

SB

181

Alaska State Legislature

Chairman,
Judiciary Committee

State Capitol
Juneau, Alaska 99801-1182
(907) 465-3873
Fax: (907) 465-3922



50 Front Street
Suite 203
Ketchikan, Alaska 99901
(907) 225-8088
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Senator Robin L. Taylor

April 11, 2000

Senator Tim Kelly, Chair
Senate Community & Regional Affairs Committee
State Capitol, Room 101
Juneau, Alaska 99801-1182

Dear Senator Kelly: *Tim*

Please accept this letter as a request for the Senate Community and Regional Affairs committee to hear Sponsor Substitute for Senate Bill 181, "An Act directing sale of the four dam pool hydroelectric facilities."

SB 181 is an important step in bringing enough electricity to Southern Southeast Alaska. Ownership by the subscriber community corporation will give the members a valuable tool with which to determine their electric needs and costs. It is also an important step towards the building of the Swan-Tyee Intertie. Ultimately the State of Alaska will realize a saving, as the transfer will result in release from its long-term financial obligation under the current power sales agreement.

Attached you will find a copy of the Bill, Sponsor Statement and other supporting information. Thank you for your considering and scheduling SB 182 as soon as possible. If you have any questions, please feel free to contact Jim Pound or me.

Sincerely:

Robin L. Taylor
Robin L. Taylor
Senator, Dist. A

Attachments

RLT/jp

*Please announce
scheduled from the
floor as soon as the
bill is read
into the record.
RT*

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

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Sponsor Statement Senate Bill 181

"An Act directing sale of the four dam pool hydroelectric facilities."

The economic future of Southeast Alaska depends on a stable, economically feasible source of electricity. The Four Dam Pool facility currently meets the needs of the communities served but could be used even more under local control. **SB 181** accomplishes this by selling the Four Dam Pool facilities to a community corporation designed specifically to manage the hydroelectric needs of subscriber communities.

Transfer of the hydro project is a critical step in building a Swan-Tyce Intertie. Its completion will be a major first step in bringing additional affordable electricity to Southeast. Affordable electricity will offer an economic boost to the region. Many corporations have expressed an interest in developing livable wage jobs but look elsewhere once they evaluate the cost of power.

The transfer also has benefits for the state, as the sale will release it from the long-term financial obligations under the existing power sales agreement. Passage of **SB 181** will move Southern Southeast Alaska forward with a dependable, cost effective energy source.

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

COPPER VALLEY ELECTRIC ASSOCIATION, INC.

P.O. BOX 45, GLENNALLEN, ALASKA 99588
(907) 822-3211 FAX 822-5586

VALDEZ (907) 835-4301 FAX 835-4328
RECEIVED

APR 4 2000

March 30, 2000

Ans'd.....
E-mail: wilkinson@cvea.org

Senator Robin Taylor
Alaska State Legislature
Room 30, State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Dear Senator Taylor:

On behalf of Copper Valley Electric Association's Board of Directors, I want to thank you for the opportunity to meet with you earlier this month to discuss divestiture of the Four Dam Pool.

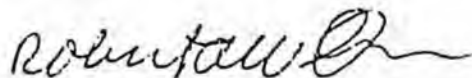
CVEA believes the Utilities' proposal meets the conditions of sale outlined by Jim Ayers in June 1995 in that it accomplishes the following:

- Releases the State of financial obligations under the Long Term Power Sales Agreement between the State and Utilities.
- It offers fair value for the projects.

Moreover, the proposal allows for the transfer of ownership to the communities the projects were constructed to benefit.

I look forward to providing you additional information in the near future.

Sincerely,



Robert A. Wilkinson
Chief Executive Officer

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PMC RESOLUTION TO RESUME DIVESTITURE NEGOTIATIONS WITH AEA

RESOLUTION 99-51

WHEREAS, the State of Alaska, through the Alaska Energy Authority (AEA) is the owner of four hydroelectric facilities commonly known as the Four Dam Pool (Lake Tyee, Swan Lake, Solomon Gulch and Terror Lake); and

WHEREAS, in 1985 the AEA and Kodiak Electric Association, Copper Valley Electric Association, and the municipal utilities in Wrangell, Petersburg and Ketchikan ("Purchasing Utilities") entered into the Long-Term Power Sales Agreement (PSA) providing for the sale of energy from the projects to the Purchasing Utilities; and

WHEREAS, the PSA identifies each of the projects as a "Dedicated Facility" for the respective utility or utilities taking delivery of energy from such project; and

WHEREAS, each of the projects is the principle source of electricity for each of the Purchasing Utilities and has a substantial impact on the economic welfare of each community; and

WHEREAS, the Purchasing Utilities and AEA have devoted substantial resources to the negotiation of transfer of project ownership from AEA to the Purchasing Utilities; and

WHEREAS, to assist in developing ownership transfer terms, the Purchasing Utilities and AEA jointly funded a detailed study of project conditions and risks; and

WHEREAS, in July 1997, the Purchasing Utilities presented to AEA a proposal for the purchase of the facilities; and

WHEREAS, AEA ended transfer negotiations in December 1997 and no negotiations have occurred since that time; and

WHEREAS, the Purchasing Utilities have been and remain willing to resume good faith negotiations of an ownership transfer;

NOW, THEREFORE BE IT RESOLVED:

The Purchasing Utilities of the Four Dam Pool desire to resume negotiations with AEA for the transfer of ownership of the Four Dam Pool projects to the Purchasing Utilities.

DATED this 5th day of APRIL, 1999.

PROJECT MANAGEMENT COMMITTEE

By: *Donald E. Lewis*
Chairman

Approved at the PMC meeting held March 31, 1999.

SE Alaska (Swan-Tyee) Intertie

November 1998

Page 1

Revised Funding Plan:

The new funding plan calls on the state of Alaska to issue bonds in the amount of \$45 million and defines the revenue stream to pay the debt service.

The City of Ketchikan, Ketchikan Gateway Borough, City of Saxman endorsed the new SE Alaska (Swan-Tyee) Intertie funding plan and included in their legislative priority list in 1998.

The Four Dam Pool Operating utilities (with City of Wrangell absent) unanimously endorsed the new funding plan at the October 28, 1998 Project Management Committee meeting.

Alaska Industrial Development and Export Authority (AIDEA) is currently reviewing the new funding plan.

An FY 1999 appropriation from the federal government in the amount of \$7.5 to \$10 million and the agreement by the state to bond for \$45 million will allow intertie construction to begin in 1999.

SE Alaska (Swan-Tyee) Intertie

November 1998

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Broad Based Support:

Governor Tony Knowles letter of October 7, 1998

Southeast Conference Resolution of September 24, 1998

Southeast Conference Resolution of September 25, 1995

City of Wrangell Resolution of November 25, 1997

Kodiak Electric Association Resolution of November 21, 1997

City of Ketchikan Resolution of November 20, 1997

Community Priorities Each year from 1988 through 1998

Ketchikan Gateway Borough/Cities of Ketchikan & Saxman

City of Ketchikan Resolution of November 7, 1996

Ketchikan Chamber of Commerce letter dated May 28, 1996

Copper Valley Electric Association Resolution of May 20, 1996

Thomas Bay Power Authority Resolution of May 20, 1996

SE Alaska (Swan-Tyee) Intertie

November 1998

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Current situation:	Best Case	1998 Est.
Current Energy Resources:		
Silvis Lake	10,312,000 kWh	10,000,000 kWh
Beaver Falls	37,754,000 kWh	37,000,000 kWh
Ketchikan Lakes	18,041,000 kWh	18,000,000 kWh
Swan Lake	<u>78,000,000 kWh</u>	<u>68,000,000 kWh</u>
Total Resources	144,109,000 kWh	134,000,000 kWh

1998 Generation Requirements 159,000,000 kWh

Expected Diesel Generation 25,000,000 kWh

In 1998 the pulp mill shut down all generation and began purchasing its 2,000 kW load from KPU. Additionally, the AMHS laid up the Columbia in Ketchikan for the 1998-99 winter season with its 1,500 kW load. Each additional load causes the diesels to run more and makes the need for the Swan-Tyee Intertie that much more necessary.

Load Growth Study:

Small electric utilities such as Ketchikan are greatly affected by the addition or loss of a single large customer, or by a customer changing its operation. A load forecast assumes a gradual measured growth but that is not what happens.

When KPC stopped generating power, resources required increased by 2+ Mw. When the AMHS chose to laid up Columbia in Ketchikan they added another 1.5 Mw resource requirement.

That's why the load forecast is projecting 145,000,000 kWh for 1998 (year 1 projections - low base and high) when actual resource requirements will likely exceed 159,000,000.

KETCHIKAN PUBLIC UTILITIES

Memorandum

To: The Honorable Bob Weinstein & City Council

From: John Magyar, KPU General Manager *JM* ACTING

Date: February 27, 1998

Subject: Power Supply Options—Staff Opinion

There are two basic hydroelectric strategies that staff has been pursuing. One is construction of the Swan-Tyee Intertie which will allow us access to surplus energy at the Lake Tyee project. The other is a combination of local small hydroelectric projects. Staff recommends that Council continue to pursue the Intertie strategy while developing the small hydroelectric alternative. Pursuing licensing efforts for the Whitman, Connell and Carlanna projects, considering proposals for Metlakatla and Mahoney power sales and developing the most cost effective construction sequence for these options will provide us a backup plan if the Intertie fails to obtain necessary funding or voter approval.

While this memorandum address staff opinion with regard to both Swan-Tyee Intertie and small hydroelectric strategies, action requested by staff at the March 5, 1998 Council meeting simply relates to the timing of initial construction activities of the Intertie using grant funds. Unless explicitly directed by Council to the contrary, staff will continue to pursue the Intertie as the primary strategy and small hydroelectric as an alternative strategy.

If we are unable to proceed with full construction of the Intertie for lack of funding, we would be in a position to make a full commitment to the small hydroelectric alternative with a bond election for the Whitman project in the year 2000. Staff recommends that we use these next two years to seek a complete funding package for the Swan-Tyee Intertie. A discussion of the Intertie and small hydroelectric strategies follows.

Swan-Tyee Intertie:

Staff continues to consider the Swan-Tyee Intertie as the strategy that would best meet the energy needs of Ketchikan over the long term. In the early 1990's, the Intertie was investigated as a means to make surplus available at Lake Tyee to meet the hydroelectric shortage in Ketchikan. In 1993 the State enacted legislation which provided a combination of annual grants and \$60 million in loans and bonds to KPU for the project. This funding allowed us to begin the engineering and permitting efforts in 1994.

The Swan-Tyee Intertie is an expensive project but provides unique opportunities to the community which cannot be overlooked. The sale of surplus Tyee energy is a win-win

proposition for Ketchikan as a customer and a member of the Four Dam Pool, allowing us to supply our ratepayers with low-cost hydroelectricity while enjoying a portion of those revenues through the Four Dam Pool. The Intertie will allow us the reliability and flexibility of sharing regional resources, giving us the same kind of benefits the Bonneville Power Administration has given the Pacific Northwest. Access to large regional hydroelectric resources will allow Ketchikan to avoid dependency on fossil fuel generation for decades into the future. Finally, we would be taking advantage of our delegations' strong position in Washington D.C. as well as a sympathy factor there for the harm done to the Southeast Alaska timber industry, a combination of events we are unlikely to ever see again.

With the news of the pulp mill closure in September of 1996, we were no longer able to depend on enough revenue to fund the Intertie. What is worse, we also were losing the backup generating capacity that the mill was often able to offer us. Without the mill, the loss of Ketchikan's single largest generation facility (Swan Lake) would put the community into a rotating blackout situation. The Ketchikan voters in October of 1996, the month after the mill closure was announced, voted to approve a \$13.7 million bond issue for a diesel generator. This generator will allow us to provide sufficient backup power to avoid blackouts when Swan Lake is off-line.

Ketchikan's energy demand had not diminished but we had lost generating capacity and revenue to fund the Intertie with the closure of the pulp mill. With that in mind, City Council approved a lobbying plan to seek federal funding for the Intertie. Due to the efforts of Senators Stevens and Murkowski, and Representative Young, \$10 million was provided for the Intertie in the FY98 federal budget. Another \$30 million will be sought in FY99.

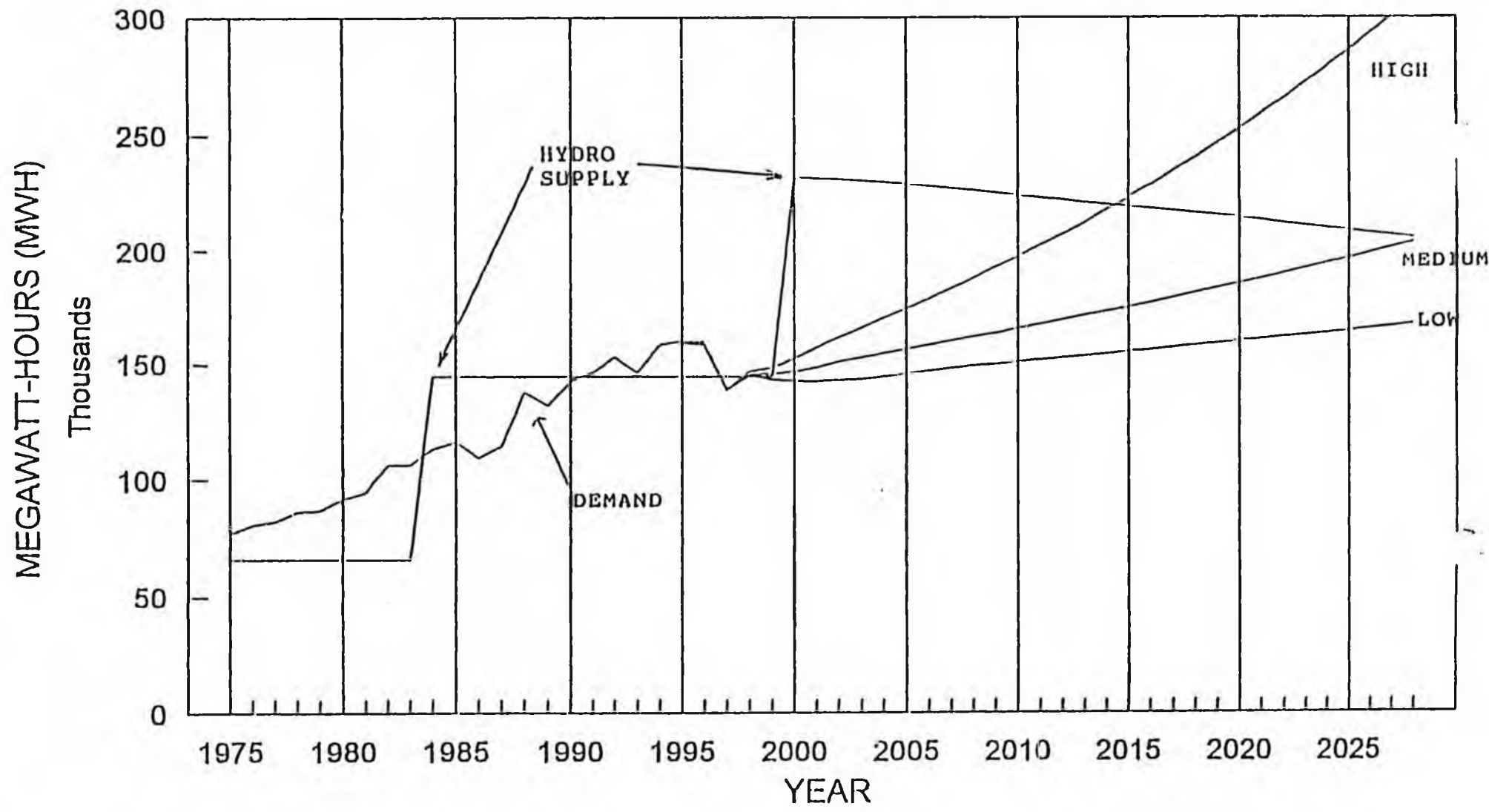
Since this project became a regional priority in the late 1980's, City Council has been asked on numerous occasions—*Do we continue with the Intertie or stop now?* We are at another decision point. Do we proceed with bidding first year construction? Senator Stevens and his staff were very clear when we visited last year—the federal government budgets one year at a time, if you are seeking federal funding you've got to recognize that you must proceed on faith. In turn, our lobbying group responded that we can do that provided that we are not obligated to spend local dollars until the last year of construction. Staff believes that a decision not to proceed will result in the loss of the existing \$10 million federal allocation. Senator Stevens needs to know by mid-March whether the Intertie is going forward in order to seek FY99 funding.

If one is optimistic about the Ketchikan economy, the Swan-Tyce Intertie is clearly our most cost effective power strategy for the future. While we have commissioned and distributed an *Electric Load Forecast* that considers the closure of the pulp mill, there is significant difference between the high, base and low forecasts. Staff recommends that in planning for future power supply infrastructure that we act conservatively and consider how we might meet the higher demands. In particular, Council should note that the "base" case does not assume new demands from new industry at the pulp mill site, or our need to supply energy to the KPC saw mill resulting from their recently announced closure of their power house.

Swan-Tyee Intertie

- With nearly half of Ketchikan's power coming from Swan Lake in a typical year. This project has by far the greatest potential for reducing KPU's wholesale and retail power rates in the future.
- A fully utilized Tyee Project has the potential of reducing the Swan Lake wholesale rates from the current 6.8 cents to the 5 to 5.5 cent per kWh range.
- Additionally, as an interruptible Tyee power consumer a special negotiated price below the standard Four Dam Pool wholesale rate is likely for KPU.
- This project is supported by the Four Dam Pool communities since it is the only possible way of reducing the power purchase rate under the power sales agreement with the state.
- The state is currently analyzing the project to determine if they are willing to bond for this project.
- A state divestiture of the Four Dam Pool projects (something that has been sought intermittently by the Four Dam Pool communities and the state for years) and acquisition of Swan Lake by KPU will allow power (20 years out) to be a bargain like Ketchikan Lakes, Silvis lake and Beaver Falls power is today with generation costs under 2 cents per kWh.
- This project will open up the possibility of future generation sources in the Petersburg area, and is the first phase in a SE Alaska grid.
- The EIS is complete. Record of Decision has withstood appeals. This project is ready to construct.
- Must be developed and have priority over other future generation projects in order to hold on to the federal funding now in hand.
- This project is less attractive economically if it falls behind other resources such as Mahoney, Metlakatla or Whitman. The Governor has repeatedly stated that his support is tied to the economics of the project. Unless we think he is fooling us, we cannot believe the contention that the intertie will be built by the state just because it's good infrastructure.
- Under the Four Dam Pool power sales agreement with the state and the other Four Dam Pool Communities, KPU is obligated to buy available power from the Four Dam Pool initial projects immediately after our existing hydro resources. Ketchikan should honor that commitment. Certainly, if another resource, such as Mahoney, has available power and Ketchikan needs it, we should buy such power at reasonable prices but we should not sign an agreement that directly conflicts with an existing agreement.
- Construction of this project will provide an economic boost for the community with jobs, and materials/service spending.

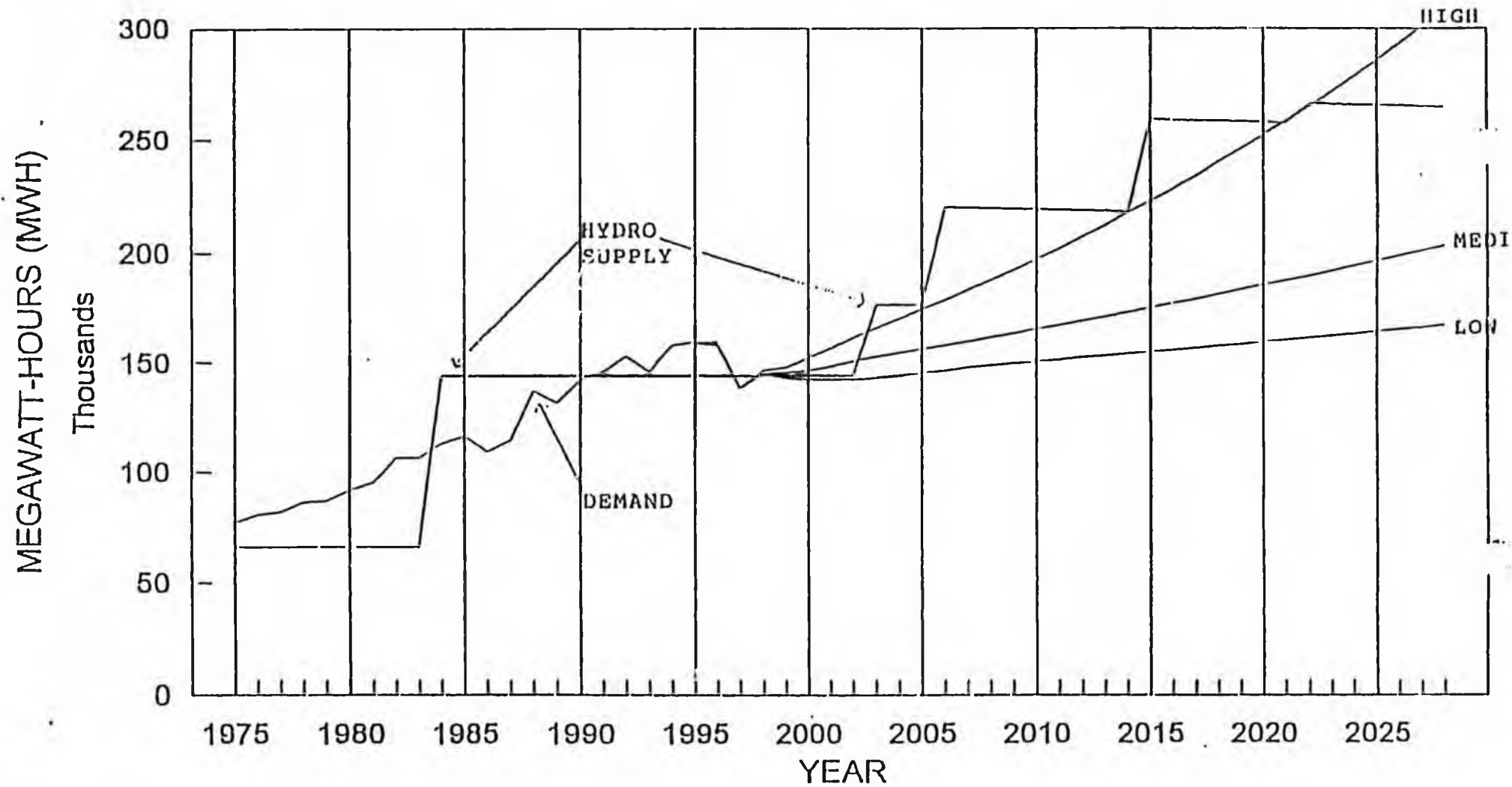
HYDROELECTRIC ENERGY SUPPLY AND DEMAND



SWAN-TYEE INTERTIE (2000)

HYDROELECTRIC ENERGY

SUPPLY AND DEMAND FOR HIGH LOAD GROWTH



WHITMAN and CONNELL (2003), METLAKATLA (2006)
MAHONEY (2015), CARLANNA and BEAVER FALLS (2022)

**FINANCIAL STATUS
SWAN-TYEE TRANSMISSION LINE INTERTIE**

Engineer's Estimate: **\$74,000,000 (1)**

State of Alaska FY 1994 grant	- \$ 4,664,262
State of Alaska FY 1995 grant	- \$ 4,000,000
State of Alaska FY 1996 grant	- \$ 2,560,000
US Department of Energy grant	- \$ 9,900,000
State of Alaska FY 2000 grant	- \$ <u>4,443,587 (2)</u>

Remaining Cost: **\$48,432,151**

Proposed Funding for Remaining Costs:

Federal grant	\$20,000,000
State funding (Four Dam Pool)	\$28,432,151

Notes:

(1) Raytheon January 1998 estimate for total project including permitting, engineering, construction, owner's costs and 15% contingency. Assumes domestic timber sale credit. Escalated from 1997\$ to 1998\$ at 3%.

(2) Legislation introduced, not yet appropriated.

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CC: KA

PROJECT STATUS

SWAN-TYEE TRANSMISSION LINE INTERTIE

DESCRIPTION:

Until recently, Ketchikan has mitigated its high cost of living through hydroelectric power. In recent years, normal growth has caused a shortage of hydroelectricity forcing our reliance on expensive diesel generation. Increased diesel dependence combined with the recent closure of our largest single employer, the Ketchikan Pulp Mill, handicaps our ability to attract replacement industry. But only 60 miles to the north, two-thirds of the hydroelectric potential at the Lake Tyee project is wasted. The Swan-Tyee Intertie would allow Ketchikan to purchase surplus energy and cease its dependence on diesel until beyond the year 2015. In addition, this project will create a Southeast Alaska grid improving the reliability of electrical power throughout the communities of Ketchikan, Wrangell and Petersburg.

HISTORY:

- 1980 Tyee-Swan-Ketchikan transmission line proposed as alternative to Swan Lake project.
- 1984 Swan Lake hydroelectric project commissioned.
- 1987 Swan-Tyee Intertie identified as promising in SE Alaska Transmission Intertie Study.
- 1991 Swan-Tyee preliminary market and financial assessment performed by AEA.
- 1992 Swan-Tyee feasibility study performed by AEA.
- 1993 State of Alaska legislature approves combination of grants, loans and bonding.
- 1994 KPU begins engineering and permitting.
- 1997 Federal government appropriates \$10 million grant.
- 1997 Engineering complete, Final EIS Record of Decision signed and upheld after appeal.
- 1998 Ketchikan completes \$12 million bond funded diesel project - required back up to Intertie.

SUPPORT:

The Swan-Tyee Intertie has enjoyed popular support consistently throughout its history and throughout the region. A variety of local organizations including the City, Borough, Chamber of Commerce, School District and others have approved this project as a regional priority in our annual legislative requests since the late 1980's. In addition to Ketchikan, sale of energy from Tyee benefits the Four Dam Pool communities of Kodiak, Copper Valley, Petersburg and Wrangell. Finally, Southeast Conference and the Mayors throughout Southeast Alaska have expressed unified support for this intertie as the first leg in a Southeast Alaska electrical grid.

BUDGET:

Project cost is \$74 million assuming credit from a domestic timber sale. \$25.6 million has been grant funded to date of which KPU has encumbered \$8.7 million for engineering and preparation of the EIS to position the project for construction. KPU is proposing the 40% Four Dam Pool allocation be used for bond funding which would meet most of the remaining shortfall.

STATUS:

Final design of this project is complete. The Final EIS is complete. Construction permit applications have been filed. In summary, this project is ready for construction.

KETCHIKAN ELECTRICAL DEMAND

Following the closure of the Ketchikan Pulp Mill, the City of Ketchikan contracted with the University of Alaska's Institute of Social and Economic Research (ISER) to conduct an Electric Load Growth Study. This study predicted a few years of decreased demand followed by a return to normal but conservative growth.

In spite of this prediction, actual demand is at a record high with the 1998 generation exceeding the ISER high forecast for the year 2002.

Electrical Generation (million's kWh)			
Year	ISER Base Forecast	ISER High Forecast	Actual
1995	-	-	160
1996	-	-	160
1997	146	146	150
1998	146	148	164
1999	146	149	*
2000	147	153	-
2001	149	158	-
2002	152	163	-

* While it is too early to predict total 1999 generation, the first quarter 1999 is at a record high.