

**Minutes of the January 20, 2006 Board of Directors Regular Meeting
Alaska Village Electric Cooperative, Inc.**

1. Call to Order, Determination of Quorum, Introduction of Guests

Chairman Robert Beans called the regular meeting of the Alaska Village Electric Cooperative Board of Directors to order at 9:10 a.m. on January 20, 2006 at the AVEC headquarters. Charlie Curtis's absence was excused. A quorum was ascertained with the following board members in attendance:

Robert Beans, Chairman	Julia Walker, Secretary
Phyllis Clough, Member	Leslie Hunter, Member
Walter Sampson, Treasurer	Helena Jones, Member

Others in attendance included:

Meera Kohler, President and CEO	Mark Teitzel, Vice Pres. & Mgr. of Engineering
Debbie Bullock, Mgr. of Administrative Svcs.	Roger Kemppe, Legal Counsel
Amy Murphy, Executive Assistant	

2. Declaration of Conflicts of Interest, if any (Policy 2024)

Chairman Beans asked if there were any conflicts of interest to declare and there were only some minor concerns mentioned. Leslie owns a store in Marshall that sometimes sells items to AVEC personnel and Walter said a couple of NANA's subsidiaries do business with AVEC.

3. Approval of Minutes

Upon a motion duly made and seconded, the Minutes of the AVEC Board of Directors Regular Meeting on November 18, 2005 were approved as presented.

4. Director Trip Reports

There were no director trips to report.

5. Committee Reports

There were no committee reports.

6. President's Report

6a. Denali Commission Project Update: Meera Kohler distributed copies of the Denali Commission Fiscal Year 2006 Work Plan Draft Outline that included proposed recommendations for funding levels for a variety of different projects. Final approval of the full work plan will be developed at the January 27, 2006 Denali Commission Meeting in Juneau. If all of the proposed projects are approved as presented, AVEC would receive nearly \$30 million in additional financial awards. This amount includes funding for 90% of the costs the AMR program. Meera is attending the Denali Commission meeting and is also giving a presentation to the House Finance Committee on Thursday.

Leslie Hunter asked about the projects and how communities receiving projects are chosen. He said it looks like most of the communities are along the coast and not in the interior. He and other residents of Marshall are interested in getting wind turbines in Marshall as it is very windy in their community. Meera said that the projects chosen for funding are based on a needs and priority list developed by the state several years ago and most projects are done on an amalgamated basis, and not as stand-alone projects, like only installing wind turbines and nothing else.

6b. Financial Statement: A copy of the latest financial statement, dated 11/30/05, was included in the board packet. The year-end, December financial statement won't be available until after the audit is completed. So far we have operating margins of about \$465,000. The oil spill in Nunapitchuk cost us approximately \$350,000 and adversely impacted our bottom line. We are still concerned about our cash flow, even though it is slightly better than it was at our last meeting. Increasing fuel costs have also impacted our cash reserves.

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6c. Delinquency Update: Meera distributed a copy of the latest delinquent city accounts report dated 1/18/06. Some of our cities are financially struggling but they are working hard to try to pay their bills. Chevak still had a large delinquent amount due, but they are doing what they can to slowly chip away at it. We received a portion of their PILT payment that went towards their delinquent account. There was some discussion about how the Governor's cut to the municipal revenue sharing program adversely affected the communities. Walter Sampson said that NANA and the Borough are working together to try to come up with a plan to financially help some of their communities in their region that are struggling to pay their bills.

6d. APA Legislative Conference (March 15-16): Helena Jones, Leslie Hunter and Robert Beans will attend. Chairman Beans said it is his recommendation that AVEC limit its board representation at APA meetings to three board members.

6e. Murkowski Letter re: Community Dividend Program: A copy of a letter from Gov. Murkowski regarding a Community Dividend Program he intends to propose to the Legislature was included in the board packet.

Meera distributed a copy of information regarding Napakiak's recent interest in joining AVEC and explained what is going on. Napakiak is struggling with really high energy costs and their board met and sent a letter expressing interest in joining AVEC. They don't have any generation equipment and receive electric power from Bethel Utilities over a nine-mile transmission line. No board action is needed now. Mark Teitzel is traveling to Napakiak on Monday, January 23, to inspect their system and look at the tieline and prepare a recommendation. Roger Kemppe explained the basic steps involved in Napakiak's desire to join AVEC, starting with a board resolution from the corporation. The population of Napakiak is about 400 to 450 people and they sell about 550 kWhrs. The school is not on the system. This community is close to several of our other communities so it would be a good fit. If this deal looks favorable for AVEC and progresses, Meera will send a letter to each individual member/consumer in Napakiak and also put them on the Ruralite mailing list. Roger said that it will be made clear that the decision to allow Napakiak to join AVEC is subject to AVEC's board approval, and the board could meet via teleconference to approve the deal.

A copy of the most-recent electric power rates was distributed. The rates are effective as of 1/5/06 and include the decrease in the PCE program funding level down to 78%. The average cost per kWh without PCE is more than 49 cents per kWh in our communities. Some communities are paying more than 52 cents per kWh (before PCE).

A copy of the latest fuel report was also distributed. AVEC paid more than \$10 million for fuel this year (including the price cap), compared to nearly \$5 million in 2004. The average price per gallon was \$2.07, compared to \$1.94 in 2004. There was some discussion about the price cap as the difference is considerable. Leslie Hunter asked if AVEC has a policy on selling or loaning fuel to communities that may run out of fuel. Meera explained AVEC's policy, which states the local government has to declare a fuel emergency and AVEC can then sell some fuel (if there is enough available). Payment is required in advance. Phyllis asked Meera if we could include a write-up in the Ruralite about the cost of fuel and explain how the cost of fuel goes into the total bill. Lots of members are confused about the fuel cost surcharge and don't fully understand it. Meera said the cost of fuel typically accounts for about 30% of the total bill, but we could do an article to explain how costs are developed.

The AVCP is having a regional housing summit in Bethel next week and Meera is on the panel so she will be attending the meeting. Some of the discussion will pertain to new construction and AVEC's requirements for new housing units and buildings to be metered. We connect about 600 – 800 services per year and have a very generous allowance for new services.

Meera is flying to Juneau next Thursday morning to attend the Denali Commission meeting on Friday and to give a presentation on rural energy issues to the House Finance Committee on Thursday.

Meera included a copy of a letter she received from Bill Allen regarding the Council on Economic Policy for Rural Alaska (CEPRA). Meera and Mike Harper with AIDEA are co-chairs of the Energy Task Force. Additional information about CEPRA and its mission, goals, benchmarks and timelines was also included.

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There was a two-day employee training retreat in November and it was a very good meeting, especially since it provided an opportunity for the field employees to become better acquainted with some of the in-house personnel. Five different task forces and a Quality Committee were formed to look at ways to improve efficiencies and/or streamline operations and to identify and recommend areas where cost savings could be realized. The task forces will review different areas of AVEC's operations, including updating as-built designs and processing work orders.

AVEC received a standard letter of understanding from our auditors, Mikunda, Cottrell & Co., and the board needs to approve signing the letter that explains the upcoming audit arrangements.

Upon a motion duly made and seconded, the AVEC board of directors approved signing the letter of understanding from Mikunda, Cottrell & Co.

This concluded the President's Report.

Upon a motion duly made and seconded, the board approved the President's Report as presented.

A break was taken from 10:15 a.m. until 10:30 a.m.

7. New Business

Upon a motion duly made and seconded, Resolution 06-01 Consent Agenda was approved along with the following resolutions; 06-02 New Memberships; 06-03 RUS Construction Fund Expenditures; 06-04 Director Expenses; 06-05 RUS Inventory of Work Orders; 06-06 Collections Representative, Georgia G. Shaw; and 06-07 Collections Representative, Paula Griffin.

Upon a motion duly made and seconded, Resolution 06-08 Year-End Consumer Charge Offs was approved as presented. There was some discussion. Phyllis Clough asked if we send the accounts that we write off to a collection agency or do anything to still try to collect this money that is owed to AVEC. Meera said that we still continuously try to track these unpaid accounts and attempt to collect the money.

Upon a motion duly made and seconded, Resolution 06-09 Statement of Nondiscrimination was approved as presented. Discussion: Meera said that this Statement of Nondiscrimination is why AVEC can not have a Native hire preference.

Upon a motion duly made and seconded, Resolution 06-10 Insurance Program Revision was approved as presented. There was some discussion. Meera said that we switched to a PPO insurance plan this year with a lower deductible than last year. There is a higher deductible if employees receive services out-of-network rather than with an in-network PPO provider and there are limited PPO providers in Alaska. There was still an increase in the cost of premiums but some of this increase is absorbed by a cost-of-living reduction of 1% in this year's salary adjustments. Lots of employers are moving to PPOs for insurance.

Upon a motion duly made and seconded, Resolution 06-11 Retirement Benefits Policy Health Insurance Coverage was approved as presented. Discussion: Meera said that the only change to this policy is related to recent changes in the Medicare Program. AVEC will pay 100% of the prescription drug insurance at the Basic Plus level and change from Medicare "Carve Out" to Medicare Part D.

There was some discussion about the life insurance provided to board members and a question about whether or not AVEC provides some sort of business travel insurance for delegates traveling to the annual meeting. Debbie said she would check on that before the annual meeting.

8. Unfinished Business

There was no unfinished business to bring up.

9. Executive Session (if necessary)

No Executive Session was necessary.

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10. Board Comments

Walter Sampson said there are many important issues before us, including recognizing and understanding the lack of funding sources for cities and villages. They are struggling financially and folks are volunteering their time to try to keep their cities and local governments operating and doing their books. The NW Arctic Borough is trying to team up with the cities and other organizations to try to identify some sort of help for the communities. Walter said he feels AVEC should find ways to hold off on disconnecting cities even if their delinquent accounts become large. The NWAB is doing what it can to help some cities pay their bills. Walter wants the AVEC board to recognize the efforts our communities are making trying to pay their bills and hold off on city disconnects.

Julia Walker said she had a very nice day at home yesterday when she took some students out for a walk in sub-zero temperatures. They saw some AVEC employees working on a streetlight and the kids were really thrilled and interested in the duties of a lineman. They asked lots of questions and the two employees were very good about answering questions and showing the kids how they climb and move about on the poles. The kids were excited but didn't want to stand around and watch very long because it was -20. Julia said thanks for having another good board meeting.

Helena Jones said she attended Ambler's annual village meeting last week and one topic discussed was the resolution passed last year about putting up a fence around the power plant and this has not been fixed yet. Somewhat recently it was discovered the fencing materials had arrived in the village and had been sitting there all summer but the power plant operator didn't know about it. AVEC needs to communicate better with the operators to let them know when supplies arrive so that they can fix problems. Helena also asked about the streetlights as she thought AVEC had taken over Ambler's streetlights. She said the city hasn't heard anything from AVEC about streetlights and AVEC needs to have better communication and follow-up with the city about the streetlights. Meera said the city has to request new streetlights and a streetlight packet was mailed to the city explaining this.

Leslie Hunter said it appears that the number and location of streetlights appears to depend on who is mayor as he gets to choose where the lights go. The Tribal Council asked for a light near their building and the request was denied. Meera said that the city actually pays \$150 for each streetlight as well as the monthly cost to operate them. If the Tribal Council wants their own streetlight they can pay for it, as long as the streetlight can be installed on an existing pole. Leslie Hunter also questioned one of the expenses listed for him under the Board of Directors expense sheets. Debbie Bullock said she would check on that.

Phyllis Clough said she is proud of the leadership demonstrated by this board and is also very happy to hear that Meera and her staff are working hard to find ways to cut costs. Funding for the PCE Program and the ever-increasing fuel costs are still important concerns to deal with. Some of the board members of other organizations have been happy with AVEC and its efforts to improve reliability and cut operating costs.

Robert Beans said lots of other entities are popping up with ideas to reduce energy costs by providing power using all sorts of alternative fuels, including bio-diesel. He receives calls from lots of sales people trying to get him interested in alternative forms of energy. Meera said fish oil is being used in Dutch Harbor to offset the cost of diesel fuel. One main problem with fish oil is that it's not economically feasible to ship it and the oil has to be used at the point of production. So far bio-diesel is not any cheaper to use than diesel. Fuel cells are still really expensive. Right now alternative energy is still more expensive than diesel.

Walter had two requests. He would like to know the cost of building an intertie between Kiana and Noorvik and he would like information about the feasibility of developing hydropower on the Upper Kobuk River. Mining opportunities are developing in that area and AVEC should be proactive in providing power to that potentially big source of revenue.

Leslie said he would like AVEC's administration to place an emphasis on Native hire, especially in this office. He said AVEC needs more Natives as positions come open, especially for college students. Meera said that Natives need to apply for open positions, but AVEC can NOT specifically have Native-hire preference because our RUS loans require that we conform to the statement of nondiscrimination.

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11. Next Meeting Dates

The Budget & Audit Committee will meet on March 27, 2006 from 10:00 a.m. to 11:00 a.m.

The Village Operating Agreement Committee will meet on March 27, 2006 from 11:00 a.m. to 2:00 p.m.

The next regular Board Meeting is March 27, 2006 at 2:00 p.m. The Annual Meeting is March 28, 2006 with the Organizational Board Meeting following the conclusion of the Annual Meeting.

12. Adjournment

Upon a motion duly made and seconded, Chairman Beans adjourned the meeting at 11:22 a.m.

Julia Walker, Secretary

Robert Beans, Chairman