

HB

683

Alaska State Legislature

Representative Milo Fritz
District 5
P.O. Box 158
Anchor Point, Alaska 99556
(907) 235-8366



While in Juneau
Pouch V
Juneau, Alaska 99811
(907) 465-4833

House of Representatives

MILO FRITZ

MEMORANDUM

TO: Representative John Cowdry
Labor & Commerce Chairman

FROM: Representative Milo Fritz
Finance Committee Member

DATE: March 13, 1984

SUBJ: HB 683

I would greatly appreciate your springing HB 683 out of your Committee. As I look at it, there is no threat to the Susitna Dam and with the population of the Kenai Peninsula growing in the neighborhood of between nine and ten percent every year, we will need the power from Bradley Lake within the next two years. Your consideration in getting HB 683 out of your Committee and on to the next Committee of referral will be very greatly appreciated. If there is anything about this matter that you would care to discuss with me I am at your service.

cc: D. Kent Wicke
Mr. Leo Rhode



Homer Electric Association, Inc.

CENTRAL OFFICE: P.O. BOX 429 ☉ HOMER, ALASKA 99603-0429 ☉ (907) 235-8167

March 7, 1984

The Hon. John J. Cowdery, Chairman
House Labor & Commerce Committee
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Cowdery:

House Bill #683, presently in the Labor and Commerce Committee, would authorize Bradley Lake as a State project. It requests no funding. Bradley Lake must be authorized in order for the Alaska Power Authority to file for a FERC license. Filing for an FERC license should be done concurrently with development of a financing plan and power sales agreements.

Approval of HB #683 does not conflict with the four-dam pool, and Bradley Lake is not competition to Susitna. Power from Bradley Lake is needed for the winter of 1988/89. Without Bradley Lake natural gas generation facilities must be added. I believe all studies thus far show no negative impact of Bradley Lake on Susitna feasibility or financing.

We need your support! HB #683 should be passed out of its assigned Committees for full House consideration as soon as possible to keep the project on schedule. Funding will be requested only after a financing plan is developed. Funding is not requested in HB #683.

Thank you in advance for your consideration. Please let us know if we can answer any of your questions.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

R. Kent Wick
General Manager

BKW:em

Alaska State Legislature



Speaker of the House of Representatives

Official Business

Pouch V
State Capital
Juneau, Alaska 99811
(907) 465-3720

March 29, 1984

To: Representative Bob Bettisworth
Vice Chairman, House Finance

From: Representative Joe Hayes *JH*
House Speaker

Per our recent telephone conversation, I am sending a copy of Governor Sheffield's letter dated March 29, 1984, proposing a formula to the solution of the 4-Dam Pool problem.

Would you please check out the disposition of various pieces of legislation relating to "the package". I believe most or all of them may be in House Finance. I would appreciate your suggestions for a resolution to the Governor's requirements.

Please feel free to discuss this with the Governor and his staff.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 29, 1984

The Honorable Joe Hayes
The Capitol
Juneau

Dear Joe,

From our discussion at lunch today, it is my understanding that you would consider an agreement to ensure that a solution to the 4-dam pool problem is brought to the House floor for a vote.

I propose the following formula as the solution, and due to the time constraints imposed on us by the four capital budgets now on my desk, the vote on all but one portion of the formula needs to be taken during your floor session this evening.

The package includes:

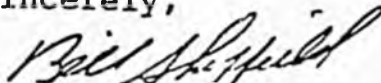
- Repeal of the Susitna Clause
 - Approval of \$49 million for the Rate Stabilization Fund
 - Repeal of the prohibition against industrial rates
 - Inclusion of Watana and Bradley Lake into a new, 6-dam pool
 - \$200 million appropriated to the Power Development Fund.
- I understand the time problem involved on this item, and I would agree that it could be handled later.

It would be my intention to publicly support this formula, and I also would reiterate my longstanding support for the Susitna Hydroelectric Project. The only qualifications to my support for Susitna is the same as always: that we first arrive at a positive finding of feasibility, a workable financing plan and pre-signed power sales agreements with the Railbelt utilities.

As we also discussed, the issue of the Major Projects Fund also should be subjected to a floor vote today. I strongly believe that only a "clean" constitutional amendment represents good public policy. I reiterate that if a vote is taken today, it should be on House Joint Resolution 57 as I introduced it.

I understand your personal opposition to some of these points. I appreciate your agreement to refrain from lobbying others in opposition, and your willingness to allow the members of your caucus to vote their own consciences. I also can assure you that positive action on these issues will greatly influence my budget decisions over the next few days.

Sincerely,


Bill Sheffield
Governor

FEBRUARY 29, 1984

TO: JOHN
FROM: KEN
RE: HB 683 "APPROVING THE BRADLEY LAKE HYDROELECTRIC
PROJECT"

HB 683 IS A BILL WHICH ASKS THE LEGISLATURE TO APPROVE THE BRADLEY LAKE HYDROELECTRIC PROJECT AS A PROJECT OF THE ENERGY PROGRAM FOR ALASKA. THIS LEGISLATION ALSO ASKS FOR APPROVAL OF THE COST OF BRADLEY LAKE, ESTIMATED TO BE 354 MILLION DOLLARS. THE BILL, HOWEVER, IS NOT AN APPROPRIATIONS BILL. FUNDING FOR BRADLEY LAKE PROJECT WOULD NOT BE ASSURED BY PASSAGE OF HB 683.

QUESTIONS:

1. HOW LONG WILL IT BE BEFORE THE A.P.A. COMPLETES ITS FINDINGS AND RECOMMENDATION REPORT AND SENDS IT ON TO O.M.B. ?
2. HOW LONG DO YOU EXPECT IT TO TAKE O.M.B. TO PRODUCE ITS REPORT ONCE THE A.P.A. HAS PASSED ON ITS FINDINGS ?
3. ISN'T THIS LEGISLATION A BIT UNTIMELY SINCE THE LEGISLATURE HAS NO ASSURANCE AT THIS POINT THAT THE A.P.A.'S AND O.M.B.'S FINAL REPORTS WILL SUPPORT THE FEASIBILITY STUDY ?
4. WHERE WILL THE INITIAL FUNDING FOR THE CONSTRUCTION OF BRADLEY LAKE COME FROM AND HOW WILL THE ENTIRE PROJECT BE FUNDED ?

5. IF THE STATE APPROPRIATES FUNDS FOR BRADLEY LAKE, ISN'T THAT USING FUNDS THAT COULD GO TOWARD CONSTRUCTION OF THE WATANA PHASE OF THE SUSITNA PROJECT ?
6. WILL THERE BE A NEED FOR THE STATE TO PROVIDE SUBSIDY TO STABILIZE POWER RATES DURING THE FIRST FEW YEARS BRADLEY LAKE IS IN OPERATION ?
7. WILL BRADLEY LAKE POWER BE AN ADDITIONAL SOURCE OF POWER TO CUSTOMERS ON THE KENAI PENINSULA OR WILL IT REPLACE THE CURRENT SOURCE OF POWER ?
8. WHAT PERCENTAGE OF THE POWER PRODUCED AT BRADLEY LAKE CAN BE SOLD WHEN THE PROJECT COMES ON LINE ?
9. IS THE A.P.A. CERTAIN THAT POWER PRODUCED AT BRADLEY LAKE COULD BE SOLD ?
10. ARE THERE NOW OR HAS THERE BEEN ANY POWER SALES NEGOTIATIONS WITH UTILITY COMPANIES FOR BRADLEY LAKE POWER ?
11. WITH WHAT UTILITY COMPANIES HAVE THOSE NEGOTIATIONS OR TALKS TAKEN PLACE ?
12. WHAT IS THE STATUS OF THE F.E.R.C. LICENSING PROCESS FOR BRADLEY LAKE ?
13. HOW LONG BEFORE CONSTRUCTION COULD ACTUALLY START ?
14. ARE THE COMMUNITIES TO BE SERVED BY BRADLEY LAKE SET UP TO HANDLE THE TRANSMISSION OF THAT POWER ?
15. THEN, ARE THERE CAPITAL PROJECTS ASSOCIATED WITH BRADLEY LAKE THAT ARE NOT INCLUDED IN THE 354 MILLION DOLLAR COST FIGURE ?

STATUS REPORT

Bradley Lake Hydroelectric Project

February 27, 1984

The Bradley Lake Hydroelectric Power Project was authorized by the U.S. Congress as a Federal project in the Flood Control Act of 1962.

After lengthy study the project was found to be economically feasible by the U.S. Army, Corps of Engineers in 1978.

The Corps of Engineers started work in 1978 and published a General Design Memorandum in February 1982 and a final Environmental Impact Statement in August 1982.

The 1981 Alaska State Legislature, by joint resolution, requested that the United States Congress provide a system to permit the Corps to design and construct the project as a project of the Alaska Power Authority, provided that the financing for the project be solely the responsibility of the State of Alaska and the Power Authority. The Legislature also appropriated \$15 million from the General Fund to the Power Development Fund for the Bradley Lake project.

The 1982 Alaska State Legislature in HB 9 stated that subject to the review of the feasibility study and plan of finance by the Division of Budget and Management in the Office of the Governor the Bradley Lake Hydroelectric Project is approved as a project of the Power Authority. The Letter of Intent accompanying HB 9 stated that it was the intent of the Legislature that the Power Authority proceed with the Bradley Lake Hydroelectric Project by expending the funds received and by securing, if necessary, additional financing. The Legislature also appropriated \$3 million for the Bradley Lake project.

The Power Authority attempted to negotiate an agreement with the Corps concerning the Bradley Lake project. Due to lack of Federal legislation to allow the Corps to accept State funds, impact of Federal ownership on ability of the Power Authority to obtain bonding for the project, and lack of State control of cost overruns and power rates, the Power Authority Board of Directors in October 1982 voted to pursue design and construction of the project by the Power Authority and supported Federal deauthorization of the project.

The Bradley Lake project was deauthorized by the U.S. Congress in December 1982.

In March 1983, the Board of Directors approved the selection of the firm of Stone and Webster Engineering Company as design engineer for the project, and authorized an award of a contract for preliminary design and feasibility study to focus on the determination of the feasibility and optimum plan for development of Bradley Lake. The project's conceptual design has been modified from that planned by the Corps to lessen the environmental impact and the cost of the project.

Results of the Feasibility Study were presented to the Power Authority Board of Directors in September 1983. The project is attractive economically, both with or without Susitna. A sensitivity analysis at zero percent load growth indicates that Bradley Lake's economic feasibility remains positive. Consequently, the Board authorized preparation of a Federal Energy Regulatory License Application. Preliminary cost of power determinations were made under various funding scenarios which indicate that the Bradley Lake power costs are competitive with the thermal alternatives. The project was sized at 90 megawatts, constructed so that it could be expanded to 135 Megawatts in the future if necessary. In 1983 dollars the project cost is \$283 million. The 1985 bid price is \$354 million, not including financing costs.

Meetings have been held with the various utilities who are potential power purchasers and Letters of Interest to purchase power have been received from a sufficient number of utilities to indicate that Bradley power is marketable.

Environmental aspects of the project have been discussed with the various Resource Agencies. The 60 day agency consultation period required by the Federal Energy Regulatory Commission (FERC) has been initiated and the draft license application has been forwarded to interested agencies. Minimum Bradley River instream flow requirements, which was a major concern of the Resource Agencies expressed in their review of the Corps' Final EIS, have been established and concurred with following Power Authority field study and analysis in 1983. A moose migration study is also underway to establish mitigation requirements for possible impacts on the moose population.

Current Status and Future Actions

1. The Finance Plan is in final preparation. The Plan considers information gained from the 4 Dam Pool negotiations and is based on Bradley Lake being in the Energy Program for Alaska. It should be finalized by March 18, 1984.
2. The Power Authority is currently working with the Office of Management and Budget on their review of the Feasibility Study and the Plan of Finance.
3. The submittal of the FERC license application will be considered by the Power Authority Board of Directors meeting during the week of mid March 1984.
4. Although funds have been appropriated for Bradley Lake, the project has not been specifically authorized by the Legislature at a specified construction cost nor has it been included in the Energy Program for Alaska. Design cannot be initiated until the project is authorized at a specified construction cost. HB 683 provides the required authorization and includes the project in the Energy Program for Alaska.

5. If the Legislature authorizes the project, design can commence if approved by the Power Authority Board of Directors. No design funds will be expended until power sales agreements with specified power rates have been signed by the participating utilities.
6. Sufficient funds have been appropriated to fund FERC license support and design activities in FY 85. Additional funds, dependent on the requirements of the Finance Plan, will be required in FY 86 and later years.
7. If design can be initiated by July 1, 1984, construction could commence in August 1985 with first power on line in late 1988. The construction start is dependent on receipt of the FERC license. FERC has indicated in writing that due to extensive Federal environmental work on the project, it may be possible to receive the license as early as 11 months after submittal.



ALASKA STATE LEGISLATURE
 HOUSE OF REPRESENTATIVES
 RESEARCH AGENCY

Porch Y. State Capitol
 Juneau, Alaska 99811
 (907) 465-3991

April 26, 1982

MEMORANDUM

TO: Representative Hugh Malone
 Attn: Spike Dale

FROM: Jack Kreinhed *JK* and David Teal *DT*
 Research Staff

RE: Bradley Lake Financing Analysis
 Research Request 82-122

You requested that we convert the power cost figures in the Bradley Lake financing analysis prepared by Sterling Gallagher into 1982 dollars, so that the costs can be more accurately compared to current power costs. Tables 1 and 2, below, show annual project and energy costs, based on 100 percent bond financing, and on 50 percent State financing, respectively. These tables correspond to Tables III and VIII of Mr. Gallagher's analysis.

TABLE 1
 BRADLEY LAKE COST ANALYSIS (1982 DOLLARS)
 Financing: 100 Percent Tax Exempt 14% Bonds
 (7% inflation, 3% real discount rate)

Year	Debt Service ¹ (\$000)	Operating Costs ² (\$000)	Total Annual Cost (\$000)	Energy Sales (MWH)	Power Cost (Cents/KWH)
1989	\$69,658	\$1,063	\$70,721	340,000	20.80
1994	42,845	917	43,762	340,000	12.87
1999	26,350	791	27,141	340,000	7.98
2004	16,206	683	16,889	340,000	4.97
2009	9,967	589	10,556	340,000	3.10
2014	6,130	508	6,638	340,000	1.95

¹ Debt service in nominal dollars would be \$137.6 million per year.
² Operating costs are constant in real terms and are discounted at a real rate of 3 percent per year.

TABLE 2

BRADLEY LAKE COST ANALYSIS (1982 DOLLARS)
Financing: 50 Percent State Grant,
50 Percent Tax Exempt 14% Bonds
(7% inflation, 3% real discount rate)

Year	Debt Service (\$000)	Operating Costs (\$000)	Total Annual Cost (\$000)	Energy Sales (MWH)	Power Cost (Cents/KWH)
1989	\$31,799	\$1,063	\$32,862	340,000	9.67
1994	19,557	917	20,474	340,000	6.02
1999	12,028	791	12,819	340,000	3.77
2004	7,398	683	8,081	340,000	2.38
2009	4,550	589	5,139	340,000	1.51
2014	2,798	508	3,306	340,000	0.97

These cost figures are based on the Gallagher analysis, discounted at an inflation rate of 7 percent and a real discount rate of 3 percent. The resulting power costs are much lower than those cited in the Gallagher analysis, particularly in the more distant years. For example, Gallagher's figures for the cost of power under the 100 percent bond financing case range, in nominal dollars, from 41 cents/KWH in 1989 to 44 cents in 2014.

In 1982 dollars, these costs are equivalent to 21 cents/KWH in 1989 and 2 cents/KWH in 2014. Although the actual power cost in 2014, under Mr. Gallagher's assumptions, would be about 44 cents/KWH, this amount is comparable to only about 2 cents/KWH in terms of today's dollars.

We are presently working on the second part of your request, which was to apply the analysis used by Mr. Gallagher for Bradley Lake to the Susitna project, and to re-view the Bradley Lake analysis for accuracy and completeness. This work should be completed by tomorrow, April 27. If you have any questions in the meantime, please let us know.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

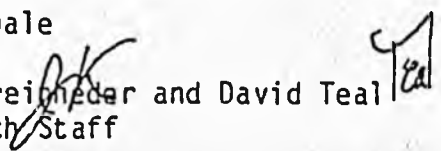
Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 29, 1982

MEMORANDUM

TO: Representative Hugh Malone

ATTN: Spike Dale

FROM: Jack Kreighner and David Teal 
Research Staff

RE: Bradley Lake Financing Analysis--Supplemental Information
Research Request Number 82-122

This memorandum is in response to your request for a comparison of the Bradley Lake and Susitna hydroelectric projects, based on Sterling Gallagher's recent Bradley Lake financing analysis. The memorandum contains 1) several tables which present energy costs of the two projects and 2) a review of Mr. Gallagher's Bradley Lake analysis for accuracy and completeness. The major finding is that application of Gallagher's analysis to both projects shows that the Bradley Lake project is capable of producing energy at lower cost than the combined Watana and Devil Canyon portions of the Susitna project.

The source of data on the Susitna project is the Susitna Hydroelectric Project Draft Feasibility Report prepared by ACRES for the Alaska Power Authority. That report gives annual operating costs of the Watana portion of the Susitna project as \$10 million and lists project construction costs as \$3,647 million. Construction and annual operating costs of the Devil Canyon project are \$1,480 million and \$5.2 million, respectively. All of these figures are in 1982 dollars.

Table 1 presents projected costs of the Watana and Devil Canyon projects in nominal dollars. A seven per cent annual interest rate was used to convert 1982 dollars to projected bonding requirements and operating costs in the year of project completion, and a 14 percent interest rate was used to compute interest costs during the construction periods. Both computations used the construction cost schedules presented in the draft feasibility report.

Table 1
 PROJECTED COSTS OF THE WATANA AND DEVIL CANYON
 HYDROELECTRIC PROJECTS
 (in millions of nominal dollars)

	<u>Watana</u> (Completed 1993)	<u>Devil Canyon</u> (Completed 2002)
Total Construction Cost	\$ 6,006	\$ 4,503
Interest to Completion of Construction--Capitalized	4,555	2,800
Total Investment Cost	10,561	7,302
Financing Expense	327	226
Reserve Fund	<u>1,804</u>	<u>1,247</u>
TOTAL CAPITAL REQUIREMENT	\$12,692	\$ 8,775
<hr/>		
Annual Debt Service	\$ 1,804	\$ 1,247
Coverage (20% of Debt Service)	361	249
Interest on Reserve (at 13%)	<u>(234)</u>	<u>(162)</u>
NET ANNUAL DEBT SERVICE	\$ 1,930	\$ 1,334
<hr/>		
Operating Costs in First Year	\$ 21	\$ 20
TOTAL ANNUAL COST--FIRST YEAR	\$ 1,951	\$ 1,354

Source: House Research Agency 4/82

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The remainder of the tables in this memorandum are based on the information above and on average annual energy sales of 3,450,000 MWH and 3,340,000 MWH from the Watana and Devil Canyon projects, respectively.¹

¹ACRES anticipates that sale of power from the Devil Canyon project will be less than plant capacity during an initial operating period of about ten years. The resulting higher per unit power costs during that period are reflected in the tables in this memorandum.

Each of the tables is described below. In all cases, debt service is based on assumptions used in Gallagher's analysis of the Bradley Lake project. That is, the projects are supported by a tax exempt bond issue at 14 percent interest, a reserve fund equal to one year of debt service requirements, and coverage of 20 percent of annual debt service requirements. These figures are not identical to the financing details used by ACRES to determine the debt service requirements of the Susitna project. We have used Mr. Gallagher's approach on both the Bradley Lake and Susitna projects in order to minimize differences in the computation of total cost of the projects.

Although financing has been made equivalent, energy cost comparisons may not be accurate if some components of total cost have been omitted from one or more of the projects or if the methodology for estimating costs is not comparable. We have reviewed the construction cost estimates of the Bradley Lake project and find Mr. Gallagher's figures acceptable for comparison with the Susitna project.

Table 2 shows project and energy costs of the Watana project in nominal dollars and is comparable to Gallagher's Table III. Debt service is constant--payments are fixed at the time bonds are sold--and operating costs increase at seven percent per year, which is the assumed rate of inflation. As in Gallagher's analysis, energy costs increase throughout the evaluation period. Table 2 shows energy costs of 56.55 cents per kwh in 1994 and 58.46 cents per kwh in 2014.

Table 2
WATANA HYDROELECTRIC PROJECT COST ANALYSIS
(in millions of nominal dollars)

Year	Debt Service	Operating Costs	Total Annual Cost	Energy Sales (GWH)	Power Cost (cents/kwh)
1994	\$1,929.85	\$22.52	\$1,952.37	3,450	56.59
1999	1,929.85	31.59	1,961.44	3,450	56.85
2004	1,929.85	44.30	1,974.15	3,450	57.22
2009	1,929.85	62.13	1,991.98	3,450	57.74
2014	1,929.85	87.15	2,017.00	3,450	58.46

Source: House Research Agency 4/82

Table 3 shows project and energy costs of the Watana project in 1982 dollars. The table corresponds to Table 1 in memorandum number 82-122 delivered to you on April 26.² Debt service is deflated at seven percent per year to reflect the declining real value of a fixed payment. Operating costs are constant because it is assumed that the increase in operating costs is exactly equal to the rate of inflation. Energy costs decline from 25.13 cents per kwh in 1994 to 6.71 cents per kwh in 2014.

Table 3
 WATANA HYDROELECTRIC PROJECT COST ANALYSIS
 (in millions of 1982 dollars)

Year	Debt Service	Operating Costs	Total Annual Cost	Energy Sales (GWH)	Power Cost (cents/kwh)
1994	\$856.88	\$10.00	\$866.88	3,450	25.13
1999	610.94	10.00	620.94	3,450	18.00
2004	435.59	10.00	445.59	3,450	12.92
2009	310.57	10.00	320.57	3,450	9.29
2014	221.43	10.00	231.43	3,450	6.71

Source: House Research Agency 4/82

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Table 4 compares energy costs of the Bradley Lake, Watana, and Devil Canyon projects. Estimated costs are in nominal dollars. Table 5 makes the same comparison in 1982 dollars. In both tables, the "percentage difference" columns refer to change from the projected energy costs of the Bradley Lake project. In both tables, the energy costs listed for the Susitna project are weighted averages of the Watana and Devil Canyon projects. In 2004 and 2009, the figures for Devil

²In Table 1 of our memorandum of April 26, the discount rate included a three percent rate for the time value of money. That factor has been omitted from the computations in this memorandum. This "real interest rate" does not affect the percentage changes shown in tables 4 and 5 of this memorandum.

Canyon are adjusted for operation at less than plant capacity. Note that power produced at Devil Canyon is expected to be about six percent cheaper than power from Bradley Lake once Devil Canyon is at full capacity but that the combined cost of energy from the Susitna project remains higher than energy produced at the Bradley Lake project.

Table 4
 PROJECTED ENERGY COSTS OF THREE HYDROELECTRIC PROJECTS
 (NOMINAL CENTS PER KWH)

<u>Year</u>	<u>Bradley Lake</u>	<u>Watana</u>	<u>Percentage Difference</u>	<u>Devil Canyon</u>	<u>Percentage Difference</u>	<u>Combined Susitna</u>	<u>Percentage Difference</u>
1994	41.32	56.59	37%	--	--	56.59	37%
1999	41.68	56.85	36	--	--	56.85	36
2004	42.16	57.22	36	61.20	45 %	58.78	39
2009	42.85	57.74	35	43.30	1	50.84	19
2014	43.81	58.46	34	41.31	(6)	50.02	14

Source: House Research Agency 4/82

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Table 5
 PROJECTED ENERGY COSTS OF THREE HYDROELECTRIC PROJECTS
 (1982 CENTS PER KWH)

<u>Year</u>	<u>Bradley Lake</u>	<u>Watana</u>	<u>Percentage Difference</u>	<u>Devil Canyon</u>	<u>Percentage Difference</u>	<u>Combined Susitna</u>	<u>Percentage Difference</u>
1994	18.35	25.13	37%	--	--	25.13	37%
1999	13.19	18.00	36	--	--	18.00	36
2004	9.52	12.92	36	13.81	45%	13.27	39
2009	6.90	9.29	35	6.97	1	8.18	19
2014	5.03	6.71	33	4.74	(6)	5.74	14

Source: House Research Agency 4/82

Representative Malone
April 29, 1982
Page 6

We were also asked to review the Bradley Lake analysis for accuracy and completeness. In Mr. Gallagher's Table III, the cost components are inaccurately summed. However, the energy cost computation is correct so there is no major flaw in the analysis. The construction cost estimates of both projects appear to include similar items, and the assumptions on financing appear reasonable.³ Mr. Gallagher apparently used a project cost of \$360 million and transmission costs of \$70 million, compared to costs of \$367 million and \$47 million, respectively, cited in the Corps of Engineers' design memorandum. However, these cost differences do not have a major effect on projected energy costs. In short, we believe Mr. Gallagher's analysis was both complete and reasonably accurate.

* * *

We hope the information presented in this memorandum is helpful. If you would like additional information or would like to discuss the information presented here, please call.

³The "financing expense" included in Mr. Gallagher's analysis was not verified. We simply used the ratio of financing expense to total construction costs to determine a similar expense for the Susitna project.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 683
Title: Approving Bradley Lake hydro-electric project; and effec. date
Sponsor: Governor
Requestor: _____
Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce and Economic Development
Program Category Affected: Development
BRU, Program or Subprogram(s) Affected: _____
Alaska Power Authority

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: George Matz Phone: 465-2079
Division: Dept. of Commerce and Economic Development Date: 2/11/84

Approved by Commissioner: Richard A. Lyon Date: 2/11/84
Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

12/1/83

Legislative Digest

A Forecast and Review

Bargaining In Billions: OFFICE COPY

February 25, 1984
No. 7/84

BLACKMAIL FOR "SUSITNA FUND"

Repeal of the so-called Susitna "blackmail clause" may be linked to the Governor's Major Projects Fund, and a new proposal to channel a portion of those revenues to Susitna and Bradley Lake. The inclusion of Bradley Lake in the potential compromise may also be significant as a future alternative and compromise should Susitna falter. The problem with the Susitna "equity/blackmail" clause--attached to the authorization of the four-dam pool now in controversy--is that it presents a "catch-22" situation, especially for Susitna backers and Southcentral region lawmakers. The clause effects \$280 million in state grants (a gift) already invested in the four dams, and would convert that equity to interest bearing debt/equity if \$5 billion is not invested in Susitna by 1991.

The short term debt used to construct the four dams is now coming due, beginning in May. This means the state must either: (1) appropriate and pay cash for the remaining \$200 million in short-term debt, (2) finance the remaining \$200 million with longer term revenue bonds, or (3) go into default.

The state and the Alaska Power Authority have proposed financing the remaining debt with longer term revenue bonds, (option 2). However, this requires (for bond buyers) evidence of feasibility and ability to repay, which means power-use contracts with the communities to be served. However, the communities to be served would not sign those agreements unless guaranteed that their wholesale power rates would be at, or below, their present alternative diesel capacity. Hence, the Alaska Power Authority has proposed a rate stabilization package, requiring \$35 million initially (as a bond reserve) and a total of \$65 million. On this basis bond buyers appear to have assurances they need to buy the bonds. (continued page 5)

Projects Bills Moving Quickly

The six capital projects bills are now moving swiftly in the House and Senate. The swift pace of the bills means project lobbyists had best be alert concerning their projects. By the end of this week each House will probably have sent their three bills to the "other House." The bills will quickly find their way to the Finance Committees where they will "pause" for a time to get finishing touches. The bills are: HB-635, Development, HB-636, Transportation, HB-637, University of Alaska, SB-364, Erosion Control, SB-403, Education, and SB-420, Water and Sewer. (continued page 4)

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Bargaining Over The "Blackmail Clause"

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However, the Susitna "equity/blackmail" clause presents further problems if buyers are to be attracted. What the clause means to bond buyers is that they do not know whether their risk should be assessed against \$200 million (present remaining debt), or \$480 million, should the blackmail clause come into effect and grants be converted to debt. It is as if the bond buyer is being asked to take a second mortgage behind Susitna, which is an unlikely position for either buyers to take or bond houses to recommend. What is remarkable about the four-dam package is that the combined project is already salted with \$280 million in grant dollars and apparently still fails feasibility tests without further subsidy.

How did we get to this position. Well, of course things were different back when the dams were authorized and original appropriations made. The state was wallowing in enough money that these latter costs might easily have simply been appropriated if need be. If things were to be done over again, with benefit of hindsight, certainly with a \$280 million gift to the projects, the users (communities) would have been required to sign off on power use contracts before construction began and assume a share of the risk based on energy cost projections. They might have won big had the energy crisis continued, or lost. But that's the way most energy projects are financed.

Now the four-dam financing package is all tangled up with Susitna. The problem for Susitna backers and Southcentral lawmakers is that they may have to "give up" something they thought they had, something no politician likes to do. The Railbelt lawmakers would like to maintain what they feel are political guarantees on Susitna. If they give up the "blackmail clause" they will want some similar provision such as guarantees for Susitna in the Major Projects Fund. If they can't get pound for pound collateral for trading the "blackmail

(continued from previous column) clause", then some kind of reduced collateral will have to do. Lastly, any politician wants to "save face".

The legislature could up and pay the \$200 million due and maintain the "blackmail clause", but it would be politically difficult to squeeze \$200 million out of the current capital pie. Next, they could do what the APA and Sheffield Administration propose, and devise whatever they can as a collateral payment for repealing the clause. Lastly, the state could "default", a move that would leave a terrible fiscal mess and likely a negative impact on state and local bond ratings of all kinds. Default would most certainly kill any chances of financing Susitna, or similar large scale state related revenue bond projects, unless the state were to use its own cash dollars.

The situation is not a happy one for anyone. Even the four-dam pool communities find that the dams produce no "rate benefits" presently, or are likely to in the near future. Perhaps the only lament is that everything would have been wonderful if energy rates had soared as projected.

Eklutna Where Are You ???

With the major legislative capital bills now being kicked into their respective "other houses", the biggest missing piece from those bills is the Anchorage Eklutna water project. The giant \$220 million project, designed to meet Anchorage water demands in the late 1980's, received \$13.7 million in 1982 and \$22.5 million last year. In November 1983, Anchorage voters also committed to the project with approval of \$55 million in local bonds. Plans called for 25% of funds to be local and 75% to be state (\$55 million vs. \$165 million).

A push and pull over Eklutna could develop in the latter stages of capital bill funding within the legislature, or or negotiations between the executive and the legislature.