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**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY  
ALASKA ENERGY AUTHORITY  
JOINT BOARD OF DIRECTORS MEETING  
January 21, 2005 – 10:00 a.m.  
Anchorage and Juneau, Alaska**

**1. CALL TO ORDER**

Chairman Barry called the meeting of the Alaska Industrial Development and Export Authority to order on January 21, 2005, at 10:04 a.m. A quorum was established.

**2. BOARD OF DIRECTORS ROLL CALL**

Directors present in Anchorage: Mr. Mike Barry (Chairman/Public Member), Commissioner Mike Barton (Department of Transportation and Public Facilities), Mr. John Winther (Public Member), and Commissioner Edgar Blatchford (Department of Community, Commerce and Economic Development).

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

**3. PUBLIC ROLL CALL**

Staff present in Anchorage: Ronald W. Miller (Executive Director), James A. McMillan (Deputy Director-Credit & Business Development), Valorie Walker (Deputy Director-Finance), Karl Reiche (Project Development Manager), Sara Fisher-Goad (Financial Analyst), Brenda J. Fuglestad (Administrative Manager), Bernie Smith (Project Manager), Becky Gay (Project Manager), Art Copoulos (Project Manager).

Others attending in Anchorage: Brian Bjorkquist (Department of Law), Ken Vassar (Wohlforth Vassar Johnson & Brecht), Wayne Carmony and Don Zoerb (Matanuska Electric Association), Steve Haagenson (Golden Valley Electric Association), Nick Goodman (TDX Power), Jan Sieberts (Washington Capital), Dan Casey (AGLAD), Jim Posey (Anchorage Municipal Light & Power), Senator Fred Dyson (Alaska State Legislature), Tim Bradner (Alaska Journal of Commerce), Joe Griffith (Chugach Electric Association), Richard Peterson (ANGTL), Rick Eckert and Brad Janorschke (Homer Electric Association), Steve Denton (Usibelli Coal Mine), Randy Hobbs (Hobbs Industries & Black Hills Corporation), Bill Noll (Commerce, Community & Economic Development), Brian Rogers (Van Wyle Rogers Group), and T.N. Obermeyer (Self).

Others attending in Juneau: Mike Mitchell (Department of Law).

Others attending in Oregon: Michelle Detwiler (Ater Wynne).

**4. PUBLIC COMMENTS**

There were no public comments.

**5. PRIOR MINUTES**

The January 5, 2005 minutes were approved as presented.

**6. OLD BUSINESS**

There was no old business.

**7. NEW BUSINESS**

**7A. Resolution No. L05-02, A Resolution of the Alaska Industrial Development and Export Authority Regarding Purchase by the Authority of a Participation in The Landing Restaurant, LLC.**

Mr. McMillan reviewed Resolution No. L05-02 stating First Bank (FB) has requested AIDEA's participation of \$5,600,000 (80%) in a \$7,000,000 term loan. The borrower is The Landing Restaurant, LLC. The purpose of the loan is to finance the expansion of the Best Western Landing Hotel in Ketchikan. The borrower proposes to demolish the outer court that currently contains 14 hotel rooms, a small conference facility, exercise facility, and offices. It will be replaced with a facility that contains 45 hotel rooms, new office and laundry facility, a corner retail outlet and a conference/banquet facility seating 200+.

The loan will be secured by a first deed of trust against the fee simple interest of the Best Western Landing Hotel and a perfected security interest against the furniture fixtures and equipment. The Best Western Landing Hotel was appraised by Julie Dinneen Company as of November 20, 2004. The market value in an "as-is condition" is \$9,775,000, which provides a 75% loan-to-value and in an "as-completed condition" the market value is \$12,000,000, which provides a loan-to-value of 58%. Based on the amount of proposed debt it is clear that there is sufficient collateral value, even in an as-is condition, to provide a loan-to-value within AIDEA's requirements.

Mr. McMillan stated that in a full service hotel the average revenue for the restaurants they contain is approximately 30% of the total revenues of the project. The restaurants in this hotel are well positioned in the community and it is not unusual for the food revenues from them to receive up to 60-80% of the total revenues of the project. Historically, the cash flow has proven to be sufficient to service the new proposed debt and projections estimate that they will have a debt service coverage of 2 to 1.

Staff recommended approval of Loan Resolution No. L05-02, subject to the terms and conditions contained in the memorandum.

In response to Board questions, Mr. McMillan said the new addition to the hotel will be a vertical construction project and the hotel does have land sufficient for the parking requirements.

**MOTION: Deputy Commissioner Boutin moved to approve Resolution No. L05-02. Seconded by Commissioner Barton. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Boutin, Barton, Barry, Blatchford and Winther voting yea.**

**7B. Eligibility Resolution No. 05-01, Resolution of the Alaska Industrial Development and Export Authority Expressing Official Intent to Issue Bonds to Finance the Facilities Described Herein and Determining Related Matters**

Mr. McMillan reviewed Eligibility Resolution No. 05-01 stating this resolution is for development of an airpark facility at the Ted Stevens Anchorage International Airport. AGLAD Postmark, LLC intends to construct a new airpark facility on approximately 56 acres of leased airport land. The proposed amount of the facility is not expected to exceed \$80,000,000.

He said the purpose of this resolution is to determine eligibility for tax-exempt financing and to express the official intent of the authority to provide tax-exempt financial assistance to the project applicants if requested. It is not a binding commitment on the Authority to issue bonds, but it is a necessary step under the tax code to make sure that the costs are qualified.

Bond counsel has issued a preliminary opinion that the project proposed by the Borrower will qualify for tax-exempt financing subject to certain conditions.

Mr. Dan Casey gave a brief overview of the project for the Board. He stated the purpose of the facility is to provide servicing for international air cargo carriers that are making technical stops at the airport. There is a substantial amount of traffic coming into the airport in which carriers, such as Singapor, China, etc. are simply stopping at the airport to refuel and at times swap cargo between aircraft and be de-iced if required. The first purpose of this facility is to allow the close proximity between the ramp service providers and the aircraft as these functions are currently scattered throughout the airport. Second is to bring the personnel of the international air cargo carriers closer to their aircraft. And third, group the aircraft to facilitate the transfer of uniform loading devices between the aircraft. This facility would be a single stop for all of these services.

Mr. McMillan said that AGLAD has had conversations with a number of underwriters and is seeking proposals for the purchase of bonds if they were to be issued.

In response to Board questions, Mr. Casey said that it is expected that some of the facilities would be leased by freight forwarders. AGLAD has had conversations that have been facilitated by AEDC with people that are looking at cooler capacity for several types of uses. The facility will provide for at-grade end truck wells for semi truck access. The bulk of the tonnage is passing through Anchorage as opposed to being loaded here. The lease term is 55 years and is, as any other lease with the airport, subject to five year cycle reviews.

Staff recommended approval of Eligibility Resolution No. 05-01.

Commissioner Barton queried legal counsel as to whether he had a conflict of interest issue with regard to his role as Commissioner of the Department of Transportation and Public Facilities, which has oversight of the Anchorage International Airport, and his position as a Board member for the AIDEA Board. Mr. Bjorkquist stated that there is no conflict since Commissioner Barton works for the state of Alaska in both his role as Commissioner and as an AIDEA Board member and as such is working for the best interest of the state in both roles.

Commissioner Barton stated that the projections for cargo stops at Anchorage International are projected to increase significantly over the next several years.

Mr. Vassar stated he has reviewed the project and that the eligibility resolution is not an obligation by AIDEA to issue bonds for this project. This resolution satisfies a tax code requirement so that the project developer can begin to expend money on the project and those costs that are incurred remain eligible for reimbursement with the proceeds of the tax-exempt bond when and if that bond is issued. This is an expression by the AIDEA Board of an intent to issue the bond but it is not an obligation to issue the bond. There are two points that are apparent in this project that need to be pointed out: 1) the project does need to be owned by a governmental unit other than the Federal Government; and 2) the project must be available to the general public. Availability to the general public can be satisfied by making the project available for use by the common carriers such as cargo carriers. The tax code and the IRS prohibit financing for a private company for its own private uses.

In response to Board questions, Mr. Vassar said tax-exempt borrowing and taxable borrowing is an economic consideration. The difference between tax-exempt borrowing and taxable borrowing is a factor that may or may not lean in the direction of tax-exempt borrowing; it depends on what the spread is. In order to obtain tax-exempt financing they would lose the ownership ability and the tax benefits of ownership such as depreciation, etc.

Chairman Barry said that he would like to point out that AIDEA can also provide taxable financing if that becomes an issue for the developers.

Mr. Casey said they have looked at the options available and one of the other variables is the market and general acceptance of this particular type of project. Many of the investment banker houses are more comfortable with the tax-exempt channels for the marketability of the bonds.

Mr. Vassar said that this facility would not require a private activity bond cap allocation as airport facility financings are exempt from volume cap limitations; however, the alternative minimum tax would apply.

**MOTION: Mr. Winther moved to approve Eligibility Resolution No. 05-01. Seconded by Commissioner Barton. There being no further discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Boutin, Barton, Barry, Blatchford and Winther voting yea.**

**Chairman Barry called the Alaska Energy Authority meeting to order at 10:34 a.m. to conduct a Joint AIDEA and AEA board meeting. A quorum was established.**

**Public Comments:**

Ms. Obermeyer quoted Louis Brandeis "If we want the law to be respected, the law must be respectable." She stated that after 21 years her husband is still not licensed to practice law in Alaska. She commented about Lisa Murkowski, Terry Martin, Eric Croft, and Debby Sedwick. She stated that she dropped off to the Board a handwritten note addressed to Debby Sedwick.

**7C. Unified System Operator for the Railbelt**

Mr. Miller said this item is for a possible initiative for the creation of a unified systems operator (USO) for the Railbelt electrical grid. The Alaska Energy Policy Task Force, in their findings, recommended that there be a USO created for the railbelt and that AIDEA and AEA divest their railbelt energy assets to the USO. Those assets are Bradley Lake Hydroelectric Project, Alaska Intertie, and Healy Clean Coal. Before the Board is a summary of those recommendations on

the points of creating a unified system operator and the divestiture of state owned railbelt energy assets.

**VERBATIM PUBLIC TESTIMONY**

Chairman Barry: The legislature and the administration last year instituted an Alaska Energy Task Force and it had two functions: 1) to look at the railbelt, and 2) to look at the rest of the state.

We are fortunate to have with us today, five of the participants of the nine that were on the Alaska Energy Task Force. For the record, Steve Haagenson, Rick Eckert, Wayne Carmony, I am here, and Tom Boutin is on line from Juneau.

All of the railbelt utilities made presentations to the task force. There was unanimity among the railbelt utilities as to the necessity and the efficacy of a unified system operator. There was a significant lack of consensus in unanimity with how that might be achieved. What we are trying to do here today is to follow through on one of those findings and recommendations of the task force and that is that the strongest effort possible be made for the formation of a unified system operator. If I could summarize, and please correct me if I'm wrong, as to how the task force got to the conclusions.

It was recognized that there were operating and cost efficiencies that could be obtained. There would be one entity for dispatch, generation, and transmission that would result in some efficiencies and would also result in the most reliable energy and the lowest electric cost to the consumer. There was a strong identified need for training of new employees as the work force of the railbelt utilities is aging along with the generation. Training, purchasing, accounting, maintenance, and best work practices could be combined and consolidated in some places to achieve economies of scale. Planning would be accomplished more efficiently and effectively on a system wide basis.

Today, no one is charged with the responsibility of planning for the system for the entire grid. Costs and disagreements before the RCA and the expensive process of going through that disagreement process could be decreased since a lot of the issues would be argued and settled by the utilities themselves through this unified system operator. There could be additional cost savings from a reduced need for lobbying. It was the intention of the task force that this unified system operator would be the primary dialogue between the legislature and the administration and the utilities. There would be a more likely fuel diversification because a goal would be to diversify away from natural gas as a feed stock and yet the economies of scale – it is very difficult for one utility on its own to achieve that. It would be much easier to achieve, and there would be better utilization of state and federal funding, if this was done in a unified system orientation rather than one utility at a time. New markets could be accessed and added to the railbelt grid more cost effectively and efficiently. Those were some of the operating efficiencies and benefits that would come from it. There was also discussion about a perceived benefit from getting the state out of operating the electrical railbelt energy assets such as Bradley Lake, which they don't really operate but they own and are involved in the operation on an oversight basis, and the Alaska Intertie and Healy Clean Coal.

The unanimity in the railbelt was that the state's function would be better served as a financing agency through AIDEA and AEA and the helping in the training to the extent that funding is available for training and education of the work force.

I think that those are the main points and I would ask Steve, Wayne, Tom, and Rick if they have anything they would like to add or correct before we go on.

*There were no corrections or additions noted from Steve (Haagenson), Wayne (Carmony), Tom (Boutin), or Rick (Eckert).*

Chairman Barry stated that the Governor has expressed a strong desire to see a few things happen. He wants Healy Clean Coal to be up and running. He would like to see the unified system operator formed on a basis where there would be no question as to whether or not it would be subject to regulation of the RCA. He would like to see all of the utilities as part of that organization. We are in the real world here and maybe none of those wishes can be achieved but I think they are all worthy goals and we would certainly pledge to do our part to help in any way we can to bring that about. We, at AIDEA and AEA, have taken upon ourselves to try to be a catalyst to help this happen. We don't have any illusions that it is our business to make it happen; we don't have any illusions that we have the capacity to make it happen.

We have put together a proposed findings to be a basis for legislation. There isn't anything in there that can't be changed if there is a consensus among the utilities that it needs to be changed. There isn't anything in there that can't be discussed with the exception of the Governor's main – I can't be a party to discussing the main priorities of the Governor, so those are not on the table for my discussion, but everything else in on the table. I would like to acknowledge that we did not do this all on our own; we had support from Matanuska Electric Association and Homer Electric Association in preparing these documents. We certainly don't want to taint those. We did put our own thinking into it and we are not here today to try to promote any one utility or any one or two utilities viewpoints ahead of anybody else's. We are here to try to be a catalyst to get this going. It is our hope that there could be a consensus among the railbelt utilities so that we could all go together to the legislature and get something accomplished.

With that, I would like to open it up for discussion.

Mr. Jim Posey (Anchorage Municipal Light & Power): I appreciate the opportunity to come back two days in a row. My remarks initially will be joint remarks for a group.

In reading the paper the other day I looked at this (indicating to a whiteboard) and I thought it was fairly interesting only because Oracle Grid – the word Grid caught my eye because that's what we operate. Up and down the line there is only about 800 – 900 megawatts of power used in the railbelt and that is a medium sized utility in the Lower 48 but amongst us it is six utilities in the state of Alaska. What it says is that "Oracle turned 64 pc service into a giant mainframe..." but more likely it is fast, it's cheap and it never breaks. For a number of years, since 1997, what we have operated as a joint group has not broken. We put it together and we operate as a group, we help each other; building toward the future where we can all be part of something greater. And, to that extent, we appreciate all the cooperation that AIDEA and AEA show in the operation of its assets that we subscribe and pay for along the road.

The Energy Task Force issued its railbelt report last winter which included a goal that "Alaska will have reliable, economic, sustainable, secure power supplies for its citizens." As the operators of virtually all railbelt generation, we are strong proponents, and that is Golden Valley, ML&P, and Chugach Electric. A unified approach to planning, constructing, and operating future railbelt generation and transmission facilities, the advantages of coordinated investment and project development are significant and will benefit virtually all rate payers in the railbelt.

We are pleased to announce this week that our three utilities are executing documents to create a railbelt Joint Action Agency (JAA) for precisely that purpose. The JAA is named the Alaska Railbelt Energy Authority and is open to membership of all municipal and cooperative utilities in the railbelt. We look forward to other utilities joining that effort. There are many possible roles for this organization but we want to address four. First, the principal reason for creating this organization is to address the need for joint and regional planning for generation and transmission facilities. Today, most electric generation in the railbelt is 30 years plus. Those railbelt turbines will be replaced within the next ten years at a cost of \$1 - \$2 billion dollars. In Alaska we throw billions around but for our ratepayers those are big numbers. The JAA will allow us to plan on a regional basis to address the infrastructure needs along the railbelt. The larger plants provide economies of scale. If we want to avoid a train wreck in 10 years we must plan now to replace the infrastructure. A sustainable fuel supply will be crucial, whether it's natural gas from Cook Inlet or Prudhoe Bay or coal or hydroelectric, the time to plan is now and the JAA allows for construction of regionally sized plants that can provide stable price power for many, many years into the future.

Second, all parties have long recognized the advantages of a coordinated system generation dispatch and operation. In fact, our utilities currently operate our generation and transmission systems as a unified system under the NERT (ph) guidelines, which are nationally recognized rules. This is the lowest cost and most reliable approach. The new JAA will provide another vehicle for continued coordinated operations.

Third, the new organization provides a vehicle for the state to transfer ownership of its railbelt energy facilities, the Intertie, Bradley Lake, and the Healy Clean Coal Project to a legally separate entity composed of users and intended beneficiaries of those projects. Just as was done with the Four Dam Pool. If the State wishes to continue operating these assets and owning them, the utilities already enjoy most of the rights of ownership relative to Bradley Lake and the Intertie, that arrangement can continue. Since AIDEA's leadership has told us that the state desires to transfer ownership we have created an entity capable of assuming ownership. Such transfer has the advantages of both the state and the utilities and we are ready and willing to pursue this course.

A fourth possible role has been raised by others and we want to respond. The fourth is a role of the idea of existing utility assets being transferred to a JAA with a uniform wholesale rate created throughout the railbelt. We are skeptical that this will ever be desirable or possible but it is neither desirable nor possible in the foreseeable future. Existing generation facilities are subject to a complex web of financing, regulatory, and legal constraints. More to the point, there is no problem. Existing utility owned generation can continue to be operated by its current owners. There is no likely cost savings to changing ownership, while the cost of such a transfer would be considerable. If it ain't broke don't fix it. Again, the need is to focus on the future. The idea of a uniform wholesale rate is simply unfair. Each of our ratepayers have borne respective costs of building our respective systems and to now deny them the benefit of those years of investments is unfair and unreasonable. So, we are prepared to continue to work with AIDEA and AEA and hopefully, between what you have as goals and what we have set out in ours we can come to a conclusion that we can try to reach that desired aspect of putting a unified system operator in place and start the process of transferring the assets so that they can be readily utilized. I think we need to spend the time in the next one or two weeks understanding that because I think we only have one opportunity, and that is this year, to put it together at a reasonable cost. Each year we delay the cost will escalate and therefore be near impossible to take it as a package and make it happen. And, as you know, two years ago I

came to this table and basically said that is what we needed to pursue. We have made a lot of progress. We have made a lot of progress through state and federal help in understanding the gas situation. The coal situation is fairly well understood in this state, great potential, even greater potential with new technology, but for that medium term, we need to do something with these assets and we are prepared to work with AIDEA and AEA to see that that happens.

Chairman Barry: You referred to the six railbelt utilities. I thought we were working with seven on the task force. You are not counting a utility like Aurora that doesn't have retail customers? So your JAA would exclude anyone who does not have retail customers?

Mr. Posey: If the retail customer – If Aurora wants to join and fits within the ambit of what we are trying to achieve then it could possibly become a member, but they have not expressed an interest and we are talking about the people who actually sell on a retail basis – the reason for owning a JAA. JAA's operate in the Lower 48 and some of them have 40 – 52 members and anywhere from 15 – 30 buy into certain projects. They have a 25 – 30 year history of operating in the Lower 48 and they do a very good job of doing regional and statewide asset ownership.

Chairman Barry: I would like to be clear. Is it the intention of the JAA that you have just formed to exclude utilities who do not serve retail customers?

Mr. Posey: I don't think that it is in our by-laws to exclude, it is open to all. If Aurora comes in or someone else comes in with a purpose and assets that they are willing to buy in they can. Municipalities and cooperatives are the only ones that can belong in a Joint Action... They may be restricted by the law of the tax code, so Aurora does not fit.

Chairman Barry: Is there a reason that you would not let a privately owned utility into the JAA?

Mr. Posey: I think municipalities and cooperatives are the only ones, under the law as we understand it, can join. Only because of state law. The state set it up that way; the state can change it if there's a reason. I've had no conversation with them...

Chairman Barry: I think reasonable people may disagree with that legal interpretation...

Mr. Posey: They could, I don't know.

Chairman Barry: I guess...

Mr. Posey: It is a question of first impression for me and that's why...

Chairman Barry: ...what I'm trying to understand is if the intent is just to follow the law or the intent is to have a policy that no...

Mr. Posey: Follow the law...

Chairman Barry: ...utilities can come in.

Mr. Posey: Follow the law. Because a lot of benefits are given to joint action agencies both federal and state law based on that membership and that limited membership of serving the public. And, if that's the case, then probably our reason is that Aurora serves no retail customers is why they can't join – don't know.

Mr. Haagenon: We are also going to file for tax-exempt status and Aurora won't fit under that box. Currently, all of the municipalities and cooperatives are tax-exempt and if we form the JAA, the JAA would also be tax-exempt and that would prohibit Aurora or any other for-profit company, whether they have retail customers or not, from joining the JAA. That is my interpretation.

Mr. Posey: Has Aurora participated in any AEA projects currently, Bradley, Intertie, or Healy Clean Coal?

Chairman Barry: Not to my knowledge. I used Aurora as an example because I believe they are the only other utility that is operating in the railbelt today and you referred to six and there are seven utilities. I think they are recognized by RCA as a utility and by state law as a utility. Could you, Jim, give us some color of how – what your perception is as to how this JAA would operate. I would presume that – we all talked last month or the month before to folks from Tohoku Electric that were here from Japan that were exploring the potential to develop generation for the railbelt. If some merchant operator like that came in, how would they deal with the JAA.

Mr. Posey: I had a conversation with them also. They came over and we sat down and talked and they are a reputable group. They operate a very large area, about the size of what the railbelt group is but a much larger population base. They were looking for a partner so we sat down and talked about how to look at a partnership and running it. But, as I told them, Healy Clean Coal didn't mean a whole lot because it was so far away. But, if they wanted to look at the whole state then they had to look at the whole state and try to deal with what we are and what we could be. Their interest in that was, I felt, lukewarm. They had only one interest...

Chairman Barry: I maybe made a mistake by trying to be specific. What I'm talking about is if a merchant generating source came to this JAA, what would be the dialogue, how would you perceive doing business with them.

Mr. Posey: Power Sales Agreement, that's the thing to do, sell power to them. And we can sell it – pass it on, pass on the price or pass on the energy costs through our system if we would enter into a contract with them. They could have a contract with a Joint Action Agency, but they could not be part of the Joint Action Agency.

Chairman Barry: And that activity would, in your perception, be subject to or not be subject to the RCA regulations?

Mr. Posey: Their sales to us as a Joint Action Agency?

Chairman Barry: Right.

Mr. Posey: It doesn't necessarily have to be because it is wholesale power transfer. It could, but I don't think there is a requirement.

Chairman Barry: I apologize – I don't want to be perceived as putting you on the spot. Jim Posey and some of us at AIDEA had a long meeting yesterday where we went over some of these and I'm trying to get clarification to follow through on that so that I can better understand. It was my hope that we would have comments about the proposal that we put forward. It appears that at least three of the utilities would rather throw our thing away and we'd talk about your proposal, is that right?

Mr. Posey: No, what you heard is that under what the Task Force came up with, and they mentioned joint action agency as well as a G&T type organization – I can't belong to a G&T organization for lots of different reasons, most of them federal and state law. So, therefore, a joint action agency is the only one that Seward and the municipality, in this railbelt, could be a part of. If we want to be part of a cog that turns those big wheels that generate power then that is where we are at. If you lock us out and all of the G&T's get together and put a G&T organization together we're not part of it. That makes some differences of ownership – we buy power from Bradley, we use the intertie and that just makes it complicated, not impossible, just Alaska difficult, which means you can get by it. But, a Joint Action Agency allows everyone to come together that is a cooperative and/or municipality. That is a way that brings all six of us together, otherwise the proposal you have on the table only allows four to get together so therefore, your proposal as written would help for MEA and HEA but excludes two and does not include all six. What I'm telling you is that the proposal we have on the table – what has been signed or will be signed within a week by at least two – and the process goes on for the other two for getting approvals – will include all six, is open to all six and will always be open to all six. That is our answer.

Chairman Barry: I hear you Jim, I just don't understand, and the reason I don't understand is that our advisors have told us that under Alaska law, the document that we put forward qualifies as a Joint Action Agency, it could be called a Joint Action Agency. So, what I would like to hear from you is what are the specifics in your proposal, because if that is true then saying that we can't belong to anything except a Joint Action Agency doesn't preclude you from joining it.

Mr. Posey: Then there is a Joint Action Agency that will be formed so, therefore, there will no longer be a question as to what that is. There will be other parties that need to get together and decide if the parameters of that Joint Action Agency for having cooperatives and utilities fits within their desire for being a part of the future. But, if it has putting all current generation assets into a pile and selling it out at a postage stamp rate, that does not work for Seward nor myself. If it implies that we have to turn over our ownership at some point or at state direction have the RCA require us to put all of our assets into one pile, then that does not work. Because, even in the California case, let's pull that one up because that's where the regulation commission for California and the state legislature got together and put a deal together. They put all of the assets in and you know what it cost the state, billions and billions of dollars – but you know what they didn't do because they couldn't? They didn't put LA power and light and any other municipal owned utility into that. And, today, they still have the lowest rates in the state. So, the municipalities by state and federal law are allowed to stay out of certain – putting together these G&T's and private groups and the benefits for their ratepayers remain. I don't think we want to walk down the road of California. The proposal that is on the table has just some guidelines for legislation. Does it exactly work? We're willing to sit down and compromise on those items that work very well. I think the Joint Action Agency concept, that as you say there is no restriction on it, would work. But, those provisions would act like and look like that duck that is a G&T organization that requires all of the assets to be put into a pool cannot work, that leaves two out and, therefore, we need to look at how to include all six. The six can do this together, plan and do what we all set out to do a year and a half ago.

Chairman Barry: I appreciate that now you are talking about the substance of the proposal...

Mr. Posey: Yes.

Chairman Barry: ...rather than the label on the proposal.

Mr. Posey: Absolutely...

Chairman Barry: I want to make sure that I understand. I'm hearing two substantive issues: a uniform rate and a pooling of the assets. Are there other substantive issues?

Mr. Posey: ...otherwise, I don't think there's a lot of substance between them. That is the critical mass. We would like to have the ability of being able to do tax free – or at least remaining tax-exempt because that may mean, as you've heard, a better market for your bonds and sometimes a better rate. The spread is not always the case of why you go for tax-exempt financing. The last issue you dealt with shows that its easier to sell some bonds if they are tax-exempt or governmentally owned. And the interesting thing about it, because the question came up yesterday as you related about being able to take these assets – say the assets of AIDEA and AEA, and put them into a joint action agency – under federal law, once they go into a Joint Action Agency they always belong to a public agency so if there is any reason that some of the parties were to get out of it – the substance of – all of the assets are always going to be publicly owned. Could never...

Chairman Barry: If a cooperative is defined as a public ownership...

Mr. Posey: No, because cooperatives cannot, at that instance, be the remaining owner. It has to be a public ownership. So, under the tax law as it is written, once you come into the ambit and you transfer these assets, which is part of the reason why you don't put existing generation assets in there, all future assets that you put in that are public and that you buy with this public aurora over it is always public.

Chairman Barry: So, are you saying that the document that I looked at, that was apparently a draft of a JAA agreement, which says that the agreement could be terminated and the assets owned by the JAA disbursed to the members...

Mr. Posey: As long as they are public members. The description of law that I understand and the description of law that others may understand – all of the attorneys can look at it – my understanding of reading the code of the Joint Action Agency is that they will always be publicly owned because of that.

Chairman Barry: I think it is an important issue because as I understand the state policies, we at the state level would like to accommodate what we heard at the Energy Task Force, that it was not the best public policy for us to own these utility assets, but to be financing them where appropriate. So, we would like to accommodate the ownership, but my belief is that there is no intention to get out of the ownership to just give up – we tried to bring the costs of those assets into today's dollars and it is approximately \$1.3 billion in today's dollars of costs. There is only about \$207 million of debt outstanding on them, so we are talking about the state giving up some considerable equity...

Mr. Posey: They are all serving the public and the publicly owned cooperatives are committing to paying that all except, I suppose, the debt on Healy Clean Coal, but all of Bradley debt is fully covered by agreement and will always be.

Chairman Barry: The debt is covered but then when the debt is paid off the equity belongs to the state today. We are proposing that equity would be transferred to the railbelt utility grid and if there is a provision in the organization of the entity that receives it, then after they get it they

could disband and put that asset out to the individual members on a prorata basis or something that would seem to defeat the purpose of having a grid unified system operation.

Mr. Posey: The cooperatives may disagree with my interpretation of the law and they are perfectly willing to do it, but if the JAA ever changed I think you would have to form as a – what was it said about religion, if you didn't have it you'd have to create it – same thing would go, I think, that you would have to have another public agency group auspices under state law own all of those assets that were acquired and/or put into this asset base. The opinions need to be written, that's my understanding of it...

Chairman Barry: If that is in the agreement that I was given I'd like you to show me where it says that, I don't see it in there.

Mr. Posey: That's under the operation of federal law. Regardless of what the agreement says, that's in the operation of federal law, my understanding of federal law.

Mr. Steve Denton (Usibelli Coal Mine): *Mr. Denton passed out a cd entitled "Usibelli Coal Mine, Inc., Emma Creek Energy Project" dated August 2004.* The cd and why it is relevant to this discussion today is that it basically goes through a description of the Emma Creek Energy Project, which is a concept that we put together a few years ago and have been presenting to the various utilities. It is a concept for a 200 megawatt power plant located in Healy. We understood a couple of things going into this: one was that there were some constraints relative to the transmission to make it difficult to get that much power out of Healy. There were some proximity issues relative to where it was and where the loads were. One of the key things that we understood was that it was too large for any one of the utilities in the railbelt to bite off as a single piece. We understood that there was going to need to be some mechanism for getting some very close cooperation by the railbelt utilities in order to make this kind of a project feasible and to allow the railbelt consumers to gain benefits from these larger scale projects utilizing lower cost fuels like coal. That, as an opening remark, is really intended to say that the concept of the unified system operator, whether you call it a Joint Action Agency – and I'll leave it up to the utilities who know more about the legal end of things to decide how this thing gets lashed together so that it works, but the concept of having a structure for cooperation and investment by all of the utilities under some sort of a unified operator arrangement is critical to allow the railbelt utilities to make these kinds of investments.

Without getting too detailed as to the specifics of what the organization would look like, there are a couple of things in the draft legislation that I would like to comment on. Specifically, first was where it discusses the Energy Policy Task Force. I attended a few of those meetings and followed the deliberations through the website. And I would like to compliment AIDEA staff for keeping that website up, it was very, very good. And, my impression of the situation was that even though the time was fairly short for the Energy Policy Task Force it was a fairly comprehensive look at things and I think you can put a lot of stock in the recommendations that came out of the Energy Policy Task Force. It was well attended by the utilities and well represented by the utilities and therefore, I think a lot of good things came out of that.

Before I go any further, I'm wearing a few different hats today, first I'm wearing a hat of a fuel producer and second with Usibelli Coal Mine. Usibelli Coal Mine is also a fairly large consumer of electricity so we have a lot of stock in seeing that the electricity rates in the railbelt are maintained at a reasonable level. Third, I'm representing Aurora Energy LLC, which has common ownership as many of the shareholders of Aurora Energy LLC are also shareholders of

Usibelli Coal Mine so they are a company that we work very closely with and we have a lot of interest in seeing that business flourish.

The next specific point that I would like to comment on would be finding number 7. There are two things in there that are really important to us and are very good points to include in the unified system operator that comes forward. One is the economies of scale that are gained from that, and that is basically what I was referring to, relative to things like the Emma Creek Project. The second is the third party independent power plant. It says that you are encouraging the planning and construction of a third party independent power plant from whom the unified system might purchase power. I think that's a very important point and I hope that gets a lot of attention in any legislation or any sort of organization that goes forward to make this happen. We represent the largest, I believe at this point in time, independent power producer in the railbelt, Aurora Energy does and the people of Fairbanks, I believe, are receiving some very significant benefits from that. Some of them are obvious and some of them are not. First of all, it is probably one of the lower cost producers in the railbelt right now of wholesale energy going into the grid. But, perhaps more important, as a cogeneration plant it provides district heat for downtown Fairbanks, which is in large part responsible for the much better air quality that Fairbanks has right now. The way that basically goes is that if you can combine your generation into one common point where you can take care of the emissions, pollution control and that kind of thing, you get better overall air quality as opposed to having a little heating unit in each one of those buildings in that core area. That is a little bit of a diversion from the subject at hand except that those kinds of things can be very – have a lot of potential in the future. You have things like the gas line that is going to have large potential cooling and/or heating requirements. The oil pipeline may have that kind of thing – there may be some very significant opportunities out there in the future for cogeneration, and a third party independent power producer is much better suited for doing a cogeneration type of application because of the heat side of it. There are some very good synergies there and I think you want to make sure that you preserve that opportunity for the railbelt for consumers in the future.

In number nine, a very key one to any kind of unifying entity that brings the utilities and the railbelt together, and that is where it says stimulating the economy is one of the goals of this unified system operator. To put that into the context that I think is very important – if you look at something like the Donlin Creek Mine that is being proposed where they are looking for something in the order of 60 megawatts of power. Every tenth of a cent change in the price of electricity is worth about half a million dollars a year to them. So, if we are going to see large industrial developments of that kind of thing, the kind of thing that we said that we want to try to stimulate and support in the railbelt and in Alaska in general, we're going to need to make sure that we keep our power costs down just as low as they could get. That has been a real impediment to industrial development in the railbelt and in Alaska in general. We know why electricity is so expensive out in the villages because some of them you are flying diesel in and that kind of thing and the cost of fuel is horrible. Within the railbelt it is a bit of an oddity that we have some of the lowest cost fuel in the country, but we have some of the highest cost electricity. There are a lot of reasons for that and some of them are just things you can't do anything about. But, I think that one of the factors that contributes to that is where, Mr. Posey pointed out earlier, we've got a total demand that wouldn't make a fair size utility in most of the country. We've got six different utilities that are all trying to feed that demand. It doesn't make for terribly efficient generation and transmission of electricity to have that many entities trying to follow their own path. I think you're seeing a lot more realization on the part of the utilities that there needs to be more cooperation so you're seeing more cooperation. But, something like a unified system operator is probably the way to really bring that into full swing and get the best, the most bang for your buck out of that concept.

I'll close with one reservation I have about the unified system operator concept and that is that as a bulk fuel supplier and as a consumer of electricity, at times it tends to feel like this is all happening out there in some black hole and you don't really know what's going into creating your electricity bill and what's being done to further stabilize electricity rates in the future. If I had any reservation about the concept it is that this 500 pound gorilla we are dealing with now becomes a 2000 pound gorilla and it just kind of runs rough shod over everything. I'll close with that one reservation, but I don't think it is enough imbalance to shy away from the concept. I think, in balance, there is a lot of benefit to be had by the railbelt energy consumers by going to some kind of a unified concept for railbelt electricity.

Chairman Barry: Thank you. I'll exercise the Chair's prerogative and ask the first question. You referred to number seven to your perceived importance of the third party independent power plants. I guess what I'm having trouble with is that I understand the difference, I think, between what we propose and what I'm hearing Jim propose from their JAA, that in theirs the IPPs would not be eligible for membership and in ours they would be eligible. As a prospective IPP, how would you perceive – is that a road block or are you happy just to deal with them under a power sales agreement?

Mr. Denton: It really depends upon the specific situation. The situation that we are in right now is all of our power is sold wholesale to Golden Valley Electric. It is hard to imagine that there would be a lot of advantage to us to being part of something like this when all we are doing is selling wholesale. Whether we are selling wholesale to a joint action agency or a unified system operator or Golden Valley, it probably doesn't make much difference to our business. However, let's say for instance that we were to put up another plant somewhere to supply electricity to another third part, like the pipeline, say they want to put in a cogen plant to eek the oil down in Delta, which they've talked about, or perhaps a Donlin Creek or something like that, where we have an obligation to provide electricity even during times when we are not operating because of an annual maintenance on plants or we have a problem or something like that. Being a part of something like this could have some benefits under that circumstance where we could then, as a member, take power off the system to meet those interim loads. Under our current situation it is difficult to see the benefits, but there could be a situation where there could be a benefit to be part of it.

Chairman Barry: The tough question then is that from your perspective, are the overall benefits of having a unified system operator, would they outweigh one having it where you would effectively be closed out for membership or would you rather just take your time...

Mr. Denton: I think that overall some sort of a unified operator is a benefit whether we could be a part of it or not.

Senator Fred Dyson: What gas price threshold does it take for coal to be competitive in our state for baseline power?

Mr. Denton: Somewhere around \$3.50 is about what our analysis suggests. That is pretty much coincident with other things people publish. We are not reinventing that number.

Chairman Barry: For the record, the question came from Senator Fred Dyson, who we are please to have with us today. He was religiously the voice of the legislature that attended the task force meetings and we are very happy to have him here today.

Mr. Joe Griffith (Chugach Electric Association): I didn't intend to speak, Mr. Chairman, but since Jim was asked several questions that I think maybe we should address as the utilities – I will attempt to answer those for you in a point by point going through your proposed act.

I was very surprised to hear that your folks have worked with Matanuska Electric and Homer and never even discussed any of these things with our utilities before you set pen to paper. Since we are the big generators and people who have the ultimate responsibility for reliability and the power provision in the railbelt, it seems to me that the logical thing to do would have been talk to the people that generate and sell the power.

As regards to Emma Creek – Emma Creek has both the transmission and the reliability problem. The railbelt would have to carry sufficient spinning reserves to cover a 200 plus megawatt plant proposed up there. Those are the big limiting factors. We always seem to forget the reliability aspect of it. As regards to the comment about regulation of our wholesale power contracts, those are regulated only because when we put the contracts together, that is, what we the parties to the contracts wrote in the contracts, it is not required anywhere else.

Regarding the points in your proposed bill. You start out suggesting a voluntary creation of a unified G&T system with a uniform wholesale rate. A uniform wholesale rate is blatantly unfair to the people that negotiated different kind of contracts, years ago in some cases, and result really in transfer between various sectors of the consumer base. Then you went further on to say that the act authorizes and requires the RCA to mandate such if this voluntary creation does not happen. So this sort of Damocles is held over the heads of the utilities. In item three you begin to talk about the consolidation of the existing and railbelt generation and transmission assets and that in effect follows in item 5, 6, 7, 8, 9, 10, 11, and 12 of the findings, all talking about the taking of private assets. Those are unacceptable to Chugach Electric Association and, as you heard Mr. Posey comment earlier, unacceptable to the new Joint Action Agency.

I would be happy to answer questions.

Mr. Winther: What is the difference in the consumer electrical rates in all of these different associations?

Mr. Griffith: There is quite a bit of difference. Homer Electric buys from Chugach at a rate of about \$37.00 per megawatt hour. Matanuska Electric pays about \$56.00 per megawatt hour. Golden Valley Electric buys economy from both ML&P and Chugach at a lesser rate depending upon what is available in the way of spinning reserves. They cover their reserve aspect with what's called a – they have the battery energy storage system and prior to that being on line they cover it with a settings on the system that would drop them off the line if we lost power on this end. There are all different kinds of contracts.

Mr. Winther: Does that reflect in a like difference to the consumer?

Mr. Griffith: Yes, I think it does. I presume each distribution entity passes that through. Steve Haagenon brings up a good point, forming of the Joint Action Agency, we had no intent to change any of the existing contracts. Future contracts remain subject to negotiation of course.

Chairman Barry: Joe, when I read the agreement – and I guess I just saw a draft – if there's a difference between that and the actual agreement...

Mr. Griffith: No, I think what you read is pretty much what it is.

Chairman Barry: ...it did not appear to require future generation to be done by the JAA, it appeared to just leave it on the basis that if any utility wants to bring something to the JAA then the JAA can look at it, but there doesn't seem to be a requirement for any unified system operation for it to actually happen.

Mr. Griffith: That's correct, there is not.

Chairman Barry: That's the position of at least three utilities – that this railbelt is better served by not requiring a unified system operator.

Mr. Griffith: No, we didn't say that. What we said was that we would create an act as a unified system operator and we would provide power in that as necessary, as the unified system operator, but we would not compel the marketers, the distribution utilities to do that. They could build their own if they so desire. MEA talks about building their own plant, if they should choose not to participate with a Joint Action Agency I guess I can't fathom why we would want to force them to do that.

Chairman Barry: Let's take for example – I read in the paper that Chugach has been diligently working trying to develop wind power at Fire Island – wind generation.

Mr. Griffith: Yes.

Chairman Barry: If that project became a meaningful project and would provide lower cost power to Chugach Electric consumers, would Chugach Electric take that to this Joint Action Agency and have them be an owner and operator of that power or would you just do it on your own?

Mr. Griffith: I think under the agreements that we are planning on signing soon for the Joint Action Agency, you could do it either way. If you are asking what the intent is now, it would be a Joint Action Agency project.

Mr. Rick Eckert (Homer Electric Association): In listening to Mr. Posey's comments I wanted to tell you that there are legitimate issues that he mentioned. In regard to ownership, I would like to suggest that in the legislative findings that you propose, that under number 3 and anywhere you see "consolidating assets," it is our opinion that the ownership of the assets is not an issue, what we're really seeking is a uniform operation of the assets so there could be or should be agreements made with the owners of the assets between the owners and the Joint Action Agency. So the real benefit is being in the race. That brings up the other point that Mr. Posey brings up, the postage stamp rate. Perhaps the findings should allow for some flexibility in how the rates would be designed. Here, the basis as we see it, the purpose of the postage stamp rate would be differences in the rates from the fields of contention that I think that we wanted to eliminate in providing service to our members and our customers. Avoiding regulatory issues, costs of regulatory issues, so forth, it's the rates, it is the money that is always the basis where contention comes from. If the utility has developed a very efficient or inexpensive asset because of its specific location, perhaps the number of people that utilize it, that the incentive will be, without some sort of uniform rate, the incentive will be to preserve that benefit for only that region thereby continuing a field of contention for rates in the future and development and new projects. That being said, I think that it is very important though that rates would be crafted in a way that would preserve the requirements of the city of Seward and Municipal Light and Power under tax code. Perhaps to just say a uniform rate is a bit too simplistic, but if we could

get the components of rates coming from operations and maintenance and planning for the future systems this could have a uniform impact on the numbers of the Joint Action Agency and the spirit of the uniform rate would be met even though the rates would (indiscernible). Lastly, Mr. Chairman, I'd like to say that some flexibility would be good perhaps, but if we could see how to – this should provide incentive for us to figure out how to make this work as opposed to determining everything that just makes it not work.

Chairman Barry: When I read item three, and I think you read it the same way I did, it is not mandating any ownership change whatsoever, but management control and operation. And, it doesn't talk about any taking of any assets. I just want to make that clear. There certainly was no intention on the part of AIDEA or AEA to require anybody to change ownership of any assets.

Mr. Wayne Carmony (Matanuska Electric Association): I wish that I could say you saved the best for last but there's been some very fine testimony offered to the Board today so I will refrain from making that comment. I had the pleasure of serving with your chairman on the Energy Policy Task Force and during that time I sat in this very spot and had to subject myself to many questions from your chairman, so I intend to read a short statement into the record today and offer myself up to sacrifice to that one more time.

As a general observation, the railbelt is at a point where creating an independent railbelt system operator or a unified system operator is ideal. However, I would like to urge you as policy makers to keep the public interest at the forefront of your thinking. One element of your proposal is absolutely necessary, at least in our minds, if there is to be real reform, and that is a uniform wholesale rate for all member utilities. Without uniform wholesale rates the specter of self interest raises its ugly head in one degree or another or twist every decision made by the independent system operator. So let me repeat myself, no reform proposal will work that does not include a uniform wholesale rate. Another important element is that all generation and transmission owned by the member utilities or by the state must be under the control of or owned by the independent unified system operator and I think that point was clarified by Mr. Eckert. Nothing should prevent third party generation or transmission ownership, but the individual member utilities of the USO should not be allowed to conflict themselves by controlling or even investing in generation of transmission projects to make it to the railbelt grid. I applaud your efforts today and I look forward to reviewing the language of your proposed legislation and I also hope that it is something that MEA will be able to support.

Chairman Barry: If I don't ask any questions is it going to cause you any problems?

Mr. Carmony: No.

Chairman Barry: I don't have any questions.

Senator Fred Dyson: Whatever I say I am only speaking for myself. My guess is that the other legislators share some of my opinions, but just a couple three things that I think reflect the long term picture. I believe that Alaska's future energy long haul, perhaps not in my lifetime, but some of you, is coal. Just because of some of the vast reserves we have and I believe that the day will come when we cannot afford to burn gas for baseline power because there is higher and better uses for that energy. So whatever it takes for us to demonstrate technically, environmentally, and politically that we can burn coal in a safe environmentally friendly way is something that is in the long term interest of the state to do. That is just based upon what I

understand of our north America energy reserves. I think that it is very important to do whatever is necessary to be burning coal and learning to use it.

Second, the bit I know about electric generation says that if we ever get to the point where we are running our thermal plants on baseline and running our hydro plants for peaking, that makes sense just from present technology and what we know about being able to store power. I don't understand technology that will allow us to do that with batteries or high energy spinning flywheels technology. It may happen, but I don't see that right now. Of course, using hydro for peaking means pretty efficient transmission system with minimal line losses.

Third, and this is purely political, but I can tell you that most legislators would be very glad if whatever comes out of your efforts helps to solve the high cost of power in the communities that are not connected to the grid. I first started looking at all of this stuff when I got elected eight years ago and I thought, I wonder if we'll ever get to the point where we have something like the telephone industry does, a universal service cost where in the dense areas and commercial interests end up subsidizing the rural and less dense areas. I think it is very interesting – it is a public policy issue, not an economic one, but it has huge ramifications.

Founders of our country, I think, decided that being able to communicate amongst citizens was necessary and so they came up with a postal system and what you call postage rates in order to serve the larger purposes of communications. Certainly the telephone industry, and that is just something over 100 years old, has similarly come to the same conclusion and my guess is that we will or have come by default to the conclusion that providing electrical power is a part of what is kind of necessary in the level of civilization that we think is a threshold that we have to have. As we try to deliver medical, public safety, court system and education, etc. in the rural communities – Every solution you want to be able to do that requires electrical power so there is a larger public service mission that is served by the electrical power. At some point I think we may have come to the decision that it is a general public responsibility to provide rates. Every year the legislature thrashes with great pain in trying to figure out how to subsidize the power in the rural communities and how to fund that, etc. Everything we have done is just less than optimum. Suboptimum equilibrium is there that is done with great pain and no predictability for the future. A solution, long term, that figures that out would be very, very attractive to all those that have to face those responsibilities every year. I've just told you more than I know. Thank you.

Mr. Steve Haagenon (Golden Valley Electric Association): I'm glad I got to follow Senator Dyson. I agree with him, coal is probably the future of Alaska, and Steve Denton is probably clapping behind me right now. I think it is a very critical fuel. The question is where are you going to make the power. Emma Creek is a good project. Is it the best place for it, I don't know that, it has some issues still. Some are deliverability and some are reliability issues and we need to solve that. Other things we are looking at in Fairbanks right now would be Ft. Wainwright. Ft. Wainwright is going to be looking at privatizing in the very near future and they are looking to replace the power plant in a 10 year window. This is actually a function of the JAA that we just formed. What if we looked at the regional size power plant, 250 megawatts coal fired power plant right on Ft. Wainwright, the heat goes to base, possibly downtown Fairbanks and using the hot water as a medium as opposed to steam because it won't go that far and the electricity goes into the grid. There are some very exciting opportunities like that. Right now we have a challenge and I'll reiterate something Jim Posey said earlier – most of our generation is about 30 years old, we have real problems in that area. The number one focus in my opinion and from Golden Valley's perspective is how are we going to replace generation? You mentioned some numbers in there; he said we have about 1000 megawatts of generation

in the railbelt right now. It's all about 30 years old and if you go with gas turbines just the capital cost is about one billion dollars and then you are exposed to the cost of whatever gas is going to be. If you go with coal it is about 2 billion dollars in capital costs alone. How do you finance that? If you're going to start saying well, okay, Golden Valley is going to build a gas turbine and we're going to put it in the pool, how does that work? Because I have all the debt service on that thing. I'm holding all of the debt service and what we need is a very economic way to finance about 2 billion dollars worth of work. And, in my opinion, you go for tax-exempt financing, that would be a great step in the right direction. But it is a significant thing. The pool, the concept is just saying well we're going to put our assets in there and it works great if you have current assets that are in good working condition. It will not work when you are in a major growth mode like the state of Alaska is mandated to be in. Without those kind of growth things, you will see a very bad reliability, they go hand in hand, the older your system gets the more tripping you're going to see.

I haven't had a chance to talk at this table about energy issues for about nine months now since the Energy Policy Task Force got done and I actually miss it. It was fun.

The other issue that you ask about is the wind MOU and the wind at Fire Island. Mr. Griffith failed to mention that there is currently an MOU and four utilities have already signed interest – there's Golden Valley, Chugach, ML&P, and Homer – all interested in signing on to the MOU. So they are a step in the right direction to being a Joint Action Agency anyhow. Prior comments about whether you should be mandated to buy power from the Joint Action Agency – if you do, you just put yourself in a situation like Bonneville. I think every utility should have the option to say I'm going to go to you, the Joint Action Agency, and I'm going to let you finance with low interest rates or best you can do for financing and you can build it for me and I'll do a long term power purchase agreement to secure that investment on your behalf. But, what if I can do it cheaper? And they get upside for some reason, they're not doing their job or whatever, I can do it cheaper – we should have the opportunity to do that for our members. Being a member owned cooperative our number one focus is service to our members. Don't look out long term too much because you are going to trip on the problem of reliability in the short term. That's about all the comments I have to add on. If you have any questions, I'd be happy to answer.

Chairman Barry: At first I'd just like to make a comment. This has been a difficult week for AIDEA and our relationships with utilities and it is no secret that AIDEA and Golden Valley have given up trying to get Healy Clean Coal to work, we've tried hard and it didn't happen. I would like to say that Steve, you just kind of put us in the same context with Bonneville. Earlier, Jim Posey put us in the same context as the state of California and earlier this week a different utility put us in the same context as Enron, so I much prefer the company you put us in to the other two.

We, at AIDEA, have a grave and serious concern with Healy Clean Coal and, as I understand the proposed JAA that you are a member of, that JAA would accept ownership under some conditions, I suppose, of Healy Clean Coal. Can you give us an idea of what the operation of that plant would be if that JAA would receive that ownership.

Mr. Haagenson: The goal is to get it operating. We share that goal. I guess, what we're looking at is as we talked about earlier, Bradley, the Intertie, and including Healy Clean Coal, I believe that was the wishes of the Governor – or I think it was the Governor that said he wanted a package deal. If we acquired Healy Clean Coal the answer is it will not. The question is, is it going to run with existing technology or is it going to be retrofit? That is the question the JAA is going to have to look at. Golden Valley looked at that issue and we came to one conclusion

different than AIDEA's and the JAA being the owner will have to decide what kind of risk they want to take and how they want to move forward. Is it possible to just start it up and do retrofit and start and run it for awhile, possibly, but again the risk remains in the future.

Chairman Barry: If I understand you correctly, and please correct me if I'm wrong, but at the present time the JAA is not committed to operate that under the clean coal technology. I'm not hearing you say that they are.

Mr. Haagenson: I speak for the Joint Action Agency board, I don't know what they are committed to or not because they haven't really met as a board to decide what they are committed to. Golden Valley will have a presence at the table and we'll share our experiences and knowledge with the group. I think there has to be a good business decision going forward that works for everybody. In my opinion, this is probably the last chance of having Healy Clean Coal operating. There has been a lot of obstacles put in front of Healy Clean Coal, some for a cause and some not for cause and some because regulations and things change, but we need to figure out – but like I said, if the JAA accepts it I don't think it's going to sit there and do nothing for 20-30 years. Nobody can afford that. That's a big black eye for everybody in the state of Alaska. How they will take it forward? I don't know that. I don't believe they'll be watching it sit there and rust. There are challenges on both sides and I guess I'll go one step farther – long answer to a short question, I guess, but if you run the plant like it is, there is a risk of technology failure. If you retrofit it, under the current air regs that is going to be applied you'll probably have to have SCR's on it and now you're not in the R&D business anymore you're in the leading edge of technology with the catalytic converters in a coal plant – there's like two of them in the world. There are issues on both sides and I'm not going to say it is going to be an easy path but we have to figure out a way to get it running.

Chairman Barry: I guess it is probably incumbent of me to say that it is my belief – the issue is not in front of us today, thank heavens, but it is my belief that the AIDEA Board not only wants to see it running but it wants to see it running with clean coal technology. We can address that later. Any questions of Mr. Haagenson?

Senator Fred Dyson: If we had a 200 or 250 megawatt coal fired plant at Wainwright or Healy, are the distances long enough that it might make sense to have DC transmission south?

Mr. Haagenson: To Healy or to Anchorage?

Senator Fred Dyson: Yes, down here to southcentral from either one of those plants.

Mr. Haagenson: Actually, I don't think Alaska is big enough for DC. We've looked at it and did the analysis on the Intertie and the Southern Intertie and it has some issues with it, big issues. Because of the way it is connected to the system you have two large pieces – there's technology available I just don't think it is the wise solution to connect Fairbanks to Anchorage. If you looked at a large load like Donlin creek where it is going to go 400 miles to get to them from Nenana then I think you are required to have DC because AC really won't work effectively. On Donlin Creek, I think there is also Copper Pebble and I also view the Joint Action Agency as the entity that – they can come to that group and say look we want to fund – we want to fund bonds or build this power plant or whatever. That group is looking at the whole system and planning for the whole group – we'll be able to put a package together. I would personally require them to have a very locked in solid power sales agreement so the state of Alaska is not left with a bunch of bonds after they walk away after 10 years, you have to secure your debt. I'm sure it could come together if it's a good deal. When your looking for that win-win out there,

if you can't find it the answer is not making it into a win-lose it's walking away. Unless those guys want to come up and pony up with the money and take the responsibility, I'm not sure the state of Alaska, anybody in the state of Alaska should take a lot of risk to get them power. They need to be realistic about it. The last thing I want to do to my members is to have somebody come in and get a short term gain and then a long term hammering for the next 30 years to pay off the debt service because there is no revenue to support it.

Mr. Randy Hobbs (Hobbs Industries and Black Hills Corporation): Black Hills Corporation has shown some interest in providing new generation to the railbelt, to a JAA or a unified system operator whichever comes together. One of them is from a combined cycle natural gas plant here in town, the center of the Anchorage load center, which makes sense in accordance with some of the recommendations of the studies that have been produced. They are also offering base load capacity, also coal fired, which is timely finally to see coal have a role to play here from Beluga. The Black Hills Corporation has finalized a preliminary agreement with Placer Dome to acquire those holdings at Beluga and have already provided an offer to Chugach Electric and/or the Joint Action Agency for offering base load capacity from that point. And, also of course, coal could play a pretty good role with the Emma and Healy Coal projects. Where I see these is coal projects in blocks of either 2 x 90 or may be 2 x 125 so there's not such a big block of power that when they are lost the system can't support it. So, what Black Hills is offering is that kind of development at Beluga, or the 2 x 125 units. Probably see if B type technology could be tied directly into the Chugach system at that point, which has the infrastructure to carry that capacity. The plant here in Anchorage, it would be in the 150 – 200 megawatt capacity gas, which is rapid response and can provide intermediate peaking needs in a complimentary way to the base load. Black Hills is also interested in Healy and if there is an opportunity to come in and put that thing on line they look at the issues associated with it and I think the private sector is probably equipped to accomplish that versus what we've seen from the utilities and recent about that issue. I see also Emma Creek as being a key component down the road in supplying the needs of the railbelt. You add all of these up, these coal projects with efficient gas and now the need has been met as far as what has been recommended or what's needed. Huge gas savings are achieved by this and you have some private sector development in here that is also going to put resources and financing into it to make it happen. I do support what I see from the Energy Authority for your proposal for the unified system operator, that seems to make good sense. I'm hoping that the railbelt utilities adopt as much of those provisions that you've asked for that they can and I agree that it is what the railbelt needs.

Mr. Dick Peterson (Alaska Natural Gas Liquids): I had not planned on talking today but as I listened to people talk, the one thing that came to mind was the size of the market for so much of what's done in Alaska is what creates part of the problem. We have been advocating for many years creating the gasification program that takes coal biomass, converts into fuels, transportation fuels, which represents 60% of the market for oil in the United States to transport this to the western United States, not Alaska, for the markets to create the synthetic fuel market outside the state of Alaska to support a much larger project. When you gasify coal you create synthetic gas which can run a turbine and which can be supplied to the Agrium fertilizer plant, which can be supplied to other ones so... I don't have a solution for your electric generation problem and what I would say is that you ought to look at a larger regional use of energy and incorporate that into what it could do to help electric generation for the area.

Chairman Barry: You know that AIDEA has requested the Department of Energy to do a scoping study in Cook Inlet on the potential for coal gasification in a IGCC configuration that would – as I understand the way the process works you could not only run the gas turbines with the synthetic gas that would be created in terms of electricity, but you're going to generate some

heat just making the synthetic gas so you have some co-generation potential there to use steam to create some more electricity. But, you'd also have the advantage of being able to look at other markets in addition to just electricity generation, industrial gas applications, or transport fuels, or fish oil, or diesel for our bush communities – it certainly needs to be studied and we're trying everything we can to get the Department of Energy to accelerate that study. Thank you.

Senator Fred Dyson: What natural gas price does it take for the synthetic gas or coal gas to be competitive?

Mr. Peterson: The number you typically here thrown around is about \$3.50 per million btu. I think based on the coal gasification to combine cycle programs that have been done in the Lower 48, that seems to be the general area, and the corresponding coal costs are between \$1.25 - \$1.45 per million btu delivered to those facilities, which would certainly be in the price range, the upper price range of a mined gasification facility built around here, so it would be comparable in that – in our view – I guess I should have preferenced my comments by saying that my company, ANGTL and a German company called Corin proposed to British Petroleum last year that we would take over the Nikiski GTL plant and convert it into biomass coal gasification program and keep that plant running primarily on trees in the Kenai area for the next ten years. At the end of that we would then propose to build about a 10,000 barrel a day fisher tropes diesel plant across the Inlet based on Beluga coal. Supply synthetic gas potentially to the Chugach facility and to anybody else who wanted it with that particular facility and with the possibility of supplying synthetic to the building blocks for the fertilizer plant also. The fertilizer plant is going to be different at this point but these are the things that we have been looking at doing.

Chairman Barry: I appreciate everybody's testimony today. It is encouraging to me on one hand and disappointing on the other. We certainly are not close to the goal line yet in terms of having a railbelt utility consensus on a unified system operation, but we are certainly closer then we have been in my involvement in the process and I compliment everybody for their efforts in getting us to that point. I agree with what Jim Posey said this morning is that we have an opportunity in front of us that is time constrained, it is – AIDEA is on record as saying that we will not, even if we could, we're not certain if we could even if we wanted to, but we certainly have no desire to and we won't dispose of any of these state owned assets without close contact with the legislature. So, there will be some statutory action taken before any of that can happen. It is my view, that as I hear again, we're close but we're not close enough to get the job done. If we tried to push this proposed legislation into place right now I don't see it sailing through the legislature and I certainly wouldn't see a bill to push the three utilities JAA sailing through the legislature either. I perceive, and may be in everyone's best interest if we could have a kind of a mutual agreement to give a limited period, because we are not going to get legislative attention forever, but we will schedule an AIDEA board meeting sometime next month and hope that – give the utilities – AIDEA will help in any way it can but it certainly doesn't have a seat in the nitty gritty here – that the unified system operations is going to work, it is going to work because the utilities learn how to work together. Again, we will help in any way we can, we'll offer neutral facilities here that people can use, we'll offer staff people to be of assistance, but we're not going to be pushing anymore. I would encourage though, if we could have what I'd call a gentleman's agreement, that we won't push any legislation for the next month if we could have that from others in the railbelt. The concentration would be just for that very limited duration to see if there is really a genuine consensus because I honestly believe that legislation with a consensus would sail. And I think it is very worth while.

I jotted down some of what I would consider to be potential consequences and certainly there's no great deal of wisdom in this, but if we don't get a unified system operation forum, certainly as Jim Posey talked about and others talked about today, every month that goes by that is delayed we are losing some efficiencies and there is a real cost involved. In terms of state and federal funding there is a great deal of uncertainty, there is a \$69.5 million railbelt energy fund that is out there and everybody has an idea of what it should be used for – I think without consensus nobody is going to get any of it. There is the access to the federal – I've gotten some pretty serious advice from our Congressional Delegation that whatever you guys do, don't come to us until you can get everybody together on one page, we're tired of this baloney. The state assets – this board of AIDEA and this state administration is trying very hard to cooperate with the railbelt utilities and make these assets available at the lowest possible cost to the system forever. We can't promise what another Board of Directors of AIDEA or another Administration is going to do. I would say that, and I can get overruled by the Governor of Alaska and certainly may get overruled by the Governor Alaska, but as far as I'm concerned, if the utilities, in an effort to get together, if Healy Clean Coal is an obstacle for you folks getting together, take it off the table. Take it out of the mix and we'll deal with Healy Clean Coal.

It's important to the railbelt, its important to every electrical consumer in the railbelt that we get this done. If that's the obstacle that keeps it from getting it done, remove it. We have reliability and operating efficiencies that if there is not a unified system operator in place pretty soon we are going to have to review the intertie operation. It is not satisfactory. It is our hope that the utilities involved themselves would have the ownership and responsibility and we don't need to do that but if we don't get an operator we have to come in and review that. We talked about the need to get reliability and efficiencies, we've talked about the economies of scale with financing and constructing, that goes away if there is no unified system operation. We've talked about the need to diversify fuel sources in the railbelt and as we've heard from several people today, coal is an attractive fuel source going down the trail but as I've heard personally from almost every single utility in the railbelt, it is beyond their capacity to individually undertake a coal project. We need to have this cooperation and unification in order for that to happen. In terms of the railbelt energy assets, we've already through in the number which is approximately \$1.3 billion at cost in today's dollars. As Jim Posey acknowledged, the railbelt utilities, through the existing power sales agreement at Bradley, are already paying off the \$137 million in face amount of the debt that is on that. Healy has approximately \$70 million of existing debt. We have talked about the state contributing all of these assets to a unified system operation just subject to the debt with no other considerations. One of the conditions being if the unified system operator is formed in what we would call a consensus basis throughout the utilities system.

I guess Mr. Posey had to go to a different meeting but the other two members of the Joint Action Agency that has been formed – can we have an agreement that we can wait until another board meeting for a legislative thrust or whatever it is. I think it is in everybody's best interest.

Mr. Haagenson: Can we get a commitment to meet prior to that board meeting?

Chairman Barry: Absolutely.

Mr. Haagenson: As a group we can come together and use your neutral ground.

Chairman Barry: Come together with us or anybody. I would hope that you would all meet with the utilities. Mr. Carmony you had a comment?

Mr. Carmony: I'd just like to have a clarification. I've heard this Joint Action Agency discussed as having been formed – people are signing memorandums of understanding. I'd like to know what actually exists and what does not and what has to be done before something does exist with respect to this Joint Action Agency.

Chairman Barry: I'm not sure – I would prefer frankly, you guys getting together and really getting into the details. The rest of us aren't going to understand it anyway.

Mr. Haagenson: We can share the existing agreement and the articles of incorporation with the railbelt utilities, the six of us. I think we already have. We are way past the MOU stage, we've formed –

Chairman Barry: Can we – you wanted to get together – I believe you wanted us to be part of that and we're happy to do that. Would anybody like to set a time for all of us to get together? We have most of us here except ML&P and Seward.

Mr. Griffith: Mr. Chairman, we will coordinate getting something together.

Chairman Barry: I appreciate that. I'm assuming then that we are delaying any action until we have another meeting and giving everybody a chance to make what I call a final stab and see if we can come to a consensus in agreement with everybody on the board.

Commissioner Blatchford: The testimony, will that be verbatim reflected in the record? I'd like to review it.

Mr. Miller: Yes, we can.

Chairman Barry: Yes, and we will put that on the website so that anybody can access it that wants too. It is certainly our goal to have this whole process be as transparent as possible. It is a very difficult thing for lay people like us not in the electrical business to get our arms around these issues and to understand them. Our staff has worked very hard to try to explain them to me and I appreciate them going over the same ground because, as Ms. Obermeyer said earlier, I don't have any institutional memory. We getting a lot of help and this whole project, if we can bring it about, will be a big win for every energy consumer in the railbelt. As Steve Denton pointed out, and we don't want to lose site of it, it will be a big win for everybody contemplating doing business or doing business in the railbelt. It is a very worthwhile project. I certainly appreciate everybody's support.

Mr. Winther: I kind of see this as an example for Southeast – they're building interties and interconnecting every different utilities, so I'm looking forward to this as maybe helping out down there if something good can come out of this.

Chairman Barry: It's always something to hope for. When I personally look at the loads they are trying to connect with long distance interties down there I'm very skeptical of an intertie system in Southeast being of any benefit to anybody.

Mr. Winther: Yes it is. It's going in.

Mr. Griffith: They have a JAA down there that can do it.

Chairman Barry: Before we get together we will try to clean up our proposal and maybe one of the things we should do is clarify it, name it -- A Joint Action Agency called whatever -- did I hear the Alaska Railbelt Energy Authority or something like that? I think it's a great name if you guys don't mind we'll hope for something we can put together that would be named that, that every utility would be proud to put their names on it and join. I think it would be a worth goal.

Before we adjourn we need to set the next board meeting date which will kind of put the deadline on this.

**END VERBATIM PUBLIC TESTIMONY**

**8B. NEXT MEETING DATES**

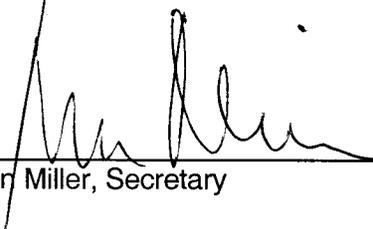
Chairman Barry suggested a next meeting date of February 28, 2005. He said the Board would be polled as to their availability.

**9. BOARD COMMENTS**

There were no board member comments.

**10. ADJOURNMENT**

Chairman Barry adjourned both the AIDEA and AEA meeting at 1:50 p.m.



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Ron Miller, Secretary