

TAKOTNA/STERLING LANDING BULK FUEL FACILITY



MONITORING PLAN AND RECOMMENDATIONS

Prepared for:
ALASKA ENERGY AUTHORITY (AEA)

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Prepared by:

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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 Sterling Landing, 26 road miles northwest of Takotna, Alaska, that constructed a new bulk fuel storage facility with four diesel storage tanks, one gasoline storage tank, one 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 Takotna Community Association's maintenance and operation and sustainability of the Bulk Fuel Upgrade (the "Facility"). The Takotna Community Association, (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.

Facility Participant

The Facility participant is:

Takotna Community Association, Inc.

Primary Contact Name: Dick Newton, Manager

Phone: (907) 298-2211 Fax: (907) 298-2325

Address: Takotna Community Association, Inc., P.O. Box 86, Takotna, AK 99675

Usage: The Association will utilize its facility assets to store fuel and to operate its utilities.

Facility Components & Capacity

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

Primary Storage/Dispensing	Number	Gallons Per Tank (Gross)	Total Gallons (Gross)	Gallons Per Tank (Net)	Total Gallons (Net)
Sterling Landing					
Diesel					
Primary Storage	4	25,000	100,000	22,500	90,000
Subtotal Diesel	4		100,000		90,000
Gasoline					
Primary Storage	1	25,000	25,000	22,500	22,500
Subtotal Gasoline	1		25,000		22,500
Total Sterling Landing	5		125,000		112,500
Pipeline Components					
	Number				
Marine Header	1				
Filler Pipelines	2				
Transfer Containment Area	1				

Community Information

Takotna is located in Interior Alaska on the north bank of the Takotna River in a broad scenic river valley, 17 air miles west of McGrath, in the Kilbuck-Kuskokwim Mountains. Takotna is a mixed population of non-Natives, Angelic Indians and Eskimos. Subsistence is a prevalent activity. Employment is through the school district, post office, clinic, local businesses and seasonal construction.

Access to Takotna is by air or water. There is a State-owned 1,717' gravel airstrip and a 3,800' gravel runway at Tatalina Air Force Station, 10 miles southeast of town. Cargo is offloaded at Sterling Landing, 24 miles southeast of Takotna. The community has 80 miles of local roads that connect with Tatalina AFS, Sterling Landing and existing mines. It is a checkpoint for the Iditarod Sled Dog Race.

Water from Gold Creek is treated and hauled by residents from the washeteria. Community buildings use individual wells. Honeybuckets and individual septic tanks are used for sewage disposal. A feasibility study for water, sewer and refuse system improvements is underway. Funds have been requested to upgrade the washeteria and to relocate the landfill. The high school has running water and restrooms. The Association owns and/or operates two utility businesses, electric and fuel. Takotna Village Council owns and/or operates the water utility and clinic. Community residents and businesses pay for electricity and fuel.

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

Selected Statistics - Takotna

Population	
2002	78
2000	50
1990	38
1980	48
1970	0
1960	40
Housing (2000 Data)	
Occupied Housing	19
Vacant Housing Due to Seasonal Use	9
Other Vacant Housing	21
Economic Data (2000 Data)	
Unemployment Rate	0%
Median Household Income	\$14,583

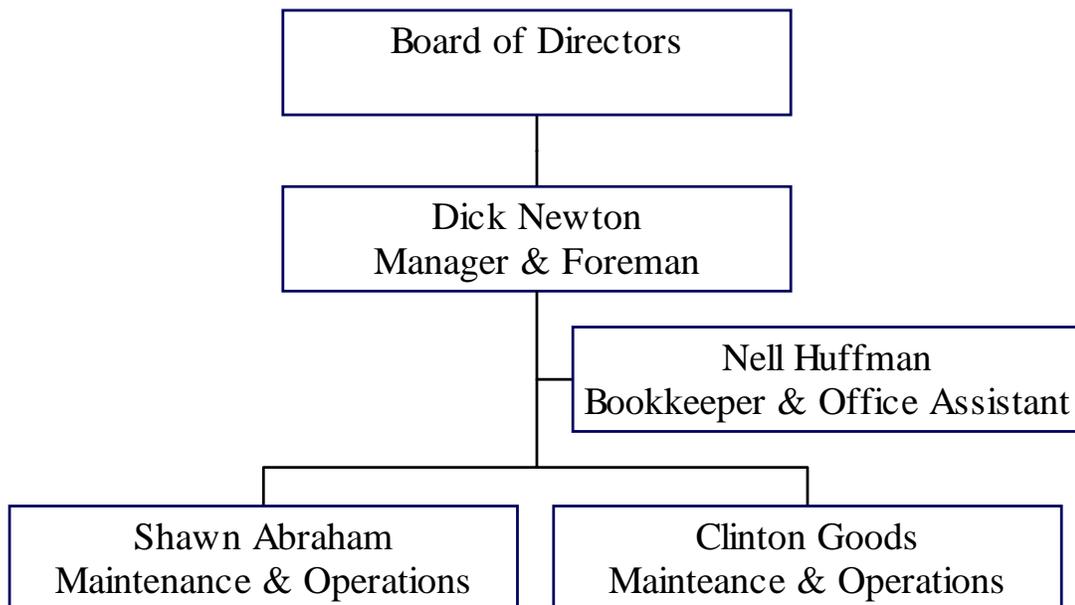
Takotna Community Association

The Takotna Community Association manages the community's electric utility and bulk fuel services. The Association maintains the generator plant, reads electric meters monthly at residences and businesses, and collects electrical fees. Currently, electricity costs 58.10 cents/kilowatt per hour however, with the Power Cost Equalization (PCE) subsidy residents and businesses are paying 15.41 cents/kilowatt per hour.

The Association purchases fuel approximately once a year from whichever fuel supplier offers the best price. The fuel is delivered four (4) times per year by barge at Sterling Landing's bulk fuel tanks, approximately 24 miles from Takotna. The Association trucks the fuel along the road between Sterling Landing and Takotna. It takes approximately 10 road trips and 12 hours of work per road trip to deliver all of the fuel at Sterling Landing to the generator bulk fuel tanks and the school bulk fuel tanks.

Since the Business Operating Plan, dated May 30, 2003 (updated October 22, 2004) was finalized there has been only minor staff turnover with either the management or staff of the Sterling Landing bulk fuel facility – Jimmy Goods no longer lives in Takotna. The following chart illustrates the staff relationships of the Takotna Community Association Sterling Landing Bulk Fuel Facility:

**TAKOTNA COMMUNITY ASSOCIATION
STERLING LANDING 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 offices of the Takotna Community Association and to develop a “*Monitoring Plan and Recommendations*”. The scope of the assignment included working with the Association 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 Association.

Aurora Consulting staff member, Ann Campbell, traveled to Takotna May 19, 2005 through May 21, 2005 to meet with Association bulk fuel facility management and staff, including:

Contacts	Title
Dick Newton	Facility Manager
Nell Huffman	Bookkeeper & Office Assistant

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 are 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	Understands and tracks operation & management (O&M) costs
				x	Understands and tracks 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

Currently, the Takotna Community Association does not have a formal budgeting process and does not develop an overall annual budget for the Association. However, the administrative staff currently does prepare a working operating budget for use with the Sterling Landing bulk fuel facility.

Bookkeeping

The Takotna Community Association has a Chart of Accounts and is using the QuickBooks Pro 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 all of the Association's operations and enterprises.

The bookkeeper, Nell Huffman, has attended PCE training, bulk fuel business plan training and is obtaining other business-related training. At the time of our visit, the bookkeeper had reviewed and generally familiarized herself with the Business Operating Plan and associated financial requirements. Additionally, it appears that the bookkeeper would greatly benefit by receiving advanced QuickBooks Pro training.

The bookkeeper understands the difference between the O&M and R&R costs that must be tracked by separate accounts, as indicated in the Business Operating Plan, and the Association has established separate account codes in the Chart of Accounts for tracking R&R costs. The Association has established an R&R interest-bearing account at the First National Bank of Alaska and is making quarterly deposits into the account.

Collections Policy

The Takotna Community Association currently does not retail or wholesale fuel to other users. However, the Association does coordinate an annual “co-op purchase” of fuel for local residents, which is initially stored at the Sterling Landing facility. The Association requires 100 percent pre-payment prior to placing any fuel orders for local residents.

Business Operating Plan

Both the facility manager and bookkeeper were able to locate and cogently discuss the general terms and conditions of the Business Operating Plan. The bookkeeper is very informed on the specific requirements of the Business Operating Plan - including the financial requirements, Denali Commission reporting requirements and the Secondary Operator Agreement. Additionally, the staff has reviewed the Business Operating Plan with the Association members and has explained the R&R fund requirements, including its purpose and long-term objectives.

Personnel Management

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

1	2	3	4	5	Personnel Management Skill Areas
<i>Job Descriptions</i>					
1					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		Ongoing training in place

Comments:

Job Descriptions

Job descriptions do not yet exist for any of the utility staff positions; however, the staff has good understandings of their bulk fuel facility roles and responsibilities.

Staffing

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

Training

Both the manager and bookkeeper of the Sterling Landing bulk fuel facility have adequate training for their job requirements. However, it appears that the facility operators have not yet obtained any bulk fuel “specific” training; partially due to the time of year that such training has been offered in the past. And, as mentioned earlier, the bookkeeper would probably benefit from advanced QuickBooks Pro training.

In more general terms, the Takotna Community Association could be more responsive to training opportunities and provide opportunities for staff members to attend more training.

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		Knows 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 Association intends to utilize the R&R maintenance schedule contained within the Business Operating Plan as its non-routine maintenance guideline. According to the Facility management, the Sterling Landing Facility has not yet been officially “signed-off” due to the need to make modifications and changes to the Facility, which is being coordinated by the AEA Project Manager.

Inventory Control

Currently, minimal 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 Takotna Community Association has received its copies of the emergency/spill response plans prepared by AEA and has a written safety plan in place.

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 Association has an established operating bank account at the First National Bank of Alaska into which the bulk fuel operating funds are deposited. Currently, the bookkeeper is working on developing 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. Additionally, while the Association has complied with the Business Operating Plan requirements to assess and collect an amount sufficient to fund O&M and R&R expenses, the local school district to-date has been unwilling to pay the Association the surcharge for use of the facility.

R&R Account

The Association established an interest-bearing savings account, in the form of a Certificate of Deposit, at the First National Bank of Alaska for its R&R funds and is making quarterly deposits into the account. A withdrawal from the account requires a resolution from the Association.

Budgets

Currently, the Sterling Landing bulk fuel facility is operated solely for the purpose of storing diesel fuel prior to transfer to other locations. During this first year of operation, the facility bookkeeper did prepare an operational budget for the O&M and R&R expenses.

Business Plan Updates

The Association is aware that they are to be updating their Business Operating Plan annually, which was done in October 2004.

Audit

The Takotna Community Association has not had an audit in many years, but has recently hired Larry Williams, CPA, to conduct an annual audit for 2005, which should be completed by July 2005.

Annual Report

The Takotna Community Association has not operated the bulk fuel facility for one year, and therefore is not yet required to submit a report to the Denali Commission. In order to facilitate their annual budget and reporting processes, the Takotna Community Association intends to utilize its fiscal year - July through June - for reporting purposes. Therefore, it anticipates submitting its first annual report to the Denali Commission in early fall 2005, when it has received a copy of its 2005 financial audit.

Insurance

Currently, the Association has been unable to identify “reasonably-priced” liability insurance, but is including a \$.10 per gallon allocation in its O&M surcharge for the purchase of insurance. The Association 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

Dick Newton is the manager of the Facility - as designated in the Business Operating Plan.

Staffing Adequate

The current level of staff appears to be sufficient.

Training Plan

As mentioned earlier, the operational staff of the Facility would benefit from formal training, as would the bookkeeper. Additionally, cross-training of staff would probably also be an effective training program for the Sterling Landing facility.

Operations Management

Yes	No	NA	Operations Management Compliance Areas
<i>Facility Components in Good Working Order</i>			
		NA	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

Due to weather and road conditions, we were not able to travel from the community of Takotna to the facility for a site inspection. However, the AEA staff has been in frequent contact with the Association management and is aware of pending issues with the Facility, which, according to Facility management, has not yet been officially “turned-over” to TCA.

SPCC/Facility Response Plan/Coast Guard Operations Manual

The Association has received its copies of the Facility’s regulatory plans, which are on file at the Association office.

RECOMMENDATIONS

All of the Association management and staff interviewed demonstrated a genuine interest in fully understanding and implementing the Business Operating Plan. The Association staff made themselves available for a thorough site visit to answer questions and review the Business Operating Plan and facility operations. The Association management and staff expressed interest in fully complying with terms and conditions of the Business Operating Plan and managing the Facility in a sustainable manner. As indicated previously, the Sterling Landing bulk fuel facility is well managed, operated and maintained; its administrative staff is very experienced and well trained; and, its management is committed to compliance with the Business Operating Plan. However, we have a few recommendations regarding systems, procedures and operations.

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

	ASAP	Within year	On-Going
Systems and Procedures			
Develop procedures for completing & submitting annual reports		x	
Develop written job descriptions		x	
Develop written financial policies & procedures		x	
Develop a written staff training plan		x	
Technical Assistance			
Updating business operating plan and financial assumptions			x
Preparing and submitting Denali Commission report	x		
Training			
Periodic, possibly annually, operations assistance/troubleshooting		x	
Operations			
Develop system to schedule tasks for routine maintenance		x	
Develop system to schedule tasks for non-routine maintenance			x
Improve understanding of what parts inventory to keep		x	

TRIP PHOTOS

Due to weather and road conditions, we were unable to travel from Takotna to Sterling Landing to visit the Facility.