Alaska Energy Authority (AEA) is a public corporation of the state. The Alaska State Legislature created the Authority in 1976.

**AEA’s mission is to reduce the cost of energy in Alaska**
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Report to Alaskans

December 2012

2012 marked another successful year for AEA as a statewide energy policy leader, working to reduce the cost of energy in Alaska.

Renewable Energy Fund projects continue to be developed across the state. AEA continues to move forward with Susitna-Watana Hydro on the Railbelt, and in rural Alaska, AEA brings positive results to many communities through a wide range of programs.

A major highlight of 2012 was our work to advance the Federal Energy Regulatory Commission (FERC) licensing process for Susitna-Watana Hydro. This project would help Alaska reach the goal of producing 50 percent of our power from renewable resources by 2025, and would provide clean and reliable power for generations.

Through the AEA-administered Renewable Energy Fund (RE Fund), $202.5 million for 227 renewable energy projects has been approved. Six application periods are complete, and the first 62 renewable energy projects to either be in operation or construction will provide net benefits of $501 million during their lifetimes. The RE Fund investment in these projects is $112 million. RE Fund highlights in this report include the Chuniisax Creek Hydroelectric project and the Anchorage Landfill-Gas-to-Energy project.

Throughout rural Alaska, AEA has completed 72 of 109 Bulk Fuel Upgrade projects and 51 of 114 Rural Power System Upgrade projects. Since 2000, in partnership with the Denali Commission, AEA has completed more than $304 million in Rural Bulk Fuel and Rural Power System Upgrade projects. In the following pages you will see highlights of upgrade projects in Akiak and Takotna.
The Energy Efficiency and Conservation program continues to make a positive impact in Alaska communities, in some cases providing immediate cost savings. Efficiency measures implemented through the Village Energy Efficiency Program and the Energy Efficiency and Conservation Block Grants Program returned an average of $0.29 immediate savings on every dollar invested, with annual savings continuing into the future. The Alaska Commercial Energy Audit Program targets privately owned commercial buildings, and audits revealed average savings of 30 percent. Our work on a whole-village retrofit in Emmonak is highlighted in this report.

AEA’s newest program is the recently created Emerging Energy Technology Fund, an exciting program designed to test emerging technologies that have the potential to be brought to

Continued on page 4
commercialization in five years. After rigorous review of 70 proposals, 16 projects were selected for funding in 2012.

AEA continues to lead statewide energy policy and program development, and regional energy planning for Alaska. On the Railbelt, AEA owns two key energy assets: the Alaska Intertie and Bradley Lake Hydroelectric Project. Bradley Lake Hydro produces the lowest cost power generation on the Railbelt and the project is featured in this report.

On behalf of AEA’s Board, management and staff, we thank Gov. Parnell, Alaska’s lawmakers and all Alaskans for their continued support of AEA and its commitment to helping move our state toward a bright energy future.

Sincerely,

Sara Fisher-Goad
Executive Director
Governor’s Letter

February 2013

Dear Fellow Alaskans,

As a public corporation of the State of Alaska, the Alaska Energy Authority (AEA) is an integral part of our efforts to light, heat, and power Alaska by developing renewable energy sources, upgrading rural power systems, training local residents, and more. The mission of AEA is to reduce the cost of energy for Alaskans.

Not only is AEA working to reduce power costs, but its efforts also create new opportunities for economic development and jobs for Alaskans by unlocking Alaska’s resources for Alaskans’ benefit. AEA leads the effort on critically important projects, such as the Susitna-Watana Hydroelectric Project and the Interior Energy Plan, to bring long-term, reliable energy to Alaskans.

I appreciate AEA’s work to energize and grow Alaska’s economy and reduce the cost of energy. Together, we will build a more secure, stable energy future for all Alaskans.

Best regards,

Sean Parnell
Governor
Alaska Energy Statistics

A preliminary report that provides a detailed examination of electricity in Alaska as of 2011 was released in 2012. The Alaska Energy Statistics 1960-2011 was prepared by the UAA Institute of Social and Economic Research (ISER) in collaboration with AEA.

- Preliminary numbers show that, of the approximately 6.5 million megawatt-hours of electricity generated across Alaska in 2011, natural gas generated 58 percent, hydroelectric power 20 percent, diesel and other oil products 16 percent, coal 6 percent and wind less than 1 percent.

- The Railbelt region generates most of its electricity with natural gas, but also some with hydropower. Many communities in Southeast Alaska rely on hydropower, but some depend entirely on diesel. Rural communities in Western and Interior Alaska rely primarily on diesel to generate electricity, but wind power is being added in a growing number of rural locations, financed largely by the Denali Commission and the Alaska RE Fund.

- On average, residential use of electricity per customer in Alaska was about 7,770 kilowatt-hours in 2011. That’s considerably less than the national average of 11,500 kilowatt-hours. But use within Alaska varied widely, depending on the price of electricity—from 1,500 kilowatt-hours in places where electricity is most expensive to 14,900 kilowatt-hours where it is least expensive.
Akiak Rural Power System Upgrades
The City of Akiak is located on the west bank of the Kuskokwim River, approximately 42 air miles from the regional hub of Bethel.

The community’s old powerhouse and generators were past their useful life, and Akiak residents faced electricity rationing. AEA replaced the existing system with a new, modular powerhouse equipped with four efficient, 250-kilowatt diesel generators, fully automated switchgear, remote monitoring and a heat recovery system.

A new powerhouse site was chosen to facilitate recovery system heating to the water treatment plant and to the city office. AEA installed a double-wall intermediate fuel tank at the new powerhouse to receive fuel from the main bulk fuel tank farm.

With this upgrade in Akiak, the community is experiencing a 13 percent improvement in kilowatt-hours generated per gallon of diesel fuel. This translates into a savings of nearly $50,000 annually. AEA is pleased that its work in Akiak is helping the community reduce its cost of energy.
Anchorage Landfill-Gas-to-Energy Project

Biofuels Energy System
Alaska’s first Landfill-Gas-to-Energy Project received funding from the RE Fund, with additional funding from Doyon Utilities and the federal government. Located on Joint Base Elmendorf-Richardson (JBER) in Anchorage, the project was planned, designed and constructed within budget.

Four GE Jenbacher J420 Gas Engines and other integrated equipment power the project, which utilizes methane gas produced from the Anchorage Regional Landfill. The project will provide an estimated 56,000 megawatt-hours per year, which is 26 percent of JBER’s annual use, and is expected to produce more than $50 million in savings over its life.

The Anchorage Landfill-Gas-to-Energy Project is a great example of how a RE Fund project came to life with community and military support. With its use of a locally available, renewable fuel supply, this project will help meet electricity needs on Alaska’s JBER.
Banner Year for Alaska Wind Projects

At the start of 2012, Alaska had 15.3 megawatts of installed wind capacity. By the end of the year, the total installed capacity had increased to 63.8 megawatts.

**Eva Creek**
Golden Valley Electric Association’s Eva Creek wind farm, south of Fairbanks, is the largest in Alaska with 24.6 megawatts of installed capacity. The Eva Creek project is also home to the largest wind turbines in the state: the REPower MM92 2.05 megawatt turbine. The 12 turbines are projected to generate 76,000 megawatt-hours of electricity annually.

**Fire Island**
To the south, on the Railbelt grid, Cook Inlet Region, Inc. installed 17.6 megawatts of wind power capacity at the Fire Island wind farm near Anchorage. Eleven GE XLE 1.6 megawatt wind turbines are expected to produce 51,000 megawatt-hours of electricity per year.

**Kotzebue and Kodiak**
These two hub communities expanded their wind farms in 2012. Kotzebue Electric Association moved into the large wind turbine arena with the installation of two 900 kilowatt EWT 54 turbines. This addition nearly tripled the size of their existing wind farm. Kodiak Electric Association doubled their Pillar Mountain wind farm capacity from 4.5 megawatts to 9 megawatts with the addition of three GE 1.5 megawatt turbines.

In addition to these large systems, smaller wind turbines were commissioned in Kongiganak, Kwigillingok and Tuntutuliak.

AEA is pleased with the increase in Alaska’s wind power capacity and proud of the various roles the Authority plays in helping communities and regions develop viable systems that can make a difference.
Bradley Lake Hydroelectric

AEA-Owned Project Provides Low-Cost Power to the Railbelt
The Bradley Lake Hydroelectric Project is located 27 air miles southeast of Homer on the Kenai Peninsula. The project, which has been producing power since the mid-1990s, provides 5 to 10 percent of the Railbelt’s annual electric needs at an average cost of $.04 per kilowatt-hour. This is the lowest power generation cost on the Railbelt.

The project consists of a 125-foot high, concrete-faced, rock-filled dam structure, three diversion structures, a 3.5-mile long power tunnel and vertical shaft, generating plant, interior substation, 20 miles of transmission line and substation. Due to its remote location, the Bradley Lake Hydroelectric Project has its own airstrip, boat dock, residential quarters and utility system.

Operated by Homer Electric Association under contract with AEA, the project is most important to the Railbelt electric system during the cold winter months, when demand for power is at its highest.

AEA is proud to own and oversee the Bradley Lake Hydroelectric Project, a valuable asset that assures Railbelt residents from Homer to Fairbanks, as well as the Delta Junction area, with long-term power at a stable cost.
Chuniisax Creek

Hydroelectric Project
With funding from the RE Fund, the Power Project Fund and the U.S. Department of Commerce Economic Development Administration, AEA helped the western Aleutians community of Atka complete the Chuniisax Creek Hydroelectric Project in 2012.

This hydroelectric project will provide for nearly all of Atka’s current electricity needs, including a portion of the energy Atka Pride Seafoods uses to operate its fish processing facility. The project is expected to save the community more than $180,000 per year in diesel fuel costs. Additionally, excess power from the project has the potential to provide even more savings in the future with the installation of dispatchable electric boilers to heat community buildings.

The scope of the Chuniisax Creek Hydroelectric Project included construction of a 13-foot high, reinforced concrete buttress dam and intake, 1,050 feet of penstock, 2,600 feet of transmission line, and switchgear and controls to allow integration of the hydropower plant with the existing diesel powerhouse.

Alaska’s western Aleutian region is home to extreme weather conditions and significant logistical challenges. AEA is proud of its role in helping Atka residents meet these challenges to build a hydroelectric project that will provide the community with a reliable energy source and stable energy costs for years to come.
Emmonak Whole Village Retrofit

Energy Efficiency and Conservation
Located near the mouth of the Yukon River in Western Alaska, Emmonak is a community of 796 people. With funding from the Village Energy Efficiency Program, and the Energy Efficiency and Conservation Block Grant Program, AEA initiated a whole village retrofit to help reduce the community’s cost of energy.

Energy efficiency professionals audited eight community buildings and performed efficiency retrofits that are projected to provide $90,000 in annual savings. Twenty-seven percent of total savings were found through measures that reduce electricity consumption, such as lighting upgrades and installation of occupancy sensors. The remaining 73 percent of total savings resulted from measures that reduce fuel consumption. These improvements include boiler tune-ups and replacements, hot water system upgrades and the installation of programmable thermostats.

With the total cost of energy efficiency and conservation improvements in Emmonak at just under $670,000, AEA’s work in the village is an example of how a community can achieve significant savings over time, with no reduction in the level of service the community receives.
Takotna

Rural Power System Upgrades – Electrical Distribution
Located in Interior Alaska on the north bank of the Takotna River, 17 air miles west of McGrath, the community of Takotna had an obsolete, non-standard and inefficient electrical distribution system.

Existing poles, cross arms, transformers and conductors were failing and unsafe. The 277/480 V single-phase system required replacement with a new, Rural Utility Service Compliant 7.2/12.47 kV three-phase system.

AEA collaborated with the community on the new design and provided assistance in procuring materials required for the project. New, taller power poles with ten-foot cross arms ensured safe clearance and separation for the three-phase distribution conductors.

AEA Rural Utility Workers, assisted by a strong community workforce, completed the upgrades. The result for Takotna residents is a safe, reliable, balanced and efficient electrical distribution system.
AEA Programs - Statewide

Renewable Energy Fund

The Alaska State Legislature created the Renewable Energy Fund (RE Fund) in 2008. This legislation placed Alaska at or near the forefront of the 50 states in funding for renewable energy. The Legislature authorized AEA to manage the RE Fund project application process, project evaluations, recommendations, completion of grant agreements and disbursement of funds to grantees. AEA began soliciting applications for RE Fund grants in the fall of 2008, and to date, has received 643 applications. Six application periods are complete, with the Round 6 application period having closed in September 2012. AEA evaluates all applications received. To date, $202.5 million for 228 renewable energy projects have been approved. Through December 2012, $114.5 million in grant payments have been made. Eighty-eight percent of Rounds 1-5 RE Fund projects are under way. The first 62 renewable energy projects to either be in operation or be in construction will provide net benefits of $501 million over their lifetimes. The RE Fund investment in these projects is $112 million.
Emerging Energy Technology Fund

AEA manages the recently created Emerging Energy Technology Fund program. Its purpose is to fund demonstration projects that test emerging energy technologies or methods of conserving energy; improve an existing energy technology; or deploy an existing technology that has not previously been demonstrated in Alaska. Successful applicants will need to accomplish these objectives and have a reasonable expectation to be commercially viable within five years. The Legislature appropriated $4.8 million to the Emerging Energy Technology Fund. In addition, the Denali Commission contributed $4.8 million.

In response to its Request for Applications, AEA received 70 proposals. AEA and the Emerging Energy Technology Fund Advisory Committee worked together to review and evaluate all proposals. Sixteen projects were selected for funding in 2012.

Power Project Fund

This program provides loans to electric utilities, regional electric authorities, local governments, regional and village corporations, and independent power producers for smaller scale Alaska energy projects. Loans can be made for reconnaissance and feasibility studies, license and permit applications, design and construction of projects. The program is directed at power projects with less than 10 megawatts output capacity, bulk fuel facilities, and transmission and distribution facilities. The program also provides for financing of waste-to-energy projects, energy conservation and energy efficiency projects, and alternative energy facilities and equipment.
Alternative Energy and Energy Efficiency

AEA’s Alternative Energy and Energy Efficiency program promotes the use of renewable resources as alternatives to fossil fuel-based power and heat, and measures to improve energy production and end-use efficiency. In rural areas the program may support developing local sources of coal and natural gas as diesel alternatives. This program currently manages projects and initiatives totaling $234 million in state and federal funding, and is divided into eight separate program areas:

• The Alaska Energy Data Inventory, a collaborative project between AEA, the Alaska Department of Natural Resources, and the University of Alaska’s Geographic Information Network of Alaska, is compiling renewable and fossil resource data, energy supply and usage, and other information useful for energy planning and development.

• AEA’s Biomass Energy program develops projects using wood, sawmill residue and municipal wastes for energy; tests air emissions and performance of fish oil and diesel blends as fuel; and assesses the viability of recovering fish oil from fish processing wastes.

• AEA’s Combined Heat and Power program provides assistance in developing projects that improve the overall efficiency of power systems by recovering “waste heat” from diesel-fueled and other generators.
• The Energy Efficiency and Conservation program focuses on achieving Alaska’s goal of improving energy efficiency by 15 percent through a wide portfolio of energy and cost savings measures for communities and individuals. The portfolio includes technical assistance to communities and building owners/managers, broad public outreach and education, stakeholder coordination, and financing for efficiency and conservation. This program features projects such as the Village Energy Efficiency Program, Streetlight Retrofit Program, Commercial Building Energy Audits, Industrial Energy Audits, Statewide Public Outreach and Alaska Energy Efficiency Partnership. Additionally, akenergyefficiency.org and akenergyefficiencyemap.org provide valuable information on efficiency and conservation.

• AEA’s Geothermal program supports projects such as the Chena Hot Springs power plant; organizes workshops and training sessions; and coordinates state assistance in developing other potential projects such as Mt. Spurr on the Railbelt and Makushin in Unalaska.

• The Hydroelectric program provides technical assistance through staff and contractors for hydro feasibility assessment. This program also manages public funding for project construction.

• AEA’s Ocean and River Energy program, in partnership with Alaska utilities and the Electric Power Research Institute, evaluates technology and feasibility of converting wave motion, and tidal and river flow into power.

• AEA’s Wind program assists utilities and communities in resource evaluation, training, environmental assessment, regional development, conceptual design and economic feasibility of rural wind-diesel systems. The program also assists with Railbelt wind integration studies.
AEC Programs - Regional

Regional Planning

AEC has a lead role in regional energy planning for Alaska. The Authority initiates efforts in various regions to help Alaskans determine their energy priorities and formulate energy plans. In 2012, AEC signed six contracts with regional entities to develop energy plans in their respective regions. Additionally, as the owner of two key Railbelt energy assets—the Bradley Lake Hydro Project and the Alaska Intertie—AEC has led, and continues to lead, significant work for Alaska’s Railbelt grid.

Susitna-Watana

The hydroelectric potential of the Susitna River has been studied since the 1950s. In 2008, the Legislature directed AEC to reevaluate hydroelectric potential on the Railbelt. In 2010, AEC announced its recommendation that the state should move forward with the Susitna-Watana Hydroelectric Project. In January 2011, Gov. Parnell introduced legislation that would accomplish this goal. In April 2011, after many hearings and substantial public involvement, the Legislature voted in favor of legislation that authorized AEC to own and construct a hydropower project on the Susitna River.

AEC entered the Federal Energy Regulatory Commission (FERC) licensing process in late 2011. Much of 2012 was spent on the Susitna-Watana Hydro environmental program. Numerous stakeholder workgroups and technical meetings were held to develop the Proposed Study Plan, which was filed with FERC in 2012. The Proposed Study Plan includes 58 individual studies that focus on many resource areas, including: geology, water quality, ice processes, geomorphology, instream flow, aquatic resources, wildlife, salmon and fish species, botanical resources, recreation, aesthetics, cultural resources, socioeconomics, subsistence, transportation, project safety and more. This is in addition to the historical data gathered from the 1980s’ Susitna River project and the 18 studies conducted during 2012.
AEA Programs - Rural

**Bulk Fuel Upgrades**

Upgrading bulk fuel facilities reduces the cost of energy by replacing leaking tanks and reducing the risk of future tank and equipment failure. Bringing these facilities into compliance with federal and state regulations also makes them safer and more reliable. AEA completed two Bulk Fuel Upgrade projects in 2012. To date, 72 of 109 Bulk Fuel Upgrade projects have been completed. Since 2000, and with substantial contributions from the Denali Commission, AEA has completed more than $204 million in rural bulk fuel projects.

**Rural Power System Upgrades**

Powerhouse upgrade projects replace outdated, inefficient systems with new electronically controlled generator sets. New powerhouses contain generators of several different sizes. This allows the operator to employ the most efficient generator at various power demand levels throughout the day. At peak demand times, the largest generator provides the power, while at low-demand times the smallest generator provides the power. AEA has also increased fuel efficiency by adding electronic fuel injectors. AEA’s capacity to provide technical assistance is enhanced with the installation of remote monitoring systems. In 2012, AEA completed powerhouse, heat recovery, distribution and other upgrade projects including switchgear and control upgrades in 11 communities. To date, 51 of 114 Rural Power System Upgrade projects have been completed. Since 2000 and with substantial contributions from the Denali Commission, AEA has completed more than $100 million in Rural Power System projects.
Power Cost Equalization (PCE)

PCE payments reduce the cost of power to residential and community customers of eligible utilities. The program provides economic assistance to customers in rural areas, where the kilowatt-hour charge for electricity can be three to five times higher than in urban areas of the state. With PCE, Alaska’s rural areas are more able to maintain communications and the operation of basic infrastructure and systems. In FY 2012, AEA disbursed $39.2 million in PCE payments.

Emergency Response / Technical Assistance

AEA assists communities as power emergencies arise and provides ongoing technical assistance to rural power plant and bulk fuel facility operators. This helps assure safe, reliable operation of rural Alaska electric generation equipment in which millions of dollars are invested, and which provides power to a rural infrastructure of even greater value.
Training

AEA trains local residents to manage and operate rural energy infrastructure. The intent of this training is to ensure that community personnel have the best skills with which to sustain their energy infrastructure in a business-like manner. Proper training and good management are keys to success. When AEA’s commitment to provide the best training is combined with local residents’ commitment to put it all into practice, the result is an infrastructure that will last and be useful its entire life span. Fifty-four rural residents were trained in FY 2012, including Bulk Fuel Operators, Power Plant Operators, Advanced Power Plant Operators and Hydroelectric Power Plant Operators.
Management Team

Sara Fisher-Goad
Executive Director

Sandra Moller
Deputy Director
Rural Energy Group

Sean Skaling
Deputy Director
Alternative Energy and Energy Efficiency

Gene Therriault
Deputy Director
Energy Policy Development

Valorie Walker
Deputy Director
Finance and Administration

Wayne Dyok
Lead Project Manager
Susitna-Watana Hydroelectric Project

Emily Ford
Public Outreach Liaison

Board of Directors
Pictured from left to right

Robert Sheldon
Public Member

Gary Wilken
Public Member

Susan Bell
Vice Chair, Commissioner, Alaska Department of Commerce, Community, and Economic Development

Bryan Butcher
Commissioner, Alaska Department of Revenue

Hugh Short
Chairman, Public Member

Wilson Hughes
Public Member

Ron Arvin
Public Member
### Unaudited Financial Highlights (in thousands)

#### Balance Sheets

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<thead>
<tr>
<th>Assets:</th>
<th>As of</th>
<th></th>
<th>As of</th>
<th></th>
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<tr>
<td>Investment securities and cash</td>
<td>$ 975,335</td>
<td>$ 577,376</td>
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<td>Loans, net</td>
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<td>3,325</td>
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<tr>
<td>Capital assets, net</td>
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<td>227,438</td>
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<td>Receivables and other assets</td>
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<td>408,680</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td><strong>1,228,737</strong></td>
<td><strong>1,216,819</strong></td>
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#### Liabilities and net assets:

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<tr>
<th>Liabilities</th>
<th>As of</th>
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<th>As of</th>
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<tr>
<td>Bonds payable</td>
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<td>101,171</td>
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<tr>
<td>Payables and other liabilities</td>
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<td>39,739</td>
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<td><strong>Total liabilities</strong></td>
<td><strong>158,109</strong></td>
<td><strong>140,910</strong></td>
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</table>

| Net assets                   | 1,070,628      | 1,075,909 |               |       |

| **Total liabilities and net assets** | $ 1,228,737 | $ 1,216,819 |            |       |

#### Revenues, Expenses and Changes in Net Assets

<table>
<thead>
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<th>Operating revenues:</th>
<th>For the years ended</th>
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<tr>
<td>Federal grants</td>
<td>$ 14,871</td>
<td>$ 11,758</td>
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<tr>
<td>Revenue from operating plants</td>
<td>16,357</td>
<td>17,613</td>
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<tr>
<td>State operating revenues</td>
<td>66,882</td>
<td>17,315</td>
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<tr>
<td>Interest on loans</td>
<td>302</td>
<td>484</td>
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</tr>
<tr>
<td>Other operating revenues</td>
<td>248</td>
<td>98</td>
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<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>98,660</strong></td>
<td><strong>47,268</strong></td>
<td></td>
</tr>
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</table>

| Operating Expenses:              |                     |       |       |
| Grants and projects              | 97,047              | 62,072 |       |
| Power cost equalization grants   | 38,899              | 31,180 |       |
| Interest expense                 | 5,032               | 5,540  |       |
| Plant operating                  | 4,501               | 5,674  |       |
| General and administrative       | 5,267               | 3,933  |       |
| Provision for loan losses        | 88                  | (14)   |       |
| Depreciation                     | 9,742               | 10,291 |       |
| **Total operating expenses**     | **160,576**         | **118,676** |     |       |

| **Operating loss**               | (61,916)           | (71,408) |       |       |

| Investment income, net           | 14,050             | 70,897  |       |
| State of Alaska Fund Capitalization | 42,501            | 437,200 |       |
| Other non-operating losses       | 84                 | (3,828) |       |
| **Increase (decrease) in net assets** | $(5,281) | $ 432,861 |     |       |

For AEA’s complete Audited Financial Statements for FY 2012, go to akenenergyauthority.org, or call 907.771.3000.
AEA’s mission is to reduce the cost of energy in Alaska