



BOARD MEETING MINUTES  
Wednesday, November 30, 2016  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Dick called the meeting of the Alaska Energy Authority to order on November 30, 2016 at 10:07 am. A full quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Russell Dick (Public Member); Vice-Chair Dana Pruhs (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED)); Elaine Brown (Public Member); Gary Wilken (Public Member); and Dan Kennedy (Public Member).

**3. ROLL CALL: STAFF, PUBLIC**

Staff present: Amy Adler, Salina Bearden, Katie Conway, Tom Erickson, Jocelyn Garner, Jennifer Haldane, Michael Lamb, Cady Lister, Neil McMahon, Kris Noonan, Devany Plentovich, Sean Skaling, Melissa St. Denis, Kelli Veech, Kirk Warren, Teri Webster (AEA); Brian Bjorkquist, and Mary Lynn Macsalka (Department of Law).

Others present: Sydney Hamilton, Ladonna Lindley (Accu-Type Depositions); Eric Campbell, and Bikky Shrestha (BDO).

**4. AGENDA APPROVAL**

The agenda was approved.

**5. PUBLIC COMMENTS**

None

**6. PRIOR MINUTES - Oct. 27, 2016**

**MOTION: A motion was made by Mr. Kennedy to approve the minutes of October 27, 2016. Ms. Brown seconded the motion. Motion passed without objection.**

**7. NEW BUSINESS**

**7A. FY16 Financial Statements - BDO Auditors**

Mr. Lamb introduced Eric Campbell of BDO to review the FY16 financial statements provided to members, which included the audit wrap-up, the Federal Single Audit, and financial statements. Mr.

Campbell informed the board that the audit went well and staff was helpful and diligently prepared. The audit wrap-up document highlights required communications from the auditor to the Board. This year, management changed the reporting model to report the financial statements in two separate funds. One fund relates to the business activities and one fund relates to the governmental activities. Mr. Campbell noted there were no correcting journal entries and one recommendation for correcting a disclosure related to commitments. Mr. Lamb explained a human error occurred and a wrong number was retrieved from the database.

Mr. Campbell reviewed the Federal Single Audit process and clean opinion findings. AEA is in compliance with government auditing standards and grant requirements. There were no findings of internal control weaknesses. The audit of the financial statements received a clean, unmodified opinion. There were no internal control weaknesses of financial statement reportings and no significant deficiencies.

Mr. Kennedy expressed his appreciation to Mr. Lamb and staff for an impressive audit. Mr. Kennedy disclosed, regarding footnote 12 on page 40, he works part-time for Swalling and Associates. The firm conducts audit procedures for Bradley Lake Project Management Committee. Mr. Kennedy reassured he has no involvement with those audits. Chair Dick informed Mr. Kennedy made the same disclosure last year and no conflict of interest was found. Mr. Kennedy informed he is no longer on the election committee at Matanuska Electric Association (MEA).

Mr. Lamb commended the staff on the tremendous amount of work completed to produce the clean audits.

Mr. Wilken congratulated Mr. Lamb and staff for a job well done. Deputy Commissioner Parady echoed Mr. Wilken's comments and expressed appreciation to staff for the superb audit outcome.

## **7B. Power Project Fund Loan program update**

Ms. Lister gave the presentation on the Power Project Fund (PPF). The PPF loan program is available to make loans for energy generation in the state to entities such as utilities, regional authorities, municipalities, regional village corporations, village councils, and independent power producers. Ms. Lister explained the PPF loan program has the ability to offer attractive financing for power projects to entities that may have difficulty accessing other forms of capital and that the loan program is unique in offering debt financing for reconnaissance studies and feasibility studies. She outlined the PPF interest rate and repayment terms which are guided by statute.

Ms. Lister reviewed the current fund balance, which includes \$7 million in outstanding loans, \$21.4 million in undisbursed commitments, \$10 million in legislatively restricted funds for the Humpback Creek project, \$919,378 in FY17 operating budget commitment, and \$10.5 million balance of uncommitted cash. Ms. Lister noted the statute allows for money to be taken from the PPF for general operation and is included in the FY17 operating budget. Vice-Chair Pruhs requested the net program numbers, including interest paid from the loans minus the servicing cost information. Ms. Lister told Mr. Pruhs that staff time associated with administering the program is not coded specifically to the program so ascertaining program costs is not possible at this time.

Ms. Lister discussed the PPF administration. Mr. Wilken suggested a clarification to one of the bullet points to read, "AEA must apply AEA-developed standards to determine if a project is technically and economically viable." Ms. Lister noted AEA may sell portfolios of loans to AIDEA

to recapitalize the fund. This has occurred once in the amount of \$16.3 million, and AIDEA now services those loans.

Ms. Lister provided a historical summary of the 78 loans from 1980 to the present of \$75 million committed, \$43 million disbursed, and \$10 million unused appropriated to Humpback Creek. Mr. Lamb informed the board that AEA has initiated the process to request reappropriation of the unused \$10 million from Humpback Creek back into the PPF program. Ms. Lister noted that PPF loan activity is increasing primarily because of the reduction in grant funding.

Ms. Lister reported AEA is engaged in conversation with nine communities considering applying for PPF loans. If all of these communities applied for and were approved, the cumulative amount of those loans exceed \$16 million.

### **7C. Phase I - Emergency Response & Preventative Maintenance Dialogue**

Mr. Lamb informed this presentation is in response to Mr. Wilken's request for information on September 6 regarding the Arctic Village's participation in the emergency response and the status of their maintenance/depreciation account to assist on the unfortunate events. Mr. Lamb explained AEA's statutory and regulatory duties to assist rural utilities during an electrical emergency. An electrical emergency is defined as a condition in a utility's system that presents an imminent danger to life or likelihood or significant disruption of electrical service.

Mr. Lamb reviewed the high-level emergency response flow chart. AEA currently has an appropriation of funds to pay for emergency responses. The utilities do not reimburse AEA for the emergency response. If AEA does not have emergency response funds, the Department of Military and Veterans' Affairs has to declare a disaster and provide funding before AEA can move forward.

Mr. Lamb gave a detailed description of the 5-year and the 10-year averages for emergency responses. In the 5-year average, 48 utilities had electrical emergencies averaging \$269,739 per year, approximately .028% of the total replacement cost. In the 10-year average, 72 utilities had electrical emergencies averaging \$284,783 per year, approximately .3% of the total replacement cost.

Vice-Chair Pruhs asked if it makes sense to utilize the same procedure as telecom where the State attaches a .0029% fee per each kilowatt hour to fund the emergency fund. Mr. Lamb agreed. He informed some communities simply do not have the financial wherewithal and/or human resources with the skill sets to run the systems appropriately. Mr. Wilken agreed there are some communities who cannot afford the system upkeep, however, there are many communities who can afford the system upkeep, but do not follow through and end up using this program as a crutch. Mr. Wilken believes a structure needs to be created outlining the communities' responsibility for their electricity.

Deputy Commissioner Parady commented it may be in everyone's best interest to use general funds to pay for the \$285,000 per year of electrical emergencies rather than develop a complicated mechanism to generate the cash flow. He noted if cash flow needs to be generated to recover funds for the emergencies, a garnishment to Power Cost Equalization (PCE) could possibly be implemented.

Mr. Lamb continued the presentation and noted staff does not know the status of the maintenance/depreciation accounts. AEA is aware Arctic Village requested and received a PPF loan to replace their gen-sets, and Diomemde is using their CDQ monies. Mr. Lamb reviewed previous

questions and comments by members in reference to maintenance, operations, and a sinking fund for project assets to prevent an emergency event.

Mr. Lamb and staff believes 10 to 12 PCE eligible generation facilities, out of 248, raise concerns regarding their financial or technical skills for on-going stability and reliability. The facilities were given a 14-page operation and maintenance questionnaire. Mr. Lamb reviewed the aggregated responses. Vice-Chair Pruhs requested Mr. Lamb verify the answers of the high-risk utility managers to better understand the issues.

Mr. Lamb noted questions remain regarding the appropriate role of the State in supplying and maintaining rural electrical infrastructure, and existing authority in support of that role, if any. Mr. Lamb requested the Board establish a subcommittee to discuss policy and implications of future assistance to at-risk facilities and to expand knowledge of and relationships between circuit rider, emergency response, AEA contracting methodology, RPSU inventory and assessment, Bulk Fuel Program, training, community and technical assistance, and integration of renewable energy.

Chair Dick asked for feedback from the members on creating the requested subcommittee. Deputy Commissioner Parady believes there is a desire to develop a subcommittee and volunteered to serve on the subcommittee. He commented on the intersection between this topic and DCRA, and believes the potential to build synergy exists.

Vice-Chair Pruhs expressed his concerns, including the cost of understanding and verifying the issues, the ability to make a difference after issues have been identified, and the willingness to give up other resources to make this effort successful.

Mr. Wilken informed he is willing to serve on the subcommittee if the subcommittee's purpose was to develop five broad goals and bring those to the Board for approval.

Mr. Kennedy does not believe the issues are financially significant. He recommended the monitoring at the staff level continue.

**MOTION: A motion was made by Mr. Wilken to establish a subcommittee of the Board to address broad goals and to create a statement of purpose regarding assistance to rural utilities and AEA's responsibility, to be brought back in front of the Board in the February 2017 meeting. Mr. Pruhs seconded the motion.**

Mr. Kennedy informed he will respectfully vote against the motion on the floor. He believes the motion goes beyond the fiduciary responsibility of the Board and the management of the issues should remain with staff.

Chair Dick believes the subcommittee would be inline with the recommendation of the Executive Director and with AO281. He believes the subcommittee could help drive the resolution of issues.

**Motion passed, with Mr. Kennedy voting against.**

## **8. DIRECTOR COMMENTS**

### **8A. Next regularly scheduled meeting Wednesday, Jan. 11, 2017.**

Mr. Lamb expressed his appreciation for the Board's creation of a subcommittee.

**9. BOARD COMMENTS**

Mr. Kennedy provided an update on a new technology from Cogen that generates power electricity and heat.

Ms. Brown expressed her appreciation to staff and Mr. Lamb for their work in producing a clean audit and for staff's request of a subcommittee.

Chair Dick expressed his appreciation to staff for their diligence and preparation of materials for Board meetings.

**MOTION: Vice-Chair Pruhs made a motion to go into Executive Session to discuss confidential litigation related to matters regarding Administrative Order 281, AEA Managed grants, Bradley lake project litigation, and AkAES. Mr. Kennedy seconded the motion.**

**Motion passed unanimously.**

**10. Executive Session: 11:50 am.  
Administrative Order 281 update; AEA Managed grant(s); Bradley lake project litigation; AkAES update**

The Board reconvened its regular meeting at 3:04 pm. No formal actions were taken during executive session.

**11. ADJOURNMENT**

There being no further business of the Board, the AEA meeting adjourned at 3:04 pm.

  
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Michael Lamb, Interim Executive Director/Secretary  
Alaska Energy Authority