



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, April 30, 2015
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on April 30, 2015 at 12:02 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue); Wilson Hughes (Public Member); Crystal Nygard (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED)); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (Executive Director AIDEA); Ted Leonard (Director Emeritus); Chris Anderson (Director-Commercial Finance); Mike Catsi (Director-Business Development & Communications); Mark Davis (Chief Infrastructure Development Officer); Jennifer Haldane (Director-Human Resources); Michael Lamb (Chief Financial Officer); Tom Erickson (Chief Procurement Officer); Leona Hakala (Loan Officer); Matt Narus (Project Manager, Project Development & Asset Management (PDAM)); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (Project Manager, PDAM); Nick Szymoniak (Energy Infrastructure Development Officer); Sherrie Siverson (Executive Assistant); and Krin Kemppainen (Administrative Assistant)

AIDEA Staff participating via teleconference: Jim Hemsath (Director-Project Development & Asset Management).

Public: Alan Bailey (Petroleum News); Kathy Black (Birch Horton Bittner & Cherot); Diane Blumer (PRL Logistics); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Fairbanks Natural Gas (FNG)); Mark Edwards (Northrim Bank); Mark Figura (Rose & Figura); Larry Gaffaney (Huna Totem, Corp.); Tim Gallagher (HDR Engineering); Sterling Gallagher (Governor's Office); Mark Gardiner (Western Financial Group); Kurt Gibson (Hilcorp Alaska); Benjamin Johnson (BlueCrest Energy); Jeff Jones (State of Alaska); Jerry Juday (Department of Law); Eric Helzer and Mark Helmericks (Colville Holding, LLC); Bob Shefchik (Interior Energy Project); Matthew Sievert (Crowley Petroleum); Miranda Studstill (Accu-Type Depositions); and Craig Welch (Brooks Range Supply, Inc.).

4. AGENDA APPROVAL

Vice-Chair Dick said he is the Chairman of the Board for Huna Totem Corporation and will abstain from any discussion or voting on agenda item 7E. Loan Resolution No. L15-05 X'una Kaawu Annee Corporation.

The agenda was approved as presented.

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES - March 26, 2015

MOTION: Vice-Chair Dick moved to approve the minutes of March 26, 2015. Motion seconded by Mr. Wilken.

The minutes were approved as presented.

7. NEW BUSINESS

7A. Interior Energy Project Update

Mr. Springsteen introduced Bob Shefchik, Interior Energy Project (IEP) Project Manager, who provided a status update and discussed next steps. The two actions before the Legislature that affected the financing tools were House Bill (HB) 105 and the capital budget. The IEP portion of HB 105 expanded the geographic flexibility and allows the use of AIDEA financing tools for options other than the North Slope. It also expanded options other than LNG, including propane and small diameter gas lines.

HB 105 provided intent language that the financing tools only be used for the advancement of the IEP goals and that AIDEA must use an open and competitive process to select the private partners. An IEP plan requires AIDEA Board approval by resolution prior to the use of the financing tools. New requirements were established for the IEP, including reporting requirements to the Legislature. HB 105 updated bond and loan authorization amounts, cleaned up the language for AIDEA's operating practices, and removed stale bond authorizations.

Mr. Shefchik noted the capital budget, pending transmittal to and expected signature from the Governor, includes removal of the North Slope restriction on the 2013 appropriation. The AIDEA Board has the ability to use the remaining capital funds, approximately \$45 million, toward a project. Mr. Shefchik expressed his appreciation to the Governor and to the Legislature for making the IEP a priority in moving forward during the legislative session. He noted there were many people assisting in Juneau who were outside of the IEP team, especially Gene Therriault and Deputy Commissioner Parady. He expressed appreciation for all of the work achieved.

Mr. Shefchik stated one of the next steps is to conclude the due diligence on Pentex. This will be presented today under agenda item 7B. Approximately 15 parties from the request for proposal (RFP) for private partners will be contacted next week and will be invited for pre-solicitation meetings. The RFP for private partners for liquefaction will go out after May 15, 2015 and will be open for 30 days. Mr. Shefchik said he will report the responses and evaluations at the June meeting.

Chair Pruhs requested clarification on the model being used to ensure the RFP is economical for a private partner. Mr. Shefchik explained this RFP will follow a two-step process. First, the total number of requests will be reviewed and whittled down to two or more candidates who have the appropriate capacity and interest. Serious negotiations will take place to select the final partner. The second part of the process is building the entire supply chain concurrently with the private partner RFP process. This will be brought before the Board as a complete and legitimate plan. Chair Pruhs stated it is important and necessary for this Board and the utilities to know the costs before committing to a project. Mr. Shefchik said utilities have been invited to participate as members evaluating the RFPs. He expects the utilities will provide commitments to a range of acceptable prices, rather than commitments to a specific price.

Chair Pruhs asked if Mr. Shefchik anticipates AIDEA having to take any risk on the supply chain. Mr. Shefchik stated the bypass risk of a pipeline will be a discussion item. Another discussion item may be the use of SETS or equity money to diminish the demand risk in the early years.

Mr. Shefchik noted both FNG and the Interior Gas Utility (IGU) are putting distribution pipe in the ground this summer. He believes it would be helpful if Board members were able to tour the facilities in Fairbanks during the June meeting. Chair Pruhs requested an update on the conversion ratio assumption and conversion program. Mr. Shefchik noted AEA has solid data on conversions and the demand curve in the Interior from the Cardno ENTRIX report. The demand curve may have to be tempered based on logistics of the short summer season. The price of oil will be considered and monitored for effects on the demand curve. The conversion assistance programs being developed are working with private banks and provide a backstop for default. The PACE legislation, which did not pass this year, will continue to be a focus next year, and allows for commercial support of conversions at a municipal level. This is crucial for conversion assistance to large commercial structures.

Mr. Wilken reported Mr. Shefchik created a brief outline for Senator Murkowski of how a \$50 million appropriation could be used to benefit conversions in the Interior. Mr. Wilken noted this issue has not yet been discussed. He asked for suggestions on how to get Senator Murkowski to review the outlined conversion options. Mr. Shefchik said staff from Senator Murkowski's office did follow up with him. He believes staff understand the issue completely, including air quality, and the possibility of EPA helping to solve problems as well as describing problems and placing sanctions.

Chair Pruhs requested an explanation of the supply side going through the Department of Commerce. Mr. Shefchik advised DCCED will put out a solicitation and enter into negotiations to a point of reaching near commercial terms. The utilities will then commit to those negotiated terms. Chair Pruhs asked Deputy Commissioner Parady if the Department will have authorization from the utilities to negotiate on their behalf. Deputy Commissioner Parady responded the Department is currently addressing those issues.

Mr. Wilken expressed appreciation, on the record, and on behalf of the Board, for the resolute, informed, respectful, and trustworthy work AIDEA's team completed in Juneau.

Chair Pruhs expressed appreciation on behalf of the Board to Mr. Shefchik for his efforts to date.

Deputy Commissioner Parady noted he uses the IEP site heavily, and requested the new materials be updated to the site.

7B. Pentex Update

Mr. Springsteen introduced Ted Leonard of AIDEA and Mark Gardiner of Western Financial Group, who provided a detailed PowerPoint of the draft financial plan of the Pentex Alaska Natural Gas Company strategic acquisition. The due diligence has included environmental, legal, and financial plans. The structure of the proposed agreement and an initial finance plan have been completed. Mr. Leonard believes there is an immediate potential for the rate in Fairbanks to be reduced approximately 14% by using AIDEA's financing tools. Mr. Leonard stated the potential operating expenses of both FNG and IGU are being analyzed and there could be significant savings in operations by using a combined utility system with one distribution system. Due diligence on combining the utility systems in Fairbanks is ongoing and should be completed within the next two weeks to be presented to the Board.

Chair Pruhs asked for a description of what type of due diligence remains. Mr. Leonard stated the final environmental due diligence is being completed. The final reports on the fiscal inspections of the plant and the liquefied natural gas (LNG) system are being completed. The work on the potential pro-formas with the IEP team is being completed. Chair Pruhs asked how the Titan purchase affects this sale. Mr. Leonard stated the total assets to be purchased are \$52.5 million plus \$1.5 million for working capital. The expected sale of the Titan facility and the LNG stations is \$15.1 million. The total amount, including working capital, is \$38.5 million.

Mr. Gardiner discussed the structure of the Pentex acquisition in detail. Pentex and FNG would continue to operate with its current team under AIDEA ownership while the transition to a local control entity (LCE) is negotiated by the end of 2016. AIDEA's exit for investment would be structured through SETS, state appropriation, and bonds, resulting in approximately a \$2.9 million return or roughly 5.06% for each of the two years. Mr. Gardiner explained the Harvest Alaska 10-year LNG supply agreements for the existing customer base to FNG are unchanged at \$15 per Mcf with a 2% escalator after two years and a price opener after year five. Chair Pruhs requested the Board be shown the numbers for each year. Mr. Gardiner explained the conditions for termination of the agreement. He discussed the project funding structure, investment

schedule, business plan, and FNG's projected financials. Mr. Gardiner reviewed the strategy of the investment and the transfer from FNG to an LCE.

Mr. Gardiner reported the consolidated utility rates for 2020 are projected at a meter price of \$15.89 per Mcf. Deputy Commissioner Parady requested the size of the storage for the cost assumption. Mr. Gardiner stated the exact storage size is unknown, and is expected to be more than five million gallons. Deputy Commissioner Parady asked for the basis of storage modeling data. Mr. Shefchik stated MWH completed the financial modeling work based on cost per gallon of storage. There was not a formal study. Mr. Leonard noted Pentex has good cost numbers and could get information on the total cost of the 5.2 million gallons. Deputy Commissioner Parady asked for that information.

Deputy Commissioner Parady requested clarification of the statement that certain non-cash expenses, depreciation, can be eliminated from the rate structure. Mr. Gardiner informed the depreciation effectively gets wrapped in the debt service and the capital reserve that is carried going forward for the 18 months. A plant reserve will then be established. Deputy Commissioner Parady requested the footers on the slides show the correct date and title when presented before the Legislature.

Mr. Gardiner stated the Brattle Group, a third-party expert in utility economics and valuation team, prepared an evaluation report as part of the due diligence. He believes the results are acceptable. Mr. Gardiner discussed the risks, issues, and risk mitigation for this acquisition. Deputy Commissioner Parady asked for the target date for the RCA regulatory approvals. Mr. Gardiner stated the target completion date is June. Deputy Commissioner Parady inquired about the back-up plan if the sale to Harvest and/or the Harvest agreements were not approved. Mr. Leonard noted this is an identified risk to the project. If any regulatory agency disallows the sale, AIDEA would own the LNG facility. At that point in time, AIDEA would either sell the facility or lease the asset to an operator who would run the facility.

Mr. Wilken asked if AIDEA will participate in open docket testimony with RCA regarding the Harvest agreements. Mr. Leonard said, with the Board's consent, AIDEA will begin working with Pentex next week to complete an application with RCA.

Mr. Hughes requested further discussion regarding the risk of the sale to IGU in the first quarter of 2016. Mr. Gardiner explained AIDEA could face a decision at that time whether to market the utility to a third-party or to pursue a different option. The current demand for operating utilities is fairly robust.

Mr. Wilken requested an additional explanation of the mechanics of how the utilities will obtain their needed 1,000 new customers next year using the current financial pricing model of gas to the customer at \$20, not including the cost of conversion. Mr. Shefchik explained as the demand increases, the unit cost will decrease. He gave an illustration stating when there is a gas supply to fill the pipe, the growing utility would not say the unit price would decrease from \$20, to \$19.50, to \$19.00. The utility would average the unit price across 10 years, and if that average

came to \$15.90, the utility would start with the unit price in a \$15.50 range and end up in a \$16.50 range. There would be an initial drop in price with a 1.5% to 2.5% annual increase. The decrease in cost would encourage people to convert and there would be a known price trajectory within a reasonable range of the cost of inflation each year. This would occur as the customer base increases. Mr. Shefchik discussed why not being rate regulated is an advantage in the initial rate setting. The SETS financing can be used to push off the payments until the demand increases.

7C. Executive Session: Interior Energy Project and Pentex

MOTION: Deputy Commissioner Parady moved to go into Executive Session to discuss confidential financial information related to the Interior Energy Project, Pentex, and to discuss confidential information related to a potential development finance loan. Motion seconded by Vice-Chair Dick. The motion was approved.

The Board entered Executive Session at 1:43 p.m. The Board reconvened its regular meeting at 3:47 p.m. Chair Pruhs stated no formal action was taken during executive session.

7D. Loan Resolution No. L15-04 Brooks Camp, LLC (North Slope)

MOTION: Vice-Chair Dick moved to approve Loan Resolution No. L15-04 Brooks Camp, LLC. Motion seconded by Ms. Nygard.

Mr. Springsteen requested Chris Anderson, Director-Commercial Finance, to provide the information regarding Loan Resolution No. L15-04. Ms. Anderson said this request is from Northrim Bank, the borrower is Brooks Camp, LLC, and the co-borrower is Brooks Range Supply, Inc. This is for long-term financing for a 334-room man camp in Deadhorse, Alaska. Approximately 23 to 26 new jobs will be created as a result of the project. The management is by Craig Welch of Brooks Range Supply. The collateral will be a UCC filing on the project. The project has been appraised at \$38.1 million, which is a 75% loan to value, and is acceptable under the guidelines. The debt service coverage is 1.73 per the appraisal, and 2.32 per accounting and net revenue.

AIDEA would require an assignment of rents and leasehold interests. There are no known environmental issues on the property. The strengths include the 30-year history of good camp operations, experienced management, new construction in a strong lodging market, modern technology, structural and operational efficiencies incorporated in the construction of the units, a strong net worth of the guarantors, and national grade companies on contract with both BP and ASRC. The perceived weaknesses observed include being 100% reliant on the oil industry, short-term company contracts, and the leasehold property remotely located with the potential for severe weather conditions.

The current AIDEA statewide portfolio has 0% in man camps. This would increase to 5.39%. Staff is recommending this credit. Ms. Anderson noted Mark Helmericks is in attendance, and has provided a hard copy of a PowerPoint presentation describing the events in Deadhorse

beyond the physical collateral of the man camp. He is available to present his slideshow at the Chair's request.

Chair Pruhs asked if this camp is permanent or portable. Ms. Anderson stated the units are modular and portable. They are manufactured by Builder's Choice. Chair Pruhs requested more information on the assignment of rents. Ms. Anderson noted there are year-long contracts with BP and ASRC, but not for the full facility.

Deputy Commissioner Parady asked for the interest rate of the loan. Ms. Anderson reported 5.36% is the interest rate of the loan. Deputy Commissioner Parady asked if the decline in the price of oil affected the drilling forecast for the Slope and if that was included in the market analysis for this loan. Ms. Anderson indicated the decline in oil price has not affected the collateral of the man camp. She stated most of the area's man camps are about 85% full.

Deputy Commissioner Burnett requested clarification on the terms of the loan which are stated in the paperwork as a 15-year loan term with a 25-year fixed amortization. Ms. Anderson corrected the typographical error in the memorandum. She said this is a 15-year self-amortizing loan.

Chair Pruhs believes the hard copy of the PowerPoint presentation is sufficient for his understanding. Deputy Commissioner Parady said he would like to hear Mr. Helmerick deliver his presentation and will do so offline.

The motion was approved with members Pruhs, Dick, Burnett, Hughes, Nygard, Parady, and Wilken voting yea.

7E. Loan Resolution No. L15-05 X'una Kaawu Annee Corporation (Huna Totem Dock)

MOTION: Mr. Wilken moved to approve Loan Resolution No. L15-05 X'una Kaawu Annee Corporation. Motion seconded by Deputy Commissioner Burnett.

Mr. Springsteen requested Ms. Anderson present Resolution No. L15-05. Ms. Anderson said this is a loan participation request from Northrim on an 80/20 split, with a gross loan of \$25 million. AIDEA is being asked to participate in \$20 million. The term is 25 years. The guarantors are Icy Strait Point, LLC, Huna Totem, Corp., and Duck Point Development, LLC. There is also a 90% BIA guarantee on the total credit. This is for long-term financing for newly constructed buildings and renovations at Icy Strait Point (ISP). This is a cruise ship destination point that has been operating since 2004. AIDEA completed the original loan in 2004.

Approximately 52 construction jobs and 35 permanent jobs will be created with this request. AIDEA would take a first deed of trust with an assignment of rents on the ISP site and improvements located on Cannery Row in Huna. A lien would be included on the furniture, fixtures, and equipment. The appraisal in January 2015 was at \$35.28 million. The loan to value is 71%.

The strengths include being a successful and proven tourism destination facility, and having a history of proven management with profitable operations. The use of funds is for the expansion of the existing business. The parent company has the financial capacity to provide additional financial support. The project has strong community support, job creation, and retention. The City of Huna receives the positive economic impact of a 5% sales tax and the State of Alaska cruise ship passenger tax of \$5 per passenger. The BIA guarantee on the total loan amount is a benefit to this loan. There is also a State of Alaska grant of \$14.1 million going toward this dock project.

The perceived weaknesses include the dependency of one new cruise ship being added to the ISP location as a port call to provide the positive cash flow shown in the report. The feasibility study conducted by McDowell Group found sound reasoning and justification for the addition of a cruise ship in this location, but no contracts are currently in place. Staff recommends this loan.

Deputy Commissioner Parady asked for clarification on the amendment by the Legislature about the \$5 per head cruise ship passenger tax. Deputy Commissioner Burnett stated there was an amendment in Senate Finance that removed the first five ports of call \$5 share from the operating budget. This has been restored, indicating the head tax could be reduced to between \$4 and \$5, because there is a negative balance in the cruise ship passenger tax fund. The cruise ship passenger tax is not germane to the loan, but is a benefit to the community.

Chair Pruhs asked if there is a policy or guideline on the percentage of the portfolio in the tourism sector. Ms. Anderson noted there is no policy on portfolio percentage diversification. The tourism segment has been reviewed by an outside contractor to rate AIDEA's exposure with other authorities throughout the United States. The outside contractor expressed comfort up to a 40% weighting in the tourism industry. Chair Pruhs recommended the Board review the portfolio policy of exposure in specific industry markets.

The motion was approved with members Pruhs, Burnett, Hughes, Nygard, Parady, and Wilken voting yea. Vice-Chair Dick abstained.

7F. Loan Resolution No. L14-04A John C. Schweiger Loving Trust and John C. Schweiger

MOTION: Deputy Commissioner Parady moved to approve Loan Resolution No. L14-04A John C. Schweiger Loving Trust and John C. Schweiger. Motion seconded by Mr. Wilken.

Ms. Anderson said Loan Resolution No. L14-04A was discussed with the Board in November 2014. Mr. Wilken called for the question. No discussion occurred.

The motion was approved with members Pruhs, Dick, Burnett, Hughes, Nygard, Parady, and Wilken voting yea.

7G. Resolution No. G15-04 Authorizing Development Project Finance Loan - BlueCrest Energy Inc.

MOTION: Deputy Commissioner Parady moved to approve Resolution No. G15-04 Authorizing Development Project Finance Loan. Motion seconded by Vice-Chair Dick.

Mr. Springsteen invited Jim Hemsath, Director-Project Development & Asset, to present Resolution No. G15-04. Mr. Hemsath said Resolution No. G15-04 is an authorization for AIDEA to proceed through the completion on a direct financing loan with BlueCrest Energy for the purpose of procuring a new 3,000 horsepower drill rig. The cost of leasing a rig far exceeds the cost of ownership and finance of a rig. This is an onshore drilling production facility with extended drilling into the Cosmopolitan lease. The facility is located at Anchor Point. The oil will be sold to the Tesoro refinery in Nikiski.

This resolution suits AIDEA's mission and will contribute to Cook Inlet production and reduce reliance on imported product for the Tesoro refinery. Up to 150 jobs will be created during the development drilling, 150 jobs will be created in the construction of the production facility, 230 jobs around the clock for facility operations and maintenance, and up to 25 trucking jobs at full production. This will provide approximately 150 direct and indirect long-term jobs based on the ratios necessary for the facility. The project will add \$20 million in property taxes to the Kenai Borough, and provide royalties and tax revenue of \$200 million for the first 10 years of operation of the facility.

The loan is for \$30 million on an estimated \$40 million of project costs. There will be a 15-month payment holiday with accrued interest. The rate for that 15 months is the 7-year treasury plus 450 basis points. This is consistent with regulation. During operation, for the remaining 69 months, the rate is fixed at a 10% term loan. The expected return to AIDEA will be approximately \$13 million over the life of the 7-year loan. AIDEA has received a \$20,000 application fee. A \$300,000 commitment fee plus expenses for document preparation will be deducted from the \$30 million loan. The rig has been evaluated by a third-party, SolstenXP, who validated the current purchase price of the rig. AIDEA has asked for an additional \$15 million reserve account to be established by the end of 2016 to provide supplementary loan security. This reserve account will be adjusted as the project progresses based on the principal, to not less than 120% of the difference between the current value of the rig and the current outstanding principal amount.

Low oil prices present a potential risk. The project can meet all financing commitments at the price of \$40 a barrel. A loan default would potentially require the sale of the rig, and the reserve account would protect from any shortfall between the rig sale and outstanding loan value. The state tax credits are not anticipated to change for 2015 or 2016. The character and the quality of the BlueCrest staff has been reviewed and they were found to be a good business partner of good character, with good standing and sound operation.

Mr. Wilken asked if BlueCrest has a specific qualified drilling subcontractor they will be using. Mr. Hemsath expressed he does not want to mention specific company names and stated

BlueCrest is currently in negotiations with two contractors who are operating in Alaska, one in Cook Inlet and one on the North Slope. Mr. Wilken requested additional explanation on why BlueCrest wants to own and operate this rig. Mr. Hemsath explained economics is the reason BlueCrest is wanting ownership of the rig, while utilizing a qualified contractor to operate the rig. This is a robust rig that BlueCrest believes will provide safe, reliable, and timely drilling within comfortable operating parameters, while lowering the risk of problems. With the AIDEA financing, purchasing this rig is less than what their lease costs would be, allowing this project to be successful and robust at varying crude prices. Mr. Hemsath stated producers in the Cook Inlet region owning a dedicated rig is not unusual.

Mr. Wilken asked what the fire sale price of the rig would be in order for AIDEA to be made whole, including the \$15 million in reserves. Mr. Hemsath noted the rig would have to be sold for \$17 million plus the \$15 million in reserves to be whole at \$30 million plus the capitalized interest. Mr. Wilken asked what BlueCrest's next steps are if AIDEA does not approve this loan. Mr. Hemsath believes if AIDEA is unable to participate in this loan, the most likely result is the project would be delayed a minimum of a year. He is unsure of where the long-term capacity of the project will go from there. Mr. Wilken noted for the record, he intends to support this resolution, but he is becoming a little uncomfortable with AIDEA's exposure in this market.

Deputy Commissioner Parady suggested grouping this market exposure question with other market exposure questions for Mr. Springsteen and the Board's consideration. He asked what risks the Tesoro refinery presents to the project's cash flow, including the age and condition of the facility, its capacity, and any other perceived risks AIDEA has foreseen. Mr. Hemsath noted the Tesoro refinery is one of two sources of ultra-low sulfur diesel in the state of Alaska. Their throughput is 100,000 barrels a day. The refinery has a strong commitment to maintaining product capacity in the state. The risk of Tesoro not being available to take this crude product is very, very low.

Deputy Commissioner Parady requested more information on the Tesoro refinery, including the age, condition, and modernization. This was not included on the list of risks. Mr. Hemsath stated Tesoro was not examined as a major risk and no significant analysis occurred. Tesoro invested seven to eight years ago to be able to process the ultra-low sulfur diesel. Tesoro was constructed as a full service refinery. Mr. Hemsath stated he has worked in refineries that are a lot older than the Tesoro refinery. The assumption is made Tesoro maintains their refineries in order to keep production and their position in the Alaskan market.

Ms. Nygard requested clarification, the report states that the total royalties to the state over the life of the field could exceed \$700 million. Mr. Hemsath said the \$700 million is based on a 30-year life of the project.

Chair Pruhs asked for an estimated statewide dollar exposure amount in AIDEA's portfolio in the oil and gas industry, including today's authorization of the man camp on the North Slope. Mr. Hemsath said there is \$70 million into Mustang, BlueCrest would add \$30 million. Ms.

Anderson noted the approved loan for the man camp is \$20 million, totaling \$120 million. Mr. Lamb stated he believes this equals approximately 20% of the portfolio.

Chair Pruhs asked for the timeline of drill rig construction if the loan is approved. Mr. Hemsath said he believes BlueCrest would put the initial deposit on the drill rig under construction within the next two weeks and AIDEA funding would occur within four weeks. Chair Pruhs asked for the anticipated timeline for BlueCrest securing an operating contractor. Benjamin Johnson, President and CEO of BlueCrest Energy, stated those negotiations are close to being finalized, within two to three weeks. Construction of the rig would begin immediately and will take a few months. The rig contractor does not have to be secured until the rig is finished. Chair Pruhs asked if BlueCrest wants to have their contractor involved in the design and construction of the rig they will be operating. Mr. Johnson noted BlueCrest has rig experts involved in the design and construction, and both potential contractors have been involved in the design of the rig. The design of the rig is complete. As soon as BlueCrest moves forward, the contractor will be involved in the fabrication of the rig.

Chair Pruhs asked if an economic analysis has been performed assuming the Tesoro refinery had to store and tanker the crude to a refinery down south. Mr. Hemsath stated that type of economic analysis was not performed and a long-term shutdown was not considered a significant risk. Chair Pruhs inquired as to where the product would go if the Tesoro refinery shut down. Mr. Johnson informed there is the ability to ship oil in and out at the Nikiski dock, and the Cook Inlet crude would be exported in the event the Tesoro refinery was shut down. Chair Pruhs asked for the anticipated savings of owning a rig versus leasing a rig over the life of the project. Mr. Johnson expressed discomfort in providing the exact number, and stated it is roughly a 30% difference in cost on a monthly basis.

The motion was approved with members Pruhs, Dick, Burnett, Hughes, Nygard, Parady, and Wilken voting yea.

8. DIRECTOR COMMENTS

Mr. Springsteen said the draft internal policy memo on materiality guidelines was prompted by a candidate with an approved loan participation, who subsequently asked for a change to the monetary amount. He requested input from the Board on materiality thresholds the Executive Director has discretion to authorize. Mr. Springsteen will seek approval of a policy at a later date.

Chair Pruhs recommended Ms. Anderson create suggestions based on traditional banking policy and provide them to the Board members for contemplation. The Board will revisit this subject.

Mr. Springsteen noted the loan, dashboard reports, project matrices, and education calendar are included in the Board packet. Mr. Wilken requested the language be removed from the dashboard chart which reads, "Including BlueCrest Loan," because the chart does not include the BlueCrest loan.

Mr. Springsteen inquired regarding facility tour dates related to the potential Pentex acquisition. Chair Pruhs directed Mr. Springsteen to poll the Board members on potential dates.

The next AIDEA board meeting is scheduled for Wednesday, May 27, 2015. The June 25, 2015 AIDEA and AEA Board meeting will be held in Fairbanks (location to be confirmed).

Mr. Springsteen stated the intent for the June AIDEA Board meeting is for the Board members to arrive on June 24 to tour distribution facilities and to attend an evening reception with local, regional, and state government representatives, and others from the business community. The AIDEA Board meeting would occur on June 25, 2015.

9. BOARD COMMENTS

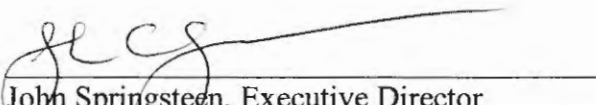
Mr. Wilken expressed his appreciation to Chair Pruhs for his work on the IEP.

Chair Pruhs expressed his appreciation for the Board members' support on the IEP work, and thanked the staff and consultants for their firm representation in Juneau.

Deputy Commissioner Parady expressed his appreciation to the staff for their work.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 5:04 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority