



Alaska Energy Authority
BOARD MEETING MINUTES
Friday, March 30, 2012
Anchorage, Alaska

1. CALL TO ORDER

Chairman Hugh Short called the meeting of the Alaska Energy Authority to order on March 30, 2012 at 10:35 am. A quorum was established.

2. ROLL CALL: BOARD

Members present: Chairman Hugh Short (Public Member); Gary Wilken (Public Member); Robert Sheldon (Public Member); Wilson Hughes (Public Member); Angela Rodell (Deputy Commissioner, Department of Revenue); and Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).

Excused from meeting: Ron Arvin (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage:

Sara Fisher-Goad (Executive Director); Sandra Moller (Deputy Director-Rural Energy Group); Mark Davis (Deputy Director-Investment, Finance and Analysis); Linda MacMillan (Deputy Director-Operations); Shauna Howell (Executive Assistant); Teri Webster (Administrative Assistant); Yolanda Inga (Administrative Assistant); Karsten Rodvik (Project Manager, External Affairs); Peter Crimp (Deputy Director-AEEE); Jim Strandberg (Project Manager); Sherrie Siverson (Executive Assistant-AIDEA); Ted Leonard (Executive Director-AIDEA); Bill Phelan (Loan Officer II-AIDEA); Chris Anderson (Deputy Director-Commercial Finance-AIDEA); Jim Hemsath (Deputy Director-Project Development and Asset Management-AIDEA).

Others present: Brian Bjorkquist and Jerry Juday (Department of Law); Earle Ausman (Public); Phyllis Janke (Public).

5. PUBLIC COMMENTS

Whitney Wolff

Ms. Wolff commented on the (Susitna-Watana) scoping meeting in Talkeetna, which was attended by approximately 120 people and 50 people spoke (48 people opposed the project and two were in favor). She strongly recommended that the Board review the transcripts of the public testimony and recommended that the Board expand their perspective on hydropower reform and consider participating in one or more of Jan Konigsberg's presentations.

6. PRIOR MINUTES

Minutes from the February 29, 2012 Board meeting were unanimously approved.

7. NEW BUSINESS

7A. Resolution No. 2012-02 South Fork Hydro, LLC Power Project Fund Loan

Ms. Fisher-Goad said this project is a preview of the loan project for the South Fork Hydroelectric Project located in Eagle River and is the third application for South Fork. Mark Davis has been spearheading the analysis and the underwriting portion for the Power Project Fund loans. Mr. Earle Ausman and Ms. Phyllis Janke are the proponents and owners of the project. Although there are conditions with respect to the personal guarantees from the members and the perfected security interests for South Fork, LLC's equipment, accounts, inventory, intangibles and accounts receivable, staff recommends the Resolution for Board approval.

Mr. Davis said the project would provide renewable energy to Matanuska Electric Association (MEA). After clearing up issues, MEA has agreed to buy the power at \$.07, which is a rate that should allow enough money to pay off the loan per the Northern Economics analysis. The land is owned by one of the LLC members so there are no access issues and the power cycle lines up with the 30-year term of the loan. Beneficially, this provides MEA with a renewable energy source, as they do not have a lot of their own. It is a small project, but it will provide power at a very good rate. Mr. Hughes asked if permitting fisheries had been addressed. Mr. Davis stated the proponents have the permits and have done a lot of prep work. The project is almost \$5 M and the loan will cover some of the equipment, but a lot of it has already been done. A turbine and a power house will be installed. AEA wanted a Power Sales Agreement in place for the utilities before they would approve a loan. The property tax issue was negotiated with the Municipality of Anchorage to make sure there was an acceptable rate that wouldn't hurt the project's cash flow and a letter was received from the tax assessor. Mr. Sheldon stated he had previously spoken with Mr. Ausman about some developments. He said the project is slightly bigger than what is shown in the materials. He asked Mr. Davis to explain how the configuration looks now versus what might have been provided in the materials. Mr. Davis stated that it will use fairly efficient technology and should last a long time. For example, the original Pelton wheel in Juneau installed in 1909 is still in place – it is a back-up unit, but they can last a long time when properly installed. MEA is interested in their own source of renewable generation. Mr. Sheldon asked if the intake is above the tree-line. Mr. Ausman said the intake is not above the tree-line. Mr. Sheldon asked if Mr. Ausman expects any difficulties with debris or other items. Mr. Ausman said they have experience with McRoberts Creek and are using primary screenings and do not anticipate any problems. He also anticipated allowing educational field trips when weather permits.

Deputy Commissioner Rodell noted that MEA, under the purchase agreement, has committed to purchase 100% of the output. She asked if there is a possibility that MEA will be unable to take all of the output from this project at any time; and if so, if the project can sell to someone other than MEA if it is determined they cannot use 100% of the output. Mr. Davis said MEA has no other generation sources so they will buy it. Should MEA develop another generation source, that might be an issue, then South Fork could sign a PSA under the relevant statutes with any other utility. MEA is a wholesale purchaser, primarily from Chugach Electric, and the MEA Board has indicated it would like to generate more of its own power. This fits into their desires for a good rate, a good run-of-river generation and a renewable resource.

Chairman Short said he was looking for projections of a debt coverage ratio or a break-even analysis. He asked if power were to come in at 3 megawatts, as opposed to 5, how would that affect the service and what ratio exists. Mr. Davis referred to the Northern Economics' model assumptions in the Credit Authorization memo. Revenue per kilowatts and property taxes were looked at and it was concluded that there would be a cushion of \$60,000 to \$90,000 per year over what was needed to service the debt, so it would have to drop extensively to reach break-even. He agreed that's not the usual way to do it. Plant availability would have to fall below 66% before the value fell below \$100,000. The real issue of concern is water flow. Chairman Short pointed out that future write-ups showing more projections, underlying plan, and the financial model would be helpful. Mr. Davis stated the issue with the hydro projects is that in traditional debt ratios, the project value and the residual value may not be applicable. Northern Economics ran three scenarios against the PSA based on different financial structures. As an example, some of the pipeline loans have equipment that could be removed and sold that won't be on someone else's land. He said we did it this way to be in a position to take over someone else's property. We wanted to make sure the net present values were strong, as collateral is not there. He agrees that hopefully PPF applications will occur where there are more traditional debt ratios such as in traditional banking situations.

MOTION: Mr. Hughes moved to approve Resolution No. 2012-02. Seconded by Mr. Sheldon. The motion was approved unanimously.

8. DIRECTOR COMMENTS

Ms. Fisher-Goad said she appreciates the comments and discussion on the Power Project Fund Loan Program. AEA has been working with AIDEA and the Department of Law to develop program regulations, making the program more user-friendly and applicant accessible. There is an effort underway to standardize the program, which has been underutilized. This is the first loan the AEA Board has seen of this type and there are also not many applicants. The loan program requirements are significantly different; it is a direct lending program and technical and financial feasibility must be performed on the project. It's a good union between the AIDEA underwriting and AEA's technical staff to ensure they are feasible. This is an IPP approved loan and significant headway is being made in that arena. We look forward to seeing more grant/loan combination projects.

Chairman Short noted the hard work put into the previously held IPP workshop that evolved into an actual IPP loan is a huge step. We need to make sure people know they're available. A press release will be released on this project. Mr. Davis said another IPP application below \$2 million was received and expected more to come in. We need to work on some of the mechanics but we are working through a back log. A new AVEC loan form was used on a loan closed in December. The IPPs are a definite focus of this program.

In response to a question by Chairman Short, Ms. Fisher-Goad stated we currently have an unlimited cash balance of \$39 M with pending applications of over \$22 M. One significant application is in the amount of \$20 M for the Haida Energy, Reynolds Creek Project. We assume this loan will be seen next. The Reynolds Creek project received a loan approval a year and a half ago for \$9 M and authorization was received from the legislature to approve up to \$20 M for the project. We have been working on restructuring that project's framework. Less pending applications, there is approximately \$16.4 M available for the program.

In response to a question by Commissioner Bell, Ms. Fisher-Goad stated that legislative authorization was received for AIDEA to purchase the Power Project Fund portfolio in 2010, resulting in a significant amount of cash in the fund right now and a bulk of the loans were transferred to AIDEA. AIDEA capitalized the fund by purchasing the loans and there was also a \$10 M fund appropriation. We may need to assess our capitalization needs and have discussions with administration and the legislature for additional funding.

Ms. Fisher-Goad stated at the next Board meeting Wayne Dyok will brief the Board on the (Susitna-Watana) scoping meetings that were completed in March. The Fairbanks meeting was well attended and there were many comments supportive of the project, as well as concerns about it.

Ms. Fisher-Goad updated the Board on legislative activity. There are three pieces of legislation AEA is involved in:

- House Bill 250 is the extension of the Renewable Energy Fund. There was a hearing on March 29, 2012 – expected to pass.
- House Bill 196, introduced by Representative Edgmon, takes the Bulk Fuel Revolving Loan Fund Program to consolidate it with the Commerce-led Bridge Loan Program. It has been heard in House Finance and should pass.
- House Bill 294, also introduced by Representative Edgmon, would adjust the Power Cost Equalization program, increase the monthly kilowatt hours for residents from 500 kilowatt/hours to 600 kilowatt/hours, and would allow small commercial customers to be eligible for the program. Entities which use 2,400 kilowatt/hours per month or less would also be eligible for a 600 kilowatt/hour grant for their business. The bill is scheduled in House Finance.

Mr. Short asked if there is an estimate of the additional cost to the PCE Program by adding the customers to the program. Ms. Fisher-Goad stated the fiscal note includes \$20 M estimated cost to the program. Last year the PCE endowment fund was capitalized with \$400 M, and the total endowment fund is about \$730 M. Up to 7% of the three-year monthly average market value of the endowment fund is available for appropriation to the program. Mr. Short asked if adding Fairbanks to PCE is part of that legislation, and Ms. Fisher-Goad affirmed that. Mr. Short asked what protections existed to keep the PCE endowment fund in place and if the governor and the legislature can decide if that money would be better spent elsewhere and liquidate the fund. Ms. Fisher-Goad said the endowment is within the general fund; however, it has specific statutory investment requirements to earn at least 7% over time. This fund has existed for over 10 years and hasn't been used in any manner other than for PCE payments. Deputy Commissioner Rodell said they manage the investments of the PCE fund and have received inquiries in the investment arena that 7% may be too aggressive, so there is some concern on legislators' parts that we may need to revisit some of the asset allocation and whether or not 7% earnings target needs to be lowered. Mr. Wilken said he was in the legislature in 2002, when they changed PCE Program. One of the problems was the commercial aspect and he hoped people are looking back to see that is a very expensive provision.

Ms. Fisher-Goad said one of the goals of the \$400 M appropriation last year was to get the fund to a point where earning 7% versus using 7% is not as much of an issue. The \$400 M would target to use only 5% of the program each year, rather than 7%. AEA staff has been working with Revenue staff with respect to fund projections. Seven percent is a statutory requirement.

Ms. Fisher-Goad said the Southeast IRP has generated a significant number of comments and AEA is working with the Governor's office to address the comments. She thanked Commissioner Bell for being involved in Juneau and in the region.

Ms. Fisher-Goad announced personnel changes. Linda MacMillan is retiring as Deputy Director of Operations at the end of April, wherein she was instrumental in leading Information Technology development for both AIDEA and AEA. She has also set both agencies on a course for a strategic IT plan.

Mr. Sheldon said he was looking for the Alaska Intertie Project fact sheet and asked if Homer Electric Association might have submitted anything on why they refrained from become participants of the Intertie Agreement. Mr. Bjorkquist said he was involved in the negotiations with Homer Electric and they were always 'on the fence', and ultimately they chose not to be a participant in the Alaska Intertie Agreement. They do not get power transmitted from the north and they feel comfortable with their power supplies on the Kenai Peninsula.

Mr. Wilken said he received a call three weeks ago asking about AIDEA and AEA's involvement in a consult between Golden Valley Electric Association (GVEA) and Fairbanks Natural Gas (FNG). He asked for an update. Ms. Fisher-Goad stated high energy prices this winter have resulted in a very significant focused effort on what could be done. She said that she and Mr. Leonard have been involved in conversations offering technical assistance to proposals. She said both FNG and GVEA have been contemplating an LNG plant on the North Slope and then trucking the gas to the Fairbanks area. GVEA expects to have cheaper gas for their North Pole plant. FNG has a limited service area and a 1-BCF need in the Fairbanks area and the proposal would potentially reduce their cost and set the stage to expand their service area to provide natural gas to more customers. She said she believes the legislature is looking at grant funds to buy down the cost of this from the North Slope. Any state participation would buy down the cost for electrical and heating customers. The AIDEA and AEA team consists of Ms. Fisher-Goad, Mr. Leonard, Mr. Hemsath, Mr. Strandberg and Mr. Warren. She said Mr. Warren is a new Project Manager with AEA and has been a Project Manager at Enstar. Ms. Fisher-Goad said the capital budget has not yet been released. If this project passes, AEA may be included for verifying the cost of the proposal and making sure the project would provide value and benefit to electrical rate payers and natural gas heating customers. A 2009 AIDEA-led analysis elevated how this could potentially be done. There are three players in the Interior that are necessary to have the volume: GVEA, with 3.5 BCF need; FNG, with 1-BCF need and expectation to expand; and Flint Hills, with a 4.5 BCF need. Mr. Wilken asked if AEA has this facility and manages it through some sort of contract or if the plant is funded with a grant to GVEA where they own and operate it. He asked if that was the tension between the two parties. Ms. Fisher-Goad stated she believes the issue is that there is an FNG proposal as a for-profit gas company and a GVEA proposal as a non-profit cooperative. The expectation is that the two parties would come together and have some type of cooperative relationship to develop it together. Mr. Wilken asked about the treatment plant on the Slope and the storage facilities in the Interior. He asked if those were two different things or if one replaces the other. Ms. Fisher-Goad said there is potential for financing to include development of a storage facility also, but there is legislation that could provide credit to a developer of a storage facility.

Chairman Short said that Mr. Arvin asked him to let the Board the know that the Mat-Su Borough Assembly is considering setting up a Susitna-Watana working group and it will be on their April 3, 2012 agenda. Coordinating or reaching out to the Borough should be through the working group.

Chairman Short said that about a month ago, Meera Kohler presented ideas for an intertie to rural Alaska in a distribution plan. He requested a presentation from the group to the Board. Ms. Fisher-Goad commented on the issue of interties. Interties are subject to discussion with the Southeast Integrated Resource Plan and other rural areas. Evaluating criteria and additional factors should be looked at when talking about those issues. Transmission systems are typically expensive and southeast Alaska typically has small, spread-out loads. Chairman Short said when the Intertie was built many years ago, it probably didn't make economic sense, but infrastructure was built to ensure the quality of life for the people who lived in those parts of the state. He said it does make sense to continue that discussion and the AEA Board could provide leadership in the state and should decide how we can support it.

Ms. Moller said regional planning is also being looked at. She was in Bethel on Wednesday and said a big part of their regional planning is looking at potential interties. She encouraged them to look at which parts of the plan make sense to them.

Chairman Short said the Southeast Integrated Resource Plan is the first taste of how controversial these recommendations can be. Feedback is going to get larger as there is expansion into larger areas. The statewide and regional approach must be balanced.

Commissioner Bell said Representative Edgmon asked her earlier in the week if she would look at a recent report from ISER on Power Cost Equalization funding formulas. She said it could be of interest to the Board and asked that a link to the report be sent out to the Board members.

Mr. Wilken commented on the March 29, 2012 (Susitna-Watana) scoping meeting in Fairbanks, which was well attended. 26 people offered testimony, of which 17 were positive, three were 'on the fence', and six were against the project.

9. BOARD COMMENTS

Mr. Sheldon asked that a link to Commonwealth North in addition to the PCE study be provided to the Board. He said Alaska is a growing state and has resources for a growing economy.

Chairman Short announced the next proposed meeting date is April 26, 2012.

10. ADJOURNMENT

There being no further business of the Board, the meeting adjourned at 11:42 am.



Sara Fisher-Goad, Executive Director/Secretary
Alaska Energy Authority