SB

206

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of _____ 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED _____ **
IN ACCORDANCE WITH AS 24.08.035
(see below)

3/23/87 DATE TURNED INTO OFFICE _____

Mr. President:

RESOURCES Committee considered SB 206

Alaska Power Authority; efd.

and recommended:

[✓] replace with CS SB 206 (res) [ ] same title [ ] new title

[ ] attached amendment(s) and

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to _____

[ ] letter of intent adopted and attached

** Committee [ ] attached or [ ] adopted fiscal note(s)
[ ] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS

Hoyt Jones

Earl Finkle

OTHER RECOMMENDATIONS

Ken Duncan - NO REC

Chairman signature and recommendation

[ ] Committee Backup Attached

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : Senate Bill 206
Title : An act relating to the Alaska Power Authority; and providing for an effective date.
Sponsor : Coghill and Faiks
Requestor :
Date of Request :

FISCAL DETAIL

Agency Affected : Alaska Power Authority
BRU : Department of Commerce and Economic Development

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND		(2,900)	(2,800)	(2,600)	(2,400)	(2,300)
FEDERAL FUNDS						
OTHER						
TOTAL		(2,900)	(2,800)	(2,600)	(2,400)	(2,300)

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

General Fund savings based on estimated loan demand of Power Project Loan Fund. Savings are net of principal and interest payments on loans that would have been deposited in General Fund had the loans been funded with appropriations. Assumes no delinquencies, and payments on existing loans that are used as security for bonds are not required for repayment in debt service.

Prepared by : Robert E. LaRescne Phone : 465-3575
Division : Alaska Power Authority Date : April 7, 1987

Approved by Commissioner : _____ Date : _____
Agency : _____

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

Senator John B. (Jack) Coghill
Alaska State Legislature

Pouch V
Juneau, Alaska 99811
(907) 465-4921

Box 55028
North Pole, Alaska 99705
(907) 488-0862

April 8, 1987

To: Members of the House and Senate Resources Committee

From: Senator Coghill

Re: CSSB 206

CSSB 206 makes pertinent changes to existing law relating to the Alaska Power Authority.

Section 1 amends AS 44.83.092 by adding a new subsection (b) which recognizes the project management committee being established by the power sale agreements. The purpose is to allay the concerns of the bond buyers as to the exact function and authority of these committees.

Section 2 amends AS 44.83.170 by adding a new subsection (i) setting up a loan advisory committee, composed of Railbelt utilities, to review all loan applications for Railbelt-energy related projects and advise APA of their recommendations. The purpose is to obtain Railbelt utility input on pertinent loans.

Section 3 amends the Power Project Fund statutes (AS 44.83.170) by adding a new section, AS 44.83.172, which will allow APA to issue revenue bonds secured by the loan repayments and moral obligation of the State. This APA loan program has been a success and currently has 23 outstanding loans valued at $30,239,000, with a zero delinquency or default rate. The interest rate is set by APA but cannot be less than 5%. In the past, the loan funds have come from General Fund appropriations. These appropriations are expected to be severely curtailed or eliminated. In short, the borrower would have access to loan funds obtained from revenue bonds ar market rates not available to individual small borrowers.

Section 4 amends AS 44.83.187(d) by eliminating the applicability of AS 44.83.177-44.83.185 to electrical transmission or distribution facilities. Present statutes are somewhat ambiguous as evidenced by opposing legal opinions from the AG and LAA Legal SErvices. While the transmission line projects are different from power generation projects, they would still have to comply with the APA's project approval process policy.

(7) "power costs" means costs used in determining power cost equalization in accordance with (b) and (d) of this section. (§ 42 ch 83 SLA 1980; am § 8 ch 118 SLA 1981; am § 3 ch 79 SLA 1983; am § 1 ch 133 SLA 1984; am § 76 ch 74 SLA 1985)

Effect of amendments. — The 1985 amendment substituted "AS 29.60.020" for "AS 29.88.015" at the end of subsection (m).

Sec. 44.83.165. Appropriation for power cost equalization. The sum of $15,900,000 is appropriated on July 1, 1984, from the general fund to the power cost equalization fund (AS 44.83.162). (§ 314 ch 171 SLA 1984; am § 7 ch 41 SLA 1986; am § 454 ch 130 SLA 1986)

Effect of amendments. — The first 1986 amendment deleted "Continuing" at the beginning of the catchline and deleted "and the sum of $21,700,000 is appropriated on July 1 of each subsequent fiscal year" following "July 1, 1984."

The second 1986 amendment, effective June 10, 1986, substituted the sum of "$15,900,000" for "$16,300,000."

Editor's notes. — Section 20, ch. 41, SLA 1986 provides that the 1986 amendment is retroactive to July 1, 1985.

Article 6. General Provisions.

Sec. 44.83.187. Applicability of sections. (a) The provisions of AS 44.83.177 — 44.83.185 and 44.83.189 apply only to a proposed new project that will generate more than 1.5 megawatts of power and

(1) requires an appropriation from the state general fund, from the power project fund, or from the renewable resources funds; or

(2) is based on a plan of finance which requires the issuance of general obligation bonds or other pledge of the credit of the state.

(b) The provisions of AS 44.83.177 — 44.83.185 and 44.83.189 apply to a project that generates more than 25 megawatts of power for which the authority will issue its revenue bonds for costs of construction.

(c) The provisions of AS 44.83.177 — 44.83.183 do not apply when a reconnaissance study and a feasibility study for a proposed new project have been prepared by an agency of the federal government, if the authority determines that the reconnaissance study and the feasibility study prepared by the agency of the federal government provide information sufficient to permit the authority to finance and construct the proposed new project in accordance with the requirements of this chapter. When a reconnaissance study and feasibility study are prepared for a proposed new project by an agency of the federal government and the authority proposes to finance and construct the proposed new project, the authority shall provide copies of the studies and a

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Section
187. Applicability of sections
195. Operation of projects
224. Long-term energy plan

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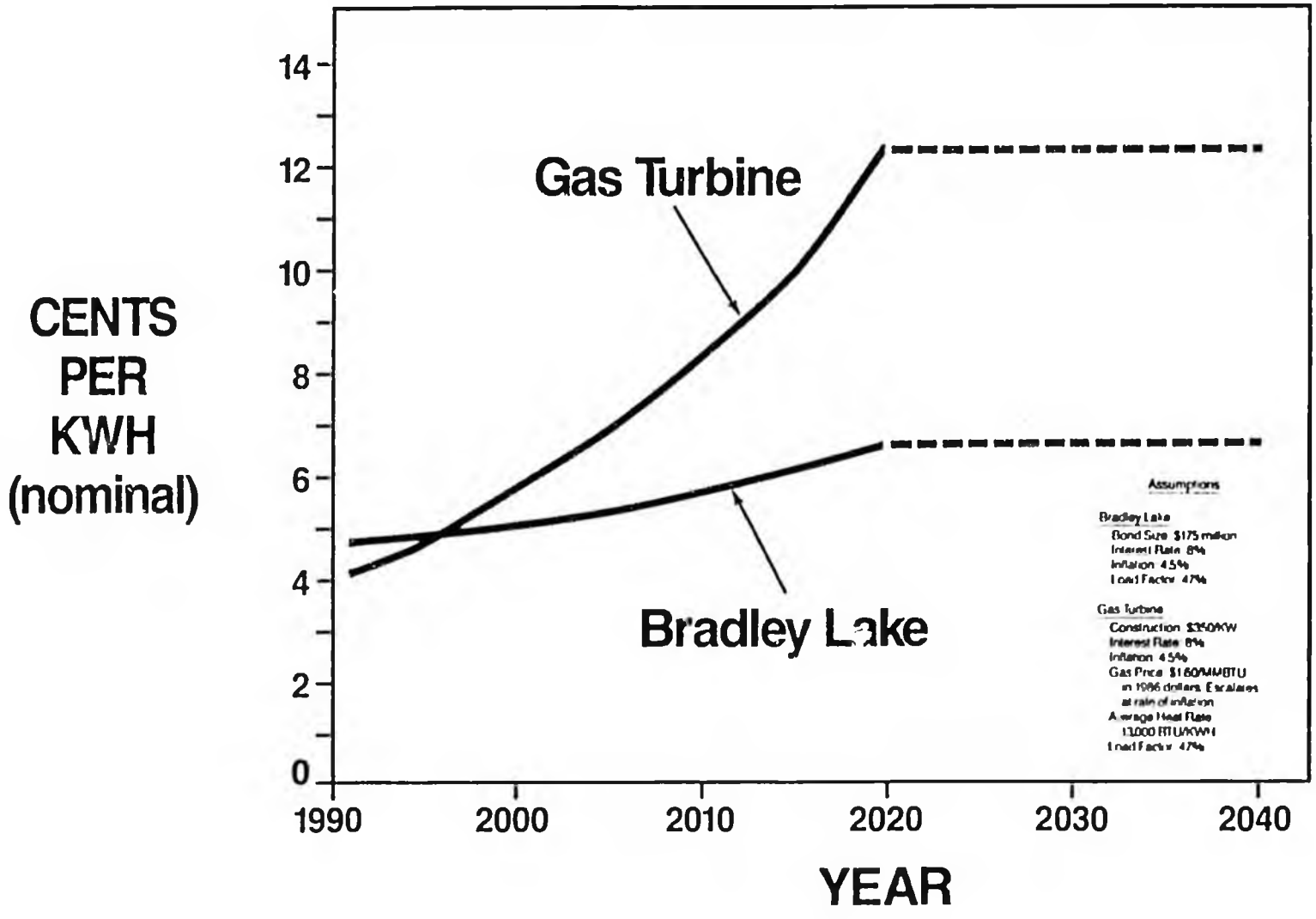
BRADLEY LAKE vs. GAS TURBINE PROJECTED RATES



Alaska Power Authority

RAILBELT INTERTIE BENEFITS

Quantified

- Economy interchange
- Reserve Sharing
- System Efficiency
- Siting Flexibility for New Plants

Not Quantified

- System Reliability
- Increased Utility Coordination
- Distribution of Bradley Lake Benefits
- Enhanced Competition Among Fuel Suppliers

Alaska Power Authority

RAILBELT INTERTIE

COSTS AND BENEFITS

(Expressed in 1986 Dollars)

	Estimated Benefits	Estimated Costs
Full Intertie Proposal	$ 423 million	$ 270 million
Anchorage to Kenai Peninsula Only	209 million	125 million
Anchorage to Fairbanks Only	211 million	145 million

Note: Costs include operations and maintenance for 30 years

RAILBELT ENERGY PLAN

April 8, 1987

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

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

This has been done.

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

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

Among the governmental entities are the Anchorage Municipal Assembly, Fairbanks City Council, Matanuska-Susitna Borough, Wasilla City Council, Palmer City Council, Kenai Peninsula Borough, Homer City Council, Kenai City Council and Soldotna City Council, as well as the Kenai Caucus and Unified Fairbanks organizations. Labor supporters include the Alaska AFL-CIO and its 48 unions and affiliates, including the International Brotherhood of Electrical Workers Local 1547, and Teamsters Union Local 959. Local chambers of commerce that have passed resolutions include Anchorage, Fairbanks, Wasilla, Palmer, Big Lake, Willow, Talkeetna, Kenai, North Kenai and Homer. The Alaska State Chamber of Commerce has made the Bradley Lake project and the intertie system one of its highest legislative priorities.

THE PROJECTS

The Bradley Lake Project is a 90-megawatt hydroelectric facility under construction near Homer. It is scheduled for completion in 1990, and is designed to accommodate future enlargement to 135 megawatts. The Railbelt transmission system has two components: Upgrade of the existing 138-kilovolt Anchorage-Fairbanks transmission line to 345 kilovolts, and construction of a 230-kilovolt circuit from Anchorage to the lower Kenai Peninsula.

Bradley Lake was originally estimated to cost $408 million, including financing. That figure is now down to $350 million, and may drop even more given the sluggish economy and lower than expected inflation growth. The interties are estimated to cost $200 million. That figure, too, could drop.

BENEFITS

Separate studies by the Division of Policy in the Governor's Office, the House Research Agency and the Alaska Power Authority all show positive benefits for Bradley Lake and the interties, even when considered on their own.

A February 25, 1987, analysis by the Division of Policy and a March 18, 1987, analysis by the House Research Agency both estimate savings of approximately $85 million for Bradley Lake over the natural gas-fired generation alternative. Even under a much more conservative and unlikely scenario where the gas alternative would be delayed from the early 1990s to 1998, the House Research Agency analysis still projects savings of $36 million for Bradley Lake.

A March 1987 economic analysis prepared by a private consultant for the APA shows total quantifiable benefits of $423 million for the Anchorage-Fairbanks and Anchorage-Kenai Peninsula interties combined. This does not count other, less quantifiable benefits such as increased power system reliability and the facilitation of economic development.

Although the utilities believe the benefits cited in the above studies are understated, and that savings may be even higher, all the work to date agrees that Bradley Lake and the interties have a positive value as independent projects. When considered together, the benefits are even greater. Among the benefits of the combined Bradley Lake-intertie plan are these:

-- Long-term electric rates will be lower than otherwise for the majority of consumers in the State.

-- Regional power reliability will be significantly improved.

-- Generation resources, including future development, will be more diversified.

-- Economic development opportunities, including jobs, will be substantially enhanced.

-- Regional cooperation and coordination will be improved, as already evidenced through the establishment of the Railbelt Energy Council and the Railbelt energy coalition.

BRADLEY LAKE

The major benefit of the Bradley Lake project is the assurance of a stable, long-term supply of low-cost power, to be shared throughout the Railbelt utilizing the proposed intertie system. Because of higher capital costs, hydroelectric power is initially more expensive than that from fossil fuel plants. However, Bradley Lake energy is expected to become cheaper than the least-cost alternative of natural gas within the first five to seven years of Bradley's operation. The real payoff is that hydroelectric projects like Bradley Lake will last up to 100 years, compared to 20 or 30 years for gas turbines and other fossil-fuel generation facilities.

It is very important to remember that Bradley Lake will be more than an additional power source for the Railbelt. It will also be replacement power, because many of the region's existing gas-fired generation units will be wearing out in the early and mid-1990s.

The current plan, agreed to by all seven Railbelt utilities, is for the State and those utilities -- through long-term power sales agreements -- to split the cost of the project. Under the current $350 million cost estimate, the State's contribution would be $175 million, which is $43 million less than a previously agreed-to state equity share of $218 million. Should the cost of Bradley drop further, as many expect it will, the State's contribution would be reduced proportionately.

Of the $175 million from the State, $118 million already has been committed to project. The Governor has introduced legislation -- S.B. 159 and H.B. 165 -- to appropriate ar additional $50 million from the Railbelt Energy Fund, to replace $50 million previously approved from the general fund but later rescinded. With the $118 million, the $50 million will bring the State's Bradley Lake contribution to $168 million, or within $7 million of the currently proposed $175 million. It is expected that the final $7 million will be appropriated by the current Legislature for fiscal 1988. Approximately $50 million already has been spent on the project, much of it for site preparation and support facilities.

THE INTERTIES

Construction has not yet begun on the interties, but studies are well under way. An economic analysis on both the southern and northern interties has been completed. So has a preliminary engineering feasibility study on the southern intertie, with the final report due in the very near future. An engineering feasibility study on the northern intertie is in progress, with a final report due in early May. It is important that environmental work commence this year so the transmission system can be in place when the Bradley Lake project comes on line, or as soon afterward as possible.

The Railbelt intertie system has a number of benefits, some quantifiable and some not easily quantifiable but nonetheless important. Here are some of them, as listed in the economic analysis:

Economy power interchanges -- The interties will permit the displacement of higher-cost generation in one area of the Railbelt with the lowest-cost generation from any other area. This will produce substantial savings for consumers.

Sharing of generation reserves -- The interties will allow one or more utilities to forego building or maintaining the amount of reserve generation capacity that would otherwise be necessary. Instead, those utilities could rely on reserves available elsewhere in the interconnected system.

Siting flexibility for new generation plants -- The interties will provide much greater flexibility in siting new generation plants within the Railbelt wherever the costs of operation -- including, importantly, fuel costs -- are the lowest.

Improved system reliability -- The interties will greatly improve electric system reliability throughout the Railbelt. For the first time, every Railbelt utility will have access to enough power from other systems to cope with any emergency or maintenance requirement. This will translate into fewer and briefer outages.

Increased system efficiency -- Transmission losses of electric energy are reduced in higher voltage circuits, such as the interties. It is estimated that line losses between Anchorage and the lower Kenai Peninsula will be reduced by 80 percent, while losses between Anchorage and Fairbanks will be reduced by 60 percent. Transmission loss reductions of this magnitude will result in many thousands of dollars in savings.

Increased utility coordination -- By virtue of its existence, a strong regional transmission grid will foster improved coordination and cooperation among Railbelt utilities. This will lead to increased participation in future generation and other power projects, with attendant sharing of costs and savings.

Distribution of Bradley Lake benefits -- The interties will enable all seven Railbelt utilities to directly participate in the Bradley Lake project, thereby spreading the costs and the benefits over a much wider base. With the limited existing transmission facilities, only Homer Electric Association and Chugach Electric Association could directly access Bradley Lake power.

Enhanced competition among fuel suppliers -- A major benefit of the interties is that they will improve access by all seven Railbelt utilities to a variety of generation fuel sources throughout the region. For example, power generation using cheaper wellhead natural gas on the Kenai Peninsula is presently constrained by a limitation in transmission capacity. With the interties, each utility will have a broader range of energy supply alternatives, and the utilities' bargaining positions with respect to potential fuel suppliers will be strengthened.

Another very important general benefit of the interties is that they will facilitate economic development and commerce, the results of which will be felt even beyond the Railbelt. In this respect, the interties are analogous to a highway, whose contribution to economic development and commerce is easily understood yet difficult to model. Where a highway carries motor vehicles, the interties will carry an equally essential commodity -- electric energy. Like good roads, a good electric transmission system is essential to a region's development.

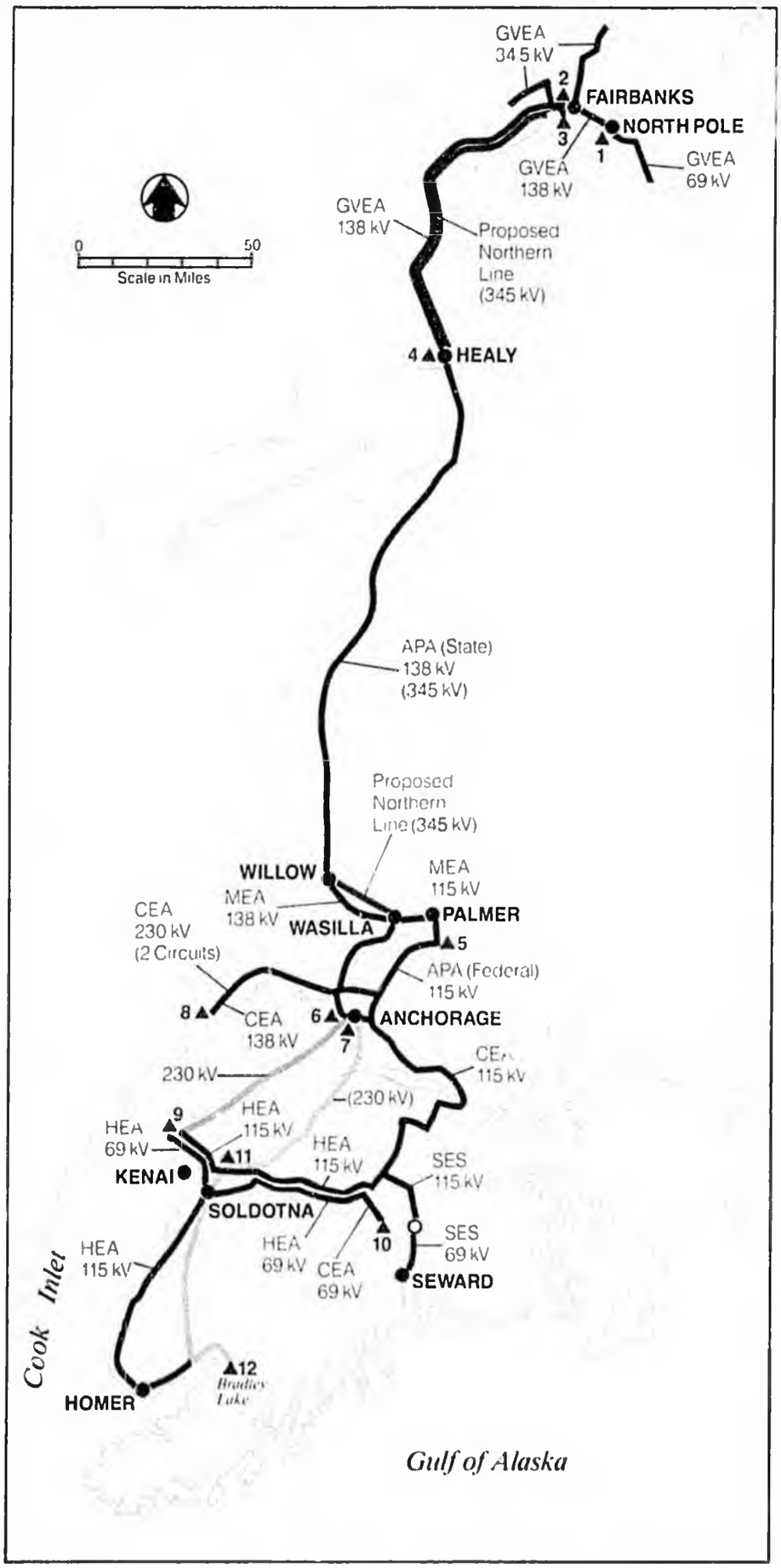
SUMMARY

The program to complete the Bradley Lake project and the Railbelt interties is sound. The projects will benefit the majority of Alaska's consumers, and there is unprecedented support from a broad spectrum of interests, including every electric utility in the region as well as labor, business and local government.

Both the Bradley Lake project and the interties are bona fide public works projects, and they will pay long-term dividends. The Railbelt's power supply network will be strengthened in a number of ways, including reliability and lower-cost generation in the future. The regional and statewide economies -- including the job sector -- will be stimulated during construction and for many years to come.

While there inevitably is disagreement over how best to use public funds, especially during times when revenues are less plentiful, there is a demonstrable need for the Bradley Lake project and the intertie system. This program fulfills a high public purpose.

:rbprog



Railbelt Generation and Transmission Systems

LEGEND

- Community
- ▲ Generation Station
- 2 Generation Station Identification Number
- 230 kV Line Capacity
- O Line Capacity Change
- Northern Line (Proposed)
- Fritz Creek Transmission Line (Proposed)
- Enstar Gas Pipeline Route (Proposed)
- Tesoro Products Line Route (Proposed)
- Transmission Line Route (Existing)

Prepared by ARECA

1. Oil Fired Generation — 121.8 mW — Golden Valley Electric Association — North Pole
2. Oil Fired Generation — 40.6 mW — Fairbanks Municipal Utilities System — Fairbanks
   Coal Fired Generation — 28.6 mW — Fairbanks Municipal Utilities System — Fairbanks
3. Oil Fired Generation — 51 mW — Golden Valley Electric Association — Fairbanks
4. Coal Fired Generation — 25 mW — Golden Valley Electric Association — Healy
5. Hydroelectric Generation — 30 mW — Alaska Power Administration (Federal) — Eklutna
6. Natural Gas Generation — 330 mW — Anchorage Municipal Light & Power — Anchorage
7. Natural Gas Generation — 49.4 mW — Chugach Electric Association — Anchorage
8. Natural Gas Generation — 360 mW — Chugach Electric Association — Beluga
9. Natural Gas Generation — 81.7 mW — Chugach Electric Association — Bernice Lake
10. Hydroelectric Generation — 17.4 mW — Chugach Electric Association — Cooper Lake

5-0881B
Cramer
3/27/87

Original sponsors: Coghill and Faiks

Add. by Coghill

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 206 (Resources)

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 44.83.092 is amended by adding a new subsection to read:

(b) A contract that the authority enters into under (a) of this section relating to the sale of electric power from a power project to be acquired or constructed under AS 44.83.380 - 44.83.425 (energy program for Alaska) may create a project management committee. The committee shall consist of representatives of the contracting parties as specified in the contract. The contract shall determine the powers of the committee with respect to the power project. The powers may include responsibility for the management, operation, and maintenance of the project. To the extent provided in the contract, the committee has separate legal existence and other powers necessary to its purposes.

* Sec. 2. AS 44.83.170 is amended by adding a new subsection to read:

(i) The Railbelt advisory committee, composed of one member from each electric utility in the Railbelt, is established. The authority may not make a loan under this section for an energy-related project that is located in the Railbelt until the Railbelt advisory committee has had an opportunity to review the loan application. The authority shall consider the written comments and recommendations of the committee before acting on the loan application.

* Sec. 3. AS 44.83 is amended by adding a new section to read:

Sec. 44.83.172. POWER PROJECT BONDS. (a) The authority may borrow money and issue bonds to make or refinance loans from the power project fund for the acquisition or construction of power projects under AS 44.83.170(b)(1). Loans made or refinanced with the proceeds of bonds authorized by this section are subject to AS 44.83.170(a) - (e). However, the authority may not issue bonds to make or refinance a loan entered into under a leveraged lease financing arrangement. The authority may issue bonds if the borrower is an entity that may borrow from the fund under AS 44.83.170.

(b) With respect to loans made or refinanced with the proceeds of bonds, the authority may pledge the principal and interest received from the loan repayments and the interest earned on those amounts in the power project fund for bonds issued under this section. Notwithstanding AS 44.83.170(g), if the authority pledges these amounts, they may not be deposited into the general fund.

(c) The authority may notify the head of a department or agency of the state in writing that a municipality is in default on the repayment of principal or interest on loans made or refinanced with the proceeds of bonds issued under this section. Notwithstanding any other provision of law, to the extent that a department or agency of the state is the custodian of money payable to the municipality, the department or agency shall withhold payment of the money from the municipality and pay over the money to the authority to pay principal and interest on bonds of the authority issued under this section.

* Sec. 4. AS 44.83.187(d) is amended to read:

(d) The provisions of AS 44.83.177 - 44.83.185 do not apply to

(1) an addition, modification, repair, reconstruction, design, acquisition or construction for the purpose of completing a

project;

(2) the construction of an electrical transmission or distribution facility [THAT IS ESTIMATED TO COST LESS THAN $3,000,000].

* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

5-0881B
Cramer
3/27/87

Original sponsors: Coghill and Faiks

Del. by Coghill

IN THE SENATE BY THE RESOURCES COMMITTEE

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(b) With respect to loans made or refinanced with the proceeds of bonds, the authority may pledge the principal and interest received from the loan repayments and the interest earned on those amounts in the power project fund for bonds issued under this section. Notwithstanding AS 44.83.170(g), if the authority pledges these amounts, they may not be deposited into the general fund.

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(d) The provisions of AS 44.83.177 - 44.83.185 do not apply to

(1) an addition, modification, repair, reconstruction, design, acquisition or construction for the purpose of completing a

project;

(2) the construction of an electrical transmission or distribution facility [THAT IS ESTIMATED TO COST LESS THAN $3,000,000].

* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).