

**AK BC INTERTIE MEETING
OCTOBER 29TH AND 30TH, 2007**

AKBC Advisory Work Group Meeting

Held at the

KAKE, ALASKA PHYSICAL EDUCATION FACILITY

A two day meeting on

Oct. 29th 1:30 to 5:00 pm, Oct. 30th 9:00 AM to 2:00 PM

Minutes - 10/29/07

The following people signed in on the telephone connection:

Mr. Bob Grimm, CEO of Alaska Power and Telephone
Mr. Peter Naoroz, Kootznoowoo Corporation
Ms. Mavis Hendrickson, Citizen of Skagway, Alaska
Mr. Floyd Kookesh
Ms. Katherine Eldemar, Assistant to the CEO of SEAlaska
Mr. Harold Martin
Mr. Thom Fischer, Tollhouse Energy Company

Advisory Work Group Members present:

Chairman John C. Conley
Jay Hansen, past utility manager, Ketchikan Public Utilities Electrical Division
Mayor Ted Smith, City of Petersburg
Jon Bolling, City Manager, City of Craig, Alaska
Dave Carlson, CEO, Four Dam Pool Power Agency
Jodi Mitchell, CFO, Inside Passage Electrical Cooperative (IPEC)
Vern Rauscher, CEO, Inside Passage Electrical Cooperative, (IPEC)
David Stone, Vice President, Alaska Electrical Light and Power, AEL&P
Henrich Kadake, Mayor, City of Kake
Paulette Jackson, City Council Person, City of Kake

Guests:

JoEllen Hanrahan, Office of Management and Budget, Governor's Office
David Hawes, Transportation planner, DOT-PF South East Division

AEA personnel:

Jim Strandberg, Project Manager
David Lockard, Manager, Ocean Energy Program

Convene:

Mr. JC Conley convened the meeting at 1:30 pm. He thanked the group for making their way to Kake for the meeting.

The Honorable Henrich Kadake, Mayor of Kake, made his opening statement concerning the importance of the meeting to Kake's future, and the need for the community to find sources of affordable energy. The mayor noted that Kake had lost about 400 residents due to high costs of energy, living, and lack of jobs. The Kake School is down to 101 students from about 203 a year ago. The Kake School's existence is in jeopardy if enrollment goes below 100.

He thanked the Advisory Work Group for coming to Kake to hold this meeting in public so that members of his community could interact in the work group's consideration of how the proposed Petersburg to Kake intertie fits into the overall AKBC Intertie project.

Reverend Chuck Paul offered a prayer of thanks and blessed the proceeding.

J.C. Conley made introductions of the advisory work group that were present to an audience of 20 residents of Kake. Mr. Conley posed a motion to appoint Heinrich Kadake and Paulette Jackson to the working group. The motion passed without objection.

Mr. Conley then proceeded with the following statement: The export of energy from Alaska must benefit Alaskans. That is the purpose of this meeting, to consider the approach for carrying the AK BC Intertie project forward. This meeting is occurring in Kake, because the community has expressed an interest in an electrical intertie to their community as a part of this intertie project. Mr. Conley encouraged questions and comments by all participants, especially Kake residents, and stated the goal is to pursue cheaper energy for Kake.

Mr. Conley noted that all meeting notes are on the AEA website. Several legislators wanted to participate but are in Juneau addressing petroleum tax issues.

Budget Report: Jim Strandberg gave a project budget update: \$3.2m originally budgeted to study export concept and Swan-Tyee Intertie. The recently-completed report is on the AEA website. Approximately \$511,000 has been expended.

Prior to the next agenda item, there was conversation with meeting audience. Mr. Floyd Kookesh asked about the Kasaan issue. Jodi Mitchell, IPEC responded that THREA was losing money on providing utility services there. AP&T was providing services to much of the island, so it made sense for them to provide power in Kasaan. A question was asked if the Kake City Council had passed a resolution to pull out of IPEC, and Mayor Kadake stated no such resolution has been passed.

Mavis Hendrickson stated that she used to live in Ketchikan for 50 years. There is a windfall possibility from the cruise ship tax which has to be used for the benefit of cruise ships. One ship requires more power than Haines and Skagway put together. Because the cruise industry needs docks for loading and unloading she advocated taxing the cruise ship industry and using the money to construct interties. Kake and Angoon would benefit.

Status of Utility Service in Kake, Alaska - Jodi Mitchell of IPEC then give a power point presentation entitled "The Challenges of Providing Electricity in Rural Southeast Alaska." During this presentation Ms. Mitchell first described the Inside Passage Electrical Cooperative areas of service, noting that the utility serves 1,306 members in Angoon, Hoonah, Kake, Klukwan, and the Chilkat Valley.

She profiled the way that fuel prices were impacting the IPEC cost of service, and noted that because the utility is almost exclusively generating power with Diesel fuel, it is vulnerable to volatile oil prices. She

noted that all of the IPEC communities have power cost equalization funds available, but noted this subsidy does not help businesses. And in particular, Kake has been hit hard in its commercial customers with the extremely high resultant electrical rates.

She stated that IPEC supports the efforts to construct interties to be able to tap inexpensive hydroelectric power. She noted the IPEC efforts with Kootznoowoo to obtain funding to construct the Thayer Creek Hydro project to serve Angoon, the present effort to fund and build the Kake to Petersburg Intertie, and IPECs efforts with the City of Hoonah and AEL&P to construct the intertie from Juneau to Hoonah.

In closing, she noted that letters of support for grant funding for these electrical infrastructure projects, to secure debt relief, and support continued PCE funding were important to assist IPEC to lower costs of power. She advised active discussions with members of the administration and legislature.

There were questions posed during Ms. Mitchell's presentation:

Peter Naoroz asked what the payback is for the Kake-Petersburg intertie, and Jodi Mitchell replied the resultant cost of power goal would be in the mid-30 cent/kWh range. Jodi Mitchell stated she had recently written a grant application for \$2M for the Angoon hydro project, and Peter Naoroz stated he appreciates IPEC's help. She also stated that we should not only reduce rates but stabilize them by making them less vulnerable to rising fuel costs.

A question was asked how we can reduce the electric rates for businesses. Jodi Mitchell stated that PCE lowers costs of power for residential customers but does not help businesses. For economic development, it is necessary to reduce all rates.

Another person asked if there has been hydro or wind scoping done in the region.

Jim Strandberg replied through the Alaska Energy Authority wind program, regional wind resources have been cataloged. A wind project in Kake could export power to Ketchikan.

OLD BUSINESS:

Completion of the Feasibility Report: JC Conley then stated that the detailed feasibility study on the Export Intertie has been completed, and Advisory Work group recommended acceptance of the draft final report with limited review comments. He discussed the review process for the report, and summarized the findings of the work group.

Jim Strandberg stated that Hatch Energy's final report submission incorporating review comments has been accepted by the Alaska Energy Authority, and is now available on the AEA web page.

Mr. Conley then briefly reviewed the work group recommendations to AEA.

NEW BUSINESS

Recent Developments in Canada: Chairman Conley then stated that the purpose of this meeting is to consider the potential use of the AKBC Intertie funds for the Petersburg to Kake Intertie, as well as to

hear from a visitor, the Director of Business Development for the British Columbia Transmission Corporation, Mr. Rohan Soulsby.

Mr. Conley said that the Kake - Petersburg intertie had been previously studied and a cost estimate of \$30M was included in the study. He said that several people were available at this meeting to review the extent of the project, and to discuss ways to simplify the project and potentially lower its cost. In particular, Mr. David Hawes of the State of Alaska DOT-PF was invited and was present, with maps that show existing roadway alignments between Petersburg and Kake (he introduces Mr. Hawes). Also, a member of the advisory work group, Mr. Jay Hansen of Ketchikan Public Utilities, just recently retired, was present. Mr. Hansen had been the Alaska Power and Telephone project manager for construction of 69KV transmission lines on Prince of Wales Island, and could assist in looking at the ways the project can be accomplished along existing road rights of ways.

Dave Carlson stated that the line is within the Tongass National Forest, so as Environmental Impact Statement (EIS) will probably be needed. The proposed intertie alignment will be adjacent to existing roads for 75% of the distance. Construction will probably take two seasons. If permitting takes 2-3 years, the project timeline will be five years minimum.

At this point, Mr. Bob Loescher asked to speak to the advisory work group. Chairman Conley granted this request, ahead of Mr. Soulsby's presentation.

Mr. Loescher stated: I represent Cascade Creek LLC, the FERC permit holder for Thomas Bay. The FERC process is moving forward. We believe Thomas Bay should be part of this discussion. We support the SE Intertie Program. There is lots of energy in the region, specifically Hydro-electric, wind, tidal energy sources. Mr. Loescher suggested that the 4 dam pool transmission system voltage should be increased to 230 kilovolts. AKBC Intertie funding should be transferred to the Thomas Bay Authority, and the AK-BC Intertie Working Group should examine the policy for funding interties.

Mr. Loescher stated he had six years on the AIDEA and AEA board of directors, and there is no clear energy policy in Alaska at this time. He said the market for energy from SE Alaska could assist in financing Interties. He said the State should create a fund financed from hydro projects in the region. It could finance new renewable energy projects and offset the cost of diesel. He stated that many entities are interested in energy issues, and because of this the region needs a conference in Ketchikan in January or February of 2008 to bring these matters forward.

When questioned about transferring the remaining funds to the Thomas Bay Power Authority, Mr. Loescher stated these funds could be used to jumpstart the Bradfield Canal EIS process and the FERC process.

Mayor Kadake asked how this Cascade Creek initiative would help the people of Kake, who are experiencing very high electric rates. Mr. Loescher stated that because of setbacks in public funding for the Petersburg to Kake intertie, private funding should be considered.

Mr. Duff Mitchell stated that Cascade Creek supports implementation of a Renewable Portfolio Standard and a transmission fee to fund rural interties.

At this point, Chairman Conley called on Mr. Rohan Soulsby, Business Development Director for British Columbia Transmission Corporation to give a status of Canadian efforts to construct the North West

Transmission Line, from Skeena Substation to Bob Quinn Lake. Mr. Soulsby's power point presentation is available on this AKBC Minutes web page.

During his presentation, Mr. Soulsby explained that the British Columbia government ministry for Mines and Energy were considering whether to require the construction of a transmission line up to Bob Quinn Lake. There were a number of mining and industrial users in the Bob Quinn area that would have use of BC Hydro electricity. There would need to be other transmission lines constructed to connect these mines.

The BC Government is focused on achieving their energy plan self sufficient capacity by 2016, and has no plans to extend the line to the Alaska Border at this time.

The potential connection of this transmission line would require an additional transmission line from Bob Quinn to the Alaska border. A transmission line for a portion of that distance, to Forest Kerr Creek, the site of a proposed privately owned run of the river hydro facility, was being considered by Nova Gold Company.

British Columbia Transmission Corporation, which is a Crown corporation that has similarities to a State Power Authority, has voluntarily adopted an open access tariff that is compliant with open access rules the US Federal Energy Regulatory Commission (FERC) requires for the US electrical grid. Further, BC is interconnected with the Pacific Northwest and is actively marketing its own energy into the US market. Therefore, if approval could be secured from the BC government, Alaska could move energy through the BC grid into the US Pacific Northwest.

He said tender prices for electrical energy are changing, California has set a \$85/MWH target, whereas the BC 2006 average price by BC Hydro was \$74/MWH. With this dynamic market it is still beneficial to continue ongoing discussions between Alaska and BC.

The present BC Intertie to Bob Quinn project is on hold pending key decisions to be made by the Canadian Government.

With this input on the status of the power export part of the project, Mr. Conley then opened the discussion for the Petersburg to Kake Intertie portion of the project. Questions were asked both from the audience in the meeting and from those on the teleconference connection.

Mr. Thom Fischer asked if BC Transmission Corporation or BC Hydro could accept power from Alaska at Bob Quinn in exchange for power delivered at the OR-CA border without following the electrons all the way, and Mr. Soulsby replied this is a question best answered by BC-Hydro or Powerex.

A question was asked about a wind power project for Kake, and how it would relate to the Petersburg to Kake Intertie.

Jim Strandberg responded that one concept that had been discussed was a large scale wind farm near Kake on Kake Tribal and Sealaska Corporation land that could provide electrical energy on to the four dam pool grid to offset uses of storage water in the storage hydro projects owned by the four dam pool participants. Such a project in Kake could create employment, cash flow and economic benefit. Funding could be from private equity plus grants. Strandberg explained that there were a number of other communities considering this approach.

Another question was asked how will charges for Kake be figured if the intertie is completed?

Mr. Dave Carlson responded. The Four Dam Pool Power Agency would sell power to the local utility. A power sales agreement would be needed. The Four Dam Pool rates have been at 6.8cents/kWh for 8-9 years. The local utility, IPEC would purchase this power from the four dam pool power agency.

A question was asked whether Kake would be an interruptible customer. Dave Carlson responded that that would be determined when negotiating the power sales agreement, but that current customers for Four Dam Pool power would have first rights under the 1985 power contract. Dave assured the assembly that there presently is plenty of power available. Dave said the region will need to develop other hydro-electric power plants over time to respond to the region's needs. Dave also said the region should be interconnected, and noted that the four dam pool is using half of the power available from Tyee Lake, and that currently there is plenty of hydro electric power in the region.

Continuation of the Advisory Work Group Meeting - 10/30/07

The following people signed in on the telephone connection:

Floyd Kookesh
Peter Naoroz, Kootznoowoo Corp.
Mavis Hendrickson, Skagway
Thom Fischer, Tollhouse Energy Company
Katherine Eldemar, Assistant to the President of SeAlaska
Sue Schrader, SE Conservation Council
Joe Viechnicki, Petersburg Reporter
Martha Smith, Petersburg resident
Chris Spens, Environmental Manager, Tollhouse Energy Company

Advisory Work Group Members present:

Chairman John C. Conley
Jay Hansen, past utility manager, Ketchikan Public Utilities Electrical Division
Mayor Ted Smith, City of Petersburg
Jon Bolling, City Manager, City of Craig, Alaska
Dave Carlson, CEO, Four Dam Pool Power Agency
Jodi Mitchell, CFO, Inside Passage Electrical Cooperative (IPEC)
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David Stone, Vice President, Alaska Electrical Light and Power, AEL&P
Henrich Kadake, Mayor, City of Kake
Paulette Jackson, City Council Person, City of Kake

Guests:

JoEllen Hanrahan, Office of Management and Budget, Governor's Office
David Hawes, Transportation planner, DOT-PF South East Division

AEA personnel:

Jim Strandberg, Project Manager

David Lockard, Manager, Ocean Energy Program

Convene:

Chairman Conley opened the meeting at 9:00 AM.

Mr. Conley noted that Ms. Sara Fisher Goad, of AEA was unable to attend the meeting, and that the discussion of potential re-appropriation of funds would be discussed by Mr. Strandberg, after the agenda item "Future work for the project"

Future work for the project: As a preliminary item, Mr. Duff Mitchell of Cascade Creek requested time to make comment, which Mr. Conley allowed. Mr. Mitchell stated the D. Hittle and Hatch Acres reports assumed low oil cost. The study assumed \$57/barrel. Today it is \$92/barrel, and we are in a critical stage. The cost of the Canadian dollar has changed drastically. There is no offset for the value of PCE savings. Mr. Mitchell asked if there had been an analysis on the value of energy security, or the effect of the conversion factor between fossil energy to electric heat energy. He asserted the Hatch Report does not consider ancillary benefits, including jobs, economic development, unemployment reduction. He asked further about the State of Alaska embracing a Renewable energy portfolio standard. It is 90% in British Columbia. He said the costs are changing so fast that we need trends and projections, and we need a virtual document, a plug and play spreadsheet, so we can isolate the variables. We need output that is current and accurate so we can make decisions in real time.

J.C. Conley noted that an Excel computer model is available, and asked Jim Strandberg to explain.

Jim Strandberg thanked Mr. Mitchell for his comments. AEA had asked the Contractor Hatch to give us economic feasibility at a point in time. He explained Hatch Energy has done analysis using an interactive excel computer model specifically crafted for this project. There may be copyright issues, but there is a good likelihood AEA could make the Excel model available. Strandberg agreed that conclusions are being impacted by changing fuel costs. This study assessed the current best estimate of market prices for energy within BC and in the US Pacific Northwest, and also developed best estimate costs for the production of power in Alaska that could be available for export. The model is constructed to allow update of this feasibility assessment.

Duff Mitchell noted there was no discussion of wind power, to which Mr. Conley noted it was not in the scope of work.

J.C. Conley stated we are here because we want to move on the Petersburg to Kake intertie project, in parallel with Alaska-British Columbia Intertie. Kake is the place to start. Everything we do should lead to completion of this project. This project should not help or hinder the FERC permit process. Wind requires storage, and nothing happens without an intertie.

Katherine Eldemar stated that if Southeast Conference is using the D Hittle report for Federal or State funding, and saying the focus is hydro electric power, rather than wind or geothermal, then State decision makers should best note that report's scope may be limited. Ms. Eldemar's concern is that hydro-electric capacity may be exhausted from power exports out of the State before it gets to Kake or Hoonah. She doesn't want power exported that is needed in Southeast Alaska.

Jim Strandberg stated that it is important the region consider how best to satisfy their local needs before any export and to advise AEA on what that process should be.

Mr. Conley asked whether AKBC final report conclusions are accepted. The work group indicated so, unanimously.

At this time Mr. Loescher asked to make a recommendation for working group. He stated that Cascade Creek early suggestion to transfer \$2.4 million to the Thomas Bay Power Authority is withdrawn. He said the purpose of the suggestion was to try to move forward. Cascade's goal is to now to have the AKBC Advisory Work group to go forward on those issues.

Ms. Mavis Hendrickson requested to make cruise ship load tax a source of funding for intertie development. There was no sponsor for the motion, nor a second from the Advisory Work Group.

Mr. Conley then noted that Bob Grimm, CEO of Alaska Power and Telephone had recommended parallel development of Kake-Petersburg and AK-BC Intertie. Martha Smith, Petersburg resident also recommended Kake-Petersburg Intertie to occur first. Susan Schrader – SEACC, agreed with Ms. Smith.

Jim Strandberg asked is there still a general intent of a balanced approach and to put some effort towards the export concept? In response, a concept was put on the table for parallel development of both Kake-Petersburg and AKBC, with Kake priority. Using this, the group began to develop a draft resolution for consideration and vote.

In the discussion of the concept, Mr. Conley stated we need to continue to work on exports. Katherine Eldemar advocated a priority for Alaska loads, and said the State of Alaska should advocate for local priority.

Mr. Bob Loescher stated it is important to consider establishing a technical advisory subgroup to implement recommendations. Mr. Conley said the AKBC has a technical working group already. He added there is a need to develop regional energy policy. Mr. Duff Mitchell said that AK-BC funds would be wisely used for community impact studies.

Mr. Conley suggested amendment to the concept to make design, permitting, staking, surveying with priority for the Kake-Petersburg Intertie project.

Mr. Conley suggested making a recommendation to AEA that they move forward on Kake-Petersburg Intertie. The alignment should be established by AEA in conjunction with Stakeholders and DOT-PF.

There was a general discussion on permitting requirements for the new line. Mr. Conley then suggested the real emphasis is adding the Petersburg-Kake Intertie to the project.

Mr. Bob Loescher offered points of clarification. Cascade Creek supports the Kake-Petersburg Intertie. In regard the Thomas Bay hydro-electric projects, under the Cascade concept permitting costs will be borne by Cascade. However, Cascade is interested in additional technical work by the State of Alaska to further define the ROW and further planning for AK-BC. Mr. Loescher stated that Cascade is willing to negotiate with BCTC on extending line from border to Forrest Kerr project and that segment should be included in the work.

A motion was then made and seconded embracing the concept:

MOTION: The remaining AK-BC intertie project funding should be dedicated to parallel development of the AK-BC and Kake-Petersburg intertie projects, with priority to development of the Kake-Petersburg project. The motion passed unanimously.

Potential re-appropriation of funds: Jim Strandberg stated his appreciation for the interesting public discussion and the action taken by the Advisory Work Group. There is a technical issue concerning the State of Alaska funding. The original appropriation wording was unfortunate – allowing only two interties – the Swan Tyee Intertie and the AK-BC Intertie to be considered. In order for a portion of the remaining funds to be directed to the Kake Petersburg Intertie, legislative action would be needed. AEA would present the results of this meeting to the State of Alaska Office of Management and Budget for their consideration.

Comments by Advisory Work Group Members and Legislators: Ms. JoEllen Hanrahan of the Office of Management and Budget then spoke to the group. She explained her organization was in the process of evaluating budget requests and this proposed re-appropriation would be considered in this process.

She said OMB would be considering where to invest and what priorities should be assigned to projects. It would be important to submit new re-appropriation language through AEA. She said that funding wouldn't be available until after legislative process. She advised the proposed language should be explicit, and that is important for people to contact legislators and express their feelings on this matter.

Additional group activities: Jim Strandberg stated that he had invited Mr. Jay Hanson to the meeting, to tap Mr. Hanson's extensive knowledge of transmission line construction. Mr. Hansen had been project manager for Alaska Power and Telephone when the Klawock to Thorne Bay Intertie was constructed adjacent to the existing highway right of way. The terrain for the proposed Kake to Petersburg intertie is similar, and existing road rights of way exist. Reportedly, AP&T was able to construct the Klawock to Thorne Bay line for approximately \$100,000 per mile.

Further, a State of Alaska DOT-PF transportation planner, Mr. David Hawes, is present for the meeting. Mr. Hawes has information on DOT-PF's current plans for roadway alignments between Petersburg and Kake. If the construction of the Kake Petersburg transmission line could be along known DOT-PF rights of way or forest service roads that could become DOT_PF rights of way, intertie costs could be reduced and the time for permitting could be reduced as well.

Mr. Hawes presented to the group the road alignments being considered, and compared them with the preferred alternative for the Kake Petersburg intertie, from the recent D Hittle economic study. Mr. Hawes presented the Southeast Transportation 20 year plan for the Kake to Petersburg roadway. This plan considers a northern alignment as best for road construction. It was noted the recommended transmission line was termed the center south alternative, and this does not follow the preferred DOT-PF alignment.

It was agreed that further coordination with DOT-PF was necessary, and that the transmission line should follow existing access roads as much as possible to lower costs.

At the completion of these discussions, Mr. Conley adjourned the meeting, without objection at 1:00 PM.