

**ALASKA ENERGY AUTHORITY
BOARD OF DIRECTORS
January 25, 2007 @ 12:55pm
Anchorage and Juneau, Alaska
Teleconference**

1. CALL TO ORDER

Chairman Barry called the meeting of the Alaska Energy Authority to order on January 25, 2007 at 12:55pm. A quorum was established.

2. BOARD OF DIRECTORS ROLL CALL

Directors present in Anchorage: Mr. Mike Barry (Chairman/Public Member), Mr. Mark Davis (Designee for Department of Commerce, Community & Economic Development), Mr. Deven Mitchell (Designee for Department of Revenue); and Mr. John Winther (Public Member).

(Deputy Commissioner John MacKinnon, Department of Transportation and Public Facilities, absent)

3. PUBLIC ROLL CALL

Staff present in Anchorage: Ron Miller (Executive Director), Chris Anderson (Deputy Director - Credit & Business Development), Bruce Chertkow (Loan Officer), Becky Gay (Project Manager), Sara Fisher-Goad (Deputy Director - Operations), Brenda J.M. Fuglestad (Admin Manager), Mike Harper (Deputy Director - Rural Energy), Karl Reiche (Projects Development Manger), Mark Schimsheimer (Project Manager), Jim Strandberg (Project Manager), Valorie Walker (Deputy Director - Finance), and John Wood (Technical Engineer).

Telephone: Pat Clancy (Western Financial Group), Tim Oswald (Piper Jaffrey), Bob Shea (Boys & Girls Home Family Services), Michael Huser (Boys & Girls Home Family Services), Bond Stewart (Wells Fargo), and Ken Dole (Resort Associates, Waterfall Resort).

Others attending: Brian Bjorkquist (Dept of Law), Betty Gonzales (PenAir Realty), Danny Seybert (PenAir Realty), Orin Seybert (PenAir & PenAir Realty) Jay Page (1st National Bank), Steve Brown (FNBA), Paul Bloom (Merrill Lynch), Judith Hassinger (NWAB), Mayor Siikauraq Whiting (NWAB), Walter G. Sampson (NWAB), Marshall T. White (Dorsey & Whitney), Shelley Ebenall (BHBC), Ken Vassar (BHBC), Craig Smith (Northcrown Properties, Inc.), Dianne Blacksmith (Northcrown Properties, Inc.), Jason Criquet (FNBA), Bernard Zak (Sandia National Labs), and Theresa Obermeyer (Self).

4. PUBLIC COMMENTS

Theresa Obermeyer spoke to the group and discussed information available on several websites: The Alaska State Court System; the Alaska Permanent Fund Board Confirmation Committee; and her own personal website – www.tobermeyer.info.

Chairman Barry told Ms. Obermeyer to email the Board with the website she wished for them to visit.

5. PRIOR MINUTES – December 1, 2006

The December 1, 2006 minutes were approved as presented.

6. OLD BUSINESS

There was no old business.

7. NEW BUSINESS

There was no new business.

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

Mr. Miller discussed a Memorandum of Understanding between Sandia Corporation and AEA that formalizes a working relationship between Sandia and AEA to pursue development in the energy field and energy technology.

Mr. Strandberg provided an overview of four projects. Three are associated with the Alaska Intertie project, an Alaska Energy Authority asset. The Alaska Intertie is a 170 mile long transmission line that stretches from Willow to Healy River and is used to convey energy that is purchased by GVEA from ML&P and Chugach under the Economy Energy Market established by an RCA order.

The line, owned by AEA, has no debt associated with it and was constructed in the mid-1980's with State of Alaska appropriations totaling \$124 million. AEA is currently operating the line through an Intertie Operating Committee. The current agreement was negotiated with the participating utilities in the 1980's and the Authority collects charges for conveying power and uses that to offset the cost of maintenance and operations. Although we own the facility, the utilities have operational control of the asset. No AEA money flows into operation of the asset.

In participation with the Intertie Operating Committee, AEA monitors the operation and maintenance of the line and makes sure the asset is being properly tended to by the utilities that are actually making use of the line.

Since 2003, the AEA Board has worked extensively with the utility in an attempt to change the current operating agreement. A number of defects have been identified in that agreement and we have worked closely with our Assistant AG, Mr. Bjorkquist. Following a Board directive, our Executive Director terminated this agreement on October 16, 2006. Under the terms of the Intertie Agreement we have begun a four-year process and at end of that time we should have another agreement in place.

Recently Matanuska Electric Association offered to purchase this asset. Staff was asked at the last Board meeting to schedule public hearings which will allow the other utilities and the public a chance to voice their thoughts and opinions about the possibility of selling this asset. It was suggested the public hearing be held in conjunction with the Unified System Operator project.

The Unified System Operator Project (USO) is a result of an \$800,000 legislative appropriation awarded to AEA to study the railbelt energy grid authority. Staff has developed a project to study and consider whether we can economically dispatch power more effectively in the railbelt and ways that the railbelt can collectively plan and acquire new generation and transmission infrastructure.

This second part is particularly important for the State because the major generation on the South end of the system is aging and will need to be replaced. There are documented estimates showing we will need to invest as much as one billion dollars over the next ten years to replace this generation. The existing utility structure could be looked at from the standpoint of efficiency over the next ten years. We would like to structure the USO project and plan a technical conference with the public and with the utilities. A conference given by experts could educate us on how to restructure the railbelt over the next ten years and efficiently replace this generation.

We should consider the disposition of the AEA owned asset as a part of a technical conference where people are allowed to express their opinions and we should listen carefully about where they think we ought to go. As part of the USO project an experienced consultant could advise us on the best way to restructure our power system. The USO should review the way we are currently operating this Intertie and the renegotiation of the agreement as there may be some synergies between those two projects.

With a legislative appropriation of \$20.3 million dollars, the third railbelt project is the MEA Bypass Project, designed to upgrade a southern segment of the line connecting with the southern part of the Intertie. We currently convey Intertie energy, by agreement, over an MEA-owned line. This appropriation is designed to install a parallel line which would be dedicated to Intertie energy flow. That contract is set to go before the Municipal Assembly for approval as we have contracted the project with Municipal Light and Power. ML&P provides its spin energy over this line and therefore has interest in the operation of the Intertie.

We are peripherally involved in the Eklutna Project Transmission Line Upgrade that was designed to replace the 50-year old line from the ML&P plant to the Eklutna Power Station. This is a grant that was given to ML&P and AEA is the Grant Administrator. ML&P is constructing this project and it is 80% complete.

Mr. Strandberg stated that it is written in the contract with ML&P that AEA is not responsible for cost overruns and this was entered into the minutes at the last Intertie Operating Committee meeting.

Mr. Bjorkquist stated that after feasibility studies and design are completed, but before construction begins, ML&P will be obligated to commit to completing the project with the available funds. ML&P has stated they will work with the other utilities for joint funding. It was stated that this should not take place without this Board's approval and Mr. Bjorkquist said there are approval processes with respect to quality and construction.

In response to questions from the Board, Mr. Strandberg explained that the \$20.3 million was to add a new parallel line to the MEA line which stretches from Teeland Substation to Willow.

Mr. Bjorkquist said that when the Alaska Intertie Agreement was put together there was a provision that AEA is to contract with MEA for the use of that line, but MEA has terminated that contractual provision. Certain utilities are using that MEA line under an RCA order which ordered joint use and interconnection. Only certain utilities have the right to use 19 miles of what historically has been

considered the Alaska Intertie. The bypass will make the Alaska Intertie complete from Willow up to Healy.

Mr. Strandberg explained that the Alaska Power Authority built the Eklutna transmission line 50 years ago to bring Eklutna Power to Anchorage. Constructed of wood poles, it is very old and needs to be upgraded. MEA, Chugach and ML&P co-own the 40 megawatt capacity which is Golden Storage Hydro. ML&P was successful in getting a grant which is being administered through AEA.

Chairman Barry suggested that the consultant for the USO project work on the various agreements it would take to transmit and dispatch power as efficiently as possible and that public hearings be scheduled quickly to gather public comments in time to respond to any legislative hearings that might take place.

Mr. Strandberg provided an overview of the Southeast Intertie Projects. The Alaska Energy Authority received \$3.2 million dollars to establish or review the feasibility of a transmission line project in Southeast Alaska Ketchikan area. The first part of the project is completion of the Swan-Tyee Intertie, a 69 mile transmission line from the Swan Lake Power Plant serving Ketchikan, north through the Tongass Forest to the Lake Tyee Power Plant, serving Wrangell and Petersburg.

The second part of the project is a 30+ mile transmission line from the Lake Tyee Power Plant to the Canadian Border. The concept is to connect potential large-scale hydro storage projects in Thomas Bay with projects in the Ketchikan area, take that energy and sell it to the Canadian grid. The previous administration embarked on an initiative to combine the two projects and through synergy improve the feasibility of completion of the Swan-Tyee Intertie and create an economic development project for Southeast Alaska.

A consultant was hired and an advisory body was established. A steering committee comprised of local government elected officials in southern Southeast Alaska was formed. The consultant, Hatch Energy, recently produced an interim report with preliminary indications of feasibility. The final report is due on March 31, 2007. There is a lot of effort by various groups to get the funding for the Swan-Tyee Project. Right now we're focused on getting this consultant to give us a straight-shot analysis of the project.

Chairman Barry asked if anybody looked at the option of giving the priority to hooking up the Canadian grid and then perhaps later completing the Swan-Tyee Intertie.

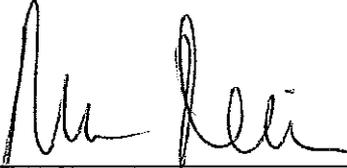
Mr. Strandberg reported that the consultant was asked to come up with all of the viable development scenarios. As to whether or not we should develop the Thomas Bay Project first, the thing that is coming down is that the 100 megawatts of potential capacity in Thomas Bay, but as a large scale hydro storage in a scenic area, it is likely that it would take battles, a lot of money, and 10-12 years to develop those projects. The Swann-Tyee has alignment cleared and permits and there is no impediment to completing it.

A discussion ensued about which project might take priority, the Swan-Tyee Intertie or the BC Transmission and the pros and cons of combining the projects. Mr. Strandberg informed the Board that the interim report by Hatch Energy including an estimate for the transmission line and an abstract outlining the project is posted on their website and invited Board Members to review the information.

8B. NEXT MEETING DATE

The next Board Meeting will be Monday, March 19, 2007.

There being no objection and no further business of the Board, the meeting was adjourned at 1:45 p.m.

 3.20.07

Ron Miller, Secretary
Alaska Energy Authority