



**ALASKA ENERGY AUTHORITY  
BOARD OF DIRECTORS  
July 25, 2005, @ 10:50 a.m.  
Anchorage and Juneau, Alaska**

**1. CALL TO ORDER**

Chairman Barry called the meeting of the Alaska Energy Authority to order on July 25, 2005, at 10:50 a.m. 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 the Department of Commerce, Community and Economic Development), and Mr. John Winther (Public Member).

Directors present in Juneau: Deputy Commissioner Tom Boutin (Designee for the Department of Revenue).

**3. PUBLIC ROLL CALL**

Staff present in Anchorage: Ron Miller (Executive Director), Valorie Walker (Deputy Director-Finance), Jim McMillan (Deputy Director-Credit & Business Development), Chris Rutz (Procurement Manager), John Wood (Project Manager), Becky Gay (Project Manager), Bruce Chertkow (Loan Officer), Brenda J. Fuglestad (Administrative Manager), Art Copoulos, (Project Manager), and Bernie Smith (Project Manager).

Others attending in Anchorage: Rick Eckert (Homer Electric Association), Henri Dale (Golden Valley Electric Association), Angela Lendt and Ron Saxton (Ater Wynne), Craig Thorne (First National Bank), Jim Posey (Anchorage Municipal Light & Power), Joe Griffith (Chugach Electric), Robert Sheldon (TATICC), Brian Bjorkquist (Department of Law), Bill Noll (Governor's Office), Ken Vassar (Birch Horton Bittner & Cherot), Margie Bauman (Alaska Journal of Commerce), Jim Walker, Don Zoerb, Tuckerman Babcock, Mike Pauley and Wayne Carmony (Matanuska Electric).Jan Sieberts (WCM), Ken Kincaid (Self).

Others attending telephonically: Gary Robertson and Mike O'Leary (Callan & Associates), Frank Roppel (Alaska Housing Finance).

**4. PUBLIC COMMENTS**

There were no public comments.

**5. PRIOR MINUTES**

The June 6, 2005 minutes were approved as presented.

**6. OLD BUSINESS**

There was no old business.

**7. NEW BUSINESS**

**7A. Alaska Intertie Update**

Mr. Ron Miller stated that the general managers of the utilities were invited to discuss the situation regarding the Alaska Intertie Agreement.

Chairman Barry stated that one of the items before AEA was a list of outstanding maintenance issues that had been identified by the IOC in October 2002. He stated that the Board was told that all the items on that list still remained and that none had been crossed off. Chairman Barry expressed concern with the lack of progress and concern with the agreement itself because it did not ensure a level of routine maintenance that the Board would like to see in an agreement. Chairman Barry acknowledged that the recent work session with the utilities' general managers was productive.

Mr. Bernie Smith stated that the IOC budget had been approved. There were two items that had been debated in detail; one being the SVC's. We have a quote for three (3) SVC's on the Intertie for approximately \$1 million each. The budget allows for one and the committee decided to wait to purchase all three SVC's at one time. The other item was regarding tower foundation repairs. It was decided to put only one of those in. The budget came close to exactly what it was in the previous year. There was a work session with the utility company's general managers where they discussed what was to be done about the Intertie Agreement. The general managers decided that the Agreement could and should be amended and suggested that the IOC members get back with the chairman of the IOC and present what they believe are some problems with the Agreement. They would then submit those requests for review.

Mr. Brian Bjorkquist addressed Chairman Barry's concerns raised in his opening comments regarding the various types of deferred maintenance. Some of these issues, if any were to happen, could cause some significant disruption to the operation of the Intertie. Mr. Bjorkquist stated that there are foundations that need to be repaired so that the towers do not topple over and that the repairs that are critical for maintaining the operation of the intertie would require approximately \$3.7 million dollars to fix. The maintenance repairs have not been done for quite some time because there is not a good mechanism under the Alaska Intertie Agreement to finance them. Mr. Bjorkquist stated that the Intertie Agreement is set up so that budgets are done on an annual basis and in order to do a repair you would have to fit that repair into an annual basis time frame. Mr. Bjorkquist noted that when there is major maintenance that requires a capital cost, putting it into one particular year is problematic because the budget for one year really cannot absorb the entire cost of the necessary repairs. At the work session there was an agreement and a commitment by the general managers to fix the Intertie Agreement so that it will be able to effectively take care of future major maintenance items as they come up. One of the topics discussed was the possibility of creating an R&R Fund. The details of how we are going to address the problem of the Agreement not providing a good mechanism for doing major maintenance will be addressed. Exactly how that's going to happen will require some discussion and negotiation with the utilities to come up with a good and fair solution. Another aspect of the Intertie Agreement that was discussed is that there are provisions that have not been followed and are obsolete. It was agreed that the general managers would address those issues and clean up the Agreement so that it reflects what is

actually happening and how the Intertie is being managed as opposed to what the original Agreement that dates back to the mid-80's provided. An example of an obsolete item is the Agreement's provision under the budget that the Legislature would appropriate the budget for a fiscal year and then the wheeling rate paid by the utilities would reimburse the state for those expenses; this has not been followed since 1993.

Chairman Barry acknowledged that the staff is only reporting essentially on the concerns that the board had raised previously, but that it should be mentioned that during the work session, staff made a commitment to prepare a financing study for the utilities to determine how some of these issues could be paid for and the most efficient way to do that.

### **Public Comments on 7A**

Mr. Mike Pauley stated that there were a number of concerns in response to the June 24, 2005 letter from Executive Director Ron Miller regarding the Alaska Intertie Agreement and that they wished to comment on the workshop that was held here on the same subject. Mr. Pauley said that their senior legal counsel at MEA, Mr. Jim Walker, had prepared a letter that goes into some detail on their concerns with the Intertie Agreement and that he would provide the Board with a copy of that at the conclusion of his comments. He then gave a brief overview of MEA's position.

Mr. Pauley stated that MEA's primary concern with the operation of the Intertie relates to the clear public safety hazard posed by unbalanced snow loading on the Intertie conductors. The contractor working with the IOC on this issue, Dryden & LaRue, had previously concluded that the only certain cure for the snow loading problem was to place inset towers in the area where this phenomena is known to occur. Mr. Pauley stated that at the June 9, 2005 meeting of the IOC, they learned that Dryden & LaRue had been instructed to cease work on designing the inset towers and they have subsequently learned that there was apparently no formal vote on this matter, the item did not appear in the agenda, and it is not noted in the minutes and that the only certain cure for the snow loading problem has essentially been swept under the rug as a low priority item for a majority of the participants. He said that the area where the low clearance problems occur is an MEA service territory and members of the public face the highest likelihood of death or injury and many recreational trails used by skiers, snow machine riders and dogsled racers run through this area. Mr. Pauley stated that earlier this year MEA was a defendant in a lawsuit that resulted from the electrocution death of a young man who came in contact with one of their lines. They believe that based on the clear language of the Alaska Intertie Agreement, MEA would not be shielded from liability in the event that someone was injured or killed because of sagging lines on the Alaska Intertie.

Mr. Pauley said that section 7.4.2 of the Alaska Intertie Agreement gives AEA the authority to make the changes that are necessary to protect public safety, and in section 18.1, AEA has agreed to indemnify the other participants from claims arising from AEA's acts or omissions. With the abandonment of the inset tower project, they can only conclude that AEA and a majority of IOC members are willing to risk public safety by relying on the current load cells and inclinometers. These devices are placed at infrequent intervals along the Intertie and the reliability for detecting clearance problems is highly questionable. They also believe that the IOC has not followed its own procedures that were designed to mitigate the risk to public safety, stating that at the December 8, 2004 meeting of the IOC, the committee adopted procedures stating that the Intertie would be inspected for clearance problems whenever more than two (2) inches of snow accumulated during a twenty-four (24) hour period at Susitna High School or Talkeetna Airport. He said that the IOC had stated that if such an inspection could not occur at first light of day following the snowfall and if snow is continuing to fall, the line would be de-

energized. Based on the record of this last winter they believe that the Intertie operator has failed to consistently implement this protocol and he listed examples of this happening. Mr. Pauley said that this disregard of the most basic and predetermined preventative action makes the risk of punitive damages, in the event someone is injured, a substantial possibility. Mr. Pauley made a couple of additional comments regarding the clearance problems with the Intertie. They believe it is clear that the installation of inset towers is the only certain, effective long-term solution and that the failure to fix the snow loading problems points to deficiencies in the Intertie Agreement. The existing Agreement contains no mechanism for funding major maintenance or upgrade projects. In the absence of a provision for funding capital for improvements and major construction, they believe it is clear that the Intertie Agreement will not function over the long-term. MEA believes that the termination of this defective Agreement is necessary to start the process of eliminating a known threat to public safety and to craft a new Agreement that will insure the long-term reliability of the Intertie. MEA recommends that the Alaska Energy Authority immediately give the forty-eight (48) month notice of termination under section 2.2.3 of the Agreement.

Before Mr. Pauley left, Chairman Barry opened the floor for questions and he asked the first one. Chairman Barry asked if this was the first time anybody had heard about this from MEA or did they go to the Intertie Operating Committee meeting and lay that issue on the table; where it probably should be dealt with first?

Mr. Pauley's reply was that he knew that they had a substantial paper trail indicating occasions where they have brought that up. Their representative who attends the IOC meetings was not here today but they can get back to the Board about the particular times that they brought that to people's attention.

Chairman Barry commented that the IOC has a policy now of recording their minutes and AEA's board has a policy of receiving those minutes so that we can monitor it directly and that he would appreciate if they could make sure that in the future any problems that they have with the operation, go first to the IOC. Chairman Barry then asked if there were any other questions of Mr. Pauley from the Board. There was no more public testimony and the Board did not have any questions of the staff. Chairman Barry expressed that the board is very encouraged by the commitment made by the general managers to review the Agreement and correct the outstanding elements in the Agreement and suggested they allow those general managers to perform under that commitment, have AEA's staff to monitor the progress and to come back to the board at the next meeting with a report.

Mr. John Winther questioned if we are we looking at some time to be able to get a working Agreement in place or if this is going to be a meeting-by-meeting situation that develops over a long period of time or whether the board is going to consider the recommendation that we do a forty-eight (48) month termination.

Mr. Brian Bjorkquist replied that his perception of how we are going to proceed is going to be basically on a two (2) path track. One is to address the major maintenance issue dealing with the Alaska Intertie and dealing with that on a financing type basis. The second track is going to be to cure the Interties so that these types of situations do not arise in the future. He stated that there may be different time frames for the two and that he thinks that there was a commitment made by the Chairman that within a couple of weeks AEA would get together and have some financing options to take care of the immediate major maintenance issues. Mr. Bjorkquist felt that it should be reflected, for the record, that the IOC is contemplating that there will be a third party independent engineer taking a look at whatever solution there is (regarding the snow load problem) to make sure that it does fit the definition of prudent utility practices and accomplishes

a level of safety that everyone would agree needs to be done on the Intertie. He stated that there are many ways to take care of a problem and the solution that MEA suggested was a capital project of approximately \$32 million which basically price the Intertie out of the market. He wanted to make sure the record reflects that the IOC in moving forward with their proposal to have an independent engineer look at those type of safety issues to insure that good utility practices are being followed.

Chairman Barry stated that we will be getting a report from staff as to the progress, or lack thereof, at every board meeting until there is a final resolution.

Mr. John Winther expressed his concern that the state of Alaska has millions of dollars in this asset and that we need keep that asset a valuable asset. He does not believe that the state's money has been very well protected so far because it has not had the proper maintenance. His interest is seeing this done post haste.

Chairman Barry expressed to those of the Board who were not present at the work session that there certainly is a different viewpoint presented by the Railbelt Utilities than the one Matanuska Electric has to the dire straits of the Intertie. He stated that they will have a transcript of Friday's work session and the IOC meeting sent to the Board within the next few days.

Mr. Ron Miller stated that members of the IOC have already begun email communications among themselves to exchange information on what they perceive as needed changes to the Intertie Operating Agreement.

**8A. DIRECTORS COMMENTS**

Mr. Miller informed the Board that AEA's website has been reconstructed and the new address is [www.akenergyauthority.org](http://www.akenergyauthority.org)

Mr. Miller also expressed his regrets to the Board that Art Copoulos, who has been a key staff member on numerous projects, has resigned from the Authority. The Board and staff wished Mr. Copoulos well in his future endeavors.

**8B. NEXT MEETING DATES**

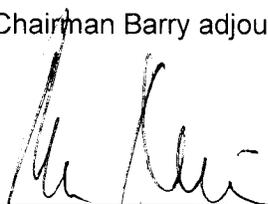
Chairman Barry stated the next meeting date would be Monday, August 8, 2005 immediately following the AIDEA Board Meeting.

**9. BOARD COMMENTS**

There were no board comments.

**10. ADJOURNMENT**

Chairman Barry adjourned the meeting at 11:23 a.m.



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Ron Miller, Secretary