

ALASKA ENERGY AUTHORITY
BOARD OF DIRECTORS
March 19, 2007 11:58 am
Anchorage, Alaska

MEETING MINUTES

1. CALL TO ORDER

Chairman Barry called the meeting of the Alaska Energy Authority to order on March 19, 2007, at 11:58 am. A quorum was established.

2. BOARD OF DIRECTORS ROLL CALL

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

3. PUBLIC ROLL CALL

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

Others attending: Lou Agi (ML&P); Steve Agni (O'Malley Gardens LLC); Brian Bjorkquist (Department of Law); Tuckerman Babcock (MEA); Tim Bradner (Journal of Commerce); Henri Dale (GVEA); Ted Leonard (TCC&D); Malcolm Menzies (DOT/PF-SER); Jean McKnight (FNBA); Mike Mitchell (Department of Law); Bob Reagan (ML&P); Ken Vassar (Birch, Horton, Bittner & Cherot); Jim Walker (MEA); 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. [Verbatim transcript available upon request.]

Verbatim

Mr. Babcock, Matanuska Electric Association: I want to congratulate the board on holding a hearing on the public interest associated with potentially selling the Alaska Intertie. The MEA offer last December was genuine. It is an offer that we have discussed in the past. Basically the premise is the book value of the asset, MEA would be willing to discuss in confidential terms the details of what that offer would look like. I think the details of the offer are a confidential

discussion. This is not something the board has shied away with respect to discussions with GVEA on the disposition of the Healy Clean Coal Plant or Homer Electric, the confidential discussions over that particular PSA and eventual offer to purchase. Obviously, once an agreement is reached the terms would not be confidential. The reasons that MEA believes this is in the public interest include at the current state of affairs, the transmission system in the railbelt is completely regulated by the Regulatory Commission of Alaska with the exception of the Alaska Intertie. The Alaska Intertie is regulated by the Alaska Energy Authority directly and by the Agreement that is currently slated to expire between the various utilities that are part of the Alaska Intertie Agreement. The Intertie runs almost entirely through the MEA service territory. The difficulties with the Intertie especially revolved around the failure of the utilities that are part of the Intertie Agreement to come up with an actual mechanism for funding these repairs.

At this time Chairman Barry asked Mr. Babcock to give his testimony later in the meeting under agenda item 7A.

5. PRIOR MINUTES – January 25, 2007

The January 25, 2007 minutes were approved as presented.

6. OLD BUSINESS

No old business was presented.

7. NEW BUSINESS

7A. Railbelt Energy Issues Update

Jim Strandberg, Project Manager, provided an update on Railbelt Energy Issues. Included in the board packet is a document entitled Status of AEA Projects March 2007 and a copy of minutes from the last meeting which includes a summary discussion of the five projects being discussed today.

At the last meeting, four projects in the Alaska Railbelt and one project for southern Southeast Alaska were discussed. The four projects in the Railbelt include the Alaska Intertie Project, the Unified System Operator Project, the MEA Bypass Transmission Line Project, and the Eklutna Transmission Line Upgrade Project which are defined in the summary.

Unified System Operator Project is funded by a legislative appropriation of \$800,000 to study the railbelt grid authority concept. That concept envisions a unified system dispatch of generation and power flows and at the finance level, a collective process for planning and procuring new generation over the next 20 years. Under the direction that AEA received from the legislature, AEA will analyze the concept and establish whether it is of benefit to the railbelt rate payer. A draft RFP for a consultant or contractor selection is approximately 90% complete.

An advisory group comprised of the Railbelt general managers held their initial meeting; the minutes of which are available on the AEA website. Since the initial meeting, Homer Electric Association has indicated an interest in participating. The planned schedule is to advertise and bring a contractor on board by late April. In addition, a technical conference that would provide education on electrical network interconnectivity for stakeholders in the railbelt has been

proposed and is in the planning stages. We propose that public hearings be held on the disposition of public owned assets that are part of the railbelt, which includes MEA's offer to purchase the Anchorage Fairbanks Intertie.

MEA Bypass Project. In 2002, the legislature appropriated \$20.3 million dollars to the Alaska Energy Authority to upgrade and extend the Anchorage to Fairbanks power transmission intertie. The intertie stretches from Willow to the Healy River; adjacent to Healy Unit One and Healy Clean Coal Project. This will upgrade and extend the line from the Teeland substation on Knik Road to the Douglas substation. The construction of this bypass line will parallel the existing MEA owned line currently being used to transmit power to the north. The project has been approved by the Intertie Operating Committee. Project development contract negotiations with Municipal Light & Power are complete. ML&P has that contract and will present it to their assembly. Mr. Agi informs me that at this time we do not have an assembly date for consideration of this contract. Having this work done by ML&P was the result of a collaborative effort between AEA and the intertie participant utilities who decided this was the most efficient way to get this line constructed.

Eklutna Project Transmission Line Upgrade. The legislature approved \$19.3 million dollars as a grant to the Municipality of Anchorage and AEA was named as the grant administrator. This project consists of rebuilding the existing 115kv wood pole electric transmission line from Eklutna to the point where the Beluga 230kv electric transmission line intersects the line near Fossil Creek Bridge Tap. This line is approximately 22.5 miles long. This project is approximately 90% complete.

In response to the Board, Mr. Strandberg reported that ML&P has not reported any cost overruns associated with this project.

Southeast Alaska and the Alaska BC Intertie Project. The legislature appropriated \$3.2 million dollars to the Alaska Energy Authority to analyze and confirm the feasibility of a transmission line to complete the Swan Lake-Tyee Intertie (between Swan Lake Power Plant and Tyee Lake Power Plant) and to construct a transmission line from the Tyee power plant to the Canadian border. The concept behind this is that the excess water energy being wasted at Tyee could be transferred to Ketchikan to offset increasing demands.

The other major direction for the project is that a series of three storage hydro projects in the Petersburg area would be developed to produce 100 megawatts of power. This power would first be used to satisfy Alaska's needs and the rest would be available for export through Canada into the British Columbia power market or even further south to compete in the green power markets.

The consultant has provided a positive interim report about the completion of Swan Tyee Intertie, but has not addressed the issue of exporting power: we expect a draft final report in late March. At the request of the Southeast Conference, the consultant will present the draft final report at the annual Southeast Conference during the Intertie meeting. The advisory group is comprised of stakeholders from the Southeast economic and local government communities. We expect the best assessment available on whether or not this project is economically viable and would be of benefit to the people of the State of Alaska.

In response to the Board, Mr. Strandberg reported that the Swan-Tyee Intertie is approximately 50% complete. The Intertie project will connect Ketchikan with Wrangell and Petersburg upon

completion. From Tyee it is approximately 30 miles to the Canadian Border. The group has established some very good relationships with BCTC, the Crown Corporation organization that owns all of the major transmission lines in British Columbia, and they have attended the last several work group meetings.

Mr. Barry added that although there is approximately 8 to 10 megawatts of excess power from Tyee, it is not enough to amortize a transmission line. There is a lot of small hydro potential in that region and although it is only 30 miles to the border on the Alaska side, there are approximately 60 miles on the Canadian side to be able to connect.

In response to the Board, Mr. Strandberg reported that Dorothy Lake is a project under construction for AEL&P near Juneau. Presently, Southeast Alaska is segmented as the Southeast Alaskan Northern part which is Juneau and the Upper Lynn Canal and the Southern part which is Ketchikan, Petersburg and Wrangell. A long-term plan to connect the entire Southeast is constrained by money for completion of the intertie between Dorothy Lake and Ketchikan.

Mr. Miller pointed out that Dorothy Lake is a project where conduit revenue bonds were issued for AEL&P and Chairman Barry stated that the transmission to the market that they serve is already funded. Discussion on the Southeastern Intertie revolved around where the grant money will come from to connect either Swan-Tyee or the AK-BC project. Mr. Strandberg stated that when the \$3.2 million feasibility project was conceived, there was equal emphasis on the Intertie in Southeast and going into Canada. In order to make the economics of the Swan-Tyee better, that particular project could be subsumed into a larger regional energy development.

Mr. Strandberg stated that there is not enough money to complete the Swan Lake-Tyee project, but they have about 50% of what is needed to complete the project and that has been put in the budget. There has been discussion regarding phasing the construction. There is a desire to tie in Snettisham going south, but it would be an expensive link.

The Anchorage-Fairbanks Intertie is governed by the Alaska Intertie Agreement negotiated between the Alaska Power Authority, the predecessor of AEA, and five utility participants. The Agreement was signed in 1985 and amended in 1991 to include insurance provisions. Functional operation of this line as well as arrangements for collection and expenditure of annual operations and maintenance funds are part of the Agreement. Presently, the Agreement specifies through interconnection terms and conditions how utilities are allowed to access the Intertie. Recently, AEA gave the participating utilities a 48-month advance written notice of terminating the Agreement. There is a considerable amount of history and facts surrounding that termination. A copy of the termination letter as well as the board resolution that was predecessor to that termination is included in the board packet.

AEA is a member of the Intertie Operating Committee: a technical level group that focuses on maintenance and operations. There are a number of subcommittees of the Intertie Operating Committee, some dealing with specific levels of technical operation of the Intertie. There is no debt being serviced by any of the charges for use of the Intertie. The project was built for \$124 million dollars and there are no bonds outstanding. The major expenses, aside from the accruing long-term repair and replacement work, are maintenance and operations. Under the terms of this Agreement, AEA serves as a financial pool and provides basic accounting services to establish a cost-based wheeling rate. If one of the utilities wishes to transfer or sell power

under an economy energy market, the wheeling rate is assessed on the basis of cost without return on any investment. The Intertie Operating Committee Budget Committee establishes a budget each year for annual charges. The utilities project how much energy they plan to send up the Intertie and AEA calculates what the wheeling rate should be over the year. At the end of the year there is a true-up so that if more money is collected on the wheeling rate than actual charges accrued over the year, a check is written to the utilities.

Staff was directed to begin negotiations regarding the Agreement Notice of Termination, which has not yet begun. We are working on the Unified System Operator contract and everything appears to be connected in one way or another. The disposition of this State asset is being discussed at a planning level as directed by the Legislature.

At the request of the Board, a public hearing was held on an offer from Matanuska Electric Association to purchase the Intertie for approximately \$50 million dollars. The record of that hearing consists of two sets of pre-filed comments, a verbatim hearing transcript and two post-hearing written letters. A request from MEA for more information about the Intertie was also entered into the record. MEA, Municipal Light & Power, Chugach, and Golden Valley Electric Association addressed this issue in joint letters submitted to AEA. At the direction of the Board, we will hold additional public hearings on this matter. Under the USO Project, public meetings and hearings to address the disposition of all Railbelt assets will be scheduled.

Chairman Barry clarified that the Board's direction to staff was that a public hearing be held to receive testimony about what elements should be considered in any disposition of the asset, not to hold a public hearing specifically about a specific offer for purchase of the asset. The Board wanted feedback from all of the affected utilities on what potential elements should be considered in any disposition of the asset. There was a lot of testimony about what elements should be considered and during a future public hearing only general generic elements should be considered in any kind of a disposition.

Chairman Barry stated that there was a comment made by Mr. Edwards from Chugach Electric that was troubling. He read from the minutes of the public hearing:

"And then the third point I want to make, just briefly, it has come up, the subject of the AEA Notice of Termination of the Alaska Intertie Agreement. Certainly, speaking on behalf of Chugach and I think also if this is true, of ML&P and Golden Valley, although they can speak for themselves, Chugach does not accept AEA's Notice of Termination as effective."

Chairman Barry asked Mr. Bjorkquist to contact Chugach and clarify what was meant by this statement and report back to the board.

In response to the Board, Mr. Strandberg reported that 20 people attended the public hearing and those names are recorded in the verbatim minutes.

Mr. Babcock stated his appreciation that there was a hearing and said MEA approached it along the lines of what would be in the public interest in issuing a public call for offers for the Intertie and that was how they tried to address their comments.

Verbatim

Mr. Babcock: I think the main observation I would like to share with the board, based on what else is going on with the projects within the Railbelt, is that the grant from the Legislature from last year was in effect and had been approved at the same time the Alaska Energy Authority, or AIDEA, proceeded along with negotiations with Homer to resolve the disposition of the Healy Clean Coal Project. Nothing was seen as contradictory in moving forward with the disposition of that State asset and the study of what might be a Unified System Operation for the Railbelt, nor was there any reason that proceeding with the disposition of the Alaska Intertie would undermine or cripple the Unified System Operation review. In fact, the ultimate disposition would be a Unified System Operator that would deal with the transmission and generation throughout the Railbelt to some degree, to some level or another and the transmission lines owned by Golden Valley between Healy and Fairbanks and by Chugach from Anchorage down to the Kenai would also be subject to whatever the disposition was under a Unified System Operation as would MEA's transmission and potentially the Alaska Intertie if owned by MEA.

The real public benefit in moving forward with a public offering, and we would hope that's the direction you would take, regarding the Intertie (certainly all the other utilities should come forward with what they think is in the State's interest for the disposition of that intertie or transmission line) is that it really should be regulated. The access to it and the tariffs should be regulated by the Regulatory Commission of Alaska (RCA) just as every other transmission line in the Railbelt is. It's very awkward to have this black hole in the transmission system which is regulated solely by a contract which has now been given notice of cancellation as opposed to by the Regulatory Commission of Alaska.

There is at least \$10 million dollars or more in a backlog of work that needs to be done on the Intertie and the current arrangement does not provide for the current utilities to step forward and do that. In addition, none of the proposals or reactions from the utilities has given an answer to the Alaska Energy Authority's inquiry as to liability. At this point in time, the entire liability for the operation, any harm that comes from the operation of that Intertie is the State's. This should be passed along to an owner, either a group of utilities or MEA, whoever made an offer that you found most acceptable and most in the public interest.

So those are the three main points: that it should be regulated by the RCA; that the repairs and liability should be clearly the responsibility of the utilities; and that selling or transferring the Alaska Intertie would not interfere with your Unified System Operation, just as signing the contract last November with Homer did not interfere with that operation. Thank you very much.

End Verbatim

Chairman Barry stated that AEA does not accept any liability from the operation of the transmission line which is why there is an Intertie Operating Committee. AEA is one of the participants on that committee and all of the utilities are represented on that committee. The operation of the Intertie has been unsatisfactory. The reason for the termination of the Agreement was because it was deemed to be ineffective in its operating for repairs and maintenance. There is a difference between a single generating facility that is operated by one entity and providing power to the Railbelt and an Intertie that is supposedly capable of moving many utilities power up and down it and perhaps even in more than one direction at the same time.

The minutes of the public hearing reflected an insinuation by several different people who gave testimony that there was some sort of conspiracy between AEA and MEA on this offer.

Chairman Barry asked Mr. Babcock if he was aware of anyone on the staff or the board of AEA that solicited any kind of an offer from MEA.

Mr. Babcock stated no offer was solicited. He indicated in the minutes that he spoke about that "alleged conspiracy." The cancellation notice did not somehow open the door for discussion about MEA acquiring the line. MEA has been interested in discussing a purchase of the Alaska Intertie for five or six years always under the premise of starting at the book value. The other utilities have also made steps toward acquiring the Alaska Intertie, although not by approaching the Alaska Energy Authority, but by forming a Joint Action Agency and supporting legislation to force a transfer from the State to those three utilities.

Chairman Barry said we will have continuing opportunity for testimony on the subject of disposition of this particular asset along with some comments on a Unified System Operation. This is a significant issue for all Railbelt utilities and we appreciate your involvement in guiding your State as we go forward.

Hearing no objection, Chairman Barry closed the public comment period.

8. DIRECTOR COMMENTS

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

Mr. Miller stated that the board would receive a full briefing on AEA programs and discuss AEA owned energy assets at a later date.

B. Next meeting date

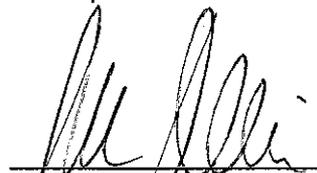
The board will be polled for the next meeting date.

9. BOARD COMMENTS

There were no additional comments offered.

10. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 12:55 p.m.



Ron Miller, Secretary
Alaska Energy Authority