

**ALASKA ENERGY AUTHORITY
BOARD OF DIRECTORS
November 17, 2003 – 10:34 a.m.
Anchorage and Juneau, Alaska
Teleconference**

1. CALL TO ORDER

Chairman Barry called the meeting of the Alaska Energy Authority to order on November 17, 2003, at 10:34 a.m. A quorum was established.

2. BOARD OF DIRECTORS ROLL CALL

Directors present in Anchorage: Mr. Mike Barry (Chairman/Public Member), and Deputy Commissioner Bill Noll (Designee for Department of Community and Economic Development).

Directors present in Juneau: Deputy Commissioner Tom Boutin (Designee for Department of Revenue), and Mr. John Winther (Public Member)

3. PUBLIC ROLL CALL

Staff present in Anchorage: Ronald W. Miller (Executive Director), James A. McMillan (Deputy Director-Credit), Valorie Walker (Deputy Director-Finance), Mike Harper (Deputy Director-Rural Energy), Brenda J. Fuglestad (Administrative Manager), Sara Fisher-Goad (Financial Analyst), Chris Mello (Program Manager), Teri Harper (Program Manager), Monica Moore (Program Manager), Bruce Tiedeman (Manager for Training & Rural Outreach), Mark Schimscheimer (Project Manager), Karl Reiche (Projects Development Manager), Brenda Applegate (Accountant), and Linda MacMillan (Accountant).

Others attending in Anchorage: Brian Bjorkquist and Mike Mitchell (Department of Law), Jeff Staser (Denali Commission), Wayne Carmony and Don Zoerb (Matanuska Electric Association), Jan Sieberts (Washington Capital), Kathy Porterfield and Charles Kozak (KPMG LLP), Ken Vassar and Shelley Ebenal (Wohlforth Vassar Johnson & Brecht), John Robertson (Alaska Pacific Bank), Johan A. Dybdahl (Point Sophia Development Co.) Robert Wysocki and Don Rosenburger (Huna Totem Corporation), and T.N. Obermeyer (Self).

4. PUBLIC COMMENTS

There were no public comments.

5. PRIOR MINUTES – October 15, 2003

The October 15, 2003 minutes were approved as presented.

6. OLD BUSINESS

There was no old business.

Hearing no objections, the Board took up item 8A at this time.

8A. Director's Status Report of AEA Programs and Projects

Mr. Harper said the mission of the Rural Energy Group is to assist in the development of safe, reliable, and efficient energy systems throughout the state, especially in Rural Alaska. Mostly that are sustainable and environmentally sound. At the same time we are trying to reduce the cost of energy in Rural Alaska.

- Training Program

Mr. Harper reviewed the training program stating that we must train the people in order to have the facilities functioning correctly. The objective is to provide the necessary training and the skills for these rural operators so they can run the utilities efficiently. The courses we offer are the advanced power plant operator training, bulk fuel training, hydro training, and utility clerk training. Most of the programs are worked jointly through AVTEC. We received \$300,000 from the Denali Commission for training programs this year. Construction management contractors are used to train people in the bulk fuel area as they are the ones that construct the bulk fuel facilities. The goal is to provide a fuel experience in addition to getting them basic skills to allow them to work on these projects and to also have a skill as they go forward with the construction in their villages. Some key training is welding, pipefitting, electric, carpentry work, and building maintenance.

We have found that we are doing a better job about training the mechanics and electricians and technicians in the powerhouse. Where we see we need more work is in the management end of the training. We have been working with Sheldon Jackson to provide a village management institute. We are taking village leaders and training them in about a 10 day mini-MBA program in conjunction with Sheldon Jackson.

Chairman Barry said he understood that the thrust of the program is to try to get some stable development in Rural Alaska for maintenance of the facilities. He said that on the Energy Task Force they have learned that there is a serious issue with the existing utilities in terms of work force development. If they continue their training that will open up opportunities for them in others areas as well.

- Power Cost Equalization Program

Mr. Harper reviewed the Power Cost Equalization Program (PCE) stating that the program has been around for approximately 20 years. He said the notion was how do you provide power and somehow try to equalize the power for Rural Alaska. We share the administration of the program with the Regulatory Commission of Alaska. The goal is to equalize the high cost of electricity in Alaska. PCE is the core element to ensure financial liability of a centralized power system in the rural areas. Not all of the communities are eligible to receive PCE. The communities that are eligible receive credit for the first 500 kilowatt hours each month. The Regulatory Commission of Alaska determines the level and AEA administers the fund. The formula is 95% of eligible cost per kilowatt hour, which is between a floor of 12 cents and a ceiling of 52 cents. The total number of eligible customers in Rural Alaska is 27,000. The total kilowatt hours sold is 400,000,000 and the total eligible kilowatt hours are 123,000,000 (31%).

The program is not fully funded and we are at approximately 83% funded.

The PCE endowment fund was established in 2000 with \$100 million capitalization from the CBR; and approximately \$80 million from the proceeds of the Four Dam Pool Sale. The notion is that approximately 7% of the market value may be appropriated to fund the program each year.

Chairman Barry said that we actually dip into the principal of the fund to maintain the 15.7%. Mr. Harper affirmed this statement.

In response to Board questions, Ms. Harper stated that FY2000 was the first year that commercial customers were removed from the program so it was an adjusting year, so it took approximately a year or so for the new legislation to take hold. Mr. Miller stated the fluctuations between the years were due to program changes.

- Denali Commission Overview

Mr. Staser, Denali Commission, said that if the Denali Commission can maintain the current funding level, they will be done addressing all of the bulk fuel problems by the year 2007. The program will then close down and the people on the staff at the Denali Commission will go home to their parent agencies. That is why we borrow staff because we do not want them to have a vested interest in dragging out the program.

He said that this is a state/federal partnership concept. The Co-Chair for the state is the Governor or his designee, and the Governor has appointed Lt. Governor Lehman as his designee. They also have staffed the commission with state employees. One of our newest additions is a staff member paid for by the CEO's of the ANCSA Corporation. Attached to our office is the Federal Department of Energy, and through them we get a lot of research and development support out of the University of Alaska's Fairbanks lab. We are all about sustainability and collaboration. Our policy advisory committee in the area of energy policy consists of the Regulatory Commission of Alaska, Rural Electric Cooperative, Alaska Village Electric Cooperative, and operators. They provide policy guidance to the Commission. The Staff makes recommendations based on policies the commission has promulgated. The commissioners vote on the work plan each year and we take that work plan forward to Congress. We are currently waiting for bills to pass that will actually fund our budget request. The Presidents budget for the commission is about \$10 million and Congress has upped that to approximately \$120 million in the current bill. He said there is a National Energy Policy Bill which is being considered which dramatically expands some of the roles of the commission and provide a continuous funding stream from the federal proceeds out of the NPRA for a period of 20 years (which equates out to approximately one billion over 20 years).

He said the Denali Commission has a significant contribution to the state's training effort at this time with anticipated appropriations of approximately \$7 million targeted to the training area.

The Capital projects program at AIDEA, in addition to bulk fuel tank, DC has power system upgrades and line extensions as well as the new expanding mission in alternative energy generation. This must pencil out for us and the alternatives do not seem to compete as well as off the shelf diesel.

Some issues that they would appreciate the Boards help on are issues dealing with insurance costs for rural utilities. We have a ongoing effort with the state of Alaska to address that. Continuing to focus on the economies of scale. The Commission from its beginning in 1998 called for community based plans to have regional support. The question we ask is who speaks for the region? One answer that we have received so far that seems to have merit under the state constitution is the Borough speaks for the region. So how can we facilitate that dialogue to get some regional participation in the planning and execution of projects. We do not really care at the

Commission who speaks for the Region as long it is a unified voice that brings all of the regional activities into focus. Our next meeting is in January at which time we will be allocating resources to a priority listing to be developed by our staff. We will be looking at ways to drop the cost of power and make power more sustainable throughout Alaska. We will be looking at things like collaborative purchasing of fuel, regional economies of scale, and the insurance issue.

Chairman Barry said the handout refers to Title 14 of the Energy Bill and is subtitled Rural and Remote Electricity Construction. What is the definition of rural and remote? Does this enable DC to get involved with the railbelt transmission extension if that were necessary?

Mr. Staser said a lot of the interpretations will come out with the report language with the legislation as it passes and will provide us some guidance. If you note in the bill, they have referred to bulk rural electrification act which carries with it a definition. It also refers to the high cost areas where the cost of kilowatt generation delivery to a home is approximately 150% higher than the average nationwide, which should not be a disqualifier for any community in Alaska. We have yet to analyze what this language means because until it passes we are just watching like any other concerned citizen. Once it passes then we will seek some definition clarity. One thing the commission has avoided is adopting a definition of rural which can be quite constraining. Sometimes the most effective way to help a rural community is through an urban hub. From Washington D.C., Anchorage looks pretty remote and rural.

Chairman Barry said the Statewide Energy Task Force is looking at an energy policy for the state and they would appreciate your input in that.

Mr. Staser said they applaud the efforts of this task force and for us as a federal agency, principally funded with federal resources, the question of how do you set criteria and how do you set priorities, we would love to be able to defer to a statewide plan to help guide that process. Right now we are acting in our best judgment with our policy advisory group. In the absence of the stateside plan, we will do the best we can. Having the plan in place will greatly facilitate the moving of the resources.

7A. FINANCIAL STATEMENTS/AUDIT PRESENTATION

Ms. Porterfield, Managing Partner with KPMG LLP, summarized the audited financial statements and letter to the Board.

She said the purpose of the audit is for KPMG to gain reasonable assurance that the financial statements are free of material misstatement. KPMG conducted appropriate audit procedures and has concluded that the financial statements are fairly stated in all material respects in accordance with generally accepted accounting principles, resulting in an unqualified or a clean opinion. KPMG obtained reasonable assurance during the audit that the financial statements are free of material misstatement.

She said the Authority has very good accounting records and it was not necessary to propose any significant audit adjustments. The Authority has an effective system of internal control in place.

8B. NEXT MEETING DATE

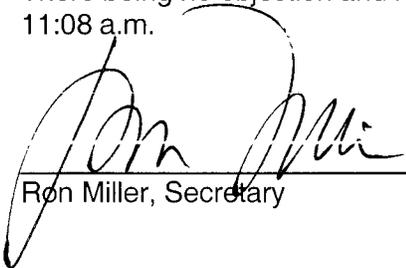
The board will be polled as to the next meeting date.

9. BOARD COMMENTS

There were no Board member comments.

10. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 11:08 a.m.



Ron Miller, Secretary