

NATIVE VILLAGE OF NELSON LAGOON/ NELSON LAGOON ENTERPRISES, INC. BULK FUEL FACILITY



MONITORING PLAN AND RECOMMENDATIONS

Prepared for:
THE ALASKA ENERGY AUTHORITY (AEA)

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Prepared by:

AURORA CONSULTING
880 H Street, Suite 105
Anchorage, AK 99501
Ph. (907) 245-9245
Fax (907) 245-9244
EMAIL: us@auroraconsulting.org



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OVERVIEW

This Monitoring Plan and Recommendations was completed under contract to the Alaska Energy Authority as a follow-up to a Bulk Fuel Upgrade project in Nelson Lagoon, Alaska that constructed a new bulk fuel storage facility with six diesel storage tanks, two gasoline storage tanks, two avgas storage tanks, dispensing tanks, retail dispensers, a marine header, fuel transfer pipelines and a fuel transfer containment area. A component of the upgrade project was the development of a Business Operating Plan, which provided a guideline for the Native Village of Nelson Lagoon/Nelson Lagoon Enterprise Inc.'s maintenance and operation and sustainability of the Bulk Fuel Upgrade (the "Facility"). Nelson Lagoon Enterprises, Inc., (the "Primary Operator") is responsible to operate and sustain the newly installed Facility according to the criteria and guidelines outlined in the Business Operating Plan.

Overall, while some requirements of the Business Operating Plan were not being met by the Primary Operator, the Facility is in good repair, the bookkeeping systems are adequate and the staff is engaged and attentive to issues, both operational and financial, that affect the facility. In general, it seems that the Business Operating Plan has not been followed more as a result of lack of understanding rather than disregard for the Plan. Unfortunately, the Nelson Lagoon Enterprises, Inc. has a significant outstanding fuel inventory loan to Crowley Marine, approximately \$150,000. On the positive-side, the Corporation is currently generating enough revenue to remain current on its bulk fuel loan to AEA, make regular payments to Crowley Marine, and to manage the Facility. The Corporation is not yet making R&R deposits, but the Bookkeeper indicated that an R&R account would be opened soon and regular payments initiated.

Facility Participants

The Facility participants are:

Nelson Lagoon Enterprises, Inc.

Primary Contact Name: *Paul Gunderson, President*

Phone: (907) 989-2204 Fax: (907) 989-2233

Address: Nelson Lagoon Enterprises, Inc.

P.O. Box 13-NLG, Nelson Lagoon, AK 99571

Usage: The Corporation will utilize its Facility assets to operate its utilities and to retail fuel.

Native Village of Nelson Lagoon

Primary Contact Name: *Paul Gunderson, President*

Phone: (907) 989-2204 Fax: (907) 989-2233

Address: Native Village of Nelson Lagoon

P.O. Box 13-NLG, Nelson Lagoon, AK 99571

Usage: The Council will lease the facility to the Corporation.

Facility Components & Capacity

The following table provides a summary of the tankage, by type of fuel, that was included in the Facility upgrade:

Primary Storage/Dispensing	Number	Gallons Per Tank (Gross)	Total Gallons (Gross)	Gallons Per Tank (Net)	Total Gallons (Net)
Corporation					
Diesel					
#1 Diesel Primary Storage	3	27,000	81,000	24,300	72,900
#2 Diesel Primary Storage	2	27,000	54,000	24,300	48,600
Storage	1	4,000	4,000	3,600	3,600
Dispensing	1	4,000	4,000	3,600	3,600
Subtotal Diesel	7		143,000		128,700
Gasoline					
Primary Storage	2	27,000	54,000	24,300	48,600
Dispensing	1	4,000	4,000	3,600	3,600
Subtotal Gasoline	3		58,000		52,200
Aviation					
Primary Storage	2	27,000	54,000	24,300	48,600
Dispensing	1	4,000	4,000	3,600	3,600
Subtotal Aviation	3		58,000		52,200
Total Storage/Dispensing	13		259,000		233,100
Spill Recovery Tanks	Number			Gallons Per Tank	Total Gallons
Corporation – Spill Recovery Tank	1			9,000	9,000
Corporation – Spill Recovery Tank	1			9,800	9,800
Total Spill Recovery Tanks	2				18,800

In addition to the fuel storage tanks, the Corporation’s bulk fuel facility has a number of pipelines and other key components.

Pipeline Components	Number
Marine Header	1
Filler Pipelines (From header to facility)	3
Fuel Retail Dispenser	3

Community Information

The village of Nelson Lagoon is on the northern coast of the Alaska Peninsula, located on a narrow spit that separates a lagoon from the Bering Sea, approximately 580 miles southwest of Anchorage. Transportation to the village is by air or water. The State of Alaska owns a 4,000-foot gravel runway that serves regularly scheduled flights, while freight is landed at the Peter Pan Seafood dock in Port Moller, 30 miles away. A new dock, boat ramp, harbormaster's office, and warehouse were recently completed in the late 1990s.

The population of Nelson Lagoon is approximately 70 people, and has not significantly changed for the past ten years. The economy of the area is primarily focused on its salmon fisheries, although subsistence activities augment the seasonal nature of the fishery. All of the community's 33 housing units are connected to a piped water system; water is derived from a nearby lake and is treated and stored in a 600,000-gallon storage tank. There is no community sewer system and each household has individual septic systems or utilizes honey buckets. The village has a centralized washeteria.

The Native Village of Nelson Lagoon owns the health clinic, landfill, and water utility. The Corporation manages and operates these services for the Council. The Nelson Lagoon Corporation owns and operates the electric utility and retail fuel sales. Retail fuel sales and the bulk fuel plant are a subsidiary business, Nelson Lagoon Enterprises, of the Corporation.

Selected demographic and historical data for the community is provided below:

Selected Statistics – Nelson Lagoon

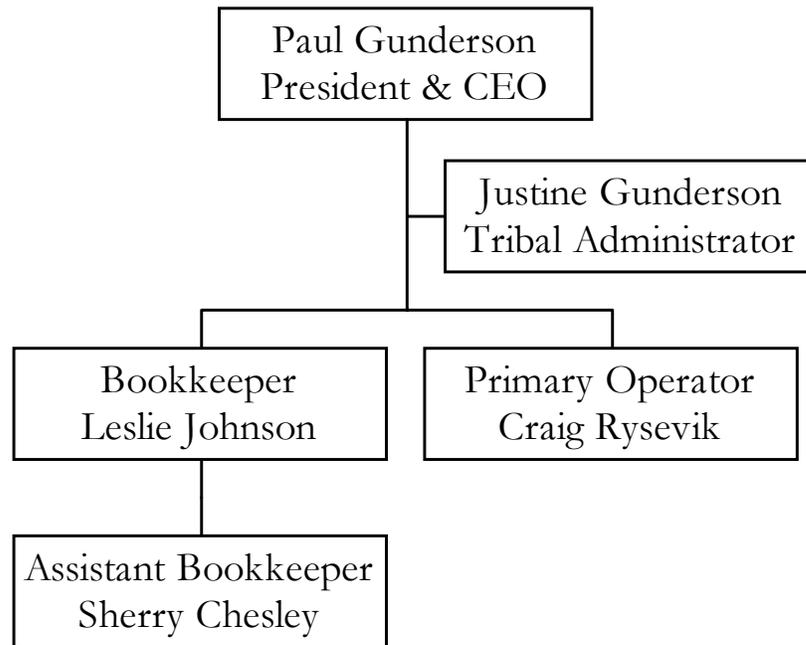
Population	
2005 (State Demographer Estimate)	70
2000	83
1990	83
1980	59
1970	43
1960	0
1950	0
Housing (2000 Data)	
Occupied Housing	31
Vacant Housing Due to Seasonal Use	2
Other Vacant Housing	0
Economic Data (2000 Data)	
Unemployment Rate	46.2%
Median Household Income	\$43,750

Native Village of Nelson Lagoon/Nelson Lagoon Enterprises, Inc.

The Native Village of Nelson Lagoon (Council) owns a variety of services and businesses in the community. The Council contracts with the Nelson Lagoon Corporation and/or its subsidiary, Nelson Lagoon Enterprises Inc. to manage and operate all of their services and businesses, including the bulk fuel farm. Currently, community residents and businesses pay for electricity, fuel and water. Additionally, the Corporation operates the community's generator plant, Nelson Lagoon Electric Cooperative. The Nelson Lagoon Electric Cooperative maintains the generator plant, monitors electric meters at residences and businesses, and collects electrical fees.

Since the Business Operating Plan, dated January 20, 2004, was finalized, there has been some staff turnover – including a new bookkeeper, an assistant bookkeeper, and a fuel operator. The following chart illustrates the staff relationships of the Nelson Lagoon Bulk Fuel Facility:

**NELSON LAGOON ENTERPRISES, INC.
BULK FUEL FACILITY PROJECT
STAFFING ORGANIZATIONAL CHART**



Monitoring Site Visit

The Alaska Energy Authority contracted with Aurora Consulting, of Anchorage, Alaska, to conduct a site visit to the Nelson Lagoon Facility and to develop a “*Monitoring Plan and Recommendations*”. The scope of the assignment included working with the Corporation to obtain information on existing management and operational systems, comparing those systems to Business Operating Plan requirements and other “best practices”, making recommendations for changes and/or training, developing on-going monitoring tools, and/or working to cure any deficiencies or defaults experienced by the Corporation.

Aurora Consulting staff member, Ann Campbell, traveled to Nelson Lagoon on September 22, 2006 to meet with Corporation bulk fuel facility management and staff, including:

Contacts	Title
Leslie Johnson	Bookkeeper
Sherry Chesley	Assistant Bookkeeper
Craig Rysevik	Primary Facility Operator

Monitoring Plan and Recommendations

The following Monitoring Plan and Recommendations is organized into three sections:

- Management and Operational Skills
- Business Operating Plan Compliance
- Recommendations

Management and operational skills identify those skills and practices that are crucial to the short-term viability of a bulk fuel facility, while Business Operating Plan compliance areas identify those activities that are required by the Denali Commission approved Business Operating Plan.

Management skills include administration, fiscal systems, and collections. Operational skills include the ability to perform maintenance, repair, and operation of the bulk fuel facility. Both skill sets require knowledgeable and trained managers, bookkeepers and facility operators to manage and operate the Facility on a daily basis. In contrast, the business operating compliance section details the key activities and actions required to be completed by the Facility in order to be in compliance with the terms and conditions of their Business Operating Plan.

Additionally, this report includes major recommendations for continued actions and training, which are detailed in the conclusion section of this report. These recommendations are limited to those actions necessary to meet the deficient management and operational skills or Business Operating Plan compliance areas.

BULK FUEL FACILITY MANAGEMENT/OPERATIONAL SKILLS

Financial Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	<i>Financial Management Skill Areas</i>
<i>Annual Budget</i>					
x					Develop and utilize budgeting process
		x			Staff understanding of budget
<i>Bookkeeping</i>					
			x		Develop and track facility costs using a Chart of Accounts
		x			Understand and track operation & management (O&M) costs
x					Understand and track renewal & replacement (R&R) costs
<i>Collection Policy</i>					
				x	Policy in place
				x	Policy implemented
				x	Collections at appropriate level
<i>Business Operating Plan</i>					
		x			Policy board has general understanding of Plan and requirements
		x			Management has general understanding of Plan and requirements
x					Staff has general understanding of Plan and requirements
	x				Management understands financial assumptions and tables
x					Staff understands financial assumptions and tables
	x				Management capable of annual Plan update
x					Staff capable of annual Plan update

Comments:

Annual Budget

Nelson Lagoon Enterprises, Inc. does not routinely develop an annual budget for the bulk fuel facility. In 2006, for example, the Corporation did not prepare a bulk fuel facility budget, but had done so in 2004 and 2005. The current bookkeeper understands and is able to utilize the budget information to perform her job duties.

Bookkeeping

Nelson Lagoon Enterprises, Inc. has a Chart of Accounts and is using the QuickBooks 2006 software package as its bookkeeping system. It is primarily the bookkeeper's job to manage the bank accounts, account payables, accounts receivable, and other general bookkeeping for both the bulk fuel and electric company enterprises.

The Bookkeeper, Leslie Johnson, has attended PCE training and has obtained some OJT QuickBooks training. At the time of our visit, the Bookkeeper was generally unfamiliar with the Business Operating Plan and associated financial requirements.

The Corporation has not yet established separate account codes in the Chart of Accounts for tracking R&R costs. The Corporation has not yet established an R&R interest-bearing account and is not yet making regular deposits into the account.

Collections Policy

The Corporation has a collections policy in place that seems to be working well. Currently, all non-commercial customers are required to pre-pay for fuel. Commercial customers are allowed to purchase fuel on credit. The Corporation has about \$50,000 in outstanding receivables, which they are attempting to collect through regular monthly payments. In addition, delinquent customers who do not maintain consistent monthly payments are required to make "double payments at the pump".

Business Operating Plan

The Bookkeeper was not able to locate, and is not familiar with, the general terms and conditions of the Business Operating Plan. Aurora Consulting reviewed the specific requirements of the Business Operating Plan - including the financial requirements, Denali Commission reporting requirements, and the Secondary Operator Agreement.

Personnel Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	<i>Personnel Management Skill Areas</i>
<i>Job Descriptions</i>					
x					Job descriptions current for all positions
			x		Staff aware of/understand job descriptions
<i>Staffing</i>					
				x	Staffing adequate to operate & maintain the facility
<i>Training</i>					
		x			Staff has adequate training for job requirements
		x			On-going training in place

Comments:

Job Descriptions

Written job descriptions do not exist for either the Bookkeeper or the Bulk Fuel Operator staff positions; however, both of individuals currently in place have solid understanding of their job functions.

Staffing

It appears that the staffing level of the Nelson Lagoon bulk fuel facility is adequate to operate and maintain the Facility.

Training

Both the Operator and Bookkeeper appear to have the basic training required for their job duties and functions. However, both of these individuals would probably benefit from additional training. The Bookkeeper would probably benefit from advanced QuickBooks training and from the Bookkeeper Business Plan class.

Currently, the Corporation does not have a pro-active plan for seeking out training opportunities and providing on-going, needed training for staff members.

Operations Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	Operations Management Skill Areas
<i>General Operations</i>					
			x		Management/staff have general understanding of operation needs
		x			System to schedule tasks for routine maintenance
x					System to schedule tasks for non-routine maintenance
<i>Inventory Control</i>					
		x			Inventory control system in place
	x				Know what parts to keep in inventory for routine maintenance
<i>Emergency/Spill Response</i>					
				x	Staff can explain/locate oil spill response plan
x					Written safety policy

Comments:

General Operations

Management and staff expressed that they have a good understanding of operational needs and understand what routine maintenance functions need to occur. However, there are not yet established systems to schedule routine maintenance functions. Currently, the Corporation has no R&R maintenance schedule.

Inventory Control

Currently, fuel inventories are being reconciled between the physical inventories taken by the bulk fuel operator and fiscal inventories tracked by the accounting system. Minimal operational supplies are kept specifically for the Facility. This is in part due to the small scale of the Facility, the newness of the Facility, and the design of the Facility - all of which limit the range and quantity of required parts. The facility management should review the efficacy of maintaining specific inventory of facility components.

Emergency/Spill Response

The Corporation staff were able to locate Emergency/Spill Response plans; and are generally familiar with the content of the plans.

BUSINESS OPERATING PLAN COMPLIANCE

Financial Management

Yes	No	NA	<i>Financial Management Compliance Areas</i>
<i>O&M Account</i>			
x			Accounting established
x			Regular deposits into account
x			Systems in place for \$5,000 authorizations
<i>R&R Account</i>			
	x		Accounting established
	x		Regular deposits into account
	x		Interest-bearing savings account
	x		Resolutions required
	x		2 signatures required
		x	Escrow account established
		x	Resolutions required
		x	2 signatures required
<i>Budgets</i>			
	x		O&M budget
	x		Prior to fiscal year
	x		R&R budget
	x		Prior to fiscal year
<i>Business Plan Updates</i>			
	x		Review assumptions
	x		Update tables
<i>Audits</i>			
	x		Annual audit conducted by qualified, independent auditor
		x	Copy to Denali Commission
<i>Annual Report</i>			
	x		Submitted to Denali Commission timely
	x		Summary of O&M and R&R Projects
	x		Expenditures and account balances
	x		Upcoming O&M and R&R budgets
	x		Updated business plan financial tables
	x		Other information
<i>Insurance</i>			
x			General liability insurance in place
x			Other insurance in place

Comments:

O&M Account

The Corporation has an established operating bank account at the First National Bank of Alaska into which the bulk fuel operating funds are deposited. Currently, the Corporation has established procedures for ensuring that all bulk fuel facility expenses over \$5,000, or not authorized in the budget, must be approved by the governing body and require two signatures. Additionally, it appears that the prices set by the Corporation are sufficient to collect the required O&M surcharge.

R&R Account

The Corporation has not yet established an interest-bearing savings account for its R&R funds, nor is it making required deposits into the account.

Budgets

The Corporation has not yet established on-going budgeting procedures nor has it updated its annual operating or R&R budgets.

Business Plan Updates

The Corporation has not yet updated their business plan. Aurora Consulting discussed with the Bookkeeper the requirement for an update annually.

Audit

The Corporation has not had an audit in a couple of years, and the Bookkeeper was also made aware of the Denali Commission requirements regarding an annual audit.

Annual Report

The Corporation has not yet submitted its Annual Report to the Denali Commission. Aurora Consulting reviewed the requirement with the Bookkeeper and discussed the format and timing of the report.

Insurance

Currently, the Corporation is insured for its bulk fuel facility through Cornerstone Insurance Agency. Additionally, the Council does have required workers compensation insurance for its employees.

Personnel Management

Yes	No	NA	<i>Personnel Management Compliance Areas</i>
<i>Facility Manager</i>			
x			Manager designated
		x	Changes reported to Denali Commission
<i>Staffing Adequate</i>			
x			Staffing adequate
<i>Training Plan</i>			
	x		Training plan in place

Comments:

Facility Manager

Paul Gunderson, CEO and President, is the manager of the Facility, which is not a change from the original business plan.

Staffing Adequate

The current level of staff appears to be sufficient.

Training Plan

As mentioned earlier, the operational employees of the facility would benefit from formal training, as would the Bookkeeper.

Operations Management

Yes	No	NA	<i>Operations Management Compliance Areas</i>
<i>Facility Components in Good Working Order</i>			
x			Facility components in good working order
<i>SPCC</i>			
x			SPCC on-hand
x			SPCC current
<i>Facility Response Plan</i>			
x			Plan on-hand
x			Plan current
<i>Coast Guard Operations Manual</i>			
x			Manual on-hand
x			Manual current

Comments:

Facility Components in Good Working Order

In general, the facility components appear to be in good working order. (See attached photos).

SPCC/Facility Response Plan/Coast Guard Operations Manual

The Corporation has received its copies of the Facility's regulatory plans and its Operations Manual, which are readily available in the bulk fuel operations office.

RECOMMENDATIONS

All of the Corporation staff interviewed demonstrated a genuine interest in fully understanding and implementing the Business Operating Plan. We were not, however, able to interview the Corporation management during our field visit. The Corporation staff made themselves available for a thorough site visit to answer questions and review the Business Operating Plan and facility operations. The Corporation staff expressed interest in fully complying with terms and conditions of the Business Operating Plan and managing the Facility in a sustainable manner. However, we have a few recommendations regarding systems, procedures and operations.

The following outlines the systems and procedures that should be addressed by the Corporation, areas that technical assistance/training may be warranted, and operational areas requiring follow-up:

Systems and Procedures	ASAP	Within year	On-Going
Develop procedures for completing & submitting annual reports		x	
Update written job descriptions		x	
Develop financial policies & procedures to track and record O&M and R&R costs	x		
Establish R&R bank account and begin making deposits	x		
Develop a written staff training plan		x	
Technical Assistance			
Update business operating plan and financial assumptions			x
Bookkeeping staff needs to develop better understanding of how management sets and update fuel prices - so that the staff can monitor appropriateness of prices	x		
Preparing and revising budgets		x	
Preparing and submitting Denali Commission report		x	
Training			
Periodic, possibly annual, operations assistance/troubleshooting and Business Plan training		x	
Operations			
Develop a system to schedule tasks for routine maintenance		x	
Develop a system to schedule tasks for non-routine maintenance			x
Improve understanding of what parts inventory to keep		x	

TRIP PHOTOS



Facility Bookkeeper.JPG



Electric Utility Tank.JPG



BF Facility.JPG



Truck Fill and Spill Tanks.JPG



Gas and Diesel Dispenser.JPG



AvGas Dispense.JPG



Dispenser Signage.JPG



Dispenser Signage2.JPG



Dispenser Signage3.JPG



Dispenser Signage4.JPG



Dispenser Fill Lines.JPG



Dispenser Fill Lines2.JPG



Dispenser w Rust.JPG



Dispenser with Rust2.JPG



Dispenser Fill Lines3.JPG



Fill Lines.JPG



Safety Signs re Filling.JPG



Shutoff Pump.JPG



Fire Extinguisher.JPG



Pumps.JPG



Fill Lines 2.JPG



AvGas Tank.JPG



Gas Tanks.JPG



Pumps2.JPG



Transfer Safety Signage.JPG



Panels.JPG



Fuel Oil Tank.JPG



Fuel Oil Tank2.JPG



Fuel Oil and Pumps.JPG



Pumps3.JPG



Pumps4.JPG



Diesel Tanks.JPG



Fill Lines3.JPG



Fill Lines4.JPG



Spill Tanks.JPG



Spill Tanks2.JPG



AC-AEA Sign.JPG



Safety Sign.JPG



Truck Fill 2.JPG



Truck Fill3.JPG



Facility.JPG



Facility2.JPG



CIMG0943.JPG



Electric Utility Tank2.JPG



Facility3.JPG



Spill Connex.JPG



Spill Connex2.JPG



Spill Supplies.JPG



Spill Supplies2.JPG



Operator.JPG