

BOARD MEETING MINUTES
Tuesday, October 29, 2013
Anchorage, Alaska

1. CALL TO ORDER

Chair Russell Dick called the meeting of the Alaska Energy Authority (AEA) to order on October 29, 2013 at 2:44 p.m. A quorum was established.

2. ROLL CALL: BOARD

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

3. ROLL CALL: STAFF, PUBLIC

Staff present: Sara Fisher-Goad, AEA executive director; Gene Therriault, deputy director-energy policy development; Sandra Moller, deputy director-rural energy; Sean Skaling, deputy director-alternative energy & energy efficiency; Wayne Dyok, Susitna-Watana Hydro project manager; Jennifer Haldane, human resources manager; Andrew Frasier, Susitna-Watana Hydro licensing and permitting manager; Betsy McGregor, Susitna-Watana Hydro environmental manager; Cady Lister, energy efficiency manager; Emily Ford, public outreach liaison; Bryan Carey, Susitna-Watana Hydro engineering manager; Teri Webster, AEA executive assistant; Brian Bjorkquist, senior assistant attorney general.

Others present: Jim Gill (MWH); Sunny Morrison (Accu-Type Depositions).

4. AGENDA APPROVAL

The agenda was approved as amended.

5. PRIOR MINUTES

The July 25, 2013 AEA Board meeting minutes were adopted as presented.

6. PUBLIC COMMENTS

There were no public comments.

7. NEW BUSINESS

7A. Susitna-Watana Hydro Update

Ms. Fisher-Goad and Mr. Dyok reviewed in detail the project highlights, including an aerial view of what the project would look like if built.

Mr. Pruhs asked how many years the life cycle study is for the salmon. He also asked what kinds of salmon are being studied. Mr. Dyok said the study team is reviewing all life cycles and will continue for three years, including all of the five different species of salmon. No salmon made it upstream of Devils Canyon, other than the Chinook salmon. Ms. McGregor noted the cycle time for the Chinook is three to seven years.

Mr. Wilken asked Ms. Fisher-Goad what the approximate total cost would be in order to fully upgrade the Railbelt transmission system. Ms. Fisher-Goad noted the chart on page 11 of the presentation shows the total cost of the system at \$900,000,000.

Mr. Pruhs requested further explanation regarding the need for transmission upgrades and why the existing system is believed to be inadequate. Ms. Fisher-Goad stated capacity is one of the issues. She invited Mr. Therriault to answer the question. Mr. Therriault advised the current system is physically restrained in its capacity and there is only a single contingency, thus decreasing reliability. If a line goes down, everything is lost north of Wasilla. In the recent transmission analysis commissioned by AEA, it is recommended to move toward a system that the utilities refer to as N-1. The utilities have developed that level of redundancy and capacity to serve within their existing service territories, but many of the connection points between the utilities have just a single line with no redundancy and limited capacity. Mr. Therriault stated the high-voltage direct current (HVDC) line delivering off of the Kenai is delivering bulk power and would suffer less of a line loss.

Mr. Pruhs asked if the Railbelt includes Seward, Kenai, and Homer. Ms. Fisher-Goad agreed. Mr. Pruhs asked if this project would include any areas toward Sutton and Glennallen. Ms. Fisher-Goad stated AEA has been approached by Copper Valley Electric Association and the Ahtna Corporation. Phase II will look at possibilities of new transmission lines connecting communities to the intertie.

Commissioner Bell asked what the timeframe is for the Railbelt transmission upgrades and if they are attributed to AEA, as the owner of the intertie. Ms. Fisher-Goad responded the benefits are broad. They are benefits to the system, the utilities, and to the rate-payers. Ms. Fisher-Goad stated she does not know the answer to the timeline question and will get back to Commissioner Bell with that answer. Ms. Fisher-Goad stated a more thorough transmission overview can be provided to the Board by the contractor and Kirk Warren.

Mr. Pruhs asked if the financing mechanism for the Railbelt transmission upgrades is capital, financed, or bonded. Ms. Fisher-Goad advised AEA is still in significant discussions with the utilities regarding this issue. Since there is a high benefit to the projects compared to the cost, AEA would like to have a debt-financed structure. Mr. Fisher-Goad commented the utilities are working very well together and commends Chugach Electric Association for the leadership they have shown regarding this issue.

Mr. Pawlowski stated AEA deserves a lot of credit for the work they have done on this project and looks to the Chair's leadership to help the Board continue that momentum over the next few months.

Mr. Wilken asked for the definition of a large energy storage system. Ms. Fisher-Goad stated it usually has been a battery system that is similar to Golden Valley Electric Association's system.

Mr. Pawlowski expressed gratitude to Ms. Fisher-Goad for clarification on Bradley Lake as a good model for financing when discussing Susitna-Watana Hydro. Mr. Pawlowski encouraged the wording to be different when talking about the Bradley model because he does not want to set the expectation of a massive infusion of state cash. Ms. Fisher-Goad stated the intent is to ensure the understanding they are not assuming an infusion of state cash to buy down the cost of this project. The \$5.2 billion estimate of the project cost includes the investment the state is currently providing for the licensing process and preconstruction. The present economic assumptions for power coming out of the plant show the \$5.2 billion can be fully recouped.

Chair Dick asked if any progress has been made on identifying economic opportunities for the Cook Inlet villages and CIRI shareholders to participate in regarding the Susitna-Watana project. Ms. Fisher-Goad said the focus now is on licensing requirements for the next field season, rather than a longer-term view. Commissioner Bell stated the immediate conversation with CIRI has switched to licensing, but the discussions about the economic power of the Alaska Native Claims Settlement Act (ANCSA) corporations is ongoing. Chair Dick cautioned it does not fall off the radar screen.

Mr. Wilken requested a briefing on the alternatives for the road and access. Mr. Dyok advised all of the alternatives are still in place. A fair amount of analysis has been completed and they do not want to eliminate any routes prematurely. Mr. Wilken asked if there is an expected date when that decision will need to be made. Mr. Dyok stated the worst case is a decision would have to be made in 2015 for the Federal Energy Regulatory Commission (FERC) license application as to the preferred route and the alternative route. Mr. Bjorkquist advised FERC, in granting the license, has to go through the National Environmental Policy Act's (NEPA) Environmental Impact Statement (EIS) process, which will also influence the route decision.

Mr. Wilken asked how many newspaper inserts were distributed. Ms. Ford stated they were included in the major newspapers along the Railbelt, but she does not have a total number with her today. Mr. Wilken stated he had the same comments from two friends of, "Gee, I didn't know it was really happening." Mr. Wilken noted the other interesting comment he received was regarding the chart showing the fish starting out with 18 and ending up with two of, "Gee, I didn't know that." Mr. Wilken said people ask him about what will happen with the poor fish, but he noted that according to the chart, the fish are not getting up the river anyway. Mr. Wilken believes the newspaper inserts were well done and has opened a lot of people's eyes.

Mr. Wilken asked how the picture that is distributed of the Susitna-Watana Dam compares to the Hoover Dam. Mr. Dyok advised they are close to the same height, with the Hoover Dam being slightly larger. Mr. Dyok noted he has visited the exact location where the dam will be and the surrounding area's elevation is at around 2,200 to 2,300 feet and the crest of the dam is at 2,100 feet. He stated the dam will be seen from the downstream area, but believes the dam will blend nicely into the surroundings.

7B. Power Project Fund Overview

Ms. Fisher-Goad stated staff is not ready to provide a loan approval action item to the Board at this meeting, but anticipates one or two proposals coming forward at a later date. Ms. Fisher-Goad noted this is a good opportunity to discuss the overview of this program because it is different from the AIDEA loan participations. She invited Ms. Lister and Mr. Therriault to provide a descriptive PowerPoint presentation.

Mr. Wilken asked if the Power Project Fund loan limits are set in statute. Ms. Fisher-Goad stated the \$5 million loan limit is set in statute and loans greater than \$2 million requires Board approval according to regulation and policy.

Chair Dick asked if interest still accrues on the deferred repayment option of the Power Project Fund. Ms. Fisher-Goad advised there is flexibility with respect to how that is structured. The preference is to attract the best projects at the right interest rates. She noted a zero-percent interest rate loan, of course, would have no interest. Ms. Fisher-Goad advised the statute allows some very generous terms and the intent is to narrow the terms to ensure this loan program is viable for many, many years. Mr. Therriault explained the mandate of this program is to lower the cost of energy by getting projects built, but at the same time, they want the funds to return to the program so they can be loaned back out again. He stated they certainly do not want to erode the purchasing power by unnecessarily giving favorable terms.

Mr. Wilken asks who decides what the loan interest rate will be and how that decision is reached. Mr. Therriault stated AEA has a Loan Review Committee which negotiates with the project proponent for a reasonable interest rate and then it is brought before the Board for approval. Ms. Lister explained the intent is for all projects to receive the statutory interest rate, unless the debt service would dramatically increase the rates to consumers without accidentally creating a situation where low cost utilities are being favored for a decreased interest rate.

Mr. Wilken inquired if a loan would ever be given to a project that did not have a rate base to make some sort of repayment or, in other words, providing an outright grant. Mr. Therriault advised this is a loan program and the expectation is the money gets repaid. Mr. Bjorkquist added that under the statute, AEA could look at sources of revenue other than project revenues. He advised that under the statute, if AEA concluded there were not sufficient revenues from all sources to repay the loan, it could not extend the loan. It has to be economically viable and financially feasible to make the loan.

Mr. Pruhs asked if there is crossover and synergy between AIDEA's current loan administration and what AEA is proposing for their administration of fees to cover processing and analyzing the feasibility of a project. Ms. Fisher-Goad advised Jeff San Juan from AIDEA is part of the team to help develop the loan packages and there has always been synergy between what the AIDEA staff are doing and what the AEA staff are doing to work through AEA's loan process. Mr. Pruhs asked if AEA would use the same scenario for an origination fee that a bank or AIDEA would use. Ms. Fisher-Goad noted AEA has just recently received the statutory ability to charge fees. The fees have not yet been established in regulation. Ms. Fisher-Goad advised the next

step is for the proposed fee structure, including an origination fee and an application fee, will go out for public comment and then the regulation will come to the Board for approval.

Commissioner Bell asked when the Power Project Fund was established and what is the estimated amount of loan activity. Ms. Fisher-Goad stated she can provide the specific numbers to the Board and recalls at least 20 years of history with this loan program. Commissioner Bell inquired if the Power Project Fund has experienced a dip in usage because of Renewable Energy Fund activity. Ms. Fisher-Goad advised most of the Power Project Fund borrowers have been either for-profit utilities with limited access or independent power producers. She believes the Renewable Energy Fund has provided an uptick with respect to the Power Project Fund program development. Ms. Fisher-Goad noted a portion of the Power Project Fund can be, and is appropriated to pay for AEA costs. More than a million dollars is used every year for operations of AEA programs.

Mr. Pruhs asked to explain if there is a convenient vehicle that independent power producers can use to tie into the local grid. Mr. Therriault advised Alaska Environmental Power has tied into Golden Valley Electric Association's system, which allows them to go up to two megawatts. Mr. Therriault explained when Golden Valley Electric Association went through a process to see how much wind they could accommodate in their system and which projects they had to pick from, they chose Eva Creek and developed it themselves. This brought an action in front of the Regulatory Commission of Alaska (RCA) about whether Golden Valley Electric Association should be required to purchase more power from Alaska Environmental Power. Mr. Therriault stated the process really comes down to negotiation with the utility for the power sales agreement and coming to terms with the cost of the power out of the facility and the cost of the power once it is integrated into the system.

Mr. Pruhs asked if there was already a current hydroelectric project at Humpback Creek. Ms. Fisher-Goad agreed. Mr. Pruhs asked if the loan application for Cordova Electric is in addition to that current project. Mr. Therriault noted this is the long-term financing for that same project, which changes the variable rate to a fixed rate. Mr. Pruhs asked if any of their financing was forgiven by the Legislature years ago. Ms. Fisher-Goad advised the Humpback Creek project has a mix of funding, including legislative loan appropriations through the Power Project Funds, which have not yet been received. Ms. Lister added the Humpback Creek project also has Federal Emergency Management Agency funds and grant funds from the Renewable Energy Fund.

Mr. Wilken asked if there was speculative power demand at Reynolds Creek from the Niblack Mine. Mr. Therriault stated it could be, but the current proposal is for the Niblack Mine to get power from the Ketchikan grid or the Southeast Alaska Power Agency (SEAPA) grid. He noted there are some thoughts that if the price of power decreases or becomes more stable, that could spur economic activity on Prince of Wales Island. Mr. Wilken asked the size of the Cordova Electric Humpback Creek Hydroelectric project and the size of the Haida Electric Reynolds Creek Hydroelectric project both in terms of megawatts. Mr. Therriault believes Reynolds Creek is five megawatts.

Chair Dick notified the Board that Sealaska does have a land lease for the Reynolds Creek project. Chair Dick advised he will recuse himself from any Board action taken on the Reynolds Creek project.

Mr. Wilken asked how many Power Project Fund applications are received each month. Ms. Fisher-Goad advised the number of applications is measured on an annual basis and it is approximately five to six a year. The intent is for this activity to increase because of the creation of clearer regulations, which will provide structure in determining whether this is an appropriate lending mechanism for projects. Mr. Wilken commented the regulations seem like they will be difficult to write because of the great deal of subjective judgments included.

Ms. Nygard asked if there are strategically identified regions which are promoted over other regions in the state. Ms. Fisher-Goad noted they have not had to emphasize regional areas because there has not been a situation where there have been more applications for loans than money available.

Mr. Wilken asked Ms. Lister to explain the status of the Commercial Building Energy Audit regulations. Ms. Lister advised the regulations did get signed by the Lt. Governor. The request for application is going out on Nov. 1, 2013 and people will be able to sign up online. Ms. Lister stated she will email Mr. Wilken's contact in Fairbanks to let them know. Mr. Wilken expressed his thanks and said there is a customer waiting.

Mr. Therriault added that in follow-up to Commissioner Bell's earlier question, power production simulations showed the benefit savings of the transmission projects as a whole result in a net present value savings of more than \$2.6 billion over the 50-year life of the projects.

8. EXECUTIVE DIRECTOR COMMENTS

8A. Program and Project Fact Sheets

Ms. Fisher-Goad commented the quarterly update of the program and project fact sheets are included in the Board's packet. Ms. Fisher-Goad stated staff is very busy with respect to the Renewable Energy Fund evaluations. AEA was a sponsor and had a booth at the Alaska Federation of Natives (AFN) Convention and provided a Power Cost Equalization workshop during the convention. Ms. Fisher-Goad advised AEA is engaged with the Railbelt utilities for a variety of reasons, including Susitna-Watana Hydro and the transmission project, and continues to develop those relationships. She noted this is a very busy time of year as staff prepares for the legislative session.

8B. Next regularly scheduled meeting - Thursday, December 5, 2013

9. BOARD COMMENTS

Commissioner Bell expressed her appreciation for AEA's ongoing work in the community. She received compliments about AEA at the AFN Convention and received compliments on Mr. Skaling's presentation given at a recent conference for Alaska Native leaders. Commissioner

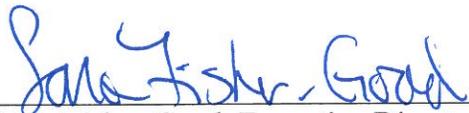
Bell believes the educational format followed at today's meeting was beneficial, especially when there is no action item. She noted there are so many AEA programs to understand and it is good to be ready when there are action items.

Mr. Wilken commented that there is a AEA Board meeting scheduled for Dec. 5 and he needs to be back to Fairbanks for a 6 p.m. meeting of the Fairbanks North Star Borough Assembly. Mr. Wilken requested beginning AEA's meeting an hour earlier or he could leave at 2p.m. to make the 4 p.m. plane. He noted these discussions can take place after the meeting.

Chair Dick expressed his appreciation to Ms. Fisher-Goad and staff for all of their hard work.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 4:08 p.m.

A handwritten signature in blue ink that reads "Sara Fisher-Goad". The signature is written in a cursive style and is positioned above a horizontal line.

Sara Fisher-Goad, Executive Director/Secretary
Alaska Energy Authority