

HB

589



Alaska State Legislature

HOUSE OF REPRESENTATIVES
COMMITTEE ON RESOURCES

JOHN RINGSTAD, CO-CHAIRMAN
RICHARD SHULTZ, CO-CHAIRMAN
POUCH V
JUNEAU, ALASKA 99811
(907) 465-3715

TO: House Resource Committee Members
FROM: Committee Staff
DATE: March 5, 1984
RE: CS HB 589, APA CLEAN-UP BILL, SECTIONAL ANALYSIS

SECTION 1.

Eliminates restrictions on industrial power rates.

Also provides for the combination of the Lake Tye, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric projects into one power project for purposes of the wholesale power rate calculation.

SECTION 2.

Describes the method for determining the wholesale power rate for the projects of the authority. As the four dams are combined into project, they would share the debt service for the entire "initial project", and there is a single cents-per-kilowatt-hour rate for debt service. The rate to cover costs of maintenance, operation, equipment replacement, safety inspections and investigations is determined separately for each facility.

In the original bill, Section 2 repealed the "Susitna Blackmail Clause." This has been reversed in the CS, and the blackmail clause is addressed in section 8.

SECTION 3.

Adds a sentence to AS 44.83.398(e) to allow the power authority to contractually limit the amount of debt service payable by power purchasers as a consequence of the later of new projects to the energy program for Alaska.

SECTION 4 and SECTION 5.

Refer to the "Susitna Blackmail Clause" and would be repealed by Sec. 8.

SECTION 6.

Repeals AS 44.83.398(d) upon immediate effective date. Section refers to wholesale power rates amended in Section 1 of the bill.

SECTION 7.

Provides immediate effective date for Sections 1-3 and 6.

SECTION 8.

Provides that sections 4 and 5 take effect upon approval of a constitutional amendment creating the major projects fund, which would require the financing of Watana portion of the Susitna Project.

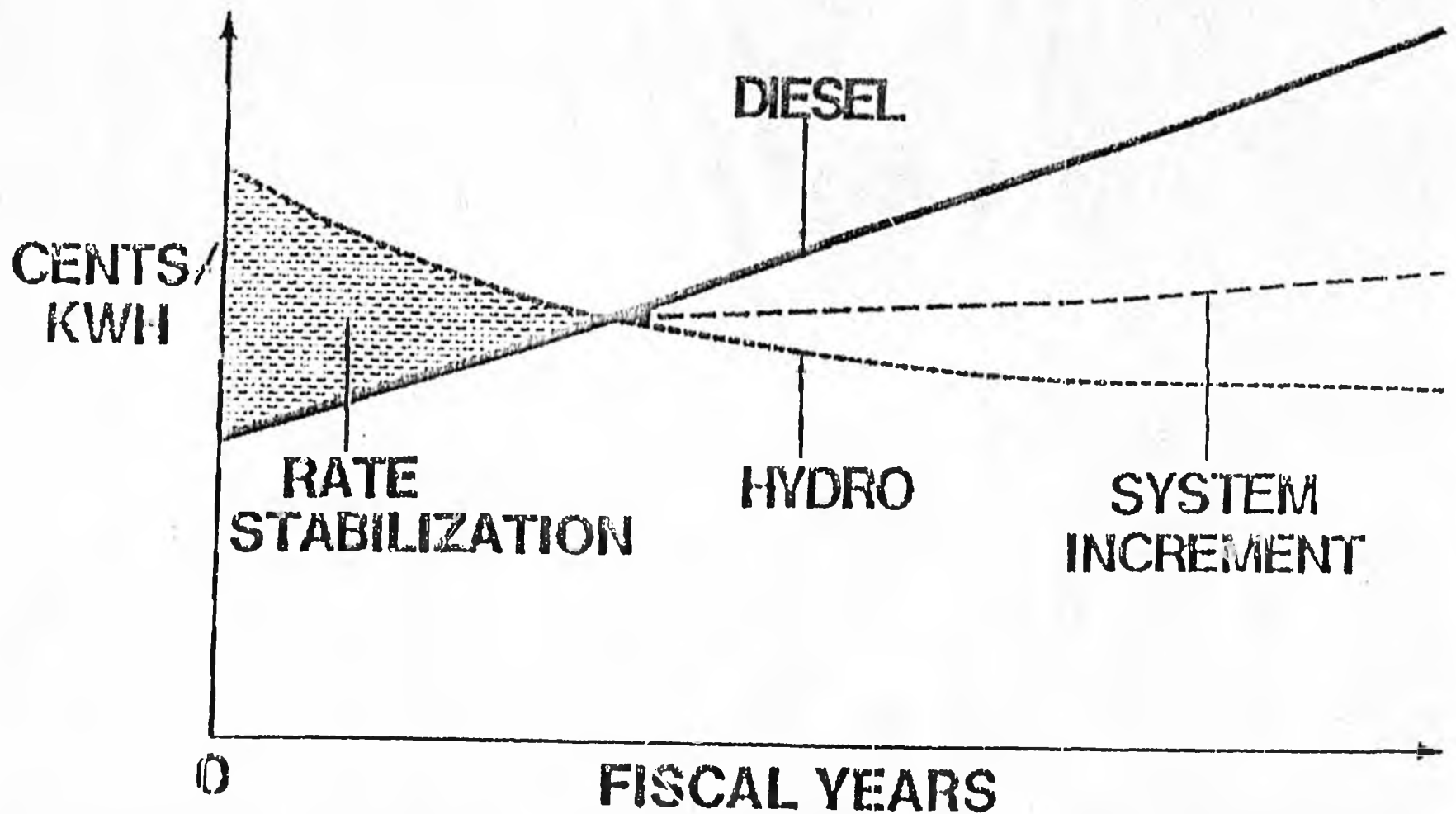
EXHIBIT H

RATE STABILIZATION FUND SCHEDULE**

<u>Fiscal Year</u>	<u>Copper Valley</u>	<u>Ketchikan</u>	<u>Kodiak</u>	<u>Petersburg</u>	<u>Wrangell</u>	<u>Total</u>
1985	\$3,167,486	\$3,114,153	\$4,701,936	\$1,115,967	\$1,160,650	\$13,260,192
1986	2,795,816	2,900,562	5,173,937	1,047,279	922,701	12,840,295
1987	2,464,771	2,607,345	4,474,900	471,433	1,134,154	11,152,603
1988	2,203,183	2,321,229	3,749,084	473,619	922,711	9,669,826
1989	1,560,540	1,920,336	2,776,647	354,398	826,998	7,438,919
1990	1,267,577	1,444,022	1,708,624	270,913	682,829	5,373,965
1991	975,502	890,397	546,722	---	511,810	2,924,431
1992	657,130	205,299	---	---	259,105	1,121,534
1993	298,906	---	---	---	54,142	353,048
1994	---	---	---	---	---	---
1995	---	---	---	---	---	---
	<u>\$15,390,911</u>	<u>\$15,403,343</u>	<u>\$23,131,850</u>	<u>\$3,733,609</u>	<u>\$6,475,100</u>	<u>\$64,134,813</u>

Subject to change to reflect actual par value of bonds and interest rates.

ALASKA POWER AUTHORITY COMPARATIVE COST OF POWER





ALASKA RURAL ELECTRIC COOPERATIVE
ASSOCIATION, INC.

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

February 29, 1984

The Honorable John Cowdery
Chairman, House Labor and Commerce Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

RE: House Bill 684 and House Bill 589

Dear Representative Cowdery:

The statutory changes in House Bill 589 and the appropriation in House Bill 684 are both essential to resolving the problems which exist in relation to "the four dam pool."

It is the position of our association, established by a unanimous vote of the directors on February 21, 1984, that both of these bills should be enacted as a part of a comprehensive package which also includes:

1. A major projects fund which assures funding of Watana and Bradley Lake, and
2. A permanent funding mechanism for the power cost assistance program for the high cost rural utilities.

We urge your committee to advance these bills to House Resources where such a package can be assembled.

Sincerely,

David Hutchens
Executive Director

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: HB 589
Title: Relating to the Alaska Power

Authority: _____
Sponsor: Governor
Requestor: _____
Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce & 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						
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 & Economic Development Date: 1/6/84

Approved by Commissioner: Richard A. Lyon Date: 2/6/84
Agency: Dept. of Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

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

12/1/83

Analysis:

HB 589

Page 2 of 2

Repeal of the "Susitna Clause" will remove the obligation that the State must appropriate \$5 billion to the Power Development Fund by 1991 in order to prevent triggering of a requirement that there be a 10 percent rate of return on power project investments.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 8, 1984

The Honorable Jalmar Kerttula
Alaska State Senate
Pouch V
Juneau, AK 99811

Dear Senator Kerttula:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the sale of power by the Alaska Power Authority. The bill amends portions of AS 44.83.398, which governs sale of power from projects in the energy program for Alaska. The amendments are necessary before power sales agreements can be signed and long-term financing can be put in place for the Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric projects -- the "four dam pool."

A section-by-section analysis follows.

Sections 1 (by amending AS 44.83.398(a)) and 5 (by repealing AS 44.83.398(d)) of the bill eliminate restrictions on industrial power rates that may be charged by utilities purchasing power from projects in the energy program for Alaska. The statute currently prohibits utilities from charging a retail power rate to industrial consumers that is less than the rate charged to residential consumers. The change allows utilities to offer a lower rate to large-volume consumers, or consumers who currently use their own generation sources, which should reduce the overall rate to all consumers. The authority has discussed with the utilities the use of fixed-term supply contracts with industrial users with the length of the contract limited so that, when usage of power from the hydroelectric facilities approaches capacity, more power will be available to residential consumers and they will not end up subsidizing industrial power rates.

Section 1 also provides for the combination of the Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric projects into one power project for the purposes of the wholesale power rate calculation in AS 44.83.398-(b)(1). This power project is referred to as the "initial project."

Section 2 deletes the "Susitna clause" in AS 44.83.398-(b)(2). Repeal of this provision is desired by both the authority and the purchasing utilities because of the potential effect on rates. It is also viewed as crucial to the long-term financing of the initial project and future projects in the energy program for Alaska. The rating services are reluctant to give a favorable rating to revenue bonds issued with this provision in place because of the possibility that ratepayers' rates could increase substantially in 1991. The rates could be high enough to reduce demand and revenues, thus jeopardizing the ability of the utilities to meet their payment obligations under the power sales contracts.


Section 2 also describes the method for determining the amounts to be allocated to each hydroelectric facility in the initial project. Under this combined system the facilities share the debt service for the entire project and there is a single cents-per-kilowatt-hour rate for debt service applicable to all four hydroelectric facilities in the initial project. The rate for costs of operations, maintenance, equipment replacement, safety inspections, and investigations is determined separately for each facility. The result is a different wholesale rate for each facility in the initial project, but a sharing of debt service which substantially reduces the wholesale rate for projects such as Lake Tyee.

Section 3 adds a sentence to AS 44.83.398(e) to allow the power authority to contractually limit the amount of debt service payable by power purchasers as a consequence of the later addition of new projects to the energy program for Alaska.

Section 4 removes the reference to the "Susitna clause" from AS 44.83.398(g).

Section 6 provides for an immediate effective date.

Sincerely,


Bill Sheffield
Governor

HB 589: "An act relating to the Alaska Power Authority; and providing for an effective date."

My name is George Matz. I am Special Assistant to Commissioner Richard A. Lyon for the Department of Commerce and Economic Development. I am representing Commissioner Lyon who regrets that he is not able to attend this hearing because of previous commitments in Washington, D.C.

There are four points that I want to make in my testimony:

- o First, HB 589 is essential to the power sales agreements and the long-term financing of the "Four Dam Pool."
- o Second, the long-term financing of the "Four Dam Pool" is essential to the Energy Program for Alaska.
- o Third, the power sales agreements now being negotiated by the Alaska Power Authority (APA) should be financable.
- o Fourth, the Department of Commerce and Economic Development supports the terms and conditions of the power sales agreements being negotiated by the APA.

To elaborate on these points, the Energy Program for Alaska was conceived by the Legislature in 1981 when it enacted Chapter 118, SLA 1981 (SB 25). After nearly three years of gestation, we are about to witness its birth as an operating power supply system. However, nearly \$200 million of interim financing must first be converted to long-term financing. How the financing occurs will determine the long-term health of the Energy Program for Alaska.

If revenue bonds are used for long-term financing, the Energy Program for Alaska will have overcome some prenatal illness and can look forward to a healthy life with ever more attractive power rates. Also, these initial projects can expect to be the parents of a family of power projects that serve the electrical needs of Alaska. Hopefully, with our improved diagnostic skills, we will prevent a recurrence of the problems previously experienced.

If long-term financing is based on additional State appropriations, the Energy Program for Alaska will draw nourishment from other State needs. Also, the program will not have demonstrated the ability to exist without 100% financial support from the State. This is not a good precedent for propagating additional power projects.

If the Energy Program for Alaska has neither revenue bond financing nor State appropriation, it will be stillborn. In financial terms that means the State would default on repayments of the interim financing.

As we approach the term of this gestation, we know that some assistance is needed to assure completion of long-term financing. Our bond counsel and underwriters warned us of some statutory problems that could impede the sale of revenue bonds. Also, the respective communities and utilities have stated that their participation is contingent on certain statutory changes.

As a result of this advice, the Governor has introduced HB 589 which includes the statutory changes required to meet the demands of both the bond buyer and the wholesale power buyer. The Administration considers each section of this bill to be essential.

The highlights of HB 589 are as follows:

1. Section 1 repeals the existing statutory requirement that industrial retail power rates can be no less than retail power rates to residential customers. This allows utilities to offer, if they wish, lower rates to large volume customers.
2. Section 1 and 2 allows the four projects that are part of the "Four Dam Pool" (Solomo Gulch, Swan Lake, Lake Tyee and Terror Lake) to be considered as one project. The significance of this is that the debt service portion of the wholesale power rate for each project will be unified rather than project-specific as currently required by the statutes. Project-specific allocation of debt service results in higher wholesale power rates for projects which are more costly and/or have unused capacity relative to other projects in the pool. However, new projects added to the Energy Program for Alaska will have project-specific rates.
3. Section 2 deletes the "Susitna clause" which otherwise would trigger substantial wholesale power rate increases for projects included in the Energy Program for Alaska. The possibility of this rate increase and the reduction that could occur in demand and revenues will have a decidedly negative effect on the ratings and interest rates of revenue bonds used for long-term financing of the "Four Dam Pool."
4. Section 2 includes a technical amendments which deletes "at the bus-bar" in order to remove ambiguity.
5. Section 3 protects the "Four Dam Pool" from the addition of new projects to the Energy Program for Alaska which could substantially increase their wholesale power rate.
6. Section 4 removes reference to the "Susitna clause" from definitions that apply to the Energy Program for Alaska.
7. Section 5, similar to Section 1, allows utilities to establish retail industrial rates that are less than residential rates.
8. Section 6 provides an immediate effective date.

HB 589 represents a tremendous amount of analysis and negotiating. All communities or utilities that are part of the "Four Dam Pool" have had extensive opportunity to partake in drafting the concept and the language of this bill. The Administration firmly believes that HB 589 represents the best resolution to a difficult problem and the best approach for leveraging further development of power projects in Alaska.

DRAFT

Original sponsor: Rules/Governor

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IN THE HOUSE

BY THE RESOURCES COMMITTEE

CS FOR HOUSE BILL NO. 589 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

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

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

* Section 1. AS 44.83.398(a) is amended to read:

(a) The authority shall sell power produced from power projects acquired or constructed under the energy program for Alaska. For purposes of this section, Lake Tvee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric facilities are considered to be one power project. This power project is referred to as the initial project [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].

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

(b) The authority shall establish a wholesale power rate structure applicable to sales of power to the [ITS] customers [AT THE BUSBAR] of a power project as follows:

(1) The authority shall establish and maintain a separate wholesale power rate applicable to each power project that it has acquired or constructed under the energy program for Alaska, other than a project described in (f) of this section. The wholesale power rate established by the authority for the initial project shall be a

1 rate calculated under this paragraph except that the portion of the
2 rate applicable to (A) and (C) of this paragraph shall be adjusted for
3 the hydroelectric facilities in the initial project as set out in (2)
4 of this subsection. The wholesale power rate shall be computed by the
5 authority annually, or more frequently as may be necessary, and shall
6 equal the rate that the authority estimates is necessary to produce
7 revenue that is sufficient to pay

8 (A) operation, maintenance, and equipment replacement
9 costs of the power project;

10 (B) the power project's proportionate share of the
11 debt service on state loans and bonds for all power projects in
12 the energy program for Alaska, determined in accordance with (g)
13 of this section;

14 (C) safety inspections and investigations of the power
15 project by the authority.

16 (2) If, by July 1, 1991, the legislature has not appropri-
17 ated at least \$5,000,000,000 to the fund, in addition to appropria-
18 tions to the fund of interest earned on money in the fund, the author-
19 ity shall, beginning on that date, establish and maintain a separate
20 wholesale power rate applicable to each power project that is acquired
21 or constructed under the energy program for Alaska. The wholesale
22 power rate shall be computed by the authority annually, or more fre-
23 quently as may be necessary, and shall be the greater of

24 (A) 10 percent of the amount the authority has in-
25 vested in the power project, including loans and grants made by
26 the state; or

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

29 (i) operation, maintenance, and equipment

1 replacement costs of the power project;

2 (ii) the power project's proportionate share of
3 debt service on state loans and bonds for all power projects
4 in the energy program for Alaska, determined in accordance
5 with (g) of this section; and

6 (iii) safety inspections and investigations of the
7 power project by the authority.

8 (3) For the purposes of determining amounts to be allocated
9 to each hydroelectric facility in the initial project under (1)(A) and
10 (1)(C) of this subsection, the authority shall determine for each
11 hydroelectric facility its individual operation, maintenance, equip-
12 ment replacement, safety inspection, and investigation costs.

13 * Sec. 3. AS 44.83.393(e) is amended to read:

14 (e) After determining the wholesale power rate for a power
15 project under the provisions of this section, the authority may adjust
16 the rate or change the rate provisions to insure that the revenue
17 derived from that power project and the aggregate revenues of the
18 authority will be adequate to comply with the rate covenants and other
19 agreements contained in any trust indenture or trust agreement entered
20 into by the authority for the security of the holders of bonds issued
21 to finance power projects in the energy program [ENERGY PROGRAM] for
22 Alaska. The authority may agree with a purchaser of power to limit
23 rate increases caused by debt service payable by the authority on
24 subsequent projects.

25 * Sec. 4. AS 44.83.398(g) is amended to read:

26 (g) For the purposes of (b)(1)(B) [AND (b)(2)(B)(ii)] of this
27 section, a power project's proportionate share of debt service on
28 state loans and bonds for all power projects in the energy program for
29 Alaska is equal to the state's investment in the power project divided

1 by the state's investment in all power projects in the energy program
2 for Alaska and multiplied by the debt service on state loans and bonds
3 for all power projects in the energy program for Alaska. In this
4 subsection

5 (1) "state's investment in the power project" includes all
6 state money invested in a power project, including loans, grants, and
7 proceeds from bonds, less the principal repayments on the project's
8 proportionate share of debt service on state loans and bonds;

9 (2) "state's investment in all power projects in the energy
10 program for Alaska" includes all state money invested in the power
11 projects, other than interties, in the energy program for Alaska,
12 including loans, grants, and proceeds from bonds, less the principal
13 repayments on bonds and state loans issued for the power projects.

14 * Sec. 5. AS 44.83.398(b)(2) is repealed.

15 * Sec. 6. AS 44.83.398(d) is repealed.

16 * Sec. 7. Sections 1 - 3 and 6 of this Act take effect immediately in
17 accordance with AS 01.10.070(c).

18 * Sec. 8. Sections 4 and 5 of this Act take effect upon approval by the
19 qualified voters of the state of an amendment to the constitution of the
20 State of Alaska that establishes a major projects fund and requires that a
21 portion of the major projects fund be used to finance construction of the
22 Watana Dam in the Susitna River hydroelectric project before any other
23 capital project is financed from the major projects fund.
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