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COMMITTEE REPORT
SENATE

3/2/82

FURTHER: Finance

Date: 3/10/82

Mr. President:

The Committee on RESOURCES has had SB 828
responsibilities of the Alaska Power Authority

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

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CHAIRMAN

Introduced: 3/2/82
Referred: Resources and
Finance

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 SENATE BILL NO. 828

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the responsibilities of the Alaska
7 Power Authority; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 44.83.394 is amended to read:

10 Sec. 44.83.394. REVENUE REQUIREMENTS. The authority may not use
11 money in the fund for a power project except in compliance with AS 44.-
12 83.177 - 44.83.187, and unless the authority determines that the power
13 project is economically feasible [AND THAT, AFTER CONSTRUCTION, OPERA-
14 TION OF THE POWER PROJECT WILL BE ABLE TO PROVIDE REVENUE SUFFICIENT TO
15 RETURN ANNUALLY TO THE STATE FIVE PERCENT OF THE AMOUNT THAT THE AUTHOR-
16 ITY HAS SPENT FROM THE FUND FOR THE POWER PROJECT].

17 * Sec. 2. AS 44.83.398(c) is amended to read:

18 (c) The authority shall transmit all the money that it receives
19 under (a) [(b)] of this section to the commissioner of revenue for
20 deposit in the state general fund except for [THE] money it has pledged
21 to secure bonds in accordance with contracts with bondholders [RECEIVES
22 UNDER (b)(1)(A) AND (B) AND (b)(2)(B)(i) AND (ii), OR THE MONEY IT WOULD
23 HAVE RECEIVED UNDER (b)(1)(A) AND (B) AND (b)(2)(B)(i) AND (ii) OF THIS
24 SECTION IF THOSE ITEMS HAD BEEN USED IN PART TO ESTABLISH THE WHOLESALE
25 POWER RATE IN EFFECT AT THE TIME THE MONEY IS RECEIVED BY THE AUTHORITY].

26 * Sec. 3. AS 44.83.398(e) is amended to read:

27 (e) The legislature may, by law, annul or change the wholesale
28 power rate for sales of power that the authority adopts under (b) of
29 this section except to the extent the authority makes an agreement with

*Revised to
submit*

1 bondholders to maintain or increase the wholesale power rate.

2 * Sec. ⁽⁴⁾ Section 14, ch. 118, SLA 1981 is amended to read:

3 Sec. 14. LOCATION OF TRANSMISSION SYSTEM IN DENALI STATE PARK.

4 The Alaska Power Authority may design, acquire a right-of-way for, and
5 construct a 345 KV high voltage electrical transmission system connect-
6 ing Anchorage and Fairbanks. The transmission line authorized by this
7 section shall be considered a use that is compatible with the purposes
8 of the Denali State Park within the boundaries of the Denali State Park.
9 The route of the transmission system authorized by this section may
10 [SHALL] be located within the Denali State Park in consultation with the
11 division of parks, Department of Natural Resources.

12 * Sec. 5. AS 44.83.388(b) is repealed. — 2/1/81

13 * Sec. 6. This Act takes effect immediately in accordance with AS 01.10.-
14 070(c).

*From
Stuzinski
3/10/82*

SB 828

AMENDMENT

Section 1. , line 13, after "economically feasible" ADD

and that the project will be able to meet the requirements of 44.83.398

(b) (2) (A).

AMENDMENT: INCORPORATION OF SB 784

Rationale: Current statutes permit the APA to establish capital reserve funds (moral obligation of the state pledge). Generally, these reserve funds have been merely additional security for bondholders. Recently, the APA has considered establishment of capital reserve funds for revenue bond issues when there is great doubt that revenues are sufficient to pay the bondholders, thus probably requiring annual drawdowns on the capital reserve fund.

Bonding or partial bonding of hydro projects will become more commonplace as revenues decline.

This amendment would require the APA to notify the State Bond Committee and the legislature of the intention to establish a capital reserve fund and to estimate the annual drawdown on the fund, so that the executive and the legislature will have prior notification of an annual expenditure.

AMENDMENT: FINANCIAL ANALYSIS REQUIREMENT

Rationale: As a part of the duties of the Division of Budget and Management, this amendment would add the preparation of a financial analysis which would look at the ability of the project to meet its financial obligations and the indirect and direct effect of financing plans, including bonding proposals, on the indebtedness of the state. If a high volume of bond sales are contemplated, it will be important to

assess the incremental and total effect of bonding and other financing plans on state revenues and on the ability of the state and its political subdivisions to market bonds.

AMENDMENT: BID CONTRACT AND RESUBMISSION

Rationale: At the present time, the legislature does not authorize a project at a specific sum. Projects receive annual appropriations, the total of which need not be known in advance. This amendment would require that the legislature authorize a project at a particular funding level. If the project comes in substantially over that price, reauthorization would be required prior to the start of project construction. This would mean that the legislature could change its mind about a project: now, once a project is begun, even if the total cost is many times greater than originally envisioned, appropriations continue to be made, because the project has already begun.

Additionally this amendment would require that the APA not use for project management construction any contractor involved in the feasibility study for a project. This amendment would counter the institutional basis favoring low project estimates so that contractors can see the project started and receive additional benefits from involvement in management or construction of the project.

Mr. Yould, at a meeting of the APA Board, expressed agreement with this concept.

AMENDMENT: FEASIBILITY REQUIREMENTS

Rationale: This amendment would require that the costs of transmission systems and reserve or stand-by power requirements for projects be included in feasibility analysis.

AMENDMENT

AS 44.83.181 (b) (1) is amended to read

(1) information about the proposed project, including but not ~~limited~~ to estimates of total project construction costs, total project operating costs, the costs of transmission systems and reserve power requirements, the timing and amount of anticipated returns from the completed project, a benefit to cost ratio, the potential effect of the project on the environment of the area which will be served by the project when completed, and the availability of alternative government financing

AS 44.83 is amended by adding a new section to read:

Sec. 44.83.184. FINANCIAL ANALYSIS. (a) The division of budget and management in the Office of the Governor shall prepare a financial analysis of a project of the authority. The analysis shall evaluate proposed bond resolutions or other financial arrangements or financial plans, security plans and arrangements, cost and demand uncertainties, and ^{equity} debt volume, as they relate to

(1) the ability of the project to meet the required level of return on the investment in the project; and

(2) the total direct and indirect indebtedness of the state.

(b) In preparing the analysis required by this section the division of budget and management may use the services of outside agencies or institutions that are not otherwise involved in the project.

(c) The analysis required by this section shall be prepared and submitted at the same time as the report required by AS 44.83.183. A copy of the analysis shall be given to [the Legislative Budget and Audit Committee.]

AS 44.83.185(a) is amended to read:

(a) The authority shall submit a feasibility study and plan of finance for a proposed new project to the legislature. When the report of the division of budget and management examining the feasibility study and plan of finance, and the financial analysis of the project are [IS] completed as required by AS 44.83.183 and 44.83.184, they [IT] shall be submitted to the legislature.

AS 44.83.185(c) is amended to read:

(c) The legislature shall consider and must approve all proposed new projects except proposed new projects that are exempt under AS 44.83.187. The legislature may approve a proposed new project only by enacting law that authorizes the project and approves a maximum construction cost for [AUTHORIZING] that project.

AS 44.83 is amended by adding a new section to read:

Sec. 44.83.186. BID CONTRACT AND RESUBMISSION. (a) Unless otherwise authorized by the legislature, a project approved under AS 44.83.185 shall be constructed by bid contract and bids for all portions of the project shall be taken at the same time.

(b) If the lowest acceptable bids for a project ^{significantly} exceed the construction cost authorized by the legislature under AS 44.83.185(c), the authority may

(1) cancel the project; or

(2) resubmit the project to the legislature for authorization for a different project construction cost.

(c) If a project is resubmitted to the legislature under this section, the authority shall revise the feasibility study and plan of finance for the project to reflect new information and the division of budget and management; in the Office of the Governor shall revise the report on the feasibility study and plan of finance and the financial analysis of the project to reflect new information. The revised project information shall be submitted to the legislature before it reconsiders the project.

CHANGE AS 44.83.187(a) and (b) and (d) for consistency with above.

AS 44.83.189 is amended by adding a new subsection to read:

(b) A contractor who has participated in the preparation of the feasibility study and plan of finance for the project under AS 44.83.181, the report on the feasibility study and plan of finance under AS 44.83.183, or the financial analysis under AS 44.83.184 may not participate in the construction of a project by the authority.

SPONSOR: Finance Committee

LEGISLATION SUMMARY

- SB 828: "An Act relating to the responsibilities of the Alaska Power Authority; and providing for an effective date."
- Sec. 1: Amends existing law regarding the funding of power projects by the Alaska Power Authority through the power development fund to delete the requirement that, to be funded, the project must be able to provide revenue sufficient to return annually to the state 5% of the amount expended from the fund for the project.
- Sec. 2: Amends existing law regarding the transmittal of revenue from the sale of power from power projects financed under the power development fund, deleting the existing provisions exempting certain revenues from the requirement that they be transmitted to the general fund, and adding the provision that the Alaska Power Authority shall transmit all revenues from the sale of power to the general fund, with the exception of those funds the Authority has pledged to secure bonds in accordance with contracts with bondholders.
- Sec. 3: Amends existing law regarding the authority of the legislature to change or annul the wholesale power rate adopted by the authority, limiting that authority to the extent that the Authority makes an agreement with bondholders to maintain or increase the wholesale power rate.
- Sec. 4: Amends existing law authorizing the Alaska Power Authority to construct a Fairbanks-Anchorage intertie, and stating that the intertie is a compatible use within the Denali State Park, removing the requirement that the intertie be located within the Denali State Park, while allowing it to be so located.
- Sec. 5: Repeals existing law requiring the Authority to maintain records of power project allocations from the power project development fund for each individual project approved by the legislature and funded by allocation from an appropriation which does not specify individual project appropriations, and requiring that income from investments of money appropriated to the fund be returned to the general fund.
- Sec. 6: Immediate effective date.

Alaska State Legislature

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Senate

Committee on Resources

March 10, 1982
1:40 p.m.

Beltz Room
Room 211 - Capitol

MEMBERS PRESENT

Senator Fahrenkamp
Senator Fischer
Senator Bradley
Senator Eliason
Senator Gilman
Senator Mulcahy
Senator Sturgulewski

Hearing:

- SB 608 Making a special appropriation to the power development fund of the Alaska Power Authority for the Susitna River hydroelectric project and other hydroelectric projects.
- SB 825 Transferring among various appropriations to the Alaska Power Authority for power projects and making special appropriations to the Alaska Power Authority for power projects.
- SB 826 Relating to preliminary work on the Susitna River hydroelectric project.
- SB 828 Relating to the responsibilities of the Alaska Power Authority.

SB 608

Senator Fahrenkamp stated her intent to move SB 608 out of Committee, with a letter to the Finance Committee acknowledging that \$1 billion is not available, and that the actual amount appropriated would be left up to the Finance Committee.

Senator Fischer asked that the bill be held in Committee until he had time to prepare amendments.

Senator Fahrenkamp stated that SB 608 would be held until Friday's calendar.

SB 825

Senator Fahrenkamp asked for a motion to consider the work draft for CSSB 825.

Senator Eliason objected and asked that the original bill and the work draft be considered simultaneously.

Dave Hutchins, Alaska Rural Electrical Cooperative Association, spoke in support of SB 825, stressing the importance of proceeding with the projects currently under development, and urging that the legislature take action soon on funding for the Alaska Power Authority.

Eric Yould, Executive Director, Alaska Power Authority, explained that the APA Board generally endorses the governor's recommendations. He further stated that, at Senator Dankworth's request, he had identified funds allocated to APA that were in excess of what was needed, and had arrived at a figure of about \$33 million. The figures used in CSSB 825 were drawn from that figures.

Senator Eliason moved that Section 2 of SB 825 be included as Section 7 of CSSB 825, with appropriate renumbering of the other sections. The amendment was adopted.

Senator Mulcahy moved the adoption of CSSB 825 with individual recommendations.

SB 826

Dave Hutchins spoke in support of SB 826, stating that it authorizes preliminary work, not construction, on Susitna.

Eric Yould spoke in support of the bill, and urged that any wording change in SB 608 be compatible with the language of SB 826.

David Allison, Alaska Environmental Lobby, urged that the State not incrementalize itself too far into a project that it may not be able to finance. He also urged a provision in SB 826 that would allow for withdrawal of funds if it was at some time decided not to go ahead with Susitna.

Senator Mulcahy moved SB 826 with individual recommendations.

SB 828

Senator Sturgulewski discussed changes to SB 828 dealing with economic feasibility requirements, financial analysis, and bid contracts.

Eric Yould testified that he had recommended Sections 2, 3, 4, and 5 of SB 828. In regard to the proposed changes, he stated that financing decisions should be based on the long term rather than on a surrogate test demanding that projects show a profit in their early years.

David Allison spoke in opposition to SB 828 as an incomplete approach at reforming SB 825. He urged a provision for a required rate of return on projects.

Senator Mulcahy moved SB 828 with individual recommendations.

The meeting was adjourned at 3:05 p.m.

Sec. 44.83.398. Sale of power from power project. (a) The authority shall sell power produced from power projects acquired or constructed under the energy program for Alaska. A utility that purchases power produced by a power project of the authority shall agree with the authority

(1) to give preference in the sale of power at retail to all classes of consumers of power except industrial consumers;

(2) to charge industrial consumers of power a rate determined by the authority in accordance with (d) of this section.

(b) The authority shall establish a wholesale power rate structure applicable to sales of power to its customers at the busbar of the power project as follows:

(1) The authority shall establish and maintain a single wholesale power rate applicable to all power projects that it has acquired or constructed under the energy program for Alaska. The wholesale power rate shall be computed by the authority annually, and shall equal the rate that the authority estimates is necessary to produce revenue that is sufficient to pay

(A) operation, maintenance, and equipment replacement costs of the power projects;

(B) debt service of the power projects;

(C) safety inspections and investigations of the power projects by the authority.

(2) If, by July 1, 1986, the legislature has not appropriated at least \$5,000,000,000 to the fund, in addition to appropriations to the fund of interest earned on money in the fund, the authority shall, beginning on that date, establish and maintain a single wholesale power rate applicable to all power projects that it has acquired or constructed under the energy program for Alaska. The wholesale power rate shall be computed by the authority annually, and shall be the greater of

(A) 10 percent of the amount the authority has invested in the power projects, including loans and grants made by the state; or

(B) the rate that the authority estimates is necessary to produce revenue sufficient to pay

(i) operation, maintenance, and equipment replacement costs of the power project;

(ii) debt service of power projects by the authority; and

(iii) safety inspections and investigations of the power projects by the authority.

(c) The authority shall transmit all the money that it receives under (b) of this section to the commissioner of revenue for deposit in the state general fund except for the money it receives under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii), or the money it would have received under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii) of this section if those items had been used in part to establish the wholesale power rate in effect at the time the money is received by the authority.

(d) A rate for an industrial consumer under (a)(2) of this section

(1) may exceed the wholesale power rate determined under (b) of this section;

(2) may not be less than the rate charged residential consumers.

(e) The legislature may, by law, annul or change the wholesale power rate for sales of power that the authority adopts under (b) of this section. (AS 44.83.490; § 1 ch 118 SLA 1981)

Editor's notes. — As enacted this section was designated AS 44.83.490 and was renumbered by the revisor of statutes under AS 01.95.031.

SENATE RESOURCES COMMITTEE
LEGISLATION CHECKLIST

BILL NUMBER FB828

IDENTIFICATION:

BILL NAME: *Responsibilities of the Alaska Power Authority*

SPONSOR(S): *Finance*

RELATED BILLS PENDING:

DATE INTRODUCED: *3/2*

REFERRALS *Re Finance*

INITIAL RESEARCH:

INITIAL BILL SUMMARY COMPLETED

3/8/82

SUMMARY BY LEGAL DIVISION:
DEPT. OF LAW SUMMARY:

SPONSOR CONTACTED FOR BACKUP
MATERIALS:

*3/8 - Finance Dave Rogers
3/9 3753*

FISCAL NOTE:

AGENCY RESPONSE:

19/11

OTHER INTERESTED SENATORS OR
REPS. NOTIFIED:

BACKGROUND RESEARCH:

SIMILAR BILLS INTRODUCED IN PREVIOUS LEGISLATURES:

RESPONSES FROM INTERESTED PERSONS AND/OR GROUPS:

OTHER STATE OR FEDERAL PRECEDENTS, REGULATIONS, LAWS:

HEARING PREPARATION:

CHAIRMAN BRIEFED:

DATE AND PLACE SET:

STAFF MEMO TO COMMITTEE:

TELECONFERENCE

BACKGROUND MATERIAL DISTRIBUTED

PSA/PRESS RELEASE

LIST OF WITNESSES:

SUGGESTED AMENDMENTS/CS DRAFTED:

*✓ HPA
✓ AREA*