

SOUTHEAST ALASKA POWER AGENCY

Regular Meeting February 15, 2011

The Sons of Norway Hall, Petersburg, Alaska

1) CALL TO ORDER, ROLL CALL

Chairman Nelson called the meeting to order at 9:00 a.m. ADST on February 15, 2011, held at the Sons of Norway Hall in Petersburg, Alaska.

Roll Call

The following directors and alternates were present, thus establishing a quorum of the Board:

Director	Alternate	Representing
Charles Freeman	James Rhodes	Swan Lake – Ketchikan
Mike Kline		Swan Lake – Ketchikan
Richard Coose	Robert Sivertsen	Swan Lake - Ketchikan
Joseph Nelson	Ted Smith	Tyee Lake – Petersburg
Jeremy Maxand	Timothy Rooney	Tyee Lake – Wrangell

The following participants were present for all or part of the meeting:

Dave Carlson	Chief Executive Officer, SEAPA
Eric Wolfe	Director of Special Projects, SEAPA
Donald K. Phillips	Operations Manager, SEAPA
Sharon Thompson	Executive Assistant, SEAPA
Joel Paisner	Attorney, AterWynne
Jim Nelson	General Manager, Thomas Bay Power Authority
Scott Hahn	City Manager, Petersburg
Robert Larson	U.S. Forest Service, Petersburg
Don Koenigs	Former Mayor of the City of Petersburg
Nancy Strand	City Councilor and Utility Board Member, Petersburg
Rick Braun	City Councilor/Former Utility Board Member, Petersburg
Mark Jenson	City Councilor, Petersburg
Steven Samuelson	Commercial Fisherman, Petersburg
Dennis Lewis	Former Four Dam Pool Board Member, Petersburg
Steven Henson	Superintendent, Wrangell Municipal Light & Power
Andrew Donato	Sr. Electric Engineer, Ketchikan Public Utilities

2) Agenda

Mr. Carlson opened the agenda with the introduction of SEAPA's new board members and welcoming comments directed to the new and returning board members.

Chairman Nelson requested approval of the agenda.

Mr. Freeman moved to approve the agenda. Mr. Coose seconded the motion. The motion carried unanimously. (Action 11-06)

3) Election of Officers

Chairman Nelson opened up discussion for nominations to the board positions of Chairman, Vice-Chairman and Secretary/Treasurer. After all nominations closed, the following were elected:

Mr. Coose moved to elect Mr. Freeman as Chairman of the Board. Mr. Maxand seconded the motion. The motion carried unanimously. (Action 11-07)

Mr. Freeman moved to elect Mr. Maxand as Vice Chairman. Mr. Nelson seconded the motion. The motion carried unanimously. (Action 11-08)

Mr. Freeman moved to elect Mr. Nelson as Secretary/Treasurer. Mr. Kline seconded the motion. The motion carried unanimously. (Action 11-09)

4) Persons to be Heard

None.

5) Minutes

Mr. Maxand moved to approve the minutes of December 9, 2010. Mr. Kline seconded the motion. The motion carried unanimously. (Action 11-10)

6) Introduction to SEAPA

Mr. Paisner provided a brief history of SEAPA and an overview of SEAPA's key organizational and financing documents for the benefit of the new board members. He also explained the board members' responsibilities and summarized board members' fiduciary obligation to act on behalf of SEAPA, noting that given the complexities of the issues before the board that past board action has been reflective of the board members' fiduciary obligations having been met.

7) Financial Reports

Mr. Carlson presented the monthly financial statements for October, November, and December 2010, and outlined the net billing process for the new board members.

Mr. Kline opened discussion on the amount of funds targeted for reserves. Mr. Carlson explained that the R&R Fund serves two purposes. The first is to mitigate the Agency's substantial uninsured risk, which includes all of the transmission lines and submarine cables, as well as deductibles for insured risk. The second purpose is to provide funding for scheduled

R&R projects. He added that the board agreed to continue the policy of maintaining a minimum level of \$10 million in the fund, which is an integral part of the overall insurance plan. When the Agency was restructured, funds that had been in the 5R account were swept to pay off existing FDPFA debt and \$5 million of the amount borrowed at closing was used to initially fund the R&R Fund. To help mitigate the uninsured risk, the Agency entered into a \$10 million dollar line of credit with First Bank, which will expire in 2012. He added that Risk Analyses are complete identifying the single events that could cause a significant financial hit to the Agency and those include a submarine cable failure and also a significant earthquake near Ketchikan.

Chairman Freeman requested that the board approve disbursements for the months of December 2010 and January 2011.

Mr. Nelson moved to approve disbursements for the months of December 2010 and January 2011 in the amount of \$815,562.62. Mr. Freeman seconded the motion. The motion carried unanimously. (Action 11-11)

8) CEO Report

Mr. Carlson updated the board on the progress of the IRP, reporting that he was invited to participate in the evaluation of proposals at a meeting in Anchorage at which Black & Veatch was selected as the contractor. He expressed concern that insufficient funds in the State's budget to conduct an in-depth IRP for the SEAPA region may require that SEAPA fill in the gaps. He reported that the State selected an Advisory Committee which includes representatives from all of the utilities in Southeast Alaska, and that the State's goal is to produce a list of capital projects that can be submitted to the legislature by October 2011.

The meeting recessed at 9:57 a.m.
The meeting resumed at 10:13 a.m.

Joy Merriner of Mikunda Cottrell joined the meeting telephonically to present the FY2010 audited financial statements and answer questions from the board. Ms. Merriner reported that the audit went well with no issues, and thanked the board for the opportunity to work with SEAPA.

Mr. Carlson explained that Eric Wolfe is assigned as SEAPA's representative for the IRP and welcomed his comments after having participated in a kick-off meeting with the contractor and other participants on February 10th in Ketchikan.

Mr. Wolfe highlighted the uncertainty of hydrology and load forecasts as two areas of concern. He explained that the State neither has the time to take stream gauge measurements nor have stream gauge measurements been in place for years, which is necessary to understand the hydrology of the proposed projects. He explained there will be uncertainty in the load forecasts because of Southeast's capacity and load increases from the boiler conversions, which will contradict the State population growth numbers that show that the Southeast region actually has negative population growth.

Mr. Carlson reported that the State will develop a schedule to discuss the IRP with the individual utilities and that SEAPA has offered a work space for Black & Veatch while they are in Ketchikan for the duration of the project.

Mr. Carlson presented some PowerPoint slides providing an overview of key issues and perspectives after his attendance at the Alaska Power Association Legislative 'Fly-In' meeting on January 25 and 26 in Juneau. The group met with several key legislators and administration officials. He stated that concerns were raised over the Railbelt's energy supplies and the resulting impact to the economy, financing of the Susitna (Watana) Hydro Project utilizing the Bradley Lake financing model, and bills currently being discussed to restructure or reconstitute the Alaska Energy Authority. Mr. Carlson emphasized the importance of recognizing that with the State's limited budget and the huge energy project requests, SEAPA, as well as other utilities, will have to plan to pay, to some extent, for the development of new projects in the future. He added that he believes it will be very difficult to obtain 100% grant funding for energy projects.

Mr. Carlson continued his report apprising the board of the considerable sums that will need to be spent over the next several years on transmission line clearing and helipads. He also noted SEAPA's share of the cost to complete SEAPA's obligation under the Solomon Gulch PFMA projects, which are expected to be completed this year, may exceed half a million dollars.

Mr. Carlson noted that the Alaska Department of Fish & Game permit for additional water use at Tyee had been received and that perfected water rights can be achieved by applying for a Certificate of Beneficial Use as additional water is used at Tyee for generation over the next several years.

Mr. Carlson proposed holding the April board meeting over a two-day period in Anchorage to discuss planning and strategy in light of the Integrated Resource Planning process that is now underway. He noted that he would expect Black & Veatch and AEA to attend the meeting and will have several presentations from consultants and staff.

The board briefly discussed the Cascade Creek Development Project, with Mr. Nelson informing the board that Cascade Creek filed their draft license application with FERC on February 15. Mr. Carlson voiced concerns that SEAPA has never been contacted by the Cascade Creek group with respect to their apparent need to use the SEAPA transmission system. He noted that considerable upgrades to the system would probably be required and the reliable delivery of power to the communities could be negatively impacted.

9. Operations Manager/Director of Special Projects Report

Mr. Phillips provided an overview of the Reliability Committee's focus on the reliability of operations noting that proposals received for the Power System Study were reviewed and discussed, and that the contractor to be awarded would be announced by Mr. Carlson.

Mr. Phillips explained the importance of compliance with the Federal Energy Regulatory Commission and summarized several letters that had been prepared to meet year-end and other FERC requirements. He noted that FERC does not require the Tyee Power Plant to have an Emergency Action Plan, but does require an annual exemption application. Mr. Phillips presented slides of the Tyee Power Plant area.

Mr. Phillips reported that Gillespie, Prudhon & Associates had been retained to provide professional advice and recommendations on system improvements to SEAPA's telecommunications network. He reported that some operators at both Swan and Tyee had not been trained to use maintenance management system software so MapCon training was scheduled for the week of March 7, and that Emerson Network Power had been retained to

provide electrical preventative maintenance testing to investigate revenue meter discrepancies. He presented slides on metering data.

Mr. Phillips concluded his report with slides on areas requiring tree clearing, explaining the costs and need for a comprehensive right-of-way tree clearing program, and that Thomas Bay Power Authority would be assisting with the effort during February-April 2011 and during the end of May, when SEAPA's 115Kv transmission line outage is scheduled.

The meeting recessed at 11:49 a.m. for lunch.
The meeting reconvened at 12:26 p.m.

Mr. Wolfe presented a slide show with an overview of SEAPA's Operations Plan with a follow-up of IRP issues. He reviewed the Operations Plan approved by the board in December 2010 and explained the circumstances that could interrupt delivery of power, including STI failure and sudden outage of a unit. He encouraged everyone to listen in telephonically at SEAPA's weekly operations meeting held every Tuesday at 8:30 a.m., which covers coordination of maintenance outages, updates on prior week's loads, review of weather reports to gauge inflow and load forecasts, and review of any outage reports.

Mr. Wolfe indicated decreasing hydro capacity would occur through March and April if cold temperatures persist. He explained that small hydros have less storage and larger storage facilities must be relied upon, and that the trend will be true with almost all future proposed projects. He stated that there are no proposed hydro projects with significant storage. Mr. Wolfe presented an energy analysis he prepared showing SEAPA's projection of loads and balance of resources using 1% annual growth for energy.

Mr. Wolfe morphed the discussion of the energy analysis into a discussion about the IRP. He expressed concern that further detailed load forecasting analysis should be conducted during the IRP, to a much greater detail than the spreadsheet analysis presented, and that the logic used to forecast load should be defensible and withstand peer review. He explained the importance of showing the logic and justifiable analysis that shows SEAPA should not be significantly short (i.e., hydro capacity insufficient for load). Mr. Wolfe expounded on the risk to the region regarding the importance of the load forecast, explaining that if we have strong load growth, then we need to start planning immediately, but to build an asset and have little to no growth means, with a 50% debt criteria, debt may be incurred with little revenue to back it up.

Mr. Carlson commented that he explained to the State that SEAPA cannot commit to a long-term power supply to Kake and that with the year 2020 only nine years away, it may take that long to get an intertie built, and that it's inconceivable to consider owning an intertie or having an intertie built with no available energy to transmit over the line, although at certain times of the year it may be available.

10) Project Reports

Mr. Kline reported that outboards had been placed on the response boats at Swan Lake, and that brushing and clearing had been done, as well as painting and cleaning of facilities.

Mr. Nelson reported that operations are running smoothly at Tyee, with the brush crew busy clearing, three houses having received new flooring with enough left for a fourth house, cabinets installed in the house that flooded, and that garage doors are available in Wrangell to be hauled out to Tyee for installation.

11) Old Business

None.

12) New Business

Chairman Freeman explained that the order of items under New Business on the Agenda would be reprioritized, and requested a motion for approval of the audit.

Mr. Coose moved for approval of the FY2010 audited financial statements prepared by Mikunda Cottrell. Mr. Kline seconded the motion. The motion carried unanimously. (Action 11-12)

Chairman Freeman requested a motion for award of the Power System Study Contract.

Mr. Carlson explained that the Reliability Committee heard presentations in Ketchikan on February 8, 2011, from Electric Power Systems, Commonwealth Associates and Schweitzer Engineering Laboratories, and that after continued discussions with the Reliability Committee, Mr. Carlson recommended that Commonwealth Associates, Inc. be awarded the contract.

Mr. Phillips explained that although Commonwealth's initial bid was \$84,810, an additional \$115,190 is requested because the bids excluded a transit dynamic analysis, which was recommended by all three bidders during their presentations in Ketchikan. He explained that the additional funds requested is an estimated cost of the analysis, and that while the cost estimate must still be negotiated, the contract will be for a not-to-exceed value.

Mr. Kline moved to authorize staff to enter into a contract with Commonwealth Associates, Inc. for the purpose of conducting Phase I of a Power System Study for an amount not-to-exceed \$200,000. Mr. Freeman seconded the motion. The motion carried unanimously. (Action 11-13)

Chairman Freeman requested approval of two engineering equipment leases.

Mr. Nelson moved to authorize staff to enter into two 5-year leases for a Kyocera Wide Format Imaging System for \$595 a month and a 44" HP Color Ink Jet Printer for \$140 a month. Mr. Coose seconded the motion. The motion carried unanimously. (Action 11-14)

Chairman Freeman requested approval of Resolution No. 2011-34 regarding a Custody Agreement with the First National Bank Alaska.

Mr. Coose moved to recommend passage of Resolution No. 2011-34, which authorizes signatories to the Custody Agreement and Corporate Authorization Resolution as required by the First National Bank Alaska, subject to final review and approval of the terms and conditions of the Custody Agreement by Mr. Paisner. Mr. Nelson seconded the motion. The motion carried unanimously. (Action 11-15)

Chairman Freeman requested approval of an extension of the Petersburg Aquatic Center Interruptible Power Sales Agreement.

Mr. Coose moved to approve an extension of the Petersburg Aquatic Center Interruptible Power Sales Agreement until June 30, 2011. Mr. Nelson seconded the motion. The motion carried unanimously. (Action 11-16)

Chairman Freeman directed the board to Item F of the agenda regarding additional staffing at Swan Lake. Mr. Carlson stated that the additional \$113,500 increase requested in the FY11 Swan Lake operating budget only covers labor but not additional housing. After considerable discussion, the consensus of the board was that the issue be deferred until the April board meeting.

Mr. Freeman moved to defer a motion for an increase of \$113,500 to the FY11 Swan Lake operating budget until the April 2011 board meeting. Mr. Coose seconded the motion. The motion carried unanimously. (Action 11-17)

Chairman Freeman opened up discussion for a proposed diesel protocol resolution.

Mr. Carlson explained a proposed resolution incorporating three circumstances, which appeared to have board consensus, in which SEAPA could reimburse utilities for diesel costs with policies that included only reimbursing for fuel costs and member utilities paying SEAPA at the prevailing Wholesale Power Rate for the amount of kWh generated. After considerable discussion, the consensus of the board was that the issue be deferred.

13) Director Comments

None.

14) Adjourn

Chairman Freeman requested a motion to adjourn the meeting.

Mr. Coose moved to adjourn the meeting. Mr. Nelson seconded the motion. The motion carried unanimously. (Action 11-18)

With no further discussion, the meeting adjourned at 2:10 p.m. ADST.