

Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, August 2, 2023
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on August 2, 2023, at 11:32 am. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bill Kendig (Public Member); Julie Sande (Commissioner, DCCED); Adam Crum (Commissioner, DOR); Albert Fogle (Public Member); Randy Eledge (Public Member); and Bill Vivlamore (Public Member).

3. AGENDA APPROVAL

MOTION: A motion was made by Vice-Chair Kendig to adopt the agenda, as presented. Motion seconded by Mr. Fogle.

The motion to adopt the agenda as presented passed without objection.

4. PRIOR MINUTES – June 21, 2023

MOTION: A motion was made by Vice-Chair Kendig to approve the Minutes of June 21, 2023. Motion seconded by Mr. Fogle.

The motion to approve the Minutes of June 21, 2023 passed without objection.

5. PUBLIC COMMENTS - None

6. NEW BUSINESS

6A. HEX Presentation

Chair Pruhs requested Randy Ruaro, Executive Director and Secretary-Treasurer, to provide background information regarding HEX LLC (HEX) as an introduction to the presentation. Mr. Ruaro explained that HEX is an oil and gas production company operating in Cook Inlet. AIDEA is a lender to HEX. Mr. Ruaro informed that HEX is successfully fulfilling its financial obligations to AIDEA, as well as producing jobs and resources. HEX was formed approximately three years ago.

Mr. Ruaro introduced Mark Slaughter of HEX Cook Inlet and Furie Operating Alaska (Furie). Mr. Slaughter indicated that he is the Director of Marketing for Furie, and has been with Furie since production began in 2015. Mr. Slaughter noted that John Hendrix, HEX, expressed his regrets for not being able to attend today and give this presentation. Mr. Slaughter informed that

Mr. Hendrix is at the courthouse for closing arguments regarding ongoing litigation with the State of Alaska concerning property tax assessments.

Chair Pruhs requested Mr. Slaughter to provide pertinent background information for the record throughout the presentation, and to discuss the current circumstances and future goals. Mr. Slaughter agreed. He highlighted that HEX, with its subsidiaries, is the only 100% Alaska-owned oil and gas company in the industry. He conveyed that Mr. Hendrix has deep roots in Alaska. He was raised in Homer, currently lives in Anchorage, and is extremely proud to be an Alaskan working in the oil and gas industry. Mr. Slaughter emphasized that Mr. Hendrix is appreciative of AIDEA's support of his purchase of the company.

Mr. Slaughter discussed the corporate structure that Mr. Hendrix owns HEX LLC, which owns HEX Cook Inlet, which acquired the subsidiaries of Corsair Oil and Gas LLC, Cornucopia Oil and Gas Company LLC, and Furie Operating Alaska LLC. Mr. Slaughter explained that HEX was formed to purchase the Furie assets during Furie's Chapter 11 reorganization bankruptcy under prior ownership. He discussed that Mr. Hendrix successfully purchased Furie after multiple rounds of bidding and closed on the company in June of 2020. The Furie assets that were purchased include the Kitchen Lights Unit (KLU), which is the largest unit offshore in Cook Inlet, consisting of an area of approximately 83,000 acres. Furie produces only natural gas and sells to all of the electric utilities, Enstar, and to the Marathon Petroleum refinery in Kenai.

Mr. Slaughter reviewed the map of the KLU within Cook Inlet. He described that the small platform has six slots for wells. Four wells have been drilled and are in production. Currently, Furie is reworking two of those wells. Mr. Slaughter discussed the process, cost, and timing of the work-over. He noted that staffing is near its maximum at 25 people on the platform. The platform is within the Corsair Block and the reach is approximately two miles. Mr. Slaughter expressed the view that there is additional gas in Cook Inlet and the objective is to conduct additional exploration and drilling. He noted that once the foundational issues with the company are resolved, including the lawsuit, the intent is to move forward with supplemental development within the unit.

Mr. Slaughter reviewed that HEX's acquisition was facilitated by a loan from AIDEA for \$7.5 million in 2020. He advised that Furie has been consistent in regularly paying the loan. The balance of the loan is \$343,000, and will be paid within the next month when the State pays the tax credits that are owed to Furie. Mr. Slaughter discussed that in the time period prior to the acquisition, Furie had one Alaskan employee. Management was out of state and platform operators were being flown up from Louisiana and Texas. Currently, there is one employee who has an air travel commute. All other workers live in Alaska. Being Alaska-focused is a key element for HEX. Mr. Slaughter indicated that the State royalties are 12.5% and the property taxes are at 20 mills. The State assessment is \$81 million, and HEX is legally disputing this amount. HEX believes the value is significantly less at approximately \$20 million. Mr. Slaughter noted that each month, 12.5 cents per MCF is deposited into a dismantling, removal, and restoration (DR&R) sinking fund to pay for future removal of the platform.

Mr. Slaughter reviewed the chart showing the employment numbers and noted the significant increase in Alaskan employees since HEX acquired Furie. He discussed the highlights of the company's success listed on page six of the presentation. In 2021, HEX and Furie were the

largest investors in Cook Inlet leases, and in 2022, Furie was the only buyer of Cook Inlet leases. Some of the leases are onshore, with the intent of diversifying the position of the company in the future. A key element of success is the work with Alaska Department of Environmental Conservation (ADEC) to secure a Produced Water Disposal Permit to process, treat, clean, and dispose of the produced water at the platform.

Mr. Slaughter informed that the company continues to work with the State to address foundational issues that remain from the prior ownership, including contesting property taxes and overriding royalties. Mr. Slaughter discussed the objective for additional Cook Inlet development to occur once the issues with the State have been resolved. He noted that HEX is a financially healthy and fiscally prudent operator.

Mr. Eledge asked Mr. Slaughter if he has data regarding the number of contractors who are Alaska residents and nonresidents. Mr. Slaughter indicated that employment information is provided to AIDEA on a monthly basis and can be given to Mr. Eledge.

Mr. Fogle highlighted this is an important Alaskan success story for both HEX and for AIDEA. Mr. Slaughter expressed appreciation again to AIDEA for supporting HEX to move forward with the critical acquisition.

Chair Pruhs inquired as to the long-range plans for the operation, reserves, and investments. Mr. Slaughter explained that the current work-overs are designed to get the operations poised for next summer. The hope is to secure time on the jack-up rig and to possibly drill a new \$30 million to \$40 million well. Mr. Slaughter anticipates that once the current loan agreement is completed, that HEX will come before AIDEA again with another proposal for activity in the KLU.

Commissioner Crum expressed appreciation for the presentation and for the keen focus on making Alaska hire a priority. There were no additional questions.

MOTION: A motion was made by Vice-Chair Kendig to enter into executive session to discuss matters listed in AS 44.62.310(c), which includes matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of AIDEA, personnel matters, matters which by law are required to be confidential, matters involving consideration of government records that are not required to be disclosed under the Alaska Public Records Act, as well as matters subject to attorney/client privilege. Each of these matters in Executive Session are supported by the Open Meetings Act, AS 44.62.310 (C.1, 3, 4). Motion seconded by Mr. Fogle.

A roll call vote was taken and the motion to enter into Executive Session passed unanimously.

6B. EXECUTIVE SESSION: 11:53 am. Confidential and deliberative matters related to BlueCrest Loan Modification/Extension, Mustang Holdings, LLC, Banking Services and Investment Discussion and Matters related to the Ambler Road Lawsuit.

The Board reconvened its regular meeting at 1:23 pm. Chair Pruhs advised that the Board did not take any action on matters discussed while in Executive Session. The session was limited to discussion of matters directly protected from public disclosure by the Open Meetings Act.

Chair Pruhs requested to postpone Item 6C. until later in the meeting. There was no objection.

7. DIRECTORS COMMENTS

7A. IGU Update / Interior Energy Project (IEP) Quarterly Report to the Legislature

Mr. Ruaro advised that Interior Gas Utility (IGU) has approached AIDEA with a request for consent to enter into an increased letter of credit and financing of \$10 million for three years with McKinley Bank in Fairbanks to continue to build out their system in Fairbanks and to truck the gas from the North Slope. Because AIDEA is a secured party, AIDEA has to consent to any additional security and debt. Staff is working with Dan Britton, IGU, to provide the necessary information.

Chair Pruhs asked if IGU has met their pro forma. Mr. Ruaro agreed. Chair Pruhs asked if that information is included in the provided report. Mr. Ruaro indicated that he does not know if that information is expressly stated in the report, but it could be added. Mr. Ruaro invited Josie Wilson, AIDEA Director of Communications, to offer additional information. Ms. Wilson commented that the report shared with the Board today is the standard IEP Quarterly Report required by the Legislature per statute. All the information is received directly from IGU. The report contains IGU's 2023 goal for conversions and new customers. Each report includes the current numbers comparative to the goal.

Chair Pruhs indicated that page 13 of the report lists the Cardno projected conversions in FY 2023 as 10,805, IGU projected conversions as 2,143, and the actual conversions as 2,410. He noted the approximate difference of 8,000 conversions. This does not meet the original projections of the terms of the loan and the investment. Mr. Ruaro commented that IGU may be short of the conversions, but he understands that IGU is still within the debt to asset ratio that would qualify them to obtain AIDEA's consent. Chair Pruhs asked Mr. Ruaro to provide a clarification as to why IGU began its separate projections in 2019, which match the actuals exactly, and then slows the yearly progression significantly as compared to the consultant's projections.

Ms. Wilson noted that page 12 contains additional information regarding the change in anticipated conversions. She discussed that in a recent presentation given by IGU, they indicated that the Fort Wainwright EIS has recommended natural gas. If the Record of Decision is established, there will be a demand for natural gas on the base and could stimulate this opportunity.

Mr. Ruaro informed that staff thoroughly reviewed all the terms of the agreement with the attorneys and with the parties to grant consent for the additional security. There were no additional questions.

7B. Ketchikan Shipyard Update

Mr. Ruaro discussed that he visited the shipyard and spoke with managers. The level of business at the shipyard continues to be a concern. Qualifications for the Coast Guard, National Oceanic and Atmospheric Administration (NOAA), and work, other than the Marine Highways, need to be addressed with the current operator, as well as possible fabrication work. Efforts are ongoing to attract more business to the shipyard. The operator expressed additional difficulty due to lack of workforce. The operator's agreement continues for another year-and-a-half, and during that time, staff will make improvements to the RFP and RFI that will benefit AIDEA, generate more jobs, and help ensure that the operator can maximize the use of the shipyard.

Chair Pruhs asked how many employees are working at the shipyard and what number is the full employment goal. Mr. Ruaro believes there were 82 employees during his recent visit and the full employment goal is more than double that amount. Commissioner Sande commented that the previous metrics had full employment at 125 to 150 employees, depending on annual revenue. There were no additional questions.

6C. Resolution G23-09 BlueCrest Loan Modification/Extension

Chair Pruhs brought the meeting back to Item 6C. Resolution G23-09. There was no objection.

Mr. Ruaro discussed that Resolution G23-09 modifies the loan for a six-month term, with the condition that BlueCrest complete repairs to the rig top drive during the modification term, at which time another 6-month modification term will be implemented. If the repairs have not been completed within the first 6-month modification period, the second 6-month modification will not occur.

Mr. Eledge requested confirmation from Mr. Ruaro that the repairs are expected to be completed within six months, rather than beginning the repairs within six months. Mr. Ruaro expressed his understanding that the repairs are expected to be completed within six months. Mr. Eledge stated that expectation is not delineated in the Resolution document, but that it is within Mr. Ruaro's authorization as Executive Director to complete the negotiations that are listed in the Board minutes. Mr. Ruaro agreed.

Chair Pruhs noted there are no minutes taken during executive session. He advised that the resolution was modified from the version included in the Board packet. Mr. Ruaro agreed. Chair Pruhs requested Mr. Ruaro review the changes. Mr. Ruaro explained that the main adjustments are to the conditions attached to the modification. The load modification period is potentially one year, and is dependent upon meeting the condition that the rig is fully repaired and inspected at the end of the first six-month period. Additionally, the resolution as amended deletes the reference to the payment amounts of \$25,000 principal and \$100,000 interest, and authorizes the Executive Director discretion to execute final amendments to the loan agreement and promissory note to reflect the terms that the Board has approved.

MOTION: A motion was made by Vice-Chair Kendig to approve Resolution G23-09. Motion seconded by Mr. Vivlamore.

A roll call was taken, and the motion to approve Resolution G23-09 passed, with Mr. Fogle absent.

7C. Makushin Update

Chair Pruhs returned the meeting to Item 7C. Makushin Update.

Mr. Ruaro discussed that he and staff continue to work closely with the sponsor of the Makushin Geothermal Project and has made progress on defining the resource, operations, and fiscal modeling. The understanding of the tax credits is ongoing, as the U.S. Treasury pulled back their previous guidance and is submitting new guidance. Some of the changes may be beneficial, such as progress payments on tax credits. Mr. Ruaro explained that the tax credits are significant, and if stacked, they could be as much as 70% of the project costs. He expects to have solid modeling and resource reports soon.

Chair Pruhs inquired as to the expected timeframe for a finite decision. He believes it is important to provide clarity to the project representatives. Mr. Ruaro anticipates having solid reports from the experts within the next 30 days. Chair Pruhs requested that timeframe is relayed to the project representatives. Mr. Ruaro agreed.

Mr. Eledge asked if the experts include experts that AIDEA has solicited that are separate and apart from the existing project experts. Mr. Ruaro agreed the experts are independent. There were no additional questions.

7D. Ambler Update

Chair Pruhs requested to add a West Susitna Project update to this agenda item. There was no objection. Mr. Ruaro discussed the development with the West Susitna Access Project in which Department of Transportation (DOT) initiated their own project to construct the first 20 miles of road and the bridge over the Big Susitna River. The DOT's multi-year effort will qualify for approximately \$82 million of public funds within the State Transportation Improvement Plan (STIP). The road will provide full public access. Mr. Ruaro explained that AIDEA continues to work with the mine owners and the stakeholders on the mine access road project. Several meetings have occurred, and that project will proceed to develop as an AIDEA project.

Vice-Chair Kendig inquired as to the location of the beginning and end of the project road. Mr. Ruaro explained that the DOT project will begin the public access road near Ayrshire Road and go to the Big Susitna River.

Chair Pruhs asked for the distance the road is away from Port Mac. Mr. Ruaro believes Port Mac is approximately 16 miles from Ayrshire Road. Work is ongoing with industrial users to develop the access plan. Chair Pruhs asked when the lawsuits are expected to begin. Mr. Ruaro discussed that the environmental non-governmental organizations (NGO) are paying close attention to the project and are suing to stop other development in Alaska. The DOT needs to initiate the National Environmental Policy Act (NEPA) process and a decision would result approximately two years later. That is the point at which litigation is likely to begin. There were no other questions.

Chair Pruhs requested the update on Ambler Road. Mr. Ruaro informed that he attended a NANA Board meeting and was able to discuss issues and concerns. He noted that the recent visit

to Red Dog Mine with the NANA Board members went well. There have been roughly 45 years of efforts at Red Dog Mine to develop policies to protect fish and game. He believes that Teck and NANA will provide those policies to the Chair of the Ambler Road Subsistence Work Group and the Workforce Development Group. Mr. Ruaro informed that he will attend the next scheduled meetings of those groups in Allakaket on August 23 and 24. The groups will be able to utilize the successful policies instituted at Red Dog Mine.

Chair Pruhs added that he, Commissioner Sande, and Mr. Ruaro took a successful and important helicopter flight along the Ambler Road site, visiting cultural resources and the Ambler Metals facility at Bornite before returning back to Anchorage. He complimented staff for their excellent preparations. Chair Pruhs discussed that a helicopter video of the right-of-way was commissioned in order to see each mile by station. He believes this will be productive in assisting the engineering of the project. Additionally, there is light detection and ranging (LiDAR) information that will be utilized to understand the terrain. Chair Pruhs believes the Cineflex video will be helpful for the Board to watch and to understand the project, as well as to see different sensitive areas.

Mr. Ruaro believes the Cineflex video has been completed and he will ensure that it is compiled and made available to Board members.

Mr. Eledge asked if the video is internal only to AIDEA. Chair Pruhs agreed, and noted that as the asset owner, the video can be shared with engineers, contractors, and Ambler Metals.

Commissioner Sande expressed appreciation to the staff for the effort of coordinating the remarkable trips. She was honored to be able to attend and was inspired and reminded as a Board member of the importance of AIDEA's work. Commissioner Sande was pleased to meet people in the region and to hear about the quality of life improvements that the jobs and the development of resources will have within the region and communities. She noted that by flying the 200-mile route, she was impressed by the small impact the road will have over such a vast region. She was encouraged by the first-hand discussions regarding the amount of time, work, and thought that is being considered for the cultural preservation component of the project. Commissioner Sande highlighted that the foremost goals are to take care of the resources for the next generations, to develop Alaska's resources responsibly, and to move the economy forward. She was proud to be a part of this very important project for Alaska and Alaskans, and reiterated her appreciation to staff for their project efforts. There were no questions.

7E. Loan Dashboard Report

Tiffany Janssen, Chief Loan Director AIDEA, discussed that more loans were funded this year than in the previous fiscal year, while still receiving over \$28 million in additional payoffs and pay-downs that was outside of the normal scheduled payments of approximately \$18 million. The ending balance is in the upper \$300 million range. Ms. Janssen informed that the fiscal year ended with 0% delinquency. She expects more projects will submit applications due to the market interest rates. The pending applications to-date have increased by \$28 million.

Mr. Eledge referred to the Collateral Diversity of Participation Loans page and asked under which collateral type would an oilfield loan be placed. Ms. Janssen explained that the listing is

by collateral type and not by the repayment source. There are no current participations in the portfolio of that type. A new category would need to be created in that instance. Mr. Eledge asked regarding oilfield equipment. Ms. Janssen noted oilfield equipment collateral would be placed either with Heavy Equipment or placed with the real estate collateral type, and the repayment source would be listed as oil and gas. There were no other questions.

7F. Board Resolution Report

Chair Pruhs inquired as to the status of Resolution G23-05 FedEX lease improvements. Mr. Ruaro explained that the lease improvements were authorized for primarily the roof and the floor. Negotiations have continued with the Senior Manager of FedEX out of Memphis, John George, who indicated that FedEX is not interested in financing or paying for the improvements at this time. The concern with the floor is that the EPA has not settled on a remedy for perfluorooctane Sulfonate (PFOS) and FedEX wants to wait for the completion of that regulatory process before committing to a major improvement. Mr. Ruaro discussed that Mr. George indicated that FedEX is not interested in contributing to the payment of the roof replacement at this time, unless there is a true life, health, and safety concern. Mr. Ruaro noted that a roof inspection is scheduled, and a report will be delivered. Any minor repairs will be completed.

Chair Pruhs asked if it is necessary to rescind the resolution for a future date. Mr. Ruaro indicated that he will review the resolution and provide an answer. He believes the repairs were authorized in the resolution, but not mandated. There were no other questions.

7G. Next regularly scheduled AIDEA Board Meeting Thursday, September 21, 2023

Chair Pruhs advised that the next AIDEA Board meeting is September 21, 2023, and a strategic planning meeting is schedule for next Friday and Saturday in Fairbanks. He noted for the record that the Energy Fair begins at 10:00 am. on Sunday and is completed at 5:00 pm., with the VIP dinner beginning at 6:00 pm. Chair Pruhs requested staff to follow-up if Board members have been invited to any of the Energy Fair events.

8. BOARD COMMENTS

Mr. Eledge commented that he is always impressed with the preparation of the information provided to Board members. He expressed appreciation to Mr. Ruaro and staff for their excellent performance.

Commissioner Sande expressed appreciation to staff for their efforts and for the reports presented today. She commented that the West Su project is an important priority to the state. She requested the reports are submitted regularly. Mr. Ruaro agreed.

Chair Pruhs echoed appreciation to the staff, and looks forward to seeing additional commercial opportunities come before AIDEA for investment in good projects.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 2:03 pm.

A handwritten signature in blue ink, appearing to read "Randy Ruaro", is written over a horizontal line.

Randy Ruaro, AIDEA Executive Director

Secretary