

BOARD MEETING MINUTES
Wednesday, September 19, 2018
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Energy Authority to order on September 19, 2018 at 10:00 am. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Vice-Chair Dana Pruhs (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED)); Mike Barnhill (Deputy Commissioner (Department of Revenue (DOR)) (phone); Elaine Brown (Public Member); Bernie Karl (Public Member); and Joe Beedle (Public Member) (phone).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Janet Reiser, Bryan Carey, Alan Fetters, Cady Lister, Tim Sandstrom, Kirk Warren, Teri Webster, Candy Williams (AEA); Amy Adler, Brenda Applegate, Tom Erickson (AIDEA); and Stefan Saldanha (Department of Law).

Others present: Elwood Brehmer (Alaska Journal of Commerce); Anne Dougherty (CIRI) (phone); Tom Wolf (Denali Commission); James Brooks (Juneau Empire) (phone); Alan Bailey (Petroleum News); Sunny Morrison (Accu-Type Depositions); and Bernie Smith (Public) (phone).

4. AGENDA APPROVAL

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

The motion to approve the agenda passed without objection.

5. PUBLIC COMMENTS

None.

6. PRIOR MINUTES – June 28, 2018

MOTION: Deputy Commissioner Parady made a motion to adopt the Minutes of June 28, 2018. Mr. Karl seconded the motion.

Motion passed without objection.

7. NEW BUSINESS

7A. RPSU, Renewable Energy Fund Program, and Railbelt Updates

Janet Reiser, AEA Executive Director, invited Cady Lister, Tim Sandstrom and Kirk Warren to respectively present on the Rural Power System Upgrade (RPSU) program, the Renewable Energy Fund (REF) program, and the Railbelt updates. Ms. Lister explained both the RPSU program and the REF program received funding in the fiscal year 2019 (FY19) budget using excess earnings off the Power Cost Equalization (PCE).

Ms. Lister reviewed since-inception numbers for the REF. Approximately \$257 million have been distributed in grants. Of the 851 applications received, 287 applications were funded. Ms. Lister gave an overview of the well-established and comprehensive application REF evaluation process. She explained there are projects on AEA's recommended list that do not receive funding each round because there is not enough funding to get all the way down the list of recommended projects. AEA assists and encourages the recommended project applicants to continue to develop the project in the absence of State grant funds or to reapply the next fiscal year. Ms. Lister explained AEA also counsels applicants who did not receive a recommendation for funding based on the merits of the project and application.

The 73 currently operating projects displace more than 30 million gallons of diesel annually. The net present value of benefits over the lives of the projects is modeled at \$1.6 billion. The state investment return ratio has been approximately 10:1. Out of the 56 projects that are underway, 37 of the projects are fully funded through construction, 12 are in the design/permitting phase, and seven are in the reconnaissance/feasibility phase. The fully funded projects consist of 14 heat recovery, nine biomass, six wind, six hydro, and one heat pump, and one transmission project. These projects are being managed effectively. The legislative funding amount has varied widely from a one year peak of \$100 million down to \$5 million. However, fiscal years 17 and 18, the Legislature did not appropriate any funds for the REF.

Ms. Lister gave a detailed overview of the Tanacross cordwood boiler system modeling and project, which provides heat to the water treatment plant and to the new community multi-use facility. The project uses local biomass and includes a sustainable harvest plan, including grants for fire mitigation. Mr. Karl commented on the importance of a project to have a reserve account for maintenance and repair. Ms. Lister noted reserve accounts and the lifetime cost of the infrastructure are discussed, but reserve accounts for maintenance and repair are not currently a requirement of the grant. Mr. Karl requested reserve accounts become a requirement of future grants. Ms. Lister stated some reasons the electric utilities do not create a replacement reserve but informed AEA is looking at having a maintenance reserve be added to the list of possible improvements and conditions to the structure of the requirements.

Mr. Karl complimented the power plant at the Fort Yukon biomass project.

Ms. Lister informed the funding for FY19 was calculated and generated using a new mechanism of the annual earnings from the PCE endowment fund. Ms. Lister detailed the calculation

process and formula for the funding amount determination. The earnings will fluctuate from year-to-year depending on the investment returns which are calculated annually by the Department of Revenue. Deputy Commissioner Parady expressed concern the PCE fund does not have an inflation proofing component, which is subtly reflected in the formula. He believes it could be brought to the attention of Senator Lyman Hoffman through the appropriate mechanism. Deputy Commissioner Barnhill reported on returns for the PCE endowment fund as of December 31, 2017; one-year at 16.02%, three-year at 7.7%, five-year at 10.3%, 10-year return at 7.04%, and since-inception of July 2000, at 6.21%.

Chair Pruhs inquired as to the AEA administration costs charged to the PCE program. Ms. Lister noted the AEA portion of the PCE program administration costs is approximately \$355,000 for the fiscal year.

Ms. Lister presented an overview of the eight projects currently receiving funding with FY19 funds. She discussed the four-stage REF evaluation process that was used in determining the recent eight projects. Ms. Lister discussed the purpose and composition of the Renewable Energy Fund Advisory Committee (REFAC). The most recent REFAC meeting was held on August 21, 2018. The two motions passed at the meeting were discussed. The first motion was for AEA to issue a Request for Proposal (RFP) every other year, beginning March 1, 2019. The second motion was for AEA to develop a concept for soliciting contributions from non-State entities to assist in funding the REF program, providing match to State dollars. The next REFAC meeting is scheduled for November 21, in Anchorage.

Chair Pruhs requested Ms. Brown attend the REFAC meetings as the AEA Board member liaison. Ms. Brown agreed.

Mr. Sandstrom provided the update on the RPSU program. Since 2001, there have been 118 projects totaling \$163 million in funding. The current funding for FY19 through the PCE mechanism for the RPSU program is \$11 million, with an anticipated \$4.5 million in federal funding. The next four projects are Rampart, Nikolai, Napaskiak, and Nelson Lagoon. Rampart and Nikolai are funded through construction. Napaskiak and Nelson Lagoon are funded through conceptual design and could possibly include the final design.

Mr. Sandstrom informed the proposed RPSU regulation changes that will be brought before the Board for approval are on-schedule and being drafted by the Department of Law. Mr. Sandstrom gave a detailed reported of the Kipnuk project and described the included pictures and drawings.

Chair Pruhs inquired about the piling structure or issues. Alan Feters discussed the pilings and noted thermosyphons were not required by the geo-tech. The old tanks have been cleaned and decommissioned. There was no funding in the budget for tank removal. AEA is seeking additional funding for the tank removal.

Mr. Warren delivered the Railbelt update. He provided a brief history of current reform efforts in the Railbelt for new members. The findings reflected:

- Institutional reform is necessary for the Railbelt.
- Economic dispatch by an independent entity should guide the reform.
- Utilities should be given time to voluntarily undergo those efforts.
- The two sets of reliability standards should be reconciled.

Mr. Warren informed the utilities are in the final stages of their voluntary efforts. ARTEC, a group of four of the six Railbelt utilities, commissioned a study by GDS Associates on stakeholder facilitation for formation of an independent system operator, also called a Railbelt Reliability Organization. AEA has been an active participant in the meetings and in the recent two reliability standard workshops presented by the Regulatory Commission of Alaska (RCA). The next three RCA meetings will cover a status report from the Railbelt utilities on their efforts concerning each of the following; unified system operator, economic dispatch, and the reliability cyber security standard efforts.

The Railbelt Utility Managers (RUM), a group consisting of all of the Railbelt utilities, has been working to come to consensus on a memorandum of agreement (MOA) with the RCA on how the entity will interact with the RCA and how it will be regulated.

Chair Pruhs requested to know the percentage of AEA's cost of doing business annually is attributed to Railbelt efforts. Ms. Reiser agreed to provide the information.

7B. Battle Creek Project Update

Bryan Carey, Project Manager, provided the presentation of the West Fork Upper Battle Creek Diversion project in conjunction with the Bradley Lake asset. Mr. Carey outlined the history of the Battle Creek project for new members. He noted Bradley Lake is regulated by Federal Energy Regulatory Commission (FERC). The estimated annual energy increase for Bradley Lake is approximately 37,000 MWh, and would supply the annual electrical energy for over 5,000 houses. Ms. Reiser expressed appreciation to the team for their successful efforts in utilizing the New Clean Renewable Energy Bonds before the December 31, 2017 financing deadline.

Orion Marine Contractors submitted the lowest responsible contractor bid. The contractor set up camp facilities in the spring and started work on the Lower Access Road. At this point in time, the Lower Access Road construction is near complete and the Upper Access Road construction has commenced. The schedule is for Upper Access Road construction completion in 2019, installation of nearly two miles of 63-inch HDPE pipe, and commencement of the diversion dam. The substantial completion date is July 22, 2020. The final completion date is August 2020. Mr. Carey discussed in detail the HDPE pipe description, use, manufacturing, and ordering process.

Mr. Karl inquired as to the possibility of using an in-pipe turbine to slow the velocity of the water and run the power line through a ground cable. Mr. Carey discussed the thought process behind the decision not to utilize an in-pipe turbine at this point in the project.

Mr. Carey continued the presentation describing the photos of the project's progress. The drone photos have been used for accurate detailed elevation modeling for the contractor to access, as well as measuring quantities and elevations of the road embankment to correspond to the material pay applications. The drone photos are taken weekly. Mr. Carey informed the project is on-budget and close to the original schedule.

Chair Pruhs requested additional information about project erosion control measures during the construction process. Mr. Carey explained there is a storm water prevention plan. Inspections occur on a weekly basis by the contractor and engineering company. Seeding has occurred on the areas where there is soil and cut brush is being put on the edge of the cut areas to help catch any type of erosion. There have been very little problems with runoff. Chair Pruhs asked if a third-party like Department of Environmental Conservation (DEC) or Environmental Protection Agency (EPA) has visited the construction site to review the erosion control measures. Mr. Carey informed no third-party visits have been made. He believes the erosion control plan was submitted to the DEC. Chair Pruhs encouraged Mr. Carey to ensure the contractor's storm water protection plan is executed. Ms. Reiser agreed this important issue needs further scrutiny.

Chair Pruhs expressed appreciation for the presentation. He suggested the Board plan to tour the construction site and Bradley Lake facility next summer.

MOTION: A motion was made by Ms. Brown to go into Executive Session to discuss confidential deliberative process related to AEA owned assets. Mr. Karl seconded the motion.

The motion was approved without objection.

**7C. Executive Session: 11:32 am
AEA Owned Assets**

The Board reconvened its regular meeting at approximately 12:22 pm.

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

8. DIRECTOR COMMENTS

Ms. Reiser noted the Quarterly Project Fact Sheets are in the Board packets. She highlighted the VW settlement, the Revised Plan submittal to the Governor's Office, the PCE portal, and the rural business management project. The FY20 budget has been submitted with no substantial changes from the FY19 budget. Staff is working on an activity-based accounting system to understand the cost of shared service and to streamline the work processes. The Project Management Institute (PMI) course is scheduled to present in-house training at the end of October.

Ms. Reiser informed she will be traveling from September 29 and return October 24. The first part of her trip will be vacation to Africa and will conclude with a trip to represent Alaska at the Arctic Council in Reykjavik.



The next regularly scheduled meeting is Thursday, October 24, 2018. Ms. Reiser will not be in attendance.

9. BOARD COMMENTS

Mr. Beedle applauded the transparent and thorough presentations. He expressed appreciation for being welcomed as a new Board member.

Mr. Karl celebrated the progress on the Battle Creek diversion progress.

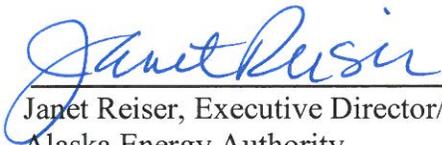
Ms. Brown expressed appreciation to staff.

Chair Pruhs thanked the staff for the informative meeting. Chair Pruhs expressed appreciation to former Chair Russell Dick for his leadership, guidance, efforts and commitment to AEA. Chair Pruhs informed former Board member Gary Wilken resigned and is now with IGU. Chair Pruhs expressed appreciation for Mr. Wilken's contribution and knowledge during his tenure on the Board and his outstanding Fairbanks citizenry. Both Mr. Dick and Mr. Wilken will be sorely missed.

Mr. Karl expressed appreciation to staff and echoed the comments regarding Mr. Wilken.

10. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at approximately 12:30 pm.



Janet Reiser, Executive Director/Secretary
Alaska Energy Authority