HB

356

STATE OF ALASKA
THE LEGISLATURE

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907·465·3800

LEGISLATIVE AFFAIRS AGENCY

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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H. JUD	1-29-88	1:30 p.m.
H JUD	1-28-88	1:30 p.m.
H JUD	1-27-88	1:30 p.m.

(7)

HOUSE COMMITTEE REPORT

Date referred:1/13/88 FURTHER REFERRALS: Finance

(Resources referral waived 1/13)

DATE: 1-29-88

The Judiciary Committee has considered HB 356

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

RECOMMENDS:

[✓] replace with CS HB 356 (Jud) [✓] the same title

[ ] attached amendment(s) [ ] a new title

[✓] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the _____ Committee

ADOPTS: [ ] _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[ ] fiscal impact

[ ] zero fiscal note

[ ] zero with analysis

[ ] same as previous fiscal note published _____

[ ] same as previous zero fiscal note published _____

SIGNING DO PASS:

SIGNING OTHER/RECOMMENDATIONS:

Chairman's signature

the power sales agreement refers to construction costs as

"Recoverable Construction Costs"

FYI

Sund outlined what he saw as the basic objectives of the bill at the outset of the hearing

① get Bradley going

② give some assurance to the bond holders they would get repaid; and

③ minimize any unnecessary deregulation

Comments, he asked, should be structured around same.

Q: ~~How does~~ Susan indicated that the Commission would review costs ??? How to reconcile that with the language in the bill which says that all costs must be allowed? Shouldn't it say "validated" costs or something? Also what about "other costs" - ~~not~~ non-power costs - can they be disallowed? (Administration, consulting, etc.)

JOHN - Re: Need to exempt contracts after bonds are retired ~~one possible~~ there could be a need to issue additional bonds in 30 years to finance major repairs & replacements such as generators & turbines, if these costs are not covered by a renewal & replacement fund.

But you probably wouldn't need to continue contract exemption for these bonds - they would be relatively small.

(1) Who is responsible for major repairs

(2) exemption after 30 yrs
50 yrs
renewal for 40 yrs.

go0168hX
Cramer
2/10/88

Original sponsor: Rules/Governor

IN THE HOUSE BY THE RULES COMMITTEE

CS FOR HOUSE BILL NO. 356 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority, certain agreements among certain public utilities, and calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under the agreement, entered into between the Alaska Power Authority and one or more other public utilities or among the utilities after October 31, 1987, and before January 1, 1988, and amendments to the wholesale agreement or related contract, are not subject to review or approval by the commission until all long-term debt incurred for the project is retired; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; the rate covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) Validated costs incurred by a utility in connection with the related contracts described in AS 42.05.431(c)(1) must be allowed in the rates charged by the utility. In this subsection, "validated costs" are the actual costs that a utility uses, under the formula set out in related contracts described in AS 42.05.431(c), to establish rates, charges for services and rights, and the payment of charges for services and rights. This subsection does not grant the commission jurisdiction to alter or amend the formula set out in those related contracts.

Added in Finance

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority [ANY] jurisdiction over the services or rates of a [ANY] public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to a [ANY] public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

Added in Rules

* Sec. 5. NEGOTIATIONS TO REMOVE EXCESS PAYMENT TERM. If the parties to the Bradley Lake Hydroelectric Project Agreement for the Sale and Purchase of Electric Power signed December 8, 1987, undertake negotiations to amend the agreement, the legislature intends that the amendments should enhance consumer benefits of the project, to be consistent with the

legislature's financing of the project partly through cash grants. Removal of section 29 of the power sales agreement without requiring the purchasing utilities to make other contract changes or concessions would be consistent with the legislature's intent.

* Sec. 6. Sections 1 - 4 of this Act are retroactive to November 1, 1987.

* Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

Original sponsor: Rules/Governor

IN THE HOUSE BY THE JUDICIARY COMMITTEE

CS FOR HOUSE BILL NO. 356 (Judiciary)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under the agreement, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988, and amendments to the wholesale agreement or related contract, are not subject to review or approval by the commission until all long-term debt incurred for the project is retired; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; the rate covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) Validated costs, except those disallowed under

AS 42.05.381(a), incurred by a utility in connection with the related contracts described in AS 42.05.431(c)(1), must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority [ANY] jurisdiction over the services or rates of a [ANY] public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to a [ANY] public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

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(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 1/13/88
Referred: Judiciary and Finance

go00168h

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

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(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) All costs incurred by a utility in connection with a

wholesale agreement or contract described in AS 42.05.431(c)(1), including, without limitation, power and other costs incurred under such an agreement or contract, must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

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* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

repayment
repayment Sec 29 f
to RBEA

Reason for bill

exempt from interchange → (1) Build this year

(2) comfort for bond holders

(3) certainty in repayment

~~RS~~ if down pmt - not repayment payable to G-F

February 15, 1988

MEMORANDUM

TO: Rep. John Sund, Chair,
House Judiciary Committee

FROM: John Hartle, PA, JH
House Judiciary Committee Staff

RE: HB 356

HB 356 (Rules/Gov) An Act relating to the authority of the Alaska Public Utilities Commission in connectin with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; effecitve date.

A. Referrls: RES (Waived), JUD, FIN

B. Testified before Judiciary:
   1) Bob LaResche, Executive Director, APA
   2) Susan Knowles, Chair, APUC
   3) Eric Redman, Attorney, Chugach Electric
   4) Utilities
      a) Ken Johnson
   5) ACAP - Joel Rothberg

C. Judiciary CS:
   1) Moves all three contracts between the limiting dates.
   2) Limits exemption to expire when any long-term debt is paid off.
   3) Disallows costs from .381(a) - lobbying and public relations. (This was taken out by Finance as redundant)
   4) Adds "validated" before costs -
      a) to codify Chugach Electric (Eric Redman) testimony that, though the formula in Appendix A of the wheeeling agreement may not be changed by the APUC, the items to be plugged in to that formula will be reviewed as just and reasonable costs.
      b) The pizza analogy...The utilities order a pizza and Susan Knowles (APUC) is standing at the door. At delivery, the request is for $13 for the pizza and she says "NO, this is a $12 pizza because pepperoni is not an allowable cost." so the cost is set at $12. Once that is determined, how the pizza is sliced and split among the utilities is beyond the APUC's jurisdiction. (The same analogy can be made with administrative costs to be allocated to administering the wheeling agreement...) NOTE: This analogy was created by the utilities and testified to by Bob LaResche before Judiciary.
   5) Other issues
      a) Section 29 of Wholesale power sales contract:
         1¢ Addressed in Section 5 of Rules CS
         2¢ LAA legal opinion (Terry Cramer) re: The APA Does not

have statutory authorityy to by contract obligate payment into the Railbelt Energy Fund. "The fund consists of money appropriated to it by the legislature." (And nothing else. - Anything else would get into dedicated fund problems.)

3¢ AG's opinion says that it's legal to put money into the REF as the Fund says "The legislature may appropriate from the the fund to meet Railbelt Energy needs." So, she says there is no effective dedication.

February 4, 1988

MEMORANDUM

TO: Rep. John Sund, Chair,
House Judiciary Committee

FROM: John Hartle, PA, JH
House Judiciary Committee Staff

RE: Letter of intent for HB 356

Chugach Electric has asked us to write a letter of intent to HB 356 to be sure the Committee's intent is clear in making amendments to the bill.

The House Judiciary Committee made four changes to HB 356.

1. Rewrote proposed AS 42.05.431(c)(1) so as to make it completely clear that the contracts referred to are the three already entered into between the Railbelt utilities and the APA for wholesale power sales, and among the utilities for wheeling Bradley Lake power. (page 1, lines 18-22).

2. Added a provision (Page 1, line 23) which ends the exemption from APUC review and approval when the long-term debt is retired.

3. Added "validated" (Page 1, line 29) before "costs" to clarify the relationship envisioned between the utilities and the APUC under this legislation. My understanding is as follows: It is the intent of the Committee in amending the proposed AS 42.05.511(d) to codify some of the testimony of the utilities and the APUC as to how costs will be allocated under the Bradley Lake power sales and wheeling contracts, and any amendments thereto. This testimony stated that the formula for cost allocation among the utilities, as spelled out in Appendix A to the wheeling agreement, would be beyond the authority of the APUC; the commission would not be able to mandate changes to that formula. The specific cost items to be allocated under the formula, however, would be subject to normal APUC review. Thus, for example, the percentage of a utility's administrative costs attributable to operating and maintenance expenses for wheeling could be reviewed, but, once those costs have been validated by the APUC, the method of allocation among the utilities, as specified by the formula in the contracts, would be exempt from APUC-mandated changes.

4. Added (page 1, line 29 - page 2, line 1) "except those disallowed under AS 42.05.381(a)." This amendment probably

is not absolutely necessary as the referenced statute already prohibits lobbying and public relations expenses from being passed on to ratepayers, but this makes it clear that the exemption from APUC review and approval provided in HB 356 does not include these types of costs.

SUND
2/15/88

LETTER OF INTENT - HB 356

It is the intent of the Legislature in enacting AS 42.05.511(d) to address how costs will be allocated under the Bradley Lake power sales agreement and wheeling contracts, and any amendments thereto. The intent is that the formula for cost allocation among the utilities, as spelled out in Appendix A to the wheeling agreement, would be beyond the authority of the APUC; the commission would not be able to mandate changes to that formula. The specific cost items to be allocated under the formula, however, would be subject to APUC review. Thus, for example, the percentage of a utility's administrative costs attributable to operating and maintenance expenses for wheeling could be reviewed, but, once those costs have been validated by the APUC, the method of allocation among the utilities, as specified by the formula in the contracts, would be exempt from APUC-mandated changes.

PROPOSED LETTER OF INTENT
HOUSE JUDICIARY COMMITTEE SUBSTITUTE FOR H.B. 356

Under the Chugach Services Agreement for Bradley Lake Energy and the Homer Transmission Sharing Agreement ("related contracts"), those utilities which receive services or transmission rights from other utilities are required to pay rates and charges computed in accordance with those contracts. In addition, the contracts set forth formulas for making such rates and charges, based on the costs actually incurred by the utilities that supply the services.

The amendment to AS 42.05.511(d) makes clear that:

(a) Costs which a utility can demonstrate to the Commission that it must pay to another utility for services or transmission rights under such contracts must be allowed to be recouped by the paying utility in its own electric rates, and

(b) The costs used to establish rates and charges for such services and rights in accordance with any formula set forth in such contracts shall continue to be reviewed as they are today by the Commission, notwithstanding that the Commission will lack jurisdiction to modify such formulas. In other words, wheeling rates (for example) for Bradley Lake energy must accord with the formula for such rates set forth in the Chugach Services Agreement, but that formula relies on Commission determined costs, not on costs or cost elements exempt from Commission review under traditional standards of reasonableness, prudency, and the like.

An exception in subsection (d) is preserved for costs of the type that the Commission is already authorized to disapprove under AS 42.05.381(a).

LM:go

MISC:intent:ltr

Letter of Intent

by Senator Coghill
for
CSHB 356 (Rules) am

It is the intent of the Legislature in enacting CSHB 356 (Rules) am that the Bradley Lake Hydroelectric Project be restarted as soon as possible and completed without further delays or increased costs. Specifically, the Legislature expects that the Administration and other involved agencies will do everything possible to expedite the restarting of the project construction early this summer and thereby maximize the creation of jobs for Alaskans while at the same time minimizing costs to the future ratepayers of the project. The Legislature intends that the APA and other involved state agencies take all possible measures designed to maximize the percentage of Alaska residents working on the Bradley project.

With respect to section 1(d) of CSHB 356 (Rules) am, it is the intent of the Legislature that the term "Alaska Power Authority" means the APA Board of Directors, or an officially designated committee approved by the APA Board of Directors.

A M E N D M E N T

Offered in the HOUSE By Davis

TO: CSHB 356 (Rules)

Page 1, line 10, after ";" :

Insert "relating to certain meetings among public utilities;"

Page 1, line 13:

Delete "a new subsection"

Insert "new subsections"

Page 1, after line 29:

Insert a new subsection to read:

"(d) Meetings between the Alaska Power Authority and public utilities or among public utilities concerning a wholesale agreement for the sale of power or other matter exempted from review of the commission under (c) of this section must comply with AS 44.62.310."

Page 3, line 5, after "Act":

Insert ", except for AS 42.05.431(d), enacted by sec. 1 of this Act,"

4

A M E N D M E N T

Offered in the HOUSE: BY: SUND

TO: CSHB 356 (Judiciary)

PAGE 1 LINE: 20

After "public utilities" add:

"or among the utilities"

This amendment corrects a drafting error.

SUND
2/5/88

LETTER OF INTENT - HB 356

It is the intent of the Legislature in enacting AS 42.05.511(d) to codify some of the testimony of the utilities and the Alaska Public Utilities Commission as to how costs will be allocated under the Bradley Lake power sales agreement and wheeling contracts, and any amendments thereto. The intent is that the formula for cost allocation among the utilities, as spelled out in Appendix A to the wheeling agreement, would be beyond the authority of the APUC; the commission would not be able to mandate changes to that formula. The specific cost items to be allocated under the formula, however, would be subject to normal APUC review. Thus, for example, the percentage of a utility's administrative costs attributable to operating and maintenance expenses for wheeling could be reviewed, but, once those costs have been validated by the APUC, the method of allocation among the utilities, as specified by the formula in the contracts, would be exempt from APUC-mandated changes.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y . STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM February 5, 1988

SUBJECT: Deposit of excess payments under the Bradley Lake Power Sales Agreement into the Railbelt energy fund (Work Order No. 5-1728)

TO: Representative John Sund, Chairman
House Judiciary Committee

FROM: Teresa B. Cramer TBC
Legislative Counsel

You have asked whether the provision in section 29 of the Bradley Lake Hydroelectric Project Power Sales Agreement, which states that excess payments from the purchasers are "for deposit in the Railbelt energy fund," is valid.

The excess payments are payments to be made by the purchasing public utilities after the retirement of bonds issued to pay for the construction of the power project. The bonds are expected to be retired 30 years after the project begins commercial operation and the excess payments are expected to continue for the remaining 20 years of the agreement.

In my opinion, the Alaska Power Authority (APA) does not have the statutory power to enter into an agreement requiring that the excess payments be deposited in the Railbelt energy fund.

Under AS 44.83.398(c), the APA is required to deposit money received from the sale of power from projects constructed under the energy program for Alaska in the general fund unless the money has been pledged or otherwise covenanted to secure bonds. The excess payments do not meet the requirements of the exception. The statute could be construed to allow the APA to deposit the payments in the Railbelt energy fund only if the Railbelt energy fund is considered to be the same as the general fund.

The Railbelt energy fund is an account within the general fund under AS 37.05.153. The statute provides

> There is established in the general fund the Railbelt energy fund. The fund consists of money appropriated to it by the legislature. The Department of Revenue shall manage the fund. Interest received on money in the fund shall be accounted for separately and may be appropriated into the fund annually. The legislature may appropriate money from the fund to assist in meeting Railbelt energy needs.

The legislature has given the account a special purpose, even though the purpose is not binding on future legislatures. The setting aside of funds is a legislative function, implicit in the legislature's power of the purse. Therefore, deposit in the Railbelt energy fund does not constitute deposit in the general fund and does not satisfy AS 44.83.398(c).

The power to make deposits in the Railbelt energy fund is also restricted under AS 37.05.153. Under the terms of the statute, money is added to the fund by legislative appropriation. Therefore, the excess payments under section 29 of the Power Sales Agreement can only be added to the fund if the legislature appropriates them to it.

The appropriation of state revenue is a legislative function. Absent statutory authorization, as in the case of bonds or revolving loan funds, an executive branch agency cannot circumvent the legislative decision-making power by entering a contract with private parties that earmarks state revenue for deposit in a particular account.

If I may be of further assistance, please advise.

TBC:gc
WKG1:067

go0168hBh
Cramer

(6)

A M E N D M E N T

Adopted

Offered in the FINANCE COMMITTEE

TO: CSHB 356 (Judiciary)

Page 2, line 3, after ".":

approved or accepted

Insert "In this subsection, "validated costs" are the actual costs that a utility uses, under the formula set out in related contracts described in AS 42.05.431(c), to establish rates, charges for services and rights, and the payment of charges for services and rights. This subsection does not grant the commission jurisdiction to alter or amend the formula set out in those related contracts."

as determined by the APUC

go0168hBg
Cramer

(5)

A M E N D M E N T

Offered in the FINANCE COMMITTEE

By Swackhammer

TO: CSHR 356 (Judiciary)

Page 1, line 29, to page 2, line 1:

Delete ", except those disallowed under AS 42.05.381(a)," - Deletions

Page 2, line 2:

Delete ","

2/5/88

Alaska State Legislature

HOUSE OF REPRESENTATIVES

Committee on Finance

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

TO: Members of the House Finance Committee

FROM: Representative Kay Brown

DATE: February 4, 1988

SUBJ: Amendments to CS HB 356(Jud):
Bradley Lake Exemption from the APUC

This memorandum proposes several specific amendments to CS HB 356(Jud) for your consideration during the House Finance Committee's review of this bill Friday, Febraury 5th.

As a general comment, I would like to clearly state my support for the Administration's essential objective of trying to ensure that the Bradley Lake project is able to proceed with resumption of construction this summer. At this point, given the extent of the state's commitment to the project (ie. "sunk" costs), I feel that additional delays would be counterproductive.

At the same time, however, I am concerned about the potential long-term adverse impacts that some of the language included in CS HB 356(Jud) would have on the ability of the APUC to adequately protect consumer interests. While the House Judiciary Committee version is an improvement over the original bill, I would like to offer the following additional amendments.

As you review the suggested amendments, I would urge you to keep in mind these fundamental objectives for the bill:

1) ensure that Bradley Lake construction can move forward this summer; and

2) also safeguard the consumer interest by keeping the extent of utility deregulation to a minimum.

The following amendments are offered with these basic objectives in mind.

02/04/88 Rep. K. Brown

PROPOSED AMENDMENTS TO CS HB 356 (Jud)

Limit Enforceability of Covenants to Wholesale Agreement

PURPOSE: To limit the enforceability of covenants to the wholesale power agreements and not include "related agreements."

COMMENT: As suggested by the Commission in its comments, ensuring the enforceability of rate covenants should be limited to the wholesale power agreement and not extend to the "related" services or wheeling agreements. See Attachment 1

Limitation on Automatic Approval of "Any Amendments"

PURPOSE: To provide automatic approval (ie, exemption from APUC juristiction) only for contract amendments made prior to January 1, 1996.

COMMENT: It has been stated that there are other parties (in particular, secondary lenders including the Rural Electrification Administration) reviewing the contracts and who may require some, as yet unspecified, amendments. There is also an expressed desire on the part of the utilities and the APA for "convenience" in order to amend the contracts as the need arises.

These arguments do not justify the broad language presently contained in the bill. Amending the bill to provide that only amendments prior to 1996 would be exempted would accommodate any concern about getting the project going again this summer. At the same time, this amendment would ensure the ability of the APUC to review and approve any substantial changes over the long term. (The January 1, 1996 date is taken from the wholesale power contracts which provides that if the project is not complete and operational by this date, the utilities may "opt out.")

Although a "takeover" of Railbelt utilities may not seem likely, the possibility has been recognized by the utilities themselves as evidenced in legislation now before the legislature.

This amendment would not provide the APUC with any additional authority over the existing contracts, only amendments after the project is completed

and operational. The utilities have testified that if it were not for the need to get the project going this summer, they would not be expecting an exemption from the APUC review. See Attachment 2.

Elimination of Excess Payments

PURPOSE: To eliminate the requirement that utilities make "excess" payments beyond those needed to pay off debt or O & M for the project.

COMMENT: Section 29 of the Power Sales Agreement (pages 28 -29) requires payments from Railbelt consumers "in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs." These excess payments will amount to hundreds of millions of dollars in nominal terms. (This simplified scenario assumes no amendments to the contracts that could either extend the life of the contracts or increase the amount of the "excess" payments above that amount currently described in Section 29.)

From a Railbelt consumer perspective, even though these "excess" payments are not very sizable in discounted present value terms, the payments are difficult to justify. Notwithstanding the phrase "in recognition of efforts to obtain" the intertie, the payments would be for an essentially unspecified purpose -- or at least for a project which has not been demonstrated as economically feasible nor, I suggest, even likely to be relevant 30 years from now. Essentially, Railbelt consumers would be assessed an extraordinary charge for essentially unknown future purposes. Fortunately, Section 29 could be eliminated without affecting other elements of the wholesale power contracts or the services/wheeling contracts. See Attachment 3.

Attachment 1

AMENDMENT # 1

by BROWN

Limit Enforceability of Covenants to Wholesale Agreement

Amend page 1, line 24 to delete the phrase:

"or related contract"

Attachment 2

AMENDMENT # 2

by BROWN

Limitation on Automatic Approval of "Any Amendments

Amend page 1, line 22, and after "contract":

Insert "adopted before January 1, 1996,

"Substantive" Amendments?

Attachment 3

AMENDMENT * 3

Sec 3.1

by BROWN

Elimination of Excess Payments

page 2, after line 17:

Insert a new bill section to read:

"* Sec. 5. APPLICABILITY. AS 42.05.431(c), 42.05.511(d), and the amendments made to AS 44.83.090(b) by sec. 3 of this Act, do not apply to wholesale power agreements and related contracts in which the purchasers are required to make excess payments as that term is described in Section 29 of the Bradley Lake Hydroelectric Project Agreement for the Sale and Purchase of Electric Power prepared November 6th, 1987."

Offered: 2/3/88
Referred: Finance

go0168hB

Original sponsor: Rules/Governor

IN THE HOUSE BY THE JUDICIARY COMMITTEE

CS FOR HOUSE BILL NO. 356 (Judiciary)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

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(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under the agreement, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988, and amendments to the wholesale agreement or related contract, are not subject to review or approval by the commission until all long-term debt incurred for the project is retired; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; the rate covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) Validated costs, except those disallowed under

Adopted

AMENDMENT # 3A

(NOTE: substitute for prior Amendment #3)

by BROWN

Elimination of Excess Payments

page 2, after line 17:

Insert new bill sections to read:

"* Sec. 5. APPLICABILITY. AS 42.05.431(c), 42.05.511(d), and the amendments made to AS 44.83.090(b) by sec. 3 of this Act, do not apply to wholesale power agreements and related contracts in which the purchasers are required to make excess payments as that term is described in Section 29 of the Bradley Lake Hydroelectric Project Agreement for the Sale and Purchase of Electric Power signed December 8, 1987."

* Sec. 6. NEGOTIATIONS TO REMOVE EXCESS PAYMENT TERM. If the parties to the Bradley Lake Hydroelectric for the Sale and Purchase of Electric Power signed December 8, 1987 undertake negotiations to amend the agreement, the Alaska Power Authority may not withhold its agreement to remove the requirement to make the excess payments as described in Section 29 of the wholesale power contract, nor may the Alaska Power Authority require concessions from the purchasers as a condition of the removal of the excess payments provision."

Renumber sections accordingly

AMENDMENT

by Goll

Page 1, Line 23
Delete: "all long-term debt incurred for the project is retired"

Insert and replace with: "the project begins commercial operation"

Delete Section 2:
Page 1, Line 28 through Page 2, Line 3

Re-number sections accordingly.

go0168hEh
Cramer

A M E N D M E N T

Offered in the FINANCE COMMITTEE

TO: CSHB 356 (Judiciary)

Page 2, line 3, after ".":

Insert "In this subsection, "validated costs" are the actual costs as determined by the APUC that a utility uses, under the formula set out in related contracts described in AS 42.05.431(c), to establish rates, charges for services and rights, and the payment of charges for services and rights. This subsection does not grant the commission jurisdiction to alter or amend the formula set out in those related contracts."

2/5/88

Alaska State Legislature

HOUSE OF REPRESENTATIVES

Committee on Finance

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

TO: Members of the House Finance Committee

FROM: Representative Kay Brown

DATE: February 4, 1988

SUBJ: Amendments to CS HB 356(Jud):
Bradley Lake Exemption from the APUC

This memorandum proposes several specific amendments to CS HB 356(Jud) for your consideration during the House Finance Committee's review of this bill Friday, Febraury 5th.

As a general comment, I would like to clearly state my support for the Administration's essential objective of trying to ensure that the Bradley Lake project is able to proceed with resumption of construction this summer. At this point, given the extent of the state's commitment to the project (ie, "sunk" costs), I feel that additional delays would be counterproductive.

At the same time, however, I am concerned about the potential long-term adverse impacts that some of the language included in CS HB 356(Jud) would have on the ability of the APUC to adequately protect consumer interests. While the House Judiciary Committee version is an improvement over the original bill, I would like to offer the following additional amendments.

As you review the suggested amendments, I would urge you to keep in mind these fundamental objectives for the bill:

1) ensure that Bradley Lake construction can move forward this summer; and

2) also safeguard the consumer interest by keeping the extent of utility deregulation to a minimum.

The following amendments are offered with these basic objectives in mind.

02/04/88 Rep. K. Brown

PROPOSED AMENDMENTS TO CS HB 356 (Jud)

Limit Enforceability of Covenants to Wholesale Agreement

PURPOSE: To limit the enforceability of covenants to the wholesale power agreements and not include "related agreements."

COMMENT: As suggested by the Commission in its comments, ensuring the enforceability of rate covenants should be limited to the wholesale power agreement and not extend to the "related" services or wheeling agreements. See Attachment 1

Limitation on Automatic Approval of "Any Amendments"

PURPOSE: To provide automatic approval (ie, exemption from APUC juristiction) only for contract amendments made prior to January 1, 1996.

COMMENT: It has been stated that there are other parties (in particular, secondary lenders including the Rural Electrification Administration) reviewing the contracts and who may require some, as yet unspecified, amendments. There is also an expressed desire on the part of the utilities and the APA for "convenience" in order to amend the contracts as the need arises.

These arguments do not justify the broad language presently contained in the bill. Amending the bill to provide that only amendments prior to 1996 would be exempted would accommodate any concern about getting the project going again this summer. At the same time, this amendment would ensure the ability of the APUC to review and approve any substantial changes over the long term. (The January 1, 1996 date is taken from the wholesale power contracts which provides that if the project is not complete and operational by this date, the utilities may "opt out.")

Although a "takeover" of Railbelt utilities may not seem likely, the possibility has been recognized by the utilities themselves as evidenced in legislation now before the legislature.

This amendment would not provide the APUC with any additional authority over the existing contracts, only amendments after the project is completed

and operational. The utilities have testified that if it were not for the need to get the project going this summer, they would not be expecting an exemption from the APUC review. See Attachment 2.

Elimination of Excess Payments

PURPOSE: To eliminate the requirement that utilities make "excess" payments beyond those needed to pay off debt or O & M for the project.

COMMENT: Section 29 of the Power Sales Agreement (pages 28 -29) requires payments from Railbelt consumers "in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs." These excess payments will amount to hundreds of millions of dollars in nominal terms. (This simplified scenario assumes no amendments to the contracts that could either extend the life of the contracts or increase the amount of the "excess" payments above that amount currently described in Section 29.)

From a Railbelt consumer perspective, even though these "excess" payments are not very sizable in discounted present value terms, the payments are difficult to justify. Notwithstanding the phrase "in recognition of efforts to obtain" the intertie, the payments would be for an essentially unspecified purpose -- or at least for a project which has not been demonstrated as economically feasible nor, I suggest, even likely to be relevant 30 years from now. Essentially, Railbelt consumers would be assessed an extraordinary charge for essentially unknown future purposes. Fortunately, Section 29 could be eliminated without affecting other elements of the wholesale power contracts or the services/wheeling contracts. See Attachment 3.

Attachment 1

AMENDMENT # 1

by BROWN

Limit Enforceability of Covenants to Wholesale Agreement

Amend page 1, line 24 to delete the phrase:

"or related contract"

Attachment 2

AMENDMENT # 2

by BROWN

Limitation on Automatic Approval of "Any Amendments"

Amend page 1, line 22, and after "contract":

Insert "adopted before January 1, 1996,"

Attachment 3

AMENDMENT # 3

by BROWN

Elimination of Excess Payments

page 2, after line 17:

Insert a new bill section to read:

"* Sec. 5. APPLICABILITY. AS 42.05.431(c), 42.05.511(d), and the amendments made to AS 44.83.090(b) by sec. 3 of this Act, do not apply to wholesale power agreements and related contracts in which the purchasers are required to make excess payments as that term is described in Section 29 of the Bradley Lake Hydroelectric Project Agreement for the Sale and Purchase of Electric Power prepared November 6th, 1987."

01/31/88

HB 356 - CONCEPTUAL AMENDMENTS
for the
House Finance Committee

1) Include language to clarify/reconcile section 1 of the bill with section 2.

- amend section 1 to include the phrase:

"Except as provided in AS 42.05.511...."

- amend section 2 to read:

"Only costs validated by the Commission that are incurred by a utility in connection with the related contracts described in AS 42.05.431 (c) must be allowed in the reates charged by a utility."

2) Limit duration of exemption form APUC juristiction to maximum of 30 years.

3) Limit the exemption of subsequent "amendments" to before January 1991.

4) Eliminate "excess payments" provision through conditional effective date.

5) Include language to ensure that meetings of bodies established by the power sales contracts and related contracts are covered by the Open Meetings Act.

6) Add language that would eliminate the APUC exemption if, at some point in the future, the utilities which are parties to the contracts were taken over by another utility that was not either a municipal utility or a cooperative (ie, an investor owned utility). See attached article.

Draft Admendment #1 Adopted

to House Bill No. 356

*Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987 [ENTERED INTO BETWEEN THE ALASKA POWER AUTHORITY AND ONE OR MORE OTHER PUBLIC UTILITIES AFTER OCTOBER 31, 1987 AND BEFORE JANUARY 1, 1988] and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement, entered into between the Alaska Power Authority and one or more other public utilities or among the utilities after October 31, 1987 and before January 1, 1988 and [ANY SUBSEQUENT] amendments to the wholesale agreement or related contracts are ~~subject to review~~ not subject to review or approval by the commission until all debt incurred for the project is retired and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

*Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) ~~All~~ Validated costs, except those disallowed under AS 42.05.381(a), incurred by a utility in connection with ~~a wholesale agreement or~~ the related contracts described in AS 42.05.431(c)(1), ~~including, without limitation, power and other costs incurred under such an agreement or contract,~~ must be allowed in the rates charged by the utility.

(Subsections 3 & 4 remain the same)

Alaska Power Authority

NEED FOR EXPEDITIOUS PASSAGE OF NEW "SB22" LEGISLATION

The revised construction schedule adopted for Bradley Lake has been developed to accomplish two primary objectives: first, to complete the project in a reasonable timeframe which will bring the project on line when the utilities' seasonal demand for power is increasing; and second, to stimulate the construction industry and employment opportunities by initiating major construction efforts during the 1988 construction season.

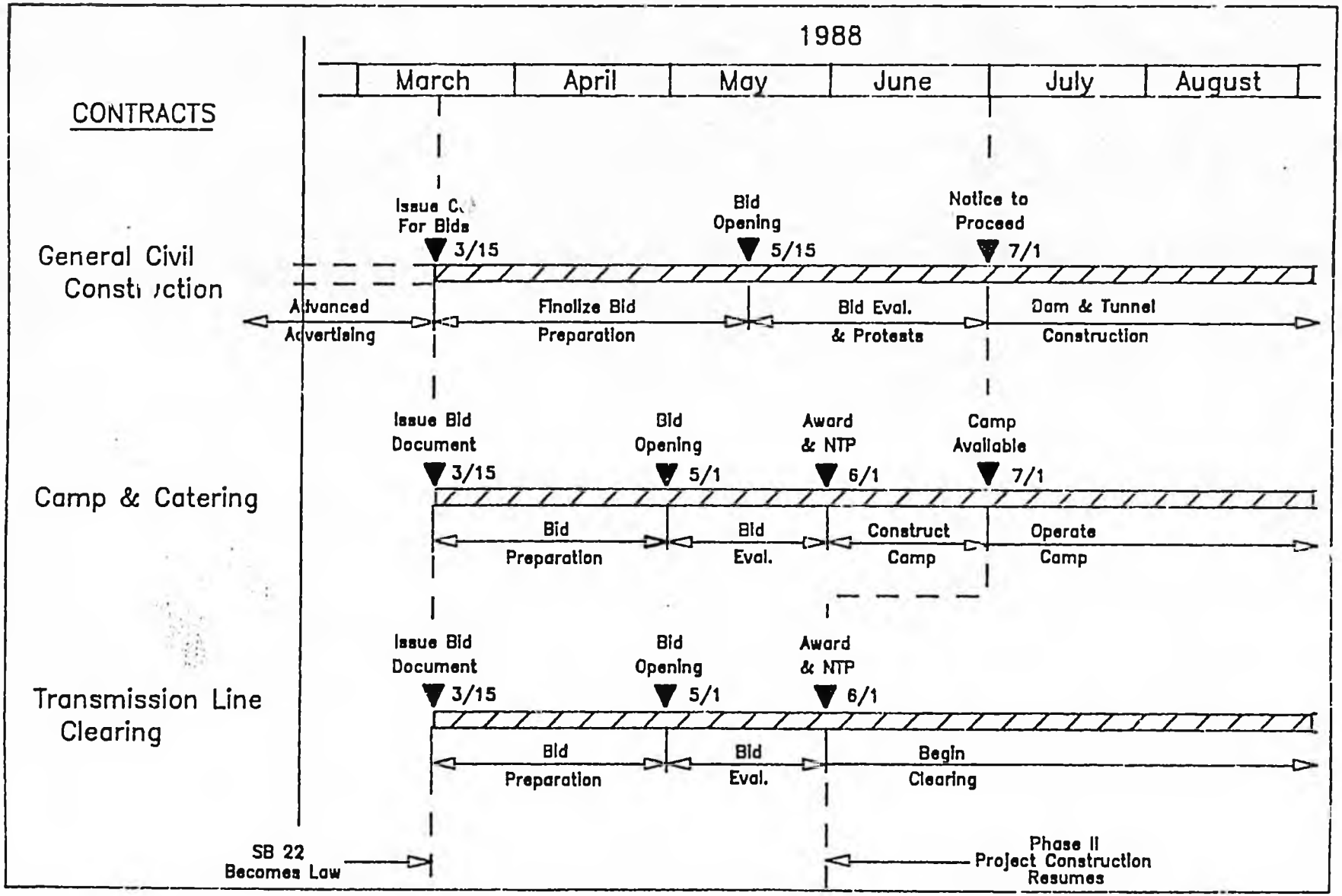
To accomplish the above objectives, and in particular to create a meaningful positive effect on the labor situation in 1988, it is imperative that the main construction contract (General Civil Construction) be awarded early enough in the summer of 1988 to enable the contractors to initiate work on both the dam and power tunnel. If the contract award is delayed beyond July 1, 1988, the contractor will still begin work on the power tunnel. However, due to the limited summer season remaining, work on the dam will probably not be initiated until the spring of 1989. As a consequence, the total 1988 work force will be reduced by approximately one-half.

Due to the time involved in advertising, bid preparation, bid opening, potential bid protests and the contract award process, in order to achieve a contract notice to proceed on July 1, 1988, it is imperative that "clean SB22" legislation be enacted and signed into law on or before March 15, 1988.

The attached flow chart shows the timetable required to achieve timely award of the General Civil Construction contract and other project contracts involving 1988 construction. Also attached is a bar chart which compares the estimated manpower requirements for 1988 resulting from early passage of SB22 (prior to March 15), versus late passage of the bill (May 15).

Attachments

Bradley Lake Hydroelectric Project
1988 Construction Schedule

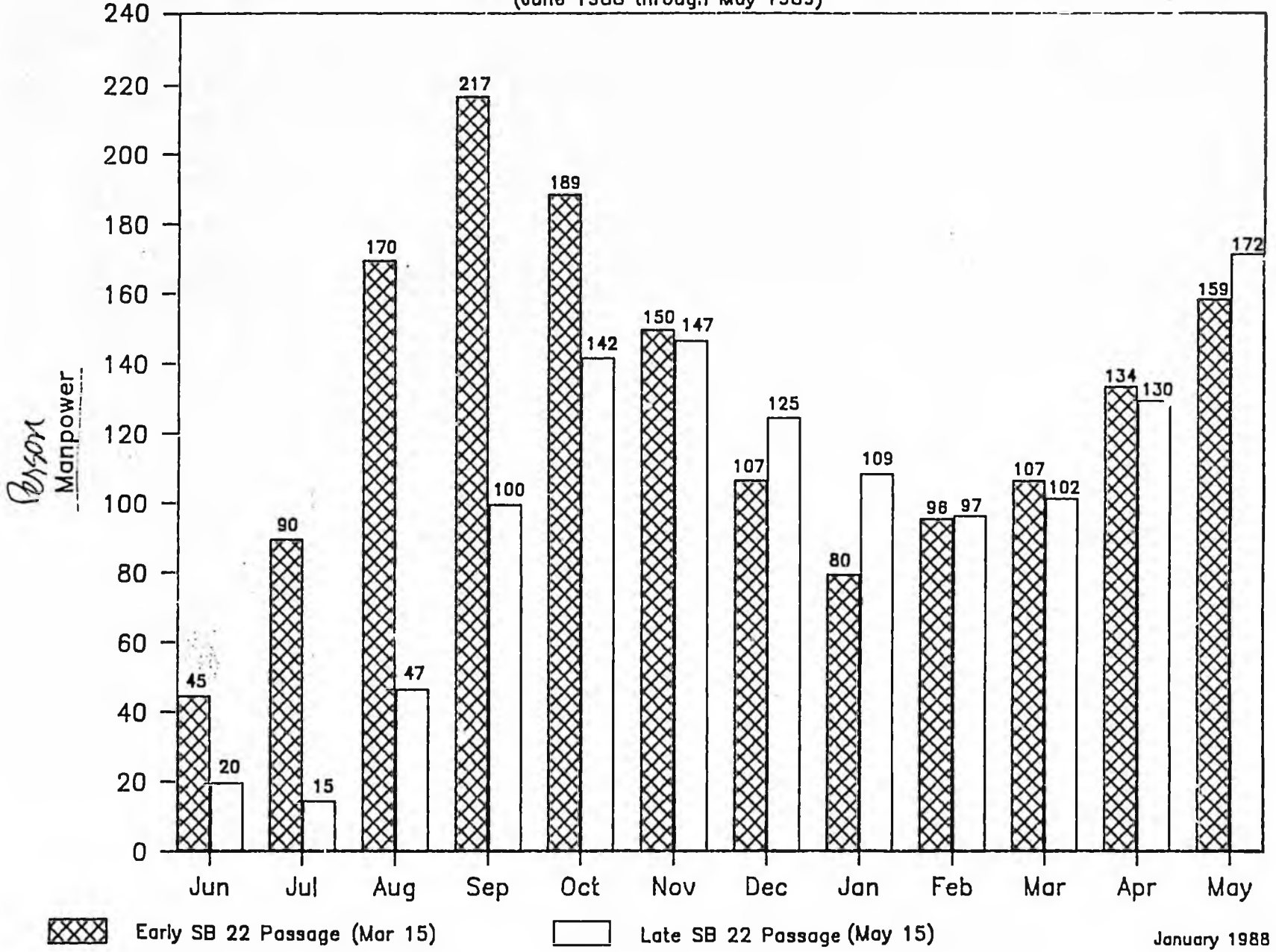


January 1988

Bradley Lake Hydroelectric Project

Projected Manpower Requirements

(June 1988 through May 1989)



January 1988

Introduced: 1/13/88
Referred: Judiciary and Finance

go00168h

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement, and any subsequent amendments to the wholesale agreement or related contract, are not subject to review or approval by the commission; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) All costs incurred by a utility in connection with a

wholesale agreement or contract described in AS 42.05.431(c)(1), including, without limitation, power and other costs incurred under such an agreement or contract, must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1988 EGISLATIVE SESSION

BILL VERSION: HB 356
PUBLISH DATE: HOUSE 1/13/88

FISCAL NOTE

(10)

REQUEST:

Revision Date:
Title: APUC Commission authority re APA and re PCE
Sponsor: Rules Committee by request of
Requestor: Governor

Agency Affected: Commerce & Economic Development
BRU: APUC
Components: Operations

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

See attached

Prepared by: T.S. Moninski II Executive Director
Phone: 276-6222
Division: Alaska Public Utilities Commission
Date: 1/6/88

Approved by Commissioner: Kirby Marshall for J. Anthony Smith
Date: 1/6/88
Agency: Commerce & Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

January 6, 1988

The proposed legislation amends AS 42.05.431(b), which established the Commission's authority to review and approve wholesale power contracts entered into between the Alaska Power Authority and other public utilities.

When Section .431(b) was enacted in 1986, no fiscal impact was forecasted and the Commission did not receive any additional resources. The expectation was that the Commission would respond to filings pursuant to this section with existing staff. Therefore, no resultant fiscal impact is projected in response to the changes included in this bill.

STATE OF ALASKA 1988 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: Rules Committee

Bill Version : HB 356
Publish Date : HOUSE 1/13/88

Revision Date:
Title : APUC authority in connection with activities of the Alaska Power Authority
Sponsor : Rules Committee
Requestor : Governor

Agency Affected : AK Power Authority
BRU :
Components :

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL	(50)	(150)	(19,150)	-0-	-0-	-0-
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER *	(50)	(150)	(19,150)	-0-	-0-	-0-
TOTAL						

*Railbelt Energy Fund

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

(See attached page)

Prepared by : Robert E. LeResche
Division : Alaska Power Authority
Phone : 465-3575
Date : 1/8/88

Approved by Commissioner : J. Anthony Smith
Date : 1/8/88
Agency : Department of Commerce & Economic Development

Distribution (by preparer) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

PROGRAM SUMMARY

- Expenditures

  It is estimated that approximately $200,000 of additional legal fees will be incurred due to the PUC hearings process.

  It is further estimated that the PUC hearings process would delay the Bradley Lake project by a year. The resulting increase in construction costs and interest during construction on the long-term debt would increase the total project costs by an estimated $19.15 million.

- Funding

  It is assumed that any additional Bradley expenditures would be funded by the Railbelt Energy Fund.

- Economic Impact

  In addition to the increased costs described above and below, a delay in the Bradley Lake project would reduce the number of jobs available on the Kenai Peninsula this summer and next.

- Impact on Railbelt Electricity Consumers

  Not passing this bill would increase the interest rate on the long-term debt for Bradley Lake in two ways. First, debt would have to be issued earlier in the construction schedule (the IDB allocation to Bradley Lake expires on 12/31/90), and completion risk becomes more of a factor. Second and perhaps more important, present law allows the PUC to reopen the contracts at any time in the future. The interest rate penalty from these two factors is estimated to be 1/2 percent. Such a penalty would increase debt service $750,000 per year, or $22,500,000 over the life of the bonds.

  Additionally, the utilities are expected to incur approximately $500,000 of legal expenses due to the PUC hearings process. This would be borne by the Railbelt Electricity Consumers.

- In summary, the total additional costs incurred from this bill not passing would be approximately $42,350,000.

1332/810/1

ALASKA POWER AUTHORITY

POSITION PAPER

HOUSE BILL NO. 356

The Alaska Power Authority supports enactment of House Bill No. 356. Specifically, Sections 1, 2 and 3 of the bill provide for amendments which would exempt wholesale power agreements and related contracts (the two "wheeling" agreements), including any subsequent amendments to the wholesale agreement or related contract, between the Alaska Power Authority and one or more other public utilities from review or approval by the Alaska Public Utilities Commission (APUC). The exemption provided through these amendments covers only those agreements for the sale of power from a project licensed by the Federal Energy Regulatory Commission (FERC), on or before January 1, 1987, entered into between the Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, i.e., the Bradley Lake Hydroelectric project (licensed by the FERC on December 31, 1985), and the wholesale power sales agreements and related agreements were entered into on December 8, 1987. Enactment of this legislation remains essential to the program of revenue bond financing of the Bradley Lake Hydroelectric Project.

The need for enactment of House Bill 356 is due to a 1986 amendment to APUC legislation. The amendment provided the APUC with the authority to review in advance and approve wholesale power agreements between public utilities. The existing APUC statutory authority also allows that, once the agreements are in effect, the APUC may also order the parties to the agreement to renegotiate

the agreement if the APUC determines that retail power rates are not just. Where the parties are unable to agree to an amendment, the APUC may order the parties to proceed under the agreement's dispute resolution procedures.

The 1986 amendment to APUC statutes was part of a complex, lengthy and controversial package of amendments within the "sunset" reauthorization bill for the Alaska Public Utilities Commission. The effect of the amendment on the Alaska Power Authority, its wholesale power agreements and related contracts, and the Bradley Lake agreement in particular, was never considered by the 1986 Legislature. Consequently, we are now presented with a statutory conflict. The Power Authority is exempt by statute from the APUC's jurisdiction. On the other hand, the APUC has jurisdiction over wholesale power agreements and other related contracts to which the Power Authority is a party.

During the 1987 legislative session Senate Bill No. 22 was introduced and provided for amendments which would have restored law that had been in effect since 1976 and that was inadvertantly removed during the reauthorization of the Alaska Public Utilities Commission by the 1986 Legislature. The amendments, as provided for in SB22, attempted to restore, rather than change the status quo. After a lengthy legislative hearing process, SB22 passed the Legislature and was subsequently vetoed. Governor Cowper vetoed the bill because of amendments contained in Section 4 of HCS CSSSB 22 (Fin.), which were unrelated to the amendments which would have exempted wholesale power agreements between the Alaska Power Authority and public utilities from review and approval by the APUC. As a result of the veto, Bradley Lake project construction could not move forward as originally planned.

During the 1987 legislative session, the Railbelt utilities requested funding and statutory authority which would have allowed for immediate construction of an upgraded intertie system in the Railbelt. The utilities asserted that this system was necessary to transmit electrical energy from Bradley Lake to its users in the Railbelt. That legislation did not pass, and the utilities were required to develop alternate (contractual) arrangements for moving energy over the intertie system as it exists today. These contractual arrangements are called "wheeling" and/or "services" agreements. These agreements govern the utilization of several segments of transmission facilities that are owned and operated by different parties. Further, these agreements serve as additional terms and conditions necessary to provide delivery of energy contracted for under the Power Sales Agreement, and are therefore integral parts of the bargain the utilities have made for Bradley Lake power. The Bradley Lake Power Sales Agreement does not become effective until all required approvals of these agreements are received.

Section 4 of HB356 provides for amendments to AS 44.83.162 (Section 7, of SB 22 passed by the 1987 Legislature also included this language.) Although Section 4 of this bill does not impact the Alaska Power Authority, it does relate to the Power Cost Equalization Program (PCE) which is administered by the Alaska Power Authority. This amendment clarifies that APUC should not include the kilowatt-hour sales to a Department of Defense facility when determining if a utility is eligible for Power Cost Equalization benefits. The amendment provides resolution to a question that has been pending regarding Naknek Electric Association's calculation of PCE benefits. Naknek Elec-

tric Association provides contractual electric service to the King Salmon Air Force Base under the Federal SWAP Act provisions of 1980. The amendment will provide a positive benefit to local customers of utilities participating in the PCE program which supply power now, or in the future, to a U.S. Department of Defense facility. The City of Galena, recently awarded a contract to sell power to the Galena Air Force Base, will also benefit from the amendment. The exclusion of pro rata fixed costs and kilowatt-hour sales arising from supplying power to such a facility will provide for a positive economic impact on Naknek Electric Association's members. This amendment will also serve to maintain the PCE level of Naknek Electric Association's residential customers without increasing the cost of power to these customers.

Rec. 01/20/13

Glorre (DB22

April 21, 1987

To: Don Shiner
Director, Program Development

From: Gwen Obermiller
Research Analyst

re: Naknek Electric's disagreement with PCE level determination

I am commenting on Mr. Franke's letter to Senator Zharoff dated March 19, 1987 though the supporting documents have not been forwarded.

The SWAP Act of 1980 states that an energy "..purchase ...will result in a cost savings to such agency of electric energy without increasing costs to other consumers of electric energy." If there are additional costs involved in providing power to wholesale customers of NEA, I would assume it to be the utility's responsibility to take all additional costs in account when negotiatiating the contract. If the direct costs are not passed through to the wholesale customers incurring the costs, the other ratepayers will subsidize the contract, unless the additional demand decreases the total cost of power. The agreement Naknek Electric (NEA) has with the Air Force is a negotiated wholesale power contract of the format which it appears that NEA enters into with any purchaser whose demand exceeds 500 kva. (See attached)

Cost based rates are developed by allocating the cost or ratio of cost of services and/or facilities to the customer or rate class depending on the degree of benefit to that class or the level of demand. If overall costs of providing electricity to the utility consumer are decreased, then it follows that a subsidy would decrease.

It appears in the letter from Mr. Franke to Sen. Zharoff that he wishes to count the costs of supplying electrical service to the Air Force yet not include the benefits of those expenditures in the formula. (PCE determined from Total Costs/Total KWH sales to get unit cost of electricity.) Therefore the PCE level would be much higher. If the KWH sales of the Air Force base are excluded, it would seem that any portion of the costs that do not contribute to the benefit of the other ratepayers should be excluded when determining the unit cost of electricity and ultimately the PCE subsidy level. If maintaining the PCE level is the desired outcome, then using the revenues from the Air Force to decrease costs before dividing by kwh sales of all other customers will only work if the costs of providing that service would outweigh the benefits.

One of the purposes of the Power Cost Equalization program as stated in general order 14 is to encourage feasible alternatives t diesel generation, which one could interpret to mean would be less expensive in the long run leading to less dependence on power subsidies such as PCE.

The most equitable way to resolve the issue at this point in time would be to exclude the Air Force totally from the computations f: PCE determination for all other rate classes. This would mean exclude the costs and the kwh sales arising from serving the base from the PCE formula. The subsidy serves to skew the impact of this contract on the cost of power for the remainder of the ratepayers.

Contract F65501-81-D0003

EXHIBIT "B"

RATE SCHEDULE EXTRACT

The following power rate was extracted from the Naknek Electric Association Proposal, F65501-80-D0033, with negotiated price adjustment reflected.

SCHEDULE W

NAKNEK DIVISION WHOLESALE POWER COST

AVAILABILITY

Available to customers desiring to purchase wholesale power and whose demand exceeded 500 kva during any period throughout the calendar year.

TYPE OF SERVICE

To be determined and made a part of a subordinate contract to be entered into with each customer utilizing such service.

RATES

All energy sold - 9.9¢/KWH

MINIMUM MONTHLY CHARGE

The minimum monthly charge under the above rate shall be $15,000/month.

FUEL COST ADJUSTMENT CHARGE

A surcharge or credit may be applied to each billing for service rendered under this Schedule to reflect increases or decreases in the cost of fuel compared to the base cost of fuel.

$$\text{Surcharge } (¢/KWH) = \frac{\text{Current Fuel Cost } (¢/Gallon) - 52.3¢/Gallon}{\text{Average No. of KWH Sold Per Gallons of Fuel Consumed During Latest 12 Months}}$$

NAKNEK ELECTRIC ASSOCIATION, INC.

POST OFFICE BOX 118 • NAKNEK, ALASKA 99633 • PHONE (907) 246-4761

March 19, 1987

Senator Fred F. Zharoff
Pouch V
Juneau, AK 99811

Dear Senator Zharoff:

The clutches of legislative over-sight have finally engulfed the proper PCE entitlement of the members of Naknek Electric Association.

This has been prompted by calculation methodology used by the (current) staff of the Alaska Public Utility Commission. The current staff's calculation method includes kilowatt hours delivered to the King Salmon Air Force Base under the Federal SWAP Act of 1980, whereas previously the Commission excluded those KWHs from their calculation. The recommendation of the current APUC staff follows the letter of the law as set forth in General Orders 14A and 14B in which it is stated "Total Kilowatt Hours Delivered", even though the previous Staff's interpretation of the law excluded the kilowatt hours delivered to the Air Force. Consequently, the new recommendation will deliver significant economic impaction to the balance of Naknek Electric Association's consumers in the amount of $101,132.41 in just twelve months.

Strong feelings exist within the Association that this was not the intent of the law and would like consideration of an amendment to the law to exclude all SWAP Act kilowatt hours from the Commission's calculation of the fixed cost portion of the PCE entitlement.

This Association provides contractual electric service (at the cost of energy only, i.e., fuel costs) to the King Salmon Air Force Base under the Federal SWAP Act of 1980 (Public Law 96-571). The premise for this Act is to provide and encourage the interchange between utilities and National Defense installations when it is "mutually beneficial". When the "out of pocket" costs of members are elevated as a result of inclusion of SWAP Act kilowatt hours, the arrangement becomes non-beneficial to the majority of Naknek Electric Association's consumers and consequently no longer "mutually beneficial".

The higher costs which would be incurred if the Air Force was forced to return to providing for its own electrical needs appear undesirable in light of defense budget goals. Additionally, the generation equipment at the King Salmon Air Force base is derelict as well as unreliable. The inevitable need for replacement of this equipment would be eliminated by continued service from Naknek Electric Association.

Several attachments are included in support of our request to amend legislation to exclude SWAP Act delivered energy in the fixed cost portion of PCE calculations.

Page two - PCE calculation

The attachments are:

#1. 1985/86 12 month schedule of PCE dollar and KWH values.
#2. Sample of data source for attachment #1.
#3. January 28, 1987 Commission Order & Staff recommendation.
#4. Impaction of Commission Order.
#5. Comparative of 85 & 86 data as done previously. (Supports acceptable non-inclusion of Air Force revenue and KWH consumption.)
#6. Schedule developed by Commission staff during field audit performed 12/83. (Of interest is audit note, highlighting impaction of Air Force's consumption. This note provided the basis for our negotiation of the rates determined in attachment #5.)
#7. January 27, 1987 letter from our attorney, Roger Kemppel, to the Commission concerning order (attachment # 3). An evidentiary hearing was held on March 4, 1987, which resulted in verbal instruction from the Commission to do what we could to legislatively exclude SWAP Act energy in the fixed cost portion of the PCE calculation.

Your support in influencing this important amendment to the law, to exclude all SWAP Act kilowatt hours from the PCE calculation, is requested. The resulting economic effect to the Association's members, including the Air Force, makes this amendment a necessity.

Sincerely,

Naknek Electric Association

C. E. Franke
General Manager

CEF:tbc

enclosures

cc: Adelheid Herrmann
NEA Attorney, Roger Kemppel
ARECA Executive Secretary, Dave Hutchins
APUC Chairman, Weatherly
Neis Anderson
NEA Board Members
File

STATE OF ALASKA 1988 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: Rules Committee

Bill Version : _____
Publish Date : _____

Revision Date: _____
Title : APUC authority in connection with activities of the Alaska Power Authority
Sponsor : Governor
Requestor : _____

Agency Affected : AK Power Authority
BRU : _____
Components : _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING		FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL		(50)	(150)	(19,150)		
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER *		(50)	(150)	(19,150)		
TOTAL						

*Railbelt Energy Fund

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

(See attached page)

Prepared by : Robert E. LeResche
Division : Alaska Power Authority
Phone : 465-3575
Date : 1/8/88

Approved by Commissioner : J. Anthony Smith
Agency : Department of Commerce & Economic Development
Date : 1/8/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

PROGRAM SUMMARY

- Expenditures

  It is estimated that approximately $200,000 of additional legal fees will be incurred due to the PUC hearings process.

  It is further estimated that the PUC hearings process would delay the Bradley Lake project by a year. The resulting increase in construction costs and interest during construction on the long-term debt would increase the total project costs by an estimated $19.15 million.

- Funding

  It is assumed that any additional Bradley expenditures would be funded by the Railbelt Energy Fund.

- Economic Impact

  In addition to the increased costs described above and below, a delay in the Bradley Lake project would reduce the number of jobs available on the Kenai Peninsula this summer and next.

- Impact on Railbelt Electricity Consumers

  Not passing this bill would increase the interest rate on the long-term debt for Bradley Lake in two ways. First, debt would have to be issued earlier in the construction schedule (the IDB allocation to Bradley Lake expires on 12/31/90), and completion risk becomes more of a factor. Second and perhaps more important, present law allows the PUC to reopen the contracts at any time in the future. The interest rate penalty from these two factors is estimated to be 1/2 percent. Such a penalty would increase debt service $750,000 per year, or $22,500,000 over the life of the bonds.

  Additionally, the utilities are expected to incur approximately $500,000 of legal expenses due to the PUC hearings process. This would be borne by the Railbelt Electricity Consumers.

- In summary, the total additional costs incurred from this bill not passing would be approximately $42,350,000.

1332/810/1

Alaska Power Authority

NEED FOR EXPEDITIOUS PASSAGE OF NEW "SB22" LEGISLATION

The revised construction schedule adopted for Bradley Lake has been developed to accomplish two primary objectives: first, to complete the project in a reasonable timeframe which will bring the project on line when the utilities' seasonal demand for power is increasing; and second, to stimulate the construction industry and employment opportunities by initiating major construction efforts during the 1988 construction season.

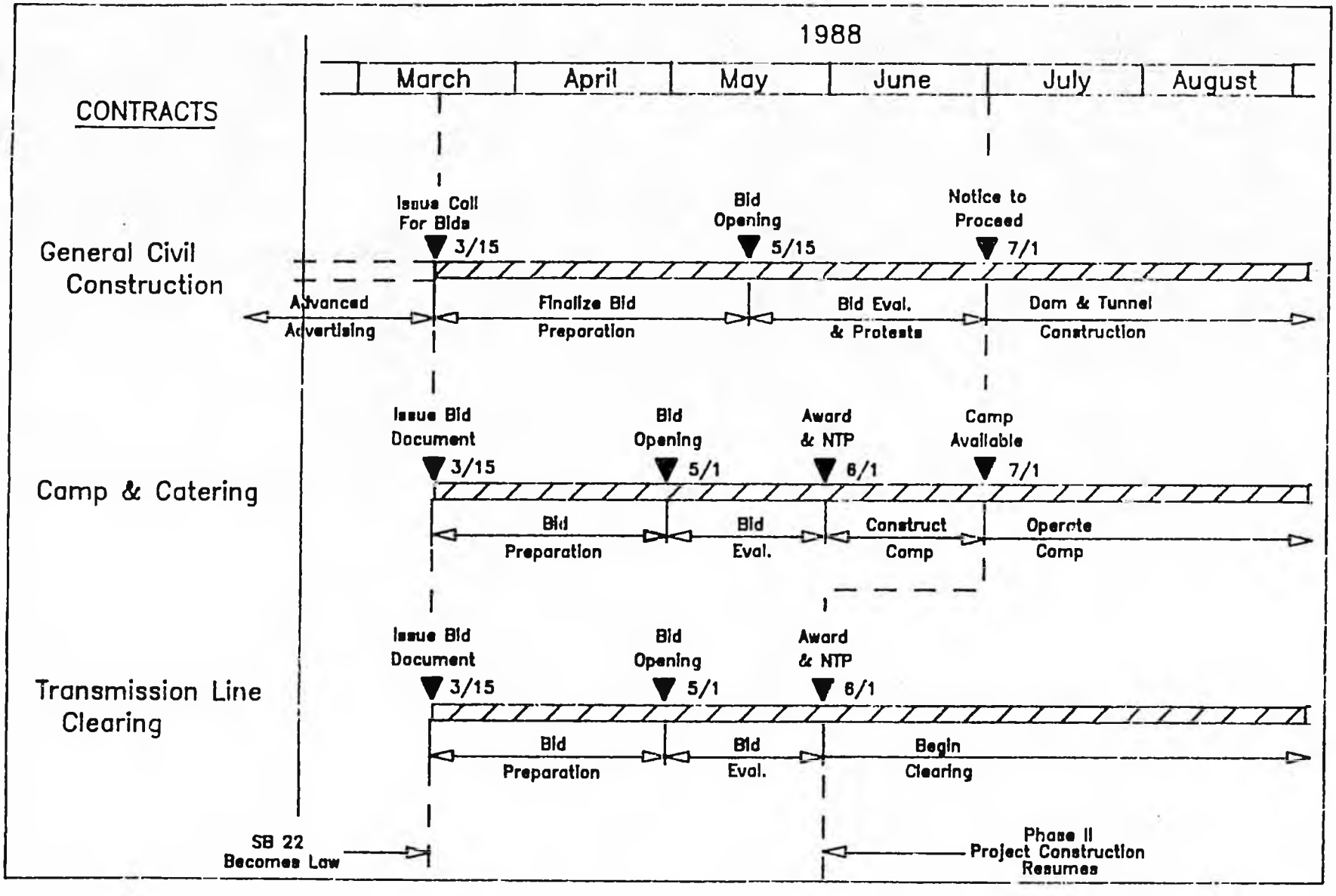
To accomplish the above objectives, and in particular to create a meaningful positive effect on the labor situation in 1988, it is imperative that the main construction contract (General Civil Construction) be awarded early enough in the summer of 1988 to enable the contractors to initiate work on both the dam and power tunnel. If the contract award is delayed beyond July 1, 1988, the contractor will still begin work on the power tunnel. However, due to the limited summer season remaining, work on the dam will probably not be initiated until the spring of 1989. As a consequence, the total 1988 work force will be reduced by approximately one-half.

Due to the time involved in advertising, bid preparation, bid opening, potential bid protests and the contract award process, in order to achieve a contract notice to proceed on July 1, 1988, it is imperative that "clean SB22" legislation be enacted and signed into law on or before March 15, 1988.

The attached flow chart shows the timetable required to achieve timely award of the General Civil Construction contract and other project contracts involving 1988 construction. Also attached is a bar chart which compares the estimated manpower requirements for 1988 resulting from early passage of SB22 (prior to March 15), versus late passage of the bill (May 15).

Attachments

Bradley Lake Hydroelectric Project
1988 Construction Schedule

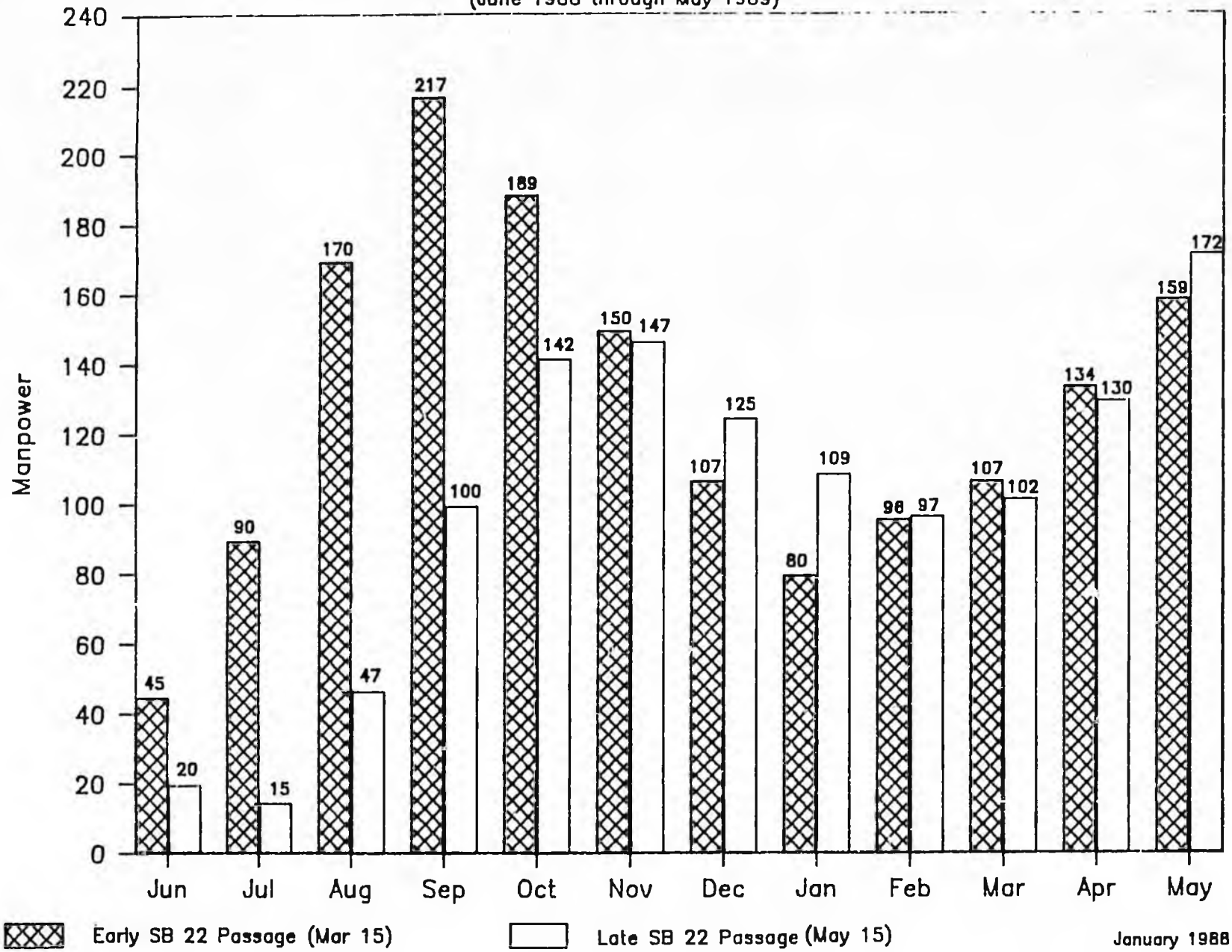


January 1988

Bradley Lake Hydroelectric Project

Projected Manpower Requirements

(June 1988 through May 1989)



January 1988

Summary
of
Power Sales & Wheeling Agreements
affected by HB356

The following three agreements, executed by all parties on December 8, 1987, would be affected by enactment of HB356.

1. Bradley Lake Hydroelectric Project Power Sales Agreement (Power Sales Agreement) between the APA and the five purchasers.

2. Bradley Lake Hydroelectric Project Transmission Sharing Agreement (Transmission Agreement) providing for transmission of Project power by Homer Electric Association, Inc. (HEA) between the Project and Soldotna, Alaska.

3. Bradley Lake Hydroelectric Project Agreement for the Wheeling of Electric Power and for Related Services (Services Agreement); providing for the transmission of Project power by Chugach Electric Association, Inc. (CEA) from Soldotna to Anchorage, Alaska and for other services related to Bradley Lake power.

These three agreements comprise the necessary contractual arrangements related to the purchase of Project capacity and the delivery of that capacity to the purchasers. Under the Power Sales Agreement, the purchasers agree to purchase their percentage share of Project capacity and pay their share of annual costs of the Project. The Transmission Agreement and the Services Agreement provide for the transmission of Project power from the Project over HEA's planned 115 kv transmission line to the Soldotna Substation; then, from Soldotna to Anchorage over CEA's existing 115 kv facilities. Transmission of Project power from Anchorage north will be provided under the previously executed Alaska Intertie Agreement.

The APA has designed, licensed and initiated construction of the Project using funds appropriated by the State and borrowed through private institutions. Ultimately the State will provide 50% or more of the capital costs through appropriations and will finance the remaining portion with revenue bonds. The power purchasers are obligated to repay the debt service on the bonds (not to exceed a principal amount of $175 million) as part of the cost of power from the Project. If the State fails to complete the Project, the

purchasers have no obligation to pay any debt service. However, once the Project is commercially operable, the purchasers will be obligated to pay for their share of Project capacity until the revenue bonds are repaid.

The three contracts, which together constitute the bargain struck by the State and the purchasers, are described below:

POWER SALES AGREEMENT

The APA is a public corporation within the Alaska State Department of Commerce and Economic Development, specifically authorized to construct, operate and maintain generating projects whose power capability is marketed to Alaska utilities. The Project has a planned capacity of 90 megawatts and an estimated annual energy output of some 360,000 megawatt hours/annum. It is being constructed on the Bradley River near Homer, Alaska. The following parties have contracted to purchase the following shares of project capacity:

	%	MW
Homer Electric Association*	12.0	10.8
Seward Electric System	1.0	0.9
Chugach Electric Association	30.4	27.4
Anchorage Municipal Light & Power	25.9	23.3
Matanuska Electric Association*	13.8	12.4
Golden Valley Electric Association	16.9	5.2
	100.0	90.0

*Alaska Electric Generation & Transmission Cooperative (AEG&T) on behalf of HEA & MEA, will purchase 25.8%, or 23.2 MW.

The Power Sales Agreement is the key contract among the three involved in the transaction. It provides for the sale of power and the financing, operation, and maintenance of the Project. It governs the sales of bonds to finance a portion of Project construction costs, the repayment of such debt, the scheduling and sales of power from the Project and the administration of the Power Sales Agreement.

As set forth in the Agreement and pursuant to the Bond Resolution in Exhibit "A," the APA proposes to issue up to $175,000,000 in bonds to pay for a portion of Project construction costs as defined in Section 101 of the Bond Resolution. These funds cannot be used for the acquisition and construction of capital improvements. The APA cannot issue additional bonds unless purchasers who hold 80% or more of the Project capacity approve the action, or unless a majority of

the Project Management Committee requests that repairs, maintenance and renewals (Required Project Work) be paid for out of bond proceeds.

The bond debt will be retired by proceeds from the sale of Project power. The debt, along with all other costs associated with operating and maintaining the Project, are included in a budget of annual Project costs.

Once the Project is commercially operable, purchasers are obligated to pay their percentage share of annual Project costs each fiscal year. Such payments are unconditional and continue without offset or reduction notwithstanding suspension or reduction in the amount of power supplied by the Project.

Should any purchaser default on its payment, the APA is authorized to immediately bring suit. If the APA suspends or terminates power deliveries to a defaulting purchaser, and if the APA estimates that there will be insufficient funds to pay annual Project costs, the APA may increase other purchasers' percentage shares up to a 25% ceiling without the purchasers' consent.

The Agreement also provides for continuity of service, procedures to establish rates and billing, Project management, dispute resolution, record keeping, maintenance, inspection, obligations under the Bond Resolution, and surplus to the State after bonds are retired.

Section 13 creates the Project Management Committee (PMC). The PMC is comprised of representatives of all parties to the Agreement. It acts as a clearinghouse for, and coordinator of, the administrative activities required of the APA and the purchasing utilities in operating the Project and administering the Agreement. It has the ongoing obligation and authority to oversee and guide all significant Project activities thereby controlling costs, setting budgets and resolving disputes among the parties subject to the APA's right to take "Required Actions."

The Power Sales Agreement has an initial term of 50 years. It becomes effective on the date when, 1) it is executed and delivered by all the parties and, 2) when each purchaser has obtained all necessary approvals for it and related transmission and services agreements. The Agreement will terminate either 50 years after the date of commercial operation of the Project, or when no bonds are outstanding and all payment obligations have been satisfied, whichever is later.

There is an early out provision which allows for termination on January 1, 1996 in the event that commercial operation does not occur on or before that date. The Agreement may be renewed for 40-year periods of the life of the Project, whichever is longer.

THE TRANSMISSION AGREEMENT

Pursuant to the Transmission Agreement, HEA agrees to construct and operate approximately 47 miles of 115 kv transmission line between the Bradley Junction and Soldotna Substation. The purpose of the line is to deliver Project power to GVEA, CEA, the City of Anchorage, and the City of Seward, utilities who otherwise do not have transmission capability to take delivery. The Agreement provides for the sale or lease of portions of the transmission line to the purchasers (CEA, GVEA, the City of Anchorage and the City of Seward).

The Agreement provides for payments by the purchasers to HEA for capability of the line once the line is in service whether or not the line remains operable. In the event that the line is downrated, payments may be increased under certain circumstances. Payments include amortization costs of construction loans and operation and maintenance expense.

The Agreement also provides for continuity of service, operation and maintenance, failure to construct, line upgrading, major repairs, special provisions affecting CEA, and dispute resolution.

The term of the Agreement begins on the date that all parties have executed it, and it has been approved by all entities whose approval is necessary. The Agreement ends on the earlier of the date the transmission line is no longer used and useful and all costs of the construction loan have been paid; or the date on which the Power Sales Agreement terminates according to Section 2(c) of that Agreement; or such other date as the parties mutually agree upon, provided that such approvals as are necessary at that time are sought and given. The Agreement includes the same early out provisions found in the Power Sales Agreement.

THE SERVICES AGREEMENT

Pursuant to the Services Agreement, CEA will provide wheeling, storage, and energy purchase services to the parties (GVEA, HEA, MEA, the City of Anchorage, the City of Seward and AEG&T). Parties are not bound to sue CEA's services exclusively. In addition, the Agreement establishes provisions for continuity and scheduling of services, rights to additional transmission capacity, rates and billing, and dispute resolution.

The term of the Agreement begins on the date all parties, 1) have received satisfactory opinions of counsel, 2) have been executed and delivered the Agreement, and 3) the Agreement has been approved by all entities whose approval is necessary. The Agreement terminates

on the earlier of the date on which the APA terminates the Project; or the 50th anniversary of the date of commercial operation of the Project; or the date on which the Agreement has been terminated, upon proper notice, with a party who has available alternate transmission facilities; or upon mutual agreement of all parties subject to necessary federal and state approval.

The Services Agreement provides an alternative solution to the problem of transmitting or otherwise using Project power absent extension of the Alaska Intertie line from Anchorage to the Kenai Peninsula. Parties to this Agreement recognize that the Agreement will be superseded by other arrangements if, and when, construction of additional transmission facilities occurs, or if power pooling arrangements are made by the parties.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

☑ *1031 W 4th AVENUE*
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ *1st NATIONAL CENTER*
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

☐ *P.O. BOX K—STATE CAPITOL*
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

January 29, 1988

FEB 0 1 1988

Chairman John Sund
House Judiciary Committee
Alaska State Legislature
House of Representatives
P.O. Box 4
Juneau, Alaska 99811

Re: Bradley Lake Power Sales Agreement
-- Excess Payments

Dear Chairman Sund,

Robert LeResche, Executive Director of the Alaska Power Authority ("the Authority"), has relayed your request for an opinion on the meaning of section 29 of the Bradley Lake Power Sales Agreement "the Agreement").

The Bradley Lake project is a hydroelectric project within the energy program for Alaska. Sec. 20, ch. 133 SLA 1982. Money received by the Authority for the sale of power from projects constructed under the energy program for Alaska must be transmitted to the commissioner of revenue for deposit in the state general fund unless the money has been pledged to secure bonds. AS 44.83.398(c).

Section 29 of the Agreement provides that the power purchasers of the Bradley Lake hydroelectric project will make payments in excess of actual debt service once the construction bonds have been retired. These "excess" payments will be made to the Alaska Power Authority for deposit into the Railbelt Energy Fund.

As you already know, the Railbelt Energy Fund is a special fund treated as an account in the general fund. AS 37.05.153. The fund is managed by the Department of Revenue. Interest received on money in the fund may be appropriated into the fund annually. Id. AS 37.05.153 specifically provides that "the legislature may appropriate money from the fund to assist in meeting Railbelt energy needs." Id.

Notwithstanding any agreement entered into between a state agency and a second party, only the Legislature may withdraw money from the state treasury. AK Const. art. IX, sec. 13. Thus only the legislature may appropriate money from the Railbelt Energy Fund. Nor can we expect that the Railbelt Energy Fund

will exist in perpetuity. With certain exceptions not applicable to this discussion, the Alaska Constitution prohibits the dedication of public revenues. AK Const. art. IX, sec. 7. In this case, a legislature meeting in the year 2038 may appropriate money from the Railbelt Energy Fund for expenditure on a public purpose other than railbelt energy.

It is my opinion that section 29 of the Agreement would still be enforceable if the legislature withdrew from the Railbelt Energy Fund moneys deposited there under the provisions of the Agreement. I attended all the negotiation sessions leading up to the Agreement. I personally advised all the participants that neither the Legislature nor the Authority could dedicate these excess payments for Railbelt energy needs. Nor could the Authority make any promises for the Legislature.

The utilities were quite conversant with the dedicated funds prohibition of the Alaska Constitution. They wished, however, to express in section 29 their very strong sentiments in favor of having the excess payments used for future Railbelt energy needs and in favor of a Kenai-Fairbanks intertie. All the negotiators interpreted section 29 as a statement of intent and not as a contract condition on which the excess payments were contingent. In fact, the contract specifically provides that "[t]he Purchasers' obligations to make payment under this Section 29 are not contingent upon the success of ... continued efforts to obtain a satisfactory intertie between Fairbanks and the Kenai Peninsula.

In summary, should moneys earned under this Agreement be deposited in the Railbelt Energy Fund, the Legislature may appropriate the moneys for Railbelt energy needs or as the Legislature deems appropriate. The Purchasers' obligation to make excess payments under the Agreement is not contingent upon dedication of these excess payments to expenditures on Railbelt energy needs.

Please call me if I can be of further assistance.

Very truly yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By: Carolyn E. Jones
Carolyn E. Jones
Assistant Attorney General

cc: Robert E. LeResche

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Official Business

TO: Representative John Sund

FROM: Representative Kay Brown

DATE: January 26, 1988

SUBJ: HB 356 - Bradley Lake Exemption from the APUC

As you review House Bill 356, which would exempt the Bradley Lake power sales contracts and related "services" and wheeling contracts from the review or approval of the Alaska Public Utilities Commission, I wish to draw your attention to several specific concerns I have with the bill.

I would like to preface my specific comments with a general statement of support for the administration's essential objective of trying to ensure that the Bradley Lake project is able to proceed with resumption of construction this summer. Although I still have reservations about the fundamental wisdom of the project, at this point, given the extent of the state's commitment (ie, "sunk" costs), I feel that additional delays would be counterproductive.

At the same time, however, I am concerned about the potential long-term adverse impacts that some of the language proposed in HB 356 would have on the ability of the APUC to protect consumer interests. I find it troublesome that the bill would provide not only that the Bradley Lake wholesale power contracts would be exempted, but also, "without limitation," all unspecified "other costs" as well. Additionally, there is language in the bill stating that "any subsequent amendments" are beyond APUC jurisdiction.

I also have concerns about Section 29 of the power sales contracts, which require that Railbelt consumers make "excess" payments beyond those required to pay off the debt for the project. Please find attached some draft language that would provide for the elimination of this provision.

Exempting the transmission agreements, together with the open-ended language contained in HB 356 providing an exemption for all "other costs" and "any amendments" would result, to a significant degree, in de facto deregulation of the Railbelt utilities.

I urge the Judiciary Committee to carefully explore language modifications to the bill which would meet two fundamental objectives:

1) ensure that the Bradley project construction can move forward this summer in order to complete the project in time to sell long-term tax exempt bonds prior to 1991; and

2) also ensure, to the greatest degree possible, that the APUC will be able to perform its regulatory functions and safeguard consumer interests.

The following specific comments are offered in the interest of working out such language modifications as quickly as possible to provide timely passage of a responsible HB 356.

SPECIFIC COMMENTS

All Unspecified "Other Costs" Exempted

In contrast to last years HCS CSSSSSB 22 (Fin), that provided only for the exemption of power costs, HB 356 calls for the exemption of "all costs... including, without limitation, power and other costs...." (see page 1, line 29 through page 2, line 4).

While an argument can be made that bond holders require the security of knowledge that the project debt will be repaid through power sales, the exemption of all other costs (ie, management salaries, consulting contracts, administrative costs, legal costs, and any other costs including those established by amendments to the contracts) cannot be justified. This would have the effect of allowing utilities to pass through without review any costs whether reasonsable or not.

This open-ended language should be modified to provide only that power costs are to be guaranteed a flow through to the rates. All "other costs" should be reviewed and approved.

All Unspecified Amendments Exempted

HB 356 proposes not only to exempt the wholesale power contracts and the related services/wheeling contracts which have been entered into but also "any subsequent amendments" (see page 1, line 21).

It has been stated that there are other parties (secondary lenders including the Rural Electrification Administration) reviewing the contracts and who may require some amendments. There is also an expressed desire on the part of the utilities for "flexibility" to make changes in the contracts as the need arises.

Neither of these arguments is compelling. If the fundamental need is to respond to the possible demands of secondary lenders, then the bill should include a specific exemption for that purpose.

Assignability of Contracts

Another question regarding the exemption provisions concerns the potential assignability of the contracts. In the recent past there have been indications from Railbelt utilities that certain Outside, private investor-owned utilities are interested in purchasing Alaska co-ops.

Could these contracts be assigned to an investor-owned utility? If so, I would argue that potentially providing a categorical exemption from APUC review to a profit-making utility and allowing that utility to pass through "without limitation ... all costs" is inappropriate state policy adverse to consumer interests.

"Excess" Payments Requirement

Section 29 of the Power Sales Agreement (pages 28 -29) requires payments from Railbelt consumers "in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs." These payments are "in recognition of efforts" to obtain an intertie project between Fairbanks and the Kenai Peninsula, but are not contingent upon the success of such efforts. These "excess" payments, which are to commence upon the retirement of all bonds, are to be made to the APA for deposit into the Railbelt Energy Fund.

According to APA Executive Director Robert LeResche, the payments, which are to be based on the average annual debt service for the project, will be

approximately $18 million per year over the period between year 30 and year 50 of the contracts for a cumulative total "excess" payment of approximately $360 million in nominal dollars. This simplified scenario assumes no amendments to the contracts that could either extend the life of the contracts or increase the amount of the "excess" payments above that amount currently described in Section 29. Any such amendments, irrespective of reasonableness, would be categorically exempted from APUC review or approval under the terms of HB 356 as introduced.

From a Railbelt consumer perspective, even though these "excess" payments are not very sizable in discounted present value terms, the payments are difficult to justify. Notwithstanding the phrase "in recognition of efforts to obtain" the intertie, the payments would be for an essentially unspecified purpose -- or at least for a project which has not been demonstrated as economically feasible nor, I suggest, even likely to be relevant 30 years from now.

Moreover, when one considers the precedent established by the Four Dam Pool "project" financing arrangements (which provided that essentially half of the Four Dam Pool was debt financed and the remainder funded with cash grants) it appears that Railbelt consumers are being assessed an extraordinary charge for essentially unknown future purposes.

It is my feeling that the "excess" payment provision should be eliminated from the wholesale contracts. Fortunately, it appears that Section 29, which establishes the excess payment provision, could be eliminated without affecting other elements of the wholesale power contracts or the services/wheeling contracts.

I have attached language which would make the effective date of HB 356 contingent upon the elimination of this section.

<u>Preservation of APUC Review and Cost Allocation Juristiction</u>

My fundamental concerns with HB 356 as introduced center on the ability of the APUC to perform its basic regulatory functions and safeguard consumer interests. It is important to clarify the objective of the bill. The fundamental objective, as I understand it, is to ensure that Bradley Lake can proceed in a timely manner. It is not, as I understand it, the objective of this bill to legislatively deregulate the Railbelt utilities.*

However, HB 356 goes far beyond the scope of these basic objectives by eliminating even the review of any and all costs, without limitation,

associated with any undertakings "in connection with" the management, operation or administration of the Bradley Lake project and the related services and wheeling agreements. As a practical matter, the effect of HB 356 would be to put the direct project wholesale power costs, the associated transmission agreements, and indirect administrative and management costs, into a "black box". This would severely constrain and undermine the ability of the APUC to meaningfully regulate the Railbelt utilities.

In order for Bradley Lake to proceed this summer, it is apparent that the APUC must be removed from the initial approval of the power sales contracts. (Elimination of initial approval will obviate the concern that project opponents would use a Commission proceeding to delay the project.) In order to provide assurances to potential bond holders that the debt for the project will be recoverable, it also appears that some sort of provision providing a pass though of power costs to the rates may be appropriate.

At this point, I feel it is most important to focus on how it would be possible to preserve the ability of the APUC to:

1) review and approve non-power costs (ie, other than the wholesale power costs which would directly flow through to rate payers); and

2) also be able to review and approve as just and reasonable cost allocations associated with implementation of the related "services" and wheeling contracts.

Language which accomplished these objectives would satisfy the basic purpose of the bill -- to get the project retarted this summer and completed in time to issue tax exempt bonds by 1991.

Because the review and approval of the implementation of the related "services" and wheeling contracts could only come after the project was completed, maintaining this APUC authority would not conflict with the objective of getting the project restarted this summer.

It has been suggested that maintaining the juristiction of the APUC would, to some degree, carry a "cost premium" in the form of an incremental interest charge somewhere on the order of 3/8 to 1/2 of a percentage point. In terms of incremental costs, the APA has suggested that this would increase debt service costs on the bonds by several million dollars. This issue needs to be explored closely during the committee hearings to determine, as precisely as possible, what the cost premium would be for maintenance of the APUC's

regulatory authority, limited to non-power costs and only after the project was completed and operational.

Of course, any incremental "cost" resulting from higher interest charges must be weighed against the potential savings to consumers that would result from APUC review and approval over potentially excessive non-power costs such as administration salaries, consulting contracts, legal fees, lobbying contracts, etc.

From a consumer point of view, it would seem that the present value of these incremental costs -- to the extent that they can actually be determined to exist -- would be offset in part by regulatory cost controls in the future. Taken together with the proposal to save Railbelt consumers the cost of the "excess" charges as suggested above, a modified HB 356 as I have outlined should come at no extra cost to the consumer than what has been proposed. It would, however, still preserve the ability of the APUC to perform its essential regulatory functions and protect consumer interests.

(* It should be noted that all of the utilities participating in the project already have the means to deregulate themselves. Co-op's can deregulate, with the consent of the membership. It is noteworthy that, in the case of the co-ops at least, consumers have not allowed their utilitity management to opt out. The Legislature should not enact a measure that essentially pre-empts this consumer prerogative.)

cc: House Judiciary Committee members
Representative Swackhammer

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

May 9, 1987

TO: Representative Sam Cotten

FROM: Gretchen Keiser G. Keiser
Legislative Analyst

RE: Energy Project Financing
Research Request 87.254

You requested that this agency analyze various options for financing proposed energy projects in the Railbelt. Section one of this memorandum explores some alternatives for the long-term financing of the Bradley Lake hydroelectric power project currently under construction. We estimate the wholesale power rates and the State contribution--net of repayments--under the various alternatives. The second section presents options for the financing of new/upgraded interties extending from the Kenai Peninsula north to the Fairbanks area. Finally, we discuss a long-term, statewide energy financing mechanism which could be capitalized, in part, from a repayment stream under various financing options presented for the aforementioned Railbelt projects.

BRADLEY LAKE FINANCING OPTIONS

Total Bradley Lake project costs are estimated to be $351 million (including costs for construction, interest during construction minus arbitrage earnings, bond issuance and reserve fund requirements), provided long-term bonds are issued to finance a portion of the cost. We estimate that the total Bradley Lake cost could be reduced to about $329 million if the State instead chose to finance a portion of the cost through a long-term loan. The lower costs stem from savings in bond issuance costs and the fact that a debt service reserve would not be required (Attachment A presents a comparison of cost estimates).

About $118 million has been appropriated to Bradley Lake to date. Of this amount, $62 million has been spent--leaving $56 million to cover future expenses. In addition, the Alaska Power Authority (APA) issued $267.5 million in variable rate demand bonds for the Bradley Lake project in November 1985. The bonds are secured by a letter of credit (from a consortium of three banks) which expires in October 1991. At this time, it is anticipated that these short-term bonds would be replaced with

long-term, fixed-rate financing at or near project completion (estimated to occur in early to mid-1990). Under the federal tax reforms of 1986, the Bradley Lake project has a special exemption allowing tax-exempt financing--provided that the long-term bond is issued by late 1990.

Current Proposal under the Draft Power Sales Agreement. The APA and seven Railbelt utilities have drafted a long-term financing arrangement for the Bradley Lake project which would entail: 1) a 30-year revenue bond of up to $175 million with the annual debt service borne by the utilities; and 2) a State equity contribution of $175.9 million. This arrangement would require the State to contribute $58 million in addition to the $118 million in previous Bradley Lake appropriations.

The APA has estimated wholesale power rates under this financing arrangement. The entry rate in 1991 would depend primarily upon the interest rate secured for the long-term bond, and is estimated to be between 4.3 cents/kwh (at a 7 percent interest rate) and 5.3 cents/kwh (at 10 percent interest). The APA is anticipating an entry wholesale power rate of about 5 cents/kwh--which is projected to have a minimal impact on retail power costs in the Railbelt. Estimates from the APA indicate that a 5 cent/kwh wholesale purchase price might raise retail rates for Chugach Electric Association and Homer Electric Association customers 1 - 4 percent, depending on the number of utilities purchasing Bradley Lake power. Although initial rates for Bradley Lake power are likely to exceed the cost of existing gas-fired power, Bradley Lake power rates would be attractive in the long term. Over the life of the project, the wholesale power rates would be inflation resistant, to a large extent, because most of the annual costs would be fixed debt service. The alternative financing arrangements considered in this section are designed to provide an entry wholesale power rate of no more than 5 cents/kwh.

State Loan Financing of the Bradley Lake Project. Table 1 compares several long-term loan financing alternatives with the current long-term bond financing proposal. Before discussing in detail the various financing alternatives presented in Table 1, we offer the following general observations. It became apparent as we worked through the calculations that there are alternatives (to the currently proposed financing arrangement) which would likely provide cheaper power rates and at the same time increase the State's recovery of funds contributed to the project.[1] We constructed these financing options under the basic assumption that any additional money for Bradley Lake will come from the Railbelt Energy Fund. Choosing one of these alternatives, therefore, would require that the legislature commit a major portion of the Railbelt Energy Fund in the near term to the Bradley Lake project in trade for a long-term repayment stream which could be made available for other energy projects or programs in the future.

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[1]According to 3 AAC 94.065, financing alternatives are to be identified which provide the most appropriate means to achieve the lowest cost electric power for consumers while minimizing the amount of State assistance required.

Cash Financing

TABLE 1
BRADLEY LAKE FINANCING ALTERNATIVES: A 50-YEAR ANALYSIS
(In millions of $)

ANALYSIS PARAMETER	BOND FINANCING		LOAN FINANCING				
	CASE 1 Draft PSA: $176 M Equity + $175 M Bond @ 8%	CASE 2 Draft PSA: $176 M Equity + $175 M Bond @ 9%	CASE 3 $176 M Equity + $153 M Loan @ 6%	CASE 4 $176 M Equity + $153 M Loan @ 7%	CASE 5 $176 M Equity + $153 M Loan @ 8%	CASE 6 $118 M Equity + $211 M Loan @ 5%	CASE 7 $118 M Equity + $211 M Loan @ 6%
Bradley Lake Project Costs *	$351.0	$351.0	$329.0	$329.0	$329.0	$329.0	$329.0
Bond/Loan Factors							
Issuance Date	1990	1990	1990	1990	1990	1990	1990
Interest Rate	8.0%	9.0%	6.0%	7.0%	8.0%	5.0%	6.0%
Term (Years)	30	30	30	30	30	30	30
Annual Payment	15.5	17.0	11.1	12.3	13.6	13.7	15.3
Annual Excess Payment (2021-2040)	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Present Value Calculations							
State Funds Commitment (Equity & Loan)	171.1	171.1	282.9	282.9	282.9	282.9	282.9
- State Return on Funds Committed							
Interest Earnings on Loan Set Aside**	0.0	0.0	26.4	26.4	26.4	26.4	26.4
Total Loan Repayments	0.0	0.0	90.1	99.9	110.2	111.3	124.3
Total Excess Payments	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Net State Contribution	161.1	161.1	156.4	146.6	136.3	135.2	122.2
Entry Wholesale Power Rate in 1991 (cents/kwh)	4.7	5.0	3.8	4.1	4.4	4.5	4.9
Railbelt Energy Fund Balance Available for other Project	$223.0	$223.0	$70.0	$70.0	$70.0	$70.0	$70.0
Potential Annual Revenue Stream for other Projects (beginning in 1991)	$0.0	$0.0	$11.1	$12.3	$13.6	$13.7	$15.3

NOTES: *Bradley Lake project costs are $22 million higher under Cases No. 1 & 2 because of bond issuance costs and debt service reserve requirements.

**The present value calculations in Cases No. 3-7 take into account the interest earned on only the $153 million portion of the Railbelt Energy Fund set aside for a loan in 1990. Cases No. 6 & 7 assume that an additional $58 million is loaned in 1987 and 1988, but no interest is earned because the money is spent on the project soon thereafter. An 8.2 percent annual rate of return is assumed--the average rate earned by the General Fund over the past seven years, as reported by the Department of Revenue.

***Loan repayments under Cases No 6 & 7 assume that the $58 million loaned in 1987 and 1988 are interest-free until 1990.

Annual inflation = 4.5%; Discount Rate = 3.5%.

In all cases, an annual excess payment amount is assumed to be paid by the purchasers once the 30-year bond or loan is retired. This is a provision of the draft power sales agreement.

Prepared by the House Research Agency, May 1987 (87.254B;870330-06).

Cases 1 and 2 in Table 1 present the current proposal of a $176 million State equity contribution with a $175 million bond (at 8 and 9 percent interest rates). Cases 3 - 5 assume the same $176 million State equity contribution but would provide a long-term State loan (of $153 million at 6 to 8 percent) instead of bond financing. Finally, Cases 6 and 7 assume that no more State equity beyond the present $118 million is provided to the project; all remaining financing ($211 million) would be long-term State loans. In Cases 6 and 7, we assume that $50 million is loaned to the project in 1987 and $8 million in 1988--these loans would be interest-free until 1991 when power sales would provide for loan repayment of a total 30-year loan of $211 million ($58 million + $153 million).

A number of points should be considered as the financing alternatives in Table 1 are reviewed:[2]

1) **Bradley Lake project costs** can vary depending upon whether a bond is issued (with financial market issuance costs and debt service reserve requirements) or a State loan is arranged (without external market requirements). We estimated a savings of $22 million in bond issuance costs and debt service reserve requirements if the State provided a loan.

2) In contrast to bond financing, the **interest** rate set on a State loan is a matter of policy. Cases 3, 6 and 7 call for interest rates of 5 - 6 percent, which is the long-term estimated rate of return on the $185 million, 45-year Four Dam Pool loan.

3) The current draft power sales agreement provides for an annual **excess payment amount** to be made by the utilities once the 30-year bond is retired in 2020. As proposed, the annual payment (of up to 4 cents/kwh, or about $14.8 million) would be deposited into a revolving loan fund for future Railbelt energy projects. These payments--with a present value of $10 million for payments during the remaining 20 years of the original 50-year contract--represent the sole recovery of the State's equity contribution of $176 million in Cases 1 and 2. We have included a similar excess payment provision under the loan financing options.

4) The flow of State dollars into the Bradley Lake project in the near-term (through 1990) and the flow of money back to the State over the long-term (through 2040 under a 50-year contract) have been discounted to today's dollars. **Present value calculations** allow for an accurate comparison of disparate cash flows, particularly when an analysis covers an extended period of time. We employed previous APA assumptions of a 4.5 percent inflation rate and 3.5 percent discount rate in all cases.

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[2] We can provide detailed tables supporting these financing alternatives upon your request.

5) Under the financing options explored, there are three possible sources of return to the State of a portion of the funds committed to Bradley Lake. The estimated interest earnings assume that the money to be loaned to the project in 1990 under Cases 3 - 7 is set aside this year. The interest earned on the loan set aside would accrue to the State--although not automatically to the account holding the $153 million in principal needed in 1990. The cumulative loan repayment under the different options varies as a function of the interest rate placed on the loan. The third source of return to the State is the excess payment stream discussed in point Number 3 above. Under the alternatives considered, the State would--at best--minimize its assistance to $122 million (Case 7); under this option the power would be relatively expensive.

6) The wholesale power rate in 1991 under Cases 3 - 6 (loan financing) are lower than those under currently proposed bond financing (Cases 1 and 2). As noted in Table 1, a 5 cents/kwh power rate is anticipated to cause a small retail rate increase for Chugach Electric and Homer Electric Associations. A lower power rate should make Bradley Lake power more attractive.

7) The Railbelt Energy Fund balance available for other projects is dramatically different under the bond financing ($281 - $58 = $223 million) and loan financing alternatives [$281 - ($58 + $153) = $70 million]. If the money is committed to Bradley Lake in the near term as under the loan financing alternatives, only about 25 percent of the fund would be available for other uses at this time. On the other hand, a loan would provide a repayment stream in the future at a time when the State may wish to commit funds to other energy projects.

8) The revenue stream potentially available for other projects consists of the loan repayments (1991 - 2020) and the excess payments (2021 - 2040). Bond financing provides no revenue stream during the first 30 years, but leaves most of the Railbelt Energy Fund intact. The loan financing options provide a 50-year revenue stream--at the expense of the current balance of the Railbelt Energy Fund. We discuss the potential revenue stream under the various financing alternatives in the following section when we consider financing of the Railbelt interties.

In conclusion, we suggest that Cases 5 and 6 provide the best loan financing alternatives for comparison with the current bond financing proposal. Both options provide power at least 0.5 cents/kwh cheaper than the entry rate anticipated by the APA under bond financing. At the same time, the State would recover about $25 million more of its contribution, in present value, under these alternatives than under the bond financing options. With this Bradley Lake financing analysis in hand, we now proceed to consider possible approaches to the financing of the Railbelt interties.

FINANCING ALTERNATIVES FOR THE RAILBELT INTERTIES

The APA has had preliminary studies conducted which provide the following cost estimates and preferred alternatives for proposed new/upgraded interties between the Kenai Peninsula and the Fairbanks area:[3]

Northern Intertie (Anchorage - Fairbanks)
230 kv line: $118.2 million

Southern Intertie (Kenai Peninsula - Anchorage)
Enstar Route (Huffman Substation Alternative): $ 76.6 million

Current Proposal. As part of the proposal for long-term bond financing of Bradley Lake, the Railbelt utilities seek legislative authorization of these two interties at a combined cost of about $200 million in direct appropriations. If the State funds are committed, required feasibility and finance studies--as well as detailed engineering and environmental analyses--would begin shortly and the interties would tentatively be completed in 1990-1991 when the Bradley Lake project commences operation.

The Railbelt Energy Fund (REF) would be the proposed source of the $200 million sought for these interties. This $200 million, coupled with a proposed transfer of $50 million to the Bradley Lake project (under Senate Bill 159), would leave a balance of $31 million in the fund. An additional equity contribution of $8 million to Bradley Lake proposed for FY 89 would actually leave only $23 million presently uncommitted. As you no doubt realize, a $200 million commitment to the interties would foreclose any option of using a significant portion of the REF as a loan for Bradley Lake --as outlined in the previous section of this memorandum.

A companion analysis of the Railbelt interties performed by the House Research Agency (Research Request 87.253) has concluded that the new/upgraded interties are not needed in the near future. The current Anchorage-Fairbanks intertie is capable of satisfying transmission requirements for moving gas-fired power north to Fairbanks under probable energy demand forecasts until the turn of the century. Further, the analysis concludes that a new intertie on the Kenai Peninsula is not necessary for at least 15-20 years because Bradley Lake power could be utilized on the Kenai Peninsula to displace Chugach Electric Association power which is presently brought south from the Beluga Power Station.

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[3] Other route alternatives for the Kenai Peninsula-Anchorage intertie range between $79 and $99 million. A higher voltage (345 kv) alternative for the Anchorage-Fairbanks intertie would cost about $130.5 million.

We assume that an integrated power grid in the Railbelt is a desirable long-term objective, but the above-referenced analysis concludes that State spending toward that goal at this time is premature. Rather than construct the interties now because the money is available, we explore some alternatives which could provide a potential revenue stream 10 - 15 years in the future when building these interties would make better sense.

Other Options for Financing the Interties. The Railbelt interties do not lend themselves easily to a bond or loan financing alternative. Bonds or loans require a revenue stream in order to meet debt service (bond) or principal and interest repayments (loan) as well as the project's annual operation and maintenance (O&M) costs. Typically, this revenue stream comes from a charge levied on energy moved over the transmission line (commonly referred to as the "wheeling" charge). In theory, the State could arrange long-term financing for the interties if the transmission lines could generate enough revenue to repay the financing.

In the Railbelt, however, the present and forecast price differential among the fuels (natural gas, No. 4 diesel, and coal) is not large enough between a "cheap" power area (Anchorage) and an "expensive" power area (Fairbanks) to recover any charges beyond those needed to pay O&M. In other words, there is no room to charge for any long-term financing costs and still move what may be only somewhat cheaper power from the generation point to a distant retail market and sell it for less than power generated at home.[4]

According to records provided by the Alaska Public Utilities Commission, recent prices for Railbelt power generation fuels were: $2.25/MMBtu natural gas; $2.34/MMBtu fuel oil No. 4; and $1.31/MMBtu coal. The two fuels competing for intertie sales--natural gas and fuel oil--are very close in price. We believe that, in the foreseeable future, the price of all three Railbelt fuels will generally move with the world price of oil so that the price differential between fuel oil and gas is unlikely to widen significantly. In addition, the long-term supply of these fuels in the Railbelt is quite large--further dampening any trend toward widening the price gap. Therefore, it is improbable that a new/upgraded intertie would be able to charge much more than a nominal fee for debt service/loan repayments and maintain energy sales. Given that the volume of energy sales over the Railbelt interties in the foreseeable future is also relatively small, a nominal charge for debt service/loan repayment will be insufficient to cover the required payments.

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[4] Interties in the lower 48 do not generally face this problem because: 1) interconnected power generation facilities tend to be huge plants--thus maximizing cheap power production possibilities; 2) these interties are moving large amounts of energy over which to spread debt service; and 3) if a project is not expected to meet its debt service, it is not constructed.

At this time, we conclude that the only option for bond or loan financing of the Railbelt interties must entail the commitment of some other revenue stream as the major source of debt service/loan repayments incurred by the interties. We believe that such a revenue stream could be identified, especially at such a time in the future when constructing or upgrading a Railbelt intertie is warranted from an energy demand and marketing perspective.

Table 2 presents an analysis of the cash flow into and out of a revolving energy loan fund. The revenue stream into the fund would be the repayment of existing and future loans, including: 1) the Four Dam Pool loan; 2) existing Rural Electrification and Power Project loans; 3) a Bradley Lake loan (the preferred Cases 5 and 6 analyzed in the previous section of this memorandum), and 4) additional energy loans made from a Railbelt Energy Fund $70 million balance, which remains after Bradley Lake loan financing as outlined in the previous section.

TABLE 2
A REVENUE STREAM FOR FINANCING THE ANCHORAGE - FAIRBANKS INTERTIE AND OTHER ENERGY PROJECTS
(In millions of $)

	FY 1991	FY 1995	FY 2000	FY 2002	FY 2005	FY 2010
POTENTIAL ANNUAL REVENUE STREAM						
Four Dam Pool Loan	$8.5	$9.8	$11.1	$16.5	$16.5	$16.5
Other Existing Energy Loans	3.3	3.3	3.3	3.2	2.5	2.1
Bradley Lake Loans						
Case 5: $153 Million @ 8%	13.6	13.6	13.6	13.6	13.6	13.6
Case 6: $211 Million @ 5%	13.7	13.7	13.7	13.7	13.7	13.7
Other Energy Loans made from $70 M Balance in Railbelt Energy Fund*						
Option 1: Loans @ 5%	4.6	4.6	4.6	4.6	4.6	4.6
Option 2: Loans @ 6%	5.1	5.1	5.1	5.1	5.1	5.1
Total Potential Revenue Stream						
Low Estimate	29.9	31.3	32.6	37.9	37.2	36.8
High Estimate	30.6	32.0	33.2	38.6	37.9	37.4
POTENTIAL USE OF ANNUAL REVENUE STREAM						
Anchorage-Fairbanks Intertie**						
IDC on Short-Term Note @ 8%			17.2			
Pledge for Debt Service (Bond @ 8%)				19.1	19.1	19.1
Total Committed Revenue Stream	0.0	0.0	17.2	19.1	19.1	19.1
Balance Uncommitted						
Low Estimate	29.9	31.3	15.4	18.8	18.1	17.7
High Estimate	30.6	32.0	16.0	19.5	18.8	18.3
Potential Use of Uncommitted $						
Power Cost Equalization***						
Scaled-down Program @ 500kwh	15.6	17.6	20.4	21.6	23.7	27.5
Percent Costs Covered	100%	100%	75-78%	87-90%	76-79%	64-67%
Present Program	20.7	23.3	27.0	28.7	31.3	36.3
Percent Costs Covered	100%	100%	57-59%	66-68%	58-60%	49-50%

NOTES: * The $70 million balance in the Railbelt Energy Fund assumes that the other $211 million has been committed to the Bradley Lake project by 1991. Loans could be made for a variety of projects, including: rural electrification, small-scale urban projects and purchase of federal Eklutna and Snettisham projects.

** Assumes a project cost of $215 million in 2000 (current $118 million cost estimate adjusted for 4.5% inflation + bond issuance costs). Interest during construction (IDC) equals 8% of $215 million and is assumed to be paid out of the revenue stream from other loan repayments in FY 2000-2001.

*** A 3% annual escalation to cover increases in program participants, program costs and fuel costs is assumed throughout the period.

Prepared by the House Research Agency, May 1987 (87-2540;870550-06).

Table 2 identifies a potential revenue stream of about $30 million in FY 91, peaking at $38 million in FY 2002 and declining slightly thereafter to roughly $37 million in FY 2010. We suggest that you view these figures as rough estimates designed to give you a picture of the magnitude of cash flow which may be possible under loan financing alternatives.

Table 2 also identifies two major uses of the aforementioned loan repayment stream: an upgraded Anchorage-Fairbanks Intertie and the Power Cost Equalization Program. As previously concluded, we do not believe that Railbelt energy economics support State commitment to the construction of e Anchorage-Fairbanks intertie until the turn of the century when the existing transmission line is fully utilized. The scenario presented in Table 2, therefore, assumes construction of this intertie in 2000-2001 at an inflation-adjusted cost of about $215 million. Proceeds from short-term notes issued in 2000 would cover construction costs (with interest on these notes being paid by the energy fund). In 2002, the State would issue a 30-year bond and pledge repayment streams from other loans--most notably the remaining 30 years repayment schedule of $16.5 million under the Four Dam Pool loan.

The second potential use identified under this energy fund is the Power Cost Equalization Program (PCE).[5] As indicated in Table 2, 100 percent of the PCE costs could be covered by the anticipated loan repayment stream until the year 2000, when the State would commit roughly half of the revenue stream to the Anchorage-Fairbanks Intertie. Once the commitment is made to the intertie, the percentage of PCE costs potentially covered under the energy fund falls off to 59 - 78 percent, depending primarily on the nature of the PCE program in place at that time. We present rough PCE cost estimates under: 1) the present program (which provides a power rate subsidy for a base consumption of 750 kwh for residential services plus 75 kwh/resident for community facilities); and 2) a scaled-down subsidy (for 500 kwh consumption and 50 kwh/resident for community facilities). Under a scaled-down program, the uncommitted energy fund revenues would pay more than two-thirds of the program costs through 2010.

There are other potential uses of the revenue stream which would not be committed to the Anchorage-Fairbanks Intertie in 2000. Most notable is a southern intertie between Anchorage and the Kenai Peninsula, which the House Research Agency intertie analysis concludes may be needed in about 15 - 20 years. If the State began construction of the preferred line in 2005 at an inflation-adjusted cost of about $169 million, short-term financing would require annual interest payments of about $13.5 million (8%) for two years followed by $15.0 million in debt service payments under

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[5] We are not advocating the Power Cost Equalization Program. Rather, we offer rough estimates of PCE costs merely to indicate the percentage of program costs that could be covered by this energy fund revenue stream uncommmitted to the Anchorage-Fairbanks Intertie.

a 30-year bond. The uncommitted balance identified in Table 2 could support this level of bond financing for the southern intertie. However, it appears that the uncommitted revenue stream would be insufficient to fully fund the PCE and cover the financing costs of the Anchorage-Kenai Intertie.

As a final note, we offer some general observations regarding this energy fund financing proposal. The interest rate established for energy loans is a matter of policy; the 5 - 8 percent rates provided for future loans would probably be lower than financial market rates. By offering State loans below market rates, loan recipient benefits at the expense of the energy loan fund. Furthermore, annual grants on the order of $16 million (FY 91) to as high as $36 million (FY 2010) to fund the Power Cost Equalization program will clearly deplete the energy fund over the long term. Money distributed as grants cannot be loaned to provide future revenue streams back to the fund. We have assumed that this energy loan fund would exist well into the future, but have not tried to create a perpetual fund. The final section of this memorandum provides further discussion of a statewide energy fund concept.

A STATEWIDE ENERGY FUND: FURTHER DISCUSSION

With the decline in State revenues and projections of modest State revenues in the future, it is clear that the days of massive State grants for energy projects are drawing to a close. If the State wants to continue to support energy projects, it will have to secure bond financing or establish a long-term fund as a source of funding. At this point, it appears appropriate that the State explore options for establishing some form of revolving loan fund which could provide loans for energy projects and annual grants for some energy programs--such as that presented in the previous sections of this memorandum. If this approach to energy financing is deemed appropriate, we believe that: 1) it is imperative to get a mechanism in place while certain State energy appropriations and energy loan repayments are available as potential sources for the capitalization of a statewide energy fund; and 2) the objectives of a statewide energy fund should be clearly established.

Developing a consensus on policy objectives for a statewide energy fund is beyond the scope of this memorandum. Nevertheless, the first hurdle is to define "energy"; it is possible to structure a statewide energy fund which supported projects/programs that address all principal end uses (power generation, space heating and transportation). We have defined "energy" broadly and, as a starting point, we suggest that the fund's objectives should include the following:

1) to provide financial assistance to a broad spectrum of projects and programs which strive to lower the total energy budgets of Alaska households and businesses;

2) to provide financial assistance to energy projects which "achieve the lowest cost electric power for consumers while minimizing the amount of State assistance required" (3 AAC 94.065);

3) to assist in the financing of major energy projects whose economic and financial feasibility have been demonstrated by thorough analysis and close scrutiny (as required under AS 44.83.177 - .185);

4) to provide financial assistance to energy projects which reduce energy demand through electrical load management, waste heat recovery, efficient home construction, and other conservation strategies;

5) to provide financial assistance for energy programs which seek to provide a "lifeline" amount of electrical power at a reasonable rate statewide without unduly encouraging energy consumption through unrealistic price signals;

6) to supplement, if necessary, the funding of other energy programs which emphasize the conservation of energy in the space heating and transportation end use sectors; and

7) to provide for reasonable loan repayment schedules in order to perpetuate the fund and minimize future State appropriations;

Public funding under a rational energy policy may not be difficult to achieve. If a project/program does not provide low power costs or a reasonable "payback" through reduced energy consumption, then it would not receive financial assistance under the statewide energy fund. The competition for assistance from a comparatively "lean" statewide energy fund would no doubt be intense. This potential competition will help to ensure that proposed projects/programs are well researched and meet demanding energy policy criteria.

A statewide energy revolving fund could be funded with: 1) money appropriated by the legislature; 2) loan repayment streams from existing energy loan funds; and 3) principal and interest portions of loan repayments from loans made from the fund itself. The energy fund outlined in the previous section relies on an initial appropriation of a portion of the Railbelt Energy Fund for a Bradley Lake loan and an additional appropriation from the REF to finance or fund other energy projects and programs as appropriate in the future. The Power Cost Equalization program, new rural electrification loans or purchase of the federal Eklutna and Snettisham hydro projects are possible projects or programs to be

considered for support under the energy fund. Finally, loan repayments from existing energy loan funds and future loans made by the fund itself provide a continuing revenue stream into the energy fund.

Senate Bill 206, which would create a power project revolving loan fund, perhaps provides a starting point for legislation establishing a statewide energy fund. Pertinent sections of the bill would:

1) provide for loans to public and private power production entities to: a) perform background studies; b) construct power production facilities; c) acquire bulk fuel or proven energy resources; and d) improve consumer end use to reduce energy demand;

2) provide a source of funds for: a) the purchase of federal power projects; and b) the APA for studies, licensing, design, land acquisition, construction, O&M, and debt service for projects under the energy program for Alaska;

3) give first priority for use of unrestricted funds to the power cost equalization program;

4) allow for the bonding of additional funds for authorized power projects; and

5) capitalize the fund through repayments of loans made by the fund, as well as loans under the existing Rural Electrification, Power Development, and Power Project loan funds. These existing funds would be subsumed under the new revolving loan fund. Additional legislative appropriations could be made to the fund.

However, SB 206 would have to be amended in order to accommodate the aforementioned statewide energy fund concept. The bill emphasizes power projects while ignoring funding of a broader range of energy projects and programs which would address other end uses such as space heating and transportation. In addition, SB 206 would enable the APA to use the fund for internal costs related to power projects without providing for clearly defined oversight with respect to the projects initially undertaken by the APA.

It appears that the loan fund established by SB 206 would probably support few projects beyond the next few years. Given that all but $28 million of the Railbelt Energy Fund will be spent by 1990 on Bradley Lake and the interties and that near-term appropriations and interest earnings will be spent on Power Cost Equalization and APA studies, the long-term revenue stream to the fund is essentially limited to repayment of existing energy loans. In contrast, the energy fund outlined in this memorandum would

loan money for the long-term financing of Bradley Lake--thus setting up a significant additional loan repayment stream to the fund.[6] Under this approach, the combined revenue stream to the fund would be sufficient to pledge for long-term bonding of the northern intertie if it can be economically justified at the turn of the century. In addition, revenues could support some level of funding of the Power Cost Equalization program or be pledged for bond financing of the southern intertie.

* * *

In summary, we have tried to present a broad outline of some possible alternatives to the Railbelt energy financing proposal currently before the legislature. We are convinced that these options warrant further consideration, primarily because they may offer: 1) a means of lowering Bradley Lake entry power rates while at the same time lowering the State assistance to this project; 2) a mechanism for funding a northern intertie at the turn of the century; and 3) a long-term vehicle for the financing and funding of other priority energy projects and programs.

We are available to provide further assistance or answer any questions you may have regarding this information.

Attachment

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[6]Although not identified as such in our energy fund proposal, interest earned on the money set aside now for a Bradley Lake loan in 1990 could be used to support a significant portion of the Power Cost Equalization program.

ATTACHMENT A
ESTIMATED BRADLEY LAKE COSTS UNDER TWO LONG-TERM FINANCING ALTERNAITVES
(In millions $)

EXPENSE CATEGORY	LONG-TERM BOND FINANCING	LONG-TERM LOAN FINANCING
Construction Cost	$328.2	$328.2
Interest during Construction	62.1	62.1
Interest Earnings	-69.5	-69.5
Issuance Costs	8.7	3.5
Reserve Funds	21.4	4.9
Total Project Costs	$350.9	$329.2

NOTES: The long-term bond financing assumes a $175 million bond, as currently proposed in power sales negotiations with the Railbelt utilities.

Interest earnings based on net earnings to date on short-term variable rate demand bonds (VRDBs) plus 1.5 percent spread hereafter.

Issuance costs equal costs of VRDBs in both cases and additional costs for the long-term bond financing alternative.

Each alternative assumes a Reserve and Contingency Fund (at 1.5% of construction cost). Long-term bond financing would also require a reserve of one year's debt service.

SOURCES: Long-term bond financing alternative: Alaska Power Authority.
Long-term loan financing alternative: House Research Agency

Prepared by the House Research Agency, May 1987 (87-254C; 870330-06).

BRADLEY LAKE FINANCING OPTION: INITIAL STATE EQUITY CONTRIBUTION AND LOAN FOR REMAINING FINANCING
(In millions $)

5% Case

		Year	— State Funds Commitment — (Nominal $)	(1996 $)	——— Loan Payments ——— (Nominal $)	(1996 $)	— Excess Payment Amount — (Nominal $)	(19
Bradley Lake Project Costs			$118.0	118.0				
Construction:	$328.0	1987	50.0	47.6				
Interest during Constrtn:	$52.1	1988	8.0	7.3				
Interest Earnings:	($59.5)	1989	0.0	0.0				
S-T Bond Issuance:	$3.5	1990	153.0	143.3				
Reserve Funds:	$4.9	1991			$10.0	8.8		
Total:	$329.0	1992			10.0	7.6		
		1993			[illegible]	7.3		
State Equity Contribution:	$176.0	1994			10.[illegible]	[illegible]		
State Loan Amount:	$153.0	1995			[illegible]	[illegible]		
		1996			[illegible]	[illegible]		
Int. Earnings on Loan Commitmt (1996$		1997			[illegible]	[illegible]		
1987	$6.0	1998			[illegible]	[illegible]		
1988	$11.5	1999			[illegible]	[illegible]		
1989	$11.0	2000			10.[illegible]	[illegible]		
Annual Investment Rate	6.2%	2001			[illegible]	[illegible]		
		2002			[illegible]	[illegible]		
State Loan Issue [illegible]	[illegible]	2003			[illegible]	[illegible]		
Loan Interest [illegible]	[illegible]	2004			[illegible]	[illegible]		
Loan Term (Years):	[illegible]	2005			[illegible]	[illegible]		
Annual Loan Payment:	$10.0	2006			[illegible]	[illegible]		
		2007			[illegible]	[illegible]		
		2008			[illegible]	[illegible]		
Annual Excess Payments		2009			[illegible]	[illegible]		
2021 - 2040:	[illegible]	2010			[illegible]	[illegible]		
		2011			[illegible]	[illegible]		
Annual Inflation:	[illegible]	2012			[illegible]	[illegible]		
Discount Rate:	[illegible]	2013			[illegible]	[illegible]		
		2014			[illegible]	[illegible]		
Annual Energy Use	[illegible]	2015			[illegible]	[illegible]		
		2016			[illegible]	[illegible]		
		2017			[illegible]	[illegible]		
		2018			[illegible]	[illegible]		
		2019			[illegible]	[illegible]		
Percent of Net Energy Displaced:		2020			[illegible]	[illegible]		
		2021			[illegible]	[illegible]		
State Funds Commitment	$282.6	2022						18.6
		2023						14.6
- Interest Earnings	$76.6	2024						11.9
- Loan Repayments	$10.7	2025						4.6
- Excess Payments	[illegible]	2026						[illegible]
		2027						[illegible]
Net State Equity Contribution	[illegible]	2028						[illegible]
		2029						[illegible]
Loan Power Rate (cents/kwh)	[illegible]	2030						[illegible]
		2031						[illegible]
		2032						[illegible]
		2033						[illegible]
		2034						[illegible]
		2035						[illegible]
		2036						[illegible]
		2037						[illegible]
		2038						[illegible]
		2039						[illegible]
		2040						[illegible]

ALASKA PUBLIC UTILITIES COMMISSION

Comments on CS for HB 356 (Judiciary)
February 3, 1988

The Commission endorses the intent of the amendments to HB 356 which were included in CS for HB 356 (Judiciary). The Commission believes that the amended language addresses, at least in part, the concerns previously expressed by the Commission regarding oversight of costs incurred in connection with "related contracts."

The commission recommends two minor amendments to the wording of the bill to make the meaning more clear:

First, Section 2 of the bill, which adds subsection (d) to AS 42.05.511, should begin with the introductory phrase, "Notwithstanding the provisions of AS 42.05.431(c)(1)-(2) . . . ." This addition will clarify the intention that, notwithstanding the provisions of Section 1 of the bill, Section 2 preserves Commission oversight of costs incurred in connection with "related contracts."

Second, the Commission believes that the phrase, "except those disallowed under AS 42.05.381(a)" in Section 2 can be deleted as redundant. The amendment which changed "all costs" to "validated costs" was, the Commission understands, intended to provide for Commission oversight of costs which can be recovered. Therefore, the Commission's authority to "validate" costs automatically preserves the authority to disallow costs under AS 42.05.381(a) and the specific language to that effect is redundant.

Section 2 of the bill, amended to incorporate the foregoing changes, would read:

AS 42.05.511 is amended by adding a new subsection to read:

(d) Notwithstanding the provisions of AS 42.05.431(c)(1)-(2), validated costs incurred by a utility in connection with the related contracts described in AS 42.05.431(c)(1) must be allowed in the rates charged by the utility.

Finally, the Commission would also reiterate its earlier statement that the provision in Section 1 ensuring the enforceability of rate covenants should be limited to the wholesale power agreement and not extended to the "related contracts." The provision in Section 1 that any rate covenant in the "related contract" is valid and enforceable is inconsistent with the amendments to Section 2 which preserve the Commission's authority to "validate" costs. Further, as previously noted, the "related contracts" are between utilities (not with the APA) and contracts between utilities should not create rate covenants which are binding on the Commission. Therefore, Section 1 should be amended to eliminate from proposed AS 42.05.431(c)(2) the words, ". . . or related contract . . . ."

0786D/020388a

APPENDIX A

Computation Of Wheeling Rates

Rates for wheeling services provided under Section 4 of this Agreement are intended to be computed on a fully allocated cost basis and to apply to all Wheeling Utilities in a "postage stamp" manner, in accordance with the following principles:

1. Basic Wheeling Rate.

(a) Formula. The basic wheeling rate shall be computed in each Chugach rate adjustment proceeding in accordance with the following formula, using actual values for each variable as determined for the ratemaking test year applicable to that rate adjustment proceeding:

$$R = \frac{A + B + C + D + E}{F} \times K$$

Where:

R = The basic wheeling rate to be charged during the rate period;

A = Chugach O & M expense allocated to transmission (currently REA Accounts 556 through 573), less such O & M expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

B = Chugach A & G expense allocated to transmission (currently REA Accounts 920 through 932), less such A & G expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

C = Chugach taxes allocated to transmission (currently REA Account 408), less such taxes properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

D = Chugach depreciation allocated to transmission (currently REA Account 403), less such depreciation properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

E = Chugach interest expense and generation-and-transmission TIER (or other applicable generation and transmission margin requirement) allocated to transmission, less interest expense and generation and transmission TIER properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

F = The sum in kilowatthours of (i) Chugach's total generation (exclusive of generation for economy sales) plus purchases, and (ii) the Bradley Lake Energy of the Wheeling Utilities;

and

K = The applicable phase-in factor or constant as set forth below in Provision 2 of this Appendix A.

(b) Notes on specific variables.

(i) The Point MacKenzie Substation is not part of Chugach's Beluga to Point MacKenzie transmission segment, and the costs of that Substation shall not be excluded in determining the values for those variables from which the costs of that segment are excluded.

(ii) Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment are not (and at this time cannot be) specifically identified and isolated from Chugach's total transmission O & M expense and A & G expense. Therefore, in computing "A" and "B" in the foregoing formula, reasonable estimates of Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment shall be used. Such estimates may be based on reasonable proxy variables, such as the percentage of total recorded annual hours of transmission O & M labor represented by recorded annual hours of transmission O & M labor on Chugach's Beluga to Point MacKenzie transmission segment.

(iii) As provided in Section 13(cc) of this Agreement, neither HEA nor AEG&T on behalf of HEA is a Wheeling Utility for purposes of this Agreement (except, potentially, as a successor or assignee of another Wheeling Utility's Bradley Lake Energy). Thus, "F" in the formula set forth above shall not include or be increased by any Bradley Lake Energy of HEA or AEG&T on behalf of HEA, even if such Energy is wheeled by Chugach pursuant to Section 8(f) of this Agreement at wheeling rates established under this Exhibit A.

2. Phase-In Factor (Years 1-15) And Constant (Later Years).

Beginning with the calendar year in which the Project achieves Commercial Operation, and in each of the next fourteen calendar years (Calendar Years 1 through 15 in the table below), the applicable wheeling rate shall be determined by multiplying the then-applicable base wheeling rate (as computed above) times a phase-in factor in accordance with the following table:

Calendar Year	Phase-In Factor
1	.3333
2	.3333
3	.3333
4	.3805
5	.4278
6	.4750
7	.5222
8	.5694
9	.6167
10	.6639
11	.7111
12	.7583
13	.8056
14	.8528
15	.9000

Beginning on the first day of the next calendar year after Calendar Year 15, and in all succeeding calendar years, the base wheeling rate (as computed under heading 1 above) shall be multiplied by 0.9000 as a constant. Any increase in the applicable wheeling rate resulting from an increase in the phase-in factor in accordance with the table above shall become effective without the need for any regulatory approval other than approval of this Agreement.

FEB 26 1988

STATE OF ALASKA

ALASKA PUBLIC UTILITIES COMMISSION
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

STEVE COWPER, GOVERNOR

420 "L" STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 276-6222

February __, 1988

Representative John Sund
State of Alaska
House of Representatives
P. O. Box V
Juneau, Alaska 99811

Dear Representative Sund:

I am writing to respond to questions that have been raised with respect to the Commission's current and future jurisdiction over the "Four Dam Pool" Power Sales Agreement.

This subject has recently been addressed by the Department of Law per the enclosed letters to Senator Fred F. Zharoff. The Department of Law stated, and the Commission concurs, that:

(1) The Agreement is exempt from the provisions of AS 42.05.431(b) because it predated this section of the statute. Therefore, the Commission can require neither advance approval of the Agreement nor negotiation of amendments to rates which are found to be unreasonable under the Agreement.

(2) Implementation of the terms of the existing Agreement to periodically reopen and reestablish rates does not bring the Agreement under Commission review, if the procedures set forth in the Agreement are followed.

(3) The scope of the Commission's jurisdiction is unclear if the Agreement were amended to include totally new subjects or so substantially as to constitute a new contract. (The Commission has previously suggested to the Alaska Power Authority that if this situation arises, the amendments be submitted for a determination of whether they are jurisdictional.)

08-H6LH

I am also enclosing for your information a chart showing the utilities who are signatories to the "Four Dam Pool" Agreement and their current regulatory status. As you can see, only two of the five utilities are currently economically regulated by the Commission. Thus, as a practical matter, whatever Commission jurisdiction exists over the Agreement affects two utilities directly and the remaining three only indirectly.

Please let me know if you have any additional questions.

Sincerely yours,

Susan

Susan M. Knowles
Chairman

Enclosures

STEVE COWPER, GOVERNOR

REPLY TO:

☑ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

☐ P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

February 12, 1988

Honorable Fred F. Zharoff
Pouch V
Juneau, Alaska 99811

Re: APUC Review/ "4 Dam Pool"
Power Sales Agreement
File No. 661-88-0329

Dear Senator Zharoff,

You have asked our opinion whether the Alaska Public Utility Commission (APUC) is authorized to review the Long-Term Power Sales Agreement 4 Dam Pool - Initial Project of the Alaska Power Authority ("the Agreement").

As you know, the Alaska Power Authority ("the APA"), 2 electric cooperatives and three cities in southeast Alaska signed the Agreement in October, 1985. The Agreement provided for the sale over 45 years of hydroelectric power from 4 state-owned hydroelectric projects collectively known as the Initial Project. See Agreement, Sec. 2(b). The Agreement requires the power purchasers to resell the power at a rate sufficient to pay the costs of operating and maintaining the projects and the cost of debt service. 1/ See Agreement, Sec. 5(b). The Agreement also provides, as required by law, for the parties to renegotiate the debt service component of the wholesale power rate in the years 2000 and 2015. See AS 44.33.625; Agreement, Sec. 9. This provision is commonly referred to as "the rate reopener."

In 1986 the legislature amended AS 42.05.431 by adding a new subsection which provided that a wholesale power agreement between public utilities is subject to advance approval of the APUC. AS 42.05.431(b). 2/ Moreover, the APUC may order the parties to negotiate an amendment to a wholesale power agreement when the APUC finds that the rates set in accordance with the

---

1/ The debt service component is paid to the APA to retire a loan between the Department of Commerce and Economic Development and the APA for the purpose of constructing and acquiring the 4 Dam Pool hydroelectric projects.

2/ This office has previously determined that sec. 431(b) applies to wholesale power agreements to which the APA is a party. 1987 Inf. Op. Att'y Gen. (February 18; 663-87-0365).

agreement are not just and reasonable. Id. The only comment I have found on the purpose of subsection (b) is in a letter from Attorney General Brown to Governor Sheffield, reviewing HB 314 after it was passed by the legislature. The letter states, "[t]he commission's authority to approve wholesale power agreements would be made explicit by AS 42.05.431(b)." Letter, June 4, 1986, A.G. File No. 883-86-0135.

At the same time that the legislature adopted AS 42.05.431(b), however, the legislature further provided that subsection (b) "applies only to wholesale power agreements entered into on or after June 7, 1986." Sec. 8, ch. 104, SLA 1986. Since this Agreement was entered into prior to June 7, 1986, section 431(b) does not apply to the existing Agreement.

The more difficult question is whether the APUC acquires jurisdiction over this 45-year Agreement if the parties exercise their rights under the rate reopener provision of the existing Agreement and voluntarily elect to amend the Agreement in the year 2000 or 2015 as to the rates to be charged under the Agreement. By the terms of the existing Agreement, they may reopen the Agreement as to the debt service component of the wholesale power rate. See Agreement, sec. 9. The Agreement provides an elaborate procedure for determining whether the debt service component should be revised. As long as the parties proceed under the provisions of section 9 of the existing Agreement, such activity should not produce a new agreement subject to APUC review under AS 42.05.431(b).

This opinion does not address whether the APUC would have jurisdiction over the agreement should the parties decide to amend the Agreement regarding a subject not contemplated by the original Agreement. Nor does this opinion address whether the APUC would acquire jurisdiction if the parties so modified and amended the original Agreement as to create a new agreement.

I hope this opinion has answered your question. Please let me know if I can be of further assistance.

Sincerely,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By: Carolyn E. Jones
Carolyn E. Jones
Assistant Attorney General

cc: Susan Knowles, APUC
Elizabeth Hickerson, AGO
Art Peterson, AGO

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

☑ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

☐ P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

February 22, 1988

Honorable Fred F. Zharoff
Pouch V
Juneau, Alaska 99811

Re: APUC Review/ "4 Dam Pool"
Power Sales Agreement
File No. 661-88-0329

Dear Senator Zharoff:

In my letter dated February 12, 1988 I advised you that the Alaska Public Utility Commission (APUC) would not have jurisdiction over the Long-Term Power Sales Agreement 4 Dam Pool - Initial Project of the Alaska Power Authority ("the Agreement") if the parties exercised their rights under the rate reopener provision of the Agreement. This opinion was based on the fact that the Agreement contemplated a rate reopener period and provided an elaborate procedure for a reconsideration of the rates charged under the Agreement. As such, the Agreement was specifically excluded from APUC review.

I expressed no opinion on whether the APUC would acquire jurisdiction over the Agreement should the parties decide to amend the Agreement regarding a subject not contemplated by the original Agreement. Nor did I address whether the APUC would acquire jurisdiction if the parties so modified and amended the original Agreement as to create a new agreement. Your memorandum of February 15, 1988 asks me to address these two questions as well.

Without having an actual amendment to the Agreement and an actual set of facts before me, it is not possible to give you a definite answer. I do not, however, want to foreclose the possibility that at some point the parties to the Agreement may so amend the Agreement that it no longer resembles the Agreement which the legislature exempted from APUC review. Should that

eventuality occur, then the APUC may well successfully assert jurisdiction over the amended Agreement.

Very truly yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By: Carolyn E. Jones
Assistant Attorney General

CEJ:sw

cc: Susan Knowles, APUC
Elizabeth Hickerson, AGO

4-Dam Pool Project/Utility Profile

Project	Community Served	Utility	Regulatory Status
Terror Lake	Kodiak/Port Lyons	Kodiak Electric Association	Regulated
Solomon Gulch	Glennallen/Valdez	Copper Valley Electric Association	Regulated
Tyee Lake	Wrangell/ Petersburg	Cities of Wrangell and Petersburg	Unregulated
Swan Lake	Ketchikan	City of Ketchikan	Unregulated

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

M E M O R A N D U M February 5, 1988

SUBJECT: Deposit of excess payments under the Bradley Lake Power Sales Agreement into the Railbelt energy fund (Work Order No. 5-1728)

TO: Representative John Sund, Chairman
House Judiciary Committee

FROM: Teresa B. Cramer TBC
Legislative Counsel

You have asked whether the provision in section 29 of the Bradley Lake Hydroelectric Project Power Sales Agreement, which states that excess payments from the purchasers are "for deposit in the Railbelt energy fund," is valid.

The excess payments are payments to be made by the purchasing public utilities after the retirement of bonds issued to pay for the construction of the power project. The bonds are expected to be retired 30 years after the project begins commercial operation and the excess payments are expected to continue for the remaining 20 years of the agreement.

In my opinion, the Alaska Power Authority (APA) does not have the statutory power to enter into an agreement requiring that the excess payments be deposited in the Railbelt energy fund.

Under AS 44.83.398(c), the APA is required to deposit money received from the sale of power from projects constructed under the energy program for Alaska in the general fund unless the money has been pledged or otherwise covenanted to secure bonds. The excess payments do not meet the requirements of the exception. The statute could be construed to allow the APA to deposit the payments in the Railbelt energy fund only if the Railbelt energy fund is considered to be the same as the general fund.

The Railbelt energy fund is an account within the general fund under AS 37.05.153. The statute provides

> There is established in the general fund the Railbelt energy fund. The fund consists of money appropriated to it by the legislature. The Department of Revenue shall manage the fund. Interest received on money in the fund shall be accounted for separately and may be appropriated into the fund annually. The legislature may appropriate money from the fund to assist in meeting Railbelt energy needs.

The legislature has given the account a special purpose, even though the purpose is not binding on future legislatures. The setting aside of funds is a legislative function, implicit in the legislature's power of the purse. Therefore, deposit in the Railbelt energy fund does not constitute deposit in the general fund and does not satisfy AS 44.83.398(c).

The power to make deposits in the Railbelt energy fund is also restricted under AS 37.05.153. Under the terms of the statute, money is added to the fund by legislative appropriation. Therefore, the excess payments under section 29 of the Power Sales Agreement can only be added to the fund if the legislature appropriates them to it.

The appropriation of state revenue is a legislative function. Absent statutory authorization, as in the case of bonds or revolving loan funds, an executive branch agency cannot circumvent the legislative decision-making power by entering a contract with private parties that earmarks state revenue for deposit in a particular account.

If I may be of further assistance, please advise.

TBC:gc
WKG1:067

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

January 27, 1988

MEMORANDUM

TO: Representatives John Sund and Kay Brown

ATTN: John Hartle and Eric Meyers

FROM: Ginny Fay
Legislative Analyst

RE: **Bradley Lake Power Sales, Service, and Transmission Agreements and House Bill 356**
Research Request 88.119

You requested that this agency review the following agreements, which House Bill 356 would remove from the purview of the Alaska Public Utilities Commission (APUC):

- the Bradley Lake Hydroelectric Power Sales Agreement (Power Sales Agreement);
- the Bradley Lake Hydroelectric Project Transmission Sharing Agreement (Transmission Agreement) between Homer Electric Association (HEA) and other Railbelt utilities; and
- the Bradley Lake Hydroelectric Project Agreement for the Wheeling of Electric Power and for Related Services (Services Agreement) between Chugach Electric Association (CEA) and the other Railbelt utilities.

You also asked that we compare provisions of the Bradley Lake Power Sales Agreement with the Four Dam Pool Power Sales Agreement. In addition, you asked that we suggest alternative language for HB 356 that would accomplish the objective of assuring immediate, continued progress on Bradley Lake construction but which would minimize impact on the APUC's general authority to review and approve electrical costs and rates.

The first part of this memorandum provides background information on the Bradley Lake project and HB 356 (Attachment A). The next section presents an overview of each of the three Bradley Lake agreements and compares the Bradley Lake and the Four Dam Pool power sales agreements. This is followed by a discussion of HB 356 and how it compares with the version of

Senate Bill 22 that was vetoed last session. The final section of this memorandum suggests alternative language for HB 356.

Background

The 90 megawatt Bradley Lake hydroelectric project is currently under construction by the APA on the Kenai Peninsula near Homer, Alaska. The APA has obtained State appropriations ($168,080,000) and borrowed short-term funds to finance the initial costs of construction. The APA is ready to issue the Request For Proposals for the general civil engineering construction contract. Prior to committing to the completion of the project, however, the APA insisted that all three contracts noted above be agreed upon.

House Bill 356 was introduced by Governor Cowper to exempt these Bradley Lake contracts from APUC review and approval. Exemption from APUC review is deemed necessary to avoid extensive project delay caused by interveners in the APUC hearing process. Public Utility Regulatory Policy Act (PURPA) qualifying alternative energy facilities who intend to sell power to some of the Railbelt utilities are likely to intervene in the Bradley Lake hearing process. Similarly, the State regulatory review process provides an opportunity for parties who may oppose construction of the Bradley Lake project to delay its completion and thus jeopardize the APA's ability to obtain lower interest, tax-free bonding for the project. Deregulation of the Bradley Lake project by HB 356 also allows automatic flow-through of Bradley Lake costs into electric rates, thus guaranteeing revenue required for bond repayment.

As mentioned in the SB 22 hearings last session, removal of APUC authority over the Bradley Lake contracts does not eliminate all judicial opportunities for PURPA interveners; it simply transfers PURPA jurisdiction to the federal government. If APUC authority is removed, interveners can still file suits under PURPA in federal district court. This court would also hear any appeals of APUC decisions related to PURPA. In this regard, removal of APUC review authority would eliminate one step in the judicial process.

The APA has been advised by bond counsel that APUC oversight of the contracts would raise the interest rates on bonds. There has been continued discussion of this point. We are unable to comment on the accuracy of the claims. The APUC review of projects does not preclude the recovery of "prudent" costs. However, given the excess generating capacity in the Railbelt, there is some question that Bradley Lake would be considered a prudent project at this time. The next section provides some general information on the three Bradley Lake project contracts.

Bradley Lake Hydroelectric Project Contracts

Wholesale Power Sales Agreement. Of the three agreements entered into by utilities purchasing Bradley Lake power, the Power Sales Agreement (PSA) is the primary contract. Parties to the contract are the Alaska Power Authority (APA), CEA, HEA, Golden Valley Electric Association (GVEA), Anchorage Municipal Light and Power (AML&P), Matanuska Electric Association (MEA), Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T) and the Seward Electric System (SES). The PSA provides for the sale of 100 percent of the project's power to the purchasing utilities under an unconditional, take-or-pay contract.[1] The agreement also provides for the financing, operation, and maintenance of the project. The PSA governs the sale of bonds to finance up to $175 million of the construction costs, the repayment of the bonded debt, the scheduling and sales of project power, administration of the Power Sales Agreement, the establishment of the Project Management Committee, and the determination of annual project costs.

The bonded debt will be retired by proceeds from the sale of project power. The debt, along with all other costs associated with operating and maintaining the project, will be included in a budget of annual project costs written by the Project Management Committee. The Project Management Committee is comprised of APA and all utilities purchasing Bradley Lake power (including voting members HEA and MEA and nonvoting member AEG&T). The Project Management Committee has the ongoing responsibility and authority to oversee all significant Bradley Lake project activities including controlling costs, writing the annual budget, and resolving disputes among the agreement's parties. The APA, however, retains the right to take "required actions" to ensure that financial obligations under the bond covenant are met.

The Power Sales Agreement has an initial term of 50 years. It becomes effective when all parties execute the agreement and have obtained all necessary approvals for it and the related Transmission and Services Agreements. Debt service on the bonds extends for 30 years. Upon the retirement of all bonds issued to pay recoverable construction costs, the purchasers of Bradley Lake power agree to make "excess payments" to the Railbelt Energy Fund "...in recognition of the Railbelt Energy Council's

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[1]Power from the Bradley Lake project is allocated on a percentage basis as follows: Alaska Electric Generation & Transmission Cooperative, Inc., 25.8 percent (acting for Hower Electric Association, 12.0 percent and Matanuska Electric Association, 13.8 percent); Chugach Electric Association, 30.4 percent; Golden Valley Electric Association, 16.9 percent; Anchorage Municipal Light & Power, 25.9 percent; and Seward Electric System, 1.0 percent. These shares are specified in Exhibit D of the Power Sales Agreement.

commitment to continued efforts to obtain a satisfactory transmission intertie between Fairbanks and the Kenai Peninsula..." Excess payments are to be paid in proportion to each purchaser's share of Bradley Lake power and will be equal to the average annual debt service on retired bonds minus any payments on debt issued to fund required project work. At a maximum, excess payments would equal four cents for each kilowatt hour (kwh) purchased by each of the utilities. Given that Bradley Lake's projected output is 369.2 kilowatt hours each year, the excess payments could be as much as $14.8 million annually (nominal dollars) for power purchased after retirement of the bonds. Because the payments would commence so far in the future, the net present value of the 20-year revenue stream (2021-2040) is estimated to be about $10 million. Excess payments will be made until the termination of the 50-year agreement period.

If the Bradley Lake project is not completed and operational by January 1, 1996, there is an "early out" provision for purchasers under the agreement. The PSA may be renewed for 40 year periods or for the life of the project, whichever is longer.

Table 1 (Attachment B) compares some of the major provisions of the Bradley Lake and Four Dam Pool power sales agreements. Most of the differences can be attributed to inherent differences in the projects or to differences in the timing of negotiation of the power sales agreements. Most of the Four Dam Pool projects produce excess power. This situation precluded take-or-pay contracts for all of the projects' power. In addition, the costs of some of the Four Dam Pool projects increased substantially from their original estimates. Furthermore, the projects were completed before the power sales agreement was in place, putting the State in a weaker negotiating position. The rate reopener provisions (2001 and 2016) in the Four Dam Pool agreement provides a mechanism to increase the debt service component on these projects rather than a means to decrease payments. In contrast, the Bradley Lake agreement includes a provision for excess payments which commence after the 30-year bond is retired. Both the rate reopener and excess payment provisions offer at least partial repayment of the State's equity in the projects.

Transmission Agreement. The Transmission Agreement is one of the "related contracts" mentioned in HB 356. The agreement between HEA and CEA, GVEA, and AML&P provides for HEA's construction of a 47 mile, 135 kilovolt (kv) transmission line between the Bradley Junction and Soldotna

Substation. The line, which is estimated to cost $14.1 million to construct, will provide for delivery of Bradley Lake power to the purchasing utilities. The Transmission Agreement provides for the sale or lease of portions of the HEA line to CEA, GVEA, and AML&P.[2] The State of Alaska is not a party to this contract.

Parties to the agreement are expected to pay a portion of the line's construction costs as well as reimburse HEA "...each month for a portion of HEA's actual expenses associated with operating, maintaining, and repairing the Transmission Line." Formulas for calculating construction and operation and maintenance costs are attached to the agreement. As HB 356 is currently written, the costs specified by these formulas would not be subject to APUC review or approval.

The agreement also provides for a number of other operational considerations such as line upgrading, failure to construct, repairs, special provisions affecting CEA, and dispute resolution. The term of the agreement begins when all parties have executed it and it has received all necessary approvals. The agreement ends when the line is no longer used to transmit Bradley Lake power and all construction costs have been paid; or the date when the Power Sales Agreement terminates; or any such date as all parties mutually agree, provided the date meets with the approval of entities whose approval is necessary.

Services Agreement. The Services Agreement contract between CEA and HEA, GVEA, MEA, AML&P, SES, and AEG&T provides for the transfer of Bradley Lake power across CEA's transmission network, storage of Bradley Lake power in CEA's Cooper Lake hydroelectric facility, and energy purchase and displacement services to the purchasing parties by CEA. The Services Agreement establishes provisions for the: 1) continuity and scheduling of services with CEA serving as dispatcher; 2) right to additional transmission capacity; 3) establishment of rates and billings; and 4) resolution of disputes. Similar to the Transmission Agreement, the State is not a party to the Services Agreement, which is a "related contract" under HB 356.

Computation of wheeling rates to be paid by purchasing parties is determined by formulas attached to the agreement. The basic wheeling rate is indirectly tied (through variables in the formula) to CEA's rate adjustment proceedings which occur before the APUC. While this provides a "reference point" for the calculation of costs, determination of actual components of costs to be included in each variable is difficult. As noted in Appendix A of the service agreement,

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[2]The CEA's proportion of the line includes its percentage share of Bradley Lake power plus that of SES and MEA.

> Chugach's transmission O&M expense and A&G expense associated with Chugach's Beluga to Point Mackenzie transmission segment are not (and at this time cannot be) specifically identified and isolated from Chugach's total transmission O&M expense and A&G expense. Therefore, in computing "A" and "B" in the foregoing formula, reasonable estimates of Chugach's transmission O&M expense and A&G expense associated with Chugach's Beluga to Point MacKenzie transmission segment shall be used. Such estimates may be based on reasonable proxy variables.

Under HB 356, the APUC will not have the authority to determine the "reasonableness" of these proxy variables. The difficulty in isolating these costs for the computation of wheeling charges under the agreement is a precursor to the difficulties that would be faced by the APUC in determining utility costs in a partially deregulated power system.

The Services Agreement represents an operational alternative solution to transmitting Bradley Lake power to all purchasers in the absence of the State of Alaska's construction of an intertie from the Kenai Peninsula to Anchorage. Parties to the Service Agreement recognize that the agreement will be superseded if, and when, construction of an additional transmission line occurs, or if power pooling arrangements are made by the purchasing parties.

House Bill 356 and Senate Bill 22

The major contrast between HB 356 as introduced this session and SB 22 as passed last session is the additional exemption (from APUC review and approval) of service and transmission agreements related to the wholesale power sales agreement. This broadening of the scope of the bill reduces APUC's authority to review and approve utility costs and their inclusion in electrical rates. These agreements are included in the exemption because they form the operational basis for the financial obligations contracted in the Power Sales Agreement. These related contracts were probably not included in last year's bill only because they did not exist at the time.

Alternative Language For HB 356

Attachments C, D, and E provide alternative language for HB 356. The language provided is based on the following premises regarding the intention of the bill:[3]

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[3]Mary Halloran, Office of the Governor, Director, Division of Policy, Office of Management and Budget, personal communication, January 20, 1988.

- to ensure completion of the Bradley Lake project without further delays caused by interveners in the APUC hearing process;

- to ensure that utility rates are adequate to repay bonded debt; and

- to minimize deregulation of Railbelt electric utilities.

The language provided in Attachment C primarily clarifies the language and intent of the bill. In section 1(c)(1), the reference to related contracts is moved within the October 1, 1987 and January 1, 1988 dates to more clearly specify the extent of related contracts covered. In section (c)(2), the "Alaska Power Authority" is added to clarify the pronoun "its" which was clear in last year's bill but vague in the current bill. Section 2 is unnecessary given the revised language of section 1(c)(2) of the bill and specification of "annual costs" in the Power Sales Agreement. However, if it is retained section 2 can be modified to specify "power and transmission" costs rather than "all" costs "without limitation." This change to section 2 limits the erosion of APUC authority, which is the governor's intent, without jeopardizing the repayment of bond debt provided for in section 1(c)(2).

Attachment D provides language that separates the financial obligation to bond holders under the Power Sales Agreement from the operational constraints provided by the related service and transmission agreements. Section 1(c)(1) and (2) pertain to the wholesale power sales agreement and ensure sufficient rates and revenues for repayment of the bonds. Section 2 of this modification provides that the commission shall allow related contracts between utilities to the extent required to enable performance under the wholesale power sales agreement. This ensures that rates and revenues are sufficient to make the power sales agreement fully operational without total deregulation of associated costs.

Attachment E is similar to Attachment D in that the language also separates the financial obligation aspects of the power sales agreement from the operational aspects of the transmission and service agreements. Section 1 is essentially the same as Attachment D. Given that section 1(c)(2) provides for rates sufficient to meet the financial obligation of the bonds, section 2 of this modification retains the APUC's ability to review the allocation of those costs among utilities and subsequently among retail

customer classes. This change addresses the potential problem created by the original language of section 2; the far reaching language in this section eliminates the APUC's ability not only to approve or disapprove costs, but also to allocate costs among customer classes. The original language of section 2 goes beyond providing for the automatic flow-through of Bradley Lake costs; it allows utilities to attribute more than an appropriate share of total costs to Bradley Lake, thereby by passing the regulatory process.

* * *

I hope this information is useful. Please do not hesitate to contact us if you have additional questions.

Attachments

ATTACHMENT A
House Bill 356

Introduced: 1/13/88
Referred: Judiciary and
Finance

go00168h

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1937, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement, and any subsequent amendments to the wholesale agreement or related contract, are not subject to review or approval by the commission; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) All costs incurred by a utility in connection with a

wholesale agreement or contract described in AS 42.05.431(c)(1), including, without limitation, power and other costs incurred under such an agreement or contract, must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in <u>this chapter</u> [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility <u>other than wholesale agreements and contracts described in AS 42.05.431(c)(1)</u>.

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT B
Comparison of the Four Dam Pool
and Bradley Lake Power Sales Agreements

TABLE 1
COMPARISON OF THE FOUR DAM POOL AND BRADLEY LAKE POWER SALES AGREEMENTS

FOUR DAM POOL	BRADLEY LAKE
State loan: more flexible repayment and rate reopener	Bonded indebtedness: 30 year payments
Project managed by Project Management Committee comprised of a member from each purchasing utility	Project managed by Project Management Committee comprised of a member from each purchasing utility
Project Management Committee has similar duties to the Bradley Lake Project Management Committee	Project Management Committee has similar role but APA has required affirmative vote in some cases
Debt rate reopener on debt service component only	Set debt payments over 30 years, no rate reopener on debt service
State equity = $293.3 million	State Equity provided = $181 million*
State Loan = $191.2 million, 45 year term, 4.3 cents/kwh current debt service component	Bonded Debt up to $175 million
No excess payments	Excess Payments of up to 4 cents/kwh for the years 31-50, present value of payments equals approximately $10 million
Debt service and O&M charged for power sold, any additional sales increases revenues to the State	Take-or-pay contract for 100% of project power

* Based on estimated construction costs.

Note: These provisions are based on a review of the Bradley Lake Hydroelectric Project, Agreement for the Sale and Purchase of Electric Power and Long-Term Power Sales Agreement, Four Dam Pool - Initial Project of the Alaska Power Authority.

Prepared by the House Research Agency, January 1988, (88.119).

ATTACHMENT C
Alternative Language 1

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement, and any subsequent amendments, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS] are not subject to review or approval by the commission; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet the Alaska Power Authority's financial [ITS] obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL] Power and transmission costs incurred by a utility in connection with a wholesale agreement or contract described in AS 42.05.431(c)(1), [INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS] incurred under such an agreement or contract, must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT D
Alternative Language 2

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT, ARE NOT SUBJECT TO REVIEW OR APPROVAL BY THE COMMISSION; AND]

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(c)(1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

(d) <u>The commission shall allow related contracts, including subsequent amendments, between utilities sufficient to enable performance under the wholesale power agreement described in (c)(1) above.</u>

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.011 (d).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT E
Alternative Language 3

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT, ARE NOT SUBJECT TO REVIEW OR APPROVAL BY THE COMMISSION] AND <u>is not subject to review or approval by the commission.</u>

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(c)(1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

<u>(d) A contract for wheeling, storage, regeneration, or wholesale repurchase of power purchased under a wholesale agreement in (c)(1), is not subject to commission review except as to the costs and their allocation through rates.</u>

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing <u>in this chapter</u> [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.511(d).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Alaska Public Utilities Commission

Comments on HB356

January 26, 1988

I. Overall Analysis

The Commission concurs that exemption of the wholesale power contract between the Alaska Power Authority (APA) and purchasing utilities from Commission review and approval is necessary to meet the construction schedule for the Bradley Lake Hydroelectric Project (Bradley Lake) established by the APA. Therefore, if the Legislature supports this schedule, HB356 should be enacted insofar as it provides that "a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988...[is] not subject to review or approval by the commission."

The Commission also believes that the foregoing exemption protects the APA's bondholders by obligating the Commission to honor through rates the terms and conditions negotiated between the APA and the utilities. Therefore, the provision in HB356 which states that the wholesale power agreement may contain a valid and enforceable covenant for the utility to establish rates sufficient to meet its obligations under the contract appears to be redundant but is certainly not objectionable insofar as it concerns the wholesale power agreement between the APA and the purchasing utilities.

However, the Commission has questions regarding the provisions of HB356 which exempt from Commission review and approval the "related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement and any subsequent amendments" to those contracts. The Commission understands that "related contracts" are the services agreements between the utilities purchasing Bradley Lake power which focus on arrangements for the transmission of the power. The scope of "subsequent amendments" is not defined.

The Commission believes that five basic questions should be answered before these agreements are exempted from Commission review. First, is total exemption of the agreements from Commission review necessary in order for the construction of Bradley Lake to proceed on schedule? Second, are there public policy reasons not to exempt totally the related contracts from Commission review? Third, are there regulatory policy reasons not to

exempt totally the related contracts from Commission review? Fourth, should the rate covenant provisions be extended to the "related contracts? Fifth, what, if any, exemption status is appropriate for "subsequent amendments" to related contracts?

The Commission does not believe that it is necessary to exempt totally the related contracts from Commission review in order for Bradley Lake construction to proceed on schedule. The APA is not a signatory to the related contracts and the costs for services pursuant to the related contracts are not part of the financial commitments to bondholders. Therefore, it is not necessary to extend to the related contracts the same rate covenant and cost recovery provisions which apply to the wholesale power agreement between the APA and the utilities. The Commission is unaware of any other legal requirement for total exemption of the "related contracts."

The Commission also believes that it would be poor public policy to exempt totally the related agreements from Commission review. Because the APA is not a signatory to the related contracts, the APA Board of Directors has not reviewed the contracts in the same public process or with the same diligence as the wholesale power agreement itself. The related contracts are the type of agreement which are typically subject to regulatory oversight and an exemption in this case would be contrary to the public policy established in AS 42.05 regarding the Commission's regulation of utilities.

Finally, the Commission believes that total exemption of the related contracts from Commission review presents significant regulatory problems. The "related contracts" affect the overall operation of the contracting utilities and involve facilities which are not dedicated solely to Bradley Lake but which are common facilities used to provide services to all customers. As such, the agreements raise basic issues with respect to dividing costs between regulated (non-Bradley Lake) and unregulated (Bradley Lake) functions. To illustrate:

-If exemption extends to facilities used or expenses incurred to regenerate, wheel, store and transmit Bradley Lake Power and non-Bradley Lake power, the generation and transmission operations of the regulated signatory utilities are essentially exempt from economic regulation.

-If exemption means that only non-Bradley Lake facilities and expenses are jurisdictional to the Commission, significant rate implications arise. Setting aside the arguments and challenges associated with allocating investment and expenses between regulated and unregulated portions of a whole, there is no assurance that the sum of the unregulated and regulated parts would equal the whole, thereby creating a situation of either over-recovery or underrecovery for the affected utilities. In other words, the customers of a purchasing utility could pay too much

or not enough depending on the particular circumstance, with the result that the customers of the transmitting utility would either be subsidized or be subsidizing the customers of the purchasing utility. It has been this Commission's experience that the issue of which customers should bear what share of an investment or expense is usually more important than the question of the total cost which must be paid.

-If exemption means that the Commission or any consumers cannot challenge the "relatedness" of a subsequent investment or expense relating to Bradley Lake, a substantial "hole" in the Commission's current jurisdiction would exist.

The Commission also believes that the provision ensuring the enforceability of rate covenants should not be extended to "related contracts." Those contracts are solely between utilities; utilities should not be allowed to establish, by private contract, rate covenants which would be binding on the Commission.

While the Commission believes that it is important that its jurisdiction to regulate the rates for services provided under the related contracts be preserved, the Commission also recognizes that the utilities purchasing Bradley Lake power must be assured that the power can be transmitted from the project site to their service area or that, alternatively, there can be an "administrative" or "paper" transfer of the power. Therefore, the Commission believes that the related contracts between the utilities, to the extent that they establish operational methods to assure such delivery of power, are necessary and appropriate and should be exempt from Commission review. Thus, the Commission recommends that HB356 provide that the operational aspects designed to assure delivery of power be exempt from Commission approval, but that the Commission's authority to evaluate costs and establish rates for services be preserved.

II. Response to House Judiciary Committee Inquiries

There are four major differences between SB22 and HB356, other than elimination of sections regarding utility deregulation.

The first, and most significant, difference is that SB22 exempted from Commission review and approval only the wholesale power contract for Bradley Lake power and did not exempt "related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power and any subsequent amendments." These "related contracts and subsequent amendments," were not mentioned in SB22 and would have remained under Commission jurisdiction under SB22.

The second major difference concerns the provisions which assure that utilities recover costs associated with Bradley Lake. SB22 stated simply that "power costs incurred by a utility in connection with [purchase of Bradley Lake power] shall be allowed in

the rates charged by the utility." HB356 enlarges this provision significantly. It states that "all costs...including, without limitation, power and other costs" incurred in connection with an agreement to purchase power from Bradley Lake must be included in rates. That broader provision could be interpreted to require recovery of costs associated with Bradley Lake that are normally excluded from rates by statute, such as lobbying and advertising expenses (AS 42.05.381). The legislation should make clear whether the contemplated exemption extends to every section of the Commission's existing statute.

The third major difference is that HB356 includes a completely new provision which provides that both the wholesale power agreement and related contracts may include rate covenants and such covenants are valid and enforceable. The Commission understands the term "covenant" to mean that utilities can "promise" the APA and each other, by contract, that they will establish rates at a specified level in order to make payments to the APA or other utilities. Because such a covenant is "valid and enforceable," the Commission assumes that it would be required to set rates sufficient to allow the utility to meet all expenses, even those imprudently incurred or unreasonable in amount; in other words, the Commission interprets "covenant" to mean that it could not disallow expenses or investment for any reason whatsoever, if it would cause a breach of the rate covenant.

The fourth major difference is that SB22 included a provision that the APA is not a public utility under AS 42.05. That provision is not included in HB356. The effect of the exclusion is that wholesale power contracts between the APA and other public utilities, other than those specifically exempted by HB356, will remain under the jurisdiction of the Commission.

HOUSE BILL NO. 356(APUC)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT,] and any subsequent amendments <u>thereto</u> [TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT],

are not subject to review or approval by the commission; and

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable; and[.]

(3) the operational provisions of a related contract entered into prior to January 1, 1988, and technical or clarifying amendments thereto, which are necessary for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under an agreement described in (1) of this subsection are not subject to approval by the commission; provided, however, that the commission shall have the authority to determine the cost of and establish rates for any services provided pursuant to such a related contract.

[*SECTION 2. AS 42.05.511 IS AMENDED BY ADDING A NEW SUBSECTION TO READ:

(D) ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(C)(1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

*Section 2 [3]. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.431(c)(3).

*Section 3 [4]. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

*Section 4 [5]. This Act is retroactive to November 1, 1987.

*Section 5 [6]. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT	DIVISION	BILL NUMBER	SPONSOR
Commerce and Economic Development	Alaska Power Authority	HB 356	H RULES/BY REQUEST OF GOVERNOR

SHORT TITLE OF BILL

"An Act relating to the authority of the Alaska Public Utilities Commission...."

DEPARTMENT POSITION

Do Pass

PREPARED BY	DATE	COMMISSIONER'S SIGNATURE	DATE
Robert E. LeResche	1/25/88		1/25/88

SUMMARY

OTHER AGENCIES AFFECTED BY BILL	CONSTITUENT GROUP(S) AFFECTED BY BILL
Alaska Public Utilities Commission	
ORGANIZATIONAL SUPPORT FOR BILL	**ORGANIZATIONAL OPPOSITION TO BILL**

FISCAL IMPACT: ☐ NONE ☒ FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

As a result of a 1986 amendment to APUC legislation, the APUC was provided with new regulatory authority to review and approve wholesale power agreements between utilities. The effect on the Alaska Power Authority has been demonstrated with those agreements and related contracts associated with the Bradley Lake project. The project has been unable to move forward because of the regulatory change adopted through the 1986 amendment. The intent of this bill is to provide the necessary exemption language to allow for construc-

ANALYSIS OF BILL/PROGRAM EFFECTS

The amendments in Sections 1-3 (as described below) will provide the necessary APUC regulatory exemption for wholesale power agreements and related contracts associated with the Bradley Lake project. This amendment serves to clearly exempt these specific contracts without removing APUC's jurisdiction over all other power sales agreements between the Power Authority and utilities on future Power Authority power projects. These amendments provide the statutory exemption language necessary to allow for the Bradley Lake Hydroelectric project to proceed as planned, although now on a revised construction SCHEDULE (see attached). Proposed amendments in Sections 1-3 provide the necessary statutory authority to insure that long-term financing of the project is possible.

The amendment in Section 4 will not provide substantive change to the Power Cost Equalization (PCE) program. The amendment will provide necessary statutory clarification which will assist in maintaining the current PCE level of a local utility supplying power to a U.S. Department of Defense facility without increasing the cost of power to the residen-

AMENDMENTS PROPOSED

The proposed amendments in Sections 1-3 of the above referenced bill AS 42.05.431, AS 42.05.511 and AS 44.83.090(b) respectively. Amendments to AS 42.05.431 and AS 42.05.511 will provide statutory authority to allow the Power Authority to contract with utilities to guarantee that the utilities will charge sufficient rates to cover the Power Authority's bond obligations on the Bradley Lake Hydroelectric project. These amendments also serve to expand the scope of the Bradley Lake project regulatory exemption to include secondary contracts that are associated with the project. Although not specifically named in the bill, these related contacts include and agreement for Wheeling and

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

1491/816(1)

BACKGROUND/LEGISLATIVE INTENT (Continued):

tion of the Bradley Lake project to commence this year (See attached sheet on 988 Construction Schedule).

Section 4 of this legislation provides the necessary statutory change which will serve to clarify that APUC may not include the kilowatt-hour sales to a U.S. Department of Defense facility when determining if a utility is eligible for PCE program benefits. This amendment will resolve a pending question regarding Naknek Electric Association's sale of power to King Salmon Air Force Base. The same potential question exists with the City of Galena and their future sale of power to the Galena Air Force Base.

ANALYSIS OF BILL/PROGRAM EFFECTS (Continued):

tial customers of the utility. This amendment provides compliance to the Federal SWAP Act of 1980 which allows for a U.S. Department of Defense facility to purchase power from a local utility, with the purchase resulting in a cost savings to the local utility without increasing costs to other consumers of power.

AMENDMENTS PROPOSED (Continued):

related services between Bradley Lake power purchasers and Chugach Electric Association, Inc., and an agreement for the sharing of transmission facilities between Bradley Lake power purchasers and Homer Electric Association, Inc.

The proposed amendment to AS 44.83.090(b) clarifies the existing statutory authority of the APUC to exempt from APUC review and approval only those wholesale power agreements and contracts described in AS 42.05.431(c)(1). (The Bradley Lake Hydroelectric project agreements and contracts).

Section 4 amends AS 44.83.162 and stipulates that APUC may not consider validated costs or kilowatt hour sales to a U.S. Department of Defense facility when determining if a utility is eligible for Power Cost Equalization (PCE) program benefits. This provision will prohibit PCE calculated from including rates paid on military bases utilizing power generated and sold by a local utility.

HB356

HELLER, EHRMAN, WHITE & McAULIFFE
ATTORNEYS
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

333 BUSH STREET
SAN FRANCISCO, CALIFORNIA 94104-2878
TELECOPIER (415) 772-6268
TELEPHONE (415) 772-6000

4100 FIRST INTERSTATE CENTER • 999 THIRD AVENUE
SEATTLE, WASHINGTON 98104-4011
TELEPHONE (206) 447-0800 • TELECOPIER (206) 447-0849

525 UNIVERSITY AVENUE
PALO ALTO, CALIFORNIA 94301-1908
TELECOPIER (415) 324-0638
TELEPHONE (415) 326-7600

ERIC REDMAN, P.E.
PARTNER

1500 S.W. FIFTH AVENUE
PORTLAND, OREGON 97201-5696
TELECOPIER (503) 241-0850
TELEPHONE (503) 227-7400

M E M O R A N D U M

TO: Rep. John Sund

FROM: Eric Redman, of lawyers for Chugach Electric Association, Inc.

DATE: January 27, 1988

SUBJECT: Services Agreement For Bradley Lake Energy

This memorandum is to confirm formally a point made by Commissioner Susan Knowles of the Alaska Public Utilities Commission ("APUC") and by me in our respective oral testimony before your Committee during hearings today on HB 356.

The wheeling rate for Bradley Lake Energy under the above-captioned Agreement is required, by the Agreement, to be determined in accordance with Appendix A of the Agreement in the context of Chugach "rate adjustment proceedings." Appendix A contains a formula for computing the wheeling rate, using specified Chugach costs, specified quantities of energy, and a constant. By design, the specified costs are those which the APUC must review and approve (or disapprove) in any event in the course of Chugach's periodic rate adjustment proceedings. Similarly, the quantities of energy used in the formula can or must be determined in such proceedirgs in order to review and approve (or disapprove) Chugaoh's rates generally, not just Chugaoh's wheeling rate for Bradley Lake Energy.

Thus, as Appendix A should have made clear, the parties recognize and intend that that the costs and the quantities of energy used to establish the wheeling rate under Appendix A--as distinct from the formula itself and the constant used in that formula--would continue to be subject to APUC review in Chugach's rate proceedings, as they are today, regardless of HB 356's enactment.

The reason Appendix A does not specifically mention the APUC is simply that the parties wished to avoid a potential future dispute about whether Appendix A would continue to bind the parties in the (possible but unforeseen) event that APUC ceases to review and approve (or disapprove) Chugach's rates at some point during the 50 year life of the Agreement. The intent of the parties was that Appendix A should remain binding even in that event.

I hope this formal clarification will be of assistance to you.

DW.1/198801

Homer Electric Association, Inc.

CENTRAL OFFICE: 3977 LAKE STREET • HOMER, ALASKA 99603 • (907) 235-8167

February 1, 1988

Rep. C. E. Swackhammer
Alaska State Legislature
P. O. Box V
Juneau, Alaska 99811

Dear Swack:

REF: HB 356

It is my understanding that HB 356 was passed out of House Judiciary Committee last Friday with some minor modifications. From the information I have been able to obtain Homer Electric supports HB 356 as amended by the Judiciary Committee, and we hope that the Finance Committee will approve it and pass it on.

I am sending a copy of this letter to John Sund to thank him and the rest of the Judiciary Committee members for their support and efforts to make HB 356 a workable Bill.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

B. Kent Wick
General Manager

BKW:em

cc: John Sund

STATE OF ALASKA

RECEIVED 2/2/88

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

☑ *1031 W 4th AVENUE*
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ *1st NATIONAL CENTER*
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

☐ *P.O. BOX K—STATE CAPITOL*
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

January 29, 1988

Chairman John Sund
House Judiciary Committee
Alaska State Legislature
House of Representatives
P.O. Box 4
Juneau, Alaska 99811

Re: Bradley Lake Power Sales Agreement
-- Excess Payments

Dear Chairman Sund,

Robert LeResche, Executive Director of the Alaska Power Authority ("the Authority"), has relayed your request for an opinion on the meaning of section 29 of the Bradley Lake Power Sales Agreement "the Agreement").

The Bradley Lake project is a hydroelectric project within the energy program for Alaska. Sec. 20, ch. 133 SLA 1982. Money received by the Authority for the sale of power from projects constructed under the energy program for Alaska must be transmitted to the commissioner of revenue for deposit in the state general fund unless the money has been pledged to secure bonds. AS 44.83.398(c).

Section 29 of the Agreement provides that the power purchasers of the Bradley Lake hydroelectric project will make payments in excess of actual debt service once the construction bonds have been retired. These "excess" payments will be made to the Alaska Power Authority for deposit into the Railbelt Energy Fund.

As you already know, the Railbelt Energy Fund is a special fund treated as an account in the general fund. AS 37.05.153. The fund is managed by the Department of Revenue. Interest received on money in the fund may be appropriated into the fund annually. Id. AS 37.05.153 specifically provides that "the legislature may appropriate money from the fund to assist in meeting Railbelt energy needs." Id.

Notwithstanding any agreement entered into between a state agency and a second party, only the Legislature may withdraw money from the state treasury. AK Const. art. IX, sec. 13. Thus only the legislature may appropriate money from the Railbelt Energy Fund. Nor can we expect that the Railbelt Energy Fund

will exist in perpetuity. With certain exceptions not applicable to this discussion, the Alaska Constitution prohibits the dedication of public revenues. AK Const. art. IX, sec. 7. In this case, a legislature meeting in the year 2038 may appropriate money from the Railbelt Energy Fund for expenditure on a public purpose other than Railbelt energy.

It is my opinion that section 29 of the Agreement would still be enforceable if the legislature withdrew from the Railbelt Energy Fund moneys deposited there under the provisions of the Agreement. I attended all the negotiation sessions leading up to the Agreement. I personally advised all the participants that neither the Legislature nor the Authority could dedicate these excess payments for Railbelt energy needs. Nor could the Authority make any promises for the Legislature.

The utilities were quite conversant with the dedicated funds prohibition of the Alaska Constitution. They wished, however, to express in section 29 their very strong sentiments in favor of having the excess payments used for future Railbelt energy needs and in favor of a Kenai-Fairbanks intertie. All the negotiators interpreted section 29 as a statement of intent and not as a contract condition on which the excess payments were contingent. In fact, the contract specifically provides that "[t]he Purchasers' obligations to make payment under this Section 29 are not contingent upon the success of ... continued efforts to obtain a satisfactory intertie between Fairbanks and the Kenai Peninsula.

In summary, should moneys earned under this Agreement be deposited in the Railbelt Energy Fund, the Legislature may appropriate the moneys for Railbelt energy needs or as the Legislature deems appropriate. The Purchasers' obligation to make excess payments under the Agreement is not contingent upon dedication of these excess payments to expenditures on Railbelt energy needs.

Please call me if I can be of further assistance.

Very truly yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By: Carolyn E. Jones
Carolyn E. Jones
Assistant Attorney General

cc: Robert E. LeResche

February 4, 1988

Representative Albert Adams
Chairman, House Finance Committee

Dear Chairman Adams and House Finance Committee:

The Alaska Consumer Advocacy Program (ACAP), a utility consumer advocacy group, objects to the passage of House Bill NO. 356 in its current format because it removes the consumers' check (the Alaska Public Utilities Commission) from the rate making and determination process.

However, ACAP believes that the amendments to H.B. 356 proposed by the House Judiciary Committee are in the consumers' best interest and if clarified, would ease some of the ratepayers' concern in regard to this bill.

The following comment pertains to Section 2 (d), page 1.

ACAP believes the House Judiciary Committee's intent in inserting the phrase "validated costs, except those disallowed under AS 42.05.361(a)", and the subsequent deletion of the phrase "without limitation, power and other costs incurred under such an agreement or contract", was to permit only validated costs to be included in the rates charged by utilities for Bradley Lake power. A semantics change would help ensure this goal. ACAP offers to this committee the following language changes, beginning on page 1, line 29, (d): Only validated costs, except those disallowed under .... , and on page 2, line 2, described in AS 42.05.431(c)(1), shall be allowed ...

A second point of concern to consumers is the language relating to the time period for which the APUC is excluded from the rate making process. ACAP views the current language as vague. It can be inferred that any long term debt which is acquired will, over its retirement period, prevent the APUC from reviewing or approving the wholesale agreement or contracts. ACAP believes the intent of this amendment was to put a cap on the length of time in which the APUC was to be excluded. This cap was to be in effect only up to the time when the debt service for the construction and financing of the dam as it is currently contracted for and taking into account any refinancing schemes, was retired. ACAP urges the House Finance Committee to amend this language in such a manner that the time period for APUC exclusion includes only the time frame required to retire the debt service of initial costs as described above.

ACAP thanks Chairman Adams and the House Finance Committee for the opportunity to provide the consumers' perspective in these discussions and it urges them to include these comments. ACAP's objective is to keep oversight over a project which has the potential to create a large adverse impact on consumers' electric rates.

Sincerely,

John Hines

John D. Hines
Staff Economist
Alaska Consumer Advocacy Program

Alaska Consumer Advocacy Program

513 West Seventh Avenue • P.O. Box 103111 • Anchorage, Alaska 99510 • (907) 272-6355 or 278-3663

JAN 29 1988

FOR IMMEDIATE RELEASE January 20, 1988

UTILITY CONSUMER GROUP
OBJECTS TO BILL TAKING APUC
OFF BRADLEY LAKE PROJECT

The Alaska Consumer Advocacy Program (ACAP) today released a letter of objection sent to Governor Steve Cowper, Neil Davis - Chairman of the APA and the House Judiciary Committee regarding the introduction of House Bill NO. 356. The bill, whose prime sponsor is Governor Cowper, would remove review and approval authority by the Alaska Public Utilities Commission over the wholesale power agreements between the Alaska Power Authority and the Railbelt utilities relating to Bradley Lake and also over any future APA projects.

ACAP, a statewide consumer advocacy group objects to this bill because it removes a check and balance on the consumer's right to least cost electricity.

cc: Governor Steve Cowper
Representative John Sund Chairman, House Judiciary Committee
Dr. Neil Davis Chairman, Alaska Power Authority Board

January 20, 1988

Representative John Sund
Chairman, House Judiciary Committee

Dear Chairman Sund and House Judiciary Committee:

The Alaska Consumer Advisory Program (ACAP), a utility consumer advocacy group, objects to House Bill No. 356, introduced at the request of Governor Cowper, because it will adversely affect the rights of consumers in the Railbelt to have electricity costs accurately reflected in their electric bills. This bill exempts all costs pertaining to wholesale power contracts between the Bradley Lake Hydroelectric Project and the Alaska Power Authority plus any future APA projects from either review or approval by the Alaska Public Utilities Commission. This bill goes far beyond the original stated intent of the legislation. From the consumers' perspective, exempting all projects in which the APA is involved from APUC review, including those projects which interrelate with public utilities, is setting a reckless precedence.

In the recent State BUDGET ADDRESS, Governor Cowper referred to his administration's and legislators' efforts to exempt Bradley Lake from the APUC's review process as a removal of "unnecessary government review". ACAP argues that this review process is a key ingredient to ensuring that consumers receive the least-cost electricity possible.

ACAP points out that there are three types of studies which are associated with projects such as Bradley Lake. The first type of study determines whether the project is feasible from an engineering perspective. The second type determines the financial/economic viability of the project. The third type of study evaluates the costs of the project and determines the effect on consumers' utility bills - it analyzes whether they are fair and just. Each of these studies employs distinct types of analysis and measures different outcomes.

The feasibility and financial/economic analyses have been completed and reviewed by the proper agencies. The analysis of the impact on consumers' utility bills (to be completed by all participating utilities) and the terms of the wholesale power contracts (signed only two months ago) have not had any impartial expert evaluation or review. H.B. No. 356 will deny this review process. This review process is currently mandated by Alaska Statutes and the task is completed by the APUC. The APUC's duties include ensuring that all regulated utilities' rates, either demanded or received shall be fair, just and reasonable and based on actual, reasonable costs.

ACAP believes that this legislation bypasses the consumer's only meaningful check on his/her electric bills. For example, if H.B. No. 356 is passed, the Bradley Lake contracts stipulate that

each participating utility shall be able to charge rates sufficient to meet their debt service and all other costs or expense obligations deemed applicable, including any subsequent amendments over the 50 year life of the contracts, without any review or approval by the APUC. ACAP is concerned that without proper oversight, a tendency to insert excessive or improper costs into this "inviolable" project may develop among utilities.

Current ACAP estimates for Municipal Light and Power's and Chugach Electric Association's levelized Bradley Lake cost obligations is $5 million and 5.9 million per year, respectively, for a fifty year time period. ACAP believes that it is in both the consumers' and governments' best interest to keep the APUC in the review process, especially when dealing with a $350 million project. A "No" vote on H.B. 356 does not curtail Bradley Lake. It only allows this project to be impartially reviewed just like any other power source while keeping the APA within the review process.

Sincerely,

John Hines

John D. Hines
Staff Economist
Alaska Consumer Advocacy Program

RESOLUTION NO. 87-19

A RESOLUTION of the Project Management Committee ("PMC") providing for the adoption of an open meetings policy.

WHEREAS, the members of the PMC desire to conduct their business in public; and

WHEREAS, the six parties to the Agreement establishing the PMC all routinely conduct business in open meetings; and

WHEREAS, while the PMC may not be a governmental unit, neither is it entirely a "private" entity, as that term is commonly used; and

WHEREAS, Alaska public policy favors openness and public access; and

WHEREAS, opening meetings to the public may have a positive substantive impact on the deliberations of the PMC by insuring that important decisions are made with adequate information; and

WHEREAS, public exposure may deter misconduct, discourage hasty decision-making, and enhance consumer acceptance of PMC actions; and

WHEREAS, Section 7(d) of the Agreement empowers the PMC to enact procedural rules.

NOW, THEREFORE, BE IT RESOLVED by the PMC as follows:

Section 1.

All formal meetings of the Committee and its subcommittees shall be open to the public except as otherwise provided in these bylaws. Except when voice votes are authorized, all votes shall be conducted in such a manner that the public may know the vote of each person entitled to vote.

Section 2.

If excepted subjects are to be discussed at a meeting, the meeting shall first be convened as a regular or special meeting and the question of holding an executive session to discuss matters that come within the exceptions contained in Section 3 of this rule shall be determined by a majority vote of the Committee. No subjects may be considered at the executive session except those mentioned in the motion calling for the executive session unless auxiliary to the main question. Formal action may not be taken during the executive session. Only members of the Committee and designated alternates, attorneys for members of the Committee and members of the Technical Standards Committee may attend an executive session, unless the motion calling for the executive session specifies other persons who are to present information to the Committee.

Section 3.

The following excepted subjects may be discussed in an executive session:

(A) Matters the immediate knowledge of which would clearly have an adverse effect upon the finances of the Committee, the Initial Project, or any of the individual parties represented on the Committee;

(B) Subjects that tend to prejudice the reputation and character of any person, provided the person may request a public discussion;

(C) Matters which by law are required to be confidential;

(D) Matters discussed with an attorney retained by the Committee members, or with a consultant retained by such attorney, the immediate knowledge of which could have an adverse effect on the legal position of the Committee, the Initial Project, or any of the parties represented on the Committee.

Section 4.

Reasonable notice shall be given for all regular or special meetings of the Committee.

Section 5.

Sections 1, 2, 3 and 4 shall not apply to:

(A) Meetings at which a quorum is not present;

(B) Informal discussions, by telephone or otherwise, among members of the Committee, at which votes are not taken and official business is not conducted;

(C) Meetings and discussions, formal or informal, of Committee members in which all participants indicate they are acting individually as representatives of the parties to the Agreement and not as the assembled Committee, and at which no Committee business is conducted and no votes are taken.

DATED this 19 day of August, 1987.

PROJECT MANAGEMENT COMMITTEE

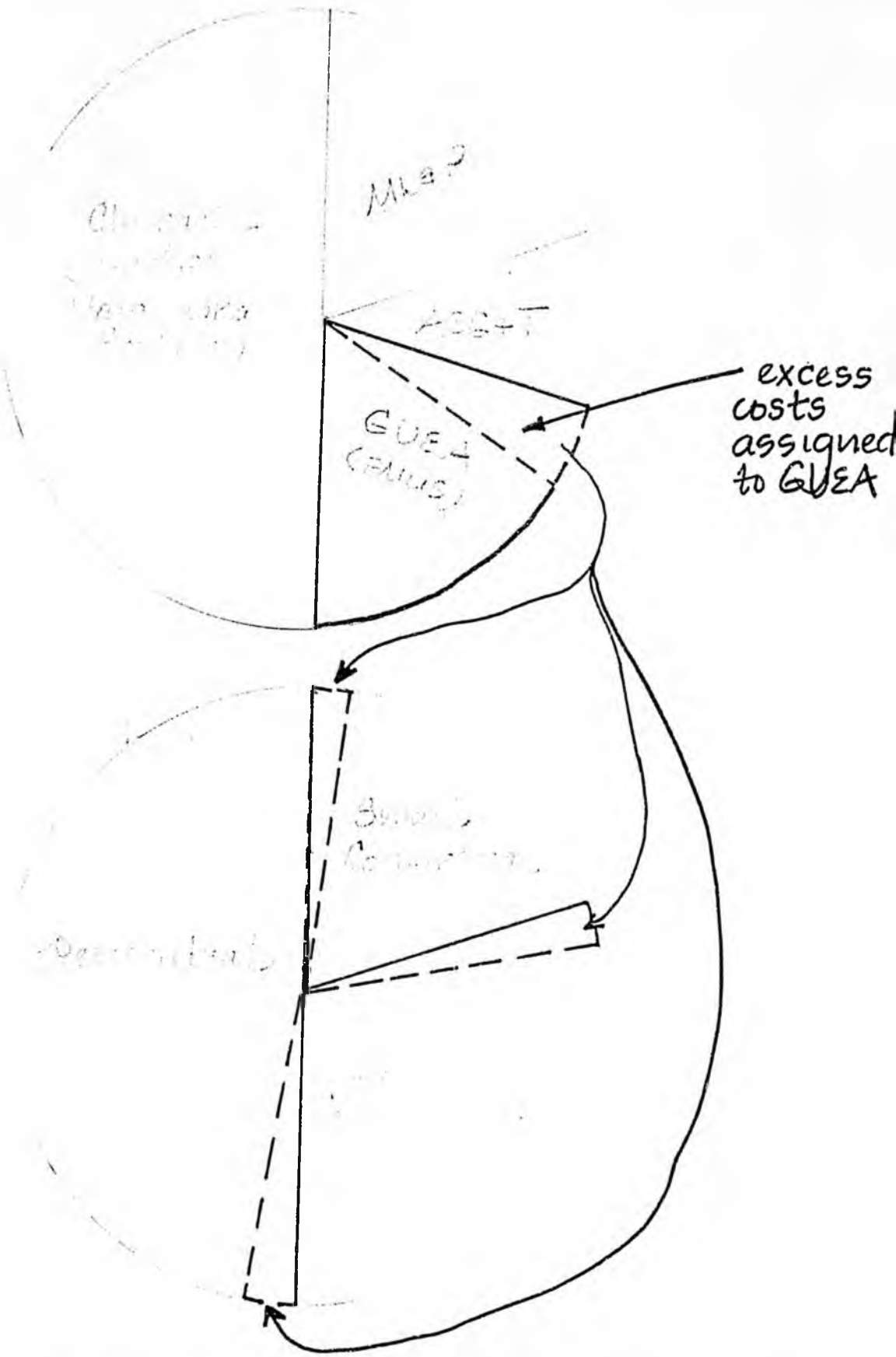
By: Richard A. Faulkner
Chairman

ATTEST:

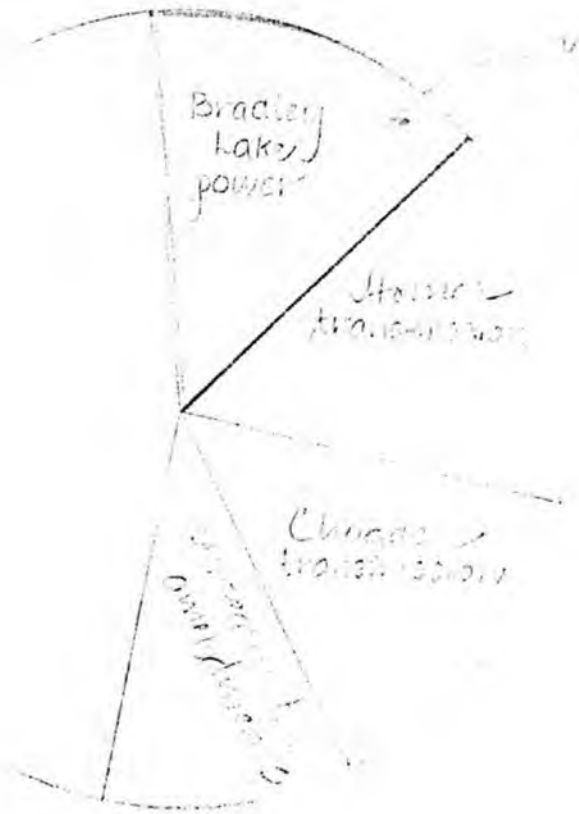
By: David L. Lewis
Secretary

APPROVED AT PROJECT MANAGEMENT COMMITTEE MEETING
HELD JULY 29-30, 1987.

Rates = who pays what to cover the utility's costs

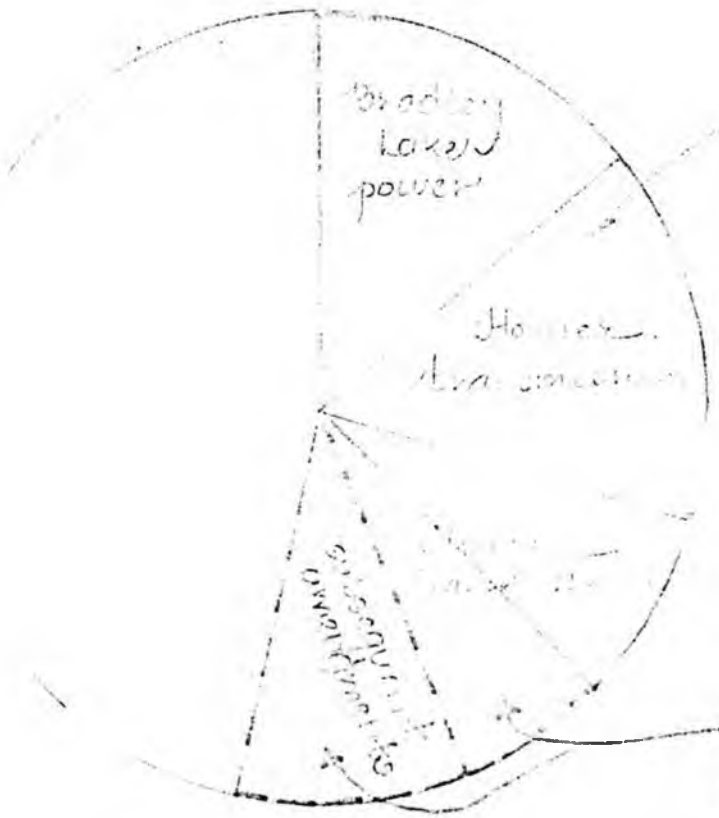


costs = the total dollars a utility is allowed to recover through rates



with exemption of wholesale power agreements

no APUC oversight of costs



with exemption of all wholesale power agreements

no APUC oversight of costs

APPENDIX A

Computation Of Wheeling Rates

Rates for wheeling services provided under Section 4 of this Agreement are intended to be computed on a fully allocated cost basis and to apply to all Wheeling Utilities in a "postage stamp" manner, in accordance with the following principles:

1. Basic Wheeling Rate.

(a) Formula. The basic wheeling rate shall be computed in each Chugach rate adjustment proceeding in accordance with the following formula, using actual values for each variable as determined for the ratemaking test year applicable to that rate adjustment proceeding:

$$R = \frac{A + B + C + D + E}{F} \times K$$

Where:

R = The basic wheeling rate to be charged during the rate period;

A = Chugach O & M expense allocated to transmission (currently REA Accounts 556 through 573), less such O & M expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

B = Chugach A & G expense allocated to transmission (currently REA Accounts 920 through 932), less such A & G expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

C = Chugach taxes allocated to transmission (currently REA Account 408), less such taxes properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

D = Chugach depreciation allocated to transmission (currently REA Account 403), less such depreciation properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

E = Chugach interest expense and generation-and-transmission TIER (or other applicable generation and transmission margin requirement) allocated to transmission, less interest expense and generation and transmission TIER properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

F = The sum in kilowatthours of (i) Chugach's total generation (exclusive of generation for economy sales) plus purchases, and (ii) the Bradley Lake Energy of the Wheeling Utilities;

and

K = The applicable phase-in factor or constant as set forth below in Provision 2 of this Appendix A.

(b) Notes on specific variables.

(i) The Point MacKenzie Substation is not part of Chugach's Beluga to Point MacKenzie transmission segment, and the costs of that Substation shall not be excluded in determining the values for those variables from which the costs of that segment are excluded.

(ii) Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment are not (and at this time cannot be) specifically identified and isolated from Chugach's total transmission O & M expense and A & G expense. Therefore, in computing "A" and "B" in the foregoing formula, reasonable estimates of Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment shall be used. Such estimates may be based on reasonable proxy variables, such as the percentage of total recorded annual hours of transmission O & M labor represented by recorded annual hours of transmission O & M labor on Chugach's Beluga to Point MacKenzie transmission segment.

(iii) As provided in Section 13(cc) of this Agreement, neither HEA nor AEG&T on behalf of HEA is a Wheeling Utility for purposes of this Agreement (except, potentially, as a successor or assignee of another Wheeling Utility's Bradley Lake Energy). Thus, "F" in the formula set forth above shall not include or be increased by any Bradley Lake Energy of HEA or AEG&T on behalf of HEA, even if such Energy is wheeled by Chugach pursuant to Section 8(f) of this Agreement at wheeling rates established under this Exhibit A.

2. Phase-In Factor (Years 1-15) And Constant (Later Years).

Beginning with the calendar year in which the Project achieves Commercial Operation, and in each of the next fourteen calendar years (Calendar Years 1 through 15 in the table below), the applicable wheeling rate shall be determined by multiplying the then-applicable base wheeling rate (as computed above) times a phase-in factor in accordance with the following table:

Calendar Year	Phase-In Factor
1	.3333
2	.3333
3	.3333
4	.3805
5	.4278
6	.4750
7	.5222
8	.5694
9	.6167
10	.6639
11	.7111
12	.7583
13	.8056
14	.8528
15	.9000

Beginning on the first day of the next calendar year after Calendar Year 15, and in all succeeding calendar years, the base wheeling rate (as computed under heading 1 above) shall be multiplied by 0.9000 as a constant. Any increase in the applicable wheeling rate resulting from an increase in the phase-in factor in accordance with the table above shall become effective without the need for any regulatory approval other than approval of this Agreement.

Alaska State Legislature
Senate

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

January 27, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear President Faiks:

Chapter 30, SLA 86 (HCS CSSB 468 Loans) creating the Railbelt Energy Council mandates that the Council report its recommendations to the Legislature by February 15, 1987.

This enclosed report was unanimously adopted at a meeting held January 24, 1987, at which all members of the Council were present.

Respectfully submitted,

Senator Jan Faiks,
Chairman, Railbelt Energy Council

JF:KSD:lal

REPORT OF THE

RAILBELT ENERGY COUNCIL

TO THE

FIFTHTEENTH ALASKA STATE LEGISLATURE

FIRST SESSION

January 24, 1987

RAILBELT ENERGY COUNCIL MEMBERSHIP

LEGISLATIVE MEMBERS

Senator Jan Faiks (Chairman, REC), Anchorage

Senator Jack Coghill, Nenana

Representative Sam Cotten, Eagle River

Representative Steve Frank, Fairbanks

GOVERNOR'S APPOINTEES

Mano Frey, Executive President, Alaska State AFL&CIO

Steven Lewis, President, PETROSTAR

UTILITIES' MEMBERS

RON GARZINI, City Manager,
Seward Electric System

VIRGIL GILLESPIE, General Manager,
Fairbanks Municipal Utilities System

MIKE KELLY, General Manager,
Golden Valley Electric Association

RICK NEWLAND, General Manager,
Chugach Electric Association

JAMES PALIN, General Manager,
Matanuska Electric Association

TOM STAHR, General Manager,
Anchorage Municipal Light & Power

KENT WICK, General Manager,
Homer Electric Association Utilities
(Vice-Chairman, REC)

TABLE OF CONTENTS

EXECUTIVE SUMMARY

In 1986, the Alaska Legislature created the Railbelt Energy Council (REC) and charged it with addressing five areas of concern dealing with the Railbelt energy needs (Ch 30, SLA 1986). The Council membership consists of two members appointed by the Governor; two senators appointed by the President of the Senate; two members of the House of Representatives appointed by the Speaker of the House; and one representative from each of the seven interconnected Railbelt utilities. The Council was to report its recommendations to the Legislature by February 15, 1987.

The Council addressed the organizational and financial aspects as well as reviewed various alternatives for meeting the future energy needs of the Railbelt. The Council was unable to conduct the review of the alternatives in as great a detail as originally anticipated because of a freeze placed on the $2.5 million appropriation to the Alaska Power Authority (APA) for that specific purpose. Despite these difficulties further exacerbated by the declining oil prices and state revenues, the Council has addressed the major issues and unanimously approved its findings and recommendations. They are summarized below.

FINDINGS:

1. DECREASING OIL PRICES AND STATE REVENUES ARE CAUSING SIGNIFICANT CHANGES IN THE FORECASTED RAILBELT ENERGY REQUIREMENTS FOR THE NEXT SEVERAL YEARS. THE IMPACT OF THESE DEVELOPMENTS ON LONG-TERM GROWTH IS UNCLEAR.

2. DUE TO BUDGETARY LIMITATIONS, STATE PARTICIPATION IN FUTURE ENERGY PROJECTS WILL BECOME MORE CONSTRAINED.
3. INCREASING THE UTILIZATION AND EFFICIENCY OF THE EXISTING RAILBELT GENERATION AND TRANSMISSION RESOURCES REPRESENTS THE BEST SOLUTION IN THE NEAR TERM.
4. IMPROVING COOPERATION AND COORDINATION AMONG RAILBELT UTILITIES WILL INCREASE THE RELIABILITY AND COST EFFECTIVENESS OF THE REGION'S ELECTRIC SYSTEM.
5. THE LEGISLATURE ESTABLISHED THE RAILBELT ENERGY FUND FOR THE SOLE PURPOSE OF FINANCING ENERGY PROJECTS IN THE RAILBELT REGION.

MAJOR RECOMMENDATIONS:

1. CREATION OF A REGIONAL GENERATION AND TRANSMISSION TYPE UTILITY ORGANIZATION IS IN THE BEST INTEREST OF THE RAILBELT CONSUMERS AND SHOULD CONTINUE TO BE SUPPORTED BY ALL CONCERNED.
2. THE ALASKA POWER AUTHORITY SHOULD CONTINUE TO PERFORM ITS RAILBELT FUNCTIONS UNTIL THE LEGISLATURE AND ADMINISTRATION COMPLETE THEIR REVIEW AND DETERMINE THE APA'S FUTURE ROLE AND STRUCTURE.
3. THE COUNCIL RECOMMENDS THAT THE UTILITIES SHOULD HAVE REPRESENTATION ON THE ALASKA POWER AUTHORITY BOARD OF DIRECTORS.
4. CONSTRUCTION OF THE BRADLEY LAKE HYDROELECTRIC PROJECT SHOULD CONTINUE IN ACCORDANCE WITH A PLAN OF FINANCE AND POWER SALE AGREEMENTS PREVIOUSLY APPROVED OR AS MAY BE MODIFIED BETWEEN APA AND THE RAILBELT UTILITIES. ALL RAILBELT UTILITIES SHOULD BE GIVEN AN OPPORTUNITY TO PARTICIPATE IN THE BRADLEY LAKE PROJECT.

5. A PORTION OF THE RAILBELT ENERGY FUND SHOULD BE APPROPRIATED FOR THE COMPLETION OF THE ANCHORAGE-KENAI PENINSULA AND ANCHORAGE-FAIRBANKS INTERTIES IN CONJUNCTION WITH THE COMPLETION OF THE BRADLEY LAKE PROJECT.

6. THE BURDEN OF PROOF FOR DEMONSTRATING A COMPELLING NEED FOR ANY ADDITIONAL ENERGY PROJECT BEYOND BRADLEY LAKE AND THE RAILBELT INTERTIES, FOR WHICH STATE FINANCIAL ASSISTANCE IS BEING SOUGHT, IS ON THE PROJECT SPONSOR(S) AND SHOULD INCLUDE A CREDIBLE PLAN OF FINANCE AS WELL AS PUBLIC POLICY CONSIDERATIONS JUSTIFYING THE STATE ASSISTANCE.

7. AN ENERGY PROJECT REVOLVING FUND SHOULD BE ESTABLISHED, UTILIZING ANY MONIES REMAINING IN THE RAILBELT ENERGY FUND. A METHOD TO REPLENISH THE FUND SHOULD BE DEVELOPED WITH AFFORDABILITY TO THE RATEPAYER AS THE KEY TO ANY SUCH REPAYMENT PLAN.

INTRODUCTION

The Railbelt Energy Council was created by the Alaska Legislature (Chapter 30, SLA 1986) during the 1986 Legislative session. The Council was created in response to requests from the Railbelt utilities and other interested parties concerned that with the demise of the Susitna River Hydroelectric Project (Watana and Devil Canyon dams) early in 1986, the Railbelt's energy needs would not be met. The terms of financing for the Susitna project were found to be unacceptable due to its large capital cost and decreasing State revenues, although the project still appears economically feasible over the long run.

The demise of the two-dam Susitna project left the Railbelt Energy Program in question and with the problem of how best to utilize some $280 million designated as part of the state's equity in that project.

Another issue that had to be addressed dealt with the perception that the cooperation and coordination among the Alaska Power Authority and the seven interconnected Railbelt utilities was not as effective as deemed necessary for formulating the most efficient solutions to Railbelt energy needs.

In general then, the Council was created to address the organizational, generation, transmission and financial issues as they related to the Railbelt energy problems. The statutorily specified issues are addressed later in this report. Pending completion of the Council's

work, the Legislature placed all of the remaining Susitna Project funds into the Railbelt Energy Fund (REF) (Chapter 29 & 41, SLA 1986) while retaining the sole authority for making appropriations from it. Further, as a way of assisting the Council, the Legislature appropriated $2.5 million from REF to the APA for conducting a review and evaluation of Railbelt electric power alternatives (Chapter 42, SLA 1986).

While the Council has addressed the five areas mandated by statute, the report is not as comprehensive as desired largely because of two unplanned events. First, the previous Administration froze most of the $2.5 million appropriation to the APA that was to be used to review and evaluate Railbelt electric power alternatives. Second, the decline of economic growth has substantially delayed the need for future generation facilities in the Railbelt.

Despite these obstacles, the Council has been able to forge unified positions on a number of major issues dealing with the Railbelt energy problems. The Council feels that implementation of its recommendations will go a long way toward assuring Railbelt consumers--who represent three fourths of the State's population--of more reliable and low cost electrical energy. Further, utilization of the REF for energy projects in the Railbelt will restore some of the regional equity originally envisioned under the Energy Program for Alaska.

The Findings and Recommendations of this report are keyed to the five specific reporting requirements of the statute (Ch. 30, Sec 2, SLA 1986). Each of the five parts under Findings & Recommendations is headed with one of the statute requirements, which is underlined for easier identification.

FINDINGS & RECOMMENDATIONS

1. Recommend the best option for planning, financing, constructing, and managing electric power facilities in the Railbelt area.

   A. Planning. The Railbelt Energy Council finds that a well coordinated planning effort among those responsible for supplying the service is absolutely essential to assure that the Railbelt customers will have the most reliable, efficient and economic electric supply system. While there are many interested parties that have much valuable input to offer to the planning process, THE FACT REMAINS THAT THE RESPONSIBILITY FOR SUCH PLANNING REMAINS WITH THE RAILBELT UTILITIES AND THE ALASKA POWER AUTHORITY. The Council should not be expected to become a substitute for such a planning entity.

   THE COUNCIL BELIEVES THERE MUST EXIST A FORMAL ORGANIZATION of all interconnected Railbelt utilities. The creation of such a regional utility organization should continue to be supported by the responsible agencies, the Legislature and the Administration as being in the best interest of the Railbelt consumers.

While the Council recognizes that in the long-term the optimal solution would be a regional generation and transmission (G&T) utility organization, it is also aware that technical and political considerations may preclude such a solution in the short-term. Therefore, as an interim solution the Council recommends that:

1. The Railbelt utilities and APA work diligentiy toward establishing a regional organization as soon as possible.

2. Pending any change in its role and/or structure, the APA should continue to administer and perform its existing programs and functions relative to the Bradley Lake and the Railbelt interties projects.

3. The APA Board of Directors be immediately reorganized to include direct utility representation.

The Council recommends that the role of APA be re-evaluated. Two issues that should be taken into consideration in this review are the pending formation of a regional G&T utility and a significantly smaller state budget. Such a review by the Legislature and the Administration should begin during the 1987 session and provide for the Railbelt utility input.

B. Financing. The Council finds that it is not appropriate to recommend financing options without first having a specific project proposal. In general terms, the Council believes that each project will have some unique aspect and the optimal financing plan will have to be custom tailored after specific economic feasibility and all relevant financial factors have been identified and public policy aspects considered. The Council recognizes that new State capital project funds will most likely remain scarce in the immediate future.

Therefore, THE COUNCIL RECOMMENDS THAT THE LEGISLATURE CONSIDER THE FINANCING OPTIONS FOR EACH NEW PROJECT SEPARATELY AND ENSURE OPTIMAL USE OF THE STATE AND PRIVATE EQUITY FUNDS.

Specifically, THE COUNCIL RECOMMENDS THAT THE LEGISLATURE CONTINUE TO SUPPORT THE PREVIOUSLY APPROVED BRADLEY LAKE HYDROELECTRIC PROJECT NOW UNDER CONSTRUCTION.

The Bradley project has already been deemed economically and environmentally feasible and has received licensing approval from the Federal Energy Regulatory Commission. Construction was begun in the summer of 1986. The State of Alaska has appropriated approximately $168 million for the project, $50 million of which was frozen after the 1986 Legislative session.

The Railbelt Energy Council unanimously supports timely completion of the Bradley project and supports full additional funding of $50 million for a total appropriation of $218 million as previously approved by the Legislature and which was in effect at the time of the signing of conditional power sales agreements. Changes to the existing plan of finance should be contemplated only after a careful evaluation of the impact they would have on the existing power sale agreements, but with the recognition that all seven interconnected Railbelt utilities should have direct access to the Project through completion of the Anchorage-Fairbanks and Anchorage-Kenai Peninsula interties.

Further, THE COUNCIL RECOMMENDS THAT A PORTION OF THE RAILBELT ENERGY FUND BE USED TO COMPLETE THE ANCHORAGE TO FAIRBANKS AND ANCHORAGE TO KENAI PENINSULA INTERTIES. The Council finds that the completion of these interties will allow all of the Railbelt utilities to more equally share the benefits of the Bradley Lake project as well as provide more reliable and less costly electric service to all consumers in the region.

C. Constructing. The Council finds that the owner or owners of a power project should retain the responsibility and authority to decide how best to construct it. Unless and until its role and/or structure are changed, the APA should

retain responsibility for the completion of the Bradley Lake Project and the Interties. The APA should closely coordinate its activities with the Railbelt utilities.

If at some future date there should come into being a regional utility organization, then any projects constructed by it should be accomplished totally under that organization's control.

D. Managing. The Council finds that in general the utilities are best qualified to operate and maintain the power supply facilities and recommends that the APA policy of contracting out such operations to local utilities be continued. The Council further recommends that management decisions, which are normally the prerogative of the owner and which could impact ratepayers, be closely coordinated among the owners, operators and users.

On the issue of divestiture, the Council finds that the transfer of the federal Eklutna Hydroelectric project to local utility or utilities makes sense only if the purchase price and terms are favorable to consumers and other interested parties. Accordingly, the Council recommends that the appropriate Railbelt utilities continue to pursue the divestiture process until the sale is consumated or it becomes clear that the process will not be successful due to political and other constraints.

2. Examine all alternatives and recommend the best method for meeting projected Railbelt energy demand.

As previously mentioned, the Council was unable to thoroughly examine a wide spectrum of energy alternatives because funds for energy alternative studies were frozen. In addition, the Council finds that the dramatic decline in oil prices since the end of the 1986 Legislative Session has had a profound effect on near-term Railbelt energy forecasts. For the near future, this seems to indicate that unless there is a significant upturn in the economy, there may not be a need for major new power plant additions after the completion of the Bradley Lake and Interties projects and excluding any existing plant replacements.

Given these circumstances, THE COUNCIL FINDS THAT THE PRUDENT STRATEGY TO FOLLOW AT THIS TIME IS TO INCREASE THE UTILIZATION AND OPERATIONAL EFFICIENCY OF THE EXISTING RAILBELT GENERATION AND TRANSMISSION FACILITIES AND THOSE UNDER CONSTRUCTION. Specifically, this should include timely completion of the Bradley Project, constructing a new Anchorage-Kenai Peninsula intertie, upgrading the Anchorage-Fairbanks intertie, implementation of various conservation measures and extending the life of existing power plants.

There are many benefits of an improved transmission system. Some of these are not easily quantifiable into dollars. Examples of such benefits include improved reliability, decreased

standby generation requirements, flexibility of buying from lowest cost generation source, the increased competition due to greater access to alternative generation methods and facilitation of general economic development requirements. THEREFORE, THE COUNCIL RECOMMENDS THAT THESE PUBLIC POLICY ISSUES BE CONSIDERED AS AN IMPORTANT PART OF THE DECISION MAKING PROCESS IN ADDITION TO THE TRADITIONAL BENEFIT/COST ANALYSIS.

The Council finds that electricity has become a necessity and a prerequisite to improving the quality of life for the rural residents. While the Council recognizes that extending the electrical service to all rural residents is neither practical, nor desired by some of them, it finds that extension of such services along state routes and interties, on a priority basis, would be highly desirable. Accordingly, the Council believes that the Legislature and the Administration should adopt policies and appropriations designed to achieve that goal, thereby enhancing the economic development potential of the rural residents while concurrently improving their quality of life.

3. Recommend alternative financing plans for assisting the private sector and public utilities to meet the future energy needs of the Railbelt area.

The Council has in this report made specific recommendations covering methods of financing for Bradley Lake and the Interties. The Council recognizes that State revenues have severely declined and that no new generation, in addition to the Bradley Lake and

Interties projects may be needed in the near future. The Council generally supports construction of future power supply projects by the municipalities, utilities or the private sector.

The Council further recommends that the burden of proof for making a compelling case for State participation in any project rest with the project sponsor(s) to include demonstrating that private financing is not feasible or available and that public policy considerations warrant financial assistance by the State.

THE COUNCIL FINDS THAT THE LEGISLATURE ESTABLISHED THE RAILBELT ENERGY FUND FOR THE SOLE PURPOSE OF FINANCING ENERGY PROJECTS IN THE RAILBELT REGION. Accordingly, THE COUNCIL RECOMMENDS THAT A PLAN OF FINANCE BE DEVELOPED TO ASSURE THAT THESE FUNDS ARE USED SOLELY FOR THEIR INTENDED PURPOSE AND THAT REPLENISHMENT OF THE FUNDS BE CONSIDERED A KEY ELEMENT IN ANY SUCH PLAN.

4. Determine whether a regional generation and transmission utility organization can operate to the best interests of utility consumers.

As alluded to under Finding 1A, the Council is aware that previous studies have demonstrated that a regional power supply utility organization is in the best interest of consumers.

Currently, work is being pursued by the Railbelt utilities toward a regional generation and transmission utility organization. This includes a formal generation and transmission organization study and a possible modification of the existing Alaska Electric Generation & Transmission cooperative by-laws to accommodate further expansion.

The Council is convinced that a regional generation and transmission utility organization makes sense and that the goal is worthwhile pursuing despite potential implementation problems. Pending a successful resolution of the issue, the Council recommends that the APA become a formal member of any organization designated to deal with the Railbelt energy issues.

5. Cooperate with the Alaska Power Authority to examine the feasibility and desirability of energy projects.

The Council notes that APA and the utilities are already cost sharing in the study of the Anchorage-Kenai Peninsula Intertie feasibility. The Council finds that freezing of the $2.5 million (except for the $150,000 for the Anchorage-Kenai Peninsula Intertie feasibility study) designated for studying the Railbelt electric power alternatives limited the Council's ability to review and evaluate Railbelt electric power alternatives such as coal, gas, conservation, Devil Canyon, and other hydro generation options.

Should the Legislature desire additional analysis to determine whether any of the above options are desirable, the Council would recommend that a highly qualified team be assembled to prepare plans of finance to determine whether the projects are able to be financed before proceeding with a feasibility analysis. The Council believes that this sequence would preclude needless expenditure of funds on detailed feasibility studies for projects which are not able to be financed despite being economically feasible.

While the Council finds that restructuring the APA Board of Directors is the best solution to assuring improved cooperation and coordination between the Railbelt utilities and the APA, should the Legislature desire to extend the life of REC for any reason, then the APA should be made a full member.

RAILBELT ENERGY PLAN

April 8, 1987

Last year, after the Susitna Hydroelectric Project was cancelled, the Legislature established the Railbelt Energy Fund and the Railbelt Energy Council. The purpose of the Railbelt Energy Fund was to reserve approximately $280 million, previously earmarked for Susitna, for other Railbelt energy projects. A major purpose of the Railbelt Energy Council was to recommend such projects.

In creating the Railbelt Energy Fund and the Railbelt Energy Council, legislators and administration officials made one thing very clear to the seven electric utilities in the region: They needed to agree on a plan of action and they needed to work with and through the Railbelt Energy Council.

This has been done.

For the first time ever, all seven Railbelt utilities, which together serve more than three quarters of the State's population, have agreed on a Railbelt energy development plan. That plan consists of two basic elements: Completion of the Bradley Lake Hydroelectric Project and completion of a solid Railbelt transmission intertie system.

The plan was unanimously recommended by the Railbelt Energy Council in its January 24, 1987, report to the Legislature. Moreover, the plan has been endorsed by a broad Railbelt coalition that includes business, labor and government leaders. Many local governments and chambers of commerce throughout the Railbelt have passed formal resolutions of support.

Among the governmental entities are the Anchorage Municipal Assembly, Fairbanks City Council, Matanuska-Susitna Borough, Wasilla City Council, Palmer City Council, Kenai Peninsula Borough, Homer City Council, Kenai City Council and Soldotna City Council, as well as the Kenai Caucus and Unified Fairbanks organizations. Labor supporters include the Alaska AFL-CIO and its 48 unions and affiliates, including the International Brotherhood of Electrical Workers Local 1547, and Teamsters Union Local 959. Local chambers of commerce that have passed resolutions include Anchorage, Fairbanks, Wasilla, Palmer, Big Lake, Willow, Talkeetna, Kenai, North Kenai and Homer. The Alaska State Chamber of Commerce has made the Bradley Lake project and the intertie system one of its highest legislative priorities.

-- Regional cooperation and coordination will be improved, as already evidenced through the establishment of the Railbelt Energy Council and the Railbelt energy coalition.

BRADLEY LAKE

The major benefit of the Bradley Lake project is the assurance of a stable, long-term supply of low-cost power, to be shared throughout the Railbelt utilizing the proposed intertie system. Because of higher capital costs, hydroelectric power is initially more expensive than that from fossil fuel plants. However, Bradley Lake energy is expected to become cheaper than the least-cost alternative of natural gas within the first five to seven years of Bradley's operation. The real payoff is that hydroelectric projects like Bradley Lake will last up to 100 years, compared to 20 or 30 years for gas turbines and other fossil-fuel generation facilities.

It is very important to remember that Bradley Lake will be more than an additional power source for the Railbelt. It will also be replacement power, because many of the region's existing gas-fired generation units will be wearing out in the early and mid-1990s.

The current plan, agreed to by all seven Railbelt utilities, is for the State and those utilities -- through long-term power sales agreements -- to split the cost of the project. Under the current $350 million cost estimate, the State's contribution would be $175 million, which is $43 million less than a previously agreed-to state equity share of $218 million. Should the cost of Bradley drop further, as many expect it will, the State's contribution would be reduced proportionately.

Of the $175 million from the State, $118 million already has been committed to project. The Governor has introduced legislation -- S.B. 159 and H.B. 165 -- to appropriate an additional $50 million from the Railbelt Energy Fund, to replace $50 million previously approved from the general fund but later rescinded. With the $118 million, the $50 million will bring the State's Bradley Lake contribution to $168 million, or within $7 million of the currently proposed $175 million. It is expected that the final $7 million will be appropriated by the current Legislature for fiscal 1988. Approximately $50 million already has been spent on the project, much of it for site preparation and support facilities.

THE INTERTIES

Construction has not yet begun on the interties, but studies are well under way. An economic analysis on both the southern and northern interties has been completed. So has a preliminary engineering feasibility study on the southern intertie, with the final report due in the very near future. An engineering feasibility study on the northern intertie is in progress, with a final report due in early May. It is important that environmental work commence this year so the transmission system can be in place when the Bradley Lake project comes on line, or as soon afterward as possible.

Another very important general benefit of the interties is that they will facilitate economic development and commerce, the results of which will be felt even beyond the Railbelt. In this respect, the interties are analogous to a highway, whose contribution to economic development and commerce is easily understood yet difficult to model. Where a highway carries motor vehicles, the interties will carry an equally essential commodity -- electric energy. Like good roads, a good electric transmission system is essential to a region's development.

SUMMARY

The program to complete the Bradley Lake project and the Railbelt interties is sound. The projects will benefit the majority of Alaska's consumers, and there is unprecedented support from a broad spectrum of interests, including every electric utility in the region as well as labor, business and local government.

Both the Bradley Lake project and the interties are bona fide public works projects, and they will pay long-term dividends. The Railbelt's power supply network will be strengthened in a number of ways, including reliability and lower-cost generation in the future. The regional and statewide economies -- including the job sector -- will be stimulated during construction and for many years to come.

While there inevitably is disagreement over how best to use public funds, especially during times when revenues are less plentiful, there is a demonstrable need for the Bradley Lake project and the intertie system. This program fulfills a high public purpose.

:rbprog

present transfer capability of 70 MW to a full capability of 350 MW. No other change in the transmission system is assumed.

4) Full Railbelt Intertie Proposal: Both of the transmission improvements described above are assumed: the Anchorage/Kenai Peninsula Intertie and the Anchorage/Fairbanks upgrade.

The benefits that were quantified in this analysis are defined as the reduction in system cost that occurs as a result of a given transmission improvement. For example, the quantified benefit of the full Railbelt Intertie proposal is defined as the difference in system cost between scenario #1 and scenario #4, i.e. the base case cost minus the system cost given the full Intertie proposal. As discussed in greater detail in the report from Lotus Consulting Group, the value of the benefits identified in the system modeling exercise are as follows:

	Sum of Benefits in 1986 Dollars (millions)	Net Present Value of Benefits* (millions)
Full Intertie Proposal	$423.2	$204.6
Anchorage/Kenai Only	209.4	102.2
Anchorage/Fairbanks Only	210.6	101.2

* The base year for the net present value calculation is 1987.

Approximately 25% of the identified value of the Anchorage/Kenai Peninsula intertie is attributable to an estimated 100 MW of capacity cost savings made possible by reserve sharing. The other 75% of value is due primarily to siting flexibility for new plant capacity and economy interchange. It should be noted that the entire output of the Bradley Lake project is absorbed by the system in every scenario, including the base case. The effect of the intertie project on Bradley Lake would be to increase the distribution, not the amount, of Bradley Lake power sales.

The identified value of the Anchorage/Fairbanks upgrade is due primarily to the increased displacement of oil-fired generation in the Fairbanks area by natural gas-fired generation from the southcentral area. The key factors that contribute to this estimate are the assumed differential between the natural gas price and the fuel oil price, and the assumed electricity demand forecast over the long run for the Fairbanks area.

Other Benefits

* System Reliability: Strengthening the transmission links between load centers creates a more resilient interconnected system that is better able to recover from disturbances such as the loss of a major generating unit. The existing transmission links between Anchorage and the Kenai Peninsula

and between Anchorage and Fairbanks will result in a separation of the three areas from one another if a significant disturbance occurs. This will usually result in the loss of load in at least two of the three areas. This separation occurs precisely at the time when it is most important to maintain the connection between areas to enable generating reserves to be transported to the area where the disturbance has occurred.

A stronger interconnection between the three load centers would reduce the probability of islanding (where one area loses its interconnection with another area), and consequently reduce the probability or magnitude of an outage.

* Enhanced Competition Among Fuel Suppliers: Though the magnitude of this benefit to Railbelt consumers is particularly difficult to assess, it could be one of the most significant aspects of the Intertie project. An example might help to illustrate the potential. A conservative estimate of natural gas consumption for electric generation during the early years of the study period is 30 BCF per year. At $1.60 per MMBTU, the cost of that gas in 1986 dollars would be $48 million per year. If enhanced competition resulted in a reduction in the wellhead price of 5 cents per MMBTU, the annual savings in fuel cost would amount to about $1.5 million per year. Extending that benefit over the 30 year study

period from 1991 through 2020, the total saving achieved in this manner would be $45 million, with a present value of about $24 million. Oil and coal suppliers would be faced with similar competitive pressures.

Comparison of Costs and Benefits

There are two routes that are presently under consideration for a new Anchorage/Kenai Peninsula intertie. The best construction cost estimates currently available are about $76 million for one route and about $96 million for the other route. Because the construction cost is not the only consideration in route selection, a decision on a preferred route has not yet been made. For purposes of this preliminary comparison of costs and benefits, a construction cost of $86 million is assumed based on the average cost of the two routes.

A study aimed at careful development of a cost estimate for the Anchorage/Fairbanks upgrade is scheduled to take place during the month of April, 1987. Until that study is complete, the best figure available continues to be a rough estimate of $100 million. Therefore, the construction cost of the full Railbelt Intertie proposal is assumed to be $186 million (in 1986 dollars) for purposes of this comparison. Further, it is assumed that these costs would be spread over a two year construction period,

specifically that half of the cost would be incurred in 1989 and the other half in 1990.

The annual operations and maintenance (O&M) cost of a new Anchorage/Kenai Peninsula line has been estimated at 1.5% of the construction cost by the firm that performed the preliminary engineering and design of those alternatives. Applying that 1.5% factor to the estimated construction cost of the full Railbelt Intertie proposal yields an estimated annual O&M cost of about $2.8 million (in 1986 dollars). For this comparison, it is therefore assumed that a $2.8 million O&M cost is incurred for the full project for each year between 1991 and 2020.

The sum of the construction and O&M costs described above for the full Railbelt Intertie proposal is approximately $270 million (in 1986 dollars) over the period 1989 through 2020. The present value of those costs is approximately $210 million. (5)

The sum of the benefits identified in the modeling exercise is therefore approximately $150 million higher (in 1986 dollars) than the sum of the estimated costs (i.e. $423 million in benefits vs. $270 million in costs). However, because most of the costs are incurred before most of the identified benefits are realized, the present value of costs and identified benefits are approximately the same. If the benefits not captured in the modeling exercise

were brought into this comparison, then the present value of benefits would exceed the present value of costs.

As stated earlier, the goal of this study was to produce an understanding of the benefits of both transmission proposals sufficient to judge whether they are promising with regard to economic feasibility criteria. On the basis of the analysis performed, it is concluded that the proposed transmission projects are capable of delivering economic benefits in excess of their costs, and consequently warrant further consideration.

FOOTNOTES

(1) It is recognized that Chugach Electric Association, which operates the Beluga generating station, still has access to significant quantities of old gas at Beluga at prices in the vicinity of $ .30 per MMBTU. In the initial modeling runs performed for this study, the Beluga gas price (in 1986 dollars) was assumed to ramp up from $1.04/MMBTU in 1991 to $1.60/MMBTU in 2003, remaining constant at $1.60 thereafter. The price prior to 2003 represented a blend of old and new gas with a declining proportion of old. It was assumed that gas at the blended price was available to generate power for economy sales to other utilities, though such sales to Anchorage Municipal Light and Power (AML&P) were limited by forcing the AML&P units to run. (AML&P operates most of the "Anchorage area" generating capacity.) The basis for this constraint was the Chugach policy of reserving its limited supply of old gas for the benefit of its own customers.

In the final modeling runs, however, the Beluga gas price (in 1986 dollars) was assumed to be $1.60 in 1991 and to remain constant in real terms thereafter. By ignoring the declining quantities of old gas, production costs are overestimated for the early years of the study, but are

overestimated equally in the base case (with the existing transmission system) and in the alternate case (with the improved transmission system). The benefit of ignoring the old gas for purposes of the modeling is that the price of energy for economy sales from Beluga will always reflect the price of new gas at $1.60, which is more realistic than the assumption used initially. By assuring that economy sales from Beluga will be based only on the new gas price, it became possible to remove the "must run" requirement for the AML&P units.

Further, the analysis incorporates the assumption that natural gas will be available in sufficient quantities at wellhead prices at Beluga and on the Kenai Peninsula, and at wellhead plus transportation in Anchorage, to meet all estimated demands at these locations through the year 2020. Variations regarding the natural gas supply assumption could produce alternative patterns of use for the proposed transmission projects.

(2) The estimated increase in the minemouth price to $1.60/MMBTU for the Healy plant in 1995 is based on the following observations:

1) The current minemouth price for coal paid by

Fairbanks Municipal Utility System is $34.48 per ton, which is approximately $2.20/MMBTU.

2) The current minemouth price for coal paid by the U.S. military at Fort Wainwright is $31.79 per ton, which is approximately $2.05/MMBTU.

3) The prices noted above were recently negotiated, and suggest that the price of coal for the Healy power plant will be subject to upward pressure when the current contract expires. However, particularly as a result of the Anchorage/Fairbanks intertie, the extent of such increase will be limited by competition. The assumption of a moderate increase was therefore adopted in balancing these considerations.

(3) The high existing reserve margins in the Railbelt are, in large part, due to the more hostile operating environment, the relatively large size of certain generating resources with respect to the loads of the individual systems, and the limited extent of interconnection among the utilities. Most of the existing generating capacity was installed prior to the construction of the Anchorage/Fairbanks intertie and also before the establishment of a high capacity interconnection

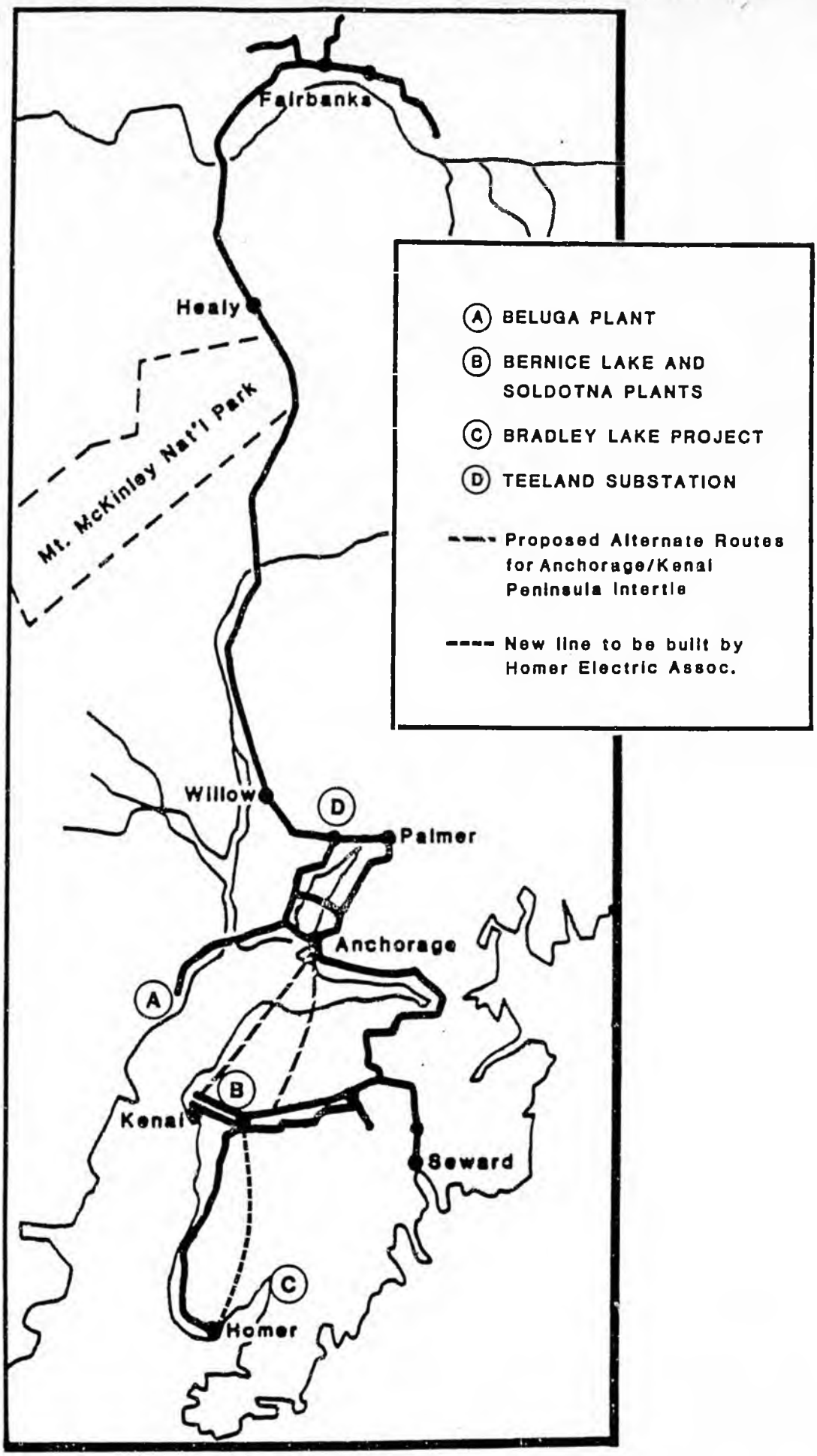
in Anchorage between Chugach Electric and Municipal Light and Power. Mild winters in recent years have also contributed to the appearance of high reserve margins.

(4) Although the reserve margins used in this analysis are considered reasonable for modeling purposes, actual reserve requirements may well depart from these general estimates according to the specific determinations and judgments of the utilities.

(5) For clarification, costs of the Intertie proposal were estimated as follows:

YEAR	COST (Millions of 1986 Dollars)	
1989	$ 93.0	Construction
1990	93.0	Cost = $186 million
1991	2.8	
1992	2.8	O&M Cost =
.	.	$2.8 million / year
.	.	for 30 years
2020	2.8	
		(Net Present Value =
TOTAL	$ 270.0	$209.8 million)

Figure 1.


Fairbanks
Healy
Mt. McKinley Nat'l Park
Willow
D
Palmer
Anchorage
A
B
Kenai
Seward
C
Homer
A BELUGA PLANT
B BERNICE LAKE AND SOLDOTNA PLANTS
C BRADLEY LAKE PROJECT
D TEELAND SUBSTATION
Proposed Alternate Routes for Anchorage/Kenai Peninsula Intertie
New line to be built by Homer Electric Assoc.

BRADLEY LAKE HYDROELECTRIC PROJECT

TRANSMISSION SHARING AGREEMENT

by and among

The HOMER ELECTRIC ASSOCIATION, INC.,

and

CHUGACH ELECTRIC ASSOCIATION, INC.,
The CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL UTILITIES SYSTEM,
The GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.,
The MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER, and
The CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM.

Prepared: November 6, 1987

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AGREEMENT FOR SALE OF TRANSMISSION CAPABILITY

THIS AGREEMENT is entered into by and among HOMER ELECTRIC ASSOCIATION, INC, ("HEA"), CHUGACH ELECTRIC ASSOCIATION, INC. ("Chugach"), the CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL UTILITIES SYSTEM ("FMUS"), the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. ("GVEA"), and the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER ("ML&P"), each an electric cooperative or a municipality duly organized and with its principal offices located in the State of Alaska.

WITNESSETH:

WHEREAS, each Party hereto is an electric utility or operates an electric utility; and

WHEREAS, each Party has determined that its purchase of electric power from the Bradley Lake Hydroelectric Project pursuant to a Power Sales Agreement among the Alaska Power Authority and all other Parties is prudent under the circumstances, and that over the expected useful life of the Project such power is likely to produce net economic benefits for the electric ratepayers served by that Party; and

WHEREAS, the Parties have simultaneously herewith executed a Power Sales Agreement under which they will purchase power produced by the project from and after the Date of Commercial Operation (as defined in the Power Sales Agreement); and

WHEREAS, the delivery of Bradley Lake energy and power from the Project to the Parties requires use of electric transmission facilities; and

WHEREAS, HEA intends to construct, and is willing to commit to construct, between the Bradley Junction and the Soldotna Substation, a distance of approximately 46.8 miles, a 556 ACSR, 115 kv transmission line, at an approximate cost of $14.1 million; and

WHEREAS, HEA is willing to convey to the parties a portion of the transmission capability of the line described above, to assist in the delivery of the energy pursuant to the terms hereafter set forth;

NOW THEREFORE, IN CONSIDERATION of the mutual covenants set forth herein, the Parties agree as follows:

SECTION 1. PARTIES

The Parties to this Agreement are HOMER ELECTRIC ASSOCIATION, INC, ("HEA"), CHUGACH ELECTRIC ASSOCIATION, INC. ("Chugach"), the CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL UTILITIES SYSTEM ("FMUS"), the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. ("GVEA"), and the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER ("ML&P").

SECTION 2. CONSTRUCTION OF TRANSMISSION LINE

(a) Construction Schedule. HEA shall construct the Transmission Line in accordance with the schedule set forth in Attachment D, and place it into service on or before 90 days prior to the scheduled date for completion of the Project.

(b) Capacity. HEA shall construct and place into service such additional facilities, including capacitors, and shall provide or procure sufficient generation capability, to the extent that it is economically feasible, to provide voltage support to the line so that the capacity of the Transmission Line will be not less than 135 megawatts. HEA shall consult with the purchasers prior to the commencement of any such construction and shall allow the Purchasers to review its plans for such facilities.

(c) Failure to Provide Voltage Support. Notwithstanding the foregoing, HEA may elect not to provide the voltage support required by Section 2(b), or it may elect to provide voltage support, but to a lesser degree or at a later date, but unless and until HEA does provide such support, the right of HEA to use the Transmission Line shall be subordinate to the right of any Purchaser to use the Transmission Line to wheel that Purchaser's Bradley Lake energy, to the extent of the Purchaser's share of the capability of the Transmission Line. Any failure of HEA to provide voltage support sufficient to increase the capacity of the Transmission Line to the amount required by Section 2(b) shall not relieve a Purchaser of its obligation to pay for its share of the cost of providing any lesser amount of voltage support.

SECTION 3. SALE OR LEASE OF CAPABILITY

(a) On the Date of Commercial Operation, HEA shall sell or lease and each Purchaser agrees to purchase or lease a share of the capability of the Transmission Line in an amount (stated in megawatts) equal to that Purchaser's Percentage Share (stated in megawatts) of the Bradley Lake Project. For the purposes of this Agreement, Chugach's share of the capability of the Transmission Line shall be an amount equal to the combined Chugach, MEA and Seward Percentage Shares (stated in megawatts).

(b) HEA shall operate the Purchaser's Transmission Line capability as if it were part of HEA's system and make the Purchaser's Transmission Line capability available for the use of the Purchaser to deliver energy and power in the manner directed by the Purchaser. HEA shall be compensated for line losses, if any, resulting from power of the Purchasers flowing over the Transmission Line. The Project Management Committee will determine the amount of line losses and the appropriate amounts and manner of compensation.

(c) Use of Capability. Nothing in this Agreement is intended to limit or restrict the use of the transmission capability by the Purchasers for transmitting power in addition to Bradley Lake Power.

SECTION 4. PAYMENT

For capability purchased pursuant to this Agreement, each Purchaser shall pay amortization costs and operation and maintenance expenses as further set forth herein.

(a) Amortization Costs. Within one year of the Effective Date, each Purchaser shall elect in writing whether to pay amortization costs through direct payments pursuant to Section 4(a)(i) or through installment payments pursuant to Section 4(a)(ii). A Purchaser failing to make such an election shall be deemed to have elected to pay through direct payments pursuant to Section 4 (a)(i). Amortization costs shall thereafter be paid by each Purchaser in accordance with its election pursuant to the schedule described in Section 4(d).

(i) A Purchaser electing to pay amortization costs through direct payments shall pay a fixed portion of the Construction Cost as determined by the formula set forth in Attachment A.

(ii) A Purchaser electing to pay amortization costs through installment payments shall pay a portion of HEA's monthly payments on the Construction Loan as determined by the formula set forth in Attachment B.

(b) O & M Expense. In addition to making amortization payments, each Purchaser shall reimburse HEA in each month for a portion of HEA's actual expenses associated with operating and maintaining the Transmission Line in accordance with the formula set forth in Attachment C. Such expenses shall include but shall not be limited to all expenses related to providing necessary voltage support equipment for the Transmission Line installed at or between Bradley Junction and Soldotna Substation, and all

taxes, if any, for which HEA may become liable as a result of the sale of transmission capability.

(c) Initial Carrying Capacity. The carrying capacity of the Transmission Line for the purposes of making the computations required by Attachments A, B and C, subject to the provisions of Section 10, is 135 megawatts.

(d) Schedule of Payments.

(i) A Purchaser electing to pay amortization costs through direct payments shall make such payment within 30 days of demand therefor by HEA, but not before 30 days following the Date of Commercial Operation.

(ii) A Purchaser electing to pay amortization costs through installment payments shall pay the first monthly payment on or before 30 days after the effective date of the documents evidencing the Construction Loan.

(e) Character of Payments. The amounts payable under this Agreement are operating expenses of each Purchaser's System, and are valid and binding obligations of each Purchaser, payable only from the gross revenues of said Purchaser's System as a cost of electric transmission, and not payable from any taxes.

(f) Tax Consequences. In the event the sale of transmission capability or the payment arrangements contemplated by this Agreement result in any Party being liable for the payment of Federal income tax, the Parties shall work together to revise the Agreement to reduce or eliminate such liability, provided, that any such revision shall not reduce the amount of transmission capability to which a Party is entitled hereunder, nor shall HEA be obligated to convey any greater interest in the Transmission Line than as is herein provided.

(g) Purchaser's Obligation. Except as provided in Section 10, each Purchaser shall make payments in the amounts and at the times required by this Agreement notwithstanding a suspension or reduction in the amount of transmission capability of the Transmission Line.

SECTION 5. DUTY TO OPERATE AND MAINTAIN

So long as HEA owns the Transmission Line, HEA will in good faith and at all times operate, maintain and repair the electrical facilities used to perform the services provided hereunder in accordance with Prudent Utility Practice in a manner consistent with HEA's obligations under this Agreement.

SECTION 6. OUTAGES

(a) Forced and scheduled outages. The Transmission Line is subject to Forced Outage and to scheduled outages for maintenance.

(b) HEA's system. During any outage of the Transmission Line, absent an agreement to the contrary, a Purchaser shall not be entitled under the terms of this Agreement to the use of transmission capacity on HEA's system or to wheeling services over the transmission line from Bradley Junction to Soldotna substation via the Fritz Creek Substation.

(c) Scheduling. HEA shall schedule outages for maintenance or upgrading of the Transmission Line in consultation with the Bradley Lake Project Management Committee.

SECTION 7. FAILURE TO CONSTRUCT ACCORDING TO SCHEDULE.

(a) Default. Subject to the provisions of Section 7(b), if HEA fails, in any material respect, to construct the Transmission Line in accordance with the schedule set forth in Attachment D, unless such delay is a result of Force Majeure, HEA shall be deemed to be in default hereunder and the Parties thereupon shall be entitled to assume ownership and control of the Transmission Line and to complete the construction thereof, and HEA shall assign and convey to the Parties entitled thereto, all of its right, title and interest in the Transmission Line.

(b) Takeover. Upon default by HEA, a Party may perfect its right to construct the Transmission Line as follows:

(i) The Party shall first give notice to HEA and to all of the other Parties of its election to construct the Transmission Line.

(ii) Within 30 days from the date of receipt of the notice HEA shall be entitled to cure any such default.

(iii) If HEA fails to cure the default within the period prescribed by subsection (ii), above, then within 45 days of the receipt of the notice referred to in subsection (i), above, each Party electing to participate in the construction of the Transmission Line shall notify the other Parties of such election.

(iv) Thereafter, all Parties electing to exercise their respective rights to construct the Transmission Line shall be entitled to do so, pursuant to such arrangements as they may agree upon among themselves.

(c) Cooperation by HEA. Upon the election by any Parties of their rights to construct the Transmission Line as set forth in section 7(b), HEA shall deliver to such Parties all documents in its possession relating to the construction of the Transmission Line, including design documents and construction documents, and shall execute in favor of the Parties assignments of all assignable easements and permits, together with such other documents as may be reasonably required to transfer control of the construction of the Transmission Line to such Parties.

(d) Title. Any Party which perfects its right to complete the construction of the Transmission Line pursuant to the terms hereof, shall be entitled to demand and receive from HEA a conveyance of all of HEA's right, title, and interest in the Transmission Line, provided, that in the event more than one Party becomes entitled to make such demand HEA shall have no responsibility for determining the parties entitled thereto, but HEA may deliver any instrument of conveyance to all such Parties as tenants in common.

(e) Repayment of HEA's costs. In the event one or more Parties obtain title to the Transmission Line pursuant to the terms hereof, such Party or Parties shall pay to HEA, on or before 12 months from the date of receiving such title all sums expended by HEA for the construction of the Transmission Line.

(f) Damages. The exercise by any Party of any right under this section shall not operate to limit or restrict the Party's right to pursue any other legal remedies.

SECTION 8. UPGRADING OF LINE

(a) Increased share. If after the initial construction of the Transmission Line, additional improvements constructed by HEA result in an increase of the capacity of the Transmission Line above the capacity stated in Section 2(b) no Purchaser will be entitled to any share of the increased capacity of the Transmission Line, except such Purchasers as were offered and accepted an opportunity to share in the costs of the upgrade.

(b) Reimbursement of costs. A Purchaser may be equitably entitled to some financial compensation in the event the Transmission Line is upgraded, depending upon the nature of the upgrade and the arrangements entered into for the purpose of financing and allocating the capacity associated with the upgrade.

(c) Treatment of [illegible] voltage support. Any capital cost of adding or enhancing voltage support for the Transmission Line included within the definition of Construction Cost shall not be considered to be an upgrade; rather the cost shall be treated as though it were a cost of constructing the Transmission Line and

shall be paid by the Parties in accordance with the provisions of Section 4(a).

(d) Shared costs. The cost of making any capital improvements which result in benefits to both the HEA system and to the Transmission Line will be allocated on an equitable basis.

SECTION 9. INTERVENING TAPS ON TRANSMISSION LINE

HEA may, at some future time, desire to place substations or taps ("facilities") along the Transmission Line in order to provide for the specific needs of HEA's system. All capital and operating costs associated with such facilities, including voltage support equipment that is required as a result of the installation of such facilities, will be the responsibility of HEA. HEA agrees to allow the other Parties to review its plans for such facilities, and the subsequent design of such facilities, and absent compensation from HEA to the Purchasers, HEA shall propose no changes to the Transmission Line that will significantly degrade the line's reliability or result in an increase in losses to the other Parties.

SECTION 10. DOWNRATING

If, after the construction of the Transmission Line its carrying capacity is diminished: (a) the Parties shall attempt to make the necessary repairs or modifications to restore the original carrying capacity of the Transmission Line, if it is economically feasible to do so, with each Party to pay the cost of making such repairs or modifications in accordance with Section 4(b); but (b), if it is not economically feasible to make such repairs or modifications, each Purchaser's share of the Transmission Line's capability shall be decreased by a percentage equal to the percentage decrease in carrying capacity of the Transmission Line.

SECTION 11. SPECIAL PROVISIONS AFFECTING CHUGACH

(a) Chugach's treatment of the transmission capability for ratemaking purposes. The costs paid by Chugach for its share of the capability of the Transmission Line shall not be included in any revenue requirement, nor included for any other purpose, in establishing rates to be paid by AEG&T to Chugach under the Agreement for Sale of Electric Power and Energy between HEA, Chugach, and AEG&T, effective May 13, 1986 (the "Tripartite Agreement).

(b) Deliveries to AEG&T. Notwithstanding the provisions of Section 6, during any outage on the Transmission Line but only to

the extent of such outage, Chugach shall be entitled to use Bradley Lake power in place of other power, subject to the physical constraints of the HEA system, to satisfy all or any part of Chugach's power sales obligations to AEG&T for the benefit of HEA, and to deliver the power from Bradley Junction via the Fritz Creek substation, but such delivery shall not otherwise relieve Chugach of its obligations to provide [illegible]th power pursuant to the terms of the Tripartite Agreement.

(c) Conveyance to AEG&T. If HEA at any time transfers to AEG&T the ownership of the Transmission Line, Chugach shall also transfer its Transmission Line capability to AEG&T under a Project Agreement among AEG&T, HEA, Chugach, and any other entities conveying shares of the Transmission Line to AEG&T, if Chugach is then a Joint Action Member of AEG&T.

SECTION 12. TERM OF AGREEMENT; AMENDMENT

(a) Term. This Agreement shall become effective upon the Effective Date and shall continue in force until the Termination Date, subject only to the limitations set forth in Section 12(b), provided, that if the Date of Commercial Operation does not occur before January 1, 1996, then this Agreement shall terminate on January 1, 1996.

(b) Amendments. This Agreement may be amended, extended, or terminated at any time by the written consent of all Parties, but no such amendment, extension, or termination shall be effective unless approved by the federal and state agencies (if any) whose approval is required at the time.

SECTION 13. DISPUTE RESOLUTION.

The Parties agree that any procedures for dispute resolution under this Agreement be entrusted to good faith negotiations and adoption by the Project Management Committee, with HEA's affirmative vote required for adoption of such procedures. HEA shall not withhold its affirmative vote unreasonably, but HEA's unreasonableness in this regard may be challenged and determined only in an action to enforce this Agreement and shall not be determined by vote or other action of the Project Management Committee.

SECTION 14. APPROVALS.

All Parties agree to seek and support as expeditiously as possible and in good faith, all necessary approvals of this Agreement and its terms. Each Party agrees that this Agreement

and each of its provisions is lawful, valid, binding and enforceable in accordance with its terms.

SECTION 15. MISCELLANEOUS PROVISIONS.

(a) Waiver. Any waiver at any time by any Party of its rights with respect to any default of the other Party, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any prior or subsequent default, right or matter.

(b) Successors and Assigns. This Agreement and all of the terms and provisions hereof shall be binding upon and inure to the benefit of the respective successors and assignees of the Parties; provided, that no assignment or other transfer of this Agreement, or any interest hereunder (other than to an entity which is a party to the Power Sales Agreement) shall be effective without the prior written consent of all of the other Parties (which consent shall not be unreasonably withheld), and any successor or assignee which is not a party to the Power Sales Agreement must, in the commercially reasonable opinion of the other Parties, be financially capable of assuming the obligations of the Party from which the successor or assignee has accepted the assignment or other transfer. This Section 15(b) shall not prevent an assignment of a Party's rights hereunder for security purposes only, and shall not prevent a financing entity with recorded or secured rights from exercising all rights and remedies available to it under law or contract, provided that performance of this Agreement is not thereby impaired. The Parties shall have the right to be reasonably notified by the financing entity prior to the time of exercise that it is exercising such rights or remedies.

(c) Performance Pending Resolution Of Disputes. Pending resolution of any dispute, each Party shall continue to perform its obligations under this Agreement, including but not limited to the obligation to make the payments required by this agreement. All Parties shall be entitled to seek immediate judicial enforcement of this continued performance obligation notwithstanding the existence of a dispute. Application for such enforcement shall be make to the Superior Court for the State of Alaska, at Kenai.

(d) Applicable Law. The laws of the State of Alaska (including without limitation the equal opportunity laws set forth in AS 18.80.220, as the same may be amended from time to time) shall govern the interpretation and application of this Agreement and the actions of the Parties hereto. In addition, HEA will comply with all other equal opportunity laws and regulations applicable to HEA.

(e) Section Headings. The section headings in this Agreement are for convenience only, and do not purport to and shall not be deemed to define, limit or extend the scope or intent of the section to which they pertain.

(f) Payment. HEA shall endeavor to render bills to the appropriate other Party or Parties on or before the 10th day of each calendar month for charges which accrued under this Agreement during the preceding month. In such bills, if any item is designated as being estimated due to unavailability of final underlying data, then, adjustments to the correct amounts, when such amounts are determined, shall be included in a bill for subsequent months. Payment from every Party billed shall be due in the office of HEA by the 25th day after mailing of the bill. If such bill is delayed in the mail and not received within ten days of the date shown on the postmark, then the Party billed shall immediately notify HEA and agree upon a new date, but in no event shall HEA be required to accept a delay in payment beyond 15 days from the date of actual receipt of the bill by the Party billed. Payment shall be mailed, directly deposited to the account of HEA, or may be paid in person, at HEA's main office in Homer, Alaska.

(g) No Third Party Beneficiaries Or Liability To Third Parties. Notwithstanding that the operation of this Agreement may and is intended to confer benefits on third parties who are not signatories to this Agreement, in promising performance to one another under this Agreement the Parties intend to create binding legal obligations to and rights of enforcement in (i) one another, and (ii) one another's assignees or successors in interest. The Parties expressly do not intend to create any obligation or liability, or promise any performance to, any third party (including without limitation the Authority or any individual or entity supplied with electric power by any of the Parties). The Parties have not created for any third party any right to enforce this Agreement.

(h) Notice and Access to Records. HEA shall apprise the Parties of any planned construction or maintenance activities on the Transmission Line, or any changes in its system that might affect the availability of capacity on the Transmission Line. HEA shall make available to a Party such books, records, or other information relating to the Transmission Line, its cost, construction and operation, as that Party may reasonably request.

(i) Execution of Documents. The Parties shall execute such other documents as may be reasonably required to effectuate the purposes of this Agreement. Any conveyance or lease executed pursuant to this Agreement shall contain terms which are substantially the same as the terms hereof.

(j) Multiple copies. This Agreement shall be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

(k) Increase in Purchaser's Share. If and to the extent that the amount of Bradley Lake Power delivered to a Purchaser, or a Purchaser's Percentage Share (as defined in the Power Sales Agreement), shall increase or decrease as a result of the occurance of an event described in Section 9(b)(i) of the Power Sales Agreement, the Purchaser's share of the Transmission Line capability shall be increased or decreased.

(l) Default by Purchaser. If a Purchaser suspends, reduces, fails to make or is prevented from making payments required under this Agreement, HEA, without waiving any other rights or remedies available to it, and upon not less than 30 days' advance written notice to the Purchaser, may terminate or suspend the right of the Purchaser to receive power over its share of the transmission capability, and in such event HEA shall be entitled to the use of such transmission capability.

(m) Relationship to Alaska Intertie Agreement. Except for the rights and duties set out in this Agreement to use the Transmission Line from Bradley Junction to Soldotna Substation, this Agreement does not change or modify the rights and duties set out in the Alaska Intertie Agreement.

SECTION 16. DEFINITIONS.

(a) AEG&T. The Alaska Electric Generation and Transmission Cooperative, Inc.

(b) Agreement. This Agreement governing sale of Transmission Line capability.

(c) Alaska Intertie Agreement. Alaska Intertie Agreement dated December 23, 1985 among the Alaska Power Authority, Municipality of Anchorage, Alaska, d.b.a. Municipal Light & Power, Chugach Electric Association, Inc., City of Fairbanks, Alaska, Municipal Utilities System, Golden Valley Electric Association, Inc. and Alaska Electric Generation and Transmission Cooperative, Inc.

(d) Alaska Power Authority. The Alaska Power Authority, an agency of the State of Alaska, and any successor thereto as owner of the Bradley Lake Hydroelectric Project.

(e) Authority. See Alaska Power Authority.

(f) Bradley Lake Power. Electric capacity, expressed in kilowatts (kw), generated at the Bradley Lake Hydroelectric

Project for a Party in a manner consistent with the Power Sales Agreement and applicable criteria, procedures, and guidelines adopted by the Project Management Committee. As used in this Agreement, Bradley Lake Power does not include capacity produced by generators other than those located at the Bradley Lake Hydroelectric Project, regardless of whether energy or capacity from such other generators is or may be sold to a Party pursuant to provisions of the Power Sales Agreement relating to reserves for the Project.

(g) Bradley Lake Hydroelectric Project. The hydroelectric generating project as defined in the Power Sales Agreement.

(h) Construction Cost. The sum of the costs, as determined in accordance with generally accepted accounting principles, associated with the construction of the Transmission Line and any capital improvements installed at or between Bradley Junction and Soldotna Substation and required to provide voltage support as provided in Section 2(b), provided that the cost of the construction of the Transmision Line shall not exceed the equivalent sum of $18 million and the cost of the construction of any such voltage support shall not exceed the equivalent sum of $2 million, based upon the value of the US dollar on November 1, 1987.

(i) Construction Loan. The sum of the funds borrowed from time to time by HEA to fund the Construction Cost, but only to the extent such funds were actually used to pay the Construction Cost, plus the costs associated with borrowing such funds.

(j) Date of Commercial Operation. The date on which HEA reasonably declares sufficient carrying capacity to be available on the Transmission Line to accommodate the Purchasers' shares on a commercial basis.

(k) Delivery Point. The Delivery Point located at Bradley Junction, as defined in the Power Sales Agreement.

(l) Effective Date. The first day on which both of the following conditions have been met: (i) all Parties have executed this Agreement, and (ii) this Agreement has been approved in its entirety by all entities whose approval is necessary. For purposes of this provision, the approval of any entity other than a federal or state governmental body shall be considered necessary only if that non-governmental entity is identified in writing by one or more Parties, at the time such Parties execute this Agreement, as an entity whose approval is necessary to permit this Agreement to become effective with respect to such Party or Parties.

(m) Force Majeure. Any event, without limitation, the occurrence of which (i) is beyond the control of HEA, and (ii)

makes it impractical or imprudent in terms of safety, efficiency, or reliability to perform as agreed.

(n) Forced Outage. Any event, without limitation, beyond the control of and unforeseen by HEA, the occurrence of which interferes with the capability of the Transmission Line to transmit energy by rendering physically impossible or unsafe the transmission of all or a portion of the electric power that under normal conditions could safely be so transmitted. Any Forced Outage shall constitute an event of Force Majeure under this Agreement, but events of Force Majeure are not limited to Forced Outages.

(o) Fritz Creek Substation. The Fritz Creek Substation owned and operated by HEA, or any successor facility.

(p) Party. Any entity listed in Section 1 of this Agreement.

(q) Percentage Share. The amount of Project Capacity to which a Purchaser shall be entitled under the terms of the Power Sales Agreement, as determined at the Date of Commercial Operation of the Project.

(r) Prudent Utility Practice. Prudent Utility Practice as defined in the Power Sales Agreement.

(s) Purchaser. Every Party except HEA.

(t) Purchaser's System. A Purchaser's electric utility system for the distribution, transmission, and generation of electrical power and which is owned and operated by the Purchaser. If a Purchaser's electric utility system is combined with other utilities of the Purchaser, then "Purchaser's System" includes only those facilities, activities, and revenues properly allocable to Purchaser's electric utility service. "Purchaser's System" does not include the Project, regardless of whether the Purchaser operates the Project under a separate agreement with the Authority.

(u) Power Sales Agreement. The agreement for the sale and purchase of electric power from the Project entered into by and among the Authority, the Parties, and others.

(v) Project. See Bradley Lake Hydroelectric Project.

(w) Project Management Committee. The committee composed of the Authority, the Parties and others and established and invested with authority pursuant to the Power Sales Agreement.

(x) Soldotna Substation. The Soldotna Substation owned and operated by HEA, or any successor facility.

(y) Termination Date. The earliest of the following dates:

(i) The date the Transmission Line is no longer used and useful and all costs associated with the Construction Loan have been paid;

(ii) The date on which the Power Sales Agreement terminates as provided at Section 2(c) of the Power Sales Agreement;

(iii) Such other date as the Parties may mutually agree upon, subject to such approvals as may be necessary at the time of such agreement.

(z) Transmission Line. The transmission line, approximately 46.8 miles in length, to be constructed by HEA between the Delivery Point at Bradley Junction and the Soldotna Substation at a projected cost of approximately $14.1 million, being constructed of 556 ACSR conductor and having a projected capacity (when enhanced by voltage support) of 135 MW and a voltage of 115kv.

ATTACHMENT A

Computation of a Purchaser's Share of Capital Costs If the Purchaser is Responsible for Direct Payment

The portion of the Transmission Line's Construction Cost for which a Purchaser shall be responsible if the Purchaser assumes responsibility for making direct payment for its share of the Transmission Line's capability shall be determined by the following formula:

$$P_p = \frac{U}{135\ MW} * L_1$$

Where:

P_p = Principal amount (in dollars) for which the Purchaser is directly responsible

U * = (i) During the first 3 years following the Date of Commercial Operation of the Project (as determined with reference to the Power Sales Agreement), the Purchaser's Percentage Share (as determined with reference to the Power Sales Agreement) multiplied by 110 MW, and

(ii) After the first 3 years following such date, the Purchaser's actual MW share of the Project,

L_1 = Principal amount due under the Construction Loan

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT B

Computation of a Purchaser's Share of Loan Costs in Payment for Transmission Capability Where Purchaser Pays debt Service on HEA's Loan

$$P_1 = \frac{U}{135\ MW} \times \frac{L_1}{12}$$

Where:

P_1 = Monthly payment which the Purchaser shall make to HEA,

U * = Same as in Attachment A,

and

L_1 = For the first two years of the term of the Construction Loan, an amount equal to the sum of the payments which HEA shall be obligated to pay in the third year of the Loan term, plus a TIER component based upon the minimum TIER required by the mortgage securing the Construction Loan, and for each year thereafter, an amount equal to the sum of the payments which HEA shall be obligated to pay in that year, plus a TIER component based upon the said minimum TIER requirement.

The monthly payments made pursuant to this Attachment B shall terminate on the date which is two years prior to the date on which the last scheduled payment shall be due pursuant to the terms of the Construction Loan.

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT C

The Purchaser's Monthly O&M Payment To HEA

$$Po_m = \frac{U}{135\ MW + K_2} \times O_1$$

Where:

P_{om} = Dollars which the Purchaser must reimburse HEA for O & M expense in each month,

U * = Same as in Attachment A,

K_2 = Any increase in the capacity of the Transmission Line resulting from upgrades to the original Transmission Line,

and

O_1 = Dollar amount of HEA's O & M expense for the Transmission Line in the preceding month (including the Transmission Line's equitable share of any HEA A & G expense properly allocated to HEA transmission in that month, and including all expenses of providing voltage support to the Transmission Line at or between Bradley Junction and the Soldotna Substation during that month).

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT D

Schedule for Construction of
the Transmission Line

1. On or before the first day of the 5th month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have placed orders for the purchase of substantially all of the major construction materials to be used in the construction of the Transmission Line.

2. On or before the first day of the 11th month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have awarded to a responsible contractor a contract for the construction of the Transmission Line and shall have given the contractor a notice to proceed under the contract.

3. On or before the first day of the 33rd month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have completed and placed into service the Transmission Line.

To: [illegible]

From: Carolyn Guess, Acting Chariman, APUC

Re: "Clean SB22"

Date: December 23, 1987

This memo is to raise several questions regarding the draft of a "clean SB22" which the Commission was recently asked to review. The Commission is not including in these comments any of the broader concerns which the Commission addressed in comments on the legislation when it was considered last session.

There are three primary issues which concern the Commission, as discussed below. In each case, the Commission believes that the present draft of the legislation goes much beyond what is actually necessary in order for the Bradley Lake project to proceed based on contracts which do not require further regulatory review.

1. Is the intent of the legislation to exempt from Commission review not only the "services agreements" which have already been entered into between the utilities, but also to exempt <u>all</u> future agreements between utilities that are "related" to wheeling, storage, regeneration, or repurchase of Bradley Lake power? The Commission is concerned that if the intent is the latter then a very large "hole" in the Commission's ratemaking authority may be created. It is conceivable that at some time in the future the utilities may enter into a contract calling for Chugach to build a new generator which would be used to "regenerate" Bradley Lake power for delivery to Fairbanks and that the contract would include ratemaking provisions. As presently drafted, such an agreement would be "related" to regeneration of Bradley Lake power and could be beyond the Commission's jurisdiction, not only as to prior approval but also as to ratemaking effects.

2. Is the intent of the legislation to remove all of the Commission's ratemaking authority over the "services agreements,"

but also to determine the proper allocation of those costs. Although the Commission recognizes that exemption of the current services agreements from the requirement of prior approval is necessary in order for the Bradley Lake project to proceed quickly, it is not clear that exemption from the ratemaking authority is also necessary. As discussed above, such exemption creates a "hole" in the Commission's ratemaking authority. Further, even if it is necessary to restrict the authority of the Commission to disallow costs (not include them in rates), it should not be necessary to restrict the Commission's authority to determine which customers, including other utilities, should pay those costs.

3. Is the intent of the legislation to cover projects other than the Bradley Lake project? As drafted, Subsection (c)(2) would also apply to covenants between the APA and "four-dam pool" utilities which may be entered into in the future. Again, such a provision should not be necessary in order for the Bradley Lake project to proceed.

Our rewrite of the draft, modified to address the foregoing concerns, follows:

(c) Notwithstanding (b) of this section

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more public utilities after October 31, 1987 and prior to January 1, 1988, is not subject to review or approval by the Commission, and

(2) a contract entered into prior to January 1, 1988, for wheeling, storage, regeneration, and/or wholesale repurchase of power purchased under an agreement specified in subparagraph (1) above is not subject to approval by the Commission; provided, however, that the Commission shall have the authority to establish rates for any services provided pursuant to such

... allocate costs?

contain a covenant by a public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract, and the covenant is valid and enforceable.

Whatever legislation ultimately becomes law, the Commission believes that it is very important for the intent of the legislation to be very clear. If possible, a statement of that legislative intent would be desirable.

If there are any questions regarding our concerns or proposed changes, either Jimmy Jackson or Susan Knowles will be available this week at 263-2172. Susan can be reached at home next week at 279-6336 and I will be back in the office on January 4, 1988.

BRADLEY LAKE HYDROELECTRIC PROJECT

AGREEMENT FOR THE SALE AND PURCHASE OF ELECTRIC POWER

("POWER SALES AGREEMENT")

by and among

THE ALASKA POWER AUTHORITY,
An Agency Of The State Of Alaska,
("Seller"),

and

The CHUGACH ELECTRIC ASSOCIATION, INC.,
The GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.,
The MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER,
The CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM,
and
The ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC.,
("Purchasers")

and

The HOMER ELECTRIC ASSOCIATION, INC.,
and
The MATANUSKA ELECTRIC ASSOCIATION, INC.,
(Additional Parties)

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POWER SALES AGREEMENT

THIS AGREEMENT dated as of _____, 1987, is entered into by and among the ALASKA POWER AUTHORITY (the "Authority") and the CHUGACH ELECTRIC ASSOCIATION, INC., the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER, the CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM, and the ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC. (individually a "Purchaser," and collectively the "Purchasers"), and the HOMER ELECTRIC ASSOCIATION, INC., and the MATANUSKA ELECTRIC ASSOCIATION, INC. (as additional Parties with some, but not all, of the rights and responsibilities of Purchasers).

W I T N E S S E T H:

The Authority recites, agrees, represents and covenants as follows:

(1) The Authority is a public corporation of the State of Alaska duly created, organized and existing pursuant to AS 44.83;

(2) The Authority is authorized, and has taken all steps necessary pursuant to the Constitution and laws of the State of Alaska and the regulations and by-laws of the Authority, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Authority desires to fulfill its legislatively established duty of providing residents of the State of Alaska with long-term, stable, and economic sources of power and an adequate, economic, and reliable long-term supply of power; and

(4) The Authority's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other resolution, contract, agreement, bond, note, mortgage, or other obligation of the Authority, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Authority is subject at the time the Authority executes this Agreement.

Each Cooperative Purchaser (as hereinafter defined) and the Homer Electric Association, Inc. ("HEA") and the Matanuska Electric Assocation, Inc. ("MEA") recites, agrees, represents and covenants as follows:

(1) The Purchaser is a duly organized and constituted electric cooperative under the laws of the State of Alaska and is currently a borrower from the Rural Electrification Administration, United States Department of Agriculture, under the Rural Electrification Act of 1936 (7 U.S.C. < 901 et seq.);

(2) The Purchaser is authorized, and has taken all steps necessary pursuant to its articles of incorporation and by-laws and applicable laws and regulations, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Purchaser performs the functions of a utility and is a wholesale power customer eligible to purchase power produced from a project pursuant to AS 44.83; and

(4) The Purchaser's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other resolution, contract, agreement, bond, note, mortgage, or other obligation of the Purchaser, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Purchaser is subject at the time the Purchaser executes this Agreement.

Each Municipal Purchaser (as hereinafter defined) recites, agrees, represents and covenants as follows:

(1) The Purchaser is a duly organized and constituted municipal corporation under the Constitution and laws of the State of Alaska;

(2) The Purchaser is authorized, and has taken all steps necessary pursuant to the Constitution and laws of the State of Alaska and other applicable laws and regulations, and pursuant to its charter and ordinances, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Purchaser performs the functions of a utility and is a wholesale power customer eligible to purchase power produced from a project pursuant to AS 44.83; and

(4) The Purchaser's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other charter, ordinance, resolution, contract, agreement, bond, note, mortgage, or other obligation of the Purchaser, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Purchaser is subject at the time the Purchaser executes this Agreement.

NOW, THEREFORE, the parties agree as follows:

Section 1. Definitions. For the purposes of this Agreement, the following definitions apply:

(a) "Act" or references to AS 44.83 mean Title 44, Chapter 83 of the Alaska Statutes (AS 44.83) as the same may be amended or supplemented from time to time.

(b) "Agreement" means this Power Sales Agreement.

(c) "Annual Payment Obligation" means the total amount payable by a Purchaser in or for a Fiscal Year pursuant to this Agreement.

(d) "Annual Project Budget" means the budget for the Project as adopted or in effect for a particular Fiscal Year, and amended or supplemented from time to time, pursuant to Section 13.

(e) "Annual Project Costs" shall have the meaning given it in Section 8 of this Agreement.

(f) "Authority" means the Alaska Power Authority as established by the Act, and any successor agency thereto.

(g) "Bond Resolution" means (i) the document attached as Exhibit "A", or a resolution adopted by the Authority substantially in the form of Exhibit "A", as supplemented and amended from time to time in a manner consistent with Section 11 of this Agreement and with the provisions of the Act, or (ii) a further bond resolution, consistent with Section 11, adopted in connection with the issuance of bonds to refund the Bonds.

(h) "Bonds" means bonds, notes or other evidences of indebtedness (including refunding bonds) issued pursuant to the Bond Resolution, the proceeds of which are used to pay or reimburse Costs of Acquisition and Construction and Required or Optional Project Work.

(i) "Committee" means the Project Management Committee established pursuant to Section 13.

(j) "Consultant" means an independent individual or firm (i) of nationwide and favorable reputation, having demonstrated expertise in the field or the matter or the item referred to it under various specific provisions of this Agreement, and (ii) approved by the Authority and the Committee in accordance with rules of procedure to be adopted by the Committee to govern such approval, which approval shall not be unreasonably withheld.

(k) "Cooperative Purchasers" means Chugach Electric Association, Inc., Golden Valley Electric Association, Inc., and Alaska Electric Generation & Transmission Cooperative, Inc. The term "Cooperative Purchasers" includes Homer Electric Association, Inc., and Matanuska Electric Association, Inc., only to the extent specified in Section 30 of this Agreement.

(l) "Cost of Acquisition and Contruction" means the Cost of Acquisition and Construction (as defined in Section 101 of the Bond Resolution) of the Project; provided, that for purposes of this Agreement the Cost of Acquisition and Construction of the Project shall not include the Cost of Acquisition and Construction of Capital Improvements (as defined in Section 101 of the Bond Resolution).

(m) "Date of Commercial Operation" means the date on which engineers retained for this purpose by the Authority have reasonably declared that the Project is fully available to be operated at not less than ninety megawatts (90 MW), and its output can be scheduled on a commercial basis.

(n) "Debt Service" means amounts that the Authority is required to set aside for the payment of principal of, premium, if any, sinking fund payments, and interest on the Bonds, as the same are scheduled to become due under the Bond Resolution, and not by reason of any acceleration.

(o) "Delivery Point" means the Bradley Junction facilities, as identified and further described in Exhibit B.

(p) "Electric power" or "power" means electric energy or electric capacity or both. here the context of this Agreement requires a distinction, electric energy is specified and/or expressed in kilowatthours or megawatthours and electric capacity is specified and/or expressed in kilowatts or megawatts.

(q) "Excess Payment Amount" means the amounts, if any, computed as provided in Section 29 and included in Annual Project Costs.

(r) "Fiscal Year" means that twelve-month period starting July 1 of a calendar year through and including June 30 of the succeeding calendar year. The initial Fiscal Year for purposes of this Agreement is that portion of the twelve-month period starting on the Date of Commercial Operation through and including the following June 30. If the portion of the period is shorter than 90 days the parties shall determine the initial Fiscal Year, which must end on a June 30 and may not be longer than 456 days. The last Fiscal Year for purposes of this Agreement shall be that portion of the twelve-month period between the end of the last full (i.e., twelve month) Fiscal Year and the expiration of this Agreement.

(s) "Municipal Purchaser" means the Municipality of Anchorage d/b/a/ Municipal Light and Power, and the

City of Seward d/b/a Seward Electrical System.

(t) "Optional Project Work" means Project repairs, renewals and replacements, improvements, betterments, additions, or expansions that do not constitute Required Project Work.

(u) "Percentage Share" means the fraction, expressed as a percent and set forth for each Purchaser in Exhibit D as that Exhibit may be amended from time to time, used to compute the amount of each Purchaser's entitlement to Project Capacity and obligation to pay Annual Project Costs.

(v) "Project" means the Bradley Lake Hydroelectric Project as described in Exhibit C.

(w) "Project Capacity" means the amount of electric capacity capable of being produced by the Project (including capacity attributable to Required or Optional Project Work) at any and all times from the Date of Commercial Operation until the termination of this Agreement (or any renewal thereof) under the operating conditions that exist during such times, including periods when the Project may be not operating or inoperable or the operation thereof is suspended, interrupted, interfered with, reduced, or curtailed, in each case in whole or in part for any reason whatsoever, after corrections for station and Project use, and depletions required under any federal license for the Project.

(x) "Prudent Utility Practice" shall mean at a particular time any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry at such time, or which, in the exercise of reasonable judgment in light of facts known at such time, could have been expected to accomplish the desired results at the lowest reasonable cost consistent with good business practices, reliability, safety and reasonable expedition. Prudent Utility Practice is not required to be the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and the requirements of governmental agencies of competent jurisdiction and shall apply not only to functional parts of a Project, but also to appropriate structures, landscaping, painting, signs, lighting and other facilities. In evaluating whether any matter conforms to Prudent Utility Practice, the parties shall take into account (i) the nature of the parties hereto under the

laws of the State of Alaska and their statutory duties and responsibilities, and (ii) the objective of integrating Project Capacity with the generating resources of the Purchasers, including resources available under contract, to achieve optimum utilization of the resources and achieve efficient and economical operation of each Purchaser's System. For purposes of this Agreement, "national standards for the industry" means Prudent Utility Practice.

(y) "Purchaser" means, as of any particular time, such of the Municipality of Anchorage d/b/a Municipal Light and Power, Chugach Electric Association, Inc., Golden Valley Electric Association, Inc., the City of Seward as have executed this Agreement, and the Alaska Electric Generation & Transmission Cooperative, Inc. ("AEG&T). The term "Purchaser" includes Homer Electric Association, Inc., and Matanuska Electric Association, Inc., only to the extent specified in Section 30 of this Agreement.

(z) "Purchaser's System" means a Purchaser's electric utility system for the distribution, transmission, and generation of electrical power and which is owned and operated by the Purchaser. If Purchaser's electric utility system is combined with other utilities of the Purchaser, then "Purchaser's System" includes only those facilities, activities, and revenues properly allocable to Purchaser's electric utility service. "Purchaser's System" does not include the Project, regardless of whether the Purchaser operates the Project under a separate agreement with the Authority.

(aa) "Purchaser's Water Allocation" means the number of acre feet of water from the Project allocated for generation purposes by the Committee to a Purchaser from time to time, based on that Purchaser's Percentage Share.

(bb) "Railbelt" means the geographic area served by the Purchasers.

(cc) "Railbelt Energy Fund" means a fund created by the legislature, the use of which is intended only for approved power supply and transmission projects in the Railbelt.

(dd) "REA" means the Rural Electrification Administration, an agency of the United States Department of Agriculture.

(ee) "Recoverable Construction Cost" means an amount equal to $175,000,000 less one half the amount, if

any, by which $350,000,000 exceeds the Cost of Acquisition and Construction, plus the principal amount of additional Bonds (if any) issued pursuant to Section 31.

(ff) "Renewal and Contingency Reserve Fund" means the Renewal and Contingency Reserve Fund established pursuant to Section 502 of the Bond Resolution.

(gg) "Required Action" means an action that must be taken in order for the Authority to comply with federal or state law, the orders of licensing and regulatory agencies, the Bond Resolution, or this Agreement.

(hh) "Required Project Work" means repairs, maintenance, renewals, replacements, improvements or betterments required by federal or state law, a licensing or regulatory agency with jurisdiction over the Project, or this Agreement, or otherwise necessary to keep the Project in good and efficient operating condition, consistent with (1) sound economics for the Project and the Purchasers, and (2) national standards for the industry.

(ii) "Revenue Fund" means the Revenue Fund established pursuant to Section 502 of the Bond Resolution.

(jj) "Trustee" means the trustee appointed pursuant to Article IX of the Bond Resolution, or that Trustee's successor or successors and any other corporation which may at any time be substituted in that Trustee's place under the Bond Resolution.

Section 2. Term Of Agreement.

(a) Effectiveness. This Agreement shall become effective on the first date when (i) the Agreement has been executed and delivered by all Purchasers and by the Authority, and (ii) each Purchaser has obtained all necessary approvals of this Agreement and of all transmission and/or services agreements for the transmission of Project power to the Purchasers. An approval shall not be considered "necessary" for purposes of this Section 2(a) unless, prior to or contemporaneously with delivery of this Agreement, the person or entity from which such approval must be obtained has been identified to the other parties in writing by the Purchaser requiring such approval. It is the intent of each Purchaser to take all steps reasonably within its power to obtain all necessary approvals from its governing body no later than December 1, 1987.

(b) Commencement of payment obligations. The payment obligations of each Purchaser under this Agreement shall commence on the Date of Commercial Operation; provided, that the Purchasers shall be obligated to pay those Committee costs referenced in the last sentence of Section

13(a) regardless of whether the Date of Commercial Operation occurs.

(c) Termination. This Agreement shall terminate (i) 50 years after the Date of Commercial Operation, or (ii) when no Bonds are Outstanding under the Bond Resolution and all payment obligations under this Agreement (other than any payment obligations under Section 29) have been satisfied or provided for, whichever occurs later; provided, that if the Date of Commercial Operation does not occur before January 1, 1996, then this Agreement shall terminate on January 1, 1996. The parties may mutually agree to terminate or to renew this Agreement prior to termination, subject, however, to the written approval of the Administrator of REA if such written approval is then required, and the terms and conditions of covenants and agreements between the Authority and holders of Bonds. If such approval is then required, no amendment of this Agreement shall take effect without the written approval of the Administrator of REA.

(d) Renewal. Any Purchaser may renew this Agreement on the same terms and conditions as provided herein for successive additional terms (such terms to equal forty (40) years or, if shorter, the remaining useful life of the Project), upon written notice to the Authority by the Purchaser given no less than six and no more than twenty-four months prior to the end of the term of this Agreement. Purchasers electing to renew this Agreement shall be entitled to have their Percentage Shares adjusted pro rata, based on their Percentage Shares as set forth in Exhibit D as that Exhibit exists twenty-four months prior to the end of the initial term of this Agreement, so that the adjusted Percentage Shares of the Purchasers renewing this Agreement total one hundred percent (100%). No renewing Purchaser shall be required to accept the entirety of the Percentage Share to which that Purchaser becomes entitled, but if the Percentage Shares of all renewing Purchasers do not total one hundred percent, the Authority may sell to any other utility that is a qualified purchaser of power under the Act any remaining Percentage Share or portion thereof upon the same terms and conditions applicable to the renewing Purchasers, if the Authority reasonably determines that such utility is able to carry out the obligations of a Purchaser under this Agreement and that such sale to such utility will not adversely affect the tax exemption of interest on any Bonds Outstanding under the Bond Resolution that originally were issued on a tax-exempt basis. The Authority shall not be obligated to renew this Agreement if, after reasonable notice to the renewing Purchasers, Percentage Shares that total one hundred percent have not been sold to such Purchasers or to other qualified utility purchasers.

Section 3. Exhibits. The following exhibits are incorporated by reference into this Agreement:

(a) Exhibit "A", Bond Resolution,

(b) Exhibit "B", Delivery Point,

(c) Exhibit "C", Description of the Project,

(d) Exhibit "D", Purchasers' Percentage Shares of Project Capacity and of Annual Project Costs, and

(e) Exhibit "E", Form Of Certain Supplemental Bond Resolutions.

Section 4. Electric Service To Be Furnished.

(a) Sale and purchase. The Authority hereby sells, and each Purchaser hereby purchases, that Purchaser's Percentage Share of Project Capacity (together with associated energy) from the Project in accordance with this Agreement. The actual delivery (if any) of electric capacity and associated energy to Purchasers from the Project shall be made in accordance with scheduling procedures adopted by the Committee.

(b) Available Power. The Authority shall at all times, except when prevented by a cause or event not within the control of the Authority, make power available to the Purchasers from the Project in an amount equal to the amount the Purchasers may schedule from the Project, within the limitations imposed by available Project capability, available water, and the scheduling procedures adopted by the Committee.

(c) Required Project Work. The Authority shall make or cause to be made all Required Project Work, provided that funds are legally available to the Authority for this purpose. The costs of Required Project Work shall be included in Annual Project Costs in the manner set forth in Section 8(a)(iv). The Authority shall give reasonable notification to all Purchasers prior to making or causing to be made any Required Project Work. Alternative methods (if any) of carrying out and funding Required Project Work shall be subject to approval by the Committee under rules of procedure to be adopted pursuant to Section 13.

(d) Optional Project Work. The Authority shall not make or cause to be made Optional Project Work unless such Optional Project Work is approved by the Committee. Any Optional Project Work shall be at the expense of the benefitted Purchaser(s), as determined in advance by the Committee, in proportion to the value of the benefit conferred upon each such Purchaser. If such Optional Project Work has an adverse impact upon the operations or finances of a Purchaser as determined by the Committee, the benefitted Purchaser(s) shall compensate the adversely affected Purchaser(s) for the increased costs and reduced benefits resulting from such impact. In the event the Purchasers are unable to agree as to how any increased costs or compensation will be apportioned, or as to the amount of any increased costs or appropriate compensation, the parties shall submit the question to dispute resolution in accordance with the dispute resolution procedures adopted by the Committee under Section 13.

Section 5. Electric Power Reserves For The Project

(a) Need for reserves. The parties recognize that (i) electric power from the Project may be unavailable periodically because of generation and transmission outages, repairs, maintenance, inspections, testing, and similar events, and (ii) under the Alaska Intertie Agreement or otherwise, each Purchaser is responsible for maintaining (or contracting for the use of) generation reserves in amounts sufficient to protect its own loads in the event that Project power is unavailable.

(b) Reserve procedures. Promptly after its establishment, the Committee shall adopt and implement procedures under which, in as cost-effective a manner as possible:

(i) the Authority shall have the right to require the operation of specific amounts of generating capacity owned by a Purchaser and made available to the Authority, and to use the power produced by such operation to provide reserves to requesting Purchasers for some or all Project power, to the extent such capacity would otherwise be idle or its output would otherwise not be needed by the owner of that capacity to enable that Purchaser to meet its own loads or to make power sales to other utilities;

(ii) the additional costs incurred by any Purchaser in making such capacity available to the Authority and in operating the same for the Authority shall be computed equitably and reimbursed promptly to such Purchaser by the Authority; and

(iii) the costs of so reimbursing any Purchaser shall be included in Annual Project Costs.

(c) Alternative reserves. Nothing in Section 5(b) shall:

(i) relieve any Purchaser of the responsibility set forth in Section 5(a)(ii);

(ii) require any Purchaser to make reserve capacity available to the Authority under Section 5(b)(i); or

(iii) require any Purchaser to avail itself of reserve power available from the Authority under Section 5(b)(i), or to bear any of the costs of such power if the Purchaser does not avail itself of such power, if the Purchaser chooses and is able to rely upon its own reserves to meet its loads when Project power is unavailable.

Section 6. Obligations Under Bond Resolution; Completion of Project.

(a) Assignment or payment to Trustee. The parties recognize and agree that (i) the Authority may assign its rights to receive payments under this Agreement as security for the payment of the Bonds to the Trustee under the Bond Resolution for the benefit of the holders of the Bonds, and (ii) the Authority may direct that amounts payable to it under this Agreement be paid directly to the Trustee.

(b) Project funding. The Authority shall issue Bonds, or otherwise obtain funds (including appropriations), sufficient to pay or reimburse the Cost of Acquisition and Construction. Annual Project Costs shall include Debt Service on Bonds issued to pay the Cost of Acquisition and Construction in an aggregate principal amount up to but not exceeding the Recoverable Construction Cost. The Authority may estimate the Recoverable Construction Cost and issue Bonds at any time in amounts up to the amount of such estimate. As soon as practicable after the Date of Commercial Operation, the Authority shall adjust (and re-adjust when necessary) Annual Project Costs to reflect actual Recoverable Construction Cost.

(c) Covenants of the Authority. The Authority covenants that it will not cause rates for Project Power to increase by reason of any bond resolution, covenant or agreement contained in any trust indenture or trust agreement entered into by the Authority in connection with a power project other than the Project, nor on account of any inadequacy in its actual or projected aggregate

revenues, other than revenues from the Project, nor will the Authority include in Annual Project Costs debt service payable on debt incurred for any purpose except in respect of the Project as provided herein.

(d) Project completion and operation. The Authority agrees to use its best efforts to complete the Project expeditiously and in accordance with sound engineering practice and with the provisions of the Bond Resolution. The Authority shall also use its best efforts consistent with Prudent Utility Practice to construct and complete, and to operate and maintain the Project (or to arrange for such operation and maintenance) to provide power at the lowest reasonable cost to the Purchasers in a manner that is compatible with the Purchasers' Systems and consistent with the Act, the Bond Resolution, and this Agreement.

(e) Best efforts by Committee members. To the extent that the cost of Project power is or may be affected by actions of the Committee under Section 13, each Purchaser in its capacity as a member of the Committee agrees to use its best efforts consistent with Prudent Utility Practice to assist in assuring that the Project provides power at the lowest reasonable cost to the Purchasers in a manner that is compatible with the Purchasers' Systems and consistent with the Act, the Bond Resolution, and this Agreement.

Section 7. Payment Obligation.

(a) Payment Obligation. Each Purchaser agrees to pay its Percentage Share of Annual Project Costs for each Fiscal Year. The procedures for determining the amount of and for making such payments are set forth in Section 13 of this Agreement.

(b) Purchaser's Obligations. Each Purchaser shall make payments in the amounts and at the times required by this Agreement notwithstanding a suspension or reduction in the amount of power supplied by the Project. Such payments shall not be subject to any reduction, by offset or otherwise. The parties intend and interpret the foregoing two sentences to mean that the obligation to make such payments shall be absolute and unconditional and unaffected by any interruption, interference, or curtailment in whole or in part of power supplied by the Project. In the event that (i) the Project is no longer operable, or its operation is interrupted or curtailed for any reason whatsoever in whole or in part, and (ii) the Authority does not restore the Project to full operation within a reasonable time, then the Purchasers may upon reasonable notice to the Authority and at their own expense take such action as they deem necessary to so restore the Project.

The taking of such action by the Purchasers shall not alter each Purchaser's obligation to pay its Percentage Share of Annual Project Costs.

Section 8. Annual Project Costs

(a) Annual Project Costs defined. Annual Project Costs means all of the costs resulting from the ownership, operation, maintenance of and renewals and replacements to the Project, properly incurred or paid during each Fiscal Year, including:

(i) Amounts required to be set aside by the Authority for the payment of Debt Service on Bonds issued to pay the Cost of Acquisition and Construction in an aggregate principal amount up to but not exceeding the Recoverable Construction Cost;

(ii) Amounts required to be set aside for the payment of Debt Service on other Bonds and debt service on other obligations approved in accordance with Sections 11 and 13;

(iii) Amounts required to restore the funds established under the Bond Resolution to the levels required by the Bond Resolution to be maintained therein;

(iv) Amounts which may be required to pay for Required Project Work, to the extent that such costs are not covered by insurance or Bond proceeds or by the Renewal and Contingency Reserve Fund;

(v) Other amounts determined by the Committee to be necessary or appropriate to supplement and to be paid into the Funds established under the Bond Resolution;

(vi) Excess Payment Amounts, if any, computed in accordance with Section 29;

(vii) All other costs of producing and delivering Project power (excluding depreciation) not accounted for by the payments out of funds and reserves specified in the foregoing sections and properly chargeable to the Project under the Uniform System of Accounts, less any credits against said costs by reason of revenues from sources other than the direct sale of power to Purchasers, and also less any credits for interest earned during construction and available for Project purposes; provided, that income from interest earned on reserve funds shall be used at least annually to accumulate and maintain said reserve funds in the amounts required under the Bond

Resolution or in such greater amounts as may be determined by the Committee, or to reduce Annual Project Costs. Such other costs shall include:

(A) Project operating and maintenance costs, in accordance with the Annual Budget adopted in accordance with Section 13;

(B) Costs of Project-related insurance, and, to the extent permitted with respect to each Purchaser under Section 5, the costs of electric power reserves for the Project;

(C) Project-specific administrative and general expenses of the Authority, such as costs of safety inspections and investigations;

(D) Costs of the Committee, whether incurred by the Authority or incurred by a Purchaser on behalf of the Committee; and

(E) Such other Project costs as the Committee may from time to time approve for inclusion in Annual Project Costs in accordance with procedures to be adopted by the Committee.

(b) Proceeds of a taking. Any payment received by the Authority as a result of a taking of the whole or any portion of the capacity, facilities, available water, or output of the Project by any state or federal government agency shall be used by the Authority, after consultation with the Committee, to (i) reduce Annual Project Costs, (ii) retire Bonds, or (iii) reimburse the State of Alaska for a portion of the State's capital contribution to the Project (recognizing the separate sources of Project funding under Section 6(b)), whichever of these uses or combination of such uses shall be equitable and proper under the circumstances existing at the time of the taking.

Section 9. Obligations In The Event Of Default.

(a) Enforcement. Upon failure of a Purchaser to perform any obligation herein, the Authority may bring any suit, action or proceeding at law or in equity ("Suit"), including mandamus, injunction and action for specific performance, as may be necessary or appropriate to enforce any covenant, agreement or obligation of this Agreement against that Purchaser. The Authority may bring such Suit (i) thirty days after giving the Purchaser a written demand for performance, in the case of default by the Purchaser on any obligation other than a payment obligation, and (ii) immediately, in the case of default by the Purchaser on any payment obligation. Each Purchaser

shall continue to make payments in the event of any dispute regarding performance of any obligation by any party under this Agreement or in the event of any dispute under the Bond Resolution, and this obligation of continued payment pending resolution of disputes shall be immediately enforceable by any party upon application to any court of competent jurisdiction.

(b) Additional rights and remedies. In addition to the Authority's rights under Section 9(a), if a Purchaser has for any reason suspended or reduced, or has failed to make or has been prevented from making, payments required under this Agreement, the Authority may terminate or suspend the delivery of power to that non-paying Purchaser if, after consulting with the other Purchasers, the Authority reasonably determines that such termination or suspension is more effective than other available alternatives in minimizing adverse impacts on such other Purchasers.

(i) If the Authority so terminates or suspends deliveries, the Authority shall:

(A) offer to other Purchasers, on terms and conditions applicable to other power sold under this Agreement, any power not delivered to the non-paying Purchaser, and if necessary allocate such power pro rata on the basis of Percentage Shares among Purchasers accepting such offer;

(B) offer any power not sold under Section 9(b)(i)(A) to any qualified utility (including the other Purchasers) on terms and conditions deemed favorable by the Authority after consultation with the Committee; and

(C) if the Authority projects that the amounts to be deposited into the Revenue Fund will nonetheless be insufficient to pay Annual Project Costs, increase every other Purchaser's Percentage Share of Annual Project Costs and Project Capacity pro rata to the extent and for the period necessary to compensate for such insufficiency; provided, that no Purchaser's Percentage Share shall be increased by more than twenty-five (25) percent above the amount set forth in Exhibit D without the written consent of that Purchaser.

(ii) If the Authority determines that the process of offering power to others under Sections 9(b)(i)(A) or (B) would delay exercise of the Authority's rights under Section 9(b)(i)(C), and that as a

result the Authority will be unable to make deposits when required under the Bond Resolution, the Authority may exercise its rights under (C) immediately and take the actions required under (A) and (if necessary) under (B) as soon as practicable thereafter. No exercise by the Authority of any of its rights (or any failure by the Authority to exercise any of its rights) under this Section 9(b) shall relieve any non-paying Purchaser of any payment obligation under this Agreement or relieve such Purchaser of any liability for damages resulting from non-payment. In particular, sales of power under Section 9(b)(i)(A) and (B) are intended to reduce the financial impact of any Purchaser's non-payment on other, paying Purchasers. Such sales are not intended to, nor shall they, reduce the payment obligations of the non-paying Purchaser or the damages for which such non-paying Purchaser may be liable.

(iii) To the extent that the Authority uses Project reserve funds to permit it to make timely payments under the Bond Resolution following non-payment by a Purchaser, the amount needed to replenish such reserve funds shall be added to the Annual Payment Obligation of the non-paying Purchaser, and if the non-paying Purchaser fails to make payment of its Annual Payment Obligation as so increased, the Authority may exercise any of the rights available to it under this Section 9(b).

(c) Litigation. If Purchasers' Percentage Shares are increased pursuant to Section 9(b)(i)(C), then the Authority shall, and any other Purchaser(s) may, immediately initiate and diligently pursue litigation in any court of competent jurisdiction to compel full and timely payment by the non-paying Purchaser, to recover amounts needed to compensate Purchasers whose Percentage Shares have been increased, and to obtain such other relief as shall be fair and equitable. The same or similar litigation against any non-paying Purchaser may also be initiated and pursued by the Authority and/or by any paying Purchaser if in response to any non-payment the Authority takes action pursuant to Sections 9(b)(i)(A) or (B).

(d) Default by the Authority. In the event of any default by the Authority under any covenant, agreement or obligation under this Agreement with respect to a Purchaser, that Purchaser may, upon thirty (30) days written notice to the Authority, bring any suit, action or proceeding, at law or in equity, including mandamus, injunction and action for specific performance, as may be necessary or appropriate to enforce any covenant, agreement or obligation of this Agreement against the Authority. No

payment obligation of a Purchaser under this Agreement is subject to offset, however.

Section 10. Purchasers' Systems.

(a) Character of expense. The amounts payable under this Agreement are operating expenses of each Purchaser's System, and are valid and binding obligations of each Purchaser, payable only from the gross revenues of said Purchaser's System as a cost of purchased electric power, and not payable from any taxes.

(b) Purchasers' rate covenants. In order to afford, permit, and make timely payments as specified in this Agreement, each Purchaser agrees that it will establish, charge and collect rates, fees, and charges with respect to that Purchaser's System in accordance with applicable law to provide revenues sufficient to meet its obligations under this Agreement and sufficient to pay, together with any other funds or monies available therefor, any and all other amounts payable from or which constitute or may constitute a charge and lien upon such revenues including, but not limited to, amounts sufficient to meet obligations to service debt incurred by the Purchaser to finance the Purchaser's System.

(c) Operation and maintenance of Purchasers' Systems. Each Purchaser covenants and agrees that it will operate and maintain its System in good repair, working order and condition, and in accordance with Prudent Utility Practice.

(d) Limitation on certain contracts. Each Purchaser covenants and agrees not to enter voluntarily into any contract or agreement to take or to take or pay for power, other than this Agreement, payable from the revenues of the Purchaser's System on a parity with or superior to the payment of its obligations under this Agreement, except that a Purchaser may enter into such a contract or agreement of not to exceed two years' duration under which the Purchaser's payment obligation is on a parity with the payment of its obligations under this Agreement. The limitations of this Section 10(d) shall not apply to contracts or agreements creating obligations on a parity with obligations under this Agreement if a written opinion from a Consultant is rendered that (i) the contract or agreement is reasonably expected to contribute to the conduct of the business of the Purchaser's System in an efficient and economical manner consistent with Prudent Utility Practice, and (ii) the contract or agreement will not impair the ability of the Purchaser to raise revenues sufficient to meet its obligations under this Agreement.

Section 11. Bond Resolution.

(a) Amendment or supplementation of Bond Resolution. Except as provided in Section 12, the Authority will not amend or supplement the Bond Resolution in any manner, or adopt a new Bond Resolution in connection with the refunding of the Bonds, which would materially adversely affect the ability of a Purchaser to fulfill the terms of this Agreement or impose any increased burden or obligation, financial or otherwise, on a Purchaser, without the consent of the Purchaser, unless:

(i) the Committee has approved the Authority's proposed action by a resolution adopted by the affirmative vote of members whose Percentage Shares equal or exceed eighty percent (80%) of Project Capacity and of Annual Project Costs; or

(ii) the Committee by majority vote of the Purchasers requests that Required Project Work be paid for out of the proceeds of Bonds, and such Work is projected to cost in excess of the amount of money then available in the Renewal and Contingency Reserve Fund established pursuant to the Bond Resolution, plus available insurance proceeds, in which event, if such Bonds can then be legally issued and can be sold, the Authority shall issue such Bonds, payable from the Revenues of the Project (as defined in the Bond Resolution), to pay the portion of such costs which exceed insurance proceeds, if any, and to restore said Reserve Fund to its required level.

(b) Insurance. The Authority will maintain physical loss insurance to the extent required by the Bond Resolution, and the Authority will consult with the Committee as provided in Sections 12 and 13 with respect to the disposition of proceeds of said insurance received as a consequence of physical destruction or impairment of the Project, including but not limited to disposition for the purpose of redemption of Bonds, replacement of the Project, or replacement of power. The Committee shall advise the Authority from time to time as to the appropriate extent of insurance coverage.

(c) Information. The Authority shall provide each Purchaser a copy of any report, certificate, letter, or other communication which the Authority is required to furnish to the Trustee under the Bond Resolution or that the Trustee furnishes to the Authority.

Section 12. Purchasers' Consent To Supplemental Bond Resolutions To Construct The Project. The Purchasers hereby consent to the adoption by the Authority of supplemental Bond Resolutions pursuant to Section 11(a), as necessary to comply

with the Authority's obligation to finance and construct the Project pursuant to Section 6(b) and the Authority's obligation under Section 6(d) to use its best efforts to complete the Project expeditiously and in accordance with sound engineering practices and with the provisions of the Bond Resolution. The Authority shall consult with the Purchasers regarding the provisions to be included in such supplemental Bond Resolutions, and shall use its reasonable best efforts to comply with the requests of the Purchasers with respect thereto. Unless otherwise approved in accordance with Section 11(a)(i), such supplemental Bond Resolutions shall:

(a) provide that the total amounts required for the payment of Debt Service when due shall be, on an annual basis, as nearly equal as practicable;

(b) provide that the final maturity of Bonds issued pursuant to such supplemental Bond Resolutions shall not be earlier than twenty-five (25) years from the date when the first of such Bonds is issued;

(c) be substantially in the form attached hereto as Exhibit E, except to the extent that the Authority finds that modifications are necessary to sell the Bonds on a tax-exempt basis; and

(d) be adopted no earlier than January 1, 1989.

Section 13. Establishment Of The Committee.

(a) Formation and composition of the Committee. The parties agree that a Project Management Committee ("Committee") shall be established on January 15, 1988, or on such earlier date as may be agreed to by the parties. The Committee shall consist of the Authority and the Purchasers (including as Purchasers for this purpose both Homer Electric Association, Inc., and Matanuska Electric Association, Inc., for themselves and for AEG&T as a Purchaser represented by and through those utilities). No Committee member shall obtain an additional vote through merger with, acquisition of, or assignment from any other Committee member, and AEG&T shall have no direct vote, but shall be represented by and through Homer Electric Association, Inc., and Matanuska Electric Association, Inc., each of which shall be entitled to vote as a Purchaser member for purposes of Committee procedure. Each Committee member entitled to vote shall name one representative to serve on the Committee and one designated alternate for that representative. Each such member shall notify all other members in writing of the names, addresses, and telephone numbers of its representative and designated alternate. After it is established, the Committee shall meet not less than once each quarter. Costs of the Committee (other than costs incurred by the Authority) which

are incurred prior to the Date of Commercial Operation shall be borne by the Purchasers in accordance with the Percentage Shares of each.

(b) Adoption of rules of procedure. The Committee shall adopt, by the affirmative vote of a majority of the Purchasers and the affirmative vote of the Authority, procedural rules governing the conduct of the Committee's affairs. Such rules shall address, among other matters, procedures for the periodic selection of Committee officers, the conduct of Committee meetings, dispute resolution, the approval (including possible pre-approval) of Consultants, and modification of the Committee's procedural rules, and, to the extent not otherwise specified in this Agreement, such rules shall also specify the applicable voting requirements for approval of matters to be decided by the Committee. Committee approval of operations and maintenance arrangements for the Project, the sufficiency of the annual budget and wholesale power rates, and the undertaking of Optional Project Work shall require the affirmative vote of a majority of the Purchasers and the affirmative vote of the Authority.

(c) Committee responsibilities; approval by the Authority.

(i) As the legal owner and licensee of the Project, the issuer of Project debt, and the agency charged by statute with various duties affecting or affected by the Project, the Authority has certain non-delegable rights, duties, and responsibilities with respect to the Project. Subject to such non-delegable rights, duties, and responsibilities, the Committee shall be responsible for the management, operation, maintenance, and improvement of the Project, in recognition that as take-or-pay purchasers of Project Capacity after the Date of Commercial Operation, the Purchasers have substantial long-term financial interests in, and service and planning responsibilities affected by, the Project.

(ii) The Committee shall take the following actions, subject to the provisions of the Bond Resolution, federal and state law, the requirements of licensing and regulatory agencies, and the rights of the Authority and the Purchasers under other provisions of this Agreement:

(A) Arrange for the operation and maintenance of the Project, and the scheduling, production, and dispatch of Project power;

(B) Establish procedures for the use of each Purchaser's Water Allocation in a manner

consistent with the needs and desires of other Purchasers and the capabilities of the Project;

(C) Adopt in each Fiscal Year (and revise as necessary or prudent during such Fiscal Year) a budget of Annual Project Costs for that Fiscal Year, which budget shall be in an amount estimated by the Committee to be sufficient to pay all Annual Project Costs;

(D) Establish for each Fiscal Year the estimated Annual Payment Obligation of each Purchaser, together with a schedule for each Purchaser of equal monthly payments that such Purchaser shall be required to make during that Fiscal Year, which payment schedule shall be (I) designed to recover such estimated Annual Payment Obligation from that Purchaser during the Fiscal Year, and (II) revised during such Year to reflect any revisions to the budget of Annual Project Costs for that Fiscal Year;

(E) Determine after the conclusion of each Fiscal Year the actual Annual Project Costs for that Fiscal Year, the actual Annual Payment Obligation of each Purchaser for that Fiscal Year, and the amount of any additional payment required from (or the amount of any refund to be returned to) each Purchaser to ensure that the total of all payments received from each Purchaser for each Fiscal Year is equal to that Purchaser's actual Annual Payment Obligation for that Fiscal Year;

(F) Evaluate and select among alternative methods (if any) of carrying out and funding (including through issuance of bonds) Required Project Work;

(G) Adopt provisions to evaluate and approve Optional Project Work, and to determine the compensation (if any) to be provided in accordance with Section 4(d) of this Agreement if the Committee approves any such Optional Project Work;

(H) Adopt procedures consistent with Section 13(f) for the resolution of disputes that may arise between or among the Purchasers and the Authority concerning the interpretation of this Agreement, the obligations created by this Agreement, or the performance of such obligations;

(I) Make an initial determination of "customary" insurance within the meaning of Section 714 of the Bond Resolution and determine the appropriate amount of, and obtain, insurance for or related to the Project, in addition to such insurance as may be required by the Bond Resolution;

(J) Adopt maintenance schedules for the Project that do not interfere unreasonably with the operations of the Purchasers;

(K) Adopt and implement procedures relating to electric power reserves for the Project in accordance with Section 5; and

(L) Consider the need for and approve any additional amount to be added to the Renewal and Contingency Reserve Fund over and above the Renewal and Contingency Reserve Requirement provided under the Bond Resolution.

(iii) If and when no Bonds are outstanding under the Bond Resolution, and the Bond Resolution is therefore no longer effective, the Committee shall provide for the establishment of such accounts and the taking of such actions as may be necessary to manage the Project.

(d) Payment obligation unimpaired. Notwithstanding any Committee action or inaction under this Agreement, each Purchaser's obligation to make the monthly payments necessary to pay its Purchaser's Percentage Share of Debt Service, costs of operation and maintenance, and all other amounts to be paid by Purchasers under this Agreement shall be absolute and unimpaired.

(e) The Authority's ability to take Required Action. In the event the Committee fails to take any of the actions set forth in Section 13(c)(ii)(C)-(E) in a timely fashion, or fails to take any other action which the Authority believes to be a Required Action, and as a result the Authority determines that it will be unable to meet any of its obligations imposed by statute, by the Bond Resolution, by this Agreement, or by any licensing or regulatory agency, then the Authority may (i) adopt a budget of Annual Project Costs, (ii) estimate the Annual Payment Obligation of each Purchaser, (iii) require each Purchaser to make payments on the basis of such estimated Annual Payment Obligation, and (iv) take such other action as the Authority deems necessary to meet such obligations. Failure of the Committee to adopt an Annual Project Budget by the ninetieth (90th) day prior to the beginning of a Fiscal Year shall permit the Authority to adopt an Annual

Project Budget pursuant to this subsection. All actions and determinations under this Section 13(e) shall be taken and made in accordance with Prudent Utility Practice.

(f) Purchasers' duties and rights of review. Each Purchaser shall make payment as required by the Authority as a result of any action taken by the Authority under Section 13(e), but such payment shall not constitute a waiver of any Purchaser's rights under this Agreement. Any Purchaser may seek review of such action in accordance with the dispute resolution procedures adopted by the Committee, or may seek to enforce this Agreement judicially in accordance with Section 9(d) if no applicable dispute resolution procedures have been adopted.

Section 14. End Of Project

(a) Authority's declaration. The Authority shall declare the Project ended, and the Authority's obligations to make power available to the Purchasers and to operate and maintain (or to assure the operation and maintenance of) the Project shall also end, if and when (i) such a declaration is required under Section 14(b), or (ii) the Project can no longer be operated in accordance with Prudent Utility Practice.

(b) Consultant's report. The Authority shall make the declaration described in Section 14(a) if all of the following conditions are met:

(i) the Project cannot be operated at full capacity in a manner consistent with Prudent Utility Practice absent repairs, modifications, or additions ("Repairs") to the Project;

(ii) a Consultant retained by the Committee concludes that such Repairs are not cost-effective in comparison with other power supply alternatives then available to the Purchasers; and

(iii) Committee members who are Purchasers and whose Percentage Shares total eighty percent (80%) vote that such Repairs should not be undertaken.

(c) Consequences of Authority's declaration. After the Authority has declared the Project ended, each Purchaser shall complete its payment obligation for Project Capacity and associated energy delivered to such Purchaser before the Project ended, and shall do so by paying its Percentage Share of Annual Project Costs until all Bonds have been paid or provision has been made for the payment of the Bonds in accordance with the Bond Resolution; provided, that from the date on which the Authority

declares the Project ended, Annual Project Costs shall no longer include (except with Committee approval) costs other than those set forth in Sections 8(a)(i), 8(a)(ii), 8(a)(iii), 8(a)(vii)(C), and 8(a)(vii)(D).

Section 15. Records. In addition to meter records, the parties shall keep log sheets and other records as may be needed for the purposes of this Agreement. In keeping books of account, each Purchaser will, to the extent that different rules are not prescribed by this Agreement or by federal and state laws or agencies, follow the system of accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission, except that as long as a Purchaser is a borrower from REA then it shall follow the system of accounts prescribed by REA for its electric borrowers.

Section 16. Inspection Of Facilities. For purposes of this Agreement, each party may, but shall not be obligated to, inspect any other party's facilities relating to the Project at any time upon reasonable notice, but such inspection or failure to inspect shall not render the inspecting party, its officers, agents or employees, liable or responsible for any injury, loss, damage, or accident resulting from defects in such electric installation, or for violation of this Agreement.

Section 17. Covenants To Maintain Integrity Of Agreement.

(a) Retail rate approval. Each Purchaser will affirmatively and promptly pursue all administrative and judicial remedies necessary to secure Alaska Public Utility Commission approval of retail rates required to meet the terms of this Agreement where Commission approval is required.

(b) Compliance with law. Each Purchaser will take all necessary steps to comply with applicable federal and state laws and regulations, licenses and permits relating to the use and operation of the Purchaser's System.

(c) Sales, mergers, and assignments. No Purchaser shall abandon, sell, mortgage, lease or otherwise dispose of the Purchaser's System or any assets of that System (including by sale to or merger with any other utility), or assign this Agreement or any interest thereunder to any assignee or successor in interest, unless:

(1) such disposal or assignment accords with the terms of any of the Purchaser's covenants or agreements with the holders of the Purchaser's bonds, notes or other evidences of indebtedness relating to the abandonment, sale, mortgage, lease or other disposition of property of the Purchaser's System; and

(2) such disposal or assignment is:

(A) consented to in writing by a majority of the Committee, including the Authority's representative; or

(B) made to another utility that is already a Purchaser under this Agreement and is able to meet the obligations resulting from the disposal or assignment; or

(C) limited to assets that the Purchaser determines to be surplus to the needs of that Purchaser's System, but the depreciated value of assets so disposed of or assigned in any given year shall not exceed five percent (5%) of the depreciated value of the assets of the Purchaser's System prior to the disposal or assignment; or

(D) evaluated by a Consultant and that Consultant certifies that, taking into account the other obligations of the Purchaser or of the assignee or successor in interest (as the case may be), the Purchaser or the assignee or successor in interest will have (A) substantially the same or greater ability to produce sufficient revenues to meet its payment obligations as would the Purchaser absent the transaction, and (B) the ability to perform all obligations under this Agreement.

Any assignee of this Agreement must assume in writing all of the assigning Purchaser's obligations hereunder, must pay any amounts due and owing from the assigning Purchaser hereunder, and (unless the assignee is already a Purchaser) must provide the Authority and the Purchasers with an opinion of counsel that this Agreement is enforceable against the assignee.

(d) Status of Bonds. The parties will not take any action, including entry into power sales agreements, which would cause the interest on any Bond which is originally issued on a tax-exempt basis to become taxable under the Internal Revenue Code of 1986, as the same may be amended from time to time.

(e) Licenses and permits. The parties will take all necessary steps within their control to comply with applicable federal and state laws and regulations, and to obtain and thereafter comply with all applicable licenses and permits relating to the use and operation of the Project, including without limitation, the Federal Energy Regulatory Commission license applicable to the

Project. The Authority will take all necessary steps to cause the Federal Energy Regulatory Commission license to be renewed, if necessary, so that it is in effect during the term of this Agreement or any renewal hereof.

Section 18. Assignment.

(a) Assignment generally. This Agreement shall inure to the benefit of, and shall be binding upon the respective successors and assigns of the parties to this Agreement; provided, that this Agreement or any interest herein may be transferred or assigned by a Purchaser only in accordance with the provisions of Section 17(c).

(b) Specific rights and transactions. Notwithstanding Sections 17(c) and 18(a):

(1) A Cooperative Purchaser shall have the right to assign its assets, including its rights under this Agreement for security purposes to REA, or to a lender or guarantor in connection with loans to such Cooperative Purchaser where the proceeds of such loans are used to refinance obligations of such Cooperative Purchaser to REA or the Federal Financing Bank under Section 311 of the Rural Electrification Act or otherwise; provided, however, that (A) neither REA nor any secured lender or guarantor exercising any rights, powers or privileges with respect to this Agreement under any mortgage, deed of trust or other security agreement shall be entitled to exercise the rights of the Cooperative Purchaser under this Agreement unless the obligations of such Cooperative Purchaser hereunder shall have been performed, (B) no such assignment shall in any way relieve such Cooperative Purchaser of any obligations hereunder, and (C) no assignment shall be permitted hereunder if such assignment would adversely affect the tax exemption of interest on any Bonds Outstanding under the Bond Resolution that originally were issued on a tax-exempt basis.

(2) A Purchaser's agreement to resell power from the Project shall not be deemed a transfer or assignment of this Agreement, but neither shall any such resale of Project power relieve the Purchaser of any payment obligation under this Agreement.

Section 19. Notices, Computation Of Time And Holidays. Any notice required by this Agreement to be given to any party shall be effective when it is received by such party, and in computing any period of time from such notice, such period shall commence at 12:01 p.m. prevailing time at the place of receipt on the date of receipt of such notice. Whenever this Agreement calls for notice to or notification by any party the

same (unless otherwise specifically provided) shall be in writing directed to the Authority's executive director or a Purchaser's general manager. If the date for making any payment or performing any act is a day on which banking institutions are closed in the place where payment is to be made or a legal holiday, payment may be made or the act performed on the next succeeding day which is neither a legal holiday nor a day when banking institutions are closed in such place.

Section 20. Applicable Law. The laws of the State of Alaska (including without limitation the equal opportunity laws set forth in AS 18.80.220, as the same may be amended from time to time) shall govern the interpretation and application of this Agreement and the actions of the parties hereunder.

Section 21. Availability Of Information. The parties shall make available to each other, for inspection and copying during business hours, all books, records, plans and other information relating to any calculation or determination to be made pursuant to this Agreement.

Section 22. Severability.

(a) Severability generally. If any section, paragraph, clause or provision of this Agreement or any agreement referred to in this Agreement shall be finally adjudicated by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Agreement shall be unaffected by such adjudication and all the remaining provisions of this Agreement shall remain in full force and effect as if such section, paragraph, clause or provision or any part thereof so adjudicated to be invalid had not been included herein.

(b) Correction and substitution. If any section, paragraph, clause or provision of this Agreement or any agreement referred to in this Agreement shall be finally adjudicated by a court of competent jurisdiction to be invalid or unenforceable, then and in such event the parties agree that they shall exercise their best efforts to correct such invalidation and substitute appropriate agreements and contractual arrangements to achieve the intent of this Agreement.

(c) References to REA. From and after the time any Cooperative Purchaser is no longer indebted to REA under any mortgage or other security agreement with REA, all references to REA and required approvals of the Administrator of REA provided for in this Agreement shall be of no further force and effect with respect to that Cooperative Purchaser.

Section 23. Remedies Cumulative. No remedy conferred upon or reserved to the parties hereto is intended to be

exclusive of any other remedy or remedies available hereunder or now or hereafter existing at law, in equity, by statute or otherwise, but each and every such remedy shall be cumulative and shall be in addition to every other such remedy.

Section 24. Waiver Not Continuing. Any waiver at any time by either party to this Agreement of its rights with respect to any default of the other party hereto, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any subsequent default, right or matter.

Section 25. Section Headings. The section headings in this Agreement are for convenience only, and do not purport to, and shall not be deemed to, define, limit or extend the scope or intent of the section to which they pertain.

Section 26. Multiple Copies. This Agreement shall be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

Section 27. Covenant To Act In Good Faith. In order to permit this Agreement, throughout its term, to be fully effective in accordance with the original intent of the parties, each party agrees that it shall at all times act in good faith in performing its obligations and in exercising its rights under this Agreement.

Section 28. No Third Party Beneficiaries. Notwithstanding that the operation of this Agreement may and is intended to confer benefits on third parties who are not signatories to this Agreement, this Agreement shall be enforceable only in accordance with its provisions expressly governing enforcement. In promising performance to one another under this Agreement, the parties intend to create binding legal obligations to and rights of enforcement in (a) one another, and (b) such assignees or successors in interest of the parties as may enjoy a right to enforce this Agreement by virture of provisions of this Agreement that expressly create such a right in such assignees or successors in interest. By entering into this Agreement, the parties expressly do not intend to create any obligation or promise any performance to any other third party, nor have the parties created for any other third party any right to enforce this Agreement.

Section 29. Excess Payments.

(a) Payments in Recognition of Efforts to Obtain Intertie. In recognition of the Railbelt Energy Council's commitment to continue efforts to obtain a satisfactory transmission intertie between Fairbanks and the Kenai Peninsula, and the Railbelt Energy Council's recognition of the importance of such an intertie to the well-

being of the Railbelt region and the Purchasers' ratepayers, and in anticipation of legislative funding of such an intertie, the Purchasers agree to make the payments described below in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs. The Purchasers' obligations to make payment under this Section 29 are not contingent upon the success of such continued efforts to obtain a satisfactory transmission intertie between Fairbanks and the Kenai Peninsula.

(b) Calculation of Excess Payment Amount. Subject to the limitations set forth in Sections 29(e) and 29(f), upon the retirement of all Bonds issued to pay Recoverable Construction Costs (and of all Bonds issued to refund such Bonds) and the consequent reduction of Debt Service includable in Annual Project Costs, there shall be added to and included in Annual Project Costs an amount (the "Excess Payment Amount") calculated as follows:

(i) The average annual Debt Service on such retired Bonds, less

(ii) any debt service included in Annual Project Costs that is associated with bonds or other debt issued to fund Required Project Work.

In no event shall the Excess Payment Amount be negative.

(c) Payment of Excess Payment Amount. Each Purchaser shall pay its Percentage Share of the Excess Payment Amount as part of that Purchaser's Annual Payment Obligation so long as that Purchaser continues to purchase Project power under this Agreement or any renewal thereof.

(d) Disposition of Payments. All Excess Payment Amounts received from Purchasers, and all additional charges paid pursuant to Section 29(b), shall be paid to the Authority for deposit into the Railbelt Energy Fund.

(e) Limitation. Notwithstanding any other provision of this Section 29, no Purchaser's Annual Payment Obligation shall include a charge with respect to any Excess Payment Amount in excess of four cents ($0.04) per kilowatthour of Project power delivered to such Purchaser.

(f) Duration. The provisions of this Section 29 shall not serve to extend the term of this Agreement or any renewal thereof, and shall cease to be effective upon the expiration or termination of this Agreement (as the same may be extended through any renewal thereof).

Section 30. Special Arrangements Regarding AEG&T.

(a) Contracts acknowledged. The parties recognize that Homer Electric Association, Inc. ("HEA") and Matanuska Electric Association, Inc. ("MEA"), have previously entered into contracts with the Alaska Electric Generation & Transmission Cooperative, Inc. ("AEG&T"), and that under such contracts AEG&T is to sell and HEA and MEA are to buy electric power in amounts necessary to meet the full requirements of HEA and MEA, such power to be generated by AEG&T or to be purchased by AEG&T from other suppliers. Under this Agreement, therefore, AEG&T is a Purchaser on behalf of HEA and MEA, and AEG&T's payment obligations are secured by HEA's and MEA's respective obligations to provide at all times the monies necessary for the performance of AEG&T's payment obligations, as more fully described in Section 30(b).

(b) Treatment of HEA and MEA as Purchasers for certain purposes. HEA and MEA shall have all the rights and obligations of individual Purchasers and/or Cooperative Purchasers with respect to Sections 2(a), 4(d), 6(e), 8(a)(vii)(D), 10, 13(c), 13(d), 15, 17, 18, 31, and 32, unless the context otherwise requires. If AEG&T at any time fails to meet its payment obligations under this Agreement, then to the extent of such failure by AEG&T and for so long as such failure continues, HEA and MEA shall each be obligated to meet directly its respective share of AEG&T's payment obligations in the same manner as if HEA and MEA were individual Purchasers obligated to make payment in accordance with Section 7 and Section 9. All rights and remedies available to the Authority and/or to the other Purchasers against AEG&T shall also be available to the Authority and the other Purchasers against HEA and MEA to the extent of the respective individual share of HEA and/or MEA, as applicable. For purposes of this Section 30(b), HEA's share shall be a Percentage Share of Project Capacity equal to 12.0 percent, and MEA's share shall be a Percentage Share of Project Capacity equal to 13.8 percent.

(c) Arrangements among HEA, MEA, and AEG&T. In accordance with the provisions of Section 30(a) and subject to the provisions of Section 30(b), AEG&T as a Purchaser hereunder shall act on behalf of HEA and MEA for purposes of power deliveries, billing, payment, notification, and other communications under this Agreement. AEG&T shall be, on behalf of HEA and/or MEA, the Purchaser from the Authority and the re-seller to HEA and/or MEA of power to be taken by HEA and/or by MEA under this Agreement. Further, AEG&T will receive, on behalf of HEA and/or MEA, all billings and other communications under

this Agreement, and AEG&T will be required to pay such bills for and on behalf of HEA and/or MEA from funds made available to AEG&T by HEA and/or MEA for this purpose.

Section 31. Capitalization Of Certain Costs Of Purchasers.

(a) Promptly after the Committee is formed, and before the Authority first issues Bonds, the Purchaser members of the Committee shall determine by the affirmative vote of members whose Percentage Shares equal or exceed eighty percent (80%) of Project Capacity and of Annual Project Costs:

(i) whether and to what extent the costs borne by the Purchasers pursuant to the last sentence of Section 13(a) should be capitalized through issuance of additional Bonds, with the costs of debt service on those additional Bonds to be added to Annual Project Costs; and

(ii) whether and to what extent the costs incurred by the individual Purchasers in conjunction with this Agreement prior to the Date of Commercial Operation should be capitalized and reimbursed through issuance of additional Bonds, and whether and to what extent the costs of debt service on those additional Bonds should be added to Annual Project Costs and allocated among Purchasers either in accordance with their respective Percentage Shares or in some other manner.

(b) If the Purchasers provide the Authority with a written determination that additional Bonds should be issued for either or both of the foregoing purposes, then notwithstanding any other provision of this Agreement, the Authority shall issue additional Bonds in the requisite principal amount, allocate the proceeds of such additional Bonds among the appropriate Purchasers in accordance with such written determination, and include the costs of debt service on such additional Bonds in Annual Project Costs; provided, that the Authority shall not be obligated to issue such additional Bonds unless the Authority is reasonably able to do so in conjunction with the issuance of other Bonds; and provided further, that the allocation among Purchasers of the costs of debt service on additional Bonds issued for the purpose set forth in Section 31(a)(ii) shall be made in the manner specified in such written determination.

Section 32. Efforts To Obtain Intertie. The Purchasers recognize the importance of the completion of a satisfactory high-capacity Fairbanks to Kenai Peninsula transmission

intertie, and of full $218 million funding for the Project, and agree to continue all reasonable efforts to obtain sufficient state funding for such transmission intertie and Bradley Lake.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first above written.

THE ALASKA POWER AUTHORITY

By_____

As_____

ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC.

By_____

As_____

CHUGACH ELECTRIC ASSOCIATION, INC.

By_____

As_____

HOMER ELECTRIC ASSOCIATION, INC.

By_____

As_____

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By_____

As_____

MATANUSKA ELECTRIC ASSOCIATION, INC.

By_____

As_____

THE MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER

By_____

As_____

THE CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM

By_____

As_____

Exhibit A

ALASKA POWER AUTHORITY

POWER REVENUE BOND RESOLUTION

Adopted: _____

ALASKA POWER AUTHORITY

POWER REVENUE BOND RESOLUTION

Table of Contents*

*The Table of Contents is not part of this Resolution.

ALASKA POWER AUTHORITY

POWER REVENUE BOND RESOLUTION

BE IT RESOLVED by the Board of Directors of the Alaska Power Authority, as follows:

ARTICLE I

Definitions and Statutory Authority

101. Definitions. The following terms shall, for all purposes of this Resolution, have the following meanings:

"Accountant's Certificate" shall mean a certificate signed by a firm of independent certified public accountants of recognized national standing, selected by the Authority and approved in writing by the Trustee (which approval shall not be unreasonably withheld), which may be the firm of accountants which regularly audits the books of the Authority, provided that, if the Trustee shall fail to so approve, it shall deliver to the Authority a statement of its reasons for such failure.

"Act" shall mean Title 44, Chapter 83 of the Alaska Statutes (AS 44.83) as the same may be amended or supplemented from time to time.

"Additional Bonds" shall mean Bonds authenticated and delivered pursuant to Section 204.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Series.

"Annual Budget" shall mean the annual budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in Section 709.

"Annual Project Costs" shall have the meaning given it in Section 8 of the Power Sales Agreement.

"Authority" shall mean the Alaska Power Authority organized and existing under the Act.

"Authorized Officer" shall mean the Chairman of the Board of Directors, Vice Chairman of the Board of Directors,

Executive Director, Secretary or Treasurer or any officer or employee of the Authority authorized to perform specific acts or duties by resolution duly adopted by the Board of Directors.

"Board of Directors" shall mean the Board of Directors of the Authority.

"Bond" or "Bonds" shall mean any bond or bonds, note or notes, or evidence of indebtedness or evidences of indebtedness, as the case may be, authenticated and delivered under and pursuant to, and entitled to the benefit and security of, this Resolution.

"Bondholder" or "Holder of Bonds" shall mean any person who shall be the registered owner of any Bond or Bonds.

"Bond Registrar" shall mean the Trustee or any other bank or trust company organized under the laws of any state of the United States of America or any national banking association appointed by the Authority to perform the duties of Bond Registrar enumerated in Section 703.

"Bond Year" shall mean each period of 12 calendar months ending on each July 1.

"Capital Improvements" shall mean (a) repairs, maintenance, renewals, replacements, improvements or betterments required by federal or state law, a licensing or regulatory agency with jurisdiction over the Project, or the Power Sales Agreement, or otherwise necessary to keep the Project in good and efficient operating condition, consistent with (1) sound economics for the Project and the Purchasers and (2) national standards for the industry, which Capital Improvements constitute Required Project Work under the Power Sales Agreement; or (b) repairs, renewals and replacements, improvements, betterments, additions or expansions which Capital Improvements do not constitute Required Project Work, but which in each case are approved by the Committee as Optional Project Work pursuant to the Power Sales Agreement. For purposes of this Resolution, "national standards for the industry" shall mean Prudent Utility Practice.

"Capital Reserve Fund" shall mean the Capital Reserve Fund established in Section 502.

"Capital Reserve Requirement" shall mean (i) an amount equal to the lesser of Maximum Aggregate Debt Service or ten per cent of the proceeds of Bonds; or (ii) such other lesser amount as is required in order to maintain the tax-exempt status of the Bonds.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Project Management Committee established in the Power Sales Agreement.

"Construction Engineer" means an independent engineer or engineering firm or corporation having a nationwide and favorable reputation and demonstrated experience in the field of construction engineering and construction management at the time retained by the Authority to perform the acts and carry out the duties provided for such Construction Engineer in this Resolution.

"Construction Fund" shall mean the Construction Fund established in Section 502.

"Consulting Engineer" means an independent engineer or engineering firm or corporation having a nationwide and favorable reputation and demonstrated experience in the field of consulting engineering for power systems at the time retained by the Authority pursuant to Section 708 to perform the acts and carry out the duties provided for such Consulting Engineer in this Resolution.

"Cost of Acquisition and Construction" shall mean all costs and expenses of planning, designing, acquiring, constructing, installing and financing the Project or a Capital Improvement, placing the Project or a Capital Improvement in operation, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, heretofore or hereafter paid or incurred by or on behalf of the Authority or by any Purchaser which has heretofore entered into a contract or contracts with the Authority with respect to construction or acquisition of the Project or a Capital Improvement. Such costs shall include amounts required to be paid to any other party which are applied or are to be applied under agreement to the payment of items of Cost of Acquisition and Construction. The Cost of Acquisition and Construction shall include, but shall not be limited to:

(1) Costs of preliminary investigation and development, the performance or acquisition of feasibility and planning studies, the securing of regulatory approvals, as well as costs for land and land rights, water and water rights, engineering, contractors' fees, labor, materials, equipment, utility services and supplies, accounting, legal and financing fees and expenses;

(2) Working capital and reserves in such amounts as shall be required during construction of the Project or a Capital Improvement and to place the Project or a Capital

Improvement in operation and such additional amounts of working capital and reserves as are required by this Resolution;

(3) Interest accruing in whole or in part on Bonds prior to and during construction and for such additional period as the Authority may reasonably determine to be necessary for the placing of the Project or a Capital Improvement or any facility thereof in operation in accordance with the provisions of this Resolution;

(4) Amounts, if any, required by this Resolution or a Supplemental Resolution to be paid from the proceeds of Bonds issued to finance the Cost of Acquisition and Construction into any Funds or Accounts established pursuant to this Resolution;

(5) The payment of principal, premium, if any, and interest when due (whether at the maturity of principal or at the due date of interest or upon redemption) on any bond anticipation note or other note or evidence of indebtedness issued in anticipation of Bonds for the purpose of financing the Cost of Acquisition and Construction of the Project or a Capital Improvement, including, without limitation, the Variable Rate Demand Bonds;

(6) Training and testing costs incurred by the Authority which are properly allocable to acquisition and construction;

(7) All costs of insurance applicable to the period of construction;

(8) The cost of restoring and repairing in accordance with Prudent Utility Practice all public or private property damaged or destroyed in the construction of the Project or a Capital Improvement, or the amount required by law to be paid by the Authority as adequate compensation for such damages, or amounts required by law or Prudent Utility Practice to be paid with respect to the restoration, relocation, removal, reconstruction or duplication of property made necessary or caused by the construction and installation of such Project or a Capital Improvement to the extent such costs are not otherwise paid out of the proceeds of insurance;

(9) Legally required or permitted Federal, state and local taxes and payments in lieu of taxes applicable to the period of construction;

(10) All other costs incurred by or on behalf of the Authority and properly allocable to the acquisition and construction of the Project or a Capital Improvement; and

(11) Costs of Issuance.

"Costs of Issuance" shall mean any item of expense payable or reimbursable, directly or indirectly, by the Authority and related to the authorization, offering, sale, issuance and delivery of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and disbursements, fees and disbursements of the Consulting Engineer, fees and disbursements of other consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, application fees and premiums on municipal bond insurance, credit facility charges and costs and expenses relating to the refunding of Bonds or other obligations issued to finance or refinance the Project or a Capital Improvement, including, but not limited to, the refunding of the Variable Rate Demand Bonds and any obligations of the Authority outstanding at the time of adoption of this Resolution, the proceeds of which were applied to pay the Cost of Acquisition and Construction of the Project.

"Counsel's Opinion" or "Opinion of Counsel" shall mean an opinion of counsel of nationwide recognized standing in the field of municipal bonds, selected by the Authority and satisfactory to the Trustee.

"Date of Commercial Operation" shall have the meaning ascribed thereto in the Power Sales Agreement.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Interest Account in the Debt Service Fund made from Bond proceeds and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof. For purposes of this definition (x) interest and Principal Installments with respect to interest accreting on compound interest or zero coupon or like interest paying Bonds shall be deemed to accrue in the 12 months immediately prior to the final maturity of such

Bonds; and (y) the Authority may determine that interest will accrue on variable rate Bonds at a rate equal to the actual rate during a prior period.

"Debt Service Fund" shall mean the Debt Service Fund established in Section 502.

"Depositary" shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association selected by the Authority and approved in writing by the Trustee as a depositary of moneys and securities held under the provisions of this Resolution, and may include the Trustee; provided that, if the Trustee shall fail to so approve, it shall deliver to the Authority a statement of its reasons for such failure.

"Event of Default" shall have the meaning given to such term in Section 801.

"Excess Investment Earnings" shall mean for each Bond Year, the excess of (i) the amount earned on certain investments held under this Resolution, or otherwise constituting gross proceeds of the Bonds under Section 148(f)(6)(B) of the Code, as specified in the Supplemental Resolution authorizing the issuance of such Bonds (excluding amounts held in the Excess Investment Earnings Fund and amounts in the Revenue Fund but including unrealized gains and losses upon the retirement of such Bonds over (ii) the amount that would have been earned on such investments at the yield on such Bonds (determined on a present value basis from the date of issuance of such Bonds, without adjustment for costs of issuance).

"Excess Investment Earnings Fund" shall mean the Excess Investment Earnings Fund established in Section 502.

"Federal Obligation" shall mean any direct obligation of, or any obligation the full and timely payment of principal of and interest on which is guaranteed by, the United States of America.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, the Bond Registrar, the Paying Agents, or any or all of them, as may be appropriate.

"Fiscal Year" shall mean the twelve-month period commencing on July 1 of each year and including June 30 of the succeeding calendar year.

"Fund" or "Funds" shall mean, as the case may be, each or all of the Funds established in Section 502.

"Interest Account" shall mean the Interest Account in the Debt Service Fund established in Section 502.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds:

(i) Federal Obligations;

(ii) obligations of the Government National Mortgage Association, the Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Association;

(iii) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under this Resolution such obligations are rated not less than AA or Aa or their equivalents by Moody's Investors Services, Inc. or Standard & Poor's Corporation, or their successors;

(v) evidences of ownership of interests in Federal Obligations in the custody of a bank or trust company organized under the laws of any state or any national banking association in each case having capital and surplus not less than $200,000,000 in amount;

(vi) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including any Fiduciary), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal

Deposit Insurance Corporation, or (2) continuously and fully secured by Qualified Collateral, which shall have a market value (exclusive of accrued interest) at all times at least equal to 100% of the principal amount of such certificates of deposit and shall be lodged with the trust department of the Trustee or with a Federal Reserve Bank or branch, as custodian, by the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured;

(vii) repurchase agreements with banks which are members of the Federal Reserve System or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York that are secured by Federal Obligations or the obligations referred to in paragraph (ii) (herein called "Other Obligations"), having a current market value at least equal to 100% of the amount of the repurchase agreement, marked to market weekly, and which Federal Obligations or Other Obligations shall have been deposited in trust by such bank or dealer with the trust department of the Trustee or with a Federal Reserve Bank or branch, or with another third party custodian approved by the Trustee, by such bank or dealer and by the Authority, as collateral security for such repurchase agreements; and

(viii) "commercial paper" rated either A-1 or P-1, or corporate bonds or notes, in each case issued by a United States corporation, rated in one of the two highest rating categories by any nationally recognized agency.

"Maximum Aggregate Debt Service" shall mean, as of any date of calculation, the greatest amount of Aggregate Debt Service payable in any unexpired Bond Year.

"Operating Expenses" shall mean (i) the Authority's operation, maintenance, administrative and general expenses of the Project, and shall include, without limiting the generality of the foregoing, costs of investigations, insurance, ordinary repairs of the Project which do not entail the acquisition and installation of a unit of property (as generally prescribed by the Federal Energy Regulatory Commission), fuel costs, rents, engineering expenses, legal and financial advisory expenses, Committee expenses, refunds for overpayments by Purchasers, salaries and required Project employee costs, any taxes or payments in lieu of taxes pursuant to the Act or otherwise pursuant to law, (ii) any other current expenses or obligations required to be paid by the Authority under the provisions of this Resolution or by law, all to the extent properly allocable to the Project, or required to be incurred under or in connection with the performance of the Power Sales Agreement, and

(iii) the fees and expenses of the Fiduciaries. Operating Expenses includes all the items listed in Section 8(a) of the Power Sales Agreement under the definition of Annual Project Costs except the items listed under Section 8(a)(i), (ii) and (iv). Operating Expenses shall not include any costs or expenses for new construction or any allowance for depreciation.

"Operating Fund" shall mean the Operating Fund established in Section 502.

"Operating Reserve Account" shall mean the Operating Reserve Account established in Section 502.

"Operating Reserve Account Requirement" shall mean an amount equal to 20 percent of the Operating Expense component of the Annual Budget as calculated annually, or such other amount as may be determined pursuant to the Power Sales Agreement.

"Optional Project Work" shall have the meaning given it in Section 1 of the Power Sales Agreement.

"Outstanding", when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authenticated and delivered under this Resolution except:

(i) Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under this Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 406 or Section 1106; and

(iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1201.

"Paying Agent" shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for

the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in this Resolution.

"Power Sales Agreement" shall mean the Power Sales Agreement for the purchase and sale of Project capacity (together with associated energy) dated as of _____ between the Authority and the Purchasers as the same may be amended.

"Principal Account" shall mean the Principal Account in the Debt Service Fund established in Section 502.

"Principal Installment" shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

"Project" shall mean the Bradley Lake Hydroelectric Project, as the same is described on Exhibit C to the Power Sales Agreement.

"Project Capacity" means the amount of electric capacity capable of being produced by the Project (including capacity attributable to Required or Optional Project Work) at any and all times from the Date of Commercial Operation until the termination of the Power Sales Agreement (or any renewal or replacement thereof) under the operating conditions that exist during such times, including periods when the Project may be not operating or inoperable or the operation thereof is suspended, interrupted, interfered with, reduced, or curtailed, in each case in whole or in part for any reason whatsoever, after corrections for station and Project use, and depletions required under any federal license for the Project.

"Prudent Utility Practice" shall mean at a particular time any of the practices, methods and acts, engaged in or approved by a significant portion of the electric utility industry at such time, or which, in the exercise of reasonable judgment in the light of the facts known at such time, could have been expected to accomplish the desired result at the lowest

reasonable cost consistent with good business practices, reliability, safety and reasonable expedition. Prudent Utility Practice is not required to be the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and requirements of governmental agencies of competent jurisdiction and shall apply not only to functional parts of a Project, but also to appropriate structures, landscaping, painting, signs, lighting and other facilities. In evaluating whether any matter conforms to Prudent Utility Practice, there shall be taken into account (i) the nature of the Authority and Purchasers under the laws of the State of Alaska and their statutory duties and responsibilities and (ii) the objective of integrating the Project with the generating resources of the Purchasers, including resources available under contract, to achieve optimum utilization of the resources and efficient and economical operation of each Purchaser's electrical system. For purposes of this Resolution, "national standards for the industry" shall mean Prudent Utility Practice.

"Purchasers" shall mean the entities defined as Purchasers in the Power Sales Agreement.

"Qualified Collateral" shall mean:

(i) Obligations described under items (i), (ii) and (iii) of the definition of Investment Securities;

(ii) direct and general obligations of any state of the United States of America which are rated not less than AA or Aa or their equivalents by Standard & Poor's Corporation or Moody's Investor's Service, Inc., or their successors.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or this Resolution.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 205, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106.

"Renewal and Contingency Reserve Fund" shall mean the Renewal and Contingency Reserve Fund established in Section 502.

"Renewal and Contingency Reserve Requirement" shall mean an amount equal to $5,000,000.

"Required Project Work" shall have the meaning given it in Section 1 of the Power Sales Agreement.

"Resolution" shall mean this Resolution as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

"Revenue Fund" shall mean the Revenue Fund established in Section 502.

"Revenues" shall mean (i) all revenues, income, rents and receipts, derived or to be derived by the Authority from, or attributable to the ownership and operation of, the Project, including all revenues attributable to the Project or to payment of the costs thereof including, without limitation, all revenues received or to be received by the Authority under the Power Sales Agreement or under any other contract for the sale of power, energy, transmission or other service from the Project or any part thereof or any contractual arrangement with respect to the use of the Project or any portion thereof or the services, output or capacity thereof, and (ii) interest received or to be received on any moneys or securities (other than in the Construction Fund or in the Excess Investment Earnings Fund) held pursuant to this Resolution and required to be paid into the Revenue Fund.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Resolution or a Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Sinking Fund Installment" means, as of any particular date of determination and with respect to the Outstanding Bonds of any Series, the amount required by a Supplemental Resolution to be paid in any event by the Authority on a single future date for the retirement of Bonds of such Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

"Supplemental Resolution" shall mean any resolution supplemental to or amendatory of this Resolution, adopted by the Authority in accordance with Article X.

"Trustee" shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

"Variable Rate Demand Bonds" shall mean the $267,500,000 Alaska Power Authority Variable Rate Demand Bonds (Bradley Lake Hydroelectric Project) dated November 20, 1985.

102. Interpretation. In this Resolution, unless the context otherwise requires:

(i) The terms "hereby," "hereof," "hereto," "hereunder," "herein" and any similar terms used herein refer to this Resolution, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of adoption of this Resolution;

(ii) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(iii) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(iv) Words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of such Bond;

(v) Any percentage of Bonds, for purposes of this Resolution, shall be computed on the basis of the unpaid principal amount of Bonds Outstanding at the time the computation is made or is required to be made hereunder;

(vi) Any headings preceding the text of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;

(vii) Articles and Sections mentioned by number only are the respective Articles and Sections of this Resolution so numbered; and

(viii) The term "principal" when used in connection with compound interest or zero coupon or like interest paying Bonds shall mean the initial principal amount of such Bonds as at their date of issuance plus interest accreted thereon to the date of calculation.

103. Authority for this Resolution. This Resolution is adopted pursuant to the provisions of the Act. The Board of Directors has ascertained and hereby determines and declares that adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made in this Resolution is necessary or convenient in order to carry out and effectuate the purposes of the Authority in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and all contracts or agreements necessary, useful and convenient to carry out and effectuate the corporate purposes of the Authority under the Act.

104. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, this Resolution shall be deemed to be and shall constitute a contract between the Authority and the holders from time to time of the Bonds, a trust agreement under the Act and a security agreement under the Alaska Uniform Commercial Code. The pledge and assignment made in this Resolution and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the holders of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by this Resolution.

105. Obligation of Bonds. The Bonds shall be direct and general obligations of the Authority, and the full faith and credit of the Authority are hereby pledged to the payment of the principal of and interest on the Bonds in accordance with their terms. All Bonds shall be entitled to the benefit of the continuing pledge and lien created by this Resolution to secure the full and final payment of the principal and Redemption Price of and interest on all of the Bonds.

ARTICLE II

Authorization and Issuance of Bonds

201. Authorization of Bonds. 1. The Resolution provides for the authorization of Bonds of the Authority to be designated as "Power Revenue Bonds" for the purpose of providing funds for the financing or refinancing of the Project and Capital Improvements. The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under this Resolution is not limited except as may hereafter be provided in this Resolution, or as may be limited by the Power Sales Agreement or by law.

2. The Bonds may, if and when authorized by the Authority pursuant to one or more Supplemental Resolutions, be issued in one or more Series, and the designation thereof, in addition to the name "Power Revenue Bonds", shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the Authority may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

3. Nothing contained in this Resolution shall be deemed to preclude or restrict the consolidation pursuant to a Supplemental Resolution of any Bonds of two or more separate Series authorized pursuant to such Supplemental Resolution to be issued pursuant to any of the provisions of Sections 202, 204 and 205 into a single Series of Bonds for purposes of sale and issuance; provided that each of the tests, conditions and other requirements contained in Sections 202, 204 and 205 as applicable to each such separate Series shall be met and complied with. Except as otherwise provided in this subsection or in such Supplemental Resolution, such a consolidated Series shall be treated as a single Series for all purposes of this Resolution.

202. General Provisions for Issuance of Bonds. 1. All (but not less than all) the Bonds of each Series shall be executed by the Authority for issuance under this Resolution and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the Authority or upon its order, but only upon the receipt by the Trustee of:

(a) A Counsel's Opinion to the effect that (i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt this Resolution, and this Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority in accordance with its terms, and no other authorization for this Resolution

is required; (ii) the Authority has the right and power under the Act as so amended to enter into the Power Sales Agreement and the Power Sales Agreement is valid and binding upon the Authority in accordance with its terms, and no other authorization for the Power Sales Agreement is required; (iii) this Resolution creates the valid pledge and assignment which it purports to create of the Revenues, moneys, securities and funds held or set aside under this Resolution subject only to the provisions of this Resolution permitting the application thereof for the purposes and on the terms and the conditions set forth in this Resolution; and (iv) the Bonds of such Series are valid and binding general obligations of the Authority for the payment of which the full faith and credit of the Authority are pledged as provided in this Resolution, and entitled to the benefits of this Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with this Resolution; provided, that such Opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;

(b) A written order as to delivery of such Bonds, signed by an Authorized Officer of the Authority;

(c) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer of the Authority, which shall, to the extent necessary and not already fixed by the Resolution, among other provisions, specify: (i) the authorized principal amount, designation and Series of such Bonds; (ii) the purposes for which such Series of Bonds is being issued, which shall be (A) the purpose specified in Section 203, (B) one of the purposes specified in Section 204, or (C) the refunding of Bonds as provided in Section 205; (iii) the date, and the maturity date or dates, of the Bonds of such Series; (iv) the interest rate or rates or the maximum rate of interest of the Bonds of such Series or the method of calculating the interest rate, which interest rate may be determinable at one or more specified times or periodically by reference to an index or other reference point, an interest accreting or compound interest, zero coupon, or like method of interest rate or yield calculation and the interest payment dates therefor, provided that the interest rate shall be identical for all such Bonds of like maturity; (v) the denominations of, and the manner of dating, numbering and lettering, the Bonds of such Series; (vi) the Paying Agent or Paying Agents and the place or

places of payment of the principal and Redemption Price, if any, of, and interest on, the Bonds of such Series; (vii) the Redemption Price or Prices, if any, and subject to Article IV, the redemption terms for the Bonds of such Series; (viii) the amount and due date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series; (ix) if so determined by the Authority, provisions for the sale of the Bonds of such Series; (x) the amount (or the method of determining the amount), if any, to be deposited from the proceeds of such Series of Bonds in the Debt Service Fund and provisions for the application thereof to the payment of all or a portion of the interest on such Series of Bonds or any other Series of Bonds; (xi) the amount to be deposited from the proceeds of such Series of Bonds in the Capital Reserve Fund, such that, immediately after the authentication and delivery of such Series of Bonds, the amount in such Fund shall equal the Capital Reserve Requirement; (xii) the amount, if any, to be deposited from the proceeds of such Series of Bonds in the Renewal and Contingency Reserve Fund, such that, immediately after the authentication and delivery of such Series of Bonds, the amount in such Fund shall be not less than the Renewal and Contingency Reserve Requirement; (xiii) the amount, if any, to be deposited from the proceeds of such Series of Bonds in the Operating Reserve Account; (xiv) the method of calculating Excess Investment Earnings; (xv) the amount to be deposited from the proceeds of such Series of Bonds in the account in the Construction Fund established for the Project or the undertaking of Capital Improvements for which such Bonds are authorized to be issued; and (xvi) the form of the Bonds of such Series and of the Trustee's certificate of authentication, which forms shall be, respectively, substantially in the forms set forth in Section 1301, with such variations, omissions and insertions as are required or permitted by this Resolution; and (xvii) such other matters as shall be necessary or appropriate so as to comply with the provisions of this Resolution;

(d) Except in the case of Refunding Bonds, a certificate of an Authorized Officer of the Authority stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution;

(e) A certificate from the Committee stating that the Supplemental Resolution authorizing such Bonds has been adopted in accordance with Section 11 of the Power Sales Agreement, provided that, the Supplemental Resolution adopted pursuant to Section 12 of the Power Sales Agreement does not require such a certificate; and

(f) Such further documents as are required by the provisions of Section 203, 204 or 205 or Article X or any Supplemental Resolution adopted pursuant to Article X.

2. After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 406 or Section 1106.

3. The Supplemental Resolution authorizing the initial Series of Bonds for the Project shall establish Principal Installments for such Series.

203. Project Issue. 1. There is hereby authorized an issue of Bonds under this Resolution which shall be designated "Power Revenue Bonds" and which shall be issued in the aggregate principal amount not exceeding $175,000,000, pursuant to the Supplemental Resolution establishing the terms of the issue in Series from time to time, for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Project.

2. The proceeds of the initial Series of Bonds, including accrued interest shall be paid to the Trustee and deposited by the Trustee, as follows:

(a) The amount, if any, necessary so that the amount in the Renewal and Contingency Reserve Fund is equal to 100% of the Renewal and Contingency Reserve Fund Requirement shall be deposited in the Renewal and Contingency Reserve Fund;

(b) The amount, if any, necessary so that the amount in the Capital Reserve Fund is equal to the Capital Reserve Fund Requirement shall be deposited in the Capital Reserve Fund;

(c) The amount, if any, necessary so that the amount in the Operating Reserve Account is equal to the Operating Reserve Requirement shall be deposited in the Operating Reserve Account; and

(d) The balance of the proceeds shall be deposited into the Construction Fund.

204. Additional Bonds. 1. One or more Series of Additional Bonds may be authenticated and delivered upon original issuance for the purpose of paying all or a portion of the Cost of Acquisition and Construction of any Capital Improvements, upon compliance with the terms and conditions set forth in Section 202, and upon receipt by the Trustee of (i) evidence

that such Capital Improvements have been approved by the Committee in accordance with the Power Sales Agreement, and (ii) a written Opinion of the Consulting Engineer that neither the issuance of the Additional Bonds nor the payment of the Cost of Acquisition and Construction of the Capital Improvements will impair the ability of the Authority to pay Debt Service through collection of revenues under the Power Sales Agreement.

2. The proceeds, including accrued interest, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as provided in the Supplemental Resolution authorizing such Series.

205. Refunding Bonds. 1. One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund any Outstanding Bond or Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under this Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds. Bonds issued to retire the Variable Rate Demand Bonds are not subject to the requirements of this section for Refunding Bonds.

2. Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by Section 202) of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption, on a redemption date or dates specified in such instructions, of any of the refunded Bonds to be redeemed;

(b) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice provided for in Section 1201 to the Holders of the Bonds being refunded; and

(c) Either (i) moneys (including moneys withdrawn and deposited pursuant to subsection 4 of Section 507) in an amount sufficient to effect payment at the applicable Redemption Price of the refunded Bonds to be redeemed and of the principal amount of the refunded Bonds not to be redeemed, together with accrued interest on such Bonds to the redemption date or maturity date, as the case may be, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Federal Obligations in such principal amounts, of such maturities, bearing such interest, and otherwise

having such terms and qualifications, and any moneys, as shall be necessary to comply with the provisions of subsection 2 of Section 1201, which Federal Obligations and moneys shall be held in trust by the Trustee and used only as provided in said subsection 2.

3. The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under this Resolution as shall be provided by the Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Resolution.

4. The Supplemental Resolution authorizing a Series of Refunding Bonds may establish such funds and accounts in addition to the Funds and Accounts established herein as are necessary to provide for such refunding.

ARTICLE III

General Terms and Provisions of Bonds

301. Medium of Payment; Form and Date; Letters and Numbers. 1. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

2. The Bonds of each Series shall be negotiable instruments issued in the form of fully registered Bonds. If and to the extent it is hereafter judicially determined or determined by enactment of law that coupon bonds may be issued with interest exempt from federal income taxation or if the Authority determines to issue Bonds the interest on which is not exempt from taxation, the Authority may provide for the issuance, execution, authorization, exchange and other details of coupon bonds by Supplemental Resolution.

3. Each Bond shall be lettered and numbered as provided in this Resolution or the Supplemental Resolution authorizing the Series of which such Bond is a part and so as to be distinguished from every other Bond.

4. Bonds of each Series shall be dated as provided in the Supplemental Resolution authorizing such Series.

5. The principal and Redemption Price of the Bonds shall be payable upon presentation and surrender at the principal corporate trust office of any Paying Agent or as may be

provided by Supplemental Resolution. Interest on Bonds shall be paid by the Trustee by check or draft mailed to the registered owners of record at the addresses of such owners appearing on the registration books maintained by the Authority for such purpose at the principal corporate trust office of the Bond Registrar or as may be provided by Supplemental Resolution.

302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the Authority prior to the authentication and delivery thereof.

303. Execution and Authentication. 1. The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman or its Vice Chairman, and its corporate seal (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the Authority, or in such other manner as may be required or permitted by law. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the Authority by such persons as at the time of the execution of such Bonds shall be duly authorized to hold the proper office in the Authority, although at the date borne by the Bonds of such Series such person may not have been so authorized or have held such office.

2. The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in Section 1301 and any Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Resolution and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Resolution and that the Holder thereof is entitled to the benefits of this Resolution.

304. Exchange of Bonds. Bonds, upon surrender thereof at the principal corporate trust office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or his duly authorized attorney, may, at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Bond Registrar may make as provided in Section 306, be exchanged for an equal aggregate principal amount of Bonds of the same Series and maturity of any other authorized denominations.

305. Negotiability, Transfer and Registry. 1. Bonds shall be transferable only upon the books of the Authority, which shall be kept for such purposes at the principal corporate trust office of the Bond Registrar, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or his duly authorized attorney. Upon transfer of any such Bond, the Authority shall issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series and maturity as the surrendered Bond.

2. The Authority and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary. The Authority agrees to indemnify and save each Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under this Resolution, in so treating such registered owner.

306. Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. All Bonds surrendered in any such exchanges or transfer shall forthwith be delivered to the Trustee and cancelled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

Neither the Authority nor the Bond Registrar shall be required (a) to transfer or exchange Bonds of a Series which could be redeemed for a period of 15 days next preceding any selection of such Bonds to be so redeemed or thereafter until after the first mailing of any notice of redemption; or (b) to transfer or exchange any Bonds called for redemption.

307. Bonds Mutilated, Destroyed, Stolen or Lost. If any Bond becomes mutilated or is lost, stolen or destroyed, the Authority may execute and the Trustee shall authenticate and deliver a new Bond of like date of issue, maturity date, principal amount and interest rate per annum as the Bond so mutilated, lost, stolen or destroyed, provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to the Authority, (ii) in the case of any such lost, stolen or destroyed Bond there is first furnished evidence of such loss, theft or destruction satisfactory to the Authority together with indemnity satisfactory to the Authority, (iii) all other reasonable requirements of the Authority are complied with, and (iv) expenses in connection with such transaction are paid by the Holder. Any Bonds surrendered for exchange shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued under this Resolution, in any moneys or securities held by the Authority or any Fiduciary for the benefit of the Bondholders.

308. Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the Authority may execute, in the same manner as is provided in Section 303, and upon the request of the Authority, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds except as to the denomination thereof, one or more temporary Bonds substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in denominations authorized by the Authority, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The Authority at its own expense shall prepare and execute, and, upon surrender of such temporary Bonds for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and without charge to the Holder thereof deliver in exchange therefor, definitive Bonds, if any, of the same aggregate principal amount and Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same

benefits and security as definitive Bonds authenticated and issued pursuant to this Resolution.

2. If the Authority shall authorize the issuance of temporary Bonds in more than one denomination, the Holder of any temporary Bond or Bonds may, at his option, surrender the same to the Trustee in exchange for another temporary Bond or Bonds of like aggregate principal amount and Series and maturity of any other authorized denomination or denominations, and thereupon the Authority shall execute and the Trustee shall authenticate and, in exchange for the temporary Bond or Bonds so surrendered and upon payment of the taxes, fees and charges provided for in Section 306, shall deliver a temporary Bond or Bonds of like aggregate principal amount, Series and maturity in such other authorized denomination or denominations as shall be requested by such Holder.

3. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

ARTICLE IV

Redemption of Bonds

401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to this Resolution or a Supplemental Resolution shall be redeemable, upon notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Supplemental Resolution authorizing such Series.

402. Redemption at the Election or Direction of the Authority. In the case of any redemption of Bonds at the election or direction of the Authority, the Authority shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in this Resolution and the Supplemental Resolution with respect to such Series). Such notice shall be given at least 40 days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in

addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The Authority shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

403. Redemption Otherwise Than at the Authority's Election or Direction. Whenever by the terms of this Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the Authority, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 507.

404. Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

405. Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is authorized or required pursuant to Section 403, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by mailing such notice, postage prepaid, not less than 25 or more than 40 days before the redemption date, to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books.

406. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, at the option of the owner thereof, Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid (and notwithstanding any defect therein or the lack of actual receipt thereof by any Bondholder), then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V

Establishment of Funds and Application Thereof

501. Pledge of Revenues and Other Funds. 1. A pledge of the Revenues, and of all moneys, securities and funds, except the Excess Investment Earnings Fund, held or set aside or to be held or set aside by the Authority or any Fiduciary under this Resolution, is hereby made, and the same are hereby pledged and assigned to secure the payment of the principal and Redemption Price of and interest on the Bonds and any Sinking Fund Installments for the retirement thereof, subject only to the provisions of this Resolution permitting the payment, setting apart or appropriation thereof for or to the purposes and on the terms, conditions, priorities and order set forth in or provided under this Resolution. This pledge shall be valid and binding from the time when it is made; the Revenues so pledged and then or thereafter received by the Authority shall immediately be subject to the lien of such pledge without any physical delivery or further act; and the lien of such pledge and the obligation

to perform the contractual provisions hereby made shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

2. The Bonds shall be direct and general obligations of the Authority to the payment of which the full faith and credit of the Authority are pledged and neither the State of Alaska nor any political subdivision (other than the Authority) nor any Purchaser shall be obligated to pay the principal or Redemption Price thereof or interest thereon and neither the faith and credit nor the taxing power of the State of Alaska or any political subdivision thereof (other than the Authority) or of any Purchaser is pledged to the payment of the principal or Redemption Price of, or interest on, the Bonds. The Authority may not pledge the full faith and credit of the State or any political subdivision thereof, except the Authority, to the payment of the Bonds and the issuance of the Bonds by the Authority may not directly or indirectly or contingently obligate the State or a political subdivision of the State to apply money from, or levy or pledge any form of taxation whatever to the payment of the Bonds. Nothing contained in this section shall be construed to affect any obligation of a Purchaser under the Power Sales Agreement.

3. Nothing contained in this Resolution shall be construed to prevent the Authority from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the Project for the purposes of this Resolution or from securing such bonds, notes or other evidences of indebtedness by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Revenues or any Fund held under this Resolution and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Revenues or from any such Fund.

502. Establishment of Funds and Accounts. 1. The following Funds and Accounts, each to be held by the Trustee, are hereby established:

(1) Construction Fund,

(2) Debt Service Fund, which shall consist of an Interest Account and a Principal Account,

(3) Capital Reserve Fund,

(4) Renewal and Contingency Reserve Fund, and

(5) Excess Investment Earnings Fund.

2. The following funds, each to be held by the Authority, are hereby established:

(1) Revenue Fund, and

(2) Operating Fund, which shall include therein an Operating Reserve Account.

503. Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this Resolution and any Supplemental Resolution, and there may be paid into the Construction Fund, at the option of the Authority, any moneys received for or in connection with the Project by the Authority from any other source, unless required to be otherwise applied as provided by this Resolution. Amounts in the Construction Fund shall be applied to the Cost of Acquisition and Construction in the manner provided in this Section 503, and until so applied are pledged for the security of and the payment to Bondholders of the principal or Redemption Price of and interest on the Bonds and shall at all times be subject to the lien of such pledge.

2. There shall be established within the Construction Fund separate accounts for the Project and for each undertaking of Capital Improvements for which Bonds are authorized to be issued.

3. The proceeds of insurance, including the proceeds of any self-insurance fund, maintained pursuant to this Resolution against physical loss of or damage to the Project or Capital Improvements, or of contractor's performance bonds or other assurances of completion with respect thereto, pertaining to the period of construction thereof, shall be paid into the appropriate separate account in the Construction Fund.

4. The Trustee shall, during and upon completion of the Project or Capital Improvements, make payments from the Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this paragraph and in paragraph 5 of this Section 503. Before any such payment shall be made, the Authority shall file with the Trustee:

(a) its requisition therefor, stating in respect of each payment to be made (1) the name of the

person, firm or corporation to whom payment is due, (2) the amount to be paid, and (3) in reasonable detail the purpose for which the obligation was incurred; and

(b) its certificate signed by the chief financial officer of the Authority attached to the requisition certifying (1) that obligations in the stated amounts have been properly incurred by the Authority in or for the construction or acquisition of the Project or Capital Improvements, and that each item thereof is a proper charge against the Construction Fund and is a proper Cost of Construction and Acquisition of the Project or Capital Improvements and has not been paid, (2) that there has not been filed with or served upon the Authority notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition to any of the persons, firms or corporations named in such requisition, or if any such lien, attachment or claim has been filed with or served upon the Authority, that such lien, attachment or claim has been released or discharged in the amount in which such lien, right to lien, attachment or claim is stated in said notice, or if no amount is so stated the amount stated by the Construction Engineer as his opinion of the amount thereof, and (3) that such requisition contains no item representing payment on account of any retained percentages which the Authority is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates, the Trustee shall transfer from the Construction Fund to the credit of a special account in the name of the Authority an amount equal to the total of the amounts to be paid as set forth in such requisition but not more than the excess of such amounts over the amount stated of any lien, right to lien, attachment or claim referred to above in subparagraph (b), the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates.

5. If any requisition filed with the Trustee in accordance with paragraph 4 of this Section 503 contains any item for the payment of the cost and expense of acquisition of any lands, easements, or rights or interests in or relating to lands, there shall be attached to such requisition, before any transfer or payment with respect to such item shall be made, in addition to the certificates mentioned in said paragraph 4: (a) a certificate of an Authorized Officer to the effect that such lands, easements, rights or interests have been or are being acquired and are necessary for the Project or Capital

Improvements; and (b) a Counsel's Opinion stating, in the opinion of the signer, that the Authority has authority to acquire such lands, easements, rights or interests, and that the Authority will have upon the payment of such item title in fee simple to, or perpetual easements for the purposes of the Authority over and through, such lands subject to no lien, charge or encumbrance thereon or affecting the title thereto except such as will not under any circumstances cause the possession and use of the property by the Authority for its purposes to be disturbed, or, if such payment be a payment for an option to purchase or a quitclaim deed or a lease or a release or on a contract to purchase or be a payment to the United States of America or the State of Alaska or any political subdivision, or to a public utility, for the acquisition of a right or interest in lands less than a fee simple or a perpetual easement, or if such payment be a part payment for any such purpose, the written approval, by the signer of such Counsel's Opinion, of such payment as proper, and of the acquisition of such lesser right or interest as sufficient, for the purposes of the Authority.

6. As soon as practicable after the date as of which the Construction Engineer shall determine that (i) the Project or Capital Improvements conforms to the plans and specifications thereof as may be modified from time to time and is ready for normal continuous operation; (ii) acquisition, construction and installation of the Project or Capital Improvements has been completed in every material respect; and (iii) costs (including contingencies), as estimated by the Construction Engineer, of all work remaining to be done in order to complete such acquisition, construction and installation will not exceed 2% of the Cost of Acquisition and Construction of the Project or Capital Improvements, the Authority shall cause the Construction Engineer to file a report to that effect with the Authority and the Trustee.

7. As soon as practicable after the date referred to in paragraph 6 of this Section 503, or the Date of Commercial Operation of the Project or Capital Improvements, whichever is the later, the Authority shall cause the Construction Engineer to file with the Authority and the Trustee a report setting forth, as of such later date, the following in reasonable detail with respect to the Project or Capital Improvements: (a) the total Cost of Acquisition and Construction exclusive of claims of contractors and others which are the subject of actual or prospective dispute or controversy and exclusive of the cost (including contingencies), as estimated by the Construction Engineer, of the remaining work; (b) the portion of the total Cost of Acquisition and Construction specified pursuant to clause (a) of this paragraph which has been paid in full; (c) the portion of the total Cost of Construction and

Acquisition specified pursuant to said clause (a) which remains to be paid, including all amounts which are not the subject of a dispute or controversy but are dependent upon the satisfaction of any agreements of conditions precedent to such payment; (d) the aggregated amount of the claims of contractors and others which are the subject of a dispute or controversy; (e) the cost (including contingencies), as estimated by the Construction Engineer and as approved by the Authority of the remaining work; and (f) such amount, if any, as the Construction Engineer shall determine is necessary or desirable to be set aside in the Construction Fund for contingencies.

8. The Trustee shall at any time or from time to time after the filing with the Trustee of the report of the Construction Engineer as provided in paragraph 7 of this Section 503, withdraw from the Construction Fund the balance in the Construction Fund, or any part thereof, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this paragraph. Before any such withdrawal shall be made, the Authority shall file with the Trustee:

(a) its requisition therefor, stating the amount of such withdrawal;

(b) a certificate of the chief financial officer of the Authority attached to the requisition certifying (1) that the Project or Capital Improvements has been completed, and (2) that a sum (which shall not be less that the amount stated in the report of the Construction Engineer filed with the Trustee pursuant to paragraph 7 of this Section 503) stated in the certificate is sufficient to pay, and is required to be reserved in the Construction Fund to pay, all items of Cost of Acquisition and Construction of the Project or Capital Improvements then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against the Authority arising out of the Project or Capital Improvements; and

(c) A Counsel's Opinion stating, in the opinion of the signer, that the Authority has acquired title to all property constituting a part of the Project or Capital Improvements and all property incidental thereto sufficient for the purposes of the Authority, free from all liens, charges, conditions or encumbrances except such as will not under any circumstances cause the possession and use of the property by the Authority for its purposes to be disturbed, and that, as to such parts of the Project or Capital Improvements as constitute real property acquired, constructed or installed under a right or interest less than a fee simple or perpetual easement, the right or

interest is sufficient for the purposes of the Authority, and that there are no uncancelled mechanics', laborers', contractors', or materialmen's liens on any such property or any funds of the Authority or on file in any public office where the same should be filed in order to be valid liens against any fund of the Authority or any part of such property or of the Project or Capital Improvements, and that, in the opinion of the signer of such Counsel's Opinion, the time within which such liens can be filed has expired.

Upon filing of such certificates and Counsel's Opinion, the balance in the separate account in the Construction Fund established therefor in excess of the amount, if any, stated in such certificate shall be transferred to the Capital Reserve Fund, if and to the extent necessary to make the amount of such Fund equal to the Capital Reserve Requirement, and any balance shall be paid over or transferred to the Revenue Fund and applied, if and to the extent a Counsel's Opinion states that such application is necessary to preserve the tax-exempt status of interest on the Bonds, to the retirement of Bonds by purchase or redemption. If the Cost of Acquisition and Construction of the Project exceeds $350,000,000, the balance in the Construction Fund for the Project instead of being paid over to the Revenue Fund shall be paid to the State of Alaska. If subsequent to the filing of such certificate it shall be determined that any amounts specified in such certificate as being required for the payment of any remaining part of the Cost of Acquisition and Construction are no longer so required, such fact shall be evidenced by a certificate or certificates of an Authorized Officer of the Authority which shall be filed with the Trustee stating such fact and any amount shown therein as no longer being required shall be transferred to the Capital Reserve Fund, if and to the extent necessary to make the amount of such Fund equal to the Capital Reserve Requirement, and any balance shall be applied to the extent stated in such Counsel's Opinion. If the Cost of Acquisition and Construction of the Project exceeds $350,000,000, the balance shall be paid over to the State of Alaska. If the Cost of Acquisition and Construction of the Project is less than $350,000,000, Bonds of the initial Series in the amount equal to one half of the difference between $350,000,000 and the Cost of Acquisition and Construction of the Project shall be retired by purchase or redemption from money in the Construction Fund or from other available sources, including funds made available by the State of Alaska. Any balance remaining in the Construction Fund after such retirement shall then be paid to the State of Alaska.

9. The Trustee shall during the construction of the Project or Capital Improvements, pay from the appropriate separate account in the Construction Fund to the Authority, upon

its requisitions therefor signed by an Authorized Officer of the Authority, at one time or from time to time, a sum or sums not more than $250,000, such sums to be used by the Authority as a revolving fund for the purpose of paying such items of the Cost of Acquisition and Construction thereof as cannot conveniently be paid as in this Section otherwise provided. So long as the amount in such revolving fund shall at any time be less than $250,000, such revolving fund shall be reimbursed by the Trustee from time to time for such expenses so paid, by payments from the Construction Fund upon requisitions and certificates signed by an Authorized Officer and filed with the Trustee specifying the payee and the amount and particular purpose of such payment from such revolving fund for which such reimbursement is required and certifying that each such amount so paid was necessary for the payment of an item of the Cost of Acquisition and Construction of the Project or Capital Improvements and that such expense could not conveniently be paid except from such revolving fund. In making such reimbursement the Trustee may rely upon such requisitions, and accompanying certificates.

10. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

504. Revenues and Revenue Fund. All Revenues shall be promptly deposited by the Authority and the Trustee, as the case may be, upon receipt thereof to the credit of the Revenue Fund.

505. Operating Fund. 1. As soon as practicable after deposit of Revenues in the Revenue Fund and in any case no later than the last business day of each month after the deposit, the Authority shall withdraw from the Revenue Fund and pay to the Operating Fund a sum which, together with any amount therein not set aside in the Operating Reserve Account or as a reserve for working capital, is equal to one-twelfth (or such other fraction as may be appropriate if the period with respect to which such amount is withdrawn is other than monthly) of the total moneys appropriated for Operating Expenses in the Annual Budget for the then current Fiscal Year. If and to the extent provided in a Supplemental Resolution authorizing Bonds of a Series, amounts from the proceeds of such Bonds may be deposited in the Operating Fund and set aside therein as a reserve for working capital. The Authority shall establish an Operating Reserve Account within the Operating Fund. The Operating Reserve Account shall be established and maintained at all times in an amount not less than the Operating Reserve Account Requirement. Amounts in the Operating Reserve Account may be expended for Operating Expenses to the extent other amounts in the Operating Fund are not available.

2. Amounts in the Operating Fund shall be paid out from time to time by the Authority for reasonable and necessary Operating Expenses. Any amounts budgeted by the Committee in the Annual Budget for Annual Project Costs constituting costs of the Committee shall be paid out from time to time to the Committee by the Authority.

506. Payments Into Certain Funds. As soon as practicable after the deposit of Revenues into the Revenue Fund and after the payment has been made to the Operating Fund pursuant to Section 505, and with at least the frequency stated below, the Authority shall apply moneys from the Revenue Fund and deposit said amounts with the Trustee on the dates set forth below and the Trustee shall deposit said amounts in the following order in the amounts and in the Funds set forth below.

1. Annually on a date or dates to be determined by Supplemental Resolution to the credit of the Excess Investment Earnings Fund in such amount as is necessary to cause the amount on deposit in the Excess Investment Earnings Fund (after a deposit therein, if any, from the Construction Fund) to be equal to the Trustee's estimate of Excess Investment Earnings for the Bond Year.

2. Semi-annually on June 1 and December 1, in the Debt Service Fund (i) for credit to the Interest Account, unless the sum on deposit therein equals or exceeds the interest due on all Bonds on the next succeeding interest payment date, an amount equal to the interest due on such interest payment date less the interest to be paid on such interest payment date from Bond proceeds held in said Account for such purpose; provided, however, that for the purposes of computing the amount on deposit in said Account, there shall be excluded the amount, if any, set aside in said Account for the payment of interest due after the next succeeding interest payment date; and (ii) for credit to the Principal Account, unless the sum on deposit therein equals or exceeds all Principal Installments due on the next succeeding July 1, an amount equal to such Principal Installments; provided that the Authority may establish by Supplemental Resolution payments into the Debt Service Fund at different times and in different amounts as necessary for interest paid other than semi-annually and in fixed amounts.

3. In the Capital Reserve Fund, the amount, if any, required so that the balance in the Fund equals the Capital Reserve Requirement.

4. Semi-annually on June 1 and December 1, in the Operating Reserve Account, the amount, if any, required so that the balance in the Account equals the Operating Reserve Account Requirement.

5. In the Renewal and Contingency Reserve Fund, the amount, if any, required so that the balance in the Fund, within a period no greater than four (4) years from the initial deposit and thereafter from the most recent withdrawal therefrom, shall equal the Renewal and Contingency Reserve Requirement or such larger amount as may be determined from time to time by the Committee to be included in the calculation of Annual Project Costs pursuant to Section 8(a)(v) of the Power Sales Agreement.

507. Debt Service Fund. 1. The Trustee shall pay out of the Debt Service Fund to the respective Paying Agents (i) out of the Interest Account, on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; (ii) out of the Principal Account, on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) out of the Interest Account, on or before any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Interest Account the accrued interest included in the purchase price of Bonds purchased for retirement.

2. Amounts accumulated in the Principal Account with respect to any Sinking Fund Installment (together with amounts accumulated in the Interest Account with respect to interest on the Bonds for which such Sinking Fund Installment was established) may, and if so directed by the Authority, shall, be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of the Bonds of the Series and maturity for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Price of such Bonds. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Principal Account may, and if so directed by the Authority, shall, be applied by the Trustee to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subsection 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by the Authority. The applicable sinking fund Redemption Price of any Bonds so purchased or redeemed shall be deemed to constitute part of the Principal Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding

the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 405, on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Principal Account to the appropriate Paying Agents, on or before such redemption date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption. All expenses in connection with the purchase or redemption of Bonds shall be paid from the Operating Fund.

3. The amount, if any, deposited in the Interest Account from the proceeds of each Series of Bonds shall be set aside in such Account and applied to the payment of interest on Bonds as provided in the Supplemental Resolution relating to the issuance of such Series of Bonds.

4. In the event of the refunding of one or more Series of Bonds, the Trustee shall, upon the direction of the Authority, withdraw from the Debt Service Fund amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts with itself as Trustee to be held for payment of the principal or Redemption Price, if applicable, and interest on the Series of Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Series of Bonds being refunded shall be deemed to have been paid pursuant to subsection 2 of Section 1201, and (b) the amount remaining in the Debt Service Fund after such withdrawal shall not be less than the requirement of such Fund pursuant to paragraph (2) of Section 506.

508. Capital Reserve Fund. 1. If five business days prior to any date on which a Principal Installment or interest is due the amount in the Debt Service Fund shall be less than the amount required to be in such Fund to pay said Principal Installment or interest, the Trustee shall apply amounts from the Capital Reserve Fund to the extent necessary to make good the deficiency.

2. Whenever the moneys on deposit in the Capital Reserve Fund shall exceed the Capital Reserve Fund Requirement, such excess shall, on the request of the Authority, be transferred to the Authority for deposit in the Revenue Fund at least annually and shall be deemed "other available funds" within the meaning of Section 712 to be used for the payment of amounts required to be paid therein or for the purpose of refunds to the Purchasers pursuant to Section 13 of the Power Sales Agreement.

3. Whenever the amount in the Capital Reserve Fund, together with the amount in the Debt Service Fund is sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Capital Reserve Fund shall be transferred to the Debt Service Fund. Prior to said transfer, all investments held in the Debt Service Fund shall be liquidated to the extent necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on Bonds.

4. In the event of the refunding of one or more Series of Bonds or one or more maturities within a Series of Bonds, the Trustee shall, upon the direction of the Authority, withdraw from the Capital Reserve Fund amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Series or maturities within a Series of Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Series or maturities within a Series of Bonds being refunded shall be deemed to have been paid pursuant to subsection 2 of Section 1201 and (b) the amount remaining in the Capital Reserve Fund after such withdrawal shall not be less than the Capital Reserve Fund Requirement.

509. Renewal and Contingency Reserve Fund.

1. Amounts in the Renewal and Contingency Reserve Fund shall be applied to the costs of Capital Improvements, the payment of extraordinary operation and maintenance costs and contingencies, including payments with respect to the prevention or correction of any unusual loss or damage in connection with the Project or to prevent a loss of Revenues therefrom, all to the extent not provided for in the then current Annual Budget or by reserves in the Operating Fund or from the proceeds of Bonds.

2. No payments shall be made from the Renewal and Contingency Reserve Fund if and to the extent that the proceeds of insurance, including the proceeds of any self-insurance fund, or other moneys recoverable as the result of damage, if any, are available to pay the costs otherwise payable from such Fund.

3. Any balance of moneys and securities in the Renewal and Contingency Reserve Fund in excess of an amount which, within a period no greater than four (4) years from the initial deposit and thereafter no greater than four (4) years from the most recent withdrawal therefrom, shall equal the Renewal and Contingency Reserve Requirement or such larger amount as may be determined from time to time by the Committee to be included in the calculation of Annual Project Costs

pursuant to Section 8(a)(v) of the Power Sales Agreement, shall be transferred to the Revenue Fund at least annually.

510. Excess Investment Earnings Fund. Promptly after each Bond Year (but not later than 30 days after the redemption of the last Bond of a particular Series), the Trustee shall transfer from or to the Construction Fund or the Revenue Fund as provided in Sections 503 and 506 hereof, respectively, to or from the appropriate Account in the Excess Investment Earnings Fund, such amount as shall be necessary to cause the aggregate amount transferred to such Account to equal the Excess Investment Earnings for a particular Series of Bonds as of the end of such Bond Year as determined by or on behalf of the Authority; provided that no such transfers shall be necessary in respect of a particular Series of Bonds if the proceeds of such Series of Bonds are fully expended within six months of the date of issue of such Series of Bonds.

All amounts in the Excess Investment Earnings Fund, including income earned from investments of the Fund, shall be held by the Trustee free and clear of the lien of this Resolution, and the Trustee shall pay said amounts over to the United States from time to time as the Trustee shall determine; provided that the Trustee shall so pay over to the United States in respect of each Series of Bonds, except as otherwise provided above: (1) not less frequently than once each five years after the date of issuance of such Series of Bonds, an amount equal to 90 percent of the net aggregate amount transferred to or earned in the appropriate Account in the Excess Investment Earnings Fund relating to such Series during such period (and not theretofore paid to the United States) and (2) not later than 30 days after the redemption of the last Bond of such Series, 100 percent of the aggregate amount in such Account in the Excess Investment Earnings Fund.

511. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled.

ARTICLE VI

Depositaries of Moneys, Security for Deposits and Investment of Funds

601. Depositaries. 1. All moneys held by the Trustee under the provisions of this Resolution shall be deposited with the Trustee and the Trustee shall, if directed by the

Authority, deposit such moneys with one or more Depositaries in trust for the Trustee. All moneys held by the Authority under this Resolution shall be deposited in one or more Depositaries in trust for the Authority. All moneys deposited under the provisions of this Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of this Resolution, and each of the Funds established by this Resolution shall be a trust fund for the purposes thereof.

2. Each Depositary shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of this Resolution.

602. Deposits. 1. All Revenues and other moneys held by any Depositary under this Resolution may be placed on demand or time deposit, if and as directed by the Authority, provided that such deposits shall permit the moneys held to be available for use at the time when needed. The Authority shall not be liable for any loss or depreciation in value resulting from any investment made pursuant to this Resolution. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the Authority and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

2. All moneys held under this Resolution by the Trustee or any Depositary shall be (a) either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by lodging with the Trustee, any Federal Reserve Bank or branch, or another third party custodian approved by the Trustee and the Authority, Qualified Collateral having a market value (exclusive of accrued interest) not less than 100% of the amount of such moneys, and (b) held in such other manner as may then be required by applicable Federal or State of Alaska laws and regulations and applicable state laws and regulations of the state in which the Trustee or such Depositary (as the case may be) is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Fiduciaries to give security under this subsection 2 for the deposit of any moneys with them held in trust and set aside

by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee or any Depositary to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

3. All moneys deposited with the Trustee and each Depositary shall be credited to the particular Fund or Account to which such moneys belong.

4. The Trustee may, and upon the written request of the Authority shall, commingle any of the funds or accounts established pursuant to this Resolution into a separate fund or funds, provided, however, that all Funds or Accounts held by the Trustee hereunder shall be accounted for and credited to the correct Fund or Account notwithstanding such commingling.

603. Investment of Certain Funds. Moneys held in any Fund or Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds and Accounts. The Trustee shall make all such investments of moneys held by it in accordance with instructions received from any Authorized Officer of the Authority.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, shall be paid into the Revenue Fund, provided, however, that interest shall be paid into the Construction Fund to the extent such interest is earned to the earlier of (i) the date to which all interest is capitalized with respect to all Bonds, (ii) the date which is one year prior to the first Principal Installment date for any Bonds or (iii) the Date of Commercial Operation of the Project. Interest earned on any moneys or investments in a separate account in the Construction Fund shall be held in such account for the purposes thereof.

Nothing in this Resolution shall prevent any Investment Securities acquired as investments of funds held under this Resolution from being issued or held in book-entry form on the books of the Department of Treasury of the United States of America.

604. Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of this Resolution shall be deemed at all times to be part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any

loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of this Resolution for any purpose provided in this Resolution or Sec. 44.83.110(e) of the Act, obligations purchased as an investment of moneys therein shall be valued at the market value thereof exclusive of accrued interest, or otherwise as may then be required by the Code. Such computations shall be determined not less frequently than quarterly in each year.

Except as otherwise provided in this Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the Authority so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VII

Particular Covenants of the Authority

701. Payment of Bonds. The Authority shall duly and punctually pay or cause to be paid, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds according to the true intent and meaning thereof.

702. Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of claims for interest, by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under this Resolution, to the benefit of this Resolution or to any payment out of Revenues or Funds established by this Resolution, including the investments, if any, thereof, pledged under this Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to this Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the Authority to issue Refunding

Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

703. Offices for Servicing Bonds. The Authority shall at all times maintain one or more agencies in the City of New York, New York, where Bonds may be presented for payment and shall at all times maintain one or more agencies where Bonds may be presented for registration, transfer for registration, transfer or exchange, and where notices, demands and other documents may be served upon the Authority in respect of the Bonds or of this Resolution. The Authority hereby appoints the Trustee as Bond Registrar to maintain an agency for the registration, transfer or exchange of Bonds, and for the service upon the Authority of such notices, demands and other documents and the Trustee shall continuously maintain or make arrangements to provide such services. The Authority hereby appoints the Paying Agent or Agents in such city as its respective agents to maintain such agencies for the payment or redemption of Bonds.

704. Further Assurance. At any and all times the Authority shall, as far as it may be authorized by law, comply with any reasonable request of the Trustee to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pleading, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the Authority may become bound to pledge or assign.

705. Power to Issue Bonds and Pledge Revenues and Other Funds. The Authority is duly authorized under the Act and all other applicable laws to create and issue the Bonds and to adopt this Resolution and to pledge and assign the Revenues and other moneys, securities and funds purported to be subject to the lien of this Resolution in the manner and to the extent provided in this Resolution. Except to the extent otherwise provided in this Resolution, the Revenues, and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and assignment created by this Resolution, and all corporate or other action on the part of the Authority to that end has been and will be duly and validly taken. The Bonds and the provisions of this Resolution are and will be valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Act and this Resolution. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge and assignment of the Revenues and other moneys, securities and funds pledged under this

Resolution and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomever.

706. Power to Fix and Collect Rates, Fees and Charges. The Authority has, and will have as long as any Bonds are Outstanding, good right and lawful power to establish and collect rates and charges with respect to the use of the capability of the Project and the sale of the capacity, output or service thereof subject to the terms of the Power Sales Agreement and other contracts relating thereto.

707. Creation of Liens; Sale and Lease of Property. 1. The Authority shall not issue any bonds, notes, or other evidences of indebtedness, other than the Bonds, secured by a pledge of or other lien or charge on the Revenues (including amounts which the Authority may thereafter be entitled to expend for Operating Expenses) and shall not create or cause to be created any lien or charge on such Revenues or on any amounts held by any Fiduciary under this Resolution; provided, however, that neither this Section nor any other provision of this Resolution shall prevent the Authority from issuing bonds or notes or other obligations for the purposes of the Authority payable out of, or secured by a pledge of, Revenues to be derived on and after such date as the pledge of the Revenues provided in this Resolution shall be discharged and satisfied as provided in Section 1201, or from issuing bonds or notes or other obligations for the purposes of the Authority which are secured by a pledge of amounts which is and shall be in all respects subordinate to the provisions of this Resolution and the lien and pledge created by this Resolution.

2. No part of the Project shall be sold, leased, mortgaged or otherwise disposed of, except as follows:

(a) The Authority may sell or exchange at any time and from time to time any property or facilities constituting part of the Project only in accordance with, and in a manner that will not impair the Authority's obligations under, the provisions of the Power Sales Agreement and if (i) it shall determine that such property or facilities are not useful in the operation of the Project, or (ii) the proceeds of such sale are less than 2% of the prior Bond Year's Debt Service, or it shall file with the Trustee an opinion of the Consulting Engineer stating that the fair market value of the property or facilities exchanged are less than 2% of the prior Bond Year's Debt Service or (iii) if such proceeds or fair market value exceeds 2% of the prior Bond Year's Debt Service it shall file with the Trustee an opinion of the Consulting Engineer stating that the sale or exchange of

such property or facilities will not impair the ability of the Authority to comply during the current or any future Fiscal Year with the provisions of Section 712. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the Project shall forthwith be deposited in the Renewal and Contingency Fund; and

(b) In addition to the Power Sales Agreement, the Authority may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the Project, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the Authority or its agent of the Project and (ii) does not in any manner impair or adversely affect the rights or security of the Bondholders under this Resolution, and (iii) does not adversely affect the exemption from federal income taxation of the interest on the Bonds; and provided, further, that if the depreciated cost of the property to be covered by any such lease, contract, license, arrangement, easement or other right is in excess of 2% of the prior Bond Year's Debt Service the Authority shall first file with the Trustee an opinion of the Consulting Engineer that the action of the Authority with respect thereto does not impair the ability of the Authority to comply during the current or any further Fiscal Year with the provisions of Section 712. Any payments received by the Authority under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the Project or any part thereof shall constitute Revenues and shall be deposited in the Revenue Fund.

708. Consulting Engineer. The Authority shall, for the purpose of performing and carrying out the duties imposed on the Consulting Engineer by this Resolution, employ an independent engineer or engineering firm or corporation having a nationwide and favorable reputation and demonstrated experience in the field of consulting engineering for power systems.

709. Annual Budget. The Authority, acting in conjunction with the Committee or separately in accordance with Section 13(e) of the Power Sales Agreement, shall adopt an Annual Budget each Fiscal Year pursuant to Section 13 of the Power Sales Agreement and shall adopt and have in effect said Annual Budget at least 90 days prior to such Fiscal Year. Each Annual Budget shall set forth in reasonable detail the estimated Revenues and Operating Expenses including Annual Project Costs for the Fiscal Year, and including provision for the estimated amount to be deposited during such Fiscal Year in each Fund and

Account established under this Resolution and the requirements, if any, for the amounts estimated to be expended from each Fund and Account established under this Resolution. Such Annual Budget shall also set forth such detail with respect to such Revenues, Operating Expenses and other expenditures and such deposits, as shall be necessary or appropriate so as to comply with the Power Sales Agreement and the Authority may set forth such additional material as the Authority may determine. Such Annual Budget shall be revised as necessary or prudent during each Fiscal Year to reflect unanticipated changes in actual Revenues, Operating Expenses or other requirements, or if there are at any time during any such Fiscal Year extraordinary receipts or payments of unusual costs, and, if appropriate, there shall be filed with the Trustee an amended Annual Budget for the remainder of the then current Fiscal Year.

710. Limitations on Operating Expenses and Other Costs. The Authority shall not incur Operating Expenses or other costs payable from the Renewal and Contingency Reserve Fund in any Fiscal Year in excess of the reasonable and necessary amount of such expenses or costs, respectively, and shall not expend any amount from the Operating Fund for Operating Expenses or from the Renewal and Contingency Reserve Fund for costs payable therefrom for such Fiscal Year in excess of the respective amounts provided therefor in the Annual Budget as then in effect. Nothing in this Section contained shall limit the amount which the Authority or the Committee may expend for Operating Expenses or other costs payable from the Renewal and Contingency Reserve Fund in any Fiscal Year provided any amounts expended therefor in excess of such Annual Budget shall be received by the Authority or the Committee from some source other than the Revenues, which source shall not be reimbursable out of Revenues.

711. Acquisition and Construction of Project and Its Operation and Maintenance. 1. The Authority shall use its best efforts to acquire and construct the Project, or cause the same to be acquired and constructed with due diligence and in a sound and economical manner.

2. The Authority shall at all times use its best efforts to operate or cause the Project to be operated properly and in an efficient and economical manner, consistent with the Power Sales Agreement and Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and good condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs,

replacements and renewals so that at all times the operation of the Project may be properly and advantageously conducted.

3. The Authority shall take all necessary steps to comply with applicable federal and state laws and regulations relating to the use and operation of the Project, including the terms of the Federal Energy Regulatory Commission license applicable to the Project.

712. Rates, Fees and Charges. 1. The Authority, acting in conjunction with the Committee or separately under Section 13(e) of the Power Sales Agreement, shall at all times after the date of Commercial Operation charge and collect, as a wholesale power rate, from each Purchaser pursuant to the Power Sales Agreement that Purchaser's Percentage Share (as defined in the Power Sales Agreement) of Annual Project Costs. The Authority, acting in conjunction with the Committee or separately under Section 13(e) of the Power Sales Agreement, shall determine Annual Project Costs in such amounts as shall be required to provide Revenues at least sufficient in each Fiscal Year, together with other available funds, for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year;

(b) The amount, if any, to be paid during such Fiscal Year into the Operating Reserve Account which shall be the amount, if any, necessary to restore the Operating Reserve Account to the Operating Reserve Account Requirement;

(c) An amount equal to the Aggregate Debt Service during such Fiscal Year;

(d) The amount, if any, to be paid during such Fiscal Year into the Capital Reserve Fund, which shall be the amount, if any, necessary to restore the Capital Reserve Fund to the Capital Reserve Requirement subject to Section 716;

(e) The amount to be paid during such Fiscal Year into the Renewal and Contingency Reserve Fund which shall be the amount, if any, necessary to restore the Renewal and Contingency Reserve Fund over a period no greater than four years to the Renewal and Contingency Reserve Fund Requirement or such larger amount as may be determined from time to time by the Committee to be included in the calculation of Annual Project Costs pursuant to Section 8(a)(v) of the Power Sales Agreement; and

(f) All other charges or liens whatsoever required to be paid out of Revenues during such Fiscal Year.

2. The Authority will not furnish or supply or cause to be furnished or supplied any use, output, capacity or service, of the Project, free of charge to any person, firm or corporation, public or private, and the Authority will enforce the payment of any and all amounts owing to the Authority pursuant to the Power Sales Agreement in accordance with its terms.

3. As required by AS 44.83.110, the Authority further will at all times maintain rates, fees or charges, and a contract entered into by it for the sale, transmission or distribution of power shall contain rates, fees or charges, sufficient (i) to pay the costs of operation and maintenance of the Project, the principal of and interest on the Bonds as the same severally become due and payable, (ii) to provide for debt service coverage as considered necessary by the Authority for the marketing of the Bonds and to provide for renewals, replacements and improvements of the Project, and (iii) to maintain reserves required by the terms of this Resolution.

713. Power Sales Agreement. 1. The Authority shall collect and forthwith deposit in the Revenue Fund all amounts payable to it pursuant to the Power Sales Agreement or payable to it pursuant to any other contracts for the use of the capability of the Project or the sale of the output, capacity or service of the Project or any part thereof. The Authority hereby pledges, assigns and transfers to the Trustee acting on behalf of the Bondholders all of its rights under the Power Sales Agreement or any other contracts for the use of the capability of the Project or the sale of the output, capacity or service of the Project or any part thereof and the Trustee shall enjoy and hold for the benefit of the Bondholders the rights and privileges so assigned, including, without limiting the foregoing, the rights of the Authority to receive payments thereunder. The Authority shall enforce the provisions of the Power Sales Agreement and duly perform its covenants and agreements thereunder. The Authority will not consent or agree to or permit any termination, rescission of or amendment to or otherwise take any action under or in connection with the Power Sales Agreement which will in any manner materially impair or materially adversely affect the rights or security of the Bondholders under this Resolution. A copy of the Power Sales Agreement certified by an Authorized Officer of the Authority shall be filed with the Trustee, and a copy of any such amendment certified by an Authorized Officer of the Authority shall be filed with the Trustee.

2. The Authority shall perform its obligations under the Power Sales Agreement to delegate to the Committee, consult with the Committee, and act through the Committee, with respect to the management, operation, maintenance, and improvement of the Project, including its obligation to follow procedures adopted by the Committee with respect to certain actions to be taken by the Authority under this Resolution. The Authority represents that it has the power under Section 13(e) of the Power Sales Agreement, notwithstanding any action or inaction by the Committee, to take such measures as it deems necessary to meet its obligations under this Resolution. The Authority hereby covenants that it will exercise the powers granted pursuant to Section 13(e) of the Power Sales Agreement, if necessary, to carry out actions required to be taken under this Resolution.

714. Insurance. 1. The Authority shall keep and maintain the Project at all times insured against such risks and in such amounts, with such deductible provisions, as are customary in connection with the operation of facilities of a type and size comparable to the Project. The determination of what is customary within the meaning of the prior sentence shall be made by an independent insurance consultant employed by the Authority. Without limiting the foregoing, the Authority shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for, the following insurance with respect to the Project and the Authority:

(a) insurance coverage for buildings, works, plants and facilities comprising the Project for all risks of direct physical loss, at all times in an amount not less than an amount necessary giving regard to co-insurance provisions to pay and retire and redeem all the Outstanding Bonds;

(b) general public liability insurance (other than as set forth in subsection (c) of this Section) in minimum amounts per occurrence, for annual aggregate claims, and with a deductible amount, to the same extent that other entities comparable to the Authority and owning or operating facilities of the size and type comparable to the Project carry such insurance;

(c) comprehensive automobile liability insurance;

(d) workers' compensation insurance or self-insurance as required by the laws of the State of Alaska;

2. Each insurance policy required by this Section (i) shall be issued or written by a financially responsible

insurer (or insurers), or by an insurance fund established by the United States or State of Alaska or an agency or instrumentality thereof, (ii) shall be in such form and with such provisions (including, without limitation and where applicable, loss payable clauses payable to the Trustee, waiver of subrogation clauses, provisions relieving the insurer of liability to the extent of minor claims and the designation of the named assureds) as are generally considered standard provisions for the type of insurance involved, and (iii) shall prohibit cancellation or substantial modification by the insurer without at least thirty days' prior written notice to the Trustee and the Authority. Without limiting the generality of the foregoing, all insurance policies carried pursuant to this Section 714 shall name the Trustee, the Authority and the Purchasers as parties insured thereunder as the respective interest of each of such parties may appear, and loss thereunder shall be made payable and shall be applied as provided in this Resolution.

3. The Authority covenants to review each year the insurance carried by the Authority with respect to the Authority and the Project and, to the extent feasible and economically prudent, will carry insurance insuring against the risks and hazards specified in this Section to the same extent that other entities comparable to the Authority and owning or operating facilities of the size and type comparable to the Project, and taking into account any special circumstances of the Project, carry such insurance. In the event that the Authority determines that the insurance required by this Section is not available to the Authority at reasonable cost, and, in any case, every two (2) years, from and after July 1, 1990, the Authority shall employ an independent insurance consultant for the purpose of reviewing the insurance coverage of, and the insurance required for, the Authority and the Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to the Authority and the Project and their operation, maintenance and administration. A signed copy of the report of the independent insurance consultant shall be filed with the Trustee and copies thereof shall be sent to the Authority, and the insurance requirements specified hereunder, including any and all of the dollar amounts set forth in this Section, shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report.

4. The Authority may establish a fund to provide self-insurance against the risks and hazards relating to the properties of the Project and the interests of the Authority and the Bondholders as described in this Section, and, in connection therewith, may specify and determine the matters and things set forth in paragraph 3 of this Section.

5. Insurance maintained pursuant to this Section may be part of one or more master policies maintained by the State of Alaska so long as the form of such policy and the coverage is the same as if a separate policy was in effect.

6. The Authority shall on or before January 1 of each year, commencing January 1, 1990, submit to the Trustee a certificate verifying that all minimum insurance coverages required by this Resolution are in full force and effect as of the date of such Authority Certificate.

715. Reconstruction; Application of Insurance Proceeds. 1. If any useful portion of the Project shall be damaged or destroyed, the Authority shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the reconstruction or replacement thereof, unless the Authority declares the Project ended pursuant to Section 14 of the Power Sales Agreement, or unless the Consulting Engineer in an opinion or report filed with the Trustee shall state that such reconstruction and replacement is not consistent with Prudent Utility Practice or is not in the interest of the Purchasers and the Bondholders. The proceeds of any insurance, including the proceeds of any self-insurance fund, paid on account of such damage or destruction shall be held by the Authority in a special account in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement. Pending such application, such proceeds may be invested by the Authority in Investment Securities which mature not later than such time as shall be necessary to provide moneys when needed to pay such costs of reconstruction or replacement. The proceeds of any insurance, including the proceeds of any self-insurance fund, not applied within 36 months after receipt thereof by the Authority to repairing or replacing damaged or destroyed property, or in respect to which notice in writing of intention to apply the same to the work of repairing or replacing the property damaged or destroyed shall not have been given to the Trustee by the Authority within such 36 months, or which the Authority shall at any time notify the Trustee are not to be so applied, in excess of $5,000,000 shall be used to retire Bonds by purchase or redemption. Notwithstanding the foregoing, in the event that payments are made from the Renewal and Contingency Reserve Fund for any such repairing of property damaged or destroyed prior to the availability of insurance proceeds, including the proceeds of any self-insurance fund therefor, such proceeds when received shall be deposited in the Renewal and Contingency Reserve Fund to the extent of such payments therefrom.

2. If the proceeds of insurance, including the proceeds of any self-insurance fund, authorized by this Section

to be applied to the reconstruction or replacement of any portion of the Project are insufficient for such purpose, the deficiency may be supplied out of moneys in the Renewal and Contingency Reserve Fund.

3. Alternate methods (if any) of carrying out and funding Required Project Work may be determined as provided in Section 4(c) of the Power Sales Agreement.

716. Maintenance of Capital Reserve Fund. 1. The Authority shall at all times maintain the Capital Reserve Fund created and established by Section 502 and do and perform or cause to be done and performed each and every act and thing with respect to the Capital Reserve Fund provided to be done or performed on behalf of the Authority or the Trustee under the terms and provisions of Article V hereof or of the Act.

2. In order better to secure the Bonds and to make them more marketable and to maintain in the Capital Reserve Fund an amount equal to the Capital Reserve Requirement, the Authority shall, in compliance with the provisions of the Act, cause the Chairman annually, on or before the second day of January of each year and whenever the Trustee transfers funds from the Capital Reserve Fund to pay Principal Installments or interest on the Bonds, to make and deliver to the Governor of the State and the Chairmen of the House and Senate Finance Committees of the Alaska State Legislature his certificate stating the amount, if any, required to restore the Capital Reserve Fund to the Capital Reserve Requirement and requesting such amount. A copy of such certificate shall be promptly delivered to the Trustee. Any such moneys received by the Authority from the State in accordance with the provisions of the Act pursuant to any such certification shall be paid to the Trustee for deposit and credit to the Capital Reserve Fund.

717. Accounts and Reports. 1. The Authority shall keep or cause to be kept proper books of records made of its transactions relating to the Project and each Fund and Account established under this Resolution and relating to its costs and charges under the Power Sales Agreement and which, together with the Power Sales Agreement and all other books and papers of the Authority, including insurance policies, relating to the Project, shall at all times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

2. The Trustee shall advise the Authority promptly after the end of each month of the respective transactions during such month relating to each Fund and Account held by it under this Resolution. The Authority shall have the right upon

reasonable notice and during reasonable business hours to audit the books and records of the Trustee with respect to the Funds and Accounts held by the Trustee under this Resolution.

3. The Authority shall annually, within 120 days after the close of each Fiscal Year (the first such report to be filed with respect to the Fiscal Year commencing July 1, 1990), file with the Trustee, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Certificate, relating to the Project and including the following statements in reasonable detail: a statement of assets and liabilities as of the end of such Fiscal Year, to the extent relating to the Project; a statement of Revenues and Operating Expenses for such Fiscal Year; and a summary with respect to each Fund and Account established under this Resolution of the receipts therein and disbursements therefrom during such Fiscal Year and the amount held therein at the end of such Fiscal Year. Such Accountant's Certificate shall state whether or not, to the knowledge of the signer, the Authority is in default with respect to any of the covenants, agreements or conditions on its part contained in this Resolution, and if so, the nature of such default.

4. The Authority shall file with the Trustee (a) forthwith upon becoming aware of any Event of Default or default in the performance by the Authority of any covenant, agreement or condition contained in this Resolution, a certificate signed by an Authorized Officer of the Authority and specifying such Event of Default or default and (b) within 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 1991, a certificate signed by an appropriate Authorized Officer of the Authority stating that, to the best of his knowledge and belief, the Authority has kept, observed, performed and fulfilled each and every one of its covenants and obligations contained in this Resolution and there does not exist at the date of such certificate any default by the Authority under this Resolution or any Event of Default or other event which, with the lapse of time specified in Section 801 would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

5. With respect to the Project and each Capital Improvement for which a Construction Engineer is retained pursuant to paragraph 7 of Section 503, the Authority shall cause such Construction Engineer to (A) prepare and submit to the Authority such drawings, designs, plans, specifications, surveys and reports as are necessary for the proper acquisition and construction of the Project or Capital Improvement, and approve and supervise any necessary modifications in the designs, plans and specifications thereof; (B) prepare and submit to the

Authority quarterly reports of progress during the period of construction of the Project or Capital Improvement, including data as to the date of expected completion and the comparison of estimated construction time and the Cost of Acquisition and Construction thereof with the estimates made prior to the issuance and sale of any Bonds, and an estimate of the amounts that will be needed from time to time to pay the Cost of Acquisition and Construction thereof and the estimated dates of such payments; (C) continuously supervise and inspect the acquisition and construction of the Project or Capital Improvement in accordance with the usual accepted practices of such inspection and supervision; and (D) upon completion and testing as required by the specifications of the Project or Capital Improvement, certify to the Authority to that effect and to the further effect that the Project (or, with respect to a Capital Improvement, the Project with such Capital Improvement) is ready for normal continuous operation. The Authority shall cause a copy of every report of the Construction Engineer referred to in this paragraph to be filed with the Trustee.

6. The reports, requested statements and other documents required to be furnished to the Trustee pursuant to any provisions of this Resolution shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the Authority. The Authority may charge each Bondholder requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

718. Tax Covenants. 1. The Authority shall at all times do and perform all acts and things necessary or desirable including, but not limited to, compliance with provisions of a letter ofinstructions from Bond Counsel, as the same may be revised from time to time, in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation, except in the event that such recipient is a "substantial user" or "related person" within the meaning of Section 147(a) of the Code.

2. The Authority shall not permit at any time or times any of the proceeds of the Bonds, Revenues or any other funds of the Authority to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) and (e) of the Code.

3. Notwithstanding any other provision of this Resolution, all money held by the Trustee in any of the funds or accounts established pursuant to this Resolution other than

money on deposit in the Debt Service Fund and the Capital Reserve Fund, shall be invested solely in obligations issued by the Treasury, in obligations guaranteed by The Federal Housing Administration, The Veterans Administration, The Federal National Mortgage Association, The Federal Home Loan Mortgage Corporation, or The Government National Mortgage Association, or in such other investments as may be permitted under the regulations issued pursuant to Section 149(b) of the Code, unless, in the opinion of Counsel, another investment of such funds will not impair the exclusion of interest on the Bonds from gross income for federal income tax purposes.

4. The Authority shall not permit at any time or times any proceeds of any Bonds, Revenues or any other funds of the Authority to be used, directly or indirectly, in a manner which would result in the exclusion of any Bond from the treatment afforded by subsection (a) of Section 103 of the Code, as from time to time amended, except in the case of Bonds held by a person who, within the meaning of Section 147(a) of the said Code, is a "substantial user" or "related person".

5. This Section shall not apply to any Series of Bonds the interest on which is determined by the Authority not to be exempt from taxation under Section 103 of the Code, provided, that no such Series of Bonds shall be issued unless a Counsel's Opinion is filed with the Trustee stating that the issuance of such Series will not cause the interest on a tax-exempt Bond previously issued to be subject to taxation unde Sections 103 and 141-150 of the Code.

6. Notwithstanding any other provision of this Resolution to the contrary, upon the Authority's failure to observe, or refusal to comply with, the covenants in this Section 718, no person other than the Trustee or the Holders of the Bond of the specific series affected shall be entitled to exercise any right or remedy provided to the above Holders under this Resolution on the basis of the Authority's failure to observe, or refusal to comply with, the covenant.

719. Payment of Taxes and Charges. The Authority will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the Authority or upon the rights, Revenues, income, receipts, and other moneys, securities and funds of the Authority when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under this Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Authority shall in good faith contest by proper legal proceedings if the Authority shall in

all such cases have set aside on its books reserves deemed adequate with respect thereto.

720. Pledge of the State. The State of Alaska pledges to and agrees with the Holders of the Bonds that the State will not limit or alter the rights and powers vested in the Authority by the Act to fulfill the terms of the contracts made by the Authority under this Resolution with the Holders of the Bonds, or in any way impair the rights and remedies of the Holders of the Bonds until the Bonds, together with the interest on them with interest on unpaid installments of interest, and all costs and expenses in connection with an action or proceeding by or on behalf of the Holders of the Bonds, are fully met and discharged. This pledge is included in this Resolution under the specific authority of 44.83.140 of the Act.

721. Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds, and all benefit or advantage of any such law is hereby expressly waived by the Authority.

722. General. 1. The Authority shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Authority under the provisions of the Act and this Resolution.

2. Upon the date of authentication and delivery of each Series of Bonds, all conditions, acts and things required by law and this Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds shall exist, have happened and have been performed and the issue of such Bonds, together with all other indebtedness of the Authority, shall comply in all respects with the applicable laws of the State of Alaska including the debt and other limitations prescribed by the Constitution and laws of the State of Alaska.

3. The provisions of this Article are covenants and agreements by the Authority with the Trustee and the Bondholders.

ARTICLE VIII

Remedies of Bondholders

Section 801. Events of Default. The following shall constitute Events of Default:

(i) if default shall be made in the due and punctual payment of the principal of or Redemption Price, if any, or any Sinking Fund Payment when and as the same shall become due on or with respect to any Bond, whether at maturity or upon call for redemption or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor, when and as such interest installment or Sinking Fund Installment shall become due and payable;

(iii) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in this Resolution or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or to the Authority and to the Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding;

(iv) if there shall occur the dissolution or liquidation of the Authority or the filing by the Authority of a voluntary petition in bankruptcy, or the commission by the Authority of any act of bankruptcy, or adjudication of the Authority as a bankrupt, or assignment by the Authority for the benefit of its creditors, or the entry by the Authority into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Authority in any proceeding for its reorganization instituted under the provisions of the federal bankruptcy act, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted;

(v) if an order or decree shall be entered, with the consent or acquiescence of the Authority appointing a receiver or receivers of the Project, or any part thereof, or of the rents, fees, charges, or other Revenues therefrom, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or discharged or stayed within 90 days after the entry thereof; and

(vi) if judgment for the payment of money shall be rendered against the Authority as the result of the construction, improvement, ownership, control or operation of the Project, and any such judgment shall not be discharged within 90 days after the entry thereof, or an appeal shall not be taken therefrom or from the order, decree or process upon which or pursuant to which such

judgment shall have been granted or entered, in such manner as to set aside or stay the execution of or levy under such judgment, or order, decree or process or the enforcement thereof.

802. Account and Examination of Records After Default. 1. The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Authority and all other records of the Project at all times shall be subject to the inspection and use of the Trustee and of its agents and attorneys.

2. The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the Authority upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under this Resolution for such period as shall be stated in such demand.

803. Application of Revenues and Other Moneys After Default. 1. The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority upon the demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund or Account under this Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, funds and Revenues received by the Trustee pursuant to any right given or action taken under the provisions of this Article as follows and in the following order:

(i) Expenses of Fiduciaries - to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries;

(ii) Operating Expenses - to the payment of the amounts required for reasonable and necessary Operating Expenses. For this purpose the books of record and accounts of the Authority relating to the Project shall at all times be subject to the inspection of the Trustee and its representatives and agents during the continuance of such Event of Default;

(iii) Principal or Redemption Price and Interest - to the payment of the interest and principal or Redemption Price then due on the Bonds, as follows:

First: Interest - To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price - To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the Authority under this Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all defaults under this Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, and the Trustee shall pay over to the Authority all moneys, securities, and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of this Resolution to be deposited or pledged, with the Trustee), and thereupon the Authority and the Trustee shall be restored, respectively, to their former positions and rights under this Resolution. No such payment over to the Authority by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under this Resolution or impair any right consequent thereon.

4. The Trustee shall not take any action which will unreasonably interfere with the performance of the Power Sales Agreement.

804. Appointment of Receiver. The Trustee shall have the right to apply in an appropriate proceeding for the appointment of a receiver of the Project.

805. Proceedings Brought by Trustee. 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than 25% in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Holders of the Bonds under this Resolution forthwith by a suit in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted or any remedy granted under the Act, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under this Resolution.

2. All rights of action under this Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under this Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in this Resolution and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

806. Restriction on Bondholder's Action. 1. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Resolution or the execution of any trust under this Resolution or for any remedy under this Resolution,

unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in this Resolution or by the Act or by the laws of the State of Alaska or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by this Resolution, or to enforce any right under this Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of this Resolution shall be instituted, had and maintained in the manner provided in this Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 702.

2. Nothing contained in this Resolution or in the Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of (and premium, if any) and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

807. Remedies Not Exclusive. No remedy by the terms of this Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Resolution or existing at law, including under the Act, or in equity or by statute on or after the date of adoption of this Resolution.

808. Effect of Waiver and Other Circumstances. No delay or omission of the Trustee or any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by this Article to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

809. Notice of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the Authority, and to each Purchaser.

ARTICLE IX

Concerning the Fiduciaries

901. Trustee; Appointment and Acceptance of Duties. The Trustee shall be appointed by a Supplemental Resolution. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by executing and delivering to the Authority a written acceptance thereof, and by executing such acceptance the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds thereafter to be issued, but only, however, upon the terms and conditions set forth in this Resolution.

902. Paying Agents; Appointment and Acceptance of Duties. 1. The Authority shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 913 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by executing and delivering to the Authority and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the principal corporate trust offices of the Paying Agents are designated as the respective offices or agencies of the Authority for the payment of the interest on and principal or Redemption Price of the Bonds.

903. Responsibilities of Fiduciaries. 1. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Authority and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued thereunder or as to the security afforded by this Resolution, and no Fiduciary shall incur any liability in respect thereof. The Trustee shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid by such Fiduciary in accordance with the provisions of this Resolution to the Authority or to

any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of subsection 2 of this Section 903, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of any Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties are specifically set forth in this Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by this Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of this Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 903.

904. Evidence on Which Fiduciaries May Act. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of this Resolution, shall examine such instrument to determine whether it conforms to the requirements of this Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Authority, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under this Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Resolution, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the Authority and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

3. Except as otherwise expressly provided in this Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Authority to any Fiduciary shall be sufficiently executed in the name of the Authority by an Authorized Officer of the Authority.

905. Compensation. The Authority shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. Subject to the provisions of Section 903, the Authority further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

906. Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

907. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than 60 days' written notice to the Authority, and mailing notice thereof to each Bondholder, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice, provided a successor shall have been appointed by the Authority or the Bondholders as provided in Section 909, and has accepted the appointment.

908. Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. The Authority may remove the Trustee at any time except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of the Authority, by filing with the Trustee an

instrument in writing signed by an Authorized Officer of the Authority.

909. Appointment of Successor Trustee; Financial Qualifications of Trustee and Successor Trustee. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Holders of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Bondholders as aforesaid, the Authority by a duly executed written instrument signed by an Authorized Officer of the Authority shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders as authorized in this Section 909. The Authority shall mail notice to each Bondholder of any such appointment made by it within 20 days after such appointment. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by a Trustee appointed by the Bondholders.

2. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the Authority written notice as provided in Section 907 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any reason whatsoever, the Trustee (in the case of its resignation under Section 907) or the Holder of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such may deem proper, appoint a successor Trustee.

3. The Trustee appointed under the provisions of this Article or any successor to the Trustee shall be a bank or trust company or national banking association having capital stock and surplus aggregating at least $200,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

910. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Authority, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Authority, or of the successor Trustee, execute, acknowledge and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Authority. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

911. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

912. Adoption of Authentication. In any case any of the Bonds contemplated be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certification of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee, or in the name of the successor Trustee, and in all cases such certificate shall have the full force which it is anywhere in said Bonds or in

this Resolution provided that the certificate of the Trustee shall have.

913. Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least 60 day's written notice to the Authority, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Officer of the Authority. Any successor Paying Agent shall be appointed by the Authority with the approval of the Trustee, and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock and surplus aggregating at least $25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

2. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE X

Supplemental Resolutions

1001. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Authority may be adopted, which, upon the filing with the Trustee of (i) a copy thereof certified by an Authorized Officer of the Authority and (ii) a certificate of the Committee stating that such Supplemental Resolution has been adopted in accordance with Section 11 of the Power Sales Agreement, shall be fully effective in accordance with its terms:

(1) To close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the Authority in this Resolution, other covenants and agreements to be observed by the Authority which are not

contrary to or inconsistent with this Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in this Resolution, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with this Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 202, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with this Resolution as theretofore in effect, including without limitation the form of coupon bonds as provided in Section 301, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(5) To confirm, as further assurance, any pledge or assignment under, and the subjection to any lien, pledge or assignment created or to be created by, this Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of this Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the next text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange or in place thereof; and

(7) To appoint the Trustee.

1002. Supplemental Resolutions Effective Upon Consent of Trustee. For any one or more of the following purposes and at any time from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority, (ii) a certificate of the Committee stating that such Supplemental Resolution has been adopted in accordance with Section 11 of the Power Sales Agreement, and (iii) the filing with the Authority of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or

(2) To insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect.

(3) To make any changes which do not in the sole opinion of the Trustee, materially and adversely affect the rights of the Bondholders.

1003. Supplemental Resolutions Effective With Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee of (i) a copy thereof certified by an Authorized Officer of the Authority and (ii) a certificate of the Committee stating that such Supplemental Resolution has been adopted in accordance with Section 11 of the Power Sales Agreement, and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

1004. General Provisions. 1. The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the Authority to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the Authority to execute and deliver to any Fiduciary any instrument which elsewhere in this Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Section 1001 and 1002 may be adopted by the Authority without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 1001, 1002 or 1003 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on a Opinion of Counsel that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI

Amendments

1101. Mailing. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the Authority and each Fiduciary.

1102. Powers of Amendment. Any modification or amendment of this Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent of the Committee and, if required by the terms of a written commitment for Bond insurance, the consent of the Bond insurer, and with the written consent given as provided in Section 1103 of the holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modifications or amendment shall permit a change in the terms of redemption or maturity of

the principal of any Outstanding Bond or any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of this Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of the Bonds.

1103. Consent of Bondholders. The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1102 to take effect when and as provided in this Section, provided that such modification or amendment receives the written consent of the Committee. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to Bondholders (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 1102 and (b) an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon the Authority, the Fiduciaries and the Bondholders and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as hereinafter in this Section 1103 provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates executed by the Trustee and filed with the Authority stating that it has examined such proof and that such proof is sufficient in accordance with Section 1202 shall be conclusive that the consents have been given by the Holders of the Bond described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds signing such consent and,

anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange (whether or not such subsequent Holder has notice thereof) provided however that any consent may be revoked by any Holder of such Bonds by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 1103 provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Authority to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been filed. At any time thereafter, notice stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds, and will be effective as provided in this Section 1103, may be given to Bondholders by the Authority by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1103 provided). The Authority shall file with the Trustee proof of the mailing of such notice to Bondholders. A record, consisting of the certificates or statements required or permitted by this Section 1103 to be made by the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the Authority during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

1104. Modifications by Unanimous Consent. The Resolution and the rights and obligations of the Authority and of the Holders of the Bonds thereunder may be modified or amended with the written consent of the Committee in any respect by a Supplemental Resolution effecting such modification or amendment and the consents of the Holders of all the Bonds then

Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which consent is given. Such Supplemental Resolution shall take effect upon the filing (a) with the Trustee of (i) a copy thereof certified by an Authorized Officer of the Authority, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in Section 1103 and (b) with the Authority and the Trustee of the Trustee's written statement that the consents of the Holders of all Outstanding Bonds have been filed with it. No mailing of any Supplemental Resolution (or reference thereto or summary thereof) or of any request or notice shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

1105. Exclusion of Bonds. Bonds owned by or for the account of the Authority shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the Authority shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the Authority shall furnish the Trustee a certificate of an Authorized Officer of the Authority upon which the Trustee may rely, describing all Bonds so to be excluded.

1106. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article X or Article XI provided may, and if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal corporate trust office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Holder any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

ARTICLE XII

Miscellaneous

1201. Defeasance. 1. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the time and in the manner stipulated therein and in this Resolution, then the pledge and assignment of any Revenues, and other moneys and securities pledged under this Resolution and all covenants, agreements and other obligations of the Authority to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys or securities held by them pursuant to this Resolution which are not required for the payment of principal or Redemption Price, if applicable, and interest on Bonds. If the Authority shall pay or cause to be paid or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series, or of a particular maturity within a Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under this Resolution, and all covenants, agreements and obligations of the Authority to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section 1201. Prior to the maturity or redemption date thereof, Bonds shall be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section 1201 if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instruction accepted in writing by the Trustee to mail as provided in Article IV notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to subsection 4 of Section 507) in an amount which shall be

sufficient, or Federal Obligations (including any Federal Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section 1201 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. Neither Federal Obligations nor moneys deposited with the Trustee pursuant to this Section 1201 nor principal or interest payments on any such Federal Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Federal Obligations deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Federal Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds, on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Resolution. For the purposes of this Section 1201, Federal Obligations shall mean and include only such Federal Obligations which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof.

3. Anything in this Resolution to the contrary notwithstanding any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such

moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority for payment into the Revenue Fund, and shall be deemed "other available funds" within the meaning of Section 712 to be used for the payment of amounts required to be paid therein or for the payment of refunds to the Purchasers pursuant to Section 13 of the Power Sales Agreement, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Authority for the payment of such Bonds..

1202. Evidence of Signatures of Bondholders and Ownership of Bonds. 1. Any request, consent, revocation of consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, shall be sufficient for any purpose of this Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further and other proof in cases where it deems the same desirable:

The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgements of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of his authority.

2. The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the Authority or any Fiduciary in accordance therewith.

1203. Moneys Held for Particular Bonds. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be

set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

1204. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

1205. No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on this Resolution against any member of the Board of Directors of the Authority or officer of the Authority or any person executing the Bonds.

1206. Severability of Invalid Provisions. If any one or more of the covenants provided in this Resolution on the part of the Authority or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this Resolution.

1207. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Resolution, shall be a legal holiday or a day on which banking institutions in the city in which is located the principal office of the Trustee are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are not authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in this Resolution.

1208. Notices. It shall be sufficient service of any notice, request, complaint, demand or other paper on the Authority or the Trustee, as the case may be, if the same shall be duly mailed by registered or certified mail and addressed to it at Alaska Power Authority, P. O. Box 190869, Anchorage, Alaska 99519-0869, Attention: Executive Director, or to such other address as the Authority may from time to time file with the Trustee (in respect of the Authority) or at [Name of Trustee], _____, Attention: _____, or at such other address as the Trustee may from time to time file with the Authority (in respect of the Trustee).

ARTICLE XIII

Bond Form and Effective Date

1301. Form of Bonds and Trustee's Certificate of Authentication. Subject to the provisions of this Resolution, the form of the Bonds of each Series and the Trustee's Certificate of Authentication, shall be substantially the following tenor with such variations, omissions and insertions as are required or permitted by this Resolution:

ALASKA POWER AUTHORITY

Power Revenue Bond, Series

_____% Due July 1, _____

$_____ No._____

ALASKA POWER AUTHORITY (herein called the "Authority"), a public corporation of the State of Alaska organized and existing under and by virtue of the laws of the State of Alaska, acknowledges itself indebted to, and for value received hereby promises to pay to _____ _____ or registered assigns, on the first day of July, _____, the principal sum of _____ Dollars in any coin or currency of the United State of America which at the time of payment is legal tender for the payment of public and private debts, upon presentation and surrender of this bond at the principal corporate trust office of _____ or _____ (such banks and any successors thereto being referred to herein as the "Paying Agents"), at the option of the registered owner hereof, and to pay to the registered owner the interest on such principal sum in like coin or currency from the date hereof, at the rate per annum specified above, payable on the first days of January and July in each year, until the Authority's obligation with respect to the payment of such principal sum shall be discharged by check or draft mailed to the registered owner of record hereof as of the 15th day of the calendar month next preceding such interest payment date at the address of such owner appearing on the registration books maintained by the Authority for such purpose at the principal corporate trust office of _____, in the City of _____, as bond registrar.

This bond is one of a duly authorized issue of bonds of the Authority designated as its "Power Revenue Bonds, _____ Series _____" (herein called the "_____ Series _____ Bonds"),

in the aggregate principal amount of $_____ issued pursuant to the _____ (herein called the "Act"), and under and pursuant to a resolution of the Authority, adopted _____, entitled "Power Revenue Bond Resolution" and a supplemental resolution of the Authority authorizing the _____ Series _____ Bonds (said _____ being herein called the "Resolution").

As provided in the Resolution, the bonds are direct and general obligations of the Authority for the payment of which the full faith and credit of the Authority is pledged, which are secured as to payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution by (i) the proceeds of the sale of the bonds, (ii) the Revenues (as defined in the Resolution, and (iii) all funds established by the Resolution including the investments, if any, thereof, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. Copies of the Resolution are on file at the office of the Authority and at the principal corporate trust office of _____, as Trustee under the Resolution, or its successor as Trustee (herein called the "Trustee"), and reference to the Resolution and any and all supplements thereto and modifications and amendments thereof and to the Act is made for a description of the pledge and assignment and covenants securing the bonds, the nature, extent and manner of enforcement of such pledge and assignment, the rights and remedies of the registered owners of the bonds with respect thereto, the limitations on such rights and remedies and the terms and conditions upon which the bonds are issued and may be issued thereunder.

As provided in the Resolution, bonds of the Authority may be issued from time to time pursuant to supplemental resolutions in one or more series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary as in the Resolution provided. The aggregate principal amount of bonds which may be issued under the Resolution is not limited except as provided in the Resolution, and all bonds issued and to be issued under the Resolution are and will be equally secured by the pledge and assignment and covenants made therein, except as otherwise expressly provided or permitted in the Resolution.

To the extent and in the manner permitted by the terms of the Resolution, the provisions of the Resolution, or any resolution amendatory thereof or supplemental thereto, may be modified or amended by the Authority, with the written consent of the owners of at least a majority in principal amount

of the bonds then outstanding under the Resolution, and, in case less than all of the Series of bonds would be affected thereby, with such consent of at least two-thirds in principal amount of the bonds of each Series so affected then outstanding under the Resolution, and, in case such modification or amendment would change the terms of any sinking fund installment, with such consent of at least two-thirds in principal amount of the bonds of the particular Series and maturity entitled to such sinking fund installment then outstanding; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any bonds of any specified like Series and maturity remain outstanding under the Resolution, the consent of the owners of such bonds shall not be required and such bonds shall not be deemed to be outstanding for the purpose of the calculation of outstanding bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding bond or of any installment of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the owner of such bond, or shall reduce the percentages or otherwise affect the classes of bonds the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee or of any Paying Agent without its written assent thereto.

This bond is transferable as provided in the Resolution, only upon the books of the Authority kept for the purpose at the above-mentioned office of the Trustee, by the registered owner hereof in person, or by his duly authorized attorney, upon surrender of this bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new registered bond or bonds, and in the same aggregate principal amounts, shall be issued to the transferee in exchange therefor as provided in the Resolution, and upon payment of the charges therein prescribed. The Authority, the Trustee and any Paying Agent may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or redemption price hereof and interest due hereon and for all other purposes.

The bonds of the issue of which this bond is one are subject to redemption prior to maturity, upon published notice as hereinafter provided, (i) by operation of the Principal Account established under the Resolution to satisfy sinking fund installments, on any interest payment date on and after _____ at the principal amount thereof together with accrued interest to the redemption date, and (ii) otherwise, as a whole, or in part in inverse order of maturities, at

any time on or after _____, at the respective redemption prices (expressed as percentages of the principal amount of the bonds or portions thereof to be redeemed) set forth below, in each case together with accrued interest to the redemption date:

Period During Which (both dates inclusive)	Redemption Prices

If less than all the bonds of like maturity are to be redeemed, the particular bonds to be redeemed shall be selected by the Trustee.

(Further Redemption provisions per the Resolution and Supplemental Resolution)

The bonds of the issue of which this bond is one are payable upon redemption at the above-mentioned offices of the Paying Agents. Notice of redemption, setting forth the place of payment, shall be mailed to each registered owner not less than 25 days nor more than 40 days prior to the redemption date, all in the manner and upon the terms and conditions set forth in the Resolution. If notice of redemption shall have been given as aforesaid, the bonds or portions thereof specified in said notice shall become due and payable on the redemption date therein fixed, and if, on the redemption date, moneys for the redemption of all the bonds and portions thereof to be redeemed, together with interest to the redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such bonds or portions thereof so called for redemption shall cease to accrue and be payable.

Neither the State of Alaska nor any political subdivision thereof, other than the Authority, nor any member of the Authority nor any Power Purchaser (as defined in the Resolution) is obligated to pay the principal, premium, if any, or interest on this bond and the issue of which it is one and neither the faith and credit nor the taxing power of the State of Alaska or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on this bond or the issue of which it is one.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of this bond, exist, have happened and have been performed and that the issue of bonds of which this is one, together with all other indebtedness of the Authority, complies in all respects with the applicable laws of the State of Alaska,

including, particularly, the Act and is within every debt and other limit prescribed by said laws of the State of Alaska.

This bond shall not be entitled to any benefit under the Resolution or be valid or become obligatory for any purpose until this bond shall have been authenticated by the execution by the Trustee of the Trustee's Certificate of Authentication hereon.

IN WITNESS WHEREOF, ALASKA POWER AUTHORITY has caused this bond to be signed in its name and on its behalf by the facsimile signature of its Chairman or its Vice-Chairman, and its corporate seal (or facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested by the facsimile signature of its Secretary or its Assistant Secretary.

DATED: _____

ALASKA POWER AUTHORITY

By _____
(Vice) Chairman

ATTEST:

_____
(Assistant) Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION ON ALL BONDS]

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This bond is one of the _____ Series _____ Bonds delivered pursuant to the within mentioned Resolution.

_____
Trustee,

By _____
Authorized Officer

1302. Effective Date. This Power Revenue Bond Resolution shall take effect immediately.

Power Revenue Bond Resolution approved and adopted by Alaska Power Authority on _____, 19__.

ALASKA POWER AUTHORITY

By _____
Chairman

EXHIBIT B

Delivery Point

The Delivery Point of the Project and the point at which the Purchasers accept delivery shall be at the point where the 115 kV Project transmission lines connect to a 115 kV switching station (included within the Project) at Bradley Junction on the Fritz Creek - Soldotna transmission line to be built by the Homer Electric Association, Inc.

EXHIBIT C

Description Of The Project

The Bradley Lake Hydroelectric Project site is located on the Kenai Peninsula, about 105 miles south of Anchorage and 27 miles northeast of Homer, Alaska. Bradley Lake, with an existing elevation of 1,080, is situated in the Kenai Mountain Range. A Project Location Map is attached.

The proposed development includes raising the existing Bradley Lake level 100 feet by constructing a diversion tunnel, dam, spillway and outlet facility at the lake outlet. An 18,760 foot long, 11 foot diameter concrete lined power tunnel will connect the reservoir intake works with a two 45 MW (nominal rating) unit powerhouse located just above sea level on the northeast shore of Kachemak Bay.

A substation containing step-up transformers will be located at the power plant. Project transmission facilities include approximately 20 miles of two parallel, single circuit, 115 kV transmission lines to connect the power plant to a 115 kV switching station at Bradley Junction (which is also included within the project). The switching station will connect to a 115 kV transmission line (not included in the project) which will transmit power between Fritz Creek and Soldotna on the Kenai Peninsula. The Project also includes the Middle Fork Diversion consisting of a small diversion structure and excavated channel which diverts the upper Middle Fork flows into Bradley Lake, and the construction of a small diversion works at the headwaters of the Nuka River which diverts flows from Nuka Glacier into Bradley Lake.

The project site is remote and will be designed to be operated as an unattended plant, but will require on-site maintenance personnel. A supervisory control and data acquisition (SCADA) system will be provided. Site access is by water or airborne transportation. To support construction, operations and maintenance of the Project, a barge basin, airstrip, construction camp, permanent housing facilities, and approximately ten miles of access road will be required.

Provisions for adding a third 45 MW turbine-generator will be included in the Project.

A Project Location Map and general plan are attached.

PROJECT DATA

1.	Dam	Concrete-faced, rock fill, 610 feet long, 125 feet high, 362,000 cubic yards rock fill, 10,800 cubic yards concrete.
2.	Spillway	Ungated concrete ogee section, 175 feet long.
3.	Power Tunnel	11-foot nominal diameter, fully concrete lined, 18,760 feet long.
4.	Diversion	21-foot horseshoe tunnel, 440 feet long.
5.	Steel Liner/ Penstock	Steel 11-foot diameter, 2,400 feet long tapering to 9 foot diameter manifold with 6 1/2 foot diameter branches.
6.	Middle Fork	Excavated channel and river diversion structure.
7.	Nuka Diversion	9 foot high gravel fill dike.
8.	Powerhouse	Above ground, steel superstructure 160 feet long, 80 feet wide, 92 feet high.
9.	Turbines	2 each Pelton, vertical shaft.
10.	Generators	2 each; 63 MVA with nominal output of 45 MW.
11.	Transmission	115 kV, steel pole, 2 parallel single circuits, 20 Line miles long, with 115 kV switching station at Bradley Junction.
12.	Barge Dock	Sheetpile cellular structure, granular fill.
13.	Access Roads	10.8 miles gravel surfaced.
14.	Airstrip	Gravel surfaced, 2,400 feet long x 75 feet wide.

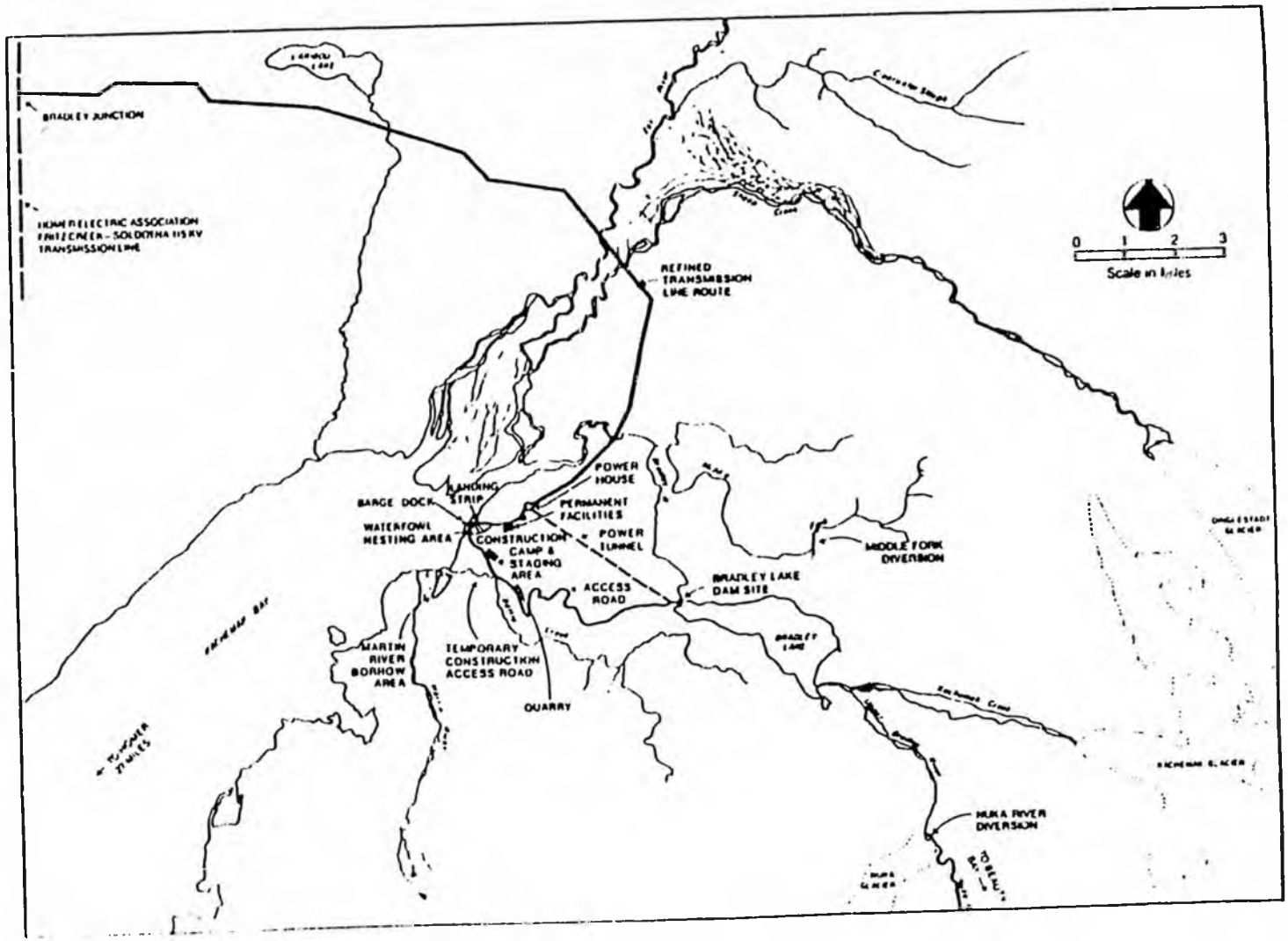
BRADLEY JUNCTION
HOMER ELECTRIC ASSOCIATION
FRITZ CREEK - SOLDOTNA 115 KV
TRANSMISSION LINE
REFINED
TRANSMISSION
LINE ROUTE
0 1 2 3
Scale in Miles
POWER
HOUSE
LANDING
STRIP
BARGE DOCK
PERMANENT
FACILITIES
WATERFOWL
NESTING AREA
CONSTRUCTION
CAMP &
STAGING
AREA
POWER
TUNNEL
MIDDLE FORK
DIVERSION
ACCESS
ROAD
BRADLEY LAKE
DAM SITE
MARIN
RIVER
BORROW
AREA
TEMPORARY
CONSTRUCTION
ACCESS ROAD
QUARRY
MUKA RIVER
DIVERSION

Exhibit D

Purchasers' Percentage Shares Of Project Capacity And Of Annual Project Costs

PURCHASER	PERCENTAGE SHARE
Alaska Electric Generation & Transmission Cooperative, Inc.	25.8
Chugach Electric Association, Inc.	30.4
Golden Valley Electric Association, Inc.	16.9
Municipality of Anchorage, d/b/a Municipal Light and Power	25.9
City of Seward, d/b/a Seward Electric System	1.0
	100.00%

Exhibit E

ALASKA POWER AUTHORITY

RESOLUTION NO. _____

A SUPPLEMENTAL RESOLUTION AUTHORIZING
THE ISSUANCE OF $_____
POWER REVENUE BONDS, FIRST SERIES

BE IT RESOLVED by the Board of Directors of the Alaska Power Authority on the ____ day of _____, 19___, that pursuant to the General Bond Resolution adopted on _____, 19___, (hereinafter referred to as the "Resolution"), this Supplemental Resolution is adopted as follows:

ARTICLE I

Definitions and Authority

101. Short Title. This Resolution may hereafter be cited by the Authority, and is hereinafter sometimes referred to as the "First Series Resolution".

102. Definitions. (a) All defined terms contained in the Resolution shall have the same meanings, respectively, in this First Series Resolution as such defined terms are given in Section 102 of the Resolution.

(b) In addition, as used in this First Series Resolution, unless the context shall otherwise require, the following terms shall have the following respective meanings:

"Bonds" or "First Series Bonds" means the Bonds of the Authority of the Series authorized by this First Series Resolution and herein designated "Power Revenue Bonds, First Series".

"Series Bonds" means any First Series Bond maturing on or before _____.

(c) Unless the context shall otherwise indicate, words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, words importing the singular number shall include the plural

number and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons.

The terms "hereby", "hereof", "hereto", "herein", "hereunder", and any similar terms, as used in this _____ Series Resolution, refer to this _____ Series Resolution and such terms when used in the form of bond herein refer to said bond.

103. Authority for this Resolution. This First Series Resolution is adopted pursuant to the provisions of the Act and the Resolution.

ARTICLE II

Authorization, Terms and Issuance

201. Authorization, Principal Amount, Description and Series. In order to provide funds necessary for the purpose specified in Section 203, in accordance with and subject to the terms, conditions and limitations established herein and in the Resolution, a Series of Power Revenue Bonds is hereby authorized to be issued in the aggregate principal amount of $_____. The Authority is of the opinion and hereby determines that the issuance of the Bonds in said amount is necessary to provide sufficient funds to be used and expended for the purpose specified in Section 203. In addition to the title "Power Revenue Bond", the Bonds of such Series shall bear the additional designation "First Series" and each as so designated shall be entitled "Power Revenue Bond, First Series". The Power Revenue First Series Bonds shall consist of $_____ principal amount of Serial Bonds and $_____ principal amount of Term Bonds and shall be issued in fully registered form.

202. Purposes. The purposes for which the _____ Series Bonds are being issued are to provide funds for deposit in the Renewal and Contingency Reserve, Capital Reserve Fund, Operating Reserve Account, and Construction Fund, respectively, all to the extent and subject to the limitations and in the amounts provided in the Resolution and in Article III hereof.

203. Issue Date. The First Series Bonds shall be dated _____, except as otherwise provided in the Resolution in the case of Bonds issued on or subsequent to _____.

204. Maturities and Interest Rates. The _____ Series Bonds shall mature on the anniversary of their date in

the following years and the Bonds maturing in each such year shall mature in the principal amount and bear interest from the date thereof, payable semi-annually on the first day of each month commencing 6 months and 12 months from date, at the rates set opposite such year in the following table:

Years	Amount Maturing	Interest Rates	Years	Amount Maturing	Interest Rates

205. Denominations, Numbers and Letters. The First Series Bonds maturing in each year shall be issued in denominations of $5,000, or any whole multiple thereof not exceeding the aggregate principal amount of First Series Bonds maturing in such year, in the case of fully registered Bonds. The First Series Bonds shall be lettered A and numbered separately from 1 consecutively upwards in such order as the Trustee in its discretion shall determine.

206. Paying Agents. _____, in _____ _____, and _____ _____, are hereby appointed the Paying Agents for the _____ Series Bonds pursuant to Section 902 of the Resolution.

207. Redemption at the Election of the Authority and Terms. The Bonds maturing _____ and thereafter shall also be subject to redemption, either as a whole or in part, and in such amount or amounts of such maturity or maturities as the Authority shall elect, on any date (which date shall be determined by the Authority or selected by the Trustee, subject to the provisions of, and in accordance with, the Resolution and when so determined or selected shall be deemed and is hereby set forth as the redemption date) on and after _____, and prior to their respective maturities, upon notice as provided in Article IV of the Resolution, at the respective Redemption Prices (expressed as percentages of the principal amount of such Bonds to be so redeemed) set opposite such period in the following table, plus in each case interest accrued to the redemption date:

Period (Both Dates Inclusive)	Redemption Prices (Expressed as a Percentage)

208. Sinking Fund Payments. The Term Bonds shall be subject to redemption in part by operation of the Principal Account through application of Sinking Fund Payments as provided in subsection 507(2) of the Resolution on _____ and on each _____ 1 thereafter as herein provided in each case at a Redemption Price equal to the principal amount of each Bond or portion thereof to be redeemed, together with interest accrued to the redemption date. There shall be due and the Authority shall at any and all events be required to pay on _____ 1 of each of the years set forth in the following table the amount set opposite each such year in said table and said amount is hereby established as and shall constitute a Sinking Fund Payment for the retirement of the Term Bonds, provided, however, that the amount set opposite _____ in said table shall be payable at the stated maturity date of the Term Bonds and shall not constitute a Sinking Fund Payment:

Year	Sinking Fund Payments

209. Selection by Lot. If less than all of the First Series Bonds of a like maturity are to be redeemed, the particular Bonds of such maturity to be redeemed shall be selected by lot in accordance with Section 404 of the Resolution.

ARTICLE III

Disposition of Proceeds

301. Deposits. Upon receipt of the proceeds of sale of the First Series Bonds, there shall be deposited (a) in the Capital Reserve Fund to equal the Capital Reserve Fund Requirement immediately after delivery of the First Series Bonds, (b) in the Interest Account the amount of accrued interest on the First Series Bonds from their date to the date of delivery thereof and payment therefor, (c) in the Renewal and Contingency Reserve Fund the amount necessary to cause the amount in the Fund to equal the Renewal and Contingency Reserve Requirement, and (d) in the Operating Reserve Account $_____.

302. Construction Fund. After the deposits referred to in Section 301 hereof have been made, the balance of the proceeds of sale of the First Series Bonds shall be deposited in the First Series Bonds Account of the Construction Fund.

ARTICLE IV

Effective Date

401. This Resolution shall take effect immediately.

John [illegible] from AK Consumer Advocacy Program

Chairman [illegible]

During my testimony earlier I was asked what, if any [illegible] could be made in the existing bill which would make it more palpable from the consumers' perspective.

In reviewing the bill, Sec. 2 part D (line [illegible]), [illegible] is a [illegible] Allowing utilities costs [illegible] to recover all costs for 50 years, even though the bonds are scheduled for retirement in 30 years.

I would like to suggest a small language change to read: beginning of line 27 [illegible]:

ACAP believes that this change may allay the fears that excessive or [illegible] costs [illegible] be incurred or passed along in the rates charged by the consumer. From a [illegible] [illegible], allowing only reasonable costs to be passed along to consumers will be beneficial to everyone.

"Insert" Just and reasonable costs incurred by a utility in [illegible] connection with a wholesale agreement or contract described in AS 42.05.431(c)(1), including [illegible] power costs incurred under such an agreement or contract, must be allowed in the rates charged by the utility. This section shall be in effect for [illegible] 30 years.

RESOLUTION NO. 87-19

A RESOLUTION of the Project Management Committee ("PMC") providing for the adoption of an open meetings policy.

WHEREAS, the members of the PMC desire to conduct their business in public; and

WHEREAS, the six parties to the Agreement establishing the PMC all routinely conduct business in open meetings; and

WHEREAS, while the PMC may not be a governmental unit, neither is it entirely a "private" entity, as that term is commonly used; and

WHEREAS, Alaska public policy favors openness and public access; and

WHEREAS, opening meetings to the public may have a positive substantive impact on the deliberations of the PMC by insuring that important decisions are made with adequate information; and

WHEREAS, public exposure may deter misconduct, discourage hasty decision-making, and enhance consumer acceptance of PMC actions; and

WHEREAS, Section 7(d) of the Agreement empowers the PMC to enact procedural rules.

NOW, THEREFORE, BE IT RESOLVED by the PMC as follows:

Section 1.

All formal meetings of the Committee and its subcommittees shall be open to the public except as otherwise provided in these bylaws. Except when voice votes are authorized, all votes shall be conducted in such a manner that the public may know the vote of each person entitled to vote.

Section 2.

If excepted subjects are to be discussed at a meeting, the meeting shall first be convened as a regular or special meeting and the question of holding an executive session to discuss matters that come within the exceptions contained in Section 3 of this rule shall be determined by a majority vote of the Committee. No subjects may be considered at the executive session except those mentioned in the motion calling for the executive session unless auxiliary to the main question. Formal action may not be taken during the executive session. Only members of the Committee and designated alternates, attorneys for members of the Committee and members of the Technical Standards Committee may attend an executive session, unless the motion calling for the executive session specifies other persons who are to present information to the Committee.

Section 3.

The following excepted subjects may be discussed in an executive session:

(A) Matters the immediate knowledge of which would clearly have an adverse effect upon the finances of the Committee, the Initial Project, or any of the individual parties represented on the Committee;

(B) Subjects that tend to prejudice the reputation and character of any person, provided the person may request a public discussion;

(C) Matters which by law are required to be confidential;

(D) Matters discussed with an attorney retained by the Committee members, or with a consultant retained by such attorney, the immediate knowledge of which could have an adverse effect on the legal position of the Committee, the Initial Project, or any of the parties represented on the Committee.

Section 4.

Reasonable notice shall be given for all regular or special meetings of the Committee.

Section 5.

Sections 1, 2, 3 and 4 shall not apply to:

(A) Meetings at which a quorum is not present;

(B) Informal discussions, by telephone or otherwise, among members of the Committee, at which votes are not taken and official business is not conducted;

(C) Meetings and discussions, formal or informal, of Committee members in which all participants indicate they are acting individually as representatives of the parties to the Agreement and not as the assembled Committee, and at which no Committee business is conducted and no votes are taken.

DATED this 19 day of August, 1987.

PROJECT MANAGEMENT COMMITTEE

By: Richard A. Stalkenwith
Chairman

ATTEST:

By: David L. Lee
Secretary

APPROVED AT PROJECT MANAGEMENT COMMITTEE MEETING
HELD JULY 29-30, 1987.

Senate Bill 22 that was vetoed last session. The final section of this memorandum suggests alternative language for HB 356.

Background

The 90 megawatt Bradley Lake hydroelectric project is currently under construction by the APA on the Kenai Peninsula near Homer, Alaska. The APA has obtained State appropriations ($168,080,000) and borrowed short-term funds to finance the initial costs of construction. The APA is ready to issue the Request For Proposals for the general civil engineering construction contract. Prior to committing to the completion of the project, however, the APA insisted that all three contracts noted above be agreed upon.

House Bill 356 was introduced by Governor Cowper to exempt these Bradley Lake contracts from APUC review and approval. Exemption from APUC review is deemed necessary to avoid extensive project delay caused by interveners in the APUC hearing process. Public Utility Regulatory Policy Act (PURPA) qualifying alternative energy facilities who intend to sell power to some of the Railbelt utilities are likely to intervene in the Bradley Lake hearing process. Similarly, the State regulatory review process provides an opportunity for parties who may oppose construction of the Bradley Lake project to delay its completion and thus jeopardize the APA's ability to obtain lower interest, tax-free bonding for the project. Deregulation of the Bradley Lake project by HB 356 also allows automatic flow-through of Bradley Lake costs into electric rates, thus guaranteeing revenue required for bond repayment.

As mentioned in the SB 22 hearings last session, removal of APUC authority over the Bradley Lake contracts does not eliminate all judicial opportunities for PURPA interveners; it simply transfers PURPA jurisdiction to the federal government. If APUC authority is removed, interveners can still file suits under PURPA in federal district court. This court would also hear any appeals of APUC decisions related to PURPA. In this regard, removal of APUC review authority would eliminate one step in the judicial process.

The APA has been advised by bond counsel that APUC oversight of the contracts would raise the interest rates on bonds. There has been continued discussion of this point. We are unable to comment on the accuracy of the claims. The APUC review of projects does not preclude the recovery of "prudent" costs. However, given the excess generating capacity in the Railbelt, there is some question that Bradley Lake would be considered a prudent project at this time. The next section provides some general information on the three Bradley Lake project contracts.

Kay Brown

Alaska State Legislature
House of Representatives

JAN 19

TO: David Teal, Director
House Research Agency

FROM: Representative Kay Brown

DATE: January 18, 1988

SUBJ: Issues Related to Bradley Lake and HB 356

The purpose of this research request is to ask for your assistance in the review of the power sales contract and related contracts that would be exempted from the review and approval of the Alaska Public Utilities Commission (APUC) under the terms of HB 356. Specifically, these documents include:

- the power sales contracts between the Alaska Power Authority (APA) and the utilities;
- the "services agreement" between Chugach Electric Association and the other Railbelt utilities; and
- the "transmission sharing agreement" between Homer Electric Association (HEA) and the other Railbelt utilities.

As you review the power sales contract and the related contracts, it would be especially useful if you could focus your attention on the following issues and questions in the context of HB 356 as it has been introduced.

1. How does HB 356 compare with the final version of SB 22 as it was approved by the Legislature last year? What is the rationale for the differences relating to the Bradley Lake agreements?

2. How do the Bradley Lake contracts compare to the contract negotiated for the Four Dam Pool? How do the terms of the Bradley contracts compare, if at all, to the Four Dam Pool contracts in terms of "rate reopener" provisions?

3. How does the treatment of debt vs. equity differ between the proposed Bradley contracts and the contracts for the Four Dam Pool?

P. O. Box 20-2661
Anchorage, AK 99520-2661
(907) 272-0207

During Session:
P. O. Box V
Juneau, AK 99811
(907) 465-4998

4. Under what circumstances could the power sales rates provided for under the terms of the Bradley power sales contracts be changed (ie, increased or lowered) and what role, if any, would the APUC have in approving such changes in rates under the terms of HB 356 as introduced? Could the "excess payments" called for under Section 29 of the power sales contract be increased without APUC approval under the terms of HB 356?

5. What is the necessity for the language to exempt from APUC review "any subsequent amendments to the wholesale agreement or related contract" (page 1, line 21-22)? What other parties, beyond the signatories to the contracts, need to approve the contracts before they are binding?

6. Would retention of APUC approval authority over the "services agreement" and the "transmission services agreement" necessarily preclude the continuation of contruction on the Bradley Lake project this summer? The timely issuance of tax exempt bonds for the project prior to January 1991?

* * * * *

As you are aware, a work session on the subject of HB 356 (in anticipation of the bill's referral from House Judiciary) has been scheduled by Representative Swackhammer for this coming Thursday at 8:00 - 9:30 am in the Butrovich Room. The work session is scheduled to continue as necessary on Friday at the same time.

If you have any questions regarding this request, please contact my office.

✓ cc: Representative John Sund

Q: Does the repayment of "excess payments" go into the Railbelt Energy Fund? (Sec 29 YES)
(Why not put 4 Dam pool payments into the 4DP fund?)

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Official Business

TO: Representative John Sund

FROM: Representative Kay Brown

DATE: January 26, 1988

SUBJ: HB 356 - Bradley Lake Exemption from the APUC

As you review House Bill 356, which would exempt the Bradley Lake power sales contracts and related "services" and wheeling contracts from the review or approval of the Alaska Public Utilities Commission, I wish to draw your attention to several specific concerns I have with the bill.

I would like to preface my specific comments with a general statement of support for the administration's essential objective of trying to ensure that the Bradley Lake project is able to proceed with resumption of construction this summer. Although I still have reservations about the fundamental wisdom of the project, at this point, given the extent of the state's commitment (ie, "sunk" costs), I feel that additional delays would be counterproductive.

At the same time, however, I am concerned about the potential long-term adverse impacts that some of the language proposed in HB 356 would have on the ability of the APUC to protect consumer interests. I find it troublesome that the bill would provide not only that the Bradley Lake wholesale power contracts would be exempted, but also, "without limitation," all unspecified "other costs" as well. Additionally, there is language in the bill stating that "any subsequent amendments" are beyond APUC jurisdiction.

I also have concerns about Section 29 of the power sales contracts, which require that Railbelt consumers make "excess" payments beyond those required to pay off the debt for the project. Please find attached some draft language that would provide for the elimination of this provision.

Exempting the transmission agreements, together with the open-ended language contained in HB 356 providing an exemption for all "other costs" and "any amendments" would result, to a significant degree, in de facto deregulation of the Railbelt utilities.

I urge the Judiciary Committee to carefully explore language modifications to the bill which would meet two fundamental objectives:

1) ensure that the Bradley project construction can move forward this summer in order to complete the project in time to sell long-term tax exempt bonds prior to 1991; and

2) also ensure, to the greatest degree possible, that the APUC will be able to perform its regulatory functions and safeguard consumer interests.

The following specific comments are offered in the interest of working out such language modifications as quickly as possible to provide timely passage of a responsible HB 356.

SPECIFIC COMMENTS

All Unspecified "Other Costs" Exempted

In contrast to last years HCS CSSSSSB 22 (Fin), that provided only for the exemption of power costs, HB 356 calls for the exemption of "all costs... including, without limitation, power and other costs...." (see page 1, line 29 through page 2, line 4).

While an argument can be made that bond holders require the security of knowledge that the project debt will be repaid through power sales, the exemption of all other costs (ie, management salaries, consulting contracts, administrative costs, legal costs, and any other costs including those established by amendments to the contracts) cannot be justified. This would have the effect of allowing utilities to pass through without review any costs whether reasonsable or not.

This open-ended language should be modified to provide only that power costs are to be guaranteed a flow through to the rates. All "other costs" should be reviewed and approved.

All Unspecified Amendments Exempted

HB 356 proposes not only to exempt the wholesale power contracts and the related services/wheeling contracts which have been entered into but also "any subsequent amendments" (see page 1, line 21).

It has been stated that there are other parties (secondary lenders including the Rural Electrification Administration) reviewing the contracts and who may require some amendments. There is also an expressed desire on the part of the utilities for "flexibility" to make changes in the contracts as the need arises.

Neither of these arguments is compelling. If the fundamental need is to respond to the possible demands of secondary lenders, then the bill should include a specific exemption for that purpose.

Assignability of Contracts

Another question regarding the exemption provisions concerns the potential assignability of the contracts. In the recent past there have been indications from Railbelt utilities that certain Outside, private investor-owned utilities are interested in purchasing Alaska co-ops.

Could these contracts be assigned to an investor-owned utility? If so, I would argue that potentially providing a categorical exemption from APUC review to a profit-making utility and allowing that utility to pass through "without limitation ... all costs" is inappropriate state policy adverse to consumer interests.

"Excess" Payments Requirement

Section 29 of the Power Sales Agreement (pages 28 -29) requires payments from Railbelt consumers "in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs." These payments are "in recognition of efforts" to obtain an intertie project between Fairbanks and the Kenai Peninsula, but are not contingent upon the success of such efforts. These "excess" payments, which are to commence upon the retirement of all bonds, are to be made to the APA for deposit into the Railbelt Energy Fund.

According to APA Executive Director Robert LeResche, the payments, which are to be based on the average annual debt service for the project, will be

approximately $18 million per year over the period between year 30 and year 50 of the contracts for a cumulative total "excess" payment of approximately $360 million in nominal dollars. This simplified scenario assumes no amendments to the contracts that could either extend the life of the contracts or increase the amount of the "excess" payments above that amount currently described in Section 29. Any such amendments, irrespective of reasonableness, would be categorically exempted from APUC review or approval under the terms of HB 356 as introduced.

From a Railbelt consumer perspective, even though these "excess" payments are not very sizable in discounted present value terms, the payments are difficult to justify. Notwithstanding the phrase "in recognition of efforts to obtain" the intertie, the payments would be for an essentially unspecified purpose -- or at least for a project which has not been demonstrated as economically feasible nor, I suggest, even likely to be relevant 30 years from now.

Moreover, when one considers the precedent established by the Four Dam Pool "project" financing arrangements (which provided that essentially half of the Four Dam Pool was debt financed and the remainder funded with cash grants) it appears that Railbelt consumers are being assessed an extraordinary charge for essentially unknown future purposes.

It is my feeling that the "excess" payment provision should be eliminated from the wholesale contracts. Fortunately, it appears that Section 29, which establishes the excess payment provision, could be eliminated without affecting other elements of the wholesale power contracts or the services/wheeling contracts.

I have attached language which would make the effective date of HB 356 contingent upon the elimination of this section.

Preservation of APUC Review and Cost Allocation Juristiction

My fundamental concerns with HB 356 as introduced center on the ability of the APUC to perform its basic regulatory functions and safeguard consumer interests. It is important to clarify the objective of the bill. The fundamental objective, as I understand it, is to ensure that Bradley Lake can proceed in a timely manner. It is not, as I understand it, the objective of this bill to legislatively deregulate the Railbelt utilities.*

However, HB 356 goes far beyond the scope of these basic objectives by eliminating even the review of any and all costs, without limitation,

associated with any undertakings "in connection with" the management, operation or administration of the Bradley Lake project and the related services and wheeling agreements. As a practical matter, the effect of HB 356 would be to put the direct project wholesale power costs, the associated transmission agreements, and indirect administrative and management costs, into a "black box". This would severely constrain and undermine the ability of the APUC to meaningfully regulate the Railbelt utilities.

In order for Bradley Lake to proceed this summer, it is apparent that the APUC must be removed from the initial approval of the power sales contracts. (Elimination of initial approval will obviate the concern that project opponents would use a Commission proceeding to delay the project.) In order to provide assurances to potential bond holders that the debt for the project will be recoverable, it also appears that some sort of provision providing a pass though of power costs to the rates may be appropriate.

At this point, I feel it is most important to focus on how it would be possible to preserve the ability of the APUC to:

1) review and approve non-power costs (ie, other than the wholesale power costs which would directly flow through to rate payers); and

2) also be able to review and approve as just and reasonable cost allocations associated with implementation of the related "services" and wheeling contracts.

Language which accomplished these objectives would satisfy the basic purpose of the bill -- to get the project retarted this summer and completed in time to issue tax exempt bonds by 1991.

Because the review and approval of the implementation of the related "services" and wheeling contracts could only come after the project was completed, maintaining this APUC authority would not conflict with the objective of getting the project restarted this summer.

It has been suggested that maintaining the juristiction of the APUC would, to some degree, carry a "cost premium" in the form of an incremental interest charge somewhere on the order of 3/8 to 1/2 of a percentage point. In terms of incremental costs, the APA has suggested that this would increase debt service costs on the bonds by several million dollars. This issue needs to be explored closely during the committee hearings to determine, as precisely as possible, what the cost premium would be for maintenance of the APUC's

regulatory authority, limited to non-power costs and only after the project was completed and operational.

Of course, any incremental "cost" resulting from higher interest charges must be weighed against the potential savings to consumers that would result from APUC review and approval over potentially excessive non-power costs such as administration salaries, consulting contracts, legal fees, lobbying contracts, etc.

From a consumer point of view, it would seem that the present value of these incremental costs -- to the extent that they can actually be determined to exist -- would be offset in part by regulatory cost controls in the future. Taken together with the proposal to save Railbelt consumers the cost of the "excess" charges as suggested above, a modified HB 356 as I have outlined should come at no extra cost to the consumer than what has been proposed. It would, however, still preserve the ability of the APUC to perform its essential regulatory functions and protect consumer interests.

(* It should be noted that all of the utilities participating in the project already have the means to deregulate themselves. Co-op's can deregulate, with the consent of the membership. It is noteworthy that, in the case of the co-ops at least, consumers have not allowed their utilitity management to opt out. The Legislature should not enact a measure that essentially pre-empts this consumer prerogative.)

cc: House Judiciary Committee members
Representative Swackhammer

Attachment 1

Draft Language to Eliminate Excess Payment Requirement

(conditional effective date)

Section ___. This Act takes effect on the date that the Alaska Power Authority, as seller, and the Chugach Electric Association; Golden Valley Electric Association; Anchorage Municipal Light and Power; Seward Electric System; Alaska Electric Generation and Transmission Cooperative; Homer Electric Association; and Matanuska Electric Association, as purchasers, enter into an agreement to eliminate the requirement for payments in excess of actual debt service required for retirement of bonds for the Bradley Lake hydroelectric project as provided for in the "Agreement for the Sale and Purchase of Electric Power" dated _____.