



Alaska Energy Authority
BOARD MEETING MINUTES
Wednesday, January 9, 2019
Anchorage and Ketchikan, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Energy Authority to order on January 9, 2018 at 10:06 a.m. Chair Pruhs welcomed new Board members. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Julie Anderson (Commissioner, Department of Commerce, Community, and Economic Development); Albert Fogle (Public Member); Bernie Karl (Public Member); Bill Kendig (Public Member); and Greg Samorajski (Deputy Commissioner, Department of Revenue).

Members present via teleconference: Julie Sande (Public Member).

3. ROLL CALL: STAFF, PUBLIC

Staff present: Janet Reiser (Executive Director); Brenda Applegate (Chief Financial Officer [CFO]), Amy Adler (Controller/Assistant CFO), Tim Sandstrom (Director, Rural Programs); Kirk Warren (Director, Railbelt Energy); Katie Conway (Director, External Affairs); Devany Plentovich (Program Manager), Teri Webster (Executive Assistant).

Staff present via teleconference: Cady Lister (Deputy Director and Chief Economist).

Public present: Tony Izzo (Matanuska Electric Association [MEA]); Alex Johnson (National Parks Conservation Association); Ladonna Lindley (Accu-Type Depositions); Stefan Saldanha (Department of Law); and Tom Wolf (Denali Commission).

Public present via teleconference: Diane Blummer (Blummer and Associates); James Brooks (Anchorage Daily News); and Robert Venables (Southeast Conference).

4. AGENDA APPROVAL

Janet Reiser requested to add Railbelt update to Item B, the Executive Session. The agenda was approved as amended.

5. PUBLIC COMMENTS

Robert Venables invited Board members to participate in the mid-session summit in Juneau on February 12-13, 2019. Mr. Venables expressed appreciation for the work of both AEA and AIDEA for the Southeast region. He encouraged AEA to do a better job in telling their story of the beneficial work they have done in providing regional energy planning, hydro resources, biomass resources, technical expertise, and collaborative efforts.

Tony Izzo noted he had not intended to make a public comment, but when he heard about the Railbelt update being added to executive session, he decided to express his concern there is no method by which the leadership of the Railbelt utilities has input into updates provided to AEA. The utilities may find out at a later date what information was included in the update. Mr. Izzo suggested it could be helpful for the Railbelt utilities to submit a report card regarding the interaction and work with AEA on the Battle Creek update and other efforts in order for the Board to receive a more complete picture. Mr. Karl asked for additional information from Mr. Izzo on his suggestion. Mr. Izzo believes the AEA Board could invite the leadership of the Railbelt utilities to speak during executive session, when appropriate, on reports and updates.

6. NEW BUSINESS

6A. Overview of AEA's Implementation Strategy

Ms. Reiser welcomed new Board members. She provided a general overview of AEA's mission to reduce the cost of energy in Alaska and to work with communities to provide safe and affordable energy solutions. The guiding principles for AEA operations are technical expertise, transparency, collaboration, and leadership. The areas of participation for AEA include update, replacement, maintenance and improvement for diesel powerhouses, heat recovery, Bulk Fuel Program, Power Cost Equalization Program, renewable energy portfolio, end-use efficiency, ownership of Railbelt assets, and participation in the respective committees.

Ms. Reiser invited Tim Sandstrom to present the upcoming operation changes to the Rural Power System Upgrade (RPSU) program. Mr. Sandstrom noted there are 194 communities that meet the legislative definition and criteria of rural for the RPSU program. AEA continues to take a community-centered approach including resource assessment, funding, training, and operations and maintenance. He stated the PowerPoint corresponds to the handout Board members were provided. The RPSU program consists of building powerhouses, improvements to power houses, distribution systems, heat recovery and associated systems.

Mr. Sandstrom described the AEA programs. Bulk Fuel Upgrades focuses on updating bulk fuel systems. The Electrical Emergency Assistance program has helped Akhiok, Arctic Village, Chefnak, Hughes, Kwethluk twice, and Newtok three times in 2018. The statute gives AEA latitude on how to define an emergency based on safety of life and property. The circuit rider program assists communities with maintenance, training and improvement. The program has decreased the number of emergencies experienced and the amount of money spent on emergencies in the last few years. AEA staff maintains a watch list of the known communities

who are down to only one generator, but in some circumstances, staff does not receive information until there are no generators working in the community.

Mr. Karl requested additional information regarding the causes of the complete failures that lead to the emergency assistance, particularly issues with failing to follow a preventative maintenance program. Mr. Sandstrom noted operations and maintenance and not achieving the useful life of equipment is an ongoing and difficult problem. AEA is required by statute to respond to emergencies that involve life, health, and safety risks, regardless of project origination. Ms. Reiser views this as an emerging problem for AEA. Mr. Sandstrom stated AEA is addressing this emerging problem by developing an application through technical assistance in the circuit rider program, whereas an increased level of technical service will be given to a community if they provide AEA the red-line design documents and access to the new equipment. Mr. Sandstrom does not believe the emergencies are intentional, but noted communities are aware of the State's duty to respond. This may act as a disincentive to ongoing maintenance and improvement (M&I).

Mr. Sandstrom informed one of the proposed ways to address this issue is a change to regulation on how to attain funding for projects and funding to repair systems. The proposed language would have a sliding scale based on sales of kilowatt hours and specify a required community project participation amount. Ms. Reiser noted this proposed change will mean that the RPSU program will no longer provide 100% project grant funding. Mr. Sandstrom informed this policy change should go out for public comment at the end of January.

Mr. Sandstrom explained another proposed change is to increase the number of M&I projects rather than full replacement projects. AEA has been actively engaged with the Denali Commission, who has provided funding and cooperation towards these efforts.

Mr. Karl requested additional information on how M&I would be instituted and if a maintenance reserve fund amount could be added to the cost of each kilowatt hour. Mr. Sandstrom explained the difficulty in setting aside M&I funds for future costs. This option is being reviewed, in addition to other ways to improve operations and maintenance (O&M). In the past, AEA's directive was to build a project with grant funds and give the community the responsibility of taking care of the asset. The results of this structure have been less than acceptable. The proposal is to change the project methodology, extending the tail of the project to include some funding to complete standard O&M for a set amount of time. The intent is to reduce the amount of scope in the actual project because of funding limitations and for AEA to continue their involvement out into the O&M cycle of the project.

Mr. Karl suggested setting aside a portion of the Power Cost Equalization (PCE) funding for maintenance and if the community performs the maintenance, they receive their set-aside amount. If the community does not perform the maintenance, they do not receive the set-aside. Mr. Sandstrom noted he is not the person with whom to discuss PCE policy and decisions. Ms. Reiser explained staff plans to create a set of recommendations to be reviewed by the Legislature and the Administration regarding opportunities with PCE. The items being discussed today are options that can be implemented now without regulatory change.

Mr. Kendig commented the option to set aside funds for maintenance seems like a good common sense approach. He inquired if this option faces regulatory issues. Cady Lister, said she believes a statutory change would have to occur in order to set aside PCE funds for maintenance. She noted additional consultation is necessary with both Department of Law and Regulatory Commission of Alaska (RCA) regarding AEA's authority to place requirements on utilities participating in the program. Mr. Kendig requested staff follow-up on this suggestion to determine how it could be implemented.

Chair Pruhs asked if the assumption is accurate that the communities who needed electrical emergency assistance are not financially stable. Mr. Sandstrom noted most, but not all, of the communities who needed emergency assistance were not financially stable. Chair Pruhs stated he has been requesting an outline of the functional life of each power generation system for the last six years as a Board member. He reiterated the request to staff again to create a list outlining the functional life of the systems of all the communities receiving PCE. Chair Pruhs believes this information is necessary to make an informed financial decision and recommendation.

Ms. Reiser noted funds would have to be procured and specified particularly for assessing the functional life of community systems and creating the list. Currently, there is one circuit rider to visit all the communities to make assessments. More are needed, and one of the efforts is to fully staff the circuit rider program with three to five people. This will mitigate many of the problems discussed and extend the useful life of the assets in the communities. Chair Pruhs believes there is an unfunded liability in rural Alaska of which AEA has no clear understanding. He encouraged staff to continue the process in determining the unfunded liability and projections of where issues are most likely to occur based on the functional life of the asset. Chair Pruhs expressed hesitation to change regulation and statutes before the problems are fully understood.

Mr. Karl believes the information Chair Pruhs is requesting may exist in staff's computer system and going directly to the communities may not be necessary. Otherwise, staff can request communities send in the hours on each system. Deputy Commissioner Samorajski supports Chair Pruhs' request of a list showing the functional life of each community's generation system. Ms. Reiser agreed to provide the hours of each system at the next meeting. Mr. Sandstrom noted the number of hours is only one data point in the assessment. He informed there is an ongoing project this winter that is collecting additional information which will complete the overall picture of the well-being of communities' energy systems. The results will be available in early spring and will inform the project selection process, as well as circuit riders and M&I projects.

Ms. Reiser explained the current process is structured that AEA provides communities with grant capital funding to build and own their system. A disconnect in maintenance exists, whereas communities are not obligated to perform maintenance and AEA has no authority to compel after the system is built. However, AEA does have the responsibility to assist communities during emergency events. This disconnect must be addressed. Ms. Reiser advised one of the recommendations today is to dedicate some of the capital funding for ongoing maintenance, improvement, and data collection. She feels this approach is within AEA's current purview. The only specific funding available to capture community data and intercede with operations falls within circuit riders or emergency response. Most of this funding is through the Denali Commission.

Chair Pruhs requested and encouraged AEA to determine if the option is available to utilize PCE administrative funding to monitor the health and well-being of the power systems in rural Alaska. Ms. Reiser agreed to follow-up and asked Ms. Lister to respond. Ms. Lister noted authorization to use funds in that way has not previously been requested. She will discuss with Office of Management and Budget (OMB), the Governor's Office, and Department of Law and provide a complete answer to Ms. Reiser to email to the Board.

Mr. Sandstrom discussed the increased focus on integrated training has had a marked effect on O&M. AEA provides funding for power plant operator training, utility management training, bulk fuel operator training, PCE clerk training, and AEA will be adding biomass operator training in the near future. Ms. Reiser informed a PCE web portal for submission of the Utility Monthly Report has been initiated in 10 utilities and the data is then delivered electronically and automatically provided directly to AEA. The web portal is expected to roll out to another 10 utilities soon.

Mr. Sandstrom reported the training is offered to anyone, even Alaska Village Electric Cooperative (AVEC) operators, and may occur in Seward at AVTEC, at regional locations, and on-site for troubled communities. He explained AVEC is a nonprofit grouping of utilities throughout 58 rural communities. Ms. Reiser stated the AVEC communities are well-managed. Chair Pruhs requested a map showing the location of the AVEC communities be provided to members. Ms. Reiser agreed.

Commissioner Anderson asked the underlying question of how to get all of the communities less dependent on the State and how to encourage the communities to become more self-sufficient going forward. The State's budgets are very defined. She encouraged staff to view any programs offered through that lens. Mr. Sandstrom explained the first concrete step AEA is taking to address that question is the proposed regulatory change in the language of the loans for communities to have monetary involvement in the process and for AEA to have maintenance authority passed the project completion date. Ms. Reiser explained the proposed change offers a sliding scale of participation depending on community size. It is currently being reviewed by Department of Law and the full proposal will be presented to the Board in March.

Mr. Sandstrom discussed the implementation of guiding principles across AEA and the RPSU program, including project management methodologies, establishing an RPSU working group, developing prototypical designs, widening the contractor base through AGC, and ensuring safety across operations.

Ms. Reiser requested Kirk Warren to provide a general Railbelt update. Mr. Warren noted the RCA has two dockets open regarding institutional reform of the Railbelt electrical system. The RCA is expected to close the dockets within the next month and provide a written letter to the Legislature regarding institutional reform. The six Railbelt utilities have worked diligently to adopt reliability standards and to form the Railbelt Reliability Council, which is identical to a unified system operator (USO) used in the Lower 48. A USO is a non-asset-owning entity responsible for region-wide planning, interconnection protocols, and reliability standards for areas that consist of multiple utilities.

Mr. Kendig inquired as to the power pool agreement currently implemented. Ms. Reiser explained the power pool agreement is informal and the State and public are looking to formalize an agreement and to add transparency.

Mr. Karl asked if a cost-benefit analysis has been conducted on the possibility of selling AEA's Bradley Lake and the intertie assets to the utilities. Ms. Reiser stated the subject of selling State assets is not within AEA's purview. It is strictly dependent upon the Governor and the Legislature. Over time, various cost analysis have been conducted and various proposals have been submitted. The job of AEA is to manage the State assets responsibly. Mr. Karl believes it is important for AEA to provide an opinion on the option of selling the State assets to the utilities.

Chair Pruhs offered background noting the State contributed half the funding in cash for Bradley Lake and the remainder of the funding was bonded. The bonds will be paid off in two years. The resultant cash flow will be used for Railbelt projects, which will probably be administered by AEA. The intertie project cost \$125 million and there is no debt service. The only current expense is maintenance. If the assets were proposed to be sold at fair market value, the price would increase. Bradley Lake could have a sale price range of \$600 million.

Mr. Karl reiterated his request for AEA to provide an opinion whether or not it is in the best interest of the rate payers for AEA to sell its assets to the utilities. Chair Pruhs believes that discussion is beyond the scope of AEA. The fiduciary responsibility of AEA is complicated and includes both the rate payers and State assets. Ms. Reiser noted AEA's position is the economic dispatch and the Transco benefits the rate payers. Mr. Kendig requested the analysis of the determination of that conclusion. Ms. Reiser agreed.

6B. Executive Session: Hiilangaay Hydro Loan and Railbelt Update

MOTION: Mr. Karl moved to go into Executive Session to discuss confidential deliberative processes related to the Railbelt Electrical System and Hiilangaay Hydro Loan. Mr. Fogle seconded the motion.

Chair Pruhs stated Mr. Kendig is an MEA Board Member and will be excluded from the Railbelt discussions. He will participate in the confidential discussions regarding the Hiilangaay Hydro Loan.

The Board entered executive session at 11:24 a.m. Participants included board members Dana Pruhs, Julie Anderson, Albert Fogle, Bernie Karl, Bill Kendig (Hiilangaay hydro Loan only), Greg Samorajski, and Julie Sande. AEA staff and guests invited to join the session, at different times, for related topics: Janet Riser, Kirk Warren, Cady Lister...and guests, Stefan Saldanha.

The Board reconvened its regular session at approximately 12:20 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7. DIRECTOR COMMENTS

Ms. Reiser expressed appreciation for the productive and fruitful discussion during the meeting. She informed the project fact sheets are included in member packets. She noted AEA is responsible for distributing the VW settlement money of approximately \$8 million for the State of Alaska. The guidelines are restrictive and may fund specific types of mitigation actions to reduce NOx. AEA submitted a beneficiary plan to the Trustees in early December. The first allocation has been made of \$500,000 in conjunction with other funding for diesel emission reduction projects in four communities; Circle, Tokotna, Tuluksak, and Chignik Lake. Solicitations for school bus replacement, public transit replacement, and EV charging infrastructure will be put out in February and applications will be accepted then.

Ms. Reiser stated the Battle Creek Diversion Project is on-schedule and close to budget. It is on-hold during the winter. The completion date is scheduled for August 2020. Chair Pruhs requested an update on the completion of the final milestones at the next meeting. Ms. Reiser agreed. She informed regulatory relief for Tier III engines is being sought through EPA. The hope is the rulemaking will go forward and will be in place within the next year or two. Ms. Reiser reported her appointment by Energy Secretary Rick Perry to sit on a Special Commission on Energy Efficiency and Renewable Energy for a term of two years.

The new member orientation and work session is Tuesday, March 5, 2019, and the next regularly scheduled meeting is Wednesday, March 6, 2019. A strategic planning session will possibly be scheduled during the late summer.

8. BOARD COMMENTS

Mr. Karl expressed appreciation to staff for their diligent efforts and excellent service.

Mr. Kendig is happy to be serving and looks forward to addressing issues.

Commissioner Anderson is happy to be on the Board and looks forward to the work.

Mr. Fogle expressed appreciation for the good information and easy transition. He looks forward to the service.

Ms. Sande echoed previous comments.

Chair Pruhs welcomed new Board members again. He expressed appreciation to staff for today's meeting. Chair Pruhs reminded members about the option of calling a telephonic meeting, if necessary, in the event items need to be discussed before the March meeting. There are no items to discuss at this point. Chair Pruhs encouraged staff to provide new members with background information. He looks forward to the work ahead.

9. ADJOURNMENT

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



Secretary
Alaska Energy Authority