

COMMITTEE REPORT
SENATE

FURTHER:

4/3/86

Date 4/25/86

Mr. President

The Committee on FINANCE considered SB 468
creating the Railbelt energy fund; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for SB 468 (Fin)
new title
- same title and recommends "DO PASS"
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
& DOR
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

[Signature]

Rick Halford

Paul G. Hale

[Signature]

[Signature] no rec.

Ferguson - APA already has this authority

co - [Signature]
Chairman

do pass
Chairman recommendation

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
 Bill/Resolution No: SB 468
 Title: Creating Railbelt Energy Fund

 Sponsor: Senate Resources
 Requestor: Senate Resources
 Date of Request: April 1, 1986

FISCAL DETAIL
 Agency Affected: Department of Revenue
 BRU: Treasury Management

 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury
 Approved by Commissioner: *Henry G. Sturdick*
 Agency: Department of Revenue

Phone: 465-2350
 Date: April 1, 1986
 Date: 4/1/86

Distribution (by Agency preparing fiscal note):

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

Cramer ✓
4/21/86

Original sponsor: Resources Committee

1 IN THE SENATE BY THE FINANCE COMMITTEE
2 CS FOR SENATE BILL NO. 468 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - SECOND SESSION
5 A BILL

6 For an Act entitled: "An Act creating the Railbelt energy council; and
7 providing for an effective date."

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

9 * Section 1. FINDINGS. The legislature finds that

10 (1) state energy policy should change from a policy of assuming
11 responsibility for providing low cost power to a policy of assisting the
12 private sector to provide adequate power at reasonable cost;

13 (2) state funds available for energy development should be used
14 as leverage to assist in financing projects that utilities cannot finance
15 themselves;

16 (3) utilities should be encouraged to assume the responsibility
17 of generating regional power rather than relying on the state;

18 (4) energy planning and financing must be efficient and cost-
19 effective;

20 (5) the Railbelt energy fund should be used as leverage to
21 develop power sources that will meet investment criteria.

22 * Sec. 2. COUNCIL CREATED. (a) The Railbelt energy council is estab-
23 lished to

24 (1) recommend how Railbelt energy funds can best be directed to
25 meet the future energy needs of southcentral Alaska;

26 (2) recommend the best unified options for planning, financing,
27 constructing, and managing power facilities;

28 (3) cooperate with the Alaska Power Authority to examine the
29 feasibility and desirability of smaller Susitna hydroelectric projects;

1 (4) determine whether a regional utility organization can oper-
2 ate to the best interests of utility consumers;

3 (5) examine alternatives and recommend the best method for
4 meeting projected Railbelt electrical energy demand;

5 (6) recommend whether the 1987 legislature should approve sub-
6 mission of an application for a Federal Energy Regulatory Commission li-
7 cense for a project in the Susitna River basin;

8 (7) recommend how to restructure the board of directors of the
9 Alaska Power Authority to improve its effectiveness and efficiency;

10 (8) recommend the optimum time for installing the third 45
11 megawatt unit at the Bradley Lake project;

12 (9) recommend whether it is preferable to install a new power
13 intertie between Anchorage and Kenai or to upgrade the existing line; and

14 (10) recommend how best to improve and utilize Alaska's long term
15 energy plan under AS 44.83.224.

16 (b) Membership on the council consists of two members appointed by
17 the governor, one of whom must represent an energy supplier; two senators
18 appointed by the president of the senate; two members of the house of
19 representative appointed by the speaker of the house; and one representa-
20 tive from each of the seven Railbelt utilities.

21 (c) By February 15, 1987, the council shall report its recommenda-
22 tions to the legislature.

23 * Sec. 3. This Act is repealed June 30, 1987.

24 * Sec. 4. This Act takes effect immediately in accordance with AS 01.-
25 10.070(c).

SECTIONAL ANALYSIS

CS FOR SENATE BILL NO. 468 (Finance), an Act creating the Railbelt energy council

Section 1. Contains findings that shift the responsibility for developing low cost energy from the state to private sector utilities. This section says that state funds should be used only when necessary to assist the financing of energy projects by private utilities.

Section 2. Creates the Railbelt energy council to advise about the use of energy funds for the Railbelt, to advise on options for developing and operating power facilities, and to consider other matters dealing with future power development in this locale. The section requires the council to report its recommendations to the legislature by February 15th of next year.

This section also establishes the membership of the council to include seven members of Railbelt utilities, four legislators, and two appointees by the Governor.

Section 3. Repeals the Act on June 30 of next year.

Section 4. Gives the Act an immediate effective date.

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CSSB 468 (Fin)
 Title : Creating Railbelt Energy Fund

Sponsor : Senate Resources
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Dept of Revenue
 BRU : Treasury Management

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS :

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Senator Jan Faiks, Co-chairman
 Division : Senate Finance Committee

Phone : 465-4523
 Date : 4/24/86

Approved by Commissioner : _____
 Agency : _____

Date : _____

Distribution (by Agency preparing fiscal note) :

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

Testimony of Dr. Joyce Murphy
President of the Board
Chugach Electric Association

Senator Faiks - Senator Sackett
- Ladies and Gentlemen of the committee:

Thank you for allowing me the time to speak before you this afternoon.

My name is Dr. Joyce Murphy. I am president of the board of directors of Chugach electric association. CEA is the largest producer of electric energy in the state. We serve nearly 3/4 of the state population. Our member/consumers are very concerned about the energy needs of the railbelt area and the allocation of the funds designated for the railbelt energy use.

Chugach Electric Association supports the establishment of a railbelt energy fund into which the \$200 plus million (including accrued interest) would be deposited CEA concurs with the other railbelt utilities that these funds should be set aside in a trust fund to be used for railbelt energy needs.

We also are in favor of the establishment of a railbelt council which would bring all the concerned parties together to evaluate all of the options and to make a recommendation on the best option or options for the use of these funds. It is also important that the council work together to determine the energy future of the railbelt area and what the best options are to meet these energy needs. We believe there is a need for community input from the consumer and this council could act as a forum for this purpose. We would support a specific time frame for the council's existence and for its recommendations to be made to the 1987 legislative body.

Thank you for your help on this very important issue that affects all consumers in the railbelt area.

4/9/86 jpm

MUNICIPALITY OF ANCHORAGE

M E M O R A N D U M

DATE: April 9, 1986
TO: Members of the Anchorage Caucus
FROM: Mayor Tony Knowles
SUBJECT: Railbelt Energy Conference

On April 3, 1986 a special one-day conference was held at the Mat-Su Lodge in Wasilla to address railbelt energy matters. Participants included Mayors and other local government representatives from communities throughout the railbelt. All of the utilities serving the railbelt were represented by managers and/or directors. A number of utility board members, advisory board members and members of the public also attended. The high degree of participation in the conference testifies to the critical importance of current energy issues to each of the railbelt communities.

In the beginning of the conference, local government officials and utility managers and directors met separately to discuss several major issues. The two groups later convened. The principal agenda items were protection of the existing power development ^{FUND} that had been designated ~~fund~~ for the Susitna Project, creation of a railbelt energy fund from these existing monies, and the potential for joint efforts among the utilities toward the creation of a new railbelt energy entity for future power planning and development in the railbelt. Attached are the resolutions which the Mayors and the utility managers and directors passed concerning these issues.

There was unanimous agreement among the conference participants that the existing Power Development Fund for the Susitna Project, plus interest, be transferred to a new and separate account for railbelt energy, and that these funds not be spent by the State until further recommendations are made. The conference endorsed strong participation and leadership by the railbelt communities and utilities in formulating any recommendations for future use of the fund, and spoke specifically to several efforts.

Gordon Jarboe
4/9/86 gm

First, the conference supported State action to establish an advisory group for the fund to include participation by the State administration, the legislature and all railbelt utilities.

Second, the conference endorsed a joint study by all railbelt utilities on the feasibility of forming a railbelt generation and transmission utility. Each of the utilities will now seek the appropriate authority and funding from their respective governing bodies so that the study can begin as soon as possible. The joint study on the feasibility of forming a railbelt generation and transmission utility should complement the efforts of any advisory group established pursuant to State legislation. These efforts should result in the formation of a locally directed energy entity for the railbelt. The conference resolved that the new railbelt energy fund should be conserved until such a new entity is organized.

During my recent visit to Juneau concerning railbelt energy matters, we had an opportunity to discuss briefly some of the important issues which were addressed at the Wasilla conference, including creation of a railbelt energy fund and the formulation of a railbelt generation and transmission utility. I was greatly encouraged by the high degree of conceptual agreement and the support for the leadership role of the railbelt which we advocated.

The Wasilla conference was an outstanding success. It demonstrates clearly that railbelt communities and utilities do have the ability to turn our common concerns into positive action. While the conference was only a first step, it was a significant one. People long associated with utility and energy issues in the railbelt cannot recall a similar gathering. Our job now is to move forward and to implement the resolutions we passed. I know you will do your part in this effort. I thank you on behalf of all the conference participants. I firmly believe we have set a course which will result in the best decisions for future power generation needs throughout the railbelt.

CHUGACH ELECTRIC ASSOCIATION
Anchorage, Alaska

April 8, 1986

A question of unification

As Anchorage developed following World War II, the city-owned electric utility could not supply power beyond what was then its boundaries. Chugach Electric Association was formed to fill the void and as Anchorage grew, so did Chugach. Anchorage residents have long talked of the benefits of unifying the area's two electric utilities, and Chugach began to explore this possibility almost a year ago.

BACKGROUND: Chugach supplies power to nearly three-quarters of the state's population through retail sales to 60,000 consumers in the Anchorage and upper Kenai Peninsula area and wholesale sales to Matanuska Electric Association, Homer Electric Association, the City of Seward, Golden Valley Electric Association and Fairbanks Municipal Utilities System. Energy sales totaled 1.9 billion kilowatt hours in 1985, with revenues of \$104.7 million and margins of \$14.5 million. A non-profit cooperative dedicated to providing the best service at the lowest cost, Chugach has not raised its rates for more than 2 1/2 years, and its monthly bills are the lowest in Alaska.

Anchorage Municipal Light & Power (ML&P) is an enterprise fund of the Municipality of Anchorage. It supplies electricity to 28,000 consumers and provides about 16 percent of the power in Southcentral Alaska. Its 1984 revenues totaled \$40.9 million. ML&P recently filed for a 16.13 percent rate increase.

THE CONCEPT OF MERGER: Last year, Anchorage Mayor Tony Knowles asked Dr. Joyce Murphy, the president of Chugach, to chair a blue ribbon committee to study the feasibility of a merger between Chugach and ML&P. The committee asked both utilities to present merger proposals. Merger, however, is a highly complex business decision that requires specialized assistance. Chugach hired Coopers & Lybrand, one of the world's largest accounting firms, to analyze the financial feasibility of consolidating the two utilities. The initial Coopers & Lybrand study concentrated on the relative impact this consolidation would have on consumer rates and the financial health of the emerging utility.

THE INITIAL COOPERS & LYBRAND STUDY: This initial study concluded that a merged utility with Chugach as the surviving entity was preferable:

- In its first year of operation, a combined utility with Chugach as the survivor would need almost \$2 million less in additional revenues than would the two utilities operating as separate entities, and \$10 million less than a merged utility with ML&P as the survivor. As the years pass, the difference becomes increasingly significant. This translates into lower rates for everyone, both now and in the future.
- Chugach is in excellent financial health. This financial strength, combined with its size, enables it to competitively seek inexpensive capital in today's financial market. This financial strength would be enhanced through a unified utility.

OTHER BENEFITS: The staffs of the two utilities undertook a joint study to examine potential cost savings from combining the two utilities. The conclusion:

- A combined utility would save ratepayers between \$3 million and \$5 million each year.

The results of these studies were presented to the blue ribbon committee which concluded that there were benefits to be achieved through a merger, and that further merger options should be studied.

RECENT MERGER DEVELOPMENTS: The State's decision to abandon the Susitna hydroelectric project made available more than \$200 million in outstanding state appropriations. Anchorage Mayor Tony Knowles called Railbelt utilities and mayors together in Wasilla on April 3 to discuss the fate of the \$200+ million and to ask them to support his newly-unveiled plan to form a Railbelt generation and transmission utility (G&T) to control the \$200+ million. The utilities and mayors passed two resolutions:

- To ask State lawmakers to place the \$200+ million into a special Railbelt energy fund.
- To form a Railbelt Energy Advisory Committee to develop recommendations to the next Legislature on use of the \$200+ million.

The group stopped short of endorsing the mayor's plan to form a new Railbelt G&T utility. A resolution was passed asking the governing bodies (city councils and boards of directors) to consider funding a feasibility study of a Railbelt G&T.

Significant concerns were raised about the mayor's attempt to narrow the focus of the study to a single merger alternative, particularly as the mayor offered no financial data to support his plan.

PRESENT UTILITY UNIFICATION EFFORTS: Coopers & Lybrand is finalizing a financial analysis of the mayor's proposal. The initial results of this report should be available before Chugach's Annual Membership Meeting on April 23.

R E S O L U T I O N

WHEREAS, the mayors of the Railbelt communities have convened a special conference at Wasilla to address Railbelt energy matters, and

WHEREAS, the Alaska State Legislature is currently addressing the subject in proposed legislation creating and appropriating for a Railbelt energy fund, and

WHEREAS, a Railbelt energy fund would benefit the consumers and communities in the Railbelt area for many years into the future, then

THEREFORE, be it resolved that:

The Railbelt mayors convened at Wasilla do endorse the concept of a Railbelt energy fund within the general fund and consisting of all of the funds appropriated to the Power Development Fund for the Susitna Project, and

BE IT FURTHER RESOLVED THAT:

The Railbelt mayors advocate conservation of the fund and interest by the State of Alaska for the Railbelt communities until such time that a Railbelt energy entity is organized and makes further recommendations to the legislature for future power generation needs.

BE IT FURTHER RESOLVED THAT:

The Railbelt mayors support the resolutions of the utility managers.

Resolution passed by Railbelt mayors and mayors' representatives this 3rd day of April, 1986 at Wasilla, Alaska.

Gordon Herbertz
4/9/86 gm

R E S O L U T I O N

WHEREAS, utility managers and directors of the Railbelt communities have convened a special conference at Wasilla to address Railbelt energy matters, and

WHEREAS, the Alaska State Legislature is currently considering proposed legislation creating and appropriating a Railbelt energy fund, and

WHEREAS, a Railbelt energy fund would benefit utility consumers in the Railbelt area for many years into the future, then

THEREFORE, be it resolved that:

The Railbelt mayors, utility managers and directors, convened at Wasilla to endorse the concept of a Railbelt energy fund within the general fund and consisting of all of the funds appropriated to the Power Development Fund for the Susitna Project.

BE IT FURTHER RESOLVED THAT:

The Railbelt mayors, utility managers and directors advocate management of the fund by the State of Alaska until such time that a Railbelt energy council is convened and makes further recommendations to the next session of the legislature.

Resolution passed by Railbelt utility managers and directors this 3rd day of April, 1986 at Wasilla, Alaska.

R E S O L U T I O N

WHEREAS, the mayors, and the utility managers and directors of the Railbelt communities convened at a special conference at Wasilla to address Railbelt energy matters, hereby

RESOLVE that the mayors, and utility managers and directors support the establishment of an advisory group consisting of; one member from each of the railbelt utilities, one member from both the House and Senate of the Alaska Legislature, one public member, and the Executive Director of the Alaska Power Authority, and further

RESOLVE that this advisory group advise the legislature on the development of a long term energy plan to meet the needs of Railbelt consumers.

Resolution passed by Railbelt utility managers and directors this 3rd day of April, 1986 at Wasilla, Alaska.

R E S O L U T I O N

WHEREAS, the utility managers and directors of the Railbelt communities have convened at a special conference at Wasilla to address Railbelt energy matters, be it

RESOLVED that this group recommend to their respective governing bodies to participate in a joint study on the feasibility of forming a Railbelt generation and transmission utility.

Resolution passed by Railbelt utility managers and directors this 3rd day of April, 1986 at Wasilla, Alaska.

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

RECEIVED
APR 2 1986
MAYORS OFFICE

MEMORANDUM

TO: The Honorable Tony Knowles
Mayor
Municipality of Anchorage

FROM: Bill Sheffield
Governor

SUBJECT: Railbelt Energy Planning Proposal

DATE: April 2, 1986

Thank you for briefing me yesterday on your proposal that Railbelt utilities get together and form a generation and transmission entity that would leave power distribution to local entities. I encourage you to pursue the possibility of such an organization for the purpose of doing power planning for the Railbelt region. As I indicated during our meeting, I believe there needs to be a formal organization of some kind bringing the utilities together if they ever hope to finance any major projects.

As you pursue the formation of such an organization, APA will be proceeding to undertake a complete review and examination of all potential alternative sources of electrical energy for meeting Railbelt requirements; this review shall include coal, Cook Inlet natural gas, North Slope natural gas, hydroelectric (including projects in the Susitna Basin such as Devil Canyon), alternative sources of renewable and nonrenewable energy, and energy conservation.

All this data could be made available by the state to a generation and transmission utility comprised of Railbelt user groups if such an organization were formed. Financing and construction of any subsequent power-producing project might then become the responsibility of the G & T entity, as I understand your proposal.

As I told you, I remain very supportive of the \$200 million in the old Susitna power development fund being used for future Railbelt energy needs.

Please keep me informed as to developments as you proceed. Thanks again.

cc: Joyce Murphy, Chair
Chugach Electric Association

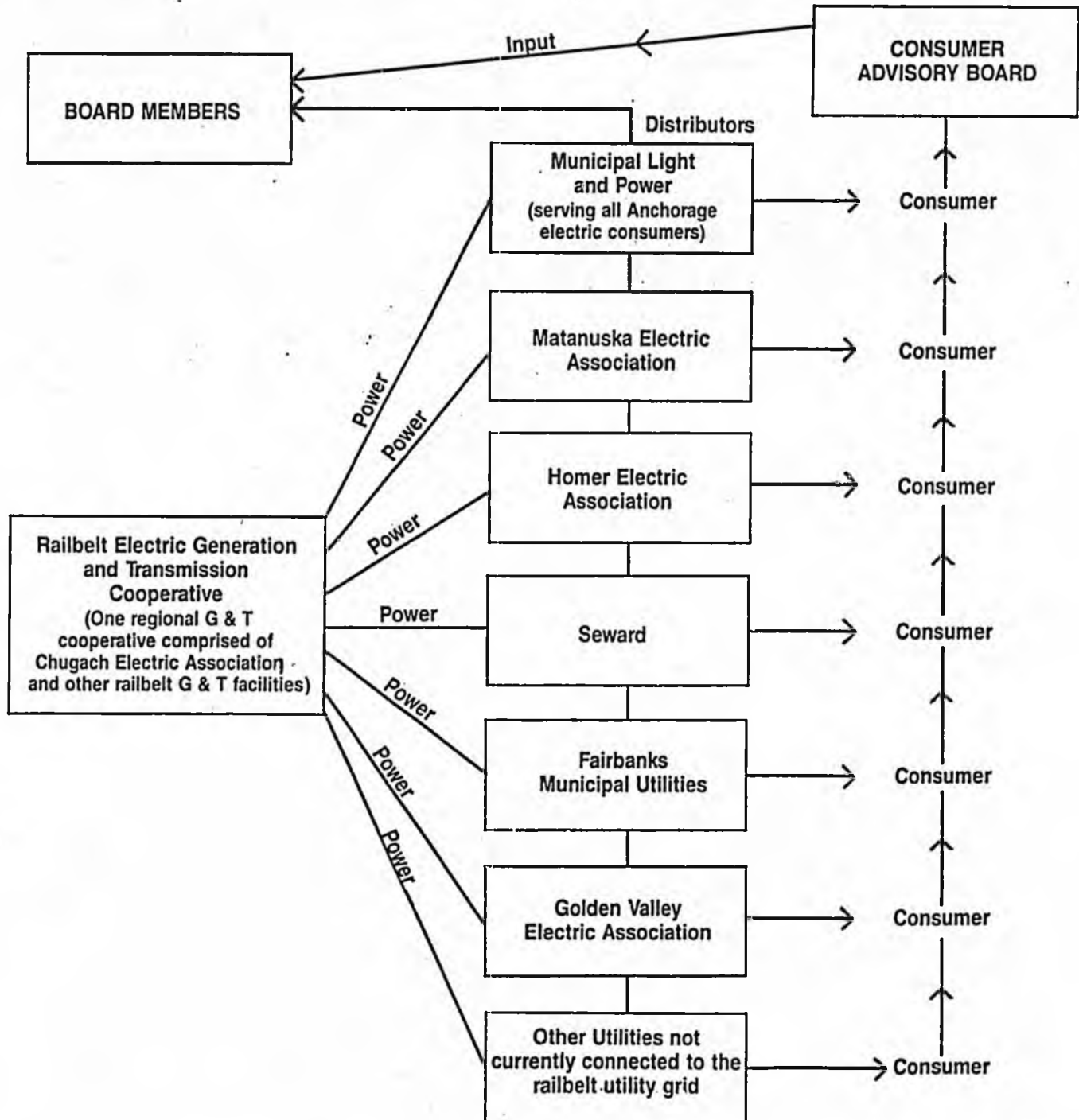
bcc: Bob Miller

PROPOSED RAILBELT ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE

- Regional Control of Electric Generation and Transmission
- Local Control of Electric Distribution

Utilities working together to:

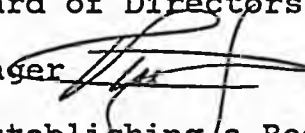
- Plan and build regional power projects which benefit all electric utilities and consumers.
- Plan and build reliable electric transmission facilities throughout the region.
- Offer reliable electric power to all railbelt communities at the lowest possible rate, now and in the future.
- Improve emergency planning.



=B468

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

March 28, 1986

TO: Dr. Joyce Murphy, President, Board of Directors
FROM: Robert Martin, Jr., General Manager 
SUBJECT: Restructuring the APA Board; Establishing a Body to Direct the Use of \$200 Million for Railbelt Energy Projects, and; Redefining the Functions of the APA.

The above referenced subject can logically be divided into three separate opportunities. These opportunities would require two legislative sessions to complete.

The most immediate opportunity is to take action to ensure that the \$200 million is set aside for energy projects in Southcentral Alaska while determined what viable options exist for such use of these funds.

The next opportunity is to restructure the APA Board so that it comes under the influence of the state's utilities and is less subject to dynamic political forces.

Finally, the last priority is the restructuring of the Alaska Power Authority (APA). This the last priority because it will require the most consideration by the legislature before action could be taken.

By attacking these opportunities in this order it puts Chugach and the other railbelt utilities in a more advantageous position to ensure that appropriated funds are used to the railbelt's advantage and that the state's utilities have a greater say in their destiny. Also, if one or more of these objectives fails or is modified to be less advantageous it does not destroy the possibility of being successful in the other goals.

The plan would be relatively simple.

First, request that HB___ have the following makeup of directors:

- Five directors be elected from the railbelt's seven utilities by a simple majority vote with each director to come from a different utility. Directors should be three from management and two from policy bodies to give the maximum stability but retain cross sectional representation.

- One director each be elected from the Bush utilities and from the Southeast. Directors could be either policy or management elected by a simple majority.
- Two directors be appointed by the Governor or one appointed by the Governor and one by the Legislature.

Second, charge the new body with studying the best use of the \$200 million railbelt fund. Because the railbelt makes up a majority of the voting members, the integrity of railbelt purpose would be assured. The new body could be charged with the appropriation of the funds in their entirety or in parts and should be given a deadline to do so to avoid entangling the funds in a subsequent legislative session.

By setting up this body, giving it a definite responsibility and a time certain in which it had to act, the maximum benefit could be realized in the minimum amount of time. It would have the following advantages:

- It would be superior to an advisory committee because it would not be subject to ratification of its actions by any other body.
- It would give additional strength in the fight to have the utilities control the APA.
- The governing body would have the ability to deal effectively with what are utility matters in the first place.
- It would set the stage for the second phase of the reorganization of the APA and minimize the alarm within the APA and its allies.

Last, the attached outline for a new organizational structure for the APA could be introduced as legislative history to the above bill along with the legislative requirement that the new body use this outline to come back to the legislature with draft legislation in the 1987 Legislative session. This would be advantageous for the following reasons:

- It would guide legislation to be drafted for the succeeding legislative session.
- It would separate the three issues so that if the reorganization of the APA ultimately failed the utilities would still have control of the APA and the disposition of the \$200 million.

- It would come up in a non election year when carefully crafted legislation is more likely.
- It would give us time to do our homework in regard to the ultimate ramifications of this proposal, research tax questions AFTER the new tax bill has passed and the two county rule debate is settled.

This memo is brief and outlines the major advantages of this particular course of action. There are, of course, many variations to this central theme and the opportunity to modify the plan as a bargaining tool (without substantially weakening it) when before the Legislature has the potential to strengthen support for it.

The major disadvantage is that the legislative process could, if not given sufficient attention, stray from our intentions and become something other than that which would benefit the railbelt utilities most.

Coopers
& Lybrand

certified public accountants

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February 18, 1986

Resident Partners
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Gary T. Postlethwait
Juneau
Peter B. McDowell

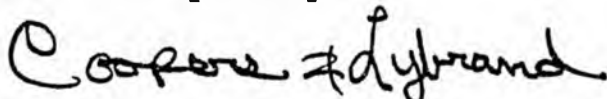
Dr. Joyce Murphy, President
Chugach Electric Association, Inc.
P.O. Box 196300
Anchorage, AK 99519-6300

Dear Dr. Murphy:

We are pleased to enclose our report on the initial study of the proposed merger between Chugach Electric Association, Inc. and Anchorage Municipal Light and Power. This report has been prepared by us, acting as your financial advisors regarding the proposed merger, from information furnished by management.

We hope that you and your fellow board members find this report useful in your deliberations. If you require further assistance, please contact Peter McDowell.

Yours very truly,



COOPERS & LYBRAND

PBM/sc

Enclosure

REPORT ON THE INITIAL STUDY
OF THE PROPOSED MERGER BETWEEN
CHUGACH ELECTRIC ASSOCIATION, INC.
AND
ANCHORAGE MUNICIPAL LIGHT AND POWER

EXECUTIVE SUMMARY .

This confidential memorandum has been prepared by Coopers & Lybrand as financial advisors to Chugach Electric Association, Inc. regarding the possible merger of Chugach Electric Association, Inc. and Anchorage Municipal Light and Power, from information furnished to Coopers & Lybrand by the management of Chugach Electric Association, Inc.

While the information contained herein is believed to be accurate, Coopers & Lybrand expressly disclaims any and all liability for representations, expressed or implied, contained in, or for omissions from, this memorandum.

**INITIAL STUDY OF
THE PROPOSED MERGER BETWEEN
CHUGACH ELECTRIC ASSOCIATION, INC.
AND
MUNICIPAL LIGHT AND POWER**

- **Overview of Initial Study Process**
- **Review of Financial Findings of
Merger Analysis**
- **Review of Nonfinancial Aspects
of Merger Analysis**
- **Review of Political Consideration
of Merger**

OVERVIEW OF INITIAL STUDY PROCESS

- Purpose was to review CEA and ML&P merger proposals as presented

- Focus was on potential financial costs and benefits to determine:
 - If concept of a merger warranted further consideration

 - Whether either proposal was clearly preferable

- Identify possible areas for further study and planning

Merger Proposals

CEA PROPOSAL

- CEA acquire all ML&P assets
- ML&P debt refinanced/paid off

ML&P PROPOSAL

- CEA assets acquired with G&T assets outside Municipality transferred to AEG&T
- REA debt transferred to AEG&T or refinanced with ML&P tax exempt debt
- AEG&T would service HEA, MEA and City of Seward

Results of Initial Study

CONCEPT OF A MERGER WARRANTS FURTHER CONSIDERATION

- A merger has potential for significant benefits to rate payers through lower rates
- Resulting entity would be better able to absorb cost changes

CEA'S PROPOSAL OF MERGING ML&P INTO CEA IS PREFERABLE

- Overall results affirm this conclusion

AREAS FOR FURTHER STUDY AND PLANNING HAVE BEEN IDENTIFIED

- Financing alternatives
- Nonfinancial issues

REVIEW OF FINANCIAL FINDINGS OF MERGER ANALYSIS

Fundamental Concerns in Merger Analysis

ANTICIPATED BENEFITS EXCEED COSTS

- **Financial benefits and costs**
- **Nonfinancial benefits and costs**

LONG-TERM VIABILITY OF POST MERGER VERSUS PRE-MERGER ENTITY SHOULD BE AS GOOD OR BETTER

USE OF BEST CASE AND WORST CASE AND OTHER ASSUMPTIONS

Financial Findings: Key Considerations

- DATA
- LIMITED REVIEW
- BEST AND WORST CASE ASSUMPTIONS
- ANALYSIS FOCUSES ON ADDITIONAL REVENUE REQUIREMENTS
- RATE ASSUMPTIONS
- FUEL COSTS
- TIER AND DEBT COVERAGE
- TREATMENT OF SPINOFF ASSETS
- EQUITY VALUE
- INCOME TAXES PAID BY CEA
- FINANCING COSTS

Financial Findings: Requirements to Raise Rates

**POTENTIAL REQUIREMENT FOR RAISING
CUSTOMER RATES IS SHOWN BY
ADDITIONAL REVENUE REQUIRED**

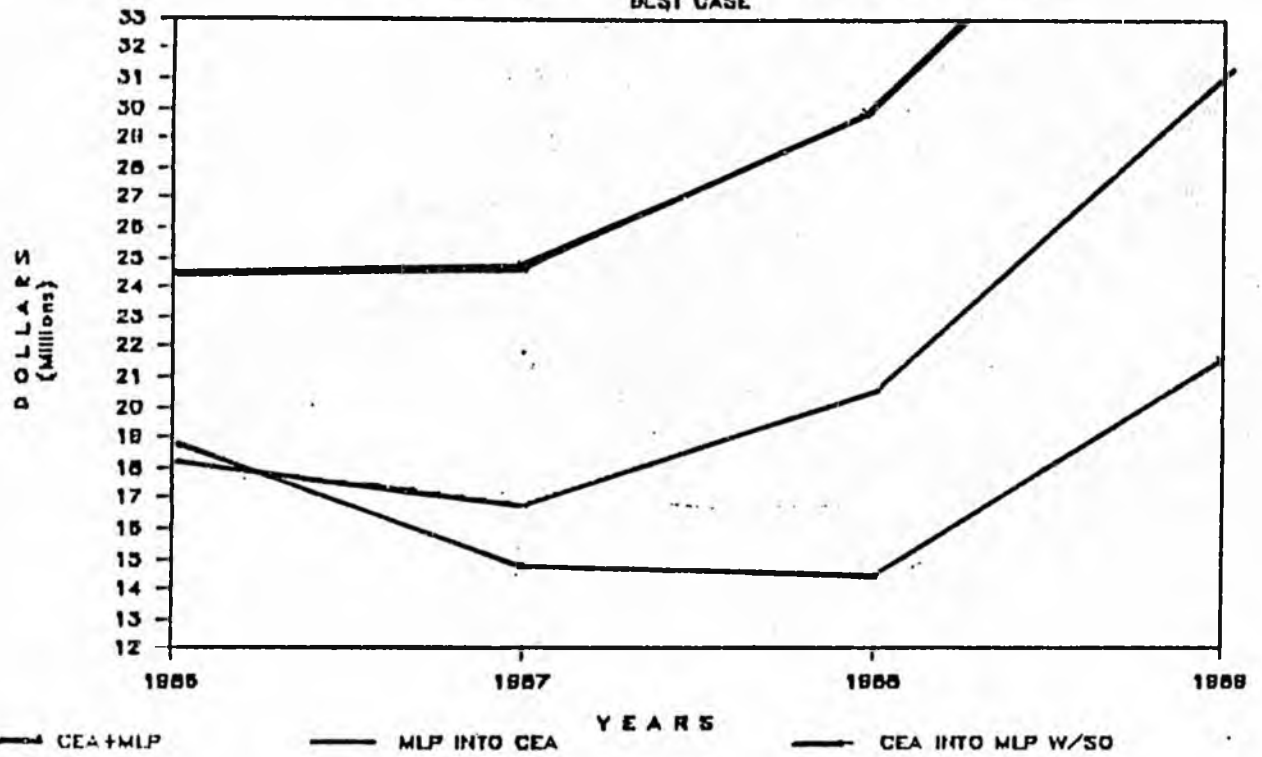
- Analysis shows less additional revenue required with merger than with separate entities
- Benefits exceed costs

**CEA AS SURVIVOR HAS LOWEST
REQUIREMENT FOR ADDITIONAL REVENUE**

**CHART 1 SHOWS RELATIONSHIP OF
ADDITIONAL REVENUE REQUIRED**

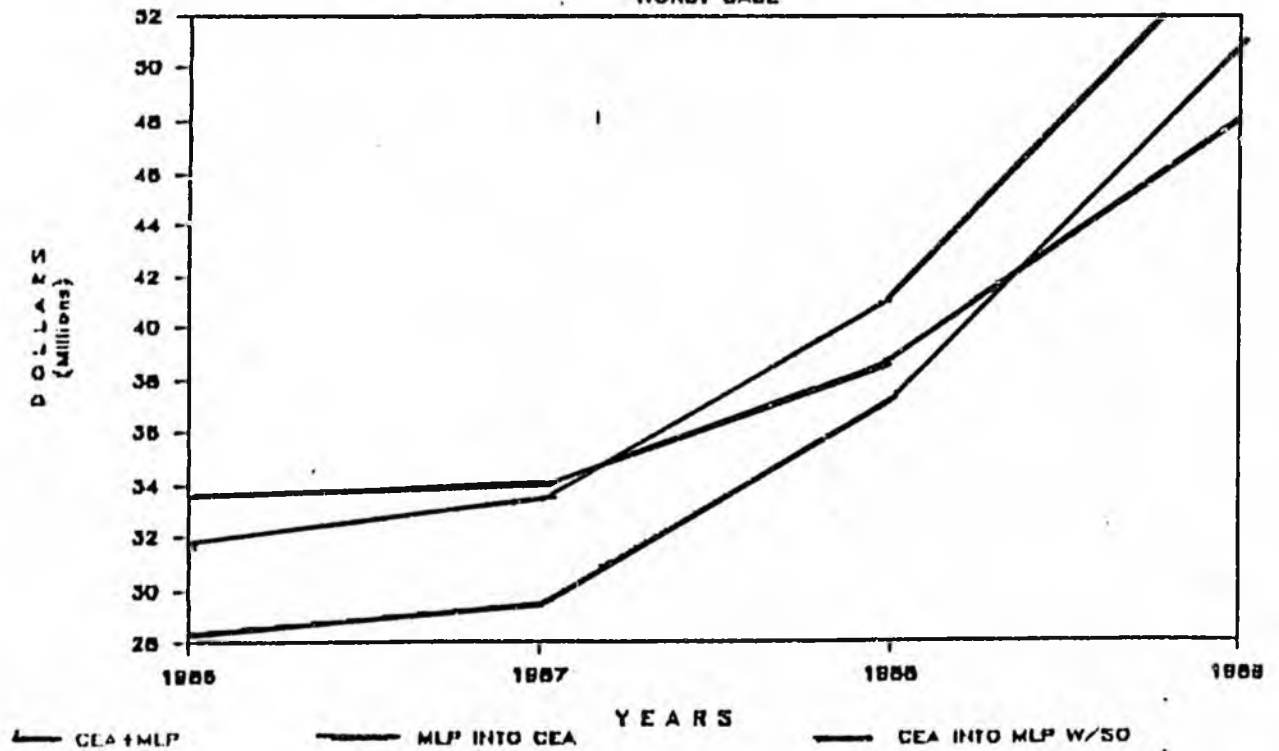
ADDITIONAL REVENUES REQUIRED

BEST CASE



ADDITIONAL REVENUES REQUIRED

WORST CASE



Financial Findings: Cash Flow

**CASH FLOW SUFFICIENT UNDER ALL CASES
FOR PROJECTED NEEDS**

**CEA AS SURVIVOR HAS SLIGHTLY HIGHER
BALANCES**

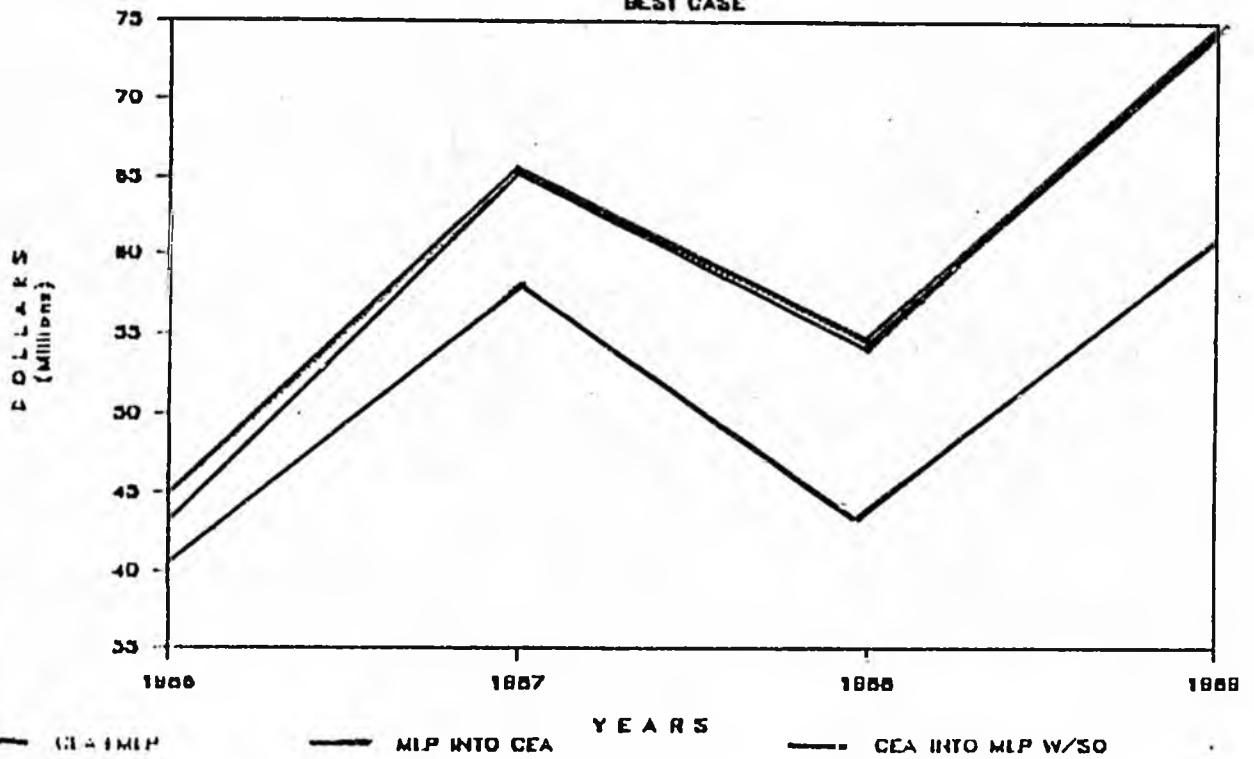
**BENEFIT OF SIGNIFICANT CASH BALANCES
NOT FULLY REFLECTED IN PROJECTIONS,
SUCH AS:**

- **Reduced borrowing**
- **Higher interest earnings**
- **Alternative financings**

**CHART 2 SHOWS RELATIONSHIP OF CASH
BALANCES**

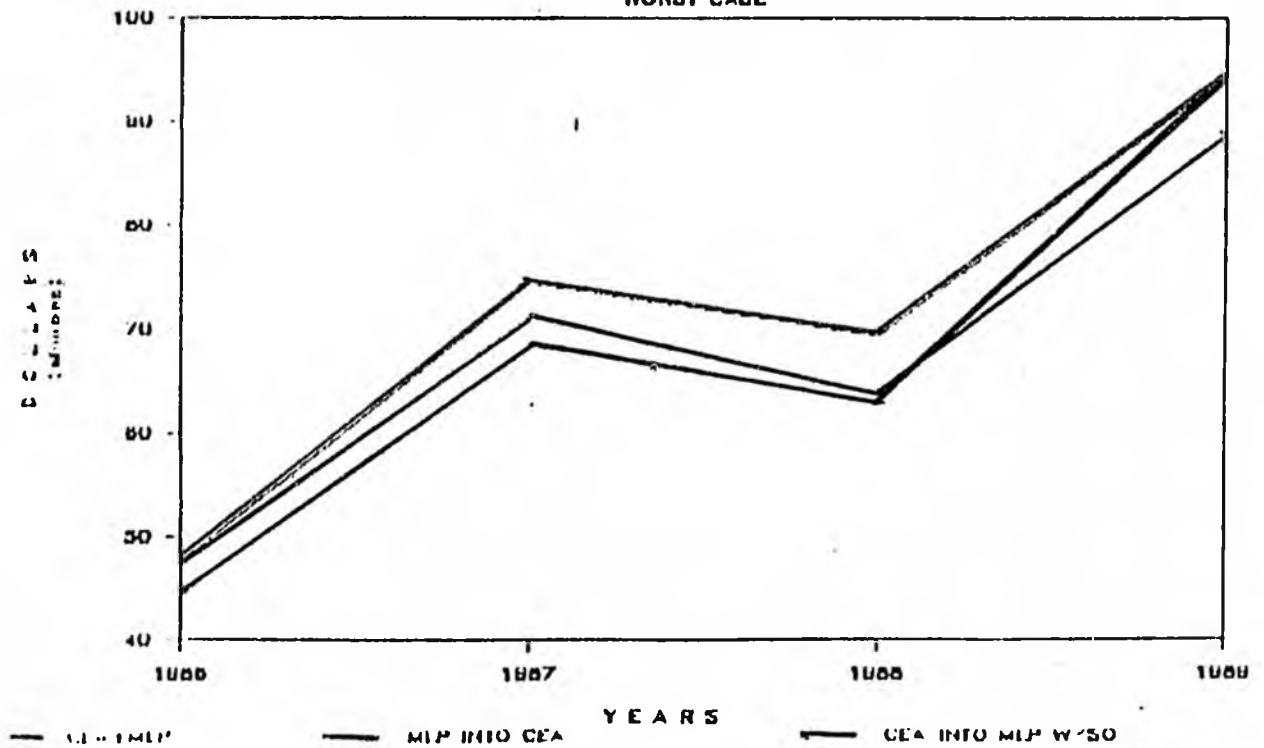
CASH ON HAND EOY

BEST CASE



CASH ON HAND EOY

WORST CASE

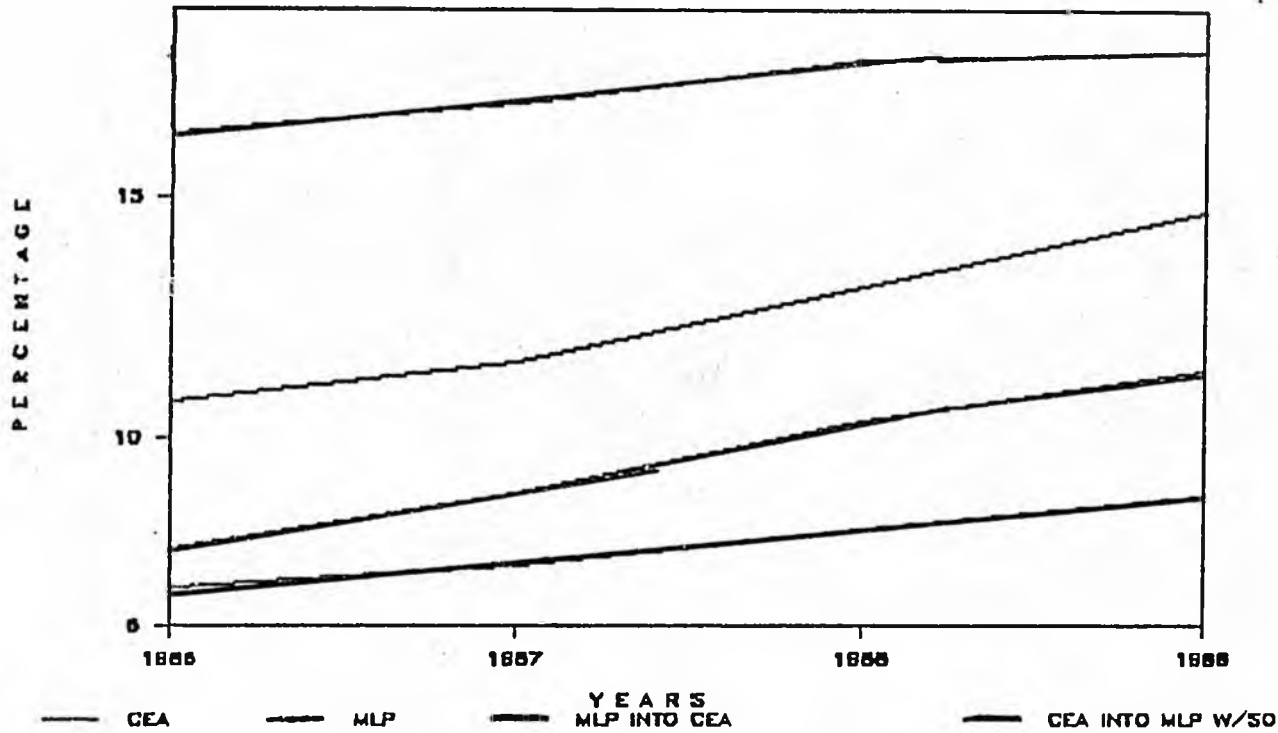


Financial Findings:
Members' Equity & Equity Ratio

- **MERGER EQUITY IS SIGNIFICANTLY LOWER THAN CURRENT EQUITY IN SEPARATE ENTITIES**
- **CEA AS SURVIVOR HAS MORE EQUITY THAN ML&P AS SURVIVOR**
- **TREND IS FOR GROWTH IN EQUITY**
- **CHART 3 AND 4 SHOW RELATIVE EQUITY LEVELS AND PERCENTAGES**

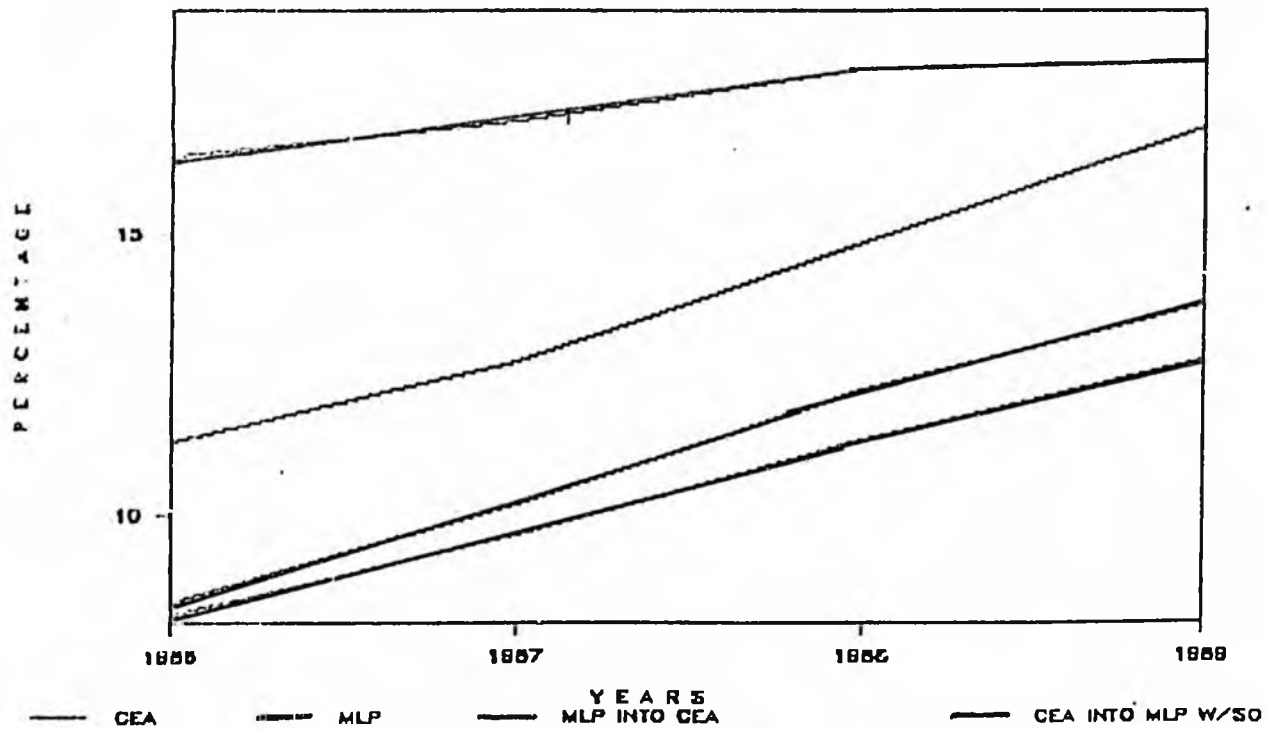
EQUITY RATIO

BEST CASE

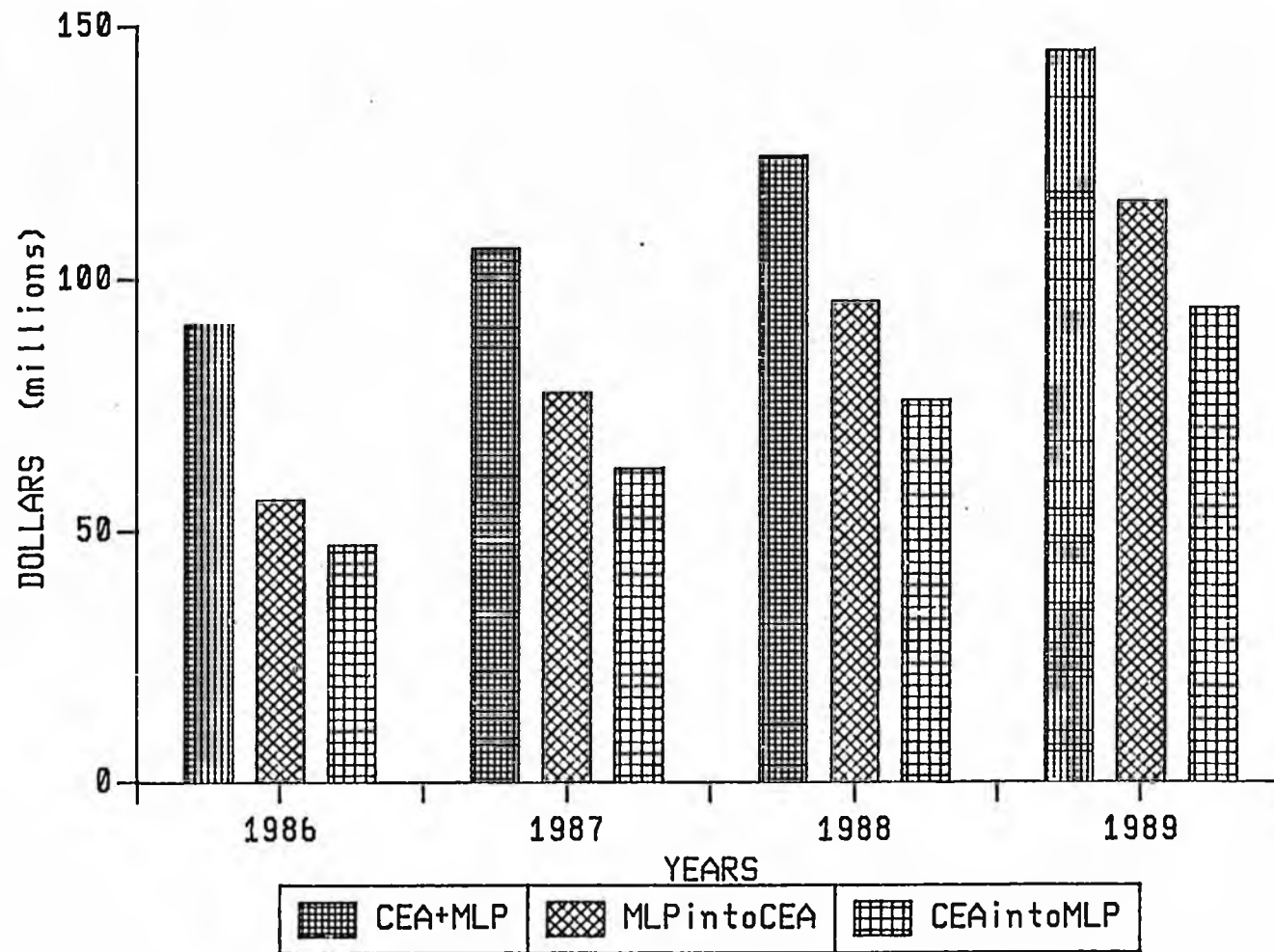


EQUITY RATIO

WORST CASE



MEMBERS EQUITY WORST CASE



Financial Findings: Fuel Costs

MERGED ENTITIES HAVE BLENDED FUEL COSTS

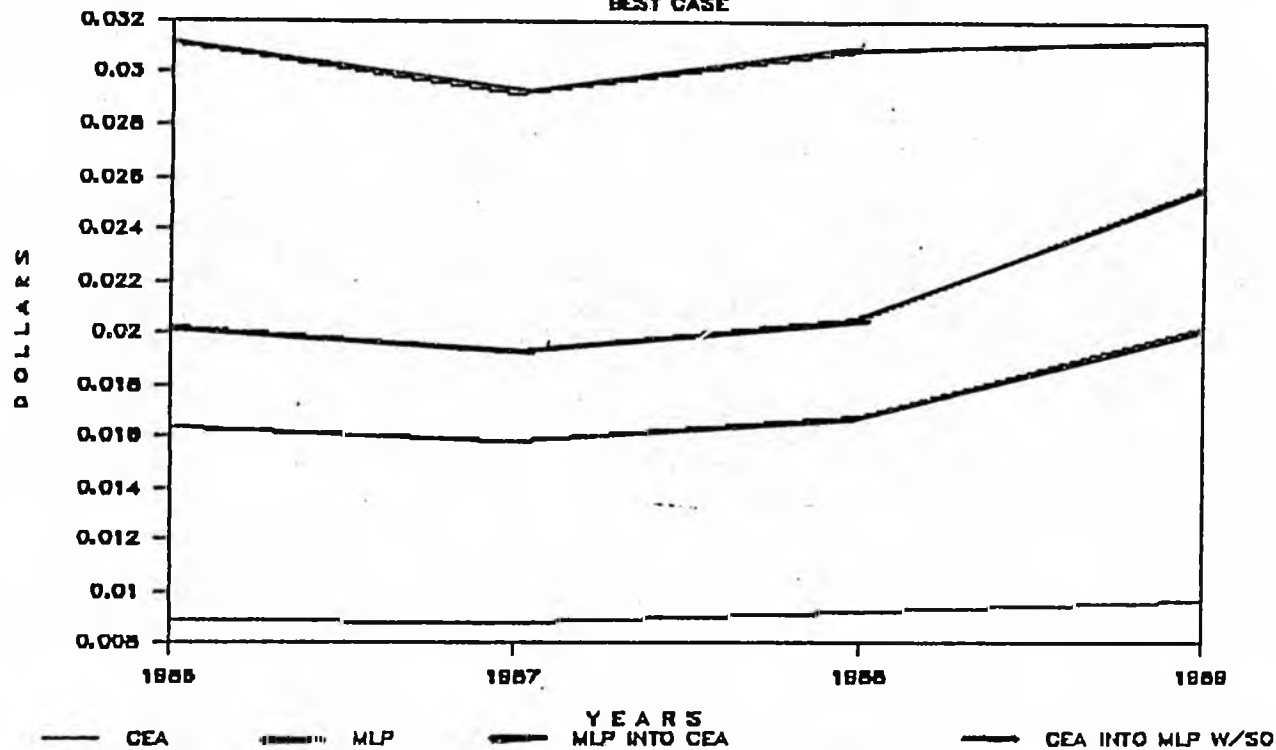
CEA AS SURVIVOR HAS SIGNIFICANTLY LOWER FUEL COSTS THAN ML&P BECAUSE:

- Spinoff of G & T assets with low cost fuel supply to AEG&T under ML&P proposal
- Larger entity results in less impact for fuel cost changes

CHART 5 SHOWS RELATIVE FUEL COSTS

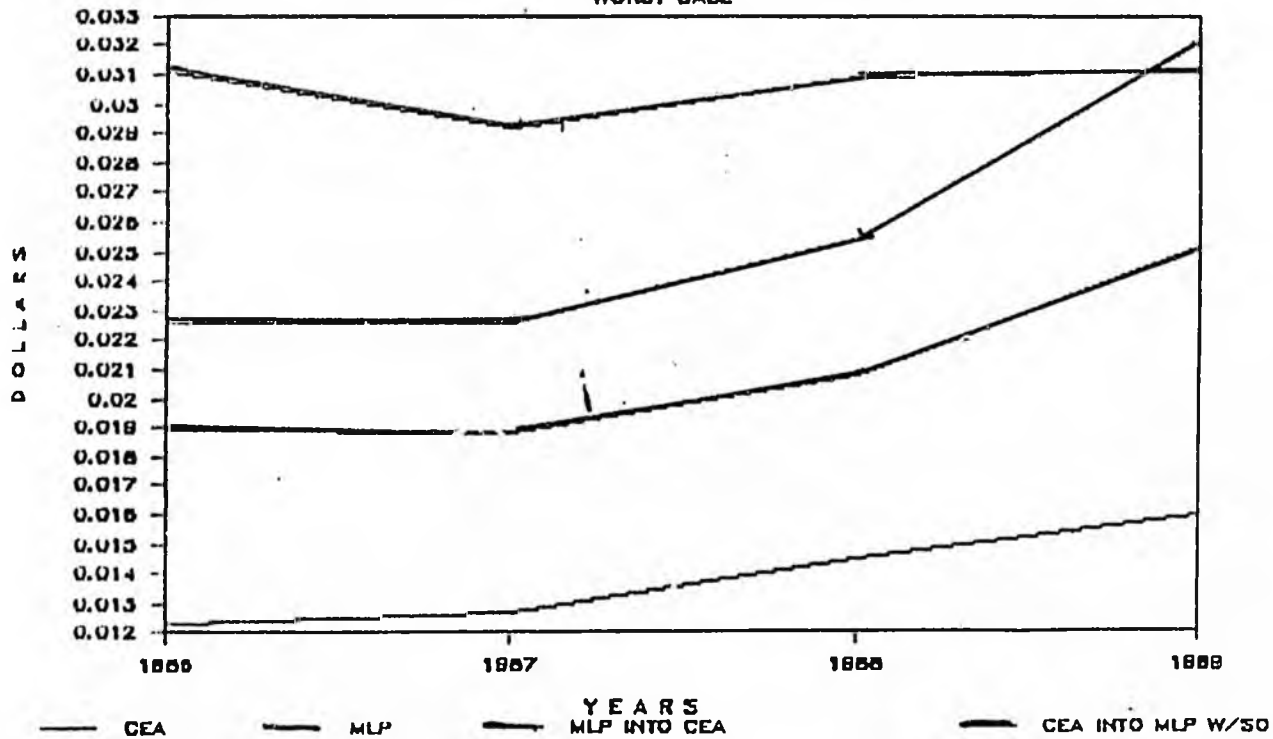
FUEL COST/KWH (\$/KWH)

BEST CASE



FUEL COST/KWH (\$/KWH)

WORST CASE



Financial Findings Viability

**ALL ENTITIES APPEAR VIABLE,
HOWEVER:**



- Limited review of data
- Limited time frame for review
(1986-1989)

**CEA SURVIVOR APPEARS BETTER ABLE
TO MANAGE DEBT LEVELS**

- ML&P traditionally higher equity levels
- Municipality of Anchorage and ML&P debt quality issues

Financial Findings: Areas for Further Study

FINANCING ALTERNATIVES

- REA
- Leasing
- Defeasance
- Taxable Subsidiary

COSTS

- Transaction Costs
- Ongoing Costs

REVIEW OF NONFINANCIAL ASPECTS OF MERGER ANALYSIS

ABILITY TO CONSUMMATE THE TRANSACTION

LEGAL ASPECTS

- Approvals: REA, Municipality of Anchorage, APUC
- Transfers of Assets, Contracts, etc.
- Anti-Trust

PERSONNEL ASPECTS

- Management for surviving entity
- Staff integration
 - Union integration
 - Pension and Employee Benefits integration

RATE SHARING AND COST SHARING POLICIES

SYSTEMS INTEGRATION

- Engineering
- Management Reporting
- Accounting

REVIEW OF POLITICAL CONSIDERATIONS OF MERGER

- **THE ENVIRONMENT**
- **DEALING WITH CONFLICTING
GOALS AND POSITIONS**

A NEW ENERGY PROGRAM FOR ALASKA
An Outline Of Proposed Legislation

- Title I. Office Of Electric Power Affairs
- Title II. Power Project Feasibility Study Program
- Title III. Power Project Financial Assistance Program
- Title IV. Power Cost Equalization Program
- Title V. Institutional Arrangements For Power Supply
- Title VI. Transfer Of Miscellaneous Functions

TITLE I. OFFICE OF ELECTRIC POWER AFFAIRS

An Office of Electric Power Affairs will be established within the Department of Commerce and Economic Development. The Office will have responsibility for administering the programs established under Titles II, III, and IV. The Office will be headed by a Deputy Director of the Department.

TITLE II. POWER PROJECT FEASIBILITY STUDY PROGRAM

(1) Preliminary investigations. Upon request from any community or electric utility, the Office of Electric Power Affairs will make available to such community or utility a sufficient number of qualified personnel (either employees of the Office or consultants) to make a preliminary investigation of the feasibility and cost-effectiveness of potential electric power generating resources, conservation measures, or transmission facilities which such community or utility is considering for development.

(2) Detailed engineering design studies. If the Office determines, on the basis of the preliminary investigation and in accordance with criteria developed by the Office, that the potential generating resource, conservation measure, or transmission facility is likely to be feasible and cost-effective, then the Office may request an appropriation to fund a detailed engineering design study to be conducted by an independent professional engineering firm. No community or utility will be eligible to receive such an appropriation, however, unless it enters into a written agreement with the Office in which the community or utility agrees to pay at least twenty-five percent (25%) of the cost of such study and to select the firm to perform the study through a process of bidding or negotiation approved by the Office.

TITLE III. POWER PROJECT FINANCIAL ASSISTANCE PROGRAM

(1) Forms of potential assistance. Generating resources, conservation measures, and transmission facilities to be owned and operated by communities and/or utilities will be eligible for financial assistance from the State of Alaska in the form of grants and/or loans in order to help meet or reduce the capital cost and/or associated debt service expenses of such resources, measures, or facilities.

(2) Application for financial assistance. All applications for financial assistance will be made to the Office of Electric Power Affairs. The Office will establish procedures for the form, timing, and content of such applications. Such applications shall contain, at a minimum, the following:

- (a) A description of the project and its proposed use;
- (b) The identity of the project sponsor(s);
- (c) A detailed engineering design study of the feasibility and cost-effectiveness of the project;
- (d) A description of the means by which the project will be operated and maintained;
- (e) The amount(s) and type(s) of financial assistance requested; and
- (f) A description of alternatives to the project that have been considered and the reasons why the project is preferable to such alternatives.

The Office will assist any applicant, upon request, to prepare its application in the form required. After receiving any application, the Office may require the applicant(s) to submit such additional information as the Office may reasonably request.

(3) Evaluation of applications. The Office will consider each application and, after consultation with the applicant(s), develop its recommendations on the need for, feasibility of, and appropriate form, terms, and amount of financial assistance for the project.

(4) Submission to the Legislature. At the beginning of each legislative session, the Office will submit to the Legislature a list of all applications, the amount(s) and type(s) of financial assistance requested by the applicant(s), and the recommendations of the Office as to each such application.

(5) Administration of appropriated funds. The Office will administer all loans and grants approved and funded by the

Legislature, and will do so in a prudent manner with the following objectives:

- (a) Efficient oversight and management of project construction, including the ability to re-evaluate the feasibility and cost-effectiveness of the project in light of actual engineering and construction experience; and
- (b) Protection of the state's investment in the project and the state's interest in the financial integrity of the project.

(6) Project trust accounts. The Office may establish and maintain a trust account for the benefit of any project for which the Legislature has approved financial assistance and appropriated funds. Interest earnings on any such account shall be retained in such accounts until expended, and shall not revert to the General Fund, unless the Legislature otherwise specifies in making the appropriations used to fund such account initially. Any funds remaining in such an account after a project is completed or its construction is abandoned shall revert to the General Fund.

TITLE IV. POWER COST EQUALIZATION PROGRAM

This Title would contain the existing Power Cost Equalization Fund (which provides rate subsidies for Bush communities), which would be administered by the Office of Electric Power Affairs.

TITLE V. INSTITUTIONAL ARRANGEMENTS FOR POWER SUPPLY

(1) Any Borough or group of adjacent Boroughs will be authorized to create a bulk power supply agency governed by an independent and popularly elected board. Such agencies will be authorized to plan, finance, construct or purchase, and own electric power resources (generating units, conservation measures, and transmission facilities) to provide service through retail electric utilities to ultimate consumers throughout such Borough or Boroughs.

(2) Such a bulk power supply agency may undertake resource projects that will provide service to all or to any requesting group of utilities providing retail electric service within such Borough or Boroughs, provided that all such utilities shall have the opportunity to participate in any such project on fair and nondiscriminatory terms.

(3) Such bulk power supply agencies shall have the power of eminent domain and condemnation, but such agencies may not levy or collect taxes in any form.

TITLE VI. TRANSFER OF MISCELLANEOUS FUNCTIONS

The functions and responsibilities of the Alaska Power Authority with respect to (1) the Anchorage-Fairbanks Intertie, (2) the Bradley Lake Hydroelectric Project, and (3) the Four Dam Pool (consisting of the Swan Lake, Solomon Gulch, Terror Lake, and Tyee Lake Projects) would be transferred to other entities and/or State agencies.

Introduced: 3/26/86
Referred: Resources and
Finance

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2

SENATE BILL NO. 468

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act creating the Railbelt energy fund; and pro-
7 viding for an effective date."

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

9 * Section 1. AS 44.25 is amended by adding a new section to read:

10 Sec. 44.25.050. RAILBELT ENERGY FUND. There is established in
11 the general fund the Railbelt energy fund. The fund consists of money
12 appropriated to it by the legislature. The Department of Revenue
13 shall manage the fund. Interest received on money in the fund shall
14 be accounted for separately and may be appropriated into the fund
15 annually. The legislature may appropriate money from the fund to
16 assist in meeting Railbelt energy needs.

17 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
18 10.070(c).

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

3/26/86

Date 4/2/86

Mr. President

The Committee on RESOURCES considered SB 468

creating the Railbelt energy fund; efd.

and (a majority of the committee) (~~the committee~~) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" FISCAL NOTE
- reports it back without recommendation Ø
- recommends referral to _____ Committee

MEMBERS SIGNING DO PASS

[Signature]

[Signature]

[Signature]

MEMBERS HAVING OTHER RECOMMENDATIONS

2 [Signature] NO REC

[Signature] " "

2 [Signature] NO REC

[Signature]
Chairman

[Signature]
Chairman recommendation