

**ALASKA ENERGY AUTHORITY
BOARD OF DIRECTORS
December 7, 2007
Anchorage, Alaska**

MEETING MINUTES

Chairman Notti called the meeting of the Alaska Energy Authority to order on December 7, 2007, at 11:06 a.m. A quorum was established.

Hearing no objection, Item 7A was taken up at this time.

7. NEW BUSINESS

7A. AEA Financial Statements

Mr. David McCambridge, KPMG, reported that the Alaska Energy Authority (AEA) Letter to the Board of Directors identifies KPMG's responsibilities. KPMG issued an unqualified opinion on AEA's Financial Statements. He pointed out that under "Significant Transactions," AEA received a substantial appropriation from the State of Alaska of \$182.7 million for the PCE Endowment Fund.

Under "Accounting Estimates," AEA has an allowance for bad debts which was \$1.2 million at June 30, 2007. Reviewing underlying assumptions, KPMG feels that it is reasonable in relationship to the financial statements. There were no disagreements with AEA management and no consultations with other auditors. In addition to the unqualified opinion on the Financial Statements, one of AEA's indentures requires a bond compliance report and KPMG issued an opinion that AEA was in compliance with certain provisions relating to the bonds, as required by the indenture.

KPMG issued unqualified opinions on AEA's Federal Financial Assistance Audits. AEA expended approximately \$22.5 million dollars in Federal awards last year for a variety of projects. KPMG conducted these audits on behalf of the government and issued unqualified opinions. A significant part of the audit process for AEA is the Federal Single Audit. The audits are available to board members for review. There were no compliance findings.

Commissioner von Scheben asked about the \$182.7 million appropriation from the State of Alaska for the Power Cost Equalization (PCE) Endowment Fund.

Mr. Miller explained that AEA administers the PCE Endowment Fund in conjunction with the Regulatory Commission of Alaska. The fund is invested by the Department of Revenue and is now over \$300 million. The PCE Endowment Fund is used to pay down the cost of electricity in communities of less than 2,000.

Mr. Bjorkquist stated that a fixed percentage of earnings (7%) are used annually for the program.

In response to questions from the Board, Ms. Fisher-Goad added that Alaska Statute allows for 7% of the Fund to be appropriated annually to the program based on a three-year monthly

average market value. The PCE Endowment Fund is not a dedicated fund and the legislature has never appropriated beyond the 7% of monthly average market value. The sale of the Four Dam Pool was the significant appropriation to the PCE Endowment Fund beyond the initial constitutional budget reserve appropriation of \$100 million.

Mr. Kelsey asked if the 7% included inflation. Ms. Fisher-Goad replied that the 7% is based on a three-year monthly average market value which is more aggressive than other endowment funds. The Department of Revenue invests the Fund in a mix of equities.

Commissioner von Scheben expressed concern that both Letters to the Board were similar in nature. He noted for the record that the statements: "...there's been no transactions entered into by the Authority during the year that were both significant and unusual;" "...we propose no adjustments to the Authority's accounting records;" and "...there were no disagreements with management on financial accounting" jumped out as a canned phrase; both documents have similar phrases.

Mr. McCambridge replied that the Letter is boiler plate, but contains important things the profession has determined the board members should understand about the audit process. Even though they are repetitive and boiler plate, the point is well taken and it is significant.

The remainder of the agenda was taken up in order.

3. PUBLIC ROLL CALL

Directors present in Anchorage: Commissioner Emil Notti (Chairman/Department of Commerce, Community & Economic Development); Deputy Commissioner Brian Andrews (Designee for Department of Revenue); Commissioner Leo von Scheben (Department of Transportation and Public Facilities); and Mr. John Kelsey (Public Member). Mr. John Winther (Vice-Chair/Public Member) absent.

Staff present in Anchorage: Ron Miller (Executive Director); Chris Anderson (Deputy Director-Credit); Brenda Applegate (AIDEA Controller); Sara Fisher-Goad (Deputy Director-Operations); Brenda Fuglestad (Administrative Manager); Mike Harper (Deputy Director-Rural Energy); James Hemsath (Deputy Director-Development); Karl Reiche (Projects Development Manager); Karsten Rodvik (Project Manager-External Affairs); Mark Schimsheimer (Project Manager); Sherrie M. Siverson (Administrative Assistant); James Strandberg (Project Manager); and Valorie Walker (Deputy Director-Finance).

Others present: Brian Bjorkquist and Mike Mitchell (Department of Law); Tim Leach (MEA Ratepayers Alliance); Christine Vecchio (MEA Ratepayers Alliance); Charles Kozak and David McCambridge (KPMG).

4. PUBLIC COMMENTS

Verbatim

Ms. Christine Vecchio (member of the MEA Ratepayers Alliance): Thank you for the opportunity to comment. "I attended the REGA Technical Conference on November 26-27, 2007 and was impressed with the caliber, breadth, and scope of the conference. As a ratepayer, I learned a

tremendous amount of the complexity of all things that happen when you turn on a light switch. I was impressed by the commitment and interest from the governor, utilities, government agencies, financial institutions, environmental groups, consumer groups, tribal groups. This speaks very clearly to the importance and critical timing happening world-wide and in Alaska.

One of the presentations explained a very critical 100-second window in generating electricity and in the first 2-3 seconds you know you have to make the energy work. I likened the REGA Study to that first 100-seconds portion, because what comes out of the study will affect long-term energy needs and implementation for actions that need to be taken. I stress an important aspect of the study that is the big factor which is the on-going public process involving stakeholders input. The consultant Black & Veatch outlined the study process and each critical stage includes stakeholder input. This, I think, is what will make what comes out of the study one of the things that will make ownership possible from the public, not just the technical people, or engineers, or the utilities, but it becomes a public-ownership process, so I am very grateful for that. And, the last thing I would like to say is, I know we have been talking with people in our Valley with other groups that we are linked with in the various conservation communities, groups who are concerned with energy in Alaska, and we feel that we can make the study come out and implement what the findings are because we cannot do "business as usual" any more. People are going to have to step out of their comfort zones and really commit to finding some answers and solutions for not just the Railbelt. This study will be kind of like the back bone of what we decide as a state for our future energy needs. Thank you very much and congratulations to the staff, to everyone who worked on that technical conference and is continuing to work on the study."

End Verbatim

Commissioner Notti stated energy is an important subject and a priority of his, and this study is an important part of it.

5. PRIOR MINUTES – October 26, 2007

The October 26, 2007 minutes were approved as presented.

6. OLD BUSINESS

Mr. Miller provided an update for the board on the Railbelt Electrical Grid Authority Technical Conference held on November 26-27, 2007 at the Sheraton. The two-day conference was well attended with over 160 participants. Governor Palin gave the opening address and a comprehensive agenda and panel of speakers was followed by an extensive roundup session. The roundup session was open to public discussion on topics discussed during the conference. A consultant from Black & Veatch attended and will return to Anchorage for follow up meetings.

Representatives from the railbelt utilities attended and as a result there will be a meeting of the General Managers next week in Anchorage. One of their discussion topics will be whether the utilities should create some type of unified system operation, generation transmission co-op, or maybe a joint action agency. The REGA conference was a great success due to staff's hard work in bringing it together.

7. NEW BUSINESS

Mr. Miller distributed copies of Resolution No. 2007-02 appointing James Hemsath, Deputy Director- Development as an Assistant Secretary of the Authority.

MOTION: Mr. Kelsey moved to approve Resolution No. 2007-02. Seconded by Deputy Commissioner Andrews.

Discussions ensued regarding time constraints for this resolution. No time constraints were noted for Resolution No. 2007-02.

MOTION: Mr. Kelsey moved to table Resolution No. 2007-02. Seconded by Deputy Commissioner Andrews. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AEA Programs and Projects

There were no Director's comments.

8B. NEXT MEETING DATE

The next meeting is scheduled for Thursday, February 14, 2007.

9. BOARD COMMENTS

At the request of Deputy Commissioner Andrews, Mr. Strandberg gave a brief update on the AK-BC Intertie Advisory Work Group Meeting that was held in Kake on October 29 and 30, 2007.

He said there is an active advisory work group and the purpose of that work group is to provide input to the project manager so that AEA can administer the project in a fashion that best reflects the needs of the region. As a part of that process, the work group has met four times. The public meetings were designed so the group could meet with the people from each region. At the Craig meeting, the AK-BC Intertie Feasibility Study was discussed and the advisory group passed a resolution in support of the report. The consensus was that public meetings should be held in southern Southeast Alaska to include the people of Kake inasmuch as they are a unique community in need of an intertie project.

Public comment was taken at the end of each agenda item. 30-35 people from the Kake region attended and many offered comments. Representatives from a private power group interested in developing the Thomas Bay projects spoke and supported the concept of a Petersburg-to-Kake Intertie.

As a result of the Kake public meeting, the advisory work group passed a resolution supporting a balanced approach in developing in-state interties; specifically the Petersburg-to-Kake Intertie in conjunction with development of an export intertie into Canada.

Deputy Commissioner Andrews asked if the recent closure of mines in British Columbia was going to affect the Four Dam Pool.

Mr. Strandberg reported that he received a call from Mr. Rohan Soulsby, British Columbia Transmission Corporation (BCTC), indicating they were cognizant of developments with the Galore Creek Mine. BCTC plans to discuss the impact of the closure on their transmission project with the Ministry. AEA is waiting to hear about the approach they are going to take. The closure may reduce the potential for large-load support, but there are other reasons for the government to continue with development.

Deputy Commissioner Andrews queried Valorie Walker about refinancing opportunities for Bradley Lake Bonds given today's low-interest rate environment.

Ms. Walker reported that the majority of the bonds are not callable. She has spoken with a representative from Goldman Sachs and any refinancing would be initiated by the utilities making the payments on the bonds. Bonds were refunded in three separate bond issues in 1999-2000. The bonds for the 3rd and 4th series are not refundable. The 5th series, approximately \$30,000,000, is refundable July 1, 2009. Further discussions will ensue as the call date approaches and if it makes economic sense, they will be encouraged to refinance. Ms. Walker said she would follow up by contacting Goldman Sachs next week.

Executive Session

MOTION: Mr. Kelsey made a motion to go into Executive Session to discuss proposed draft legislation. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

EXECUTIVE SESSION: 11:53 am

The Board reconvened its regular meeting at 12:32pm

Roll call was taken and a quorum was established. Chair Notti advised that the Board had not taken any formal action on the matters discussed while in Executive Session.

10. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 12:35pm.



Secretary
Alaska Energy Authority