

Alaska Energy Authority  
**BOARD MEETING MINUTES**  
August 11, 2010  
Anchorage, Alaska

**1. CALL TO ORDER**

Chairman Patrick Galvin called the meeting of the Alaska Energy Authority to order on August 11, 2010 at 12:37 p.m.

**2. ROLL CALL: BOARD**

A quorum was established.

Members present: Chairman Patrick Galvin (Commissioner, Department of Revenue); Susan Bell (Commissioner, Department of Commerce, Community & Economic Development); and Mike Felix (Public Member).

**3. AGENDA APPROVAL**

The agenda was approved as amended.

**4. ROLL CALL: STAFF, PUBLIC**

Staff present in Anchorage: Steve Haagenson (AEA Executive Director); Jim Hemsath (Deputy Director-Development); Chris Anderson (Deputy Director-Credit); Sara Fisher-Goad (Deputy Director-Operations); Mike Harper (Deputy Director-Rural Energy); Valorie Walker (Deputy Director-Finance); Jim Strandberg (Project Manager); Karsten Rodvik (External Affairs Project Manager); Bill Phelan (Loan Officer); Shauna Howell (Administrative Assistant); and Sherrie Siverson (Administrative Assistant)

Others present in Anchorage: Brian Bjorkquist (Department of Law); Mike Nave (Department of Law); Todd Tew (Haida Energy)

Participating via teleconference: Robert Venables (Southeast Conference)

**5. PUBLIC COMMENTS**

There were no public comments.

**6. PRIOR MINUTES**

The minutes of June 8, 2010 were approved as presented.

## **7. OLD BUSINESS**

There was no old business.

## **8. NEW BUSINESS**

### **8A. AEA Resolution No. 2010-01 Power Project Fund Loan – Haida Energy, Inc.**

Mr. Haagenson stated Resolution 2010-01 allows for the approval of a Power Project Fund (PPF) loan for the Reynolds Creek Power Project owned by Haida Energy (HE). AEA found there were several areas and regulations that need to be improved upon. The original loan application requested zero interest with no guarantees. AEA worked with the economist to determine the appropriate interest rates and worked closely with Alaska Power & Telephone (AP&T), Haida Corporation, and Haida Energy to obtain the appropriate guarantees for using the Power Sales Agreement between Haida Energy and Alaska Power Company (APC), the sub-company of AP&T. The funding is a mixture of the PPF, loans and grants. We are concerned that the right people get the appropriate amount of funds so that we fund the entire project in the end. Mr. Strandberg is working on the project organized management agreement. He will first speak about the Reynolds Creek project findings and Chris Anderson, AEA Deputy Director of Credit, will speak on the loan conditions.

Mr. Strandberg discussed the determinations that AEA has made on interest rates to be charged for the \$9M loan for Board consideration and approval. He said as project manager the buck stops at his desk for AEA relationship with the Haida Energy project team and to make sure the project gets completed and the flow of funds results in public benefit. The financing package involves this loan and three other AEA grants to different project participants. Haida Energy is the entity that we will be working with. They will be applying for a Certificate of Public Convenience (CPC) and they will become a public utility. Haida Energy is the holder of the Federal Energy Regulatory Commission (FERC) license for the project. AEA has the role as the primary funder for the project while FERC has the sole licensing responsibility for the project. Therefore, the funding and loan conditions made here affect the project financing which also affects the licensing. The financing package is one of the conditions of the FERC license.

One of AEA's prime directives is to develop energy projects within the state that will benefit Alaskans. The Reynolds Creek project offers a clear benefit of long run, stable priced electricity for Prince of Wales Island. If the financial package is properly structured, it will deliver this benefit to Alaskans over the entire life. That is a typical hydro power project that we may see again in the loan program and has occurred with the Bradley Lake Project where the characteristics of the project is very high capital costs and very low long run maintenance and operations costs and the manner in which the debt is recovered is a primary determinant of the rate charged to the consumer. The \$9M loan is a large part of the financing package. The interest rate set strongly affects the rate that will be charged to Alaskans. In working with Haida Energy to structure this project financially, we've come up with three periods within the life of the project. The first period is the construction period. The second period is the early years before and additional interconnecting intertie to two other communities being built. During the early years the loads will be light on project primarily because there are two other existing hydro projects that have first rights, and because there are power sales agreements that require those

projects to run. This is a characteristic of literally all hydro projects that because of the very high capital costs you have to build them larger than what you actually need at the moment and you're always going to have over capacity and then later on the project comes into its own. The findings that we made were due to the gestation period of the project. To charge a zero percent interest rate during the construction period would help the company avoid accruing interest charges in the regulatory world called AFUDC. By agreeing to a zero percent interest rate, there are no accrued interest charges and none of the compounding that would occur under an AFUDC process. That will provide major benefits and over the long run will keep the project rates down.

The second period is the early load development period. Calculations were made and discussions with Haida Energy occurred that if AEA offered a lower interest rate than the statutory rate, the debt repayment cost could be lowered and thus the effective rate out of the project could be lowered. The basic calculation was that there would be savings in debt costs over these early years that would be combined with an action taken by Haida Energy agreeing to forego collecting rates for a certain period of time and get repaid by the rate payers at a later date when the loads further developed. This is all for the purpose of stabilizing rates so the net effect is that the project can be brought online without having negative impact to the ratepayer at large on Prince of Wales Island. The Reynolds Creek Project will be interconnected with the existing Prince of Wales system and the two other operating hydro projects, Black Bear Lake and South Fork. One of the primary benefits of bringing this hydro on line is that they are literally going to forego having to burn diesel in any significant quantities whatsoever over the foreseeable future.

Period three was extended with the lower interest rate until the additional intertie of the communities of Naukati and Coffman Cove are completed and those loads come online. After that time the proposal is to charge the statutory rate of 5.32% for the duration of the project.

Mr. Bjorkquist stated the purpose for the finding is to charge a rate less than the statutory rate. Chairman Galvin asked what the statutory rate was. Mr. Bjorkquist stated the statutory rate is based upon the average of the last twelve months of a municipal bond rate which happens to be 5.32%. Mr. Felix asked if that was the average of the trailing 12 months. Chairman Galvin added the statute allows for coming in below that rate and are there criteria specifically identified to justify coming in below the statutory rate. Mr. Bjorkquist said the criteria of the statute deals with the reduced interest rate for project financial feasibility. The criteria are to be established in regulation. The regulation could have more dealing with financial feasibility, but what you can glean from the regulation is that a comparison of the rate that would be charged from the project with the interest rate versus the rate that would otherwise be charged from other energy sources. Chairman Galvin asked if it was a market driven analysis and if the power that would result would be overpriced for the market, then can we charge a lower finance rate. Mr. Bjorkquist said yes and the interest rate would help get closer to that market. Mr. Haagenon said we would like to clarify that in regulations in the future. Chair Galvin asked if that was the interpretation AEA used to rationalize it. Mr. Strandberg said that the foundation of this determination is to keep the energy affordable and to avoid rate shock. Mr. Felix wanted to clarify that we would be making this loan without any interest for the first two years of the construction period. Mr. Strandberg affirmed. Mr. Felix said then we would be offering it until there's an intertie with the other pieces. We will be below the statutory rate. Mr. Strandberg

affirmed this also. He said for those three years, but then after that it is going to be a full meal deal.

Chairman Galvin asked what the interest rate would be during period two. Mr. Strandberg said it would be 3.33%. Chairman Galvin asked if that would float with the calculations of a statutory number or would it be fixed. Mr. Strandberg said it would be fixed for that short time. Mr. Felix asked if it was fixed because you back into it from the rates you can charge. Mr. Strandberg said that was correct. We started from the rate that the consumer would be charged. Mr. Felix asked if the HE obligation is to keep their rates normalized so that consumers aren't being in any way disadvantaged for them building this project. Mr. Strandberg said he felt HE has done their work. They have a power sales agreement which defines the rate stabilization program to keep the rates basically steady. We have a draft power sales agreement that indicates they will go that way and these are the findings.

Mr. Haagenson said after Ms. Anderson's presentation we will open it up to questions.

Ms. Anderson said the conditions AEA placed on this loan is absent corporate guarantees and the highest period of risk is during the construction period. Negotiation occurred and AEA required:

- A payment and performance bond in form and substance or an irrevocable letter of credit for that period of time to ensure that the project is built and operational.
- A non-cancellable 'take or pay' power sales agreement between Haida Energy and Alaska Power Company in the form and substance acceptable to AEA providing a minimum debt service coverage of 1:1 and assigned to the company for security purposes.
- Evidence of their investment into the project in the amount of \$2,000,905 cash.
- An executed project management agreement in form and acceptance to AEA and award of compliance with all grant terms, as there is a project overlap between grants and loans.
- For collateral we would take a deed of trust on the power plant itself and a security agreement and assignment of leases, easements and permits.
- Take an assignment for security purposes on the power sales agreement between Haida Energy and Alaska Power Company to mitigate risk, get the plant operational and secure.

Chairman Galvin asked if part of the performance bond is some assurance that this project will actually get built for what they say so they will not further obligate themselves with someone else to get the project completed. Mr. Haagenson said that was part of a parent guarantee. He said he would rather see a parent guarantee and that wasn't going to happen – we worked pretty hard on that. They can't bond it, as a performance bond only goes to what you did. The power sales agreement activates once the project is completed, resulting in a gap in the coverage from start to completion. There's a bit of a risk there and we are sharing it. We would prefer the \$9M with an irrevocable letter of credit. Mr. Felix said we are sharing more risk than they are when the project is 90% complete and they discover something else to fund.

Mr. Strandberg said AEA controls the money using milestones as it is disbursed to them. We are trying to mitigate the risk as best we can, but we are sharing risk on this. Chairman Galvin

asked Mr. Strandberg to explain the grant sources, the entities involved, and the project management agreement. Mr. Strandberg said it's all about the risk. We are requiring construction performance bonds to assure the project actually gets built; but there's no assurance that we would go over budget other than the project manager requiring reasonable construction contingencies. It's a combination of bonding requirements plus the project management agreement which we are requiring of all of the grantees before any cost reimbursement money flows. The project management agreement will require that the entity establish a project office to have a technical management person, whether it's a construction engineer or a design engineer in that office so they can produce basic standards of construction. Individual grants are to Haida Power, Southeast Conference (SEC) and Haida Energy. AEA will require that all of the grantees sign an amendment to comply with the project management agreement. Not only will they manage the project correctly but they will be required to present a monthly consolidated progress report and invoicing. All requests for cost reimbursements would come through the program office and the individual grantees will agree to not try to make an end run to get money individually from the company. We are requiring a reasonable and rational structure for the accomplishment of a high capital, complex, civil works project. We would monitor the percent complete of the project schedule of values monthly have and as part of that submittal either individual invoices or a comprehensive invoice for cost reimburse with full back up through each of the grantees. Mr. Strandberg's intention is not to allow any reimbursements to flow until we have this worked out and the project management agreement is signed.

Chairman Galvin asked Mr. Strandberg to explain the role and relationship amongst Haida Energy, Haida Power, and Southeast Conference and how their grant funds are tied to this and what they get out of it. Mr. Strandberg said their role is that they apply for grant funds from the Alaska Energy Authority through Legislative appropriation. Chairman Galvin asked Mr. Strandberg to identify Haida Power. Mr. Strandberg said they are a subsidiary of the Haida Corporation designed to seek renewable energy funds from AEA. They submitted a grant application to the Renewable Energy Fund and were awarded \$2M for the Reynolds Creek Project. Chairman Galvin asked if they used those funds for design work and feasibility studies. Mr. Strandberg pointed out that the grant was not awarded until we go the whole project structure together. The grant language is being modified to require Haida power to comply with the project management agreement. Chairman Galvin asked if Haida Power will continue to exist or will they assign the grant monies to Haida Energy. Mr. Strandberg said we will work with them to achieve an appropriate legal resolution to the issue.

Chairman Galvin said that if he started asking questions that drew Mr. Strandberg into an uncomfortable situation where he felt we should go into executive session, to let him know, as he was unsure as to 'where he was walking in this'. Mr. Bjorkquist said wouldn't it be fair to say that Haida Power was originally going to be the developer of the project and now Haida Energy will be doing that so the grant monies that would have gone to Haida Power now need to be transferred to the entity that is actually going to develop the project. Mr. Strandberg affirmed that. Mr. Haagenson said there is also a grant with SEC and the project management agreement is going to bring all of these grants together, including the PPF. Chairman Galvin asked where the SEC is getting the grant money from - us or from some other entity of the State?

Ms. Fisher-Goad stated the SEC received a direct \$2M Legislative grant for this project. The Co-Chairman of the finance committee in charge required it to go through this non-profit organization for the benefit of this project. Mr. Venables of the SEC is on the line and he has been working with us from the beginning. Mr. Strandberg stated Mr. Venables is the SEC Energy Coordinator and has been working with us to pull the parties together under one single agreement. Mr. Haagenson said there are two parent companies – AP&T and Haida Corporation. Haida Corporation formed Haida Power, then Haida Corporation and AP&T formed Haida Energy in a joint venture -- 75% Haida Corp, 25% AP&T. Mr. Strandberg said that was subsequent to the grant to Haida Power. Mr. Haagenson said AP&T now also has a subsidiary called Alaska Power Company (APC) which is the utility that Haida Power is going to buy the energy from, that's the power project fund portion. Mr. Strandberg said they are going to buy the power from Haida Energy.

Mr. Haagenson said the SEC umbrella will cover all the different funds to make sure we are paying the right money to the right people. Chairman Galvin asked who the loan is with and Mr. Strandberg said it was with Haida Energy, the FERC licensee. Mr. Bjorkquist said FERC will require a complete financing plan to make sure there's enough funds to build the project. Chairman Galvin asked if Haida Energy is diluted in its shareholder position by virtue of all these other entities. Mr. Strandberg said no, they are the sole owner and the other entities are bringing in their grant resources with no equity position. He said it was an interesting situation wherein there's a number of different sources of funds and the project management agreement was the best approach AEA could think of to rationalize the project.

Chairman Galvin asked why did Haida Power not transfer and assign everything over to Haida Energy when Haida Corporation decided to move away from Haida Power towards Haida Energy in a joint venture with AP&T - what was the limitation there. Mr. Strandberg said we do not know. There's some maneuvering going on within the Haida Corp and there are individual relationships developing continuously between AP&T and Haida Energy. We required Haida Energy get a Certificate of Public Convenience so it becomes a public utility. Haida Energy agreed to do that. We are requiring that they sign the project management agreement to assure the grant funds can be accessed by the project manager in the Haida Energy program office. Chairman Galvin stated it concerned him that this was not clearer. Mr. Strandberg agreed that it concerns him also and because of that a lot of effort went into executing the project management agreement and with legal assistance we will make sure this goes right.

Mike Felix asked by virtue of that – are we taking a more aggressive stance toward management oversight on this project than we ordinarily would. Mr. Strandberg stated we intend to perform a close technical management oversight and will be engaged in the design review as well. Chairman Galvin asked if there were different principles identified with Haida Power as opposed to Haida Energy, i.e., is there someone that speaks for Haida Power and someone different that is speaking for Haida Energy. Mr. Bjorkquist stated Haida Energy is a parent to AP&T and Haida Corp, as opposed to Haida Power being the sole subsidiary. Chairman Galvin said he understood that, but when you are working a project management agreement, who are you working with who is speaking as a representative for Haida Power and is that person different from the person who is claiming they represent Haida Energy. Mr. Strandberg said that's somewhat a moving target and didn't have an answer. He said he had not spoken directly to Haida Power, but there is a name on the grant application. Mr. Haagenson said they had a meeting and Alvin Edenshaw is the Haida Corporation Board

Chairman and is also the spokesman for Haida Corp; Todd Tew is our point of contact on behalf of Haida Energy.

Mr. Tew addressed the Board and stated that Haida Corporation consists of a seven member Board of Directors. Haida Power consists of those same Directors. Of the seven Directors, three are Haida Energy Directors and the fourth Haida Energy Director is someone from AP&T. Haida Power and Haida Corp are one in the same, if you wanted to talk to someone it would be the same person, me. Chairman Galvin asked him why keep the distinct identity of Haida Power given that everything seems to be moving in the direction of Haida Energy being the successor. Mr. Tew said that he did not believe that we necessarily want to. The reason Haida Energy came into existence is we wanted to partnership and the legal advice they received at the time was rather than say 25% of Haida Power to start a new entity called Haida Energy that is what we did. He said all parties would like to see it consolidated into one. That is why we transferred the FERC permit to Haida Energy and the grants will go there. Mr. Haagenson stated we have not heard negative comments on the need for a comprehensive project management agreement and we would suggest the same thing if it's possible, why keep Haida Power in. Why can't we legally consolidate those grant funds so that access to the money is easier. Mr. Strandberg said as soon as the money is drawn down, he didn't believe Haida Power will exist, that will probably wipe it out. Mr. Tew agreed and said it's just a name that was there before his time.

Mr. Strandberg reiterated that's why the project management agreement was considered to get these groups transferred around and we will make sure Haida Power states they were given one consolidated bill so the right people get the right money from the right funds.

Chairman Galvin asked Mr. Venables what SEC's interest and role was in this project. Mr. Venables said SEC was very supportive of this project and AEA staff has characterized it precisely. He said SEC is the Legislative vehicle to convey these funds to the project. We will lend our strength at facilitation and coordination. We are eager to sign the project management. Mr. Felix had a question on the three separate tiers of financing and asked if it is viewed as net present value on the project, and how does that stack up in terms of its return versus a straight interest basis project. Mr. Strandberg said he did not have the number but could get it, but pointed out that with the discount rate what occurs early on is important.

Chairman Galvin asked how often are we making findings that need to go below the statutory interest rate. Ms. Fisher-Goad replied we are in a transition in loan officers but did not recall that we've had to go below market for loans. This one is unique and larger, where we've needed both Legislative and Board approval. Chairman Galvin asked if, in the Legislative process, was the likelihood of a below statutory level interest rate discussed. Ms. Fisher-Goad stated the interest rate was not part of the discussion; the main goal was project approval. A combination of State grants and loans above \$5M requires Legislative approval. Although we haven't encountered a situation of a below statutory interest rate, there are zero percent interest rate loans out of the PPF. Mr. Strandberg stated that the statutory requirement for Legislative approval was the project and loan amount options. Chairman Galvin asked if that was pending AEA Board approval. Mr. Strandberg responded that was also a contingency.

Chairman Galvin asked for clarification of 'Legislative approval of the project' and asked if that was the \$2M appropriation to SEC or a separate piece of Legislation. Ms. Fisher-Goad

responded that Legislative approval of the project is in the PPF statute. This is a major project containing over \$5M of State money. If it was a \$1M loan, it would have still required legislative approval. Ms. Fisher-Goad stated it's the same Legislation that approved the sale of loan portfolio from AEA to AIDEA. The statute allows for an appropriation of the loan amount to actually be the Legislative approval, but because the capitalization was coming in for the sale and there was also a \$10M capitalization of the fund in another vehicle, they chose to just do Legislative approval, and tacked it onto our portfolio sale bill. Mr. Strandberg said it was added late on in session and not in the original bill. Chairman Galvin asked if the \$2M appropriated to SEC was through a separate appropriation. Ms. Fisher-Goad stated that occurred in 2008 in a separate appropriation bill when the Renewable Energy Fund was created. This project received funds through "Round zero," a joint solicitation between AEA and the Denali Commission and has been through our application process. The SEC grant came into play early on when energy costs were very high, when there was a push to move forward on renewable energy projects.

There were no further questions from the Board.

**MOTION: Commissioner Bell moved to approve Resolution No. 2010-01. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Chairman Galvin, Mr. Felix, and Commissioner Bell voting yay. Commissioner von Scheben and Commissioner Winther were absent.**

## **9. DIRECTOR COMMENTS**

Mr. Haagenson stated the Alaska Energy Pathway has been in review status for approximately two months. Next week we should have 1,000 copies made and then we can send out the final version with the DVD. We are still working with Native Corporations, Municipalities, and utilities engaging people in Alaska to make this their plan and move forward.

On Friday the Renewable Energy Fund Advisory Committee will meet in Fairbanks. On back of the handout is a strategy map and large project list that we are working on. We are strategizing on the Susitna Hydro Project. They are not interested in performing studies for projects that won't be built. We also do not wish to expend funds on projects that have a zero chance of moving forward, so that is requiring a lot of early studies. We are also considering Chakachamna and Glacier Fork hydro projects. We have been given funds this year to perform a nuclear study. We are working with the IOC utilities on a new operating agreement we hope to have complete by October 16. We are partnering with AIDEA on several projects. Our next scheduled meeting is September 22 which will be an organizational meeting with new Board members.

**9B. Next meeting Wednesday, September 22, 2010.**

## **10. BOARD COMMENTS**

There were no board comments.

**11. ADJOURNMENT**

There being no further business of the Board, the meeting was adjourned at 1:28 p.m.

  
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Steve Haagenson, Executive Director/Secretary  
Alaska Energy Authority