

AEA BOARD MEETING MINUTES
Thursday, June 28, 2018
Anchorage, Alaska

1. CALL TO ORDER

Chair Dick called the meeting of the Alaska Energy Authority to order on June 28, 2018 at 10:01 am. 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)) (phone); Mike Barnhill (Deputy Commissioner (Department of Revenue (DOR))); Elaine Brown (Public Member); Gary Wilken (Public Member); and Bernie Karl (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Brenda Applegate, Katie Conway, Michelle Hope, Cady Lister, Neil McMahon, Devany Plentovich, Janet Reiser, Kirk Warren, Teri Webster, Candy Williams; and Stefan Saldanha (Department of Law).

Others present: Kristen Arnold (Denali Commission); and James Brooks (Juneau Empire) (phone).

4. AGENDA APPROVAL

MOTION: Mr. Wilken made a motion to approve the agenda. The motion was seconded by Vice-Chair Pruhs.

Vice-Chair Pruhs suggested a friendly amendment to remove Item 7B. Executive Session. There was no objection to the friendly amendment to remove Item 7B. Executive Session.

The motion to approve the agenda as amended, removing Item 7B. Executive Session, passed without objection.

5. PUBLIC COMMENTS

None.

6. PRIOR MINUTES – April 26, 2018

MOTION: Ms. Brown made a motion to adopt the Minutes of April 26, 2018. Vice-Chair Pruhs seconded the motion.

Motion passed without objection.

7. NEW BUSINESS

7A. Changes to Rural Utilities Programs

Janet Reiser, AEA Executive Director, invited Cady Lister, Chief Economist, and Neil McMahon, Energy Planning Manager, to deliver the PowerPoint presentation regarding the changes to AEA's Rural Utility Program. These issues have been brought before the Board during the previous few meetings and the presentation was expected to address the questions and concerns raised by Board members. She believes the changes will offer responsible and transparent service to as many communities as possible, given the increasingly limited fiscal situation of the State. Ms. Reiser noted, at the end of the presentation, staff will ask the Board to consider a motion to support AEA in moving forward with the extensive regulations process, based on the recommended changes.

Ms. Lister explained the Rural Power System Upgrade (RPSU) program serves communities with populations of up to 2,000 people. The proposed changes are a direct response to the State's reduced funding levels and changed fiscal environment. She believes the changes will create systems that support receiving the full economic benefits of investment in energy infrastructure in rural Alaska. Ms. Lister repeated AEA's objective to assist rural communities in making the transition from a nearly 100% reliance on grant funded assets to the utilization of debt financing and other revenue sources to maintain and improve their energy infrastructure.

Mr. McMahon discussed the first goal of the changes is to ensure the rural power systems and infrastructure will be able to operate at an appropriate standard of safety, reliability and efficiency. The second goal is for the rural power systems to be built and maintained with an appropriate amount of substantial local economic participation. Vice-Chair Pruhs requested a clear set of metrics be created that will track the achievement progress of the two stated goals. The information will be useful to the Board and to the involved communities. Ms. Reiser agreed.

Mr. McMahon noted previous presentations discussed the processes regarding evaluation of community needs, prioritization and selection of projects, and refining and finalizing project scopes. The presentation today focuses on three potential strategies to determine the appropriate grant amounts for the RPSU projects. Strategy One is a flat grant for all projects, which allows for a specific number of projects to be funded. Low cost projects benefit more from this strategy than higher cost projects. Mr. McMahon explained Strategy Two utilizes a required match percentage for each project. An example of this is 70% grant funding and 30% community match funding. Higher cost projects receive more grant dollars than lower cost projects from this strategy.



Mr. McMahon explained Strategy Three includes capital expenses (CAPEX) being partly paid by ratepayers through a loan by the State or another entity. The amount would be limited by a maximum rate increase to be determined in collaboration with each community not to exceed five cents per kilowatt-hour (kWh). The remainder of the project costs would be covered by grant funding. However, the grant funding amount would be capped at \$4 million per project. This is the same cap used by the Renewable Energy Fund (REF). One of the main benefits of this strategy is all ratepayers would be treated very similarly across communities. Mr. McMahon informed staff recommends utilizing Strategy Three, the ratepayer CAPEX repayment.

Vice-Chair Pruhs inquired about current programs with the State where the ratepayer and utility are paying back a loan. Ms. Lister indicated the State administers the Power Project Fund Loan Program at AEA. There are no current defaults in the program. The outstanding portfolio is approximately \$17 million with an additional \$12 million in the fixed line of credit. The State currently has tools in place to utilize Strategy Three without creating a new loan program. Funding for repair and replacement is a separate, but connected effort. It could be possible to attach alignment requirements to a State loan program regarding a repair and replacement fund.

Ms. Reiser noted AEA is currently handling approximately 15 projects. AEA is looking for two additional project managers and one engineer. Vice-Chair Pruhs recommended matching AEA's internal project management capabilities with the number of projects undertaken.

Mr. McMahon explained the presentation uses the example of a variety of 25 Alaskan RPSU-eligible communities, utilizing diesel powerhouses and distribution systems. The communities have an established rate structure and most are not economically regulated by Regulatory Commissioner of Alaska (RCA). Mr. McMahon informed a powerhouse assessment will be designed within the next six months to collect information, including the remaining economic life of each community's power assets. Some utilities currently have repair and replacement funds, but most systems take out loans for those costs. Proactively saving for repair and replacement funds are not reimbursable through the Power Cost Equalization (PCE) Program, because current customers can only be charged for actual expenses and cannot be charged for future assets. Mr. Karl suggested AEA be a leader in affecting a change to that structure for the future. He noted power systems have an average useful life of 10 years or 30,000 hours, and the community is likely to be active in 10 years, even if an individual ratepayer has left the community.

Vice-Chair Pruhs inquired as to the amortization schedule. Ms. Lister indicated the illustrations assume a 20-year amortization payback for the comprehensive power system, including onsite rebuilding of engines, engine replacements, and regular maintenance. Vice-Chair Pruhs commented the facility may have a 20-year life, and the generators and switch gears may have a 10-year life, which means up to 50% of the original cost will have to be spent again in 10 years on the power side.

Ms. Brown inquired as to the collateral structure. Ms. Lister noted collateral for loans is different for each community. There is no explicit collateral requirement in statute or regulation. In the past, collateral has included PCE assignments, community assistance programs assignment, power purchase agreement assignments, local fish tax, revenue from sale of electricity, and equipment.

Vice-Chair Pruhs inquired regarding the effect the proposed increased rate from Strategy Three has on the PCE endowment. Mr. McMahon noted that PCE funds will cover eligible expenses as the rate increases. The PCE covers 95% of reported, eligible expenses above its floor. A PCE-eligible residential customer using 6,000 kWh per year, with the five-cent capped increase per kWh would have a real cost added of \$7 per year. For the same PCE-eligible residential customer, a 10-cent/kWh increase in cost-based rate would add \$22 per year to the cost. The illustrations include an assumed efficiency improvement of three cents per kWh. Vice-Chair Pruhs commented on the possibility of residential customers conducting a business from their home.

Mr. McMahon noted an average of 65% of the kWh consumed in communities are not eligible for the PCE subsidy. It is important to consider cost impacts to these customers. Mr. McMahon described two examples of the cost increases for non-PCE customers. A small school consuming 100,000 kWh per year would have an additional cost of \$2,203 per year at an increase of five cents per kWh, and an additional cost of \$7,203 per year at an increase of 10 cents per kWh. A small business consuming 15,000 kWh per year would have an additional cost of \$330 per year at an increase of five cents per kWh, and an additional cost of \$1,080 per year at an increase of 10 cents per kWh.

Vice-Chair Pruhs commented on what the effects using Strategy Three would be on the commercial aspect of the community. Mr. McMahon hopes the rate increase capped at five cents per kWh would be reasonable and would not necessarily hurt local employment or economy. He believes an RPSU project would likely improve the efficiency of the power system, which would help offset the anticipated cost increase. The quality of service and power to the community should also be improved by an RPSU project.

Vice-Chair Pruhs requested an amount be set aside for the replacement and repair reserve account and be included in the cost calculation for Strategy Three. Ms. Reiser informed the current analysis does not include a reserve account and staff will review and work on his request. Vice-Chair Pruhs asked if staff keeps track of the private sector capacity for this type of qualified rural project work. Ms. Reiser noted a decrease in contractors willing and available to work in rural Alaska. One of the stated efforts is to make rural work more attractive through contracting and procurement procedures to encourage additional participation.

Ms. Reiser emphasized each community in rural Alaska has its unique circumstances, challenges and social factors. There is clearly a greater need for assistance than there are funds available. She believes the proposed recommendations provide a judicious

framework for the allocation of the limited funds. Vice-Chair Pruhs expressed his support for the recommendations and encouraged the final draft include as much flexibility as possible for the communities.

Ms. Lister showed the proposed communications and strategy timeline in moving forward with this process. She noted concerns regarding the communications portion of the strategy and regulations process have been raised by Mr. Wilken and Deputy Commissioner Parady in the past. Ms. Lister commented on the recognition amongst Alaskans that the fiscal environment has changed. She expressed the importance of focusing on concerns and communicating any available mitigation efforts.

Mr. Wilken suggested the second step in the timeline be a dedicated fund for PCE management where everyone contributes a little to benefit those that need it the most. He requested Ms. Brown, Ms. Lister, Ms. Reiser and Deputy Commissioner Parady make an appointment with Senator Lyman Hoffman to clearly apprise him of this process and seek his assistance. Ms. Reiser committed to visit with Senator Hoffman before the next meeting. Mr. Wilken reiterated a comment he gave at a previous meeting regarding the need for 10 specific pilot programs to be conducted that will be successful examples for future community involvement and the thousands of naysayers. Mr. Wilken admires staff's optimism and motivation, but believes this is a generational project and must be structured correctly from the beginning.

Mr. Wilken asked if the pilot program communities will be rate-based utilities based on an annual cost of service study. Ms. Reiser advised AEA does not set rates, and each utility has a different way of setting rates. There is a concern that utilities are not capturing all of their costs in their rate setting. Ms. Lister noted cost of service studies are cost prohibitive for most very small utilities and are not conducted often. There are 14 economically regulated utilities within the PCE structure. Mr. Wilken echoed the importance of a replacement and maintenance reserve account be included in these changes.

MOTION: Mr. Wilken made a motion to support AEA to open the regulation process for the RPSU program to implement AEA's recommendations. Mr. Karl seconded the motion.

Deputy Commissioner requested staff to prepare a summary of the public comments and bring before the Board later this year. Ms. Reiser agreed.

Vice-Chair Pruhs asked if the recommendations in the presentation are going to change as a result of this Board meeting discussion. Ms. Reiser noted there may be changes through the process of conversations on PCE and the public comment period. Vice-Chair Pruhs suggested removing the word implement from the motion in order to provide flexibility for changes and input. He suggested the motion read, "Support AEA to open the regulation process for the RPSU program."

Motion withdrawn by maker and second.



MOTION: Ms. Brown made a motion to support initiating changes to the Rural Power System Upgrade (RPSU) program as presented. Mr. Wilken seconded the motion.

Motion passed without objection.

8. DIRECTOR COMMENTS

Ms. Reiser expressed appreciation for being allowed to attend National Lab Day last month. The outreach program has been active and successful. Ms. Reiser informed she will send Board members an update summary. It will include a review of the public Railbelt GDS Report. She noted the date for the Memorandum of Understanding has been extended to the end of August. Ms. Reiser informed a presentation was made to the RCA about two weeks ago regarding the impact of rising Railbelt costs to PCE. She will provide the information to the Board.

The next regularly scheduled meeting is Thursday, August 9, 2018.

9. BOARD COMMENTS

Mr. Wilken welcomed Mr. Saldanha as the new representative from Department of Law. Mr. Saldanha informed Brian Bjorkquist is retiring at the end of July.

Mr. Karl underlined the importance of meeting with Senator Lyman.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 11:27 am.



Janet Reiser, Executive Director/Secretary
Alaska Energy Authority