

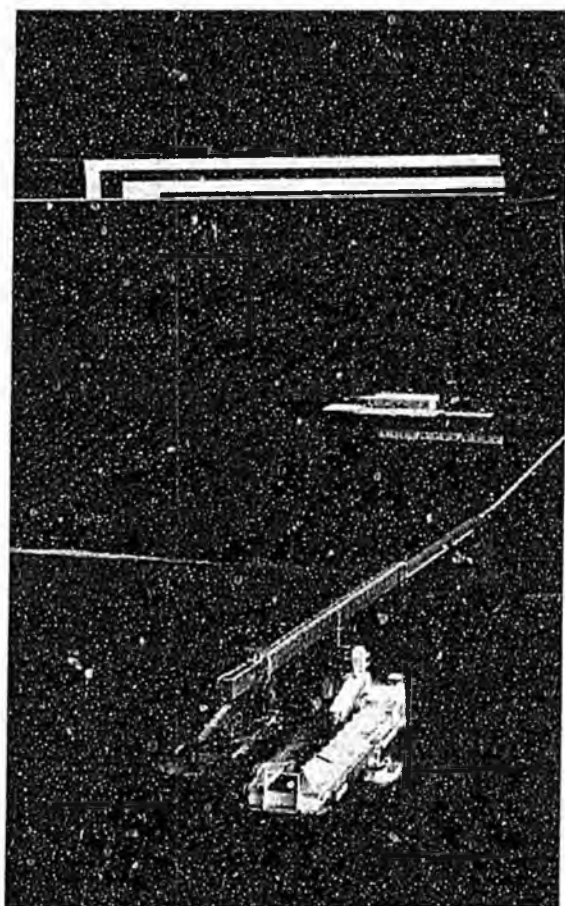
2/27/03

OVERVIEW:

AIDEA

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AEA



Alaska Industrial Development and Export Authority (AIDEA)

Overview

House Community & Regional Affairs
Committee

February 27, 2003

Ron Miller, Executive Director

Phone: 269-3000

Fax: 269-3044

AIDEA/AEA

AS 44.88

AIDEA's Mission

To promote, develop and advance the general prosperity and economic welfare of Alaskans by creating and retaining jobs and helping to diversify Alaska's economic base by financing industrial, manufacturing, export and business enterprises and facilities within Alaska.

AIDEA/AEA 

AIDEA's History

1967: Created by the Legislature as a public corporation of the state and a body corporate and politic constituting a political subdivision within the Department of Community and Economic Development, but with a separate and independent legal existence.

1980: The Legislature authorized the Authority to issue general obligation indebtedness and capitalized the Authority through an appropriation of \$23,000,000 in cash and a loan portfolio of approximately \$166,000,000.

1985: Legislation authorized AIDEA to finance, own and operate projects that enhance the economy of the state and support private sector investment.

1987: The Legislature expanded the powers of the Authority to provide financing guarantees for exports of Alaska goods, services and raw materials.

1996: The dividend program was approved. Through prudent management of assets, \$129 million in dividends have been authorized to the state.

AIDEA/AEA 

AIDEA Goals

To stimulate economic development and diversification.

- To create or retain jobs and to stimulate economic development and diversification by:
 - ✓ increasing access to capital
 - ✓ providing a long term financing source for business development and expansion in Alaska.
- AIDEA has the ability to provide various means of financing and assistance to businesses in Alaska.

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AIDEA's Programs: CREDIT

Loan Participation Program

AIDEA can purchase up to an 80% participation in a bank originated loan, with total participation not to exceed \$10 million, to develop, acquire, or enhance Alaska business enterprises.

This program has helped diversify the Alaska economy by providing financing for a large variety of commercial facilities ranging from office buildings, warehouses and retail establishments to hotels, fishing vessels and manufacturing facilities.

AIDEA/AEA 

AIDEA's Programs: CREDIT

Business and Export Assistance Program

A loan guarantee program which provides financial institutions with a guarantee of up to 80%, not to exceed \$1 million, on the principal of the loan. Transactions are primarily intended to assist manufacturing enterprises to export goods and services.

Conduit Revenue Bond Program

Issue revenue bonds which may be taxable or tax-exempt. AIDEA acts as a conduit and neither the assets nor credit of AIEA or the State of Alaska is at risk in this program.



AIDEA's Programs: CREDIT

Rural Development Initiative Fund (RDIF)

The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small businesses with capital that may not be available through conventional markets.

This program provides loans for working capital, equipment, or construction.

To be eligible for this loan, the business must be Alaskan-owned and located in a community of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks.

DCED, Division of Investments, administers this program for AIDEA.



Recent Accomplishments

During FY2003, purchased approximately \$39.7 million in loan participations originated through financial institutions for business and projects in Alaska. At June 30, 2002, had approved loan participation purchase commitments for an additional \$29.3 million.

Continued to work with Teck Cominco Alaska and the U.S. Corp of Engineers to study the potential feasibility of a deep water port to service the DeLong Mountain Transportation System.

Issued refunding bonds for the Federal Express Aircraft Maintenance Facility, resulting in an annual debt service savings of \$215,000.

AIDEA loaned the Four Dam Pool Joint Action Agency \$77.1 million to finance the purchase of the Four Dam Pool Project previously owned by the Alaska Energy Authority. The loan is payable over 25 years with interest at 6.5% per annum.

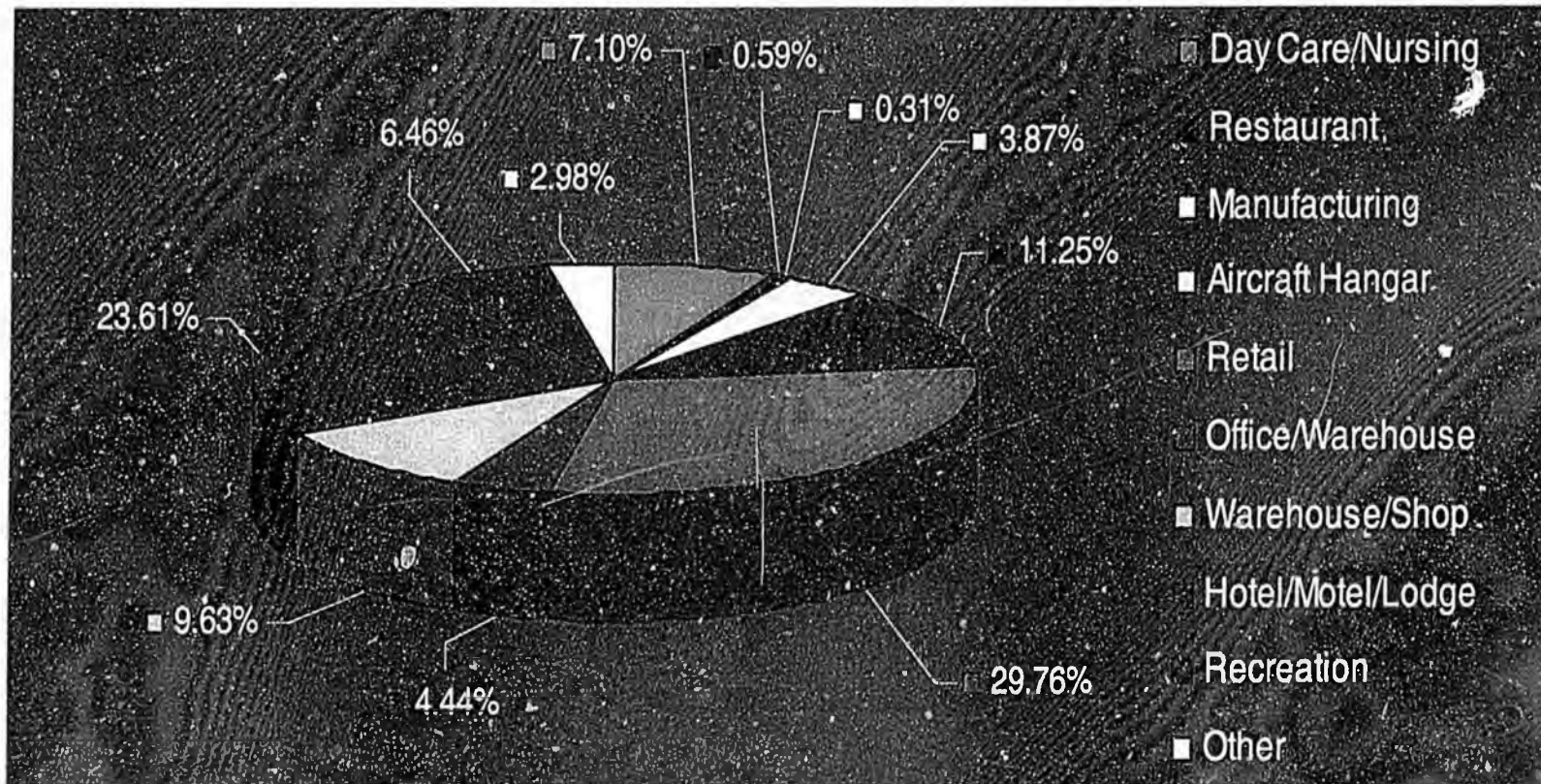
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AIDEA Loan Portfolio: Diversity and Performance

Loan programs play an important role in fulfilling AIDEA's mission, while also providing a long-term investment for AIDEA. Through loan participations and loan guarantees with the banking industry, AIDEA provides opportunities to finance Alaska businesses.

(As of September 30, 2002)

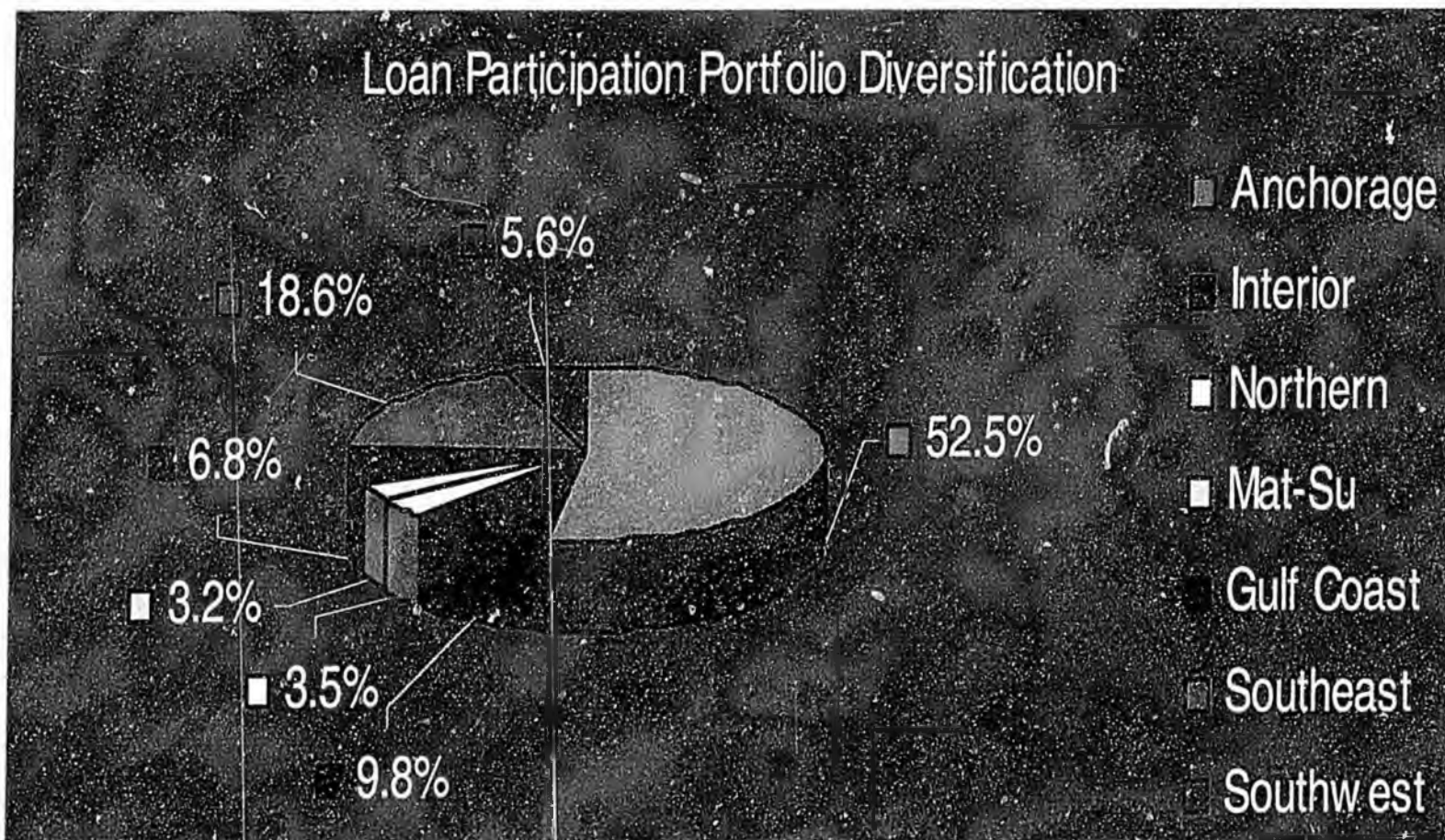
Industry Diversification



AIDEA Loan Portfolio: Diversity and Performance

(As of September 30, 2002)

Geographic Diversification



Development Finance Projects

Project	6/30/02 Net Book Value	Status
DeLong Mountain Transportation System (DMTS)	\$257 million	Project has been in operation since 1990; a port expansion was completed in 1999. Cominco pays AIDEA \$17.7 million per year in user fees.
Federal Express Aircraft Maintenance Facility	\$25 million	Facility is complete and in operation.
Healy Clean Coal Facility	\$56 million	Facility is in mothball status.
Suneel Coal Load-Out Facility	\$6 million	AIDEA purchased a 49% equity interest in the facility in 1995 to help retain jobs related to coal export.
Ketchikan Shipyard	\$3 million	This facility was transferred from DOT/PF and is operational.
Skagway Ore Terminal	\$2 million	Terminal is vacant.
Snettisham Hydroelectric Project	\$89 million	Revenue bonds were issued in 1998 to finance the project. Project operations continue.
Alaska Seafood Center	\$22 million	Start-up operations continue.

Investment Overview

- **Investment Objectives**
 - ✓ Safety
 - ✓ Liquidity
 - ✓ Yield
- **Conservative Investments**
 - ✓ U.S. Treasuries
 - ✓ U.S. Agencies
 - ✓ Corporate bonds
- **Large portion managed by investment managers to increase return**
- **Remainder is invested to meet liquidity needs or are held by bond trustee's under bond resolutions.**

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Dividend Policy

The dividend program was created in 1996 and carefully structured to provide certainty and stability to the Authority and its investors. The dividend policy allows AIDEA to make a contribution to the General Fund; provides financial flexibility to the Board to determine the dividend; and provides substantial protection to the Authority's bond owners to insure their investment remains secure.

The dividend is to be not less than 25% nor more than 50% of the Authority's net income for the fiscal year two years before the year the dividend is to be paid (the "base year"). In no event may the dividend exceed base year unrestricted net income as defined in statute. The AIDEA Board determines the dividend taking into consideration: a) base year net income, b) income trends, c) project and loan flow projections, d) bond covenant impacts, e) rating agency concerns, and f) unanticipated needs.

June 30	Net Income	Payable In FY	Dividend	Net Income %
1995	37,461,096	1997	15,000,000	40.042%
1996	42,902,054	1998	16,000,000	37.294%
1997	42,880,361	1999	16,000,000	37.313%
1998	52,373,699	2000	26,000,000	49.643%
1999	37,092,829	2001	18,500,000	49.875%
2000	35,597,000	2002	17,500,000	49.161%
2001	40,299,000	2003	20,149,500	50.000%
Cumulative	288,606,039		129,149,500	44.749%

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Bond Ratings/Bond Capacity

Following the implementation of AIDEA's Dividend Policy in 1996, AIDEA's market acceptance significantly improved. In early 1997, for the first time, AIDEA was able to issue AAA insured general obligation bonds when it completed the largest bond sale in its 30-year history. AIDEA again received a AAA insured rating when it issued general obligation refunding bonds in 1998 and 2002. AIDEA has a strong underlying A(2) and A- rating by Moody's Investors Service and Standard & Poor's respectively. Strong bond ratings allow AIDEA to have greater access to capital markets and a broader investment pool, lowering borrowing costs for important economic development projects.

Since 1989, pursuant to AS 44.88.105(d), bonds issued by AIDEA may not carry the moral obligation of the State, unless the moral obligation a) is specifically authorized by the Legislature, b) secures bonds to refund moral obligation bonds originally issued prior to 1989, or c) secures bonds issued for a power transmission intertie.

None of the new project bonds issued by AIDEA since 1989 carry the State's moral obligation. Outstanding state moral obligation bonds as of June 30, 2002, total \$10,735,000. This represents only 4% of the total bonds outstanding of \$271,065,000. Moral obligation bonds are not debts or liabilities of the State.

AIDEA/AEA 

Alaska Energy Authority Oversight

AIDEA provides all staffing for the Alaska Energy Authority (AEA). This encompasses the oversight of the operations and maintenance of all AEA owned power projects, the management and staffing of AEA's Rural and Alternative Energy Programs, the administration of the Power Cost Equalization (PCE) Program, and the administration of the Circuit Rider Program.

AIDEA/AEA 



**Alaska Energy Authority
(AEA)**

Overview

House Community and Regional Affairs
Committee
February 27, 2003

Ron Miller, Executive Director

Phone: 269-3000

Fax: 269-3044

AIDEA/AEA

AS 44.83

AS 42.45

AEA'S Mission

To assist in the development of safe, reliable and efficient energy systems throughout Alaska, that are financially viable and environmentally sound. AEA is also tasked with operating and maintaining existing state-owned power projects to achieve the lowest reasonable consumer power costs.

AIDEA/AEA

Alaska Energy Authority (AEA)

- A public Corporation of the State of Alaska, under the Department of Community and Economic Development
- Comprised of two distinct functions:
 - Rural Energy Programs, partially funded by grants
 - Owner of the Bradley Lake Hydro Project, Larsen Bay Hydroelectric Project and the Alaska Intertie

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AEA's Goals

- Continue to operate and maintain existing state-owned power projects.
- Continue to partner with the Denali Commission as well as private sector businesses to bring safe, economical power to Alaskans.
- Help train Alaskans to build and maintain state of the art energy systems.

AEA, through its programs, works with Alaskan communities in order to achieve the lowest reasonable consumer power costs and assist in the development of safe, reliable, and effective energy systems throughout Alaska that are financially viable and environmentally sound.

AIDEA/AEA 

AEA Owned Projects

AEA operates and maintains the following state-owned power projects:

- Bradley Lake Hydroelectric Project: The project has installed capability of 126 megawatts and transmits its power to the state's main power grid via two parallel 20-mile transmission lines. The project went into commercial operation in 1991 and is now operated by Homer Electric Association under contract with AEA. Bradley Lake serves Alaska's Railbelt from Homer to Fairbanks, as well as the Delta Junction area.

- Alaska Intertie: The transmission line interconnects the power distribution systems of Anchorage and Fairbanks. The Alaska Intertie allows Golden Valley Electric Association in Fairbanks to purchase lower cost electricity produced with natural gas and hydroelectric power, from the Anchorage and Kenai Peninsula utilities. The Alaska Intertie reduces the number of black/brownouts throughout the system. Operations and maintenance duties are overseen by the Intertie Operating Committee.

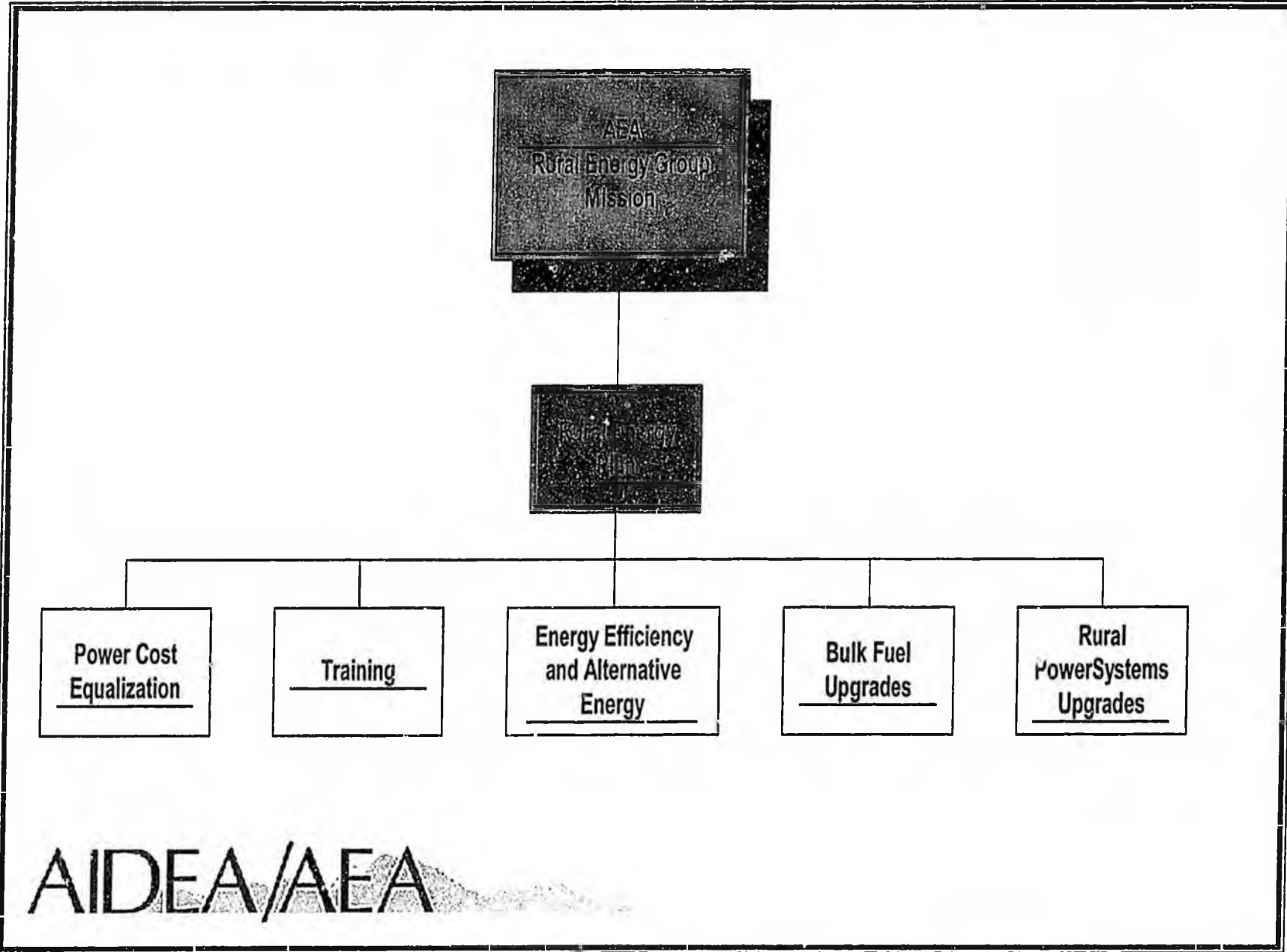
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AEA Owned Projects (Continued)

- The Alaska Legislature appropriated \$20.3 million to AEA to extend and upgrade the Alaska Intertie to the Teeland substation. AEA is hiring a consultant to perform the feasibility study to analyze and recommend extension and upgrade work within budgetary constraints. The goal is to provide the greatest public benefit to further the intended purpose of the Alaska Intertie — improving reliability and economical energy deliveries to Railbelt utilities, with full consideration of service disruptions and economic impacts to Railbelt utilities and the public.

- Larsen Bay Hydroelectric Project: The 475-kilowatt project went into commercial operation in mid-1991. In addition to producing electricity for this isolated Kodiak Island community, the project replaced the City of Larsen Bay's old water supply system and provides a better source of water with reduced maintenance and improved water quality. The City of Larsen Bay operates the project.

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AIDEA/AEA

Rural Energy Plan

- Bulk Fuel Assessment and Priorities
- Power System Assessment and Priorities
- Screening Report
- Detailed Initiatives for Efficiency and Reliability
 - ✓ Diesel generation efficiency
 - ✓ End use efficiency
 - ✓ Combined heat and power (cogen)
 - ✓ Wind Energy
 - ✓ Government Programs / Power Cost Equalization

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Rural Power System Upgrades

- Rebuild or replace worn-out diesel generator units.
- Rebuild or replace old and hazardous distribution systems.
- Construct new power generation systems that meet State and Federal codes.
- Include waste heat recovery systems, where possible, in new powerhouses.
- Provide technical assistance to rural communities through AEA personnel and or contractors.
- Provide response in emergency situation.
- The following projects were completed in 2002 and 12 are scheduled for 2003:

Kotlik

Nunam Iqua

AIDEA/AEA

Bulk Fuel Upgrades (BFU)

- Rehabilitate or construct new bulk fuel tank farms to meet State and Federal Codes.
- Need for storage capacity.
 - ✓ Transportation of bulk fuel by barge or plane.
 - ✓ Communities need enough fuel to last through the winter.
- Participants of the upgrades are utilities, schools, government entities and the private sector.
- The following projects were completed in 2002 and 13 are scheduled for 2003:

Arctic Village
St. George
Tanana
Nunam Iqua

Chignik Bay
Kongiganak
Port Heiden
Nikolski

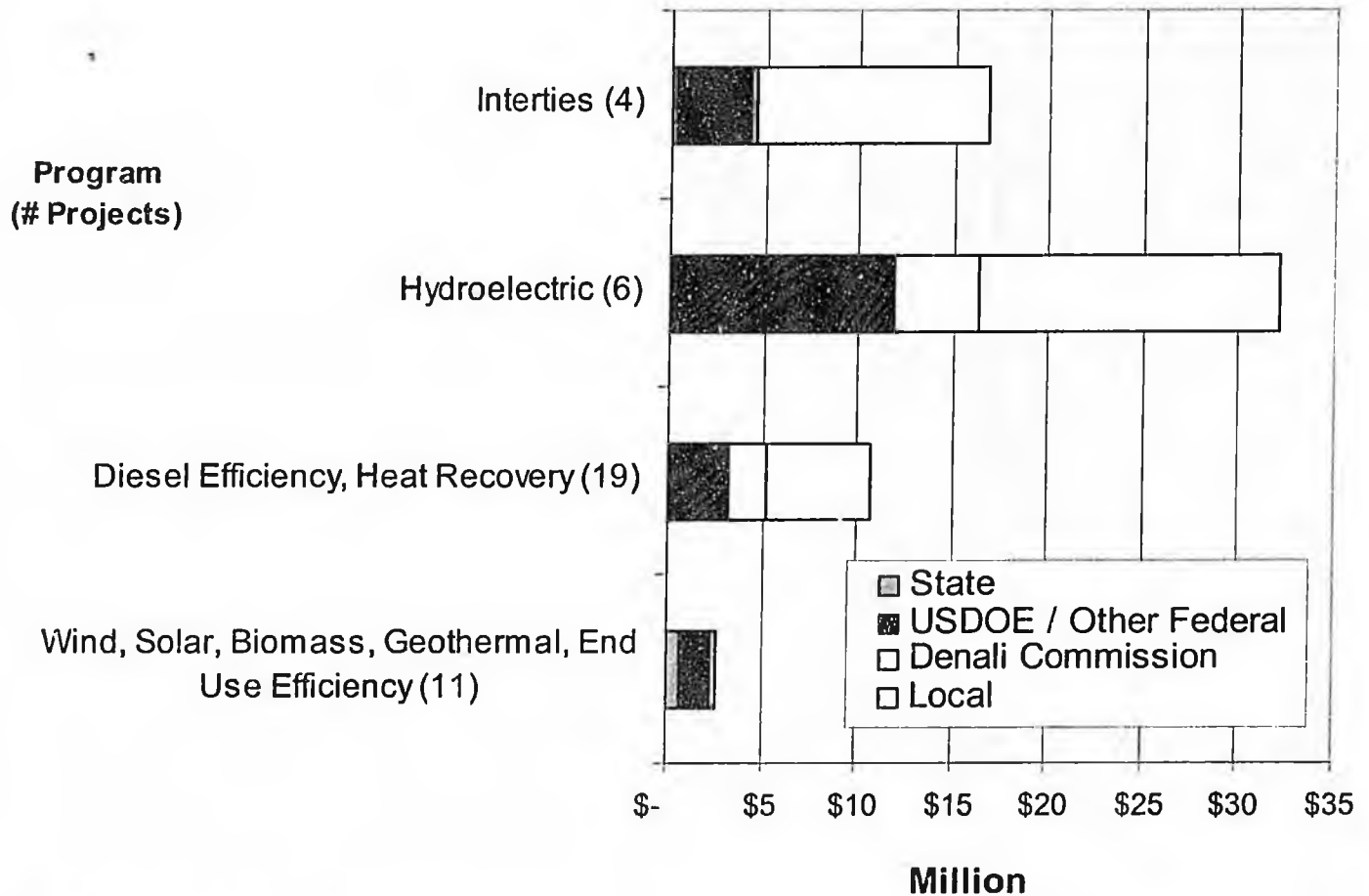
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Alternative Energy Programs

- Small Hydroelectric
- Wind Program
- Alaska Bioenergy Program
- Rebuild America Conservation Program
- Other Alternative Energy Programs
 - ✓ Small coal fired facilities
 - ✓ Coal deposits development
 - ✓ Shallow natural gas development and natural gas development from coal deposits.
 - ✓ Assess feasibility of local electrical interties in rural Alaska.

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Alternative Energy & Energy Efficiency Program Funding



AIDEA/AEA

Training Programs

- Through Alaska Vocational & Technical Center (AVTEC)
 - ✓Bulk Fuel Operator
 - ✓Itinerant Bulk Fuel Operator
 - ✓Spill Response Training
 - ✓Powerplant Operator
 - ✓Advanced Powerplant Operator
- Through AEA Staff
 - ✓Utility Clerk
- Through Construction Managers
 - ✓Work Force Training
 - ✓Small hydroelectric operator

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Power Cost Equalization (PCE)

- Provides economic assistance to customers in rural Alaska where often the kilowatt-hour charge for electricity can be three to five times higher than in more urban areas of the state
- An endowment fund intended to provide long-term funding for the PCE program was established and initially capitalized with a \$100 million state appropriation and proceeds from the sale of the Four Dam Pool.
- Residential customers are eligible for PCE credit up to 500 kwh/month/customer. Community facilities, as a group, can receive PCE credit for up to 70 kwh/month multiplied by the number of residents in a community.

AIDEA/AEA 

Selected FY2002 PCE Statistics

- 90 utilities served 187 communities.
- Population of participating communities 79,555
- Total number of eligible customers 27,241
- Total kWh's sold 404,998,916
- Total eligible kWh's 123,656,603
- % of kWh's sold that were eligible 30.53%
- The annual PCE benefit received by the average customer was approximately \$569.00

AIDEA/AEA 

PCE for FY 2003

- \$15.7 million appropriation for FY2003
- Program prorated to 84% from July 2002 – February 2003
- Program prorated to 90% as of March 2003.
- \$153.7 million PCE Endowment market value as of 12/31/02

AIDEA/AEA

Circuit Rider Program and Emergency Response Program

- Assists village electric utilities in preventative maintenance, on-site operator training, consultation, technical assistance, and emergency response.
- Regular on-site inspections of approximately 85 power systems are conducted in various rural communities.

AIDEA/AEA

AEA Loan Programs

Bulk Fuel Revolving Loan Fund

A short-term, low interest loan program that allows rural communities with a population of less than 2,000 to make their bulk fuel purchase in a cost effective manner.

Power Project Fund

Provides loans to local utilities, local governments or independent power producers for the development or upgrade of electric power facilities, including conservation, bulk fuel storage, waste energy conservation, or potable water supply projects.

AIDEA/AEA 

Conclusion

Without access to efficient, reasonably priced power, economic development cannot proceed.

Alaska's long-term economic outlook is enhanced by AIDEA and AEA combining their talents to develop and advance the general prosperity and economic welfare of the people of Alaska.

AIDEA/AEA 