

HR

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# ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

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April 24, 1984

Honorable John Ringstad  
Co-Chairman, Resource Committee  
Alaska State Legislature  
Pouch V (MS 3100)  
Juneau, Alaska 99811

Dear John:

Approximately 70% of Alaskans receiving central station electric service are served by consumer owned utilities which borrow from the Rural Electrification Administration. Mississippi with about 30% its population served by REA borrowers is the state with next highest utilization of REA. As you can see, REA is far more important to Alaska than it is to any other state.

REA has two electric loan programs. The guaranteed loan program provides generation and transmission loans at the cost of federal borrowing plus one-eighth of one percent. This is the program which could be used to finance part of the Susitna hydroelectric project. The insured loan program is used to make lower interest loans for part of the cost of electric distribution projects. This program is seriously threatened, and an expression of support from the Alaska Legislature at this time could be very helpful.

REA started out in the 1930's making direct loans from appropriated funds at 2% interest. In 1973, the direct loan program was converted to a revolving loan fund known as the insured loan program which makes loans usually at 5% interest. The outstanding loans were assigned to the fund as its capital for 20 years. Principal repayments don't revolve quickly enough to meet the capital needs of the borrowers, so REA has been authorized to borrow against its outstanding loans in order to make new loans. This worked well until interest rates went up. At the present time, interest expenses of the fund exceed its interest income. The fund is obviously in trouble unless some changes are made quickly.

DEMOCRACY IN ACTION

After an extensive study of the problem, our national association recommended legislation which would balance the income and expenses of the fund by floating the interest rates on new loans depending on the money market. Under current conditions, this approach would produce interest rates of approximately 6.5% to 7%. This legislation also would keep the fund capitalization of \$7.9 billion in the fund beyond the original 20 year period which expires in 1993. Of special interest to Alaska, this legislation also provides for lower interest rates in hardship cases which are redefined for the first time to include the high cost areas of rural Alaska.

The House version of this legislation is H.R. 3050, and it passed the House by a vote of 283-111 on March 1st. The Senate bill is S. 1300, and it has gone through hearings in the Senate Agriculture Committee's Subcommittee on Agricultural Credit and Rural Electrification. The bill needs to go through mark-up and on to the floor soon if it is to become law this year.

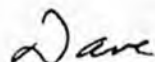
Unfortunately, some elements in the Reagan Administration, apparently led by David Stockman in OMB, contend that REA has "finished its job" and should be terminated. They don't seem to understand that every utility has a continuing need for funds for growth and redevelopment.

The REA borrowers were organized to serve needs which were not otherwise being met. They have been successful in doing their job with REA loans, but they do not have access to the tax exempt bond market like municipal utilities, and they do not have the financial strength to obtain financing like the large investor owned utilities. If REA is in fact terminated, this will result in real hardship for the people throughout rural America and for about 70% of the people of Alaska.

On April 12th, Administration spokesman submitted a substitute for S. 1300. This proposal does absolutely nothing to resolve the problems facing REA, and it would in fact speed the demise of REA. Its density criteria would have the immediate effect of prohibiting 11 of Alaska's 14 REA borrowers from receiving future REA loans.

That is where we are today, and anything you can do with the Administration and with Senators Stevens and Murkowski to gain support for speedy passage for S. 1300 will be very important for Alaska.

Sincerely,



David Hutchens  
Executive Director

DH/cf