

Special Ketchikan City Council meeting was called to order by Vice Mayor Sivertsen at 7:00 p.m., November 8, 2012, with the following members present: Sam Bergeron, Kj Harris, Matthew Olsen, and Marty West. Councilmember Dick Coose joined the meeting via teleconference at 7:50 p.m. Mayor Williams and Councilmember DeAnn Karlson were absent.

The Pledge of Allegiance was given by all persons in the Chambers.

Staff present were Manager Amylon, Electric Division Manager McConnell and City Clerk Suiter.

COMMUNICATIONS – None

PERSONS TO BE HEARD

Trey Acteson, CEO of Southeast Alaska Power Agency, stressed that the study is an organization review, noting that some have taken a hard position on the issue prior to listening to the presentation. He encouraged the Council to listen to the report that contains recommendations, emphasizing it is not a hard and fast program to march forward. He said there are many facets to it as well as follow-up steps to the report. He continued by reminding that SEAPA owns Swan and Tyee projects as well as the related transmission facilities. He noted the intertie has saved Ketchikan a lot of money since it has been implemented. He explained SEAPA is an Alaska public corporation and an instrumentality of the member utilities, having a legal existence independent of and separate from the member utilities. He said basically SEAPA is your local GNT and wholesale provider.

Mr. Acteson reminded SEAPA's wholesale rate has been 6.8 cents for over 14 years, some of the lowest rates in the whole state. He also said SEAPA provides a rebate as finances allow, noting there is pressure on rates. He pointed out the study as commissioned by the SEAPA Board is to look at ways to do things perhaps better and more efficiently to reduce costs and potentially for the benefit of all the ratepayers. He emphasized financial and regulatory responsibility, as well as liability, for Swan, Tyee and the transmission system is SEAPA's, not the member utilities. He explained they are responsible for FERC, the bond indenture and other risks that were assumed as owner of the projects. He said one of the primary responsibilities for the CEO of SEAPA is to manage risk effectively.

He concluded that SEAPA has a fiduciary responsibility to be proactive in its efforts to ensure long-term, reliable, low-cost power for the ratepayers.

NEW BUSINESS

SEAPA "Operations and Maintenance Organizational Review," D. Hittle & Associates

Moved by Bergeron that the City Council recommend to the SEAPA Board of Directors that they not consider cancelling the existing O&M contracts with KPU and Thomas Bay Power Authority; and further recommend to the SEAPA Board of Directors to proceed in the best interests of all concerned to rewrite, revise and update existing O&M agreements in collaboration with the member utilities to the extent the agreement will more accurately reflect the present and future operations of SEAPA.

Vice Mayor Sivertsen ruled the motion dead for lack of a second.

Moved by West, seconded by Olsen the City Council direct staff to advise the Southeast Alaska Power Agency of the Ketchikan Public Utilities' formal position regarding the Operations and Maintenance Organization Review (O&M Review) of the agency that was prepared by D. Hittle & Associates as determined appropriate by the City Council.

Manager Amylon emphasized the context of this discussion. He said staff was encouraged by SEAPA to review the D. Hittle and Associates report about structure and possible operational changes in the manner in which SEAPA conducts its business. He reminded whatever action the Council takes tonight, it will only be on the context of making a recommendation to the Council's SEAPA representatives and the entire SEAPA Board. He said Mr. Acteson is correct in that the SEAPA Board is a separate entity and they control the Swan and Tyee Projects.

Electric Division Manager McConnell provided a critique of the D. Hittle SEAPA Operations and Maintenance Organization Review. He started out by reviewing the origins of SEAPA, stating that SEAPA is a public corporation as well as an instrumentality of the member utilities. He said the function of SEAPA is to accomplish the public purposes for which the Agency is established.

Mr. McConnell continued by discussing the D. Hittle review, which brought a staff initiative to the SEAPA Board in September to: 1) initiate termination of the KPU Swan Lake O&M Agreement and the Thomas Bay Power Authority Tyee O&M Agreement; and 2) contract out the O&M functions for both plants to a single third party operation, which would be SEAPA. He said the staff initiative also attempts to show that a single O&M operator for Swan and Tyee is in the best interest of Ketchikan, Petersburg and Wrangell ratepayers. He felt the general purpose of the review is to basically dismiss SEAPA's current approach rather than assess it. He pointed out the accessibility and reliability of power under the two contracts from the mid-1990s has been exceptional, and the option to improve the two contracts was not seriously considered. He continued SEAPA staff had determined before the review that its preference going forward was to have a single operator, and the recommendations in the review reflect this preference.

Mr. McConnell went on to say the review was not intended to present the Board with the two operations, but rather to substantiate its decision to go to a single operator. He said the discussions D. Hittle and Associates held with SEAPA at the beginning of the study did not include the member utilities. He pointed out the recommendations endorse the

single operator scenario due to the difficulties and inconsistencies associated with multiple contractors and governing boards. He went over the advantages the review claims would be obtained through a single operator, and he addressed each one in turn. He felt the potential reduction in operations and maintenance costs could be made for either the single operator option or the current KPU/Thomas Bay operation.

Mr. McConnell concluded by stating that it may well be that greater cost savings could be had by looking more closely at SEAPA's O&M accounts, since they appear to be more significant cost drivers for the increases in future energy rates, and not the KPU and Thomas Bay O&M agreements which is almost a reason for sweeping it aside. He cited KPU's conclusions, providing several points to emphasize the position that improving the current O&M agreements, assessing the advantages that accrue and suggesting a follow up review/assessment at some point to be determined in the future would be more prudent. He suggested the City Council endorse the following conclusion: the current O&M agreements with KPU and Thomas Bay Power Authority for Swan Lake and Tyee Plants respectively, should be revised, rewritten and updated to meet the current needs of both projects (including the Swan-Tyee Intertie), and not be cancelled.

The Council took a short break at 7:48 p.m., at which time Councilmember Coose joined the meeting via teleconference. The Council reconvened at 7:54 p.m.

Trey Acteson introduced John Heberling of D. Hittle and Associates. He outlined Mr. Heberling's history in working with Alaska utilities and his familiarity with electrical operations and systems.

Mr. Heberling said he has been working with utilities around the state for over 30 years, noting one of the first projects he was involved in was the Swan Lake Project when it was being studied for its feasibility as well as its construction and financing. He outlined they were asked in this study to take a look at how the Swan Lake and Tyee Lake projects are currently operated, what is involved in operating and maintaining the plants, how the existing O&M agreements work, what improvements could be made in the operations of the projects, and potentially look at what estimated cost savings and benefits could be realized with alternative approaches to O&M.

He explained the process, saying they looked at a number of documents, met with a number of people from both the plants – the operators, SEAPA staff, KPU, and Thomas Bay Power Authority with regards to the study. He said they also looked at the budget, operations data and statistics. He pointed out right now there are two contractors providing the maintenance and operations for the two separate projects – Ketchikan Public Utilities and Thomas Bay Power Authority. He said the O&M agreements in place at this time with regards to this O&M activity were formed when the projects were first owned and operated by the state, and they currently reflect the owner of the projects is the Alaska Energy Authority. He continued they both essentially have the same terms and conditions, and when the state contracted out the projects, they had very little involvement in the operations of the projects. Mr. Heberling said the state's primary

concern was getting the money for the debt service payment on the projects, and wanted to make sure the projects were insured and maintained effectively.

Mr. Heberling said they haven't been changed since they were last adjusted in 1990. He pointed out the SEAPA system, however, has changed substantially over that period of time. He said the most significant changes have been with the divestiture back in 2002 and more recently in 2009 when the Four Dam Pool Power Agency was further divested and you now have the organization of SEAPA. He outlined other changes that have occurred include the construction of the Swan-Tyee Intertie, which creates an integrated system of these two hydro plants. He stressed it is very critical that the projects operate in a well-coordinated fashion from the standpoint of the water resource that is in the region. He stated it is important to operate these plants effectively so that the use of the water is maximized at both Tyee and Swan. He went on to say the current condition is you have to look at loads in all three communities at all times and determine which project should be running and at what levels they should be running to provide reliable power cost effectively. He pointed out there have been a number of technical improvements so that remote operations are more readily available. He emphasized that SEAPA now has the contractual obligation to provide the power, and has to adhere to the terms that the lenders, FERC and others place upon SEAPA.

Mr. Heberling emphasized SEAPA fully understands, as all involved do, the importance of the projects to the communities. He said they need to operate as efficiently and cost-effectively as possible as we look forward. He pointed out the projects are nearing 30 years old and need to be maintained properly for as long as possible. He went on to say there are multiple operators at each plant, and he detailed the number on-site at all times. He said they went to each project to look at what was there, and it was determined there are possibly times that the projects could be operated with different numbers of staff. He said for the most part you would want to have two people at each project at most times. He explained the skill set of the people on site is important at any given time, and sometimes contractors may need to be brought in to deal with issues.

He noted they were asked to look at the budgeting process, explaining the budgets are prepared by the contractors. He said it is a different process than you would normally see with a lot of utility operations, in that most don't involve quite the same number of folks that have to review it. He stated as you look back over time, O&M costs have been increasing on a regular basis. He continued some of the costs come in through the contractors, which is called the facility O&M for the projects.

Mr. Heberling said the critical issue is not so much that the costs are what they are. He said the budgets that are in place were approved, reviewed each year, and sometimes things change around with them. He pointed out sometimes there is a cap in place that limits how much each project can charge, and if you look at Swan Lake for 2009 and 2010, a lot of the big jump that occurred was due to the fact that there was the removal of a cost cap that was put in place by the Four Dam Pool Agency. He noted the costs then dropped because KPU is no longer providing dispatching, SCADA services and certain

transmission services that had previously been built into the SEAPA budget. He displayed cost tables and explained what they indicated.

He continued by looking at how the O&M costs have gone up over time, indicating they may or may not continue to go up depending on how the budgeting process works. He reminded as the O&M costs go up, it puts pressure on SEAPA in the long term to evaluate what the charges are for wholesale power to Ketchikan, Petersburg and Wrangell.

Mr. Heberling explained the conclusions of the study, stating SEAPA has the contractual obligation to provide the power to the communities, the O&M agreements are outdated – which he explained in some detail, the O&M costs have a direct effect on the wholesale cost of power. He stressed you want to do as much as possible to try to streamline the operation and be as efficient as possible to keep those O&M costs in line. He said you also don't want to go in to jeopardize the reliability of the projects or the safety of the employees. He noted the two contractors charge expenses differently, which is something that should be addressed in anything that comes up, and the present process for the budgets is time consuming. He said the net billing process which is in place does not allow for typical utility cost management, and there is a difference in operator training procedures between the two plants. He felt this was something that should be moved into a common, consistent basis. He said they noted there is potential for saving in staffing and transportation costs.

He pointed out SEAPA's involvement in the O&M of the projects is increasing, and that is one of the reasons why you might note the SEAPA O&M is going up. He felt there was a certain amount of dependence on SEAPA staff by the operators at the plants as well as by the contractors, and this has placed an additional amount of cost onto SEAPA. He commented they noted the different boards that are involved in this whole process can be problematic from the standpoint of the operation of this utility system. He said SEAPA could benefit from gaining some additional skills related to information technologies and communications. He stressed the long-term viability of these projects is critical to the quality of life and the economies of the communities they are connected to.

Mr. Heberling continued that in looking at everything, they determined it would be beneficial for SEAPA to have a single contractor to operate both plants. He explained the concept would be to exchange personnel from one plant to another, and train personnel to work both plants. He said the concept of a single contractor is that SEAPA could either provide this function for itself or a request for proposals would be put together that defines the needs that are being looked at for the O&M, defines specific performance criteria and specific needs that would go into this whole thing. He said the concept is also that nobody is going to go in and radically change how things work now. In the least, he explained, the O&M agreements should be revised if the concept of a single contractor is not approached.

Mr. Heberling felt if the projects were working together, there was a possibility of reducing the number of operators over time, and he suggested ways this could occur. He said there could also be better coordination on operator training and operation, creating savings in the O&M area as well as in the area of renewal and replacement costs.

He informed there was action plan put together, which if followed, would require termination of the existing O&M agreements. He said the first it could go into effect would be June 30 of next year. He emphasized the contracts with current employees would need to be looked at and union contracts reviewed. He also displayed a conceptual timeline should a single-operator concept be pursued, noting it could begin July 1, 2014 if SEAPA moved that direction. He said they didn't address the specifics of the O&M agreements, the effort of which was determined not to be worthwhile at the time to address the agreements line by line. He answered questions from the Council, mentioning they did not look at potential costs or savings as it was too preliminary.

Trey Acteson addressed the Council again, citing the responsibilities of the SEAPA Board. He emphasized the communities do not lose their voice if SEAPA were to go to a single operator, reminding the Council that the board is made up of people the community assigns to the board and Ketchikan has a strong voice. He outlined what was discovered when they went to the other communities, saying jobs were a huge issue for everybody. He stated this was simply a review and there may not be any job reductions – it is too early to make that determination. He commented by simply rewriting the agreements, the disconnect between SEAPA's responsibilities and liabilities, and its ability to lead the O&M activities at the plant that SEAPA is responsible for, is not resolved. He outlined the process he would take relative to skills assessment and diversification.

Mr. Acteson addressed technology and new equipment at the plants, saying some of the folks working there are having trouble with the new technology. He stated he would also do an O&M gap analysis, and he said he didn't see the union status of the sites changing. He felt, however, the union contracts need to be combined because it didn't make sense to have two different groups working under different union contracts. He stated SEAPA's goal is to deal appropriately with retirements of current workers on different plans. He pointed out the last thing SEAPA wants is for reliability to go down - they are in the power business. He said there would never be any intent on their part to be unreliable.

Eric Wolf, SEAPA's Director of Special Projects, discussed power outages and what caused them. He said there have been 18 outages, 17 of which caused frequency enough to fall out of the measurement criteria, plus or minus half a hertz. He stated of those 17, two were caused by SEAPA and in 2012 one was a gunshot to an insulator on the transmission line. He explained the other was a governor component at Tyee, which is being fixed tonight through an automated system at the power plant. He continued that during this time power went from Swan to Tyee, and that is what is meant by integration. He said what they are trying to implement is uniformity of responsibility, cost and reliability. He pointed out there is a huge difference between automation and remote

control, stating Wrangell and Petersburg have worked in an automated environment, an unmanned Tyee plant in the evening, for 20 years. He said in that program there has not been a single outage due to automation, only human error. He stated the topic tonight is not about reliability, not with the plants. He urged the Council to direct any questions about how things operate through the City's SEAPA representatives on the Board, and they will get an answer back as soon as possible.

Mr. Acteson spoke again, noting that there has been a reduction in diesel cost because it is not being used as much. He discussed whether or not safety would be compromised with the recommendations in the D. Hittle Report, and he assured that it would not. He said there is a measurement of risk no matter what, and tasks can be adjusted so they are done with the appropriate amount of people. He outlined the experience that SEAPA staff has in the electrical transmission and plant business.

He continued by outlining steps to be taken. He said the first step was that the SEAPA Board commissioned a report to see if SEAPA's business could be done better, and he felt there were things that could be done to save the ratepayers money. He cited his obligation as CEO to make sure that an organizational structure is put into place that will stand the test of time and will bring the highest value to the ratepayers over the long term. He explained the next step that will occur after tonight is that he will write a recommendation to the Board, giving succinct reasons for his recommendation. He said then the SEAPA Board will make a recommendation and provide guidance in moving forward. He clarified the ratepayers are not stockholders, but every effort is to provide them long-term, safe, reliable and inexpensive power. He reminded SEAPA has huge risk coming forward in developing new power projects, aging infrastructure, relicensing issues, replacement of underwater cables, all of which are significant expenses. He answered questions from the Council.

Vice Mayor Sivertsen recognized Mr. Southland, Manager of Thomas Bay Power Authority.

Moved by Olsen, seconded by West to defer until the first meeting in December.

Motion to defer passed with Sivertsen, Bergeron, Coose, Olsen and West voting yea; Karlson and Harris absent.

MAYOR AND COUNCIL COMMENTS

Councilmember Olsen said he has been spending a lot of time at the Ted Ferry Civic Center lately, and felt something needed to be done about the overflow parking lot. He said the spaces are too small and vehicles are pulling in and taking up two spaces in order to park without hitting each other. He hoped the parking space size could be adjusted.

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Councilmember West thanked Mr. Olsen for his time and energy in his run for House, stating it was a well-run campaign, and she appreciated his intelligence, talent and willingness to serve.

Vice Mayor Sivertsen thanked everyone for their presentations tonight, stating he felt there was a lot of information given to digest on all levels. He stated there are reasonable people out there and we will come to a reasonable decision as we move forward.

ADJOURNMENT

As there was no further business, the Council adjourned at 9:25 p.m.

Bob Sivertsen, Vice Mayor

ATTEST:

Katherine M. Suiter
City Clerk