



BOARD MEETING MINUTES  
Thursday, June 29, 2017  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Dick called the meeting of the Alaska Energy Authority to order on June 29, 2017 at 10:05 am. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Russell Dick (Public Member); Vice-Chair Dana Pruhs (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED)); Jerry Burnett (Deputy Commissioner, Department of Revenue - phone); Elaine Brown (Public Member); Gary Wilken (Public Member); and Dan Kennedy (Public Member).

**3. ROLL CALL: STAFF, PUBLIC**

Staff present: Amy Adler, Brenda Applegate, Bryan Carey, Tom Erickson, Jocelyn Garner, Daniel Hertrich, Michael Lamb, Cady Lister, Doug Ott, Linda Senn, Kirk Warren, Teri Webster (AEA); and Mary Lynn Macsalka (Department of Law).

Others present: Brian Hickey, Dustin Highers, Paul Risse, Lee Thibert (Chugach Electric Association (CEA)); Bob Day, Brad Janorschke (Homer Electric Association (HEA)); Gary Kuhn (phone), Tony Izzo (Matanuska Electric Association (MEA)); Tim Barnum (McGrath Light and Power - phone); and Bernie Smith (phone); Sydney Hamilton (Accu-Type Depositions).

Mr. Lamb welcomed Ms. Senn as the new AEA Human Resources representative.

**4. AGENDA APPROVAL**

The agenda was approved without objection.

**5. PUBLIC COMMENTS**

Tim Barnum, McGrath Light & Power, commented the recent changes with the AEA warehouse were supposed to improve and enhance service to rural communities. He expressed frustration regarding incompleteness of the AEA project to provide updates to their SCADA System that began in February. The updates are necessary because the generator controls had to be replaced with manufacturer supported controls. Mr. Barnum stated the project is stalled and the contractor, GB Services, will not communicate whether or not they will complete the project, which will cost approximately \$4,000 to \$5,000.

Chair Dick expressed appreciation for the comments and noted a member of AEA will follow-up with him regarding the issues.

**6. PRIOR MINUTES - May 18, 2017**

**MOTION: A motion was made by Mr. Wilken to approve the minutes of May 18, 2017. Ms. Brown seconded the motion. Motion passed without objection.**

**7. NEW BUSINESS**

**7A. Battle Creek Hydro Project**

Mr. Lamb informed two presentations will be given under the Battle Creek Hydro Project. The first presentation will be given by Mr. Carey, Project Manager. The second presentation will be given by CEA utility representatives with HEA and MEA present to assist with questions. They will provide insights and reasons the utilities are in favor of the Battle Creek Hydro Project regarding constraint and capacity.

Mr. Lamb noted he received an email this morning from Mr. Thibert, which he believes resolves the Power Sales Agreement language issue. Mr. Lamb noted he received validation and the issue is resolved. Since Bradley Lake is an AEA-owned asset, the Battle Creek Hydro Project work has to be approved by the AEA Board. The approval decision will not be made at this meeting.

Mr. Carey reviewed the Battle Creek Hydro Project which is the proposed diversion of the West Fork Upper Battle Creek to Bradley Lake. The Bradley Lake Hydroelectric Project, a large hydroelectric project in the state supplying 9 percent of the Railbelt energy, will be able to increase annual energy. Mr. Carey gave a detailed description of the 37,000 Megawatt hour diversion project design elements, including the road and HDPE pipe location, annual energy increase amount, and cost estimate. The Bradley Lake powerhouse and capacity will remain unchanged. Mr. Carey showed a video of the proposed project mapping.

Vice-Chair Pruhs expressed concerns about the proposed rock border on the side of the gravel road rather than a guardrail. He asked for the cost differential. Mr. Carey informed he can provide the cost estimates and believes the rock suggestion came from mining projects and Stetson Creek project. Deputy Commissioner Parady echoed concerns regarding the safety of using rocks compared to guardrails along the road.

Mr. Carey reported the diversion will operate in the summer and will be closed from October 31st through the winter. After completion of the project, vehicle traffic is expected to be once a week during operation. Operation will occur remotely from the powerhouse and video cameras at the site will be utilized.

Mr. Carey reviewed the proposed schedule. The license amendment was submitted to FERC in 2015. The Environmental Assessment and license amendment was received from FERC in 2016. No significant harm was found. Brushing is expected to be completed this fall to avoid conflicts with U.S. Fish and Wildlife bird nesting restrictions. Construction would occur in 2018 and 2019. The water diversion could begin at the end of 2019 or early 2020. The construction would be completed in 2020.

Mr. Kennedy inquired as to extending the license if problems in attaining financing occur. Mr. Carey explained the FERC licensing amendment does not specify a construction start date. He noted bigger issues related to delaying construction include an increase in construction costs, an increase in financing rates, and a decrease in the financing payment term, which is tied to the Bradley Lake license expiration date in 2035. Negotiations for the 50-year relicensing usually start five years prior to the expiration date. Vice-Chair Pruhs requested additional information on available mechanisms for increasing the license term for typical capital improvement programs for hydropower with licensing constraints.

Mr. Lamb welcomed Mr. Thibert, CEO of CEA and Vice-Chair of Bradley Lake Project Management Committee (BPMC). Mr. Thibert introduced Mr. Izzo of MEA, Mr. Janorschke of HEA, and Mr. Risse and Mr. Highers of CEA. Mr. Thibert stated the BPMC passed a resolution yesterday in support of the Battle Creek Project and financing to get to bid in 2017. Mr. Thibert advised CEA built and completed a like project at Stetson Creek in 2015. The BPMC would like to leverage CEA's expertise for the Battle Creek Project. Mr. Thibert showed a short video entitled "The Year of Unity" prepared by GVEA regarding the utilities' common goals and ability to work together improving system reliability.

Mr. Risse and Mr. Highers continued the presentation on the long-term energy benefits of the Battle Creek Hydro Project and the option of CEA project management. Mr. Risse explained the Kenai single transmission line operates under the stability limit of 75 megawatts. This contributes to the capacity constraint issue of accessing Bradley Lake energy during the high-cost durations of peak load hours. The total rating at Bradley Lake is 120 megawatts with a 40 percent capacity factor. The Battle Creek Project is exempt from RCA regulation. It will create reasonably priced energy now and more reasonable prices in the long-term.

Vice-Chair Pruhs inquired as to the \$500 million value of the Bradley Lake asset and risk of the asset not performing. Mr. Janorschke informed HEA has invested about \$200 million in the last five years for transmission and generation upgrades. One of the advantages of the Railbelt distributed system is being able to cover energy if an intertie line goes down. Depending on the time of year, an intertie line could be down for six months without causing any damage to the purchasing utilities, because of storage capabilities and spill utilization. Mr. Janorschke stated building an additional transmission line would be ideal, but is cost prohibitive at \$400 million and would increase rates for payers.

Vice-Chair Pruhs expressed confusion because of previous presentations regarding intertie system upgrades of up to \$900 million, which illustrate rates decreasing for the payers because of the investment. Mr. Janorschke commented adding a more robust transmission system to the Kenai Peninsula does not give HEA members, in particular, an opportunity to secure additional less expensive power.

Deputy Commissioner Parady noted the Battle Creek Hydro Project and the Railbelt intertie system upgrades are two separate topics. He requested Mr. Izzo provide his views on both topics. Mr. Izzo informed MEA has a 13.8% share of Bradley Lake, a share of the Eklutna Hydro, and smaller shares with Southfork Hydro. Mr. Izzo views upgrades as part of the duty to serve under the RCA certificate rights. The core of the Railbelt is served primarily by natural gas. It is not interconnected to any other state and there is no material backup for reliability. The seismic environment and subarctic climate only adds to the concerns of being able to meet

the necessary load. Mr. Izzo communicated his skepticism regarding the updated intertie economic study. He noted in today's economy with declining kilowatt hours, the focus is on finding the lowest cost of energy, not on building a redundant system that would substantially increase rates.

Deputy Commissioner Parady requested staff to identify the engineering and economic gaps between AEA and the utilities perception regarding the results of the intertie study and priorities.

Mr. Lamb focused the discussion back onto the specifics of the Battle Creek Project. Vice-Chair Pruhs asked if completion of the Battle Creek Project would reduce the rate payers' amount. Mr. Thibert informed the economics are more expensive initially, but then the costs stabilize over the long-term. Mr. Thibert noted once the financing is in place, a slide can be created to show the net present value and long-term positive economic effect.

Mr. Kennedy asked if his understanding was correct regarding slide 30 that the utilities intend to build the project, pay for the project, and then give the asset to AEA. Mr. Thibert agreed.

Chair Dick commented his perusal of the remaining parts of the presentation review CEA's qualifications to build and manage the project. Chair Dick noted CEA appears to be qualified, and the question/answer format can continue.

Vice-Chair Pruhs requested additional information regarding an organizational chart for Bradley Lake inadvertently emailed to AEA Executive Director in the winter and the utilities' opinion of the ownership of Bradley Lake after it is paid off. Mr. Thibert explained the organizational chart was created during the time discussions in the Legislature occurred regarding whether or not AEA would continue. The utilities were concerned and believed there could be a beneficial offer to purchase Bradley Lake from the State. Acquiring any State asset would require legislative approval. Mr. Thibert stated Bradley Lake will remain a State asset unless a better arrangement can be made in the future and believes the benefits will continue for 50 to 100 years. The \$12 million annual payments will continue per the 1991 agreements, and after the bonds are paid off, the funds will go into the Railbelt Energy Fund to be used for transmission infrastructure development.

Mr. Lamb informed the next steps for the Battle Creek Project should occur as quickly as possible, and require a detailed resolution from the BPMC in support of the project that has been reviewed by Mr. Bjorkquist. Mr. Lamb will then bring the BPMC resolution and a companion resolution to the AEA Board for approval.

Vice-Chair Pruhs requested a detailed economic analysis of the project, including time constraints, financing cost assumptions, increased initial rates for payers, comments from all the utilities who benefit from Bradley Lake, and clarification of how this project fits into the bigger infrastructure picture.

Mr. Kennedy expressed appreciation to the utilities for coming today and for their diligent work in the private sector. Other Board members agreed.

## **8. DIRECTOR COMMENTS**

Mr. Lamb followed-up on the issue that began around the time the warehouse letter was sent out March 1. Mr. Lamb became aware of troubling circumstances and met with APA yesterday. The issues are frustrating and are being addressed with the manager until they are resolved.

Mr. Lamb reported AEA received the FERC Study Plan Determination for the Susitna-Watana project on June 22nd, which supports the studies completed so far for the hydro license efforts and preserves the investment to date. If AEA chooses to pursue the license in the future the State will not have to repeat any studies. He expressed appreciation to the Governor and Department of Commerce.

Mr. Lamb informed House Bill 80 (HB80) C-PACE passed. AEA staff has been involved with borough meetings that will culminate with a legislative-required C-PACE report.

Mr. Lamb noted AEA received their first request related to preparing for the FY19 budget. Deputy Commissioner Parady commented the new legislative proposals are due August 11th.

#### **9. BOARD COMMENTS**

Mr. Wilken and Vice-Chair Pruhs expressed appreciation for the Battle Creek presentation.

Deputy Commissioner Parady and Mr. Lamb expressed appreciation to staff.

#### **10. ADJOURNMENT**

There being no further business of the Board, the AEA meeting adjourned at 12:11 pm.



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Michael E. Lamb, Executive Director/Secretary  
Alaska Energy Authority