Chair Short asked what happens if the solid phase extraction doesn't work. Mr. Manuel said they are exploring a couple of alternatives, including solvent exchange.

Mr. Wilken asked how the estimated annual payroll compares to Greens Creek. Mr. Manuel said the anticipated salary per worker is slightly lower than the rest of the state. Mr. Wilken asked how the estimated average of 190 workers compares to Greens Creek. Mr. Manuel said he does not know how Bokan compares to Greens Creek, but believes it is similar in size to the Kensington property. The mine life is projected to be 11 years, but has the potential to be expanded.

Mr. Wilken asked if most rare earth mines are open-pit or below ground mines. Mr. Manuel said the vast majority are open-pit mines in China. This proposed Ucore Bokan mine will be underground.

Mr. Arvin asked how close the mine is to Hollis. Mr. Manuel said it is close, but does not know the actual mileage.

MOTION: Mr. Wilken made a motion was made to go into Executive Session to discuss the Healy Clean Coal Plant. Motion was seconded by Mr. Sheldon. The motion was approved.

7E. Executive Session: HCCP 11:38 am.

The Board entered into Executive Session at 11:38 a.m.

The Board reconvened its regular meeting at 12:19 p.m. everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

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

Mr. Leonard directed members to the information in their packets and said he is available to answer questions. The Mustang Road project has completed the development side and is now into the production side. The jack-up rig has moved to the Cosmopolitan and pipe is being put down in preparation of drilling. Construction is happening on the base and all the projects are moving forward as planned.

Mr. Wilken asked for an update on the mechanics of the Buccaneer report. Mr. Leonard said he cannot discuss the litigation, but they have moved out of Homer and are onsite. They have gotten the needed permits. Mr. Wilken asked if they have punctured the earth yet. Mr. Leonard said they have not punctured the earth yet and Buccaneer states May 1st is their projected date.

Mr. Wilken said, in March of 2012, the Ketchikan shipyard project was approved and the Board asked for an employment report for jobs gained and jobs lost, which was never received. Mr. Leonard said staff has received that report and will email it to board members. Mr. Wilken requested the report be an item on the next meeting agenda. Mr. Leonard suggested having a Board meeting in Ketchikan in the future.

8B. Next regularly scheduled meeting is Thursday, May 30, 2013.

9. BOARD COMMENTS

Mr. Wilken said he recently drove the Alaska Highway from Prince George and was encouraged to see all the development going on in Canada and the progress they are making by responsibly developing their resources. Mr. Leonard said that will tie into the potential Skagway terminal and port for moving the minerals coming out of the Yukon Territory.

Mr. Wilken thanked Mr. Leonard and his team for their hard work in Juneau.

Mr. Arvin commented on a good job and appreciates being back in Anchorage.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:26 pm.



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

