

**Minutes of the January 19, 2007 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 19, 2007 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
Larry Markley, AVEC Lobbyist

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

2. Declaration of Conflicts of Interest

Chairman Beans asked if there were any conflicts of interest to declare and there were none.

3. Approval of Minutes

Upon a motion duly made and seconded, the Minutes of the Regular Meeting, November 2, 2006 and the Notes from the November 2006 Budget & Audit Committee Meeting and Village Operating Agreement Committee Meeting were approved as presented.

4. Director Trip Reports

There were no director trips to report on.

5. Committee Reports

The notes from the last committee meetings were included in the board packet. There was nothing new to report.

6. President's Report

6a. Report from AVEC lobbyist, Larry Markley: Larry Markley said he has worked for AVEC for a long time and was asked to give a report on what he has done. He has lots of clients all over the state and he has done a lot of work for rural Alaska. He works at the state level down in Juneau and also at the federal level in Washington, D.C. He tries to connect the dots between federal and state legislation and funding. The overarching issue he has worked on for AVEC (and rural Alaska) is the PCE program. This was an annual quest because there hasn't been enough money to fund the program. He, Meera and Robert, among others, had to annually ask for supplemental funding for this program. Last year was our best year and Governor Murkowski signed legislation that put \$183 million into the PCE Endowment Fund to go for operating expenses. It is expected that we will need about \$27 million for the PCE Program this year, but Gov. Palin recommended about \$26 million in her proposed budget. We will wait to see what happens, but may need to request supplemental funding to fully fund the program for this fiscal year. Before the election, Congress passed an energy bill that authorized providing federal funding to the PCE Program, but Congress has not approved any legislation authorizing the funding. Senators Stevens and Murkowski both helped a lot in getting this legislation approved and hopefully someday Congress will authorize it. Future funding of the Denali Commission program is uncertain at this point due to the outcome of the federal elections in November when the Democrats took control of both houses. Sen. Stevens sent Larry a letter explaining that no rules have been developed on earmarks, but that could change. Congress passed a resolution to roll the government budget ahead at current funding levels for a set time. It's a big mystery what will happen in the future. Senator Stevens hopes to get another \$50 million in funding for the Denali Commission, but the House only approved \$8 million. Another project Larry is working on this year is to try to get \$5.8 million for the tieline pilot project between Pilot Station and St. Mary's that uses new technology that looks very promising. Larry said the state

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will have to step up to the plate to provide funding for certain projects, especially if the Denali Commission loses funding. He's also trying to get funding for hydro-electric feasibility projects in Old Harbor, Scammon Bay and other communities, but those funds are becoming more difficult to get. State Senator Thomas introduced legislation that would set up a state-funded, alternative energy grant program up to \$250 million that would provide grants to electric utilities to develop non-fossil fuel projects (except for natural gas). This could prove beneficial to AVEC. The program would be administered by AEA. Another project Larry and Meera have worked on is the ultra-low sulfur diesel, which would really hurt rural Alaska. Luckily the regulations have been modified to extend the compliance period to the year 2010 and then we can plead our case. This extension helps all rural communities.

Walter Sampson asked Larry if there was any communication between the different lobbyists that deal with the same issues at the state or federal level. Larry said he tries to network with other lobbyists but there is no formal alliance. Walter asked if we are short on PCE again this year. Meera said we're not sure yet, but due to the increased price of oil we could be short about \$4 million, based on what the Governor said. However, the price of oil goes up and down and we will keep a low profile until we see what happens. Mike Prince asked if there was any discussion about village entities with small power plants and whether the lack of funding would cut operations of the plants. Discussion ensued about operations vs. project funding. Meera pointed out that the Denali Commission funds only provide for construction of the new power plants, not the operations of the plants. Senator Hoffman is the Chair of the finance committee. Walter said the Denali Commission has been very good for us but we need to be proactive about promoting what the intent of the Denali Commission is as folks are trying to get funds for urban projects and the Denali Commission was set up to help fund infrastructure in rural Alaska. Larry Markley confirmed that there is indeed increased pressure to obtain Denali Commission funding for urban projects and we need to get involved in protecting the intent of the Denali Commission's mission. Mike said that the road to the airport in Emmonak is still having problems with erosion and somebody needs to start the process of getting the road relocated. Meera said that this is not AVEC's responsibility. The community needs to be proactive and get things moving and work with the state to maintain the safety of the road to the airport. Phyllis Clough said thank you to Larry for all of his work to help AVEC, its members and residents in rural Alaska. She said to feel free to call upon this board for help, if you need us to write letters or make calls. Larry said folks know AVEC and we have a positive image and carry a lot of weight as far as rural Alaska goes. Walter asked if we could get periodic reports of Larry's activities and both Meera and Larry said yes. Phyllis said she saw Rep. Don Young at an airport and she mentioned the boards that she serves on, including AVEC. Rep. Young said AVEC is a very good company and she should feel proud to serve on this board. Rep. Young said he would like to meet with Meera some time.

Guest Speaker – Norman Burgett: Mayor Burgett said is he here on behalf of the city of Huslia. They are trying to get a solar-powered pilot project going but they can't hook up to the grid in order to conduct the study. Norman said a whole, complete system has been bought and they would like to install it to the AVEC system. He said he was told the TCC has tried for two years to get a response from AVEC but they haven't had any response yet. Meera said so far we have received no letter of communication regarding this project, so that is why we haven't provided a response. Norman said they also requested a copy of the city's contract with AVEC (the Village Operating Agreement) so they could see when they could out of the agreement, but he still has not received a copy of the agreement. Meera said that the electric generation and distribution system belongs to AVEC and we contract with the city through a Village Operating Agreement to provide the power plant operators to oversee the daily operation of the power plant. Meera said Debbie would have one of her staff members make a copy of the Village Operating Agreement for Norman before he leaves. She also said we need to see a description of the solar-powered system to ensure there are no hazards involved in hooking up to the AVEC system. Walter Sampson said that AVEC staff and the board of directors need to protect its members' interests and safety. As far as generation goes, if somebody hooks up and something bad happens, AVEC is liable, so we do what is necessary to protect our consumers as any costs come out of their pockets. Meera said once we receive information about the project, we can act on it. If it provides a stable source of viable, reliable power, we have no problem with it. Norman said they're also looking into hydro power and said thanks for listening to him.

6b. Denali Commission Project Update: Brent Petrie gave a brief update on the Denali Commission program. He said there isn't much to report on at this time as the program is in a state of flux due to questions about future funding. We are going to close out the projects in Huslia, which included a new fuel line and bulk fuel tanks. The projects in Kalskag were held up due to entities changing cells in the bulk fuel tank farm, but that

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big project can now be closed out. The power plant at Gambell is nearly complete and then they are moving over to Savoonga to work on that power plant. Tank farm work continues in Kasigluk and a crew is removing the piles from the old distribution tie-line. So far we have received about \$119 million from the Denali Commission and we have spent about \$102 million as of December. There is about \$12 million in the pipeline, which leaves about \$5 million for engineering, permitting, business plans, etc. We have no idea of the funding level for this year so we had to stop some projects and move that money to other projects. We are going to try to complete our current projects and order equipment and parts for other projects that have long lead times. Trying to make sure everything is ordered and arrives on time is a huge logistical challenge. We put proposals together for four transportation projects, including a road to the wind turbines at Hooper Bay, which was approved. While working on plans for the Mekoryuk project it was learned that the city wants the harbor deepened. The construction manager suggested dredging out the harbor to get the fill materials instead of excavating it at a site previously identified. This means the fill material would only have to be hauled 500 yards instead of five miles. This idea was approved, but all of the permitting needs taken care of. Brent Stonebraker is back in the office for about a month, doing some project planning based on the money we have received and what resources are needed. We are trying to plan out our future program and projects.

Walter Sampson asked who is working on these projects. He said we need to ensure local and Native hire. The regional corporations also have expertise to provide services – can we use them as contractors? Brent Petrie said we work with people and firms who submit proposals and we have had mixed results with some of the Native firms. We do use one engineering firm that is owned by a regional corporation. Now we are waiting for funding so some projects are on hold. We do have a success story with a young fellow from Kasigluk who was sent to Vermont for wind training. He is now able to fix our wind turbines, once the problems have been pinpointed via remote monitoring. He recently flew to Toksook Bay to fix a problem with the wind turbines. Mike Prince said that St. George is good about local hire. Mike said at the village meeting interest will be expressed about merging Emmonak and Alakanuk via a tieline. It's 7.2 miles airport to airport and he said don't forget about us. Brent Petrie said that is something we are looking at in the future, but it is a tricky route and we don't have any money for that project yet. Brent said there are concerns about flooding in those two villages and to let us know about changing conditions, like floods and erosion.

6c. Financial Statement: A copy of the November 30, 2006 financial statements was handed out during the meeting. Our year-end reports aren't done quite yet, but Debbie has been working on them as the audit starts next week. So far it looks like we have about \$1.25 million in margins. This is a very small operating margin and the RUS may be upset with us again, but at least it is a positive number. We have had higher operating costs, partly due to the increased cost of fuel, plus we have about \$20 million in plant which needs to be retired but we don't know the depreciation value at this time. Now that the Denali Commission funding is slowing down we should have time to catch up on some things. Other than that there are no surprises in the financial statement and we are tracking per budget.

6d. Delinquency Update: A copy of the latest delinquency report was distributed. We are showing a downward trend in delinquent bills as people and cities have been paying their bills better. Really good news is that Chevak is all caught up. Meera said she has contacted them to let them know she is really proud of their efforts to catch up on their delinquent account. Overall things don't look too bad.

6e. APA Legislative Conference and Annual Meeting: Chairman Beans appointed himself, Walter Sampson and Charlie Curtis to attend APA's Legislative Conference in February. Attendees to the Annual Meeting will be appointed at a later date.

6f. PPO PERS Retirement Pay: Meera said the board packet included copies of correspondence she has exchanged with Toksook Bay regarding the PERS program and the amount AVEC pays each month. Meera followed up on this issue and said that AVEC only pays forward, not for the past. She looked at the PERS reports online. Sixteen of our communities receive a monthly 16% payment towards PERS and according to the online report, five communities have canceled the PERS program and other communities are inactive. We did not receive any notification of this so we are still paying the communities, even though they aren't paying the state. Debbie is working with the state to get more information. The cities will have to pay us back for any amount they received that they shouldn't have received. There are still lots of questions and Debbie and Meera will continue to follow up on this issue.

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6g. USDA RUS Borrower Statistical Profile: A copy of this report was included in the board packet. Meera said it highlights key ratios and tells how they are calculated, which is pretty interesting. The report contains U.S., state and AVEC values (for comparison purposes) and flags any values of concern. Our operating margins are flagged as being low. Meera gave a brief explanation.

6h. Customer Service Survey: Meera said we send out surveys to our consumers and she included a copy of one we received back that included a nice response. It's good to pass on compliments! The survey said that AVEC has greatly improved over the years and now there are fewer outages. 95% of the surveys we received back are positive and we review problems mentioned in the surveys to continue to improve customer service.

Last week Meera and Brent participated in a NWAB video teleconference on energy issues. Charlie Curtis mentioned the conference to Meera and Marie Green invited AVEC to attend and participate. There was consensus that we need to inventory the energy use in each village and the group seemed excited about the concept Meera put forth. Walter Sampson said energy is a big issue and they are looking for additional funding sources to find ways to try to reduce the cost of energy. He appreciates that AVEC is welcome to be part of the team working towards energy solutions.

Meera received a letter from Pilgrim Springs, which has hot springs in the Nome area. They would like to extend a geothermal tie-line to bring power to Brevig Mission and Teller from Nome. Meera wrote a letter in response explaining the constraints, costs and issues. Her letter was well received and she received another long letter in return. The project is too expensive to consider at this time, but she would be delighted to work with them if funding could be found. There may be some potential in this project.

Meera said she continues working with Polar Consult on the DC high-voltage transmission line pilot project. We received a \$135,000 grant from the State D.E.S. department to purchase emergency spill response equipment for Kivalina. We have been working with Chadux to buy, ship, unload and store the equipment, but weather delayed delivery. Red Dog donated two connexes for storing the equipment. There are lots of folks working together to try to find a resolution to the erosion problem.

Walter Sampson asked if Meera could attend Noorvik's annual meeting on January 30th; if she can't attend, he will go. Meera said she would attend if at all possible, but she will be in Hooper Bay on the 29th for the new school dedication. Meera will provide Walter with information to take to the meeting.

Upon a motion duly made, seconded and amended to include additional information provided by Meera, the President's Report was approved as presented.

7. New Business

Upon a motion duly made and seconded, Resolution 07-01 Consent Agenda, including 07-02 New Memberships; 07-03 RUS Construction Fund Expenditures; 07-04 Director Expenses; 07-05 Collections Representative, Georgia G. Shaw; and 07-06 Collections Representative, Kat Adamson; was approved as presented.

Upon a motion duly made and seconded, Resolution 07-07 Year-End Consumer Charge Offs was approved as presented, after the following discussion. Phyllis Clough said that more than 69 of these accounts are over \$600, which is a lot of money. This hurts us and the consumers. Can we cut them off after they reach a certain amount of money owed? We need to do something to minimize the large delinquent accounts that people will have a real hard time paying off their bill. Meera explained how the billing process works, and when the bill is dated and when a bill becomes delinquent. Phyllis asked what can we do to help us and them (the consumers)? Do we have a cap? Meera said we have a strict delinquency policy, but due to the billing process and delinquency policy, that leaves about 105 days worth of bills. This is in our tariff. There is a bright side. Yes, we write off \$145,000 for last year, but we also collected about \$90,000 from the amount we wrote off last year. We still try to collect these accounts even though they get charged off. Phyllis said she is still concerned about this issue. Charlie Curtis said that sometimes people are encouraged to pre-pay their bills by paying in advance and receiving a slight discount. Meera said we could look into that. Roger Kemppe said that other utilities offer a budget billing plan, with levelized payments each month. It would be nice if we could start offering that option as people generally have more cash in the summer than they do in the winter,

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when their bills are higher. Meera said that our existing software doesn't allow the budget plan billing, but our new software allows it. Once the new software system is installed we can institute a levelized-billing plan by approving a policy. There are special meters available that allow people to purchase electric power and slide a pre-paid card into the meter to get more power, but those meters are very expensive.

Upon a motion duly made and seconded, Resolution 07-08 Statement of Nondiscrimination, was approved as presented.

Upon a motion duly made and seconded, Resolution 07-09 Insurance Program Revision, was approved as presented, after Meera Kohler briefly explained the revisions. Eleven employees signed up for the new high-deductible policy.

Upon a motion duly made and seconded, Resolution 07-10 NRECA/CFC/NRTC Voting Delegate Certification, was approved as presented.

8. Unfinished Business

8a. Report from attorney on 85/15 Rule:

Roger Kempel distributed some information about the 85/15 Rule, which Charlie Curtis mentioned concern about at the last board meeting. This rule states that 85% of a cooperative's revenue must come from the membership and only 15% of the revenue can come from other sources. Roger concluded that there may be an issue, even though we are not anywhere close at this point. Normally the 85/15 Rule is applied at the end of the year by the auditors. He said this issue could be addressed through the proposed bylaw amendment he provided, which the membership needs to approve. This amendment would eliminate the lag time between when a consumer first applies for service and when their membership is approved by the board. The amendment could be approved by the membership at the upcoming annual meeting. **The board approved pursuing this 85/15 Rule issue and presenting the proposed bylaw amendment to the general membership at the annual meeting in March. The bylaw amendment will be included in the annual meeting packet.**

8b. Director fees, Policy #2002:

Roger Kempel distributed information on director fees received around the state and the northwest. He prepared two different resolutions: one for raising the director fee from \$150 to \$200 and one for raising the director fee to \$250. He recommended increasing the director fee to \$250 because the \$150 fee was set in 1995, which was more than 10 years ago. The delegates have to approve increasing the director fee by a majority voice vote at the annual meeting. Walter Sampson said we need to keep up with the cost of living expenses, etc., and he is sure the delegates will support increasing the director fee to \$250. Meera Kohler said the annual cost to the cooperative to increase the director fee is about \$10,000 per year.

Upon a motion duly made and seconded, the board unanimously approved the resolution to increase the director fee to \$250 and to include it in the delegate packet. The membership will vote on this resolution at the annual meeting, which needs a majority voice vote for approval.

9. Executive Session (if necessary)

Upon a motion duly made and seconded, the Board moved into Executive Session at 11:10 a.m. The board moved out of Executive Session at 12:05 p.m.

Upon a motion duly made and seconded, the board authorized the President & CEO and the Board Chairman to execute the Crowley settlement agreement. A voice vote was taken, which resulted in a tie that required the Board Chairman to cast his vote.

10. Board Comments

Mike Prince said Emmonak's annual village meeting is coming up and he wondered what the board member's role is as far as the meeting goes. Meera said he just attends as a consumer, not a board member.

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Walter Sampson said it was a good meeting. We need to learn to bite the bullet. The contract agreement vote sends a good message. He is going to attend Noorvik's annual meeting on January 30th and will be getting information from the staff to take with him.

Julie Walker said it was a good meeting. She appreciated having Larry Markley here and commends everybody's work on the Denali Commission projects. She is interested to hear what might be happening in Huslia regarding solar energy. She commends AVEC's collection efforts and the low delinquency levels. Thanks to the attorney for his good work.

Helena Jones said this was a good meeting. Everyone has different views on topics but a good consensus was reached. We need to keep in mind who the money belongs to. She is interested in attended the APA meeting in Juneau as an alternate if someone can't go.

Phyllis Clough said she is concerned about our delinquencies. She feels we need to do something to make sure some folks don't get so far behind they can't ever pay their bills. We need to keep looking for ways to reduce the cost of power. If the rural communities go away, there will be no AVEC. Thanks to everybody for their hard work and efforts.

Charlie Curtis said Happy New Year to everybody. We need to talk about what we can do in the future, for example, tielines between Kobuk/Shungnak/Ambler. He likes the effort to educate the consumers on what they are using energy for. He looks for continuous improvement in AVEC's operations. He asked whose board seats are up for election. We need to ask Georgia to confirm who is up for election.

Robert Beans said Happy New Year to all and he felt it was another good meeting. Robert will go to Hooper Bay if Meera can't go.

11. Next Meeting Dates

The dates for the next Board Meeting are March 26 and Annual Meeting March 27, 2007.

12. Adjournment

Upon a motion duly made and seconded, Chairman Beans adjourned the meeting at 12:20 p.m.

Chairman, Robert Beans

Secretary, Helena Jones