



BOARD MEETING MINUTES
Thursday, December 7, 2017
Anchorage, Alaska

1. CALL TO ORDER

Chair Dick called the meeting of the Alaska Energy Authority to order on December 7, 2017 at 2:02 pm. A 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)); Deven Mitchell (Department of Revenue); Gary Wilken (Public Member); Elaine Brown (Public Member); and Bernie Karl (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Amy Adler, Brenda Applegate, Bryan Carey, Katie Conway, Tom Erickson, Cady Lister, Linda Senn, John Springsteen, Teri Webster (AEA); and Brian Bjorkquist (Department of Law).

Others present: Bikky Shrestha (BDO USA); Cindy Cartledge (Jermain, Dunnagan, and Owens); Tony Izzo (Matanuska Electric Association (MEA)); Fred Eoff (PFM); and Bernie Smith (Public); Ladonna Lindley (Accu-Type Depositions).

4. AGENDA APPROVAL

John Springsteen, Acting AEA Executive Director, requested an Executive Session be added to the agenda after Item 7B. related to Battle Creek financing matters.

MOTION: Vice-Chair Pruhs made a motion to approve the agenda with the amendment to add Executive Session after Item 7B. Ms. Brown seconded the motion.

The motion to approve the amended agenda passed without objection.

5. PUBLIC COMMENTS

Tony Izzo, CEO of MEA, stated MEA is the fastest growing and second largest electric utility in the state. He expressed appreciation to AEA and staff for the exceptional efforts regarding the Battle Creek Diversion Project (BCD). Mr. Izzo informed MEA is very supportive of the project, which will increase MEA's renewable hydro energy from 10% to 11%. He encouraged AEA to support the BCD.

Bernie Smith gave a synopsis of his background involving Alaska energy and the Railbelt, as a State employee and as a member of the public. He recommended AEA support the Battle Creek finance resolution. He believes staff and the bond consultant have performed an excellent job of preparing the proposal and presenting it in a timely manner. Mr. Smith stated he was impressed with the cooperation of Bradley Lake Project Management Committee members and the Intertie Management Committee members during this process.

6. PRIOR MINUTES – Sept. 21, 2017 and Oct. 26, 2017

MOTION: Deputy Commissioner Parady made a motion to adopt the Minutes of September 21, 2017, and Minutes of October 26, 2017. Vice-Chair Pruhs seconded the motion.

Motion passed without objection.

7. NEW BUSINESS

7A. FY17 AEA Audited Financial Statements – BDO Auditors

Mr. Springsteen introduced Brenda Applegate, AEA, and Bikky Shrestha, BDO, who provided a brief presentation on the FY17 Audited Financial Statements. Mr. Shrestha indicated the findings are reasonable and the financial statements are free from material misstatements. The internal control audit reported no findings. There were no disagreements with management encountered in the audit. The representation letter is attached in the packet. He expressed appreciation to AEA staff for providing all materials in a timely manner and contributing to a smooth process.

Mr. Shrestha noted an additional single audit report is also included in the packet. The report is in accordance with Uniform Guidance. There were no findings. The opinion was unmodified.

Ms. Applegate expressed appreciation to Amy Adler, AEA, and AEA accounting staff for their diligent work.

7B. Resolution 2017-06 – Executive Director Appointment

MOTION: Deputy Commissioner Parady made a motion to approve Resolution 2017-06. Vice-Chair Pruhs seconded the motion.

Vice-Chair Dick expressed appreciation to Mr. Springsteen and team for the fantastic job in performing their work and extra duties. Mr. Springsteen stated he will share the appreciation with staff for their effective ability in absorbing the workload. He expressed encouragement with Janet Reiser joining the team. Mr. Springsteen believes her extensive background in urban and rural energy will provide a benefit to AEA.

A roll call was taken, and the motion passed unanimously.

MOTION: Vice-Chair Pruhs made a motion to go into Executive Session to discuss confidential Battle Creek financing matters. Mr. Mitchell seconded the motion. Motion passed without objection.

**7C. Executive Session: 2:15 pm.
Battle Creek financing matters**

The Board reconvened its regular meeting at 2:50 pm. Chair Dick advised no formal actions were taken during executive session.

7D. Battle Creek Financing

- i. Resolution 2017-07 – Power Revenue Bonds \$40 M**
- ii. Resolution 2017-08 – Power Revenue Bonds \$1.2 M**
- iii. Resolution 2017-09 – Power Revenue Bonds \$5.7 M**

Mr. Springsteen informed the three resolutions for Power Revenue Bonds total \$47 million for the Battle Creek Diversion project (BCD). BCD is part of the Bradley Lake Hydro-Electric Project. The Bradley Lake Project Management Committee (BPMC) authorized the financing on December 6, 2017.

Mr. Springsteen explained Resolution 2017-07 regards a bond and loan not to exceed \$40 million. The loan qualified for the Federal Clean Renewable Energy Bond (CREBS) program and provides an interest subsidy of approximately \$19 million to the project.

Mr. Springsteen explained Resolution 2017-08 regards a bond and loan not to exceed \$1,239,000. The loan qualified for the Federal Qualified Energy Conservation Bond (QECB) program and provides an interest rate savings of approximately \$600,000 to the project.

Mr. Springsteen explained Resolution 2017-09 regards a bond and loan not to exceed \$5,761,000, which will be drawn down if and as needed during construction of the Battle Creek Diversion Project. This loan is the most expensive because it contains no interest rate subsidy.

Mr. Springsteen invited Bryan Carey (Project Manager), Brenda Applegate (CFO), and Cindy Cartledge (Bond counsel) to present and discuss the resolutions.

MOTION: Vice-Chair Pruhs made a motion to approve Resolution 2017-07, Resolution 2017-08, and Resolution 2017-09. Deputy Commissioner Parady seconded the motion.

Ms. Applegate provided an update regarding the financing package. Since the last meeting, AEA applied for and received volume cap for the QECB program in the amount of \$1,239,000, as discussed in Resolution 2017-08. The remainder of the \$47 million financing package in the amount of \$5,751,000 is a taxable portion and is discussed in Resolution 2017-09.

Ms. Applegate informed the lender selected for financing is CFC. The draft loan documents are included in the Board packet. Financing discussions are ongoing and closing is scheduled to occur by approximately December 27, 2017. The impetus to close the financing package in a

compressed timeline is prompted by the current tax reform bill being considered by Congress, and the bill's potential impacts to the financing.

Fred Eoff, PFM, walked the Board through a PowerPoint presentation, describing the background of the goals, processes, timeline, and current status of the financing procedure. Mr. Eoff explained the total \$47 million financing project is bifurcated into the three loan resolutions before the Board today. The hope is the proceeds of Loan Series A, \$40 million, and Loan Series B, \$1,239,000, will be sufficient to build the project. Series A and B will be fully funded by December 31, 2017, and have level principal amortization, as requested by the utilities. Loan Series C, \$5,751,000, has the most expensive interest rate and will be drawn against only if there are project costs that exceed Series A and B.

Vice-Chair Pruhs inquired as to the process of what happens if the project costs exceed \$47 million. Mr. Eoff noted the participating utilities would have to advance cash to cover any project overage costs above \$47 million. Mr. Eoff believes the advancement would not be returned until after the loan is satisfied and basically becomes an equity investment.

Chair Dick requested clarification if the potential cash advancement will be returned to the utilities or if it will be an equity investment. Mr. Eoff advised he has not reviewed the scenario closely and is not aware of a mechanism by which the cash advancement is recovered, unless an additional supplemental financing occurred to cover any overages.

Mr. Bjorkquist (AEA's attorney) commented the Power Sales Agreement (PSA) is constructed so the utilities get all of the power in exchange for paying all the costs associated with the project. It is in the best interest of utilities to complete the Battle Creek project in order to accomplish the anticipated benefits of the optional project work. Project overages become part of the cost of power and could be passed through to rate payers. The debt service on the optional project work does not reduce the excess Bradley Lake payments.

Deputy Commissioner Parady inquired as to current shared savings incentives for the contractor to utilizing only Series A and B. Mr. Carey indicated cost control is an ongoing goal with the contractor.

Mr. Eoff continued the presentation discussing the financial scenarios for utilization of Series A, B, and C bonds. He reviewed a cost of power summary comparison under different financial scenarios, including the impact of possible sequestration of the interest rate subsidy. If the tax bill in Congress produces significant ongoing annual deficits, it could automatically trigger sequestration of part or all of the subsidies.

Mr. Mitchell (board member) inquired as to the average cost of power per kilowatt on the Railbelt. Mr. Izzo (MEA's General Manager) explained rates are broken down based on different components. The voided costs are around 8.5 cents. These prices are around half, at about four cents. Mr. Izzo indicated MEA modeled cost scenarios placing the project 10% over budget and the results remained favorable for MEA to proceed. Mr. Izzo expressed his encouragement with the bids.

Vice-Chair Pruhs requested information regarding the agreement for reimbursing AEA for costs associated with Battle Creek. Mr. Carey indicated Battle Creek has a separate project code for administrative fees to be paid for by utilities. As part of the cost estimate of the \$47 million, there is a \$500,000 budget attributed for AEA staff until completion in 2020. Vice-Chair Pruhs does not agree the \$500,000 amount is sufficient. He believes this project requires year-round senior project management, and the \$500,000 would possibly supply one senior manager and support of a vehicle, air fare, and per diem. Vice-Chair Pruhs expressed he is leery the budgeted amount is adequate for AEA's good due diligence, stewardship, and oversight.

Chair Dick inquired as to the mechanism for AEA to recover costs that exceed \$500,000. Mr. Carey informed the \$500,000 number is only an estimate and we can recover costs above that amount.

Ms. Applegate introduced Cindy Cartledge, JDO Bond Counsel for the project. Mr. Cartledge provided context to the history of the aggregation of documents which allow for the issuance of bonds, including terms and conditions. Ms. Cartledge reviewed the details of the documents for each resolution separately. The purchaser of the bonds is National Cooperative Services Corporation. The bonds will be issued on a parity basis with the existing and outstanding Bradley Lake bonds.

Ms. Cartledge explained the BCD participating utilities have agreed, pursuant to the terms of a resolution, to fund the capital reserve fund to the level necessary and as required under the terms of the general bond resolution for one year of maximum annual debt service of approximately \$3.5 million. The capital reserve fund was created in 1989, and is supported by the moral obligation of the State of Alaska. A letter needs to be sent to the State within 10 days informing of this issuance. Ms. Cartledge informed the BPMC approved a resolution yesterday allowing the financing to move forward.

Vice-Chair Pruhs expressed criticism the loan resolutions of \$47 million brought before the Board for approval today are presented without review of the utilities' balance sheets and financial information. Vice-Chair Pruhs believes the AEA Board has a fiduciary responsibility to evaluate the financial statements and strength of the utilities, who are promising to pay the moral obligation loans from the State of Alaska. Vice-Chair Pruhs commented he is in favor of the project, but has a problem that the financial information was not provided to the Board for review. He does not have any reason to suspect review of the financial information would have any bearing on the final decision. Vice-Chair Pruhs stated, for the record, the financial information of the utilities was not reviewed by the Board. Vice-Chair Pruhs indicated he may recuse himself in the future if financial information is not provided again.

Mr. Bjorkquist replied that the way to evaluate this is by the cost of power. Each utility is obligated to pay for the power from Bradley Lake. If they default, they don't get the power and it can be sold to another utility according to the PSA. The utilities will want to get the lower cost of power available to them and the Battle Creek diversion is the lower energy costs.

Mr. Karl (board member) agreed with the comments from Vice-Chair Pruhs. Mr. Karl received comfort from Mr. Izzo's testimony that MEA was willing to buy all the power from this project.

Ms. Applegate informed the bond resolution includes receiving financial statements annually from utilities for monitoring purposes. Deputy Commissioner Parady requested Ms. Applegate retrieve the financial statements and provide them to Board. Ms. Applegate stated she does not know specifically where the financial statements are located and would have to look for them.

Chair Dick indicated the options to move forward are to table the vote on the resolutions until the financial statements are reviewed, take a break until the financial statements are located and reviewed, or vote on the resolutions without the financial statements.

Mr. Mitchell finds comfort in knowing the purchaser of the offering and the market reviewed this loan through their due diligence process and found it to be an acceptable transaction and structure for their credit purposes. Mr. Mitchell does not believe his review of the utilities' financial statements would provide additional comfort, as long as there is one utility willing to accept the entire take.

Mr. Izzo discussed the financial strength of MEA.

Ms. Cartledge informed there will be three loan agreements entered into, one in connection with each series of the bonds. The designated officers of AEA under the terms of the supplemental resolution are the Executive Director, Acting Executive Director, and Chief Financial Officer. The designated officers can approve the final terms of those documents and sign on behalf of the Authority.

Deputy Commissioner Parady expressed his readiness to vote on the resolutions. He referenced the \$19 million in interest savings, the backing of the RCA certificate requirement, the willingness of the utilities to take as much power as possible, and the 30-year partnership with the state's six primary utilities.

A roll call was taken to approve Resolution 2017-07, and the motion passed unanimously.

A roll call was taken to approve Resolution 2017-08, and the motion passed unanimously.

A roll call was taken to approve Resolution 2017-09, and the motion passed unanimously.

8. DIRECTOR COMMENTS

Mr. Springsteen discussed the use of microgrids in Alaska and noted they are primarily in island mode. There is ongoing interest in Alaska's experience in small remote power systems, integrating renewable energy into small systems, and how those lessons learned can be applied in Lower 48 microgrids. The quarterly project fact sheets are available for review in the packet.

8A. Next regularly scheduled meeting Thur., January 11, 2018

9. BOARD COMMENTS

Deputy Commissioner Parady expressed appreciation to staff for the financing project brought before the Board today.

Mr. Karl reiterated appreciation to staff and believes there is abundant opportunity for Alaska to be a leader.

Mr. Wilken and Mr. Pruhs thanked Ms. Applegate and her team for delivering a clean audit. He wished everyone a Merry Christmas.

Chair Dick expressed appreciation for the outstanding work of staff.

Ms. Brown commented staff has raised the bar for audits.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 3:57 pm.



John Springsteen, Acting Executive Director/Secretary
Alaska Energy Authority