

ALASKA ENERGY AUTHORITY

RESOLUTION NO. 2020-07

RESOLUTION OF THE ALASKA ENERGY AUTHORITY AUTHORIZING THE PURCHASE OF STERLING QUARTZ CREEK TRANSMISSION LINE; APPROVING FINANCING TERMS; AND RELATED MATTERS

WHEREAS, the Alaska Energy Authority (the “Authority”) and Homer Electric Association (“HEA”) entered into a Letter of Intent dated May 22, 2020, and approved by the Bradley Lake participating utilities, whereby HEA will sell, and AEA will purchase and assume all rights and obligations in the approximately 39.3 mile 115 kV transmission line between the Sterling Substation and the Quartz Creek Substation and all associated rights-of-way and permits (“SSQ Line”), and acquire all of HEA’s rights and obligations in the 69 kV line located east of the Sterling Substation and transmission capacity on HEA’s line between Soldotna Substation and Sterling Substation (collectively, the “Proposed Transaction”); and

WHEREAS, the Authority intends to finance costs of Proposed Transaction, including financing costs and necessary reserve deposits, through the issuance of power revenue bonds (“Bonds”) issued under the terms of the Bradley Lake Power Revenue Bond Resolution (“Bond Resolution”) and secured, in part, by payments received under and pursuant to the Power Sales Agreement (“PSA”); and

WHEREAS, the Bonds will be purchased by the Alaska Industrial Development and Export Authority pursuant to conditions set forth in a financing term sheet (“Term Sheet”), which shall be in substantially the form present to and made part of the records of this meeting; and

WHEREAS, the Proposed Transaction is intended to resolve: 1) the issues concerning the transmission of energy from the Bradley Lake Hydroelectric Project (Project) off the Kenai Peninsula; and 2) the current litigation between HEA and the other participating utilities (Golden Valley Electric Association, Matanuska Electric Association, Chugach Electric Association, Municipal Light and Power and the City of Seward)¹; and

WHEREAS, benefits derived from the Proposed Transaction include:

- Cost Sharing of Purchase-The participating utilities, through the Bradley Lake Power Management Committee (“BPMC”), will divide and share the cost of the Proposed Transaction (debt service on the financing), operation and maintenance of the line in accordance with their respective shared interest pursuant to the terms of the PSA.
- Greater Access to Resources - Allow for timely response, with shared utility resources, in the event of immediate needs to the Project; and.
- Better Ongoing Cost Alignment - Align the allocation of resources with traditional utility methodology, i.e. cost causer/cost payer. From a financial perspective, there would be greater

¹ The Proposed Transaction includes the dismissal of all regulatory proceedings, litigation, and appeals associated with Case No. 3AN-14-06125 CI and the Complaint pending before the BPMC. There was an additional legal action, 3AN-14-08890 CI, on the same subject matter that AEA was a party to. AEA had intervened in this action to protect certain financial issues related to the Project. It concluded in 2019.

resources available for use on this transmission segment, and the ongoing costs will be spread more equitably to a wider group of ratepayers benefiting from Project power.

- Increased Reliability - Reduction in risk of extended outages and related costs for power for ratepayers throughout the Railbelt.
- The Proposed Transaction results in the SSQ Line becoming part of the Project under the oversight of the BPMC. Upgrades to the SSQ Line are needed to address significant issues with line losses and when corrected will provide additional energy flows for the participating utilities in the North. The transmission capacity allocations for the lines delivering energy from the Project have now been established which should assist the utilities in scheduling delivery of their Project energy deliveries; and

WHEREAS, the Department of Law Memorandum Opinion dated May 20, 2020 finding that the definition of "Required Work" set forth in the PSA could include the Proposed Transaction, subject to the approval of all parties to the PSA and determination that the work is necessary to keep the Project in good and efficient operating condition, consistent with national industry standards and sound economics (Attached DOL Memorandum on Required Project Work, May 20, 2020); and

WHEREAS, at the request of the Authority and the BPMC, the Bradley O & D subcommittee commenced review and analysis of the Proposed Transaction to determine whether the Proposed Transaction is necessary to keep the Project in good and efficient operating condition consistent with sound economics and national standards. On July 17, 2020, the Bradley O & D committee finalized and issued its report on the Proposed Transaction which is attached hereto and made part of the BPMC's Resolution No 20-02 (Bradley O & D Report) attached. The BPMC is aware and understands the Authority will have the findings and conclusions of the Bradley O & D committee reviewed and certified by an independent consulting engineer; and

WHEREAS, the members of the BPMC support the Proposed Transaction, subject to any required final approval of the governing bodies of the individual members (attached BPMC Resolution 20-03); and

WHEREAS, the Proposed Transaction is contingent upon:

- A determination that all costs associated with the Proposed Transaction are deemed Required Project Work under the PSA and Bond Resolution;
- The receipt of working permits (including acceptable buffer zones) for authorization to use and occupy certain lands in the Kenai National Wildlife Refuge for the SSQ Line and the right of way of the 69 kV Line with terms acceptable to the BPMC;
- Execution by all the utilities of definitive agreements delineating terms and conditions of the Proposed Transaction;
- Amendment to the various Project Agreements by the participating utilities reflecting the terms of the Proposed Transaction;
- Approval of a Financing and Term Sheet by the Authority's Board, BPMC and the participating utilities' Boards of Directors; and
- Issuance of the Bonds to finance qualified acquisition costs of the Proposed Transaction, funding necessary reserves and payment of costs of issuance; and

WHEREAS, the cost of the Proposed Transaction is not to exceed \$16 million plus costs of the Bond issuance and funding of necessary reserves; and

WHEREAS, carrying out the Proposed Transaction is in furtherance of the Authority's statutory powers and consistent with the Authorities mission to 'reduce the cost of energy in Alaska' and advances the public interest.

NOW, THEREFORE BE IT RESOLVED BY THE ALASKA ENERGY AUTHORITY AS FOLLOWS:

Section 1. The Executive Director of the Authority is hereby authorized, directed and empowered to continue efforts in conjunction with the Proposed Transaction, including preliminary efforts necessary and desirable to enable the Authority to issue bonds under the Bond Resolution, supported by the moral obligation of the State of Alaska.

Section 2: That the form and content of the Term Sheet, in substantially the form and content presented and made part of this Resolution, is hereby approved.

Section 3. The Executive Director of the Authority is hereby authorized and empowered to perform such acts for and on behalf of the Authority necessary or appropriate in order to implement and carry out the intent and purpose of this Resolution.

Section 4. The Resolution shall become effective immediately upon its passage and approval.

DATED at Anchorage, Alaska this 5th day of August 2020.





Chair



Secretary