

**Minutes of the November 3, 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 1:05 p.m. on November 3, 2006 at the AVEC headquarters. A quorum was ascertained with the following board members in attendance:

Robert Beans, Chairman
Phyllis Clough, Director
Walter Sampson, Treasurer
Mike Prince, Director

Julia Walker, Director
Charlie Curtis, Vice Chairman
Helena Jones, Secretary

Others in attendance included:

Meera Kohler, President and CEO
Debbie Bullock, Mgr. of Administrative Svcs.
Amy Murphy, Executive Assistant

Mark Teitzel, Vice Pres. & Mgr. of Engineering
Roger Kemppe, Legal Counsel
Brent Petrie, Manager Community Development

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 none to declare.

3. Approval of Minutes

Upon a motion duly made and seconded, the minutes of the AVEC Board of Directors Regular Meeting dated August 11, 2006 were approved as presented.

4. Guest Comments

There were no guests in attendance.

5. Director Trip Reports

Charlie Curtis said he attended the Alaska Power Association Annual Meeting in Girdwood in August and he also attended a board training session related to financial issues. One issue they mentioned that he is concerned about is the 85/15% Rule where 85% of our revenue has to come from our membership. He is concerned about the approval process for our new members since the board only meets quarterly to approve new members. We don't want to exceed the 15% rule. Meera asked Roger Kemppe to look into this issue to clarify the new membership language and to see if we need to make changes to our bylaws or membership policy.

Helena Jones said she also went to the meeting at Girdwood, which AVEC co-hosted along with ML&P and Chugach Electric. It was a good conference and she thought Meera's presentation on wind was really good. She also attended the director training with Charlie and recommends all the board members receive the Bylaws training. Helena also attended NRECA's Region IX conference in Fairbanks. One of the highlights of the conference was the "War for Talent" issue. A lot of employees in the electric utility industry will be retiring in the near future and there is a strong need to attract youth to jobs in our industry. There is a push on providing training for young people in all areas, including engineering, linemen, accounting and other skill sets. While at the Region IX meeting Helena became friends with the folks from Hawaii and discovered their culture is very similar to hers.

6. Committee Reports

6a. Budget & Audit Committee: Charlie Curtis said the committee met this morning with John Bost of Mikunda Cottrell and reviewed the letter of engagement submitted by Mikunda Cottrell to perform AVEC's audit. The letter included a list of standard items that they will do. The committee approved the letter of engagement and the audit will be completed before the next annual meeting. There was a slight fee increase this year. Next year AVEC will distribute RFPs for CPA firms to perform audits as this is the last year of the contract. The committee also reviewed the draft 2007 Budget in its entirety and compared it to the 2006 budget. So far revenues are up about 4.91% more than anticipated and we may have margins of \$1.1 million. Thanks to the staff for putting the budget together.

6b. Village Operating Agreement Committee: Helena Jones said the committee met this morning and they discussed lots of issues related to the agreement, including the financial problems many cities are facing, plant

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operator duties and local supervision. So far AVEC has taken over paying nine power plant operators directly through a special contract and only 12 communities participate in the PERS program. The committee reviewed a draft agreement and incentive proposal that Mark Bryan put together and discussed possible options on how to proceed. Staff will fine-tune the proposed agreement along with different options and the committee will meet again in May to consider these options. The plan is to approve the new Village Operating Agreement at the November board meeting and implement the new program in January 2008. Walter Sampson said that liability is a big issue, as well as the fact that some small city governments have shut their doors and we may have to enter into an agreement with other entities, like tribal organizations. AVEC has to give a six-month notice of intent to change the Village Operating Agreement and these notices will go out in June.

7. President's Report

7a. Quarterly Report from UBS regarding Investment: Meera Kohler said Marie Murdock with UBS has handouts to distribute for the board to refer to while Mark Barnum provides a recap of the investment portfolio over the telephone. Mark said the information provided is the Third Quarter 2006 report and he gave a brief update of the portfolio's performance and an outlook for the future. The first quarter looked very good, for the most part, and overall it has been a good year with some ups and downs. We should have an okay year through the end of the year. Mark discussed the asset allocations and the difference between September's and July's figures. Back in March Mark said that due to AVEC's decreased level of cash, we needed to revise the asset allocation in order to stay within the guidelines of the investment policy. After AVEC received the \$10 million loan, this changed the asset allocations to fall within those guidelines. A new money manager was hired to replace one money manager that underperformed. The market outlook shows that the economy is slowing down in the U.S., partly due to a decline in housing. The international economy is also slowing down so the international equities don't look promising. It looks like interest rates have probably peaked and long-term rates should be stable while the short-term rates will go down. Mark ended by saying that we should probably review the investment policy again in March.

7b. Denali Commission Project Update: Brent Petrie distributed copies of information showing the status of some of our projects underway. We have been working on projects based on the priority list ranking system set up by the State of Alaska, based on the condition of power plants and tank farms at the time of the ranking. So far we have gone through about 1/3 of our villages and have 2/3 left to do. The question is whether or not the federal money will run out. One list he provided shows the total funding AVEC has received for Denali Commission projects, which is \$113 million (which includes a combination of Denali Commission and AVEC cash match funds). In 2006 we received \$16.9 million in combined funding. The projects in Nunapitchuk and Kasigluk were a huge undertaking and the road ended up getting torn up when the heavy equipment was moved out of town this fall. There was a discussion about who's responsible and what the cost will be. Photos of the Gambell and Savoonga projects were distributed. Gambell's new power plant is on line and work still continues on the Savoonga projects. We are working with different communities to prepare documents for funding requests, including Mekoryuk, New Stuyahok and Nightmute. There are changing conditions out there! There was concern about us dipping in to our cash accounts to pay the cash match required by the Denali Commission, but the recent loan helped resolve that issue.

Robert Beans said there was some discussion during AFN about high energy costs and there were some negative comments about AVEC and the perception that AVEC gets lots of free money. Some folks still think AVEC is a state entity, not a member-owned cooperative that has struggled financially through the years.

Brent said Polar Consult has made a proposal to build a Direct Current (D.C.) tieline between St. Mary's and Mt. Village to test this new technology. The conversion cost is high and requires a new type of inverter. This project is based on Polar Consult being able to get funding to finance the project. Mike Prince asked how we select villages for our projects. Brent Petrie said we look at which communities would be more cost effective over a long distance. There was some discussion. Meera provided a copy of the proposal to the board members.

7c. Financial Statements: Meera said that so far this year we are tracking the budget pretty closely. We are actually doing better than anticipated and are showing a positive operating margin instead of a negative one. So far there are no major surprises. We received a \$10 million loan from CoBank which really helped our cash position. Right after receiving the loan we processed our largest check run ever! Costs have been increasing so we are glad we are still doing well. The Governor recently signed legislation that fully funds the PCE program.

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7d. Delinquent Account Update: Georgia Shaw distributed copies of our billing status report and it looks like Meera's articles about disconnecting delinquent accounts in the winter has paid off. Our collections look better than they did last year at this time, especially the cities. We received quite a few payments on the days that the PFD checks were distributed. Discussion ensued. Chevak is doing well and we are pleased with the overall status of the cities right now. The report included a breakdown of billing and delinquent accounts. We disconnected 360 accounts this year due to non payment and 150 of those have been reconnected after being paid in full.

Robert Beans said Meera's article was mentioned during AFN's energy roundtable discussion and Bill Allen and Mike Harper both stood up and expressed support for AVEC. Mike Prince asked about Hooper Bay. Georgia said we delayed collections there due to the fire and the collector went there in October. Phyllis asked if there is any way AVEC can limit usage in order to keep our total delinquent accounts down. Meera said at the moment we can't limit the amount of power our consumers use; they have to be responsible for their own consumption and paying their bills. Georgia said the aging accounts look good. The energy assistance funds should be arriving soon and we should receive some payments from that. Plus, PFD checks are still coming out. If members have a delinquent account, their capital credits will be applied to their account. Mike asked if any claims have been filed for federal disaster assistance in Hooper Bay. Meera said that really didn't affect AVEC too much as only a few services were lost. Consumers can claim damage and get assistance to repair/replace their system. We have forgiven the connection cost for five houses under the Good Samaritan Program. AVEC helps out where we can.

Georgia and Meera mentioned they would like to have the board take a slightly different approach to the scholarship program. The scholarship fund started in 1988 and we set aside \$100,000 in a reserve account. We use interest and unclaimed capital credits to award annual scholarships, once a year. So far we have given more than \$200,000 to 170 applicants and the current account balance is \$300,000. We normally take applications between January and April 15 and check to make sure applicants are qualified. Georgia prepares a report to the board in May and asks for their approval to award scholarships to different students for the upcoming school year. However, some students decide to attend vocational schools that sometimes start at different times throughout the year. Meera and Georgia would like to still award a certain amount of scholarships in May, but also set aside a separate amount for students that decide to receive training at in-between times. They are thinking about a 25/75% split, with 75% of the total scholarship funds available being awarded in May. Meera and Georgia will put this proposal into a policy form for the board to consider during the January meeting. We can try this for a while to see if it works. Robert said he thinks this flexibility will be beneficial to our students and the allocation amount can always be changed.

Meera said she wanted to give the board a brief update on the status of Kivalina. The new \$3 million seawall that was built this summer to retard erosion was damaged during the first storm that hit, which wasn't even a major storm. A subsequent storm damaged the seawall even more badly. There was an emergency meeting last week with 50+ people there to discuss the fact that the seawall will not hold up and what can be done. The Coast Guard talked to AVEC as they are concerned about our tank farm and the environmental risk posed by the possibility of our tanks toppling over and/or floating. Meera discussed different options with them. In a worse case scenario, they will put a stop on AVEC receiving fuel next year. Discussion ensued. There aren't any easy solutions, especially since we are obligated to continue providing power to the community. One option would be to turn our system over to the city or state and offer to operate it for them, as it isn't possible to move our tanks and power plants any further away from the eroding shoreline. More discussion ensued. Roger Kemppe will work on a draft proposal to give the facilities to the city or state to reduce our liability.

8. New Business

Upon a motion duly made and seconded, Resolution 06-35 Consent Agenda, including Resolutions 06-36 New Memberships; 06-37 RUS Construction Fund Expenditures; and 06-38 Director Expenses; was approved as presented.

Upon a motion duly made and seconded, Resolution 06-39 2007 Operating Budget was approved as presented.

9. Executive Session

Upon a motion duly made and seconded, the Board moved into Executive Session at 3:29 p.m. All staff members were asked to leave, except for Meera Kohler, who was in attendance for most (but not all) of the

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meeting. Roger Kempel remained throughout the whole meeting. The board moved out of Executive Session at 4:19 p.m.

Upon a motion duly made and seconded, a roll call vote was taken to move to amend the existing contract with the President and CEO and raise the contract retroactive to June. A roll call vote was taken: Mike Prince – yes; Julia Walker – yes; Helena Jones – yes; Walter Sampson – yes; Phyllis Clough – yes; Charlie Curtis was absent. The motion was approved.

10. Board Comments

Most of the board members said they already expressed their comments. Phyllis Clough said that she is very concerned about the high cost of fuel and power and many eyes are on us. We need to make sure our actions benefit our consumers. She is also worried about the fire in Hooper Bay, the erosion in Kivalina and Robert's health.

11. Next Meeting

The next meeting date was changed from January 12 to January 19, 2007.

12. Adjournment

Upon a motion duly made and seconded, Chairman Beans adjourned the meeting at 4:45 p.m.

Chairman, Robert Beans

Secretary, Helena Jones