
ALASKA ENERGY AUTHORITY
REQUEST FOR PROPOSALS
ALASKA ENERGY COST REDUCTION PROJECTS

April 17, 2006

The Denali Commission (the "Commission") intends to assist in funding energy cost reduction projects that will benefit energy consumers in Alaska, and also wishes to develop a statewide assessment of needed energy infrastructure that may be considered by the Commission in preparing its future Congressional funding requests. The Alaska Energy Authority ("AEA") is acting as agent for the Commission in soliciting and evaluating proposals to reduce energy costs, and in compiling any additional requests for needed energy infrastructure that may be considered in the future. Recipients of this package are therefore asked to consider two possible responses:

1. Submission of detailed proposals that meet the specific criteria in the enclosed RFP.
2. Submission of brief letter proposals from those who are not requesting project funding at this time given the criteria, definitions, preferences, and funding levels spelled out in the RFP. Such requests need not be limited to energy cost reduction projects, but can include any capital improvements that would provide benefits to Alaskans within the energy sector. The Denali Commission and AEA will review these proposals to consider making program modifications and seeking funding sources that address these proposals. This is a request for information purpose only and does not constitute a commitment to fund any project. Please note that no funds are currently allocated to their support.

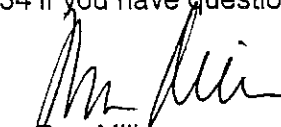
The enclosed packet includes complete instructions for sponsors of energy cost reduction projects to apply for Commission funding. Please note the following:

- In 2004, the Commission offered approximately \$1.8 million in grant financing for proposals submitted in response to its third Energy Cost Reduction RFP, while AEA offered approximately \$5.3 million in loan financing through its Power Project Loan Fund.
- For this fourth Energy Cost Reduction RFP, the Commission expects to offer approximately \$1.3 million as project grants, while AEA expects to offer up to \$5 million in loan financing through the Power Project Loan fund. The Commission and AEA will consider providing additional grant and loan funding depending on the quantity and quality of proposals received and funding available.
- Each applicant will be individually responsible for acquiring project financing needed for project completion above that provided by Commission grant funds. This additional financing can be (1) in the form of one or more loans from any established lending institution such as AEA, the U.S. Department of Agriculture ("USDA") Rural Development program, the USDA Rural Utilities Service, or any other reputable lending source; (2) in the form of a cash contribution from applicant equity or other local sources of funds; or (3) a

combination of loans and local cash contribution. No disbursement of Commission grant funds will be made until the applicant acquires all required supplemental financing.

- Although the applicant may initiate its search for supplemental financing at any time, the exact amount required will not be known until AEA concludes its evaluation and the Commission offers an applicant a specific grant amount. The letter offering a Commission grant award will specify the amount of supplemental financing that the applicant will have to acquire. The letter will also specify the deadline or timeframe within which this and other conditions will have to be met depending in part on the project's scope and complexity.
- Applicants desiring to secure supplemental borrowing from AEA's Power Project Fund (PPF) should contact Bruce Chertkow, Loan Officer, at (907) 269-3000 to determine eligibility and make a formal request for a PPF loan. Information on the PPF program, including an application, can also be obtained at www.akenergyauthority.org/programsloan.html. Applicants will be required to submit only that information contained in the application that was not submitted in response to this RFP.
- Each application must satisfy certain threshold criteria which include, but are not limited to, applicant and project eligibility, satisfactory conceptual design and project schedule, realistic cost estimate, a satisfactory plan for project construction or program implementation, adequate assurance of long-term sustainability, and satisfactory estimates of project costs and savings.
- Applicants that meet the threshold criteria will be placed in two groups: the Priority 1 group will serve economically distressed areas as defined in the attached Commission memorandum; the Priority 2 group will include all other qualifying applications.
- AEA and its contractors will calculate a benefit-cost ratio for each project that meets the threshold criteria and is placed into either of the two groups. Projects will be ranked according to their benefit-cost ratio within each group and grant funding will be offered as follows:
 - A. All qualifying Priority 1 projects will be offered grant funds first in rank order as described above as long as Commission funding for this program remains available. The Priority 1 project with the highest benefit-cost ratio will be at the top of the list. No project in either of the two groups with a benefit-cost ratio less than 1.0 will be offered grant funding under this RFP.
 - B. If Commission funding is still available after all Priority 1 project grants have been awarded, the Priority 2 projects will be considered for grants in the rank order established for the Priority 2 group.
- If the applicant already has one or more project grants in hand that have not yet been spent and that originate with the State or federal government, such grant funds will serve to reduce the Commission's grant rather than the required supplemental financing component. It is Commission policy that applicants and their customers should pay for a reasonable portion of the project cost and that projects should not be funded with 100% grants that originate outside the local area.

Proposals must be received by AEA at 813 West Northern Lights Blvd, Anchorage, AK 99503, no later than 4:00 PM Alaska time on Tuesday June 27, 2006. Please contact AEA at (907) 269-3000 or toll free (Alaska only) 1-888-300-8534 if you have questions.



Ron Miller
Executive Director

DETAILED APPLICATION INSTRUCTIONS AND INFORMATION

ALASKA ENERGY COST REDUCTION PROJECTS

April 17, 2006

PLEASE RESPOND ON THE APPLICATION FORM
TO EACH OF THE QUESTIONS AND INFORMATION REQUIREMENTS BELOW,
USE ADDITIONAL SHEETS AS NECESSARY.

**PLEASE PROVIDE THREE (3) COPIES OF EACH APPLICATION THAT YOU
SUBMIT.**

1. Information about the applicant:

- A. Name
- B. Mailing Address
- C. Telephone Number
- D. Fax Number
- E. Dun & Bradstreet Number (DUNS)

To find out if your organization already has a DUNS number or to obtain a DUNS number, contact Dun & Bradstreet at 1-866-705-5711. This will take approximately 10 minutes and is free of charge. Have the following information ready when you call:

- Name of government, business or other type of entity
- Address
- Local phone number
- Name of the chief executive
- Legal structure of the business (government, corporation, partnership, proprietorship)
- Year entity started
- Primary line of business
- Total number of full and part time employees

2. If the applicant is a utility, enclose a copy of your Certificate of Public Convenience and Necessity issued by the Regulatory Commission of Alaska.

3. Information about the individual representing the applicant for purposes of this grant application:

- A. Name
- B. Title
- C. Mailing address, telephone and fax number if different from above
- D. E-mail address if available

4. Enclose a copy of the resolution or other formal action taken by the applicant's governing body that:

- A. Authorizes this application for project funding;

- B. Authorizes the individual named above to represent the applicant for purposes of this application;
- C. States that the applicant is in good standing with respect to its existing credit and federal tax obligations.

5. Eligible Applicants:

- A. For projects that produce or transmit electricity, all power must be intended for use or distribution by, or sale to, a utility that is certificated to provide electrical service to the public. Eligible applicants for these projects are:
 - Certificated electric utilities.
 - Independent power producers who have obtained for themselves and their project the formal endorsement of the purchasing utility's governing board.
- B. For projects that produce or transport natural gas or other fuels, all such fuels must be intended for use or distribution by or sale to a utility that is certificated to provide such fuel to the public. Eligible applicants for these projects are:
 - Certificated utilities.
 - Independent parties who have obtained for themselves and their project the formal endorsement of the purchasing utility's governing board.
- C. For "waste" heat recovery projects (typically, though not exclusively, projects that recover and use excess heat expelled from diesel generating plants), eligible applicants are:
 - Certificated electric utilities.
 - Local governments that have obtained the formal endorsement of the electric utility that will supply the waste heat from its power plant.
- D. For projects to enhance end-use conservation of electricity, space heat, or water heat, eligible applicants are:
 - Certificated electric utilities.
 - State agencies, federal agencies, local governments (either municipal or tribal), public housing authorities, boroughs and other governmental subdivisions.
- E. Each applicant and/or intended project owner must be in good standing with respect to its credit and federal tax obligations.
- F. Except for independent power producers, independent parties that produce or transport natural gas or other fuels, and investor owned utilities, private entities are not eligible applicants for funding under this solicitation. However, private entities are encouraged to work with local governments and electric utilities in

developing energy cost reduction concepts, proposals, and financing applications. Private entities may be key participants in the preparation of proposals and in project development, working in concert with the applicant.

6. Eligible Projects:

A. Except for electrical distribution line extension projects, any project or program that will reduce energy costs for Alaska consumers is eligible, taking into consideration the anticipated terms of project or program financing. Examples of eligible projects or programs include but are not limited to:

- Installation of more efficient diesel generators.
- Construction of hydroelectric projects, transmission lines, wind systems or other energy system improvements or alternatives.
- Implementation of energy conservation measures.

Residential electrical distribution line extension projects are not eligible for funding under this RFP.

B. The project must rely on commercially proven technology, equipment, and operating procedures.

C. There is neither a limit to the cost of the project for which financial assistance is requested nor a limit to the number of proposals that a single applicant may submit. However, applicants should be aware that the risk of insufficient funds increases with the size of the project and its financing requirements.

The Commission reserves the right to award less than the full amount of funding that may be available if it determines that a lesser amount is warranted. The Commission expects this to be a continuing grant program.

7. Submit a "Total Capital Cost Estimate" of the project or conservation program, including all costs for design, permitting, right-of-way acquisition and/or site control, administration, procurement of materials and equipment, and construction or installation. This may include costs that have already been paid as well as costs that would be incurred in the future. Include a budget for the Total Capital Cost Estimate broken down by major task or cost component.

8. Describe and deduct from the "Total Capital Cost Estimate" any amounts that have already been spent on the project. After such amounts have been deducted, the remainder constitutes the "Project Cost" for purposes of this application and for the evaluators' use in calculating a benefit-cost ratio. In other words, sunk costs are to be identified but will be excluded from the economic and financial evaluation.

9. If grant or loan funds from State or federal sources have already been committed to the project but have not yet been spent, state these amounts and describe their respective sources. State or federal grant funds that have not yet been spent will serve to reduce

any grant award from the Commission. Loan funds that have not yet been spent may fulfill, in whole or in part, the applicant's supplemental financing requirement.

10. Submit the following:

- A. A map showing the project location and a statement on ownership of the project land. If a party other than the applicant owns the land, explain the expected process of obtaining site control along with any related costs or issues that may be encountered.
- B. A brief narrative describing the project including clear evidence that it relies on commercially proven technology, equipment, and operating procedures.
- C. A statement describing any noteworthy environmental, technical, and/or geotechnical issues that are expected to affect project development and how the applicant will handle each noteworthy issue. State any significant amount that each issue contributes to the project cost.
- D. List any major permits that may be required.
- E. A conceptual design of the project including drawings, specifications, and sufficient back-up to enable the evaluators of the application to determine:
 - Whether the project design is adequate for the project's intended use;
 - Whether the specifications are adequate to meet applicable codes;
 - Whether the Total Capital Cost Estimate and Project Cost as defined above are reasonable and realistic.

The evaluators may require additional information from the applicant and may require the applicant to revise the design specifications and/or the Project Cost if such changes are considered necessary in the evaluators' judgment.

11. Submit a plan of construction that includes the names and qualifications of individuals and organizations responsible for project design, construction management, and financial administration.

Describe how the project will be constructed, managed, and financially administered. For example, will an experienced, licensed electrical contractor perform the construction? Will the applicant employ force account construction using a specified mix of local labor and outside contractors? The application must address these issues of construction, construction management, and financial management in sufficient detail for the evaluators to determine that the project will be competently constructed and administered. The evaluators may require additional information from the applicant on these issues and may determine that the project does not qualify for funding without certain changes in these plans and approaches.

12. Submit a project schedule showing major project milestones, including such milestones as acquisition of major permits, acquisition of financing, acquisition of site control, procurement of materials, construction start date and construction end date. Discuss important uncertainties and assumptions.

The Commission wishes to help finance projects that are “construction ready” to the maximum extent possible, or to help finance conservation programs that are “implementation ready.” Awards will be made during fall 2006. It is the Commission’s goal that projects or programs approved for Commission grant awards under this RFP will be able to provide a realistic project schedule according to which project construction will begin in earnest no later than July 1, 2007.

The Commission recognizes, however, that some projects or applicants may warrant Commission grant funding at this time even though some elements of the project schedule are uncertain or some elements of project development are expected to take additional time. Examples of project uncertainties could include the acquisition of certain permits or required supplemental financing. Other examples may depend on project complexity – a hydroelectric project, for example, may be worth getting under way as soon as possible even though the complex approval process that it faces may require additional time. Therefore, if the project justification is strong enough and the Commission considers the schedule acceptable, projects that are expected to miss the July 1, 2007 deadline may still be considered for grant funding under this RFP, subject to the Commission’s judgment.

13. Sustainability:

The Commission wishes to ensure not only that each project it helps to fund will be properly maintained and operated over its expected life, but that the owner of the project and the system within which the project will function is well managed both technically and financially over the long term.

All applicants must submit evidence and documentation that indicate its technical, financial, and management capability over the long term. Such evidence could include information on past performance, existing system and financial status, financial and O&M plans, and/or personnel qualifications. The Commission may determine that the evidence submitted is adequate to satisfy this concern or may, in its judgment, require the applicant to prepare and adopt a business plan to be approved by the Commission prior to issuance of a grant award. AEA and the Commission are prepared to assist in the preparation of such plans should they be required in one or more instances.

14. Estimate the following costs and savings:

- A. Provide an estimate and breakdown of the project’s average annual O&M cost and fuel cost over its expected life. Explain and document the basis for these estimates.

- B. Provide an estimate and breakdown of the average annual savings in O&M, fuel, and capital costs that the project is expected to produce over its expected life. Explain and document the basis for these estimates.

Applicants are directed to use their average price of fuel paid during FY 2005 for all fuel cost estimates, projections, and calculations. Additionally, please include cost per gallon for fuel for 2004, 2006, and maintenance and operation cost information as indicated in Section 14 of the attached Application Form.

For projects that produce or transport natural gas or other fuels, contact AEA regarding projections and information requirements specific to projects of this type.

15. Each application that satisfies the foregoing criteria will be placed into one of two groups: the Priority 1 group will serve economically distressed areas as defined in the attached Commission memorandum; the Priority 2 group will include all other qualifying applications.

An applicant proposing to serve an area that is not specifically listed in the attached Commission memorandum must contact the Commission for a determination on this question. Such Commission determinations on whether an area is, or is not, economically distressed are final. In making these determinations, the Commission may seek additional information from the applicant or from any other source.

Please direct any communication on this question to Krag Johnsen at the Denali Commission, telephone (907) 271-1414.

16. For all proposals that are placed into the Priority 1 and Priority 2 groups, AEA will prepare a conventional economic feasibility analysis based on costs and savings projected by the applicant. AEA may adjust these projected costs and savings at its own discretion. In the absence of subsidy, a benefit-cost ratio will be estimated for each proposal where "benefits" are equal to the present value of expected net savings and "costs" are equal to the Project Cost defined in Item #8 above. Proposals within each Priority group will be ranked in order of their estimated benefit-cost ratios. No project in either of the two groups with a benefit-cost ratio less than 1.0 will be offered grant funding under this RFP.

Projections will assume constant "real" fuel prices – that is, the delivered price of fuel will not change from its current level except to match inflation.

AEA will use a 3.0% real discount rate to develop the benefit/cost ratios.

Consistent with its goal of supporting "construction ready" projects, the Commission may adjust ranking priority of eligible projects with benefit-cost ratios greater than 1.0 depending upon how soon they can be constructed or implemented.

17. Determination of size of potential grant award and associated need for supplemental financing:
- A. For each project with a benefit-cost ratio exceeding 1.0, AEA will conduct a financial feasibility analysis to determine the maximum level of debt financing that

the project could support in its early years of operation without creating a negative impact on consumer costs or without causing an increase in the average unit cost of supplying energy. The assumed interest rate for purposes of this analysis will be the maximum rate on loans from AEA's Power Project Fund in effect at the time of proposal evaluation. Currently the maximum rate is 5.0%.

- B. The supplemental financing that the applicant will have to acquire from a source other than the Commission will be half of the maximum debt load calculated in step 'A' above.
 - C. The grant award that may be offered for the project by the Commission will be equal to the Project Cost minus the supplemental financing requirement defined in paragraph "B" immediately above, minus any unspent State or federal grant funds that the applicant may have already obtained.
 - D. For each "waste" heat recovery and end use (energy conservation) project with a benefit-cost ratio exceeding 1.0, the grant award will be a minimum of 50% of the Project Cost.
18. Overall financing structure:
- A. As stated in the cover letter to this RFP, the Commission will provide only the grant portion of required project funding. The Commission will consider offers of grant awards in the following order:
 - All qualifying Priority 1 projects will be offered grant funds first in the order of their respective benefit-cost ratios as long as Commission funding for this program remains available. The Priority 1 project with the highest benefit-cost ratio will be at the top of the list.
 - If Commission funding is still available after all Priority 1 project grants have been awarded, the Priority 2 projects will be considered for grants in rank order by benefit-cost ratio as established for the Priority 2 group.
 - B. Each applicant will be individually responsible for acquiring the additional project financing that will be needed for project completion. This additional financing can be (1) in the form of one or more loans from any established lending institution such as AEA, the U.S. Department of Agriculture ("USDA") Rural Development program, the USDA Rural Utilities Service, or any other reputable lending source; (2) in the form of a cash contribution from applicant equity or other local sources of funds; or (3) a combination of loans and local cash contribution. No disbursement of Commission grant funds will be made until the applicant acquires supplemental financing.
 - C. Although the applicant may initiate its search for supplemental financing at any time, the exact amount required will not be known until AEA concludes its evaluation and the Commission offers an applicant a specific grant amount. The letter offering a Commission grant award will specify the amount of supplemental financing that the applicant will have to acquire. The letter will also specify the deadline or timeframe within which this and other specified conditions will have to be met.

- D. Approval of a project application may depend on the amount of grant assistance that would be needed for the project to be financially viable. As AEA and the Commission review the rank order lists of applications following the evaluation process outlined above, individual applications that emerge with a high rank may be denied approval, at least in this round, if AEA and the Commission determine that the project would require too great a share of the available grant funds given the number, size, and merit of competing applications. If such instances arise, the Commission will consider seeking the additional funds needed to provide the necessary grant assistance in the future.
19. Each application must include satisfactory responses to each of the questions and information requirements defined in these application instructions. During the application review process, AEA may ask applicants for additional information related to minor omissions or clarifications. However, AEA may reject applications as incomplete if a substantial body of needed information is lacking in the application as submitted.
20. To assist the Commission in determining its own appropriate source of funding, provide information and documentation on average residential energy costs in the area or community to be served by the project. This would include an estimate of the annual average residential electric bill (without consideration of PCE credits) plus an estimate of the annual average cost of home space and water heating.
21. In the case of an applicant other than a government entity or a cooperative, provide a business history of any person or entity owning or controlling 10 percent or more of the applicant's stock or business.