

SB

284

FISCAL NOTE

No. 1
 Bill Version: SB 284
 (S) Publish Date: 2/9/96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: _____ Department: Commerce and Economic Development
 Title: Four dam pool transfer fund BRU: AEA
 Component: AEA
 Sponsor: Rules Committee
 Requestor: Governor COMPONENT SERIAL NO. 1948

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Four dam pool transfer fund)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The bill provides funding for repairs and maintenance of the four dam pool project by decreasing the amount of funds appropriated from the four dam pool transfer fund to the power cost equalization and rural electric capitalization fund; the Southeast energy fund; and the project fund.

Prepared by: William R. Snell, Executive Director Phone: (907)269-3000
 Division: AEA Date: February 6, 1996
 Approved by Commissioner: William L. Hensley Date: 2-6-96
 Agency: Commerce and Economic Development

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

No. 2

Bill Version: SB 284
 (S) Publish Date: 2/9/96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: Draft Bill Dept. Affected: C & RA
 Title: "An Act relating to the Four Dam BRU: Rural Energy Programs
Pool Transfer Fund and the Power Development Fund Component: Power Cost Equalization
 Sponsor: Rules
 Requester: Governor COMPONENT SERIAL NO. 1965

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES (1089)			(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)
-----------------------------	--	--	-----------	-----------	-----------	-----------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other 1090 FDPTF			(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The Division of Energy assumes that the Four Dam Pool Transfer Fund (FDPTF) will receive debt service repayments, reduced by \$4 million, effective FY99.

The 40% allocation from the FDPTF to the Power Cost Equalization and Rural Electric Capitalization Fund (PCE & RECF), AS 42.45.100, directly affects the monies that would be allocated to the Power Cost Equalization (PCE) on a 1:1 ratio, to levelize the impact on rural electric utilities and their customers participating to PCE. This projected reduction could affect the PCE program for eight consecutive years. With these reductions, the PCE & RECF is expected to be exhausted during FY2000. PCE program funding is hoped to be \$17 million per year from FY97 through FY2000 - after that, assuming that the net available debt service from the Four Dam Pool is \$8 million per year, the funds available for PCE would be about \$3.2 million per year.

Prepared by: Gloria Manni, Assistant Director
 Division: Energy
 Approved by Commissioner: [Signature]
 Agency: Energy

Phone: 269-4642
 Date: 2/6/96
 Date: 2/6/96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 3

Bill Version: SB 284

(S) Publish Date: 2/9/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: Draft Bill Dept. Affected: C&RA
 Title: "An act relating to the Four Dam Pool Transfer Fund and the Power Development Fund" BRU: Energy Operations
 Component: Southeast Energy Fund
 Sponsor: Rules
 Requester: Governor COMPONENT SERIAL NO. 1935

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	0.0	0.0	(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
100 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1090 1090 FDPTF			(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)
TOTAL	0.0	0.0	(1,600.0)	(1,600.0)	(1,600.0)	(1,600.0)

Estimate of any current year (FY96) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The Division of Energy assumes that the Four Dam Pool Transfer Fund (FDPTF) will receive debt service repayments, reduced by \$4 million, effective FY99; the project reduction is assumed to affect the fund for about 8 years.

Reduction of the 40% allocation from the Four Dam Pool Transfer Fund to the Southeast Energy Fund, As 42.45.040, reduces the monies available for grants to utilities participating in the development of the power transmission intertie between the Tye Lake and Swan Lake hydroelectric projects. This reduced funding may slightly impact development of the project. However, Tye Lake and Swan Lake are part of the Four Dam Pool and they may benefit from the debt service reduction, in that the reduced amount will pay for Four Dam Pool projects repairs/improvements.

Prepared by: Gloria Manni, Assistant Director
 Division: Energy

Phone: _____
 Date: _____

Approved by Commission: [Signature]
 Agency: _____

Date: 2.6.96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

o. 4

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Bill Version: SB 284
(S) Publish Date: 2/9/96

Revision Date: Draft Bill Dept. Affected: C&RA
 Title: "An act relating to the Four Dam Pool Transfer Fund and Power Development Fund." BRU: Energy Operations
 Sponsor: Rules Component: Power Project Fund
 Requester: Governor COMPONENT SERIAL NO. 1935

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING N/A	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES N/A						
--------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	0.0	(800.0)	(800.0)	(800.0)	(800.0)
------------------------	-----	-----	---------	---------	---------	---------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The Division of Energy assumes that the Four Dam Pool Transfer Fund (FDPTF) will receive debt service repayment, reduced by \$4 million, effective FY99.

Reduction of the 20% allocation from the Four Dam Pool Transfer Fund to the Power Project Fund, AS 42.45.010 (PPF) reduces the monies available in the PPF for loans to utilities or project developers for energy projects. Given the ever decreasing availability of other funding sources for energy projects, especially General Fund moneys, the existence of the PPF is very important to the rural electric utilities, especially those that cannot readily borrow from financial institutions.

The reduction assumed in this note will affect the PPF for about eight consecutive years.

Prepared by: Gloria Mangis Assistant Director
 Division: Energy Phone: _____
 Approved by Commissioner: [Signature] Date: _____
 Agency: LAND-COTTEN Date: 2. 29.96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information, call the Governor's Legislative Office

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 2/9/96

FURTHER: State Affairs
Finance

Date of 5-Day Notice: 2-29-96
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4-11-96

The Resources Committee considered SB 284

Relating to the four dam pool transfer fund and the power development fund.

and recommends:

- be replaced with CS SB 284 (DFS)
- adopt previous CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DQ PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Rick Halford</i>	✓		
		<i>Debbie</i>	✓		
		<i>Christy Todd</i>	✓		
		<i>Don</i>	✓		
		<i>Debbie</i>	✓		
CHAIR: <i>Barbara A. Lewis</i>		CHAIR: <i>Debbie</i>			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Commerce	2/9/96	✓	
C&EA / PCE	4/6/96	✓	
C&EA / Southeast Power Fund	4/6/96	✓	
C&EA / River Project Fund	2/9/96	✓	

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill




Alaska State Legislature

Official Business

State Capitol
Juneau AK 99801

MEMO

TO: Terry Cramer, Legislative Counsel
Legal Services
via fax: X2029

FROM: Annette E. Kreitzer, Aide to 
Senate Resources Committee

DATE: April 10, 1996

RE: CS SB 284 (RES) - FINAL

The Resources Committee adopted and passed GS2030NG dated 4/9/96 today. Please prepare a FINAL Resources Committee Substitute for SB284 including the following amendment to that CS.

Page 3, Lines 4-5:

DELETE: [THE EFFECTIVE DATE OF THIS BILL SECTION]

Insert: May 1, 1996

Adopted 5-1 4-9-96

WORK DRAFT

WORK DRAFT

WOKK DRAFT

9-GS2030\G
Cramer
4/9/96

CS FOR SENATE BILL NO. 284(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to bonds issued to repair, improve, or maintain the four dam
2 pool; and relating to the four dam pool transfer fund and the power
3 development fund."

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

5 * Section 1. PURPOSE. (a) The purpose of this Act is to facilitate the issuance of bonds
6 or other debt by the Alaska Energy Authority so that needed repairs can be made to the
7 hydroelectric facilities that make up the initial project.

8 (b) It is the intent of the legislature that the authority and the purchasing utilities
9 continue to negotiate in good faith with respect to the transfer of ownership of the initial
10 project to the utilities, and that a transfer plan or other long-term solution to the economic
11 difficulties of the initial project be presented to the Twentieth Alaska State Legislature.

12 (c) In this section,

13 (1) "initial project" means the power project described as the initial project in
14 AS 44.83.398(a), consisting of the Tyee Lake, Swan Lake, Solomon Gulch, and Terror Lake

1 hydroelectric facilities;

2 (2) "purchasing utilities" means the City of Ketchikan, doing business as
3 Ketchikan Public Utilities; the City of Wrangell, doing business as Wrangell Municipal Light
4 and Power; the City of Petersburg, doing business as Petersburg Municipal Power and Light;
5 Copper Valley Electric Association, Inc.; and Kodiak Electric Association, Inc.

6 * Sec. 2. AS 42.45.050(b) is amended to read:

7 (b) Subject to appropriation, the department shall transfer the balance of the
8 four dam pool transfer fund annually as follows: [EACH MONTH IN
9 ACCORDANCE WITH THIS SUBSECTION. SUBJECT TO APPROPRIATION]

10 (1) first, to the power development fund (AS 44.83.382) in the
11 amount, if any, necessary to pay debt service on loans or on bonds issued by the
12 Alaska Energy Authority, only if the proceeds of those loans or bonds were used
13 for the purpose of repairing, improving, or maintaining the initial project as
14 defined in AS 44.83.398;

15 (2) next, the remaining balance, if any, as follows:

16 (A) 40 percent of the balance in the four dam pool transfer fund
17 shall be transferred to the power cost equalization and rural electric
18 capitalization fund to be used for power cost equalization and rural electric
19 projects;

20 (B) [(2)] 40 percent of the balance in the four dam pool transfer
21 fund shall be transferred to the Southeast energy fund to be used for power
22 projects for utilities participating in the power transmission intertie between the
23 Swan Lake and Tyee Lake hydroelectric projects; and

24 (C) [(3)] 20 percent of the balance in the four dam pool transfer
25 fund shall be transferred to the power project fund to be used for statewide
26 utility projects.

27 * Sec. 3. AS 44.83.100(b) is amended to read:

28 (b) Bonds shall be authorized by resolution of the authority, and shall be dated
29 and shall mature as the resolution may provide, consistent with the requirements of
30 this subsection [EXCEPT THAT NO BOND MAY MATURE MORE THAN 50
31 YEARS FROM THE DATE OF ITS ISSUE]. Bonds shall bear interest at the rates.

1 be in the denominations, be in the form, either coupon or registered, carry the
 2 registration privileges, be executed in the manner, be payable in the medium of
 3 payment, at the places, and be subject to the terms of redemption which the resolution
 4 or a subsequent resolution may provide. A bond issued on or after ^{May 1, 1996} the effective date
 5 of this bill section whose proceeds were used for the purpose of repairing,
 6 improving, or maintaining the initial project as defined in AS 44.83.398 must
 7 mature within eight years from the date of issue. Other bonds issued under this
 8 subsection must mature within 50 years from the date of issue.

Len. Fran

• Sec. 4. AS 44.83.384(a) is amended to read:

- 10 (a) The fund may be used by the authority to provide money for
 - 11 (1) the defeasance of bonds, or the payment of debt service on loans
 - 12 for or on an issue of bonds sold in connection with a power project constructed or
 - 13 acquired before August 11, 1993;
 - 14 (2) the cost of operating, repairing, improving, and maintaining power
 - 15 projects constructed or acquired before August 11, 1993; and
 - 16 (3) debt service on power projects constructed or acquired before
 - 17 August 11, 1993.

Am #1 May, 1996 passed
 Am #2 8-10 years bond
 by L. Nelson

moved, not adopted 5-1

4-9-96

TAYLOR PROPOSAL

WORK DRAFT

WORK DRAFT

WORK DRAFT

9-GS2030F

Cramer

4/10/96

CS FOR SENATE BILL NO. 284()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the four dam pool transfer fund and the power
2 development fund; and providing for an effective date."

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

4 • Section 1. AS 42.45.050(b) is amended to read:

5 (b) Subject to appropriation, the department shall transfer the balance of the
6 four dam pool transfer fund annually as follows: [EACH MONTH IN
7 ACCORDANCE WITH THIS SUBSECTION, SUBJECT TO APPROPRIATION]

8 (1) first, to the power development fund (AS 44.83.382) in the
9 amount, if any, necessary to pay debt service on loans or on bonds issued by the
10 Alaska Energy Authority, only if the proceeds of those loans or bonds were used
11 for the purpose of repairing, improving, or maintaining the initial project as
12 defined in AS 44.83.398;

13 (2) next, the remaining balance, if any, as follows:

14 (A) 40 percent of the balance in the four dam pool transfer fund

1 shall be transferred to the power cost equalization and rural electric
2 capitalization fund to be used for power cost equalization and rural electric
3 projects;

4 ~~(B)~~ [(2)] 40 percent of the balance in the four dam pool transfer
5 fund shall be transferred to the Southeast energy fund to be used for power
6 projects for utilities participating in the power transmission intertie between the
7 Swan Lake and Tyee Lake hydroelectric projects; and

8 ~~(C)~~ [(3)] 20 percent of the balance in the four dam pool transfer
9 fund shall be transferred to the power project fund to be used for statewide
10 utility projects.

11 • Sec. 2. AS 42.45.050(b) is repealed and reenacted to read:

12 (b) Subject to appropriation, the department shall transfer the balance of the
13 four dam pool transfer fund annually as follows:

14 (1) first to the power development fund (AS 44.83.382) in the amount,
15 if any, necessary to pay debt service on loans or on bonds issued by the Alaska Energy
16 Authority, only if the proceeds of those loans or bonds were used for the purpose of
17 repairing, improving, or maintaining the initial project as defined in AS 44.83.398;

18 (2) next, the remaining balance, if any, to the power management
19 committee of the initial project for expenditures identified by the committee for
20 repairs, maintenance, improvements, and new construction related to the power projects
21 in the initial project; in deciding whether a portion or all of the balance should be used
22 for new construction, if the five purchasing utilities agree, the state may not disapprove
23 the construction project;

24 (3) finally, the remaining balance, if any, as follows:

25 (A) 40 percent of the balance in the four dam pool transfer fund
26 shall be transferred to the power cost equalization and rural electric
27 capitalization fund to be used for power cost equalization and rural electric
28 projects.

29 (B) 40 percent of the balance in the four dam pool transfer fund
30 shall be transferred to the Southeast energy fund to be used for power projects
31 for utilities participating in the power transmission intertie between the Swan

1 Lake and Tyee Lake hydroelectric projects; and
2 (C) 20 percent of the balance in the four dam pool transfer fund
3 shall be transferred to the power project fund to be used for statewide utility
4 projects.

5 * Sec. 3. AS 42.45.050 is amended by adding a new subsection to read:

6 (c) In this section,

7 (1) "initial project" has the meaning given in AS 44.83.398(a);

8 (2) "purchasing utilities" means the City of Ketchikan, doing business
9 as Ketchikan Public Utilities; the City of Wrangell, doing business as Wrangell
10 Municipal Light and Power; the City of Petersburg, doing business as Petersburg
11 Municipal Power and Light; Copper Valley Electric Association, Inc.; and Kodiak
12 Electric Association, Inc.

13 * Sec. 4. AS 44.83.384(a) is amended to read:

14 (a) The fund may be used by the authority to provide money for

15 (1) the defeasance of bonds, or the payment of debt service on loans
16 for or on an issue of bonds sold in connection with a power project constructed or
17 acquired before August 11, 1993;

18 (2) the cost of operating, repairing, improving, and maintaining power
19 projects constructed or acquired before August 11, 1993; and

20 (3) debt service on power projects constructed or acquired before
21 August 11, 1993.

22 * Sec. 5. (a) Sections 2 and 3 of this Act take effect only if, on or before June 30, 1997,
23 the state and the purchasing utilities have failed to enter an agreement providing for the
24 transfer of ownership of the initial project from the state to the purchasing utilities. The
25 Alaska Energy Authority shall immediately notify the revisor of statutes and the lieutenant
26 governor when the state and purchasing utilities enter into such an agreement.

27 (b) In this section, "initial project" and "purchasing utilities" have the meanings given
28 in AS 42.45.050(c), enacted by sec. 3 of this Act.

29 * Sec. 6. If secs. 2 and 3 of this Act take effect under sec. 5 of this Act, they take effect
30 July 1, 1997.

*Revised
added by
Committee*

CS FOR SENATE BILL NO. 284(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to bonds issued to repair, improve, or maintain the four dam
2 pool; and relating to the four dam pool transfer fund and the power
3 development fund."

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

5 • **Section 1. PURPOSE.** (a) The purpose of this Act is to facilitate the issuance of bonds
6 or other debt by the Alaska Energy Authority so that needed repairs can be made to the
7 hydroelectric facilities that make up the initial project.

8 (b) It is the intent of the legislature that the authority and the purchasing utilities
9 continue to negotiate in good faith with respect to the transfer of ownership of the initial
10 project to the utilities, and that a transfer plan or other long-term solution to the economic
11 difficulties of the initial project be presented to the Twentieth Alaska State Legislature.

12 (c) In this section,

13 (1) "initial project" means the power project described as the initial project in
14 AS 44.83.398(a), consisting of the Tye Lake, Swan Lake, Solomon Gulch, and Terror Lake

1 hydroelectric facilities:

2 (2) "purchasing utilities" means the City of Ketchikan, doing business as
3 Ketchikan Public Utilities; the City of Wrangell, doing business as Wrangell Municipal Light
4 and Power; the City of Petersburg, doing business as Petersburg Municipal Power and Light;
5 Copper Valley Electric Association, Inc.; and Kodiak Electric Association, Inc.

6 * Sec. 2. AS 42.45.050(b) is amended to read:

7 (b) Subject to appropriation, the department shall transfer the balance of the
8 four dam pool transfer fund annually as follows: [EACH MONTH IN
9 ACCORDANCE WITH THIS SUBSECTION. SUBJECT TO APPROPRIATION]

10 (1) first, to the power development fund (AS 44.83.382) in the
11 amount, if any, necessary to pay debt service on loans or on bonds issued by the
12 Alaska Energy Authority, only if the proceeds of those loans or bonds were used
13 for the purpose of repairing, improving, or maintaining the initial project as
14 defined in AS 44.83.398;

15 (2) next, the remaining balance, if any, as follows:

16 (A) 40 percent of the balance in the four dam pool transfer fund
17 shall be transferred to the power cost equalization and rural electric
18 capitalization fund to be used for power cost equalization and rural electric
19 projects:

20 (B) [(2)] 40 percent of the balance in the four dam pool transfer
21 fund shall be transferred to the Southeast energy fund to be used for power
22 projects for utilities participating in the power transmission intertie between the
23 Swan Lake and Tyee Lake hydroelectric projects; and

24 (C) [(3)] 20 percent of the balance in the four dam pool transfer
25 fund shall be transferred to the power project fund to be used for statewide
26 utility projects.

27 * Sec. 3. AS 44.83.100(b) is amended to read:

28 (b) Bonds shall be authorized by resolution of the authority, and shall be dated
29 and shall mature as the resolution may provide, consistent with the requirements of
30 this subsection [EXCEPT THAT NO BOND MAY MATURE MORE THAN 50
31 YEARS FROM THE DATE OF ITS ISSUE]. Bonds shall bear interest at the rates,

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment, at the places, and be subject to the terms of redemption which the resolution or a subsequent resolution may provide. A bond issued on or after the effective date of this bill section whose proceeds were used for the purpose of repairing, improving, or maintaining the initial project as defined in AS 44.83.398 must mature within eight years from the date of issue. Other bonds issued under this subsection must mature within 50 years from the date of issue.

* Sec. 4. AS 44.83.384(a) is amended to read:

(a) The fund may be used by the authority to provide money for

(1) the defeasance of bonds, or the payment of debt service on loans for or on an issue of bonds sold in connection with a power project constructed or acquired before August 11, 1993;

(2) the cost of operating, repairing, improving, and maintaining power projects constructed or acquired before August 11, 1993; and

(3) debt service on power projects constructed or acquired before August 11, 1993.

* Sec. 5. AS 44.88.090(b) is amended to read:

(b) Bonds shall be authorized by resolution of the authority, and be dated and shall mature as the resolution may provide, consistent with the requirements of this subsection [EXCEPT THAT A BOND MAY NOT MATURE MORE THAN 40 YEARS FROM THE DATE OF ITS ISSUE]. Bonds shall bear interest at the rate or rates, be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment, at the place or places, and be subject to the terms of redemption which the resolution or a subsequent resolution may provide. A bond issued on or after the effective date of this bill section whose proceeds were used for the purpose of repairing, improving, or maintaining the initial project as defined in AS 44.83.398 must mature within eight years from the date of issue. Other bonds issued under this subsection must mature within 40 years from the date of issue.

Handwritten notes:
1/10/88
CMA bonds
included 3
initial text




Alaska State Legislature

Official Business

State Capitol
Juneau AK 99801

MEMO

TO: Legal Services
via fax: X2029

FROM: Annette E. Kreitzer, Aide to
Senate Resources Committee 

DATE: April 8, 1996

RE: CS SB 284 (RES)

Please prepare a Resources Committee Substitute for SB284 using the following language. I need the CS by Tuesday, April 9 at 5:00 p.m. for distribution to Resources Committee members.

- 1) The CS must incorporate an 8-year financing term for the bonds.
- 2) Add in a Purpose Clause with the following language:

*Section 1. (a) The purpose of this Act is to facilitate the issuance of bonds or other debt by the Alaska Energy Authority (AEA), the proceeds of which bonds or other debt will be used to make certain needed repairs to the initial project.

(b) It is the intent of the Legislature that the AEA and the purchasing utilities continue to negotiate in good faith with respect to the transfer of the initial project to the utilities and that a transfer plan or other long term solution to the economic difficulties of the initial project be presented to the 20th Alaska Legislature.

(c) In this section "initial project" means the power project described as the initial project in AS 44.83.398(a), consisting of the Tyee Lake, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric facilities.

Purpose Language for SB 284

***Section 1.** (a) The purpose of this act is to facilitate the issuance of bonds or other debt by the Alaska Energy Authority ("AEA"), the proceeds of which bonds or other debt will be used to make certain needed repairs to the initial project.

(b) It is the intent of the legislature that any bonds or other debt issued by the AEA, in accordance with subsection (a), have a term of no more than 10 years.

(c) It is the intent of the legislature that the AEA and the purchasing utilities continue to negotiate in good faith with respect to the transfer of the initial project to the utilities and that a transfer plan or other long term solution to the economic difficulties of the initial project be presented to the 20th Alaska Legislature.

(d) In this section, "initial project" means the power project described as the initial project in AS 44.83.398(a), consisting of the Tyee Lake, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric facilities.

FAX

Date: Sunday, April 07, 1996

Time: 2:02:01 PM

2 Pages

To: Annette Kretzer

From: Keith Laufer

Fax: 907-465-3810

Fax: 907-345-9161

Voice:

Voice: 907-345-9090

Comments:

Attached is draft purpose language to be considered for inclusion into SB 284. AEA will provide you with a letter regarding the ability to market bonds if the bill limits the utilities' self-help waiver. You can reach me through AIDEA on Monday at 269-3000. Hope you had a nice weekend.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

April 8, 1996

The Honorable Loren Leman
Alaska State Senate
State Capitol, Room 115
Juneau, Alaska 99801-1182

Subject: SB284

Dear Chairman Leman:

At last Thursday's hearing of the Senate Resources Committee, Senator Taylor requested that an amendment be drafted to SB284 which would fully restore the four dam pool purchasing utilities' self help rights in the event divestiture to the utilities of the projects fails to occur by a certain date. As you know, the purpose of SB284 is to facilitate the issuance of bonds by the Alaska Energy Authority ("AEA") to provide funds to initiate certain needed repairs to the four dam pool projects. In support of this bond issuance, the purchasing utilities have entered into an agreement with AEA where among other things they have agreed to reduce their self-help rights under the power sales agreement to the limited extent of the debt service on the bonds. In other words, the utilities have already agreed that they will not invoke self help to the limited extent of the debt service on any bonds issued for these repairs. This limited self help waiver is one of two necessary components in order to provide a secure revenue stream for the payment of the repair bonds. The second necessary component is set forth in SB284. SB284 provides the mechanism to insure that the payments made by the utilities are first pledged to the debt service on the bonds.

As we understand the amendment that Senator Taylor requested be drafted, if divestiture of the projects to the utilities did not occur by a certain date, the utilities contractual agreement to partially limit their self help right would be abrogated. Accordingly, under Senator Taylor's proposal, a secure payment stream for the bonds could not be assured.

We have had preliminary discussions with AEA's financial advisor and with one of AEA's underwriters regarding Senator Taylor's proposed amendment. Both of these

The Honorable Loren Leman
April 8, 1996
Page 2

advisors have indicated that it is their opinion that, if the utilities agreement to limit their self help right can be abrogated in the manner contemplated by Senator Taylor's proposed amendment, it will be extremely difficult or impossible to market the bonds. If marketable at all, the interest rate and other costs of the bonds would be prohibitive. Accordingly, if Senator Taylor's proposed amendment were included in the bill, it is unlikely AEA would be able to issue the bonds for the needed repairs and the purpose of SB284 would be thwarted.

I would be happy to answer any questions you or the Committee might have.

Sincerely,



D. Randy Simmons
Development & Finance Manager

cc: William R. Snell, Executive Director
David Ramiseur, Office of the Governor
Pat Pourchot, Office of the Governor
Shari Kochman, Office of the Governor

SB284:

8 yrs -

provision to restore self-help; -
incentive to force Admin toward closure and net face

Entire bond set drops back into AID's lap;

* 8 yr term w- 1-yr. payment deferral

remains -/

bonds

deps upon Admin w/

some tickle if d. resistance doesn't occur,
self-help works - job ready.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

MEMORANDUM

TO: Dennis Lewis
General Manager

FROM: Dennis V. McCrohan, P.E. *DVM*
Deputy Director - Energy

DATE: March 1, 1996

SUBJECT: Senate Hearing on "Short Term Financing"
Tyee Repairs

Attached is a notification of the Senate Resources Hearing on SB 284 on March 6. I have also attached a copy of Senate Bill No. 284. We request that the PMC participate in the hearing and suggest that as Chairman of the PMC and also the representative from Petersburg that you attend the hearing. Please feel free to involve Wrangell at your discretion. Mr. Randy Simmons will represent AEA in Juneau at the hearing and please discuss the details with him. The AEA staff will be conferenced into the hearing from Anchorage.

Please call Randy or me if you have any questions.

Attachments

cc: Keith Laufer
Randy Simmons
Riley Snell

Randy Simmons

From: Katelyn Ohmer
To: Randy Simmons; Riley Snell
Subject: Legislation
Date: Friday, March 01, 1996 11:20AM

It is shaping up to be a busy week in Juneau next week for AIDEA/AEA related bills. You may already know about these meetings/hearings, but I'll share the information anyway so it is all in one place:

March 5 (Tuesday)

House Finance Committee sub-hearing on DCRA energy related matters
8 a.m.

March 6 (Wednesday)

Senate Resources, SB 284 (4-Dam Pool), Sen. Leman 3:30p

March 8 (Friday)

House Labor and Commerce, HB526 (Kott's AIDEA bill), 3p

March 14 (Thursday)

PCE meeting

I'll contact Sen. Leman's office to see if they need additional information on the bill. Will you guys be down to testify??? Or via teleconference.

Petersburg Municipal Power & Light

P.O. Box 329 • Petersburg, Alaska 99833

Phone: 907-772-4203

FOUR DAM POOL PURCHASING UTILITIES POSITION PAPER

Introduction

Since 1985, the electric utilities in Wrangell, Petersburg, Ketchikan and the Kodiak and Copper Valley Electric Associations have purchased power from four State-owned dams. Recently efforts intended to transfer actual ownership of the dams to the local utilities failed. This paper sets forth the history of the projects, the contractual relationship, and the obstacles to ownership transfer. This paper sets forth the utilities' position on both the project ownership issue and also the AEA's current proposal for financing immediate repairs.

Initial Project

In 1981, The legislature enacted the Energy Program for Alaska. The Energy Program was created to facilitate the financing and construction of power projects through direct State capital contributions using appropriated funds, as well as providing a mechanism for pooling any debt financing related to these projects.

During the early 1980s, the AEA financed with appropriated funds and constructed or acquired four hydroprojects under the Energy Program for Alaska (Lake Tyee, Swan Lake, Terror Lake, and Solomon Gulch). The purpose of the acquisitions was to provide a long-term, reliable source of power for the communities of Petersburg, Wrangell, Ketchikan, Kodiak, Glennallen and Valdez, at an ongoing operating cost that was expected to be less than the costs of operating the diesel generation units that were in operation in those communities. The financing, operation and management of the four projects were combined, statutorily named "The Initial Project," and are commonly known as the "Four Dam Pool."

The costs for construction or acquiring the Initial Project was initially paid by bond financing that was replaced with money lent to the AEA by the Department of Commerce and Economic Development. There is no fixed annual payment schedule; AEA collects "debt service" from the utilities on a kilowatt hour basis, which varies depending on the amount of energy sold from the projects.

AEA has contracted for the O&M of the four facilities with the local utility involved. AEA retains the right and responsibility to review and approve the annual budget for the operation and maintenance of the project. The cost of O&M is paid as a kWh charge based upon the combined annual O&M budgets.

The PSA

The final cost of construction for the four projects far exceeded the estimates, depriving both the State and the utilities of the intended arrangement--State financed and constructed projects for which the utilities would pay only operating costs with no obligation to repay capital costs paid by the State. Because of the serious cost overruns, utilities and the State each paid significantly more for power from these projects than any party intended or would have considered acceptable.

In 1985, after the projects were completed, the AEA and the cities of Ketchikan, Wrangell and Petersburg, Copper Valley Electric Association, and Kodiak Electric Association ("Purchasing Utilities") signed a Power Sales Agreement ("PSA"). The purpose of the agreement was to establish the conditions under which the power from the State-owned facilities would be sold. One key term was the creation of the Project Management Committee ("PMC") composed of a representative of each utility and the AEA, and the delegation to the PMC of broad decision-making authority.

Because of the serious construction cost overruns, the State required the utilities to make payments intended to repay to the state part of the construction cost. Because of this added debt burden, and the limited resources of the utilities to pay both capital and O&M costs, it was necessary for the State to retain ongoing financial responsibility for "major risks" (non-routine maintenance and replacements, catastrophic events, uninsured losses etc.).

Under the terms of the PSA, the AEA sells wholesale power to the five Purchasing Utilities, who, in turn, sell the power to their retail electric customers. The utilities, through purchase of power from the project, bear direct responsibility for certain defined "Power Production Costs" (such as routine operation and maintenance costs, insurance, PMC and certain AEA project-specific administrative costs). In addition, the Purchasing Utilities agreed to pay a fixed (i.e., "capped") contribution to a "Renewal and Replacement" (R&R) Fund (for the routine replacement of components as they need replacement or refurbishing), and to make a "debt-service" payment to the State based on a fixed cents per kilowatt hour charge. The current Four Dam Pool power rate is 50% higher than the Railbelt utilities pay for power from the AEA owned Bradley Lake project. The power rates in the Four Dam Pool communities are among the highest non-subsidized (i.e., not eligible for Power Cost Equalization) rates in the State.

In return for the utility commitment to bear the costs identified, the AEA agreed to bear the risks of substandard facility performance, insufficiency of the R&R Fund, uninsured losses, and other defined risks. To insure that there would be adequate funds to cover these risks, the PSA provides that the PMC may withhold debt-service payments from the State and use that money for repairs or renewals and replacements. This PMC right is commonly referred to as "self-help".

Needed System Repairs

Over the past few years, it has become clear that there are serious problems with certain Initial Project facilities, which include the four dams, transmission lines and related facilities. The vast majority of these problems are beyond the normal O&M costs paid by the Purchasing Utilities and are the AEA's financial responsibility to remedy.

Major repairs are needed on the Tye transmission line. A report prepared by Dryden and LaRue (consulting engineers retained by AEA) analyzed the failures and identified \$30 million of repairs to correct design deficiencies, of which \$16 million is essential to the reliability and safe and prudent operation of the project. A subsequent preliminary estimate provided to AEA by another engineering firm, Power Engineers, confirms that the Tye transmission line could need \$20 million in immediate repairs.

The AEA recognized its legal responsibility for the repair of the transmission line. In June 1995, AEA signed an agreement acknowledging its obligation to pay for Tye repairs as part of the settlement of the lawsuit brought by four of the Purchasing Utilities. However, how AEA will pay for the work remains an issue.

In addition, AEA has also acknowledged significant responsibility for major problems with the Terror Lake project on Kodiak island. The full extent of AEA responsibility and its financial requirements are yet to be determined. A repair project in 1994 and a mandatory FERC five-year inspection in 1995 identified a number of problems that impact the economic life of the Terror Lake project. The problems included excessive leakage, erosion, rock damage and rock accumulation endangering continued operation of the project. The 1994 repair project expected that the required work would cost \$1.8 million, take the dam out of service during one construction season, and result in a significant increase in energy sales after repairs were made. However, the repair project went badly. The tunnel was restored to service on October 1, 1994, without any increase in energy production and the work identified in the initial contract not completed, and with extensive additional repairs identified (AEA estimated the cost to complete repairs at over \$3 million dollars).

In addition to these, and other AEA repair obligation, all parties agree that the costs of normal renewals and replacements will soon exceed the payments to the R&R Fund. As a result, AEA will have significant responsibility for an ongoing, annual insufficiency in that Fund.

AEA Financing Proposal For Immediate Repair Needs

AEA proposes to sell up to \$25 million in bonds to pay for AEA's obligations for immediate repairs to the project. AEA and the Purchasing Utilities entered into an agreement in January 1996 in which the utilities agreed to cooperate with AEA in this financing. Specifically, the AEA again acknowledged its financial responsibility for the Tye and Terror Lake repairs and the Purchasing Utilities agreed to support the AEA's efforts to obtain legislative approval to use part of the "debt service" payments to repay debt service on the bonds. The utilities' right to "self-help," The uncommitted portion of the "debt-service," is unaffected.

Terms of the financing were left to AEA and the legislature. Because AEA and the Purchasing Utilities were in serious ownership transfer discussions, AEA proposed to delay debt service payments on the theory that such delay would allow the ownership transfer to be completed before the repayment obligation commenced. The utilities reluctantly agreed that the financing could be "up to" 25 years in length and initial debt service payment could be deferred until 1998. However, the utilities clearly would prefer a shorter term and to begin payment of debt service as soon as July 1996.

Divestiture Talks

In 1993, the State legislature passed a bill that restructured the AEA. Prior to the Act, the AEA was a public corporation of the State of Alaska, with a separate and independent legal existence. After enactment, AEA's power to acquire new facilities was eliminated, the AEA was transferred to the domain of AIDEA, and AIDEA's Board now directs AEA operations. That legislation directed AEA to seek ways to turn over ownership and control of AEA owned projects to the utilities.

That legislation, coupled with tension over AEA's financial responsibility for necessary repairs, led the parties to begin discussing the possibility of the AEA transferring ownership of the four hydroprojects to the Purchasing Utilities. The parties to these discussions have called this effort "divestiture talks."

In August 1995, the parties met at Chena Hot Springs for two days of intense discussions. The result was a memorandum of Understanding that set out a basic agreement for negotiation of an ownership transfer:

- * The PSA will remain in effect throughout the transfer. (The PSA cannot be changed without unanimous approval by the parties.)
- * As part of the transfer, AEA's obligations under the PSA will be transferred to the new owner, and AEA will be fully released from its duties as owner.
- * The AEA will receive value in exchange for the transfer as determined through the negotiation process.
- * The transfer must provide economic benefit to the utilities. (The utilities need both short term and long term rate reductions.)
- * Any ownership transfer will be subject to review of the legislature and will require the approval of the AIDEA board of directors and the governing bodies of all five utilities.

To provide a common factual basis for the talks, the AEA and the Purchasing Utilities contracted with Harza Northwest, Inc. to perform a risk assessment for the four projects. The purpose of the risk assessment was to identify the risks associated with the ownership and operation of the projects.

Harza prepared a Risk Assessment of the present condition, expected future maintenance and repair costs above normal operating costs, and risks associated with unpredictable events. The Harza Report identified expected risk-related repair costs of approximately \$1.1 million per year for the four projects, and an annual shortfall in the R&R Fund of about \$2 million. It also identified about \$30 million of repairs needed within the next five years. Virtually all of these costs will be the responsibility of AEA under the Power Sales Agreement. As a result, the costs identified by Harza become a major factor in setting a fair price for the project if sold to the utilities.

In addition to the facility risks reviewed by Harza, there are other risks to factor into the divestiture price negotiations. Two major concerns of the Purchasing Utilities are risks of inflation and the "market" for power sales in their communities.

Under the PSA, the utility payments into the R&R Fund and to the AEA as "debt service" are fixed. In other words, they do not escalate with inflation, and, therefore, the utilities are protected from any rate impacts as a result of inflationary increases to repair or renewal costs. If the utilities assume ownership, they would be exposed to the effects of inflation on such costs, and therefore believe it is critical that any divestiture price negotiations reflect the value to the State of transferring this risk to the utilities.

Another significant risk the utilities must factor into any purchase price is that the markets for the power are not guaranteed and face real uncertainty. The power generated at these projects serves relatively small and isolated communities. These communities are reliant on one or two primary industries, such as timber or fishing and their economic viability is threatened. If a plant or mill closes or the fishing season is restricted or a customer installs its own generation, the revenues and economics of the serving utility is then a major concern.

Over the past several months, the Purchasing Utilities have done extensive legal review, performed a detailed review of the Harza work, and retained a financial advisor to determine the financial consequences to the communities of assuming ownership. The most serious issue is the proposed transfer of risks from AEA to the utilities.

Currently AEA bears the risks of "major repairs," inflation, loss of load, etc. If AEA were prepared to retain some of these risks, the utilities are prepared to discuss a significant payment to the State for ownership of the projects. However, AEA has insisted that the utilities must accept all risks as part of an ownership transfer. The utilities determined that the present value of the financial risks they would assume is high enough that it essentially offsets value of the payments the utilities currently make to the State. In other words, although the utilities are willing to consider a "modest" payment to the State for the project, they believe the basic deal needs to be that the price they pay the State is to accept (and therefore relieve the State from) the significant risks facing AEA over the next few decades.

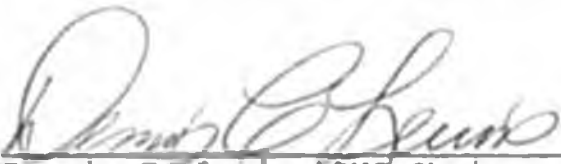
At the last negotiating session, AEA shocked the Purchasing Utilities by proposing that the utilities (1) pay to AEA \$84 million, (2) assume the full burden of the already identified costs of repairing Tyee and Terror Lake, and (3) assume all current State risks under the PSA. To establish the value of the Project, the State discounted the risks established in the Harza report and maximized potential revenues. The utilities ended negotiations because this AEA proposal is so far from anything considered reasonable. Before the meeting ended, the utilities listed the other considerations and risks not addressed in the State's proposal as follows: Southeast Intertie (construction and operation), the potential of an early catastrophic event, the need for a warranty on Tyee repairs, future regulatory risk, Terror Lake repairs, cost of setting up and operating a new entity, inflation and market risk.

Conclusion

Under the PSA, the utility risks related to the project are very limited. The State is contractually responsible for extraordinary costs like repairing the Tyee line, and the debt service component of the rate is effectively capped. These were very important victories for the utilities in the 1985 negotiations, and continue to be important contract obligation of the State.

It is important to remember that the Purchasing Utilities however, are paying some of the highest wholesale power rates in the State. The current rate for Initial project power is more than 50% higher than the costs for wholesale power generated at the Bradley Lake hydroelectric project. Add to that, the future risks outlined in the Harza Report, and the rate could rise significantly in the next several years and worsen the economic problems faced by the served communities.

Lowering wholesale power rates and obtaining local control was the motivation of the Purchasing Utilities for entering the divestiture talks. The motivation is still real. The utilities, however, cannot take on the operational and economic risks of these projects without sufficient consideration in the divestiture process. AEA must recognize the original State goal of rate relief to isolated communities and the need for any transfer of ownership to lead to less expensive rates.



Dennis C. Lewis, PMC Chairman
In Behalf Of The Purchasing Utilities



- TYEE LAKE HYDROELECTRIC PROJECT -

P O BOX 1318 WRANGELL, ALASKA 99929 (907) 874-3834 FAX (907) 874-2581

DATE: March 4, 1996
 TO: Senate Resource Committee, Alaska State Senate
 FROM: Dick Olson, President TBPA
 SUBJECT: Senate Bill 284

As you already know, the Thomas Bay Power Authority, a Joint Agency of Petersburg and Wrangell, contracts with the State of Alaska to operate the Tyee Hydroelectric project.

Our responsibility has been to operate the project in a prudent manner and to provide our communities with reliable electrical energy and to also protect the States investment in this project.

Everyone is aware that the Tyee transmission line is substandard, and has been at risk of failure for several years due to a shortage of funding for repairs.

After many years of investigative work by many engineering firms, AIDEA and the Project Management Committee (Four Dam Pool) believe they have arrived at a level of confidence with the engineering and planning to go forward with the repair of the Tyee Transmission line when financing can be obtained.

Through an agreement between AIDEA and the Purchasing utilities, AIDEA is asking the legislature for authority to sell bonds to provide funds to complete the repairs of the Tyee line and critical work needed for other Four Dam Pool projects

The method of repayment of the bonds will insulate the legislature from the need to appropriate funds for repairs from other sources to protect the States investment.

Post-It® Fax Note	7071	Date	3/5/96	# of pages	▶
To	Dennis Lewis	From	Dick Olson		
Co./Dept.		To			
Phone #		Phone #			
Fax #		Fax #			

Final Draft

March 4, 1996

Page 2

The Thomas Bay Power Authority urges you to approve the sale of bonds so work can begin this year for repair of these projects.

Sincerely,



Dick Olson, President

Thomas Bay Power Authority



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

MAR 22 1996



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

March 20, 1996

Senator Loren Leman, Chairman
Senate Resources
Alaska State Legislature
State Capitol (MS 3100)
Juneau, AK 99801-1182

RE: SB 284

Dear Senator Leman:

This letter is in response to questions raised at the Senate Resource Committee hearing on SB 284 held on March 6, 1996.

Senator Halford requested specific statutory and regulatory citations authorizing the Alaska Energy Authority (AEA) to negotiate and enter into a Long Term Power Sales Agreement for the sale of Four Dam Pool power. Enclosed is a letter from Keith Laufer, Assistant Attorney General, addressing this issue.

You requested examples of bonding scenario's showing how the term of the bond issuance will affect the yearly debt service and overall cost to the State. Examples, on a comparable basis, showing terms of 5, 10 and 25 years, at current rates, follow.

Term	Initial Payment Date	Total Issuance	Amount Available For Construction	Annual Debt Service Payments	Total Debt Service
5	7/1/97	\$25 Million	\$24,131,066	\$6,217,100	\$31,077,086
5	7/1/98	\$25 Million	\$21,418,081	\$7,237,932 ⁽¹⁾	\$31,766,081
10	7/1/97	\$25 Million	\$24,208,600	\$3,732,744	\$37,301,674
10	7/1/98	\$25 Million	\$21,470,156	\$3,866,300 ⁽²⁾	\$37,674,942
25	7/1/97	\$25 Million	\$24,069,808	\$2,386,944 ⁽³⁾	\$60,297,540
25	7/1/98	\$25 Million	\$21,191,503	\$2,386,944 ⁽³⁾	\$60,297,540

- (1) Initial annual payment of \$2,823,750; annual payment of \$7,237,932 thereafter.
- (2) Initial annual payment of \$2,900,478; annual payment of \$3,866,300 thereafter.
- (3) Initial annual payment of \$3,059,202; annual payment of \$2,386,944 thereafter.

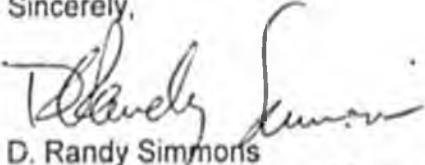
Senator Loren Leman, Chairman
March 20, 1996
Page Two

The differences between total issuance and the amount available for construction is made up of issuance costs and capitalized interest, if applicable.

Based on the information we currently have, a 10 year term with a one year payment deferral would be the alternative that we would most likely choose. The deferral would give us two years to find a long term solution to the Four Dam Pool issues, without affecting the current allocation of the payment stream that the State receives. If we are unsuccessful, the debt service amount would be set at a level that would still allow between \$6-7 million to be allocated to PCE, the Southeast Intertie and DCRA's power project fund.

I hope this information is helpful. If you need any additional information, please do not hesitate to call me.

Sincerely,



D. Randy Simmons
Development & Finance Manager

DRS/ylf
h:\r\simmons\ee\sb284.doc

Enclosure

cc: William R. Snell, Executive Director
Senator Drue Pearce
Senator Steve Frank
Senator Rick Halford
Senator Robin Taylor
Senator Georgianna Lincoln
Senator Lyman Hoffman
Percy Frisby, Director, Division of Energy, DCRA
Dennis Lewis, Chairman, PMC

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 18, 1995

Randy Simmons
Alaska Industrial Development and Export Authority
480 West Tudor
Anchorage, Alaska 99503-6690

RE: SB 284
Our file 661-95-0723

Dear Randy:

At your request, I am writing this letter to respond to certain questions Senator Halford raised at the Senate Resource Committee hearing on Wednesday, March 6, 1996. Specifically, Senator Halford requested information regarding the statutory authority of the Alaska Energy Authority (AEA) to enter into the Long Term Power Sales Agreement for the Four Dam Pool Power (the PSA) and the provision therein allowing the purchasing utilities to withhold payments under certain circumstances and use the money withheld to effect repairs to the projects.

Pursuant to AS 44.83.080 (as in effect when the PSA was executed), AEA was granted broad powers to enter into agreements regarding the sale of energy produced by its projects. Specifically, AS 44.83.080 (10) provided that the AEA had the power to enter into contracts

for the financing, construction, acquisition, operation and maintenance of all or any part of a power project, either inside or outside the state, and for the sale and transmission of power from a project

This power was reiterated in AS 44.83.080 (11) where AEA was provided the power to enter into contracts "for the purchase, sale, exchange, transmission or use of power from a project or any right to any capacity of it."

In addition to these specific contractual powers, the AEA was provided with the power

to enter into contracts or agreements with respect to the exercise of any of its powers, and to do all things necessary or convenient to carry out the corporate purposes and exercise the powers granted in this chapter.

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO:

- 1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907)269-5100
FAX: (907)276-3697
- KEY BANK BUILDING
100 CUSHMAN ST., SUITE 400
FAIRBANKS, ALASKA 99701-4679
PHONE: (907)451-2811
FAX: (907)451-2846
- P.O. BOX 110300-DIMOND COURT HOUSE
JUNEAU, ALASKA 99811-0300
PHONE (907)465-3600
FAX (907)465-6735

AS 44.83.080(14) (effective at the time PSA was executed).

With respect to the sale of power from the Four Dam Pool projects, AS 44.83.398 set forth factors that were to be considered in computing the wholesale power rate. Under that provision, the rate established must equal the amount AEA estimates is necessary to produce revenue sufficient to pay for the operation, maintenance and equipment replacement costs of the projects, the power projects proportionate share of the debt service, and safety inspections of the power project. The provisions of the PSA take each of these components into account in establishing the wholesale power rate from the Four Dam Pool. (See PSA Section 5 and specifically Section 5(f)).

Under the PSA negotiated by AEA, AEA remained responsible for certain risks related to project ownership. These risks included the risks of uninsured facility failures, substandard facility performance, inadequacy of the R&R fund, or failure of any purchasing utility to make payments required under the agreement. Under Section 6(a) of the PSA, in the event AEA was unable to fulfill its obligations with respect to these risks, the utilities could withhold payments due under the PSA in order to fulfill those obligations. This type of arrangement is common in many commercial transactions. It is often the case that one party to a contract may withhold payment to another party and apply the withheld sums to fulfill the other party's obligations. This makes particular sense in the context of the PSA. Under the PSA, the utilities are only required to pay for power actually produced. Thus, if a facility failure prevents power from being produced by the projects, the entire payment stream to the state could be disrupted. Under the mechanism provided in the PSA, the utilities can utilize funds to effect repairs ensuring that power continues to be produced and that the disruption to the state's payment stream is minimized. I have found nothing in AEA's statutes or otherwise that would prevent AEA from entering into this type of arrangement.

To summarize, the PSA entered into by the Alaska Energy Authority appears consistent with AEA's statutes. AEA was granted broad powers as it pertains to entering into power sales agreements with utilities. The PSA entered into between the AEA and the purchasing utilities of the Four Dam Pool appears within the broad powers granted to AEA.

Randy Simmons
Alaska Industrial Development and Export Authority
661-95-0723

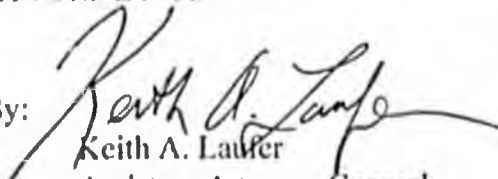
March 18, 1996
Page 3

Should you have any questions do not hesitate to call.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:


Keith A. Laufer
Assistant Attorney General

KAL:aw



— TYEE LAKE HYDROELECTRIC PROJECT —
P. O. BOX 1318 WRANGELL, ALASKA 99929 (907) 874-3834 FAX (907) 874-2581

DATE: March 4, 1996
TO: Senate Resource Committee, Alaska State Senate
FROM: Dick Olson, President TBPA
SUBJECT: Senate Bill 284

As you already know, the Thomas Bay Power Authority, a Joint Agency of Petersburg and Wrangell, contracts with the State of Alaska to operate the Tyee Hydroelectric project.

Our responsibility has been to operate the project in a prudent manner and to provide our communities with reliable electrical energy and to also protect the States investment in this project.

Everyone is aware that the Tyee transmission line is substandard, and has been at risk of failure for several years due to a shortage of funding for repairs.

After many years of investigative work by many engineering firms, AIDEA and the Project Management Committee (Four Dam Pool) believe they have arrived at a level of confidence with the engineering and planning to go forward with the repair of the Tyee Transmission line when financing can be obtained.

Through an agreement between AIDEA and the Purchasing utilities, AIDEA is asking the legislature for authority to sell bonds to provide funds to complete the repairs of the Tyee line and critical work needed for other Four Dam Pool projects.

The method of repayment of the bonds will insulate the legislature from the need to appropriate funds for repairs from other sources to protect the States investment.

March 4, 1996
Page 2

The Thomas Bay Power Authority urges you to approve the sale of bonds so work can begin this year for repair of these projects.

Sincerely,

A handwritten signature in cursive script that reads "Dick Olson".

Dick Olson, President
Thomas Bay Power Authority

TONY KNOWLES
GOVERNOR



P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 9, 1996

287

The Honorable Drue Pearce
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill modifying the distribution of money from the four dam pool transfer fund and making necessary changes to the power development fund. These changes are needed to allow the Alaska Energy Authority (AEA) to issue bonds for needed repairs to the four dam pool projects.

The Tyee transmission line links the communities of Wrangell and Petersburg to the Tyee Lake hydroelectric project. The transmission line has been out of operation on three occasions over the last several years because of significant deficiencies in the line. Repairs are immediately needed to ensure that the line can operate without a catastrophic failure. In addition, repairs are required to the Terror Lake hydroelectric project power tunnel. Due, at least in part, to design deficiencies, the Terror Lake power tunnel has not performed in accordance with reasonable standards.

Under the long-term power sales agreement between the AEA and the purchasing utilities of the four dam pool, the required repairs to the Tyee transmission line and some of the repairs to the Terror Lake power tunnel are obligations of the AEA. Under the agreement, the utilities make annual debt service payments to the state. Over the past several years, these payments have amounted to between \$8 million and \$11 million annually. The utilities may reduce or withhold this payment, however, if the AEA lacks sufficient money to fulfill its obligations under the agreement.

The ability to withhold payment is generally referred to as the utilities self-help right. Since the Tyee transmission line repairs and some of the Terror Lake tunnel repairs are obligations of the AEA, the purchasing utilities could withhold the annual debt service payment to provide money for these repairs. In fact, under a settlement agreement with AEA, the purchasing utilities invoked their self-help right last fiscal year and withheld \$4 million to conduct engineering for the required repairs.

The debt service payment made by the utilities is deposited into the four dam pool transfer fund. Under current law, subject to appropriation, 40 percent of the balance in the four dam pool transfer fund is transferred to the power cost equalization and rural electric capitalization fund; 40 percent goes to the Southeast energy fund, and 20 percent goes to the power project fund.

AEA intends to issue up to \$25 million of bonds to finance the immediately needed Tyece transmission line repairs and the obligations of the AEA with respect to the Terror Lake power tunnel for these repairs. That would prevent the utilities from withholding their debt service payments. Under existing law, AEA has the authority to issue these bonds and they may carry the moral obligation of the state. The bonds will have a term of no more than 25 years. Annual payments are estimated at between \$3 million and \$5 million and will begin no later than July 1, 1998.

The purpose of the deferral of bond payments to July 1, 1998, is to give the AEA time to develop a long-term plan for the four dam pool facilities. The AEA is currently negotiating to sell the dams to the utilities. If the sales take place, the bonds will be paid off before any debt service payments are due.

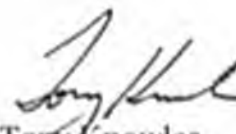
In order to make the proposed bonds marketable, bond investors must be assured that a secure revenue source is available for the debt service on the bonds. There are two critical elements to ensure this secure revenue source. First, the utilities must limit the self-help right under the power sales agreement to guarantee that a sufficient payment is made to the AEA to cover the debt service. In that regard, the four dam pool project management committee and the AEA entered into an agreement whereby the utilities will limit their self-help right. The second critical element is to ensure that the first call on the payments made by the utilities is for the debt service related to the bond issue. This bill accomplishes that second critical element.

Section 1 of the bill modifies current law so that, subject to appropriation, an amount necessary to cover the debt service on the loans or bonds will be transferred from the four dam pool fund to the AEA power development fund. Section 2 of the bill clarifies that money in the AEA power development fund can also be used for repairing and improving power projects constructed or acquired before August 11, 1993.

This bill will allow the immediately needed repairs on the four dam pool facilities to go forward. Meanwhile, discussions will continue with the utilities to develop a long-term solution to the financing and economic needs of the projects.

I urge your passage of this bill.

Sincerely,



Tony Knowles
Governor

City of Wrangell, Alaska



Terry Nikodym
Council

205 Brungor
P.O. Box 531
Wrangell, AK 99929

907-874-2381
Fax 907-874-3952

Terrence J. Nikodym

Sitka River Trips • Le Conte Glacier Tour
Anan Bear Observatory
Fishing Trips • Sightseeing Trips

STUMPY CHARTERS

USCG Licensed • USFS Permitted

P O Box 2154
Wrangell, AK 99929
907-874-2081