5-0425B
Cramer
4/6/87

Original sponsor: Zharoff

IN THE SENATE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 81 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Power Authority; and providing for an effective date."

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

* Section 1. AS 39.25.110(11) is amended to read:

(11) the officers and employees of the following boards, commissions, and authorities:

(A) Alaska Gas Pipeline Financing Authority;

(B) Alaska Permanent Fund Corporation;

(C) Alaska Energy Center;

(D) Alaska Industrial Development Authority;

(E) Alaska Commercial Fisheries Entry Commission;

(F) Alaska Commission on Postsecondary Education;

(G) Alaska Power Authority;

* Sec. 2. AS 44.83.030 is repealed and reenacted to read:

Sec. 44.83.030. MEMBERSHIP OF THE AUTHORITY. The board of directors of the authority consists of seven members. The commissioner of commerce and economic development and the commissioner of revenue serve as directors and the governor shall appoint one director from the banking industry, one consumer representative, two directors from business and industry, and one director who is experienced in the electrical utility industry. Directors appointed by the governor serve for staggered terms of six years and are subject to confirmation by a majority of the members of the legislature in joint session.

* Sec. 3. AS 44.83.045(a) is amended to read:

(a) The [PUBLIC] directors appointed by the governor must [SHALL] be residents and qualified voters of Alaska and shall comply with the requirements of AS 39.50 (conflict of interests). [THE PUBLIC DIRECTORS SHALL SERVE OVERLAPPING FOUR-YEAR TERMS.]

* Sec. 4. AS 44.83.045(c) is amended to read:

(c) The authority shall employ an executive director who may, with the approval of the authority, employ additional staff as necessary. In addition to its staff of regular employees, the authority may contract for and engage the services of legal and bond counsel, consultants, experts, and financial and technical advisors the authority considers necessary for the purpose of conducting studies, investigations, hearings, or other proceedings. The board of directors shall establish the compensation of the executive director. The executive director and staff of the authority are in the exempt service under AS 39.25.110 [IS SUBJECT TO THE PROVISIONS OF AS 39.25.-010 - 39.25.220].

* Sec. 5. Notwithstanding the amendments to AS 44.83.030 made by sec. 2 of this Act, the public directors of the authority on the day before the effective date of this Act shall continue to serve until their terms expire. On the effective date of this Act, the governor shall replace the director of the office of management and budget and the three commissioners in accordance with AS 44.83.030 as amended by this Act.

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

ARECA

Resolution 87-3-3

BE IT RESOLVED, ARECA urges support of SB81 relating to restructure of the APA board of directors with the following amendments:

1. Changing line 25 on page one to read "two directors who have utility board or management experience";

2. Removing the section 3;

3. Changing line 15 on page 2 to read "six-year terms" rather than four-year terms;

4. Reinstating the original wording in line 17 through 20 on page 2.

18 February, 1987

MEMORANDUM:

TO: Mark Johnson, Committee Aide
Senate Labor and Commerce Committee

FROM: Michael Thill M.T.
Senator Zharoff's Staff

SUBJ: SB 81 Relating to the Alaska Power Authority

Attached you will find a memo relating to the changes Senator Zharoff would like to make to SB 81. Per our conversation of 2/17, I have drafted a memo to legal services requesting a CS to effect these changes. The substantive changes we wish to make are as follows:

> We would like to change the composition of the APA board to include the commissioners of DCED and Revenue, and have modified the earlier proposal for the Governor's appointees.

We would like to retain the clarification that employees of the APA are in the exempt service;

It will also be necessary to amend the language contained within section 7 to reflect the changes in the composition of the authority which occur in section 2.

Thank you for your consideration of this request.

19 February, 1987

MEMORANDUM:

TO: Ms Tam Cook, Director
Legal Services

FROM: Mark Johnson,
Senate Labor and Commerce Committee

I would like to request the drafting of an L&C CS for SB 81 to contain the following changes:

1) Rewrite section 2 concerning the composition of the authority to reflect the following membership:

Commissioner of DCED
Commissioner of Revenue
One director from the banking industry
One consumer representative
Two directors from business and industry
One director experienced in the electrical utility industry.

Directors appointed by the Governor shall serve staggered 6 year terms, and are subject to confirmation by the Legislature.

2) Delete section 3 in its entirety;

3) Amend section 5 to contain only those changes made on lines 26 and 27 regarding the exempt status of employees;

4) Delete section 6 in its entirety;

5) Rewrite section 7 to reflect the changes referenced above;

6) Renumber sections as appropriate.

Thank you for your attention to this request.

Senator Tim Kelly, Chairman
Senate Labor and Commerce Committee

April 3, 1987

Senate Bill No. 81

Robert E. LeResche, Executive Director
Alaska Power Authority

As I will not be able to attend the Senate Labor and Commerce Committee hearing on Senate Bill No. 81, scheduled for consideration on April 3, 1987, please accept the following comments in lieu of my appearance before the Committee.

On February 27, 1987, the Alaska Power Authority Board of Directors met and consideration was given to Senate Bill No. 81. At this meeting the Board adopted a formal position in strong support of Section 1 of SB 81 and voted to oppose Sections 2,3,4 and 5 of the Bill. It is the consensus of a majority of members of the Alaska Power Authority Board that the structure of the Board remain as currently established. In their opinion, considering the statutory powers vested in the Alaska Power Authority Board of Directors, the current structure provides a proper level of checks and balances between the Alaska Power Authority, the Governor and the Legislature.

Additional Board action taken on SB 81 included the unanimous adoption of Alaska Power Authority Resolution No. 1987-06. The resolution supports amendment to AS 39.25.110 (11) as presented in Section 1 of SB 81, which specifically names the Alaska Power Authority as a state agency in exempt service. A copy of the resolution is attached.

While the Board opposes Sections 2,3,4 and 5 of SB 81, legislation which would resolve the Alaska Power Authority's exempt status issue is still necessary and desired during the legislative session. At this time, on behalf of the Alaska Power Authority Board of Directors, I respectfully request the Committee's favorable consideration of amendment to AS 39.25.1110 only.

Please contact me if I may provide additional information or assistance.

Attachment as stated.

ALASKA POWER AUTHORITY
Resolution 1987-06

RESOLUTION BY THE ALASKA POWER AUTHORITY BOARD OF DIRECTOR RECOMMENDING THAT AS 39.25.110 BE AMENDED TO SPECIFICALLY NAME THE ALASKA POWER AUTHORITY AS A STATE AGENCY IN EXEMPT SERVICE.

WHEREAS, the Alaska Power Authority was created as a public corporation of the State of Alaska with a separate and independent legal existence in the Department of Commerce and Economic Development; and

WHEREAS, the Alaska Power Authority consists of a seven member board of directors required to employ an Executive Director, who employs additional staff as necessary, and is granted powers under AS 44.83.080 to carry on and further its corporate purposes; and

WHEREAS, the Alaska Power Authority, although considered to be a State agency in exempt service not covered by the provisions of AS 39.25 (the State Personnel Act), is not specifically named as such in this chapter; and

WHEREAS, the Authority has been advised by the Office of the Attorney General to seek legislation to provide clarification on the status of the Executive Director and staff; and

WHEREAS, the Alaska Power Authority Board of Directors has previously adopted Resolution No. 1985-03 on February 26, 1985, in support of amendment to AS 39.25.110, to specifically name the Alaska Power Authority as a state agency in exempt service; and

WHEREAS, on September 19, 1986, the Superior Court of the State of Alaska ruled as a matter of law that the Alaska Power Authority employees were not members of the State of Alaska classified service;

NOW THEREFORE, BE IT RESOLVED, by the Board of Directors of the Alaska Power Authority:

That AS 39.25.110 is recommended for statutory amendment to specifically name the Alaska Power Authority as being a State agency in exempt service, thereby exempting the Authority from the provisions of the State Personnel Act;

BE IT FURTHER RESOLVED, that the Alaska Power Authority Board of Directors supports amendment to AS 39.25.110(11) as presented in Section 1 of Senate Bill No. 81, introduced in the Alaska State Senate on January 22, 1987.

This resolution having been submitted to a vote, the vote thereon was as follows:

YEAS: Poe, Halloran, Allison, Schaeffer, Mathis, Nuna

NAYS: Ø

ABSENT: Hufman

And the resolution was declared adopted on this the 27th day of February, 1987.

ALASKA POWER AUTHORITY

BY: _____

BY:

SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE
P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259
DURING SESSION:
P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474 • 465-3844 (Labor and Commerce Committee)
DISTRICT N
ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

26 January, 1987

MEMORANDUM:

TO: Mark Johnson, Committee Aide
Senate Labor and Commerce Committee

FROM: Michael Thill
Senator Zharoff's Staff

SUBJ: SB 81 Relating to the Alaska Power Authority

The purpose of this legislation is to effect two changes in the APA statutes. These two policy changes were contained in CSSB 292(L&C) which was heard in the Senate Labor and Commerce Committee (5 do pass) and was in the Senate State Affairs Committee at the time of adjournment last year.

The first change places the employees and officers of the APA in the exempt service, thus clarifying in statute the current practice. I will include an AG's opinion concerning the need for this change in the backup I am providing you.

The second change involves restructuring the composition of the APA board, which is a modification of a recommendation contained within the "Advisory Committee Report on Statewide Power Production Costs". I will provide you with an excerpt from the relevant portions of this report, a copy of the statutes referenced, and a sectional for this measure.

SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE
P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259
DURING SESSION:
P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474 • 465-3844 (Labor and Commerce Committee)
DISTRICT N
ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

SB 81 Sectional Analysis:

Section 1) Adds the APA to the list of boards, commissions, and authorities whose officers and employees are in the exempt service.

Section 2) Changes the composition of the APA Board to seven members as follows:

Commissioner of DCED

One director from the banking industry

One consumer representative

Two directors from business and industry

Two directors who are managers in the utility industry;

Directors appointed by the Governor shall serve staggered 6 year terms, and are subject to confirmation by the Legislature.

Section 3) Adds new language so that the board advises the executive director, rather than the powers of the authority being held directly by the board.

Section 4) Directors appointed by the Governor must be state residents and comply with conflict of interest provisions.

Section 5) Adds language so that the powers of the authority are vested in the executive director. Adds staff of the APA to the exempt service category.

Section 6) Amends language to be consistent with sections 3 and 5.

Section 7) Current public members will serve out their terms, however on the effective date of this act, the Governor shall replace the director of OMB and the 3 commissioners. (Except the commissioner of DCED)

Section 8) Immediate effective date.

July 27, 1977

The Honorable H. Phillip Hubbard
Commissioner
Department of Commerce and
Economic Development

AVRUM M. GROSS
ATTORNEY GENERAL

By:
G. Thomas Koester
Assistant Attorney General
Department of Law

Legal status of executive director and staff of Alaska Power Authority
Our File: J-66-719-77

You requested an opinion regarding the applicability of AS 39 to the executive director and staff of the Alaska Power Authority, AS 44.56. We understand that the thrust of your request relates to the coverage of these positions by the State Personnel Act, AS 39.25.

AS 44.56.050 provides that the executive director employed by the authority is subject to confirmation by the legislature. While the confirmation requirement is invalid, Bradner v. Hammond, 553 P.2d 1 (Alaska 1976), this is a clear indication that the legislature intended the executive director to be exempt from Personnel Act coverage. Therefore, we believe the Act has no application to the executive director position.

Whether the Act applies to the staff is difficult to determine. AS 44.56 provides no guidance, and we have been unable to discover anything in its legislative history to resolve the issue.

The statutes governing agencies similar to the Power Authority usually state expressly the status of employed staff (e.g., Municipal Bond Bank Authority: employees are in the classified service, AS 44.58.070; Small Business Development Corporation: employees are in the exempt service, AS 44.60.380). One notable exception is AS 18.55, the Alaska State Housing Authority (ASHA) Act. However, AS 18.55.070, the provision authorizing ASHA to employ staff, was enacted by the Territorial Legislature in 1949, several years before the Personnel Act was enacted in 1960. ASHA employees have been considered in the exempt service since 1960; ASHA has its own personnel rules which are similar to those governing "normal" state employment, but does not consider itself under the Personnel Act. The legislature arguably ratified this situation in 1971 when it created the Alaska Housing Finance Corporation (AHFC), AS 18.56, providing that "[t]he personnel of the corporation are exempt from AS 39.25 to the same extent as the personnel of [ASHA]." AS 18.56.070.

The Honorable H. Phillip Hubbard
Commissioner
Department of Commerce and
Economic Development

July 27, 1977

We suggest that staff employed by the Alaska Power Authority be considered in the exempt service and not covered by the provisions of AS 39.25. This conclusion is based on the fact that the authority, while "a public corporation of the state," has a "separate and independant legal existence," AS 44.56.020, the fact that the legislature arguably has ratified this approach, and the fact that this approach applies to most of the other public corporations of the state (ASHA, AHFC, Alaska Toll Bridge Authority, Small Business Development Corporation; the one exception is the Municipal Bond Bank Authority). However, note that whatever personnel system is established must incorporate merit principles. Alaska Const., art. XII, §6. Perhaps the authority can follow a system patterned after the ones employed by ASHA and AHFC.

However, because it is not certain that this approach is correct and it could be argued the other way, we urge you to seek legislation clarifying the status of staff employed by the Alaska Power Authority.

GTK:md

cc: V. Kent Dawson
Legislative Assistant
Office of the Governor

STATE of ALASKA

MEMORANDUM

TO: Hon. Phillip Hubbard, Commissioner
Department of Commerce & Economic Development
ATTN: Lois Cook

DATE: July 11, 1978

FILE NO: J-66-808-78

TELEPHONE NO:

FROM: AVRUM M. GROSS
ATTORNEY GENERAL

By:
Rodger W. Pegues
Assistant Attorney General

SUBJECT: Status of personnel of the Alaska Power Authority

This responds to your request for our opinion as to the effect of the recent amendment to the APA's organic act which provides, "The executive director of the authority is subject to the provisions of AS 39.25."

We are advised on good authority that the amendment was proposed to make the executive director subject to the Conflict of Interest Act and that, by error, the reference was made to AS 39.25 rather than to AS 39.50. The bill was rushed through at the last minute, and passed without correction to the reference. The Statute Reviser will be asked to make a corrective amendment in his omnibus bill next year.

In our view, the plain error rule controls. The amendment makes sense only if it is read to be 39.50 rather than 39.25. Making a person "subject to" the State Personnel Act -- without anything more -- accomplishes nothing. Under that Act, one may be exempt, partially exempt, or classified. If the amendment is read to mean AS 39.25, i.e., the Personnel Act, then all it says is that the executive director is exempt, partially exempt, or classified. He is that now, i.e., he is exempt. Moreover, there is neither rhyme nor reason to place the executive director under the Personnel Act and not include his staff. That will be the result, however, if the amendment's plain language is followed. On the other hand, if the reference were to AS 39.50, i.e., to the Conflict of Interest Act, it would subject the executive director to that Act's requirements and thereby accomplish the amendment's purpose. Moreover, it would make sense to subject the executive director to that Act but not to include his staff. Accordingly, the reference to AS 39.25 must be considered plain error, and the status quo ante obtains.

That the amendment was intended to subject the executive director to the Conflict of Interest Act does not, however, mean that he is now subject to that Act. Until a

law has been passed subjecting him to that Act, he is not subject to it; it takes more than intent to make a law. Train v. City of New York, 420 U.S. 35, 45 (1975). Nothing prevents his filing a Conflict of Interest Statement voluntarily, however, or the authority's requiring him to file one as a condition of employment.

The answers to your questions then are as follows:

(1) The executive director of the APA is in the exempt service.

(2) The other employees of the APA are in the exempt service.

RWP/pjg

Alaska Power Authority

State of Alaska

March 4, 1986

Senator Fred Zharoff, Chairman
Senate Labor and Commerce Committee
P.O. Box V
Capital Building
Juneau, Alaska 99811

Dear Senator Zharoff:

As requested, the attached position paper relating to CSSB 292 is provided. If I may be of further assistance please do not hesitate to contact me.

Sincerely,

Robert D. Heath
Executive Director

PO Box 190869 701 East Tudor Road Anchorage Alaska 99519-0869

POSITION PAPER CSSB 292 (SENATE LABOR AND COMMERCE)

SECTION 1:

CSSB 292 (SENATE LABOR AND COMMERCE) amends AS 39.25.110 (11) by establishing the Alaska Power Authority as a state agency in exempt service. Currently the legal status of the Executive Director and staff of the Alaska Power Authority is not expressly stated through statute. The Alaska Power Authority has been advised by the Attorney General's office to seek legislation clarifying the status of staff employed by the Alaska Power Authority. The Alaska Power Authority supports this amendment as shown by the resolution adopted by the Board of Directors at the 2/26/85 board meeting.

SECTION 2:

CSSB 292 (SENATE LABOR AND COMMERCE) addresses the membership of the Alaska Power Authority Board of Directors and proposes to repeal and reenact AS 44.83.030. Currently, the Executive Director and staff of the Alaska Power Authority reports directly to the Board of Directors. Because of this organizational structure, it is not appropriate for staff to render an opinion or state a position on the proposed language to restructure the make-up of the Alaska Power Authority Board. However, staff will present and solicit the Board's formal opinion on the bill at the next board meeting, tentatively scheduled for 3/24/86 or 3/25/86. The board's position on this matter will be expeditiously communicated in writing to the appropriate legislative committees.

SECTION 3,4,5,6 AND 7:

CSSB 292 (SENATE LABOR AND COMMERCE) propose amendments also requiring consideration by the Alaska Power Authority Board of Directors.

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

POUCH K – STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

April 1, 1985

MEMORANDUM

TO: Honorable Bill Sheffield
Governor

FROM: Norman C. Gorsuch
Attorney General

RE: Attached bill placing employees of the Alaska Power Authority in the exempt service
Our file: 877-181-85

Attached is a bill exempting the employees of the Alaska Power Authority from the State Personnel Act (AS 39.25). The bill was recommended by the board of directors of the Alaska Power Authority to clarify the status of the authority's executive director and staff.

It has long been our view that the Alaska Power Authority is exempt from the State Personnel Act, but a last-minute error in SCS CSHB 442, when it was passed by the legislature in 1978 (sec. 4, ch. 156, SLA 1978), confused the issue. 1978 Inf. Opp. Att'y Gen. (July 11; J-66-808-78). The attached amendment will finally correct that error. As mentioned in that July 11, 1978 opinion, it is likely that the original intent was to cite AS 39.50, the conflict-of-interests chapter, rather than AS 39.25. However we understand that the authority does not want to amend AS 44.83.045(c) in a way that would subject the executive director to AS 39.50.

A draft transmittal letter to the legislature is also attached.

NCG:CEJ:mem

cc w/enc.: Hon. Loren Lounsbury, Commissioner
Dept. of Commerce & Economic Development

Lee Munn, Chairman
Alaska Power Authority
Anchorage

Robert Heath, Executive Director
Alaska Power Authority

ALASKA POWER AUTHORITY
Resolution 1985-03

RESOLUTION BY THE ALASKA POWER AUTHORITY BOARD OF DIRECTORS RECOMMENDING THAT AS 39.25.110 BE AMENDED TO SPECIFICALLY NAME THE ALASKA POWER AUTHORITY AS A STATE AGENCY IN EXEMPT SERVICE.

WHEREAS, the Alaska Power Authority was created as a public corporation of the State of Alaska with a separate and independent legal existence in the Department of Commerce and Economic Development; and

WHEREAS, the Alaska Power Authority consists of a seven member board of directors required to employ an Executive Director, who employs additional staff as necessary, and is granted powers under AS 44.83.080 to carry on and further its corporate purposes; and

WHEREAS, the Alaska Power Authority, although considered to be a State agency in exempt service not covered by the provisions of AS 39.25 (the State Personnel Act), is not specifically named as such in this chapter; and

WHEREAS, the Authority has been advised by the Office of the Attorney General to seek legislation to provide clarification on the status of the Executive Director and staff;

NOW THEREFORE, BE IT RESOLVED, by the Board of Directors of the Alaska Power Authority:

That AS 39.25.110 is recommended for statutory amendment to specifically name the Alaska Power Authority as being a State agency in exempt service, thereby exempting the Authority from the provisions of the State Personnel Act;

BE IT FURTHER RESOLVED, that the Alaska Power Authority Board of Directors respectfully requests the Governor to introduce legislation providing for amendment to AS 39.25.110 as recommended herein.

This resolution having been submitted to a vote, the vote thereon was as follows:

YEAS: Arnold, Harrison, Hofman, Allison, Knapp, Lounsbury, Munn

NAYS: -0-

ABSENT: -0-

And the resolution was declared adopted on this the 26th day of February, 1985.

ALASKA POWER AUTHORITY

BY: Lee R. Arnold
Chairman

BY: Larry D. Crawford
Secretary

8597/347

STATE OF ALASKA

OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT	DIVISION	BILL NUMBER	SPONSOR
Commerce & Economic Development	Alaska Power Authority	SB 292	Rules Committee by Request of Governor

DEPARTMENT POSITION

Support Legislation

PREPARED BY	DATE	COMMISSIONER'S SIGNATURE	DATE
Susan White (561-7877)	2/7/86		

SUMMARY

OTHER AGENCIES AFFECTED BY BILL	CONSTITUENT GROUP(S) AFFECTED BY BILL
N/A	N/A
ORGANIZATIONAL SUPPORT FOR BILL	**ORGANIZATIONAL OPPOSITION TO BILL**
N/A	N/A

FISCAL IMPACT: ☒ NONE ☐ FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

In previous years, the AG's office advised the Department of Commerce and Economic Development to seek legislation clarifying the status of staff employed by the Alaska Power Authority (see attached copy of AG's letter dated 7/27/77). Although the Authority is a public corporation of the State, with a separate and independent legal existence, this status has not been expressly stated through statute. Amendment to AS 39.25.110(11) will confirm such legal status.

ANALYSIS OF BILL/PROGRAM EFFECTS

Amendment to this section would clarify the legal status of and specifically name the Alaska Power Authority as a State agency in exempt service. The exemption would cover the Alaska Power Authority Board of Directors, Executive Director and the entire staff of the Alaska Power Authority. The amendment allows for the Alaska Power Authority to be included with those boards, commissions and authorities in exempt service under AS 39.25.110(11).

AMENDMENTS PROPOSED

2973/559

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

LAW OFFICES
BIRCH, HORTON, BITTNER, PESTINGER AND ANDERSON
A PROFESSIONAL CORPORATION
1127 WEST SEVENTH AVENUE
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WILLIAM H. BITTNER
KATHRYN A. BLACK
RODNEY B. CARMAN
JOSEPH M. CHOMSKI**
PAUL L. DILLON
CYNTHIA L. DUCEY
ERIC A. EISEN**
JOSEPH W. EVANS
CARL E. FORSBERG
WILLIAM W. GARNER*
KENNETH J. GOLDMAN
RICHARD G. HAGGART
BRUCE E. HORTON
HAL R. HORTON
CAROL JOHNSON
MARC W. JUNE
STANLEY T. LEWIS
JEFFREY B. LOWENFELS
LAWRENCE Z. OSTROVSKY
MICHAEL J. PARISE
SUZANNE C. PESTINGER
TIMOTHY PETUMENOS
MICHAEL V. REUSING
ELISABETH H. ROSS
E. BUDD SIMPSON
STEPHEN F. SORENSEN
SHERIDAN STRICKLAND
BARRY N. SUMMER*
JON K. TILLINGHAST
DANIEL WESTERBURG

*D.C. BAR ONLY
**D.C. AND ALASKA BAR
ALL OTHERS ALASKA BAR ONLY

February 13, 1985

William Mellow
Assistant Attorney General
Attorney General's Office
Pouch "K"
Juneau, Alaska 99811

Jonathan B. Rubini
Assist. Attorney General
Attorney General's Office
Pouch "K"
Juneau, Alaska 99811

Frank Raye, Director
Division of Personnel
Department of Administration
Pouch "C"
Juneau, Alaska 99811

Mr. Brad Thompson
Division of Risk Mgmt.
State of Alaska
Pouch "C"
Juneau, Alaska 99811

Mr. Dick Stone
Northern Adjusters
2609 Arctic Blvd.
Anchorage, Alaska 99503

Re: Sidney R. Kidwell v. State of Alaska
James E. Benka v. State of Alaska

Gentlemen:

I have already discussed with most of you my thoughts on these cases. As you are aware, two employees of the Alaska Power Authority, Kidwell and Benka, have sued the State of Alaska for wrongful termination. This letter and the attached Research Memorandum focuses on the claim made by these employees that they were fired contrary to the provisions of the Alaska Personnel Act.

Our investigation reveals that the Alaska Power Authority did not follow the Alaska Personnel Act because they were under the impression that the personnel act did not apply to the Alaska Power Authority.

As you can see from the attached Research Memorandum, we have a substantial concern that the personnel act will be held to apply to the Alaska Power Authority. I have routed results of this research to a broader group of people than I normally would in view of the fact that it

appears important that the State consider remedial legislation specifically exempting the Alaska Power Authority from the provisions of the personnel act.

We have much more detailed memoranda in the file on the factual circumstances surrounding the termination of Kidwell and Benka which we can make available for your review. The issue addressed in the attached memorandum however is a purely legal issue regarding the procedures that must be followed under the Alaska Personnel Act. It did not appear necessary to detail the facts of the Kidwell and Benka cases in order to keep you advised.

Very truly yours,

BIRCH, HORTON, BITTNER,
PESTINGER & ANDERSON

Timothy Petumenos

TP/jm
Encl.
cc: Ray Benish
David Ritze

ADVISORY COMMITTEE REPORT ON STATEWIDE POWER PRODUCTION COSTS

DECEMBER 15, 1984
ANCHORAGE, ALASKA

December 15, 1984

Board of Directors
Alaska Power Authority
334 West 5th Avenue
Anchorage, Alaska 99501

On November 9, 1984, Governor Sheffield appointed an Advisory Committee on Statewide Power Production Costs. The committee reporting directly to the Board of Directors of the Alaska Power Authority, was asked to investigate the economic, financial, political, and administrative feasibility of a comprehensive Statewide program to establish a basis for equitable power production costs in Alaska through purchase and resale agreements.

The committee was asked to deliver its report by December 15, 1984. Please find herewith the requested report.

Quantitative information and related analysis was provided by OMB and the APA staff. While the resulting numbers provided in this report appear reasonable, further analysis may be required to confirm their accuracy.

A list of the Advisory Committee members follows this letter. Each of these members is to be commended for his or her hard work, creative thinking, and team spirit. Without such cooperation, we could not have produced the attached report in such a short period of time.

We appreciate having had the opportunity to contribute to such an important issue. Hopefully, our efforts will provide a useful direction for further discussions.

Very truly yours,

Charles P. Sitkin
Chairman

CPS:pj

ADVISORY COMMITTEE ON STATEWIDE POWER PRODUCTION COSTS

Charles P. Sitkin, Arthur Young & Company, Chairman
Nels A. Andersen, Jr., Co-Ma Services
Charles Freeman, Mayor, Ketchikan
Loyd Hodson, Gen. Mgr., Alaska Village Electric Cooperative
David Hutchens, Exec. Director, ARECA
Loren Karro, Tlingit-Haida REA
Robert Martin, Jr., Gen. Mgr., Chugach Electric Association
Don Mellish, National Bank of Alaska
David Nease, Gen. Mgr., Kodiak Electric Association
Tom Stahr, Gen. Mgr., Anchorage Municipal Light & Power
Ivan Forsheim, Board President, Golden Valley Electric Assoc.
Eric Meyer, AKPIRG

I. COMMITTEE REPORT

I. COMMITTEE REPORT

A. INTRODUCTION

This report is a compilation of the documentation developed by the Advisory Committee on Statewide Power Production Costs.

The report is divided into several sections. Section I, Committee Report, contains this introduction, and:

- The Conceptual Framework--to serve as background for the committee report,
- the Power Cost Equalization Concept--developed and recommended by the Advisory Committee.

Section II contains four reports:

- "Problems Addressed by the Advisory Committee"--A definition of the electric energy supply problem prepared by ARECA.
- "Sub-Committee Report on Power Equalization"--Loyd Hodson, Chairman
- "Sub-Committee Report on Capital Requirements for Rate Equalization"--Tom Stahr, Chairman
- "Sub-Committee Report on Organization"--Bob Martin, Chairman

The Appendix of the report contains a copy of the Governor's letter establishing the Advisory Committee and a list of the Committee members.

B. CONCEPTUAL FRAMEWORK

Alaskan electric utilities, the State administration, and the legislature have been attempting for a number of years to provide reliable electric energy to all Alaskans at a reasonable cost. This has not been an easy task since Alaska has a great range of community sizes, the communities are geographically isolated, and there is a great disparity in the cost to generate electricity. Various attempts have been made to reduce electric costs to the consumer. These have ranged from grants to purchase generation and distribution systems and state financing of hydroelectric projects to subsidies of retail electric costs. On one hand, some very low cost electricity is currently available because of relatively old Federally financed hydroelectric projects in Anchorage and Juneau, and relatively old and soon to expire favorable gas purchase contracts in the Anchorage area.

Current electric generation costs in Alaska are unstable as we look to the future. Old hydroelectric facilities are being used to capacity. Gas contracts are about to expire. The power cost equalization program that subsidizes rural diesel-fired electric generation systems are provided on a year by year basis, subject to approval by legislature. The cost of providing electricity to the utilities throughout the State varies greatly and symptoms have been addressed on a "squeaky wheel" basis (e.g New hydro projects, the Fairbanks-Anchorage Intertie, Susitna/Bradley Lake feasibility studies and license applications, power cost equalization program, alternate energy subsidies, and waste heat recovery grants).

The economic planning for capital additions has also been piecemeal. The construction of the "Four Dam Pool" was accomplished without thinking through how the dams would best fit into the

overall energy supply situation; and while there is a growing recognition that additional electric generation capacity will be required in the Railbelt, the method of financing such additions is unclear. Certainly without a comprehensive program, each individual utility will have to plan for its immediate capacity shortfalls within its ability to raise funds. Some coherent solution is necessary to provide for a more fair basis for establishing electric energy costs and for allocating State resources.

In particular, the allocation of State resources to subsidize high current electric costs should be provided in a manner that will contribute to a long term solution rather than merely providing immediate relief, which by so doing delays coming to grips with the hard decisions necessary for a long term solution.

The underlying electric supply problem in Alaska is due to the geographic isolation of its approximately 250 population centers that range from 50 to 250,000 people. Except in a few isolated instances, there is no interconnection of these communities. By contrast, in the Lower 48 the electric transmission grid is extensive and includes almost the entire population.

In the Lower 48, because of this transmission grid, one utility can take the lead and build a new generation plant with capacity in excess of its needs. Neighboring utilities can then purchase power from the first utility at a price that may be higher than its current electric generation costs, but may well be less than the cost for these neighboring utilities to build added capacity at that time. As demand grows and the total demand placed upon the first utility's newest plant approaches its capacity, a neighboring utility could commit to build a generation plant, once again, in excess of its needs; the extra capacity is then

sold to neighboring utilities. Through this natural marketing mechanism, electric power generation costs are kept more or less in line between utilities over time.

Utilities within the State of Alaska do not enjoy the cost leveling effects made possible by the electric transmission grid in the Lower 48. To compensate for this condition, it is necessary to create administratively a system through which energy costs can be pooled in a manner analagous to the physical pooling available through the interconnection possibilities of an electric transmission grid.

A method for doing this can be accomplished through a statewide electric power marketing agency. This agency would purchase electric energy from each participating utility in the State at an established rate per kilowatt-hour and then resell this power to the utility at an average statewide rate. This concept shifts subsidizing the higher cost utilities from the State General Fund to the consumers who currently enjoy lower cost electric rate--primarily, the Anchorage and Juneau areas. In order to make this marketing agency logically attractive to Anchorage and Juneau, now enjoying electric generation costs less than the state average, it is necessary to establish an air-tight mechanism through which these communities future electric costs will be maintained at a rate significantly lower than would be possible otherwise.

If the equalization program is to work, a constitutional change will be necessary to provide continued State funding; also, the agency responsible for electric generation costs equalization and for the prudent development of capital additions must be organized so that its mission can be accomplished over time in a consistent, objective manner.

The next section will discuss the elements of the power cost equalization concept developed by the Advisory Committee based on the framework just described. The concept has three equally important and necessary components:

- Statewide power production cost equalization
- Planning and development of a statewide power generation system to minimize the average cost of electric generation.
- The organization that will manage the first two components to occur in the most cost beneficial way.

C. POWER COST EQUALIZATION CONCEPT

Utility rate making is based on the concept of averaging the cost of a service within a common class of consumers. Using this concept, the committee is defining a common class of consumers to be all electric energy consumers in the State of Alaska. The reason for defining the class in this manner is based on social and economic considerations discussed elsewhere in this report.

The concept should be viewed as having three components. Each of the three components must be able to support itself conceptually and all three together are necessary for a workable program. The three legs of the stool are:

- The mechanism for power cost equalization
- The mechanism for providing capital additions
- The organization to plan, implement, and administer elements of this concept.

Each component of the concept will be presented in the following sub-sections.

1. Power Cost Equalization

The way in which power costs throughout the State of Alaska could be equalized is for each utility to sell its power to a marketing agency at its cost, and then repurchase the same number of kilowatt-hours from the marketing agency at the State-wide average cost. [1]

The unit cost (per kilowatt-hour) of consumption for each utility should be established on an annual basis. Basically, an accepted set of power production cost categories should be developed such as those used in REA Form 12f plus the allocation of general and administrative expenses to the power production function. Once the unit cost of power for a utility has been established, the monthly sales to the marketing agency would be the product of the kilowatt-hours sold multiplied by the established unit cost per kilowatt-hour for the utility.

The cost to repurchase of power on a monthly basis would then be based on the Statewide average cost of power multiplied by the same number of kilowatt-hours that were sold to the marketing agency. The average cost would be the cost of the total kilowatt-hours purchased by the marketing agency from all the participating utilities plus the marketing agency's cost of operation divided by the total kilowatt-hours purchased.

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[1] In this report, the term power, electric generation, and power production are used interchangeably. The unit of measure is kilowatt-hours. The cost associated with power production are those generation and transmission costs necessary to produce electricity and deliver it to a utility's distribution system plus an appropriate allocation of the utility's general and administrative expenses (G&A).

The Statewide average cost per kilowatt-hour is the rate at which the consumer should be charged. This calculated power production cost should be a direct charge to the consumer, specifically broken out on his bill. The most significant reason for this is that direct billing of the customer by the marketing agency is necessary for the marketing agency to qualify for tax exempt bonds to finance the capital additions--necessary in the second component of the committee's concept.

Using 1983 electric rates and consumption statistics, the average power production cost for the State would be 5.0¢. By way of comparison using this average power production cost, Anchorage Municipal Light & Power's revised retail rate would be 6.9¢, (as opposed to 5.5¢) per kilowatt-hour a 27% increase in the retail rate. Alaska Village Electric Cooperative 16.5¢ (as opposed to 44.8¢ without Power Cost Equalization per kilowatt-hour, a 63.2% decrease. It is important to note that considering current cost of heating oil ($1.90 per gallon), electricity at 10¢ per kilowatt hour or less becomes an attractive alternative for space heating. The AVEC retail rate of 16.5¢ per kilowatt-hour is clearly above that 10¢ threshold. The Committee does not expect a significant amount of space heating fuel switching to occur under its power cost averaging concept. Furthermore, since no arbitrary life line limitation on kilowatt hours consumed is assumed in this concept, we believe that more commercial and industrial enterprises in rural Alaska would be encouraged to purchase power from the recognized utilities (rather than self generation), thereby, further increasing the efficiency of utilities operation.

Since the marketing agency will be averaging the cost of power statewide, there will be a strong interest on the part of all consumers to hold this average cost down. This element of the concept creates the condition under which the other two components of the concept become imperative and viable--the mechanism for capital additives and the organization to manage and administer the concept.

Capital additions must be thoroughly planned for and introduced whether they be a small, highly cost beneficial system enhancement in the Lower Kuskokwim, or a major multi-hundred megawatt project in the Railbelt. The justification for capital additions would be based on lowering the average cost per kilowatt-hour for the statewide network.

Some Anchorage and Juneau consumers at this point, may be concerned about the potential for their rates to increase under this concept. The committee believes that this concept offers a win-win solution wherein all the State consumers benefit--current rates are generally lowered and stabilized and an environment is created to develop capital additions to produce economic electric generation capacity significantly more efficient and cost-beneficial over the long term than would be otherwise possible.

Under the concept presented by the committee, the State will immediately proceed with a capital additions program to significantly reduce the Statewide average cost of power production. The cost of these capital additions would be financed by tax exempt revenue bonds. During the transition period, from the time of enactment of the program to when the new capacity comes on line, the State would provide funding to equalize the power costs of the consumers whose power pro-

duction costs are above the statewide average. Their power costs would be brought to the point of their average cost of power without the capacity addition bonding costs. The State would further subsidize the consumers with rates lower than the statewide average (without the capital additions bonding) so that their rates would remain on their historically increasing trend, as if they were not participants in the statewide program. These State subsidies would continue until such time that the capacity additions would provide for equal to or lower electric rates than would be possible without the capital additions. (This concept is discussed further in the next section).

2. Mechanism For Capital Additions

In the concept developed by the Committee, the subsidy for high-cost power production by the State has been shifted from the State to a form of cross-subsidy by the rate payer. In order to have a program that will be acceptable to all concerned (i.e., both those who receive the benefit of the cross-subsidy, and those who would now be paying the extra cost to provide the cross-subsidization), it is necessary to effect sufficient economies overall such that the long run electric costs will be lower for all. Additionally, although it is not necessary to justify the economic viability of the total concept, the Committee believes that the electric costs, of those who currently enjoy lower than average power production costs not increase above what they otherwise would experience in absence of the cost equalization program.

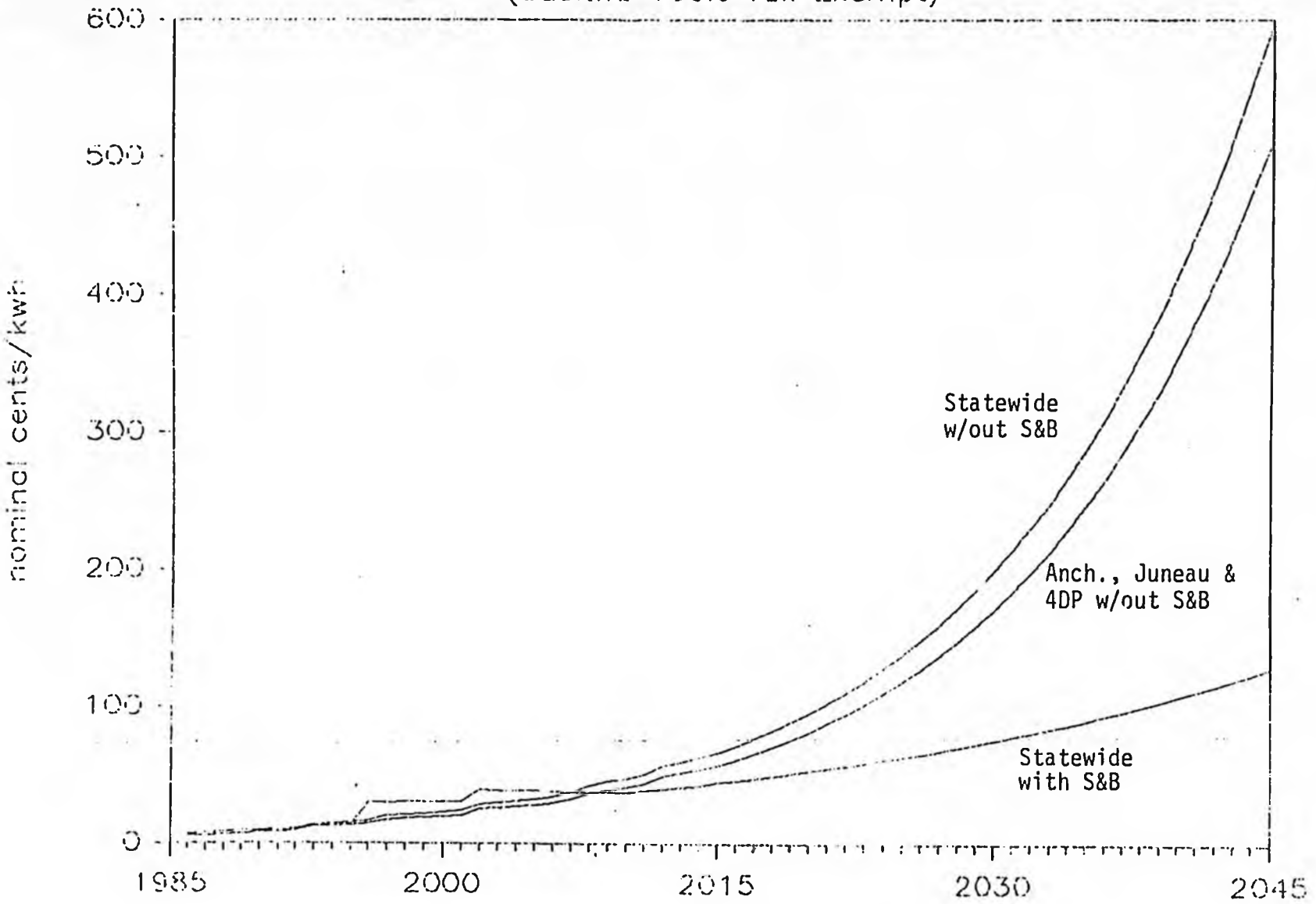
The Statewide objective under the concept of power cost equalization would be to develop an electric generation system that would offer the lowest possible average power

production costs to all consumers. The organization providing oversight to this operation would have the commitment to the consumers to make cost-beneficial judgements on capital additions, wherein the cost of that addition will, over a reasonable period of time, be more than justified through lower power production costs. Certainly opportunities for such capacity additions through the consolidation of generation between several independently owned utilities in rural Alaska may, contribute to the reduction of the average generation costs; however, the only place where economies are of sufficient scale to affect the overall Statewide average power price in the Railbelt. By construction of the lowest life cycle cost electric power alternative, the Susitna Hydro Electric Project, it will be possible to lower Statewide rates substantially below what they otherwise would have been under the best thermal alternatives using natural gas and coal-fired generation.

Using the lowest life cycle cost mix alternative yields lower electric rates for all Alaskans from about 2007 and beyond. The figure following this page shows the nominal cost of power production in cents per kilowatt hour plotted against time, assuming 100% tax exempt financing. One curve increasing upwards over time, is the Anchorage, Juneau, and Four Dam Pool average nominal power production cost without Bradley Lake or Susitna. The curve slightly above it presents a statewide average rate without Bradley Lake or Susitna. The third curve represents the statewide average power production cost per kilowatt-hour with Susitna and Bradley Lake. Note that from about 1996 to 2007 the nominal power production cost statewide would be higher than without Susitna and Bradley Lake. After 2007, the statewide power

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)



production cost with these two dams would be significantly below the statewide cost without the dams, and as time goes by the cost advantage to the consumer would become greater and greater.

It is the position of this Committee, that the best way to meet the long term electric energy needs of all Alaskans is for the State to provide economic relief by means of rate stabilization during this transition period from 1996 to 2007. Before 2007, it is the Committee's recommendation that the State provide a certain amount of rate stabilization to prevent rates from rising above what they would have been under the thermal alternative. This rate stabilization will require a fund established over 8 years, 1986 to 1993, inclusively, to be made up of eight equal deposits of approximately $250 million with all interest accruing to the fund. This is the approximate amount required, assuming tax exempt financing is used for the major projects. To ensure this possibility under today's tax laws, direct billing by the State wide agency for energy is necessary with each utility showing the power production cost as a separate line item on its bill.

Thus to achieve an equalization of power production costs throughout the State, to minimize electric rates statewide over the long run, and to endow a program that will assume complete responsibility for meeting statewide power generation requirements far into the future, the State would provide funds to initially equalize power generation costs throughout the State during the transition period. And if it is deemed appropriate that those in the Juneau and Anchorage area, currently enjoying lower than average power production

assured, including Bradley Lake, Crater Lake, Susitna, and the bush additions required to meet load increases engendered by this program in the most efficient manner.

3. The Organization

The Alaska Power Authority has a mission that requires a commitment to the future. The duration of its job will necessarily extend beyond the time in which any of its Board of Directors will hold their position. This fact is not dissimilar from the situation facing any corporation. Corporations typically deal with this situation by building a degree of perpetuity into their Board of Directors by having specific staggered terms of office. The current law, established during the Hammond Administration, has the majority of the Board positions filled by Commissioners within the State administration. Changes to the Board's composition result from the personal career directions of the Commissioners, and the fact that the outside members of the Board are appointed for four years. A situation is created where the organizational life of the Board of Directors is shorter than the period between key decision points on major capital projects. As a result, there is a whip-sawing of policy, commitment, and knowledge that has been a detriment to long term energy policy development and planning.

It is the belief of this Committee that the organizational component of the Power Production Cost Equalization Concept presented herein requires equal attention as those of the two aforementioned components. The Committee believes that the Board of Directors of the organization that will plan, operate, monitor, and control the activities inherent in this power production cost equalization concept must have the

degree of independence and perpetuity necessary for a consistent long term cost-beneficial program such as described. in this document. There should be full recognition of che management commitment that is necessary for the long term capital commitment and long term construction cycles of the electric generation facilities inherent under this concept.

The Committee assumes that the Alaska Power Authority (APA) will be the organization to administer this program. Since State funds will be involved, the legislature and administration will continue to be interested in the success of the program.

It is the recommendation of the Committee that a nine member board be created with the fiduciary responsibility of setting policy and directing the operation of the Power Authority. The Board would be constituted as follows:

- The Commissioner of Commerce and Economic Development--This would be the only Board member without a fixed term and would be the specific person charged with representing the interests of the Governor and his administration.

- Four Directors appointed by the Governor for staggered six year terms and approved by the legislature--These four members should include one member from the banking industry and one a consumer representative and two from business and industry.

- Four Directors from the Alaska Systems Coordinating Council (ASCC)--The Alaska Systems Coordinating Council is an existing group of electric utility

managers who on ad hoc basis are now coordinating the development of electric generation and transmission systems within the State. The Governor should appoint and the legislature approve these four Directors--two Railbelt, one Southeast Alaska, and one bush utility manager. The ASCC should make recommendations to the Governor. As with the other appointed members, the ASCC Directors should serve six year staggered terms.

An important function of the Board of Directors will be to set electric power development policy and to assure that cost-beneficial planning and operations are conducted by the APA that will benefit all Alaskan consumers. In order to insure that generating capacity additions are the ones which result in minimum cost, are compatible to long range plans and contribute to system optimization, any equalization payments for prospective units must be based solely on pre-construction approval by the Power Authority Board. In no event should the Authority be required to purchase power either directly or indirectly through a participating system which was not generated by said participating system.

Over the past few years, the State of Alaska has provided loans or grants for substantial sums of monies to develop generation capacity--most notable examples are the Four Dam Pool and the Fairbanks-Anchorage Intertie. It is the recommendation of this committee that these loans be converted to grants by the State and be considered as equity of the Alaska Power Authority. These projects obviously fit within the context of the concept presented by the Committee, in that they contribute to lowering the cost of generation for all

Alaskans. Furthermore, the accumulation of equity within the Power Authority, in conjunction with the more stable Board of Directors, and the concept for power cost price stabilization and equalization, will together present a more professional and lower risk picture to revenue bond underwriters.

4. Summary

In summary, it is the recommendation of the Advisory Committee on Statewide Power Production Costs that:

- a marketing agency be established to purchase electric power from utilities within Alaska and resell this power to these utilities at an average cost,
- this same agency provide for future capital additions to meet the energy needs of the State in the most cost-beneficial long term manner,
- the State provide interim power cost stabilization and equalization relief until such time that the capital additions provided by the Agency offer lower power production costs than would be available absent these capital additions,
- the Alaska Power Authority be established as this marketing and electric power development agency with the Board of Directors of the APA reconstituted to assure perpetuity of the Board and consistency in policy development and decision-making.

The Committee believes that certain constitutional changes will be required to assure the continued funding necessary for this concept. It is the recommendation of the Committee that as many of the features as possible discussed above be incorporated in the Constitutional change. This will assure the consumers of the State's commitment to the concept, the consistency in the provisioning of electricity in the future, and that the Alaska Power Authority will have the expertise to perform its mission over the long term.

II. SUBCOMMITTEE REPORTS

- Problems Addressed by the Advisory Committee
  David Hutchens, ARECA
- Power Equalization
  Loyd Hodson, Chairman
- Capital Requirements for Rate Equalization
  Tom Stahr, Chairman
- Organization
  Robert Martin, Chairman

PROBLEMS ADDRESSED BY THE ADVISORY COMMITTEE

by David Hutchens, ARECA

DISPARITY IN ELECTIC RATES

Alaska has a far greater disparity in electric rates than any other state in the country. Dependent on where you live in Alaska, you could be paying anywhere from less that 6 cents per kilowatt hour to over 50 cents per kilowatt hour for electricity. For example, residents in Anchorage are enjoying a rate for electricity that is below the national average; however, residents of rural villages served by the Alaska Village Electric Cooperative are paying over 44 cents per kilowatt hour for electricity, or nearly 8 times as much as Anchorage residents pay.

The primary reason for the low cost of electricity in the Anchorage area is the price utilities are paying for natural gas. In 1965, Chugach Electric, now serving some 60,000 consumers in the Anchorage area, signed long-term contracts to purchase natural gas from the Cook Inlet fields. The price for this natural gas is now 26 cents per thousand cubic feet. As a result of those contracts, Chugach Electric has one of the lowest costs for fuel of any utility in the country. The same natural gas, if purchased today, would cost about $3.00 per thousand cubic feet. Unfortunately, neither the contracts nor the Cook Inlet supply of natural gas will last forever. By the year 1990, it is expected that Chugach Electric and Anchorage Municipal Light & Power will

have to find new sources for natural gas or an alternative source of fuel. The cost of fuel to Anchorage utilities will increase dramatically by the end of this decade.

Alaska residents in rural areas of the state, except Barrow, have never enjoyed the benefits of low-cost natural gas. Because of the remote locations of many villages and the cost of transporting fuel, diesel powered generation of electricity has proved to be the least expensive alternative. Even today, despite the high cost of diesel fuel, studies have shown there is no commercial technology available to most rural Alaska utilities that is more economical than diesel. No matter what source of energy is used to generate power, it is very expensive to provide electricity to rural areas of Alaska.

PROBLEMS ASSOCIATED WITH HIGH COST OF ELECTRICITY

This disparity in electricity rates is a significant contributor to Alaska's uneven economic development. There are relatively few industrial or commercial businesses operating outside the urban areas of Alaska. Of course, the high cost of energy is not the only reason for the lack of development in rural areas, but extremely high electricity costs are a major factor. It takes a large amount of electricity to meet the power requirements of an industrial consumer, such as a fish processing plant. There are a number of coastal Alaska communities that could benefit from the establishment of a fish processing facility in their communities. But because of the high cost of power, processors have generally avoided such investments. It is economically

advantageous for processors to either fly their fish southward for processing or to transfer fish to large off-shore ships-- usually foreign--which serve as processing factories.

Another business that suffers because of the high cost of electricity is the retailer. A grocery or general store in rural Alaska must deal not only with the high cost of transportation, but the high cost of electricity as well. Many rural villagers find it less expensive to order their supplies from either Anchorage or Fairbanks than to purchase their supplies from the local merchant. Partly because of the high cost of electricity, the rural business is at a great disadvantage in competing with urban retailers for local sales.

Rural Alaska villagers have been unable to take full advantage of electrical service. Because of the high cost of electricity in rural areas, villagers must limit their electric consumption to minimal needs. Some of the more common appliances routinely used in urban areas are just too costly to use in rural Alaska. Residential consumers in areas served by the Alaska Village Electric Cooperative averaged using only 209 kilowatt hours per month during 1983. At the same time, residential consumers in Anchorage served by Chugach Electric had an average use of 842 kilowatt hours per month in 1983. The cost today of those 209 kwh to rural Alaskans is $96.35 while the cost of 842 kwh to Anchorage residents is only $50.52. That's four times the electricity at half the cost.

Legislators representing rural Alaska have long recognized the disparity in power costs within the state. Over the past few years, rural lawmakers have successfully sponsored assistance programs designed to provide some financial relief to rural residents burdened by the high cost of electricity. The most recent of these programs to be implemented is the Power Cost Equalization Program (PCE). Legislators approved PCE during the 1984 session and appropriated $27 million to fund the program through FY 1985. The program does provide considerable assistance to rural residents and in some cases has cut many villagers' electic bills in half. But Power Cost Equalization is not a long-term solution to the problem of high electricity costs. The reason is two-fold. First, the program is totally dependant on legislative appropriation. Each year the legislature must examine the program and judge whether or not it should be funded. Depending upon the mood of lawmakers in Juneau, the program could be eliminated at any time leaving rural Alaskans without the assistance they have come to depend upon. The second problem with this program is the limit placed on the number of kilowatt hours that can be considered for assistance. A consumer may only receive aid under the program for the first 750 kwh used in a one month period. This is adequate for residential consumers, but it does not give significant assistance to industrial and commercial consumers. 750 kwh is only a fraction of the power used by most industrial consumers, so this program provides little incentive for such businesses to establish or maintain operations in rural areas.

NEED FOR A STATEWIDE ENERGY PROGRAM

To resolve the energy problems we face in Alaska, the state must develop a comprehensive statewide energy policy and program. During the last ten years the legislature and the successive administrations have dealt only with local or regional problems. In addition to the PCE program, another example of this approach is the four-dam pool. Local communities in southeast and southcentral Alaska wanted the state to assist with the construction of four hydroelectric projects to serve their communities. A strong lobby effort won approval for the projects, and the state has now invested more than $400 million in the four-dam pool. This provides residents in the five affected communities with the opportunity to have low-cost, or at least stable cost, electricity well into the next century. However, this left other areas of the state without such promise, and residents not directly served by those projects can see no benefit to themselves from their construction. Bradley Lake and the Susitna hydroelectric projects have been identified as the lowest cost alternatives over the long run to supply power to the railbelt region. These projects will require substantial state assistance in order to avoid rate shocks to the consumers in the early years of their operation. Regionalism which persists in the absence of a statewide energy program threatens the construction of these projects just as it threatens the continuation of the PCE program.

REPORT OF SUBCOMMITTEE ON POWER EQUALIZATION

by Loyd Hodson
Subcommittee Chairman

Definition of Problem

Electric rates across the State of Alaska have a far greater disparity than any other state in the United States. Average retail revenue per kilowatthour rates in Alaska range from a low of some 5¢/KWH to a high well in excess of 50¢/KWH on a true cost basis in many small isolated village communities. This range of 1,000% change compares to Nebraska where the differential across the state is only some 20%. Rate disparity of this type is causing severe restriction on usage in certain communities where the full benefits of electricity are not being derived. Perhaps more important is the fact that many opportunities for short and longer term economic development could be substantially boosted by lower cost electric energy. The full benefits of an improving educational system will not be realized unless more communities have lower cost electrical energy available to encourage economic activity, resultant jobs and ultimately more self sufficiency..

Areas of Rate Equalization Investigation

The Committee studied three possible basis for cost impacts of various equalization methods. These were:

1. A postage stamp without usage limit at the retail level.

2. A postage stamp with usage limit at the retail level.

3. A blended postage stamp rate considering power production and transmission costs only at the point of delivery to a distribution system.

The Results

1. The Postage Stamp at Retail: The results of this study are attached and identified as Table I (left hand columns). The overall average retail costs would currently be approximately 8.2¢/KWH. Estimated percentage changes in retail rates to achieve this are estimated.

   Advantages of this Approach:

   a. This approach assures absolute equity in electric rates across the entire State of Alaska.

   b. There would be virtually no regional restraints to feasible power production capital investment in any area of the State since reduced overall costs would benefit all segments of the population.

   c. There would be a much more uniform climate for economic development across the entire State of Alaska as much as the cost of electricity is one of the key elements in economic development.

Disadvantages of this Approach:

a. This structure is substantially the most expensive initially.

b. Both the direct equalization and capital costs would go up substantially more than the initial cost due to substantially increased demand that would be created in many areas of the State.

c. This rate is at a level that would encourage the use of local space heat in many areas of the State which are heated by oil causing wasteful and inefficient conversion of diesel fuel into electricity and back into heat.

d. This in turn would result in very substantially increased capital requirements for generation and distribution in some of the smaller non-interconnected utilities in the near term. The program would have to be initiated in phases to prevent a cascading of rapid and overwhelming requirements for increased generation capacity in a large number of smaller isolated diesel generator served communities.

2. Postage Stamp at Retail with Usage Limit: After initial consideration, this approach was not explored in depth since of the disadvantage of not creating an improved climate for economic development if there was a limitation on all consumers of 750 KWH usage per month. While this solves the rate problem for the residential consumer, it does little for the bigger problem of trying to establish more favorable rates for economic development.

3. Blended Postage Stamp Rate: The plan believed to be most desirable in the world of economic reality and achievability was determined to be a blended rate at the power production level. Costs would be allocated on an acceptable accounting basis to establish comparable power production cost in all cases. The overall average state production bus bar is estimated to be 5.0¢/KWH, based on CY 1983 data. Projections to the current time would not change the figure more than an estimated maximum of 0.2¢/KWH.

Advantages of this Approach:

a. This approach is less costly than the alternative of an average postage stamp rate at retail in both the short term and the long term.

b. There would still be some retail price restraints on high usage of electricity in the state.

c. The resultant retail rates would by and large be above levels that could result in costly use of space or installed electric heating and resultant massive need for quick increases in remote generation unit investments.

d. Since all State entities would be interested in holding the overall average power costs down, there would be increased interest in larger, more efficient generation facilities, which would benefit all consumers across the State to some degree.

e. It also has the advantage of creating a much more desirable climate for economic development, since there would not be a cut off at 750 KWH per month per consumer as under the current program.

f. Overall cost of living could be reduced in outlying areas.

g. Cost of school operations would be lowered in many areas.

Disadvantages of this Approach:

a. There is no significant disadvantages of this approach compared to other areas investigated, other than the general point that the overall package must have equity to become attractive in all parts of the State in the form of the proper blend of short, intermediate and long range benefits for general acceptance.

Potential Problem of Electric Heat

There needs to be more understanding of potential for problems associated with electric rates that encourage space heating with electricity in many remote Alaska communities served by diesel generation. Items causing the situation in remote communities to be different are the following:

1. The heating fuel of choice is #1 (or #2) heating oil for the overwhelming majority of new homes, public facilities, schools, etc. In a few areas there is a fair amount of heating by wood. Natural gas for heating is not available with the exception of Barrow.

2. High delivered retail price of diesel fuel oil makes electric heat attractive if electricity is priced at a low enough level (see attached chart, "Heating & Break Even Points, No 1 Heating Oil vs. Electricity").

3. The efficiency of conversion of the oil into heat is a key factor in the relative desirability of electricity for space heating. The higher the oil furnace efficiency, the lower retail electric prices can be without crossing the point to encourage electric heat.

The conversion of electricity into heat is considered to be 100% efficient; all of the energy from heating elements is released within the heated space. In the case of oil fired furnaces, the efficiencies generally range from from a low of 35% to 75% in some new systems. For purposes of calculation, an efficiency value of 50% selected for a "pot" type furnace. Newer "gun" type oil furnaces range near 65-75% efficient.

In many coastal or railbelt communities in Alaska, the retail delivered price of heating oil is in the vicinity of $1.25 per gallon. Typical retail delivered price in villages s currently $1.90 per gallon. However, a few communities pay as much as $3 per gallon. In addition, in large areas of the railbelt, natural gas is available for heating, which is much more competitive for space heat than oil or electricity in virtually all cases.

Placing the retail price of electricity below the level of equivalent oil heating can cause severe problems. This would result in a rapid increase in electrical

demand or smaller isolated systems requiring major increased investment in diesel generation capacity.

Where excessive hydro generated electricity is available, the case could be made for use of power for electric heat to save other energy. However, this is definitely not true where you must put in diesel power generation to supply electric heating needs. The energy conversion efficiency is very low, much worse than even the poorest pot-type stove.

This problem is particularly aggravated in the outlying areas of Alaska. In a typical village of 600 people, the peak winter load is currently running near 300 KW. This is for all uses of electricity, including the schools, public facilities, water and sewer, communications, business, etc. There would be approximately 150 homes served by electricity. A plug-in electric space heater rated at 1500 watts (1.5 KW) can be purchased for $50. Units for four rooms would cost $200 and can be plugged in immediately representing 6 KW of new load per household. A total of 900 KW of new load. Adding this to the 300 KW, we arrive at 1200 KW of DEMAND on a cold winter evening, or FOUR times the current peak load capability. Plug-in heater use would be virtually impossible to control by regulation in residences. Further, substantial portions of this load could be connected very rapidly in only two or three weeks time, since the portable electric heaters could arrive from mail order houses in that time. 6 KW demand stated per household is a relatively low estimate of actual potential heating load if electricity at retail would be priced below the break even point to make usage desirable relative to heating oil.

All small community diesel generation facilities, and much of the distribution systems, would have to be replaced with considerably larger facilities. The answer to this problem is for the retail price of diesel generated electricity to be at not less than 20% above the break even point for oil heat. Electric heat has advantages over oil to require some differential, including lower initial cost of electric heating units and no oil to store or handle, etc.

The program proposed will provide resultant retail rates that generally avoid this problem since market price signals are still present. If retail rates are much lower, then consumption restrictions or inverse rates would need to be considered. This type of measure could defeat one primary purpose of allowing high usage required by many business at improved rates to create a much improved opportunity for community economic activity.

There will be load growth under the proposed program, but at a much more orderly pace in accordance with valid community growth and increasing business activity.

How to Control Possible Abuses

One questions is, "how do you maintain some reasonably uniform level of service in various types of communities without abusive and inefficient operation and maintenance practices?" Due to inherent limitations on smaller generation units, the quality of power will not be the same in smaller communities as it is in the larger communities, nor is the type of around the clock manning affordable to give the same reliability as in larger communities. However, with the proper planning and initial investment, even small community unmanned plants can have power reliability in the order of 99% or better. Achieving the last 1% of

reliability, or to attempt to tighten other operating parameters to an excessive degree, is extremely expensive.

There might be a possibility that a very small community might wish to provide employment for full time around the clock Operators. This will not stand the test of independent economic feasibility review in a small community. However, in some communities this is being done, for instance, the North Slope Borough as a matter of policy. However, true electric rates become very high under these conditions. The Borough through tax revenue does subsidize rates down to a reasonable level. The balance of the state will not likely be willing to provide funds for unreasonable high levels of O&M costs.

Alaska Village Electric Cooperative, Inc. is an example of a reasonably low cost operation with cost constraints serving many outlying areas and represents a sampling of a large number of small communities and conditions encountered. Therefore, AVEC's experience and accurate accounting records can give a good idea of typical true costs of operation over a number of years. Records from AVEC, or the Tlinget-Haida Electric Authority in Southeast as examples, can provide a reference basis for reasonable costs. A band of reference costs can then be developed for communities of similar size and geographic/environmental conditions.

Here and to the point are possible major areas of abuse and a suggested method of control:

1. Unreasonably high O&M costs per capita or unit of output.

2. Excessive assignment of expenses to assisted cost segment.

3. Too high or non-feasible capital expenditures.

The group recommends that a committee of Electric Utility Managers be selected and empowered to make judgements on these matters. A panel of not less than seven Electric Utility Managers representing a good cross section of the state would be appointed to this committee. They would meet periodically to establish initial standards and to monitor possible areas of abuse as determined from reported data or as otherwise addressed to the group. The committee, by majority vote of a quorum, would make decisions in regard to whether questionable expenses should be allowed or further investigated. If closer investigation expenses were outside of an acceptable range of reasonable standards, then the community or organization involved would be asked to voluntarily bring costs more in-line. After a reasonable period of time for corrective action, costs would be disallowed outside of the established tolerance band established for communities with similar personal characteristics and size range.

There could be a further ultimate appeal to a higher level of authority for absolute, final binding determination of any disputed findings of the Manager's Committee. This could be either directly to the APUC Commissioners or as an alternative an "Energy Czar" type of person, similar to a baseball commissioner. This would basically be in the form of a selected arbitrator well versed in utility operations and maintenance and fiscal matters to assure timely, intelligent and fair decisions. Ideally, the person would be familiar with diesel generation utilities since most questions will be in this area.

Improper assignment expenses could best be controlled by a carefully considered format of what expenses should be assigned to each category. Basically, all utilities, even in the smaller communities, should set up some standards for cost accounting so that expenses fall into proper general categories. Also, there should be uniform treatment in regard to payment for insurance or self-insured risk, depreciation reserves and/or proper allowances for future capital needs. Many of the plants in smaller communities have been constructed with donated state capital. Generally, no provision is currently being made in the rates for replacement purposes. This problem needs to be separately studied and addressed. The Committee feels that this would be an ideal task for Alaska Public Utilities Commission or such qualified auditing firms that might assist.

This is a real serious problem for many smaller utilities across the state and needs to be addressed. In addition, this causes artificial rate differences compared to utilities that maintain books as perpetual entities with the ability to borrow in the future, including some equity buildup. Contrast this with utilities that have no margin (TIER) requirements and no provision in the rates for depreciation costs, no interest costs, are running without insurance, either property or liability, as examples requiring more uniform control and cost accounting.

Accounting on a uniform basis, it would soon become evident that generally utilities operating as a group are more efficient than small individual independent utilities. This structure is even more important when continuing capital requirements into the next century for future generation and distribution systems to meet new requirements and for replacements are considered as state revenues diminish. There is considerable misinformation and misunderstanding about this developing situation requiring clarification. If not, many small utilities will simply continue to run until there is no longer any state money available and then cease to operate. In the near future, State grants will probably not be available, hence the need to roll into a much more orderly program across the state, as is suggested by the overall thrust of this Report.

The primary idea of this review committee, with powers of initial or final judgement, is to use a combination of persuasion and assistance to keep the overall average power costs across the state at a fair level without excessive abuse at any level where others would be required to pay the bill for gross inefficiencies or abuses. If a cross subsidization program is to work, controls of this type are felt to be absolutely essential and mandatory. If not, horror stories of abuses will soon tear down the integrity and therefore support for the overall program concept.

Community Size

Another area of investigation of this Sub-Committee on Power Equalization was related to "what should be the lower cutoff size of a community for participation in the program?" Possible areas of definition include:

1. A census count of at least 50 from the latest U.S. census.

2. Census data from Community & Regional Affairs' definition of communities by organization types, such as municipality, first class city, IRA, etc.

3. There must be at least enough school age population for at least one teacher and an organized school.

4. Other areas can center on definition by the number of family dwelling units or so many dwelling units within a certain area.

The Committee obtained a list of communities organized as second class cities or higher from the Community & Regional Affairs based upon December 31, 1983 population (attached). The total population therein is estimated at 497,822. Included in this figure is the population from the unorganized areas of six boroughs totaling 96,526 people. The overall estimated Alaska population on December 31, 1983 was 516,324 people. Other statistical data was related to the estimated average size of Alaska households presented as 2.93 persons.

Next, the Committee took the number of residential hookups from all of the listed utilities in the statistical base and came up with a total of an estimated 162,000 residential consumers connected on all the utilities in the state as of December 31, 1983. Next, multiplying that number by the afore mentioned 2.93 persons per household, arriving at the maximum number of 474,660 as the estimated number that would be covered under the program out of the total state population of 516,324. The balance of perhaps 41,664 persons, or 14,220 households, might not be directly affected except by future lower costs of goods and services purchased in many communities.

End to End Equity

The Committee believes that we should target to have end to end equity in the State of Alaska, and also discourage attempts at very small 24 hour a day utilities where they may not be economically sound and resultant very high subsidies. This can best be done by having a method of direct payment to people that are not tied onto one of the regular utilities.

The recommended method of handling this is to determine the average benefit cost to consumers of a large representative isolated utility, such as Alaska Village Electric Cooperative, Inc., on the basis of the average benefits per household per year. That is a differential between the retail rate and what the true total costs basis would be, multiplied by the average kilowatthour usage per residential service per year. This figure could be adjusted periodically after data is available and standards established for a new period. For instance, the data from CY 1985 could be used to establish standards that could be effective for payment in a fiscal year starting July 1, 1986, or Calendar Year 1987.

The proposed method of administration would be similar to the way the Permanent Fund Dividend Program is handled through the Department of Revenue. Generally, the feeling is that the PFDP forms have been well human engineered with clear instructions and a similar program could be set up. Penalties for abuse should also be very severe to hold down the necessary cost of enforcement.

Additional analysis needs to be determined as to the exact number of people eligible for this program. From the above data, a quick estimate is that there might be 14,220 households possibly eligible, based on average figures applied uniformly across the state. Based upon an assumed maximum possible benefit level of approximately 28¢/KWH and statistical data from AVEC using an average of 225

KWH/month/residential consumer x 12 months x the number of households, leads to the initial annual cost of this segment of the program of approximately $10,750,000. This number is very likely high. This data should be refined with more time and analysis by Community & Regional Affairs or other staff elements. The impacts of military populations must be investigated. Also, the benefits may need to be scaled to the equivalent energy rates in certain zones of residence to parallel actual retail rate differentials in the zone. This could reduce the approximate maximum cost listed. With this provision of payment, then smaller groups of two, three or four families would more likely opt for the most efficient way to handle their energy needs in very small clusters rather than attempt to qualify an around the clock utility with resultant very high costs. It may very well be that ultimately some standards may need to be established regarding just how small a community could be involved. This could best be determined with some experience with a program such as a comparison of the costs of direct payment to approximately 16 families individually, versus the combined population of approximately 50 people running a small village utility around the clock and the overall resultant cost impact. It is a well supported fact that the average cost per kilowatthour across the state tends to go up as the size of the communities go down. This concept requires further investigation but some payment to most persons not served by electric utilities is recommended.

Summary

In summary, we recommend that the State go to a program that would bring a blended power production costs at the power plant transmission substation bus bar to a uniform state-wide rate. The projection of this initial blended rate is 5.0¢/KWH. The retail rate to the consumer would represent, in addition to this, the other cost elements primarily related to the distribution systems, consumer account expenses and the remaining administrative and general costs, plus margins.

A table of possible net resulting retail rates under this program is attached hereto as Table I (right hand columns). The Committee recommends that an Electric Utility Management group be set up for the purpose of establishing reasonable service standards and management practices under diverse Alaskan conditions with a minimum expenditure of time and effort. Choices for possible source of appeal to higher authority can either be a High Commissioner set up specifically for this purpose to arbitrate and make final decisions in regard to reasonableness or directly to the APUC Commissioners. The first would be the most efficient, considering the other case load of the Commission.

The Committee further recommends that a program be further investigated to reimburse Alaska residents who do not live in areas served by electric utilities to receive some benefit upon application under rules established by the Department of Revenue.

Implementation of this program will ensure lower cost electric rates at levels that affordable far into the future for all Alaskans. Wider support of large scale capital projects required to pull down overall state power costs into the future will be established since all citizens would benefit to some degree in the future with continued lower average power production costs.

A much improved climate for economic development across the State of Alaska will be created. Competition between individual communities, solely based upon electric rates, will be minimized substantially. Larger communities will generally still enjoy lower electric rates due to the effects of the economy of a large scale operations, but the ratio of rates across Alaska will be substantially reduced more in line with ratios that may be typical in other states.

TABLE 1
ALASKA ELECTRIC UTILITIES
1983 FINANCIAL OPERATING STATISTICS
(CENTS/kWh)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	OPERATING REVENUES/KWH SALES					PRODUCTION & TRANSMISSION COSTS/KWH GENERATION						
UTILITY NAME - FOUR DAM POOL AREA	OPERATING REVENUES ($000)	ENERGY SALES (MWh)	RETAIL RATE (CENTS/kWh)	VARIANCE ($000)	VARIANCE (PERCENT)	PROD/TRANS COSTS ($000)	ENERGY GENERATION (MWh)	BUSBAR RATE (CENTS/kWh)	VARIANCE ($000)	VARIANCE (PERCENT)	RETAIL RATE INCR(DECR) (PERCENT)	REVISED RET. RATE (CENTS/kWh)
COPPER VALLEY (CVEA)	5,887.5	44,389	13.3	(2,227)	-37.8	4140.5	50117.0	8.3	(1,625)	-39.2	-27.6	9.6
KETCHIKAN (KPU)	7,743.7	85,833	9.0	(665)	-8.6	5346.6	93762.0	5.9	(328)	-15.6	-12.0	7.9
KODIAK (KEN)	9,147.0	55,882	16.4	(4,538)	-49.6	7375.0	61007.0	12.1	(4,313)	-58.5	-47.2	8.6
PETERSBURG (PMP&L)	2,634.5	20,228	13.3	(1,826)	-38.1	2283.0	22021.0	10.4	(1,184)	-51.7	-44.0	7.5
WRANGELL (WML&P)	1,694.0	11,522	14.6	(734)	-43.6	1402.5	13367.0	10.5	(731)	-52.2	-43.4	8.3
TOTAL FOUR DAM POOL	27,156.7	217,854	12.5	(9,190)	-33.8	21155.2	246474.0	8.6	(8,782)	-41.5	-32.3	8.4
RAILBELT AREA												
ANCHORAGE (AML&P)	34,725.1	636,817	5.5	17,793	51.2	24349.7	672,468	3.6	9,480	38.6	27.1	6.9
CHUGACH ELECTRIC (CEA) (1)	108,520.7	1,666,660	6.5	28,928	26.7	54709.0	1,851,712	3.0	38,248	69.9	35.2	8.8
FAIRBANKS (FMU)	10,300.0	146,000	7.5	1,141	10.5	10289.2	155,500	6.6	(2,483)	24.1	-22.8	5.8
GOLDEN VALLEY (GVEA)	34,516.1	343,668	10.0	(6,174)	-17.9	22059.8	346,233	6.4	(4,679)	-21.2	-13.6	8.7
TOTAL RAILBELT	188,661.9	2,793,145	6.8	41,687	22.1	111407.7	3,025,913	3.7	40,434	36.3	21.5	8.2
SOUTHCENTRAL AREA												
CHISTOCHINA (CTP) (2)	172.8	450	38.4	(136)	-78.5	127.8	500	25.6	(103)	-80.4	-59.4	15.6
CORDOVA (CEC)	3,269.6	15,991	20.4	(1,951)	-59.7	2546.2	17,434	14.6	(1,671)	-65.6	-51.1	10.0
LARSEN BAY (LBES) (2)	103.7	270	38.4	(81)	-78.5	76.7	300	25.6	(62)	-80.4	-59.4	15.6
PAXSON LODGE (PLI) (2)	259.2	675	38.4	(204)	-78.5	191.7	750	25.6	(154)	-80.4	-59.4	15.6
TOTAL SOUTHCENTRAL	3,805.3	17,386	21.9	(2,371)	-62.3	2942.4	18,984	15.5	(1,989)	-67.6	-52.3	10.4
SOUTHEAST AREA												
ALASKA ELECTRIC (AEL&P)	10,812.2	169,000	5.9	3,725	39.2	6536.3	183,000	3.5	2,252	45.2	29.5	7.7
ALASKA POWER (APA)	2,375.3	14,836	16.1	(1,172)	-48.9	2150.9	17,363	12.4	(1,279)	-59.5	-53.4	7.5
GLACIER HIGHWAY (GHEA)	1,873.1	16,838	11.1	(484)	-25.9	932.1	18,000	5.2	(28)	-3.1	-1.5	11.0
HAINES (H&P)	1,201.6	7,336	16.4	(597)	-49.7	1074.5	7,855	13.7	(688)	-63.3	-56.6	7.1
KLUKWAN (KEU) (2)	103.7	270	38.4	(81)	-78.5	76.7	300	25.6	(62)	-80.4	-59.4	15.6
METLAKATLA (MP&L)	1,198.6	14,590	8.2	13	1.1	935.0	16,588	5.6	(92)	-10.0	-7.8	7.5
PELICAN (PUC)	257.6	2,440	10.6	(56)	-21.9	224.1	2,685	8.3	(89)	-39.9	-34.7	6.9
SITKA (SED)	5,685.5	82,488	6.8	1,197	21.4	7251.8	90,181	8.0	(2,723)	-37.6	-48.7	3.5
TENAKEE (TSU) (2)	69.1	180	38.4	(54)	-78.5	51.1	200	25.6	(41)	-80.4	-59.4	15.6
THORNE BAY (TB) (2)	483.8	1,260	38.4	(380)	-78.5	357.9	1,400	25.6	(288)	-80.4	-59.4	15.6
TLINGIT-HAIDA (THREA)	2,727.4	7,096	38.4	(2,142)	-78.5	1995.3	7,884	25.3	(1,593)	-80.2	-58.6	15.9
YAKUTAT (YPI)	760.0	4,195	18.1	(414)	-54.5	617.9	4,635	13.3	(385)	-62.3	-50.7	8.9
TOTAL SOUTHEAST	26,673.9	320,529	8.3	(246)	-0.9	22193.6	355,911	6.2	(4,322)	-19.5	-16.2	7.0

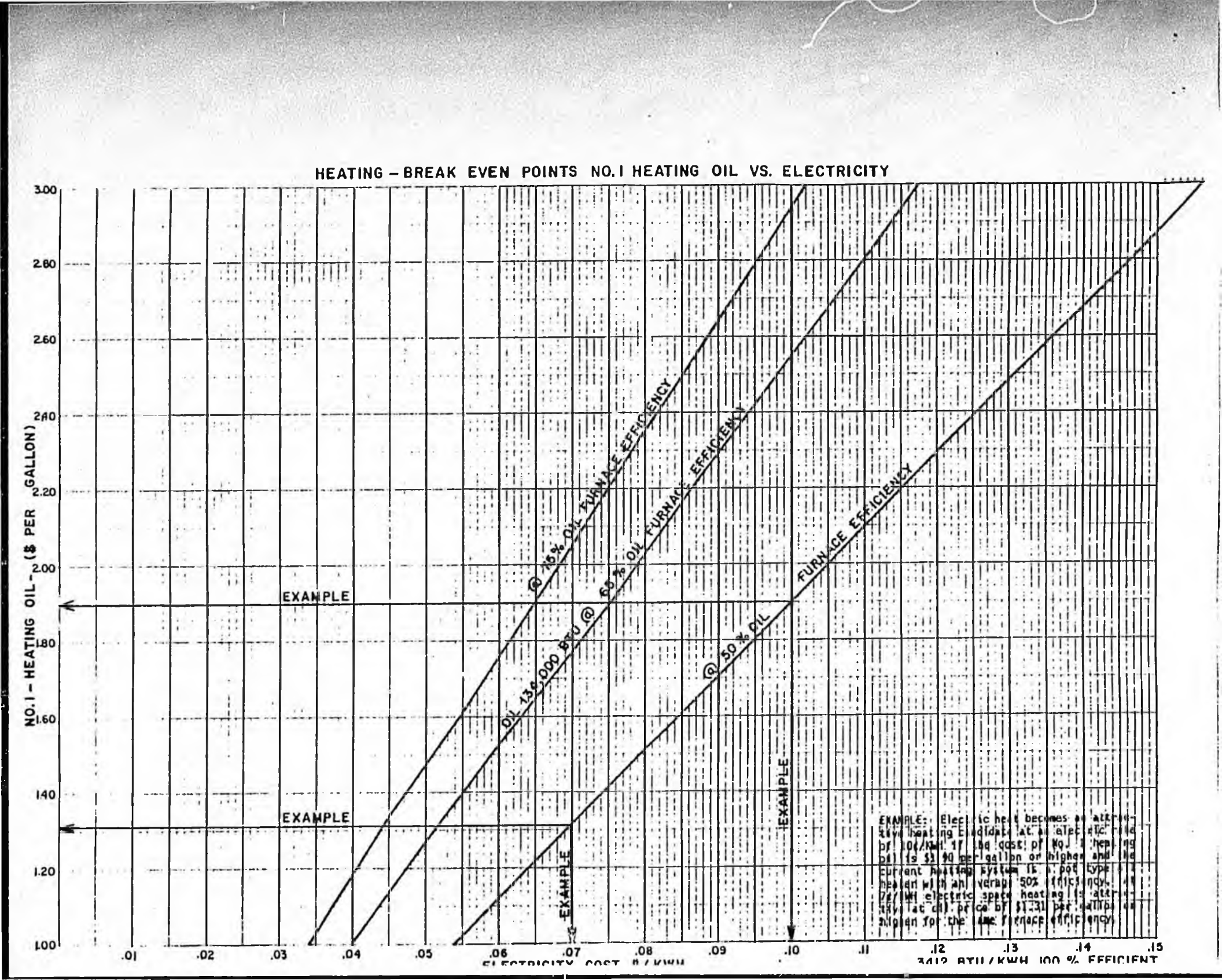
TABLE I
ALASKA ELECTRIC UTILITIES
1983 FINANCIAL OPERATING STATISTICS
(CENTS/kWh)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	OPERATING REVENUES/KWH SALES					PRODUCTION & TRANSMISSION COSTS/KWH GENERATION						
UTILITY NAME - REST OF STATE	OPERATING REVENUES ($000)	ENERGY SALES (MWh)	RETAIL RATE (CENTS/kWh)	VARIANCE ($000)	VARIANCE (PERCENT)	PROD/TRANS COSTS ($000)	ENERGY GENERATION (MWh)	BUSBAR RATE (CENTS/kWh)	VARIANCE ($000)	VARIANCE (PERCENT)	RETAIL RATE INCR(DECR) (PERCENT)	REVISED RET. RATE (CENTS/kWh)
ALASKA VILLAGES (AVEC)	11,081.3	24,583	44.8	(8,974)	-81.6	8374.5	28,385	29.6	(6,954)	-83.0	-63.2	16.5
ANIAK (APC)	455.3	1,343	33.9	(345)	-75.7	396.1	1,400	28.3	(326)	-82.3	-71.6	9.6
ATKA (AEC) (2)	23.1	108	21.4	(14)	-61.5	17.9	120	14.9	(12)	-66.3	-51.2	10.4
BARROW (BUEC)	1,682.7	18,715	9.0	(139)	-8.3	618.9	22,822	2.7	527	85.2	31.3	11.8
BETHEL (BUC)	4,142.1	22,863	18.1	(2,257)	-54.5	3634.1	23,160	15.7	(2,471)	-68.0	-59.7	7.3
BETTLES (BL&P)	486.9	829	43.1	(339)	-83.2	292.7	1,150	25.5	(235)	-80.3	-57.7	20.7
CHIGNIK (CHE) (2)	682.7	3,190	21.4	(420)	-61.5	527.6	3,545	14.9	(350)	-66.3	-51.2	10.4
CIRCLE (CE) (2)	38.5	90	42.8	(31)	-80.7	23.8	100	23.8	(25)	-83.1	-64.2	15.3
DEADHORSE (AUI) (2)	4,294.5	16,000	25.9	(2,926)	-68.1	3446.2	17,500	19.7	(2,568)	-74.5	-59.8	10.4
DILLINGHAM (NEC) (2)	2,181.3	10,193	21.4	(1,341)	-61.5	1685.9	11,283	14.9	(1,119)	-66.4	-51.3	10.4
DUTCH HARBOR (AEU) (2)	38.5	180	21.4	(24)	-61.5	29.8	200	14.9	(20)	-66.3	-51.2	10.4
EGEGIK (EL&P) (2)	67.6	158	42.8	(55)	-80.7	52.3	175	29.9	(43)	-83.2	-64.3	15.3
FT YUKON (FYU)	636.5	1,853	34.3	(484)	-76.0	522.5	2,129	24.5	(416)	-79.5	-65.3	11.9
GALENA (AADE)	575.3	1,383	38.1	(412)	-78.3	464.6	1,537	30.2	(387)	-83.4	-73.6	10.9
HUGHES (HP&L) (2)	61.6	144	42.8	(58)	-80.7	47.6	160	29.8	(40)	-83.1	-64.3	15.3
ILIAMNA (ILNEC) (2)	562.4	1,314	42.8	(454)	-80.7	434.7	1,460	29.8	(361)	-83.1	-64.3	15.3
KING COVE (KCC) (2)	69.3	324	21.4	(43)	-61.5	53.6	360	14.9	(36)	-66.3	-51.2	10.4
KOTLIK (KC) (2)	179.3	419	42.8	(145)	-80.7	138.6	466	29.7	(115)	-83.1	-64.2	15.3
KOTZEBUE (KEA)	2,784.8	11,897	23.4	(1,804)	-64.8	2466.6	13,668	18.0	(1,788)	-72.2	-63.9	8.4
KWETHLUK (KI) (2)	154.1	360	42.8	(124)	-80.7	119.1	400	29.8	(99)	-83.1	-64.3	15.3
LAKE MINCHUMINA (SS) (2)	77.0	180	42.8	(62)	-80.7	59.5	200	29.8	(50)	-83.1	-64.3	15.3
MANLEY HOT SPRINGS (MUC) (2)	77.0	180	42.8	(62)	-80.7	53.5	200	29.8	(50)	-83.1	-64.3	15.3
MANOKOTAK (COM) (2)	62.7	293	21.4	(39)	-61.5	48.5	325	14.9	(32)	-66.3	-51.3	10.4
MCGRATH (MG L&P)	771.6	2,413	32.0	(573)	-74.2	706.6	2,881	24.5	(562)	-79.5	-72.0	8.7
NAKNEK (NEA)	2,714.3	11,923	22.8	(1,731)	-63.8	2055.7	13,963	14.7	(1,355)	-65.9	-49.9	11.4
NAPAKIAK (NPC) (2)	185.9	495	21.4	(65)	-61.5	81.9	550	14.9	(54)	-66.3	-51.2	10.4
NIKOLSKI (NIP&L) (2)	32.7	153	21.4	(20)	-61.5	25.3	170	14.9	(17)	-66.3	-51.2	10.4
NOME (NIUB)	3,618.6	17,734	20.4	(2,156)	-59.6	3423.8	19,287	17.7	(2,455)	-71.7	-67.8	6.6
NORTHWAY (NP&L)	318.8	1,169	26.5	(214)	-68.9	244.2	1,290	18.9	(179)	-73.5	-57.9	11.2
OLD BAY (NPIE)	538.2	2,753	19.3	(383)	-57.2	500.4	3,059	16.4	(347)	-69.3	-65.4	6.7
NORTH SLOPE (NSBPL) (2)	3,195.8	7,465	42.8	(2,579)	-80.7	2469.3	8,294	29.8	(2,053)	-83.1	-64.3	15.3
RAMPART (2)	23.1	54	42.8	(19)	-80.7	17.9	60	29.8	(15)	-83.1	-64.3	15.3
SANDPOINT (PUC)	892.7	5,158	17.3	(467)	-52.3	853.0	5,584	15.5	(577)	-67.6	-64.6	6.1
TANANA (TPC)	584.5	1,585	31.8	(374)	-74.1	468.1	1,700	24.6	(373)	-79.6	-73.9	8.3
TELLER (TPC) (2)	231.1	540	42.8	(187)	-80.7	178.6	600	29.8	(149)	-83.1	-64.3	15.3
UNALASKA (UE) (2)	881.3	2,790	31.6	(651)	-73.9	461.4	3,100	14.9	(386)	-66.3	-34.7	20.6
TOTAL REST OF STATE	44,016.8	171,431	25.7	(29,879)	-67.9	35805.8	188,229	18.6	(25,557)	-73.0	-58.1	10.8
TOTAL STATE	290,329.6	3,520,345	8.2	0	0.0	17,784.7	3,838,711	5.0	0	0.0	0.0	8.2
RETAIL EQUALIZATION CREDIT ($00)				52,996					51,135			

(1) NEA, MEA, AND SES COMBINED WITH CHUGACH
(2) ESTIMATED

N O T E S

Column	Explanation
1	Retail Operating Revenues - does not include wholesale power sales by Chugach.
2	Retail energy sales.
3	(Column 1/Column 2) x 100.
4	$\left(\frac{\text{Statewide Average Retail Rate - Column 3}}{100}\right)$ x Column 2.
5	$1 - \left(\frac{\text{Statewide Average Retail Rate}}{\text{Column 3}}\right)$.
6	Includes operating costs and depreciation incurred in production and transmission accounts and allocations of interest and taxes to production and transmission. Also includes allocation of administration and general expenses and dep eciation, interest, and taxes incurred by General Plant. A & G and General Plant expenses are allocated based on the ratio of the expenses in the remaining categories.
7	Energy Production before distribution losses.
8	(Column 6/Column 7) x 100.
9	$\left(\frac{\text{Statewide Average Rate - Columne 8}}{100}\right)$ x Column 7.
10	$1 - \left(\frac{\text{Statewide Average Rate}}{\text{Column 8}}\right)$.
11	(Column 9/Column 1) x 100.
12	(1 + (Column 11/100)) x Column 3.


HEATING – BREAK EVEN POINTS NO. 1 HEATING OIL VS. ELECTRICITY
NO. 1 – HEATING OIL – ($ PER GALLON)
3.00
2.80
2.60
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
.01
.02
.03
.04
.05
.06
.07
.08
.09
.10
.11
.12
.13
.14
.15
@ 75% OIL FURNACE EFFICIENCY
@ 60% OIL FURNACE EFFICIENCY
@ 50% OIL FURNACE EFFICIENCY
OIL 136,000 BTU @
EXAMPLE
EXAMPLE
EXAMPLE
EXAMPLE
EXAMPLE: Electric heat becomes an attractive heating candidate at an electric rate of 10¢/KWH if the cost of No. 1 heating oil is $1.90 per gallon or higher and the current heating system is a pot type oil heater with an average 50% efficiency. If electric space heating is attractive at an oil price of $1.31 per gallon or higher for the same furnace efficiency
3412 BTU/KWH 100 % EFFICIENT

MUNICIPAL POPULATIONS FOR BOROUGHS & CITIES
As of December 1983

Name	Organization	Population
Anchorage	Municipality	230,846
Unorganized Areas	Fairbanks/North Star Borough	37,274
Juneau	City & Borough	27,519
Fairbanks	Borough Subdivision - Fairbanks	27,103
Unorganized Areas	Mat-Su Borough	24,280
Unorganized Areas	Kenai Peninsula Borough	20,790
Ketchikan	Borough Subdivision - Ketchikan	8,414
Sitka	City & Borough	8,221
Kodiak	Borough Subdivision - Kodiak	6,072
Unorganized Areas	Kodiak Island Borough	5,825
Kenai	Borough Subdivision - Kenai	5,721
Valdez	First Class City	3,687
Bethel	Second Class City	3,681
Nome	First Class City	3,620
Unorganized Areas	Ketchikan Gateway Borough	5,557
Soldotna	Borough Subdivision - Kenai	3,353
Homer	Borough Subdivision - Kenai	3,237
Petersburg	First Class City	3,046
Kotzebue	Second Class City	2,981
Wasilla	Borough Subdivision - Mat-Su	2,944
Barrow	Borough Subdivision - North Slope	2,882
Unorganized Areas	North Slope Borough	2,800
Palmer	Borough Subdivision - Mat-Su	2,738
Wrangell	First Class City	2,376
Cordova	First Class City	2,307
Unalaska	First Class City	1,922
Dillingham	First Class City	1,896
Seward	Borough Subdivision - Kenai	1,871
Haines	Borough	1,847
Delta Junction	Second Class City	1,044
Northpole	Borough Subdivision - Fairbanks	934
Craig	First Class City	907
Sand Point	First Class City	889
Galena	First Class City	876
Hoonah	First Class City	865
Skagway	First Class City	790
Unalakleet	Second Class City	787
Mt. Village	Second Class City	666
Hooper Bay	Second Class City	651
Emmonak	Second Class City	641

Name	Organization	Population
Ft. Yukon	Second Class City	641
Kake	First Class City	631
Houston	Borough Subdivision - Mat-Su	606
Selawik	Second Class City	600
St. Paul	Second Class City	595
King Cove	First Class City	586
Nenana	First Class City	586
Pt. Hope	Borough Subdivision - North Slope	570
Alakanuk	Second Class City	564
St. Mary's	First Class City	563
Angoon	Second Class City	562
Togiak	Second Class City	545
McGrath	Second Class City	535
Chevak	Second Class City	528
Anderson	Second Class City	521
Noorvik	Second Class City	517
Seldovia	Borough Subdivision - Kenai	510
Klawock	First Class City	508
Kwethluk	Second Class City	507
Tanana	First Class City	485
Wainwright	Borough Subdivision - North Slope	483
Savoonga	Second Class City	477
Quinhagak	Second Class City	477
Gambell	Second Class City	464
Yakutat	First Class City	462
Aniak	Second Class City	459
Akiachak	Second Class City	451
Hydaburg	First Class City	429
Kotlik	Second Class City	413
Shishmaref	Second Class City	412
Pilot Station	Second Class City	404
Kasigluk	Second Class City	394
Nulato	Second Class City	382
Old Harbor	Borough Subdivision - Kodiak	375
Kiana	Second Class City	363
Toksook Bay	Second Class City	357
Nunapitchuk	Second Class City	353
Saxman	Borough Subdivision - Ketchikan	343
Stebbins	Second Class City	339
New Stuyahok	Second Class City	337

Name	Organization	Population
Tununak	Second Class City	327
Nuiqsut	Borough Subdivision - North Slope	324
Thorne Bay	Second Class City	316
Napakiak	Second Class City	306
Manokotak	Second Class City	299
St. Michael	Second Class City	295
Shungnak	Second Class City	292
Port Lions	Borough Subdivision - Kodiak	291
Kachemak	Borough Subdivision - Kenai	287
Ambler	Second Class City	281
Fortuna Ledge	Second Class City	276
Tuluksak	Second Class City	272
Kivalina	Second Class City	272
Chefornak	Second Class City	268
Holy Cross	Second Class City	266
Eek	Second Class City	265
Whittier	Second Class City	263
Lower Kalskag	Second Class City	261
Napaskiak	Second Class City	260
Kaltag	Second Class City	257
Scammon Bay	Second Class City	251
Akiak	Second Class City	250
Cold Bay	Second Class City	250
Teller	Second Class City	247
Huslia	Second Class City	241
Atmautluak	Second Class City	239
Ouzinkie	Borough Subdivision - Kodiak	233
Ruby	Second Class City	233
Aleknagik	Second Class City	232
Atqasuk	Borough Subdivision - North Slope	231
Anaktuvuk Pass	Borough Subdivision - North Slope	228
Buckland	Second Class City	219
Goodnews Bay	Second Class City	215
Pelican	First Class City	213
Grayling	Second Class City	211
Elim	Second Class City	205
Kaktovik	Borough Subdivision - North Slope	203
Nondalton	Second Class City	200
Koyuk	Second Class City	198
Mekoryuk	Second Class City	192

Name	Organization	Population
Akutan	Second Class City	188
Newtok	Second Class City	181
Larsen Bay	Borough Subdivision - Kodiak	180
St. George	Second Class City	175
Allakaket	Second Class City	175
Russian Mission	Second Class City	175
Shaktoolik	Second Class City	171
Brevig Mission	Second Class City	159
White Mountain	Second Class City	158
Deering	Second Class City	158
Diomede	Second Class City	154
Nightmute	Second Class City	145
Tenakee Springs	Second Class City	144
Eagle	Second Class City	142
Shageluk	Second Class City	142
Newhalen	Second Class City	133
Upper Kalskag	Second Class City	133
Wales	Second Class City	129
Chignik	Second Class City	124
Chuathbaluk	Second Class City	124
Golovin	Second Class City	121
Anvik	Second Class City	115
Nikolai	Second Class City	110
Sheldon Point	second Class City	107
Akhiok	Borough Subdivision - Kodiak	103
Hughes	Second Class City	99
Koyukuk	Second Class City	99
Port Alexander	Second Class City	98
Port Heiden	Second Class City	94
Kobuk	Second Class City	86
Clark's Point	Second Class City	80
Ekwok	Second Class City	78
Kasaan	Second Class City	70
Platinum	Second Class City	59
Kupreanof	Second Class City	50
	Total	497,822
	Overall State Population Estimate	516,324
	Average Household Size	2.93

CAPITAL REQUIREMENTS FOR RATE EQUALIZATION

By Tom Stahr, Subcommittee Chairman

Rate equalization alone will initially require transfer payments from the areas with low cost power to the areas with high cost power in the general range of $40 million to $50 million per year. With normal load growth and inflation this required transfer payment would increase to over $600 million per year in nominal dollars by 2015. Price induced load growth as a consequence of rate equalization could increase this amount further. In order to have a program that would be acceptable to all concerned, i.e., both those who receive the benefit of the transfer payment and those who otherwise would make the transfer payment, it is necessary to effect sufficient economics overall such that in the long run costs would be lower for all. Additionally, it is necessary that costs do not increase for those who currently enjoy lower power costs above what they otherwise would in the absence of this program.

The only place economies of sufficient scale to effect overall state average power prices can be made are prospectively in the Railbelt. By construction of the lowest life cycle cost alternative, the Susitna Hydroelectric Project, it will be possible to lower state wide rates substantially below what they otherwise have been under the best thermal alternative using natural gas and coal fired generation. Using the lowest life cycle cost alternative yields lower rates from about 2007 and beyond. Before this date it is necessary to apply certain amounts of rate stabilization to prevent rates from rising above what they would have been under the thermal alternative. This is shown quite clearly in Figure 5 where the state wide average rate without Susitna and Bradley increase dramatically over the period shown. The average rate for Anchorage, Juneau and the four dam pool, without Susitna and Bradley also increases in a similar fashion, but remains at a somewhat lower level. Also it can be seen that the difference between these two rates also continually increases. The state wide rate with Susitna and Bradley is significantly lower than either of the other two over most of the period shown. Between 1996 and 2007 the state wide rate with Susitna and Bradley is noticeably higher and this is the period the major portion of the rate stabilization is required.

For projects of this type using state funds for rate stabilization rather than directly for construction yields the maximum benefit for the least amount of money. To achieve the same degree of early year rate reduction through direct funding of construction would require several times as much money. Funds used for rate stabilization should be capitalized just like interest during construction is capitalized because it is necessary to enable construction of the project. This rate stabilization will require a fund established over eight years, 1986 to 1993 inclusive, made up of equal deposits of approximately $250 million, with all interest accruing to the fund. This is the minimum amount required assuming tax exempt financing is used for the major projects. To insure tax exempt financing under today's tax laws, direct billing, by the state wide agency for energy is necessary, with each utility billing by separate line item its other costs.

Thus to achieve rate equalization at the bus bar level throughout the state, to minimize electric rates state wide over the long run and to endow a program which will assume complete responsibility for meeting state wide bus bar electrical energy requirements far into the future, the two capital requirements identified above must be met. Funding rate equalization until the cost cross over in approximately 2007 will require setting aside approximately $100 million per year for eight years plus accrued interest and rate stabilization will require approximately $250 million per year for the same eight year period. The total cost to the state being around $350 million per year for eight years.

Existing Power Authority projects and appropriations such as the dams in the four dam pool, the Anchorage-Fairbanks tie line and current Bradley and Susitna construction appropriations should be included in the equity endowment in addition to the amounts previously cited. Also the state loan to the four dam pool should be converted to an equity grant. This will insure that all potential savings from these projects will be shared equally and make maximum contribution to lowering the state wide power cost.

The above program will result in lower rates immediately for all portions of the state with higher than average power production costs and no higher rates for those parts of the state with lower than average power costs. After 2007, all areas of the state will experience bus bar power rates substantially less than they otherwise would. Financing of all required power production projects will be assured including Bradley Lake, Crater Lake, Susitna and the Bush additions required to meet load increases engendered by this program.

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

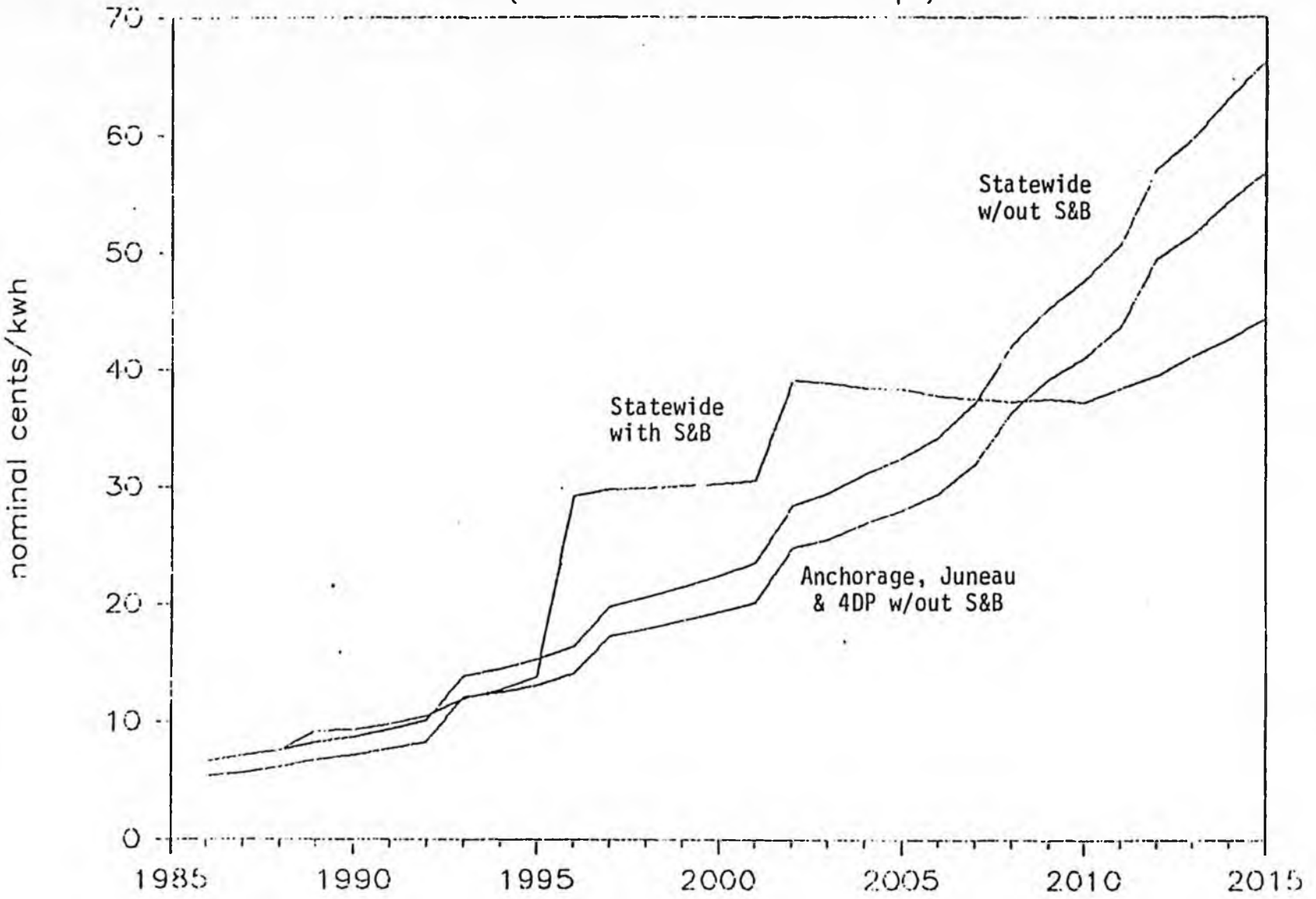


FIGURE 1

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

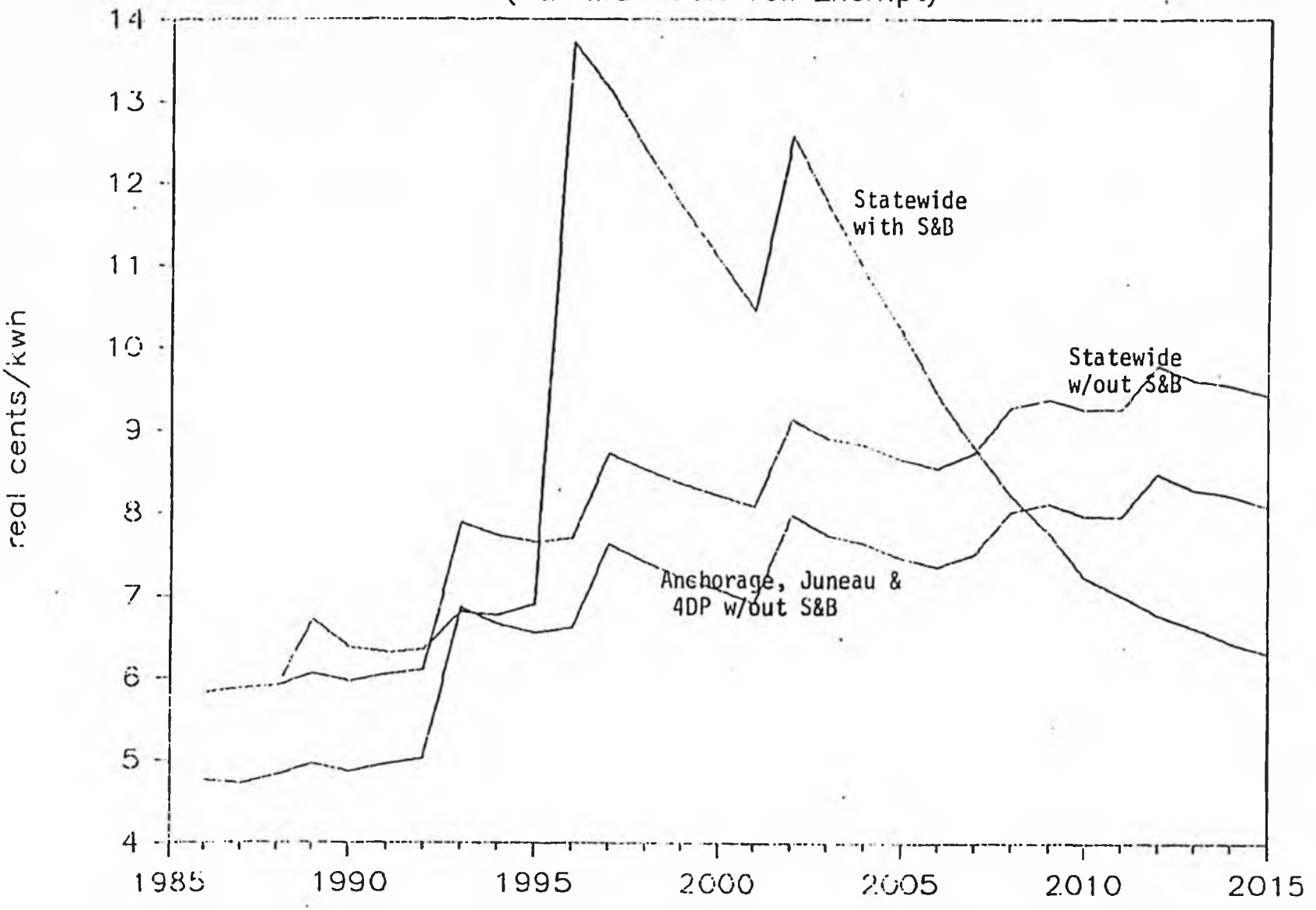


FIGURE 2

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

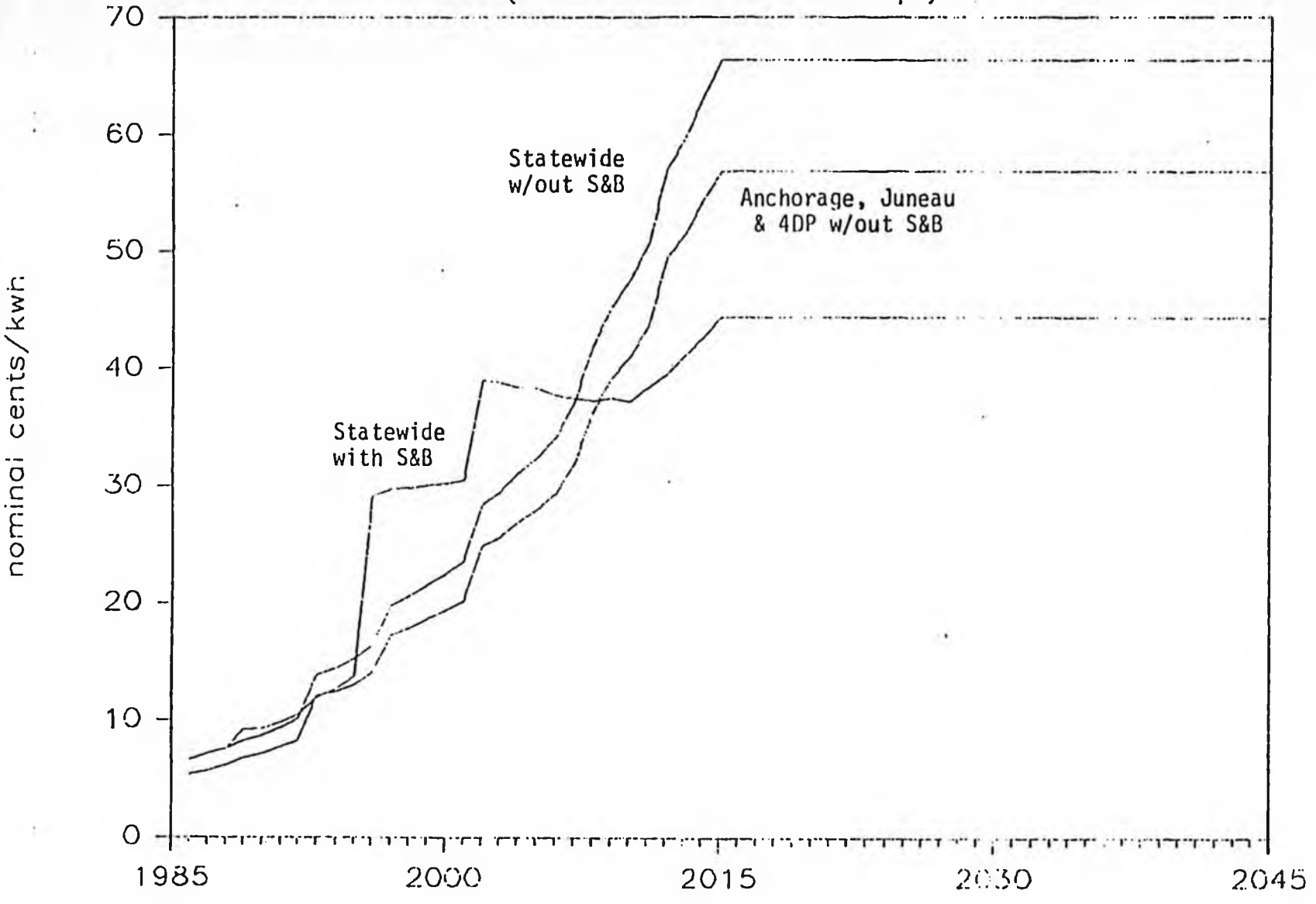


FIGURE 3

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

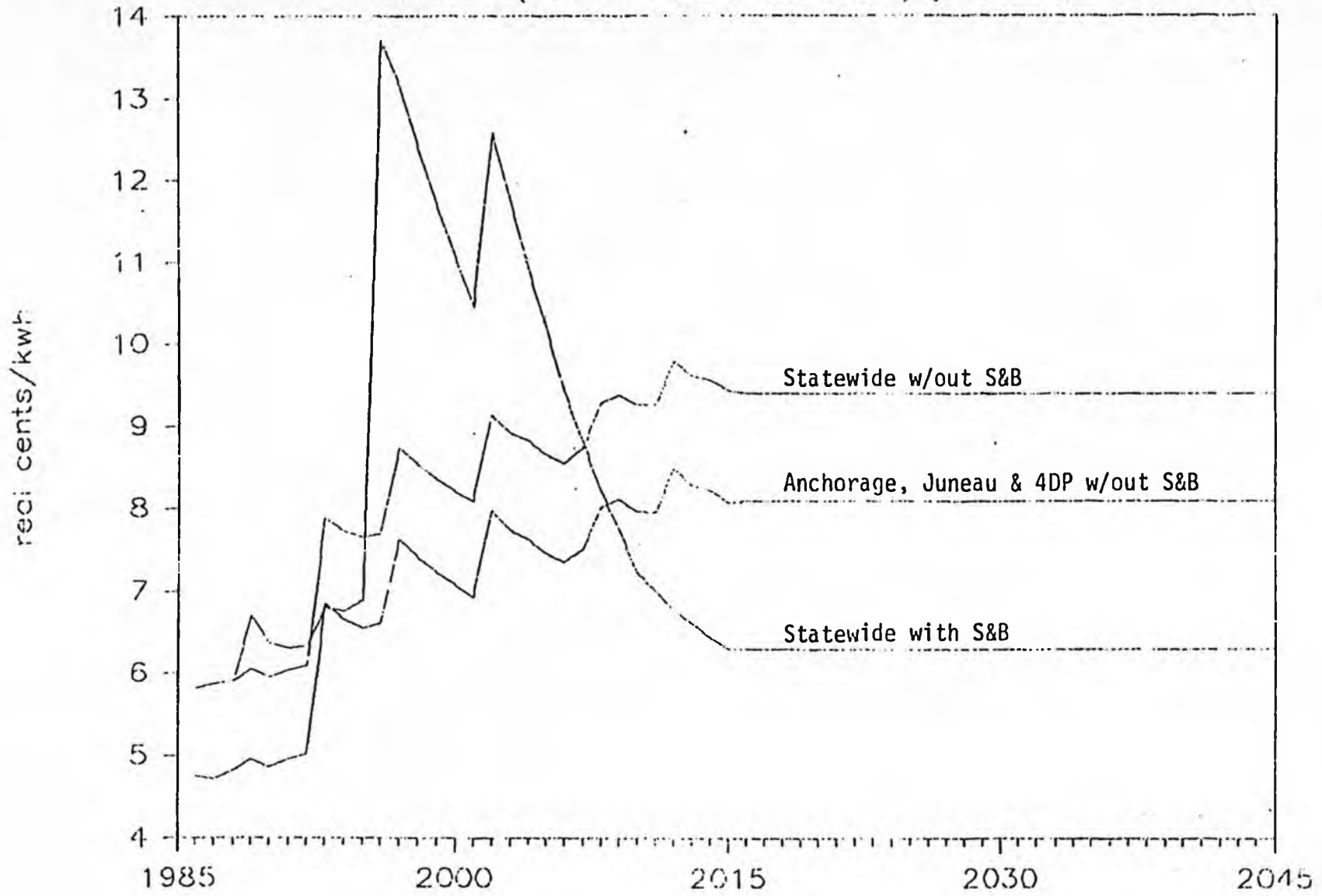


FIGURE 4

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

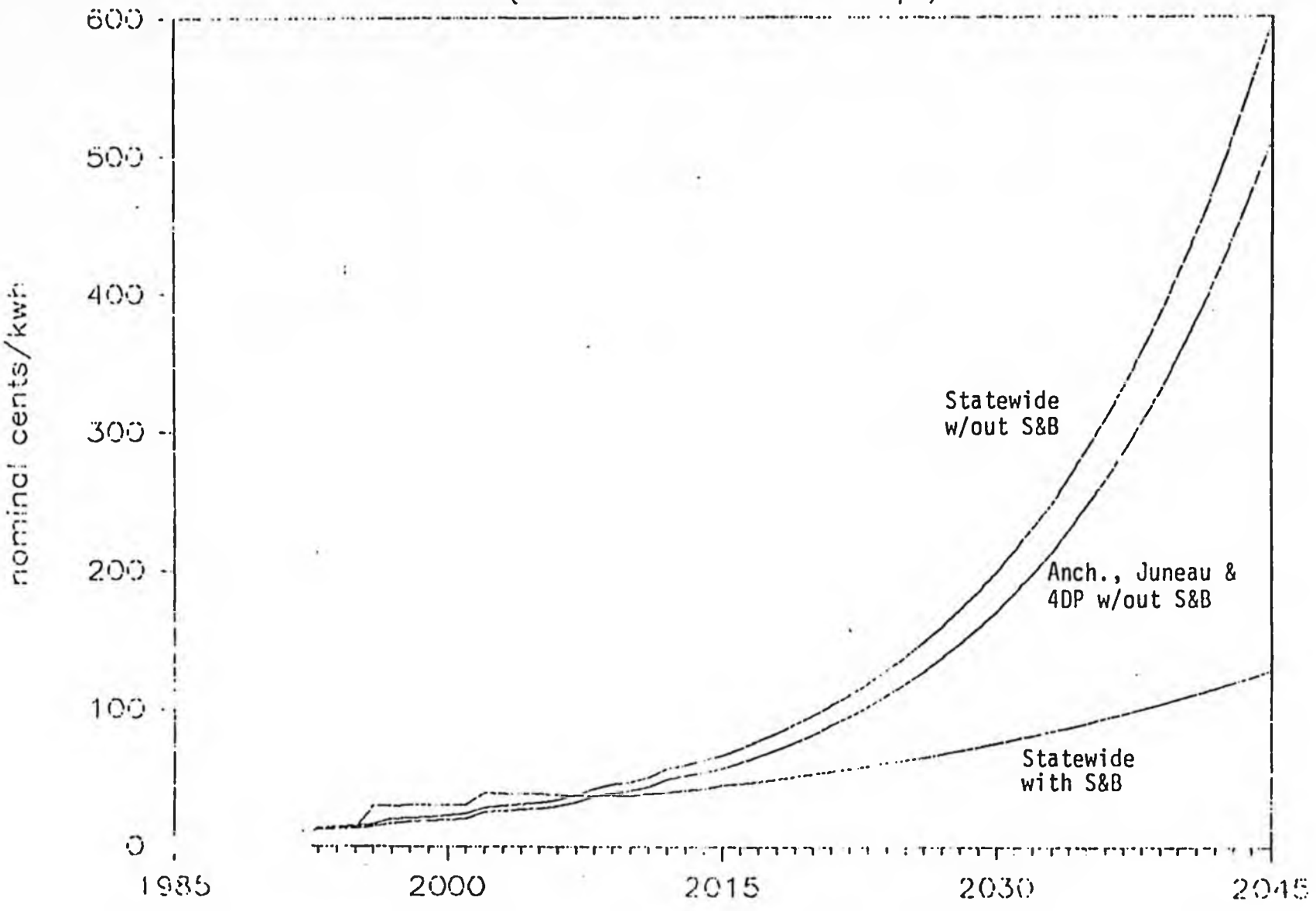


FIGURE 5

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

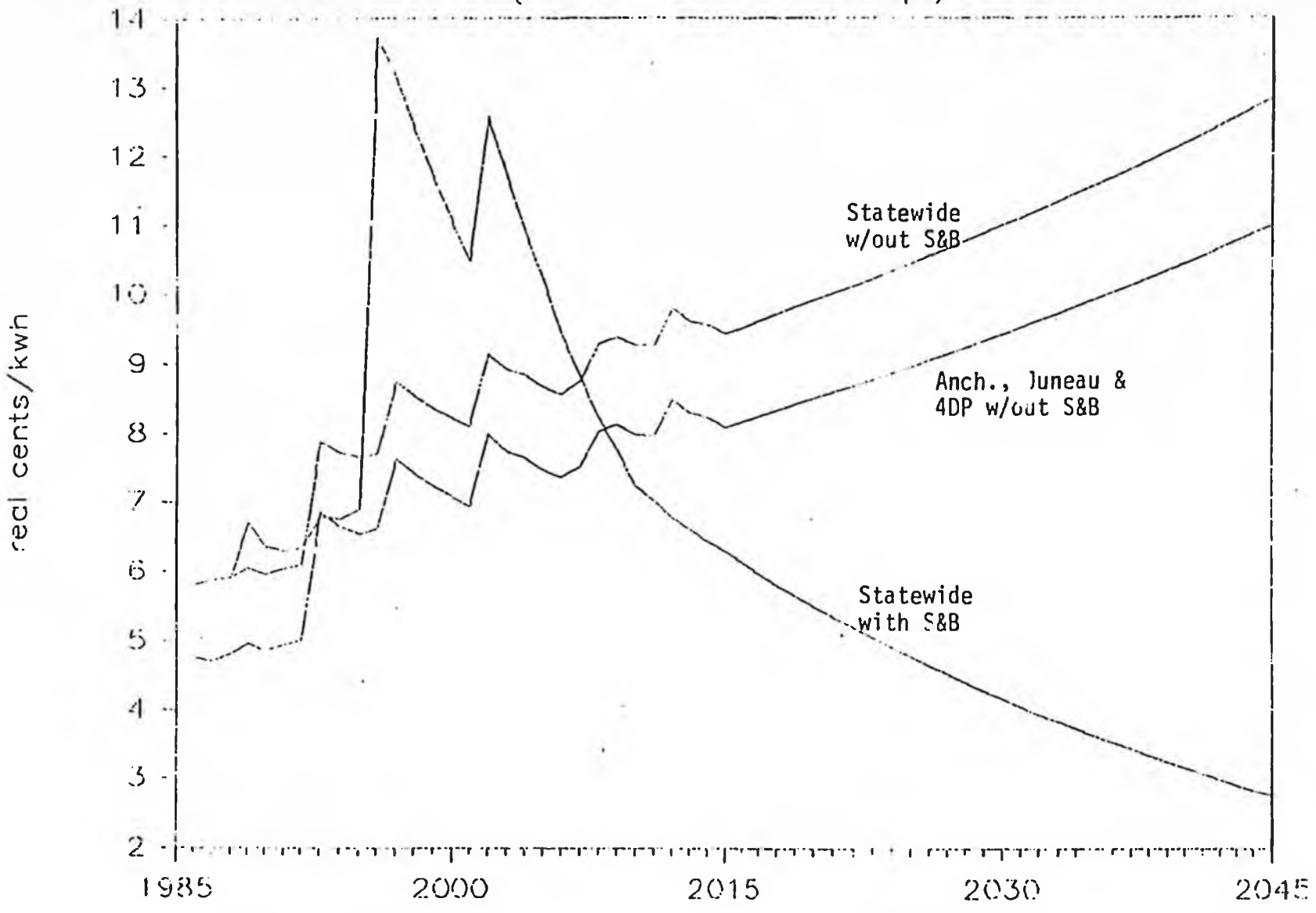


FIGURE 6

ORGANIZATION

by Robert Martin, Subcommittee Chairman

We assume the Alaska Power Authority (APA) will be the organization to administer this program. Since state funds will be involved, a state-wide, electrical power-production rate will have to be determined, an an enormous amount of staff work must be accomplished, it is simpler to assign these duties to an existing organization than to create a new one. The APA will continue to plan, design, finance, and construct new generation and transmission facilities.

The Committee strongly feels that the APA is unable to carry out all those duties under its current organization. The APA is essentially a utility and like all utilities, it must be a very stable organization in order to secure favorable financing, to more easily predict their future requirements, and to give their consumers the sense of security they need to live out their daily lives. The APA is, and has been for the past several years, an unstable organization because a majority of the Board of Directors are political appointees of, and in fact cabinet members of the Governor's Administration.

Cabinet members serve at the pleasure of the Governor and change whenever the State elects a new governor. Turnover is typically high even during an governor's tenure, thus practically guaranteeing there will always be new board members. Every four or eight years, an entirely new board is created, with a new agenda, new goals and objectives, new ways of doing business--a new mandate, if you will, of the people of Alaska. Commissioners are extremely busy people and more than 50% of the time will send an

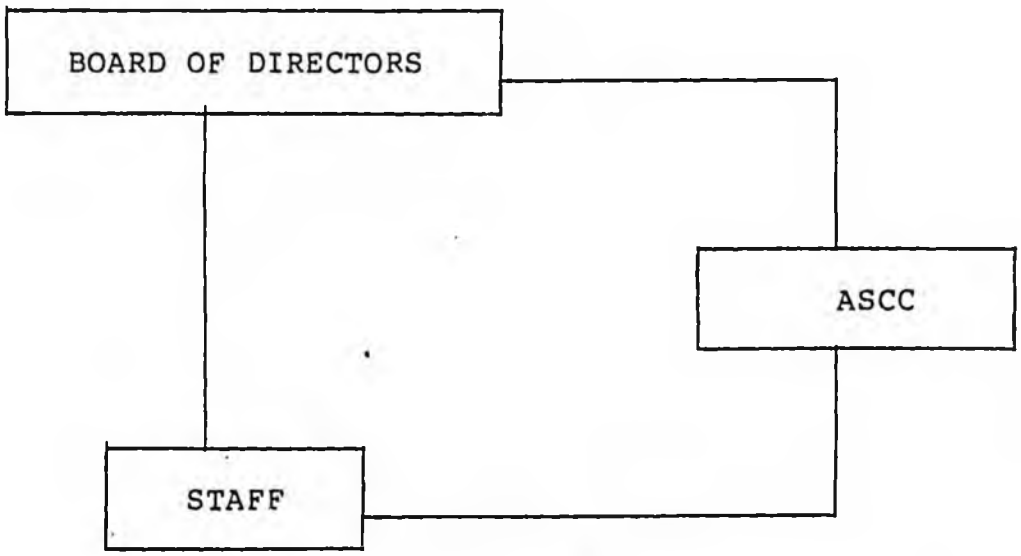
appointee. This creates an educational problem at every meeting and detracts from the consistency of board action. In addition, commissioners' prime responsibility is to their own departments--a significant situation when APA is competing for limited funds.

For many similar reasons, the APA must enjoy a greater measure of autonomy then it currently does. The APA is seen to a political extension of the Governor and many times is the center of Legislative/Administrative confrontation. The Board and its staff must be able to make sound business decisions free from the pressures of politics, able to stand through any change of administration. The APA needs to be able to report directly to the Governor and the Legislature rather than being a budgetary part of the Department of Commerce and Economic Development as it is now.

The Committee believes the necessary stability is achievable within the APA, but only with a drastic change in the make-up of the Board and in the way the Board is chosen. First, the Board should be a nine-member body, eight of whom would be appointed by the Governor for staggered six-year terms and approved by the Legislature; and one to be the Commissioner of Commerce and Economic Development who would serve at the pleasure of the Governor. These members shold not only be regionally representative, but should contain oner person from the banking industry and on consumer representative. Four of the eight should be utility representatives recommended from the membership of the Alaska State Coordinating Councils (ASCC). Two of the utility members should be from the railbelt, one from the southeast, and one from the bush.

The ASCC is an existing body of electrical utility managers similar to other coordinating councils throughout the US and Canada who make the difficult and complex decisions regarding interconnected generationa and transmission systems. The ASCC has been in existence for several years and is representative of and open to all Alaskan electrical utilities.

The Committe believes the experience and expertise which exists within the ASCC could be extremely beneficial to the Board of APA and the staff of APA. In fact, we recommend that the ASCC be authorized to act in an advisory capacity both to the Board and the staff. The organization would prevent unnecessary and expensive duplication of effort, would add to the stability of the APA and would look like this:



Using the ASCC in this manner relieves the APA from having to support a large committee systeM, since the ASCC is self-supporting. Also, since the ASCC is made up primarily of utility

managers, they each have available to them whatever support staff exists in each utility. In some cases, the individual staffs exceed in size and expertise that which is currently available to the APA.

One organizational scenario which deserves greater study is the possibility of changing the APA into a Regional Electrical Authority simila to the one already in existence, except that the region served would be all of Alaska. This scenario would require some statutory changes, but would change the APA into a political subdivision of the State with all of the powers of a municipality. The organization we envision would be very similar to the Nebraska Public Power District.

APPENDIX

- Governor's Letter Establishing the Committee
- List of Committee Members

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

November 9, 1984

Mr. Charles Sitkin
Arthur Young & Company
1031 West Fourth Avenue
Anchorage, AK 99501

Dear Mr. Sitkin:

It is my pleasure to appoint you to the Advisory Committee on Statewide Power Production Costs. The task of this Committee is to investigate the economic, financial, political, and administrative feasibility of a comprehensive State program to establish a basis for equitable power production costs in Alaska through purchase and resale agreements. Specifically, the Committee is to:

1) investigate the application of power cost averaging techniques elsewhere, such as in Alberta, Nebraska, New York, and the area served by the Bonneville Power Administration;

2) explore the workability of the concept in Alaska; and

3) consider possible strategies for implementing it if it is found to be a feasible idea.

The Committee will report directly to the Board of Directors of the Alaska Power Authority. Larry Crawford, Executive Director of the Alaska Power Authority, will be in touch with you about the details of the Committee, including activities, schedules, technical support, and the working relationship with the Board of Directors.

Let me explain briefly the reason for creating this Committee. I believe that Alaska's energy policy needs additional direction and coherence. We have completed several expensive hydroelectric projects around the state, and we are planning more. We are pushing ahead with small-scale energy programs in rural areas, and last year we expanded the State's direct subsidy program for high-cost rural electrical systems.

All of this activity in the energy field is good because it helps lower electric rates to the consumers. But I am concerned because the State's cash contribution to energy projects is not benefiting all Alaskans equally. The problem of disparity in benefits becomes even greater when we consider funding major new electric projects in urban areas.

We currently have in statute an Energy Program for Alaska. This program addresses the fairness issue in a very limited way, through the debt-pooling concept. We have found that even this mechanism may not be workable because of the unwillingness of customers to expose themselves to rate increases caused by debt financing of future projects in the system. This is the lesson of the still-unfinished negotiations between the Alaska Power Authority and the utilities in the 4-dam-pool communities.

My idea is to look at averaging power production costs across the state through an administrative mechanism that allows the State to purchase power from producing utilities and resell it at a blended statewide rate.

This new program could be a solid basis for power sales contracts for the 4-dam pool, for the Bradley Lake project, and for Susitna. If this idea is considered feasible by the Advisory Committee and the Board of Directors of the Power Authority, it could give new purpose and direction to the Energy Program for Alaska.

Sincerely,

Bill Sheffield
Governor

ADVISORY COMMITTEE ON STATEWIDE POWER PRODUCTION COSTS

Charles P. Sitkin, Arthur Young & Company, Chairman
Nels A. Andersen, Jr., Co-Ma Services
Charles Freeman, Mayor, Ketchikan
Loyd Hodson, Gen. Mgr., Alaska Village Electric Cooperative
David Hutchens, Exec. Director, ARECA
Loren Karro, Tlingit-Haida REA
Robert Martin, Jr., Gen. Mgr., Chugach Electric Association
Don Mellish, National Bank of Alaska
David Nease, Gen. Mgr., Kodiak Electric Association
Tom Stahr, Gen. Mgr., Anchorage Municipal Light & Power
Ivan Forsheim, Board President, Golden Valley Electric Assoc.
Eric Meyer, AKPIRG

Alaska State Legislature
Senate

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

4 February, 1987

MEMORANDUM:

TO: Senator Tim Kelly, Chairman
Senate Labor and Commerce Committee

FROM: Senator Fred Zharoff FZ

SUBJ: SB 81 "An act relating to the Alaska Power Authority; and providing for an effective date."

I would like to request you to delay the hearing on SB 81 which you have scheduled before the Senate Labor and Commerce Committee for this Friday, February 6th. I will be attending the Pacific Fisheries Legislative Task Force meeting in Washington, and therefore will be unable to attend the hearing. Thank you for your consideration of this request.

POSITION PAPER
SB 81

SB 81 changes the organization of the membership for the Alaska Power Authority Board of Directors and places its officers and employees in the Exempt Service by amending AS 39.25.110.

The status of the employees of the Alaska Power Authority does need to be clarified. The status of State employees is determined by AS 39.25. Unless employees or positions are specifically exempted from the Classified Service either by statutory reference or personnel board action, they are considered to be in the Classified Service. However, in regards to the Alaska Power Authority, a recent Anchorage Superior Court decision cited past practice and states that it was the intent of the legislature to treat employees as members of the Exempt Service. However, AS 39.25 does not expressly place Alaska Power Authority employees in the Exempt Service. SB 81 would confirm that ruling.

The Department of Administration, Division of Personnel's position on this bill is neutral.

Diana DeSimone, Director
Division of Personnel

2/11/87
Date

Commissioner Garrey Peska
Department of Administration

2/11/87
Date

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 81
REQUEST Publish Date:

Revision Date:
Title: An act relating to the Alaska Power Authority; and providing for an effective date.
Sponsor: Zharoff
Requestor: Senate Labor and Commerce Committee

Agency Affected: Division of Personnel
BRU: Personnel
Components: Centralized Administrative Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
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

There will be no fiscal impact to the Division of Personnel.

Diana DeSimone

Prepared By: Diana DeSimone Phone: 465-4430
Division: Personnel Date: 2/11/87

Approved by Commissioner: Garrey Peska Date: 2/11/87
Agency: Department of Administration

Distribution (by preparer):
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