

BOARD MEETING MINUTES
Thursday, April 24, 2014
Anchorage, Alaska

1. CALL TO ORDER

Chair Dick called the meeting of the Alaska Energy Authority to order on April 24, 2014 at 10:01 am. A full quorum was established.

2. ROLL CALL: BOARD

Members present: Chair Russell Dick (Public Member); Vice-Chair Dana Pruhs (Public Member); Susan Bell (Commissioner of the Department of Commerce, Community and Economic Development (DCCED)); G. Wilson Hughes (Public Member); Crystal Nygard (Public Member); Michael Pawlowski (Deputy Commissioner, Department of Revenue); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Sara Fisher-Goad (AEA Executive Director); Sean Skaling (Deputy Director-Alternative Energy and Energy Efficiency); Gene Therriault (Deputy Director - Statewide Energy Policy Development); Michael Lamb (Deputy Director-Finance and Operations); Sandra Moller (Deputy Director-Rural Energy); Emily Binnian; Cady Lister; Doug Ott; Teri Webster; Tom Erickson; Jennifer Haldane; Jeff San Juan; John Ptacin and Jerry Juday (Department of Law);

Others present: Tim Bradner and Elwood Brehmer (Alaska Journal of Commerce); Deantha Crockett (Alaska Miners Association); Jason Custer (Alaska Power and Telephone (AP&T)); Melody Nibeck (Bristol Bay Native Association); Bart Armfield and Tom Haberman (Brooks Range Petroleum); Richard Peterson (Central Council of Tlingit and Haida Indian Tribes of Alaska); Zoe Olson (Governor's Office); Jessica Dillon (Dillon & Findley); Alvin Edenshaw (Haida Corporation); Bob Grimm (Haida Energy); Dean Thompson (Kempel, Huffman and Ellis); Mayor Merrill Sanford (Mayor of Juneau); James McConnell (McConnell & Associates); Robert Sheldon (Ventura North Group); and Ron Arvin; Robert Sheldon (Venture North Group); Miranda Studstill (Accu-Type Depositions).

4. AGENDA APPROVAL

The agenda was approved.

5. PUBLIC COMMENTS

Ms. Crockett, Executive Director Alaska Miners Association (AMA), stated AMA has seven statewide branches, Anchorage, Denali, Fairbanks, Juneau, Kenai, Ketchikan, Prince of Wales,

and Nome. There are approximately 1,800 members. Ms. Crockett stated she understands terms were negotiated in 2013 to allow a variable interest rate for the Reynolds Creek Power Project. She believes it is wise to have lower payments when usage is down. This does not burden rate payers with unaffordable utility bills. She stated when usage is high, it will result in higher payments to the state of Alaska. The economy ebbs and flows depending on markets, commodity prices, federal policies, and other reasons. Energy will ebb and flow, as well. By providing a variable interest rate with these cycles is good for everybody. For the mining industry, energy is the single largest factor in determining feasibility of a project and solutions to energy affordability that decrease operating costs contributes to the viability of a project. Ms. Crockett urged the Board to approve the project with the 2013 terms.

Mr. Peterson, President Central Council Tlingit Haida Indian Tribes of Alaska, stated Central Council represents 29,000 Tribal members and is the largest Tribe in Alaska. Mr. Peterson expressed the concern that high energy costs are prohibitive and cause an out-migration from smaller to larger communities, which creates problems for both the small and large communities. He noted Prince of Wales Island has two large potential projects, the Niblack and Bokan-Dotson Ridge projects that are proposing to bring 400 new jobs to the region. He stated the high energy costs will be prohibitive to those projects. Mr. Peterson stated the Reynolds Creek project will have a tremendous ripple effect on the region and the state. Mr. Peterson advised Central Council has passed and adopted a resolution in support of the Reynolds Creek project. Mr. Peterson speaks in favor of the project and hopes the Board will approve the January 2013 terms to make this project viable.

Mr. Custer, Business Development Director AP&T, Board Member of Ketchikan Chamber of Commerce, and member of Ketchikan Marine Industry Council (KMIC), stated KMIC is an industry-led organization comprised of 15 founding private sector marine businesses and 200 Ketchikan-region businesses, which promotes the growth and sustainability of Ketchikan's marine industry sector. He advised both the Ketchikan Chamber of Commerce and KMIC have issued letters of support strongly supporting the January 2013 term sheet negotiated in good faith between Haida Energy and AEA's representatives. Both Ketchikan Chamber of Commerce and KMIC support the variable interest rate, which is the best mechanism to mitigate the variability of the economic cycles in Prince of Wales Island. Mr. Custer stated any impacts on the Prince of Wales economy is felt in Ketchikan because there is so much overlap and interplay between the economies.

Mayor Sanford, Mayor of Juneau, expressed the Reynolds Creek Project is greatly needed to help reduce dependency on costly diesel fuel, provide more affordable energy to Alaskans and assure sufficient renewable energy for growth of priority industries, such as mining, marine sector, timber and forest products. Mayor Sanford stated the variable interest rate, which Haida Energy has proposed for Reynolds Creek, is a unique approach allowable under the statutes and regulations governing the Power Project Fund. This approach poses the least risk to the consumers and businesses of Prince of Wales Island. The variable interest rate approach may be very helpful to other communities seeking to utilize loans to help complete new power projects at a time when state revenues and capital appropriations are declining. Mayor Sanford encouraged the Board to support, in a timely manner, the Reynolds Creek Project and Haida Energy's proposed terms from the January 2013 agreements and finalized loan terms.

Mayor Sanford stated he would like to speak a short paragraph as the Chairman of the Southeast Conference Energy Committee. He noted the Southeast Conference Energy Committee has been very supportive of the Reynolds Creek Project since its inception and continue to fully support the project.

6. NEW BUSINESS

6A. Resolution 2014-02 - Haida Energy - Reynolds Creek Power Project Fund proposed loan

MOTION: A motion was made by Commissioner Bell to approve Resolution 2014-02 Haida Energy - Reynolds Creek Power Project Fund proposed loan. Motion seconded by Ms. Nygard. Motion was not voted upon.

Chair Dick informed, as an executive at Sealaska Corporation, that Sealaska is participatory in the Reynolds Creek Power project as the land owner. He declared this as a conflict. Chair Dick stated he was advised to recuse himself from the discussion and the vote on this project. Chair Dick turned this section of the meeting over to Vice-Chair Pruhs.

Ms. Fisher-Goad gave an overview of Resolution 2014-02 and noted the way this loan proposal for \$20 million is being brought to the Board is a different situation than a typical loan proposal. Ms. Fisher-Goad expressed her appreciation to Haida Corporation, Haida Energy, and AP&T for all of their hard work in trying to come to terms for this loan, which balances the risk to the project appropriately and also adheres to the statutory requirements.

Ms. Fisher-Goad stated the options for the Board are to approve Resolution 2014-02, amend and approve Resolution 2014-02, or table Resolution 2014-02. This is a very unique situation and staff is looking for guidance from the Board to ensure the Board is comfortable with staff review and direction if the Board would like staff to negotiate further.

Ms. Fisher-Goad reported Exhibit A is the Power Project Fund (PPF) Loan Committee recommendation that is based upon the January 28, 2013 term sheet. This is the proposal Haida Energy would like the Board to consider. Exhibit B is the current proposal loan term sheet provided to Haida Energy in March by the AEA Loan Committee. Exhibit B meets the statutory requirements and the regulatory requirements for the program. The AEA Loan Committee is comfortable bringing Exhibit B to the Board of Directors.

Vice-Chair Pruhs requested an explanation of the steps AEA takes in preparing and negotiating loan proposals in order to better understand how the disconnect between the two different proposals occurred. Mr. Wilken added to Vice-Chair Pruhs' request and asked if Exhibit B term sheet is the Loan Committee's recommendation. Ms. Fisher-Goad agreed Exhibit B term sheet is the Loan Committee's recommendation. Mr. Wilken asked if Exhibit A is Haida Energy's loan proposal. Ms. Fisher-Goad agreed and noted Exhibit A is the analysis of the January 28, 2013 term sheet. Ms. Fisher-Goad noted Ms. Webster provided the Board with copies of the January 28, 2013 term sheet, which is also reflected as the center column of Exhibit A.

Mr. Therriault advised the process is based on legislative authorization that allows the agency to consider a loan up to a certain amount. After a loan application is received, staff conducts analysis and works with the proposer to create terms which will be acceptable to the Loan Committee and presents the term to the Loan Committee. The Loan Committee is comprised of the leadership of the Authority. If the Loan Committee disagrees with the terms of the proposal, they either create a set of acceptable terms or ask that further negotiations be undertaken. The Loan Committee's determination is based on what is justifiable under the program and what they believe would be ultimately acceptable the Board. The proposal is then brought to the Board.

Ms. Fisher-Goad stated the status of the PPF Fund is \$38.7 million worth of loan applications for \$34.3 million uncommitted fund balance. She noted Haida Energy's loan proposal of \$20 million is the largest application. Ms. Fisher-Goad advised the Board that the City and Borough of Sitka has also received a loan authorization for \$18.5 million but understands they will not be allowed to drain the fund. Sitka understands what loans are in the queue, and there will be an opportunity to revise their loan request to a lesser dollar amount when they know what funds are available. Ms. Fisher-Goad advised the Legislature was fully aware of what loans were in the queue for the PPF Fund. The total PPF Fund Program is \$49.7 million.

Vice-Chair Pruhs asked if a cash flow analysis has been performed on both scenarios Exhibit A and Exhibit B with Haida Energy and a description of payments coming back into the PPF Fund. Ms. Fisher-Goad stated there is not a comprehensive attachment which addresses that scenario. Ms. Lister stated that analysis has not been performed, but could be easily be accomplished. Vice-Chair Pruhs requested the analysis be completed and provided to the Board. He believes this information will be helpful.

Mr. Wilken asked Ms. Lister to explain how the analysis can be completed if the date at which time different interest rates would be charged is unknown. Ms. Lister stated many assumptions would be made, including load and prior year sales. She noted this would be a cash flow analysis based on assumptions based on well-defined future load growth projections. Mr. Wilken asked if the numbers would be based on the amount of interest paid on anything greater than 7,300 megawatts. Ms. Lister explained the variable interest calculation is based on prior year sales. The interest rate is zero until about 7,300 megawatt hours and then escalates until 20,000 megawatt hours is reached, at which point the statutory rate would be charged.

Vice-Chair Pruhs asked if the Black & Veatch load growth estimate would be used. Ms. Lister agreed the Black & Veatch Southeast Integrated Research Plan (IRP) would be utilized. Mr. Therriault noted additional assumptions based on area rainfall and water flow would also be considered, because of the impact of drier years on the utilization of the infrastructure.

Ms. Fisher-Goad explained the Reynolds Creek hydro facility would feed into the interconnected electric distribution system on Prince of Wales Island to help displace diesel and also to be joined by the generation of two existing hydro facilities at Black Bear Lake and South Fork. She noted there are two South Fork facilities in Alaska, this one on Prince of Wales Island and the one in the Matsu valley, which already has a PPF loan.

Ms. Fisher-Goad discussed the findings section; that both the project and the application do meet the program's eligibility criteria, the project meets the needs of the area and the area will benefit

from the project, the applicant has already applied for, or been awarded the necessary permits and certificates for the project, there is sufficient revenue from all sources to repay the loan, there are sufficient funds available in the PPF to make the loan, it is a technically economically and financially feasible project, there are no available alternatives to the project with respect to a different site or different method and, the project benefits an area by providing electric power from a renewable resource at an acceptable rate.

Ms. Fisher-Goad advised there was a two-part legislative approval for the loan in 2010 and in 2011. There is technical expertise to move forward with the project. Ms. Fisher-Goad stated the recommendations of the Loan Committee to the Board of Directors is declining the loan terms requested by Haida Energy, but approving the loan terms that have been recommended by the Loan Committee. Resolution 2014-02 does incorporate both of those issues of essentially rejecting Haida Energy's proposal, but accepting the AEA counter proposal. Ms. Fisher-Goad requested Mr. Therriault and Ms. Lister to explain the recommendation of the Loan Committee, which is Exhibit A.

Vice-Chair Pruhs asked for clarification regarding the statement in the memo on page two reading, "The topography of the site is ideal for hydro storage, but the present project demand does not justify the additional expense of construction for the project for this capacity or capability at this time." Mr. Therriault informed he had a number of discussions with Mr. Strandberg, who was previously with AEA, and was working quite diligently on this project. Mr. Therriault understands the topography of the site is ideal for a storage hydro project, but in order to build that, there will have to be a larger impoundment of water, which entails greater expense. The project would have to go to Federal Energy Regulatory Commission (FERC) for modification to the FERC permit, causing potential delay and increased expense, in addition to increased construction costs for a larger impoundment.

Mr. Therriault advised that AEA asked the project applicant to evaluate the possibility of building the current proposed infrastructure in such a way that further impoundment or an addition of impoundment in the future would not be precluded. The project applicant has indicated a willingness to evaluate that possibility.

Vice-Chair Pruhs asked if the applicants' financial information provided to the Board should remain confidential. Mr. Grimm stated AP&T's and APC's financial information is public. Mr. Edenshaw noted Haida Corporation's financial information is public.

Mr. Wilken requested a list of the broad differences between Exhibit A and Exhibit B upon which the Board will have to decide. Mr. Therriault stated the three main differences are interest rates, dividend payments, and equity extraction.

Mr. Pruhs asked for clarification regarding the equity extraction. Ms. Lister explained the equity extraction would essentially be a loan from Haida Corporation to Haida Energy. The project would be the borrower and Haida Corporation would be repaid from project proceeds, 4% over 50 years.

Mr. Pawlowski requested a reconciliation of the two equity numbers of \$900,000 and \$4 million. Mr. Therriault explained the numbers are based on the proposal where it is the applicant's desire

to reimburse themselves with equity extraction down to the \$900,000. Mr. Pawlowski asked if the grants have been drawn down. Mr. Therriault noted the grants have been drawn down a bit. Mr. Pawlowski wants to ensure that when equity is being discussed, it does not mean grants that move through and become equity. Mr. Therriault agreed. Mr. San Juan advised the applicant is requesting to keep \$900,000 as equity and AEA staff is requesting the applicant keep 10% equity, which is \$2 million, for the life of the project. Mr. Therriault noted the applicant is proposing to draw down their equity to \$900,000 when the long-term financing is secured for the project. Ms. Lister does not believe the \$2 million equity requested by AEA staff would necessarily stay for the life of the project. She advised under AEA staff's proposal, if construction costs exceed revenue sources and exceed funds made available through a completion bond, then the applicant would leave at least \$2 million equity and take a subordinate position to the PPF loan and get paid back over the entire 50-year life of the loan.

Vice-Chair Pruhs requested further explanation of the AP&T guaranteed completion bond at 50% of the final project cost estimates. Mr. Therriault stated the number that was selected was a request from the state to include terms to address the potential of cost overruns. Mr. Therriault said the Board could certainly request a higher amount. Vice-Chair Pruhs stated 50% really puts the project at risk. Vice-Chair Pruhs suggested to the Board that a 100% performance and payment bond be used for the project based on the estimates. Mr. Wilken asked what is industry standard for the bond. Vice-Chair Pruhs noted a 100% bond is industry standard.

Mr. Pawlowski requested more information regarding equity extraction in context with the dividend distribution. Ms. Lister advised the dividend distribution is highly variable and believes that over the life of the loan, the dividend distribution can be anywhere from \$10,000 to \$2 million depending on load and interest. Ms. Lister believes the dividend distributions proposed by the applicant would serve to maintain the \$900,000 equity position.

Mr. Pawlowski asked if load growth is the risk, does this proposal build in the right financial arrangement to put the owners in a place where they want to take advantage of Reynolds Creek and use it to the maximum extent. Mr. Pawlowski stated he is trying to understand the relationship between the incentives built into the term sheet and the stated risks. Mr. Therriault commented one of the concerns of staff is whether it is appropriate for the applicant to withdraw cash, under the variable interest rate scenario, when utilization of the infrastructure is low and no interest is being paid to the state. Pawlowski asked where in the proposals are the dividend calculations. Mr. Therriault stated no calculations were run because the numbers are very speculative. Mr. Grimm stated Haida Energy would be regulated and the dividends are highly variable, but overall, a typical regulated internal rate of return (IRR) is under 11%.

Mr. Hughes asked if the reference case is the proposed case. Ms. Lister explained the reference case is an estimation of how much energy will be in demand. Mr. Hughes asked if interest and principal payments can be achieved over the 50-year period using the proposed case variable interest rate. Ms. Lister agreed. Mr. Hughes asked if the loan is ever repaid using the proposed case. Ms. Lister advised the principal is definitely repaid, but the high end possible interest rate is never achieved. Mr. Hughes asked what the interest rate would be if the reference case was used. Ms. Lister stated the interest rate changes every year, but it is about 1.3%. Mr. Hughes

asked if staff could annualize that interest rate to be able to compare it to the approximately 4% rate. Ms. Lister stated she will provide that number to him.

Mr. Hughes asked if there would be any motivation to use Reynolds Creek power if there is any kind of excess at the other two facilities. Ms. Lister stated this power would be used to displace diesel, because the current mature hydro is not adequate to cover all the load. Mr. Therriault stated under this proposal, Reynolds Creek will always be a secondary option for power. Ms. Lister believes there is a likely incentive to draw power from Reynolds Creek even if one of the other facilities is available in order to take the opportunity to store water at one of the more mature hydro projects.

Vice-Chair Pruhs invited Mr. Thompson, Mr. Grimm, Mr. Edenshaw, and Ms. Dillon to provide presentations for Haida Energy and AP&T. Mr. Thompson provided a detailed presentation which included the history of the January 2013 term sheet, the requirements for approval at the Regulatory Commission of Alaska (RCA) for this project, and how the different term sheets relate to those requirements.

Mr. Thompson stated Haida Energy is presenting two alternative requests to the Board for consideration. He noted today's resolution does not allow an option for the Board to approve the January 2013 term sheet. Mr. Thompson commented that was the purpose for submitting the March 31 request to the Board. The first request is if the Board is persuaded at all by Haida Energy's proposal for the variable interest rate and the January 2013 term sheet, then Haida Energy requests the Board to direct staff to prepare the necessary documents for the AEA Board to approve the January 2013 term sheet loan.

The alternative request from Haida Energy to the AEA Board is to direct staff to negotiate with Haida Energy with the variable interest rate that was previously agreed upon in the January 2013 term sheet and only deviate from the January 2103 term sheet for a material change set of circumstances.

Mr. Wilken requested clarification on Mr. Thompson's presentation regarding the certain circumstances when the 4.6% variable rate does not make any difference. Mr. Thompson stated AEA staff indicated the low load growth scenario is not very probable. Mr. Wilken asked if that information is from the blue line on the chart on page four. Mr. Thompson agreed. Mr. Thompson commented AEA staff is also indicating the variable interest rate is unfair to AEA and the PPF because if load growth is very low, then the interest rate is going to be very low. Mr. Thompson stated if AEA staff is discounting the probability of low load growth, then the unfairly low interest rate will never be reached. Haida Energy believes the future is going to be much closer to the low load growth scenario than to the reference case. Mr. Thompson noted the main point is Haida Energy and AEA staff seem to disagree about the future of the low load growth, but the variable interest rate reduces the importance of that difference.

Mr. Wilken asked if there is ever any interest paid on the loan if the blue line is followed on the chart. Mr. Thompson stated none of the lines on the chart will be followed precisely, but there will be a significant number of years where the blue line is followed, because of actual load growth. Mr. Wilken asked if he is reading the chart correctly that if the historic reference line is followed, interest will be paid on the loan starting around 2030. Mr. Thompson agreed.

Ms. Fisher-Goad advised that during the break, Ms. Lister calculated the average annualized interest rate under the Black & Veatch reference load case to approximately 2.1%, which includes the assumption of the variable rate. Mr. Thompson commented that interest rate would have to be verified. Mr. Pawlowski asked if Ms. Lister ran the calculation for the high case. Ms. Lister stated she did not calculate the interest rate for the high case, but she could.

Mr. Pawlowski stated, as a custodian of the PPF, he has a concern with the terms of no interest for a long time. Mr. Pawlowski wants to continue the dialog and wants to know that Haida Energy believes they have a feasible project. Mr. Pawlowski stated approving a loan term that is not going to be accepted by the borrower seems like an exercise in futility. Mr. Pawlowski requested Haida Energy and AP&T to state clearly to the Board if they have a hard position, so the Board can weigh and measure the direction to take and recommendation to give to staff.

Ms. Dillon provided her testimony on behalf of Haida Corporation. Vice-Chair Pruhs asked if the joint venture document is contained within the operating agreement. Ms. Dillon agreed. Ms. Dillon informed Haida Corporation hired an independent economist to test the feasibility of this project based primarily upon the AEA 2013 loan term sheet. The economist concluded that while the project was feasible and recommended for Haida Corporation to go forward, there were some risks involved, including non-increasing loads and construction cost overruns. There has not been an economic report based upon the new AEA term sheet, but Ms. Dillon believes the economists would conclude the feasibility would be low based upon the initial loan term sheet identified risks. Ms. Dillon stated the success of this project going forward is based upon having construction begin in the spring.

Mr. Pawlowski asked if the FERC permit presents a timing issue and is trying to get a context of the comment about construction beginning in the spring, because it is April. Ms. Dillon noted HDR has gone to FERC several times to get further extensions of the permit and believes it is highly unlikely FERC will grant another extension. Mr. Grimm advised the FERC scheduled completion date is June 28, 2016, and it will be tough to capture that date. Mr. Grimm stated a speedy remedy is needed in working toward a solution because if it drags on into the summer or fall, achieving the scheduled completion date will be impossible. This is a tough project, which is progressive in its nature and forming the joint venture is not a small undertaking.

Ms. Dillon commented Haida Corporation believes the equity extraction term is better characterized as a cost reimbursement term. Ms. Dillon explained the costs Haida Corporation has incurred to begin the development of the project over the last 20 years. No loan funds were obtained to pay for those costs. In order to ensure the success of the project and to obtain rate approval, Haida Corporation has conceded to have these costs treated as a debt rather than equity and has agreed to have the initial investment paid back after the construction of the project, instead of up front. This was a difficult sell to the shareholders and to their Board. Ms. Dillon stated Haida Corporation has requested further information and documentation from AEA staff on what calculation was used for the \$2.4 million number on page four of the Haida equity extraction.

Mr. Edenshaw apologized in advance for some of his comments and expressed his frustration about how Haida Corporation has been treated. Mr. Edenshaw stated he feels like Haida

Corporation is standing here alone, when Sealaska Corporation, the parent corporation, should be sitting at the table. The project is to benefit the whole community of Prince of Wales. Mr. Edenshaw stated he has gone to Washington, D.C. to attend a FERC meeting and also to Denver to Department of Energy to give presentations about the Reynolds Creek Project, two years in a row, and the project has gotten nowhere. He stated Haida Corporation has jumped through every hoop from the state and has done what has been required. Mr. Edenshaw concluded his comments because he did not want to offend anyone.

Mr. Grimm commented and spoke against the motion currently in discussion because he believes there are serious flaws in the memorandum. No sensitivity analysis has been completed to understand the cause and effect of the assumptions used by AEA staff. Mr. Grimm does not believe it was responsible for AEA staff to base the economic and financial feasibility on only one low reference case. Mr. Grimm noted there is significant risk to the rate payers and he believes it is irresponsible, as the memorandum indicates, to build the project, spend loan funds and hope to get the regulatory approvals in the future.

Mr. Grimm commented with a variable interest rate, it can be demonstrated the customers will be better off by this project in the worst case imagined. With a fixed interest rate, it cannot be demonstrated the customers will be better off by this project in the worst case imagined. Mr. Grimm noted it is agreed this project is technically and economically viable. The key metric is the project has to be financially feasible. Mr. Grimm stated Finding Number Six in the memorandum is not valid in Haida Corporation's opinion. Mr. Grimm disagrees with Finding Number Seven. He stated Finding Number Eight is wrong, because APC does not believe the resolution before the Board today is acceptable. Mr. Grimm stated it is RCA's job to speak for the customers.

Mr. Grimm informed the Board he has pages and pages of comments regarding the memorandum. He stated Haida Corporation is not able to go forward on the basis being recommended by AEA staff in this resolution and believes it is the Board's job to be the hero that is needed to determine how to close the gap for this very good opportunity for Southeast Alaska.

Mr. Wilken expressed his appreciation to the presenters. Mr. Wilken commented this may be the right project in the wrong place. The PPF is a loan fund and not a grant fund. Mr. Wilken asked if he is understanding correctly this project has 6.8 megawatts of mature hydro which will be used and then when 6.9 megawatts is hit, there is going to be a decision to be made where to get that next power. Mr. Grimm disagreed and believes that is a misconception. As part of the documentation AEA staff required, there was a draft power sales agreement and in that contract, the dispatch of power is laid out exactly and the project does not come in last.

Mr. Wilken noted that was not the point of his question and his sequencing was out of place. Mr. Wilken asked if the 4.6% variable rate to pay back the loan fund drives the cost of Reynolds hydro power greater than the cost of diesel. Mr. Grimm agreed and noted that is under the low load scenario up to \$1.09.

Mr. Wilken believes the historic red line seems to be the most defensible projection. Mr. Grimm respectfully disagreed and believes the RCA would concur that load is not growing, because of factors like distributed generation and energy efficiency.

Mr. Wilken asked if the Reynolds hydro power has the 4.6% payment to the state embedded in its cost, will it be more expensive than the diesel power. Mr. Grimm agreed and stated under the low load scenario. Mr. Wilken asked the same question under the historic scenario. Mr. Grimm stated under the historic scenario, it would approach the cost of diesel for a period of four or five years. Mr. Grimm stated under the high load scenario, the 4.6% payment is affordable.

Mr. Wilken commented maybe this is a project the PPF fund does not want and it may be more appropriate for someone else who will provide more grant.

Mr. Pawlowski commented, with all due respect, he is concerned about the terms that are in the Committee recommendations the Board has received and is not interested in sending something that the RCA is not going to approve. At the same time, this agency has supported grants to this project to its full extent. The idea the state is not supportive and wants to push rural Alaska off to diesel is not fair. Mr. Pawlowski is interested in talking to the other Board members about the problems seen based on the information presented. Mr. Pawlowski does not want to leave the impression this Board does not care and is trying to push diesel off to rural Alaska because that is contrary to everything Mr. Pawlowski has worked on in his career.

MOTION: A motion was made by Commissioner Bell to go into Executive Session to discuss Haida Energy contract terms and negotiation strategy. Motion seconded by Mr. Pawlowski. Motion passed.

Executive Session: 12:36 pm

The Board reconvened its regular meeting at 1:37 pm. Vice-Chair Pruhs noted for the record the Board has not taken any formal action on the matters discussed in Executive Session.

MOTION: A motion was made by Mr. Pawlowski to amend Resolution 2014-02 Haida Energy - Reynolds Creek Power Project Fund proposed loan on page one in the last Whereas, following the words "counter proposal loan," to insert the words, "amended to include 100% performance and payment bond in favor of the Authority." Motion seconded by Mr. Wilken. Motion passed.

MOTION: A motion was made by Mr. Pawlowski to amend Resolution 2014-02 Haida Energy - Reynolds Creek Power Project Fund proposed loan to include an additional Whereas as follows: "Whereas in the event Haida Energy, Inc. rejects the proposed counter proposal loan, it is in the best interest of the Authority to pursue further negotiations to attempt to develop terms and conditions of a power project fund loan for the Reynolds Creek Hydro Project that is acceptable to both Haida Energy, Inc. and the Authority with the best and final terms and conditions to be resubmitted to the Board no later than 30 days from April 24, 2014, to be ready for a June Board meeting. Motion seconded by Commissioner Bell.

Mr. Wilken objected for purposes of discussion.

Mr. Pawlowski believes the interest of the Board is to make a definitive statement, that the economics and the importance of the project to the Board, to the state, demand us to keep this

moving forward. Mr. Pawlowski intends this motion to provide a process for the tabling of this proposal with momentum for AEA, recognizing that Haida Energy will make its decisions and provide a very time-limited process for the redevelopment of terms that are consistent with the economics that staff has provided to the Board, but in a way that is designed to be acceptable to both Haida Energy and AEA. AEA has discussed the concerns about interest rates and the project. Mr. Pawlowski wants to be sure in making this motion, he is expressing the Board's support for the project and support for momentum in moving it forward in a way that can come back before the Board in very, very short order, given the time demands of the project.

Commissioner Bell commented she supports the amendment and underscores the time urgency for the FERC licensing and the economic sustainability of the communities in this region. Commissioner Bell stated AEA is interested in utilizing the tools and work product the Authority has. She believes there is some flexibility to maintain the economics.

Mr. Wilken removed his objection.

Mr. Hughes stated, when the revised term comes back before the Board, he will find it hard to support the same interest rate proposed in the 2013 term sheet. Mr. Hughes does not see how the Board could approve a project with the applicant's proposed interest rate.

Motion passed.

MOTION: A motion was made by Mr. Pawlowski to approve Resolution 2014-02 Haida Energy - Reynolds Creek Power Project Fund proposed loan as amended. Motion seconded by Commissioner Bell. A roll call was taken and the motion passed with Chair Dick abstaining.

6B. Energy Planning overview

Chair Dick resumed Chairing the meeting and expressed his appreciation for the discussion today. Chair Dick recommended, if there is no objection, the regional energy planning presentation be moved to the May 5th work session.

7. DIRECTOR COMMENTS

7A. Program Fact Sheets Updates

Ms. Fisher-Goad advised the program fact sheets have been updated quarterly. She looks forward to the May 5th work session.

7B. Next scheduled meeting is Monday, May 5, 2014 - AEA Work Session

8. BOARD COMMENTS

Mr. Pawlowski commented the Board is asking staff to make something work and come back to the Board for approval.

Ms. Nygard expressed she understands the overall mission of AEA is to bring affordable energy to rural Alaska, which means to establish a working partnership. She believes this particular region has high potential and it is in the best interest of the state to keep a positive partnership with these opportunities. Ms. Nygard expressed her appreciation for AEA's engagement in finding that balance.

Mr. Wilken requested Ms. Fisher-Goad give a brief update on funding for Susitna-Watana out of the Legislature. Ms. Fisher-Goad stated the capital budget is not yet final. The current version that is on the House floor is looking to be finalized, includes \$20 million total for the Susitna-Watana Project. The \$20 million total includes the \$10 million originally in the FY15 request from Governor Parnell and it includes an additional \$10 million, even though this is short from the \$32.7 million asked in supplemental. The \$10 million will go a great way to stay on schedule of having the environmental work completed this year and next year. An agreed upon land access permit is in place with the Cook Inlet Region Working Group.

Ms. Fisher-Goad reported there was an additional \$2 million that was added to the AEA budget to bring the Renewable Energy Fund projects up to a little over \$22 million that allows for making two of the electrical projects whole and to be completed as originally recommended by staff, and also allows an additional five heating projects to move forward. A couple of these projects are in Southeast Alaska. She believes this is a good sign and there is much support for the statewide REF Program.

Mr. Wilken asked when the next big date for a FERC submission from the state is. Ms. Fisher-Goad reported the submission will be June 3rd of the initial study report. Next is the formal process, which has also been extended. FERC will then have a study plan determination, which is scheduled on January 29.

Mr. Wilken asked if the shortfall of funding of \$12 million will affect the FERC dates. Ms. Fisher-Goad stated the shortfall is actually \$22 million from what was requested. This pushes what is needed for FY16 higher. Ms. Fisher-Goad advised the revised scheduled can still be followed, which puts the license application in the end of 2016. Ms. Fisher-Goad expressed appreciation of the work Representative Bill Stoltze completed to get the \$20 million approved and also of the member's support of the project when it was discussed on the House floor.

Chair Dick thanked the Board, staff, and Haida Corporation representatives for the work put into this meeting and appreciated the history of the project.

9. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 1:49 pm.



Sara Fisher-Goad, Executive Director/Secretary
Alaska Energy Authority