



Alaska Energy Authority
BOARD MEETING MINUTES
November 22, 2010

Anchorage and Juneau, Alaska; Rancho Mirage, California

1. CALL TO ORDER

Chairman Patrick Galvin called the meeting of the Alaska Energy Authority to order on November 22, 2010 at 10:35 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members present: Chairman Patrick Galvin (Commissioner, Department of Revenue); Mike Felix (Public Member); and Robert Sheldon (Public Member).

Members participating via conference call: Susan Bell (Commissioner, Department of Commerce, Community & Economic Development) from Juneau, AK; and Vice Chairman John Winther (Public Member) from Rancho Mirage, California.

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Mike Harper (AEA Acting Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Sara Fisher-Goad (Deputy Director-Operations); Valorie Walker (Deputy Director-Finance); and Shirley Kelly (EDA), public member.

Participating via teleconference: Peter Crimp (Deputy Director-AEEE); Shauna Howell (Executive Assistant); and Eric Lidji (Petroleum News).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The minutes of October 20, 2010 were approved as presented.

7. NEW BUSINESS

7A. Railbelt Large Hydro presentation by Bryan Carey, Project Manager

Mr. Harper discussed the Large Hydro project staff has been studying at the direction of the Legislature. A Preliminary Decision Document is coming out and we would like to give the Board an overview of the project. Discussions continue with the Governor's office to finalize the document.

Mr. Carey stated the Legislative session last year provided AEA \$10 million to pursue planning, design, and preliminary permitting in regards to large railbelt hydro Susitna, Chakachamna, Glacier Fork and other projects. The most talked about are Susitna Watana and Chakachamna. Chakachamna is west of Anchorage at the base of Mt. Spurr, and Watana is on the Susitna River.

Mr. Carey presented the Board with a slideshow and discussion noting the Susitna project is not the same project as the one in the 80's. It is a single dam at Watana vs. the two dam concept which was proposed back in the 80's. It was thought in the 80's that salmon do not travel past Devil Canyon; Watana is about 30 miles above Devil Canyon. More recent information shows some salmon make it to Watana but for the most part it is a minimal number. If the dam was to be built, Watana would be flooding the valley to 700 feet deep, 39 miles long and 2 miles wide. Right now there is a braided river channel. It is 900 feet from the bottom of the valley to where the terrain starts flattening out on top.

The water remains within the valley area keeping it a fairly narrow reservoir. There is still a significant amount of water storage which becomes one of the key issues to Watana. There's enough storage to carry water over into the winter, which can dispatch energy anytime. During the 80's, Watana was originally designed to go up to 885 feet. When the State ran into funding problems, the idea was to bring Watana to 700 feet and go down river to build at Devil Canyon, and then come back up to Watana and raise its height up to 885 feet.

Chakachamna is across from Anchorage, at the base of Mt. Spurr; one of the more important parts of the plan would be a diversion tunnel through the mountains to McCarthy River. We have a good idea what the Susitna energy will be year-to-year, where in the case of Chakachamna there is still going to be a substantial amount of water required to remain within the existing river going downstream because salmon use that river when they go through to Lake Clark National Park and Preserve.

Down river from the lake you also have the Trading Bay State Game Refuge. Enough water is required going down river so that wetlands remain and salmon spawning is not affected. That is a large issue in regards to how much energy comes out of the project. Any water that flows for the refuge or otherwise means less energy for the project.

Mr. Carey showed a photo of Barrier Glacier and noted that the ground in front is covered with debris and vegetation. The glacier is several hundred feet thick at this point and historically, used to move against the left far side and choke off the water that would be in the lake. In 1971 a glacier outburst flood dropped the lake level to within 15 feet in a few days.

Glacier Fork is much smaller than the other two. The Knik Glacier is south of the Glacier Fork canyon. It is a deep canyon which is nice for building the dam. The downside is that there's very little winter storage. This project would produce a lot of energy July to August. We are pursuing a reconnaissance study to see if it would make sense for summertime energy.

Susitna will get the State to a 50% renewable goal, but Chakachamna has to do it in conjunction with other projects and Glacier Fork doesn't get you very far along.

The railbelt average annual energy is currently around 5,300 to 5,400 gigawatt hours. Susitna Watana is approximately 2,600 gigawatt hours. Susitna would come in around 50% of what the railbelt currently uses in energy per year, and Chakachamna would be in the area of 1,000 to 1,300 gigawatt hours, about a quarter or less of the annual railbelt energy.

Owned by AEA, Bradley Lake Hydro is located south of Homer, 125 feet tall and came online in 1991. Watana would be similar to Bradley, but substantially taller at 700 feet.

Susitna Watana reservoir is 39 miles long, up to 2 miles wide and is above where most of the salmon are located. Some of the impacts will be positive in regard to fisheries. During the 80's the Susitna study showed mainstream habitat for the salmon judged to be a positive impact. If you construct the dam, most of the silt would settle out and the water immediately below would be similar to the Kenai river.

With Chakachamna, the energy number is a lot more flexible and would not be known for several years into the planning and permitting process. We believe the most likely energy would be 800 to 1,300 gigawatt hours. It could be less than that, but you would not know what that number would be for several years and several million dollars. Because you divert water from one basin to another, you are affecting Trading Bay Game Farm Refuge, Lake Clark National Park and Preserve, and Redoubt Bay State Critical Habitat area. It is likely to have a moderate to severe impact.

Susitna energy occurs more during the summer than utilities prefer, with the flows and the power generation almost directly proportionate during the summer months. In August you get 400 megawatts of power and during the winter you get 200-250, depending on the month. On a yearly basis, the flows down river can vary 25% or more. On an aggressive schedule, Watana could be permitted and constructed in 11-12 years. The benefit of hydroelectric projects is that hydros have more than a 100-year life, and long-term, stable, low cost energy which does not depend on a fuel source going up with inflation or demand, or affected by world events. Depending on how it's funded, the money stays in state and is not sent overseas for fuel.

Mr. Felix asked if studies are being done? Mr. Carey replied they are being done right now, as we did not have statute authority to file FERC documents.

Chairman Galvin noted that there is a lot of momentum in pursuing hydro projects in the Legislature and Administration. Mr. Carey said AEA will soon distribute the Preliminary Decision Document, which will compare and address the two projects for people to read and make a decision on the projects.

Mr. Felix asked is this going to be an either/or on both projects? Mr. Carey said he doubted it would be both in a short period of time. In the next 10-15 years, it's unlikely both projects would proceed. In a 50-year time span, maybe both can proceed.

Mr. Winther asked who will be the final decision maker on the project?

Chairman Galvin said, Mr. Carey stated, AEA does not have the current authority to approve the project the way it stands now. The Legislature will have to approve money to pursue it further, and then make a decision on how to manage it. Those two would go hand-in-hand as interest in the project advances, as early as this coming session.

Chairman Galvin also added that part of the study AEA is compiling, is to evaluate the pros and cons of the various projects. The other consideration as you go on along these lines, because of the size of the project and environmental concerns, is you're likely to go through the process with a primary option and an alternative, to compare the positives and negatives of the project. Reasons to keep multiple projects in the evaluation phase should be determined in the early stages.

7B. FY2010 AEA Financial Statements. Elizabeth Stuart of KPMG presented an overview of the FY2010 financial statements included in Board member packets.

Ms. Stuart noted that an audit was conducted in September/October. The first report is a letter to the Board of Directors describing how we conduct an audit. If weaknesses in internal control were identified we would communicate that; KPMG would communicate any significant changes in accounting policies or new policies adopted. Neither occurred in FY10. The most significant judgment involved in the audit was the allowance for loan losses. In the loan portfolio there is an \$800,000 allowance for loan losses. KPMG evaluated management's estimates and process for developing that allowance and thought it was reasonable in relationship with the financial statements.

Ms. Stuart added that the financial statements consist of three parts: the first is a management's discussion and analysis which is written by management and covers an overview of the activities that occurred during the current year compared to the prior two years. A clean opinion is on page 8 of the financial statements. The opinion is followed by the financial statements, then footnotes which provide further information about accounting policies as well as matters contained in the financial statements.

Ms. Walker noted that no action needs to be taken by the Board.

Ms. Stuart said she wished to highlight the Audit in accordance with OMB Circular A-133, a single audit report which is required when you have certain federal grant funding. It is more than a compliance audit. No items were required to be reported. Management will submit this to the State, after which it will be submitted to the federal grants agency.

Chairman Gavin commended Valorie for the great job she and her staff do.

7C. AEA Resolution No. 2010-05 Appointment of Officers

Mr. Harper said Resolution No. 2010-05 is to appoint Peter Crimp as Deputy Director-Alternative Energy & Energy Efficiency and to be an Assistant Secretary of the Authority. Given the increase in Alternative Energy and Energy Efficiency programs and projects, a new position for Deputy Director was created. Mr. Crimp was offered the position and we are asking the Board to appoint him by Resolution as a Secretary of the Authority, in absence of the Executive Director to sign certain documents.

Chairman Galvin said this action was proposed by Steve Haagenson and is being carried through the administrative process. He asked Mr. Harper to describe the current structure of the officers and their duties.

Mr. Harper said up until Mr. Haagenson was hired, we had one Executive Director for both AIDEA and AEA. A new Executive Director position was created for AEA, which lead to new duties and responsibilities. New funds came into the agency in the alternative energy and energy efficiency side.

Currently, AEA administers \$150 million and more than 120 grants. HB152 created the Renewable Energy Fund Program and allocated \$250 million for alternative energy projects. This created a tremendous amount of responsibility and additional duties and it was necessary to add a Deputy Director.

AIDEA currently has Deputy Directors for Commercial Finance, Finance, Operations, and Development Finance.

Mr. Bjorkquist said the Deputy Director for Finance, Valorie Walker, Deputy Director for Credit, Chris Anderson, and Deputy Director for Operations, Sara Fisher-Goad, are all Assistant Secretaries. The three share duties between AIDEA and AEA. All the Deputy Directors have shared duties between AIDEA and AEA, with the exception of the Deputy Director of Business Development of AIDEA. He also stated Valorie Walker is an Assistant Sectary/Treasurer.

Chairman Galvin added that this gives a sense of the historic structure of having the Deputy Directors who also serve as Secretaries.

Mr. Harper noted Mr. Crimp has been with AEA for 20 years. He is a forester by trade and holds a Masters in Forestry. He was with DNR in Fairbanks and has grown with our agency. Mr. Crimp has been responsible for taking a small program that was funded by Denali Commission and growing it and is largely responsible for a good portion of the initiative for the creation of the Renewable Energy Fund grants.

Chairman Gavin added that the Legislature is very engaged in the grant process and Mr. Crimp is responsive to them. Peter was very much involved in structuring the way AEA went through that grant process and being diligent as the Legislature expected him to be in pursuing that and Mr. Haagenson was very impressed with that effort and that influenced his interest in moving towards that structure where Peter can be a leader of that group.

Mr. Sheldon asked if the staff that he pulled together was already AEA staff or staff from prior experience?

Mr. Harper stated that we pulled together people in the agency but added new staff as well. Engineers, Project Managers, Planners, not just under his supervision, but also new staff in the Finance and Personnel areas.

Mr. Sheldon asked if a number of these Deputy Directors are wearing multiple hats with AIDEA and AEA and also asked if Mr. Crimp would have multiple hats as well?

Ms. Fisher-Goad stated AEA programs and staff have grown and the AEEE programs have a statewide perspective and it made sense to move them out from rural energy to reflect the statewide nature of the programs.

Mr. Bjorkquist clarified that AEA does not have any employees. All employees are AIDEA employees including the Executive Director of AEA, but there are designated staff that are dedicated to serving AEA.

MOTION: Mr. Felix moved to adopt AEA Resolution No. 2010-05. Seconded by Commissioner Bell. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

8. DIRECTOR COMMENTS

- A.) In the interest of time, Mr. Harper referred members of the Board to their packets for program and project fact sheets.
- B.) Next scheduled Meeting: December 3, 2010

9. BOARD COMMENTS

Commissioner Bell thanked both Sara Fisher-Goad and Chris Rutz in sending the information that was requested on the position description and the last process in selecting an Executive Director. Her first thought was to place an ad and get resumes. As a Board, once we start reading materials we need to think about the position description and the qualities and compensation. Commissioner Bell suggested that we didn't want to dive into that discussion. Rather, she asked Chris Rutz to share the emails he had sent with the whole Board and look at it and discuss it at the December 3rd Board meeting.

Chairman Galvin stated that his recommendation would be to plan on bringing this to a closure at the December 3rd meeting. That will allow time to get information distributed to the other Board members for their review.

Chairman Galvin closed the meeting noting that he will be moving out of the position of Commissioner of Revenue; in turn, he would be giving up his position on this Board and his successor will be taking this spot. In the interest for a smooth transition it would be his recommendation that a meeting be held on December 3rd and close out that meeting with the election of a Chairman. His time will be over December 6th.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 11:20 a.m.



Mike Harper, Acting Executive Director/Secretary
Alaska Energy Authority