

**Alaska Energy Authority
BOARD MEETING MINUTES
Wednesday, December 4, 2019
Anchorage, Alaska**

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Energy Authority to order on December 4, 2019 at 10:01 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bernie Karl (Public Member); Julie Anderson (Commissioner DCCED); Greg Samorajski (Deputy Commissioner DOR), Albert Fogle (Public Member); Bill Kendig (Public Member); and Julie Sande (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Curtis Thayer, Brenda Applegate, Bryan Carey, Kirk Warren, Tim Sandstrom, Amy Adler, Karsten Rodvik, Jocelyn Garner, and Ashton Doyle (AEA).

Others present: Aimee Sudbeck (AIDEA); Elwood Brehmer (Alaska Journal of Commerce); Bikky Shrestha (BDO); Stewart Osgood (DOWL); Max Garner and Stefan Saldanha (Department of Law); Shawn Florio (HDR); Jan Siebert and Bernie Smith (Public).

4. AGENDA APPROVAL

MOTION: A motion was made by Mr. Fogle to approve the agenda. Motion seconded by Mr. Kendig.

The motion to approve the agenda as presented passed without objection.

5. PUBLIC COMMENTS - None.

6. PRIOR MINUTES - October 23, 2019

MOTION: A motion was made by Mr. Fogle to approve the Minutes of October 23, 2019. Motion seconded by Vice-Chair Karl.

The motion to approve the Minutes of October 23, 2019 passed without objection.

7. NEW BUSINESS

7A. Resolution No. 2019-07 Annual Board Operating & Capital Budget Review & Approval

Curtis Thayer, Executive Director, explained Resolution No. 2019-07 relates to the Board's annual review and approval of Alaska Energy Authority's operating and capital budget. The review would occur prior to the submittal through the Department of Commerce, Community and Economic Development (DCCED) to the Office of Management and Budget (OMB) for inclusion in the Governor's Budget presented to the State Legislature.

Chair Pruhs inquired if the resolution was drafted as requested by the Board. Mr. Thayer responded affirmatively.

Vice-Chair Karl expressed appreciation to Mr. Thayer for the timely production of the resolution.

MOTION: A motion was made by Mr. Fogle to approve Resolution 2019-07 relating to AEA's Executive Director's annual presentation to the Board of the proposed operating and capital budget in Executive Session prior to submission through DCCED to OMB. Motion seconded by Mr. Kendig.

A roll call was taken, and the motion to approve Resolution 2019-07 passed unanimously.

7B. Appointment to the Budget & Audit Subcommittee

Chair Pruhs explained the establishment of the Budget and Audit Subcommittee. He requested clarification regarding membership. It was confirmed three members sit on the AIDEA Budget & Audit Subcommittee. It was agreed to be appropriate for those same members to sit on AEA's Budget and Audit Subcommittee.

MOTION: A motion was made by Commissioner Anderson to establish the Alaska Energy Authority Budget and Audit Subcommittee. Motion seconded by Vice-Chair Karl.

The motion to establish the Alaska Energy Authority Budget and Audit Subcommittee passed without objection.

Chair Pruhs appointed Ms. Sande, Mr. Kendig, and Mr. Fogle to the Budget and Audit Subcommittee.

8. OLD BUSINESS - Battle Creek Project Update

Mr. Thayer invited Bryan Carey, Hydro Group Manager, to provide the Battle Creek Project update. Mr. Carey reviewed the West Fork Upper Battle Creek events and schedule. The Talon fusion machine and the HDPE pipe are at Bradley. The work to complete the diversion dam is progressing and will continue until the end of December. Per the schedule provided by the contractor, work will resume in April 2020, and the HDPE fusion will occur until early June. The contractor is expected to begin demobing from the site at the end of June, after testing is complete.

Chair Pruhs inquired as to the status of Bradley Lake. Mr. Carey indicated additional information will be provided during executive session. All of the produced constrained power of approximately 60 megawatts goes to HEA at this time.

Mr. Carey believes HEA continues to run a turbine. Vice-Chair Karl suggested the turbine be shut down during this time.

Chair Pruhs inquired regarding the anticipated schedule of Bradley Lake coming back on line. Mr. Carey believes the hope is to have Bradley Lake back on line by the end of the year or January 2020. Some of the poles that will be replaced are in steep terrain and wetlands. Safety concerns are the biggest cause to the delay.

Chair Pruhs inquired regarding the daily economic impact to the Railbelt for Bradley being offline. Mr. Thayer noted an economic impact discussion occurred during the public meeting of the Bradley Lake Management Committee. The rough estimate of the cost for each utility is approximately \$30,000 to \$50,000 daily, totaling approximately \$10 million to-date.

Chair Pruhs asked if that additional cost gets absorbed by the rate payers. Mr. Thayer indicated the rate payers are experiencing an increase in their bills. Chair Pruhs inquired as to the cost estimate for repair of the line. Mr. Carey noted the cost estimate is approximately \$2 million.

Deputy Commissioner Samorajski asked what is stopping the water from overflowing the Bradley Lake dam now. Mr. Carey noted the inflow at Bradley Lake is decreasing because of the cold weather. Spillage is likely to occur next week due to the anticipated rainy forecast.

Chair Pruhs inquired as to the effects of the rain on the diversion construction. Mr. Carey explained the biggest weather concern for construction is icy conditions. Mr. Carey showed a picture of the Talon fusion machine and described its dimensions of 21 feet in width and weight of approximately 56 tons. The fusion machine encompasses the entire width of the road. The contractor will not be able to follow the schedule of working on the diversion dam and laying pipe simultaneously because vehicles are unable to pass the fusion machine, unless there is a wide spot in the road. The HDPE pipe will be buried or cover-protected and prefab concrete thrust blocks will be installed.

Mr. Carey described a picture taken with a drone of the northeast side of the diversion. The temporary diversion of the stream has worked fine, except on September 1st when the water flow increased more than three feet during a rain event and breached the diversion. After the foundation of the area was cleaned, crews used the excavators to deepen the depth of the diversion channel in anticipation of future rain events.

MOTION: A motion was made by Mr. Kendig to go into Executive Session to discuss confidential and financial information related to Bradley Lake. Motion seconded by Ms. Sande.

The motion was approved without objection.

9. EXECUTIVE SESSION: The Board entered into executive session at 10:31 a.m. to discuss confidential matters related to Bradley Lake

The Board reconvened its regular meeting at 10:56 a.m. Chair Pruhs advised the Board did not take any formal action on matters discussed while in executive session. Mr. Kendig noted he was excused from the first part of executive session because of his role with MEA.

10. DIRECTOR COMMENTS

10A. Grant Close-Out Final Update

Mr. Thayer reported Amy Adler, Comptroller, lead the team who closed over 100 grants since last year, which allowed AEA to release \$4.7 million as follows:

- \$2 million to the Renewable Energy Grant funds
- \$1.8 million to bulk fuel funds for allocation to projects that match Denali Commission funds
- \$750,000 to Rural Power System Upgrades funds
- \$100,000 in state general funds
- \$25,000 in federal and state alternative energy funds for reallocation to those programs

Mr. Thayer expressed appreciation for the Board's patience. Staff is working on procedures to ensure the status of grants remaining open does not occur again. All of the grants are currently up-to-date.

10B. Tuluksak Update

Mr. Thayer invited Tim Sandstrom, AEA Director of Rural Programs, to provide the Tuluksak update. Mr. Sandstrom informed progress and improvement in Tuluksak has occurred since the last meeting. Crews will be arriving on December 9th to install the two new gensets. Tuluksak has engaged in buying some of their parts and providing a mechanic to assist with the outage of the emergency generator. The clean-up is now complete, but took longer than anticipated due to a delay in material delivery and problems with the heat.

Chair Pruhs requested additional information regarding the development of Tuluksak's maintenance schedule. Mr. Sandstrom explained past maintenance decisions were made mostly by AEA because of the non-functionality of proper maintenance. He noted the maintenance decisions are beginning to transition to Tuluksak, as in the recent outage with the emergency generator. Tuluksak paid for the contractor in that instance. Previously, the contractors in emergency situations were paid for through the Circuit Rider Program. Mr. Sandstrom commented on the positive direction change in Tuluksak. Steps are being implemented to ensure maintenance and tracking will occur on the two new gensets.

Chair Pruhs congratulated Mr. Sandstrom on completing the improvements for the allotted \$257,000. Based on what he saw in Tuluksak, he believes the improvements were a success.

Mr. Thayer discussed the waste heat pipe issue in Tuluksak that was before the Regulatory Commission of Alaska (RCA). The issue was never resolved by the RCA because the issue's time expired before an RCA decision could be made. Funds generated from waste heat are deducted from the PCE payments, thus causing a penalizing effect to small communities in rural Alaska. Mr. Thayer has been working with T.W. Patch, former Chair of the RCA, to determine a best path forward to remove this waste heat penalty.

Vice-Chair Karl inquired as to the possibility of Tuluksak using the waste heat, but not reporting the use. He believes it is foolish that the waste heat is not used. Mr. Thayer explained the waste heat issue is significant because of the associated penalty. He has contacted current RCA Chairman Robert Pickett to discuss possible legislative or regulatory resolutions for the waste heat issue. Vice-Chair Karl asked if waste heat boilers could be installed on the exhaust of the two new gensets. Mr. Thayer indicated that option is outside of AEA's purview. Vice-Chair Karl disagreed.

Commissioner Anderson acknowledged the waste heat penalty issue is a priority to resolve because of its effect on so many communities. She has a meeting scheduled with Mr. Thayer, the RCA, and others to determine ways to remove the current penalties. Vice-Chair Karl asked if it would be helpful to provide RCA with a letter from the Chair of AEA supporting waste heat use without penalizing PCE. Mr. Thayer commented he will keep the Board informed of the process and will request the Board's assistance, if necessary.

Vice-Chair Karl asked about the utility and school working together. He commented there is no scale of economics in Tuluksak. Mr. Thayer explained the project will follow a step-by-step approach. The first step is installing the two new gensets. This is part of the plan to introduce to the community the possibility of combining resources with the school.

10C. Snettisham Update

Mr. Thayer noted Commissioner Anderson hosted a meeting in her Juneau office between Alaska Electric & Power and Juneau Hydro Inc. Progress has been made and the hope is to have a transmission and interconnection agreement within the first quarter of 2020.

10D. VEEP/ Wells Fargo Update

Mr. Thayer reported 66 applications were received. Forty-seven of those communities received funding in the total amount of \$1.1 million in Village Energy Efficiency Program (VEEP) funding. The local community match equaled approximately \$400,000. He provided

the listing of each community's requested grant amount, local match amount, total project cost, and energy region. The grants are expected to be closed out within 12 to 18 months. Future reports will be ongoing.

10E. Chugach/MLP Merger Update

Mr. Thayer noted closing arguments have been presented and the RCA has until the middle of February to rule on the merger.

Vice-Chair Karl asked if Mr. Thayer believes the RCA will rule in favor of the merger. Mr. Thayer believes the RCA may have modifications to the arrangement, but believes the ruling will be favorable. AEA supported all the stated stipulations.

10F. Railbelt Reliability Council (RRC) Update

Mr. Thayer advised the utilities are working toward institutional reform of the Railbelt bulk electrical system. The development of an Implementation Committee would consist of 12 people; one from each of the six utilities, one from AEA, two from independent power producers, one from a consumer advocacy group, and two non-affiliates. A CEO will be hired and will be the tie-breaker vote in the event of a tie. The structure is due to be submitted to the RCA by year-end.

10G. Dashboard and Loan Report

Mr. Thayer reviewed the provided Dashboard and Loan Reports. The one delinquency is for \$2,800. The current interest rate is 3.38%. The Legislature has the ability to change the interest rate upon approval of individual projects.

10H. Community Outreach Schedule

Mr. Thayer discussed the provided AEA community outreach schedule. He invited members to contact Mrs. Doyle if they wish to attend the Make-It-Monday lunch forum.

The question was asked why AEA did not attend the RDC conference. Mr. Thayer responded the workload in the building was a factor in not attending. Other factors included no agenda items pertained to AEA's mission and conference fees of \$495 per person were not budgeted. He believes AIDEA had representation.

10I. Articles of Interest

Mr. Thayer shared a featured article in National Governors Association regarding microgrids and an article in Anchorage Daily News regarding the solar farm in Willow.

Mr. Thayer informed the two seats available on the Emerging Energy Technology Fund Advisory Council have been appointed by the Governor. The two new appointees are Eric Erickson of Juneau, and Brent Petrie of Anchorage. AEA staffs the Council, but it is currently not funded.

10J. Audit Presentation

Mr. Thayer indicated there are no findings in the audit. Brenda Applegate, AEA, introduced Bikky Shrestha of BDO, who provided the audit presentation of the FY19 financial statements. Mr. Shrestha explained the audit began in July and was completed in October. He noted the two packets are the financial statements and an audit wrap-up document. He gave a detailed review of the audit wrap-up document. A clean and unmodified opinion was issued on the financial statements. All records were available for inspection and management cooperation was excellent.

Mr. Shrestha explained the major change in the financial statement is as a result of the Power Cost Equalization endowment fund determination to be sweepable. The net position decreased by \$1 billion, but it should be swept back as a reverse sweep at the beginning of the next year. The total investment returns for the year were approximately \$72 million.

Deputy Commissioner Samorajski expressed disagreement with the accounting treatment because he believes it understates the net position by not showing the sweepable amount of \$1 billion. There is always a risk the fund will not be swept back in. He believes it should be shown as an accounts receivable asset. Deputy Commissioner Samorajski requested a brief explanation for the support and use of this accounting procedure. Mr. Shrestha explained the \$1 billion is shown as an asset on page 23. The funds for the sweep became a liability on June 30th and the reverse sweep was reinstated and effective July 1st. Ms. Applegate explained the accounting follows the GASB procedures.

Chair Pruhs requested additional information regarding the increase of capital assets and the decrease of liabilities. Ms. Applegate discussed the capitalization of costs for Battle Creek is contributing to the increase of capital assets. The bonds that have to be repaid are under non-current liabilities. The cash from the bonds is within the asset category. Chair Pruhs asked what process is used to depreciate Bradley Lake. Ms. Applegate noted depreciation is based on FERC rules and is categorized by asset type, over the useful life of the asset. The disclosure on page 35 of the financial statements lists the depreciation

schedule. The total depreciation expense for Bradley Lake and the Intertie projects are found on page 47. Ms. Applegate indicated a full detail of the depreciation schedule can be provided to members. Chair Pruhs agreed the information would be helpful for future decision-making.

Mr. Shrestha complemented staff for their excellent job in handling the complicated transactions and issues, including the development of memorandums. He noted the audits for AEA and AIDEA are complex and require a sophisticated level of accounting expertise. Ms. Applegate informed there is ongoing communication with the auditors throughout the year in order to assist the end of year audit procedure is conducted smoothly. Ms. Applegate expressed appreciation to Ms. Adler and her team for their diligent work throughout the year. Ms. Applegate encouraged Board members to review the section in the footnotes that reveals upcoming changes to the GASB rules.

10K. Next Regularly Scheduled AEA Board Meeting Wed. January 15, 2020

The next scheduled AEA Board meeting is Wednesday, January 15, 2020.

11. BOARD COMMENTS

Vice-Chair Karl expressed appreciation to staff and leadership for their efforts and favorable improvements.

Chair Pruhs noted collaboration continues with AIDEA regarding staffing efficiencies to support the mission of AEA and AIDEA. He appreciates working with AIDEA to facilitate and develop the important resources available.

12. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 12:35 p.m.



Curtis Thayer, Executive Director/Secretary
Alaska Energy Authority

