

**ASSEMBLY STANDING COMMITTEE
COMMITTEE OF THE WHOLE
THE CITY AND BOROUGH OF JUNEAU, ALASKA**

January 18, 2018, 2:00 PM.
Municipal Building - Assembly Chambers

Special Committee of the Whole work session -no public testimony.

I. ROLL CALL

Deputy Mayor Jerry Nankervis called the meeting to order at 2:00 p.m. in the Assembly Chambers.

Assemblymembers Present: Mary Becker, Rob Edwardson, Norton Gregory, Loren Jones, Jesse Kiehl, Ken Koelsch, Jerry Nankervis, and Beth Weldon.

Assemblymembers Absent: Maria Gladziszewski

Staff present: Amy Mead, Municipal Attorney, Mila Cosgrove, Deputy City Manager; Laurie Sica, Municipal Clerk; Nathan Coffee, Engineer/Arch I.

II. APPROVAL OF AGENDA

Hearing no objection, the agenda was approved, noting that there were no minutes for approval.

III. APPROVAL OF MINUTES

None.

IV. AGENDA TOPICS

A. Discussion with AVISTA/Hydro-One Representatives

Deputy Mayor Nankervis made introductions. Invited guests included Dennis Vermillion, President of AVISTA Corp and Chairman of the Board for AEL&P; Connie Hulbert, AEL&P President and General Manager; Scott Morris, CEO and Chairman of AVISTA; Mayo Schmitz, CEO and President of Hydro One.

Mr. Nankervis asked how a merger of AVISTA and Hydro One would benefit Juneau. Mr. Morris said that Juneau will have an ownership structure that honors the agreement AVISTA made with Bill Corbus when AEL&P was sold to AVISTA. Mr. Corbus was the CEO and major shareholder and he had a fiduciary responsibility to get full and fair value for his shareholders, which he did. What was important to Mr. Corbus was for the next owner to share his values, caring passionately about the community, the employees and customer service. Connie Hulbert will continue to be the President and General Manager and the 62 employees will continue to provide great service, be a part of the community, and this is a partnership. Juneau will get another great company with 125 years experience that cares about the company, the customers and the employees.

Mr. Nankervis said that there are two concerns. Mr. Corbus did not choose Hydro One, and not only did he not choose Hydro One, it is a foreign company. Mr. Nankervis asked if any changes were anticipated and if so, in what time frame. Mr. Morris said they chose to enter this relationship because they share values with Hydro One. Our employees are our greatest asset and we continue to contribute to the community. Any changes will be based on decisions made locally by Ms. Hulbert and her team, and not by AVISTA or Hydro One. We value Ms. Hulbert's decision making. Regarding any

business decisions, they will be lead locally. Mr. Schmitz said there is an agreement between Hydro One and AVISTA that characterizes that exact relationship and the only structural change will be that he will join the Board of Directors of AVISTA. AVISTA will choose their board independently of Hydro One. He and Mr. Morris will select the Board who will represent Hydro One, which will be selected from the Pacific Northwest. He said Hydro One has one of the strongest balance sheets of like companies in North America and through this transaction, Standard & Poor (S&P) has confirmed that AVISTA gets a credit upgrade so their cost of capital goes down. There are mutual benefits, including their buying power, and this will effect efficiencies and productivity for all. Mr. Morris spoke about Hydro One's immediate contribution to the AVISTA Foundation, which will benefit Juneau.

Mr. Nankervis said that at the last Finance Committee meeting, testimony was provided that stated that there were 55 commitments addressing local security in an agreement in Washington, and that the Alaska filing had none of those items included. Ms. Hulbert explained that these were agreements pertaining to the rate payers in Washington before the State of Washington regulatory authority, and to the extent that any of the commitments pertains to Alaska, they would be honored, and this was explained to RCA. An example was abiding by labor agreements and no loss of personnel.

Ms. Hulbert said there are a myriad of documents to safeguard the Snettisham project to the Juneau community. The state purchased the project from the Federal Government, and it was determined that the cost to the ratepayer would be lowest if it remained in state ownership. The State did not want to be an owner so bonds were obligated to be paid by AEL&P, and AEL&P pays for the maintenance and operation and a contribution to a renewal and replacement project. AIDEA was issued the Certificate of Public Convenience and Necessity to operate. The agreement allows a sister company to AEL&P to take over the project, however, it would be more expensive to the rate payer if this happened as there were costs including the FERC license, borough property tax and US Forest Service Transmission line agreements that the state was not required to pay and would be passed on to the rate payer if sold. The RCA approves any transfer, and RCA has stated that for rate making purposes all that can be included is what the state has paid, so there is no incentive for anyone to pay \$500 million in which they can only include \$82 million in rates. There is no sense in monetizing an asset that provides 2/3 of the power to the community. There is a right of first refusal, and at some time if it makes sense and the Snettisham company tries to sell, CBJ has the right of first refusal.

Mr. Morris said that there is one transmission line to Juneau from Snettisham - the power is "islanded" and it would be so expensive to built a transmission line to another location to sell the output, so that electricity will stay here forever as there is no where else for it to go.

Mr. Nankervis asked Mr. Vermillion how he would he assure that his policy and operational decisions would meet the best interest of the local community.

Mr. Vermillion said he had been the Chairman of the AEL&P Board for three and a half years. There are five people on the Board of Directors, including himself, Ms. Hulbert, Mark Pease who is the CFO of AVISTA, Marianne Durkin, General Council of AVISTA and Karen Feltes who is the Sr. Vice President. This is the oversight to the operation of AEL&P. Ms. Hulbert and her team are management of AEL&P and as a board we delegate management authority as best as they see fit. They are local and know the needs of the community, and know what it takes to run a safe and reliable power company. The board's responsibility is to ensure that they meet their goals. He said the board has no worries about their service.

Ms. Weldon asked if AEL&P will remain a union shop and the answer was yes.

Ms. Weldon said she has heard a concern that a move to a foreign company will strip money from AEL&P and if there is an avalanche, there will be no resources for addressing problems. Ms. Hulbert said that this change will provide AEL&P with additional resources. It makes no sense to strip the economic resources of a company that is viable. If there is an emergency, there will be additional equity in the picture. We had some concerns in weathering the last avalanche. Mr. Schmitz said the units stand on their own merits and the funds are not mixed. These mergers give growth opportunities

- these things are "ring-fenced." Ms. Hulbert said it is more beneficial to customers to pay dividends to AVISTA over time. Regulatory rates are set on a formula. The cost of equity is higher than the cost of debt - it is counterintuitive but we can't let equity get too high - we do not want to be too highly leveraged and it is a balancing act.

Ms. Weldon asked about Juneau Hydropower tapping into the Snettisham transmission line. Ms. Hulbert said Juneau Hydropower has asked for an agreement and we provided a flowchart for the interconnection process and we are working on it with them. We have received a request, we provided a process. Mr. Scott discussed technical aspects of such a connection. He said that at this time there is not a load or demand for this project. We have heard that Juneau Hydropower wants to serve Kensington. There are costs involved and if Kensington wants to do that, that is fine, as long as our customers do not have to pay for that connection. Ms. Hulbert said Avista is serving Greens Creek and we have an interruptible agreement that Juneau residents do not have to pay. To build the project to serve Kensington, we have to beef up our system, and if they close down, the customers we have now need to pay for those costs. The mine would have to sign an agreement for x number of years to guarantee the investment.

Mr. Gregory asked about the district heating project. Mr. Vermillion said it could make sense for the community, and AEL&P could provide for the load, as it is in our service area. It would increase our demand and we would need to do a study and identify a supply curve and we could build a project that could meet our needs - such as Sweetheart Lake. Ms. Hulbert said AEL&P is regulated and currently Juneau Hydropower is not regulated. We are the sole certified provider to provide the service in this service area - we are obligated to provide service to customers in our area.

Mayor Koelsch asked about the mining agreements in place. Ms. Hulbert said that AJT started as a mining company, and AELP bought it in 1973, the power and 2/3 of the mining unit on Douglas was sold to AELP, and 2/3 on the Juneau side was sold to CBJ. AJT and CBJ have a mining unitization agreement - we both own the mining properties and it is easier to negotiate with one owner than two, this was the theory. AVISTA ended up with the mining properties - there are some contracts on the properties for use, such as the zip line, which help pay the property tax. There are no plans to change any property management arrangements in place.

Ms. Becker asked which company would make a final decision to build any new project. Ms. Hulbert said we call on AVISTA in lieu of calling on a consultant for advice. The Board ultimately makes a decision. At AELP, she and six high level managers make ten-year plans - we outline the budget and we give it to the board and the board of AEL&P approves it. AEL&P is still the same legal entity. What has changed with AVISTA is the board - there are four experienced utility managers on the AVISTA board. Ms. Becker asked if there was anything blocking the opening of the AJ mine in the proposed merger. Ms. Hulbert said no.

Mr. Kiehl asked under what conditions and terms could the governance structure change. Mr. Vermillion said they do not expect any changes. It is not part of the approval of the RCA. AVISTA, as owners of a wholly owned subsidiary, could change the makeup of the AELP board, the only thing that could change would be the board members. The governance is included in the agreement. the Chair of AVISTA makes the determination of who serves on the AEL&P boards.

Ms. Hulbert said that AEL&P had no obligation to make a return to AVISTA. Each year we look at our books to see what makes sense, we propose to the board what the dividend should be. We can't be too highly leveraged and we keep an eye on our rates. Mr. Morris said utilities make money based on the capital investment in the community. There is a need to balance system reliability and safety with the cost to the customers. Sometimes equipment needs to be replaced - backup equipment is needed, and there is a rate process around those types of needs - the utility profits from that as well. If Ms. Hulbert wants to spend money, we are all for it. Ms. Hulbert explained the thinking behind the capacity at the Lake Dorothy project.

Mr. Schmitz said we provide a five-year capital program to our board of directors. He explained that their board doesn't have links to the Canadian government. The cost to capital goes down - for

AEL&P and AVISTA based on Hydro One's strong balance sheet. The money stays local, and in regulated environment, we have no method to "harvest" funds - we only accentuate operations. We share best practices, best efficiencies. All businesses have their own call centers.

Mr. Edwardson asked what benefit Hydro One received from this merger. Mr. Schmitz said diversity of earnings - diversification of regulators, a stronger balance sheet, an ability to operate with less equity and sharing best practices and efficiencies. There is no reduction of employment - he spoke about fleets, call centers, forestry business, and influence over outcomes - we hope that AEL&P and AVISTA grow their businesses and expand opportunities. He spoke about his experience working in Montana with a low population and a high need. We hope this creates greater capacity, security and the returns will be opportunity and innovation. We reduced rates for our customers in Toronto by 30% and made significant investments in the local economy. We are incentivized to create efficiencies, and make the rates lower. AEL&P becomes an international business. He spoke about the exchange of staff between companies, succession plans, and relationships with First Nations. Mr. Schmitz - spoke about Kodak and the need to evolve to new innovative systems - this gives us the scale and scope to stay on the leading edge. All of our companies are over 100 years old and we need to be able to stay on our best foot and be able to pivot.

Mr. Nankervis thanked the representatives for this opportunity to ask questions.

V. ADJOURNMENT

There being no further business to come before the committee, the meeting adjourned at 3:20 p.m.

Submitted by Laurie Sica, Municipal Clerk