



BOARD MEETING MINUTES
Thursday, April 26, 2018
Anchorage, Alaska

1. CALL TO ORDER

Chair Dick called the meeting of the Alaska Energy Authority to order on April 26, 2018 at 10:00 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)) (phone); Gary Wilken (Public Member); and Elaine Brown (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Janet Reiser, Amy Adler, Brenda Applegate, Katherine Beale, Bryan Carey, Tom Erickson, Alan Fetters, Cady Lister, David Lockard, Katie Conway, Neil McMahon, Devany Plentovich, Linda Senn, Sam Tappen, Tim Sandstrom, Kirk Warren, Teri Webster (AEA); and Brian Bjorkquist (Department of Law).

Others present: Tom Wolf (Denali Commission); Paul McLarnon (HDR); Tony Izzo (Matanuska Electric Association); Alan Bailey (Petroleum News); Fred Eoff (PFM); Bernie Smith (Public); Amy Tribbett (Walsh Sheppard); Lois Epstein (Wilderness Society); Anne Dougherty (CIRI); and Ladonna Lindley (Accu-Type Depositions).

4. AGENDA APPROVAL

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

The motion to approve the agenda passed without objection.

5. PUBLIC COMMENTS

Tom Wolf, Energy Program Manager Denali Commission, expressed appreciation to Janet Reiser, AEA Executive Director, and her team for their recent assistance in the development and execution of approximately 24 grant actions, which will enable Denali Commission to continue its work for the near future.

6. PRIOR MINUTES – March 1, 2018

MOTION: Vice-Chair Pruhs made a motion to adopt the Minutes of March 1, 2018. Ms. Brown seconded the motion.

Motion passed without objection.

7. NEW BUSINESS

7A. Changes to Rural Utilities Programs

Ms. Reiser informed the update will review changes and planned strategies for the rural utilities program. Ms. Reiser invited Cady Lister, Chief Economist, and Neil McMahon, Energy Planning Manager, to deliver the presentation. Ms. Lister reminded the Board of the extensive presentation given at the January meeting regarding proposed changes for the Rural Power System Upgrade (RPSU). The presentation today will focus on the project-financing component of the program.

Ms. Lister reviewed the history of the approximately 200 varied power systems in rural Alaska and the resultant federal and state grant funds for infrastructure maintenance. The proposed changes are expected to allow for three main benefits; 1) providing understandable and transparent processes for selecting communities to receive projects and support, 2) serving more communities with fewer government dollars, and 3) easing the transition in rural utilities to rely on a more diversified capital stack to maintain the power systems.

For rural communities with sustainable energy infrastructure the vision is to promote the full economic life of the power generation, transmission, distribution and bulk fuel storage. Ms. Lister discussed in depth the first two goals of the Rural Utility Program; 1) rural power systems will operate at an appropriate standard to ensure safety, reliability and efficiency, and 2) rural power systems are built and maintained with substantial local economic participation. Goals 3 and 4 regarding lasting relationships and system maintenance will be discussed in detail at a future meeting.

Ms. Lister gave an overview of four current program areas and each area's corresponding transformative target; 1) the current program is nearly 100% grant funded for full replacement projects and the intent is to increase local match requirements for appropriately sized projects, 2) "Readiness" is not well defined in evaluation of utility readiness for infrastructure projects and the intent is for utilities to meet a minimum readiness score to receive infrastructure projects, 3) limited availability of the type of training and the frequency of training and the intent is to increase the type of frequency of training for the rural local workforce, and 4) the ad-hoc communication when problems occur after a project is complete will transform to consistent communication for the life of the project.

Vice-Chair Pruhs requested clarification regarding the extent of AEA's involvement in shepherding the discussed listed goals and program area targets. Ms. Lister explained

AEA's relationship and the level of service provided to different communities will be designed as a menu of options, focusing on collaboration with the community to meet the specific needs of that community and appropriately deploying the current resources.

Ms. Lister gave an example that the 58 villages where Alaska Village Electric Cooperative (AVEC) operates will not need the same level of service as others. AVEC provides the training of the local operators and business management assistance. AVEC is also successful in obtaining grant funding. The specifics of how training will be funded in the remaining 142 communities has yet to be determined. Ms. Reiser commented training collaboration with other organizations, including Northwest Arctic Borough, is ongoing.

Ms. Brown asked if AEA is partnering with AVEC to help educate the non-AVEC power plants and other power systems with the surrounding communities. Ms. Lister discussed AEA collaborates with many partners and seeks to ensure there are at least two or three people in the community receiving the training.

Mr. McMahon continued the presentation describing the old process and the change within the new process. The old process consisted primarily of 100% grant-funded projects that may include a new powerhouse and/or distribution system for a community, with project costs between \$2 million and \$4 million. The new process outlined will consist of loan and grant-funded project types including new powerhouse and/or distribution systems, improvements to existing systems, and cost-effective renewable energy systems, with project costs between \$150,000 to \$4 million. The loan money could come from AEA's Power Project Loan Fund, federal government, local and regional banks, and other available lending institutions.

Mr. McMahon discussed in detail the current and continued process of evaluating community needs, prioritizing and selecting projects, refining and finalizing project scope, and determining appropriate grant amount. AEA staff recommends the processes be codified within the regulations.

Vice-Chair Pruhs commented on the low expectation of funding two projects a year would take approximately 70 years to complete projects for the 142 non-AVEC communities. He noted systems do not have a 70-year lifespan. Ms. Reiser agreed the issue is a problem. Vice-Chair Pruhs suggested an accurate assessment of the useful and functional life of current facilities is necessary before the new prioritization and selection processes can be utilized. He noted this request has been outstanding request for approximately five years. Ms. Reiser agreed good data acquisition is a significant part of the overall plan and specific focus strategies are being developed.

Mr. McMahon continued the presentation discussing the hypothetical scenario and assumptions of customer rate increases for six communities to cover only project costs without grants.

Mr. Wilken commented two of the villages on the list organize against developing Alaska's resources, which provide the economic ability for AEA. Mr. Wilken stated he is sensitive to

folks that want to have their cake and eat it too. He believes if we are going to develop our resources, then we need to do it hand-in-hand as Alaskans.

Deputy Commissioner Parady stated a different perspective for the record. He believes the question of resource development involves many political and cultural elements and is entirely distinct from the functionality of power generation.

Mr. McMahon continued the presentation discussing the same general hypothetical scenario and assumptions for six communities, while limiting rate increases through grant utilization. Ms. Brown inquired if energy consumption decreases within communities when the rates increase. Ms. Lister informed no studies in Alaska have occurred, but studies taken place in larger markets with more data have shown decreased energy consumption when rates increased.

Mr. McMahon requested the Board support the proposed regulation change of increasing the local match requirement and requested the Board support recapitalization of PPF loan funds, as needed.

Mr. Wilken requested staff consider the legislative possibility of utilizing one percent, for example, of the PCE funds annually toward achieving rural sustainability of affordable energy. Chair Dick believes the political dynamics surrounding PCE create a challenge and crafting the message correctly is important. Vice-Chair Pruhs supports the concept and believes a regulation change of an increased community match will be a positive factor.

Mr. Wilken applauded the efforts of staff. He requested staff consider testing the presented goals and changes initially on a small number of villages. The feedback from the test survey could provide positive data and support for widespread and complete implementation. He suggested the wording on Slide 11 be amended to communicate the select number of projects is based on available funding levels and willingness to participate. Mr. Wilken expressed concern the efforts may collapse and may not be supported by communities.

Deputy Commissioner Barnhill echoed the applause for the direction and initiative taken by staff and echoed the valid concerns expressed. He encouraged staff to review the concerns. It would be unfortunate to move forward and perhaps encounter immediate resistance that could not be resolved positively.

Deputy Commissioner Parady expressed support for these efforts to move forward and echoed the comments of Mr. Wilken and Deputy Commissioner Barnhill.

Ms. Reiser advised staff will prepare communication and outreach, including any regulatory processes, as the next steps to be considered by the Board.

7B. Battle Creek Project Update

Ms. Reiser requested Bryan Carey, one of AEA's project managers, to provide the Battle Creek Project update. Mr. Carey informed work at Battle Creek is moving forward rapidly. Two barges have delivered heavy equipment within the last two weeks. Brushing work

and road clearing to the dam has begun. A water well has been installed. Three more barges are expected to come in soon with additional equipment and construction camp materials. Mr. Carey noted the contractor has provided several benefits, including barge delivery of the new loader to Bradley Lake, which will save the project approximately \$20,000 in costs and expedite the delivery date.

Mr. Carey reported the test blast is scheduled for May 10th, after which the new road blasting will begin. The Bradley Lake Road is now closed to the public for the next two years. A ceremony celebrating the beginning of construction is anticipated to be scheduled at the site in mid-June.

Ms. Reiser expressed appreciation to Mr. Carey and his team for the progress thus far.

7C. Railbelt USO Update

Ms. Reiser requested Kirk Warren, AEA' Railbelt Energy Projects Director, provide the Railbelt Unified System Operator (USO) update. Mr. Warren reminded members the Regulatory Commission of Alaska (RCA) made a finding and recommendation in 2015 for institutional reform in the Railbelt. Mr. Warren provided members with an informational compare/contrast document entitled Railbelt System Reform identifying three public concepts from; 1) House Bill 382, introduced by Representative Wool, 2) GDS, and 3) AEA.

Mr. Warren informed GDS is a consultant to the Alaska Railbelt Cooperative Transmission & Electric Company (ARCTEC), which is comprised of 4 of the 6 railbelt utilities; CEA, MEA, GVEA, and City of Seward. GDS is circulating an MOU with the Railbelt utilities and will provide their report to RCA on May 1st. The GDS report has not been adopted by ARCTEC, nor has it been adopted by any individual utility.

AEA's position has been presented before the House Energy Committee and before the Board at the last meeting. AEA has worked closely with GDS, including participation in an individual workshop with the Railbelt utilities and stakeholders.

Mr. Warren gave a detailed review and comparison of the three proposal's function, form, and governance structure as described on the handout. Economic dispatch is considered a core function under HB 382 and AEA's proposals. Economic dispatch is not considered a core function under the GDS proposal and should be reviewed after the entity is established. All three proposals agree Railbelt-wide reliability standards, regional planning, and open access and interconnection standards are core functions of the established entity. All three proposals agree the entity will most likely be paid for by the rate payers.

Regarding the form section of the three proposals, GDS recommends a new private USO entity be created. HB 382 recommends a new State entity is created as a subdivision of RCA. AEA recommends a new entity is created, with a board of directors, very similar to the GDS proposal. The details have not yet been determined. Ms. Reiser explained AEA would not be the USO, but rather would have a seat on the board. Staff believes it may be

economical for AEA to house some of the back office functions, because AEA administration currently administers for its owned assets.

All three proposals agree on the governance structure that the utilities have a minority board membership. HB 382 recommends a 16-member board and includes stakeholders and independent power producers. Both the GDS and AEA recommend a 10-member board and includes stakeholders and independent power producers. Mandatory utility membership is required by HB 382 and AEA. The GDS proposal does not require mandatory utility membership explicitly, but enforces significant penalties for being a non-member.

Ms. Reiser informed additional specific information will be provided during executive session. She believes there is significant opportunity to lower costs, which may manifest as either lower rates or a slower rise of rates. Overall, the program is expected to have a positive impact for consumers, as well as economic development in the state.

Brian Bjorkquist, Department of Law, requested to take a brief at-ease to discuss with Ms. Reiser and Mr. Warren before executive session. Chair Dick agreed and the Board took a brief at-ease at 11:25 am.

The Board reconvened its regular meeting at 11:27 am.

MOTION: A motion was made by Vice-Chair Pruhs to go into Executive Session to discuss confidential deliberative process related to Railbelt electrical system. Ms. Brown seconded the motion.

The motion was approved without objection.

**7D. Executive Session: 11:28 am
Railbelt**

The Board reconvened its regular meeting at 12:14 pm.

Chair Dick stated no formal action was taken on the matters discussed in executive session.

8. DIRECTOR COMMENTS

Ms. Reiser expressed appreciation for the Board's time and attention. She acknowledge staff's diligent work and efforts of the Denali Commission and Mr. Wolf. Ms. Reiser informed the Rural Energy Conference was a very successful, positive experience. She reported a workplace safety initiative has been launched. The innovation team is meeting regularly to discuss new ways to bring collaboration and innovation to current work. Ms. Reiser explained she is participating actively on the Governor's Climate Action Leadership Team.

The next regularly scheduled meeting is Thursday, May 31, 2018.

9. BOARD COMMENTS

Chair Dick informed he will be absent the next meeting.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 12:16 pm.



Janet Reiser, Executive Director/Secretary
Alaska Energy Authority