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exceed the amount required for construction of it, the excess lapses into the general fund. (AS 44.83.460; § 1 ch 118 SLA 1981)

Editor's notes. — As enacted, this section was designated AS 44.83.460 and was renumbered by the revisor of statutes under AS 01.05.031.

Sec. 44.83.394. Revenue requirements. [Repealed, § 27 ch 89 SLA 1983.]

Sec. 44.83.396. Operation of power project. (a) A power project that is acquired or constructed as part of the energy program for Alaska is owned, and shall be administered, by the authority.

(b) When a power project has been acquired or constructed by the authority, the project may be operated for the authority under a contract or lease entered into by a qualified utility and the authority.

(c) The authority shall enter into a contract or lease under reasonable terms and conditions to permit the applicant utility to operate the power project when the applicant utility is the only wholesale power customer to be served directly by the power project unless the authority determines a utility making application for a contract or lease to operate a power project is not a qualified utility or is not capable of operating that power project efficiently and in a manner that is consistent with national standards for the industry and with agreements with bondholders.

(d) The authority shall adopt regulations to determine the manner of selecting a qualified utility to operate a power project under a contract or lease when there is more than one wholesale power customer to be served directly by the power project.

(e) When the authority permits a power project to be operated by a qualified utility under a contract or lease, the authority shall

(1) review and approve the annual budget for the operation and maintenance of the power project; and

(2) assure that the project is being operated efficiently and in a manner that is consistent with national standards for the industry and agreements with bondholders. (AS 1 ch 118 SLA 1981; am §§ 17 — 19 ch 89 SLA 1983)

Effect of amendments. — The 1983 amendment, effective July 22, 1983, deleted "by the state" following "is owned" in subsection (a), inserted "a qualified utility or is not" near the end of subsection (c), added the language beginning "efficiently and in a manner that is consistent" to the end of subsection (c), added "and" to the end of paragraph (1) of subsection (e), and added "and agreements with bondholders" to the end of paragraph (2) of subsection (e).

Editor's notes. — As enacted, this section was designated AS 44.83.480 and was renumbered by the revisor of statutes under AS 01.05.031.

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

chases power produced by a power project of the authority shall agree with the authority

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

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

(b) The authority shall establish a wholesale power rate structure applicable to sales of power to its customers at the busbar of 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 shall be computed by the authority annually, or more frequently as may be necessary, and shall equal the rate that the authority estimates is necessary to produce revenue that is sufficient to pay

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

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

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

(2) If, by July 1, 1991, the legislature has not appropriated at least \$5,000,000,000 to the fund, in addition to appropriations to the fund of interest earned on money in the fund, the authority shall, beginning on that date, establish and maintain a separate wholesale power rate applicable to each power project that is acquired or constructed under the energy program for Alaska. The wholesale power rate shall be computed by the authority annually, or more frequently as may be necessary, and shall be the greater of

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

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

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

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

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

(c) The authority shall transmit all the money that it receives under (a) of this section to the commissioner of revenue for deposit in the state general fund except for money it has pledged or otherwise covenanted to secure bonds.

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(d) A rate for an industrial consumer under (a)(2) of this section
 (1) may exceed the wholesale power rate determined under (b) of this section;

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

(e) After determining the wholesale power rate for a power project under the provisions of this section, the authority may adjust the rate or change the rate provisions to insure that the revenue derived from that power project and the aggregate revenues of the authority will be adequate to comply with the rate covenants and other agreements contained in any trust indenture or trust agreement entered into by the authority for the security of the holders of bonds issued to finance power projects in the Energy Program for Alaska.

(f) The provisions of (b) of this section do not apply to an intertie that is authorized as a separate project under AS 44.83.380. The authority shall establish and maintain separate power rate schedules applicable to each intertie that it has acquired or constructed as a separate power project under the energy program for Alaska. The power rate schedules shall produce sufficient revenue from utilities connected by the intertie to pay (1) operation, maintenance, and equipment replacement costs of the intertie; (2) debt service of the intertie; and (3) safety inspections and investigations of the intertie by the authority. If the authority determines that an intertie has ceased to function as a separate project and has become a part of one or more other power projects as a transmission line, the power rate schedules established under this subsection shall be terminated and a wholesale power rate applicable to the former intertie calculated under (b) of this section for the project or projects of which it has become a part.

(g) For the purposes of (b)(1)(B) and (b)(2)(B)(ii) of this section, a power project's proportionate share of debt service on state loans and bonds for all power projects in the energy program for Alaska is equal to the state's investment in the power project divided by the state's investment in all power projects in the energy program for Alaska and multiplied by the debt service on state loans and bonds for all power projects in the energy program for Alaska. In this subsection

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

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

(h) Notwithstanding (g) of this section, in the 1983 state fiscal year the proportionate share of debt service under (b) of this section, expressed as a rate, for a power project for which a construction

contract has been awarded before the effective date of this Act may not exceed the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska. The limit imposed by this subsection shall be increased in the 1984 state fiscal year to four percent above the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska and by an additional four percent above that average in each succeeding state fiscal year. If application of this subsection results in the production of insufficient revenue to pay the total debt service for all projects in the energy program for Alaska, a project that does not have its share of debt service limited under this subsection shall be subject to a rate in addition to the rate established under (b) of this section. The additional rate is the rate that the authority estimates is necessary to produce revenue that is sufficient to pay the difference between the total debt service for all projects in the energy program for Alaska and the revenue actually produced to pay that debt service, multiplied by a fraction whose numerator is the total cost of the project and whose denominator is the total cost of all of the projects that are subject to the additional rate. In this subsection, "projects in the energy program for Alaska" does not include an intertie that is authorized as a separate project as described in (f) of this section. (§ 1 ch 118 SLA 1981; am §§ 13 — 16 ch 133 SLA 1982; am §§ 20 — 23 ch 89 SLA 1983)

Effect of amendments. — The 1982 amendment, in subsection (b), substituted "a power project" for "the power project" in the introductory language, substituted "separate" for "single" and "each power project" for "all power projects" in the first sentence of paragraph (1), added "other than a project described in (f) of this section" to the end of the first sentence of paragraph (1), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (1), substituted "power project" for "power projects" in subparagraph (1)(A) and (C), added "the power project's proportionate share of the" to the beginning of subparagraph (1)(B), substituted the language beginning "on state loans and bonds" for "of the power projects" in subparagraph (1)(B), substituted "separate" for "single" and "each power project that is" for "all power projects that it has" in the first sentence of paragraph (2), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (2), substituted "power project" for "power projects" in subparagraph (2)(A) and (2)(B)(iii), and substituted the present provisions of subparagraph (2)(B)(ii) for the former provisions, which read: "debt service of power

projects by the authority; and." In subsection (c), the amendment substituted "under (a) of this section" for "under (b) of this section" and "money it has pledged to secure bonds in accordance with contracts with bondholders" for "the money it receives under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii), or the money it would have received under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii) of this section if those items had been used in part to establish the wholesale power rate in effect at the time the money is received by the authority." In subsection (e), the amendment substituted "a wholesale" for "the wholesale" and "or (f)" in the first sentence and added the second sentence. The amendment also added subsections (f) — (h).

The 1983 amendment, effective July 22, 1983, substituted "July 1, 1991" for "July 1, 1986" near the beginning of paragraph (2) of subsection (b), substituted "or otherwise covenanted to secure bonds" for "to secure bonds in accordance with contracts with bondholders" at the end of subsection (c), rewrote subsection (e), and added the last sentence of subsection (h).

Editor's notes. — As enacted, this section was designated AS 44.83.490 and was renumbered by the revisor of statutes under AS 01.05.031.

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Legislative Digest

A Forecast and Review

January 28, 1984
No. 3/84

Legislative Directory Inside:

"FOUR DAM" HYDRO FOUNDATION

The Alaska Power Authority (APA) was created as an independent state agency in the late 1970's to finance, construct, and manage power projects in Alaska. The largest project underway has been labeled the four-dam pool or "lake tap" project. This pool of hydroelectric projects is the expected foundation for the Energy Program for Alaska and its success or failure will set the stage for future financing of energy projects in Alaska.

The Energy Program for Alaska was created at a time when state revenues were high, to provide low cost energy to Alaskan's by building a series of hydro-electric projects. The four dams were put into a pool because they were all scheduled to come on line at approximately the same time. Swan Lake-Ketchikan, Tye Lake-Petersburg and Wrangell, Terror Lake-Kodiak, and Soloman Gulch-V&idez, are the four dams included in the \$462.5 million project.

The state provided \$282 million in grants to begin these projects, and the APA secured short term financing totaling \$179 million to complete them. The APA is now in an uncomfortable position. Notes fall due in May 84 - \$35 million for Swan Lake, Oct. 84 - \$50 million for Tye, Jan. 85 - \$115 million for Terror Lake, and as things now stand there is no solution in hand to meet these payments.

Larry Crawford, Director of the APA, feels that securing long-term revenue bonds is to be the best route for meeting these commitments. The bonds would be paid off in 35 years by the utilities purchasing power from the four-dam project. In order to find investors willing to finance the bonds, the APA must have firm guarantees which could be either power sales agreements with the utilities involved or additional state support. (continued page 8)

Governor's "Major Projects" Fund

The Governor has introduced legislation to create a major projects fund for construction of capital projects exceeding \$100 million. The fund comes from an annual 10% deposit from a number of revenue sources. Passage of HJR-32 is questionable this year since other dedicated fund projects such as cash-based budgeting are being considered. The legislature can only cubbyhole so much money, an idea which seems to go against the original thesis of the Alaska Constitution. There also seems to be opposition to the \$100 million figure. An alternative that may fly is creation of a program which would provide for projects needing multi-year funding, perhaps providing more statewide appeal.

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Rural Affairs

Energy Still Major "Rural Problem"

A continuing problem exists in rural Alaska, namely high energy costs. Ongoing studies are being conducted on how to lower rural power costs, which are extremely high due to the dependency on diesel fuel for generation. Rural legislators feel that heavy direct and indirect subsidies of hydro projects justify rural areas receiving grants and low cost loans for diesel. In the FY-85 budget the Power Cost Assistance Program, which provides a subsidy for rural power costs by the APA, has been funded at \$7.1 million, nearly one million short of last years appropriation. The apparent shortfall will be made up with \$ 2 million in funds carried forward from last year, making \$9.153 available for FY85. Another program which aids rural residents is the Weatherization and Energy Assistance program, under CRA. The Governor has funded this at \$5.7 million, comparable to last years level. Funding is also found in the governor's capital budget that addresses rural energy problems. It is unsure at this time what plans rural legislators will take to tackle this ongoing problem - what appropriations they may have slated for the budget.

Capital Budget Requests - Governor (m)-million, (t)-thousand,

Rural Electrification - \$3.2 (m), for the construction of one small electrification project in Old Harbor or Larsen Bay.

Statewide Rural Power Plan - \$505 (t), preparation of statewide rural electrification plan.

Waste Heat Recovery - \$1.1 (m), for design of waste heat facilities in several communities, construction of waste heat facility in Hooper Bay or Tanana.

Rural Energy Reconnaissance - \$250 (t) reconnaissance studies, to provide lower cost electrical energy to residents of rural Ak., in appx. 8 communities.

Regional Feasibility Program - \$505 (t), will complete one phase of study in Bristol Bay and Lower Kuskokwim, best alternatives to meet energy needs.

Local Gov't

Knowles Asks For \$183 Million

Anchorage Mayor Tony Knowles addressed Anchorage legislators last week with his list of municipal capital requests. The figure totals \$183 million, of which the top priority is roads. Knowles listed ongoing basic community projects, begun by his administration, as his number two priority with the balance of the request for neighborhood and community improvements. The transportation request totals \$61.8 million. Requests for utilities total \$77 million, included in that request is \$51 million for the Eklutna Water Project. Eleven million is requested for public safety projects and a total of \$32 million for neighborhood/community improvements. There is concern by the Knowles administration over the Knik Arm Crossing. Municipal officials fear that all federal and state highway assistance will go to construction of the Knik Arm Crossing instead of local road improvements. There is five million in the Governor's capital budget this year to begin construction of off ramps for the Knik crossing.

State Land Impact Bill

SB-361, by Kerttula, provides for impact payments to be made to municipalities at a rate of \$200 an acre for each acre of state owned land sold, within their boundaries, during the previous quarter. The legislation provides this partial compensation to municipalities for the impact the sale of such land has on the cost of providing municipal services. The Department of Natural Resources would be required to complete an assessment of land sold and payments due each quarter.

Municipal Exemption Of Vehicals

A bill which would allow municipalities to exempt or partially exempt motor vehicles from taxation has been introduced in both bodies. SB-367 and HB-537, would amend Title 29, the municipal code, which now makes it mandatory that municipalities tax motor vehicles. Some municipalities were grandfathered under this law, such as Juneau, and are not forced to impose this tax.

Four Hydo Financing In "Limbo" (Continued from page one)

The APA has not yet been able to secure power agreements with Petersburg or Wrangell, the main reason being that power rates anticipated from the dam project are estimated to be 40 per cent higher than current power rates in those communities. Rates are higher because the projected surge of oil prices never materialized. It may be the mid 1990's before diesel generation will equal the cost of Tye power. Rates have also risen as a result of increased construction costs of Tye. The original estimate for Tye was \$45 million, which has risen to \$115 million.

Wrangell residents, who depend solely on diesel generation, seem more willing to sign power sales agreements if their rates would stay substantially the same. To achieve this the APA is examining the implementation of rate stabilization. Rate stabilization is basically a state subsidy of power costs, establishing an entry rate which would increase gradually with inflation. The state would pay the remaining costs of generation, which could run as high as \$50 million for this project. Once the debt was paid off, any dollars over the cost of generation would be returned to the state. *check legislation - mechanism for doing this?*

Another problem in the attempt to bond is the Susitna Equity or Blackmail clause. This clause was passed by the Legislature in an attempt to insure that Susitna would remain in the Energy Program for Alaska. The legislation specifies that if \$5 billion is not appropriated by 1991 to build Susitna, then state grants to other energy projects must be repaid to the state at a rate of 10%. Investors are not likely to purchase bonds with that clause looming over them or will communities feel safe signing power sales agreements until it is repealed.

If the APA cannot sell revenue bonds to pay off the \$200 million debt, there are two basic options the state will have. The Legislature could opt to bail them out with either a capital appropriation or a state loan agreement perhaps to be paid off at some future date. Additional state support, bringing the total to \$452 million, would put enough equity into the project to make a bond sale likely. The other option left to leaders is allowing the APA to default. Default by APA could have a reflection on the future bond rating of the state and its subsidiary institutions, including many local governments. If the APA cannot find a solution by May it is clear that the Governor and the Legislature will have to prudently weigh the options they have. The nature of those decisions will in all likelihood shape the future of energy project development in Alaska.

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(Annual Session)

Name _____

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Status Of Bills

House Resolutions

--HJR-55, Am. Const. Legislators Pay,
(by Clocksin).....SA & JUD
--HR-10, H Special Comm. Vet. Affairs,
(by Furnace).....SA & FIN
--HJR-57, Am. Const. Cap. Projects Fund
(by Governor).....SA & FIN

Key House Bills Introduced

--HB-524, Constitutional Spending Limit,
(by Adams).....JUD & FIN
--HB-525, Leg. Immunities and Privileges,
(by Flood).....SA & JUD
--HB-526, Man. Plans, Regs. Bd. of Fish,
(by Malone).....HSF & RES
--HB-529, Vet. Discount State Lands,
(by Uehling).....RES & FIN
--HB-530, Juvenile Waiver Bill,
(by Pestinger).....JUD & FIN
--HB-531, Primary Elections,
(by Wendt).....SA
--HB-533, Legislative Ethics,
(by Pestinger).....SA & FIN
--HB-534, Pay Atty. Fees, Leg. Approp.,
(by M.M. Miller).....SA & JUD & FIN
--HB-535, Group Life Ins. State Emplys.
(by Schultz).....L&C FIN
--HB-536, Approp. Bond Debt Service,
(by Governor).....HSL & FIN
--HB-537, Mun. Exempt Motor Veh. Tax,
(by Grussendorf).....CRA
--HB-540, Claims Contractor's Bonds,
(by Bettisworth).....L&C
--HB-541, Patent To Homesites,
(by Duncan).....RES & FIN

House Committee Action

--HB-430, Presidential Primary Repeal,
SA "DO PASS".....to JUD
--HB-452, Nome Port Facility,
TRANS "DO PASS".....to FIN
--SB-269, Chevron Royalty Oil Contract,
RES "DO PASS".....to FIN
--HB-320, Tesoro Royalty Oil Contract,
RES "DO PASS".....to FIN
--HB-371, Tesoro Prudhoe Bay Contract,
RES "DO PASS".....to FIN
--HB-430, Presidential Primary Repeal,
FIN "DO PASS".....to RLS
--HB-478, Perm. Fund Dist. Program,
SA "DO PASS".....to FIN
--2ndSSHB-487, Crime Lab Fac., Anch.,
SA "DO PASS".....to JUD
--HB-445, Attorney Fees,
JUD "MIX REC".....to RLS

Senate Committee Action

--SJR-29, Pulp Mill Variance Request,
RES "DO PASS".....to RLS
--HB-514, Regulation of Private Schools,
HESS "MIX REC".....to RLS
--HB-516, Permanent Fund Dividends,
SA "DO PASS".....to FIN
--HB-452, Nome Port Facility Approp.
FIN "DO PASS".....to RLS

Senate Resolutions

--SJR-32, Am. Const. Cap. Projects Fund
(by Governor).....JUD & FIN

Key Senate Bills Introduced

--SB-357, Bd. of Fisheries, Regs/Plans,
(by P. Fischer).....+.....RES & FIN
--SB-358, Exp. Date Ag. Action Council,
(by Kerttula).....RES
--SB-359, Compensation of Legislators,
(by Pettyjohn).....SA & FIN
--SB-360, Checking Accounts,
(by Ray).....L&C
--SB-361, Impact Payts. to Municipalities
(by Kerttula).....CRA & FIN
--SB-362, Scholarship Loan Program,
(by Kerttula).....HESS
--SB-363, Child Abuse,
(by Rodey).....HESS & JUD
--SB-366, Protection of Forested Land,
(RLS by Req. Gov).....RES
--SB-367, Exempt Motor Veh. Tax,
(by Eliason).....CRA & FIN
--SB-368, Attachment Pension Benefits,
(by Governor).....HFSS & FIN
--SB-369, Agri. and Forestry Facilities,
(by Kerttula).....RES & TRAN
--HB-370, Railroad Acquisition,
(by Governor).....TRAN & FIN
--HB-371, Mining,
(by Fahrenkamp).....RES & FIN
--SB-373, Asbestos Health Hazard Program
(by Josephson).....HESS & FIN
--SB-374, Approp. Asbestos Program,
(by Josephson).....HESS & FIN
--SD-375, Land Disposal and Management
(by Fahrenkamp).....RES & FIN
--SB-376, Power Cost Assistance,
(by Sackett).....CRA & FIN

House Committee (Cont'd)

--SJR-29, Pulp Mill Variance Req.,
RES "DO PASS".....to RLS
--SB-312, Office of Public Advocacy,
JUD "DO PASS".....to FIN

****PLEASE NOTE****

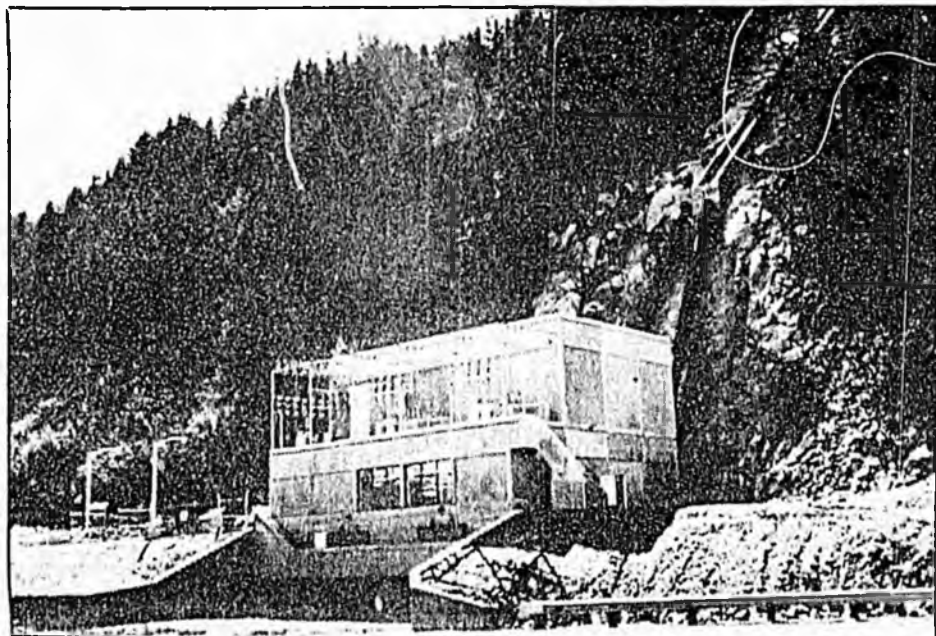
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energy program for alaska newsletter



the four project pool

december, 1983



Alaska State Legislature

Advisory Council Members

Senator Kerttula, Chairman
Senator Bennett
Senator Fahrenkamp
Senator Vic Fischer



Pouch V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: All Senators

FROM: Kurt S. Dzinich *KSD*

DATE: February 13, 1984

RE: Alaska Power Authority Board Meeting

For your information, the APA Board met on February 9, 1984, in Anchorage, to act on various items of the agenda, copy attached. Following are highlights of the full Board meeting:

1. Business. The minutes of the previous Board meeting were approved.
2. Action Items.
 - A. Four-dam pool update. Based on the two days of negotiations between APA staff and four-dam pool utilities held on February 6 and 7, 1984, in Anchorage, the Executive Director briefed the Board on the current status and proposed schedule to resolve the outstanding issues. The two major unresolved issues deal with the system increment costs and risks due to a potential default by one of the member utilities.

The system increment problem centers on the impact of a potential new project on the existing system rates i.e. the communities are concerned that a new project could increase their debt service thereby resulting in higher electricity rates. APA staff has offered a capping mechanism but the communities would like to see it lower yet.

The second major issue deals with minimizing the risk of a default by a member of the pool thereby resulting in increased rates to remaining members. Both of these issues will be addressed on February 21, 1984, in Juneau, in time

to hopefully allow the Board to approve the agreement at their February 22, 1984, meeting, also in Juneau.

According to Larry Crawford, the choice to communities is to stay with their present system (mostly diesel) or go to the hydropower. Based on the offer, going to hydropower represents the better choice.

Whether or not the power sale agreements go into effect would be contingent on the Legislature appropriating \$35 million for the Rate Stabilization Fund (RSF) and passing legislation requested by the Governor (SB423). Based on the rather modest load growth and oil price forecasts, the rate stabilization would not be needed after about 1992-1994, depending on the project. The wholesale rates in 1985 dollars would be as follows:

<u>Community</u>	<u>1985</u>	<u>1995</u>
Valdez	7.54¢/KWH	7.36¢/KWH
Ketchikan	8.50¢/KWH	6.67¢/KWH
Kodiak	7.66¢/KWH	5.56¢/KWH
Petersburg	8.96¢/KWH	8.39¢/KWH
Wrangell	9.35¢/KWH	8.39¢/KWH

The 1985 hydro rates are essentially equal to the alternative rates now being charged.

Jin Seagraves of Beck Engineering briefed the Board on how the analysis was performed and rates derived. Tony Dean of Nuveen then covered the details of financing and power sale agreement. He took special note to point out that contracts are now take and pay (utilities only pay if APA can deliver) as opposed to earlier versions of hell and high water (utilities pay regardless of power deliveries). Tony further noted that the current bond rates of about 10% look very favorable and expressed his concern that delays in reaching an agreement could result in higher interest rates due to the continuing national budget and trade deficits as well as the historical response to the general election.

Attached for your information are copies of some of the briefing material used by the Executive Director.

- B. Proxy Voting. Action was deferred on this item.
- C. Committee Process. Action was deferred on this item.
- D. Contracting Authority Delegation. Action was deferred on this item.

3. Information Items. None.

4. Other Business.

Public Comment.

- Don Koenig, Mayor of Petersburg, testified on the ongoing negotiations and expressed his concern that they were moving too fast and that all the alternatives had not been explored fully. He agreed that hydro was the correct choice and indicated that Petersburg would not stand in the way of the agreement.
- Dave Hutchens of ARECA indicated that two of the utilities, who are members of ARECA, are reasonably satisfied with the proposed agreements despite a couple of issues remaining to be resolved.
- The next APA Board Meeting is scheduled for February 22, 1984, in Juneau. On February 21, 1984, the APA staff and utilities will meet and try to resolve the remaining issues in order for the Board to be able to approve the agreement on the following day.

Alaska Power Authority
Board Meeting
Anchorage Westward Hilton
Alaska Room
Anchorage, Alaska
February 9, 1984, 9:00 A.M. - 4:00 P.M.

Agenda

1. Old Business

Approval of minutes of January 25, 1984 Meeting.

2. Action Items

A. Discussion of Power Sales Agreements - Terms and Conditions.

B. Proxy Voting

C. Committee Process

D. Contracting Authority Delegation

3. Information Items

None

4. Other Business

Public Comment

Any other business that may properly come before the committee.

Next scheduled Board Meeting - February 22, 1984,
Juneau, Alaska - 9:00 A.M..

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.

ADVANTAGES OF THE OFFER

- ATTRACTIVE POWER RATES
 - EARLY COST COMPARABLE TO DIESEL THROUGH RATE STABILIZATION FUND
 - FUTURE COSTS LESS THAN PROJECTED DIESEL COSTS
 - LIMIT ON FUTURE RATE INCREASES DUE TO ADDITIONAL PROJECTS
 - UNLIMITED BENEFIT OF FUTURE PROJECTS
- PREDICTABLE POWER RATES
- MAJOR RISKS AVOIDED BY PURCHASER
 - INSULATION FROM WORLD OIL PRICES
 - POWER AUTHORITY ISSUES DEBT/MORAL OBLIGATION
 - RESERVE FUNDS ESTABLISHED BY BOND PROCEEDS
 - EXTENSIVE RISK AND BUSINESS INTERRUPTION INSURANCE
 - ADJUSTMENT TO COSTS FOR FAILURE TO DELIVER POWER

ADVANTAGES OF OFFER - CONTINUED

- POOLING OF REQUIREMENTS
 - REDUCED RESERVE ACCOUNTS
 - REDUCED INSURANCE PREMIUMS
 - POOLING OF EQUIPMENT/PERSONNEL

- COMMUNITY BENEFITS
 - AVAILABILITY OF ADDITIONAL RELIABLE POWER FOR GROWTH
 - LOCAL PROJECT OPERATION/MAINTENANCE
 - COMMUNITY BONDING CAPACITY AVAILABLE FOR REQUIRED UTILITY ADDITIONS AND IMPROVEMENTS

COMPARATIVE ANALYSIS - POWER GENERATION

• EXISTING DIESEL POWER

- REQUIRES NEW GENERATORS AND LINES
- FUEL COST SUBJECT TO ESCALATION

• HYDROELECTRIC

- SUBSTANTIAL ADDITIONAL POWER AVAILABLE
- MAJOR COSTS NOT SUBJECT TO INFLATION
- REDUCED COSTS WITH INCREASED UTILIZATION

COMPARATIVE ANALYSIS - POWER SALES AGREEMENTS

EXISTING AGREEMENTS

- ALLOW RATE OF 12¢/KWH IN 1982 PLUS A 4 PERCENT/YEAR
- ALLOWS INCREASED RATES FOR FUTURE PROJECTS
- MUST PAY REGARDLESS OF POWER DELIVERY
- LIMITED BUDGET PARTICIPATION
- NO YEAR END COST ADJUSTMENT

AGREEMENT OFFERED

- DEBT SERVICE RISK POOLED AMONG FOUR PROJECTS
- RATE STABILIZATION ACCOUNT PROVIDED
- LIMIT ON RATE INCREASE FROM FUTURE PROJECTS
- DOES NOT REQUIRE PAYMENT IF PROJECT CANNOT DELIVER SCHEDULED POWER
- EXTENSIVE STRUCTURED BUDGET PARTICIPATION PROCESS
- PROVIDES FOR ANNUAL COST ADJUSTMENT TO REFLECT ACTUAL POWER DELIVERED

COMPARATIVE ANALYSIS - PREVIOUS OFFER

- RATES
- SYSTEM INCREMENT
- OPERATION AND MAINTENANCE

LEGISLATIVE CHANGES

- REPEAL SUSITNA CLAUSE
- LIMIT IMPACT OF NEW PROJECTS ON DEBT REQUIREMENT
- ALLOW INDUSTRIAL RATE MAKING
- CLASSIFY EXISTING PROJECTS AS ONE
- APPROPRIATION OF RATE STABILIZATION AMOUNTS

*energy program for Alaska
*4-dam pool
*Susitna / Kentco
*legislation

rec. 2/12/84

ALASKA POWER AUTHORITY
Legislative Briefing
Senate Resources, State Affairs, and Labor and Commerce Committees
Presented By
Larry D. Crawford, Executive Director

INTRODUCTION

The State of Alaska's direct participation in the development of power projects is unique when compared to the other 49 states. This uniqueness lies both in the extent to which the State finances public power projects and in the absence of both interstate and intrastate power grids in Alaska that would permit the transfer of electricity throughout the State or to and from other States and Canada.

Much of Alaska remains undeveloped or underdeveloped, with no statewide or regional electrification program. The Power Authority is attempting to fill this void, but the power supply planning process is an evolving one, and the Power Authority, together with the Administration and the Legislature, is still developing policies and procedures to meet electrical energy needs throughout the State as equitably and economically as possible. It should be noted that it has been difficult to develop a statewide electrification program, as the Power Authority's efforts have been limited by staff and budget.

Sound power project development is contingent on good power supply planning. Electric power supply planning in Alaska has not been well defined and has not been fully integrated with local and regional electrical system planning. Therefore, the Power Authority is proposing to prepare a long range electrification plan for the State to be reviewed and updated annually.

Long range planning by the Power Authority will conform to State policy, which is to develop Alaska's energy resources to strengthen and diversify the economy and improve the standard of living by providing electrical energy at the lowest reasonable economic, social and environmental costs, with an emphasis on local and renewable resources. In many cases hydroelectric projects have been found to be the most economic and viable long term power supply option. Nevertheless, a critical problem with hydroelectric projects is their high construction costs which, coupled with comparatively low utilization in the early years, typically causes wholesale power rates to be higher than the cost of electricity from thermal sources in the early project years. This makes it extremely difficult for a single utility, or even a consortium of utilities, to embark on a hydroelectric project, even when it proves to be the most economic power supply source over the life of that project.

Higher initial power costs are offset through legislative appropriations that directly fund a portion of the cost of a project. Administered by the Power Authority, these appropriations reduce the amount of capital that must be borrowed for the development of power projects. This, in turn, directly lowers the wholesale cost of electricity compared to the cost if the power project were entirely debt financed. But power project financing is just one of the ongoing responsibilities -- although a major and highly visible activity -- of the Power Authority.

MANDATE

The Power Authority is authorized by the Legislature to conduct reconnaissance and feasibility studies; issue bonds and administer other loan and grant programs; design, construct, and operate power projects; and enter into contracts for power sales. The extent of the Power Authority's involvement in any power project depends on local needs, resources and preferences, project financial requirements, and State budget considerations.

This authority, granted by the Legislature through the establishment of the Power Authority as a public corporation in 1976 (AS 44.56.030), has been amended and its responsibilities expanded through subsequent legislation. In meeting its legislative mandates, the Power Authority identifies, evaluates, develops, and operates electrical power production and conservation facilities throughout Alaska, utilizing the most appropriate technology -- except nuclear generation -- from among those commercially available.

GOALS AND OBJECTIVES

The goal of the Power Authority, consistent with its legislative mandate and the Administration's stated policy for natural resource management, is the orderly and economic development of hydroelectric, fossil fuel, coal, geothermal, and other electrical energy resources in order that they may contribute in a substantial way to the economic vitality of the State.

Specific objectives for the remainder of FY 1984 are shown in Attachment 1. Objectives for FY 85, shown in Attachment 2 are contingent upon the level of funding received by the Power Authority.

ORGANIZATION

The Power Authority, initially funded and staffed in 1978, is governed under executive and legislative oversight by a seven-member Board of Directors appointed by the Governor. The Board includes four members of the Governor's Cabinet and three public members. An Executive Director, currently Mr. Larry D. Crawford, is responsible for the day to day management of the Power Authority. The agency is currently undergoing a management review designed to increase its operating efficiency and provide recommendations for power supply planning.

The Power Authority's organizational structure is designed for the effective development and administration of programs and projects that fall under its purview, including power project development and the operation of completed projects. The full development of a power production project involves a five step process designed to meet local, regional, and statewide electrical energy needs.

PROJECT DEVELOPMENT PROCESS

Step one of the development process is a reconnaissance study to assess the electrical energy and space heating needs of a region or community. The reconnaissance study identifies those power supply options that merit more detailed evaluation.

Next, a feasibility study, based on reconnaissance study recommendations, is conducted to analyze the technical, economic, social and environmental viability of the power supply plan in question. The result of the feasibility study is a recommendation for the best electrical energy supply alternative for the region or community to be served. After the best project alternative is determined to be economically and financially feasible, a financing plan is submitted to the Legislature for approval. Statutory mandates state that design work cannot begin until the Legislature authorizes the project and new Power Authority policy also dictates that any substantial design work will not be initiated on new projects until power sales agreements are signed.

After legislative approval comes licensing and design. Major projects require licenses and permits from various State and Federal agencies, including a Federal Energy Regulatory Commission (FERC) license if the project is hydroelectric. Design includes the preparation of the technical design, plans and specifications. The design phase also includes the development of bid requests to be released for competitive bid by construction and material supply contractors. For large projects, the Power Authority contracts with an engineering firm to accomplish the technical design and manage the various studies required for FERC licensing. Due to the large commitment of technical personnel required during this stage, it is doubtful if the Power Authority will develop the capability to accomplish internally the design of large power projects.

Project construction begins once the design is completed and all required licenses and permits have been obtained. The Power Authority may contract with a large engineering or construction firm to assist in construction management activities. As a policy on larger projects, the Power Authority does not allow the firm designing the project to also act as the construction management firm.

The final step in this process is the operation of the completed power project. When a project is completed, the Power Authority either operates the facility independently or enters into an operating agreement with a local utility. The Power Authority sells power wholesale to local utilities, which then retail it to consumers. As the agency develops and operates additional power projects, it will increasingly assume a role as a generation and transmission entity.

PROGRAMS AND PROJECTS

The Power Authority conducts several legislatively approved programs ranging from the project development programs to the administration of loans and grants. These programs both support the project development process and provide the budgetary framework by which the Power Authority fulfills its mission. The widest ranging of these programs is the Energy Program for Alaska.

Energy Program for Alaska

This program, adopted by the Legislature in 1981, provides for State construction, ownership, and operation of power generating projects throughout the State. Program objectives are achieved by providing financing through the Power Authority for the development of new power projects and the acquisition of existing projects. The Energy Program includes a check and balance system for project development and approval, through which a project's feasibility must be approved by the Legislature before expenditures for

design and construction can begin. Following legislative approval and funding, the Power Authority designs and constructs the project, which is then owned by the State.

Under the Energy Program for Alaska, the Power Authority acquired the Solomon Gulch project, then being constructed by Copper Valley Electric Association. This project serves Valdez and Glennallen. The Swan Lake project, then being developed by Ketchikan Public Utilities, was also acquired under this program. In addition, the Power Authority assumed responsibility for developing and constructing the Tye Lake project for Wrangell and Petersburg, and the Terror Lake project near Kodiak.

These hydroelectric projects are known as the Four Project Pool, which has become the cornerstone of the Energy Program for Alaska. The Solomon Gulch project is in commercial operation; the Tye project is now providing test power to Wrangell and Petersburg; Swan Lake is providing test power to Ketchikan; and the Terror Lake project is now 95 percent complete with power projected to be on line in September 1984. With the completion of these projects, the role of the Power Authority in power generation, transmission, and the wholesale marketing of electrical energy is significantly expanding.

When the Legislature began appropriating funds in 1979 for the construction of hydroelectric projects, it was intended that these projects were to be fully financed by the State. However, declining State revenues resulting from a drop in international oil prices has forced the abandonment, at least for the foreseeable future, of full State funding of these projects. Lower oil prices have also made the short term cost of hydro power from new projects less advantageous, when compared to the cost of diesel generated electricity, than it once was expected to be. Power Authority economic and financial analyses have necessarily assumed conservative long term oil price increases. Increased energy consumption associated with improved economic activity, a decline in the value of the dollar, or disruptions in oil supplies could cause significant oil price increases.

In the face of the financial reality of declining State revenue, the Legislature amended the Energy Program for Alaska with House Bill 9 (HB 9) in 1982. The original legislation had established a single wholesale power rate for all Power Authority projects in the State. HB 9 changed this by pooling the debt service of the Power Authority projects.

To meet the requirements of HB 9 and the needs of consumers in the communities served by the Four Project Pool as equitably as possible, on February 6, 1984 the Alaska Power Authority proposed new power sales agreements with those communities. The projects serve Valdez-Glennallen, Ketchikan, Wrangell-Petersburg, and Kodiak. These agreements are the result of several months of negotiation and extensive coordination between the Power Authority, the utilities to be served by the projects, financial institutions, the Governor's Office, and the legislative leadership. Under the agreements, initial consumer rates for the four hydroelectric projects are designed not to exceed the cost of diesel-generated power, and, in the long-run, will provide more favorable rates. They should provide significant benefits to the communities served by the projects as well as communities to be served by future projects that will be included in the program.

The agreements include a \$64 million rate-stabilization plan to reduce the early year power costs. Approximately \$35 million of the rate-stabilization plan will require a legislative appropriation this session, with the remainder coming from bond proceeds and interest earnings.

The February 6, 1984 proposed agreement is currently under review by the five affected communities. Power Authority Board action is scheduled for February 22, 1984.

Now that the Four Project Pool is being completed and coming on line under existing legislation, an in-depth review by the Legislature and Administration of the Energy Program for Alaska is needed to ensure that the Energy Program will benefit all Alaskans.

The Power Authority will recommend to the 1985 Legislature expanding the Energy Program to include the Bradley Lake Hydroelectric Projects. Construction is continuing on the Anchorage-Fairbanks Intertie which is also part of the Energy Program with a scheduled completion for December 1984. This project will, for the first time, allow electrical energy transmission between these two generation and load centers.

Reconnaissance Program

This program provides for surveys of all electric power sources available to regions and communities in the State and evaluations of the supply alternatives, including more efficient use of existing diesel and fuel oil generation facilities. Reconnaissance studies consider power supply options, including conservation, geothermal, wood and peat, tidal, coal, natural gas, and solar energy sources. Subsequent phases of project development are based on reconnaissance study results.

Power Project Loan Fund

Based on specific legislative appropriations, this long term loan program provides State assistance to local utilities or units of government for the development of new power production facilities or improvement or expansion of existing facilities.

Power Cost Assistance Program

This program reduces the cost of up to 600 kilowatt hours of electricity a month for both residential and commercial customers in rural areas where rates are generally high due to the cost of diesel fuel. The Power Authority pays approximately 40-60 percent of the cost of this electricity following Alaska Public Utilities Commission (APUC) determination of the amount of power that can be subsidized. Ninety-five communities served by fifty-one utilities participated in this program in FY 84.

Rural Feasibility Program

This program provides for detailed analyses of power supply alternatives identified in reconnaissance studies. Regional feasibility studies are in progress for the Bristol Bay and Lower Kuskokwim areas. A variety of other

feasibility studies are underway throughout the State, and additional studies will be initiated as information and funding permit.

Rural Electrification Program

This program, which began in FY 84, funds the engineering and design of small power production facilities in rural Alaska. Project sites currently under detailed consideration are King Cove, Larsen Bay, Old Harbor, Elfin Cove, Pelican, Atka and Angoon. Under this program, the Power Authority certifies the technical, economic, and financial viability of projects prior to construction.

Rural Electrification Revolving Loan Fund

This low interest loan program provides State assistance to local utilities for extending electrical service into unserved areas of the State. Loans are made only to electrical utilities certified by the APUC, and must be approved by the Power Authority and a local advisory committee.

Waste Heat Recovery Program

This program provides for the planning, design, and construction of facilities to recover waste heat from existing diesel generators for use in the space heating of nearby buildings. Since 1981, 13 waste heat recovery facilities have been constructed in rural Alaska. Funds are being requested for FY 85 to construct two additional facilities and make detailed evaluations of up to 35 other projects to determine which are the most cost-effective.

Susitna

The Susitna Hydroelectric Project is a two dam development on the Susitna River north of Talkeetna that, when completed, will be the largest power project in Alaska history. The Power Authority has submitted a license application to the Federal Energy Regulatory Commission (FERC), which is reviewing the application and preparing a draft Environmental Impact Statement. Through FY 1984 approximately \$92 million in State funds will have been spent on feasibility studies and FERC Licensing activities for this project.

Bradley Lake

The Power Authority is also preparing a FERC License application for the Bradley Lake project on the Kenai Peninsula. When on line, this project will meet a portion of the Railbelt power requirements.

RESPONSE TO ACCOUNTING AND MANAGEMENT AUDITS

The legislative Budget and Audit (LB&A) and Office of Management and Budget (OMB) audits and the Power Authority management study have pointed to the need for more rigorous management of programs and projects.

In response to their recommendations, the Power Authority is now placing greater emphasis on planning and marketing, more stringent approaches to project management and development and better coordination between the utilities. In addition, substantial project design work will not proceed until power sales agreements for that project have been signed. This reorientation within the Power Authority will ensure that these management practices are applied to continuing operations as well as one-time projects.

The Power Authority Board of Directors, recognizing that the future role of the Power Authority requires sound planning, has also commissioned a review of current operations, procedural changes, areas of emphasis and scheduling of projects. A report of this review effort is due in mid-March.

THE NEED FOR NEW LEGISLATION

To provide for the orderly development of Alaska's electrical energy resources and the State's power production, conservation, and transmission projects, the Power Authority's immediate legislative needs include:

- * Legislation implementing and ensuring the long-range viability of the Four Project Pool. This includes:
 - ° Approval and financing of a Rate Stabilization Fund (with a total State appropriation of approximately \$35 million) to off-set the difference between the costs of hydro and diesel-generated electricity during the early years of the project.
 - ° Classification of the first four pool projects as one project to allow a combined rate for debt service.
 - ° Authorization for the sale of surplus power from these projects to industrial users at a separate rate.
 - ° Elimination of the "Susitna Clause" to reduce potential future risk to the Four Project Pool communities.
 - ° Limitation of the impact of new projects coming into the system on the debt requirement of the first four projects.
- * Authorization of the Bradley Lake Project as a project in the Energy Program for Alaska at a 1985 bid price of \$375,000,000.
- * Legislative appropriations for Operating and Capital Budgets sufficient to carry out and oversee the programs and projects for which the Power Authority is responsible.
- * The Power Authority also requests that the Legislature endorse the establishment of a Major Projects Fund, which could finance new State power projects in addition to other capital intensive State projects.

Some of these needs are being addressed by legislation already introduced. Bills addressing other needs will be introduced as this session progresses. Two bills not included in the Power Authority's legislative package but affecting agency 1848/152/7

activities amend the Power Cost Assistance Program and the Rural Electrification Loan Fund. The Power Authority is preparing comments on both.

SUMMARY

The Power Authority has, in its seven years of operation, evolved into the primary Statewide agency for electric power planning, development, and power facilities construction. With the completion of the Four Project Pool, the Power Authority also stands on the threshold of becoming a major wholesaler of electrical power. Through its wide range of programs, the Power Authority will continue to offer the residents of Alaska the comprehensive services necessary to meet its legislative mandate. Specific requests for statutory changes and the funding of the agency's Operation and Capital Budgets have been made of this Legislature to facilitate the Energy Program for Alaska. An in-depth review of the Energy Program for Alaska, and the overall scope of the Power Authority is also needed. The Power Authority will conduct such a review and discuss major revisions with legislators during 1984. We plan to recommend to the 1985 Legislature a comprehensive electrification program.

Thank you.

FY 84 OBJECTIVES

Angoon

Complete Findings and Recommendations for reconnaissance level investigation; begin feasibility study of best alternative power supply plan.

Lower Kuskokwim Regional Alternatives

Complete Interim Findings and Recommendations for reconnaissance level investigation for next phase of development of apparent best alternative or alternatives.

Black Bear Lake

Complete addendum to feasibility study; get OMB review of revised Findings and Recommendations; decide action with respect to the FERC license already submitted; take appropriate action and maintain FERC license application as appropriate.

Craig/Klawock Intertie

Complete financial analyses in support of utility decisions with respect to loan application for intertie construction; hold public information meetings as necessary in appropriate communities; work with all parties to potential agreement to facilitate purchase of power from Alaska Timber Corporation for sale to Craig and Klawock.

Bristol Bay Regional Alternatives

Request supplemental appropriation for continuation of base line fisheries data collection; complete Interim Findings and Recommendations including preliminary financial analyses of best alternatives.

Chester Lake

Meet with residents of Metlakatla and utility representatives to inform with respect to preliminary financial analysis results. Negotiate power sales agreements if public support favors development of the Chester Lake Hydroelectric Project. Initiate aggressive energy conservation program.

Silver Lake

Complete Interim Findings and Recommendations; perform preliminary financial analyses as necessary.

Fairbanks District Heating and Chena 6 Station Alternatives

Complete jointly managed feasibility study in support of Municipality's application for State loan for best alternative.

Grant Lake

Complete feasibility study and Findings and Recommendations; OMB review; decision with respect to submittal of FERC license application; preparation of FERC license application.

West Creek

Consider intertie with Northern Canada Power as alternative to West Creek hydro-electric alternative (presently not recommended due to railroad economic problems).

Kake/Petersburg Intertie

Complete feasibility study and Findings and Recommendations.

Larson Bay

Complete Findings and Recommendations; obtain financial analysis and begin power sales discussions as appropriate.

Old Harbor

Complete Findings and Recommendations; obtain financial analysis and begin power sales discussions as appropriate.

King Cove

Complete Findings and Recommendations; obtain financial analysis and begin power sales discussions as appropriate.

Rural Community Feasibility Studies

Meet with Corps of Engineers to obtain current status of their studies of communities named in the State appropriation for this purpose; prepare plan of action and budget for balance of this appropriation incorporating Corps findings and findings of Power Authority reconnaissance studies. Begin feasibility studies of alternatives for named communities as appropriate.

Togiak

Initiate stream gaging for Kurtluk River alternative.

Elim

Initiate stream gaging at Peterson Creek.

Unalaska Geothermal

Complete reconnaissance Findings and Recommendations; initiate summer 1984 field investigations.

Atka

Complete Findings and Recommendations for reconnaissance study incorporating pre-feasibility stream gaging and reassessment of waste heat economics. Begin feasibility confirmation as appropriate.

Elfin Cove

Complete reconnaissance study and provide technical assistance to the community to assist them in planning their own project as requested.

FY 85 OBJECTIVES

Statewide Electrification Plan

Develop background data base on communities and regions and assimilate with power supply planning on a regional system basis.

Energy Program for Alaska

Develop proposed legislation to include the Susitna and Bradley Lake projects into the Energy Program of Alaska. Determine financial and technical impact of such inclusion and ways to mitigate such impact.

Project Development Process

Refine the project development process so as to include project status with accounting status into a Management Information System in order to meet internal and external demands for status.



JUNEAU, ALASKA

Alaska State Legislature

Senate

March 6, 1984

MEMORANDUM TO: Senator Fahrenkamp, Chairman
Resources Committee

From: Peggy Mulligan, Secretary of the Senate *PM*

Subject: Issuance of Bonds and Short-term notes
by Alaska Power Authority

The President referred letters of February 28, 1984 from Larry D. Crawford, Executive Director, Alaska Power Authority to the Resources Committee and the Finance Committee. Copies of the two letters, subject referred to above are attached and are being sent to the Finance Committee at the same time.

Encl: 2

MAR 6 1984

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641
(907) 276-0001

February 28, 1984

The Honorable Jalmar Kerttula
President of the Senate
State of Alaska
Pouch V
Juneau, Alaska 99811

*See of Sen Pend
This letter*

MAR 5 1984

SUBJECT: Issuance of Bonds by Alaska Power Authority

Dear Mr. President:

In accordance with AS 44.83.191, the Alaska Power Authority hereby gives notification of its intention to issue long-term bonds in a principal amount not to exceed \$250,000,000 for the Energy Program of Alaska. The proceeds of the bonds will be used to fund short-term notes of the Power Authority issued with respect to the Terror Lake, Swan Lake, and Lake Tye projects and to establish necessary reserves.

You are advised that only so much of the \$250,000,000 principal amount of bonds will be issued as is necessary for the accomplishment of the above mentioned purposes of the Power Authority. This notification is made pursuant to AS 44.83.191 which states:

The Authority may not issue bonds except after sixty days notification of its intent to issue bonds is given to the Governor and to the Legislature, if the Legislature is in session, or to the Legislative Budget and Audit Committee, if the Legislature is not in session.



Very truly yours,

Larry O Crawford
Larry O. Crawford
Executive Director

LDC/sc

*3/6
Rep to Resources
Finance*

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7841
(907) 276-0001

February 28, 1984

The Honorable Jalmar Kerttula
President of the Senate
State of Alaska
Pouch V
Juneau, Alaska 99811

*Read this
Sawyer*
MAR 05 1984

SUBJECT: Issuance of Short-Term Notes by the Alaska Power Authority

Dear Mr. President:

In accordance with AS 44.83.191, the Alaska Power Authority hereby gives notification to you of its intent to issue bonds, notes or other evidences of indebtedness in the principal amount not to exceed \$50,000,000 for the Swan Lake Hydroelectric Project. You are further notified that the above bonds, notes or other evidences of indebtedness may be issued to refund or refinance the outstanding \$35,000,000 principal amount of Power Authority General Obligation Bonds (Swan Lake project), Series 1981 due on May 31, 1984. Alternatively, instead of said refinancing or refunding, the terms of the above existing general obligation bonds may be amended by agreement between the Power Authority and Morgan Guaranty Trust Company. This notification is in the nature of the contingent notification in that it complements a notification to you of the Power Authority's intention to issue \$250,000,000 in long-term bonds, which issue would take out or refinance the \$35,000,000 Swan Lake issue referenced above provided that said long-term issue may in fact be sold and delivered prior to the May 31, 1984 due date (unless otherwise extended) of the existing short-term note.

You are advised that only so much of the \$50,000,000 bonds, notes or other evidences of indebtedness will be issued as is necessary for the accomplishment of the purposes of the Power Authority stated above. This notification is made pursuant to AS 44.83.191 which states:

The Authority may not issue bonds except after sixty days notification of its intent to issue bonds is given to the Governor and to the Legislature, if the Legislature is in session, or to the Legislative Budget and Audit Committee, if the Legislature is not in session.

Very truly yours,

Larry D. Crawford

Larry D. Crawford
Executive Director

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Ryer to Resources
Finance*

LDC/sc

132/156

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

Senate

Committee on Resources

MINUTES

March 9, 1984
3:08 pm

Beltz Room
Room 211, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chairman
Senator Ziegler, Vice Chair
Senator Eliason
Senator Vic Fischer
Senator Mulcahy

CALENDAR

SB 375, An Act relating to land disposal and management.

SB 222, An Act relating to the organization of DNR, substituting references in the Alaska statutes to the Department and the Commissioner for the references to the Division of Lands and the Director of the Division of Lands.

SJR 32, Proposing an amendment to the Constitution of the State of Alaska creating a fund to finance the construction of capital projects and to provide equity for power cost assistance.

SB 423, An Act relating to the Alaska Power Authority.

SB 522, An Act specifying how revenues dedicated to the major projects fund shall be expended; and providing for an effective date.

SB 523, An Act making appropriations from the Major Projects Fund; and providing for an effective date.

SB 222

Sandra Schubert, Aide to Senator Fahrenkamp, explained that SB 222, which was prepared by the Revisor of Statutes, reflects changes in drafting style. The second Committee Substitute includes changes made to conform with the passage of SB 41, which awarded the University of Alaska ownership and management of certain state lands, and the changes proposed in SB 375, the lands bill.

Senator Mulcahy moved to adopt the second CS SB 222, and move it from committee with individual recommendations. There was no objection.

SB 375

Senator Eliason proposed an amendment to SB 375 that would change the effective date on the quitclaim section of the bill. He moved to adopt the amendment. There was no objection.

Senator Mulcahy moved CS SB 375 from committee with individual recommendations. There was no objection.

SJR 32

SB 423

SB 522

SB 523

Senator Gilman proposed that SJR 32 contain a provision for construction of the Bradley Lake hydroelectric project.

Dave Hutchens, Alaska Rural Electric Cooperative Association, proposed authorizing and funding the Bradley Lake project, and addressed problems associated with a delayed effective date on the repeal of the Susitna "blackmail" clause.

George Matz, Special Assistant, Department of Commerce and Economic Development, presented testimony on the status of negotiations with the four dam pool communities on signing power sales agreements.

Sterling Gallagher, John Nureen and Company, reviewed the problems associated with "roll-over" of APA's short term debt, citing pending Congressional legislation, higher future interest rates, and the assurances bonders would need to be willing to roll the debt.

Senator Halford urged that the language to be inserted in the Constitution be simplified.

Mike Scott, Aide to Senator Ferguson, explained how the power cost assistance provision in the resolution would provide rural Alaska with some benefits of the energy program and thereby gain equity statewide.

Gordon Harrison, Office of Management and Budget, submitted a proposed Committee Substitute to SJR 32. He suggested that funds be dedicated for a limited number of years and that the power cost assistance language be clarified. He expressed concern that with Constitutional authorization of the Susitna project, there would be no avenue of retreat.

The meeting adjourned at 4:37 pm.

of fiscal note

~~DEED~~ DEED 2/6/84

Analysis:

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.

REASONS FOR A HIGHER
RATE STABILIZATION FUND

A higher rate stabilization fund produced by an appropriation of \$48 million instead of \$35 million is justified for the following reasons:

1. The resultant rate (although still higher than rates originally projected) will more closely follow the anticipated rate when the projects were conceived and/or sold to the Alaska Power Authority.

2. The rates in the proposed program are set on the so-called diesel alternative (the line). The contracts will last for fifty (50) years and the rate fund will be for 8-10 years. Inherently, there will be some error just because of the long time projections involved.

3. Some of the utilities do not agree with the underlying assumptions (loads and financing costs) in setting the diesel alternative. By setting a rate during the rate stabilization period below the so-called diesel alternative line, such differences will be adequately considered.

4. The Four Dam Pool Concept is based on sharing the load growth of all the dams. It also requires the participating utilities to share some of the risk of the other participants' difficulties such as low load projections, defaults, low water years, and lesser than projected capacity. The higher rate fund will assist in diminishing the effect of these risks.

5. By choosing the diesel line, the participants will lose flexibility in dealing with inflation, etc. The assumption of this risk will be partially compensated for in using the proposed fund.

6. Notwithstanding the higher rate fund, there will be the same rate escalation along the diesel alternative line. Rate increases are not eliminated. They are stabilized.

7. By using this program (the Four Dam Pool Concept), two phenomena occur. First, the utility participants will never effectively get out of debt. Second, it will be difficult, if not impossible, to return the project to communities involved.

8. The program will allow for a reasonable system increment which should return an amount equal on a present value basis to approximately the amount of the rate stabilization fund.

9. The higher fund will be more consistent with the communities' ability to pay and reduce rate shock.

10. All the utilities in the fund are non-profit in character. The rate relief for which the fund is created will directly benefit the customers.

11. The higher rate fund will enhance the ability of the Four Dam Pool participants to plan load growth while giving some semblance of predictable and stable rates in the communities.

12. When negotiations started in earnest on a "Four Dam Pool Concept," the outlook was not favorable. The rate stabilization allows the energy program to work. It also reflects the fact that the utilities must provide alternative power sources, i.e. diesel, in the event of the inability of the hydro projects to produce power.

13. The increased rate stabilization fund allowed the participating utilities to compromise on 17 issues which were preventing final agreements. The direct benefit to the state is a package program which will provide creditable bond financing for the first APA issue. This will enhance the state's ability to bond and finance future hydro electric projects.

14. The diversity of the project locations should also enhance the creditworthiness of the financing, i.e., the sum of the whole is greater than its parts. This too will enhance the bond issue and enhance future bond issues.

3-16-84

FOUR DAM POOL COMMUNITIES
REQUESTED RESPONSE TO THE ALASKA POWER AUTHORITY

The communities comprising the Four Dam Pool have each previously made separate proposals to the APA for power sales agreements that they believe meet the needs of the communities and the APA. The APA has declined to agree with certain terms of those proposals and in addition has expressed frustration in being unable to reconcile the differences among the proposals made by the communities. Accordingly, and because time is of the essence, the APA has requested the five communities to resolve their differences and to prepare a common proposal for presentation to the APA on the issues that remain unresolved. Pursuant to this request, representatives of the communities in the Four Dam Pool did meet to agree on a coordinated position, which they are willing to recommend to their governing bodies, on a number of issues that the power sales agreements must address. The positions arrived at are described below.

1. Severability

The communities recognize the APA's legitimate interest that the invalidation of a minor provision of the contracts should not automatically void the contracts entirely. The communities believe APA should also recognize their legitimate interest in not having the contract enforced if material provisions essential to the intent of the contract are invalidated. Thus, the communities are willing to accept a severability clause if the clause is modified to accommodate this distinction between judicial invalidation of "minor" as distinct from "material" provisions.

2. Displacement of APA Power

The communities believe Ketchikan's situation presents no problem for the other communities. Wrangell and Petersburg will resolve Petersburg's situation on the basis of Crystal Lake's average energy production (the 11.0 gigawatthours used in the projections), and will suggest appropriate contractual language to effect that resolution. Thus, the existing language of § 7(e) of the contract is acceptable to the communities as generic language for that section.

3. Subordination of Future Debt

As previously discussed with APA, the intent of the communities (reflected in Forrest Walls's redraft of the counsel's opinion letter) is that (a) the communities' obligations to pay the APA will not be placed above their obligations to pay the holders of their currently outstanding bonds, (b) the communities' obligations to pay the APA would not be subordinated to future debt issued by the communities, and (c) future debt of the communities may be issued on a parity with the communities' obligations to pay the APA under the conditions contained in

§ 7(d) of the March 6, 1984, draft contract. We understand this resolution is acceptable to APA.

4. Tax-exemption of APA Bonds

The communities will accept § 14(d) of the existing draft contract (covenant not to impair tax-exempt status) as part of this proposal.

5. Amount of Bonds in Rate Stabilization Fund

If the Fund is constituted subject to the other constraints set forth below, the communities do not object to minor increases in the size of the bond component of the Fund that may be necessary to achieve the results intended.

6. Debt Service on Additional Projects prior to Completion

If the System Increment provision is adopted in the form proposed by the communities, the communities are willing in principle to accept the sharing of debt service on New Projects prior to their Date of Commercial Operation within the limits of the System Increment provision. However, counsel for the communities will not issue an opinion letter indicating that inclusion of such debt service in the communities' payment obligations to the APA is lawful unless AS 44.83.092(4) is amended to authorize the communities to pay such debt service.

7. Permanent Reduction In Project Capability (Damp Hole)

The communities have not yet reviewed changes to the March 6, 1984 contract to determine whether it incorporates all the concepts orally agreed upon. The communities are willing, however, to accept the current APA proposal in terms of distribution of risk for project failure, reduced project capability, and interruptions of deliveries.

8. Marketing of Excess Power

The communities will be entitled to undertake, and will be solely responsible for, the marketing of all excess power from the projects. Wrangell and Petersburg will do so jointly in the case of excess Tyee power, and will propose contractual language to recognize and effectuate this result.

9. Dispute Resolution

The communities will accept, for budget matters, the procedures of § 6(c)(2) of the present contract draft for purposes of exhausting their administrative remedies in the Annual Budget process. The contract must, however, establish a Contract Administration Committee that includes representatives of the Purchasers to assist in resolving such disputes and other issues

of contract administration. In addition, the communities insist that they be entitled to de novo adjudication of all contract disputes based on a record made in court, free of any presumptions in favor of the agency, as provided in Ketchikan's proposed "Section 19".

10. Payment of MGT Note & Release of Ketchikan

The communities agree with Ketchikan that payment of this note and Ketchikan's release from any obligation with respect thereto must be a condition precedent to the effectiveness of the contracts (unless the State assumes Ketchikan's obligations under the proposed power sales contracts in the manner described in Paragraph 14 below).

11. Project Litigation Judgment Recoveries

The communities insist that the proceeds of any judgment obtained in any Project-related litigation must be applied to reduce the cost of the Initial Project to the communities, and that the contract must expressly ensure this result.

12. Insurance Coverage and Repair/Reconstruction Decisions

The Contract Administration Committee, among its other responsibilities, will determine the following: (a) the extent of casualty insurance coverage in excess of that required by the Bond Resolution, (b) business interruption insurance coverage for the Purchasers, and (c) the application of insurance proceeds in the event of casualty (e.g., whether to repair, rebuild, or abandon the project and retire debt).

13. Acquisition Agreements

The communities have not had time to review fully APA's proposed changes in the Acquisition Agreements. The communities will do so and will respond as quickly as possible. The final version of the amendments to those Agreements must be agreed upon and placed in writing.

14. "All or None" Provision

The communities are willing to have the contracts be effective if all communities sign, or if the State steps into the shoes of any community that does not sign, provided that (a) the State assumes the financial obligations of the absent community to the extent of that community's forecasted power purchases, and (b) the State does so in a manner that provides equivalent security for the bondholders as the security that would have been provided had the absent community signed.

15. Rate Stabilization

The size of the Fund must be increased, and must be subject to certain constraints, as follows:

- (a) The Fund must be sufficient in amount to permit the projected unit wholesale cost of Project power to be set at a level 1.5 cents per kwh less than the currently projected "Diesel Alternative" for each community in each year.
- (b) APA will present the communities with a plan for the Fund which will:
 - (i) consist of appropriated funds, bond proceeds, and earnings;
 - (ii) contain no higher percentage of bond proceeds than the percentage of bond proceeds in the current proposal; and
 - (iii) permit issuance of bonds at a true interest cost (TIC) no higher than 11.5 percent, with approximately level debt service over 35 years.

An appropriation of at least \$49 million will be needed to accomplish this result.

- (c) If the communities accept APA's plan, the size of the necessary appropriation and sale of the bonds within the above limitations will be conditions precedent to the effectiveness of the contracts.
- (d) The schedule of annual entitlements from the Fund for each Purchaser will be determined at the time bond sale terms and reinvestment rates are known.

16. System Increment

Using the method outlined in § 9 of the APA draft (but excluding from the Allocated Debt Service base any increase in Debt Service imposed because of § 6(f) events), the debt service share to be borne by the Purchasers shall not increase:

- (a) in the first ten years;
- (b) More than 5 percent per year;
- (c) More than 20 percent in 10 years.

17. Other Changes

The communities have not yet had an opportunity to review the APA's March 7, 1984, redraft of the proposed contracts, and reserve the right to continue to make additional suggestions for the improvement of that draft (and related documents) consistent with the positions set forth above and below and the previously expressed intent of the parties. In addition, the communities have not had an opportunity to present to the APA oral and

written comments on the proposed O & M Agreements and Interconnection Agreements. Finally, certain oral agreements with respect to the contract and related documents have not yet been placed in writing by the APA. The communities reserve the right to review and comment fully on all such matters. Agreement must be reached on such comments and placed in writing.

3-16-84

ALASKA POWER AUTHORITY
RATE STABILIZATION FUND REQUIREMENTS
LOW LOAD SCENARIO WITH ADJUSTMENTS TO RATE STABILIZATION FUND

3/15/84 10:29 P.M.

	COPPER VALLEY	KETCHIKAN	KODIAK	PETERSBURG	WRANGELL	TOTAL	PRESENT MONTH TO 7/1/84
1985	\$ 3,300,665	\$ 3,203,027	\$ 4,936,356	\$ 1,136,777	\$ 992,392	\$ 13,569,216	\$ 12,937,760
1986	3,021,958	3,067,923	5,482,576	1,317,958	811,363	13,701,777	11,876,484
1987	2,779,744	2,818,140	3,664,081	762,097	953,009	10,977,071	8,649,774
1988	2,535,890	2,581,145	3,163,500	657,760	911,488	9,849,784	7,055,898
1989	1,938,142	2,270,756	2,449,703	564,979	853,067	8,076,547	5,259,672
1990	1,665,898	1,909,925	1,660,663	519,827	759,087	6,515,101	3,857,104
1991	1,404,128	1,516,423	837,887	10,115	652,855	4,421,408	2,379,623
1992	1,112,790	1,034,600			455,783	2,603,173	1,273,673
1993	775,423	434,294			314,918	1,524,635	678,154
1994	437,237					437,237	176,802
1995	65,647				10,604	76,251	28,030
TOTALS	\$ 19,037,121	\$ 18,836,234	\$ 22,194,767	\$ 4,969,512	\$ 6,774,565	\$ 71,752,199	\$ 54,172,953
FROM BOND PROCEEDS							\$ 12,000,000
NET FROM STATE							\$ 42,172,953

(X)

State/Fed Tanner Crab Dispute

The state and federal government are in dispute over enforcement of tanner crab regulations for the upcoming season due to open Feb. 10th. The issue could lead to complex court issues, since the issue is the need to conserve species which cross between state and federal waters. At issue would be interpretation of the Statehood Act, portions of the federal 200-mile limit bill and federal supremacy clause of the U.S. Constitution.

APA Hydro Crisis Faces Deadline

The Alaska Power Authority is facing repayment of short-term borrowed to complete four hydro-electric projects that will serve Kodiak, Valdez, Glennallen, Ketchikan, Petersburg, and Wrangell. Involved is \$200 million, which APA anticipated refinancing with long-term debt based on contract commitments for power by the user communities. However, the user communities are no longer happy with such prospects, due to high interest rates, and the fact oil base fuel prices failed to rise making oil the cheaper alternative.

Some resolution of the issue would appear urgent prior to May 17th, when \$35 million on the Swan Lake Dam is due to Morgan Guarantee Trust. Another \$50 million is due to Banker's Trust for Tyee in October, and \$115 million is due on Terror Lake in February, 1985. APA is treating all four projects in a pool. Default by APA would not only undermine future hydro projects such as Susitna, but would, like the WPPSS default in Washington State, undermine the credit of other Alaska state and local governments and institutions.

The Legislature may be forced to "bail out" APA, but such an act would make painful inroads into the state's increasingly scarce pool of capital projects funds. In any event, some observers suggest that the anguish of APA is maybe a worthwhile lesson in avoiding similar mistakes on Susitna, the size of which might not be so easily remedied. Additionally, if Susitna should happen to prove feasible, how the state handles their problems with the four dam pool may reflect either favorably or unfavorably in the financial community.

Oil Revenue May Fall -Again!

State revenue forecasters have projected a drop in state oil revenues of about \$300 million over the next two years. The projections are based on reports that the worldwide oil "glut" may persist for some time, and that world oil prices may still slide.

OPEC members Ecuador and Abu Dhabi both have announced small price cuts in recent days. State revenue watchers also say the market has been shakey much earlier this year (than its normal spring shakey period due to the end of winter demands).

Koniag Merger Litigation

In a complex legal case involving the merger of Kodiak area native village corporations with the Koniag Native Regional Corporation, a former president of the regional corporation has been found guilty of misleading village shareholders.

After a three day trial former Koniag President J.F. Morse was found guilty of violating Alaska security laws in preparing proxy statements. The outcome of the trial could have an impact on other litigation relating to the merger.

New DOT Commissioner Named

Gov. Bill Sheffield has named the top coast guard officer in Alaska to become Commissioner of Transportation. Rear Admiral Richard Knapp will take over the giant state department on March 1st. Knapp retires from the coast guard in February.

The appointment has raised some eyebrows in the construction industry. The new appointee is an "unknown quantity" in the business, one industry observer said, "we just don't know him."

DON YOUNG AND MISSING ROLL CALLS: Only 12 of 435 members of Congress have a worse roll call attendance record than Alaska's Congressman Don Young, according to the Congressional Quarterly.