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(FILE 2)

MARCH 3 -- SUSITNA

... CONTINUATION FROM TUES.

GEORGE MATZ, OMB: WRAP-UP OF LAST MEETING - BRIEF REVIEW OF FEASIBILITY STUDIES, IDENTIFICATION OF ECONOMIC "WINDOW" AND KEY FACTORS TO BE UPDATED

MILT BARKER, LEGISLATIVE FINANCE: RELATIONSHIP OF CAPITAL REQUIREMENTS TO PROJECTED REVENUES (REFERENCE FEB. 21 MEMO)

COMMISSIONER ROBERT HEATH, REVENUE: RELATIONSHIP OF CAPITAL REQUIREMENTS TO STATE BONDING CAPACITY AND CREDIT RATING

SUSITNA MARKETABILITY

ROBERT MOHN AND RAY BENISH, APA: STATUS OF MARKETING SITUATION

HARRISON CALL, MARKETING SPECIALIST: POWER SALES AGREEMENTS

CAROLYN GUESS, APUC: APUC ROLE IN APPROVING CONTRACTS AND RATES

UTILITY REPRESENTATIVES WHO WISH TO ADDRESS THE ISSUE-- IF THERE ARE ANY WHO DIDN'T HAVE THE OPPORTUNITY IN ANCHORAGE

DICK EMMERMAN, OMB: REVIEW OF SRI STUDY OF EFFECT OF ELECTRICITY PRICE AND AVAILABILTIY ON INDUSTRIAL DEVELOPMENT

SUSITNA READINESS

GOVERNOR'S OFFICE?: PRESENTATION OF "THE CHECKLIST"?

DAVID ROGERS (SENATE ADVISORY COMMITTEE -- WORKED WITH BIRCH-HORTON IDENTIFICATION OF POSSIBLE SUSITNA "OBSTACLES" LAST YEAR) AND

ROBERT MOHN, APA: REVIEW OF "OBSTACLES" AND HOW THEY ARE BEING ADDRESSED

MOHN: SCHEDULE FOR PROCEEDING, INCORPORATING NEW DATA

AL CARSON, DNR

DENNIS KELSO, F&G

} IN AUDIENCE, AVAILABLE FOR QUESTIONS

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

SENATOR VIC FISCHER, CHAIRMAN

POUCH V, JUNEAU 99811

(907) 465-4954



HYDRO/SUSITNA HEARINGS (revised 2-18-83)

Senate Bills 68, 69, 70, and 71

February 24, 1:30-5:00, Court Room A, Court Building, Juneau. BACKGROUND BRIEFING. Review and analysis of processes and considerations involved in the development of hydroelectric projects.

-- Eric Yould, Executive Director, Alaska Power Authority: APA's role in developing projects, determining feasibility and capital costs, financing plans, construction schedules, marketing, and operational costs; summary of projects' status and plans

-- Ernst Mueller, Environmental Services, Lmtd. and former APA board member: history of the APA

-- Governor's Office: Administration policies and proposals

-- William Wakefield, FERC: federal review process

-- Dept. of Law: interim financing

-- all participants, including OMB and representatives of the cities of Petersburg and Wrangell: Tyee -- case study of a project

February 26, 9:00-4:00, Anchorage Westward Hilton, Alaska Room, Anchorage. PUBLIC HEARING ON SUSITNA AND HYDRO DEVELOPMENT IN GENERAL. Those who wish to testify are asked to sign up in advance at the Anchorage Legislative Information Office. Public testimony will follow introductions by Mr. Yould and bill sponsors.

March 1, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY -- SUSITNA. This meeting will be teleconferenced to all major sites for listening only.

George W. Rogers: Strategies, parameters, and criteria that might be considered by the legislature in examining Susitna and other major hydroelectric projects.

SUSITNA FEASIBILITY: What factors are involved in determining feasibility? How sensitive is the feasibility to changes in those factors? What have the Susitna feasibility and alternative studies shown? How accurate is the \$5.2 billion cost estimate? How do different Susitna dam configurations compare with Watana/Devil Canyon? How have recent developments in oil and gas prices and in economic growth affected feasibility? How are those developments being factored into the Susitna update and FERC application?

-- Eric Yould and a representative from Acres American: summary of the feasibility findings and on-going work

-- Gregg Erickson, Erickson & Associates: review of the Acres study and recent developments

-- Office of Management and Budget: review of studies, alternatives, demand forecasts

SUSITNA FINANCING: What is the best financing plan for Susitna? How much state appropriation is necessary to ensure the marketability of Susitna power? What do the plans presented in SB 68 and SB 70 represent in terms of commitments of state funds, and how would they affect the cash flow available for other capital projects? What would the effect be of the bonding plan in SB 71 on the state's credit and ability to bond for other projects? What should the timing be for appropriations and bonds? How will the bond market respond to Susitna revenue or "double-barrel" bonds? Will the bonds qualify as tax-deductible? How equitable, in terms of state subsidy, are the plans presented?

-- APA financial/bonding advisors: review of Acres plan, recommendations

-- Eileen Titmuss, bond analyst: considerations in the bond market, factors affecting public power bonds

-- Milt Barker, Legislative Finance: relationship of capital requirements to projected revenues

-- Dept. of Revenue: relationship of capital requirements to state bonding capacity and credit rating

March 3, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY, CONTINUED. This meeting will be teleconferenced to all major sites for listening. If time allows, public testimony will be taken following the scheduled witnesses.

SUSITNA MARKETABILITY: Will Susitna power be marketable? What factors might affect marketability? What costs/rate structures are contemplated? How will marketability be ensured? What type of power purchase commitments can be obtained prior to construction? What is the role of the APUC? Might available power attract new industry?

-- Yould and APA marketing advisor: status of marketing situation

-- Harrison Call, marketing specialist: power sales agreements

-- Alaska Public Utilities Commission: its role in approving contracts and rates

-- utility representatives who wish to address the issue

-- Office of Management and Budget: review of the SRI study of the effect of electricity price and availability on industrial development

SUSITNA READINESS: Has the Governor's "Susitna checklist" been followed? What further requirements must be met, and in what order? Has the sequence laid out in statute been followed? Have the FERC requirements been met? Are land ownership conflicts resolved? Have the utilities agreed to purchase Susitna power?

-- Governor's Office: presentation of the "checklist"

-- David Rogers (Senate Advisory Council) and Yould: review of identified "obstacles" and how they are being addressed

-- Yould: schedule for proceeding, incorporating new data

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF--STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: February 21, 1983

TO: Honorable Vic Fischer
Chairman
Senate State Affairs Committee

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJ: Funds Available for Capital Projects

Through the end of the next decade, under current law, total capital projects are almost four times the amount available for capital. Even if Permanent Fund earnings were to be entirely utilized for capital, total projects would still exceed the amount available by almost 50%.

The amount proposed for Susitna alone would consume all funds available under current law. Together with other hydro projects, hydro would require over half of the funds available if Permanent Fund dividends and inflation-proofing are repealed.

Tables I and II (attached) compare the amount of general funds and general obligation bonds available for capital projects with proposed capital projects. The "amount available for capital projects" from the general fund is assumed to be all funds remaining after providing for the operating budget. These amounts were calculated in the attached computer runs using the Department of Revenue's January 1983 revenue estimates at the 30th percentile.

The only difference between Tables I and II is in the amount available for projects. The main source of this difference is that Table I assumes no change in current statutes while Table II shows more funds available as a result of repealing Permanent Fund dividends and inflation-proofing. Table II reflects the entire amount of Permanent Fund earnings in arriving at the amount available figure.

Two other differences between Table I and II are:

- 1) Table I assumes operating budgets at the spending limit (\$1986.7 million in FY 84) while Table II assumes the Governor's FY 84 budget of \$1911.8 million (including longevity bonus and municipal aid); operating budgets are assumed to increase 10% per annum in both cases;
- 2) because of greater unrestricted revenues in Table II, a greater amount of G.O. bond issues are assumed; the amounts of G.O. bonds in both tables are based on the statements of APA's financial advisers in the January 1983 Susitna financing plan (see footnotes to Tables).

The amount of capital projects shown in the Tables includes traditional capital projects, in the form of the last year's Governor's Six Year Capital Budget, only through FY 88. No amounts have been estimated for legislative capital projects nor has any amount been included for purchase of the Alaska Railroad or cashing out interim financing on Tyee, Swan, and Terror Lakes (\$200 million).

attachments

MB:ro

cc: Honorable Al Adams
Honorable John Sackett
Honorable Don Bennett

FUNDS AVAILABLE FOR CAPITAL PROJECTS
WITH REPEAL OF DIVIDENDS & INFLATION-PROOFING
(\$ Millions)

FISCAL YEAR	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	FUNDS AVAILABLE FOR CAPITAL PROJECTS			SB 68 STATE FUNDING FOR SUSITNA	OTHER APA CAPITAL PROJECTS	TOTAL HYDRO PROJECTS	LOAN PROGRAM APPROPRIATIONS	GOVERNOR'S SIX YEAR CAPITAL BUDGET	TOTAL CAPITAL PROJECTS
	GENERAL FUND	GO BONDS	TOTAL						
ACTUAL DOLLARS									
85	1196.0	350.0	1546.0	403.7	244.5	648.2	300.0	2035.0	2983.2
86	1281.0	190.0	1471.0	472.7	282.3	755.0	300.0	742.9	1797.9
87	1157.0	95.0	1252.0	479.7	125.8	605.5	300.0	961.2	1866.7
88	1269.0	235.0	1504.0	499.5	--	499.5	300.0	1066.2	1865.7
89	1110.0	50.0	1160.0	938.3	--	938.3	300.0	?	1238.3+
90	580.0	25.0	605.0	738.4	--	738.4	300.0	?	1038.4+
91	--	160.0	160.0	--	--	--	300.0	?	300.0+
92	--	35.0	35.0	--	--	--	300.0	?	300.0+
93	--	170.0	170.0	--	--	--	300.0	?	300.0+
Total	6593.0	1310.0	7903.0	3532.3	652.6	4184.9	2700.0	4805.3	11690.2+
FY 84 DOLLARS									
85	1118.0	327.1	1445.1	364.5	228.5	593.0	280.0	1901.9	2774.9
86	1119.0	166.0	1285.0	398.9	246.6	645.5	262.0	648.9	1556.4
87	944.0	77.5	1021.5	378.3	102.7	481.0	245.0	784.7	1510.7
88	968.0	179.3	1147.3	368.2	--	368.2	229.0	813.4	1410.6
89	790.0	35.6	825.6	646.4	--	646.4	214.0	?	860.4+
90	390.0	16.7	406.7	475.4	--	475.4	200.0	?	675.4+
91	--	99.6	99.6	--	--	--	187.0	?	187.0+
92	--	20.4	20.4	--	--	--	175.0	?	175.0+
93	--	92.5	92.5	--	--	--	163.0	?	163.0+
Total	5329.0	1014.7	6343.7	2631.7	577.8	3209.5	1955.0	4148.9	9313.4+

- NOTES: 1. From attached Legislative Finance computer run labelled "Repeal of Dividends and Inflation-Proofing"; see note 1 to Table I;
2. See note 2 to Table II; amount of GOB's based on estimates of revenues at the 50th percentile made prior to the current January 1983 estimates; those revenues are higher than the January 1983 estimates even including monies that would have been used for dividends and inflation-proofing; thus, the estimate of GOB's is somewhat high;

For other items see notes to Table I.

FUNDS AVAILABLE FOR CAPITAL PROJECTS
UNDER CURRENT LAW
(\$ Millions)

FISCAL YEAR	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	FUNDS AVAILABLE FOR CAPITAL PROJECTS GENERAL FUND	GO BONDS	TOTAL	SB 68 STATE FUNDING FOR SUSITNA	OTHER APA CAPITAL PROJECTS	TOTAL HYDRO PROJECTS	LOAN PROGRAM APPROPRIATIONS	GOVERNOR'S SIX YEAR CAPITAL PUDGET	TOTAL CAPITAL PROJECTS
ACTUAL DOLLARS									
85	593.0	--	593.0	403.7	244.5	648.2	300.0	2035.0	2983.2
86	611.0	300.0	911.0	472.7	282.3	755.0	300.0	742.9	1797.9
87	447.0	90.0	537.0	479.7	125.8	605.5	300.0	961.2	1866.7
88	503.0	125.0	628.0	499.5	--	499.5	300.0	1066.2	1865.7
89	280.0	--	280.0	938.3	--	938.3	300.0	?	1238.3+
90	--	50.0	50.0	738.4	--	738.4	300.0	?	1038.4+
91	--	140.0	140.0	--	--	--	300.0	?	300.0+
92	--	--	--	--	--	--	300.0	?	300.0+
93	--	--	--	--	--	--	300.0	?	300.0+
Total	2434.0	705.0	3139.0	3532.3	652.6	4184.9	2700.0	4805.3	11699.2+
FY 84 DOLLARS									
85	554.0	--	554.0	364.5	228.5	593.0	280.0	1901.9	2774.9
86	534.0	262.0	796.0	398.9	246.6	645.5	262.0	648.9	1556.4
87	365.0	73.0	438.0	378.3	102.7	481.0	245.0	784.7	1510.7
88	384.0	95.0	479.0	368.2	--	368.2	229.0	813.4	1410.6
89	200.0	--	200.0	646.4	--	646.4	214.0	?	860.4+
90	--	33.0	33.0	475.4	--	475.4	200.0	?	675.4+
91	--	87.0	87.0	--	--	--	187.0	?	187.0+
92	--	--	--	--	--	--	175.0	?	175.0+
93	--	--	--	--	--	--	163.0	?	163.0+
Total	2037.0	550.0	2587.0	2631.7	577.8	3209.5	1955.0	4148.9	9313.4+

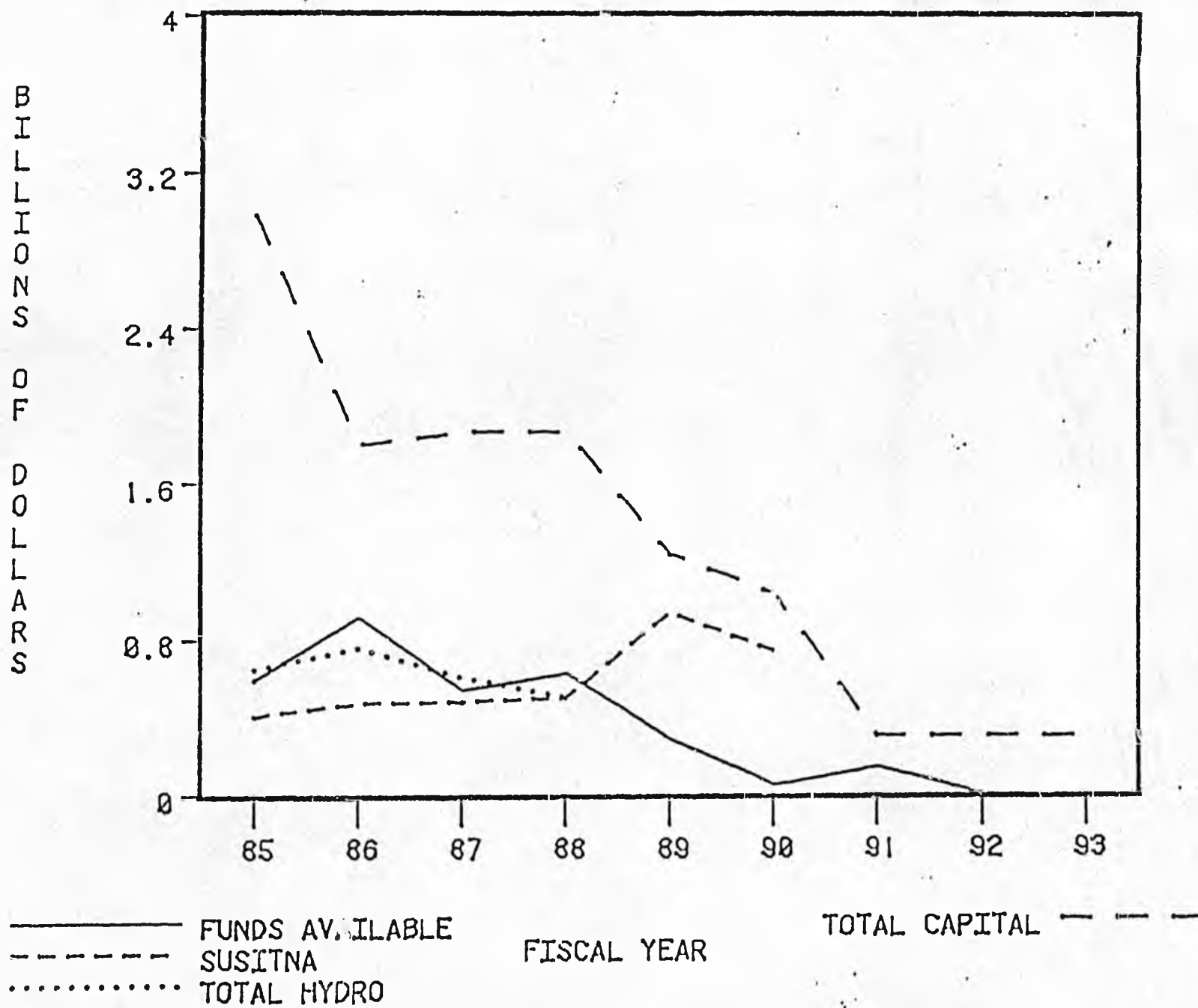
(Notes to Table I on next page.)

NOTES TO TABLE I

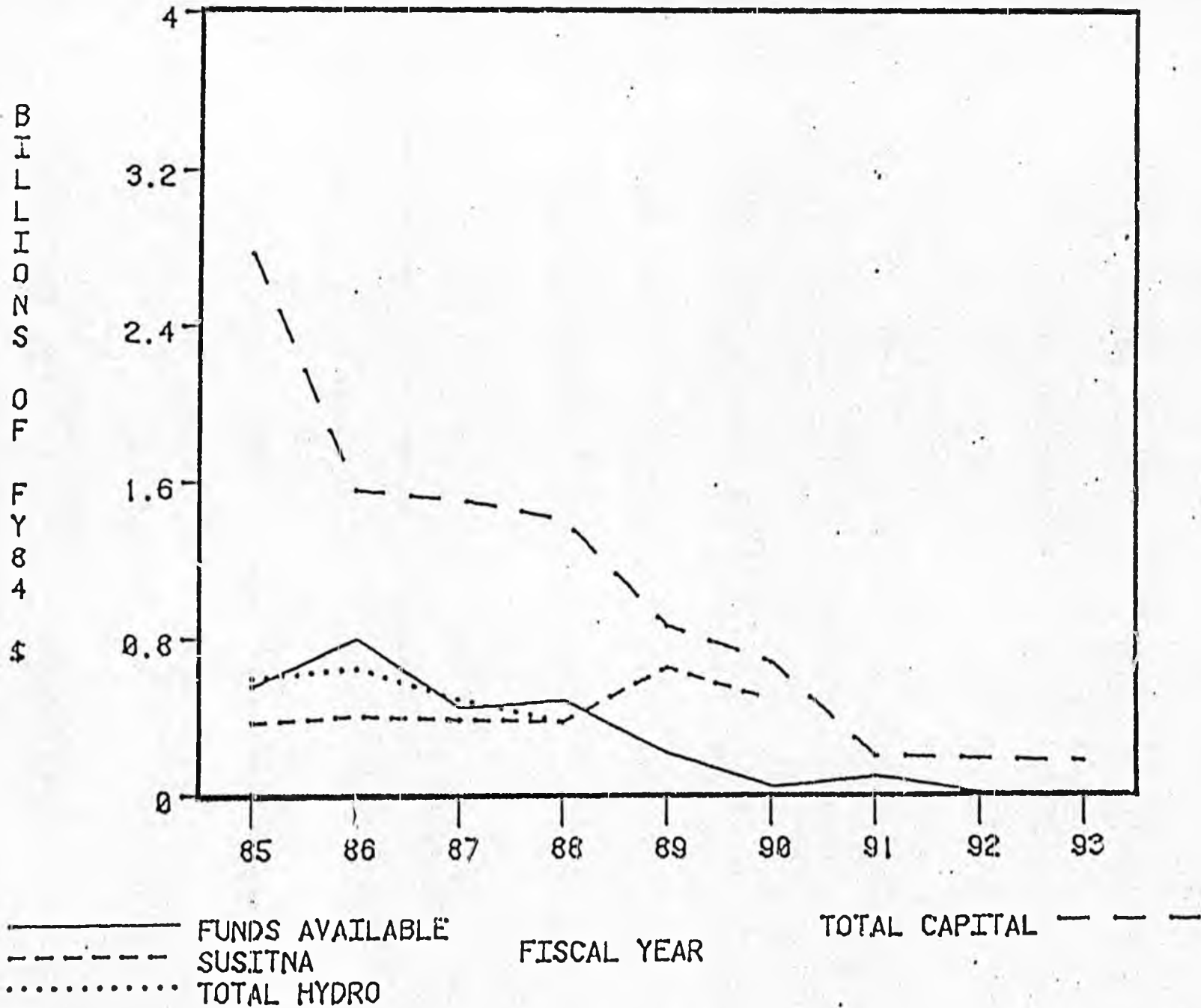
1. From attached Legislative Finance computer run labelled "current law"; beginning GF balance based on 2/9/83 schedule of amount available per Senate Finance of \$918.3 million reduced by \$230 million for the Rainy Day Fund and \$600 million for the Permanent Fund that has been appropriated but was included in the \$918.3 million; includes Permanent Fund undistributed income;
2. From Table I, Susitna Hydroelectric Project, Task II: Financing Options, Acres, January 1983; amount of GOB's based on statement of First Boston Corporation, John Nuveen & Co., and First Southwest Co. which assumed higher projected revenues at the 30th percentile than the current January 1983 Department of Revenue estimates; thus the estimate of GOB's must be somewhat high;
4. From Table 18.4.7, Susitna Hydroelectric Project, Task II Reference Report, Acres; this is the \$2.3 billion (January 1982 \$) state contribution case; SB 68 proposes \$2.3 billion in January 1983 dollars; if the Acres funding schedule is intended it would be necessary to adjust SB 68; otherwise the estimated Susitna costs shown here would be 4% to 7% too high as measured by various "Engineering News Record" construction cost indices;
5. From Table I, "Acres", January 1983;
7. Assumes loan program appropriations remain at roughly the Governor's FY 84 budget level, \$294.5 million;
8. Total of general fund capital projects (including voter approval) contained in Executive Budget, Book 2, Capital Budget and Six Year Capital Program, FY 83, Jay Hammond, Governor; FY 85 amount is sum of FY 83-85 amounts less amounts appropriated for capital and loans for FY 83 and less the amount of capital projects proposed by Governor Sheffield for FY 84.

FY 84 \$ amounts are based on a 7% inflation factor: the Acres Susitna numbers appear to be on a calendar year basis and are thus adjusted for an extra 1/2 year.

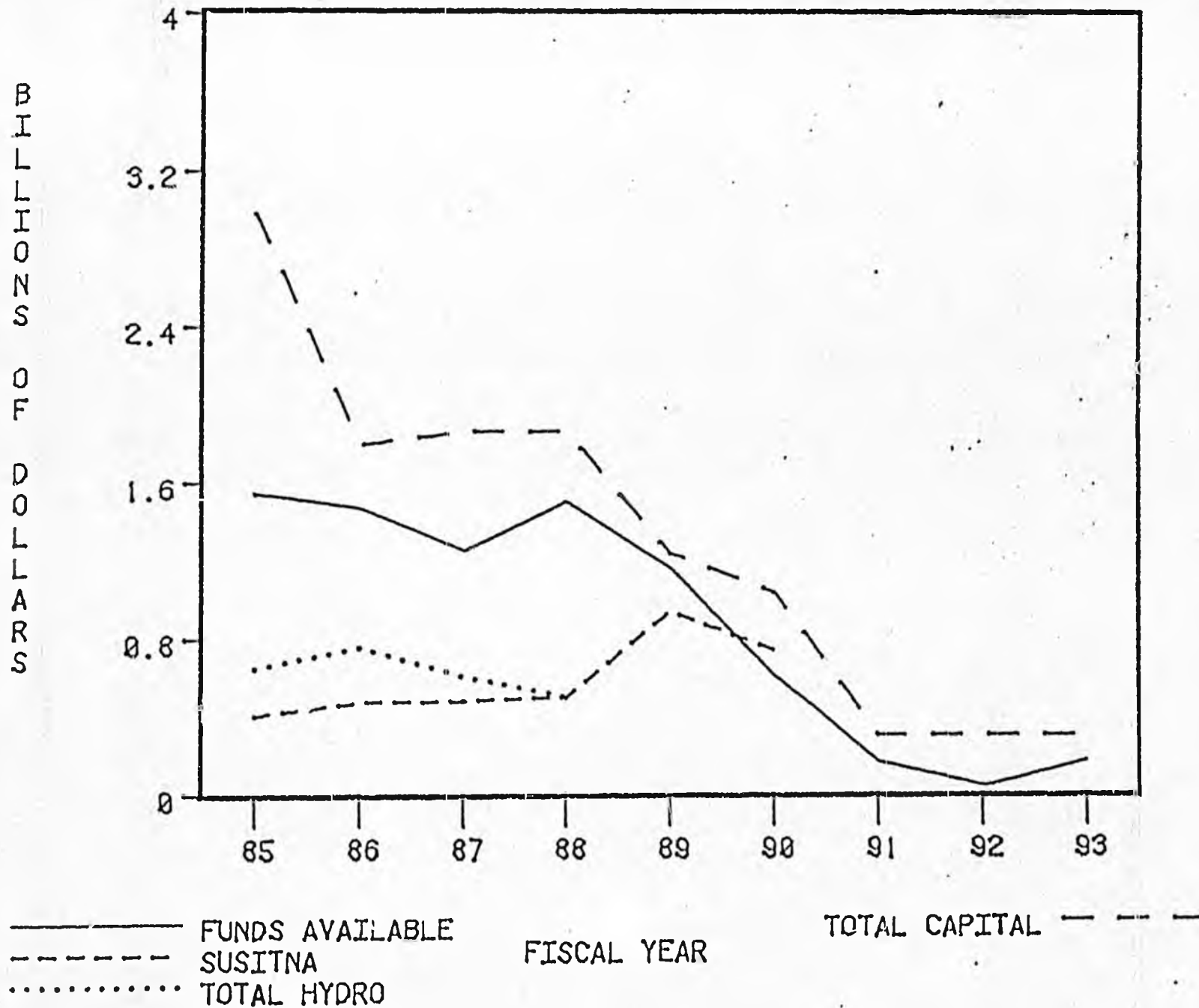
FUNDS AVAILABLE FOR CAPITAL PROJECTS
CURRENT LAW



FUNDS AVAILABLE FOR CAPITAL PROJECTS (FY84 \$)
CURRENT LAW

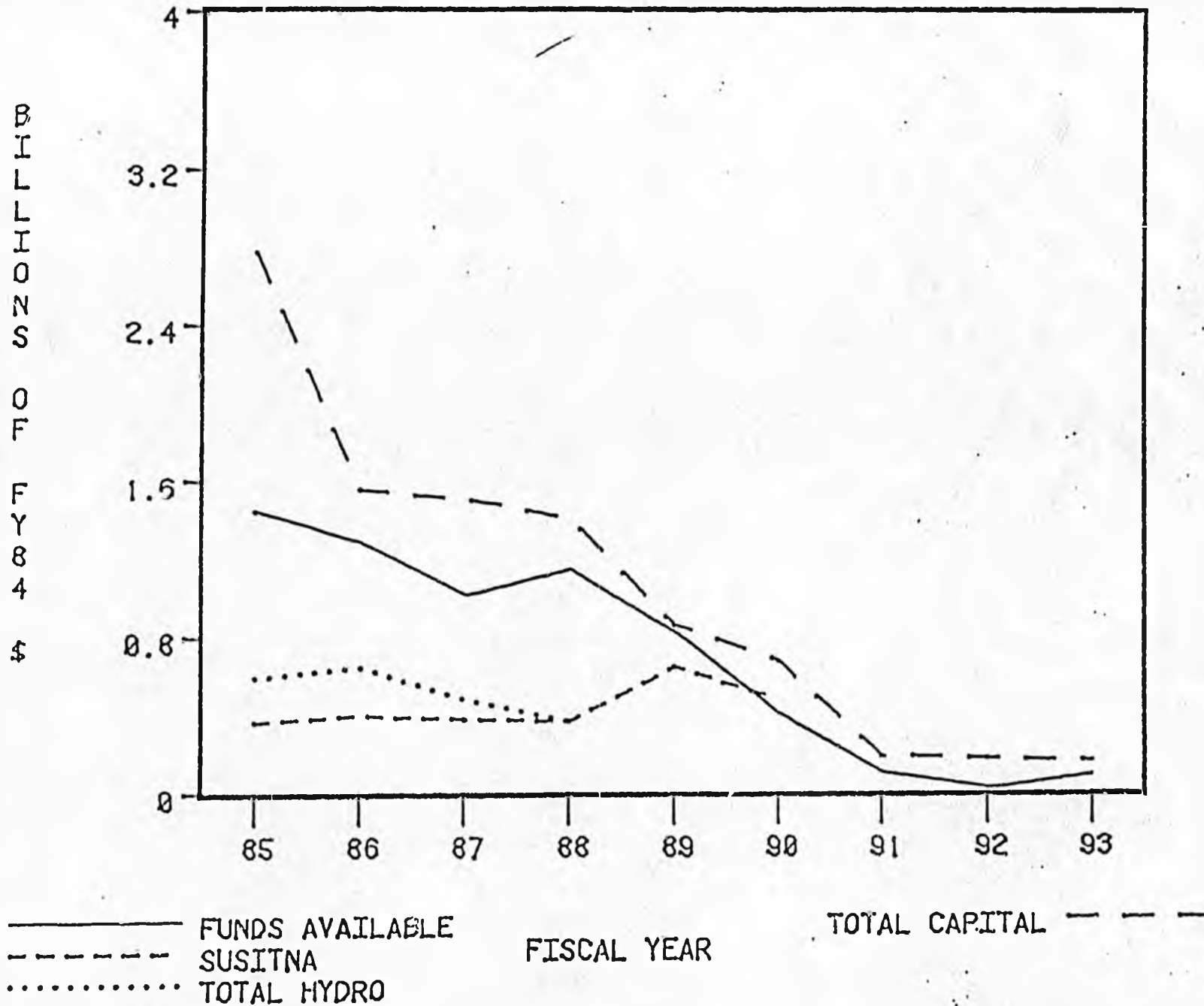


FUNDS AVAILABLE FOR CAPITAL PROJECTS
 REPEAL DIVIDENDS & INFLATION-PROOFING



FUNDS AVAILABLE FOR CAPITAL PROJECTS (FY84 \$)

REPEAL DIVIDENDS & INFLATION-PROOFING



STATE OF ALASKA
 LEGISLATIVE FINANCE WORKING DOCUMENT
 BUDGET FORECASTING MODEL

*** ACTUAL DOLLARS IN MILLIONS ***

JAN 83 DEPT OF REVENUE ESTIMATES
 OPERATING BUDGET AT SPENDING LIMIT
 SPENDING LIMIT INCREASES 10% PER ANNUM
 SURPLUS SPENT ON CAPITAL
 INFLATION 7% PER ANNUM
 PERMANENT FUND INFLATION-PROOFED
 PERMANENT FUND EARNS 12% PER ANNUM
 GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST REVENUE	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF \$	REVENUE REQ FOR GF BAL 0 MIL
1983										3790	88		
1984	2703	333	3036	1987	837	167	134	3124	-88	4361	0	0	0
1985	2775	352	3127	2185	593	164	185	3127	-0	4979	0	0	0
1986	3029	381	3410	2404	611	163	231	3410	0	5676	0	0	0
1987	3112	410	3522	2644	447	166	265	3522	0	6433	0	0	0
1988	3456	448	3904	2909	503	179	313	3904	-0	7287	0	0	0
1989	3540	490	4030	3200	280	190	360	4030	00	8250	00	00	00
1990	3300	520	3810	3520	00	190	400	4110	-300	9240	00	300	300
1991	3000	550	3560	3870	00	180	450	4500	-940	10270	00	940	940
1992	2890	610	3500	4260	00	160	510	4920	-1430	11350	00	1430	1430
1993	2700	670	3360	4680	00	160	570	5410	-2050	12480	00	2050	2050
1994	2610	740	3350	5150	00	130	630	5920	-2570	13680	00	2570	2570
1995	2520	810	3320	5670	00	140	690	6500	-3180	14950	00	3180	3180
1996	2380	890	3270	6240	00	140	760	7140	-3870	16280	00	3870	3870
1997	2440	970	3410	6860	00	90	830	7780	-4380	17710	00	4380	4380
1998	2510	1060	3570	7540	00	80	910	8530	-4960	19240	00	4960	4960
1999	2660	1160	3820	8300	00	50	990	9340	-5530	20900	00	5530	5530
2000	2600	1260	4060	9130	00	50	1080	10250	-6190	22690	00	6190	6190
TOTAL	48410	11640	60060	80550	3270	2390	9320	95530	-35470			35380	

STATE OF ALASKA
 LEGISLATIVE FINANCE WORKING DOCUMENT
 BUDGET FORECASTING MODEL

*** FY 1984 DOLLARS IN MILLIONS ***

JAN 83 DEPT OF REVENUE ESTIMATES
 OPERATING BUDGET AT SPENDING LIMIT
 SPENDING LIMIT INCREASES 10% PER ANNUM
 SURPLUS SPENT ON CAPITAL
 INFLATION 7% PER ANNUM
 PERMANENT FUND INFLATION-PROOFED
 PERMANENT FUND EARNS 12% PER ANNUM
 GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF \$	0 MIL
1983										3790	88		
1984	2703	333	3036	1987	837	167	134	3124	-88	4361	0	0	0
1985	2594	329	2923	2042	554	154	172	2923	-0	4653	0	0	0
1986	2645	333	2978	2100	534	143	202	2978	0	4957	0	0	0
1987	2540	335	2875	2159	365	136	216	2875	0	5251	0	0	0
1988	2636	342	2978	2219	384	137	239	2978	-0	5559	0	0	0
1989	2520	350	2870	2280	200	140	250	2870	00	5880	00	00	00
1990	2200	340	2540	2350	00	130	270	2740	-200	6160	00	00	200
1991	1870	340	2220	2410	00	110	280	2800	-590	6390	00	00	590
1992	1680	350	2030	2480	00	90	300	2870	-830	6610	00	00	830
1993	1470	360	1830	2550	00	90	310	2940	-1110	6790	00	00	1110
1994	1330	370	1700	2620	00	70	320	3010	-1300	6960	00	00	1300
1995	1190	380	1580	2690	00	60	330	3090	-1510	7100	00	00	1510
1996	1060	390	1450	2770	00	60	340	3170	-1720	7230	00	00	1720
1997	1010	400	1410	2850	00	40	350	3230	-1820	7350	00	00	1820
1998	970	410	1380	2930	00	30	350	3310	-1920	7460	00	00	1920
1999	960	420	1380	3010	00	20	360	3390	-2000	7570	00	00	2000
2000	950	430	1380	3090	00	20	370	3470	-2100	7690	00	00	2100

TOTAL 30330 6240 36570 42520 2870 1580 4790 51760 -15190 15100

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

*** ACTUAL DOLLARS IN MILLIONS ***

JAN 83 DEPT OF REVENUE ESTIMATES
GOVERNOR'S OPERATING BUDGET (INCLUDES LONGEVITY & MUNICIPAL AID)
OPERATING BUDGET INCREASES 10% PER ANNUM
SURPLUS SPENT ON CAPITAL
INFLATION 7% PER ANNUM
NO PERMANENT FUND DIVIDENDS
NO PERMANENT FUND INFLATION-PROOFING
PERMANENT FUND EARNS 12% PER ANNUM
GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF \$ 0 MIL
1983										3790	88	
1984	2703	629	3332	1912	1341	167	0	3420	-88	4085	0	0
1985	2775	688	3463	2103	1196	164	0	3463	0	4388	0	0
1986	3029	741	3770	2313	1281	176	0	3770	0	4724	0	0
1987	3112	784	3896	2545	1157	194	0	3896	0	5072	0	0
1988	3456	833	4288	2799	1269	221	0	4288	-0	5462	0	0
1989	3540	880	4420	3080	1110	230	00	4420	00	5890	00	00
1990	3300	910	4210	3390	580	240	00	4210	00	6300	00	00
1991	3000	910	3910	3730	00	230	00	3960	-50	6660	00	50
1992	2890	910	3800	4100	00	210	00	4310	-510	7020	00	510
1993	2700	950	3650	4510	00	220	00	4730	-1080	7350	00	1080
1994	2610	1000	3610	4960	00	200	00	5150	-1540	7660	00	1540
1995	2520	1050	3560	5450	00	200	00	5660	-2100	7960	00	2100
1996	2380	1090	3470	6000	00	160	00	6160	-2690	8250	00	2690
1997	2440	1140	3580	6600	00	130	00	6730	-3150	8530	00	3150
1998	2510	1190	3700	7260	00	110	00	7370	-3680	8830	00	3680
1999	2660	1240	3900	7990	00	70	00	8060	-4160	9150	00	4160
2000	2800	1290	4100	8780	00	60	00	8840	-4750	9500	00	4750
TOTAL	48410	16240	64650	77510	7940	2990	00	88440	-23790			23700

STATE OF ALASKA
 LEGISLATIVE FINANCE WORKING DOCUMENT
 BUDGET FORECASTING MODEL

*** FY 1984 DOLLARS IN MILLIONS***

JAN 83 DEPT OF REVENUE ESTIMATES
 GOVERNOR'S OPERATING BUDGET (INCLUDES LONGEVITY & MUNICIPAL AID)
 OPERATING BUDGET INCREASES 10% PER ANNUM
 SURPLUS SPENT ON CAPITAL
 INFLATION 7% PER ANNUM
 NO PERMANENT FUND DIVIDENDS
 NO PERMANENT FUND INFLATION-PROOFING
 PERMANENT FUND EARNS 12% PER ANNUM
 GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF	REQUIREMENT BAL 0 MIL
1983										3790	88		
1984	2703	629	3332	1912	1341	167	0	3420	-88	4085	0	0	0
1985	2594	643	3237	1965	1118	154	0	3237	0	4101	0	0	0
1986	2645	648	3293	2021	1119	154	0	3293	0	4126	0	0	0
1987	2540	640	3180	2077	944	158	0	3180	0	4140	0	0	0
1988	2636	635	3272	2135	968	168	0	3272	-0	4167	0	0	0
1989	2520	630	3150	2200	790	170	00	3150	00	4200	00	00	00
1990	2200	616	2800	2260	390	160	00	2800	00	4200	00	00	00
1991	1870	560	2440	2320	00	140	00	2460	-30	4150	00	00	30
1992	1680	530	2210	2390	00	120	00	2510	-300	4090	00	00	300
1993	1470	520	1980	2450	00	120	00	2570	-590	4000	00	00	590
1994	1330	510	1840	2520	00	100	00	2620	-780	3890	00	00	780
1995	1190	500	1690	2590	00	100	00	2690	-1000	3780	00	00	1000
1996	1060	490	1540	2660	00	70	00	2740	-1190	3660	00	00	1190
1997	1010	470	1480	2740	00	50	00	2790	-1310	3540	00	00	1310
1998	970	460	1430	2820	00	40	00	2860	-1430	3420	00	00	1430
1999	960	450	1410	2890	00	30	00	2920	-1510	3320	00	00	1510
2000	950	440	1390	2980	00	20	00	3000	-1610	3220	00	00	1610
TOTAL	30330	9360	39690	40920	6670	1920	00	49510	-9820				9740

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 23, 1983

MEMORANDUM

TO: Honorable Vic Fischer, Chairman
Senate State Affairs Committee

FROM: Milt Barker *MB*
Fiscal Analyst

SUBJECT: SB 70

As requested by you, I have prepared the attached tables which show:

1. the annual contributions to the Alaska Energy Dividend Fund, in both actual and FY 1984 dollars (Table I);
2. the number of per capita grants those amounts would fund, taking account of annual escalation of grant amounts for inflation though not taking account of variation in grant amounts for regional cost differences (Table I);
3. state funding for Susitna under "Option D" of the January 1983 Acres financing plan, in both actual and FY 1984 dollars (Table I);
4. the amount that would be available for capital projects that have been proposed excluding power projects (Table II and graph).

The attached Legislative Finance computer runs labelled SB 70 show the entire fiscal picture for the State under SB 70 in both actual and FY 1984 dollars. It should be noted that under the assumptions used, general fund deficits would be incurred in FY 1990 and all subsequent years even without any capital budget. Should these conditions prevail, it might be difficult to maintain funding for the Alaska Energy Dividend Program.

If the Alaska Energy Dividend Program were discontinued after FY 1989, the amount of funding that would have accrued for the program would be \$1,965.0 million (or \$1,635 in FY 1984 dollars). These amounts are less than the State funding called for under "Option D" of Acres for Susitna.

All of the above analysis is based on the January 1983 revenue estimates of the Department of Revenue and could be subject to major revision depending on oil price developments.

SB 70 - Section 2

You have also requested an estimate of the impact of Section 2 of SB 70.

It is impossible to project the impact, not knowing what "energy project service districts" will be formed, what projects undertaken, their scale, their financing, the residential share of power consumption, the retail price of electricity and its effect on monthly residential consumption, etc. However, as an example of how Sec. 2 might work, the Sitka utility district and their Green Lake project are analyzed.

If one assumes that in the absence of SB 70, Green Lake would have been financed 90% with 35 year debt at 10% interest and 10% with equity which earned 12%, then the capital charges for Green Lake would have been \$6.2 million per year.¹ With sales from Green Lake estimated at 59 million kwh annually,² the capital charges would have been 10.5¢ per kwh for Green Lake at the busbar.

It is implicitly the intent of SB 70 that no charges for recovery of Energy Dividend Fund grants be included in electricity rates. This should probably be stated in the bill.

It is also the intent of SB 70 that no charges for recovery of any other invested funds or return thereon be allowed in the residential rate for the first 1,000 kilowatt hours. The legislation needs to clarify that neither return of nor return on invested funds will be allowed.

-
1. \$59 million cost for Green Lake excluding any transmission costs multiplied by $(.9 \times .10369)$, the debt service per dollar borrowed at 10% for 35 years + $.1 \times .12$.
 2. 37.8 million kwh generated from Green Lake for first seven months at FY 83 extrapolated to 12 months and multiplied by 91% for line losses, utility's consumption, etc.

The effect of these two elements of intent would be that the residential customer pays no charges for the capital cost of a project if there is any grant money at all in the project. Other customers would pay the entire charges for invested funds (though nothing for grant funds).

Assuming residential customers would have borne their pro-rata share of capital charges in the absence of SB 70,³ SB 70 in this case would result in a 10.5¢ per kwh savings to residential customers on their first 1,000 kwh's. With current average monthly consumption in Sitka of 783 kwh per residential customer, the average customer's benefit would be \$82 per month or \$986 per year. Sitka has 2,480 residential customers and a population of 8,221. Thus, the average benefit per person would be \$297 per year.

For commercial and industrial customers, there could be either an increase or a decrease in rates depending on the amount of grant funds in a project. Commercial and industrial consumption in Sitka is currently 71.8% of total consumption. If these customers picked up all Green Lake capital charges (in the absence of any SB 70 grants), their cost per kwh would increase from 10.5¢ to 14.6¢. A grant of \$16.6 million would keep commercial and industrial charges at 10.5¢. If Sitka got \$5,000 for each of its 8,221 persons it would have received a grant of \$41 million which would have lowered commercial and industrial charges for Green Lake to 4.5¢ per kwh. Of course, a grant covering 100% of project costs results in a 10.5¢ per kwh saving for all customers, commercial and industrial as well as residential.

If Sec. 2 should result in an increase in commercial rates, businesses may well pass on the cost increase through price hikes. Should this occur, it would mean some dilution of the direct benefits to residential customers.

You have asked for an assessment of the efficiency of SB 70 as a mechanism for distribution of state wealth to residents. With a grant of \$16.6 million which would keep commercial and industrial users at their existing rate, SB 70 provides a benefit estimated above at \$297 per person. This benefit can be compared to the possible earnings on \$16.6 million divided among the 8,221 people. This would be \$202 per person if the funds earned 10% interest. SB 70 provides a greater benefit to residential customers for the money because of the subsidy from commercial and industrial customers paying the project costs not funded by grants.

-
3. Some utilities, of which Sitka is one, provide a rate break to residential customers vis-a-vis commercial and industrial customers. Others may give a better rate to commercial and industrial users often through declining block rates.

If keeping commercial and residential rates constant while letting residential customers off the hook is the test, then this example would argue for \$2,000 per capita grants. Of course, one can be even more efficient by giving even smaller grants, still letting residential customers off under Sec. 2 and hitting commercial and industrial users for the capital costs. Or one could just pass a bill forbidding residential charges for capital costs under any circumstances for the first 1,000 kwh per month.

At the \$5,000 per capital level, the Green Lake example would suggest that individuals could receive more if the grants were invested. They would then receive \$500 at 10%. At the \$5,000 grant level in the Green Lake example much of the benefit goes to reduce commercial and industrial rates as shown above.

If the benefit under SB 70 is compared to the amount that individuals would receive under the Permanent Fund dividend program, the SB 70 benefits would look more favorable because individuals only receive 50% of the five year average income. But that is a matter of policy; individuals could be given the entire earnings off amounts deposited in the Permanent Fund. The full amount of earnings represents the opportunity cost of using funds for other purposes, such as SB 70 grants. Note too, that because of inflation-proofing, Permanent Fund dividends increase over time in nominal terms while the capital charges the electricity customer forgoes under SB 70 are a fixed amount for the life of the project.

attachments

cc: Senator Halford

MB:ro

TABLE 1
ALASKA ENERGY DIVIDEND FUND (SB 70)

<u>Fiscal Year</u>	(1) <u>Annual Contribution to Energy Dividend Fund (50% of Permanent Fund Income) (\$ Millions)</u>	(2) <u>Thousands of Per Capita \$5000 Grants</u>	(3) <u>State Funding for Susitna "Option D" (\$ Millions)</u>	(4) <u>Annual Contribution to Energy Dividend Fund (Millions FY 84 \$)</u>	(5) <u>State Funding for Susitna "Option D" (Millions FY 84 \$)</u>
1984	236	47.2	--	236	--
1985	268	50.1	806.8	251	658.0
1986	304	53.1	413.3	265	318.0
1987	342	55.8	475.3	279	345.0
1988	385	58.7	552.1	294	378.0
1989	430	61.3	156.4	310	101.0
1990	480	64.0	--	320	--
1991	540	67.3	--	330	--
1992	590	68.7	--	340	--
1993	650	70.7	--	350	--
1994	700	71.2	--	360	--
1995	760	72.2	--	360	--
1996	830	73.7	--	370	--
1997	890	73.9	--	370	--
1998	970	75.2	--	370	--
1999	1040	75.3	--	380	--
2000	1120	75.9	--	380	--
	10535	1114.3	2403.9	5565.0	1800.0

Notes: 1 & 4. From attached Legislative Finance computer runs labelled "SB 70";
2. Col. 1 + (5 x 1.07^N) where N = Fiscal Year - 1984; grants increased 7% per annum for inflation;
3 & 5. "Option D" from Susitna Hydroelectric Financing, Task 1: Financing Options, Acres, January 1983; from Table 4 and Table 3 respectively; FY 83-85 summed and shown as FY 85.

PREPARED BY:
LEGISLATIVE FINANCE
2-22-83

TABLE II
 FUNDS AVAILABLE FOR CAPITAL PROJECTS
 UNDER SB 70
 (\$ Millions)

FISCAL YEAR	(1)	(2)	(3)	(4)	(5)	(6)
	General Funds	Funds Available for Capital Projects GO Bonds	Total	Loan Program Appropriations	Governor's Six Year Capital Budget	Total Capital Projects
<u>Actual Dollars</u>						
1985	546.0	--	546.0	300.0	2035.0	2335.0
1986	580.0	300.0	880.0	300.0	742.9	1042.9
1987	415.0	90.0	505.0	300.0	961.2	1261.2
1988	481.0	125.0	606.0	300.0	1066.2	1366.2
1989	250.0	--	250.0	300.0	?	300.0+
1990	--	50.0	50.0	300.0	?	300.0+
1991	--	140.0	140.0	300.0	?	300.0+
1992	--	--	--	300.0	?	300.0+
1993	--	--	--	300.0	?	300.0+
Total	2272.0	705.0	2977.0	2700.0	4805.3	7505.3+
<u>FY 1984 Dollars</u>						
1985	511.0	--	511.0	280.0	1901.9	2181.9
1986	507.0	262.0	769.0	262.0	648.9	910.9
1987	339.0	73.0	412.0	245.0	784.7	1029.7
1988	367.0	95.0	462.0	229.0	813.4	1042.4
1989	180.0	--	180.0	214.0	?	214.0+
1990	--	33.0	33.0	200.0	?	200.0+
1991	--	87.0	87.0	187.0	?	187.0+
1992	--	--	--	175.0	?	175.0+
1993	--	--	--	163.0	?	163.0+
Total	1904.0	550.0	2454.0	1955.0	4148.9	6103.9+

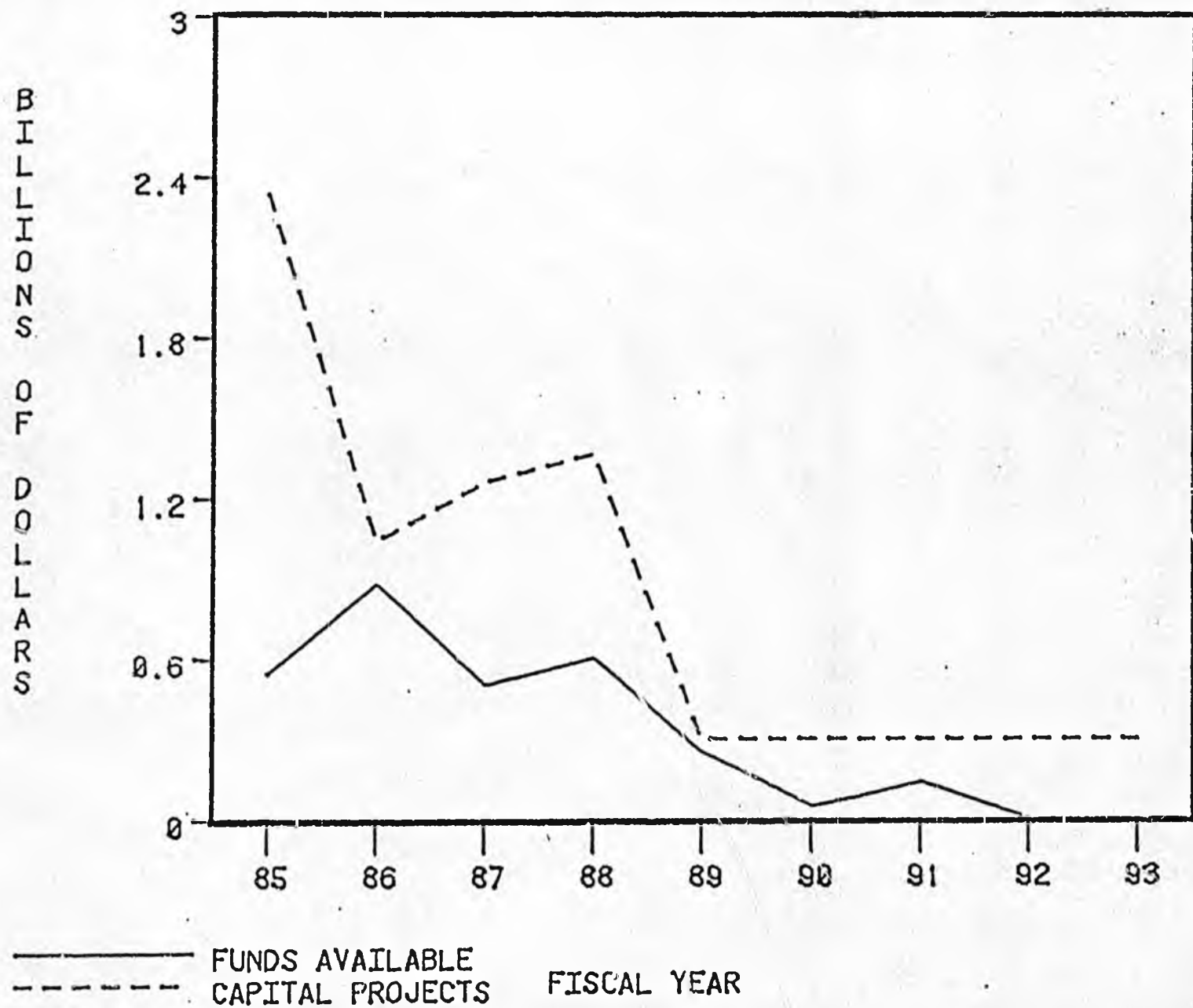
PREPARED BY:
 LEGISLATIVE FINANCE
 2-22-83

- Notes:
1. From attached Legislative Finance computer run labelled "SB 70";
 2. From Table 1, Susitna Hydroelectric Project, Task 11; Financing Options, Acres, January 1983;
 4. Assumes loan appropriations at roughly the Governor's FY 84 budget level, \$294.5 million;
 5. Total of general fund capital projects (including voter approval) contained in Executive Budget, Book 2, Capital Budget and Six Year Capital Program, FY 83, Jay Hammond, Governor; FY 85 amount is sum of FY 83-85 amounts less amounts appropriated for capital and loans for FY 83 and less the amount of capital projects proposed by Governor Sheffield for FY 84.

FY 84 \$ amounts are based on a 7% inflation factor: the Acres Susitna numbers appear to be on a calendar year basis and are thus adjusted for an extra 1/2 year.

PREPARED BY:
LEGISLATIVE FINANCE
2-22-83

FUNDS AVAILABLE FOR CAPITAL PROJECTS
UNDER SB 70



FEBRUARY 21, 1983

STATE OF ALASKA
 LEGISLATIVE FINANCE WORKING DOCUMENT
 BUDGET FORECASTING MODEL

*** ACTUAL DOLLARS IN MILLIONS ***

JAN 83 DEPT OF REVENUE ESTIMATES
 OPERATING BUDGET AT SPENDING LIMIT
 SPENDING LIMIT INCREASES 10% PER ANNUM
 SURPLUS SPENT ON CAPITAL
 INFLATION 7% PER ANNUM
 DIVIDENDS GO TO ALASKA ENERGY DIVIDEND FUND
 PERMANENT FUND INFLATION-PROOFED
 PERMANENT FUND EARNS 12% PER ANNUM
 GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF \$	0 MIL
1983										3790	88		
1984	2703	370	3072	1987	770	167	236	3161	-88	4321	0	0	0
1985	2775	389	3164	2185	546	164	268	3164	0	4892	0	0	0
1986	3029	422	3451	2404	580	163	304	3451	0	5532	0	0	0
1987	3112	456	3568	2644	415	166	342	3568	0	6222	0	0	0
1988	3456	499	3954	2909	481	179	385	3954	0	6998	0	0	0
1989	3540	540	4080	3200	250	190	430	4080	00	7860	00	00	00
1990	3300	580	3870	3520	00	190	480	4190	-320	8750	00	320	320
1991	3000	620	3620	3870	00	180	540	4580	-960	9650	00	960	960
1992	2890	670	3560	4260	00	160	590	5000	-1440	10600	00	1440	1440
1993	2700	740	3430	4680	00	160	650	5490	-2050	11570	00	2050	2050
1994	2610	810	3420	5150	00	130	700	5990	-2560	12590	00	2560	2560
1995	2520	880	3390	5670	00	130	760	6560	-3170	13650	00	3170	3170
1996	2380	950	3330	6240	00	120	830	7190	-3850	14760	00	3850	3850
1997	2440	1030	3470	6860	00	80	890	7830	-4360	15950	00	4360	4360
1998	2510	1120	3630	7540	00	60	970	8570	-4940	17210	00	4940	4940
1999	2660	1210	3870	8300	00	40	1040	9380	-5510	18570	00	5510	5510
2000	2800	1310	4110	9130	00	30	1120	10280	-6170	20040	00	6170	6170
TOTAL	48410	12590	61000	80550	3050	2300	10550	96440	-35440			35350	

STATE OF ALASKA
 LEGISLATIVE FINANCE WORKING DOCUMENT
 BUDGET FORECASTING MODEL

*** FY 1984 DOLLARS IN MILLIONS***

JAN 83 DEPT OF REVENUE ESTIMATES
 OPERATING BUDGET AT SPENDING LIMIT
 SPENDING LIMIT INCREASES 10% PER ANNUM
 SURPLUS SPENT ON CAPITAL
 INFLATION 7% PER ANNUM
 DIVIDENDS GO TO ALASKA ENERGY DIVIDEND FUND
 PERMANENT FUND INFLATION-PROOFED
 PERMANENT FUND EARNS 12% PER ANNUM
 GO BONDS PER ACRES JAN 83 SUSITNA FINANCING PLAN

FISCAL YEAR	REVENUE	INTEREST	TOTAL REVENUE	OPERATING BUDGET	CAPITAL BUDGET	DEBT SERVICE	PERMANENT FUND DIVIDENDS	TOTAL BUDGET	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF	REQ BAL 0 MIL
1983										3790	88		
1984	2703	370	3072	1987	770	167	236	3161	-88	4321	0	0	0
1985	2594	364	2957	2042	511	154	251	2957	0	4572	0	0	0
1986	2645	369	3014	2100	507	143	265	3014	0	4832	0	0	0
1987	2540	372	2913	2159	339	136	279	2913	0	5079	0	0	0
1988	2636	380	3017	2219	367	137	294	3017	0	5338	0	0	0
1989	2520	390	2910	2280	180	140	310	2910	00	5610	00	00	00
1990	2200	380	2580	2350	00	130	320	2790	-210	5830	00	210	210
1991	1870	380	2260	2410	00	110	330	2850	-600	6010	00	600	600
1992	1680	390	2070	2480	00	90	340	2910	-840	6170	00	840	840
1993	1470	400	1870	2550	00	90	350	2990	-1120	6290	00	1120	1120
1994	1330	410	1740	2620	00	70	360	3040	-1300	6400	00	1300	1300
1995	1190	420	1610	2690	00	60	360	3120	-1500	6490	00	1500	1500
1996	1060	420	1480	2770	00	60	370	3190	-1710	6560	00	1710	1710
1997	1010	430	1440	2850	00	30	370	3250	-1810	6620	00	1810	1810
1998	970	430	1400	2930	00	20	370	3320	-1920	6670	00	1920	1920
1999	960	440	1400	3010	00	10	380	3400	-2000	6730	00	2000	2000
2000	950	440	1390	3090	00	10	380	3480	-2090	6790	00	2090	2090
TOTAL	30330	6800	37130	42520	2680	1550	5580	52320	-15190			15100	15100



Department Of Energy

Alaska Power Administration
P.O. Box 50
Juneau, Alaska 99802

March 2, 1983

FOR SENATE STATE AFFAIRS COMMITTEE
HOUSE STATE AFFAIRS COMMITTEE
THIRTEENTH ALASKA LEGISLATURE

I had opportunity to listen to presentations at the Committee hearings on March 1, and wanted to offer some personal observations on the WPPSS experiences and natural gas pricing issues.

1. WPPSS

Ms. Titmuss' presentation was excellent, and the following notes are intended only as additional information.

WPPSS initiated its nuclear program at a time in history when the nuclear outlook was exceptionally rosy. Cost experience in the industry up to that time was exceptionally good and most were forecasting incredibly low cost power from nuclear over the long term. Some have said that the low cost was partly due to government and industry subsidies of the first generation of nuclear plants.

WPPSS attempted to implement its program during a time of: rapid evolution of the nuclear regulatory function; rapid escalation of costs for nuclear facilities; unprecedented inflation; and unprecedented costs for borrowing money.

The situation was complicated by poor performance in the PNW economy, which is quite well documented in various sources. A large part of the reduction in estimates of power requirements is directly related to recession or near depression-level economy.

These factors would have meant long delays of completion for projects and high increases in costs even if management was the very best.

It could well be that the largest problem for WPPSS was its failure to scale back its program, early on, when it encountered the above problems.

My point is, the initial assumptions of the 1960's under which the hydro-thermal program was initiated were probably pretty good. However, hindsight shows WPPSS wasn't able to make the necessary adjustments over the years as the conditions changed.

Many other power entities went into the 1970's with similarly ambitious construction programs. Most underwent some rather painful adjustments to the new realities, but most were able to make the necessary adjustments.

In relating the WPPSS experience to Alaska, it may be useful to also explore how some of the other power companies handled the adjustment period. It would also seem important to maintain some sort of distinction between the nuclear and water power technologies.

The WPPSS experience occurred during a period of rapid evolution of nuclear generation technology--particularly on the design criteria necessary to minimize risk to failure. That situation carries with it a high risk of cost increases and delay. There just should not be comparable risks to the hydroelectric projects which involve very mature technologies.

2. GAS PRICING

These are just a few thoughts based on the history of natural gas pricing assumptions in Alaska.

Generally, the period 1960-1973 was one in which most people assumed that Cook Inlet gas would be available at very low cost to meet conceivable instate needs, including electric power. Many studies assumed a future price to the year 2000 of 15 cents per million Btu.

Direct results of this gas assumption that I can recall include:

Conversion of coal-fired plants (utility and military) in the Anchorage area to gas and closure of the Matanuska coal mining operations.

Cancellation of the Central Alaska Power Pool (CAPP) plans to interconnect Anchorage and Fairbanks with power to come from coal-fired plants at Sutton and Healy (GVEA did complete the northern part of this system).

Deferral of construction start on Bradley Lake in 1964 at a time when power cost was estimated at 11 mills per kWh.

Lack of interest in pursuing Susitna. (Susitna originally proposed for authorization in 1960.)

I can recall specifically that the 15-cent gas assumption was used in the 1969 FPC Alaska Power Survey and 1971 Corps of Engineers final report on Rampart.

There was really not much significant work on alternative power plans (other than natural gas) for Cook Inlet power systems between 1962 and 1973.

Thus the key theme of the "history" is that everyone was way off base on the gas price issue up to about 10 years ago, with the apparent result of foreclosing a series of important alternatives that probably would have been constructed if there had been a better understanding of future gas prices.

Obviously, it doesn't do much good now to second-guess the decisions of the '60's. However, it is important to use the historical perspective as a guide to the decisions next to come.

In that light, while I give a great deal of credit to people like Ericksen and Gorsuch for advocating their beliefs that future oil and gas prices will be much lower than assumed in most of the recent studies, I suggest there is high likelihood that their most recent gas pricing estimates are way too low.

The potential for error based on pricing assumptions is immense. One example is Prudhoe Bay. Up thru the final debates on permitting construction of the Trans Alaska pipeline, many eminent economists were convinced the wellhead value at Prudhoe was either zero or negative. Those people were off by at least \$200 billion.

The biggest potential for error would be to shelve all the alternatives based on the latest trend in world oil prices. In that regard, it makes a lot of sense to proceed with those actions on Susitna which would put the State in a position to build the project if and when the decision to build is made.

3. RECAP

The above notes are offered as personal views.

I'd like to add that the periodic, careful review of major programs, such as your Committees are now doing, must be one of the very good ways of assuring best possible results and avoiding unpleasant consequences.

I'd like to compliment the Committees and your staff for the thoroughness of their reviews.

Sincerely,



Robert J. Cross
Administrator

Susitna Hearings

I Susitna Hydropower Plan of Study

- A. Prepared by the Army Corps of Engineers for APA
- B. Completed - June 1978

DEPD

II Aeres Study

- A. Awarded - Dec. 1979
- B. Purpose - "To conduct a detailed feasibility study in order to determine technical feasibility, economic viability, and environmental impact for optimal development of the Susitna River Basin"

III Change in scope

- A. In 1980 a series of public meetings and a legislatively sponsored critique by Arlen Tassing found that the Aeres study does not adequately assess alternatives to Susitna.
- B. FY 81 appropriations to Governor's Office
 - 1. Susitna Plan of Study Revisions - \$1,365,000
 - 2. Fairhill Power market and supply - \$239,000
 - 3. Tidal Power Project - \$500,000
- C. RFP in Aug, 1980
 - 1. Emphasis on
 - a. Developing data base and model for load forecast
 - b. Evaluation of alternatives to Susitna

~~A Policy~~

- D. Policy Review Comm. consisting of
1. DPPD
 2. Budget & Mgmt
 3. APA
 4. DEPD
- } now OMB

IV. Battelle - Kailbelt Electric Power Alternative Study

- A. Fuel Price and Availability
- B. Annual Peak Load and Energy Forecast
- C. Electrical Energy Generating and Conservation Alternatives
 1. Availability of resource base in Kailbelt
 2. Commercially available by 2000
 3. 37 generation technologies and fuel combinations
- D. Electric Energy Plans (scenarios)
 - 1A. Present practice without savings
 - 1B. Present practice with savings
 - 2A. High conservation and renewables without savings
 - 2B. High conservation and renewables with savings
 3. High coal
 4. High natural gas
- E. Comparative Evaluation of Electric Energy Plans
- F. Sensitivity Analysis
- G. Consideration for Supplementing Electric Energy Plan

V Results

- A. Acres - "The essential conclusions of the detailed feasibility study are that the project is technically feasible and economically viable." The safety of the population in the vicinity of the project will not be impaired and the unavoidable impacts which this large project will cause on the environment will not be unduly severe and can be adequately mitigated. Financing of the project is also feasible with state assistance at acceptable risk to consumers in the Fairbairn region."
- B. Battelle - after revisions; "a lower growth rate makes that project (in situ) less attractive. While still ^{the} most resistant to inflation once it is completed, its power output would be larger than the Fairbairn region could readily accommodate."
- C. Reconciliation
- D. Ericson Paper

VI Recommendations

April 1982 A. APA Board - Acknowledged that the Justice project has both long term potentials and uncertainties. "Because of these uncertainties and the time available before any construction decision is necessary, the authority believes it is premature to make any commitment, at this time, to actual project construction." Recommended that the following actions proceed

1. Pre-construction development effort
2. Legislative authority as a FERC license applicant
Timing to be decided by June 30, 1982
3. Appropriation of \$25.6 million for construction effort
4. Alternatives to be considered
 - a. North slope gas - \$200,000
 - b. Chaklamna - \$3,300,000

B. Policy Review Comm.

1. Questions
 - a. Escalation of fossil fuel prices
 - b. Capital cost overrun
 - c. Electricity demand growth
 - d. Project timing
 - e. Environmental concerns
 - f. Conservation
 - g. Gas availability in Cook Inlet
2. Recommendations
 - a. North slope gas - phase I \$200,000 plus II - \$800,000
 - b. Baluga coal - \$100,000
 - c. Chaklamna - \$3,300,000
 - d. Total of \$4,500,000 applied to \$25,600,000

C. External Review Panel

1. Supported the results of the engineering and environmental studies
- ~~2. Cautioned that the economic and financial~~
2. Cautioned that "if the project is financed at an opportune time when bond interest rates and oil revenues are favorable, the potential long term benefits of the Quatna Project will be considerable"
3. "we endorse the proposal to proceed with site investigations and design of the project, with concurrent work on some of the critical environmental studies" and that the "AGA develop a detailed business plan which incorporates a financing and marketing plan into an overall business strategy."

D. Legislative Action

1. Appropriations
 - a. \$25.6 million for Quatna and alternative
 - b. \$250,000 for North Slope gas
2. HB-7 Approved preliminary work for Quatna which includes the FERC license application but not actual construction of the project or site preparation

VII Current Situation

A. Conditions have changed - particularly the price of oil

1. State revenues are less
2. Load forecast is less
3. Cost of thermal alternatives is less
 - a. Base price
 - b. Real escalation rate
4. Inflation is less
 - a. Real discount rate

1981 - 6.0%

1982 - 9.0%

1983 - 6.3%

1984 - 5.2%

1985 - 5.4%

B. Consequently:

1. State risk is higher
2. State's equity participation is higher
- 3.

C. OMB Review Process

1. Economic window using current conditions
 - a. Load forecast
 - b. Fuel prices
 - c. Capital costs
 - d. Discount rate
2. Project timing
3. Ongoing reviews

Alaska State Legislature

Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp



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

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Nancy Lord
Senator Vic Fischer's Office

FROM: David Rogers *DR*
Senior Advisor

DATE: March 4, 1983

RE: Susitna Hearings on "Readiness"

On the basis of last weeks "readiness" hearing with the Power Authority, Fish & Game and DNR, I have identified at least three issues which may deserve further consideration by the Legislature:

1. There may be need to beef up the interagency coordination mechanism;
2. Although it appears that land ownership issues are under control, it makes sense for the Legislature to monitor progress; at least on an informal basis.

As you know, land disputes can significantly delay a project of this magnitude if not resolved early in the process.

3. Subsistence issues (touched on briefly by Fish & Game) require very special attention; especially given the political sensitivities involved. It wouldn't hurt to further probe the Administration's plan for dealing with subsistence use impacts in the Susitna Project area.

Just a few thoughts for your consideration.

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

SENATOR VIC FISCHER, CHAIRMAN

POUCH V, JUNEAU 99811

(907) 465-4954



HYDRO/SUSITNA HEARINGS (revised 2-18-83)

Senate Bills 68, 69, 70, and 71

February 24, 1:30-5:00, Court Room A, Court Building, Juneau. BACKGROUND BRIEFING. Review and analysis of processes and considerations involved in the development of hydroelectric projects.

-- Eric Yould, Executive Director, Alaska Power Authority: APA's role in developing projects, determining feasibility and capital costs, financing plans, construction schedules, marketing, and operational costs; summary of projects' status and plans

-- Ernst Mueller, Environmental Services, Lmted. and former APA board member: history of the APA

-- Governor's Office: Administration policies and proposals

-- William Wakefield, FERC: federal review process

-- Dept. of Law: interim financing

-- all participants, including OMB and representatives of the cities of Petersburg and Wrangell: Tyee -- case study of a project

February 26, 9:00-4:00, Anchorage Westward Hilton, Alaska Room, Anchorage. PUBLIC HEARING ON SUSITNA AND HYDRO DEVELOPMENT IN GENERAL. Those who wish to testify are asked to sign up in advance at the Anchorage Legislative Information Office. Public testimony will follow introductions by Mr. Yould and bill sponsors.

March 1, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY -- SUSITNA. This meeting will be teleconferenced to all major sites for listening only.

George W. Rogers: Strategies, parameters, and criteria that might be considered by the legislature in examining Susitna and other major hydroelectric projects.

SUSITNA FEASIBILITY: What factors are involved in determining feasibility? How sensitive is the feasibility to changes in those factors? What have the Susitna feasibility and alternative studies shown? How accurate is the \$5.2 billion cost estimate? How do different Susitna dam configurations compare with Watana/Devil Canyon? How have recent developments in oil and gas prices and in economic growth affected feasibility? How are those developments being factored into the Susitna update and FERC application?

-- Eric Yould and a representative from Acres American: summary of the feasibility findings and on-going work

-- Gregg Erickson, Erickson & Associates: review of the Acres study and recent developments

-- Office of Management and Budget: review of studies, alternatives, demand forecasts

SUSITNA FINANCING: What is the best financing plan for Susitna? How much state appropriation is necessary to ensure the marketability of Susitna power? What do the plans presented in SB 68 and SB 70 represent in terms of commitments of state funds, and how would they affect the cash flow available for other capital projects? What would the effect be of the bonding plan in SB 71 on the state's credit and ability to bond for other projects? What should the timing be for appropriations and bonds? How will the bond market respond to Susitna revenue or "double-barrel" bonds? Will the bonds qualify as tax-deductible? How equitable, in terms of state subsidy, are the plans presented?

-- APA financial/bonding advisors: review of Acres plan, recommendations

-- Eileen Titmuss, bond analyst: considerations in the bond market, factors affecting public power bonds

-- Milt Barker, Legislative Finance: relationship of capital requirements to projected revenues

-- Dept. of Revenue: relationship of capital requirements to state bonding capacity and credit rating

March 3, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY, CONTINUED. This meeting will be teleconferenced to all major sites for listening. If time allows, public testimony will be taken following the scheduled witnesses.

SUSITNA MARKETABILITY: Will Susitna power be marketable? What factors might affect marketability? What costs/rate structures are contemplated? How will marketability be ensured? What type of power purchase commitments can be obtained prior to construction? What is the role of the APUC? Might available power attract new industry?

-- Yould and APA marketing advisor: status of marketing situation

-- Harrison Call, marketing specialist: power sales agreements

-- Alaska Public Utilities Commission: its role in approving contracts and rates

-- utility representatives who wish to address the issue

-- Office of Management and Budget: review of the SRI study of the effect of electricity price and availability on industrial development

SUSITNA READINESS: Has the Governor's "Susitna checklist" been followed? What further requirements must be met, and in what order? Has the sequence laid out in statute been followed? Have the FERC requirements been met? Are land ownership conflicts resolved? Have the utilities agreed to purchase Susitna power?

-- Governor's Office: presentation of the "checklist"

-- David Rogers (Senate Advisory Council) and Yould: review of identified "obstacles" and how they are being addressed

-- Yould: schedule for proceeding, incorporating new data

To be used for representation of fish and wildlife
Representatives.

1. Q. What, if anything, needs to be done about quantifying impacts to users of fish and wildlife resources in the project area?
2. Q. What are the approximate numbers of fish and wildlife that may be affected by the project?
3. Q. What does the Department think of the mitigation planning that has been done so far?

DNR

1. Describe existing land ownership conflicts in the Susitna basin.

Are costs of resolving land conflicts adequately considered?

(per 2/24 Anchorage Times article)

2. Are water quantity and flow considerations adequate? Are

impacts known? What is your data collection program?

Do you have the capabilities of thoroughly reviewing APA

consulting studies? What were your comments on the draft

FERC Exhibit E? Were your comments adequately

considered for the final FERC application? Have you

seen the final FERC application? Are you working

closely with APA?

★ [3. What mechanisms now exist for ~~the~~ interagency cooperation

with APA? Do agencies review APA findings and

statements? How would you improve the process?

4. What role does the Susitna Hydroelectric Steering Committee play?

Is it effective? Is it adequately staffed to protect the State

interests in habitat, land, and water?

To: Vic Fisher and his committee
on Susitna

2-26-83



THE ANCHORAGE WESTWARD HILTON

Mr. Chairman and honorable committee,
I am an authority on absolutely nothing but am pleased to have this opportunity to testify before you on matters that I am concerned with. I represent myself but feel that I am in agreement with a respectable number of people that may be affected by Susitna Hydro Power Project if it is carried out. From what I have read and seen concerning this project, I believe it is too expensive and would be a waste of our states money. The project is too large for ^{any} one single project. We have too much at stake. Alternative sources of energy have been proven to be effective for powering businesses and heating homes. With 15 billion dollars, or whatever the cost may be for the dam construction, we could have everyone in the state set up with micro hydro power, solar power, wind power and or geothermal power among other sources and we would still have money left over for maintenance and expansion of what we would already have. These ideas are not so "far out", but just simple. I am also wary of the ways and processes by which this project would be financed. I have learned by experience that you don't try to do something if you don't have the money in hand to do it comfortably. Whether the case be small or large, you just don't do something without appropriate funds or else you suffer. Why suffer? The environmental factors concerning the Susitna Project are obvious. Mess with the river and you will lose part of it, and maybe lose this part forever.



THE ANCHORAGE WESTWARD HILTON

Forever is a sickening word when used in this context isn't it? People should enjoy and work Alaska for what we already have. I don't live here just to do things once or twice. Take catching salmon in the river for example. By building this dam we are taking a chance of destroying the Susitna salmon fishery as we know it. I want to do some thing like fishing in the river for salmon over and over and over again. Why take chances when such a great and large thing is at stake like the Susitna drainage? I think that building this dam would be a selfish act of incompetence. I want my children, grandchildren and great grandchildren to be able to experience the same things that I enjoy if they choose to do so. I don't think we should be making decisions now, for later generations, that would be irreparable later.

Thank you
Bill Holton
Anchorage



ARCHITECTS, ENGINEERS & PLANNERS

February 26, 1983

Earl Finkler

Testimony of Earl Finkler, Director of Planning, CSM

Whatever the ultimate disposition of the Susitna project and the extent of State financing, it is very important to frame actions and subsidies in a State-wide context. Our firm has worked on energy projects and energy conservation in many areas of Alaska, but we would like to emphasize the need for comprehensive State action to help solve the critical rural energy problem.

A study by the Institute of Social and Economic Research projects that by 1988 the proportion of cash income spent on fuel oil and electricity will rise from 29 percent (in 1978) to 43 percent for rural Native households.

With energy expenditures consuming almost half of the cash income, it will be very difficult, if not impossible, for rural Native communities and the rural areas in general to survive. Residents of the bush are already paying more for both electricity and heating, but using less of each resource.

Now, while the State still has a fairly healthy capital budget, there is time to do something very meaningful regarding the rural energy problem. The recent draft of the State Energy Plan notes the great potential and high paybacks of conservation.

Our experience in rural communities such as Anaktuvuk Pass shows the great potential of conservation -- even with the underfunded home energy audit and retrofit program. By combining the state program with North Slope Borough contributions, we were able to achieve 100 percent implementation of energy audits, compared to 30 or 40 percent state-wide. We estimate 10 year energy cost savings of almost \$240,000 for some 70 homes. In addition, about one-fifth of the total project budget went for local hire wages, local people trained and paid for energy retrofit work.

Between conservation, improved fuel storage and delivery and carefully planned alternate energy systems, it would not be difficult to estimate that a major state program approaching the scope of a Susitna could make a real difference in rural Alaska. In addition to reducing energy costs, the program could also hire great numbers of local people, develop local industries and reduce or eliminate the need for endless fuel and electricity subsidies.

CONSTRUCTION SYSTEMS MANAGEMENT, INC.

902 WEST INTERNATIONAL AIRPORT ROAD ANCHORAGE, ALASKA 99502

(907) 276-3033

26 February, 1983

Honorable chairman and members of this committee;

It is my opinion that you have the good fortune of being in a position to avoid a multi-billion dollar mistake. By rejecting the Susitna Hydro Project as presently designed you will be wisely recognizing the present facts.

1. The supposed need for Susitna is based upon the development of the Alaska Highway Gas Pipeline. Because of present economic conditions this gas line will probably not be built.
2. The supposed need for Susitna is also based upon a major oil refinery being built in Valdez. This project will most likely not be built.
3. The supposed need for Susitna is also based upon the assumption that State Capital spending will continue to increase. This is not likely to occur since state oil revenues are falling precipitously.
4. The feasibility study conducted by Acres American for the Alaska Power Authority concludes that in light of world economic changes, Susitna should be rejected. Natural gas fired generation of electricity will be cheaper than Susitna well into the next century.

During your hours of deliberations I sincerely hope you will continue to go over these compelling facts and reach the wise decision to avoid the mistake of Susitna. Thank you for this opportunity to express my views.

Sincerely,

Stephen R. Piper

Stephen R. Piper

0 Craig drive
Anchorage, Ak 99504

SUSITNA POWER PROJECT

Testimony before Senate State Affairs Committee - 2-26-83. By Harold E. Pomeroy,

PREFACE: This is to illustrate the relationship of the state's basic economic condition to the Susitna Project. Based upon the experience of competent oil operations in Cook Inlet and information from elsewhere I believe our OCS potentials can be developed safely and have taken a public position in support of going ahead without delay, subject to appropriate attention to special considerations. If development proceeds as projected and the number of workers should rise to 8,000, the number of persons in the population accounted for by OCS will be about 40,000. The total benefits in economic activities stimulated thereby will be significant.

A dark cloud on the horizon is that the state budget deficit - the amount funded by oil income above normal tax income - will rise by about \$200 million a year (in 1983 dollars) - just as Prudhoe Bay revenues will be going into significant yearly decline. The yearly deficit increases from OCS might total nearly \$1 billion by then.

Normal state income covers less than 15% of expenditures, with the deficit of about 85% almost all paid by oil - of course. The Permanent Fund earnings provide a bright, if small, ray of sunshine. It is pleasant to note that the Fund earnings are already larger than would be received from the personal income tax, if re-enacted.

The Legislature took the responsible step of depositing more in the Permanent Fund than mandated, but there is doubt that this sets an enduring precedent - especially with oil income falling.

The temptation to believe that if we just contrive to promote enough economic development, the spending deficit will shrink, is strong and also untrue. With too few exceptions to have significant effect, the average of normal taxes paid by new enterprises of all kinds will change the state normal tax income level of 15% of expenditures insignificantly. To make a substantial difference would require very stiff additional taxes.

There is belief that it is both a good cause and cost effective to promote new projects to create jobs for unemployed Alaskans - others stay out. It is unconstitutional to

Harold E. Pomeroy

discriminate in employment on the basis of residence. In any event, employers almost universally employ the person, not length of residence.

There is a large, rotating pool of newcomers looking for a better life and better opportunities here. The number is chronically large; it varies little, whether economic activity is booming or flat. The effect is that economic expansion is accompanied by population increase and it is not suggested that this is bad. There is, however, the bothersome problem that for every one thousand new residents the expenditure deficit increases by \$4 million a year, or more.

We are making negligible headway in narrowing the gap between normal income and outgo. There are many things that could be done, such as telling local governments to pay for school construction and bond costs for their schools, as they did before we had oil money. Some actions, quite as unwelcome as this, will almost inevitably become necessary in any event.

There is no basis to believe that, even with our best efforts, we can avoid a very rough time to bring income and outgo into balance when there is no longer a large enough flow of oil money to fund the present level of deficit.

One of the most simple and least painful ways to narrow the deficit gap is, of course, to put every additional dollar we feasibly can into the Permanent Fund to help make up for future reduction in oil income. And the earnings should be left to compound for as long as possible also.

The state has no surplus wealth available to spend to give ourselves electricity at less than it costs. The state should not subsidize the proposed Susitna Project with a gift of billions of dollars towards the capital investment, or by any other means. The state financial condition and outlook point unqualifiedly to this conclusion.

The funny paper put out by the proponents to sell Susitna isn't funny. The treatment of the subject is superficial, incomplete and misleading. It is suitable to the purpose of giving the people little enough, and misleading enough information to elicit a poll response the proponents would like to hear.

SUSITNA PROJECT - 2-26-83

Harold E. Pomeroy.

It is nice to think that the funny paper was carelessness from over-exuberance. Energy is a major, serious subject. There are other sources of energy than hydro and gas: for example, enough accessible good coal to produce energy on a non-polluting basis for hundreds of years. Coal could be tapped incrementally as needed. What about costs and what would be the effect if the total cost of subsidizing Susitna were taken into account in making a comparison? And, would every rate payer outside the reach of Susitna, be given a monthly cash rebate on his energy bill to equalize with the subsidized, cheaper-than-cost rates of the Susitna users?

Anchorage,
February 26, 1983

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Anchorage,
February 26, 1983



MATANUSKA ELECTRIC ASSOCIATION, INC.

P.O. BOX 1148

PALMER, ALASKA 99645

TELEPHONE
(907) 745-3231

RESOLUTION NO. AM-1

SUBJECT: SUSITNA HYDROELECTRIC PROJECT ENDORSEMENT
REFERENCE: ANNUAL MEMBERSHIP MEETING, 4/21/82

WHEREAS, energy costs directly affect the economic stability of individual households, businesses and the community as a whole; and

WHEREAS, energy costs are dependent on energy availability; and

WHEREAS, hydro power is by far the most viable energy source, and is economically and environmentally desirable; and

WHEREAS, the Susitna Hydroelectric Project has been sufficiently planned, studied and reviewed;

NOW THEREFORE BE IT RESOLVED that the Members of Matanuska Electric Association, Inc., assembled at this 1982 Annual Membership Meeting, go on record as being in support of the Susitna Hydroelectric Project; and

BE IT FURTHER RESOLVED that the General Manager and Board of Directors are hereby instructed to forward this resolution to the Governor of Alaska, the Alaska State Legislature, and the Alaska Power Authority immediately.

CERTIFICATION

I, Phil O'Neill, do hereby certify that I am Secretary-Treasurer of Matanuska Electric Association, Inc., an electric nonprofit cooperative membership corporation organized and existing under the laws of the State of Alaska; that the foregoing is a complete and correct copy of the resolution adopted at the Annual Meeting of the Members of this corporation duly and properly called and held on the 21st day of April, 1982; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation this 21st day of April, 1982.

PHIL O'NEILL, SECRETARY-TREASURER
MATANUSKA ELECTRIC ASSOCIATION, INC.

(SEAL)



Homer Electric Association, Inc.

P.O. BCX 429 * HOMER, ALASKA 99603 * (907) 235-8551

February 28, 1983

Senator Vic Fischer
Alaska State Senate
State Capitol
Pouch V
Juneau, Alaska 99811

Dear Vic:

Thank you for the opportunity to speak before the Senate State Affairs Committee on February 26.

You specifically asked for a copy of my letter to the Alaska Power Authority outlining our position on Susitna. Attached is a copy of that letter dated January 24, 1983.

I would like to reiterate that the two primary criteria for Homer Electric commitment to Susitna are:

1. We can have reasonable assurances that the cost of power from Susitna is comparable to costs of power from other generating sources initially, and lower than other power sources over the life of the project, and
2. Bradley Lake is not sacrificed for Susitna -- We need Bradley Lake before Susitna.

If the Legislature (or Administration) adopted a Financing Plan, the Alaska Power Authority could calculate the cost of power from Bradley Lake and from Susitna. With that information it appears logical that Homer Electric could consider signing a contract for power, assuming that Financing Plan was met. Perhaps, if the utility signed contracts for power contingent upon a particular financing plan, it might help assure the State would not change that Plan in future years. In all honesty, however, I am not sure how legal a contract like that might be.

Again, thank you for letting me speak before your committee. I look forward to working with you.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

B. Kent Wick

B. Kent Wick
General Manager

Em

BKW:em
Encl.



Homer Electric Association, Inc.

P.O. BOX 429 * HOMER, ALASKA 99603 * (907) 235-8551

January 24, 1983

Mr. Eric Yculd
Alaska Power Authority
334 West 5th Avenue
Anchorage, Alaska 99501

Dear Eric:

Dave Hutchens of ARECA requested the following information be forwarded to you immediately.

We are in the process of preparing a new Power Requirements Study which will give us a good picture of future load projections. In the absence of this updated Study, I am somewhat reluctant to give load projections beyond what is presently contained in the various Power Authority studies for the Intertie, Bradley Lake and Susitna.

Loads which we have experienced plus 1983 expectations are:

<u>Year</u>	<u>KWH Sales</u>	<u>KW Peak</u>
1980	267,000,000	58,453
1981	292,000,000	61,162
1982	323,000,000	62,831
1983	340,000,000	66,000

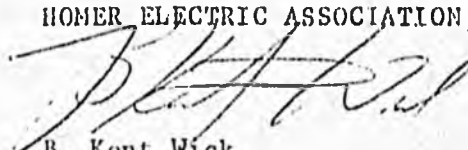
Homer Electric supports the Susitna Power Project as long as:

- A) The Bradley Lake Project is built in accordance with the present Alaska Power Authority schedule (First Unit on line - 1987);
- B) The Susitna Project is feasible and the cost of power from it is lower than alternative costs of power from the blend of other generation sources during the life of the project;
- C) Prudent engineering and reliability standards are met;
- D) Reasonable environmental concerns are resolved.

If the conditions set forth in the preceding paragraph are met, then Homer Electric would consider purchasing power from the Susitna Project.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.


B. Kent Wick
General Manager

BKW:em
cc: ARECA

WITNESSES WHO TESTIFIED BEFORE THE COMMITTEE

<u>WITNESS</u>	<u>AFFILIATION</u>
✓ Governor Sheffield	Administration
✓ Eric Yould	APA
✓ Ray Benish	APA
✓ William Wakefield	FERC
✓ Tom Singer	Erickson & Associates
✓ Ernie Haugen	Thomas Bay Power Commission
✓ Richard Underkofler	City of Petersburg
✓ Kenneth Mason	City of Wrangell
✓ George Matz	OMB
✓ Ernie Mueller	Environmental Services, Limited
✓ Kent Wick	Homer Electric Association
✓ Bob Mellin	Self
✓ Mike Kelly	Golden Valley Electric Association
✓ Jeff Bohman	Self
✓ Harold Pomeroy	Self
✓ Jeff Eustis	Self
Bob Penney	State Chamber of Commerce
✓ Mano Frey	Laborers' Union Local 341
✓ Joseph Henri	Resource Development Council
✓ Jim Ayres	Self
Paul Lowe	Self
Larry Underwood	Self
✓ Wayne Beckwith	Anchorage Chamber of Commerce
✓ Budd Goodyear	Matanuska Electric Association
✓ Tom Stahr	Municipal Light and Power
✓ Lee Woreham	Susitna Power Now
✓ Liz Gilbert	Chugach Electric Association
✓ Sharon O'Dell	Self
✓ Nancy Lee	Self
✓ Mary Pat Haberle	Self
✓ Keith Treseder	Self
✓ Victor Mittasch	Self
✓ Judy Zimicki	Northern Alaska Environmental Center
✓ Jim Sykes	Self
✓ George Skladal	Self
✓ Doug Stark	Self
✓ Ron Kuzek	Self
✓ Mark Beltz	Self
✓ Bill Holton	Self
Brian Boyd	Self
✓ Earl Finkler	CSM

Chuck Konigsburg	Self
Lisa Moorehead	Self
George Rogers	Self
Don Grimes	First Southwest
Steve McAleer	First Boston
Sterling Gallagher	John Nuveen
Tony Merritt	Acres American
Gervin Wernock	Acres American
✓Eileen Titmuss	Drexel Burnham Lambert
✓Gregg Erickson	Erickson and Associates
✓Lee Gorsuch	ISER
✓Milt Barker	Legislative Finance Division
✓Robert Heath	Department of Revenue
✓Harrison Call	RMI Pacific Northwest
✓Carolyn Guess	APUC
✓Dick Emmerman	OMB
✓David Rogers	Senate Advisory Council
✓Al Carson	DNR
✓Dennis Kelso	ADFG

MSG 83-00011051 PRTY 1 02/25/83 10:43:59 ORIG LA05 IN= 0001 OUT= 0049
FROM: MARGIE, ANC INFO TO: JUNEAU INFO
TARGET: LJHL SUBJ: MESSAGE FOR SENATOR FISCHER'S STAFF

*****ATTENTION*****PLEASE CALL FOR IMMEDIATE PICK UP*****
TO: NANCY LORD OR DAVID DYE, SENATOR FISCHER'S STAFF 465-4254

FROM: MARGIE, ANCHORAGE INFO

PER INSTRUCTIONS FROM NANCY LORD, I HAVE TAKEN THE FOLLOWING INFORMATION WITH NAMES OF PARTICIPANTS WISHING TO SIGN UP TO TESTIFY AT THE SATURDAY FEBRUARY 26 SENATE STATE AFFAIRS HEARING IN ANCHORAGE:

- 1) DATE CALLED IN
- 2) NAME
- 3) AFFILIATION
- 4) MAILING ADDRESS
- 5) HOME AND WORK PHONE NUMBERS OR ANCHORAGE CONTACT NUMBER
- 6) APPROXIMATE LENGTH OF TESTIMONY
- 7) PREFERRED TIME TO TESTIFY
- 8) NOTES

THE LIST FOLLOWS:

- 2/22 JEFF EUSTIS (SELF), 833 GAMBELL ST., ANC 99501
337-1616 H, 276-4244 W, 5-7 MINUTES, 7 AM
- 2/22 THOMAS STARR (GEN MANAGER, ANC LIGHT & POWER),
1200 EAST 1ST AVENUE, ANC 99501, 337-7148 H, 279-7674 W,
5 MINUTES, 11 AM
- 2/23 BOB MELLIN (SELF), BOX 444, WASILLA 99687, 892-7283 H,
10 MINUTES, EARLY IN DAY AS HAS TO ARRANGE RETURN TRANSPORTATION
BACK TO WASILLA (OPPOSED SB 68, 69, & 71)
- ✓ 2/23 LEE WOREHAM (CO-CHAIR, SUSITNA POWER NOW), 949 EAST 36TH AVE,
ANC 99501, 688-2540 H, 264-7081 W, 5-10 MINUTES, 10 AM
- 2/23 LIZ GILBERT (GHUGACH ELECTRIC BRD. & SUSITNA NOW), 8341 PIONEER
DRIVE, ANC 99504, 337-7432 H, 264-7394 W, 5 MINUTES, 10 AM
- ✓ 2/23 NANCY LEE (SELF), 2428 TULIK DRIVE, ANC 99503, 243-1324 H,
277-2134 W, 5 MINUTES; 1:30 PM OR RIGHT AFTER LUNCH
- 2/23 JEFF DOWMAN (SELF), BOX 41, MCKINLEY PARK 99755, 683-2516 H,
683-2294 W, 2-3 MINUTES, PREFER 3 AM SESSION (THIS CALL CAME IN
LONG DISTANCE FROM MCKINLEY)
- ✓ 2/23 WAYNE BECKWITH (ANC CHAMBER OF COM), 6601 BOUNDTREE, SRA 42,
ANC 99507, 349-6807 W & H, 4 MINUTES, 10:30 AM
- 2/24 KENT WICK (GEN MNG, HOMER ELECTRIC ASSOC), BOX 429, HOMER 99603,
235-8249 H, 235-8511 W, 3 MINUTES, 9:30 AM
- 2/24 BUDD GOODYEAR (MATANUSKA ELECTRIC ASSOC), BOX 1148, PALMER 99645,
336-4311 H, 745-3231 W, 10 MINUTES, 10:30 - 11:00 AM (THIS NAME
SENT ON OMNI FROM MAT-SU LIO - HE WOULD LIKE TO KNOW WHAT SPECIFIC
TIME HE CAN TESTIFY - NOTIFY MAT-SU LIO AT OMNI ADDRESS LAXXM AND
THEY WILL CALL HIM.
- 2/24 MICHAEL P. KELLY (GEN MNG., GOLDEN VALLEY ELECTRIC), BOX 1249,
FAIRBANKS 99707, 456-7833 H, 452-4151 W, ANC CONTACT # 276-7235,
LENGTH OF TESTIMONY UNKNOWN, BEFORE 1 PM (THIS NAME CAME FROM
FAIRBANKS LIO - NOTE FROM OMNI FOLLOWS: "MR. KELLY WAS INVITED
TO TESTIFY BY SEN. FISCHER. HE WOULD VERY MUCH LIKE TO TESTIFY
AS EARLY AS POSSIBLE AS HE HAS A RETURN PLANE RESERVATION AT
2:40 PM AND NEEDS TO LEAVE THE HEARING BY 1:15. PLEASE PASS THIS
REQUEST ON TO THE SENATOR. THANK YOU."
- 2/25 NO CALLS SO FAR THIS AM. WILL SEND OMNI AS SOON AS EACH CALL COMES
IN UNLESS YOU ADVISE OTHERWISE.

Please sign if you wish to testify

D. Mc or p. v.

<u>name</u>	<u>address</u>	<u>affiliation</u>	<u>time</u>
Harold Penney	2824 Kimberlie	Self	095
Bob Penney	277-2522 Anchorage AK	State Chamber	10:00
Agnes Johnson	3 Underwood Anchorage AK	self	10:00
Paul Stark	957 Westbury Dr Anch.	self	1:30
Sharon O'Dell	3307 Boniface 1-Blinch.	Self	11:00
MANO FRENCH	2524 W. 60th 99502	LABORERS UNION	A.M.
Mary Core	1069 W 6th 99501	AK Center for Envir.	A.M.
Mike Kelly	Box 1249 FBKS. 99707	Golden Valley Elect.	10 am
Jeff Eustice	833 Gambell St, St. B	Self	9:30 AM
Kent Wick	Box 429 Homer, AK	HEA	9:30 AM
Ann Kay	Box 844 Eagle River, ak.	Teamsters	9:30 AM
Tim Ayers	SRA box 2155 Anchorage	Self	10:15 am
Mary Pat Habertel	4812 Bishop Way Anchur	self	a.m.
KEITH TRESIEDER	4812 BISHOP WAY	SELF	A.M.
Dick Worn	1110 W-36th Ave	Self	10:15 AM
Joseph R. Henry	PO Box 357 - Anch 99510	RDC	AM
Jeff Bohman	Box 41 MCKINLEY PARK 99255	Self	already called: AM
Victor G. Muttasch	512 box 2524 Anch 99507		
BEB MELLIN	Box 442 W H S L L A 99687	SELF	A.M.
Dir. Gilbert	8341 Pioneer	Chugach Electric	10
ST. J. SHAR	1200 E 1st Ave	MLB	11
Gil. F. Gutierrez	P.O. Box 10-1203 ANCH. 99501		2:00
William Reeves	3201 Spennard R	ABC	AM
Willy Zimich	SRA 4007-A 99502	NAEC	1:30
Jim Sykes	P.O. Box 4-2785 Anch 99507	Self	11-11 am
George Skladal	1841 South Salem Drive Anch 99508	Self	PM
BOB KUCZEK	6008 Winding Way	DNIC	ASAP.
MARK ABERT RELECTE	343 WEST 4TH AVENUE ANCHORAGE AK 99501	PRIVATE CITIZEN	
Bill Holton	3622 W. 88 # 312 ANCH.	SELF	
BRIAN BOYD		BR	
EARL FINKLER		80690	
CHARLES KONIGSBERG		99708	
LISA MORRHEAD			
(SP?)			

Lee Warkham, Co-Chairman, District Power
Now, c/o Alascom, 949 E. 36th Ave.,
Anchorage, AK 99504 Tel 564 7000

* Dave Hutchens, Executive Director, Alaska
Rural Electric Cooperative Assn.,
237 E. Friedland, Suite 301, Anchorage
AK 99503 Tel 276 3235
• Bureau: Barony Hotel, Room 502

* I would prefer to submit my
testimony ~~to~~ in Bureau late in
the hearing process.

Robert Hayden, Chairman, Energy Committee,
Fairbanks Chamber of Commerce
(contact through GVEA) ^{Golden Valley}

Dale Teal, President
Enstar Natural Gas Co.
P.O. Box 6288
Anch. 99502

FEB. 24 SCHEDULE

There are two changes in today's schedule.

1. Gov. Sheffield will lead off.
2. The Dept. of Law is not prepared to testify on interim financing. (Laura Davis is out of town.) Instead, Tom Singer and Gregg Erickson will present a short paper on the subject.

It would be a good idea to try to keep to the following schedule so that we get through the entire agenda today.

- SPEAKING FOR THE*
- 1:30 Gov. Sheffield - *ADMIN POLICIES & PROPOSALS.*
(Com. Lyon may have something to add. He should be asked if he does.)
- 1:45 Eric Yould - *review of APA responsibilities and programs, project schedules & plans*
- 2:30 Ernie Mueller
- 3:00 William Wakefield
- 3:30 Tom Singer/Gregg Erickson - *interim financing of hydro*
- 4:00 Tye-- all participants plus *review* George Matz (OMB), Richard Underkofler *c. More FINANCING*
(Petersburg), and so neone from Wrangell (?).

You may wish to take a stand-up-and-stretch break between Mueller and Wakefield.

For the last part, on Tye, each participant should be asked to comment on the situation there-- why it happened and what it means. After their statements, questions could be addressed to them as a panel.

ERICKSON & ASSOCIATES

Consultants in Economics and Public Policy

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Telephone 907/586-3118

MEMORANDUM

February 24, 1983

To: Senate State Affairs Committee
From: Thomas Singer and Gregg Erickson
Subject: Interim Financing of Power Projects

The Tyee Loan

The Tyee Lake Hydro Project illustrates the risks to the state inherent in the Alaska Power Authority's (APA's) present financial independence. While the state has appropriated \$82 million for Tyee project, the APA has borrowed \$50 million more -- on its own. This loan comes due in 19 months. At present there is no clear indication of where the money will be found.

In its agreement with lenders, the APA agreed to refinance, by October 1, 1984, any portion of the loan then unpaid. The APA's stated intention is to sell revenue bonds secured through power sales contracts with the electric utilities in Petersburg and Wrangell.

So far, Petersburg and Wrangell have been reluctant to sign such power sales contracts. The price at which power from the project has been offered to them is much higher than the price they now pay -- or expect in the future to pay -- for power from fossil fuels, and their own small hydro facilities. Negotiations between the APA and local utilities continue. Without ironclad contracts committing the utilities to buy enough power at a price sufficient to meet annual debt payments, the bonds will be virtually impossible to sell.¹

If revenue bonds cannot be sold to refinance outstanding debt by October 1, 1984, the lenders, by terms of the loan agreement, have recourse to the "general assets" of the APA. Unfortunately, no one seems to know precisely what the term "general assets" encompasses. It may be that "general assets" include unexpended appropriations received by APA or being held in the state treasury for other projects. Or it may be that funds appropriated but not yet disbursed from the treasury are beyond the lenders reach, in which case the APA may have virtually no "general assets" apart from the uncompleted projects around the state. This is an important legal point, which the

Thomas Singer
403
Tyee 2

Attorney General will undoubtedly investigate in due course.

Lenders, of course, are not likely to be very interested in taking over partially completed hydro projects, particularly in cases like these where the value of the power to be produced falls so far short of the revenue needed to service the debt. Their desire will doubtless be for the state to appropriate to the APA additional funds to repay the loan. The state is in no way legally obligated to do this, but it is clearly a possibility that the APA and the lenders had in mind from the outset: Despite the lack of legal claim on the state, the state is nevertheless prominently mentioned in the loan agreement as a possible source of repayment.²

If the legislature allows the APA to default on its Tyee loan, the ability of the state and all of its political subdivisions to borrow money would suffer. Alaska public sector credit ratings would undoubtedly fall, making loans both harder and more costly to obtain. Nevertheless, the option of allowing the APA to sink or swim on its own should not be dismissed without careful study.

A bailout of the APA by the legislature might be less painful than default, but it certainly wouldn't be painless. Increasingly scarce funds would be diverted from other uses. Worse, the legislature would be giving notice to bankers, contractors, and the APA that it is willing and able to come to the rescue, even when not legally bound to do so.

Implications for the Susitna Project

These facts raise questions about legislative intent and accountability. Did the legislature intend that the APA obligate its "general assets" (i.e. funds earmarked to other projects) to proceed with Tyee? Did the legislature intend that unforeseen problems with the project be solved by simply dipping deeper into the state treasury? We don't know, but one thing does seem beyond dispute: The legislature needs to understand and control large financial transactions of the sort illustrated by the Tyee example because it and the state as a whole ultimately may have to be responsible for them.

As legislators begin to consider the Susitna Project involving billions of dollars, it is even more essential that they understand and assume responsibility for the APA. While this independent public corporation does not yet have authority to indent the state, as a practical matter its financial actions have tremendous impact on the state's financial condition.

Answers to the following questions should help the legislature in its effort to gain understanding and control:

1. When the \$50 million Tyee loan agreement was negotiated, what did the financial advisors and Bankers Trust Company understand the APA's "general assets" to be? How much of the APA's roughly \$200 million total outstanding debt³ is secured by their "general assets" and what is covered by that term?
2. Did the financial advisors, Bankers Trust Company, and the APA consider the state treasury to be the real security for the Tyee loan? If so, why?
3. What are the current prospects that long-term revenue bonds for the project can be sold before the October 1, 1984 deadline? What is the APA planning to do if bonds cannot be sold?

We may all hope that successful negotiation of contracts for Tyee power will resolve the APA's looming financial crisis. Unfortunately, that will not resolve the underlying problem. The APA continues to operate independently. If it is able to obtain substantial "general assets", we can expect such independence to increase.

The state can undoubtedly cover a \$50 million loan. It could probably even handle problems with the entire \$200 million debt without catastrophic consequences. But the Susitna project involves billions of dollars, and is financially much more risky. While the APA and its advisors may feel that the public interest and the APA's interests are the same, we do not believe that this is always the case. If the legislature is going to be aboard for the crash landing, perhaps it ought to have some say in the takeoff.

ENDNOTES

1. Revenue bonds to repay the loan could be sold, notwithstanding the lack of power sales contracts, if the state stepped forward to backstop them. Double-barreled bonds (revenue bonds backed by the full faith and credit of the state) or even cash payments to consumers dedicated to their electric bills are examples of many possible ways the state could secure the bonds. (For a fuller discussion of the options see "Lake Tye Power Costs and Project History: Research Request 83-39," House Research Agency, February 11, 1983.)

A third party guarantee was used to secure the outstanding \$50 million loan. A major New York bank, the Bankers Trust Company, agreed to stand behind the APA (for a fee) with a \$50 million "Letter of Credit" to repay the loan if necessary.

2. The security, pledged equally to repay the loan, is (1) the project and its revenues, (2) any unspent portion of the short-term loan, (3) bond proceeds, (4) the full faith and credit of the APA, and (5) "...the proceeds of any appropriation by the State for the purpose of paying any Cost of the Project or repaying the loan or Letter of Credit."

The loan agreement releases the APA from its obligation to issue revenue bonds if it "...has deposited in the loan repayment Fund an amount at least equal to the principal of the Notes Outstanding...plus...interest."

3. The APA has borrowed additional funds - \$35 million for Swan Lake and \$115 million for Terror Lake. Our understanding is that power supply contracts which are not "take or pay" have been signed for these projects, allowing local consumers to choose not to buy power if the price is unattractive.

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

SENATOR VIC FISCHER, CHAIRMAN

POUCH V, JUNEAU 99811

(907) 465-4954



HYDRO/SUSITNA HEARINGS (revised 2-18-83)

Senate Bills 68, 69, 70, and 71

February 24, 1:30-5:00, Court Room A, Court Building, Juneau. BACKGROUND BRIEFING. Review and analysis of processes and considerations involved in the development of hydroelectric projects.

-- Eric Yould, Executive Director, Alaska Power Authority: APA's role in developing projects, determining feasibility and capital costs, financing plans, construction schedules, marketing, and operational costs; summary of projects' status and plans

-- Ernst Mueller, Environmental Services, Lmtd. and former APA board member: history of the APA

-- Governor's Office: Administration policies and proposals

-- William Wakefield, FERC: federal review process

-- Dept. of Law: interim financing

-- all participants, including OMB and representatives of the cities of Petersburg and Wrangell: Tye -- case study of a project

February 26, 9:00-4:00, Anchorage Westward Hilton, Alaska Room, Anchorage. PUBLIC HEARING ON SUSITNA AND HYDRO DEVELOPMENT IN GENERAL. Those who wish to testify are asked to sign up in advance at the Anchorage Legislative Information Office. Public testimony will follow introductions by Mr. Yould and bill sponsors.

March 1, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY -- SUSITNA. This meeting will be teleconferenced to all major sites for listening only.

George W. Rogers: Strategies, parameters, and criteria that might be considered by the legislature in examining Susitna and other major hydroelectric projects.

SUSITNA FEASIBILITY: What factors are involved in determining feasibility? How sensitive is the feasibility to changes in those factors? What have the Susitna feasibility and alternative studies shown? How accurate is the \$5.2 billion cost estimate? How do different Susitna dam configurations compare with Watana/Devil Canyon? How have recent developments in oil and gas prices and in economic growth affected feasibility? How are those developments being factored into the Susitna update and FERC application?

-- Eric Yould and a representative from Acres American: summary of the feasibility findings and on-going work

-- Gregg Erickson, Erickson & Associates: review of the Acres study and recent developments

-- Office of Management and Budget: review of studies, alternatives, demand forecasts

SUSITNA FINANCING: What is the best financing plan for Susitna? How much state appropriation is necessary to ensure the marketability of Susitna power? What do the plans presented in SB 68 and SB 70 represent in terms of commitments of state funds, and how would they affect the cash flow available for other capital projects? What would the effect be of the bonding plan in SB 71 on the state's credit and ability to bond for other projects? What should the timing be for appropriations and bonds? How will the bond market respond to Susitna revenue or "double-barrel" bonds? Will the bonds qualify as tax-deductible? How equitable, in terms of state subsidy, are the plans presented?

-- APA financial/bonding advisors: review of Acres plan, recommendations

-- Eileen Titmuss, bond analyst: considerations in the bond market, factors affecting public power bonds

-- Milt Barker, Legislative Finance: relationship of capital requirements to projected revenues

-- Dept. of Revenue: relationship of capital requirements to state bonding capacity and credit rating

March 3, 1:30-5:00, Senate Finance Room, Capitol, Juneau. INVITED TESTIMONY, CONTINUED. This meeting will be teleconferenced to all major sites for listening. If time allows, public testimony will be taken following the scheduled witnesses.

SUSITNA MARKETABILITY: Will Susitna power be marketable? What factors might affect marketability? What costs/rate structures are contemplated? How will marketability be ensured? What type of power purchase commitments can be obtained prior to construction? What is the role of the APUC? Might available power attract new industry?

-- Yould and APA marketing advisor: status of marketing situation

-- Harrison Call, marketing specialist: power sales agreements

-- Alaska Public Utilities Commission: its role in approving contracts and rates

-- utility representatives who wish to address the issue

-- Office of Management and Budget: review of the SRI study of the effect of electricity price and availability on industrial development

SUSITNA READINESS: Has the Governor's "Susitna checklist" been followed? What further requirements must be met, and in what order? Has the sequence laid out in statute been followed? Have the FERC requirements been met? Are land ownership conflicts resolved? Have the utilities agreed to purchase Susitna power?

-- Governor's Office: presentation of the "checklist"

-- David Rogers (Senate Advisory Council) and Yould: review of identified "obstacles" and how they are being addressed

-- Yould: schedule for proceeding, incorporating new data