

**Alaska Energy Authority
BOARD MEETING MINUTES
Wednesday, March 6, 2019
Anchorage, Alaska**

1. CALL TO ORDER

Chair Dana Pruhs called the meeting of the Alaska Energy Authority to order on March 6, 2019 at 1:46 p.m. A quorum was established.

2. ROLL CALL BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bernie Karl (Public Member); Albert Fogle (Public Member); Bill Kendig (Public Member); Greg Samorajski (Deputy Commissioner, Department of Revenue); and Julie Sande (Public Member). Julie Anderson (Commissioner, Department of Commerce, Community, and Economic Development) entered the Board room at 1:49 p.m.

3. ROLL CALL STAFF, PUBLIC

AEA staff present: Curtis Thayer (Executive Director); Amy Adler (Controller/Assistant CFO); Brenda Applegate (Chief Financial Officer); Katie Conway (Director, External Affairs); Cady Lister (Deputy Director and Chief Economist); Kirk Warren (Director, Railbelt Energy); Michele Hope (Senior Contracting Officer); Tim Sandstrom (Director Rural Programs); Linda Senn (Human Resources Manager); Ashton Compton (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Doug Blumer (NC Power Systems); Mary Lundquist and Stefan Saldanha (Department of Law); and Sunny Morrison (Accu-Type Depositions).

Public present via teleconference: Bernie Smith (Public).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The minutes from November 28, 2018, January 9, 2019, and January 22, 2019 were approved as presented.

7. NEW BUSINESS

7A. Power Cost Equalization (PCE), PowerPoint presentation, History

Mr. Thayer noted that PCE is currently part of budget legislation with the potential of transferring all its funds into general funds. He asked Cady Lister to provide a brief history of the PCE program, its mission, how it is administered, and defined some of the terms used in the program. Ms. Lister explained that the PCE is administered by AEA which contacts the communities each month and distributes checks to 195 utilities while setting annual subsidy levels and determining utility eligibility is within the authority of Regulatory Commission of Alaska (RCA).

Ms. Lister stated with the recent launching of an online portal where utilities can submit monthly reports, AEA anticipates increased efficiency and accuracy, although the portal is currently an option and not required. She reiterated high points of the Endowment Fund managed by the Department of Revenue (DOR), how PCE levels are calculated and what is included in the PCE level.

Chair Pruhs asked what the current PCE floor is. Ms. Lister stated rough estimates are Fairbanks at 24, Juneau at 8, and Anchorage at 13 although it could be more like 18. Ms. Sande noted it was 10.5 in Ketchikan.

Mr. Karl expressed concern about the misuse of the program and described a commercial customer (who is not eligible for PCE) who has four residential meters which actually go to his business. He asked if there were loopholes and how those might be handled. Ms. Lister noted that customer ledgers, customer bills and fuel invoices are reviewed each month.

Chair Pruhs attempted to determine the correlation between meters and reimbursement subsidy by asking if it's a disincentive to have more people on the system because fewer residential meters raises the cost of kilowatt hour and increases PCE reimbursement. Ms. Lister stated she didn't think there was an incentive or a disincentive to have a large number of residential meters. Every residential meter can get up to 500 kilowatt hours per month. She explained if a community had a large number of users going over 500 kilowatt hours per month, there could be potential incentive for that utility to increase the number of meters, but that would be fraud. She pointed out that it's the utility's responsibility to follow the law and statutes and regulations associated with the program. She stated we do review carefully all documentation available to us, but we don't do onsite spot checks. If we notice a disparity, we would certainly ask questions.

In reference to the statement that costs associated with renewable energy generation are an eligible non-fuel cost, Mr. Karl pointed out that the cheapest electricity you can buy in Bush Alaska is a generator. He noted that sometimes you never get money back from

renewable energy. Ms. Lister stated there are communities in rural Alaska which have reduced their cost of power through renewable projects and some communities have not. She concluded her presentation with an example of how PCE can hypothetically pay off debt and identified sites where PCE clerk training has occurred.

Mr. Karl asked who is looking at taking some of the PCE funds. Mr. Thayer explained that Governor Dunleavy's budget proposal is considering taking the whole amount of the Endowment Fund and moving it into the constitutional budget reserve and then replace it with undesignated funding which would force the program to become competitive in looking for general funds each year. He pointed out there still needs to be a bill introduced, which has not occurred yet, that actually changes the program through statute. Once introduced, it would need to go through the legislative process.

Mr. Karl expressed surprise that the fund was not protected and thought that it was intended to be self-perpetuating for future generations. Mr. Thayer reiterated that PCE was set up to help offset the costs in rural Alaska. The program has benefited urban Alaska and the Railbelt, noting that Fairbanks saved \$27 million last year alone, due to the intertie and being able to ship power up to the Interior City. Mr. Karl said he had assumed the benefits would be shared with rural Alaska.

7B. Resolution No. AEA 2019-02 Amending AEA's Bylaws

Mr. Thayer explained that the amendment basically reverts back to a previous bylaw where the Chair serves as the Chair of both AIDEA and AEA and the Vice-Chair serves as the Vice-Chair of both organizations. Chair Pruhs noted that the workload has substantially reduced. Mr. Saldanha clarified the amendment allows for more flexibility, noting that the Chairs can be the same person or they can be different as long as it's the same two people.

MOTION: Mr. Fogle moved to approve Resolution No. AEA 2019-02 Amending AEA's Bylaws. Mr. Kendig seconded the motion.

The motion was approved by unanimous consent.

8. EXECUTIVE SESSION – discuss confidential matters related the Hiilangaay, Thayer Lake, and Bradley Lake projects

Ms. Sande recused herself from discussing the Hiilangaay project during the executive session because of a potential conflict.

MOTION: Mr. Karl moved to go into Executive Session to discuss confidential matters related to Hiilangaay, Thayer Lake, and Bradley Lake project. Mr. Kendig seconded the motion.

Chair Pruhs adjusted the order of the session, putting Thayer Lake first, Bradley Lake project second, and Hiilangaay last.

The Board entered Executive session at 2:26 p.m. Participants included board members Dana Pruhs, Julie Anderson, Albert Fogle, Bernie Karl, Bill Kendig did not participate in the Executive Session regarding Bradley Lake due to a conflict of interest and Julie Sande did not participate in the Executive Session regarding Hiilangaay due to a possible conflict of interest. AEA staff participated in the executive session depending on subject matter: Curtis Thayer, Kirk Warren, Betsy McGregor and authorized guest Stefan Saldanha.

The Board reconvened its regular meeting at 3:34 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

Chair Pruhs stated that Mr. Kendig had a conflict and had recused himself from the Bradley Lake discussion during the executive session and reiterated that Ms. Sande had recused herself from discussion on the Hiilangaay project.

9. DIRECTOR COMMENTS

9A. Follow-ups from January meeting

Mr. Thayer stated the Board packet included a document addressing numerous questions brought up in the January 9, 2019 Board meeting. A spreadsheet with data regarding the communities, utilities, diesel, engine makes and models along with hours will be updated as information, particularly maintenance issues, becomes available.

9B. VW Settlement

Mr. Thayer stated Alaska received \$8.1 million through a settlement with Volkswagen which had violated the Clean Air Act by installing illegal software in 2.0L and 3.0L diesel vehicles resulting in the release of thousands of tons of NOx. The Board packet contained a copy of a Power Point which breaks down where the \$8.1 is being distributed, based on public input and the sign-off from the Walker administration.

9C. Bradley O&M Status

Mr. Warren stated there have been updates which has prompted a special telephonic BPMC meeting to be scheduled next week. He understands that all issues have been resolved and they are going to enter into the O&M agreement next week which, was good news for AEA. Had it not happened, AEA would have had to take some drastic action.

9D. Railbelt Transmission Litigation Disposition

Mr. Thayer described litigation regarding wheeling rates out of Homer. The dispute went all the way up to the Supreme Court which ruled against Homer Electric Association (HEA) and in favor of the other electrical utilities and AEA. HEA has decided to petition for a rehearing and AEA is waiting to be informed about HEA's next steps.

Mr. Thayer noted items 9E through 9I were included in the Board packet for informational purposes. He asked Board members to direct any questions about the documents to him. He would then disseminate those concerns to appropriate staff for research or response.

Mr. Thayer asked Mr. Warren to provide information on one item not included in the Board packet regarding Transco which is a transmission-only company that operates and maintains the transmission system. Mr. Warren stated basically the creation of a Transco would create an operating environment consisting of six generation companies, six distribution companies and one company that operates and maintains the transmission system. A newly formed company named Alaska Railbelt Transmission (ART), LLC consisting of four of the six Railbelt utilities and American Transmission Company (ATC), has filed for a Certificate of Convenience and Public Necessity (CPCN) with the RCA. Copies of the executive summary are available. Chugach Electric Association and Matanuska Electric Association are not participants. AEA is currently analyzing the effects of the 750-page filing. Mr. Warren stated since AEA has a third of the transmission mileage in the railbelt and that it would be hard not to be interveners in this RCA docket.

As a member of the MEA Board of Directors, Mr. Kendig provided bullet points including that Transco (or ATC) is a for-profit company and they're going to mitigate whether a new intertie headed north is needed. He stated they are also going to be a lender which he sees as a conflict of interest. Chair Pruhs noted that as operators of the system, Transco decides if the system needs an upgrade and then they loan themselves the money and get 11 or 12 percent back.

Mr. Kendig added that's just the tip of the iceberg. Each one of these big projects is going to have a cash call and a lot of these entities, financially, aren't running. If they can't make their cash call, the ATC take over their percentage of ownership. Mr. Karl asked if the rate payers know what's going on. Mr. Kendig stated no.

Mr. Thayer stated as this was just filed February 25th, 2019, AEA has met with one of the utilities already, some of the Transco reps, and Mr. Saldanha is up to speed. The Governor's office has reached out to verify AEA is aware of the filing and will be reviewing it. He assured the Board that due diligence would be done and more discussion will occur.

Mr. Kendig compared the effort to the subprime crisis. The utilities which are not as financially stable as the others are looking for short-term relief and not looking at the long-term effects for their members. He stated he feels it's a failure further down the road. He noted that MEA has had a law firm working on it since December.

Chair Pruhs suggested a work session to identify the pros and cons and to determine why everybody else is doing what they're doing.

Chair Pruhs asked if the Bradley Lake hydro is on schedule, on budget and if there are any potential claims, change orders, any design changes, or additions. Mr. Warren stated the

first letter from the contractor regarding schedule and potential to miss the project completion date has been received and a response is being worked on. Conversations have just begun with the contractor regarding two potential issues that could escalate. Mr. Thayer stated an update is expected at the April 17, 2019 Board meeting.

Mr. Thayer will send dates for Board members to consider for a June or July date to tour Battle Creek and Bradley Lake. The trip will require travel to Homer the night before, flying helicopters to the sites and having a Board meeting there since it will need to be publicly noticed.

The next regularly scheduled AEA Board meeting Wednesday, April 17, 2019

10. BOARD COMMENTS

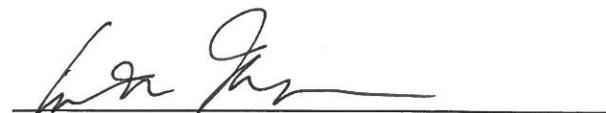
Mr. Karl welcomed Mr. Thayer to the Authority, noting his lengthy service to the State of Alaska. He expressed appreciation for the information, much of which the Board had requested for a long time.

Mr. Fogle echoed Mr. Karl's comments, adding that they felt that AEA had the perfect team to tackle challenges.

Mr. Thayer provided a brief introduction to Ashton Compton, AEA's new executive assistant. Ms. Compton had served as chief of staff to Senator (then Representative) Chris Birch and spent four years as a legislative staff resource working with Senator Charlie Huggins. She is a UAF graduate where she was student regent.

11. ADJOURNMENT

There being no further business of the Board, the AEA meeting adjourned at 3:57 p.m.



Curtis Thayer, Executive Director/Secretary
Alaska Energy Authority