



ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

June 21, 2004

Ms. Kathy Prentki
Denali Commission
510 L Street, Suite 410
Anchorage, AK 99501



Subject: Request for Approval Tununak Business Plan and
Facility Transfer

Dear Kathy:

On behalf of the participants in the Tununak Bulk Fuel Storage project we are requesting approval of a variance to usual Commission policy that a facility be transferred to a local public or non-profit entity. If the Commission approves, then please have the commission's authorized representative sign the Secondary Operator Agreement in Appendix C of the attached July 1, 2002 draft of the Tununak Bulk Fuel Storage Business Plan. If the variance request is approved AVEC will proceed to work with the participants to prepare a final business plan based on the project as it is anticipated to be completed and owned.

The participants are Tununmiut Rinit Corporation (TRC), Alaska Village Electric Cooperative (AVEC) and the Lower Kuskokwim School District (LKSD). The TRC is the historical local retail fuel vendor for stove oil and gasoline and will be the primary operator of the facility.

Regular operations of the Corporation facility are initially expected to cost 42.8 cents/gallon and deposits for renewal and replacements and depreciation (long term replacement) are expected to require initial deposits of 7.0 cents and 15.8 cents per gallon for a total of 22.8 cents per gallon based on throughputs of 43,500 gallons of diesel fuel and 30,000 gallons of gasoline. Based on data projected in 2002 the total mark up was estimated to be 65.6 cents per gallon.

Upon completion of construction, testing and approval of a final business plan, AVEC plans to transfer operation, maintenance and ownership responsibilities to the respective parties. At other locations it has been the implied policy of the Commission to require transfer of ownership to a local governmental or non-profit entity, which if they were not the operator, then sublease the facility assets to private for profit operator. In this case we wish to point out that there is no organized borough nor city government in Tununak. The City government was dissolved in 1993. The Native Village of Tununak is the BIA-recognized IRA

Council for the village but does not represent the village. The Tununak Traditional Elders Council (TTEC) is the Council elected to represent the village and was the entity designated to own the village water and sewer infrastructure for the community when the city government was dissolved.

Unfortunately, the Rural Utility Business Advisor (RUBA) program of the Alaska Department of Community and Economic Development Quarterly Report for July 1- December 31, 2002 and the attached RUBA program letter of February 28, 2003 report significant problems of the TTEC in addressing grant conditions and tax problems with the IRS. This problem has not been resolved to this day. Accordingly, we do not see that there is presently a governmental or non-profit entity that would competently serve the function of a sustainable owner and lessor. Furthermore, the TRC has been in the retail fuel and grocery business in Tununak for approximately 20 years. They have been responsive in providing the attached two years of financial statements produced by Newhouse and Vogler. They have also provided the attached certificate of insurance that demonstrates they are currently carrying property coverage on their tanks as well as other prudent coverage on their overall business activities. Upon completion of surveys and plats, AVEC is ready to transfer the facilities.

The facility received fuel with the 2003 barge delivery. Unless the Denali Commission offers suggestions for an alternative arrangement, AVEC proposes to execute documents to transfer the retailing facility to TRC.

Sincerely,

Mark E. Jatzel

for **ITS VP & MGR. OF ENGINEERING**

Meera Kohler

President and CEO

Attachments:

- 1) Draft Business Plan of the Tununak Bulk Fuel Storage, July 1, 2002
- 2) Letter from Scott Ruby, Alaska Department of Community and Economic Development, February 28, 2003

This policy variance to allow transfer of the bulk fuel facility to the traditional private retailer is approved disapproved subject to attachment of a public purpose covenant to the land parcel and equipment to be used for the tank farm.

[Signature]
Denali Commission

6/28/2004
Date

Frank H. Murkowski, Governor

Alaska Department of Community
and Economic Development

Division of Community and Business Development
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February 28, 2003

Marie Becker
Community Liaison
Alaska Village Electric Cooperative
4831 Eagle Street
Anchorage, AK 99503

Dear Ms. Becker,

You have requested an update on our assessment of management capacity for the village of Tununak. The RUBA program has been working with the Tununak Traditional Elders Council, not the IRA council, so we can only update you on the one entity.

The Tununak Traditional Elders Council (TTEC) was the entity designated to own, operate and manage the water and wastewater utility for the community. Over the past three years, we have worked with the council to try and identify and resolve management problems. The main effort has been to resolve payroll tax problems.

For about 5 years, based upon some very bad advice, the TTEC did not file or pay any payroll taxes. With the help of RUBA and IRS staff, the reports were recreated and filed. RUBA also worked with the council to implement a financial management system. From January 2000- October 2002, the TTEC properly filed and paid its payroll taxes. The IRS helped the TTEC prepare an Offer in Compromise (OIC) that would address the repayment the past due funds. Council members of the TTEC had some reservations about signing the OIC. In the 3rd quarter of 2002, there appears to have been some change in the council's position. They quit filing and paying taxes, took an increasingly opposing position to the IRS, and let our Bethel staff know that they were not willing to work with them any more. On February 27th, 2003 we received formal notice that the TTEC terminated the RUBA agreement.

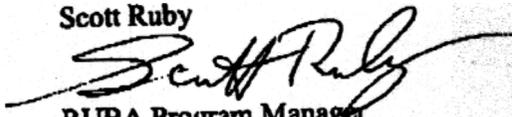
"Promoting a healthy economy and strong communities"

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Prior to TTEC breaking contact, Paul Chimiugak completed and update to the management assessment. In it Paul noted that the TTEC had not adopted a budget, and that periodic (monthly) financial reports were not being submitted to the council. They had not adopted a written collection policy, and they did not have an accounts payable system in place. They did not have a workers compensation policy in place, something that we had been telling them they needed to get for several years. They also did not have certified operators, were not working towards them, and have had lead and SWTR violations for many quarters.

The above items are some of the indicators that we use to determine if a community demonstrates management capacity for the purposes of receiving grant funds from Village Safe Water. Tununak Traditional Elders Council would have a lot of work to do, before we would say they have sufficient capacity to manage a utility system.

If you have any further questions, or need clarification on some of these issues, please let me know.

Scott Ruby

RUBA Program Manager

Cc: Paul Chimiugak, DCED-Bethel
Mike Black, DCED Regional Office Supervisor