

BOARD MEETING MINUTES

Thursday, June 26, 2014

Anchorage, Alaska

1. CALL TO ORDER

Chair Dick called the meeting of the Alaska Energy Authority to order on June 26, 2014 at 9:00 am. A quorum was established.

2. ROLL CALL: BOARD

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

3. ROLL CALL: STAFF, PUBLIC

Staff present: Sara Fisher-Goad (AEA Executive Director); Michael Lamb (Deputy Director-Finance and Operations); Sandra Moller (Deputy Director-Project Implementation & AEA Operations); Gene Therriault (Deputy Director-Policy & Outreach); Sean Skaling (Deputy Director-Program Development & Project Evaluation); Nathan Anderson; Tom Erickson; Jennifer Haldane; Jess Jennings; Cady Lister; Kris Noonan; Karl Reiche; Tim Sandstrom; Teri Webster; Shelby Weems; Jeff Williams (AEA); Brian Bjorkquist (Department of Law);

Others present: Elwood Brehmer (Alaska Journal of Commerce); Bob Grimm (Haida Energy); Jen Ruckel (KLM Radio); Robert Venables (Southeast Conference); Chris Dillon; Nancy Wainwright; Miranda Studstill (Accu-Type Depositions).

4. AGENDA APPROVAL

The agenda was approved as amended.

5. PRIOR MINUTES - April 24, 2014

MOTION: A motion was made by Mr. Wilken to adopt the minutes of April 24, 2014. Motion seconded by Vice-Chair Pruhs. Motion passed.

6. PUBLIC COMMENTS

There were no public comments.

7. NEW BUSINESS

7A. Power Cost Equalization (PCE) overview

Ms. Fisher-Goad provided a detailed PowerPoint presentation and overview of the PCE Program. Vice-Chair Pruhs asked for the per month average use for rural residents. Ms. Fisher-Goad noted it is usually under 500 kilowatt hours and she believes 412 kilowatt hours is the figure being used. Vice-Chair Pruhs asked if any studies show the Susitna-Watana Project, when it comes online, having positive or negative pressure on the endowment fund over time. Ms. Fisher-Goad advised there is no direct relationship with respect to Susitna-Watana and the Endowment Fund. There is a connection with the floor of 14.82 cents per kilowatt hour for the Railbelt utility areas' cost. This impacts the program. If Susitna-Watana can provide a long-term, stable cost of power for 100 years, it will provide an avenue for the Railbelt cost to be stabilized over that time and to further stabilize the floor.

Vice-Chair Pruhs asked if stabilizing the Railbelt energy costs for the next 100 years puts more pressure on the PCE Program funding source, because the delta increases. Deputy Commissioner Pawlowski agreed the question is an important issue for AEA to address. Ms. Fisher-Goad explained another relationship that reduces the pressure in the PCE Endowment Fund is the Renewable Energy Fund, which focusses on rural projects. Thirty percent of the kilowatt hours in rural Alaska are eligible for the PCE program.

Chair Dick requested further explanation why the program does not support commercial enterprises. Ms. Fisher-Goad explained the program previously allowed 700 kilowatt hours per month for commercial customers and it was a policy decision by the Legislature to remove that allowance. The program was designed to be a safety net and lifeline program, rather than an economic development enhancement program. The Administration and Legislature has supported further development of energy projects and infrastructure to reduce the usage of diesel. There are also tax considerations on allowing public funds to be directly supporting a private business. Mr. Wilken noted the reason commercial customers were initially pulled from the program around 2004 was due to insufficient funding.

Deputy Commissioner Pawlowski requested information on actions being taken to promote energy efficiency in the community facilities and water and sewer systems in the PCE Program. Ms. Fisher-Goad noted Alaska Native Tribal Health Consortium (ANTHC) has been the leader in working with the utilities on having energy efficiency systems. The Denali Commission is also very interested in this effort and is seeking additional funding to continue.

7B. Rural Programs overview

Ms. Moller gave a PowerPoint presentation overview of the Rural Programs. Deputy Commissioner Pawlowski requested information on AEA's involvement in situations where there are conflicts or problems in individual communities where there is no trained staff. Ms. Moller noted AEA has power plant training, bulk fuel training, and PCE training. AEA is also working with regional entities to determine where the capacity is. Deputy Commissioner Pawlowski asked if AEA considers the efficiency of other local utilities, if the above options are exhausted. Ms. Moller agreed and stated in the last three years, there have been four communities that have joined a co-op. AEA supported that decision, but did not initiate it. Ms.

Fisher-Goad expressed the importance of alignment at the local level in order for AEA to perform effectively.

Mr. Wilken asked that after a project is completed, is there a current system for the community to set money aside for depreciated assets or maintenance. Ms. Moller noted the intent of the business plan is to identify those types of funds. AEA helps the community set its rate so there are sufficient funds to put away for future investment and replacement of equipment. Currently, AEA has no verifying mechanism to ensure communities are following their system. Mr. Wilken believes it would be helpful for AEA to be able to follow-up and know if the investments are protected through maintenance, operations and a sinking fund for the assets. Ms. Moller agreed that is an area AEA could improve.

Deputy Commissioner Pawlowski asked for an explanation of the process if site contamination is identified. Ms. Moller stated AEA does not work in areas that have contamination. Ms. Fisher-Goad informed AEA is working with Department of Environmental Conservation (DEC) and AIDEA project managers are going through the same process.

Deputy Commissioner Pawlowski asked if AEA has a cost of completion of all of the projects in conceptual design. Ms. Moller stated that information is available and can be determined, but it is not in a specific cost of completion format.

Mr. Wilken requested additional information on the expected revenue stream of the Denali Commission and other federal funding sources. Ms. Fisher-Goad stated that information can be provided at the next Board meeting during the review of other budgetary items. Ms. Fisher-Goad noted the Denali Commission has a published work plan out for public comment. The Denali Commission funding has declined significantly. Pilot Station is slated to receive a new power plant and community tank farm with significant funding. The Denali Commission wants to continue maintaining their legacy programs. Ms. Fisher-Goad noted some of the federal funds include energy grants through Rural Utility Service (RUS), Tribal Energy Office, and the U.S. Department of Energy.

Deputy Commissioner Pawlowski requested an explanation of why there will be two tank farms for Pilot Station. Ms. Moller does not know for certain, but believes one is for a tank farm in Pilot Station for Alaska Village Electric Cooperative (AVEC), who is the utility. The community would have its separate tank farm for its use.

7C. Resolution 2014-04, Haida Energy - Reynolds Creek Power Project Fund loan approval

MOTION: A motion was made by Vice-Chair Pruhs to approve Resolution 2014-04 related to Haida Energy - Reynolds Creek Hydro Electric Project as amended. Motion seconded by Ms. Nygard.

Ms. Fisher-Goad informed this resolution reflects terms acceptable to Haida Energy and conforms with the Board's direction including a 100% performance and payment bond. AEA is requiring Regulatory Commission of Alaska (RCA) approval of the Power Sales Agreement (PSA) between Haida Energy and Alaska Power Company (APC) prior to AEA issuing loan funds. Staff recommends approval of this resolution.

Vice-Chair Pruhs asked if there is a mechanism in the 50-year term loan document describing the protocol in the event Haida Energy is sold to a third-party and their ownership structure becomes different. Mr. Bjorkquist advised those types of issues could be incorporated into loan documentation if it is a concern. Currently, there is no loan condition addressing this issue. Mr. Bjorkquist noted he is not aware of any restrictions that have been placed on the loan. In the event the project is sold or the owners of the corporation change through sales of shares, the loan obligations associated with the project would remain the same. The project would stay in the same location, serve the same customers, and continue the PSA.

Ms. Fisher-Goad noted there are AEA grants associated with this project. Through the grants, there is an approval process if a transfer of ownership occurs within the 50-year life of the project. Vice-Chair Pruhs asked if it would be appropriate for AEA to approve the sale or transfer of the project. Mr. Bjorkquist advised it could be appropriate, but it is not currently a condition of the loan.

Chair Dick reported Commissioner Bell joined the meeting telephonically. Chair Dick recused himself from the vote and noted, for the record, he is not participating in this discussion. Deputy Commissioner Pawlowski asked if any other Power Project Fund (PPF) loans have the discussed condition of an approval process if a transfer of ownership occurs within the life of a project. Ms. Lister is not aware of any loans with that condition, but has not reviewed all of the loans going back to the beginning of the program.

Mr. Wilken stated he is concerned with the divergence from AEA's standard operating procedure regarding the cost and the precedent. He asked what is the cost of the diversion. Ms. Lister stated that she did not have with her the difference between the net present value of the currently proposed loan and the loan terms previously recommended by staff but that information could be made available to the board. Ms. Fisher-Goad noted the PPF program is actually very flexible and it is important to have appropriate objective criteria to meet the statutory requirements of the program. She does not believe this project has digressed from AEA's standard operating procedure. The project is more complicated than other loans.

Mr. Wilken stated he is probably going to vote no on this resolution, even though he wants it to pass, because he does not want to set a precedent for the next applicants who want the same concessions. Mr. Wilken stated he does not want the action of this Board to set a precedent and a de facto loan rate for other applicants with the same issues.

Mr. Wilken requested, for the record, Ms. Fisher-Goad's opinions and thoughts regarding what precedent this loan is setting. Ms. Fisher-Goad noted the Loan Committee has had many discussions regarding this loan and how to proceed. The Department of Law has provided guidance with respect to these issues. Every loan analyzed has to address financial feasibility, economic viability, and technical feasibility. Ms. Fisher-Goad believes reviewing each individual project for its unique circumstances provides a barrier against future applicants requesting the same terms as this project. Ms. Fisher-Goad stated this has been the largest and most complicated loan for AEA. AEA has been working with Haida Corporation and Haida Energy since 2009.

Mr. Wilken asked what procedures are in place to keep the 3.78% rate and the seven years' holiday from interest from becoming the de facto rate for the program for the next applicants. Ms. Fisher-Goad noted the statutory ceiling rate is a 12-month average of a revenue bond rate, which is reset for each loan. It is 4.6 now. It will be 5.1 the next time a loan is reviewed. Ms. Fisher-Goad explained the interest rate for each project is reviewed and determined individually depending on the needs of the project. Mr. Bjorkquist advised the 3.78% rate and the model that was used was focused very specifically on what RCA would be reviewing to approve the project. Financial feasibility for this project is absolutely contingent upon RCA approving the PSA. The work with the interest rate and the interest deferral was built into a model, providing a higher probability of RCA approval for financial feasibility.

Deputy Commissioner Pawlowski agreed with Mr. Wilken on the conversation of an interest rate precedent. Deputy Commissioner Pawlowski noted his support for this resolution is not intended to be a precedent for interest rates. Deputy Commissioner Pawlowski agreed with Ms. Fisher-Goad regarding the RCA approval, the PSA, and the completion guarantee. He would like precedent to be set to include those financial feasibility guarantees in future loan documents.

Ms. Nygard requested more information on how storage fits into the long-term cost of the project. Ms. Fisher-Goad stated the analysis of storage capability will generate a license amendment with Federal Energy Regulatory Commission (FERC). There will be additional cost in developing the storage and there is value associated with the storage.

Mr. Wilken noted the security for this loan is the asset, real and personal property, and contracts. If the dam fails, there is no security. If management fails and the market goes away, there is security. He asked if a dam with no market and no management is worth \$20 million. Mr. Bjorkquist stated AEA has security even if nothing works. This security is under the PSA, which provides for a guaranteed repayment of principle, but not of interest.

MOTION: A motion was made by Vice-Chair Pruhs to add as a condition to Resolution 2014-04 that AEA approves the sale or transfer of Haida Energy Corporation or the Reynolds Creek Project to a third-party. Motion seconded by Mr. Wilken. Motion passed.

A roll call vote was taken on the motion to approve Resolution 2014-04 related to Haida Energy - Reynolds Creek Hydro Electric Project as amended. Motion passed, with Chair Dick recused and Mr. Wilken voting no.

8. DIRECTOR COMMENTS

8A. Next regularly scheduled meeting, Thursday, July 31, 2014 - Ketchikan

Ms. Fisher-Goad noted the next meeting will contain an executive session to discuss potential AEA budget requests before working through the Governor's budget process this fall. There are three potential site visits and the Board members will be polled to determine dates and attendance. The sites are Bradley Lake site, Mahay's River boat trip, and Susitna project site tour.

9. BOARD COMMENTS

Deputy Commissioner Pawlowski reminded he will not be available to attend the July meeting in Ketchikan. He made a commitment to meet with Ms. Fisher-Goad to review the covered items.

Mr. Wilken reported he will attend the July meeting via teleconference.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 10:52 am.



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