

Alaska Energy Authority
BOARD MEETING MINUTES
Thursday, January 10, 2013
Fairbanks and Anchorage, Alaska

1. CALL TO ORDER

Chair Hugh Short called the meeting of the Alaska Energy Authority to order on January 10, 2013 at 10:02 am. A quorum was established.

2. ROLL CALL: BOARD

Members present in Fairbanks: Chair Hugh Short (Public Member); Vice Chair Susan Bell (Commissioner, Department Commerce, Community, and Economic Development); Bryan Butcher (Commissioner, Department of Revenue); Robert Sheldon (Public Member); and Gary Wilken (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Fairbanks: Sara Fisher-Goad (AEA Executive Director); Gene Therriault (AEA Deputy Director-Energy Policy Development); Nick Szymoniak (AEA Project Economist); Wayne Dyok (AEA Lead Project Manager-Susitna-Watana); Emily Ford (AEA Public Outreach Liaison); Ted Leonard (AIDEA Executive Director); Mark Davis (AIDEA Deputy Director-Infrastructure Development); Karl Reiche (AIDEA Project Manager-Rural Energy); Jim Strandberg (AIDEA Energy Development Finance Officer); and Teri Webster (AEA Executive Assistant).

Others present in Fairbanks: Luke Hopkins (Mayor, Fairbanks North Star Borough); Brian Bjorkquist (Department of Law); Mark Gardiner (Western Financial Group); Bob Shefchik (UAF/Interior Gas Utility); Michael Manwaring and Mark Dalton (HDR Alaska); and Mark Rowley (PTP Management).

Staff present in Anchorage: Sandra Moller (AEA Deputy Director-Rural Energy Group); Kirk Warren (AEA Project Manager); Bryan Carey (AEA Engineering Manager); Aaron Rhoades (Human Resource Manager); Sara Nogg (Data System Specialist); Sandie Hayes (AEA Administrative Assistant); Sherrie Siverson (AIDEA Executive Assistant); and Krin Kempainen (AIDEA Administrative Assistant).

Others present in Anchorage: Tim Bradner (AK Journal of Commerce); Jan Konigsberg (Alaska Hydro Project); and Donovan Walker (AccuType Depositions).

Others participating via teleconference: Richard Leo, Elaine Wolf, Whitney Wolfe, and Becky Long (Coalition for Susitna Dam Alternatives); John Foutz (City of Seward); Brian Sadden (MWH); Joe Griffith and Don Zoerb (Matanuska Electric Association); Chan Wong (AECOM, Winnipeg); and Jan Konigsberg (Alaska Hydropower).

5. PUBLIC COMMENTS

Mayor Luke Hopkins welcomed the AEA Board to Fairbanks. Mayor Hopkins stated Fairbanks and other communities in Alaska have an energy crisis and stated by the availability of energy sources, the high cost of utilities will be reduced. Mayor Hopkins spoke of his support of the Susitna-Watana Hydroelectric Project. He stated the Assembly has a resolution before the body this evening regarding the revised study plans and provided copies of the resolution. Mayor Hopkins stated the leaders in the Fairbanks community support the idea of moving as rapidly as Federal Energy Regulation Committee's (FERC) would consider into the next phase of this project.

Mayor Hopkins commented there is also a natural gas issue in the Fairbanks community and that it is important for their community to receive the lowest cost for natural gas to be able to distribute it to the most residents in the shortest amount of time. Mayor Hopkins stated there are overwhelming air quality problems and natural gas will help to eliminate these issues but the community should be prudent when discussing the way gas will be distributed.

Mr. Jan Konigsberg stated he works for groups needing technical assistance in the conventional hydro-electric FERC licensing process in Alaska. As a public stakeholder, he raised a concern regarding the timeline of the FERC licensing process and does not think FERC is delaying the process for the revised study plans. He also believes that certain details, such as where the sites are and the data collection methods used, are missing from the study plans and this may be the reason FERC decided to extend the comment deadline by two months.

Ms. Becky Long stated she is concerned that the Integrated Licensing Process (ILP) study plan approval process is flawed because the results from the 2012 studies will not be available until after the approval process ends and those results are what set the parameters for the Revised Study Plans (RSP). She also believes the project is relying too heavily on the 1980 studies that were not completed. Ms. Long said numerous stakeholders have requested the AEA studies be peer reviewed and have been declined.

Mr. Richard Leo expressed concern that expediting the licensing process would hamper the study plans that determine the dam's impact on fish, water flow, recreation use and safety. Mr. Leo stated there are a number of critical issues with the dam design, including its need to release very large flows of water in the wintertime to meet electrical demand and what effects that will have on winter travel. Other issues include what effects the dam will have on water quality, ground water and the possibility of large tracts of forest dying. He said these potential environmental effects may show that the dam is not worth being built. Mr. Leo also states it is not appropriate for AEA staff to lobby for the project in public venues across the State and ask that letters be written to FERC requesting the licensing process be fast-tracked. Mr. Leo said the economics of the dam are also a concern as he believes that natural gas will be used for most of the Railbelt energy needs and we will not need the dam as an energy source after a natural gasline is built.

6. PRIOR MINUTES

The December 6, 2012 AEA Board meeting minutes were adopted as amended.

7. NEW BUSINESS

7A. Susitna-Watana Hydroelectric Project Update

Mr. Dyok, Mr. Szymoniak, and Mr. Strandberg provided a PowerPoint presentation on the update of the Susitna-Watana Hydroelectric Project. They reviewed project highlights, licensing, engineering, and economics updates.

The complete PowerPoint presentation is available on AEA's website under Announcements
<http://www.akenergyauthority.org/>

Chair Short asked Mr. Dyok to explain what the FERC regulations are regarding their response once a study plan has been filed. Mr. Dyok stated the regulations call for FERC to have 15 days to comment after a revised study plan is filed and 30 days to make the study plan determination.

Mr. Wilken asked Mr. Dyok to explain what happens on February 1st regarding the 45 studies. Mr. Dyok stated FERC has completed a preliminary review of the 58 studies and feel comfortable that there is enough information for 45 of those studies to make a determination.

Mr. Sheldon asked Mr. Dyok if FERC's response was consistent with protocol in regards to the 13 remaining studies. Mr. Dyok stated he doesn't think FERC skipped a step, but they were surprised at FERC's letter on December 31st ordering the file date to be March 15, 2013 vs. Feb 1, 2013 due to insufficient detail on 13 study plans. Mr. Dyok said they quickly responded and provided the basis and justification for the suggested alternative schedule.

Chair Short asked Mr. Dyok, given his many years of experience, to characterize AEA's study plan, submission, overall quality of the work, and thoroughness of the studies. Mr. Dyok characterized it with the word "unprecedented." He stated this is the most formidable study plan he has ever been associated with during his work in 25 different states.

Chair Short asked Mr. Dyok what the implications are to the overall project timeline if these 13 studies aren't approved in a timely manner and there is no field work conducted this field season. Mr. Dyok stated there could be as much as a year's delay if the 2013 summer field work is not conducted. He said it is important to have a decision by April 1st in order to implement whatever changes FERC might add or require to the study plans. Mr. Dyok commented if the studies are implemented without FERC's approval, then there is risk of reperformance of work in subsequent years.

Mr. Wilken asked Mr. Dyok what AECOM's budget is. Mr. Dyok stated it was approximately \$250,000. Mr. Wilken requested Mr. Dyok provide the Board a record of where AECOM has had experience with RCC dams in arctic conditions.

Mr. Sheldon thanked staff for Slide #13, which shows the curve of the probabilistic range of total project costs. He appreciated it being included in the packet.

Mr. Sheldon asked Mr. Szymoniak if inflation contributes to the overall case for the project over time because it budgets future relevancy of the project. Mr. Szymoniak stated he dedicated Slide #15 to make that point.

Chair Short asked Mr. Szymoniak what the cost increase would be if we assumed another year of delay for the project. Mr. Szymoniak stated it would be an increase in inflation in the range of \$143 million dollars. Chair Short asked Mr. Szymoniak why he was using 5% as the interest rate

on the Base Case Economic Assumptions slide. He also asked how the 30 years debt term was determined. Mr. Szymoniak stated these preliminary assumptions are intentionally conservative because the finance plan has not been developed. He said if the interest rate goes down and the debt term is lengthened, the power cost will be lowered. Mr. Szymoniak expects that almost all the finance work will optimize the project and bring down the power cost.

Chair Short asked Mr. Szymoniak if the 12-year break-even point could be brought down into the single digits if there was state investment or favorable financing or longer financing terms as factors in the equation. Mr. Szymoniak stated they fully expect that to happen.

Mr. Wilken asked Mr. Szymoniak in testing the model on Slide #23, if the \$6.00 floor should be realistically lower to reflect the experience over the last three or four years. Mr. Szymoniak asked Mr. Wilken if he was referring to North Slope gas prices. Mr. Wilken commented a definition of the prices being used is needed. Mr. Szymoniak stated the prices are at the burner tip, the utility cost. Chair Short stated he has seen estimates with trucking in the range of \$16 to \$18 per Mcf by time it reaches the burner tip. Mr. Szymoniak said that \$16 to \$18 includes distribution to get the gas to the actual homes and the cost for industrial or electric generation is closer to \$10 or \$11 per Mcf.

Mr. Sheldon asked Mr. Szymoniak if Japan is willing to pay \$16 to \$18 for delivered gas. Mr. Szymoniak stated the range sounds familiar. Mr. Sheldon asked if the recent auction of the non-delivered gas in the Inlet for \$15 was accurate. Mr. Szymoniak stated he doesn't know which auction Mr. Sheldon referred to, but he has seen natural gas prices in the Cook Inlet in the upper part of that range. Mr. Sheldon requested it be made clear the numbers used in the presentation be delivered numbers. He also stated he would forward studies to the Chair which show the break-even point for natural gas development in the continental United States as somewhere around six to eight dollars per Mcf.

Mr. Wilken asked Mr. Strandberg if Bradley Lake was modeled after the graph on Slide #17, would the cost of power get cheaper every year. Mr. Strandberg stated if there was exactly the same work effort and a leveled debt service, the number will stay the same, but the effects of inflation cause the actual cost to go down. Mr. Szymoniak stated Slide #21 answers the question showing the real dollars declining over time.

Chair Short commented he received an email from the Coalition for Susitna Dam Alternatives with the subject line of "inappropriate AEA activities". Chair Short stated he puts his full support behind Mr. Dyok and AEA staff including their activities in regards to the Susitna-Watana Hydroelectric Project. He believes they have conducted an unprecedented outreach to the public through multiple, extensive meetings. Chair Short commented the Board has been transparent in putting a project together that he thinks addresses the scientific concerns, the needs of the state of Alaska and stands up on its own on economic terms. He thanked and commended Mr. Dyok and the Executive Director for leading us through this process.

Commissioner Bell stated she is pleased with the process the Board uses. It took a foundation of analysis and confidence in order for the Legislature to vote unanimous and to have the Governor move forward with funding in the State budget. We need to continue to be professional, respectful and open in the future years of this project.

Mr. Sheldon stated he echoes Chair Short's support for staff. He stated that staff is not using political pressure; they are participating in a permit process. He urged people to check their facts before believing all that is written in the newspapers.

8. DIRECTOR COMMENTS

Ms. Fisher-Goad stated the staff worked very hard to get the revised study plans submitted and she is extremely proud of the work the team has done. She also appreciates Fairbanks hosting the meeting.

8A. Next regularly scheduled meeting - February 28, 2013

9. BOARD COMMENTS

Mr. Wilken thanked the Board for scheduling the meeting in Fairbanks and hopes they will do so again.

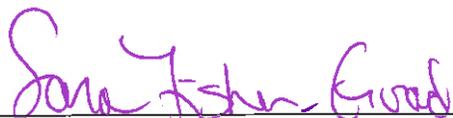
Mr. Sheldon stated he is pleased to serve on this Board and he seeks solutions to energy-induced poverty. He is interested in seeing the Susitna-Watana Hydroelectric Project continue unabated.

Commissioner Bell commented that in her role as Commissioner of the Department of Commerce, Community, and Economic Development and in her role as State Co-Chair of Denali Commission, energy is a priority and is central to economic development and the viability of many communities and families. She stated the Governor and Legislature has invested \$1.6 billion dollars in FY12/FY13 in the full spectrum of energy projects. Commissioner Bell stated she will provide Ms. Fisher-Goad with the amount of funding that is currently in the budget for FY14.

Chair Short thanked Fairbanks for hosting the meeting and believes the Board's attention on the concerns of the Fairbanks community is important. He voiced his concern regarding the delay cost of \$143 million dollars. Every year we have a delay, these costs will be passed on to the rate payer. Chair Short believes we have done our best and we need to be sure we are representing our project and its importance to the state during the political process in Washington, D.C.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 11:44 am.



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