



**Alaska Energy Authority
BOARD MEETING MINUTES
Wednesday, November 28, 2018
Anchorage, Alaska**

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Energy Authority to order on November 28, 2018 at 12:18 pm. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Elaine Brown (Public Member); Bernie Karl (Public Member); Joe Beedle (Public Member); Karl Kassel (Public Member); and Deven Mitchell (DOR).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Janet Reiser, Amy Adler, Brenda Applegate, Salina Bearden, Jocelyn Garner, Michele Hope, Kirk Warren, Teri Webster (AEA); Stefan Saldanha and Jerry Juday (Department of Law).

Others present: Sunny Morrison (Accu-Type Depositions); and Bikky Shrestha (BDO).

4. AGENDA APPROVAL

MOTION: A motion was made by Mr. Karl to approve the agenda. The motion was seconded by Ms. Brown.

The motion to approve the agenda passed without objection.

5. PUBLIC COMMENTS

None.

6. PRIOR MINUTES – September 19, 2018

MOTION: A motion was made by Mr. Karl to adopt the Minutes of September 19, 2018. Ms. Brown seconded the motion.

Motion passed without objection.

7. NEW BUSINESS

Chair Pruhs welcomed new Board members Mr. Beedle, Mr. Kassel, and Mr. Mitchell.

7A. AEA Financials

Janet Reiser, AEA Executive Director, invited Bikky Shrestha of BDO to present the audited financial statements. Mr. Shrestha expressed appreciation to the staff for their assistance during the audit. The audit was completed as of October 26, 2018. The object of the audit was to obtain a reasonable, but not absolute assurance, on whether the financial statements are free from material misstatements. An unmodified opinion on the financial statements was issued. All records and information requested by BDO was obtained freely and management cooperation was excellent throughout the process.

Mr. Shrestha noted there were no new accounting policies adopted this year. There was one corrected misstatement related to updating disclosures in the financials. There were no significant deficiencies, no material weaknesses, no significant findings and issues, no disagreements with management, and no significant difficulties encountered. AEA is subject to the Federal Single Audit Act. Mr. Shrestha reviewed the report included in the member packet. An unmodified opinion was given and no issues were noted. Staff advised the Battle Creek financing of \$41 million was included in the balance sheet this year.

Mr. Beedle asked if there was concern regarding the corrected misstatement. Mr. Shrestha stated the corrected misstatement was reported to management. It does not have a big impact on the financial statements. Mr. Beedle expressed his unease and requested discussion regarding the Susitna Watana Hydroelectric Project studies expenses that were capitalized appropriately as unimpaired intangible assets. Staff explained the process is in abeyance with Federal Energy Regulatory Commission (FERC). The value of the studies has been preserved for this year. Approximately \$100 million additional funding is needed to get to FERC licensing through the current process. Staff is researching alternative and less expensive processes that would lead to FERC licensing. The Governor has not given AEA any specific direction to staff. Chair Pruhs indicated his belief the Governor is in favor of the dam.

Mr. Beedle commented all of AEA's liquid assets are restricted. He asked if the de minimis indirect cost recovery for facilities and administration at 10% is reasonable and if there were any opportunities to create revenues to cover the overhead. Mr. Shrestha deferred to staff for the answer. Staff discussed federal cost proposals have been reviewed to possibly attach an approved rate to the federal programs. AEA, as a whole, is structured to be a net zero organization.

Mr. Beedle suggested a new entrepreneurial paradigm for AEA be implemented to fulfill the needs of the state and dedicate for the mission of AEA in similar unrestricted fashion as University of Alaska and their auxiliary services. Mr. Mitchell inquired if AEA has the structure to accommodate unrestricted revenues. Staff believes statutory modification would have to occur in order to hold unrestricted revenues. Mr. Beedle suggested the modification be placed on the legislative agenda. Mr. Beedle feels the management discretion and analysis (MD&A) of AEA is lacking. He requested additional articulation by management.

Mr. Mitchell discussed the Power Cost Equalization (PCE) program restricted asset. He noted the fiduciary responsibility for investing the PCE is held by the Department of Revenue (DOR) and the use is defined by statute. Mr. Mitchell stated it is unusual for PCE to be on AEA's books. He noted the community of King Cove has expressed concern regarding the PCE

program creating a disincentive for renewable projects because of subsidy cuts. Mr. Mitchell encouraged the process to be reviewed to empower communities to utilize renewables and eventually get to the subsidy pricing without needing the State assistance. Mr. Mitchell noted this would be a grand undertaking and suggested there are many stakeholders involved in any sort of change. Chair Pruhs believes the change would begin in Bethel. Mr. Mitchell recommended AEA be allowed by statute to enter into long-term contractual grant agreements that restrict a portion of the funding and cannot be appropriated for any other purpose.

Ms. Reiser commented staff has discussed these issues and believes they need to be brought forward at the right time with the right advocates. She feels they will add benefit to the program.

MOTION: A motion was made by Mr. Beedle to accept the Single Audit and the Financial Statement Audit for AEA. Motion seconded by Mr. Kassel.

A roll call was taken, and the motion was approved unanimously, with Ms. Brown absent for the vote.

7B. Railbelt Resolution

None.

8. DIRECTOR COMMENTS

Ms. Reiser reviewed the sections included in the Board packet. She noted Chair Pruhs requested information at the prior meeting regarding Railbelt activity expenditures. Ms. Reiser discussed approximately \$480,000 a year is spent on Railbelt activities annually and \$360,000 is reimbursed directly by the utilities. Ms. Reiser explained AEA is moving toward a traditional unified management structure in conjunction with modifications on shared services. Staff is excited about the direction.

Ms. Reiser hopes the regulatory relief for diesel will be concluded soon and the notice of rule making is expected to be published in the fall of 2019. Ms. Reiser discussed the possible changes to the Rural Power System Upgrade (RPSU) program that would move from a direct 100% grant to a match debt-financing structure. The public comment period will begin in the first quarter of next year. The VW Beneficiary and Mitigation Plan is moving forward and was approved by the Governor. Staff is preparing the plan to be submitted to the trustee in order for the \$8.125 million to be available as early as late January. A nationally competitive amount of \$1.2 billion is open for electric vehicle charging infrastructure applications; this portion of the VW settlement is being administered by Electrify America. A working group has been convened to review the possibility of electric vehicles for Alaska.

Ms. Reiser informed work on Battle Creek has been shut down for the winter due to snow. The work remains on budget and the scheduled completion remains August 2020. Ms. Reiser discussed the work on Bradley Creek and the Intertie. There are two dockets open before the Regulatory Commission of Alaska (RCA). The RCA is preparing to submit a letter to the Legislature regarding progress. The utilities have created an organizational development team for the Railbelt Reliability Council (RRC). Ms. Reiser and Kirk Warren attend the meetings and ensure the entire region is being represented. Related legislation may be drafted and AEA may be asked to provide comment.

Mr. Beedle inquired if the issues with the equipment depreciation adjustment have been resolved. Mr. Warren noted he is not familiar with depreciation issues with the SVCs. He believes the depreciation life is 40 years. The SVCs have a manufacturer maintenance and operation agreement and are working well. A study on an oscillation issue with the SVCs is ongoing. Staff noted the actual life of the SVCs at Bradley was 20 years and not the expected 36 years. The older Bradley SVCs were replaced and will need to be depreciated over a shorter period of time. The SVC replacement is a pass-through cost.

Chair Pruhs requested an update on the process for determining the useful life of rural utility systems, including maintenance, replacement and reserves (R&R), age of generator, and hours of usage per year. Chair Pruhs expressed his concern the State policy makers do not know the current liability or the useful life of the rural infrastructure systems. Ms. Reiser does not believe any rural facilities have an R&R account. A pilot program is ongoing to retrieve data from the rural utilities. Staff efforts have increased. Ms. Reiser believes data collection, information, management of the asset, and mandatory R&R accounts will be easier to enforce when the new regulations are in place through loan documents. No impositions for R&R accounts were eligible under the grant system.

Chair Pruhs encouraged mandatory information be given, such as age of the units, hours on the units, and expected life of unit, in order to receive current PCE funds. Ms. Reiser noted gathering information is challenging and is being addressed. Circuit riders evaluate communities annually regarding life/safety, reliability, and cost. The priority list is then created from the evaluation. Ms. Reiser feels there is a statutory looming issue that AEA is tasked with managing and repairing community energy upgrades or community renewable energy integration.

Mr. Mitchell commented the model is ineffective and rewards communities for not taking care of the systems by replacing the systems. Ms. Reiser agreed the method is suboptimal.

The next regularly scheduled meeting is Wednesday, January 9, 2019.

9. BOARD COMMENTS

Mr. Karl expressed appreciation to Ms. Reiser for her work. He feels there are great opportunities currently to be shared with the Governor. Mr. Karl thanked the staff for their efforts, especially the weekly reports. He welcomed new Board members.

Mr. Beedle expressed appreciation for the orientation meeting. He believes the financial statement is an important living document that provides answers to nuanced questions. Mr. Beedle suggests the MD&A section could show where the opportunities exist. He encouraged Ms. Reiser to continue the strategic planning and the Board will review plans and help with advocating for AEA's aspirations.

Mr. Kassell commented he is glad to be on the AEA Board and has a lengthy history in the area of energy, including energy efficiency and renewable energy. Mr. Kassell believes the problems and challenges need to be solved with PCE. He feels the energy opportunities need to be

maximized for the state. Mr. Kassell noted the Governor recognized his passion for energy issues and asked if he would serve on the Board. Mr. Kassell is excited and looking forward to continued work.

Mr. Mitchell continued his comments on a potential adjustment to the PCE Program. He suggested one of the natural partners for AEA could be the Alaska Municipal Bond Bank for purposes of providing a tax exempt financing mechanism. Mr. Mitchell offered to be a resource to assist in explaining how to participate currently with some communities.

Chair Pruhs thanked staff for their efforts and particularly Brenda Applegate for the financial reports. He welcomed the new Board members. Chair Pruhs requested Ms. Reiser discuss the legislative priorities at either the January or February meeting.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 1:12 pm.



Secretary
Alaska Energy Authority