

SCOMM

#34:34

CSHB 689: An Act relating to the Rural Electrification Loan Fund.

The Rural Electrification Revolving Loan Fund (RERLF) was created in 1981 in order to provide State financing for the extension of electrical distribution lines to new service areas in Alaska. Although the emphasis is on rural service areas, the statutes do not prohibit the RERLF from being used to finance distribution lines to urban or suburban service areas. However, the RERLF cannot be used for upgrading existing distribution or transmission systems. To date, \$7,500,000 has been appropriated to the RERLF, of which \$3,844,688 has been approved as loans to five utilities. In one case (Yakutat) the loan is for an underground distribution system. All municipally owned, investor-owned or cooperative utilities that are certified by the Alaska Public Utilities Commission are eligible for RERLF loans. The RERLF is managed by the Alaska Power Authority (APA).

Since its inception, there has been disagreement regarding the operation of the RERLF. The disagreement centers around the method to be used for repayment of the principal.

The current repayment method, which is established by regulation, tends to be confusing, but in theory attempts to emulate the method that is often used by utilities to finance the construction of new distribution lines. Generally speaking, the principal repayment for the first 10 years of the loan is contingent on the number of new customers added to the distribution line. If less than 50% of the principal is unpaid after the first 10 years then a conventional amortization schedule is used for the remaining principal during the rest of the 20 year term. For the first 10 years of the loan, the State (via the APA) assumes the risk as to whether or not there will be sufficient growth in the number of new customers added to the distribution line to repay the principal. Normally, the new customer to be served by the distribution line extension provides the utility with a grant-in-aid-of-construction if the costs exceed a specified amount and assumes the risk that some of this grant will be returned to them by other new customers connected to the distribution line. In either case, the cost of the new distribution line, above a specified amount, does not appear in the rate base for customers who are not being served by the distribution line.

Some utilities believe that the State should not limit its assumption of the risk of principal repayment to 10 years, but should assume the entire risk of repayment. This would be the case if the term for RERLF loans was unspecified. In other words, principal repayment would be based entirely on the growth rate of new customers. If there are no new customers after the distribution line is completed, there would be no repayment of the principal. In essence, the loan principal becomes a grant. The financial ability of the original new customers to make principal repayments is not factored into the loan terms. The main thrust of SB 443 and HB 689 is to provide, by statute, a formula in which principal repayment is contingent on the number of new customers that are added to the distribution line after its completion.

The Department of Commerce and Economic Development believes that there are four aspects of CSHB 689 which should be changed. These are: - (1) the question of risk, (2) interest rates, (3) method for repayment of principal and (4) definition of rural. Following are comments and suggestions or amendments for each.

1. Risk

- A. Comment - CSHB 689 specifically states that "the state will undertake the risk of loss (for loan repayments) if the expected development does not occur." This statement in conjunction with the repeal of the existing requirement that the distribution line extension be economically feasible could preclude the APA from denying a loan which is clearly infeasible, particularly if the loan applicants contend that the addition of new customers, though speculative, will occur. The APA must have the authority to deny a loan when it soundly believes that repayment of principal is not likely to occur.
- B. Suggestion - It appears that many cases of need for distribution lines stem from the State's land disposal program. In most cases, the land being disposed of does not have the infrastructure (electricity, roads, water, sewer, etc.) needed to serve the intended use of the land and land developers are not fully cognizant of the cost for such improvements. Consideration should be given to requiring that either the infrastructure be provided by the State before the disposal takes place or that a full disclosure of estimated infrastructure costs be made prior to the disposal. This should reduce the need for RERLF loans.

Also, consideration should be given to amending the RERLF so that the customer, rather than the utility, receives the loan needed to finance the distribution line. Similar to Alaska Housing Finance Corporation and Alaska Industrial Development Authority loans, the customer could obtain a loan from a commercial bank and the State would buy the loans from the banks. The banks would service the loans. This approach would provide the customers with the capital needed for a conventional grant-in-aid-of-construction to the utility. The customer, rather than the APA, would assess the value of the distribution line and the likelihood that other new customers will be added to share in the cost of electric services.

2. Interest Rates

- A. Comment - The existing RERLF statutes and the amendments proposed by CSHB 689 prescribe an interest rate of 2%. The rationale for this is that 2% interest rates were available from the Federal Government (REA) when many of the rural areas in the lower 48 first received electricity. However, it should be noted that at the time 2% interest rates were close to U.S. Treasury rates. It is not fiscally prudent to loan today's money at yesteryear's interest rates.

- B. Amendments - The Department of Commerce and Economic Development proposes an interest rate for the RERLF which is based on the U.S. Treasury rate plus 125 basis points for risk and 75 basis points for administrative costs less 600 basis points as a subsidy for the program. This allows the State to fix the amount of subsidy while the actual interest rate moves with the cost of value of funds. The minimum interest rate would be 2%.

3. Repayment of Principal

- A. Comment - If CSHB 689 is enacted, repayment of the principal for RERLF loans would be based on the unit cost of the line multiplied by the number of new customers added after completion of the distribution line. The 350 feet of distribution line needed for each unit is comparable to a square lot of 2.8 acres. If the total length of the distribution system is more than 350 per customer, full repayment of the principal may not occur. The amount of principal not repaid depends on the density of the customers and the geometry of the lots. A lower density would have a greater amount of principal not repaid.

Under CSHB 689, the utility would no longer be required to provide, at its own expense, one pole, span of line, transformer and service drop for each customer. This should increase the amount of loan needed for a distribution line and decrease the amount of distribution line shared by more than one customer.

The added cost for buried or underwater line would not be eligible for an RERLF loan. For practical or aesthetic reasons some utilities prefer buried or underwater line. This choice should not be penalized.

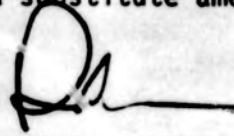
- B. Amendment - The Department of Commerce and Economic Development proposes a conventional approach to repayment of principal which is not contingent on the new customer growth rate. The principal would be amortized over the 20 year term of the loan.

4. Definition of Rural

- A. Comment - The CSHB 689 includes a definition of rural which states that the number of customers cannot exceed five per mile of line. This definition combined with the definition of "unit cost of the line" would preclude at least 2/3 of the principal from being repaid if there is no further subdivision of the land.
- B. Suggestion - The definition of rural is arbitrary and not consistent with previous RERLF loan applications. Also, "rural electrification" implies some purpose to the RERLF, such as diesel generators, which is not consistent with the

purpose given in the statutes. It may be preferable to rename the program to be consistent with its stated purpose. If rural is not included in the title, there should be no need to define rural.

In summary CSHB 689, in its present form, does not rectify some of the problems that have been experienced with RERLF statutes. In fact, CSHB 689 could result in a portion of the loan principal being treated as a grant and could restrict the APA's authority to deny loans which have little likelihood of repaying any principal. Consequently, the Department of Commerce and Economic Development does not support CSHB 689 as written and has proposed substitute amendments.



Richard A. Lyon, Commissioner

#3DD/4284b

CS HB 689

- Section 1 With this amendment, approval of the loan becomes the responsibility of the Alaska Power Authority rather than the loan advisory committee.
- Section 2 This section deletes loan advisory committees and gives their responsibility to the Alaska Power Authority. The loan advisory committees have not played a vital role in the evaluation of loan applications.
- An important part of this section is that the loan term is extended from 10 years to 20 years. This will reduce annual debt service.
- Section 3 This is a new section which gives the maximum amount for a loan and provides a formula for determining interest rates. The maximum amount for a loan, \$3,000,000, is consistent with the project approval process (AS 44.83.177-44.83.185). Transmission or distribution lines that cost less than \$3,000,000 are exempt from the project approval process.
- Interest rates are based on the U.S. Treasury rate plus 125 basis points for risk and 75 basis points for administrative costs less 600 basis points as an explicit subsidy to the program. However, the subsidy can not reduce interest rates below 2%.
- Section 4 This section repeals AS 44.83.361(c) and 44.83.361(d). These subsections define an interest rate and principal repayment method which have created confusion and are being amended.

#3 4/2/84

DRAFT
Law

1 IN THE HOUSE

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

2 CS FOR HOUSE BILL NO. 689 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the rural electrification loan
7 fund."

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

9 * Section 1. AS 44.83.361(b) is amended to read:

10 (b) The authority may make loans from the rural electrification
11 revolving loan fund to electric utilities certified by the Alaska
12 Public Utilities Commission. A loan from the fund may be made only
13 for the purpose of extending new electric service into an area of the
14 state that an electric utility may serve under a certificate of public
15 convenience and necessity issued by the Alaska Public Utilities Com-
16 mission. A loan may be made from the fund to an electric utility if
17 the utility invests the money necessary to provide one pole, one span
18 of line, one transformer, and one service drop for each consumer for
19 whom immediate service would be provided by the extension of electric
20 service. However, a loan may not be made from the fund unless

21 (1) the loan is approved by the authority [RECOMMENDED BY A
22 LOAN ADVISORY COMMITTEE APPOINTED] under AS 44.83.363; and

23 (2) the extension of electric service would provide immedi-
24 ate service to at least three consumers.

25 * Sec. 2. AS 44.83.363 is amended to read:

26 Sec. 44.83.363. LOAN ELIGIBILITY [ADVISORY COMMITTEE]. When an
27 application for a rural electrification loan is submitted to the
28 authority under AS 44.83.361, the authority shall approve or disap-
29 prove the loan [APPOINT A LOCAL ADVISORY COMMITTEE FROM PERSONS

1 RESIDING IN THE AREA THAT THE APPLICANT UTILITY IS CERTIFIED TO SERVE.
2 THE LOAN ADVISORY COMMITTEE SHALL CONSIDER THE LOAN APPLICATION, AND
3 SHALL RECOMMEND WHETHER THE LOAN APPLICATION IS TO BE APPROVED OR
4 DISAPPROVED. A FAVORABLE RECOMMENDATION FROM THE LOAN ADVISORY COM-
5 MITTEE SHALL BE] based on a determination that development in the area
6 of the proposed extension of electric service is likely to provide for
7 full repayment of the loan under AS 44.83.361(d) within 20 [10] years.
8 In making that determination the authority [COMMITTEE] shall consider

9 (1) permanence of the premises to be served by the exten-
10 sion;

11 (2) land use patterns in the area;

12 (3) access for the line that would be installed with loan
13 proceeds;

14 (4) availability of other utility service in the area; and

15 (5) the economic feasibility of the extension of electric
16 service with the proceeds of the loan .

17 * Sec. 3. AS 44.83 is amended by adding a new section to read:

18 Sec. 44.83.365. LOAN TERMS. (a) A loan from the rural electri-
19 fication revolving loan fund may be made for an electrical dis-
20 tribution facility which is estimated to cost less than \$3,000,000.

21 (b) An amortization plan for repayment of a loan made from the
22 rural electrification revolving loan fund may defer payments until the
23 extension is completed but the total term of the loan may not exceed
24 20 years.

25 (c) A loan granted from the rural electrification revolving loan
26 fund bears a fixed market-tied interest rate that is based on the U.S.
27 Treasury rate plus an administrative fee and a subsidy, and is adjust-
28 ed for risk. The interest rate is established as follows except that
29 the interest rate may not go below two percent:

(1) the U.S Treasury rate is calculated for the term of the

1 loan, interpolated as necessary, based on a six month moving average
2 for six consecutive months within the seven month period immediately
3 preceding the approval of a loan;

4 (2) 125 basis points are added to the calculated U.S Trea-
5 sury rate to account for risk:

6 (3) 75 basis points are added to the calculated U.S Trea-
7 sury rate to account for administrative costs of loan programs; and

8 (4) 600 basis points are subtracted from the calculated U.S
9 Treasury rate as adjusted in (B) and (C) of this section to account
10 for the State's subsidized share of the loan.

11 (d) When a loan is made from the rural electrification revolving
12 loan fund the electric utility receiving the loan shall, in addition
13 to the rate that it is authorized to charge, charge the consumers
14 served by the electric service extended with the loan proceeds an
15 amount sufficient to pay the interest costs of the loan.

16 * Sec. 4. AS 44.83.361(c) and 44.83.361(d) are repealed.
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Offered: 3/28/84
Referred: House Special Committee
on State Loans and Finance

Original sponsor: Resources Committee

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE HOUSE

2

CS FOR HOUSE BILL NO. 689 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the rural electrification loan
7 fund."

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

9 * Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds
10 that

11 (1) it is in the public interest for the state to promote the
12 orderly and rational development of rural areas where economic development
13 is probable by assisting in the financing of electric distribution facili-
14 ties in those areas;

15 (2) the purpose of the rural electrification revolving loan fund
16 is to provide financial assistance to construct pioneer electric distribu-
17 tion lines in developing rural areas; this program is modeled in part on
18 utility line extension policies approved by the Alaska Public Utilities
19 Commission that provide for nonutility financing of the costs of construc-
20 tion of distribution lines that are in excess of the per customer invest-
21 ment that would normally be made by a utility;

22 (3) the rural electrification revolving loan fund is intended to
23 extend electric service to rural areas in which rapid development can be
24 expected after utility services are made available; it is expected that
25 loans made under this program will be repaid in full, but the state will
26 undertake the risk of loss if the expected development does not occur;

27 (4) the intent of the legislature is that the rural electrifica-
28 tion revolving loan fund not be used to finance utility facilities for
29 private subdivision developers.

1 * Sec. 2. AS 44.83.361(b) is repealed and reenacted to read:

2 (b) The authority may make a loan from the rural electrification
3 revolving loan fund to a public utility for construction of an elec-
4 tric distribution line in a rural area of the state that is not re-
5 ceiving central station electric service. A loan may be made from the
6 fund if

7 (1) the loan is recommended by the loan advisory committee
8 appointed under AS 44.83.363;

9 (2) the proposed electric distribution line will provide
10 service to at least three consumers in the calendar year in which
11 construction is completed; and

12 (3) the applicant has a certificate of convenience and
13 necessity issued by the Alaska Public Utilities Commission to serve
14 the area in which it proposes to construct the electric distribution
15 line.

16 * Sec. 3. AS 44.83.361(d) is repealed and reenacted to read:

17 (d) When a loan is made by the authority under this section, the
18 utility receiving the loan shall

19 (1) charge the consumers served by an electric distribution
20 line constructed with a loan made under this section an amount suffi-
21 cient to pay the annual interest cost of the loan, in addition to the
22 rates the consumers pay for electric service; and

23 (2) pay to the authority annually

24 (A) interest of two percent on the unpaid balance of
25 the loan; and

26 (B) an amount towards the unpaid balance of the prin-
27 cipal of the loan equal to the unit cost of the line multiplied
28 by the number of new consumers to whom service has been extended
29 by the distribution line in that year and who have not previously

1 been counted for determining either the maximum amount of the
2 loan or the amount of principal payments.

3 * Sec. 4. AS 44.83.361(e) is amended to read:

4 (e) The authority shall

5 (1) adopt regulations necessary to carry out the provisions
6 of this section;

7 (2) administer the rural electrification revolving loan
8 fund; and

9 (3) submit to the legislature within the first 30 [10] days
10 of each regular legislative session a report of actions taken by the
11 authority under this section and an accounting of the rural electri-
12 fication revolving loan fund.

13 * Sec. 5. AS 44.83.361(f) is amended to read:

14 (f) In this section,

15 (1) "consumer" means a person, as defined in AS 01.10.-
16 060(7), or a governmental agency, if the person or governmental agency
17 requests and offers to pay for electrical service to a facility or
18 part of a facility; the authority shall consider a person who, or a
19 governmental agency that, offers to pay for electrical service to
20 several facilities to be a separate consumer for each facility, if
21 each facility is physically separate from another facility, other than
22 through electric service lines, and if the person or governmental
23 agency requests and offers to pay for electrical service to each
24 facility;

25 (2) "facility" means a structure capable of receiving and
26 using electrical energy; [AND]

27 (3) "governmental agency" includes, with respect to the
28 state or federal government or a municipal government, a legislative
29 body, board of regents, administrative body, board, commission,

1 committee, subcommittee, authority, council, agency, public corpo-
2 ration, school board, department, division, bureau, or other subordi-
3 nate unit, whether advisory or otherwise, of the state, federal, or
4 municipal government;

5 (4) "rural area" means an area in which the number of
6 consumers to be served by a proposed electric distribution line in the
7 year in which the line is to be constructed does not exceed a number
8 equal to the length of the proposed line in miles multiplied by five;
9 and

10 (5) "unit cost of the line" means the actual cost of con-
11 struction of an overhead electric distribution line or the cost of an
12 equivalent overhead line if the line is buried or under water, multi-
13 plied by 350 and divided by the length of the line in feet.

14 * Sec. 6. AS 44.83.361 is amended by adding a new subsection to read:

15 (g) The maximum loan amount under this section is the actual
16 cost of construction of an overhead electric distribution line, or the
17 cost of an equivalent overhead line if the line is buried or under
18 water, less the unit cost of the line multiplied by the number of
19 consumers served by the distribution line during the calendar year in
20 which construction of the line is completed.

21 * Sec. 7. AS 44.83.363 is amended to read:

22 Sec. 44.83.363. LOAN ADVISORY COMMITTEE. When an application
23 for a rural electrification loan is submitted to the authority under
24 AS 44.83.361, the executive director of the authority shall appoint a
25 local loan advisory committee from persons residing in the area for
26 which [THAT] the applicant has a certificate of convenience and neces-
27 sity [UTILITY IS CERTIFIED] to serve. The loan advisory committee
28 shall consider the loan application, and shall recommend whether the
29 loan application is to be approved or disapproved. A favorable

1 recommendation from the loan advisory committee shall be based on a
2 determination that development in the area of the proposed extension
3 of electric service is likely to provide the [FOR] full repayment of
4 the loan under AS 44.83.361(d) within 20 [10] years. In making that
5 determination the committee shall consider

6 (1) permanence and use of the premises to be served by the
7 proposed electric distribution line [EXTENSION];

8 (2) land availability and land use patterns in the area;

9 (3) availability of right-of-way [ACCESS] for the line that
10 would be installed with loan proceeds; and

11 (4) availability of other utility service in the area [;

12 AND

13 (5) THE ECONOMIC FEASIBILITY OF THE EXTENSION OF ELECTRIC
14 SERVICE WITH THE PROCEEDS OF THE LOAN].

MAR 7 1984

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

March 7, 1984

SUBJECT: Sectional Analysis of HB 689
(Rural Electrification Loan Fund)

TO: Representative Rick Uehling
Chairman, House Special
Committee on Loans

FROM: *LH* Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of HB 689, relating to the rural electrification loan fund.

Section 1 states the legislative findings and intent for the amendments to the rural electrification loan fund. The emphasis in the legislation is on financing rural electrification in areas where rapid economic development can be expected when the electrical transmission lines are extended.

Section 2 deletes the minimum investment requirement for a public utility that seeks a loan to extend electric service to a rural area of the state.

Section 3 changes the repayment requirements for a rural electrification loan, based on the number of new consumers served each year by the utility and the "unit cost" of the transmission line.

Section 4 changes the timing for the annual report that must be submitted to the legislature by the Alaska Power Authority on the rural electrification loan fund.

Section 5 adds a definition of "unit cost of the line" to mean the cost of 350 feet of a transmission line, or 350 feet of an equivalent overhead transmission line if the actual transmission line is buried or under water.

Representative Rick Uehling
Page 2
March 7, 1984

Section 6 bases the maximum loan amount on the cost of an overhead transmission line, even if the actual line is buried or under water.

Section 7 makes technical changes in the statutory section dealing with the loan advisory committee.

LHA:ojb
J4/051



ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

237 E. FIREWEED LANE • SUITE 301
ANCHORAGE, ALASKA 99503 • (907) 276-3235

March 16, 1984

Representative John Cowdery, Chairman
House Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Cowdery:

House Bill 689 is essential to clean up the statutory language authorizing the rural electrification revolving loan fund so that program can finally be made to work as intended.

This loan fund was created as a section of SB 25 in 1981 by including in that historic legislation the contents of a bill sponsored by then Representative Pappy Moss. As a result, there is almost no separate legislative history which would have given the power authority some guidance in administering the program. For anyone not intimately involved with line extensions of an electric utility, the present statutory language is quite confusing. The result of all this is that the rural electrification revolving loan fund has never worked as intended.

The purpose of this loan fund is to extend the backbone electric distribution system through developing rural areas. The target areas at present do not have enough population to meet the definitions of feasibility set out by the lending institutions such as the Rural Electrification Administration. However, the target areas are expected to develop rather quickly once utility service becomes available.

This is a narrow purpose program, and I would not envision that it would ever become very large in terms of the total funding it requires. The concept for this program was originally developed to meet specific problems around Fairbanks like the Goldstream area and in the Mat-Su Borough like the Caswell Lakes area. After three years, not one dime has gone to meet the very serious needs of those areas and others like them across the state.

Enclosed is a sectional analysis which briefly describes the contents of HB 689. The key feature of this program necessary to make it work is that the payback period has to be for an indeterminate period rather than for a set term of years. This is

DEMOCRACY IN ACTION

Representative John Cowdery
March 16, 1984
Page Two

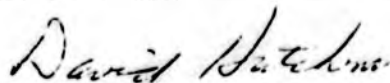
an unusual feature of a loan program, but it is essential in this case. If the term of years is fixed, the utility is the one at risk that the anticipated development will in fact occur. REA will not permit its borrowers to accept loans for projects which do not meet the REA definition of feasibility. If these projects could meet the REA feasibility test, we would borrow from REA and would not need this program.

The concept of making the term of the loan indeterminate and having the payback schedule tied to the actual rate of development was contained in the original legislation. The power authority has never accepted that legislative policy, and they have in fact arbitrarily set a 20 year term by regulation. That is why this program has never worked.

We think HB 689 is a very good bill, and we ask you and your committee to support it. However, there is one amendment which is needed to prevent possible confusion in the future. As used in this program, the term "rural" simply means an area where the population density is low. I would propose that a new definition be included in section 5 of the bill to read:

"rural area" means an area in which the number of consumers to be served by an electric distribution line in the year in which it is constructed does not exceed five per mile of line.

Sincerely,



David Hutchens
Executive Director

House Bill No. 689

Sectional Analysis

Section 1 states the legislative intent that this program is to help finance pioneer electric distribution lines through developing rural areas.

Section 2 provides that loans may be made to public utilities to build distribution lines into rural areas not receiving electric service if (1) the loan is recommended by a loan advisory committee, (2) the line extension will serve at least three consumers in its first year and (3) the utility has a certificate from the APUC to serve that area.

Section 3 provides that the utility shall collect 2% interest on this loan from its consumers served by the line extension and shall pay that interest to the APA annually with its principal payment. The principal repayment formula is geared to the number of new consumers being served by this line extension rather than to a specific term of years. The cost of the line is divided into units consisting of its average cost per 350 feet (the approximate distance of a span of line). The utility repays one unit of the principal for each new consumer served by the line.

Section 4 vests the administrative authority with the APA and requires an annual report to the legislature.

Section 5 defines the terms used in this legislation.

Section 6 limits the amount of a loan to the amount necessary to build an overhead line, but a more expensive method of construction may be used if the additional cost is financed from some other source. The utility is required to invest from other sources one unit of cost (the average cost for 350 feet of line) for each consumer to be served in the first year.

Section 7 authorizes the executive director of the APA to appoint a loan advisory committee from residents of the assigned service area of the applicant utility. The committee has the responsibility to advise whether or not development of the area in question is likely to occur rapidly enough to provide full repayment of the loan within 20 years.

CS HB 689 (L & C)

Exhibit accompanying testimony before the House Special Committee on loans on 3-29-84 by David Hutchens, Executive Director of ARECA.

1. Does the repayment formula result in full repayment of the principal?

Regardless of variables such as the cost per mile of line and the density of the consumers served at the time of construction, the formula provides for full repayment of the principal when the density reaches 15.086 consumers per mile of line, this is equal to an average frontage on the line (road) of 700 feet per consumer, 700 feet squared equals 11.25 acres per customer.

If you assume the lots or parcels of land are rectangular rather than square and that the parcels are twice as deep as their frontage, the lots can average 22.5 acres per consumer and still provide for full repayment of the principal.

2. Should the interest rate remain at 2% or be raised to 5%?

1. Assuming cost of \$40,000 per mile of line the utility invests \$2,652 per customer.

5 customers per mile

Net amount of the loan is \$26,740.

2% interest = \$107 per consumer per year.

5% interest = \$267 per consumer per year.

2 customers per mile

Net amount of the loan is \$34,696.

2% interest = \$347 per consumer per year.

5% interest = \$867 per consumer per year.

3. What is the role of the advisory committee?

Simply stated, the role of the advisory committee is to make an informed judgement as to whether density is likely to reach 15.086 consumers per mile of line within 20 years.

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(6) "person" includes a public agency in addition to the entities set out in AS 01.10.060(7);

(7) "reconnaissance study" means a study conducted for the purpose of assessing the present and future electrical and thermal energy needs of an area under AS 44.83.177;

(8) "feasibility study"

(A) means a study conducted for the purpose of establishing the economic and environmental practicality of completing a proposed power project under AS 44.83.181;

(B) includes engineering and design work to meet the requirements for submission of a license application for a proposed new project to the Federal Energy Regulatory Commission;

(9) "small-scale power production facility" means a facility which, by design, is to produce less than 25 megawatts of power. (§ 1 ch 278 SLA 1976; am §§ 21, 22 ch 156 SLA 1978; am §§ 26, 27 ch 83 SLA 1980; am §§ 10, 11 ch 133 SLA 1982)

Effect of amendments. — The 1982 amendment substituted the present definition for "power project" or "project" in paragraph (4) for the definition set out in

the main pamphlet and substituted "electrical and thermal energy needs" for "power needs" in paragraph (7).

Article 7. Susitna River Hydroelectric Project.

Sec. 44.83.325. Restrictions on contracting.

Editor's note. — Section 21, ch. 133, SLA 1982, provides: "Notwithstanding the provisions of AS 44.83.325, the Alaska Power Authority may enter into contracts under AS 44.83.300 — 44.83.360 for preliminary work without the approval required by AS 44.83.325. In this section, 'preliminary work' means the preparation of plans and studies and the preparation and submission of license applications, as well as other types of work, that must be

completed before actual construction of the Susitna River hydroelectric project, described in AS 44.83.300, may begin. This section does not authorize the Alaska Power authority to enter into contracts for the actual construction of the Susitna River hydroelectric project or for the preparation of the site of the Susitna River hydroelectric project without the approval required by AS 44.83.325."

Article 8. Rural Electrification Revolving Loan Fund.

Section

361. Rural electrification revolving loan fund

363. Loan advisory committee

Sec. 44.83.361. Rural electrification revolving loan fund. (a) The rural electrification revolving loan fund is established in the Alaska Power Authority. The fund consists of

- (1) appropriations made to the fund; and
- (2) principal payments on loans made under this section.

(b) The authority may make loans from the rural electrification revolving loan fund to electric utilities certified by the Alaska Public Utilities Commission. A loan from the fund may be made only for the purpose of extending new electric service into an area of the state that an electric utility may serve under a certificate of public convenience and necessity issued by the Alaska Public Utilities Commission. A loan may be made from the fund to an electric utility if the utility invests the money necessary to provide one pole, one span of line, one transformer, and one service drop for each consumer for whom immediate service would be provided by the extension of electric service. However, a loan may not be made from the fund unless

(1) the loan is recommended by a loan advisory committee appointed under AS 44.83.363; and

(2) the extension of electric service would provide immediate service to at least three consumers.

(c) A loan from the rural electrification revolving loan fund shall bear an annual rate of interest of two percent of the unpaid balance of the loan. Interest received on a loan made under this section must be transferred monthly to the commissioner of revenue for deposit in the general fund.

(d) When a loan is made by the authority under this section, the electric utility receiving the loan

(1) shall, in addition to the rates that it is authorized to charge, charge the consumers served by the electric service extended with the loan proceeds an amount sufficient to pay the interest costs of the loan;

(2) shall pay to the authority annually an amount equal to

(A) interest of two percent on the unpaid balance of the loan; and

(B) payments on the unpaid balance of the principal of the loan for each new consumer served by the electric service extended with the loan proceeds; payments on the unpaid balance of the principal of the loan shall be made at a rate equal to the difference between the actual cost of making the service connection to the consumers and the minimum investment per consumer required of the utility before a loan is made under (b) of this section.

(e) The authority shall

(1) adopt regulations necessary to carry out the provisions of this section;

(2) administer the rural electrification revolving loan fund; and

(3) submit to the legislature within the first 10 days of each regular legislative session a report of actions taken by the authority under this section and an accounting of the rural electrification revolving loan fund.

(f) In this section,

(1) "consumer" means a person, as defined in AS 01.10.060(7), or a governmental agency, if the person or governmental agency requests and offers to pay for electrical service to a facility or part of a facility;

the authority shall consider a person who, or a governmental agency that, offers to pay for electrical service to several facilities to be a separate consumer for each facility, if each facility is physically separate from another facility, other than through electric service lines, and if the person or governmental agency requests and offers to pay for electrical service to each facility;

(2) "facility" means a structure capable of receiving and using electrical energy; and

(3) "governmental agency" includes, with respect to the state or federal government or a municipal government, a legislative body, board of regents, administrative body, board, commission, committee, subcommittee, authority, council, agency, public corporation, school board, department, division, bureau, or other subordinate unit, whether advisory or otherwise, of the state, federal, or municipal government. (§ 1 ch 118 SLA 1981; am §§ 10 — 13 ch 89 SLA 1983)

Effect of amendments. — The 1983 amendment, effective July 22, 1983, deleted "and interest" following "principal" in paragraph (a)(2), added the second sentence of subsection (c), substituted

"extended with the loan proceeds" for "during the preceding year for which the loan was made" in paragraph (d)(2)(B), and added subsection (f).

Sec. 44.83.363. Loan advisory committee. When an application for a rural electrification loan is submitted to the authority under AS 44.83.361, the authority shall appoint a local advisory committee from persons residing in the area that the applicant utility is certified to serve. The loan advisory committee shall consider the loan application, and shall recommend whether the loan application is to be approved or disapproved. A favorable recommendation from the loan advisory committee shall be based on a determination that development in the area of the proposed extension of electric service is likely to provide for full repayment of the loan under AS 44.83.361(d) within 10 years. In making that determination the committee shall consider

- (1) permanence of the premises to be served by the extension;
- (2) land use patterns in the area;
- (3) access for the line that would be installed with loan proceeds;
- (4) availability of other utility service in the area; and
- (5) the economic feasibility of the extension of electric service with the proceeds of the loan. (§ 1 ch 118 SLA 1981)

Article 9. Energy Program for Alaska.

Section

- 380. Program established
- 382. Power development fund established
- 384. Use of fund balance
- 386. Investment of fund
- 388. Allotment to projects

Section

- 390. Reappropriation of fund balance
- 392. Lapse of excess appropriations
- 394. [Repealed]
- 396. Operation of power project
- 398. Sale of power from power project