SB

188

SFIN

FILE

REPORTED OUT
APR 2 0 2006
SENATE FINANCE COMMITTEE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/28/05

FURTHER:

DATE TURNED IN TO OFFICE: 4|20|06

Finance Committee considered SENATE BILL NO. 188

SB 188 BULK FUEL REVOLVING LOAN FUND CAP

"An Act increasing the maximum amount of loans from the bulk fuel revolving loan fund to one borrower."

and recommends:

[✓] be **replaced** with _____ CS SB 188 (FIN)

[ ] adopt **previous** _____ CS CS FORTHCOMING (_____)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by _____ Committee

[ ] further referral to _____ Committee

CS Senate Bill:
[ ] Same Title
[✓] New Title

SCS House Bill:
[ ] Same Title
[ ] Technical Title Change
[ ] New Title w/ SCR #_____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
CCED	2/8/06			✓	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

[ ] **APPROPRIATION - no fiscal note**

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
	✓			
	✓			
	✓			
	✓			
COCHAIR:			✓	
COCHAIR:			✓	

REPORTED OUT
APR 2 0 2006
SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CSSB 188(FIN)
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Commerce
Title: Bulk Fuel Revolving Loan Fund Cap
RDU: Alaska Energy Authority (453)
Component: AEA Rural Energy Operations
Sponsor: Olson
Requester: Senate Finance
Component No.: 2600

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
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						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0 0
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill increases the maximum amount for a single borrower to $400,000, and allows a cooperative corporation or electric cooperative to borrow the lesser of $400,000 multiplied by the number of communities, or $1,500,000.

This bill has no impact on the cost of AEA operations.

Prepared by: Sara Fisher-Goad, Financial Analyst — Phone 907 269 4623
Division: Alaska Energy Authority — Date/Time 2/8/06 3 06 PM
Approved by: William C Noll, Commissioner — Date 2/8/2006
Agency: Commerce, Community, and Economic Development

(Revised 9/7/2005 OMB)

ADOPTED

24-LS0952\S
Cook
1/30/06

CS FOR SENATE BILL NO. 188( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATOR OLSON

A BILL

FOR AN ACT ENTITLED

"An Act relating to the maximum amount of loans from the bulk fuel revolving loan fund to one borrower in a fiscal year."

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

* Section 1. AS 42.45.250(e) is amended to read:

(e) Loans made from the bulk fuel revolving loan fund to one borrower in any fiscal year

(1) may not exceed <u>$400,000, or, if the borrower is a cooperative corporation organized under AS 10.15 or an electric cooperative organized under AS 10.25 and uses the loan to purchase bulk fuel on behalf of more than one community, may not exceed the lesser of $400,000 multiplied by the number of communities on whose behalf the bulk fuel is to be purchased, or $1,500,000</u> [$300,000];

(2) shall be repaid in one year or less; and

(3) may not exceed 90 percent of the wholesale price of the fuel

purchased.

SENATE FINANCE COMMITTEE

2/13/2006 COMMITTEE ACTION

Bill Number	SB 188			
Amendment				
Motion	to adopt CS "S"			
Motion by	Olson			
Objection by	Green			
Removed	✓			
Second Objection by				
Committee Member	Y	Vote		N
Senator Olson				
Senator Stedman				
Senator Bunde				
Senator Dyson				
Senator Hoffman				
Co-Chair Wilken				
Co-Chair Green				
Tally				
Yea				
Nay				
Absent				
MOTION	ADOPTED			

Alaska State Senate

Senate Finance Committee

Official Business

Mail Stop 3000
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 4/20/06 TIME: 10:00 AM

TO: LEGAL

NUMBER OF PAGES. INCLUDING COVER SHEET: 1

FROM: ROBIN PAUL
SENATE FINANCE CMTE. ASST. SECRETARY
PHONE: 465-2618
FAX: 465-2187

NOTES: Need Final Pls: CS SB 188 (FIN)

Version 24-LS0952\S
No changes

Thank You!
Robin

FAILED

SENATE FINANCE COMMITTEE
Amendment #: #1
To Bill Number: SB 188
Sponsor: Olson
Date: 2/8/06 Logged by: Mindy

24-LS0952\S.1
Cook
2/6/06

AMENDMENT

OFFERED IN THE SENATE BY SENATOR OLSON

TO: CSSB 188( ), Draft Version "S"

Page 1, line 2, following "year":

Insert "; **and authorizing regulations to establish standards for the allocation of money in that fund to eligible borrowers**"

Page 2, following line 1:

Insert a new bill section to read:

"*** Sec. 2.** AS 42.45.250(j) is amended to read:

(j) The authority may adopt regulations necessary to carry out the provisions of this section, including regulations to establish

(1) reasonable fees for services provided and charges for collecting the fees; **and**

(2) standards for the allocation of bulk fuel revolving loan fund money to eligible borrowers."

SENATE FINANCE COMMITTEE

2 /13 / 2006 COMMITTEE ACTION

Bill Number	SB 188
Amendment	#1
Motion	to adopt
Motion by	Olson
Objection by	Green
Removed	
Second Objection by	

Committee Member	Vote Y	Vote N
Senator Hoffman	✓	
Senator Olson	✓	
Senator Stedman		✓
Senator Bunde	—	—
Senator Dyson	✓	
Co-Chair Wilken		✓
Co-Chair Green		✓

Tally	
Yea	3
Nay	3
Absent	1

MOTION: FAILED

SENATE FINANCE COMMITTEE
Amendment # #2
To Bill Number: SB 188
Sponsor: OLSON
Date: 2/8/06 Logged by: Mindy

WITHDRAWN

24-LS0952\S.2
Cook
2/6/06

AMENDMENT

OFFERED IN THE SENATE BY SENATOR OLSON

TO: CSSB 188( ), Draft Version "S"

Page 1, line 1, following "**An Act**":

Insert "**relating to the purposes of and eligibility for loans from the bulk fuel revolving loan fund; and**"

Page 1, following line 3:

Insert a new bill section to read:

"*** Section 1.** AS 42.45.250(a) is amended to read:

(a) The bulk fuel revolving loan fund is established in the authority to assist communities, utilities providing power in communities, and fuel retailers in communities in purchasing bulk fuel to **maintain community facilities or to** generate power or supply the public with fuel for use in communities. A community, or a person generating power or selling fuel in a community **or maintaining a community facility** who has written endorsement from the governing body of each community for which a loan from the fund is sought, is eligible for a loan from the bulk fuel revolving loan fund for a purchase of an emergency supply or a semiannual or annual supply of bulk fuel to be used in the community."

Page 1, line 4:

Delete "**Section 1**"

Insert "**Sec. 2**"

Page 2, following line 1:

Insert a new bill section to read:

"* **Sec. 3.** AS 42.45.250(*l*) is amended by adding a new paragraph to read:

(3) "community facility" means a public building or public work open to, or used by or for the benefit of, the public and owned by a community, a governmental entity, or a nonprofit organization; in this paragraph, "public building or public work" includes educational and health facilities, water and sewer facilities, roads, and docks."

SENATE FINANCE COMMITTEE

2 / 13 / 2006 COMMITTEE ACTION

Bill Number	SB 188			
Amendment	#2			
Motion	Olson to adopt			
Motion by	Olson			
Objection by	Green			
Removed				
Second Objection by				
Committee Member	Y	***Vote***		N
Senator Dyson				
Senator Hoffman				
Senator Olson				
Senator Stedman				
Senator Bunde				
Co-Chair Wilken				
Co-Chair Green				
Tally				
Yea				
Nay				
Absent				
MOTION	WITHDRAWN			

Alaska State Legislature

Out of Session:
PO Box 531
Golovin, Alaska 99762
(907) 443 5599

In Session:
State Capitol, Suite 510
Juneau, Alaska 99801-1182
(800) 597-3707
(907) 465-3707
(907) 465-4821 Fax

SENATOR
DONALD C. OLSON

DISTRICT T

Alakanuk
Ambler
Anaktuvuk Pass
Atqasuk
Barrow
Brevig Mission
Browerville
Buckland
Chevak
Deering
Diomede
Elim
Emmonak
Gambell
Golovin
Hooper Bay
Kaktovik
Kiana
Kivalina
Kobuk
Kotlik
Kotzebue
Koyuk
Mountain Village
Noatak
Nome
Noorvik
Nuiqsut
Nunam Iqua
Pilot Station
Pitka's Point
Point Hope
Point Lay
Savoonga
Scammon Bay
Selawik
Shaktoolik
Shishmaref
Shungnak
St. Mary's
St. Michael
Stebbins
Teller
Unalakleet
Wainwright
Wales
White Mountain

SPONSOR STATEMENT

SB 188, Bulk Fuel Loan Fund Cap

I introduced SB 188 at the urging of members of the Governor's Rural Energy Action Council. The council's April 15 report has many recommendations to help rural communities contend with rapidly escalating energy costs.

SB 188 is one of their recommendations for the bulk fuel loan program, a program that allows communities to minimize fuel costs through large purchase economies. This is an important program for those communities that are ice bound during the winter and depend on just one or two large shipments to supply their fuel needs for the entire year.

Currently, the bulk fuel loan program has a maximum loan of $300,000 that any one borrower may take in a fiscal year. The effect of this cap during times of dramatically increasing fuel costs is to reduce the maximum amount of fuel that may be purchased. The proposed finance committee CS will counteract this effect by increasing the loan limit to $400,000 for a single borrower. For cooperative organizations that are purchasing bulk fuel for more than one community, the loan limit is further increased to $400,000 multiplied by the number of communities or $1,500,000, whichever is lesser. This latter measure is to encourage larger purchases for multiple communities in order to attain additional economies of scale for the benefit of all energy consumers.

The proposed CS for SB 188 incorporates all the recommendations of the Alaska Energy Authority and is endorsed by the administration. Its enactment will directly assist in lowering energy costs to small communities in Alaska. The bill is timely and needed.

SB 188

BULK FUEL REVOLVING LOAN FUND

HISTORY, STATUS, PROJECTIONS

Prepared For:

Alaska Energy Authority

Prepared By:

Richard Emerman
Emerman Consulting LLC

August 25, 2005

Table of Contents

EXECUTIVE SUMMARY

I. The Bulk Fuel Revolving Loan Fund (BFRLF) was created in 1980 to provide short-term financing for bulk fuel purchases in communities with less than 2,000 population. Eligible borrowers, who purchase bulk fuel to generate power or supply the public with fuel for use in communities, include but are not limited to corporations, cooperatives, governmental entities, electric utilities, and other organizations that may serve one or more communities. By 1993 the original borrower limit of $50,000 per year had been raised to $100,000. It was raised again to $200,000 for FY03 and then to $300,000 for FY04 and beyond.

Loans from the Fund must be used to obtain at least a 6-month supply of fuel or to obtain emergency fuel supplies. The interest rate on loans is set by statute to equal the 12 month average of the long-term municipal revenue bond rate unless the administering agency determines that a rate reduction is needed based on the community's ability to pay. Program regulations establish a presumption that zero interest will apply to a borrower's first loan from the program, 5% interest on the second loan, and the municipal revenue bond rate for the third and subsequent loans. However, the regulations do not remove the agency's discretion to set the rates in any manner that is consistent with statute.

Loans must typically be repaid within 9 months of the initial disbursement. By long-standing policy, additional loans are not available to borrowers until prior loans have been fully repaid.

At the end of FY05, the net assets of the BFRLF amounted to approximately $8.2 million. Fund earnings from loan fees, interest income, and investment income have substantially exceeded potential losses from uncollectible loans since the inception of the program. A significant proportion of borrowers become past due in their payments at some point during the year but the record shows that nearly all loans are ultimately repaid in full despite problems with late payments.

The record of BFRLF loan requests and loan disbursements (i.e. actual loans issued from the Fund) over the last 5 years is as follows:

($ Millions)

Fiscal Year	Loan Requests	Loan Disbursements
2001	$3.0	$2.0
2002	2.6	2.3
2003	4.4	2.5
2004	6.1	3.5
2005	9.0	5.3

The number of borrowers and the average amount loaned per borrower over the last 5 years is as follows:

Fiscal Year	Number of Borrowers	Average Amount Loaned Per Borrower ($ Thousands)
2001	37	$55.2
2002	34	68.4
2003	39	65.0
2004	46	76.3
2005	53	99.7

Among the factors contributing to the recent increases in loan demand are (i) increase in fuel prices, (ii) increase in volumes of fuel financed by individual borrowers, and (iii) increase in the BFRLF annual borrower limit.

The delivered price of diesel fuel was essentially flat from FY01 through FY04 before increasing sharply during the past year. Statistics acquired for the Power Cost Equalization program show the following history of population-weighted average prices for Alaska communities with less than 2,000 population. Prices for FY01 through FY04 are annual averages for PCE utilities, while the FY05 price is based only on the most recent fuel delivery which, for a number of utilities, occurred in fall 2004. The FY05 price used in this report is therefore lower than fuel prices encountered today:

Fiscal Year	Weighted Average Diesel Price per Gallon
2001	$1.45
2002	1.45
2003	1.37
2004	1.54
2005	2.01

These diesel fuel prices closely track historical crude oil prices. Both the Alaska Department of Revenue and the Energy Information Administration of the U.S. Department of Energy recently published forecasts that anticipate fuel prices returning to FY03 levels over the next 3 years. For projections developed in this report, this fuel price expectation is considered "Scenario #1." "Scenario 2" is based on the assumption that prices in FY06 will be 20% higher than those most recently reported to the PCE program in FY05, and will remain constant in nominal dollar terms over the 10-year projection period.

The number of gallons financed per BFRLF borrower over the last 5 fiscal years is estimated as follows:

Fiscal Year	Gallons Financed Per BFRLF Borrower (Thousands)
2001	37.3
2002	44.3
2003	43.6
2004	49.2
2005	50.7

There has been a lagged response to the increases in statutory borrowing limits for the BFRLF, including a sizeable increase in loans exceeding $100,000 that occurred during FY05. Although the annual borrower limit was increased to $300,000 for FY04 and FY05, very few borrowers have yet to exceed the previous limit of $200,000 per year.

II. Assuming no annual limit in the amount that bulk fuel purchasers could borrow from the BFRLF, the total potential market for BFRLF loans in communities with less than 2,000 population is estimated at approximately 50 million gallons per year, at an FY05 weighted average cost of roughly $100 million. Given that FY05 loans issued from the BFRLF amounted to $5.3 million, it appears that the BFRLF finances about 5% of its potential market. Potential borrowers pay for or finance the remaining 95% by other means.

One of the constraints that limits use of the BFRLF is the existing $300,000 annual limit per borrower. Much of the potential market for BFRLF loans consists of bulk fuel purchasers whose annual cost of fuel is well above that limit. This report adopts the assumption that 25 million gallons (valued during FY05 at approximately $50 million) constitutes the potential market for BFRLF financing under current law that limits individual borrowers to $300,000 or less each year.

III. Among communities of eligible size, the number for which a BFRLF loan has been issued over the last 5 years is less than the number for which no BFRLF loan has been issued. These "non-BFRLF" communities are spread throughout the state and throughout the eligible size distribution. This further suggests that there is considerable room for growth in the demand for BFRLF financing. Another factor contributing to such growth potential is the fact that, based on the record of increasing electricity usage among PCE communities, there appears to be a continuing, gradual trend of increased energy demand in rural Alaska.

Assuming no change in the program statute or regulations, this report develops the following projections of BFRLF demand for the two different fuel price scenarios defined above. These are projections of actual loans assuming the Fund were sufficiently capitalized to issue them. These are not projections of loan requests, which would presumably be higher.

	(Millions of Dollars)		
	FY08	FY11	FY14
Scenario #1 (declining fuel prices)	$4.5	$6.9	$10.2
Scenario #2 (current fuel prices)	9.2	12.6	16.9

IV. Alternative methods of paying for or financing bulk fuel purchases include the following:

- Cash in advance or upon delivery.
- Credit from fuel distributors.
- Credit from commercial lenders.
- Credit through the "Alaska Resupply" program operated by the Bureau of Indian Affairs.
- Acquisition of fuel through the Alaska Native Industries Cooperative Association (ANICA).
- Credit through the Bulk Fuel Bridge Loan program.

V. There is an extensive history of efforts to consolidate bulk fuel purchasing in rural Alaska with the goal of achieving price savings. Attempts to create and maintain formal bulk fuel purchasing cooperatives have been unsuccessful although some efforts at informal consolidation have worked out and have been sustained over a period of years. Interviews suggest that, while volume discounts might be achieved for consolidated purchasers within a certain size range, more significant savings are likely to be achieved through strategies that assure fuel distributors of full and timely payment.

Hypothetical savings through consolidation strategies may be significant for individual purchasers based on a typical volume discount program reported in an earlier study, but aggregate savings from this strategy are likely to be small compared with the size and range of BFRLF demand projections or with the cost of fuel in rural Alaska overall.

VI. The Rural Energy Action Council created by Governor Murkowski suggested that the annual limit for borrowers from the BFRLF be increased for cooperatives serving more than one community – possibly to $300,000 times the number of communities served. Its report also discusses the possible benefit of increasing the limit for individual borrowers to $650,000 per year.

A bill introduced during the 2005 legislative session would increase the BFRLF borrower limit for the following two types of organizations:

- A "cooperative corporation organized under AS 10.15"
- An "electric cooperative organized under AS 10.25."

For these organizations, the current language of the bill would raise the annual limit to "$300,000 multiplied by the number of communities on whose behalf the bulk fuel is to be purchased, or $1,000,000, whichever is greater." This language means that, for an electric cooperative such as AVEC that serves 50 communities, the annual borrowing limit would be $15 million. However, if the intent was to set the annual borrowing limit at "whichever is *less*" of the two alternatives, then AVEC's borrowing limit under an amended bill would be $1.0 million rather than $15 million.

Only 5 existing organizations were identified that would be directly affected by the proposed legislation. None of these are currently BFRLF borrowers and none expect to become BFRLF borrowers in the foreseeable future whether or not the legislation is enacted. However, it is possible that one or more may access the BFRLF regardless of current expectations. Naknek Electric Association reported that it needed supplemental financing this past year from the Cooperative Finance Corporation (CFC) in an amount exceeding $300,000 to help finance its bulk fuel acquisition because the utility's cash reserves were inadequate to pay the entire bill. Should this happen again and if the BFRLF borrower limit were raised, Naknek Electric could find it preferable to obtain supplemental financing from the BFRLF rather than CFC.

This report develops the following projections of BFRLF demand assuming the annual limit for individual borrowers is raised to $400,000 or to $600,000, again under the two different fuel price scenarios. As before, these are projections of actual loans assuming the Fund were sufficiently capitalized to issue them. These are not projections of loan requests, which would presumably be higher.

BFRLF Demand Projections for Two Fuel Price Scenarios
No Change in Borrower Limit vs. Increase to $400,000 or to $600,000

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)			
No Change in Borrower Limit	$4.5	$6.9	$10.2
Increase to $400,000	4.9	7.7	11.8
Increase to $600,000	5.1	8.1	12.6
Scenario #2 (current fuel prices)			
No Change in Borrower Limit	$9.2	$12.6	$16.9
Increase to $400,000	10.0	14.6	20.1
Increase to $600,000	10.4	15.6	21.7

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Alaska Industrial Development and Export Authority

AIDEA/AEA

Alaska Energy Authority

January 26, 2006

The Honorable Donny Olson
Alaska State Senate
State Capitol, MS 3100
Juneau, Alaska 99801-1182

RE: CS SB 188 (CRA) Loans from the Bulk Fuel Revolving Loan Fund

Dear Senator Olson:

We respectfully request your support of the attached amendment to CS SB 188(CRA).

The Bulk Fuel Revolving Loan Fund (BFRLF) was created to provide short-term financing for bulk fuel purchases in communities with populations less than 2,000. On February 7, 2005, Governor Murkowski commissioned the Rural Energy Action Council (REAC) to provide him with recommendations to address the high cost of energy in Rural Alaska. REAC's report was published on April 15, 2005 and included proposal changes to the BFRLF program. Your prompt and early response to the Governor Murkowski's REAC recommendations by introducing SB 188 was greatly appreciated.

During the interim between legislative sessions, Governor Murkowski requested the Alaska Energy Authority (AEA) review the statutes regarding the BFRLF program. Our review considered current existing statutes, changes proposed by SB 188, and the changes recommended by REAC.

With the support of Governor Murkowski and based on the REAC recommendations, AEA proposes changes to the program to increase the loan limit and to assist entities responsible for maintaining community infrastructure.

The amendment proposes the following changes to the Bulk Fuel Revolving Loan Fund Program:

- Raises the loan limit to $400,000 from $300,000 for a single borrower. [CSSB 188(CRA) does not change the loan limit; REAC recommended a loan limit increase to $650,000]

- Allows a cooperative corporation or electric cooperative servicing more than one community to borrow the lesser of $400,000 multiplied by the number of communities, or $1,500,000. [CSSB 188(CRA) limited cooperatives to $300,000 multiplied by number of communities or $1,000,000 maximum; both versions are the result of a REAC recommendation]

- Expands the definition of eligible borrower to a person maintaining community facilities or infrastructure. AEA has been approached by a subsidiary of Yukon Kuskokwim Health

Corporation that is operating community water and sewer systems. This change will assist entities that operate village infrastructure. [Not addressed in CSSB 188 (CRA)]

- Allows AEA to adopt regulations to establish standards for the allocation of loan funds to eligible borrowers. [Not addressed in CSSB 188 (CRA)]

- Clarifies that fees and collection charges be deposited in the BFRLF not the general fund. The Department of Law has recommended this change to correct an ambiguous subsection in the statutes. No impact on the general fund since the GF is not currently receiving any monies generated from this program. [Not addressed in CSSB 188 (CRA)]

We are ready to meet with you and your staff to provide any other information you may require. Thank you for considering our request.

Sincerely,

Ron Miller
Executive Director

H:\AIDEA LEGISLATION & BUDGET FOLDERS\2006 Legislation and Budget FY07\SB 188 Request to amend SB 188.doc

BULK FUEL REVOLVING LOAN FUND

HISTORY, STATUS, PROJECTIONS

Prepared For:

Alaska Energy Authority

Prepared By:

Richard Emerman
Emerman Consulting LLC

August 25, 2005

BULK FUEL REVOLVING LOAN FUND

HISTORY, STATUS, PROJECTIONS

Prepared For:

Alaska Energy Authority

Prepared By:

Richard Emerman
Emerman Consulting LLC

August 25, 2005

Table of Contents

EXECUTIVE SUMMARY

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Loans from the Fund must be used to obtain at least a 6-month supply of fuel or to obtain emergency fuel supplies. The interest rate on loans is set by statute to equal the 12 month average of the long-term municipal revenue bond rate unless the administering agency determines that a rate reduction is needed based on the community's ability to pay. Program regulations establish a presumption that zero interest will apply to a borrower's first loan from the program, 5% interest on the second loan, and the municipal revenue bond rate for the third and subsequent loans. However, the regulations do not remove the agency's discretion to set the rates in any manner that is consistent with statute.

Loans must typically be repaid within 9 months of the initial disbursement. By long-standing policy, additional loans are not available to borrowers until prior loans have been fully repaid.

At the end of FY05, the net assets of the BFRLF amounted to approximately $8.2 million. Fund earnings from loan fees, interest income, and investment income have substantially exceeded potential losses from uncollectible loans since the inception of the program. A significant proportion of borrowers become past due in their payments at some point during the year but the record shows that nearly all loans are ultimately repaid in full despite problems with late payments.

The record of BFRLF loan requests and loan disbursements (i.e. actual loans issued from the Fund) over the last 5 years is as follows:

($ Millions)

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2003	4.4	2.5
2004	6.1	3.5
2005	9.0	5.3

The number of borrowers and the average amount loaned per borrower over the last 5 years is as follows:

Fiscal Year	Number of Borrowers	Average Amount Loaned Per Borrower ($ Thousands)
2001	37	$55.2
2002	34	68.4
2003	39	65.0
2004	46	76.3
2005	53	99.7

Among the factors contributing to the recent increases in loan demand are (i) increase in fuel prices, (ii) increase in volumes of fuel financed by individual borrowers, and (iii) increase in the BFRLF annual borrower limit.

The delivered price of diesel fuel was essentially flat from FY01 through FY04 before increasing sharply during the past year. Statistics acquired for the Power Cost Equalization program show the following history of population-weighted average prices for Alaska communities with less than 2,000 population. Prices for FY01 through FY04 are annual averages for PCE utilities, while the FY05 price is based only on the most recent fuel delivery which, for a number of utilities, occurred in fall 2004. The FY05 price used in this report is therefore lower than fuel prices encountered today:

Fiscal Year	Weighted Average Diesel Price per Gallon
2001	$1.45
2002	1.45
2003	1.37
2004	1.54
2005	2.01

These diesel fuel prices closely track historical crude oil prices. Both the Alaska Department of Revenue and the Energy Information Administration of the U.S. Department of Energy recently published forecasts that anticipate fuel prices returning to FY03 levels over the next 3 years. For projections developed in this report, this fuel price expectation is considered "Scenario #1." "Scenario 2" is based on the assumption that prices in FY06 will be 20% higher than those most recently reported to the PCE program in FY05, and will remain constant in nominal dollar terms over the 10-year projection period.

The number of gallons financed per BFRLF borrower over the last 5 fiscal years is estimated as follows:

Fiscal Year	Gallons Financed Per BFRLF Borrower (Thousands)
2001	37.3
2002	44.3
2003	43.6
2004	49.2
2005	50.7

There has been a lagged response to the increases in statutory borrowing limits for the BFRLF, including a sizeable increase in loans exceeding $100,000 that occurred during FY05. Although the annual borrower limit was increased to $300,000 for FY04 and FY05, very few borrowers have yet to exceed the previous limit of $200,000 per year.

II. Assuming no annual limit in the amount that bulk fuel purchasers could borrow from the BFRLF, the total potential market for BFRLF loans in communities with less than 2,000 population is estimated at approximately 50 million gallons per year, at an FY05 weighted average cost of roughly $100 million. Given that FY05 loans issued from the BFRLF amounted to $5.3 million, it appears that the BFRLF finances about 5% of its potential market. Potential borrowers pay for or finance the remaining 95% by other means.

One of the constraints that limits use of the BFRLF is the existing $300,000 annual limit per borrower. Much of the potential market for BFRLF loans consists of bulk fuel purchasers whose annual cost of fuel is well above that limit. This report adopts the assumption that 25 million gallons (valued during FY05 at approximately $50 million) constitutes the potential market for BFRLF financing under current law that limits individual borrowers to $300,000 or less each year.

III. Among communities of eligible size, the number for which a BFRLF loan has been issued over the last 5 years is less than the number for which no BFRLF loan has been issued. These "non-BFRLF" communities are spread throughout the state and throughout the eligible size distribution. This further suggests that there is considerable room for growth in the demand for BFRLF financing. Another factor contributing to such growth potential is the fact that, based on the record of increasing electricity usage among PCE communities there appears to be a continuing, gradual trend of increased energy demand in rural Alaska.

Assuming no change in the program statute or regulations, this report develops the following projections of BFRLF demand for the two different fuel price scenarios defined above. These are projections of actual loans assuming the Fund were sufficiently capitalized to issue them. These are not projections of loan requests, which would presumably be higher.

	(Millions of Dollars)		
	FY08	FY11	FY14
Scenario #1 (declining fuel prices)	$4.5	$6.9	$10.2
Scenario #2 (current fuel prices)	9.2	12.6	16.9

IV. Alternative methods of paying for or financing bulk fuel purchases include the following:

- Cash in advance or upon delivery.
- Credit from fuel distributors.
- Credit from commercial lenders.
- Credit through the "Alaska Resupply" program operated by the Bureau of Indian Affairs.
- Acquisition of fuel through the Alaska Native Industries Cooperative Association (ANICA).
- Credit through the Bulk Fuel Bridge Loan program.

V. There is an extensive history of efforts to consolidate bulk fuel purchasing in rural Alaska with the goal of achieving price savings. Attempts to create and maintain formal bulk fuel purchasing cooperatives have been unsuccessful although some efforts at informal consolidation have worked out and have been sustained over a period of years. Interviews suggest that, while volume discounts might be achieved for consolidated purchasers within a certain size range, more significant savings are likely to be achieved through strategies that assure fuel distributors of full and timely payment.

Hypothetical savings through consolidation strategies may be significant for individual purchasers based on a typical volume discount program reported in an earlier study, but aggregate savings from this strategy are likely to be small compared with the size and range of BFRLF demand projections or with the cost of fuel in rural Alaska overall.

VI. The Rural Energy Action Council created by Governor Murkowski suggested that the annual limit for borrowers from the BFRLF be increased for cooperatives serving more than one community – possibly to $300,000 times the number of communities served. Its report also discusses the possible benefit of increasing the limit for individual borrowers to $650,000 per year.

A bill introduced during the 2005 legislative session would increase the BFRLF borrower limit for the following two types of organizations:

- A "cooperative corporation organized under AS 10.15"
- An "electric cooperative organized under AS 10.25."

For these organizations, the current language of the bill would raise the annual limit to "$300,000 multiplied by the number of communities on whose behalf the bulk fuel is to be purchased, or $1,000,000, whichever is greater." This language means that, for an electric cooperative such as AVEC that serves 50 communities, the annual borrowing limit would be $15 million. However, if the intent was to set the annual borrowing limit at "whichever is *less*" of the two alternatives, then AVEC's borrowing limit under an amended bill would be $1.0 million rather than $15 million.

Only 5 existing organizations were identified that would be directly affected by the proposed legislation. None of these are currently BFRLF borrowers and none expect to become BFRLF borrowers in the foreseeable future whether or not the legislation is enacted. However, it is possible that one or more may access the BFRLF regardless of current expectations. Naknek Electric Association reported that it needed supplemental financing this past year from the Cooperative Finance Corporation (CFC) in an amount exceeding $300,000 to help finance its bulk fuel acquisition because the utility's cash reserves were inadequate to pay the entire bill. Should this happen again and if the BFRLF borrower limit were raised, Naknek Electric could find it preferable to obtain supplemental financing from the BFRLF rather than CFC.

This report develops the following projections of BFRLF demand assuming the annual limit for individual borrowers is raised to $400,000 or to $600,000, again under the two different fuel price scenarios. As before, these are projections of actual loans assuming the Fund were sufficiently capitalized to issue them. These are not projections of loan requests, which would presumably be higher.

BFRLF Demand Projections for Two Fuel Price Scenarios
No Change in Borrower Limit vs. Increase to $400,000 or to $600,000

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)			
No Change in Borrower Limit	$4.5	$6.9	$10.2
Increase to $400,000	4.9	7.7	11.8
Increase to $600,000	5.1	8.1	12.6
Scenario #2 (current fuel prices)			
No Change in Borrower Limit	$9.2	$12.6	$16.9
Increase to $400,000	10.0	14.6	20.1
Increase to $600,000	10.4	15.6	21.7

SECTION 1

HISTORY AND STATUS OF THE BULK FUEL REVOLVING LOAN FUND

A. Program inception and subsequent changes.

The Bulk Fuel Revolving Loan Fund (BFRLF) was created in 1980 in the Department of Commerce and Economic Development.[1] Subsequent organizational changes affecting program administration occurred as follows:

- In 1989, the program was transferred to the Alaska Energy Authority (AEA).
- In 1993, when AEA's rural programs were transferred to the Department of Community and Regional Affairs (DCRA), administration of the BFRLF was transferred to DCRA as well.
- In 1999, when DCRA was abolished and its rural energy programs reintegrated with AEA, administration of the BFRLF returned to AEA where it remains today.

Most of the basic program structure remained unchanged despite these organizational changes over the last 25 years. For example, throughout this period loans have been limited by statute to communities, or borrowers serving communities, that have less than 2,000 population. Other key provisions that have remained unchanged include:

- Loans must be repaid in one year or less.
- Loans may not exceed 90% of the wholesale price of the fuel purchased.
- The interest rate is tied to the 12 month average of the municipal bond rate for 30-year revenue bonds. However, the agency administering the program may reduce or eliminate the interest rate in view of a community's ability to pay.

There have been a number of changes in the program, however, including the following:

[1] A copy of the original legislation, excerpted from SLA 1980, Chapter 83, is provided in Attachment 1. Also included in Attachment 1 are the current statutes and regulations pertaining to the Bulk Fuel Revolving Loan Fund – AS 42.45.250 and 3 AAC 106.300.

- In the 1980 legislation that established the program, the maximum amount that could be loaned to a single borrower in a single fiscal year was set at $50,000.

  By 1993, this limit had been raised to $100,000.

  In 2002 (affecting loans issued in FY03), the limit was raised from $100,000 to $200,000.

  In 2003 (affecting loans issued in FY04 and later), the limit was raised from $200,000 to $300,000.

- The current statute specifies that loans are available for the purchase of "emergency, semi-annual, or annual bulk fuel supplies." In other words, BFRLF loans are not available for less than a 6-month supply of fuel unless the fuel acquisition is considered an emergency. This has the effect of excluding many, though not all, potential borrowers who are located on roads or waterways that allow year-round access for bulk fuel delivery. Some communities with year-round access still choose to purchase a 6-month supply, or more, depending on such factors as fuel storage capability and possible cost savings from higher volumes and fewer deliveries.

  This statutory provision, essentially defining a "bulk fuel" purchase to be at least a 6-month supply, was not included in the original legislation.

- The current statute specifies that BFRLF loans may be issued to finance "bulk fuel to generate power or supply the public with fuel for use in communities." This means that BFRLF loans are available for diesel fuel and gasoline for power generation, heat, and transportation within communities. However, loans are not available for the wholesale purchase of aviation fuel as air travel is not considered to be a use within a community.

  This language, and its implications for financing the purchase of aviation fuel, was not included in the original legislation.

- Although most BFRLF loans have been and continue to be issued as unsecured loans, the current program statute allows for the imposition of collateral requirements and program regulations allow for the denial of loan applications based on the applicant's financial condition and credit history. A key example of these credit requirements is the long-standing policy of declaring an applicant ineligible for further BFRLF loans if any prior loans under the program remain unpaid.

The original statute made no reference to the State's security interest or to collateral requirements.

- Current statutes explicitly provide that the following are eligible borrowers:

> "A community, or a person generating power or selling fuel in a community who has written endorsement from the governing body of each community for which a loan from the fund is sought..."
>
> The term "person" is defined by statute to include the following: a corporation, company, partnership, firm, association, organization, cooperative, joint venture, governmental entity, business trust, or society, as well as a natural person.

In the original 1980 legislation, only "communities" and "private individuals" were named as eligible borrowers.

Current law allows individual loans to finance bulk fuel acquisition for use in multiple communities, provided that the governing body of each community issues its written endorsement. For example, an electric cooperative with membership extending to more than one community can obtain a single BFRLF loan to finance its bulk fuel purchase as long as each participating community has less than 2,000 population and provides AEA with its written endorsement. Under current law, however, the cooperative in this example can borrow no more than $300,000 in a single fiscal year – the same as any other borrower.

B. Net Assets of the BFRLF – Funds Available to Lend

AEA has provided the following information describing the growth in net assets of the BFRLF from the end of FY99 to the end of FY05:

TABLE 1

Fiscal Year	Net Operating Income (Loss)					Additions to Fund Capitalization	End of Fiscal Year	
	Loan Fees and Interest Income	Investment Income	Write-Downs and Recoveries	Loan Admin and Other Costs	Net Income (Loss) for Fiscal Year		Net Assets	Cash Component of Net Assets**
1999							2,209,765	1,696,835
2000	33,859	33,715	(422,900)	(53,820)	(409,146)		1,800,619	1,119,484
2001	37,631	65,741			103,372		1,903,991	1,527,437
2002	53,349	37,748		(42,311)	48,786	5,000,000	6,952,777	6,122,522
2003	76,013	79,395		(37,969)	117,439	471,351	7,541,567	6,804,343
2004	94,270	55,687	139,914	(7,751)	282,120	38,805	7,862,492	7,227,531
2005	147,550	120,652	82,938		351,140		8,213,532	7,022,184
TOTALS	442,672	392,938	(200,048)	(141,851)		5,510,156		

** A portion of the cash component at fiscal year end has already been committed (that is, "encumbered") for approved loans that are scheduled for disbursement in the following fiscal year. For example, of the $7.0 million cash component existing at the end of FY05, approximately $3.0 million was already committed for approved loans that had not yet been disbursed, while the remaining $4.0 million was uncommitted at that point in time.

The following notes explain the structure and main entries in the chart:

- Net Assets at the end of the fiscal year include both receivables from outstanding loans and cash held in the BFRLF that is available for loan disbursements. As shown in the last two columns of the chart, by June 30 most of the Net Assets have consisted of cash although significant loan balances – $1.2 million at the end of FY05 – have been outstanding at that time as well.

- At the end of FY99, Net Assets of the BFRLF amounted to $2,209,765, which reflects all income, expenses, and appropriations to the BFRLF from its inception until June 30, 1999.

- Each year, the BFRLF gains income from loan fees, interest on loans, and investment of cash held in the Fund. These gains are shown in the first two columns under "net operating income (loss)," and serve to increase the Fund's "net assets."

- Periodically, AEA reviews its outstanding loans and determines how much is very unlikely ever to be repaid. In FY2000 this resulted in "writing down," for book purposes, loans in the amount of $422,900. These acknowledged write-downs serve to reduce the net assets of the Fund. This entry in FY2000 was apparently the first time that potential loan losses were recorded for the BFRLF and deducted from the Fund's net assets. The write-down of $422,900 consists of

loan balances that were considered uncollectible from loans issued prior to the 1999 transfer of the BFRLF to AEA.

- "Administrative and other costs" of $53,820 were incurred during FY2000. These cash expenses also serve to reduce net assets.

- "Net Income (Loss) for the Fiscal Year' can now be calculated. This consists of income (from loan fees, loan interest, and investment of Fund cash) minus any write-downs (net of recoveries) and administrative costs. "Net Income (Loss)" for FY2000 consisted of a loss of $409,146, which reduced the Fund's "Net Assets" from $2,209,765 to $1,800,619.

- The biggest change in Net Assets occurred in FY02 with the infusion of $5.0 million (shown in the chart as an "Addition to Fund Capitalization"). This infusion came in the form of a grant from the federal Rural Utilities Service and was intended to increase the amount available to lend from the BFRLF.

- The other additions to Fund Capitalization – $471,351 in FY03 and $38,805 in FY04 – came from the Alaska Division of Emergency Services in response to a particularly poor fish harvest in certain parts of the state that left a number of villages short of cash needed to procure winter fuel supplies. The emergency funds were used to issue bulk fuel loans under the BFRLF program, and the loan repayments and other proceeds from the emergency funds stayed with the BFRLF and added to its Net Assets.

- Two more entries may need an explanation. In FY04, in the "Write-Downs and Recoveries" column, a positive $139,914 was added back in to Fund income and assets, and in FY05 another $82,938 was similarly added back in. These represented repayments on loans that had previously been considered uncollectible and which were previously included in the FY2000 write down of $422,900.

The result of all this is that the Net Assets of the BFRLF stood at approximately $8.2 million at the end of FY05. As explained in the footnote to Table 1, approximately $4.0 million of that amount was available for commitment to new loans at that point in time.

C. Loan Delinquency and Loan Write-Downs

As of June 30, 2005, the potential loss to the BFRLF from loans that are very likely to remain unpaid stood at approximately $0.2 million. This is simply the net result from the "Write-Downs and Recoveries" column in Table 1 described above. Since these write-downs were included in the

$422,900 "Write-Downs and Recoveries" entered in FY2000, they represent uncollectible loans that were made prior to FY2000.[2]

Without going back in the records to determine exactly which loans were included in the $422,900 and when each loan was issued, it is difficult to estimate the percentage of loan funds that have been issued but are now considered uncollectible. However, the following illustrations help put the potential loss in context:

- Records provided by AEA show $8.4 million in loan disbursements for the 5-year period from FY95 through FY99. The $0.2 million in potentially uncollectible loans amounts to 2.4% of loan disbursements during that period.

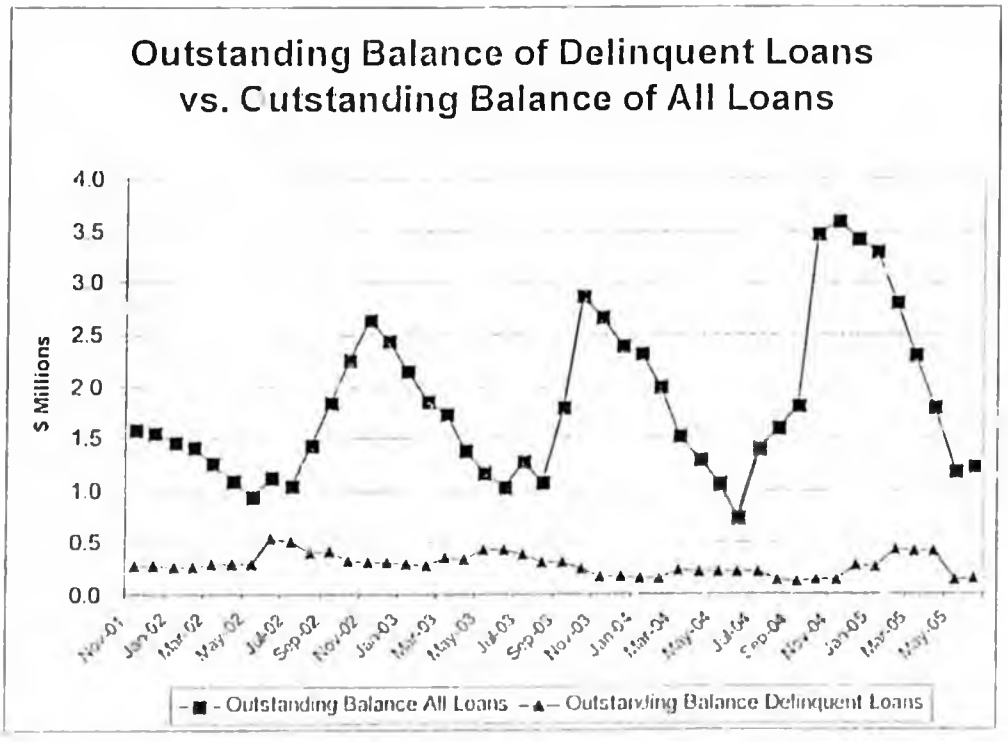
- There have been no additional write-downs since FY2000 although annual loan disbursements have increased substantially. This means that, with the possible minor exception noted in footnote 2, no loans that were issued over the last 5 years and that currently have outstanding balances are judged by AEA to be uncollectible.

- As shown in Table 1, the sum of loan fees, loan interest income, and investment income over the last 6 years – $0.8 million – more than compensates for the potential loss of $0.2 million that has been estimated to date.

A loan is considered past due if the borrower is more than 30 days, but less than 90 days, behind in scheduled payments. The loan is considered delinquent if the borrower is behind by 90 days or more. To track the repayment delays that are of particular concern, each month AEA determines the outstanding balance of delinquent loans and compares it with the outstanding balance of all loans. This comparison is shown in Graph 1 below:

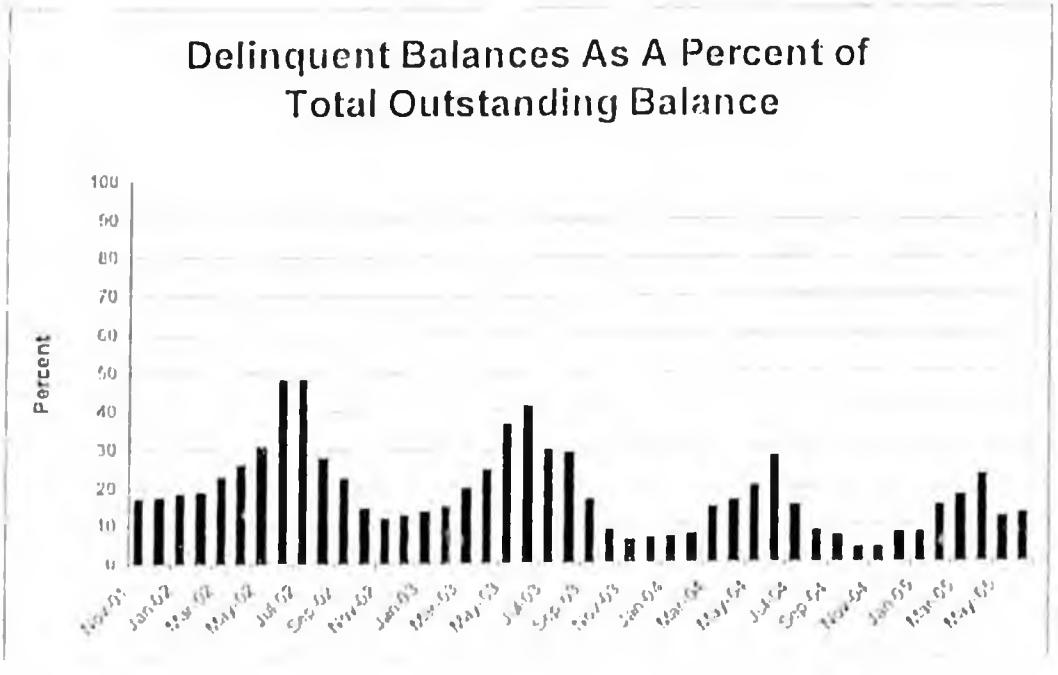
[2] AEA program management states that there is one additional loan with an outstanding balance of $42,500 that was committed in FY99 and that is most likely uncollectible but has not yet been written down on the books.

GRAPH 1



Graph 2 shows the outstanding balance of delinquent loans as a percent of the outstanding balance of all loans:

GRAPH 2



These graphs together give rise to several observations:

- The incidence of borrower delinquency in relation to all borrowing activity has been steadily declining over the last 4 years.

- Graph 2 shows that the percentage of delinquent balances has been highest each year in late spring and summer. However, as shown in Graph 1, the dollar value of delinquent balances has varied only slightly within a narrow range. Since the total outstanding balance of loans varies dramatically by season and is lowest in the summer, it follows that the percent of delinquent balances will be highest in the summer as well.

- The percent of the total outstanding loan balance that is in delinquent status remains significant: approximately 15% at the end of February 2005, 18% at the end of March, and 23% at the end of April before declining sharply in May in both percentage and absolute dollar terms. Despite these significant percentages in February through April, the delinquent balances at the end of May and June 2005 in absolute dollar terms are about as low as they have ever been as shown in Graph 1.

As stated before, potential losses for the program as of June 30, 2005 are low – much lower than program income. The low level of loan write-downs suggests that almost all borrowers who fall into delinquent status eventually work their way out of it. The relatively low amount of loan write-downs has not impaired the program's capacity to supply loans.

D. Current and Historical Program Demand

For this study, data was acquired from AEA on BFRLF borrowers, loan requests, loan commitments, and loan disbursements for the 5-year period from FY 2001 through FY 2005. With regard to these terms:

- A "loan commitment" is the maximum amount that AEA agrees to lend in response to a loan request. Sometimes the loan commitment equals the loan request, sometimes it is a portion of the request, and sometimes a loan request is denied. There are a number of possible reasons why AEA's loan commitment may be less than the full request or why a request may be denied, including but not limited to:

  i. The applicant has not fully repaid a prior BFRLF loan

  ii. The applicant is under a tax lien.

iii. The applicant has an unsatisfactory credit record and may not be able to pledge enough collateral to overcome it.

iv. The request may be larger than necessary for the amount of fuel that the applicant orders or requires.

v. There is insufficient cash available in the BFRLF. (Such funding constraints leading to delays and rejections were encountered before the $5 million infusion of funds in FY02, but have not been encountered since that time.)

- A "loan disbursement" is the actual amount loaned from the Fund and may be equal to or less than the corresponding "loan commitment" depending on the amount and cost of fuel that is ultimately delivered to the borrower. Throughout this study, all references to "loans" will mean actual "loan disbursements." Further, it will be assumed that the fiscal year in which the loan occurs is determined by the date of disbursement, not by the date of the request or commitment.

- The data on requests, commitments and disbursements comes from two different sources:

  i. Program staff maintain a data base in which are recorded the loan requests and loan commitments by borrower, community, and fiscal year.

  ii. Loan disbursement data, again by borrower, community, and fiscal year, is not available in the program data base but is available instead in AEA's financial records.

  It is difficult to precisely match up these two data sources so that any individual loan request and commitment can be readily followed through to a corresponding disbursement. The main problem is that, in a significant number of cases, a loan request comes in during the final months of a given fiscal year although the loan itself is not disbursed until the following fiscal year. As a result, the program data base records the loan request in "Year A" while the financial records show the loan disbursement in "Year B." Especially since loan requests and (lagging behind them) loan disbursements have recently been growing, this mismatch distorts the comparison of requests, commitments, and disbursements within a given fiscal year.

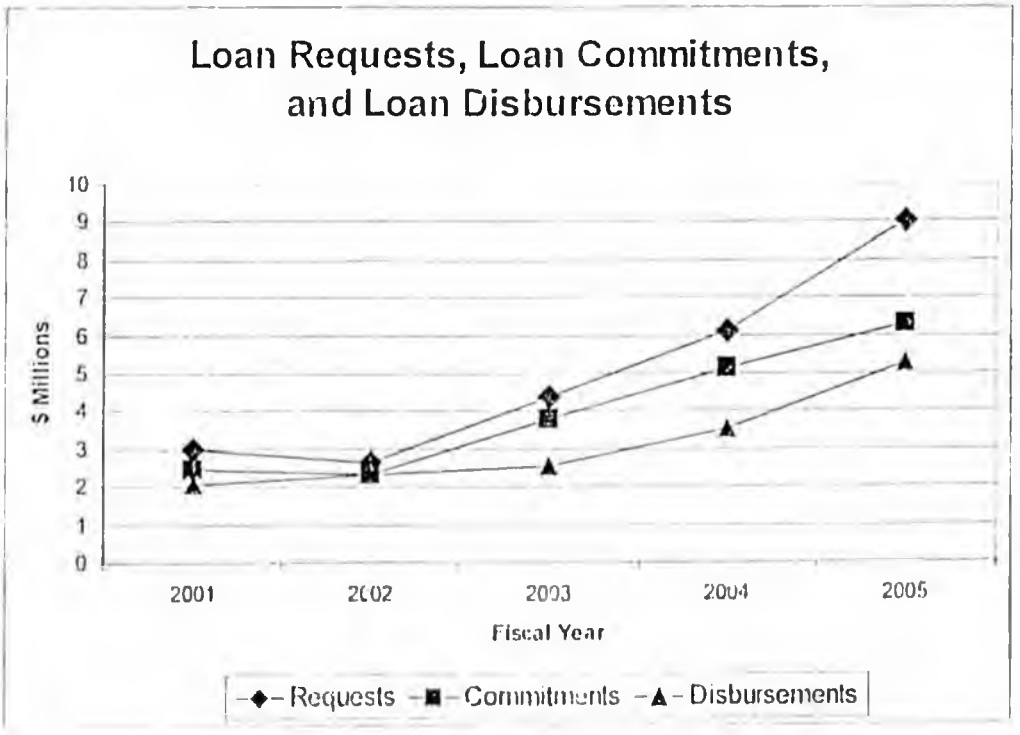
Having stated this qualification, Table 2 and Graph 3 are presented below with the aggregate data from these two sources. When reviewing them,

bear in mind the partial mismatch described above in fiscal year recording – a portion of loan requests and commitments in FY05 (for example) will result in loan disbursements during FY06:

TABLE 2

Fiscal Year	Loan Requests	Loan Commitments	Loan Disbursements
2001	2,998,905	2,440,338	2,042,898
2002	2,624,982	2,326,351	2,324,474
2003	4,396,210	3,805,673	2,536,452
2004	6,136,783	5,155,089	3,508,730
2005	8,997,460	6,285,574	5,282,842

GRAPH 3



For this study, a choice must be made between "loan requests" and "loan disbursements" as the appropriate measure of program demand. If the focus is on "loan requests," it might appear that program demand has already exceeded the program's lending capacity: AEA logged in $9.0 million of loan requests during FY05 compared with the Fund's net assets of $8.2 million. The financial reality, however, is that the Fund still had

nearly $3 million in excess lending capacity because the actual loan disbursements in FY05 amounted to only $5.3 million.

Despite the timing problems of the two data sources discussed above, and the distortion that introduces when comparing requests, commitments, and disbursements within individual years, it is true that AEA has disallowed a significant number of requests in recent years as suggested in Table 2 and Graph 3. Among the reasons for this are:

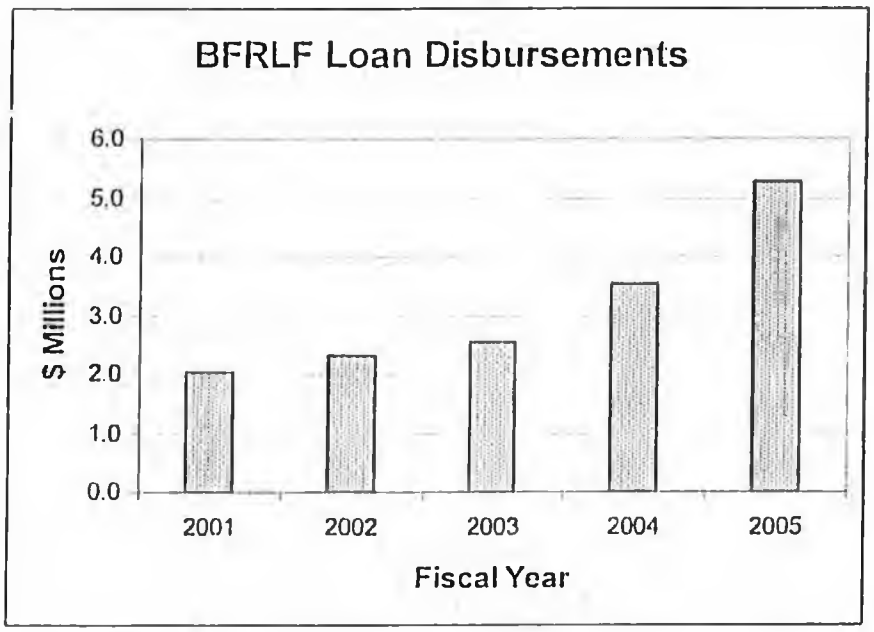
- loss of municipal revenue sharing, which weakened the financial position of many small communities;
- a higher incidence or increased collection of tax liens among BFRLF applicants; and
- the requirement under the new Bridge Loan Program[3] that all applicants for a bridge loan must first apply for a BFRLF loan and be turned down before a bridge loan request is considered. This requirement prompted a number of BFRLF loan requests from applicants who expected their request to be denied due to known problems with credit or collateral, but who needed to apply in any event in order to access the resources of the Bridge Loan Program.

The amount by which requests exceed commitments and actual loans should not be included in the measure of program demand. The BFRLF need not be sized to accommodate whatever safety margin may be built into some requests in an uncertain environment with respect to fuel price and required volumes; nor need it be sized to accommodate the proportion of applications that, on average, will not be approved due to insufficient credit or collateral.

As a result, "loan disbursements" (i.e. actual loans) will be considered in this study to provide the best measure of past program demand and to provide the most useful take-off point for projecting future demand. Graph 4 below shows the increase in BFRLF loan disbursements from FY01 through FY05:

[3] See page 60 in this report for a detailed discussion of the Bridge Loan Program

GRAPH 4



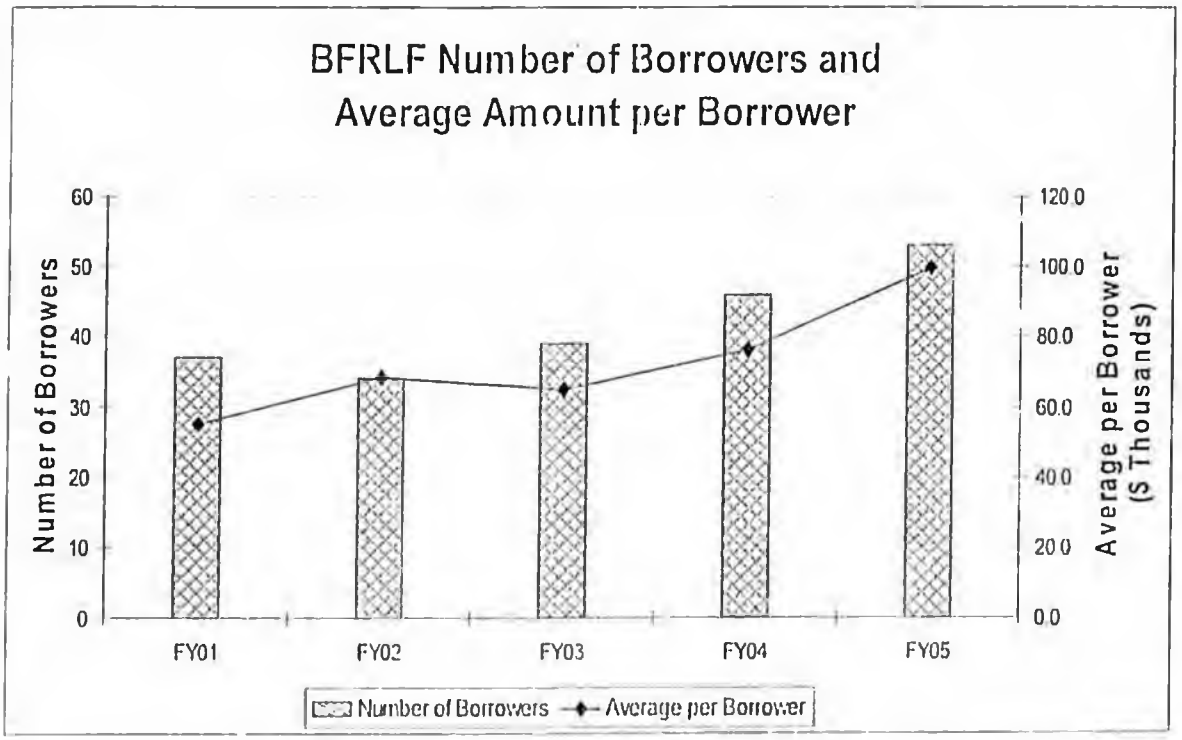
E. Number of Borrowers and Average Loan Size

Table 3 and Graph 5 below show the number of BFRLF borrowers and the average amount loaned per borrower in fiscal years 2001 through 2005. The number of borrowers may be less than the number of loans since some borrowers receive more than one loan in a fiscal year. The $300,000 limit (and the lower annual limits that preceded it) pertains to the total amount loaned to a borrower in a fiscal year, not the size of an individual loan.

TABLE 3

	FY 01	FY 02	FY 03	FY 04	FY 05
Number of Borrowers	37	34	39	46	53
Ave. per Borrower ($ thousands)	55.2	68.4	65.0	76.3	99.7

GRAPH 5



Clearly, the number of borrowers and the average amount loaned per borrower per year has gone up since FY03. Among the factors that might have contributed to the increase in the number of borrowers are the following:

- An increase in the usefulness of the program to larger bulk fuel purchasers due to the increased limits on annual borrowing.
- An increase in the cost of fuel, which presumably led some bulk fuel purchasers to seek debt financing who may otherwise have had sufficient cash to do without a loan.
- An increase in the availability of BFRLF funds due to the $5.0 million increase in BFRLF capitalization in February 2002.
- A reduction in the availability of credit or cash from other sources.
- Growing familiarity with the program in rural Alaska. (Although the program has been in existence for 25 years, turnover in the management of rural businesses and institutions tends always to erode a portion of the local knowledge base.)

- Increased tank farm capacity allowing some additional borrowers to acquire and store a minimum 6 months supply of fuel.

A closer look at the specific borrowers in each year suggests that more borrower-specific factors are involved as well. For example, there were 7 more borrowers in FY04 than in FY03, but this is the net result of the following:

- 10 FY03 borrowers did not obtain BFRLF loans in FY04. These 10 had borrowed $923,600 from the BFRLF in FY03.

  (How these 10 FY03 borrowers financed their FY04 bulk fuel requirements has not been determined for this study.)

- 17 FY04 borrowers did not obtain BFRLF loans in FY03. These 17 borrowed $1,240,941 from the BFRLF in FY04.

The net increase due to these movements in and out of the program was therefore $317,341, or about 33% of the increase in loan disbursements between FY03 and FY04.

Looking a little more closely at the 17 additional borrowers in FY04, 12 of the 17 had not obtained a previous BFRLF loan during the prior 3 fiscal years. Of these 12 "genuinely new" borrowers, 9 continued to borrow from the BFRLF in FY05 while 3 did not.

For the 9 "genuinely new" borrowers in FY04 who continued to borrow from the program in FY05, the aggregate amount loaned to them in each fiscal year was as follows:

FY04 loans to 9 new borrowers:	$665,818
FY05 loans to these same borrowers:	$820,083

The addition of these new borrowers in FY04 and their continuing use of the program in FY05 might therefore represent a substantial and ongoing increase in annual loan demand.

Comparing now the number of borrowers in FY04 and FY05, the data show a net increase of 7 borrowers as a result of the following:

- 10 FY04 borrowers did not obtain BFRLF loans in FY05. These 10 had borrowed $958,699 from the BFRLF in FY04.

  (Again, this study has not uncovered how these 10 FY04 borrowers financed their FY05 bulk fuel requirements.)

- 17 FY05 borrowers did not obtain BFRLF loans in FY04. These 17 borrowed $1,833,704.

The net increase of these movements in and out of the program was therefore $875,005, or about 49% of the increase in loan disbursements between FY04 and FY05.

Again examining the 17 additional borrowers in FY05, 10 of the 17 had not obtained a previous BFRLF loan during the prior 4 years. These 10 "genuinely new" borrowers accounted for $1,155,072 in FY05 loans. How many of these "first time" BFRLF borrowers will remain with the program in FY06 and beyond remains to be seen.

It is difficult to isolate the contribution of new borrowers to increased program demand because of the offsetting factor of past borrowers dropping out of the program. Why they dropped out is unknown, as is the likelihood and timing of their possible return to the program in the future. Similarly, we don't know whether or for how long the new borrowers will remain with the program. However, the available figures indicate that a third or more of the increase in BFRLF loans over the last two years is associated with the net increase in the number of borrowers. Further, the fact that 9 of the 12 "first time" borrowers in FY04 returned in FY05 for another BFRLF loan suggests that the program is successfully meeting the needs of the preponderance of new borrowers. The subject of future growth in program demand will be taken up again in later sections of this report.

As shown in Table 3 and in Graph 5, not only the number of borrowers has grown since FY03 but the average size loan per borrower has grown substantially as well from approximately $65,000 per borrower in FY03, to $76,300 per borrower in FY04, to $99,700 per borrower in FY05. Factors that may contribute to the increase in average loan per borrower include the following:

- Increase in wholesale, delivered fuel prices.

- Increase in the gallons of fuel financed by borrowers, which could correspond to increased consumption in the subject communities. It could also mean, for those bulk fuel purchasers who finance their purchase in part with cash and in part with a BFRLF loan, that the loan portion is growing and the cash portion is shrinking.

- Increase in the maximum amount per year of debt financing that each borrower may obtain from the program.

These three factors are discussed in the sections below:

Impact of Diesel Fuel Prices

Delivered fuel prices certainly increased during this period and must have affected the financing requirements of bulk fuel purchasers. The most comprehensive record of historical, wholesale fuel prices in communities that are eligible for BFRLF loans is found in the annual statistical reports of the Power Cost Equalization (PCE) program. These reports show the average price of fuel delivered to the electric utility bulk fuel tanks in each community for each fiscal year.

Diesel fuel prices for electric utilities were obtained for each PCE community for 5 years: the prices reported in the PCE statistical reports were used for FY01 through FY04, and the most recent price of fuel delivered to each community's electric utility was used for FY05[4]. Because BFRLF loans are available only for use in communities with population under 2000, PCE communities with populations above this level were removed. In order to gain a regional perspective on fuel prices, each remaining community was assigned one of the following region codes:

1 = Aleutians
2 = Kodiak
3 = Southwest Coast
4 = North Slope Borough
5 = Southeast Alaska
6 = Southwest River
7 = Interior
8 = Northwest Coast
9 = Southcentral
10 = Road Access

There are close calls in assigning communities to one of these regions: for example, a community several miles upriver from the Southwest Coast could have been assigned either code "3" or code "6."

It is acknowledged that, especially for FY05, these prices are likely to be lower than prices paid by many BFRLF borrowers. Among the reasons for this are:

- This report is being prepared in an environment of rapidly increasing fuel prices. Even the fuel price most recently reported

[4] The PCE statistical report for FY05 showing average fuel prices for each utility paid throughout the fiscal year will not be available until roughly the mid-point of FY06. For this reason, the most recent fuel price paid in FY05 by each PCE utility (which is available now in PCE records) was used rather than an FY05 average.

for PCE may be out of date, especially if it reflects prices for deliveries in fall 2004.

- In many cases, though not all, electric utility prices may be more favorable than prices available to the average BFRLF borrower. For example, AVEC may be able to obtain a lower price than a particular fuel retailer due at least in part to its larger presence in the market and its record of making timely and complete payments to fuel suppliers.

On the whole, however, it is reasonable to use the electric utility fuel price records for purposes of this study: to document historical diesel fuel price trends by region and across the state, and to help develop rough estimates of the total cost of diesel fuel and gasoline in BFRLF communities. The focus of this report is not on short term developments but on long term trends.

Table 4, which is spread across the following 7 pages, shows the PCE fuel price data sorted by region and, within regions, alphabetically by community:

TABLE 4

Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
	Adak	1	6						
Akutan Electric Utility	Akutan	1	74	48,724		1.63	1.34	1.37	1.61
Andreanof Electric Corp.	Atka	1	10	33,05		2.23	1.93	2.15	2.00
Chignik E ectric (10)	Chignik	1	7	53,19	2.28	1.24	1.11	1.05	1.14
Chignik Lagoon Power Utility	Chignik Lagoon	1	8	46,72	2.67	1.73	1.45	1.64	1.82
Chignik Lake	Chignik Lake	1	13						2.32
G & K	Cold Bay	1	11	221,49	2.80	2.22	2.25	2.23	2.26
False Pass Electric Assoc.	False Pass	1	7	44,39	2.20	1.48	0.78	1.34	1.33
King Cove, City of	King Cove	1	79	107,29	1.53	1.25	1.03	0.93	1.15
Nelson Lagoon Elec. Coop.	Nelson Lagoon	1	7	33,73		1.42	1.36	1.42	1.63
Umnak Power Company	Nikolski	1	4	20,37	2.60	2.13	1.94	1.58	2.23
Perryville, City of (8)	Perryville	1	11	23,91		1.82	1.75	1.76	2.12
Pilot Point Electrical	Pilot Point	1	7	39,29		1.83	1.57	1.54	1.28
Port Heiden, City of (10)	Port Heiden	1	10	61,21	2.23	1.43	1.53	1.34	1.36
Sand Point Electric Company	Sand Point	1	91	299,46	2.51	1.86	1.63	1.55	1.55
	ALEUTIANS		3,53	1,032,87					
(weighted by population)	wt. ave fuel price				2.15	1.65	1.41	1.39	1.55
Akhiok	Akhiok	2	8					1.13	
Alutiiq Power Company	Karluk	2	2	14,84	2.05	1.75	1.75	1.75	1.75
Larsen Bay Utility Company	Larsen Bay	2	10	8,041	2.30	1.28	1.48	1.08	1.10
AVEC	Old Harbor	2	22	64,271	2.32	1.44	1.22	1.12	1.74
Ouzinkie, City of	Ouzinkie	2	18	36,55	2.25	1.56	1.48	1.42	1.75
	KODIAK		62	125,71					
(weighted by population)	wt. ave fuel price				2.29	1.46	1.38	1.23	1.62

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Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
Akiachak Ntv. Community Elec	Akiachak	3	622	120,588	1.98	1.72	1.51	1.63	1.58
Akiak, City of	Akiak	3	346	71,572	2.03	1.45	1.47	1.87	1.58
AVEC	Alakanuk	3	659	139,699	1.82	1.38	1.11	1.23	1.20
	Aleknagik	3	219						
Atmautluak Joint Utilities	Atmautluak	3	291	59,098	1.90	1.80	1.34	1.58	1.44
Naterkaq Light Plant	Chefornak	3	419	69,770	3.07	1.81	1.48	1.38	1.38
AVEC	Chevak	3	854	200,129	1.79	1.36	1.15	1.23	1.19
AVEC	Eek	3	291	55,417		1.22	1.17	1.24	1.19
Egegik Light and Power	Egegik	3	88	65,183	2.05	1.45	1.55	1.48	1.38
Ekwok Electric	Ekwok	3	114	32,284	2.66	2.11	2.60	2.60	2.60
AVEC	Emmonak	3	745	201,846	1.82	1.44	1.13	1.23	1.25
AVEC	Goodnews Bay	3	234	56,049		1.39	1.08	1.25	1.19
AVEC	Hooper Bay	3	1,075	179,955		1.31	1.14	1.24	1.30
Igiugig Electric Company	Igiugig	3	52	21,314	2.95	1.99	1.53	1.47	1.41
AVEC	Kasigluk	3	527	-					
Kipnuk Light Plant	Kipnuk	3	644	129,647	2.06	1.66	1.42	1.06	1.13
Koliganek Village Council	Koliganek	3	186	38,004	2.66	1.85	1.71	1.77	1.69
Kuvurnaq Power Company	Kongiganak	3	359	87,430	1.90	1.62	1.39	1.55	1.35
Kotlik Electric Services	Kotlik	3	633	154,730	2.07	1.62	1.83	1.91	1.34
Kwig Power Company	Kwigillingok	3	337	63,622		1.57	1.30	1.56	1.52
Manokotak Power Company	Manokotak	3	404	113,521	2.32	1.87	1.41	1.53	1.46
AVEC	Mekoryuk	3	204	65,633		1.36	1.14	1.25	1.23
AVEC	Mountain Village	3	757	199,594	1.79	1.35	1.17	1.24	1.21
Naknek Electric Association	Naknek	3	1,155	1,437,581	1.54	1.00	0.92	0.91	0.95
Unqusrag Power Company	Newtok	3	320	38,820		1.51	1.47	1.48	1.49
AVEC	Nightmute	3	224	49,749		1.36	1.08	1.26	1.22
Nunam Iqua Electric Company	Nunam Iqua	3	204	56,597	1.95	1.61	1.38	1.53	1.37
Platinum, City of	Platinum	3	37	28,615	2.21	1.20	1.52	1.32	2.57
AVEC	Quinhagak	3	572	127,567	1.79	1.32	1.10	1.17	1.27
AVEC	Scammon Bay	3	491	85,500	1.79	1.33	1.13	1.25	1.25
St. George	St. George	3	137					1.97	1.71
St. Paul Municipal Elec. Util.	St. Paul	3	533	371,910	2.50	1.88	1.68	1.52	1.84
AVEC	Stebbins	3	586	108,999	1.79	1.39	1.09	1.13	1.18
AVEC	Togiak	3	804	210,093	1.75	1.30	1.15	1.21	1.28
AVEC	Toksook Bay	3	549	105,570	1.79	1.34	1.12	1.26	1.24
AVEC	Tununak	3	323	62,890		1.33	1.14	1.25	1.17
Twin Hills Village Council	Twin Hills	3	70	21,199		1.90	1.90	2.31	2.16
	SW COAST		16,077	4,830,194					
(weighted by population)	wt. ave fuel price				1.94	1.45	1.27	1.34	1.31

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Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
Aniak Light & Power Co.	Aniak	6	539	192,576	1.80	1.32	1.15	1.46	1.48
AVEC	Anvik	6	109	38,474		1.32	1.44	1.54	1.47
MKEC	Chuathbaluk	6	98	20,200		1.70	1.65	1.90	1.94
MKEC	Crooked Creek	6	148	25,258		1.69	1.65	1.79	1.96
AVEC	Grayling	6	192	46,352		1.52	1.33	1.40	1.
AVEC	Holy Cross	6	232	54,340		1.51	1.31	1.45	1.39
Kwethluk, Inc. (11)	Kwethluk	6	693	92,279	2.04	1.86	1.98	1.72	1.65
Levelock Electric Cooperative	Levelock	6	84	36,834		1.54	1.50	1.60	1.89
AVEC	Lower Kalskag	6	260	90,870		1.42	1.13	1.29	1.21
AVEC	Marshall	6	364	79,713	1.83	1.39	1.18	1.22	1.21
Napakiak Ircinraq Power Co.	Napakiak	6	353						
Napaskiak Electric Utility	Napaskiak	6	408	74,091	2.73	1.60	1.64	1.55	1.75
AVEC	New Stuyahok	6	479	92,667	2.41	1.30	1.17	1.33	1.36
AVEC	Nunapitchuk	6	512	193,199	1.82	1.39	1.16	1.25	1.21
AVEC	Pilot Station	6	548	125,278	1.79	1.39	1.17	1.39	1.22
AVEC	Pitkas Point	6	105						
MKEC	Red Devil	6	35	14,490		1.83	1.67	1.80	1.87
AVEC	Russian Mission	6	326	59,875	1.79	1.32	1.06	1.19	1.20
AVEC	Shageluk	6	145	31,506		1.69	1.54	1.62	1.47
MKEC	Sleetmute	6	93	25,314		1.69	1.65	1.87	1.94
AVEC	St. Mary's, Andreafsky	6	688	225,358	1.81	1.33	1.15	1.27	1.31
MKEC	Stony River	6	57	13,994		1.69	1.63	1.77	1.61
Tuluksak Traditional Power Utility	Tuluksak	6	461	50,280	3.27	1.67	1.42	1.79	2.28
Tuntutuliak Community Service A	Tuntutuliak	6	377				1.32	1.53	1.66
AVEC	Upper Kalskag	6	240						
	SW RIVER		7,552	1,582,953					
(weighted by population)	wt. ave fuel price				2.11	1.49	1.35	1.46	1.49

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Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
AVEC	Brevig Mission	8	307	69,644	1.65	1.40	1.27	1.22	1.28
Buckland, City of (10)	Buckland	8	426	95,753	2.01	1.87	2.02	1.76	1.71
Ipnatchiaq Electric Company	Deering	8	129	55,249	2.21	1.76	1.79	1.77	1.79
Diomede Joint Utilities	Diomede	8	128	42,600	2.21	1.68	1.63	1.87	1.61
AVEC	Elim	8	339	90,492		1.31	1.16	1.23	1.21
AVEC	Gambell	8	639	141,136	1.82	1.23	1.13	1.23	1.19
Golovin Power Utilities	Golovin	8	148	64,557	2.28	1.50	1.82	2.03	1.84
AVEC	Kiana	8	399	120,553	2.29	1.91	1.71	1.77	1.71
AVEC	Kivalina	8	383	87,755	2.29	1.87	1.63	1.75	1.67
AVEC	Koyuk	8	332	96,010	1.82	1.51	1.11	1.23	1.25
AVEC	Noatak	8	455	109,521	3.10	2.72	2.68	2.73	1.99
AVEC	Noorvik	8	677	150,578		1.89	1.69	1.76	1.73
AVEC	Savoonga	8	686	150,894	1.79	1.33	1.15	1.32	1.25
AVEC	Selawik	8	778	206,273	1.79	1.88	1.65	1.77	1.79
AVEC	Shaktoolik	8	218	61,083	1.65	1.29	1.10	1.12	1.21
AVEC	Shishmaref	8	589	128,589	1.71	1.33	1.11	1.18	1.25
AVEC	St. Michael	8	390	100,221	1.85	1.49	1.15	1.36	1.28
Teller Power Company (10)	Teller	8	247	49,287	1.79	1.67	1.73	1.59	1.57
Unalakleet Valley Elec. Coop.	Unalakleet	8	757	305,134	1.55	1.22	1.14	1.18	1.24
AVEC	Wales	8	159	47,933	1.71	1.32	1.38	1.17	1.26
White Mountain Utilities	White Mountain	8	214	71,221	2.52	1.81	1.40	1.59	1.38
	NW COAST		8,397	2,244,485					
(weighted by population)	wt. ave fuel price				1.95	1.62	1.47	1.53	1.48

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Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
APC	Allakaket, Alatna	7	162	53,773	1.45	2.19	2.08	2.11	2.00
AVEC	Ambler	7	295	105,390	2.43	1.92	2.15	2.33	1.87
	Arctic Village	7	146						
Beaver Joint Utilities (9)	Beaver	7	76	31,436	2.87	1.92			2.06
APC	Bettles, Evansville	7	58	58,368	1.45	1.41	1.27	1.36	1.29
	Birch Creek	7	43						
Central Electric, Inc.	Central	7	120	50,104	1.47	1.22	1.09	1.07	1.40
Chalkyitsik Village Energy System	Chalkyitsik	7	84					2.30	2.30
Gwitchyaa Zhee Utilities	Fort Yukon	7	581	207,698	2.27	1.66	1.54	1.47	1.45
Galena, City of	Galena	7	713	724,070		1.46		1.47	1.59
APC	Healy Lake	7	31	14,339	1.60	1.26	1.09	1.26	1.40
Hughes Power & Light	Hughes	7	69	37,325	2.76	3.27	2.29	2.28	2.29
AVEC	Huslia	7	285	77,648	2.24	1.79	1.57	1.76	1.66
AVEC	Kaltag	7	223	57,498		1.58	1.37	1.40	1.28
Kobuk Valley Electric Company	Kobuk	7	128						
Koyukuk, City of (11)	Koyukuk	7	101	20,820	1.98	1.89	1.51	1.55	1.40
Lime Village Electric Utility	Lime Village	7	41	9,101		4.44	3.10	3.10	3.10
McGrath Light & Power	McGrath	7	407	221,650	1.95	1.40	1.35	1.49	1.47
Nikolai Light & Power	Nikolai	7	120	39,182		1.81	1.52	1.86	1.67
AVEC	Nulato	7	345	85,982		1.59	1.41	1.56	1.36
Ruby, City of (5)	Ruby	7	195	24,861	2.84	1.76	1.74	2.29	2.51
AVEC	Shungnak	7	249	107,998	2.43	2.03	2.18	2.08	2.00
Takotna Community Assoc. Utilities	Takotna	7	49	28,219	2.20	1.72	1.44	1.67	1.54
Tanana Power Company	Tanana	7	278	104,270	1.76	1.34	1.24	1.74	1.58
Venetie Village Electric	Venetie	7	168					1.39	1.92
	INTERIOR		4,987	2,059,744					
(weighted by population)	wt. ave fuel price				2.16	1.69	1.61	1.72	1.67
Chenega IRA Village Council	Chenega Bay	9	90	22,549	2.69	1.89	1.73	1.89	1.77
I-N-N Electric Cooperative	Iliamna, Newhalen, Nondalton	9	467	53,816	2.15	1.61	1.59	1.48	1.48
Kokhanok Village Council	Kokhanok	9	174	26,403	2.51	2.36	1.94	2.14	2.54
Pedro Bay Village Council	Pedro Bay	9	40	20,413	2.75	2.32	2.02	2.16	1.98
Tanalian Electric Cooperative	Port Alsworth	9	110	54,606	2.71	2.18	2.24	2.25	2.25
Tatitlek Electric Utility	Tatitlek	9	108		2.63	1.93			
	SOUTH CENTRAL		995	177,786					
(weighted by population)	wt. ave fuel price				2.41	1.90	1.78	1.78	1.84

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Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
APC	Chistochina	10	84	25,576	1.49	1.27	1.11	0.99	1.24
Chitina Electric Inc.	Chitina	10	131	39,416	2.21	1.60	1.47	1.27	1.39
Circle Electric Utility	Circle	10	84	34,750	2.00	1.24	1.14	1.12	1.25
APC	Dot Lake	10	52						
APC	Eagle, Eagle Village	10	152	58,474	1.60	1.20	1.13	1.20	1.20
Manley Utility Company	Manley Hot Springs	10	73	26,772	1.29	1.14	1.14	1.29	1.05
APC	Mentasta	10	139	34,255	1.60	1.26	1.12	0.98	1.24
AVEC	Minto	10	229	56,366	2.00	1.13	1.03	1.08	1.21
APC	Northway	10	282	121,569	1.60	1.29	1.07	1.02	1.21
APC	Tetlin	10	142	40,782	1.60	1.40	1.41	1.19	1.39
APC	Tok	10	1,444	861,311	1.69	1.29	1.06	0.90	1.13
	ROAD ACCESS		2,812	1,299,271					
(weighted by population)	wt. ave fuel price				1.68	1.27	1.11	1.00	1.18
IPEC	Angoon	5	542	151,724	1.95	1.20	1.03	1.05	1.23
IPEC	Chilkat Valley	5	226		1.95		0.98		1.42
APC	Coffman Cove	5	161	57,572		1.16	1.03	0.92	1.19
APC	Craig	5	1,562	141,958		1.09	1.11	0.61	1.22
Elfin Cove Electric Utility	Elfin Cove	5	32	33,712	2.69	1.92	1.66	1.61	1.72
Gustavus Electric Company	Gustavus	5	421	138,322	1.97	1.54	1.47	1.37	1.46
APC	Haines	5	1,872	47,306	1.59	1.14	1.03	2.92	1.06
APC	Hollis	5	150	32,848		1.08	1.03	0.91	1.16
IPEC	Hoonah	5	868	347,792	1.95	1.34	1.15	1.06	1.35
APC	Hydaburg	5	364	102,543		1.22	1.11	1.00	1.21
IPEC	Kake	5	700	285,247	1.95	1.23	1.10	1.06	1.28
APC	Klawock	5	848						
IPEC	Klukwan	5	111		1.95				
	Metlakatla	5	1,370						
APC	Naukati	5	110	44,577	1.50	1.09	1.00	0.92	1.17
	Pelican	5	118						
APC	Skagway	5	841	13,006	1.30	1.16	1.06	1.12	1.24
Tenakee Springs, City of	Tenakee Springs	5	98	36,239	3.19	1.71	1.54	1.41	1.62
APC	Thorne Bay/Kasaan	5	558					1.05	1.39
APC	Whale Pass	5	62	27,824	1.30	1.12	1.03	1.14	1.34
Yakutat Power	Yakutat	5	808	461,951		1.36	1.15	1.07	1.36
	SOUTHEAST		11,822	1,922,111					
(weighted by population)	wt. ave fuel price				1.76	1.22	1.11	1.38	1.25

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9 = SC Coast
10 = Road Access

Utility (FY04 Report)	Community (FY04 Report)	Region	Pop 6/30/04	Total Fuel Used (gallons) FY04 (ELEC UTIL ONLY)	Most Recent Diesel Price FY05	Avg Price of Diesel Fuel FY04	Avg Price of Diesel Fuel FY03	Avg Price of Diesel Fuel FY02	Avg Price of Diesel Fuel FY01
NSB	Anaktuvuk Pass	4	302	576,657		0.91	1.66	1.66	1.74
NSB	Atqasuk	4	231	264,780		1.61	1.55	1.55	1.48
NSB	Kaktovik	4	306	308,989		1.39	1.38	1.38	1.33
NSB	Nuiqsut	4	443	387,840		1.21	1.22	1.22	1.13
NSB	Point Hope	4	709	395,989		1.39	1.38	1.41	1.33
NSB	Point Lay	4	256	248,548		1.39	1.38	1.38	1.25
NSB	Wainwright	4	543	377,950		1.39	1.38	1.38	1.33
	NORTH SLOPE BOR		2,790	2,560,759					
(weighted by population)	wt. ave fuel price					1.33	1.40	1.41	1.35

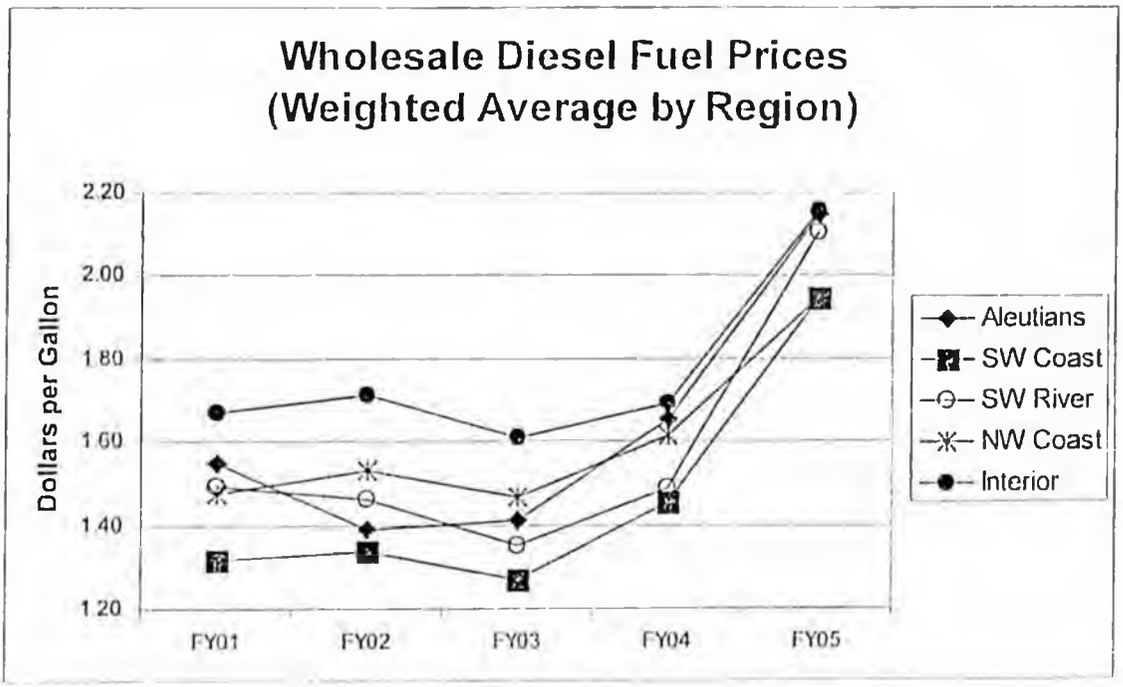
Region Key
1 = Aleutians
2 = Kodiak
3 = SW Coast
4 = North Slope Borough
5 = Southeast
6 = SW River
7 = Interior
8 = NW Coast
9 = SC Coast
10 = Road Access

There are approximately 15 additional communities with less than 2,000 population that were not included in this spreadsheet because they were not identified in the PCE data. The total population of these additional communities is approximately 1,500.

Note on Region Key: 9 = Southcentral Inland (e.g. Iliamna) as well as Southcentral Coast (e.g. Port Graham)

As shown in Table 4, a weighted average price of diesel fuel was calculated for each region and each fiscal year. The population of each community was used to provide the weights, meaning that the price incurred by larger communities within a region was given proportionately greater weight than the price incurred by smaller communities. These weighted average prices for those regions with the most BFRLF borrowers are shown in Graph 6 below:

GRAPH 6



Two observations are apparent from Graph 6:

- Average diesel prices were essentially flat from FY01 through FY03. Even in FY04, average prices were not appreciably higher than the prior 3 years although they were on an upward trend. The most recent prices reported for FY05 reflect the sharp increases that occurred everywhere during that time period.

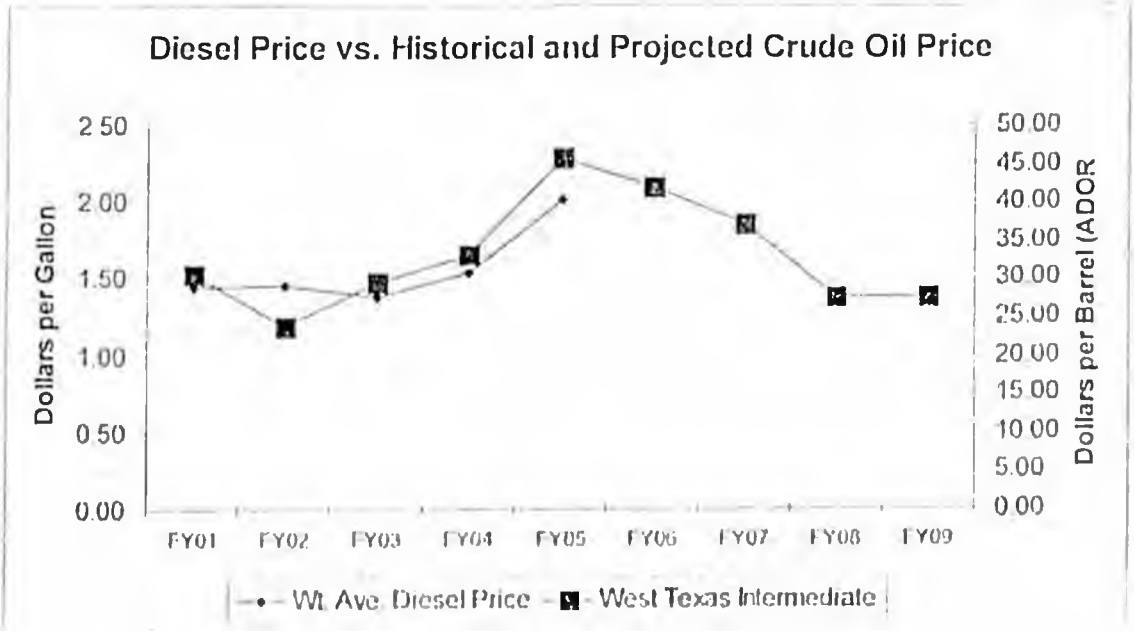
- Prices for communities on the Southwest coast are consistently lower than prices in the Interior, with prices for delivery on the Northwest coast and in the Southwest River regions falling roughly in between. This rank order of average prices makes sense in the context of barge transportation costs. Delivery cost to the Southwest coast would typically be less than the Northwest Coast, while delivery to upriver communities would be more costly than either coastal region.

As expected, this diesel price trajectory corresponds quite well with the historical pattern of world crude oil prices. The Alaska Department of Revenue publishes its "Revenue Sources Book" twice each year, and includes historical crude prices along with its own price projection for revenue planning purposes. Graph 7 below compares two sets of prices on two different axes in order to compare upward and downward trends:

- The first series is the historical price of diesel fuel delivered to bulk fuel purchasers in the 5 regions shown in Graph 6, weighted by the population in each region. As before, this series runs from FY01 through FY05.

- The second series is the historical and projected crude oil price[5] published by the Department of Revenue in its Spring 2005 Revenue Sources Book. The historical series runs through FY04 while the projections begin in FY05, since actual prices throughout FY05 are not yet known when the Spring 2005 Revenue Sources Book is published.

GRAPH 7



Observations from Graph 7 include the following:

[5] The benchmark crude used by the Department of Revenue is West Texas Intermediate. Both the diesel price and crude prices series are expressed in nominal dollars.

- The wholesale price of diesel fuel delivered to bulk fuel purchasers in rural Alaska follows the world price trajectory quite well.

  The one anomaly in the graph occurs in FY02, during which the world oil price dropped yet the weighted average wholesale diesel price remained constant. On the other hand, in FY03 the diesel price dropped while world oil prices went back up.

- The Department of Revenue spring 2005 forecast anticipates that world oil prices over the next 3 years will fall back to $27.50 per barrel, roughly where they were before the price increases began in FY04.

  This general expectation is evidently shared by the Energy Information Administration (EIA) within the U.S. Department of Energy. In its "Annual Energy Outlook 2005," EIA published its "reference case" forecast of the average price of all petroleum products to all end-users expressed in real (i.e. inflation-adjusted) dollars.[6] In real terms, EIA's forecast of $9.91 per million Btu in 2010 is below the historical price they report for 2003 – $10.51 per million Btu.

  It hardly needs repeating that oil price forecasting is a hazardous business.[7] However, at least these two institutions think it most likely that today's high prices will not last – presumably, their view rests in large part on the idea that market factors will force the price back down through demand and supply responses.

Table 5 compares the percentage increase in the average BFRLF loan size since FY03 with the percentage increase in the weighted average diesel price shown in Graph 7 above:

TABLE 5

Percentage Increase

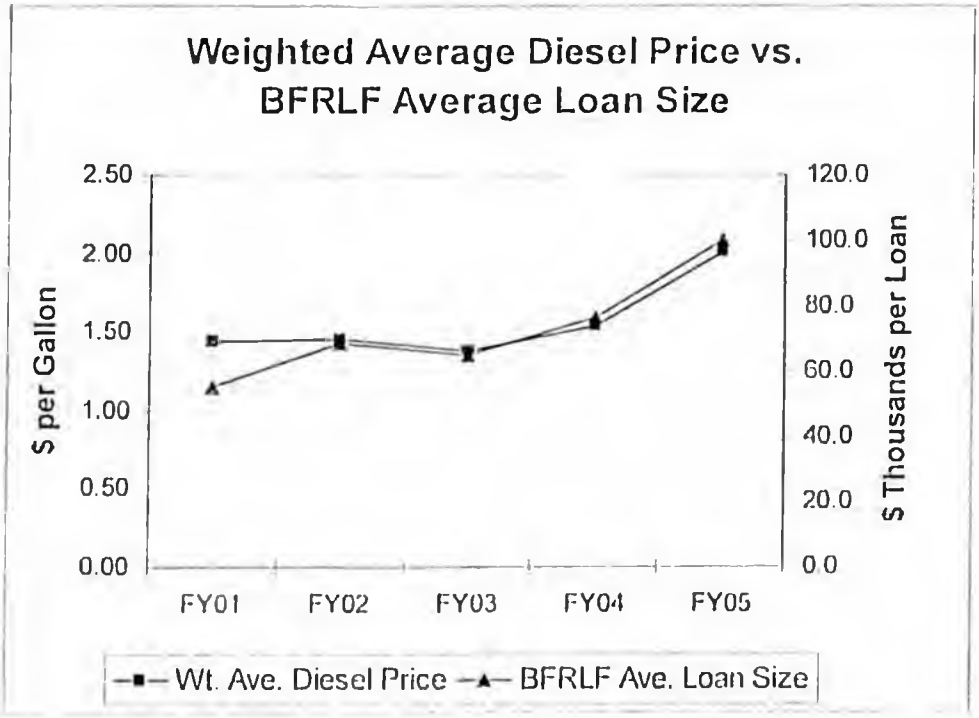
	Ave. BFRLF Loan Size	Weighted Ave. Diesel Price
FY03 to FY04	17%	12%
FY04 to FY05	31%	31%

[6] See page 144, Table A3, of EIA's 2005 Annual Energy Outlook

[7] From the mid-70's to the mid-80's, nearly all published opinion agreed that oil prices would continue to rise over the long term at whatever the most recent trend seemed to indicate, yet the price crash in 1986 and the mostly low prices that followed for almost 20 years proved them all wrong. Given this past experience, published opinion on future oil prices tends to be more varied today.

These two trends – BFRLF average loan size and weighted average diesel price – for FY01 through FY05 are compared in Graph 8 below:

GRAPH 8



Both Table 5 and Graph 8 show a close correlation between average diesel price and average loan size, and we can safely conclude on the basis of this record that diesel price is a dominant factor in explaining the historical changes in average loan size. It could explain virtually all of that change if the identity of the borrowers and their volume requirements remained the same from year to year. But these factors do not stay the same and so there may be additional causes of change in average loan size that are worth considering.

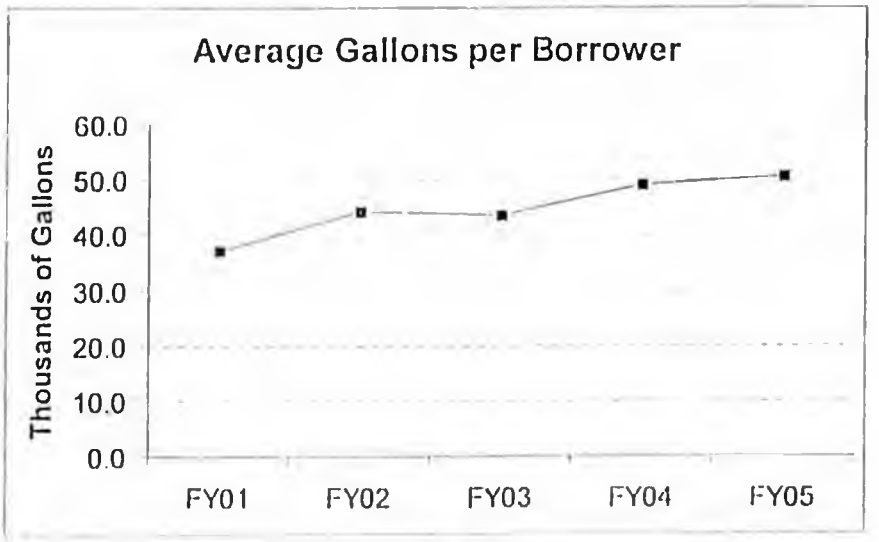
Gallons Financed per Borrower

To estimate average gallons financed per borrower per fiscal year, the price per gallon paid by the borrower is needed to divide into the loan amount. These prices are not entered into the BFRLF data base and it is impractical to go into 5 years of loan files to ferret them out. So, to arrive at an estimate, the loan amounts for each borrower have been divided by the diesel prices obtained from PCE records for each borrower community and fiscal year. Imperfect though this is, the methodology should be adequate to uncover major trends.

The estimated gallons financed per borrower per fiscal year derived in this fashion are shown below and are plotted on Graph 9:

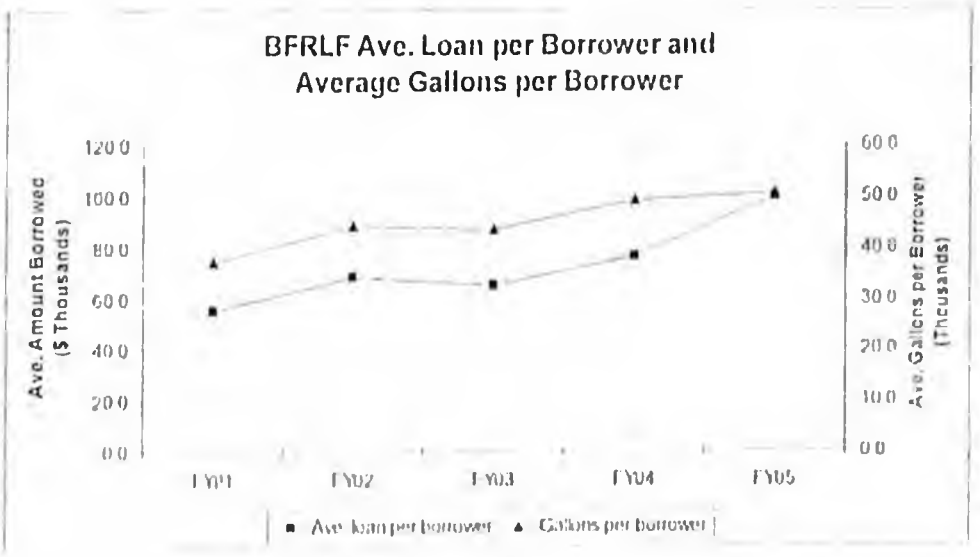
	FY01	FY02	FY03	FY04	FY05
Gallons Financed per Borrower (Thousands)	37.3	44.3	43.6	49.2	50.7

GRAPH 9



Returning to the question of average loan size and the possible causes of its long term increase, Graph 10 compares average gallons financed per borrower with average BFRLF loan size:

GRAPH 10



As expected, not only changes in diesel price but also changes in average gallons per borrower – both showing a substantial increase between FY01 and FY05 – are correlated with and contribute to the increase in average BFRLF loan per borrower. It is assumed that, averaged across all borrowers, the percentage of borrower requirements that has been financed vs. the percentage that has been paid for in cash has not changed appreciably over the 5-year period, and that therefore the increase in gallons per borrower represents primarily an increase in the borrowers' volume of fuel requirements. This assumption is based on the fact that gallons per borrower increased from FY01 through FY04, during which fuel prices were relatively stable, but did not increase from FY04 to FY05, when prices increased sharply. If the increase in gallons financed per borrower were primarily due to a need to finance a greater share of fuel requirements due to their increasing cost, then the opposite pattern should be observed.

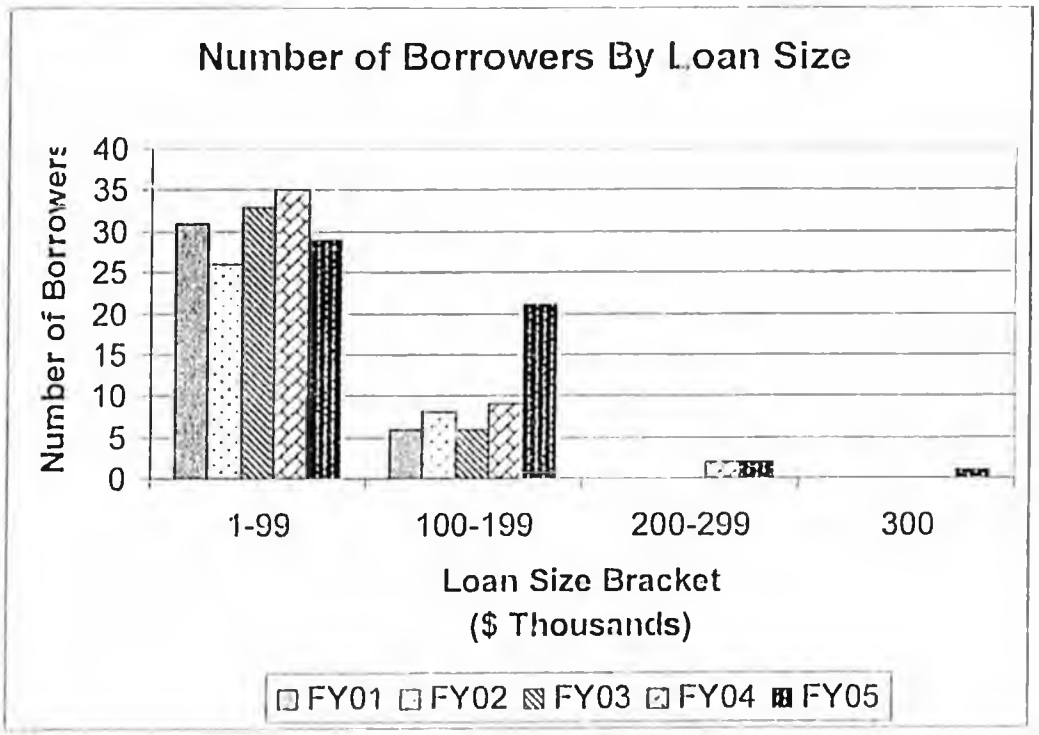
Impact of Increased Loan Limit

As noted before, an individual borrower has been limited by statute to the following maximum loan amounts:

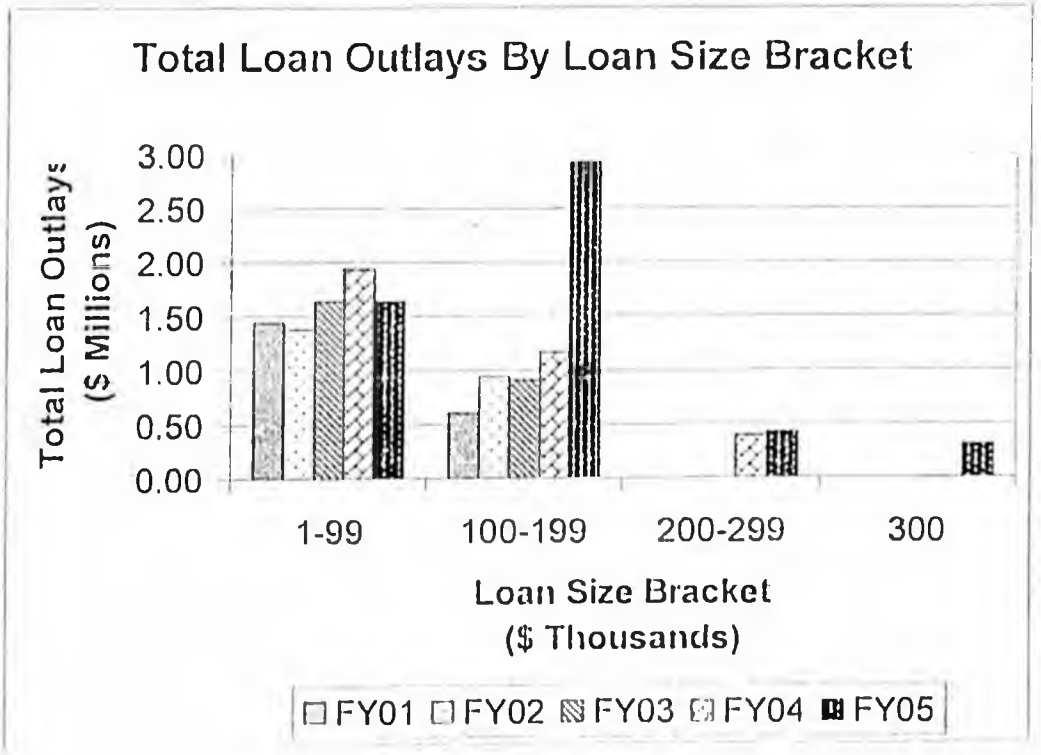
- $100,000 per fiscal year in FY01 and FY02.
- $200,000 per fiscal year in FY03.
- $300,000 per fiscal year in FY04 and FY05.

Graphs 11 and 12 show the number of borrowers and total amounts loaned by loan size bracket over the last 5 fiscal years:

GRAPH 11



GRAPH 12



Thus far, only 1 borrower (a local government new to the program) has been loaned the full $300,000 that has been allowed over the past 2 years. This occurred during FY05.

Only two additional borrowers were loaned $200,000 or more during FY05: one borrowed approximately $212,000 and the other borrowed $207,000.

Clearly, FY05 saw a significant increase in the number of loans and total amount loaned in the $100,000 - $199,000 bracket. About 2/3 of these borrowers had received loans from the program for several prior years while the other 1/3 were new borrowers in FY04 or FY05.

Following the increase in borrower limit to $200,000 that took effect in FY03,[8] the response both in borrowers and amounts loaned was relatively modest for a couple of years but then, in FY05, became very significant. Clearly, the sharp increase in fuel prices contributed to this but there may also be a lag effect in the response of bulk fuel purchasers to the increased limit.

AEA does not aggressively market the program in an effort to attract more borrowers. Some might argue that such efforts should be made so that program benefits – access to financing, low interest rates, and prompt payment to fuel suppliers[9] – would be shared by more people. Others might argue that the State should not entice people into long-term reliance on its programs, or that building greater demand for the program will at some point require the State to increase the Fund's capitalization. In any event, it presumably takes time for potential borrowers to learn that annual limits have been increased, and it may also require a jolt such as the sharp increase in fuel prices to change existing practices with respect to bulk fuel financing.

There has clearly been a response, though somewhat delayed, to increasing the limit to $200,000, and this has contributed to the increase in average BFRLF loan size. There has been very little response during the last two years to the increase to $300,000. A lagged response similar to what happened with the increase to $200,000 could certainly occur sometime in the next several years. Or there could be other explanations. For example, perhaps the larger bulk fuel purchasers are better established in their financing arrangements – whether those arrangements

[8] As shown in Graphs 11 and 12, AEA loaned over $100,000 to several borrowers in FY02 although the increase in the annual limit from $100,000 to $200,000 took effect at the beginning of FY03. This reason for this discrepancy is that the borrower limit per fiscal year is applied by AEA to loan commitments, not to loan disbursements.

[9] Fuel suppliers can be expected to offer lower prices to customers who have arranged for prompt payment compared with customers to whom the supplier must extend credit or whose full and timely payment may be uncertain

involve cash up front or credit from another source – and therefore have less need for the BFRLF option compared with smaller purchasers. Such questions will contribute to the uncertainty in projecting program demand.

SECTION 2

ANNUAL VOLUME AND WHOLESALE COST OF DIESEL FUEL AND GASOLINE DELIVERED TO COMMUNITIES THAT ARE ELIGIBLE FOR A BFRLF LOAN

To estimate the potential market for BFRLF loans, to understand the extent of its current role in financing bulk fuel acquisition in eligible communities, and to understand how much is purchased or financed by other means, the total annual consumption of diesel fuel and gasoline in these eligible communities must be estimated. For this study, the methodology initially selected to do this was to first estimate the average consumption of diesel fuel and gasoline per person and to then multiply that average by the population in eligible communities.

AEA has been engaged for a number of years in the construction of new, consolidated bulk fuel storage facilities in rural communities. One of the first steps in designing such facilities is to determine the amount of fuel storage capacity that the community will need. These determinations are found in the conceptual design reports ("CDRs") that AEA commissions. For many of the CDRs, the engineers begin by estimating the annual consumption of diesel fuel and gasoline in the community based on available records and estimates from local people involved with bulk fuel acquisition, storage, and use.

Table 6 shows the estimates developed in 12 CDRs for communities that are eligible for BFRLF loans. The last two columns of the table show the population estimates for each community and the estimated gallons per person derived by dividing total consumption by population:

TABLE 6

		Annual Consumption						
Community	Date of CDR	Diesel Electric Utility	Diesel Schools	Diesel Other or Not Specified	Gasoline	TOTAL	Pop. In year of CDR	Estimated Gallons per Person
Igiugig	Nov-01	(incl in "other")	10,000	35,000	15,000	60,000	62	968
Kongiganak	Jan-00	62,200	41,800	50,700	57,300	212,000	348	609
Kokhanok	Oct-01	30,000	36,000	22,000	18,500	106,500	174	612
Koyukuk	Oct-01	(incl in "other")	13,000	38,000	33,600	84,600	101	838
Kotlik	Jan-00	(incl in "other")	34,000	198,000	145,000	377,000	579	651
Newtok	Nov-03	36,000	29,000	34,500	50,000	149,500	326	459
Nunapitchuk	Jun-00	89,490	22,600	83,000	71,300	266,390	471	566
Toksook Bay	Oct-00	98,600	17,200	89,300	55,200	260,300	513	507
Tununak	Dec-00	64,700	19,600	56,400	30,000	170,700	331	516
Kiana	Jun-99	110,000	43,000	93,000	55,000	301,000	398	756
Buckland	Dec-99	(incl in "other")	39,500	135,000	50,000	224,500	428	525
Elim	Sep-97	60,000	21,000	65,000	50,000	196,000	301	651

Based on these numbers alone, the population weighted average consumption per person is 597 gallons. But this number appears to be much too low for the following reasons:

- Other recent estimates of diesel fuel use for electric utilities alone in rural Alaska are about 360 gallons per person per year. For example, the FY04 PCE Statistical Report includes the following summary figures for all PCE communities:

  Total fuel oil consumed = 28,476,898 gallons
  Total population served = 78,166

  Dividing fuel oil consumed by population yields 364 gallons per person per year.

  This was corroborated in a presentation by the Institute of Social and Economic Research to the Rural Alaska Energy Conference in September 2002 on the cost of power in rural Alaska. ISER used essentially the same 360 gallon per person estimate for electric utilities on PCE. This was probably taken from an earlier PCE statistical report, but ISER's use of it suggests that the figure is consistent with other energy studies they have conducted.

  If total use of diesel fuel and gasoline in rural Alaska were 597 gallons per person, this electric utility estimate would mean that about 60% of a rural community's total fuel consumption is for electric power alone – an implausibly high percentage.

  Table 6 itself suggests that this percentage is implausibly high. There are 8 CDRs in Table 6 that present a separate figure for electric utility use. Gallonage sums for these 8 CDRs are as follows:

  Total for electric utility use = 550,990 gallons
  Total diesel fuel and gasoline for all uses = 1,662,390

  For the 8 CDRs, electric utility use is therefore estimated as 33% of total gallonage – not 60%.

- There are significant qualifications stated in some of the CDRs with respect to their estimates of annual consumption. One states that fuel used in the washeteria is excluded from the estimate. Others indicate that certain estimate components are "winter only." Still others are confusing in whether all school use is included in the estimate.

- A number of the CDRs note upcoming developments such as new schools or other public facilities that would create more fuel use per capita.

Consistent with this, AEA staff reports the continuing growth in village infrastructure, particularly the increasing number of new water and sewer projects requiring significant and ongoing energy inputs.

Finally, an estimate of the total market for diesel fuel only (not including gasoline) for western Alaska and the Arctic Slope appears in an April 2001 report prepared by Northern Economics for the Alaska Industrial Development and Export Authority (AIDEA). The relevant excerpt is quoted below:

> "The total market for heating and diesel fuel in Western Alaska (west of 154° W longitude and all of the Arctic Slope, excluding military and oil and gas operations on the North Slope) is about 160 to 185 million gallons a year. Of this amount, the fishing industry (processing plants and fishing fleets at Unalaska/Dutch Harbor, and other processing plants and vessels elsewhere on the Alaska Peninsula and Aleutian Chain) accounts for about 90 million gallons. Of the remaining 75 to 90 million gallons, very little is not bought under a cooperative or organized group purchase (Dwight, 2000)."[10]

To rephrase, the 2000 estimate reported by Northern Economics is 75 to 90 million gallons of diesel fuel only in western Alaska and the Arctic Slope, excluding military, oil and gas operations, and the commercial fishing industry. From the same document (and the same page), it appears that an additional 12 million gallons should be deducted from this estimate to account for usage at the Red Dog Mine, leaving a range of 63 - 78 million gallons of diesel fuel for non-industrial heating and power generation.

The population in this region (including communities over 2,000 population that are excluded from Table 4) can be estimated as follows:

[10] The excerpt appears in "Screening Report for Alaska Rural Energy Plan," Northern Economics Inc., April 2001, page 3-4. The reference to "Dwight, 2000" is an August 30, 2000 personal communication between Northern Economics Inc. and Jim Dwight of Crowley Maritime Inc.

Region or Community	Source	Population
Aleutians	Table 5	3,535
SW Coast	Table 5	16,077
SW River	Table 5	7,552
NW Coast	Table 5	8,397
Interior (70%)[11]	Table 5	3,491
Southcentral[12]	Table 5	797
North Slope Borough	Table 5	2,790
Barrow	State Demographer	4,351
Bethel	FY04 PCE Stats	5,786
Dillingham	FY04 PCE Stats	2,749
Kotzebue	FY04 PCE Stats	3,107
Nome	FY04 PCE Stats	3,493
Unalaska	FY04 PCE Stats	4,051
TOTAL		66,176

The per capita use of diesel fuel for heating and power generation derived from these estimates is as follows:

70.5 million gallons (mid-point of 63-78 million gallon range)

Divided by

66,176 population =

1,065 gallons of diesel fuel per person (excluding gasoline).

Based on these different approaches and given the various conflicts in the data, the judgment applied here is that the per capita estimate of diesel use and gasoline from Table 6, which was based solely on the CDRs, should be approximately doubled: from 597 to 1,200 gallons per person per year.

In estimating the market for BFRLF loans, there is at least one adjustment that should be made to the per capita consumption figure: the amount of fuel purchased in bulk by rural school systems. The school districts operate on budgets that permit them to pay cash for their bulk fuel orders. Fuel consumption by school districts should therefore be excluded from the potential market for BFRLF financing.

[11] Some Interior communities (e.g. Fort Yukon, Tanana, Venetie) are east of 154° W longitude, though most are not (e.g. Galena, McGrath, Nulato, Huslia, Ambler). 70% of Interior population in Table 5 assumed in "western Alaska."

[12] Minus Tatitlek and Chenega Bay.

Some of the flaws in Table 6 have been discussed above, one of which is that fuel consumption for one or more of the schools in a community might not be included in the "school" figure shown. The total school consumption for all 12 CDRs shown in Table 6 comes out to 14% of the total consumption shown for diesel fuel and gasoline. Reducing the estimate of 1,200 gallons per person by 14% yields a revised estimate of 1,032 gallons per person. Rounding this down a little in view of the apparent exclusion of some school consumption in the CDRs, 1,000 gallons per person per year is adopted herein for use in estimating the total, potential market for BFRLF financing in eligible communities.

This is obviously imprecise but the purpose for which the number is used in this study does not require precision. That purpose is to develop a rough estimate of how much diesel fuel and gasoline constitutes the total, potential market each year for bulk fuel financing. And the purpose of that is to estimate how much of the total market is currently served by the BFRLF and, at least in theory, how much room for growth there might be in BFRLF demand.

Table 7 shows the application of this 1,000 gallon per person estimate to the population of communities that meet the BFRLF eligibility criteria:

TABLE 7

BFRLF POTENTIAL MARKET

Region Code	Region	Population	Adjusted Pop *	Annual Fuel Per Person	Annual Fuel (Millions of gal)	Wholesale Cost ** FY05 ($ Millions)	Wholesale Cost ** FY04 ($ Millions)	Wholesale Cost ** FY03 ($ Millions)	Wholesale Cost ** FY02 ($ Millions)	Wholesale Cost ** FY01 ($ Millions)
1	Aleutians	3,535	3,535	1,000	3.5	7.6	5.8	5.0	4.9	5.5
2	Kodiak	628	628	1,000	0.6	1.4	0.9	0.9	0.8	1.0
3	SW Coast	16,077	16,077	1,000	16.1	31.3	23.4	20.4	21.5	21.1
6	SW River	7,552	7,552	1,000	7.6	15.9	11.2	10.2	11.1	11.3
8	NW Coast	8,397	8,397	1,000	8.4	16.3	13.6	12.3	12.9	12.4
7	Interior	4,987	4,987	1,000	5.0	10.8	8.4	8.0	8.6	8.3
9	Southcentral	995	995	1,000	1.0	2.4	1.9	1.8	1.8	1.8
10	Road Access	2,812	1,406	1,000	1.4	2.4	1.8	1.1	1.4	1.7
5	Southeast	11,822	5,911	1,000	5.9	10.4	7.2	6.5	8.2	7.4
4	North Slope Borough	2,790	-	1,000	0.0	0.0	0.0	0.0	0.0	0.0
	Other not in PCE data	1,604	1,604	1,000	1.6	3.2	2.5	2.2	2.3	2.3
	TOTALS		51,092		51.1	101.7	76.7	68.4	73.4	72.6
	BFRLF loans ($ Millions)					5.3	3.5	2.5	2.3	2.0
	BFRLF loans as % of total wholesale cost					5.2%	4.6%	3.7%	3.2%	2.8%
	Gallons financed by BFRLF loans (millions)					2.7				
	BFRLF gallons as % of total eligible gallons					5.3%				

* Adjustment - Road Access and Southeast population cut in half to account for communities that receive bulk fuel shipments more frequently than every six months. North Slope Borough reduced to zero based on the assumption that BFRLF financing will not be needed for the foreseeable future.

** This equals gallons of diesel fuel and gasoline multiplied by the average diesel price estimated for the specified year. This approximation is used since diesel fuel accounts for over half the total and detailed data on wholesale gasoline prices by region and year are not readily available. Price for "other" equals population weighted average for all communities.

The estimate produced by this methodology is that the current potential market for bulk fuel financing in communities that meet BFRLF eligibility criteria is roughly 50 million gallons of diesel fuel and gasoline, the delivered, wholesale cost of which in FY05 was roughly $100 million. Despite the issuance of BFRLF loans to 53 borrowers in FY05 and the significant recent growth in loan outlays, an estimated 95% of the diesel fuel and gasoline purchased in this potential market is financed in some other way. As shown in Table 7, based on all of the assumptions and calculations described above, BFRLF financing in FY05 accounted for only 5.2% of the market for bulk fuel financing in eligible communities.

One of the constraints that limits the use of BFRLF financing is the program's $300,000 annual limit per borrower. As shown above, very few borrowers have thus far approached that limit. However, a significant portion of the 50 million gallons included in the potential market is accounted for by entities that need to order considerably more than $300,000 worth of fuel per year. The Alaska Village Electric Cooperative (AVEC) is a case in point. According to the FY04 PCE statistical report, AVEC used about 5.0 million gallons of fuel during that year at a cost of $7.4 million. And during FY05, AVEC's cost of fuel is estimated at closer to $10 million.[13] Since this far exceeds the amount that AVEC could borrow from the BFRLF, AVEC's requirements cannot be considered part of the market that the BFRLF could serve under current law.

The portion of the 50 million gallons estimated above that could be financed within the current $300,000 limit per borrower is unknown since there is no data base that shows all of the bulk fuel purchasers in eligible communities along with their annual fuel purchases. Among the relevant considerations, however, are the following:

- Using figures from the FY04 PCE statistical report, PCE electric utilities serving communities with less than 2,000 population (and excluding the North Slope Borough) consumed about 15.3 million gallons during that year. However, PCE utilities with less than $300,000 of fuel expense during that year consumed only 3.8 million gallons. In other words, of the 15.3 million gallons consumed by electric utilities in eligible communities, only 25% was accounted for by utilities with less than $300,000 per year of fuel expense.

  Of the remaining 75%, most is accounted for by multiple-village utilities including AVEC, Alaska Power Company, and Inside Passage Electric Cooperative, which together consumed about 7.5 million gallons. The balance of the 75% is accounted for by the larger stand-alone utilities that serve relatively high electrical demand compared with most PCE communities.

[13] Meera Kohler, Alaska Village Electric Cooperative. Personal communication with Emerman Consulting. July 2005.

In short, at least in the electric utility sector, the $300,000 limit per borrower excludes the major share of fuel consumption from possible financing through the BFRLF.

- On the other hand, there are at least three factors that suggest there still exists a considerable untapped market for BFRLF financing that would fit within its current structure:

  i. A bulk fuel purchaser may need to borrow some but not all of the cost of its annual fuel requirement. For example, a purchaser with a $500,000 annual requirement might pay half in cash up front and borrow the remainder from the BFRLF. It is not uncommon for bulk fuel purchasers to pay what they can from cash in hand and finance the rest. This means that the potential market for BFRLF loans currently extends well into the ranks of bulk fuel purchasers with annual fuel requirements that exceed $300,000.

  ii. As shown in Table 8 and Graph 13 in the next section, in most communities where BFRLF loans have recently been issued, these loans finance only a relatively small share of the community's fuel requirement – less than 30% in most cases. This, plus the fact that a number of borrowers move in and out of the program periodically as dictated by their financing needs, plus the fact that almost no communities have yet exceeded $200,000 per year in BFRLF borrowing, suggests that there is significant room for growth among current and prior BFRLF borrowers.

  iii. As shown in Table 9 in the next section, there are as many communities for which a BFRLF loan has never been issued as there are communities for which a BFRLF loan has been issued over the last 5 years. These "non-borrower" communities span the full range of eligible sizes (i.e. from very small up to 2,000 population) and are found in all regions.

Overall, an assumption is needed on how much of the 50 million gallon ($100 million) market could be served by the BFRLF as presently constituted. Applying the points raised above:

- If the entire market for bulk fuel in eligible communities mirrored the electric utility sector, only 25% of the market would consist of purchasers who require $300,000 or less to purchase fuel each year.

- On the other hand, in most communities for which BFRLF loans have been issued, at least 70% of their fuel is financed by other means and the size distribution of these other purchasers could be much different than the size

distribution of electric utilities. Many bulk fuel purchasers who require more than $300,000 per year should still be considered potential BFRLF borrowers assuming they can pay cash for whatever they need in excess of a $300,000 loan. And there are as many eligible communities of all sizes for which no BFRLF loan has been issued as there are "borrower communities."

Given these considerations, this study adopts the assumption that 25 million gallons (valued during FY05 at approximately $50 million) constitutes the potential market for BFRLF financing under current law.[14] This is half of the total market for diesel fuel and gasoline defined above for eligible communities.

[14] As noted earlier in this report, it is recognized that bulk fuel prices for delivery to many purchasers in fall 2005 may be higher than the prices reported to rural electric utilities in FY05.

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SECTION 3

DEMAND PROJECTIONS FOR BFRLF LOANS ASSUMING NO CHANGES IN THE PROGRAM

For this study, the first stage of program demand projections is to estimate for the next 10 years how much the program would issue in loans assuming:

- No change in program law or regulation (including no change in the $300,000 limit), and

- No restriction on how much money the BFRLF has to lend. Demand projections that exceed the program's current lending capacity serve to demonstrate how much additional capitalization may be needed in order to avoid rationing of loan funds or rejection of loan applications due to inadequate lending resources.

To be consistent with this study's estimate of the potential market for BFRLF loans under current law, the demand projection cannot – at least in the near term – exceed 25 million gallons.

The first stage projection begins by:

- identifying the communities that are currently served by the BFRLF;

- estimating how much of the demand for diesel fuel and gasoline in these communities is currently financed by BFRLF loans; and

- identifying the communities that have not been served by the BFRLF during the last 5 years.

Each community for which a BFRLF loan was issued in FY04 or FY05 is listed in Table 8 below. To better understand the table, please note:

- In some communities there were 2 separate borrowers (for example, both a local government and a village corporation), while in other communities there was only one borrower. In Table 8, all BFRLF borrowing within a community is combined regardless of the number of borrowers.

- For most of the communities, BFRLF loans were issued in both FY04 and FY05 although for some communities loans were issued for only one of the two years. When BFRLF loans were issued for both years, the average of the two years appears in Table 8. When a loan was issued for only one of the two years, the amount issued for that year appears in

Table 8 (despite the heading in column 4 suggesting that all the figures in that column are two-year averages).

- Although there must be significant variation between communities and between regions in the per capita consumption of diesel fuel and gasoline, a very rough "Reference Index" is constructed in Table 8 to get some idea of how reliant the community is on BFRLF financing. The "Reference Index" consists simply of the community population multiplied by 1,000 gallons per person, which represents (albeit with widely varying accuracy) the general magnitude of diesel fuel and gasoline that might plausibly be financed. The second to last column of Table 8 shows the percent of total gallons (i.e. the percent of the "Reference Index") that was financed with one or more BFRLF loans either for the year in which the loan was issued or for the average of the last two years.

- Within each region, the communities are sorted according to the "BFRLF % Of Reference Index" – that is, according to the extent of estimated reliance on BFRLF financing.

- Finally, the last column shows whether the electric utility in that community was one of the large, multi-village regional utilities: AVEC (Alaska Village Electric Cooperative), APC (Alaska Power Company), or IPEC (Inside Passage Electric Cooperative).[15]

[15] There was some thought earlier in this study that the presence of one of these electric utilities might have some bearing on whether a BFRLF loan was requested from and issued to a borrower in that community. The information is presented in Table 9 and also in Table 10, but no clear link between the presence of these utilities and the issuance of a BFRLF loan was found.

TABLE 8

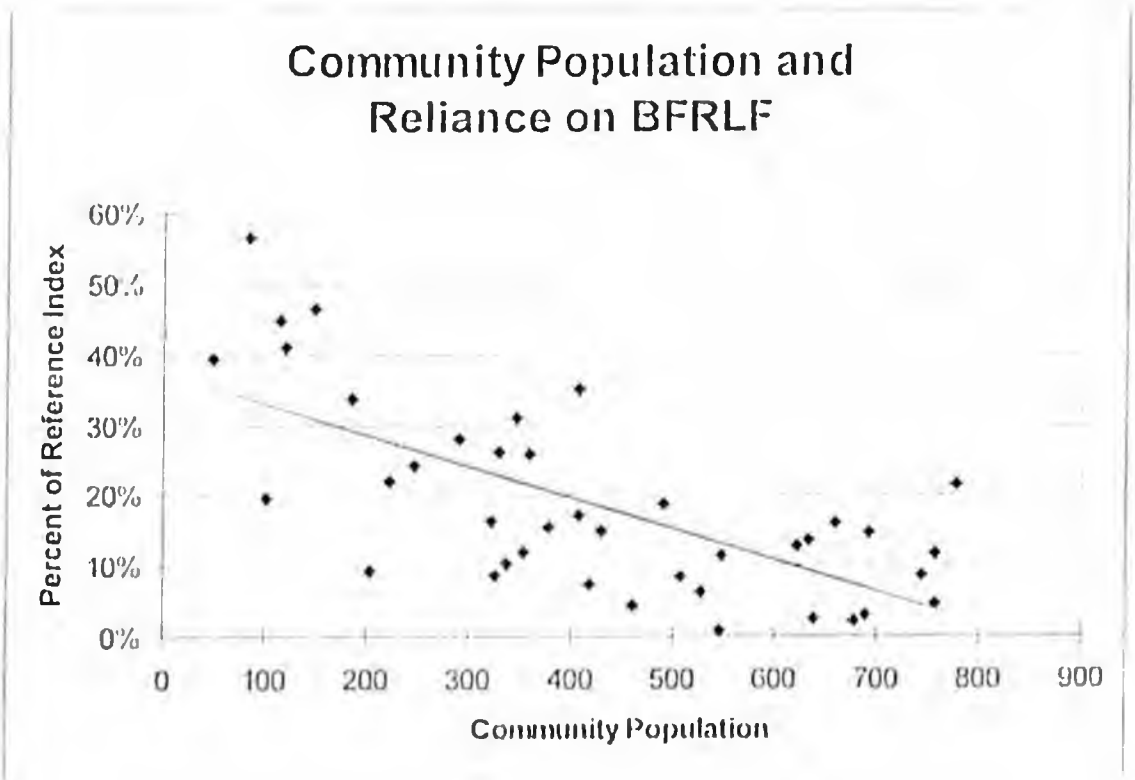
Community	Region	Pop	Average Borrowed From BFRLF Per Community Per Year	Approx Gallons Financed Per Year By BFRLF	Reference Index Total Gallons Per Year That May Be Financed	BFRLF % Of Reference Index	Elec Utility AVEC, IPEC, or APC?
Ekwok	SW Coast	114	$122,383	51,114	114,000	45%	
Koliganek	SW Coast	186	$141,667	62,645	186,000	34%	
Akiak	SW Coast	340	$183,762	106,900	340,000	31%	
Atmautluak	SW Coast	291	$179,158	95,791	291,000	33%	
Kongiganak	SW Coast	359	$175,851	92,553	359,000	26%	
Scammon Bay	SW Coast	491	$146,476	92,227	491,000	19%	AVEC
Tununak	SW Coast	323	$75,747	52,469	323,000	16%	AVEC
Alakanuk	SW Coast	659	$144,605	104,787	659,000	16%	AVEC
Kotlik	SW Coast	633	$149,665	85,676	633,000	14%	
Akiachak	SW Coast	622	$151,103	79,985	622,000	13%	
Mountain Village	SW Coast	757	$135,797	88,685	757,000	12%	AVEC
Toksook Bay	SW Coast	549	$110,135	62,773	549,000	11%	AVEC
Kwigillingok	SW Coast	337	$60,000	34,572	337,000	10%	
Nunam Iqua	SW Coast	204	$37,098	19,024	204,000	9%	
Emmonak	SW Coast	745	$106,417	64,717	745,000	9%	AVEC
Newtok	SW Coast	326	$48,514	27,943	326,000	9%	
Chefornak	SW Coast	419	$69,999	30,737	419,000	7%	
Kasigluk	SW Coast	527	$58,303	33,102	527,000	6%	AVEC
Levelock	SW River	84	$100,000	47,393	84,000	56%	
Napaskiak	SW River	408	$144,087	69,303	408,000	17%	
Tuntutuliak	SW River	377	$105,224	58,282	377,000	15%	
MKEC Communities	SW River	429	$135,889	64,402	429,000	15%	
Kwethluk	SW River	693	$168,479	101,333	693,000	15%	
Napakiak	SW River	353	$76,521	42,502	353,000	12%	
Kalskag	SW River	508	$79,580	43,417	508,000	9%	AVEC
Tuluksak	SW River	461	$32,999	19,760	461,000	4%	
St Mary's	SW River	688	$35,631	19,685	688,000	3%	AVEC
Pilot Station	SW River	546	$8,405	4,696	546,000	1%	AVEC
Golovin	NW Coast	148	$156,500	68,640	148,000	46%	
Koyuk	NW Coast	329	$144,128	85,563	329,000	26%	AVEC
Teller	NW Coast	247	$99,414	59,529	247,000	24%	
Selawik	NW Coast	778	$300,000	167,598	778,000	22%	AVEC
Unalakleet	NW Coast	757	$47,867	34,234	757,000	5%	
Gambell	NW Coast	639	$24,329	15,239	639,000	2%	AVEC
Noorvik	NW Coast	677	$27,917	14,500	677,000	2%	AVEC
Nikolai	Interior	120	$94,324	49,040	120,000	41%	
Takotna	Interior	40	$37,501	19,266	49,000	39%	
McGrath	Interior	407	$200,000	142,857	407,000	35%	
Kaltag	Interior	223	$90,000	49,313	223,000	22%	AVEC
Koyukuk	Interior	101	$39,228	19,812	101,000	20%	
Pedro Bay	Southcentral	46	$31,500	11,455	46,000	25%	
Port Graham	Southcentral	153	$68,799	34,400	153,000	22%	
Kokhanok	Southcentral	174	$94,158	38,221	174,000	22%	
Nanwalek	Southcentral	203	$26,376	18,105	203,000	9%	
Port Heiden	Aleutians	100	$205,927	117,431	100,000	100%	
Chignik	Aleutians	77	$148,630	65,168	77,000	85%	
Pilot Point	Aleutians	76	$133,094	62,270	76,000	82%	
Nelson Lagoon	Aleutians	70	$66,036	50,377	70,000	72%	
Nikolski	Aleutians	41	$66,444	27,645	41,000	67%	
Perryville	Aleutians	111	$122,141	60,222	111,000	54%	
Kaltuk	Kodiak	23	$74,993	30,530	23,000	133%	
Larsen Bay	Kodiak	107	$112,011	49,048	107,000	46%	
Old Harbor	Kodiak	220	$11,801	8,195	220,000	4%	AVEC
Elfin Cove	Southeast	32	$74,000	33,637	32,000	105%	

Among the observations from Table 8 are the following:

- As shown in the second to last column, of the 54 communities listed only 9 show an extent of reliance on BFRLF financing exceeding 50% of the potential financing market. (All 9 are shaded in the second to last column.) Almost all of these – 8 of the 9 – are small communities in the Aleutian, Kodiak, and Southeast regions, suggesting that their relatively large fuel acquisitions have something to do with providing fuel for commercial fishing vessels and may not be accounted for simply by power generation, heat, and transportation within the community.

- It is apparent that the extent of reliance on BFRLF financing in most of the other communities is relatively low. Graph 13 shows the extent of reliance (i.e. the percent of Reference Index consumption financed by the BFRLF) plotted against community population for the 4 primary regions served by the program: SW Coast, SW River, NW Coast, and Interior. This includes the first 40 communities listed in Table 8. For 31 of these 40 communities, the BFRLF percent of Reference Index is below 30%:

GRAPH 13



In most of the communities for which BFRLF loans are issued, it appears that most of the diesel fuel and gasoline that is purchased in bulk is still financed by other means.

It is surprising that, despite all the factors that create variation both in total fuel consumption in these communities and in the amount financed with BFRLF loans, a correlation still appears in Graph 13 that roughly links community population with the extent of reliance on the BFRLF. Among those communities for which BFRLF loans are issued, the smaller communities tend to finance a higher proportion of their requirements through the BFRLF while the larger communities tend to finance a smaller proportion. But the R^2 value for this regression is only .48 – suggesting little significance – and it isn't clear what this weak correlation tells us or what use we can make of it.

Table 9 lists the communities in each region for which no BFRLF loan has been issued during the period FY01 through FY05.[16]

[16] For several of the communities listed in Table 10, a loan application was received during the last 5 years but was rejected.

TABLE 9

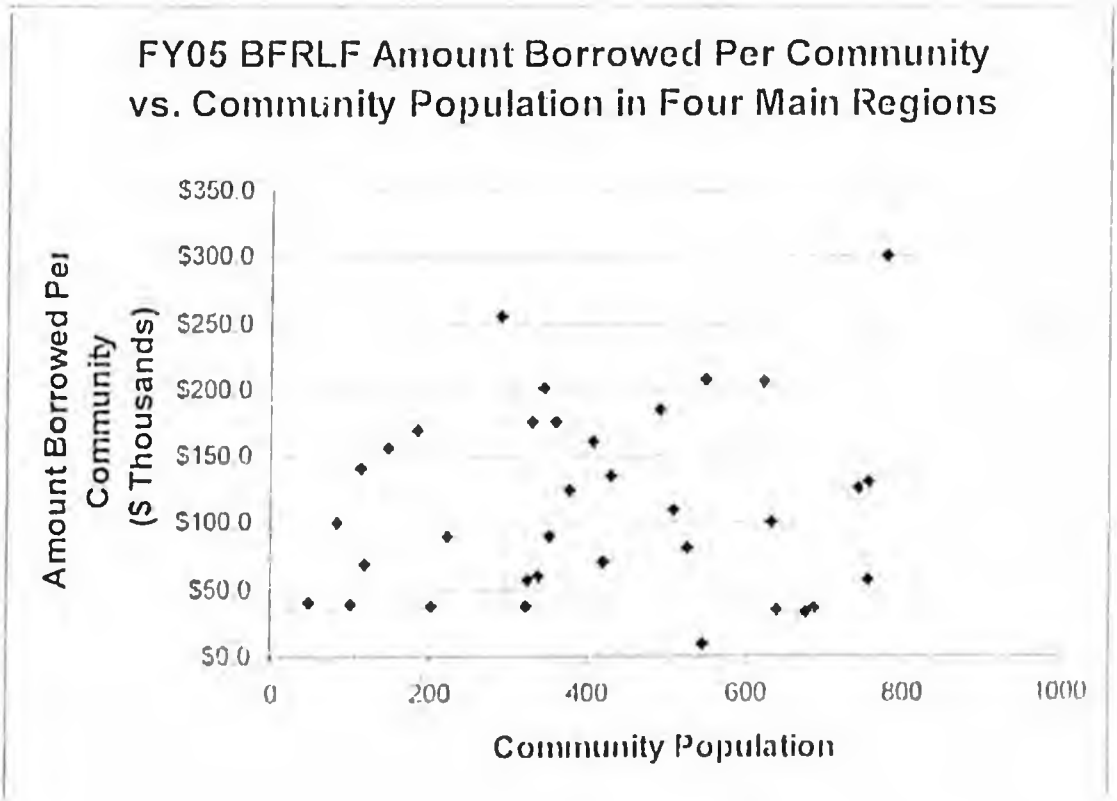
Community	Region	Pop	Elec Util. AVEC, IPEC, or APC
Naknek	SW Coast	1,155	
Hooper Bay	SW Coast	1,075	AVEC
Togiak	SW Coast	804	AVEC
Kipnuk	SW Coast	644	
Stebbins	SW Coast	580	AVEC
Quinhagak	SW Coast	572	AVEC
St. Paul	SW Coast	533	
Manokotak	SW Coast	404	
Eek	SW Coast	291	AVEC
Goodnews Bay	SW Coast	234	AVEC
Aleknagik	SW Coast	219	
Mekoryuk	SW Coast	204	AVEC
St. George	SW Coast	137	
Egegik	SW Coast	88	
Twin Hills	SW Coast	70	
Igiugig	SW Coast	52	
Platinum	SW Coast	37	
Aniak	SW River	539	
New Stuyahok	SW River	479	AVEC
Marshall	SW River	364	AVEC
Russian Mission	SW River	328	AVEC
Holy Cross	SW River	232	AVEC
Grayling	SW River	194	AVEC
Shageluk	SW River	145	AVEC
Anvik	SW River	109	AVEC
Pitkas Point	SW River	105	AVEC
Savoonga	NW Coast	680	AVEC
Shishmaref	NW Coast	589	AVEC
Noatak	NW Coast	456	AVEC
Kiana	NW Coast	399	AVEC
St. Michael	NW Coast	390	AVEC
Kivalina	NW Coast	383	AVEC
Elim	NW Coast	339	AVEC
Brevig Mission	NW Coast	307	AVEC
Shaktoolik	NW Coast	218	AVEC
White Mountain	NW Coast	214	
Wales	NW Coast	159	AVEC
Deering	NW Coast	129	
Diomede	NW Coast	128	
Fort Yukon	Interior	581	
Nulato	Interior	346	AVEC
Ambler	Interior	295	AVEC
Huslia	Interior	285	AVEC
Tanana	Interior	278	
Shungnak	Interior	245	AVEC
Ruby	Interior	195	
Venetie	Interior	188	
Allakaket, Alatna	Interior	162	APC
Arctic Village	Interior	149	
Kobuk	Interior	128	
Central	Interior	120	
Chalkyitsik	Interior	84	
Beaver	Interior	76	
Hughes	Interior	69	
Bettles, Evansville	Interior	58	APC
Birch Creek	Interior	43	
Lime Village	Interior	41	
Healy Lake	Interior	31	APC

Community	Region	Pop	Elec Util. AVEC, IPEC, or APC
Ilhamna, Newhalen, Nondalton	Southcentral	467	
Port Alsworth	Southcentral	110	
Tatitlek	Southcentral	108	
Chenega Bay	Southcentral	90	
Sand Point	Aleutians	919	
King Cove	Aleutians	794	
Akutan	Aleutians	748	
Cold Bay	Aleutians	116	
Atka	Aleutians	102	
Chignik Lagoon	Aleutians	89	
False Pass	Aleutians	79	
Ouzinkie	Kodiak	189	
Akhiok	Kodiak	80	
Haines	Southeast	1,872	APC
Craig	Southeast	1,562	APC
Metlakatla	Southeast	1,370	
Hoonah	Southeast	868	IPEC
Klawock	Southeast	848	APC
Skagway	Southeast	841	APC
Yakutat	Southeast	808	
Kake	Southeast	700	IPEC
Thorne Bay/Kasaan	Southeast	558	APC
Angoon	Southeast	542	IPEC
Gustavus	Southeast	421	
Hydaburg	Southeast	364	APC
Chilkat Valley	Southeast	226	IPEC
Coffman Cove	Southeast	161	APC
Hollis	Southeast	150	APC
Pelican	Southeast	118	
Klukwan	Southeast	111	IPEC
Naukati	Southeast	110	APC
Tenakee Springs	Southeast	98	
Whale Pass	Southeast	82	APC
Point Hope	North Slope	702	
Wainwright	North Slope	543	
Nuiqsut	North Slope	443	
Kaktovik	North Slope	300	
Anaktuvuk Pass	North Slope	302	
Point Lay	North Slope	256	
Atqasuk	North Slope	231	
Tok	Road System	1,444	APC
Northway	Road System	262	APC
Minto	Road System	229	AVEC
Eagle, Eagle Village	Road System	152	APC
Tetlin	Road System	142	APC
Mentasta	Road System	139	APC
Chitina	Road System	131	
Chistochina	Road System	84	APC
Circle	Road System	84	
Manley Hot Springs	Road System	73	
Dot Lake	Road System	52	APC

As expected given the low percentage of potential bulk fuel financing arranged through the BFRLF, there are more communities with no loans from the program over the last 5 years than the number of recent "BFRLF communities." The "non-BFRLF communities" listed in Table 9 are spread throughout the state and throughout the eligible size distribution.

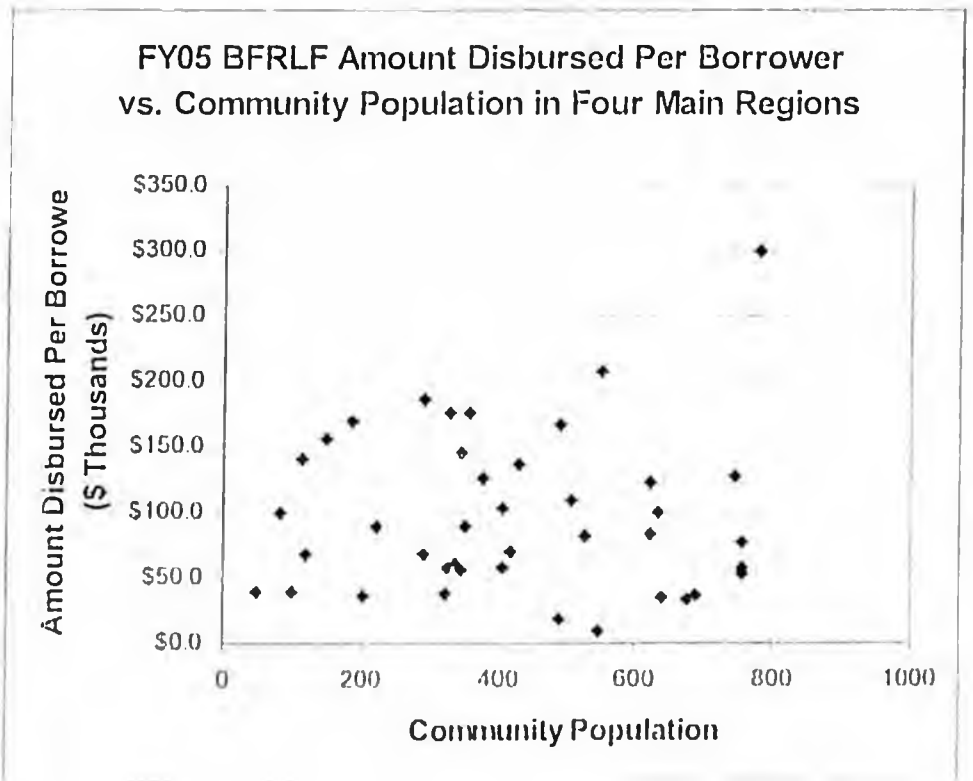
It might be useful to find a relationship between the size of a BFRLF community and the actual amount it tends to borrow from the BFRLF for fuel acquisition. Regardless of the "extent of reliance" discussed briefly above in conjunction with Graph 13, it might help in considering demand projections if it turned out that larger BFRLF loans tend to be associated with larger communities. But the available data do not help much in this regard. Graph 14 below is a scatter diagram showing the amount of BFRLF financing disbursed for each community in FY05 along with the population of that community. Only those communities located in the four main regions (SW Coast, SW River, NW Coast, and Interior) are included to avoid distortions that could be introduced by the anomalous borrowing patterns of small communities in the Aleutians, Kodiak, and Southeast, as discussed earlier:

GRAPH 14



No relationship is apparent in the data on Graph 14. Graph 15 below is the same as Graph 14 except that it shows for FY05 the amount of BFRLF financing per borrower in the four main regions rather than the amount per community:

GRAPH 15



The most striking feature of the Graph 15 scatter diagram is that almost all of the borrowers in the four main regions continue to borrow less than the previous $200,000 annual limit, although that limit was raised to $300,000 at the beginning of FY04. There is no obvious explanation for this – as noted before, maybe there is a lag in borrower response to increased BFRLF loan limits and, within the next few years, a significant number of borrowers will break the $200,000 barrier. Whatever the explanation, it does show once again that there is considerable room for growth in the annual amount loaned per borrower within the current $300,000 limit.

Before proceeding to the "first stage" demand projection for BFRLF financing, one more factor to consider is whether, and to what extent, the aggregate demand for energy among eligible communities is increasing. While a historical series of data on overall energy consumption in eligible communities is not available, a reasonable proxy measure that is available in the PCE statistical reports is the total kWh of electricity sold in the four main regions. These figures are presented below in Table 10 and in Graph 16:

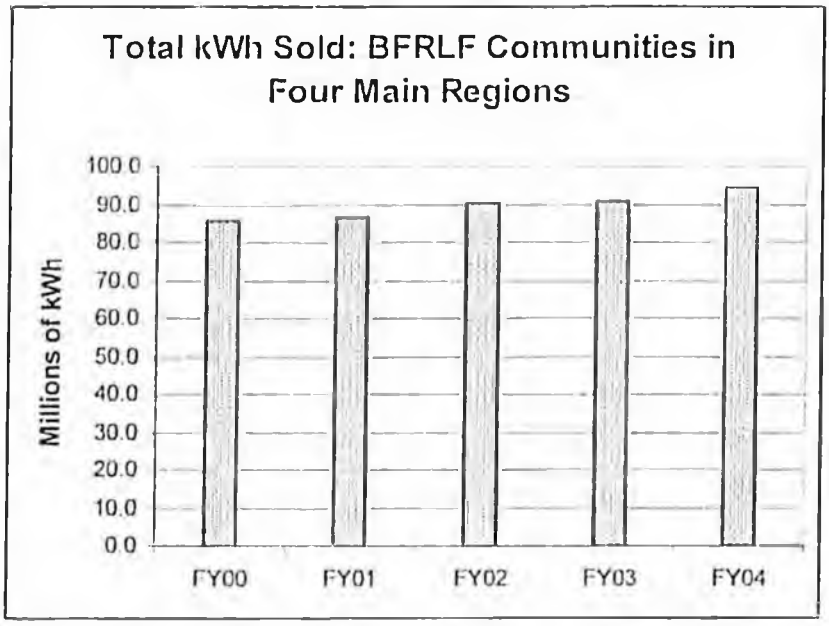
TABLE 10

Electric Utility	Community	Region	Pop	FY04 kWh Sold	FY03 kWh Sold	FY02 kWh Sold	FY01 kWh Sold	FY00 kWh Sold
Akiachak Niv. Community Elec	Akiachak	3	622	1,116,738	1,015,893	1,129,885	1,078,525	1,037,902
Akiak, City of	Akiak	3	340	708,439	772,710	824,700	782,072	774,741
Alaska Power Company	Allakaket, Alatna	7	162	584,450	567,542	539,628	520,458	303,174
Alaska Power Company	Bettles, Evansville	7	58	624,810	657,528	698,460	701,973	704,916
Alaska Power Company	Healy Lake	7	31	131,736	126,425	134,720	106,916	175,109
Alaska Village Electric Coop	All communities		21,295	61,978,966	59,766,798	58,681,907	55,302,709	54,027,637
Aniak Light & Power Co	Aniak	6	539	2,086,549	2,111,744	2,159,233	2,218,156	2,275,322
Atmautluak Joint Utilities	Atmautluak	3	291	579,634	571,485	593,011	541,659	560,751
Diomede Joint Utilities	Diomede	8	128	460,434	487,979	478,915	523,971	483,428
Egegik Light and Power	Egegik	3	88	655,673	661,952	685,994	715,985	762,971
Ekwok Electric	Ekwok	3	114	400,039	384,439	434,812	439,533	429,829
Gwitchyaa Zhee Utilities	Fort Yukon	7	581	2,527,978	2,143,539	2,276,006	2,374,099	2,566,922
Hughes Power & Light	Hughes	7	69	214,699	201,088	193,777	180,242	190,267
Kipnuk Light Plant	Kipnuk	3	644	1,606,724	1,591,192	1,568,279	1,471,057	1,469,518
Koliganek Village Council	Koliganek	3	186	427,645	393,207	466,141	380,057	549,553
Kotlik Electric Services	Kotlik	3	633	1,516,908	1,609,045	1,512,612	1,302,449	1,341,712
Levelock Electric Cooperative	Levelock	6	84	333,015	356,127	414,209	478,357	432,732
Lime Village Electric Utility	Lime Village	7	11	76,487	67,591	75,396	69,503	50,897
Manokotak Power Company	Manokotak	3	404	1,048,807	1,126,900	871,806	357,291	902,992
McGrath Light & Power	McGrath	7	407	2,578,957	2,627,499	2,775,721	2,780,409	2,778,443
MKEC	All communities	6	98	883,140	816,629	838,228	854,182	854,293
Naterkaq Light Plant	Chefornak	3	419	649,723	646,571	653,505	537,249	512,076
Nikolai Light & Power	Nikolai	7	120	377,416	374,477	401,203	328,645	339,699
Nunam Iqua Electric Company	Nunam Iqua	3	204	644,125	658,124	602,336	505,257	432,030
Platinum, City of	Platinum	3	37	139,530	121,941	138,703	127,785	118,490
Puvurnaq Power Company	Kongiganak	3	359	895,410	837,474	804,788	742,337	657,193
St. Paul Municipal Elec. Util	St. Paul	3	533	4,511,557	3,248,237	3,512,523	3,450,095	3,651,224
Takotna Community Assoc. Utilities	Takotna	7	49	225,073	211,169	233,343	264,736	229,327
Tanana Power Company	Tanana	7	278	1,203,547	1,169,123	1,187,756	1,266,137	1,410,969
Tuluksak Traditional Power Utility	Tuluksak	6	461	521,653	411,272	423,923	387,797	384,020
Unalakleet Valley Elec. Coop	Unalakleet	8	757	3,767,770	3,741,700	3,852,485	3,844,894	4,074,649
Unqusraq Power Company	Nuiqsut	3	326	367,060	367,427	349,775	345,846	338,975
White Mountain Utilities	White Mountain	8	214	759,726	693,376	625,223	716,867	680,84
TOTALS				94,604,438	90,538,202	90,139,069	86,207,248	85,502,609

Table 10 Notes: Only utilities with all 12 months reported for all 5 years are included. Nak nek excluded due to disproportionately high loads and variations from large commercial / institutional customers. Only BFRLF eligible communities included from four main regions: SW Coast, SW River, NW Coast, and Interior. As noted earlier, the FY05 PCE statistical report is not available as of this writing.

The total kWh's sold for these utilities for FY00 through FY04 are plotted below in Graph 16:

GRAPH 16



Within these total figures are many individual ups and downs, and many explanatory factors including but not limited to changes in population, infrastructure, and weather. Overall, however, the picture is one of gradual growth in aggregate kWh sold, which likely reflects gradual growth in aggregate energy demand and fuel demand. The average annual growth rate in kWh sold over this period for the utilities included in Table 10 is approximately 2.5%.

Projected BFRLF Demand Assuming No Change in Program

Following is a list of factors to take into account in forecasting demand for BFRLF loans over the next 10 years:

- BFRLF loan disbursements have increased from $2.5 million in FY03, to $3.5 million in FY04, to $5.3 million in FY05. Contributing factors include, but are not necessarily limited to, the increase in fuel price, increase in the number of borrowers, increase in gallons financed per borrower, and increase in the average amount loaned per borrower.

- Fuel prices increased sharply from FY04 to FY05. The Alaska Department of Revenue and the U.S. Department of Energy have both recently published their expectation that oil prices will come back down over the next 3 to 5 years to roughly FY03 levels. However, since oil price forecasts have been notoriously unreliable over the past few decades, it makes sense to consider future BFRLF demand under an alternative oil price scenario as well.

For this study, the second scenario will be based on the assumption that oil prices charged to BFRLF borrowers in FY06 will be 20% higher than the weighted average electric utility prices reported to the PCE program for FY05[17], and will remain at that FY06 level in nominal terms for the rest of the projection period (which does imply a gradual price reduction in "real" inflation-adjusted terms).

- The number of BFRLF borrowers has increased from 37 in FY01 to 53 in FY05. This is an average annual increase of 9.5% per year (with nearly all of it occurring in the last 2 years).

- The average annual amount loaned to each BFRLF borrower has increased from $55.2 thousand in FY01 to $99.7 thousand in FY05. This is an average annual increase of roughly 16%.

- Average gallons financed per borrower has increased from 37.3 thousand in FY01 to 50.7 thousand in FY05. This is an average annual increase of about 8%.

- 9 of the 12 "first time" borrowers from the BFRLF in FY04 came back for additional loans in FY05. This suggests a tendency to stay with the program once an initial loan is issued and the borrower understands how the program works and what needs to be done to obtain the loan. It also suggests that the program is workable and successful in the judgment of its borrowers, and this is likely to create a certain amount of long-term program growth as that experience is communicated to others.

- There was a lag of about 2 years from the time that the BFRLF limit was raised from $100,000 to $200,000 before there was a significant increase in the number of loans exceeding $100,000. The $300,000 annual limit has now been in place for 2 years but there are still few borrowers seeking over $200,000 per year. It is unclear why this is so but it does indicate that there is still significant room for growth in loan size under the existing $300,000 cap.

- The BFRLF finances only a small percentage of its potential market among bulk fuel purchasers in small communities. Most borrowers finance less than half of their community's fuel requirements from the BFRLF, and there are more "non-borrower communities" (i.e. communities that are eligible to use the BFRLF but have not done so in at least the last 5 years) than there are "borrower communities."

[17] The population weighted average price reported to date for the PCE program in FY05 is $2.01 per gallon, which is well below the prices now faced by many BFRLF borrowers. This reflects the fact that larger communities (which are weighted more heavily) typically face lower fuel costs, and the fact that many of the most recent prices reported to PCE at the time of this writing were associated with fall 2004 deliveries, after which prices continued to increase sharply.

- Among eligible communities overall, there has been gradual aggregate growth in energy demand (as evidenced by the gradual increase in electricity sold) between FY00 and FY04. The annual rate of increase in kWh sold over this period was about 2.5%.

Other relevant factors could include the bulk fuel financing alternatives that are available to bulk fuel purchasers in eligible communities. For example, high oil prices tend to create additional demand for BFRLF financing due to the increased cost of fuel supplies. On the other hand, high oil prices create less budget-cutting pressure on the State and may be correlated with appropriations for local governments (such as the "small municipality energy assistance" program enacted to help pay for fuel during FY05). The availability of State grant funds makes it easier for communities to pay cash up front for their fuel supplies, or at least to reduce the amount of debt financing they need to acquire those supplies.

While these financing alternatives may evolve, there is no current indication that they will change quickly or significantly in the foreseeable future. As a result they are unlikely to have a major effect on the BFRLF demand projections. A discussion of these financing alternatives will be taken up in the next section.

Below are two BFRLF demand projections that assume no program changes. The key difference between the two is the assumption on future oil prices, which in turn influences certain other assumptions. Each demand projection is provided at 3 year intervals (i.e. FY08, FY11, and FY14).

Demand Projection #1:

Assumptions:

i. By FY08, diesel fuel prices will return to FY02 levels in nominal terms and will then increase at an assumed inflation rate of 4% per year for the duration of the forecast period. The weighted average delivered diesel price in FY02 among BFRLF eligible communities was $1.45 per gallon (as shown in Graph 7 derived from PCE utility data).

ii. The number of BFRLF borrowers will remain constant through FY08 at 53 but will then resume growth at a rate of 3 borrowers per year. This is based on the assumption that the rapid growth in borrowers over the last 2 years was strongly related to the sharp increase in fuel price, with the increasing cost of fuel supplies having greater influence on BFRLF borrowing than the availability of State grant funds. Declining fuel prices would eliminate this upward pressure on the number of borrowers, but countervailing factors would tend to keep the number from falling – factors that would include the

declining availability of State grant funds as well as the long-term growth of energy demand and the large pool of potential borrowers into which the program can expand.

Once the assumed fuel price levels out (i.e. in FY08), the resumption of gradual growth in the number of borrowers is based on the continuation of long-term upward pressures including long-term growth in energy demand, reduced availability of State grant funds, and growing familiarity with the BFRLF program among potential borrowers.

iii. The average number of gallons financed per borrower will increase throughout the forecast period. As noted above, the growth in gallons financed per borrower has averaged 8% per year over the last 5 years while the annual growth in electricity demand has been closer to 2.5%. This projection assumes a continuing 5% increase in gallons financed per borrower from the FY05 level.

These assumptions produce the following outlook:

FY08: Delivered fuel price = $1.45 per gallon
Number of borrowers = 53
Ave. gallons per borrower = 58,692

Amount borrowed from BFRLF = $4.5 million

FY11 Delivered fuel price = $1.63
Number of borrowers = 62
Ave. gallons per borrower = 67,943

Amount borrowed from BFRLF = $6.9 million

FY14 Delivered fuel price = $1.83
Number of borrowers = 71
Ave. gallons per borrower = 78,653

Amount borrowed from BFRLF = $10.2 million

Demand Projection #2

Assumptions:

i. Delivered diesel fuel prices in FY06 will be 20% higher than the weighted average price from PCE records for FY05, and will then remain constant at the assumed FY06 level in nominal dollars. Specifically, the weighted average diesel price will increase from

$2.01 to $2.41 per gallon, and then stay at $2.41 throughout the forecast period.

ii. Continuing high fuel prices will bring continuing increases in the number of BFRLF borrowers. There has been a net increase of 14 borrowers over the last 2 years, or an average of 7 per year. The assumption for this scenario is that the number of borrowers will increase at 4 per year from the FY05 level of 53, beginning in FY06.

iii. Overall energy demand will increase more slowly with high fuel prices, which would tend to depress the total volume requirements of individual bulk fuel purchasers. However, continuing high prices might also tend to alter the mix of BFRLF borrowers by bringing more purchasers to the program who have higher volume requirements than the average among the previous mix. In other words, high prices might act as a spur to bring more borrowers to the program seeking loans in the $200,000 - $300,000 range.

Given these conflicting pressures and possibilities, it is assumed in this scenario that the average number of gallons per borrower will increase at the same rate assumed in the prior scenario – 5% per year.

These assumptions produce the following outlook:

FY08: Delivered fuel price = $2.41 per gallon
Number of borrowers = 65
Ave. gallons per borrower = 58,692

Amount borrowed from BFRLF = $9.2 million

FY11 Delivered fuel price = $2.41
Number of borrowers = 77
Ave. gallons per borrower = 67,943

Amount borrowed from BFRLF = $12.6 million

FY14 Delivered fuel price = $2.41
Number of borrowers = 89
Ave. gallons per borrower = 78,653

Amount borrowed from BFRLF = $16.9 million

The existing annual limit of $300,000 per borrower is not considered to be an obstacle to the realization of either of these scenarios. Both assume a gradual increase in average gallons per borrower that, at least for the most

part, should be accommodated within the current $300,000 limit. Neither scenario assumes or requires a radical increase in the size of individual loans.

The 25 million gallons estimated earlier as the potential size of the BFRLF market under current law is not approached in either scenario. In the highest volume year – FY14 in projection #2 – the total volume financed with BFRLF loans is 7.0 million gallons.

To summarize, the projected BFRLF demand under the 2 scenarios described above are:

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)	$4.5	$6.9	$10.2
Scenario #2 (current fuel prices)	9.2	12.6	16.9

Additional capitalization of the BFRLF would be needed to meet loan demand under either scenario given that the current net assets of the Fund are approximately $8.2 million.

Despite all of the data and speculations covered to this point, it should be remembered that AEA actually logged in $9.0 million of BFRLF loan applications during FY05. Although only $5.3 million in actual loans were disbursed, it is worth revisiting the history of requests presented in Table 2 and Graph 3, and asking whether something big is being missed by all of this. Again, the history of BFRLF loan applications shows the following for the last 4 fiscal years:

Fiscal Year	BFRLF Requests
2002	$2.6 million
2003	4.4
2004	6.1
2005	9.0

A program manager or other interested party clinging to the forecasts shown above for scenarios #1 and #2 might understandably be nervous when looking at that history of requests. Perhaps the whole exercise errs significantly on the low side. On the other hand, given no changes in the program it seems reasonable to think that:

- If fuel prices come down by roughly 28% over the next 3 years (from $2.01 to $1.45 per gallon), BFRLF demand will decline by roughly 15% (from $5.3 to $4.5 million).

- If fuel prices stay roughly at today's level in nominal terms, BFRLF demand (i.e. actual loan disbursements) over the next 3 years will increase by nearly 75% to $9.2 million.

In the interest of caution and concern over unknowns, the higher scenario might be the safer outlook to use for planning purposes. Several factors contribute to this judgment:

- In its long-term oil price forecast, the Alaska Department of Revenue might prefer to be wrong (if it must be wrong) on the low side under the philosophy that it is better to forecast lower prices and revenues and then be pleasantly surprised than to forecast higher revenues and come up short. Maybe this affects the ADOR forecast and maybe not.

  In contrast, program management for the BFRLF might prefer to be wrong on the high side under the philosophy that it is better to prepare for a higher volume of loans and be able to satisfy loan demand with a margin to spare than to plan on significant oil price reductions and soon be required to turn down loan applicants due to insufficient funds in the BFRLF.

- There are some Alaska-specific factors that may contribute to upward pressure on delivered diesel prices in rural Alaska that are not captured in the world oil price outlook. One such factor is the upcoming federal requirement for "ultra-low sulfur" diesel fuel for use in communities on the road system. Alaska refineries are planning investments in the hundreds of millions in order to produce this fuel[18] and will need to recover their investment. It is not clear if the refineries will continue to also produce their current grade of diesel fuel, in part due to the cost of maintaining separate storage facilities and distribution infrastructure. If, within the next several years, rural Alaska is faced with no practical option but to purchase the new diesel fuel, it is likely to add 10-15 cents per gallon to the price.

- Another Alaska-specific factor is the gradual retirement of "single skin" barge transportation vessels and their replacement with new double wall vessels to meet federal requirements.[19] The amount this investment will add to delivered prices is uncertain but the upward pressure it will exert is not.

[18] Shaen Tarter and Justin Charon, Yukon Fuel Company. Personal communication with Emerman Consulting. July 2005.
[19] Ibid.

SECTION 4

BULK FUEL FINANCING ALTERNATIVES

Although some specific information is available from organizations and institutions involved with bulk fuel financing in rural Alaska communities, sufficient information was not available overall to estimate what portion of the total market is financed by each alternative. Listed below are the various alternatives that were reviewed or noted during the conduct of this study, and a brief discussion of each:

- Cash in advance or on delivery. There are any number of ways that bulk fuel purchasers can put aside the cash reserves needed to pay for their fuel deliveries in full. Aside from generating sufficient revenue from sales to create the necessary reserves, government grants to local governments can sometimes be used including State grants appropriated for this purpose (such as the "small municipal energy assistance program" enacted to help pay for fuel in FY05), discretionary State grants like municipal revenue sharing (although such funds have not recently been appropriated), and discretionary federal grants such as PILT funds (payment in lieu of taxes).

  Purchasers who are able to pay the fuel supplier in full in advance or upon delivery are likely to obtain the best price that still covers the supplier's cost of fuel acquisition and delivery. Higher prices are associated with later payments or payment uncertainty, as they are with any factor that creates higher costs for the supplier.

- Fuel distributors extend a limited amount of credit to reliable customers with whom they have had a sufficiently long and good relationship.

- Similarly, commercial banks extend credit to bulk fuel purchasers who meet the stringent credit requirements typically associated with a commercial lender.

- The Bureau of Indian Affairs, through its "Alaska Resupply" program, purchases fuel and arranges for its delivery to rural Alaska purchasers, including but not limited to village corporations and local governments. Key aspects of the current program are as follows:[20]

  i. The BIA accepts orders from bulk fuel purchasers and books the fuel for delivery by one of the private bulk fuel distributors operating in rural Alaska.

[20] All information on the BIA program was obtained from BIA Alaska Resupply staff in Seattle. Personal communication with Emerman Consulting. July 2005.

ii. Upon delivery, the BIA pays the fuel distributor for the fuel from its own account. At the same time, the BIA sends an invoice for payment to the recipient of the fuel in rural Alaska.

iii. The invoice for payment includes the cost of the fuel already paid for by the BIA plus an administrative fee of 10 cents per gallon. The recipient has 90 days without interest to pay the full amount of the invoice. To any balance that remains unpaid after 90 days, the BIA adds a 6% charge. All amounts due must be paid within 180 days. If any amount remains unpaid after 180 days, the file is sent to "Treasury" for collection, and Treasury adds a large fee to the unpaid balance – on the order of 30-40%.

iv. Purchasers whose accounts are sent to collections typically will not be permitted to order their fuel through the BIA program in the future.

v. The BIA program in recent years has typically served between 15 and 30 communities. The aggregate amount of fuel supplied through the program has averaged about 800,000 gallons per year. (For perspective, assuming $2.00 per gallon, this implies a program on the order of $1.6 million per year.)

vi. The BIA received a federal appropriation for this program in 1992 but since then has not received additional appropriations for this purpose. Their program therefore operates like a revolving fund and the administrative fee is necessary to maintain program staff.

vii. Their fund is large enough to allow them to serve some number of additional customers – they have not had to turn down any applicant due to insufficient money in the BIA account. BIA staff believes that more customers are not attracted to the program because, at least for many of them, the fuel price through the BIA program is no lower than they could otherwise obtain, and the primary reason for that is the 10 cent per gallon administrative fee.

- The Alaska Native Industries Cooperative Association (ANICA), with its corporate headquarters in Seattle, was briefly discussed in the 2001 "Screening Report on Alaska Rural Energy Plan." As stated in Section 6 below, ANICA serves about 25 rural communities and purchases about 2 to 3 million gallons of fuel per year on behalf of retail establishments operated by village corporations or village tribal councils.

- The Bulk Fuel Bridge Loan[21] program was created last year to provide bulk fuel financing for a number of communities that were ineligible for a loan from the BFRLF due to credit problems but nonetheless needed to acquire fuel. The State and the Denali Commission acted to establish a "last chance program" to assist these communities. An initial grant of $0.5 million was provided by the Denali Commission and AVEC was selected as the program manager. AVEC, in turn, opted to subcontract program management to Rural Alaska Fuel Services, an organization that had recently been established to assist in the operation and maintenance of new tank farms constructed with Denali Commission funds.

  The basic structure of the Bridge Loan program is as follows:

  i. To be eligible, any borrower must first apply to the BFRLF and be rejected. The program is intended specifically for these communities.

  ii. If a Bridge Loan is approved, it carries zero interest and must be repaid in 9 months. The community can receive a Bridge Loan for no more than 3 consecutive years, by which time it is expected to have resolved whatever credit problems led to its BFRLF rejection in the first place.

  iii. The Denali Commission has adopted the policy that it will provide no further assistance to a community that defaults on the terms of its Bridge Loan.

  The State has contributed an additional $350,000 to the program, bringing its total assets to about $850,000. All of these funds were used in issuing Bridge Loans to 12 communities. At this writing, no additional funds are available either to provide loans to additional communities or to finance higher fuel costs for these same communities in their second year of borrowing.

[21] All information in this subsection regarding the Bulk Fuel Bridge Loan program was obtained from Del Conrad, Rural Alaska Fuel Services. Personal communication with Emerman Consulting, July 2005.

SECTION 5

CREATING BULK FUEL PURCHASING COOPERATIVES AND PROJECTED IMPACT ON FUEL PRICE AND BFRLF DEMAND

There is an extensive history of efforts to consolidate bulk fuel purchasing in rural Alaska with the goal of achieving fuel price savings. The earliest example cited here is an impressive handbook on cooperative fuel purchasing published by the former Department of Community and Regional Affairs in 1989, and appended to this study as Attachment 3. The handbook details the various ways that rural bulk fuel purchasers can consolidate their efforts and includes step by step instructions, advice, and many sample forms, bids, contracts, and other relevant documents. If anything it was perhaps too thorough but it was clearly directed at a rural community audience and was widely distributed.

Subsequent efforts to establish formal bulk fuel purchasing cooperatives have been unsuccessful although some alternative consolidation strategies have fared better. A "formal bulk fuel purchasing cooperative" refers to an entity organized under AS 10.15 that serves as the single agent for all its members in issuing requests for bids, contracting with winning bidders, and issuing payment to fuel suppliers. The cooperative itself has one or more employees, incurs administrative costs as well as the costs of fuel procurement, and charges all its members the amounts necessary to cover these costs. While the fuel supplier still delivers fuel to the same multiple locations for each of the cooperative's members, it deals only with the cooperative management on matters pertaining to to the fuel supply contract and payment, thereby simplifying the supplier's administrative task and reducing the supplier's cost in that respect.

The success of the cooperative depends not only on the skills of its management and members, but even more on the timely and full payment to the cooperative by all of its members of their respective cost shares. The goal, of course, is to reduce the price of fuel to the members by reducing the supplier's administrative cost as noted above, and by requesting bids for a larger overall volume of fuel, which could result in savings by achieving volume discounts and/or by attracting greater competitive interest among potential suppliers. To be of benefit to the members, these savings must exceed whatever fees are charged by the cooperative to cover its own administrative cost, and also compensate for whatever cost might be associated with the reduction or loss of direct communication with and access to the suppliers.

The details of what happened to each of the various attempts to establish formal bulk fuel purchasing cooperatives have not been researched for this study but a rough sketch of numerous efforts can be presented.

In the early 1990s the State appropriated funds to AEA to issue as grants to help establish bulk fuel cooperatives. Grants and, in some cases, AEA staff assistance were provided to six grantees:

- Council of Athabascan Tribal Governments
- Coastal Yukon Mayors Association
- Western Alaska Bulk Fuel Cooperative
- Rural Alaska Power Association
- Kodiak Island Village Utility Cooperative
- Kuskokwim Delta Regional Utility Association

With the exception of the Western Alaska Bulk Fuel Cocperative, none of these efforts resulted in the establishment of a lasting bulk fuel purchasing cooperative although some efforts apparently got off the ground for a while before activity fell off. The Western Alaska Bulk Fuel Cooperative evolved into the informal Western Alaska Fuel Group composed, as of 2001, of the electric utilities in Kotzebue, Nome, Unalakleet, Dillingham, Naknek, Iliamna, and Igiugig. A single bid request is issued for the combined requirements of these utilities but no utility is bound to purchase fuel from the winning bidder, each utility negotiates separately for its own fuel supply contract, and each pays the supplier directly for its own fuel delivery.

Another effort during the 1990s to establish a formal bulk fuel consolidation strategy was made by Calista Corporation, which establish a for-profit subsidiary called Nunat Uquutiit, Inc. (NUI). The concept for NUI was to build and operate tank farms in a number of Calista region communities, to procure fuel for all of these facilities at reduced prices by issuing a consolidated bid request, and to sell the fuel at prices that would cover their costs of tank farm construction, operation, and fuel acquisition. It soon became apparent that NUI would not be able to charge prices high enough to recover these costs and so Calista Corporation, not wishing to subsidize NUI from other corporate funds, eliminated its ties to NUI which then evolved into "NUCI" (Nunat Uquutiit Cooperative, Inc.). Among the things that NUCI tried to do was to serve as a bulk fuel purchasing consolidator for its members. For whatever reasons, NUCI failed to survive.

Meanwhile, Calista Corporation established Western Alaska Village Enterprises (WAVE), of which WAVE Fuels was a component. The purpose of WAVE Fuels was to acquire fuel at a discount for many retailers in Calista region villages – its acquisitions were estimated at about 5 million gallons per year – which would then allow the retailers to pass along the savings to its customers. Again, for whatever reasons, WAVE Fuels did not survive.

This backdrop of failed efforts does not support much optimism about the prospects for new, formal structures to consolidate fuel purchasing. Perhaps the administrative costs and associated fees that such organizations must charge tend to offset whatever cost savings they might achieve. Or maybe they are

typically established with insufficient reserves, possibly due to reluctance on the part of its members to pay substantial start-up fees, and therefore cannot survive if one or more of their members fails to pay its full cost share on a timely basis. (Concern about this possibility could certainly factor in to the reluctance of a prospective member to pay a substantial start-up fee.) Maybe logistical hurdles and personnel turnover make it especially difficult for isolated villages to establish and maintain formal contractual relationships over an extended period of years.

For reasons like these and because of the history cited above, it seems much more likely for informal consolidation to be achieved and to survive since it places a lower administrative and financial burden on its members and also places little or no financial risk on the coordinating entity. This is the approach taken during the past year by the Northwest Arctic Borough (NWAB). A brief discussion of the NWAB fuel purchasing consolidation program is presented below:[22]

- The NWAB has established a loosely knit consortium of independent bulk fuel purchasers within the Borough. At the present time, about 10 purchasers located in 5 villages participate in the consortium, including certain local governments, fuel retailers, and one "stand-alone" electric utility. The consortium does not include AVEC or the school districts, which are currently committed to multi-year fuel purchasing arrangements. Although AVEC is likely to remain outside the consortium in future years, the NWAB believes it would be both possible and helpful to all concerned if the school districts were to participate in the consortium after its multi-year commitments have expired.

- A key requirement of the NWAB is that no Borough funds be expended or placed at risk as a result of these coordination efforts. Consequently, the Borough does not intend to set up a formal structure under which it could be obligated to pay for all or part of a participant's fuel, or pay for administrative costs out of its general revenues, or be perceived as a possible financial backstop by any participant.

- The basic operating plan is as follows:

  i. For all participants who have documented secure financing for their bulk fuel orders, the Borough advertises a single bid request for their combined volume.

  ii. Upon receipt of bids and selection of a supplier, the Borough executes separate purchase agreements with each participant. Once these agreements are executed, the Borough issues a purchase order to the supplier.

[22] All information and views on the NWAB program presented in this subsection were provided by Tom Bolin, Northwest Arctic Borough. Personal communication with Emerman Consulting, July 2005.

iii. Upon delivery of fuel to the participants, the supplier issues a single invoice to the Borough. Upon receipt of the supplier's invoice, the Borough sends separate invoices to each participant. Once the Borough receives payment from the participants, the Borough then pays the supplier.

iv. Even as an informal consortium, the Borough is incurring administrative costs to perform its coordinating role. As a result, the Borough now intends to add a 10 cent per gallon administrative fee to all fuel purchased through the consortium mechanism. For illustration, if the delivered fuel cost to a participant is currently $2.50 per gallon, this administrative fee would add 4.0% to the price.

- There are several reasons to think that the consortium arrangement will result in lower fuel prices to its participants:

i. Although the supplier must still incur all the same costs to physically deliver the fuel to each participant, its administrative costs should be reduced because it now invoices and receives payment from a single entity – the Borough – as opposed to 10 different entities.

ii. Because the Borough has ensured through its efforts that each participant has secure financing sufficient to make full and timely payment to the Borough, the supplier can be confident it will receive full and timely payment for the combined order from the Borough.

iii. Whatever volume discounts are extended by the supplier for combined orders can now be realized, a subject discussed in greater detail later in this section.

- Among these possible sources of fuel price savings, the Borough representative believes that the credit enhancement provided by the Borough's efforts to ensure secure financing is the biggest factor. The suppliers place significant value on the assurance that they will be paid on time and in full. As the combined delivery volumes climb into the hundreds of thousands of gallons, further volume discounts are not likely to be significant.

- One important method the Borough is trying to use to guarantee payment is to steer participants into using AEA's BFRLF. If AEA approves a BFRLF loan for a participant (and if the participant pays the remaining 10% of its fuel cost directly to the Borough), timely payment for that participant's fuel delivery can be assured. With regard to this strategy:

i. Any participant that previously financed its fuel purchases through credit arrangements with the supplier is likely to save additional money due to the relatively low interest rates charged by the BFRLF compared with supplier rates.

ii. This approach to assuring timely payment to the Borough – essentially using AEA to screen the participant's credit and to accept whatever credit risk is associated with approved loans – has the potential to increase the demand for BFRLF loans. Since this is the first year of the NWAB consortium, it is too early to predict how significant this may turn out to be.

iii. Participants in a financial position to pay for their fuel from cash reserves presumably can document that ability and are not being induced to borrow from the BFRLF instead. However, the NWAB program is serving to better familiarize bulk fuel purchasers in that region with the BFRLF and that alone may result in higher demand for BFRLF loans. The Borough plans for its consortium to include additional members in future years.

- Regarding proposals to increase the borrower limit for BFRLF loans, the NWAB does not plan to create a formal cooperative structure under AS 10.15 and therefore would not be affected if borrower limits for cooperatives were raised. However, the Borough representative drew attention to the fact that some of its participants have fuel requirements exceeding $300,000 and could take advantage of higher limits for individual borrowers.

  Overall, a long term goal shared by the Borough is to foster greater financial solvency and financial self-reliance among its member villages. This will require charging prices for goods (such as fuel) sufficient not only to cover their full costs but also to build up cash reserves. As a matter of long term policy, allowing greater reliance on debt over the long term might not be the best way to improve a member's financial position.

  Given these considerations, the Borough representative suggested that a useful alternative to a permanent increase in the borrower limit might be to index the borrower limit to fuel prices. This could help the larger borrowers cope with short term spikes in fuel prices but, since the limit would come down when the prices subside, it might avoid the pitfall of higher debt reliance over the long term.

Volume Discounts

The NWAB experience suggests that assurance of full and timely payment may be a bigger factor than volume discounts in the pursuit of favorable fuel prices.

But volume discounts are typically the main reason put forward for efforts to consolidate fuel purchasing and the subject warrants further consideration. Higher volumes may result in lower unit prices not only because suppliers often seek to expand market share but also because supplier's fixed costs can be spread over more units of product. The generally held view is not just that volume discounts are available from suppliers but that these discounts can be achieved even by informal collectives such as the NWAB consortium described above.

A discussion of the potential savings from consolidation of fuel purchases appears in the "Screening Report for Alaska Rural Energy Plan" (April 2001), prepared by Northern Economics, Inc. for the Alaska Industrial Development and Export Authority. A substantial excerpt of this discussion is reproduced in Attachment 2 of this study. Among its conclusions are the following:

- "Refineries in Alaska do not offer volume discounts to buyers... Fuel distributors are the entities that offer volume discounts to purchasers in rural Alaska."

- Based on discussions with Crowley Maritime, Northern Economics presented the following table displaying a "typical discount program in Western Alaska:"

Typical Discount Program for Fuel Sales in Western Alaska

Volume Purchased (No. of Gallons)	Approximate Discount (Percent Reduction from Price for Minimum Volume)
(Minimum Volume) 5,000	Not Applicable
20,000	5
50,000	10
100,000	15
More than 100,000	Negotiable, but may be additional 2 to 4 percent

- "Administrative costs charged by fuel consolidators, or membership fees for cooperatives, can reduce potential savings... A WAVE member purchasing 5,000 gallons could save about 7 to 9 cents per gallon over the cost of purchasing directly from another supplier, if membership fees are ignored. However, a customer that purchases more than 100,000 gallons may pay more if it purchases fuel through WAVE because the administrative charge may be greater than the potential savings that WAVE could provide, compared to purchasing from another supplier."

- "Communities in much of Interior and Southeast Alaska do not belong to organizations that consolidate fuel purchases. It may be that many communities in these regions could benefit from consolidated fuel purchases."

It is less costly to a supplier to deliver 100,000 gallons to one location than to deliver 20,000 gallons to five separate (and comparable) locations. Therefore, the customer who arranges for 100,000 gallons delivered to one location can expect to pay a lower price than the five customers at the five separate and comparable locations (all else being equal, such as payment terms). Would the five customers obtain a price break comparable to the 100,000 gallon customer merely by pooling their orders, although the supplier's cost to provide fuel to the five villages is unaffected? Not everyone would agree[23].

Management policies of the suppliers are subject to change. If management is oriented towards increasing market share and is willing to reduce or eliminate its margins (or even take a loss) in pursuing that goal, then volume discounts for multiple purchasers might be offered even if the supplier's cost is unaffected by the pooling arrangement. On the other hand, if margins are already slim and the supplier has more profitable avenues for investment, management may be unwilling to cut margins further in hope of expanding into the less profitable market. Looking at it this way, volume discounts disconnected from supplier costs might be available sometimes from some suppliers and not available at other times – not something to count on. Further, there are many factors that influence the delivered price of fuel, not all of them apparent to the purchaser. Sometimes a purchaser may attribute favorable prices to volume discounts obtained through consolidation of fuel purchases, when in fact a lower-than-expected price may be due to cost factors known only to the supplier.

But the task remains for this study to estimate the impact of increased bulk fuel purchasing consolidation on the cost of fuel and on demand for loans from the BFRLF. The following illustration might help:

- Assume that 3 new bulk fuel purchasing "cooperatives" are formed, all of the informal kind similar to the Western Alaska Fuel Group and the NWAB consortium.

- Assume that the participants are relatively small purchasers, each of which averages about 50,000 gallons per year. Examples of bulk fuel purchasers among electric utilities whose annual requirement is about 50,000 gallons include the following (from the FY04 PCE Statistical Report):

[23] The suggestions that volume discounts are widely misinterpreted, that the key factor is the cost incurred by the supplier, and that management goals of the supplier are also important and are subject to change, were made by Shaen Tarter and Justin Charon, Yukon Fuels, personal communication with Emerman Consulting, July 2005

Utility	Community	Population	Gallons
Atmautluak Joint Utilities	Atmautluak	291	59,098
Ipnatchiaq Electric Co.	Deering	129	55,249
Nunam Iqua Electric Co.	Nunam Iqua	204	56,597
Tuluksak Trad. Power Util.	Tuluksak	461	50,236
Unqusrag Power Co.	Newtok	326	38,820

- Assume that each cooperative consists of 10 members, bringing the total pooled requirement to 500,000 gallons.

- Assume that a price reduction is achieved of 8% based on the table above for a "typical discount program." Further assume that this reduces the delivered price to these communities from $2.50 to $2.30 (8% of $2.50 = $0.20).

- Finally, assume that any further savings attributable to credit enhancement as discussed for the NWAB consortium is neutralized by the cooperative's administrative fee.

Based on all these assumptions, the total savings realized by these 30 purchasers would be:

$0.20 X 1.5 million gallons = $300,000

A savings of $0.20 per gallon would be a significant amount for consumers, and $10,000 would be a significant annual savings for bulk fuel purchasers of this size. In terms of the overall cost of fuel in rural Alaska, $300,000 would have to be seen as a significant number but a small percentage of the market.

In terms of its likely impact on borrowing from the BFRLF, total fuel cost savings of this magnitude would be small compared with the aggregate size and range of uncertain projections for the program over the next 10 years.

SECTION 6

PROPOSALS TO RAISE THE BFRLF ANNUAL BORROWING LIMIT AND THE PROJECTED IMPACT ON BFRLF DEMAND

The Rural Energy Action Council (REAC) created by Governor Murkowski issued its findings and recommendations in a report dated April 15, 2005. Among the Council's recommendations are the following:

- The State should provide staff and financial assistance to help develop more bulk fuel purchasing cooperatives in rural Alaska. The rationale cited in support of this strategy is that such cooperatives, by consolidating the bulk fuel purchases of multiple parties, might acquire fuel at lower cost as a result of volume discounts.

- The statutes governing the BFRLF should be amended to increase the annual borrower limit above $300,000 per year as follows:

  i. For bulk fuel purchasing cooperatives, the annual limit should be based on the number of communities belonging to the cooperative. While the recommendation is not explicit, the implication is that cooperatives should be able to borrow each year up to the individual limit times the number of member communities.

  ii. For individual borrowers, the report discusses (but stops short of formally recommending) an increase in the annual limit to $650,000.

During the 2005 legislative session, a bill was introduced[24] that would enact a variation on REAC's recommendations with regard to the BFRLF. The bill is being held over the interim for further consideration in the 2006 session. In its present form, the bill would raise the annual borrowing limit for the following two types of organizations:

- A "cooperative corporation organized under AS 10.15"

- An "electric cooperative organized under AS 10.25."

For each of these two categories of borrowers, the annual borrowing limit would be raised to "$300,000 multiplied by the number of communities on whose behalf the bulk fuel is to be purchased, or $1,000,000, whichever is greater."[25]

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[24] SB 188 sponsored by Senator Olson

[25] The analysis that follows was based on this existing language in the bill. For example, since AVEC serves 50 villages, the bill would raise AVEC's borrowing limit to $15 million. After reviewing the draft of this report, AEA observed that the apparent intent of the bill was to raise the limit for cooperatives to $300,000 times the number of communities, or $1.0 million, whichever is

A review of the corporations data base maintained by the Department of Commerce, Community and Economic Development shows the following existing organizations that would be directly affected by this legislation:

- ANICA (Alaska Native Industries Cooperative Association) This is the only existing cooperative corporation organized under AS 10.15 that purchases bulk fuel on behalf of multiple communities under 2,000 population, that disburses more than $300,000 per year doing so, and therefore could be affected by the proposed legislation.

  As reported by Northern Economics, Inc. in 2001,[26] ANICA serves "about 25 communities, predominantly in Western Alaska. According to Crowley Maritime, the cooperative purchases about 2 to 3 million gallons of fuel per year on behalf of retail establishments operated by village corporations or village tribal councils, which then sell the fuel to consumers in their communities."

  An ANICA representative contacted for purposes of this study stated that, although some of its members have borrowed from the BFRLF in the past and may do so again in the future, ANICA itself has no interest in borrowing from the BFRLF under any circumstances that are presently foreseen, regardless of the program's borrower limit. The representative was not willing to describe or discuss ANICA's current program, its method of procuring fuel for its members, or its current bulk fuel financing arrangements.[27]

- AVEC (Alaska Village Electric Cooperative) AVEC, as well as the other electric utilities listed below, is an electric cooperative organized under AS 10.25. AVEC supplies power to 50 communities, each with a population under 2,000, and could therefore under this legislation borrow up to $15 million per year from the BFRLF. As noted earlier, AVEC's estimated cost of fuel in FY05 is approximately $10 million.

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less. Substituting "less" for "greater" would set AVEC's hypothetical borrowing limit at $1.0 million, not $15 million. A subsection has been added on pages 73-74 discussing the impact of this possible change in the language of the bill.

[26] "Screening Report for Alaska Rural Energy Plan." April 2001. Prepared by Northern Economics for the Alaska Industrial Development and Export Authority. P 3-3.

[27] Information in this paragraph from Bill Kuhr, Alaska Native Industries Cooperative Association (ANICA). Personal communication with Emerman Consulting. July 2005.

AVEC in the past has not borrowed money to purchase fuel but instead has paid for fuel from its cash reserves.[28] Assuming there were sufficient funds in the BFRLF to accommodate it, AVEC could be interested in borrowing for some or all of its requirements if the interest it would pay on a BFRLF loan were lower than the rate it earns on its cash reserves, or if its cash reserves for some reason were insufficient. Given its present earnings level on cash reserves, AVEC would gain from a zero or very low interest rate loan, but not from a loan at 5% or at current municipal revenue bond rates. On the other hand, if interest rates (and therefore earnings on its cash reserves) were to go back up to much higher levels, a BFRLF loan at 5% would at some point make financial sense.

An additional issue to consider is the requirement in existing BFRLF statutes that a borrower such as AVEC obtain the written endorsement of the governing body of every community that would be served by the fuel. Obtaining 50 such written endorsements each year could prove to be a costly administrative hurdle. Yet, if it made financial sense and if it were easy to obtain, say, 25 endorsements, AVEC could be interested in a BFRLF loan to fuel their powerplants in those 25 communities.

Finally, AVEC management is aware of the need that many communities have for BFRLF financing. Unless there were a change in management philosophy, AVEC would be unlikely to seek a BFRLF loan if too much of the Fund were thereby soaked up and communities in need of such loans were shut out as a result.

- IPEC (Inside Passage Electric Cooperative). IPEC serves 5 communities with population under 2,000 in southeast Alaska, and paid approximately $1.5 million for fuel in FY05.[29]

  All IPEC communities have year-round access to fuel delivery and obtain fuel supplies more frequently than once every 6 months. As a result, IPEC is not eligible for BFRLF loans. In addition, IPEC pays for fuel deliveries from its cash

[28] Information and views in this subsection supplied by Meera Kohler, Alaska Village Electric Cooperative. Personal communication with Emerman Consulting, July 2005

[29] Estimated cost based on 784,253 gallons reported for FY04 multiplied by the most recent IPEC price ($1.95 per gallon) reported for FY05.

reserves and has no plan at this time to incur debt for this purpose.[30]

- Naknek Electric Association. While NEA serves 3 communities (Naknek, South Naknek, and King Salmon), the proposed legislation would raise its borrowing limit to $1.0 million. In FY05, its fuel cost was approximately $2.0 million.[31] Until this year, NEA purchased its fuel entirely from its own cash reserves. This year, however, because of the recent sharp increase in fuel prices, NEA needed to augment its cash reserves with borrowed funds in order to pay for its fuel supply. After determining that the $300,000 borrower limit was below the amount they needed, NEA borrowed the funds from CFC (the Cooperative Finance Corporation). Had the borrower limit for the BFRLF been $1.0 million instead, and assuming that the cost of debt from the BFRLF was more favorable than CFC, then NEA may well have applied to the BFRLF this year to augment its cash reserves.

  NEA is seeking to build up its cash reserves and would prefer to avoid debt financing in connection with its bulk fuel acquisitions. The fuel surcharge currently built into its rate is 6 cents per kWh – a high amount compared with past fuel surcharges. Assuming the borrower limit were raised, NEA could seek one or more substantial loans from the BFRLF if fuel prices remain high and if cash reserves remain inadequate. However, if NEA has sufficient cash in the future to buy the fuel they need, then debt financing through the BFRLF would presumably depend, at least in part, on the cost of BFRLF debt compared with the earnings rate on NEA's cash reserves (as discussed above for AVEC).

- Unalakleet Valley Electric Cooperative (UVEC). Although this electric cooperative serves only the community of Unalakleet, the proposed legislation would raise its annual BFRLF borrowing limit to $1.0 million. It has not borrowed from the BFRLF during the past 5 years although its annual cost of fuel during that period was mostly in the $300-400,000 range. However, given the recent jump in fuel prices (now at $2.28 per gallon

[30] Information in this paragraph supplied by Jodi Mitchell, Inside Passage Electric Cooperative. Personal communication with Emerman Consulting, July 2005

[31] Information and views in this subsection supplied by Donna Vukich, Naknek Electric Association. Personal communication with Emerman Consulting, July 2005

for UVEC), their current annual fuel cost is closer to $700,000.[32]

Historically UVEC has paid for its fuel from the cooperative's cash reserves and has done so again for its most recent delivery. But these reserves were significantly depleted this year to cover the full cost of the fuel. If prices remain high or go higher, UVEC could find it necessary in the future to supplement its cash reserves with debt financing, and it would consider using the BFRLF in that event.

Despite this possibility, UVEC does not presently plan to supplement its cash payments for fuel with debt financing. If that became necessary, however, it is anticipated that the supplemental amount needed would fit within the current $300,000 per year borrower limit.

It appears that these are the only 5 existing organizations that would be directly affected by the proposed legislation. There are additional electric cooperatives organized under AS 10.25, but either their annual fuel requirements are below $300,000 in any event, or they serve communities with over 2,000 population.

Impact of Changing the Language of the Bill on Maximum Borrower Limit

The borrower limit for these cooperatives under the proposed bill would be significantly lower if, as discussed in footnote 24, the bill's language were changed to establish $1.0 million as the maximum amount that could be borrowed each year rather than $300,000 times the number of communities served by the cooperative. Based on the information presented in the section immediately above, the impact of that change would likely be as follows for the cooperatives directly affected by the bill:

ANICA: No change given no interest in borrowing from the BFRLF.

AVEC: With roughly $10 million in annual fuel cost, setting the borrower limit at $1.0 million (rather than $15 million in AVEC's case) would make it even less likely that AVEC would seek a BFRLF loan.

IPEC: No change as IPEC is not eligible for BFRLF loans as discussed above.

Naknek Electric Association: Since NEA serves 3 communities, its BFRLF borrowing limit each year would be $900,000 if the bill's language were changed

[32] Current fuel price and subsequent information and views in this subsection supplied by Isaiah Towarak, Unalakleet Valley Electric Cooperative. Personal communication with Emerman Consulting, July 2005. Estimate of current annual fuel cost derived by multiplying current fuel price ($2.28 per gallon) times FY04 gallons (305,134) reported in the FY04 PCE statistical report.

as described above rather than $1.0 million under the present language. This minor difference is unlikely to affect the prospects of NEA becoming a BFRLF borrower in the future.

Unalakleet Valley Electric Cooperative: Since UVEC serves only 1 community, its BFRLF borrowing limit each year would be $300,000 if the bill's language were changed as described above rather than $1.0 million under the present language. However, the amount that UVEC might be interested in borrowing from the BFRLF if cash reserves become inadequate is expected to be less than $300,000 in any event. So again, changing the bill's language in this manner would be unlikely to affect the prospects of this cooperative becoming a BFRLF borrower.

Although changing the bill's language on borrower limit is not likely to affect any of these cooperatives in the foreseeable future, it clearly would eliminate the possibility of AVEC or ANICA submitting multimillion loan requests that could drain all or a large portion of the Fund's lending capability should either or both of these cooperatives become interested in this financing option in the future.

BFRLF Demand Projections Assuming Changes in Annual Borrower Limits

The starting point for this section is the BFRLF demand projection produced earlier assuming no changes in the program (and assuming adequate funds are available in the BFRLF). That demand projection took the form of two scenarios based on two different oil price outlooks and is reproduced below:

BFRLF Demand Projections
Assuming No Changes in Program

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)	$4.5	$6.9	$10.2
Scenario #2 (current fuel prices)	9.2	12.6	16.9

The rest of this section will consider how these two scenarios might change if the BFRLF annual borrower limits are changed.

A. Passage of SB 188 in its Present Form

There are 2 basic issues to consider:

- Would any of the 5 existing organizations listed above be likely to obtain financing through the BFRLF if the borrower limits were raised as discussed above?

- Are new bulk fuel purchasing cooperatives, or broader cooperatives whose activities include the purchase of bulk fuel, likely to be organized under AS 10.15 and become BFRLF borrowers?

Among existing cooperatives, this study has found that none anticipate becoming borrowers under the BFRLF whether or not the borrower limit is raised. The most likely candidate to become a borrower would be Naknek Electric Association, which did consider supplemental financing from the BFRLF this past year and may well have submitted a loan request to AEA (rather than CFC) if the borrower limit had been $900,000 or $1.0 million rather than $300,000. As stated above, NEA plans to replenish its cash reserves to the point that it can resume paying for its fuel without resort to debt. Given this intent, it should be expected that NEA will at least be able to reduce its supplemental financing requirement even if it does not eliminate that requirement right away. UVEC could also become a BFRLF borrower if prices go higher and its funds run short although it continues to pay for its fuel from cash reserves and plans to continue to do so.

Absent a need to borrow money due to inadequate cash reserves, these cooperatives are unlikely to benefit from becoming borrowers under the BFRLF unless short-term interest rates go up to levels not seen in many years. As discussed above in the case of AVEC, it would make financial sense for these cooperatives to borrow from the BFRLF only if the rate of earnings on their cash reserves – which would correspond most closely with short-term interest rates – was significantly higher than the interest rate charged by the BFRLF. In that case, their membership would be better off borrowing at comparatively low interest from the BFRLF while realizing relatively high interest on their cash reserves.

As noted earlier, the BFRLF statute sets the interest rate at the average long-term municipal revenue bond rate unless the administering agency determines that a rate reduction is needed based on the community's ability to pay. The program regulations establish a presumption that zero interest is charged on a borrower's initial loan, 5% on the second loan, and the municipal revenue bond rate on all subsequent loans (3 AAC 106.320). However, the regulations do not remove the agency's discretion to set the rates within the parameters established by statute.

As discussed in the previous section, it does not seem likely that new, formal bulk fuel purchasing cooperatives will be created in the foreseeable future under AS 10.15. What is more likely is that efforts to consolidate fuel purchase orders will be directed towards informal consortiums along

the lines of the Western Alaska Fuel Group or the recent efforts of the Northwest Arctic Borough.

It appears possible but unlikely that SB 188 in its present form would result in an increase in BFRLF demand.

B. Increases in the Annual Limit for All Borrowers Above $300,000

How would the BFRLF projections change if the proposal considered by the Rural Energy Action Group to increase the annual borrower limit for all BFLRF borrowers were enacted? The amended limit discussed in the REAC report is $650,000.

Points raised earlier in this study that are relevant to the question include the following:

- Although the annual borrower limit was raised from $200,000 to $300,000 for FY04 and FY05, only 1 loan for $300,000 was issued during those 2 years. In FY05, in addition to the single $300,000 loan, only 2 other borrowers exceeded the previous $200,000 limit: one borrowed $212,000 and the other $207,000.

- There is no data base that shows all of the bulk fuel purchasers in BFRLF eligible communities along with their annual gallonage requirements. It is therefore difficult to estimate how much of the potential bulk fuel financing market consists of purchasers who acquire more than $300,000 of fuel each year, let alone how many would become eligible and interested in BFRLF financing at alternative annual borrowing limits. This study adopted the assumption that 25 million gallons (valued during FY05 at approximately $50 million) constitutes the potential market for BFRLF financing given the current annual borrower limit of $300,000. If the annual borrower limit were eliminated, the potential market was estimated at 50 million gallons (or about $100 million at FY05 prices).

What this study can present are illustrations of what might plausibly happen to BFRLF demand if annual borrower limits are raised. These illustrations consist of the 2 basic scenarios already presented, to which are added an increment of borrowing that might occur as a result of higher borrower limits.

Alternative Borrowing Limit #1: Assume that the borrower limit is increased to $400,000 beginning in FY07. The following assumptions are adopted to illustrate its possible impact on the 2 basic demand scenarios:

- In Scenario #1, fuel prices decline over the next 3 years to FY02 levels and then rise at the rate of inflation. This price outlook would relieve what appears to be the major source of pressure bringing new bulk fuel purchasers to the BFRLF program.

  In view of the experience so far with the increase in limit from $200,000 to $300,000, the assumption adopted for scenario #1 is that an increase in the borrower limit to $400,000 would result in the addition of 1 borrower every other year, beginning in FY08. Each of these additional borrowers draws the maximum of $400,000 per year. The impact on Demand Projection #1 would be as follows:

  FY08: 1 additional borrower drawing $400,000.

  Amount borrowed from BFRLF = $4.9 million

  FY11: A second borrower is added drawing $400,000

  Amount borrowed from BFRLF = $7.7 million

  FY14: Two more borrowers are added, each drawing $400,000

  Amount borrowed from BFRLF = $11.8 million

- In scenario #2, fuel prices increase by 20% from FY05 to FY06, and then remain constant in nominal terms for the rest of the projection period. It is assumed for this illustration that the higher fuel price will result in twice the impact shown for scenario #1. In other words, one new borrower drawing $400,000 is added to the BFRLF program every year beginning in FY07 (not every other year). The impact on Demand Projection #2 would be as follows:

  FY08: Two additional borrowers each drawing $400,000

  Amount borrowed from BFRLF = $10.0 million

  FY11: Five additional borrowers each drawing $400,000

  Amount borrowed from BFRLF = $14.6 million

  FY14: Eight additional borrowers each drawing $400,000

  Amount borrowed from BFRLF = $20.1 million

The following table summarizes how this differs from the "No Change" scenarios:

BFRLF Demand Projections for Two Fuel Price Scenarios
No Change in Borrower Limit vs. Increase to $400,000

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)			
No Change in Borrower Limit	$4.5	$6.9	$10.2
Increase to $400,000	4.9	7.7	11.8
Scenario #2 (current fuel prices)			
No Change in Borrower Limit	$9.2	$12.6	$16.9
Increase to $400,000	10.0	14.6	20.1

Alternative Borrowing Limit #2: Assume that the borrower limit is increased to $600,000 beginning in FY07. The same pattern of assumptions are adopted to illustrate its possible impact on the 2 basic demand scenarios:

- In scenario #1, an increase in the borrower limit to $600,000 would result in the addition of 1 borrower every other year beginning in FY08. Each of these additional borrowers draws the maximum of $600,000 per year. The impact on Demand Projection #1 would be as follows:

  FY08: 1 additional borrower drawing $600,000.

  Amount borrowed from BFRLF = $5.1 million

  FY11: A second borrower is added drawing $600,000

  Amount borrowed from BFRLF = $8.1 million

  FY14: Two more borrowers are added, each drawing $600,000

  Amount borrowed from BFRLF = $12.6 million

- In scenario #2, one new borrower drawing $600,000 is added to the BFRLF program every year beginning in FY07 (not every other year). The impact on Demand Projection #2 would be as follows:

  FY08: Two additional borrowers each drawing $600,000

  Amount borrowed from BFRLF = $10.4 million

  FY11: Five additional borrowers each drawing $600,000

  Amount borrowed from BFRLF = $15.6 million

  FY14: Eight additional borrowers each drawing $600,000

  Amount borrowed from BFRLF = $21.7 million

The following table summarizes how these alternatives differ from the "No Change" scenarios:

BFRLF Demand Projections for Two Fuel Price Scenarios
No Change in Borrower Limit vs. Increase to $400,000 or to $600,000

(Millions of Dollars)

	FY08	FY11	FY14
Scenario #1 (declining fuel prices)			
No Change in Borrower Limit	$4.5	$6.9	$10.2
Increase to $400,000	4.9	7.7	11.8
Increase to $600,000	5.1	8.1	12.6
Scenario #2 (current fuel prices)			
No Change in Borrower Limit	$9.2	$12.6	$16.9
Increase to $400,000	10.0	14.6	20.1
Increase to $600,000	10.4	15.6	21.7

ATTACHMENT 1

- Original Statute Establishing the Bulk Fuel Revolving Loan Fund (SLA 1980, Chapter 83)
- Current BFRLF Statute (AS 42.45.250)
- Current BFRLF Regulations (3 AAC 106.300)

Original Statute Establishing the Bulk Fuel Revolving Loan Fund
(SLA 1980, Ch. 83)

Sec. 41. AS 45 is amended by adding a new chapter to read:

CHAPTER 87. BULK FUEL.

Sec. 45.87.010. BULK FUEL REVOLVING LOAN FUND ESTABLISHED. There is established in the Department of Commerce and Economic Development the bulk fuel revolving loan fund to assist communities in purchasing bulk fuel. A community, or a private individual who has written endorsement from the governing body of the community, is eligible for a loan from the bulk fuel revolving loan fund for a bulk fuel purchase.

Sec. 45.87.020 LOAN TERMS FOR BULK FUEL PURCHASES. (a) Loans made from the bulk fuel revolving loan fund to one borrower in any fiscal year

(1) may not exceed $50,000;
(2) shall be repaid in one year or less; and
(3) may not exceed 90 percent of the wholesale price of the fuel purchased.

(b) Interest may be charged on a loan made from the bulk fuel revolving loan fund. Interest shall be charged on a loan at a rate equal to the percentage of the average weekly yield of municipal bonds for the 12 months preceding the date of the loan, as determined by the commissioner of commerce and economic development from municipal bond yield rates reported in the 30-year revenue index of the Weekly Bond Buyer. However, if the commissioner finds that a community cannot afford to repay a portion of interest on a loan, and makes a determination in writing, he may reduce or eliminate the interest rate applicable to the loan.

(c) Repayments of the principal on a loan from the bulk fuel revolving loan fund shall be paid by the commissioner of commerce and economic development into the bulk fuel revolving loan fund.

Sec. 45.87.030. POWERS OF THE DEPARTMENT. The department may contract for the administration of the bulk fuel loan program established in this chapter.

Sec. 45.87.040. DEFINITIONS. In this chapter

(1) "bulk fuel storage facility" means a storage tank capable of holding at least 10,000 gallons of petroleum fuels;

(2) "community" means an organized municipality or an unincorporated village which is a social unit, with a population under 2,000;

(3) "department" means the Department of Commerce and Economic Development.

Current BFRLF Statute

Sec. 42.45.250. Bulk fuel revolving loan fund.

(a) The bulk fuel revolving loan fund is established in the authority to assist communities, utilities providing power in communities, and fuel retailers in communities in purchasing bulk fuel to generate power or supply the public with fuel for use in communities. A community, or a person generating power or selling fuel in a community who has written endorsement from the governing body of each community for which a loan from the fund is sought, is eligible for a loan from the bulk fuel revolving loan fund for a purchase of an emergency supply or a semiannual or annual supply of bulk fuel to be used in the community.

(b) Money in the fund may be used by the legislature to make appropriations for costs of administering this section.

(c) The foreclosure expense account is established as a special account within the bulk fuel revolving loan fund. This account is established as a reserve from fund equity.

(d) The authority may spend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this section or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

(e) Loans made from the bulk fuel revolving loan fund to one borrower in any fiscal year

(1) may not exceed $300,000;

(2) shall be repaid in one year or less; and

(3) may not exceed 90 percent of the wholesale price of the fuel purchased.

(f) Interest may be charged on a loan made from the bulk fuel revolving loan fund. Interest shall be charged on a loan at a rate equal to the percentage of the average weekly yield of municipal bonds for the 12 months preceding the date of the loan, as determined by the authority from municipal bond yield rates reported in the 30-year revenue index of the Weekly Bond Buyer. However, if the authority finds that a community cannot afford to repay a portion of interest on a loan, and makes a determination in writing, the authority may reduce or eliminate the interest rate applicable to the loan.

(g) Repayments of the principal, the interest, and the money chargeable to principal or interest that is collected through liquidation by foreclosure or other process on a loan made under this section shall be paid into the bulk fuel revolving loan fund. The fund is not a dedicated fund.

(h) The authority may contract for the administration of the bulk fuel loan program established in this section.

(i) The authority shall dispose of property acquired through default or foreclosure of a loan made under this section. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

(j) The authority may adopt regulations necessary to carry out the provisions of this section, including regulations to establish reasonable fees for services provided and charges for collecting the fees.

(k) The authority may collect the fees and collection charges established under (j) of this section and shall deposit the money in the general fund.

(l) In this section,

(1) "community" means an organized municipality or an unincorporated village that is a social unit, with a population of less than 2,000 people.

(2) "person" has the meaning given in AS 01.10.060 and includes a corporation, a cooperative, a joint venture, and a governmental entity.

Current BFRLF Regulations

Article 3
Loans From Bulk Fuel Revolving Loan Fund

Section

3 AAC 106.300. Application process

To apply for a loan for the purchase and transportation of bulk fuel, an applicant shall file with the authority

(1) a completed application for a bulk fuel loan, on a form provided by the authority;

(2) proof that the application is for a community with a population under 2,000;

(3) written endorsement from the governing body of the community, if the applicant is a person generating power or selling fuel in the community;

(4) a letter of intent, on a form provided by the authority, stating the amount requested, the intended use of the proposed loan money, and how the community intends to finance 10 percent of the total fuel cost.

(5) a bulk fuel loan agreement, on a form provided by the authority;

(6) a bulk fuel promissory note, on a form provided by the authority;

(7) if the applicant is a Native village council, a resolution waiving sovereign immunity on a form provided by the authority;

(8) a resolution by community or corporate applicants approving the purchase of bulk fuel, on a form provided by the authority;

(9) a $25 nonrefundable application fee;

(10) information about the condition of the fuel storage tanks where the fuel is to be kept;

(11) any other information requested by the authority to demonstrate the applicant's eligibility for a loan.

History: Eff. 2/16/96, Register 137; am 3/25/2005, Register 173

3 AAC 106.305. Examination

(a) The authority will process the material described in 3 AAC 106.300 and evaluate the eligibility of the community and the applicant's eligibility, financial and credit records, ability to repay the loan and any other relevant information. Additionally, the authority will evaluate the information provided under 3 AAC 106.300(10) .

(b) On the basis of the evaluation described in (a) of this section, the authority will

(1) inactivate the application, if the applicant fails to provide the information required by 3 AAC 106.300;

(2) deny the application, if the applicant is ineligible; or

(3) approve the applicant's loan request; such approval may include modifications to the request.

(c) The authority will fix, within the limitations set by AS 42.45.250 , the terms of a loan and repayment schedule.

(d) If a loan request is denied or significantly modified by the authority, the authority will provide the applicant with a statement of the reasons for the action and the information relied upon by the authority for the denial or modification.

(e) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request.

History: Eff. 2/16/96, Register 137

3 AAC 106.310. Eligibility

To be eligible for a loan,

(1) an applicant must intend to use the loan for purchase of fuel for an emergency or annual or semiannual supply, including the necessary costs of transporting the fuel;

(2) the applicant must agree to repay the loan in one year or less, according to a repayment plan determined by the authority;

(3) the amount borrowed may not exceed 90 percent of the wholesale price of the fuel purchased plus the cost of transporting the fuel;

(4) the amount of the loan, added to the amounts of all other bulk fuel loans to the same borrower in the same fiscal year, may not exceed $300,000.

History: Eff. 2/16/96, Register 137; am 3/25/2005, Register 173

3 AAC 106.315. Financial and credit record

The authority will, in its discretion, consider the following factors in evaluating an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports ontained from creditors and private credit reporting services;

(3) prior loan history with the authority;

(4) timeliness in making payments on loans and other debts;

(5) prior bankrupteies;

(6) existence of tax liens;

(7) unpaid judgments and prior foreclosures; and

(8) financial and credit reputation.

History: Eff. 2/16/96, Register 137

3 AAC 106.320. Ability to repay

(a) The authority will determine the interest rate to be charged on each bulk fuel loan based on the ability of the borrower to repay the loan. If the authority makes a written determination that a borrower cannot afford to repay all or part of the interest on a loan at the rate required by AS 42.45.250 , the authority will, in its discretion, either eliminate or reduce the interest rate.

(b) The following rebuttable presumptions will be considered by the authority in making determination of the ability of a borrower to repay interest on a bulk fuel loan:

(1) a borrower is presumed unable to repay interest on its first bulk fuel loan;

(2) a borrower is presumed unable to repay more than five percent interest on its second bulk fuel loan; and

(3) a borrower is presumed able to repay the entire interest computed at the rate required by AS 42.45.250 on its third, and successive, bulk fuel loans.

History: Eff. 2/16/96, Register 137

3 AAC 106.325. Lending practices

(a) The loan period will be fixed by the authority based on the needs of the borrower. However, loans must be repaid within one year.

(b) No proceeds of a bulk fuel loan may be used to

(1) purchase aviation gas, unless the borrower certifies in writing that the aviation gas will be used only for local ground or water transportation, such as snow machines and outboard motors;

(2) purchase fuel other than bulk petroleum fuels;

(3) subsidize a business; or

(4) make a profit, unless the profit is used to purchase additional community fuel supplies.

History: Eff. 2/16/96, Register 137

3 AAC 106.330. Disbursement of loan money

(a) Loan money will be disbursed after the borrower has complied with the provisions of the loan documents and the requirements of this chapter by the authority.

(b) Loan money will be disbursed upon receipt by the authority, division of energy of delivery bills and fuel invoices.

(c) No loan money will be disbursed until the loan agreement, the borrowing resolution, the promissory note, and the resolution waiving sovereign immunity, when applicable, have been signed by the authorizing signatories and received by the authority.

History: Eff. 2/16/96, Register 137

3 AAC 106.335. Supervision of loans

If a loan is in default, the authority will, in its discretion, require the borrower to furnish annual financial statements, reports of bulk storage tank facility capacity, and a schedule of change of village council members, or community officials or officers. The authority will, in its discretion, also require an audit or audits to determine whether the borrower has complied with the provisions of the loan.

History: Eff. 2/16/96, Register 137

3 AAC 106.340. Costs

(a) An origination fee of one-half percent of the total loan amount is due from the borrower when all provisions of 3 AAC 106.330 have been met.

(b) The authority will, in its discretion, charge to the applicant expenses incurred by the authority in processing an application. These expenses include the cost of title reports and insurance, recording fees, appraisals, surveys, travel, and other direct costs.

History: Eff. 2/16/96, Register 137

3 AAC 106.345. Assumptions

(a) Assumption of a loan made under AS 42.45.250 and 3 AAC 106.300 - 3 AAC 106.365 is not permitted.

(b) Wraparound financing that includes a loan made under AS 42.45.250 and 3 AAC 106.300 - 3 AAC 106.365, is prohibited and constitutes a default on the loan.

History: Eff. 2/16/96, Register 137

3 AAC 106.350. Modifications

A request for a modification to a loan made under AS 42.45.250 and 3 AAC 106.300 - 3 AAC 106.365 will be processed in the same manner as a loan application. The authority will, in its discretion, require the applicant to provide one or more of the items specified in 3 AAC 106.300.

History: Eff. 2/16/96, Register 137

3 AAC 106.355. Reconsideration of a loan request

(a) If a loan request is denied, inactivated, or significantly modified by the authority, an applicant may file a written request for reconsideration with 30 days after receipt of notice of the authority's decision.

(b) The authority will consider a request for reconsideration if the applicant submits information to show that

(1) there has been a substantial change in the circumstances leading to the authority's decision;

(2) additional relevant information can be provided to the authority that was not initially available; or

(3) administrative errors were made by the authority.

History: Eff. 2/16/96, Register 137

3 AAC 106.360. Confidentiality of loan information

(a) The following information is not confidential and is available for public inspection upon request:

(1) a document that is already a public record including deeds of trust, financing statements, warranty deeds, bills of sale, mortgages, liens, and vehicle titles;

(2) general information regarding loans, including the original loan amount, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) insurance matters, including title insurance policies and correspondence with insurance companies or borrowers regarding losses, accident reports, and nonpayment of premiums; and

(4) foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, and reports obtained from consumer reporting agencies;

(2) loan review staff notes containing information relating to credit worthiness of an applicant; and

(3) the payment history on a loan, unless the loan is in default.

(c) Information not described in (a) or (b) of this section may be subject to public disclosure. A request for disclosure must be made, and disclosure will be determined in accordance with 6 AAC 96. Upon receipt of a request for disclosure, the authority will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed.

History: Eff. 2/16/96, Register 137

3 AAC 106.365. Definitions

Unless the context requires otherwise, in 3 AAC 106.300 - 3 AAC 106.360,

(1) "bulk fuel" means bulk petroleum fuels;

(2) "default" includes a violation of any provision of AS 42.45.250 , 3 AAC 106.300 - 3 AAC 106.365, or the loan documents, failure to make a necessary payment within 15 days after it is due, or failure to maintain the insurance required by the authority;

(3) "wraparound financing" means a contract that includes the balance due on an existing debt and an additional amount to cover the difference between the selling price and the existing debt.

History: Eff. 2/16/96, Register 137

ATTACHMENT 2

Excerpts from "Screening Report for Alaska Rural Energy Plan," Northern Economics, Inc., April 2001, Section 3.3.2 (Consolidation of Fuel Purchases).

(Excerpts from "Screening Report for Alaska Rural Energy Plan," Northern Economics, Inc., April 2001, pages 3-3 to 3-6.)

3.3.2 Consolidation of Fuel Purchases

Overview. Consolidation occurs when several entities purchase fuel together. Transactions may involve an administrator who coordinates the purchase and delivery arrangements. Consolidated fuel purchases offer the greatest benefit to entities that purchase small volumes of fuel. For example, an organization that purchases about 20,000 gallons per year could save 10 to 15 percent on the fuel price through consolidation, minus any administrative costs charged by some of the organizations that consolidate fuel purchases. Larger purchasers (organizations that purchase more than 250,000 gallons) could save about 2 to 4 percent of the fuel price, minus any administrative costs if the organization is purchasing through a fuel consolidator.

In a typical rural community, a number of entities may purchase fuel from the same vendor independently of each other. Each entity purchases fuel to meet its own requirements. The fuel price to these entities is a function of the price of fuel at the refinery gate and the cost of delivery to each purchaser, as well as the price when the order was placed. Prices per gallon decline with larger fuel orders, in part because of the reduced delivery cost per gallon and the suppliers' desire to capture a larger portion of the market. If all entities in a community place one consolidated order, their combined market power can result in lower costs for each entity even if the deliveries are to separate storage tanks.

Several organizations consolidate fuel purchases to reduce fuel costs in Alaska. Some of the organizations are formal cooperatives, while others are brokers that consolidate fuel purchases. The organizations include the following:

- **Alaska Native Industries Cooperative Association (ANICA)** is a cooperative that serves about 25 communities, predominantly in Western Alaska. According to Crowley Maritime, the cooperative purchases about 2 to 3 million gallons of fuel per year on behalf of retail establishments operated by village corporations or village tribal councils, which then sell the fuel to consumers in their communities (Dwight, 2000).

- **AVEC** purchases fuel for the electric utilities that it operates in 51 villages in rural Alaska. The cooperative has established seven regions for fuel consolidation and issues separate bids for each region. The Northwest Arctic Borough School District, Lower Yukon School District, Lower Kuskokwim School District, St. Mary's School District, and Kashunamuit School District (Chevak), consolidated their fuel purchases with AVEC in 2000. AVEC purchases about 6 million gallons annually (Kohler, 2000; Petrie, 2000).

- **Western Alaska school districts** are consolidating fuel purchases to obtain lower prices. The districts make a consolidated purchase of about 4.5 million gallons per year (Dwight, 2000).

- **WAVE Fuels and Transportation** is a subsidiary of Western Alaska Village Enterprise (WAVE), a Native-shareholder-funded company that operates primarily in the Calista region of Western Alaska. WAVE Fuels and Transportation purchases fuel on behalf of its customers and solicits bids from suppliers to deliver the fuel. WAVE serves more than 60 customers in about 45 communities (Hess, 2000). Its primary market area is in Southwest Alaska. The organization purchases about 5 million gallons of fuel on an annual basis and sells the fuel to stores and other retail establishments for subsequent sale in the villages. (Dwight, 2000).

- **Western Alaska Fuel Group** is an informal purchasing group composed of the electric utilities in Kotzebue, Nome, Unaiakleet, Dillingham, Naknek, Iliamna, and Igiugig. The group purchases about 6 million gallons annually with a single combined bid request (Kohler, 2000; Dwight, 2000).

- Other major fuel purchases are made by the **fuel terminal operators at Naknek, Bethel, Dillingham, Nome, and Kotzebue**. The terminals function as the primary fuel suppliers in these larger communities, and as storage depots for purchases by nearby villages in the event of a shortage. The terminals are owned by major fuel distributors. For example, Bristol Fuels operates one of three terminals in Dillingham; Crowley Marine and Bonanza Fuel each operate a terminal in Nome; and Crowley Marine Services owns and operates the terminal in Kotzebue.

- **SKW / Eskimos, Inc.** operates as a fule purchaser for its own account and functions as the bulk fuel purchase coordinator for the North Slope Borough in communities from Point Hope to Kaktovik.

- The **Red Dog Mine** is also a substantial fuel purchaser in Western Alaska, accounting for about 11 to 12 million gallons annually. Proposed expansion of the mine could increase fuel consumption to 17 to 18 million gallons per yea. (Northern Economics, 1998).

The balance of fuel consumption consists of independent purchases by various cities and village corporations, small retail establishments, aviators, tour guide companies, and construction companies

Analysis. The total market for heating and diesel fuel in Western Alaska (west of 154° W latitude [sic] and all of the Arctic Slope, excluding military and oil and gas operations on the North Slope) is about 160 to 185 million gallons a year. Of this amount, the fishing industry (processing plants and fishing fleets at Unalaska / Dutch Harbor, and other processing plants and vessels elsewhere on the

Alaska Peninsula and Aleutian Chain) accounts for about 90 million gallons. Of the remaining 75 to 95 million gallons, very little is not bought under a cooperative or organized group purchase (Dwight, 2000).

The organizations listed above serve a number of communities in Western Alaska. Communities in much of Interior and Southeast Alaska do not belong to organizations that consolidate fuel purchases. It may be that many communities in these regions could benefit from consolidated fuel purchases.

Refineries in Alaska do not offer volume discounts to buyers (Boltz, 2000; Noel, 2000; Payne, 2000). Fuel distributors are the entities that offer volume discounts to purchasers in rural Alaska. The breakpoints for lower prices vary by distributor. Table 3-1 shows a typical discount program for fuel sales in Western Alaska.

Discounts of about 15 percent are available for purchases of more than 100,000 gallons, as compared to purchases of less than 5,000 gallons (Dwight, 2000). Further price reductions for purchases greater than 100,000 gallons result from competition among distributors for market share. According to Yukon Fuels, distributors evaluate the potential transportation cost to the location or locations that must be served and prepare bids based on risk and expected transportation costs (Tagliavento, 2000). There are no set breakpoints at these higher volumes. The price reductions for fuel purchases greater than 100,000 gallons are typically only a few cents per gallon (Dwight, 2000).

Table 3-1. Typical Discount Program for Fuel Sales in Western Alaska

Volume Purchased (No. of Gallons)	Approximate Discount (Percent Reduction from Price for Minimum Volume)
(Minimum Volume) 5,000	Not Applicable
20,000	5
50,000	10
100,000	15
More than 100,000	Negotiable, but may be additional 2 to 4 percent

An electric utility that consumes 20,000 gallons of diesel in a year could save about $2,000 per year if it could obtain savings of 10 cents per gallon by consolidating its purchasing with other organizations to exceed to the 100,000 gallon threshold. Assuming an average diesel generating efficiency of 12 kWh per gallon for communities with this level of fuel consumption, the savings of 10 cents per gallon from consolidated fuel purchasing would result in savings of about 0.8 cent ($0.008) per kWh; lower generating efficiency would reduce this savings. A utility that consumes 100,000 gallons could save $2,000 to $4,000 if its purchase was consolidated with purchases by other organizations to obtain further price reductions because of larger volumes. Assuming an average diesel

generating efficiency of 14 kWh per gallon for communities with this level of fuel consumption, potential savings of 3 cents per gallon ($3,000 divided by 100,000 gallons) results in savings of about 0.2 cents ($0.002) per kWh.

.....

Administrative costs charged by fuel consolidators, or membership fees for cooperatives, can reduce potential savings. For example, WAVE Fuels charges about 10 cents per gallon for purchases of 5,000 gallons and about 5 cents per gallon for purchases of 400,000 gallons or more (Hess, 2,000). Members reportedly have paid $200,000 in fees to join the cooperative, but that fee can be amortized over a wide range of goods that WAVE provides, including fuel. A WAVE member purchasing 5,000 gallons could save about 7 to 9 cents per gallon over the cost of purchasing directly from another supplier, if membership fees are ignored.* However, a customer that purchases more than 100,000 gallons may pay more if it purchases fuel through WAVE because the administrative charge may be greater than the potential savings that WAVE could provide, compared to purchasing from another supplier.**

.....

* Assumes a base fuel price of $1 per gallon, minus 17 to 19 cents per gallon savings for the consolidated fuel purchase by WAVE, plus 10 cents per gallon for WAVE's administrative charge.

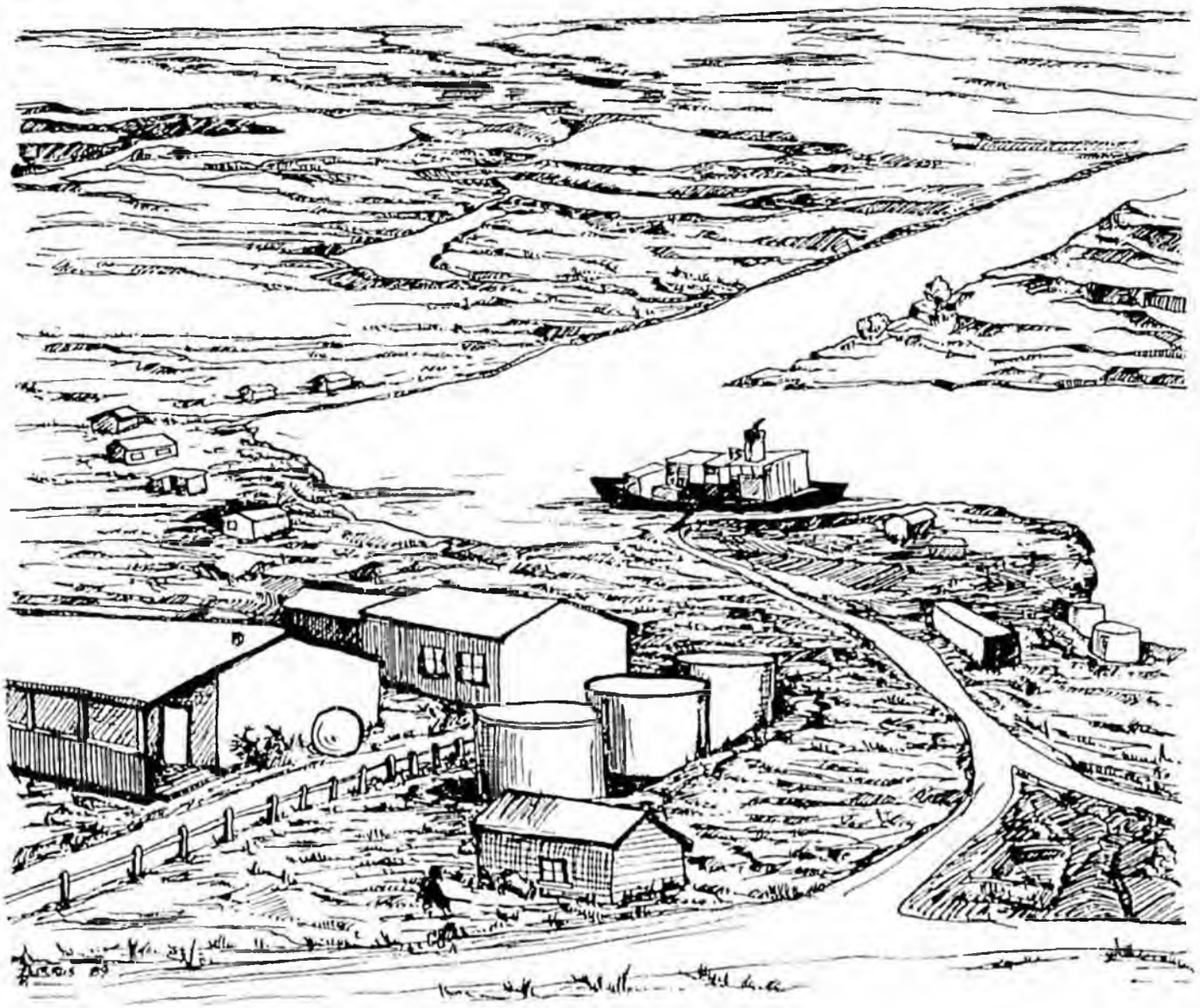
** Assuming a base fuel price of $1.00 per gallon, WAVE can provide a discount of 17 to 19 cents per gallon plus the administrative charge of 5 cents per gallon, for a net discount of 12 to 14 cents per gallon for a very small customer. A large purchaser could obtain a discount of 15 cents per gallon by buying directly from another supplier.

ATTACHMENT 3

Handbook Entitled "Cooperative Purchasing: A Way to Save When Buying Fuel for Rural Communities," Alaska Department of Community and Regional Affairs, September 1989.

COOPERATIVE PURCHASING:

A Way to Save When Buying Fuel For Rural Communities



State of Alaska
Steve Cowper, Governor

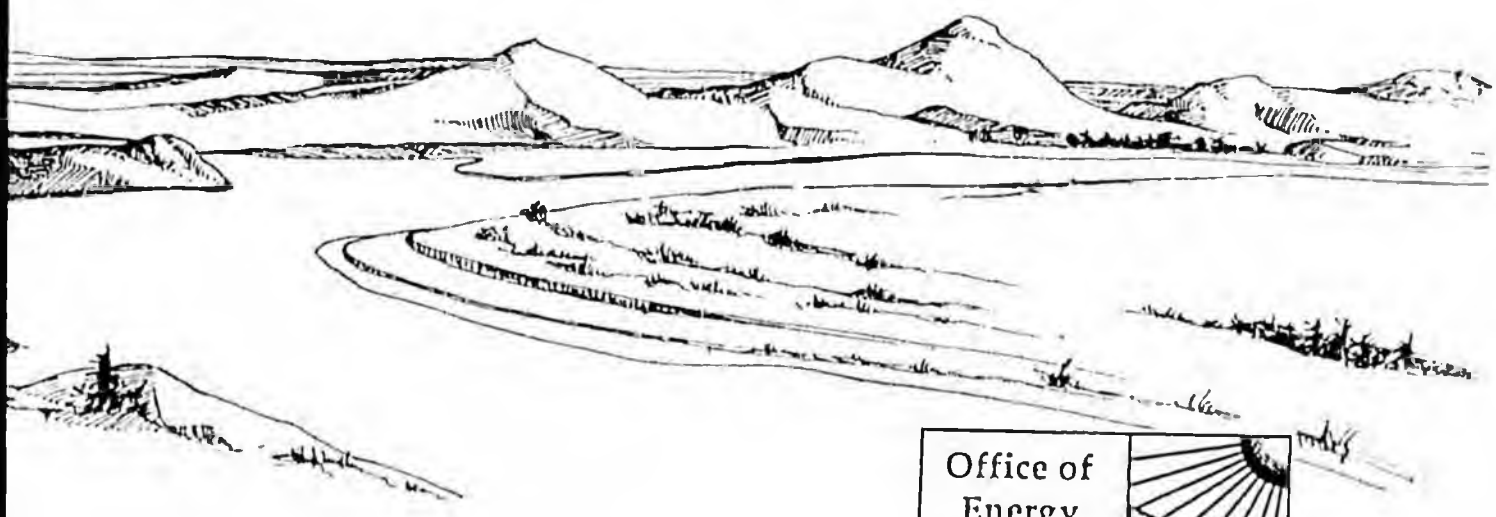
Department of Community and Regional Affairs
David G. Hoffman, Commissioner

Rural Development Division
Michael C. Harper, Director

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
ASSISTING ALASKAN COMMUNITIES

COOPERATIVE PURCHASING:

A Way to Save When Buying Fuel For Rural Communities



Office of Energy Programs

Rural Development Division

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Frank D'Elia
Energy Specialist
Handbook Development Coordinator

Published: 9/30/89

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Timothy Troll

C-graphics
Sue Burrus, Ruth Ann Carnahan, Elizabeth Lauzen

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Conrad Zipperian

There were numerous other individuals and organizations that assisted throughout this effort which began over two years ago. Their contribution to this effort was just as important as those listed above. Tl CYMA's efforts highlighted the need for this type of handbook to assist other communities or organizations in similar circumstances. The Department of Community and Regional Affairs decided to take the lead in meeting this need. This handbook was developed by the team of Mr. Tim Troll and Mr. Conrad Zipperian under contract to the state for state use.

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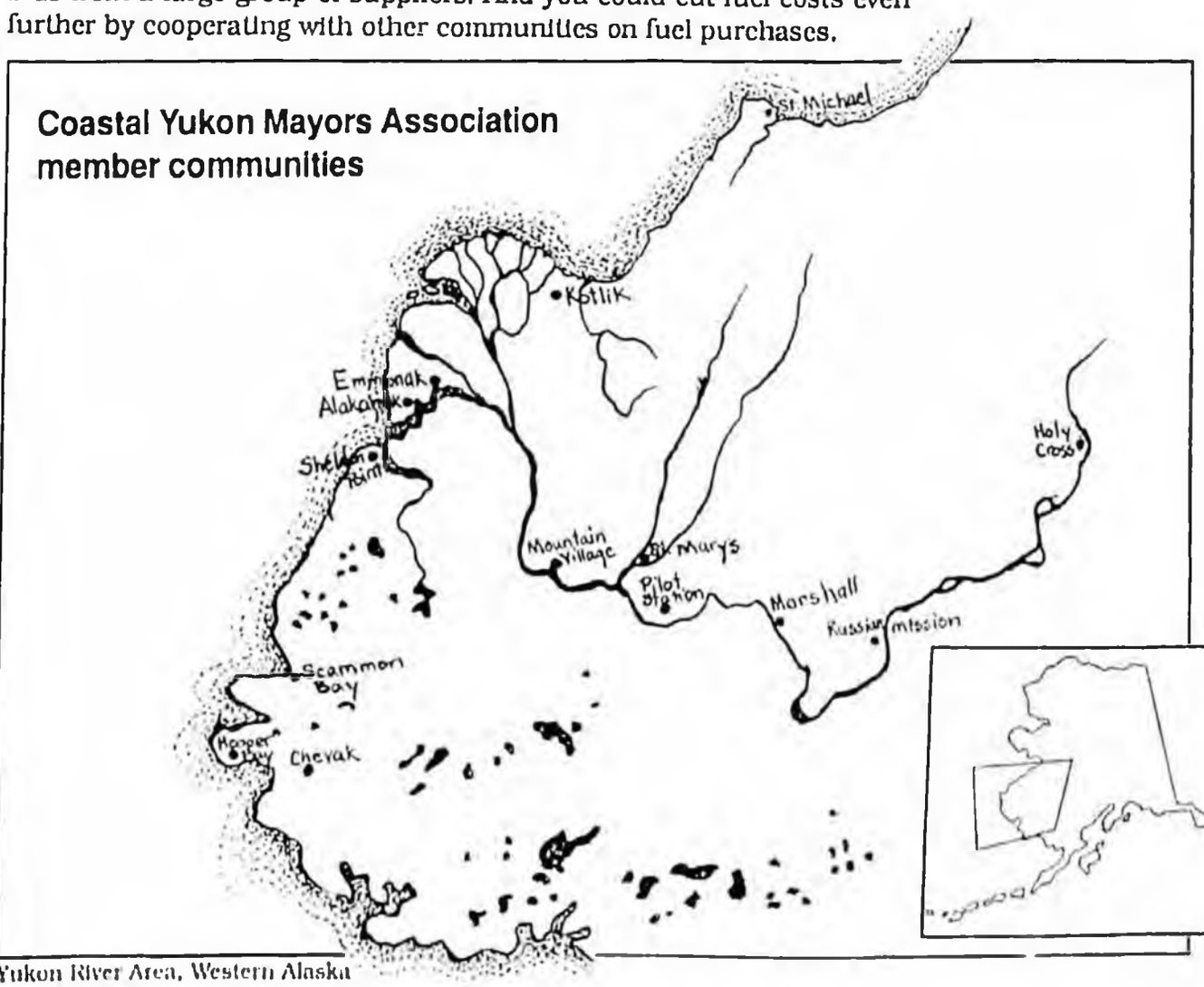
Before you begin . . .

If you could save 30 percent, 40 percent, even 50 percent of the cost of heating your community buildings, would you consider it worthwhile to read the next 20 pages? This book describes one of the easiest ways to cut the cost of your fuel.

Buying fuel at the lowest possible price should interest nearly everyone. Your village could cut fuel costs substantially by requesting competitive bids from a large group of suppliers. And you could cut fuel costs even further by cooperating with other communities on fuel purchases.



Yukon River Area, Western Alaska

You don't need to be a fuel expert, you don't need to spend large amounts of money up front, and you don't need a complicated set of rules in order to form a cooperative buying organization.

Sound too good to be true? It's not. The Coastal Yukon Mayors Association (CYMA) has demonstrated that a cooperative bidding and buying agreement is not only possible but also very profitable for the communities involved. This book focuses on the association's success in organizing a cooperative fuel purchase. It is mostly about how rural community governments can pull together to lower fuel costs. Other organizations, such as schools, also may find the handbook useful for understanding and adopting cooperative purchasing.

Table of Contents

Appendices:

Chapter 1

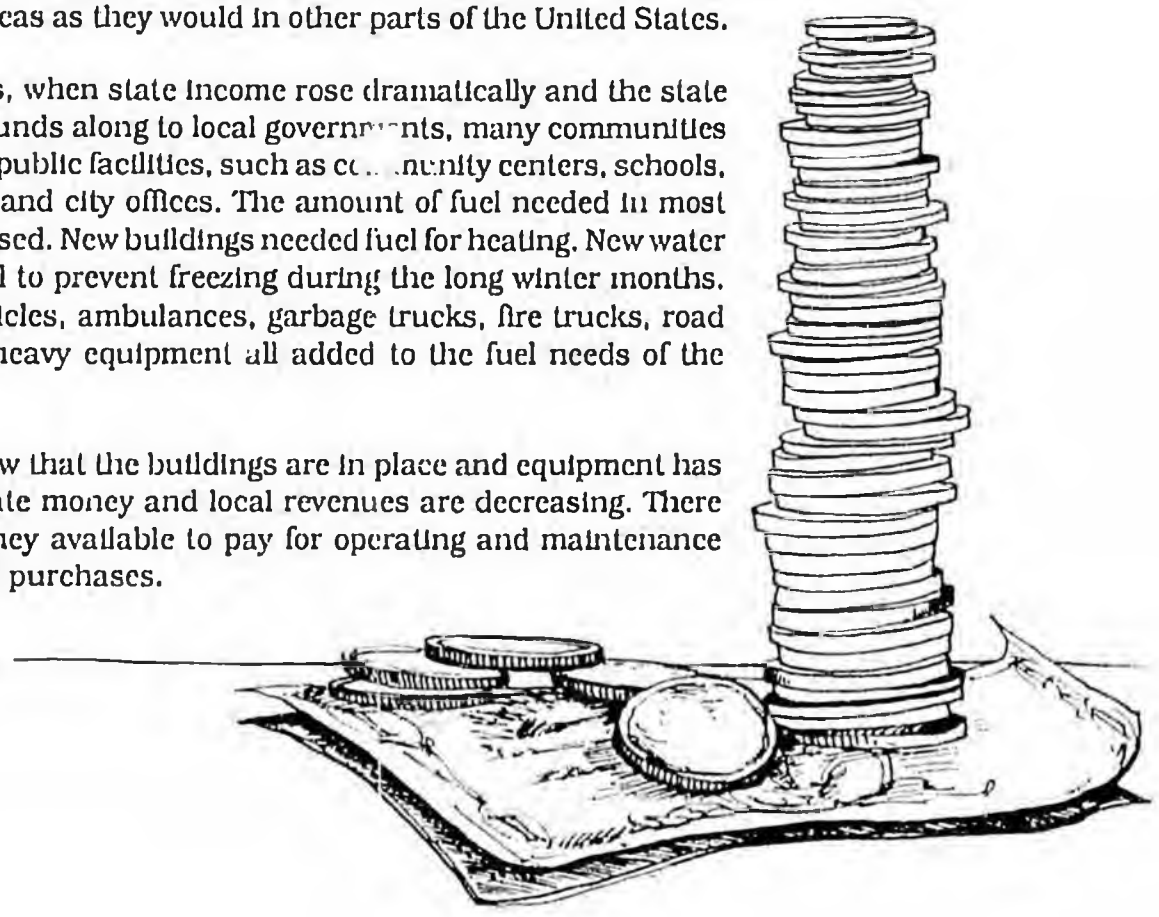
Low cost ways to cut fuel costs

You can cut your community's fuel costs by buying in bulk. You may need to work with other communities, however, to build up enough volume to earn a bulk discount.

In rural Alaska, heating fuel has always been one of the most expensive items in community budgets. Heating fuel and gasoline often cost twice as much in rural areas as they would in other parts of the United States.

During the 1980s, when state income rose dramatically and the state passed part of the funds along to local governments, many communities in Alaska built new public facilities, such as community centers, schools, equipment garages and city offices. The amount of fuel needed in most communities increased. New buildings needed fuel for heating. New water systems needed fuel to prevent freezing during the long winter months. And new police vehicles, ambulances, garbage trucks, fire trucks, road graders and other heavy equipment all added to the fuel needs of the community.

Unfortunately, now that the buildings are in place and equipment has been purchased, state money and local revenues are decreasing. There is less and less money available to pay for operating and maintenance costs, including fuel purchases.



As a community leader who wants to cut back on operating expenses, you can look at a variety of fuel-reducing options. You might decide to reduce fuel use by practicing conservation. You might decide to use waste heat recovery or other less expensive energy sources. The drawback to these options is that they require you to spend money before you can begin to save.

The one option that does not require you to make a big up-front investment is to reduce the cost of fuel. That's where cooperative purchasing and competitive bidding come in.

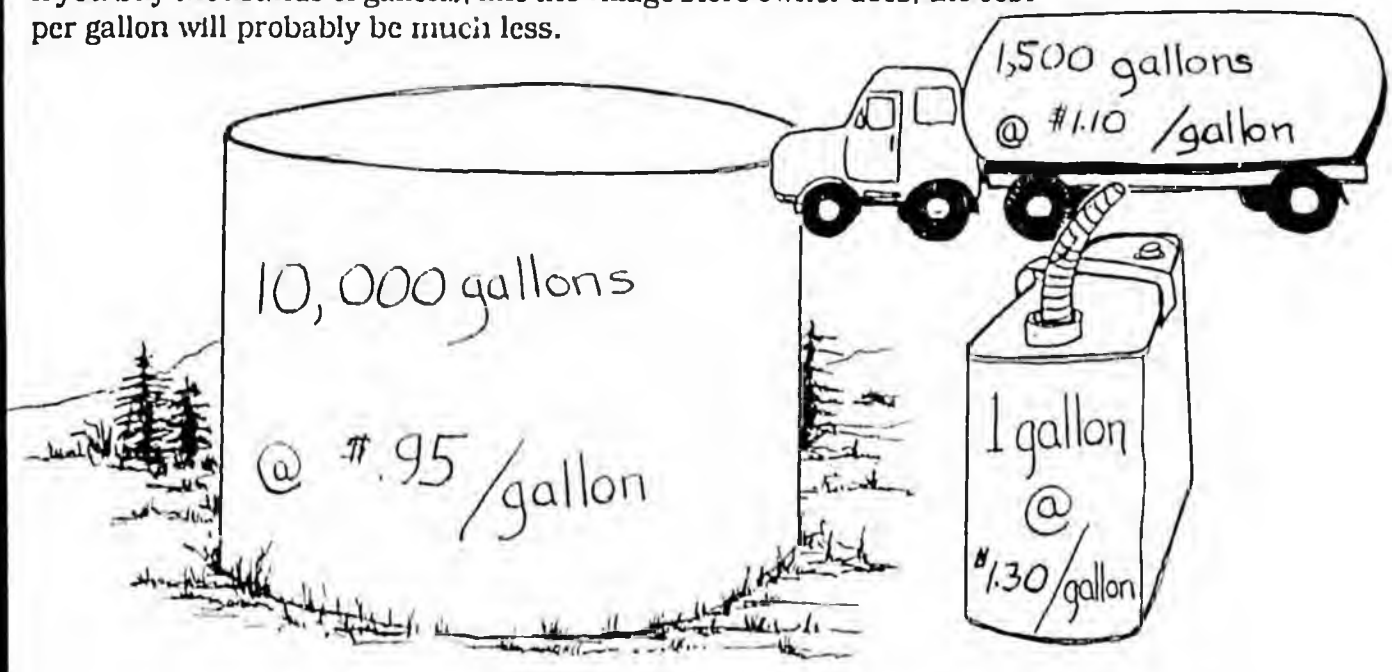
Chapter 2

Cooperative purchasing

Buying large amounts of almost anything will lower your cost per unit. The more heating fuel you buy, for example, the lower your cost per gallon. But what if your community can't use enough fuel to get a good price? What if your village doesn't have enough storage tanks to hold those extra gallons that would give you a better price? By going together with other communities in a cooperative purchasing agreement, you may be able to save money on fuel purchases.

What is cooperative purchasing?

Cooperative purchasing is based on the simple idea that buying in large amounts will result in a lower "per unit" cost. For example, if you buy a gallon of gasoline at the pump at your village store, the cost is pretty high. If you buy thousands of gallons, like the village store owner does, the cost per gallon will probably be much less.

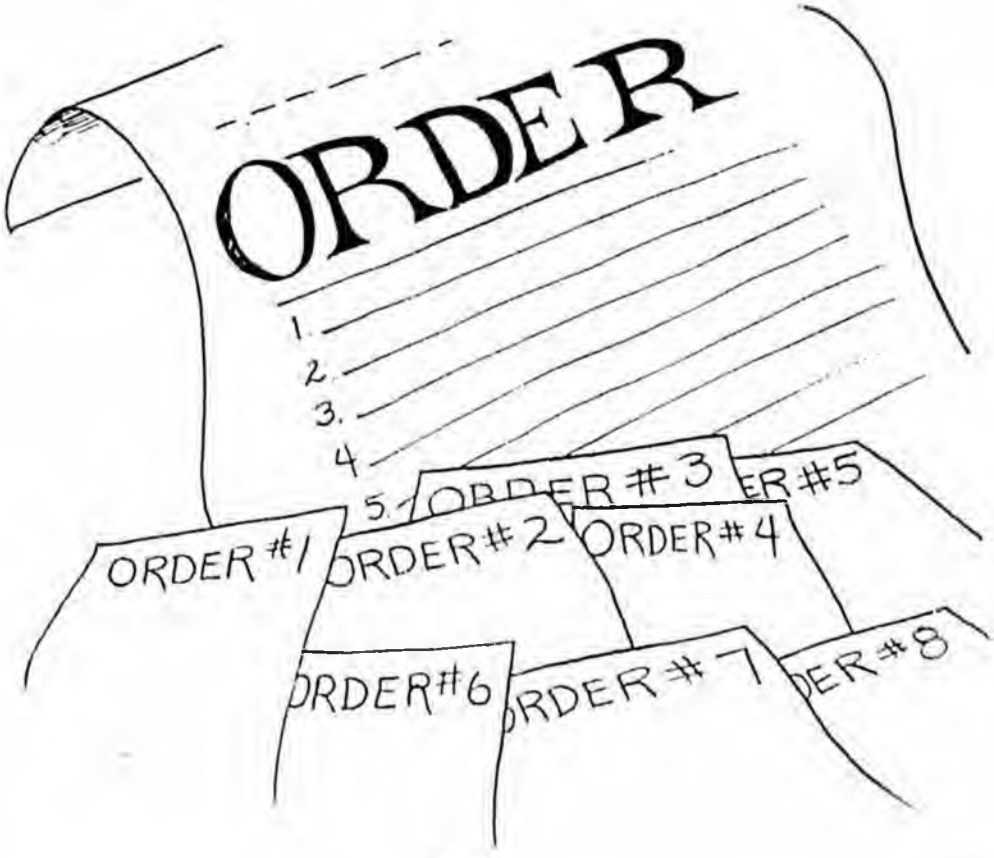


Under a cooperative purchasing arrangement, several organizations combine their orders and agree to purchase together to get lower prices. Savings are passed on to all the participants in the cooperative arrangement.

City governments throughout the country have used cooperative purchasing arrangements to cut the cost of everything from office supplies to heavy equipment. Cooperative purchasing is especially good for small cities because they can get cost reductions that only large purchasers usually get. However, to get these cost reductions you must buy a large amount of a particular item. This might be difficult if a group of communities were buying furniture or equipment. Each community would have to agree to purchase the same style, make and variety to make a large enough order for a price break. Fuel is ideal for cooperative buying because most communities need the same kind of fuel.

Why do you save money when you buy in large amounts?

The savings from volume buying comes from sharing transportation and handling costs, from buying at wholesale prices instead of retail, and from reducing the supplier's collection and billing costs. Suppliers like the convenience of dealing with one large customer, rather than several smaller ones. They'll often pass some of their "profit" on to the large customer, just because it's so much more convenient to handle one large order.



Chapter 3:

The Coastal Yukon Mayors Association Story

When 14 communities in western Alaska began cooperating on a bulk fuel purchasing plan in 1986, they set an example that other cities throughout rural Alaska can follow. CYMA's 14 member communities, located near the Lower Yukon River, have populations ranging from 134 to 665.

The Coastal Yukon Mayors Association (CYMA) is a nonprofit organization formed in 1986 to encourage and coordinate cooperative ventures. Its primary purposes are to distribute information among its member communities, to serve as a forum for discussing common issues, and to advocate common positions. The CYMA also set up a cooperative arrangement for its members to request fuel bids together.

The CYMA cannot commit any member community to buy from the successful bidder, and it cannot sign any contracts for member communities.

The member communities of the CYMA have signed a cooperative agreement to call for fuel bids together. It is not an agreement to buy fuel together. The difference is important. The participating communities agree to combine their individual fuel orders into one bid, instead of each community issuing separate bids for fuel. The cities may accept or decline the low bid received through the CYMA. Those that accept agree to purchase fuel from the low bidder. Those that decline have the right to decide not to follow through on a purchase.

The member communities have not delegated any of their municipal powers or responsibilities to the CYMA.

The first venture of the CYMA was to coordinate a bulk fuel purchase for its members. In 1987 the CYMA asked for bids for 479,000 gallons of diesel fuel and accepted a bid of 88.6 cents ($0.886) per gallon. Many member cities had previously paid more than $1 per gallon, but how much of the reduction was the result of the cooperative bidding process or how much the result of other factors is not clear. Most participating communities believe the lower cost was at least partly because of their cooperative effort. Some fuel suppliers estimate you can save from 10 percent to 20 percent of fuel costs by buying in large quantities, depending on the amount purchased.

Bureau of Indian Affairs: Fuel supplier to rural Alaska

The Bureau of Indian Affairs (BIA), in cooperation with the military, purchases large quantities of fuel for resale to rural communities throughout Alaska. The price of fuel offered through the BIA generally establishes the price of fuel throughout the industry.

For 1989, the cost of fuel oil through the BIA varied between $1.10 and $1.32 per gallon. This price breaks down to 58 cents per gallon for the cost of extracting the oil from the ground and refining it; 42 cents per gallon for transporting it from the refinery to the village; and 10 to 32 cents per gallon for handling and BIA fees.

The BIA offers quantity discounts for fuel purchased by a single customer. Discounts range from 1 to 6.5 cents per gallon for quantities of 25,000 to 5 million gallons.

Part of the reason the BIA can offer discounts is because they receive a discount at the refinery. Refineries offer discounts both on large one-time purchases and on large installment purchases. They do not advertise or "post" these discounts; they negotiate with each buyer. Refineries will generally give discounts of 2 to 3 cents per gallon for single purchases exceeding 420,000 gallons (10,000 barrels).

Many private suppliers offer prices within range of the BIA's prices because they, too, negotiate large-volume discounts at the refinery and can pass them along to their customers. But you may find that neither the refinery nor your supplier will tell you about the discount unless you ask.

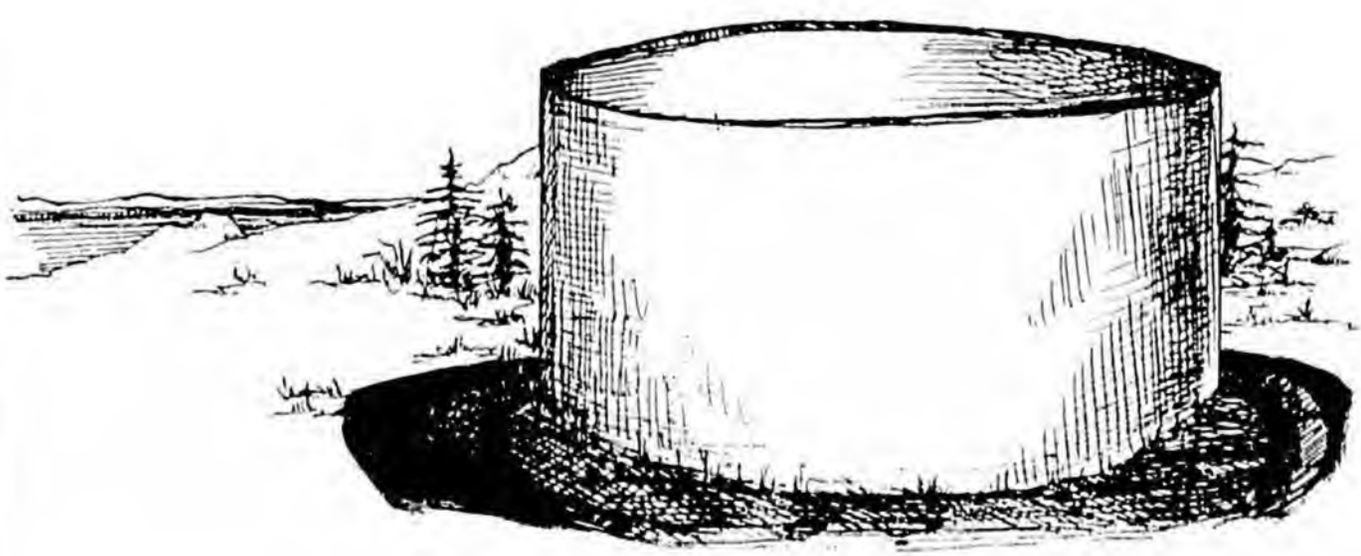
For more information about the BIA's fuel program contact the U.S. Bureau of Indian Affairs Fuels Program, Seattle Support Center, P.O. Box 80947, Seattle, WA 98108, telephone (207) 764-3328.

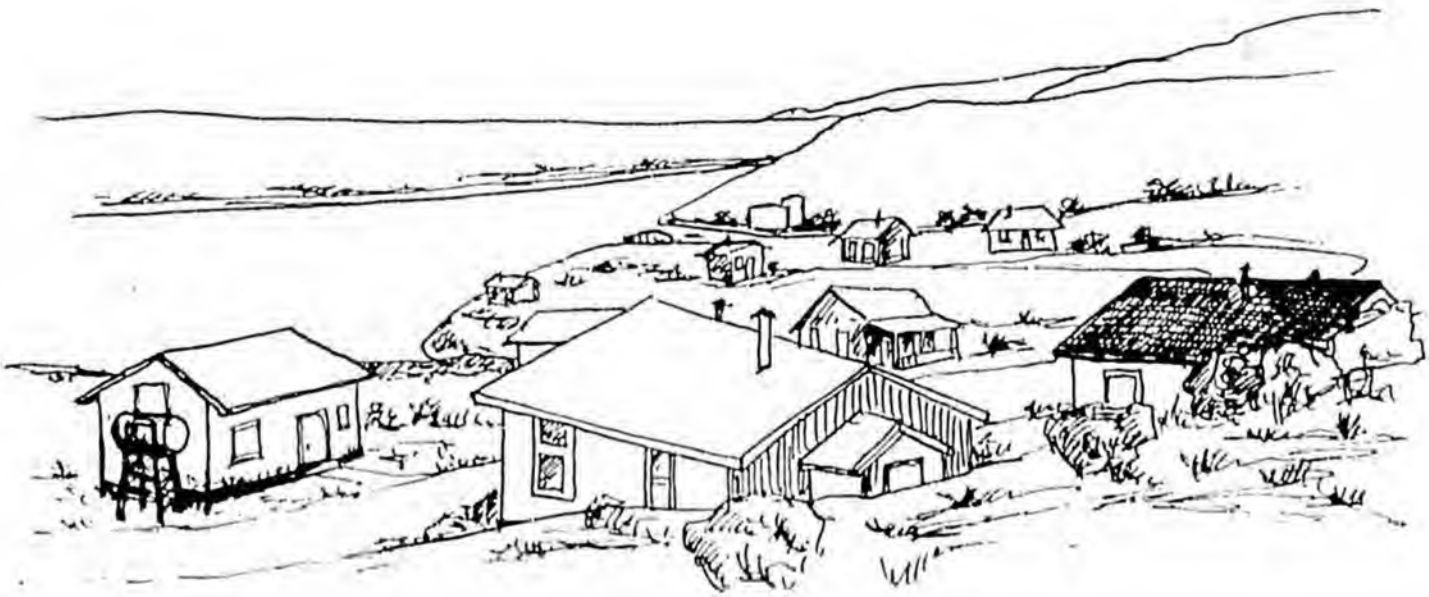
In 1988 the CYMA called for bids for 260,000 gallons of diesel fuel. The lowest bid was 83.6 cents ($0.836) per gallon.

In 1989 the CYMA asked for bids for 320,000 gallons of diesel fuel. Two companies responded. The lowest bid for diesel fuel was $1.16 per gallon, and the high bid was $1.26 per gallon. The fuel supplier for the CYMA in 1989 estimates participating communities saved from 6 to 9 cents per gallon by bidding and buying together, rather than buying separately.

Even though the CYMA now has a three-year track record on bid openings, the cooperative is still trying to work out a number of problems. For example, some member communities have cash flow and credit problems that delay fuel shipments to their communities. Others are not able to accurately estimate their fuel requirements and either over- or under-order.

CYMA's cooperative purchasing arrangement is worth a closer look, even with these difficulties.





Chapter 4:

Cooperative purchasing: What the law allows

Alaska state law allows your community to enter into cooperative agreements with two or more local governments. But your local laws also must allow for cooperation among communities.

Do your local laws allow you to join into cooperative agreements?

All communities should have an ordinance in effect which authorizes the community to enter into cooperative agreements. A sample ordinance is provided in Appendix A.

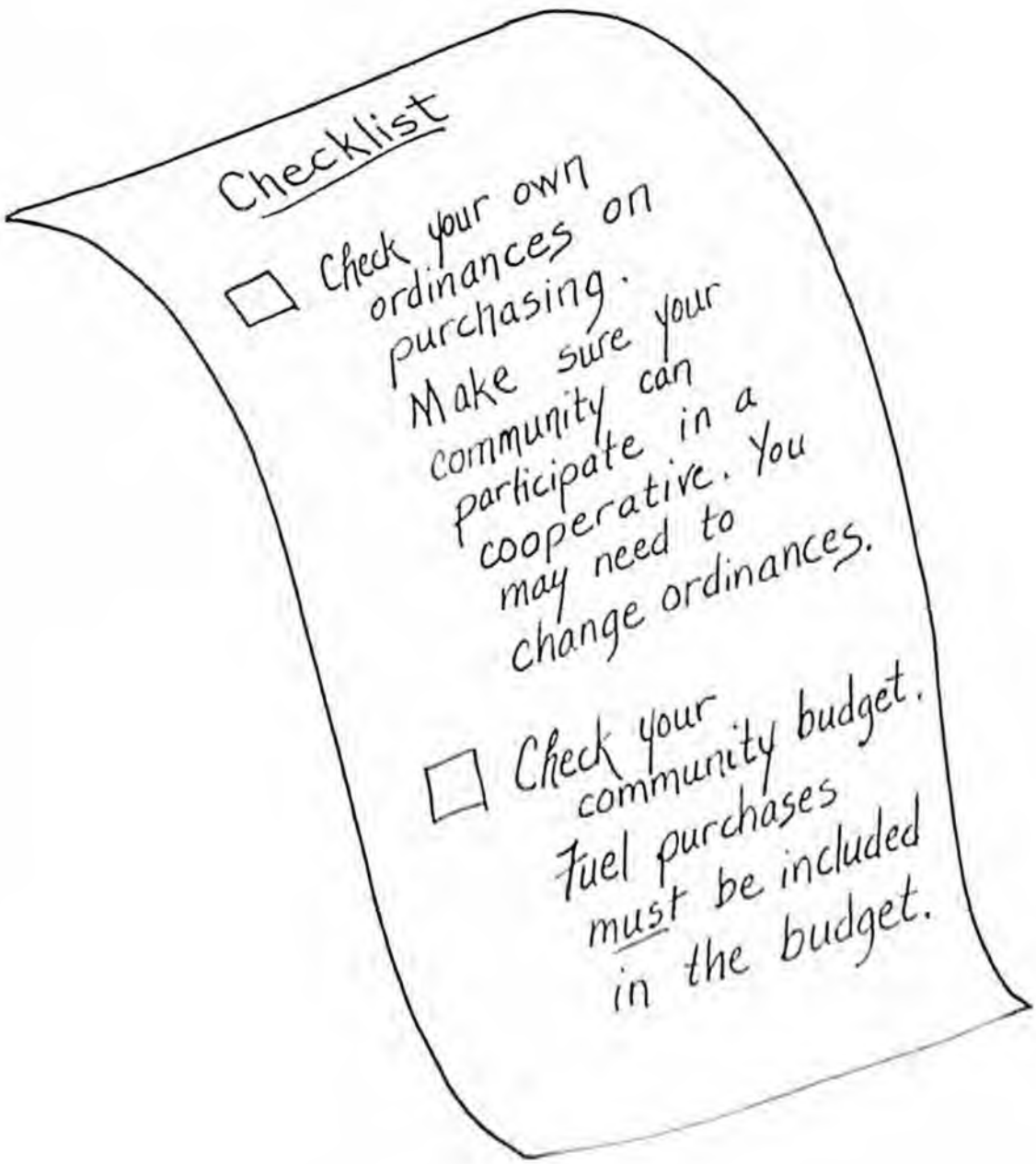
Your community also may have ordinances or regulations that govern purchasing. Any cooperative arrangement you enter into should comply with your community's purchasing rules and those of other participating communities.

A community cannot use a cooperative arrangement to get around any restrictions found in its own ordinances or regulations.

All community spending must be in accordance with your budget. Most city councils and borough assemblies pass their budgets at the beginning of their fiscal year.

A cooperative organization cannot make the final decision on how to spend a member community's money unless the governing body of the community has authorized the cooperative to do so.

More information about state laws concerning cooperative agreements is provided in Appendix A.



Chapter 5:

A framework for cooperative purchasing

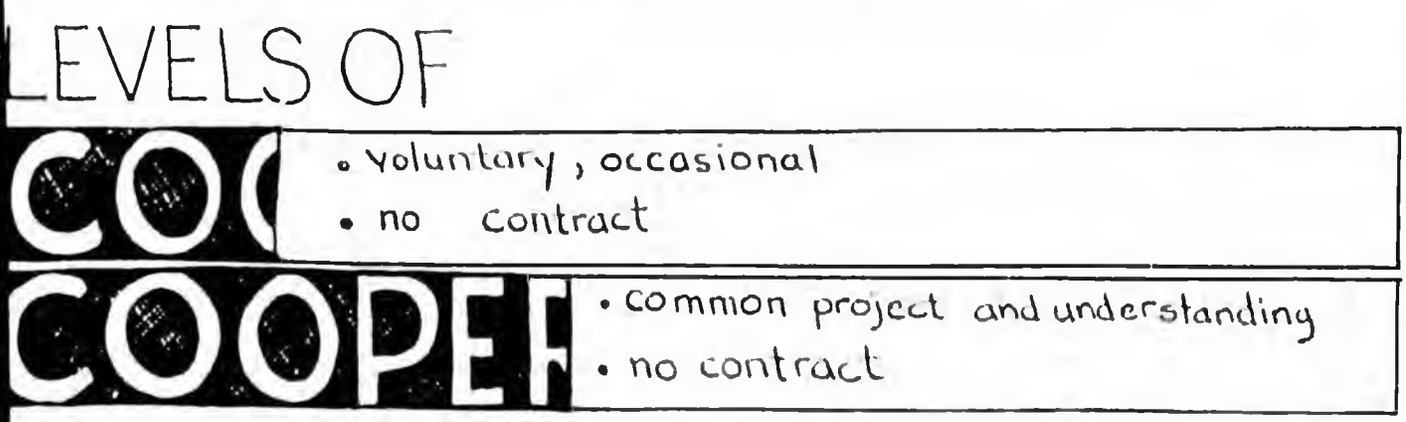
A cooperative organization can be as simple or as complex as its participants want it to be. How much cooperation do you want? How much authority do the members want to give to the organization? Your answers to these questions will determine how complex your cooperative will be.

How can you cooperate?

There are at least four ways communities can cooperate with each other.

Informal cooperation

The simplest form of cooperation is informal. One community might volunteer occasionally to do something for the benefit of another community, without a contract or written plan. This kind of cooperation happens frequently in rural Alaska. For example, one village might lend a piece of special equipment to another village.



Informal cooperation could be used for fuel purchasing. Your village might simply agree to order fuel with a nearby community, or your village government and your local school district might buy fuel together.

Planned cooperation

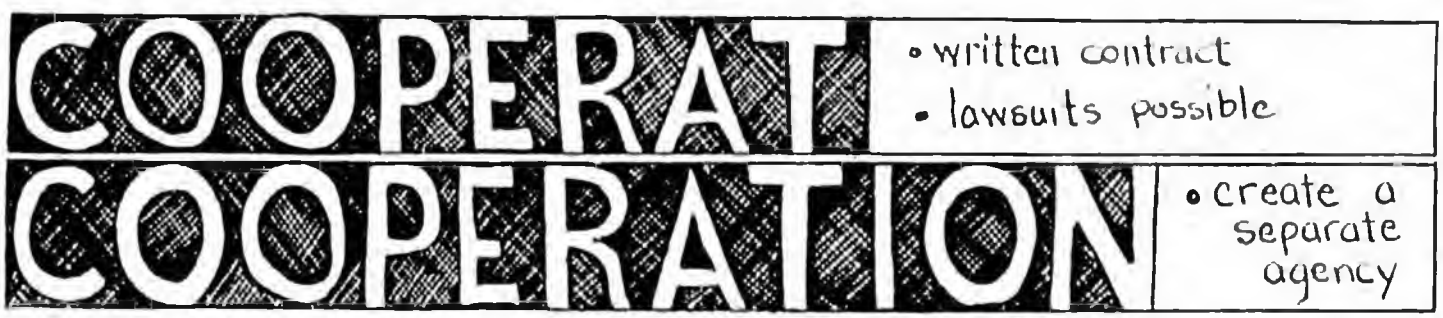
Another type of cooperation is when cities work together on a project, without a formal contract. The understanding may or may not be written.

During its first year of operation, the Coastal Yukon Mayors Association (CYMA) did not have a written understanding among the participating cities. Unfortunately, this led to some confusion when the CYMA ordered fuel for participants who had not committed themselves to purchasing fuel from the supplier selected by the CYMA. The CYMA later wrote a formal plan called "the Cooperative Agreement for the Purchase of Fuel." A modified version of this agreement is provided in Appendix B and is discussed further in Chapter 6.

The CYMA agreement is not a contract among the participating communities because it does not require them to purchase through the CYMA. The agreement merely outlines the procedure the participating cities will use for obtaining fuel bids and making purchases through the CYMA.

A more general agreement form for cooperatively purchasing any item also is provided in Appendix B.

Either before or after you develop a cooperative agreement with other communities, each community governing body should pass a resolution approving the agreement. The resolution should emphasize that the community is participating in the cooperative for the benefit of the community and the public. A resolution is not absolutely necessary for the cooperative agreement since a commitment of funds is not required, but it gives the cooperative organization support when it is acting on behalf of the community. A sample resolution is provided in Appendix C.



Cooperation by contract

A third kind of cooperation involves written contracts. Contracts are formal, legal documents that often involve a commitment of funds. A community that fails to do what it had agreed to do under the contract can be sued for damages or hardship suffered by the other communities that signed the contract. For example, damages could involve additional costs for fuel if your community misses placing an order because one of the other communities backs out of the signed contract, or if another community holds up the purchase until it is too late to deliver fuel by barge.

Cooperation through the creation of a separate agency

Sometimes creating a separate agency is the best way for communities to cooperate. The cooperative agency acts for all of its members.

When you create a new agency, you have to decide several legal questions, including who has the power to do what. You'll also have to decide who will be your representative at cooperative meetings. You could choose to send elected or appointed city officials, such as city council members or the city manager. Or, you could appoint a knowledgeable person from the community as your representative.

Sometimes it is more efficient to provide services on a regional basis. If so, a separate agency is useful. Good examples of this type of regional organization are the regional Native nonprofit organizations that provide a wide variety of services throughout rural Alaska. Most of these organizations were formed by Native tribal governments. Under federal law, tribal governments have the responsibility to provide certain services to tribal members. Recognizing that many of these services, such as housing and health care, are more efficiently provided on a regional basis, tribal governments created cooperative nonprofit organizations and gave them the power to provide services on behalf of all members.

The CYMA is one example of cooperation through a separate agency. Although an important activity of the CYMA is to handle the cooperative's fuel bid agreement, that is only part of what it does. Its primary purpose is to provide a forum for its members to communicate about issues of common interest. The CYMA facilitates cooperation among its members. It has no authority to commit or contract for any of its member communities because the member communities have not given it any mu[illegible]ipal power or responsibility.

Who should participate in your cooperative arrangement?

Under Alaskan law, your community is allowed to cooperate with other communities, and with the state and federal government.

You also can cooperate with other governmental bodies, including school districts, housing authorities, tribal governments or nonprofit organizations established by a government.

Should you cooperate with for-profit organizations?

It's probably best not to include for-profit organizations in your cooperative.

The Alaska constitution prohibits spending public money or extending public "credit" for a purpose that is not a "public" purpose. If your cooperative arrangement could result in appropriating public funds or in extending the credit of a local government to a private organization, the arrangement could violate Article 9, Section 6 of the state constitution.

Local governments should not, as a matter of policy, favor one private enterprise over another private enterprise. Your community might have more than one local fuel distributor. These distributors may compete for customers among the community's residents. Letting one local fuel distributor and not another participate in the cooperative purchase would interfere with their competition.

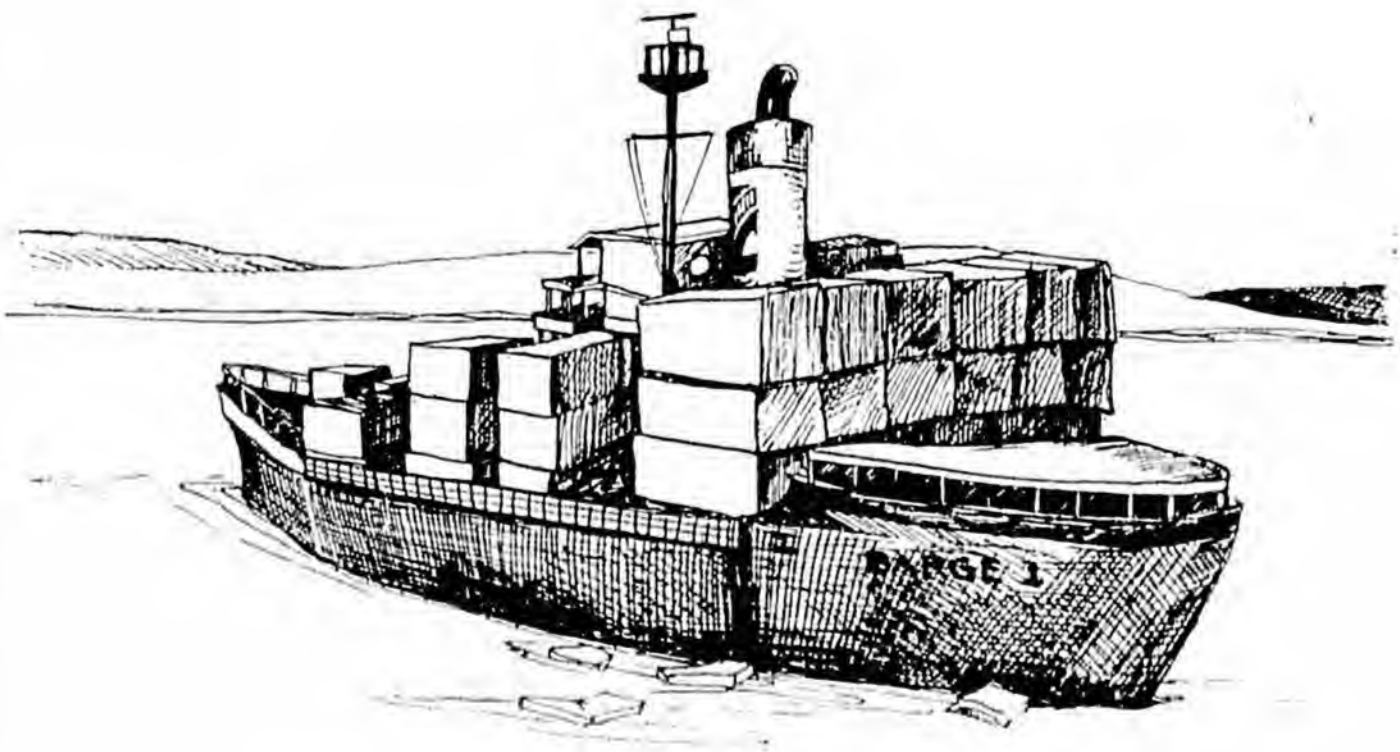
For both these reasons, the CYMA does not extend its cooperative services to private for-profit organizations. The cooperative agreement allows nonprofit and charitable organizations to participate, although none have participated in a fuel bid so far.

The fact that local governments and other governmental agencies are acting together to lower the cost of fuel should benefit the private sector. Prices quoted to the cooperative are public information which private businesses and individuals can use to negotiate their own fuel prices.

Something else to think about in deciding who should participate in a cooperative is the transportation system. For fuel-purchasing cooperatives, everyone should have the same method of fuel delivery. For example, most members of the CYMA share the Yukon River as a common transportation system. Most of the communities have fuel shipped in by barge. They are close enough to each other to make it possible for those bidding to supply fuel to calculate a common delivery cost. A common delivery system is important if participants insist on one price for all

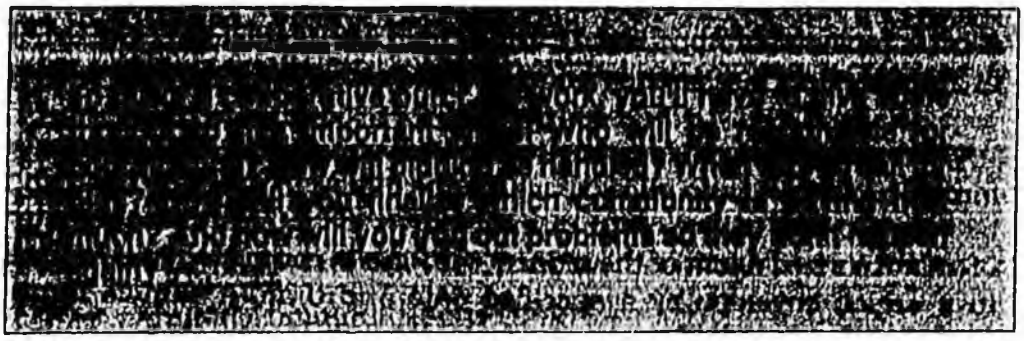
participants. However, a common delivery system is not necessary if the participants are willing to accept varying bids. The CYMA has a few member cities that do not use the Yukon River as a transportation route. In 1987 two of these communities received a slightly higher bid through the CYMA than other participating members. The difference in the price reflected the higher transportation cost to these communities. But their fuel costs were still lower than before they joined the cooperative.

A common transportation system also may be important from the fuel supplier's standpoint. Fuel suppliers can only bid if they have the ability to provide the service. It might be difficult, for example, for a community on the lower Yukon and a community in Southeast Alaska to try to purchase fuel together in a cooperative because interested fuel suppliers might not be able to ship to both communities.



Chapter 6:

Key elements of a successful cooperative purchase



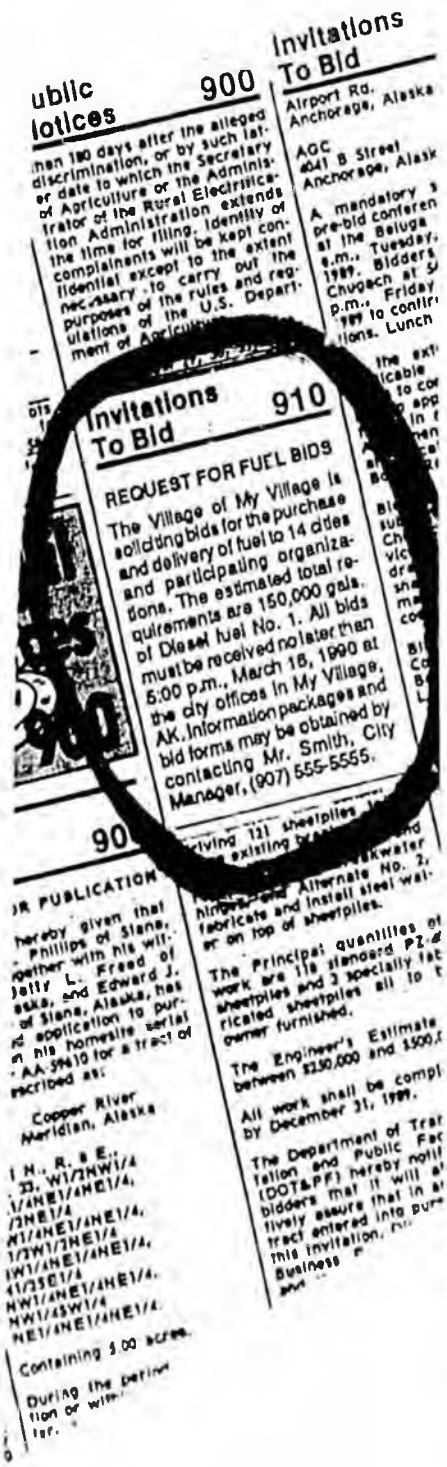
Who will be responsible for coordinating the fuel purchase?

Central coordination is critical to the success of a cooperative. Central coordination will save you money because each community is not spending funds to conduct a separate bid process.

One person or organization must be responsible for gathering all of the fuel information from the participants, preparing a bid package, advertising for bids, receiving bids and selecting the lowest responsible bidder. This job in the Coastal Yukon Mayors Association (CYMA) is done by the administrative staff of one of the participating communities. Currently, they are paid for their work out of dues each community pays to the CYMA. Another way to raise the money to pay for this coordination role is to collect a small fee from each community based on how much fuel they ordered. For example, you might assess each community one cent per gallon as an "administration" fee.

An outline explaining who does what in a cooperative is provided in Appendix F.

How will bidding be handled?



For most community purchases, you must obtain bids if the expected purchase price is over a certain amount. For some communities this limit is $250. For others it may be $2,000. These and other requirements for bidding vary from community to community. It is important from a legal standpoint that bid procedures used by the cooperative be similar to the bid procedures of each participating community. If the cooperative's bid procedures are different from your community's bid procedures, your city council should amend its laws governing bid procedures. A sample ordinance is provided in Appendix A. You may also refer to the Local Government Handbook, pages 8-10 of Chapter 3, Section 4.

The typical bidding procedure begins with a formal advertisement of the bid through newspapers or other publications. A sample advertisement is provided in Appendix D. You should also send a notice of the bid to any suppliers you already know are interested in submitting a bid.

When prospective bidders answer the ad, you should send them a bid form. The form should allow space for the bidder to describe the item to be supplied and to give costs, quantity, delivery dates and the signature of an authorized agent of the bidder. The form is completed and returned in a sealed envelope by a specified date and time. A sample form is provided in Appendix E.

The deadline for returning bids must be strictly adhered to. Be sure the date and time are correctly listed in the advertisement.

When bids are opened, you should inspect each bid to see if it conforms to the required specifications. Record each bid and announce the low bidder.

Evaluating bids

Evaluating bids on the basis of price alone may not always be wise. The CYMA uses the concept of the lowest *responsible* bidder. The successful bidder should be able to deliver fuel with the least possible risk to the communities buying it. If the CYMA does not have confidence that the lowest bidder can deliver the fuel on time and in a safe manner, the lowest bid can be rejected. In your bid request, you may want to require the bidder to describe his past experience and his plan for delivering the fuel. Also, the lowest bid may not be the best choice if the bidder does not guarantee the quality of the product, or if the bidder refuses to accept other conditions you consider important.

Fixed-price bid vs. fluctuating-price bid

A fixed-price bid requires the bidder to provide a single price for all fuel deliveries. The price is the same throughout the delivery period.

A fluctuating-price bid allows the price for fuel to go up or down during the delivery period based on the market price.

Oil price information sources

If your cooperative decides to ask for fluctuating-price bids, the bids should be tied to a price index. Following are some publications you and your supplier can look at to establish your purchase price.

Oil Price Information Index (OPIS)
United Communications Group
4550 Montgomery Avenue, Suite 700N
Bethesda, MD 20814-3382
Main Office (301) 961-8700
Circulation (301) 961-8777
Published weekly

Oil Express
United Communications Group
4550 Montgomery Avenue, Suite 700N
Bethesda, MD 20814-3382
Main Office (301) 961-8700
Circulation (301) 961-8777
Published Weekly

Lundberg Letter
P.O. Box 3996
North Hollywood, CA 91609-0996
Main Office (818) 768-5111
Published bi-monthly

These publications vary in fee and content. Fees range from $200 to $455 per year. Some also offer a "hot line" for daily price information.

You may find other sources of oil price information by asking at libraries, asking your fuel supplier, or asking a refinery representative.

The advantage of fixed-price bidding for a community or a cooperative buying fuel is that it gives a stable price that can be easily budgeted. Once you accept a fuel bid, you know how much to set aside for the purchase.

Fixed-price bidding is difficult, however, because the market price for fuel changes almost on a daily basis. A fuel supplier submitting a fixed-price bid must predict what the price of fuel will be when it is delivered. For example, if the bid opening is in March, the supplier must predict the purchase price for fuel in May, at the time he plans to purchase it. In March the cost of fuel to the supplier may be 60 cents per gallon. If the supplier predicts the price will be 80 cents per gallon in May and bids a fixed price based on this amount, he will lose money if the price turns out to be higher than 80 cents per gallon. But if the price is lower than 80 cents, he will make money. Fixed-price bidding involves more risk for the supplier, especially when oil prices are unstable.

Although you might save money if the fixed price turned out to be lower than a fluctuating-price bid would have been, the disadvantage is that you will most likely pay more on a fixed-price bid because fuel suppliers will bid high to reduce their risks.

A fluctuating-price bid should be tied to a price index. The Oil Price Information Service (OPIS) publishes an index every week that is commonly used by fuel suppliers for Alaska. For example, the Alaska Village Electric Cooperative (AVEC) asks for a fluctuating-price bid and requires bidders to base price quotes on the published OPIS price for diesel fuel No. 2 in Seattle, Washington, for the week of the bid opening. If you ask all bidders to use the OPIS price, you then have competition only on transporation and handling.

Modified fixed-price bid

If fuel deliveries can be made more than once during the delivery period, you can ask for bids for each delivery date. For example, in the CYMA region, fuel can be delivered from June through September. A fuel supplier may be able to make two or three deliveries to a community during this time period. Suppliers could be asked to give bids for deliveries made during each month, or some other appropriate interval. If prices quoted for one period were lower than those quoted for another, communities could save money by purchasing most of their fuel for delivery during the least expensive period. For example, usually the later you wait in the year, the higher the prices will be. This is because refinery stockpiles may have been drawn down and are not being replaced yet. Also, it is more difficult to make deliveries in the fall. Buying before fall makes good economic sense.

Writing a timetable: When do you call for bids?

The duties of the coordinator should be specifically written out in the cooperative agreement and in a fuel delivery timeline.

The fuel delivery timeline for the communities in the CYMA is decided by break-up and freeze-up on the Yukon River. Because there are no roads connecting the region to the rest of the state, the most economical way to deliver fuel is by barge.

Break-up usually occurs in May, and fuel deliveries can be made by late May or early June. Deliveries can continue until freeze-up, usually in early October. Most of the participating communities need fuel by late May, so bid award procedures must be finished early enough to allow the fuel supplier to deliver to some communities in May.

In the CYMA cooperative agreement, a timetable was built by counting backward from May 15, the last day you could reasonably expect a supplier to receive an order and still be able to make early deliveries of fuel. This timetable outlines the responsibilities of the coordinator, as well as those of each participant:

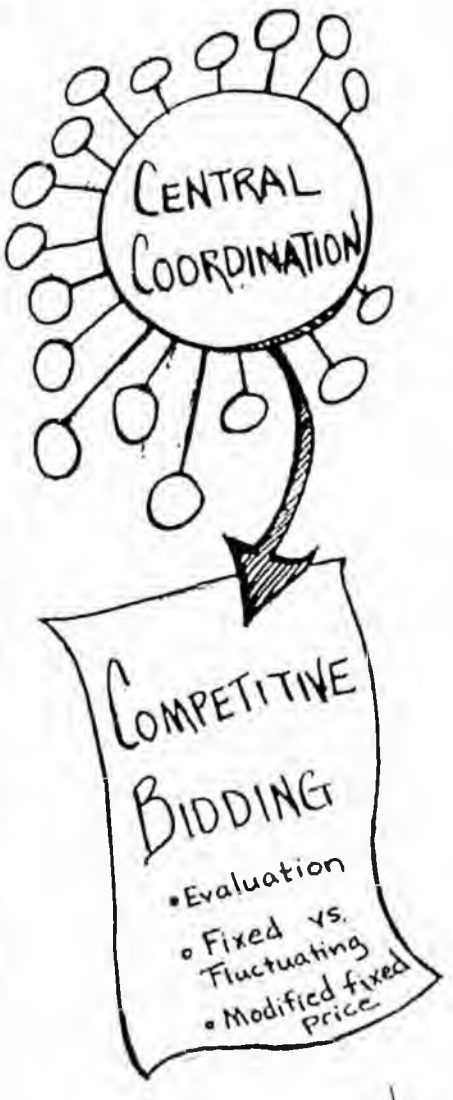
January 2: Each participant delivers estimated fuel needs to coordinator. The process begins with estimated needs. These needs are determined from past use and expected new uses. A form to write down your estimates for the coordinator is provided in Appendix B.

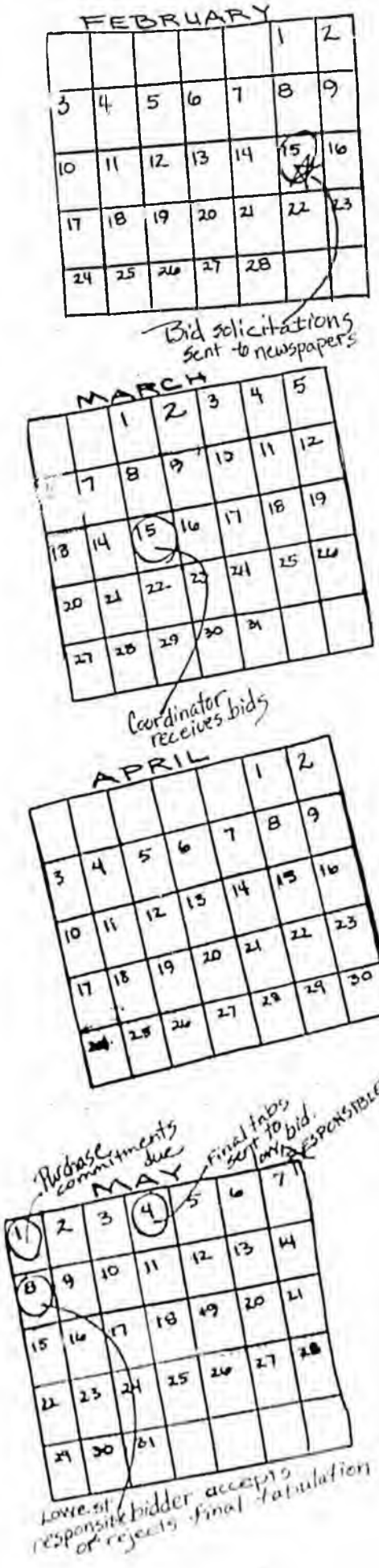
The coordinator takes the information sent by each participant and compiles it into one bid package. During the period between January 2 and February 15, the coordinator also may be contacting other potential organizations for participation in the bid.

If participants also want to solicit bids for other petroleum products such as motor oil and lubricants, the coordinator should develop uniform specifications to satisfy the needs of each community. The specifications should be agreed to by each participant. If participating communities cannot agree on uniform specifications, the item should be dropped from the bid.

February 15: Coordinator prepares and sends bid solicitation to selected newspapers for advertisement and to anticipated bidders. The advertisement explains the estimated fuel need and requests bids. It tells potential bidders to contact the coordinator to obtain the bid package and quotation forms. A sample fuel bid advertisement is provided in Appendix D.

The coordinator may schedule a pre-bid conference between February 15 and March 15 to answer questions of potential bidders. Another way





to clarify the bid package for bidders is to establish an inquiry deadline. Allow sufficient time for bidders to ask their questions either by telephone or in writing. Then summarize both the questions and answers. Mail this summary to your mailing list of everyone who requested the bid package.

During the period from February 15 to March 15, participating communities should not be soliciting other fuel bids.

March 15: Coordinator receives bids. All fuel suppliers must have bids delivered to the coordinator by the close of business on March 15. The coordinator tabulates all bids, eliminates bids that are not responsive to the solicitation and selects the lowest responsible bidder. The tabulation is sent to all participating organizations. The coordinator is not bound to select the lowest bidder, if in his opinion the lowest bidder is not a "responsible" bidder. According to the cooperative agreement, the coordinator may consider the past performance and experience of the bidder, as well as other criteria, to determine the lowest responsible bidder. If the coordinator does not select the lowest bidder, he must give an explanation to all participants of his reasons for rejecting the lowest bid. All bidders should be notified of the results and a formal notice given to the selected bidder.

May 1: Purchase commitments due. All participants accepting the bid of the lowest responsible bidder must send written orders in the form of a purchase order or letter of commitment to the coordinator by 5 p.m. May 1, or the first business day after May 1. The order or letter must be from an official such as the city manager or mayor who has authority to commit the community to a contract. The timeline gives each community more than enough time to tell if it must make adjustments to the original estimates. This also gives each community enough time to seek other bids for comparison to the bid received through the cooperative.

May 4: Coordinator sends final order to lowest responsible bidder. Within three business days after commitments are due, the coordinator tabulates the final orders as received from each participant. Final orders may differ from the earlier estimates. The final tabulation is sent to the lowest responsible bidder and is considered an "aggregate" offer to purchase fuel at the price specified in the bid. The fuel bid solicitation form in Appendix E can be adapted into a final tabulation form.

May 8: Lowest responsible bidder accepts or rejects final order. The lowest responsible bidder has three business days from receipt of the final tabulation to accept or reject it. Because the final orders may require the delivery of more or less fuel than specified on the bid solicitation, and because the bid was based on the estimate provided in the solicitation, the lowest responsible bidder must have the chance to evaluate whether they can deliver the fuel for the price specified on the bid.

If the bidder accepts the order, the coordinator releases the purchase orders and letters of commitment to the bidder. If the bidder rejects the orders, purchase orders and commitments are returned to each participating community.

Under the CYMA plan, once the commitments are released to the bidder, the responsibility of the coordinator ends. All future transactions, including delivery of fuel and payment, are between the bidder and participating communities.

The CYMA agreement makes no provision for price negotiation. Each community made its commitment based on the bid price. The coordinator has no authority to make a commitment on behalf of any participant for a higher price. If the bidder rejects the tabulation and asks for a higher price, the cooperative purchase fails. Then, each community will have to negotiate for fuel purchases on their own, with any supplier they choose. The best place to start would be with any other supplier who submitted a bid in response to the cooperative purchase.

Failure of the cooperative purchase could force communities to pay higher prices for fuel. If your community were depending on the cooperative purchase and you were not prepared to go out for bids on your own, you might have to buy fuel quickly - without taking time to get competitive bids - if the cooperative failed. It would be wise to make backup plans, in case the cooperative purchase does not go through.

In areas of Alaska where cold weather does not hinder fuel deliveries, other timelines may be appropriate. A timeline developed around a common fiscal year may be appropriate. A worksheet for preparing a critical timeline is included in Appendix F.

Commitment: How to finalize which community is buying how much.

A definite method for determining commitment must be a part of the process. Neither the coordinator nor the successful bidder should be left to guess whether a participating community is going to purchase fuel through the cooperative arrangement.

Only an official of a city can authorize spending public funds for buying fuel. The coordinator of the cooperative purchase should not have this power, except, perhaps, for his own community.

The CYMA requires that a community's commitment be in the form of

a purchase order signed by an authorized official. In the case of a city, such an official would be the mayor or city manager. Whether a purchase order is the method used is not critical. The critical factor is that any order placed should be in writing. If a written order is not required, questions about whether orders were made, or how much was ordered, would undoubtedly arise. Fuel purchase orders that require spending thousands of dollars should be in writing.

Evaluation: How will you iron out problems?

At least once a year, participating communities in the cooperative arrangement should meet to evaluate the previous fuel bid process. The fuel supplier should be invited to send a representative to participate in the evaluation of the process. If participants had any problems, these problems should be addressed before any more fuel is bid.

Problems should be categorized by areas, such as:

- bid procedures: collecting estimates of fuel needs; establishing delivery dates; type of fuel or other products to be ordered; credit standing of participating communities;
- fuel delivery: timeliness; quality of fuel; quantity of fuel; fuel transfer system; knowledgeable people on barge staff and city staff;
- performance of supplier: timeliness; courtesy; organization; coordination; lack of mishaps.

The performance of the fuel supplier also should be evaluated. If communities experienced problems directly related to the supplier, and these problems were significant, the supplier should be informed to correct the problems if they want to be considered on future bids. You may need to clarify these issues in your purchase contract to avoid similar problems with future purchases. A list of suggested steps for safe fuel handling and barge delivery, prepared by a fuel supplier, is provided in Appendix J. It may help your community understand what the supplier expects when their barge anchors at your dock.

The CYMA conducts its evaluation at its annual meeting.

Chapter 7:

Writing a contract

Who writes the contract for a fuel pu hase - the coordinator or the individual community? Who negotiates with the supplier? Who signs the contracts? Who handles the money? These questions need to be decided before you call for bids.

An important step in cooperatively purchasing fuel is to decide how big a role the cooperative will play Your cooperative could be set up to call for bids only, or it could go fu her and actually contract with the fuel supplier.

You also will have to decide who will carry out the tasks that need to be done to make the cooperative run smoothly. A sample outline of how key tasks could be divided among the communities, the coordinator and the supplier is provided in Appendix F.

The Coastal Yukon Mayors Association (CYMA) coordinator acts as a "broker." He or she collects estimated fuel needs from communities, compiles these estimates into a bid package, calls for bids and determines the lowest responsible bidder. He or she notifies communities of the low bidder, collects purchase orders from communities and sends them along to the supplier.

In the CYMA, no money passes through the coordinator's hands. The actual purchase is entirely between the individual community and the fuel supplier.

Another way to set up a cooperative would be to give the coordinator the power to purchase fuel for all participating communities, so that the coordinator was acting as the "banker" between the communities and the

supplier. In some ways, this arrangement might work better than the present CYMA system. For example, fuel suppliers could go to one source - the cooperative - to collect their money, instead of to 14 different communities.

If your cooperative organization decides not to contract with the supplier on behalf of participating communities, it is still a good idea for all communities to use the same contract when they deal with the supplier. The cooperative could develop a standard purchase contract for all participants to use and include a blank form in the bid package so each bidder is aware of the terms and conditions for the fuel purchase. The coordinator would send a ready-to-sign contract to each community after the lowest responsible bidder were selected. The community would authorize the purchase by completing and returning the signed contract to the coordinator, who in turn would send it to the successful bidder. The contract would serve as the necessary written commitment for the purchase.

A CONTRACT INCLUDES:

1) Price
$\$$ ____ /gallon

2) Quantity
____ gallons

3) Delivery dates
____ ____ ____
month day year

4) Description of product
_____
_____
_____
_____

5) Method and schedule for payment
_____
_____
_____
_____

Whichever way you decide to organize, your community should be protected by a written contract. A contract between a community and a fuel supplier, or between the cooperative and a fuel supplier, must include price, quantity, delivery dates, precise description of the product to be supplied, and method for payment. These terms are often included in a purchase order, but a contract can go further. It can be used to explain who is responsible for what. It can explain the burdens and risks between a buyer and a seller.

Contracts should be approved by resolution of the city council. A sample contract is provided in Appendix G. A sample resolution calling for approval of the fuel purchasing contract is provided in Appendix H. The sample contract in Appendix G addresses some of the following:

The risk of transportation

Fuel is only useful to a community if it is actually offloaded into the community's storage tanks. Fuel lost in delivery, such as in a storm at sea, is of no value to the city. Your supplier should be required to guarantee delivery and insure against the hazards of transportation. If you pay for the fuel only after delivery, this shifts the burden to the supplier. You could also require a performance bond.

The risk of loading and offloading

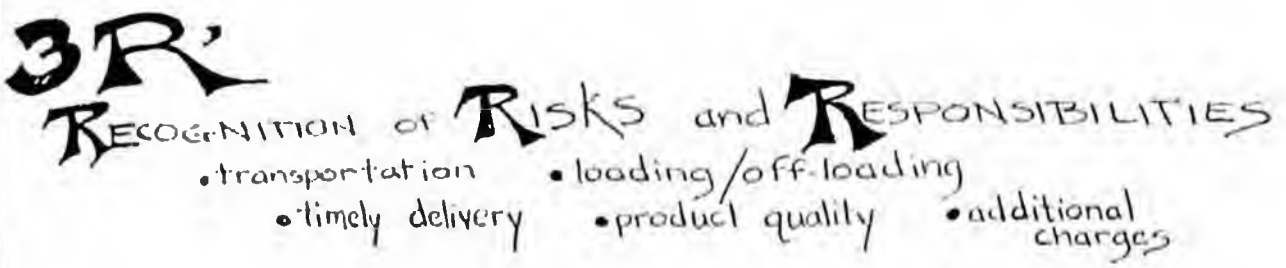
Your contract should make the fuel supplier responsible for any problems in loading or offloading fuel. This might include damage to dock facilities, fuel spills or risks that may exist because the community does not have adequate docking facilities. The fuel supplier should be responsible for the fuel up to the point where connection is made to the pipeline to the community storage tanks.

The risk of timely delivery

If delivery time is critical, you should place the risk of timely delivery on the supplier by imposing a payment penalty for failure to deliver on time.

The risk of product quality

The contract could include fuel specifications and allow for testing the fuel quality. Your testing mechanism should be in place, whether someone knowledgeable in your community does the tests or you call in someone else to do it. Why test? So you are sure what you receive is what you ordered and paid for. If the fuel delivered does not match the specifications of the contract, the supplier should bear all costs for replacement, including the replacement of existing fuel that may have been contaminated. For example, the supplier should replace any fuel contaminated as a result of delivering diesel fuel No. 2 when diesel No. 1 was specified.



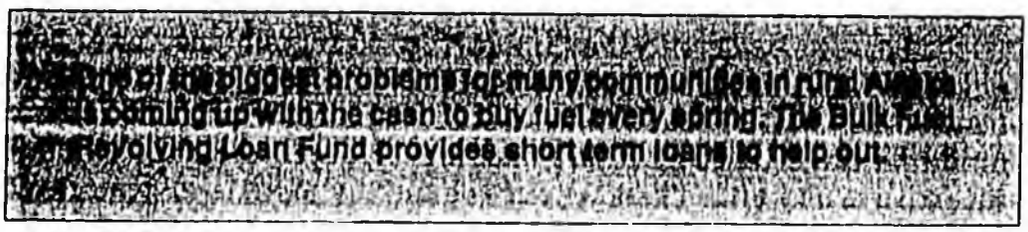
Any warranty of product quality, however, would cease at the point of delivery. If the fuel becomes contaminated after it has been delivered, and the supplier is not at fault, the community would assume all responsibility.

The burden of additional charges

The price requested in the bid should be the price at delivery. The supplier must account for all carrying charges and additional charges, including taxes, that must be added to the cost of fuel. Since all of these charges would have been passed on to you in the purchase price, the supplier should bear the burden of any expenses it neglected to include in its bid.

Chapter 8:

Financing your bulk fuel purchases



Most communities in rural Alaska have adequate storage capacity to allow bulk purchases of fuel oil. Many communities have most of their annual supply of fuel oil delivered during late spring and summer because delivery is not practical during the winter. Bulk delivery reduces transportation costs and often results in more competitive prices.

Paying for fuel that is delivered several months before it is used, however, often creates cash-flow problems. To reduce these problems, the state established the Bulk Fuel Revolving Loan Fund (BFRLF). The fund provides short term loans to communities so they have enough cash to purchase fuel oil in bulk quantities.

Who is eligible?

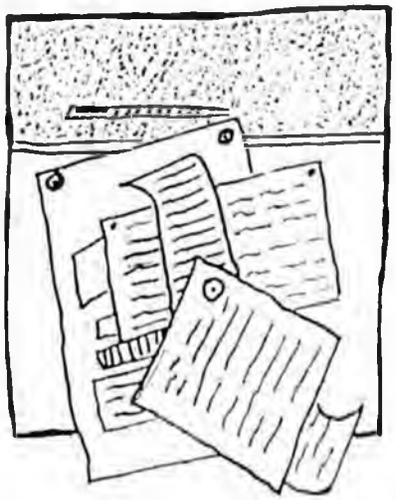
Loans may be made to an organized municipality or unincorporated village with a population under 2,000, or to a private individual with a written endorsement from the governing body of the community.

How much can you borrow, and under what terms?

The loan amount may not be more than 90 percent of the wholesale price of the fuel being purchased. The maximum loan amount is $50,000. The loan must be repaid within one year.

Generally, there is no interest for your first loan from the revolving loan fund. For your second loan, you will pay 5 percent interest. The interest rate for additional loans will be based on municipal bond rates.

You must pay a $25 loan application fee when you apply. This is nonrefundable. Collateral may be required for the loan. You will have to pay an "origination fee" of one half of one percent of the total loan amount, if the loan is approved.



Officials who work with the bulk fuel loan program encourage communities which apply for loans to establish bulk fuel cooperatives with neighboring villages. Communities also are expected to set aside a reserve fund that can be used for future bulk fuel oil purchases. Having a bulk fuel reserve account will allow your community to *earn* interest, rather than *pay* interest.

The Bulk Fuel Revolving Loan Fund recently has been transferred from the Department of Commerce and Economic Development, Division of Investments, to the Alaska Energy Authority (formerly the Alaska Power Authority). For more information contact the Alaska Energy Authority Loans Examiner, P.O. Box 190869, 701 E. Tudor Road, Anchorage, AK 99519-0869, telephone (907) 561-7877.

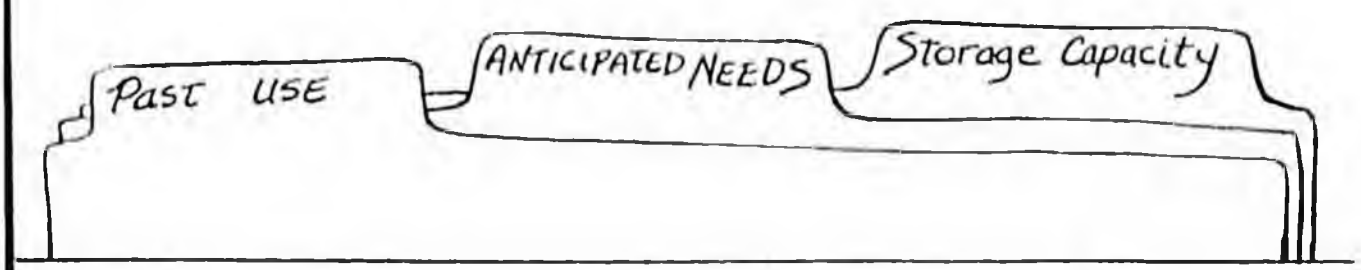
Chapter 9:

How much fuel do you need?

In a time of financial stress, saving money can be as important as finding new sources of money. You can often save money by making city operations more energy efficient. But first, you must measure how much fuel community facilities are using.

The value of recordkeeping

One of the most important things a community administrator must decide every year is how much fuel should be purchased. Fuel is one of the single most expensive items in the municipal budget. It is not only the administrator's responsibility to obtain the best price for fuel, but it is also his or her responsibility to purchase only as much fuel as will be needed. If too much fuel is purchased, cash that may be needed for operating the community will be locked up in fuel. If too little fuel is purchased, shortages may occur when it is not possible to obtain additional fuel at reasonable rates. Because most community operations depend on fuel, a shortage will have a drastic impact on a community's ability to function.



How much fuel to purchase depends on several things, including past fuel use, fuel storage capacity and expected new fuel needs. No community should make fuel-purchase decisions based entirely on storage capacity. You must know your community's needs so that both over-buying and under-buying can be avoided. If you just fill the tanks every year without keeping track of what your community uses, you might come up short if fuel use increases beyond the capacity of the tanks. And just one shortage can be disastrous.

Accurate recordkeeping is very important in estimating fuel needs and avoiding dangerous shortages. Information on past fuel use should be a key tool in deciding how much fuel to buy. You should keep simple records of fuel used by each city facility or operation and compile this information into a useful format.

An example of the recordkeeping of the City of Mountain Village, one of the participants in the Coastal Yukon Mayors Association (CYMA) cooperative fuel purchase, is provided in the charts on this page and the next. (A sample form is provided in Appendix I.) The city stores all its fuel in one location and delivers from that location to each facility. Because the city manager started a recordkeeping system, he now knows that he has various options available when it is time to purchase fuel. For example, by accurately monitoring fuel use he discovered the city has approximately 25,000 gallons of *extra* storage capacity. The manager knows that if the bid received for fuel is exceptionally low, he can fill city storage tanks to capacity. On the other hand, if bids are high, he knows the city only needs about 35,000 gallons of fuel for the year, so he can purchase just that amount. If the city already has fuel in storage, he can cut back on his order, using the cash saved for other city operations. He also knows when the city can rent fuel storage space to other organizations that may need to store fuel.

Recordkeeping is also important for allocating costs to various city operations. Allocating costs is important, especially if one of the operations depends on user charges. The City of Mountain Village operates its water and sewer system as an enterprise, like a business. Residents who have water and sewer service pay for the service. The revenue received from residents should cover all of the costs of operating the water and sewer system. Fuel is one of the major operating costs for a water and sewer system in rural Alaska, because water lines must be heated during the winter months. Unless the city keeps accurate records of how much fuel is used by water and sewer operations, it is impossible to tell whether the fees charged are enough to cover the costs.

As a direct result of keeping accurate records, the City of Mountain Village now knows that the water and sewer system uses about 8,000

City of Mountain Village Fuel Records

MONTHLY FUEL CONSUMPTION BY FACILITY

NO	FACILITY	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL	% OF TOTAL
1	PUMP HOUSE #1	733	732	777		365		500				414	801	4402	21.00%
2	PUMP HOUSE #2	800		240	175	264					300	446		3025	0.86%
3	PUMP HOUSE #3							218				105	87	410	1.99%
4	SEWAGE TREATMENT			257				379					398	874	4.85%
5	BUNK HOUSE	135	170									253	44	562	2.79%
6	OLD GARAGE													0	0.00%
7	CLINIC	298	395	322		264	155	156				413	400	2353	11.27%
8	CITY OFFICE	476	370	364				180			390		808	2388	11.30%
9	CITY MGR HOUSE	108		151			133				200	180	66	838	3.99%
10	FIRE STATION	113	288					188				330		885	4.22%
11	NEW GARAGE	840	882	770				224			301	498		2795	13.38%
12	HEAD START													0	0.00%
13	COMMUNITY HALL	394	408	818			180	274				181	428	1885	9.47%
14	TEEN CENTER	363		414				194					381	1342	6.42%
15	OTHER													0	0.00%
														0	0.00%
1988	TOTAL	3827	2934	3553	275	913	478	2171	0	0	1291	3808	3224	20965	100.00%
1988	% OF TOTAL	17.30%	13.58%	16.85%	1.31%	4.35%	2.38%	10.35%	0.00%	0.00%	6.11%	13.40%	15.38%	100.00%	4717

PRIOR YEAR FUEL CONSUMPTION

NO	FACILITY	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1986	TOTAL	5778	4443	2805	2096	1706	0	371	0	3221	1730	2296	2307	26756
1987	TOTAL	8014	4350	4188	3119	0	744	0	0	2962	2183	3253	5484	32740
% CHANGE 1987 TO 1988														-35.97%
% CHANGE 1988 TO 1989														-21.84%

ANNUAL FUEL DELIVERIES BY DEPARTMENT

NO	DEPARTMENT	1986	%1986	1987	%1987	1988	%1988
1	WATER & SEWER	20422	73.24%	19832	62.46%	7919	37.30%
2	ADMINISTRATIVE	3999	14.38%	3977	12.54%	5771	27.53%
3	CLINIC	220	0.78%	2375	7.56%	2363	11.27%
4	FIRE DEPARTMENT	1131	4.06%	1058	3.37%	865	4.22%
5	ROAD DEPARTMENT	1088	3.83%	1811	5.78%	2785	13.28%
6	PARKS & RECREAT	1037	3.72%	2187	6.52%	1343	6.42%
	TOTAL	27836	100.00%	31430	100.00%	20965	100.00%

The city manager of Mountain Village has found that keeping good records of how much fuel the city uses and where it is used can save money. By tracking how much fuel was used for heating water and sewer lines during the winters of 1986 and 1987, for example, he began to wonder if something could be done to cut the amount of fuel being used. He found the city could reduce the heat in the lines to a minimum acceptable temperature. This reduced fuel usage from 20,000 gallons to 8,000 gallons, a savings of 12,000 gallons, or nearly $12,000. These charts show how Mountain Village keeps track of how much fuel is used by different city departments and facilities.

gallons of diesel fuel in a normal year. If the price of fuel is $1 per gallon, the fees charged to users of the water and sewer system should be enough to cover the $8,000 needed to pay the fuel bill, as well as other operating expenses. Before records were maintained, the city did not know how much fuel was used by the water and sewer system.

Keeping track of fuel usage also allows the city to see changes in use patterns that may indicate problems. Again, the records from the city of Mountain Village provide an excellent example. Fuel used by the city water and sewer system in 1986 and 1987 averaged about 20,000 gallons. The city manager felt this was excessive. He discovered waterlines were heated more than was necessary in winter. He reduced the temperature to the minimum safe-operating temperature. The result: A reduction from 20,000 gallons of heating fuel per year to 8,000 gallons per year - an immediate saving of nearly $12,000. Actual savings are even greater because the drop in fuel use means the city does not have to deliver fuel from central storage to the water and sewer system as often. The city only has the capacity to deliver 500 gallons at one time. A savings of 12,000 gallons means 24 fewer trips by the city fuel truck.

Using a cheaper fuel - diesel fuel No. 2

You can also save if you can use diesel fuel No. 2 instead of the more expensive diesel fuel No. 1. The disadvantage of diesel fuel No. 2, which is generally seven or eight cents cheaper per gallon, is that it begins to thicken as the temperature falls to between 10 and 20 degrees Fahrenheit. Unless diesel fuel No. 2 can be stored in a heated location or combined with certain additives, it cannot be used in many Alaskan locations during the winter.

Chapter 10:

Conservation: A key to using less fuel

No discussion about fuel savings would be complete without mention of the value of energy conservation.

Conservation can be done at many levels. It can take very little time or a lot of time. It can be done by individuals or by whole communities. However, conservation options that offer you the most savings usually require some capital investment. This need for "up-front" money stops many people from practicing energy conservation, especially if they do not know exactly how much money they will be able to save or how long it will take to get their money back. This chapter describes several conservation options for community buildings and/or small commercial buildings.

Ways to reduce heating costs

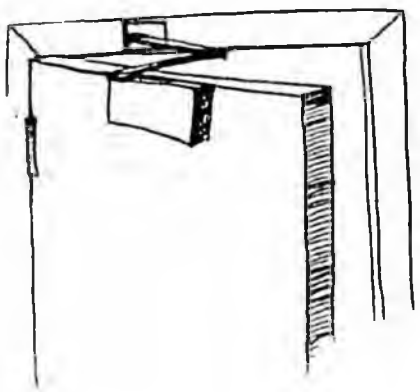
These low-cost conservation measures can result in savings of 10 to 25 percent:

- Turn down the heat in buildings that are not being used.
- Reduce heat in parts of buildings that are not being used.
- Try not to overheat buildings. Match the heating level to the use of the building.
- Use caulking material to stop leaks in all parts of the building, even though people don't feel the drafts. Many small holes allow a lot of heat to escape and cold air to enter the building.

- Tell people who use the buildings how much it costs to heat them. This may get them to reduce energy-wasting habits such as leaving doors and windows open.

- Keep all heating equipment clean and tuned up.

These moderate cost conservation measures can result in savings of 10 percent to 40 percent:



- Install automatic controls on heating equipment. Setback thermostats can save a lot in buildings that are only used during the day-time. Automatic controls are usually more consistent and effective than human memory.

- Use window coverings, especially on single pane windows. Storm windows (inside or out) and shrink film plastic are very effective.

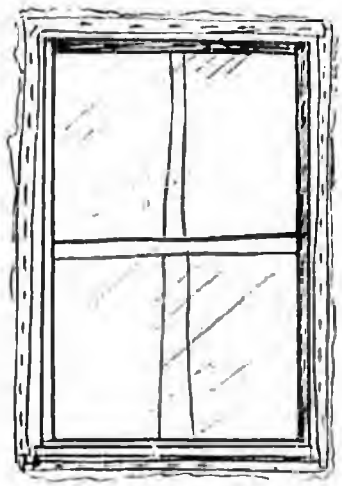
- Replace burners on old heating equipment. New flame retention burners and ones with built-in flue dampers reduce fuel consumption significantly.

- Insulate the attic, which is usually the easiest and most cost-effective place to insulate. Savings depends on how often the building is heated.

- Install arctic entries and automatic door closers.

These higher-cost conservation measures may save you 20 percent to 60 percent:

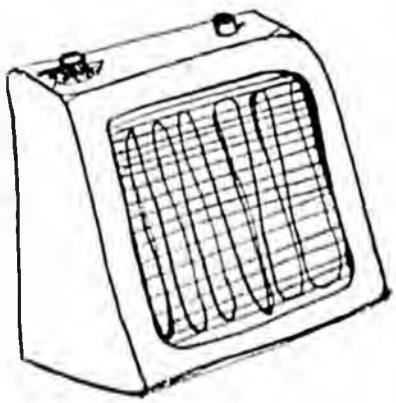
- Replace inefficient heating systems. This can improve burner efficiency, as well as improve the distribution and control of heat in buildings with many rooms and heating needs.
- Superinsulate. This can be done inside or outside and in varying amounts. Extra levels of insulation and reduced air leakage can reduce energy consumption very dramatically.
- Replace or cover windowglass. More expensive window coverings can be effective, depending on the quality of the original windows.


Cover windows

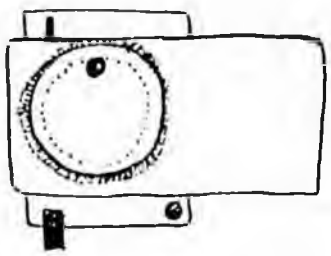
Methods to reduce the cost of electricity

These low-cost electrical measures may save you 5 percent to 30 percent:

- Clean light fixtures. Dust and dirt can reduce light output by 30 percent. Users may turn on more lights if fixtures are dirty.
- Turn off lights or appliances when not needed.
- Avoid as much as possible electric appliances that make heat, especially electric space heaters or electric ranges.
- Tell people who use the buildings how much the electrical costs are for the building. This may get them to reduce energy-wasting habits, such as leaving lights and appliances on when they are not needed.
- Reduce lighting in places that have more light than needed by removing bulbs in fixtures, using task lighting, or simply turning off lights when there is enough light from the sun. If lamps, or bulbs, are removed from fluorescent fixtures, disconnect ballasts.
- Choose energy-efficient appliances. Pay close attention to energy guide labels and energy ratings for all major appliances such as refrigerators.
- Match the appliance with the task. Avoid using big

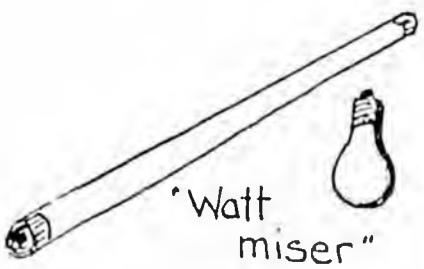


appliances for small jobs. Small appliances use less electricity. For example, don't use a large coffee pot to make one cup of coffee.



These moderate cost-electrical conservation measures can save you 10 percent to 40 percent:

- Install automatic controls. There are many types of controls that will automatically operate lights and appliances. Some are pre-set timers. Some sense light levels. Some sense occupancy. Some turn things off a certain time after they have been turned on. Make sure these devices can tolerate large current fluctuations, which are frequent in rural Alaska.



- Install "Watt Miser" bulbs. Many incandescent and fluorescent bulbs are made in watt-saving types. They will reduce consumption by 5 or 10 watts per bulb and cost about the same as the standard types.

These higher cost electrical conservation measures can save you 15 percent to 40 percent:

- Use compact fluorescent bulbs. These bulbs replace incandescent screw-in bulbs. They are expensive, but they last nine to ten times longer than incandescent bulbs and reduce consumption by 75 percent.

- Adapt fixtures. Fluorescent fixtures can be changed or replaced to provide light at less cost. You can adapt your lights by using electronic ballasts, reflectors and fixtures that will use energy efficient compact fluorescent bulbs or compact tubes.

- Use energy management systems to control the energy use in large buildings. The more complicated ones can regulate heating, lighting and appliances and make sure the energy use is as low as possible.

- Consider purchasing a community freezer. Passive freezers or community electric freezers save energy and money. They can be quite expensive to purchase, but they pay off in the long run.

- Recover waste heat from generators and use it to heat buildings.

- Increase generator efficiency. Efficient operation of generators can be a major way to reduce the cost of electricity. This is a

complicated area, but your local government can make sure the utility in your community is trying to take advantage of the latest technologies and operations techniques.

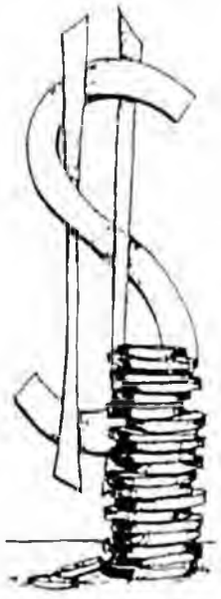
Where can you find 'up-front' money for conservation measures?

Finding money to pay for energy conservation can be difficult, but communities in Alaska have used a variety of programs to pay for conservation efforts.

- Grants - Look into state funds such as the Rural Development Assistance program. The City of Tununak used this program to superinsulate the city's clinic building.

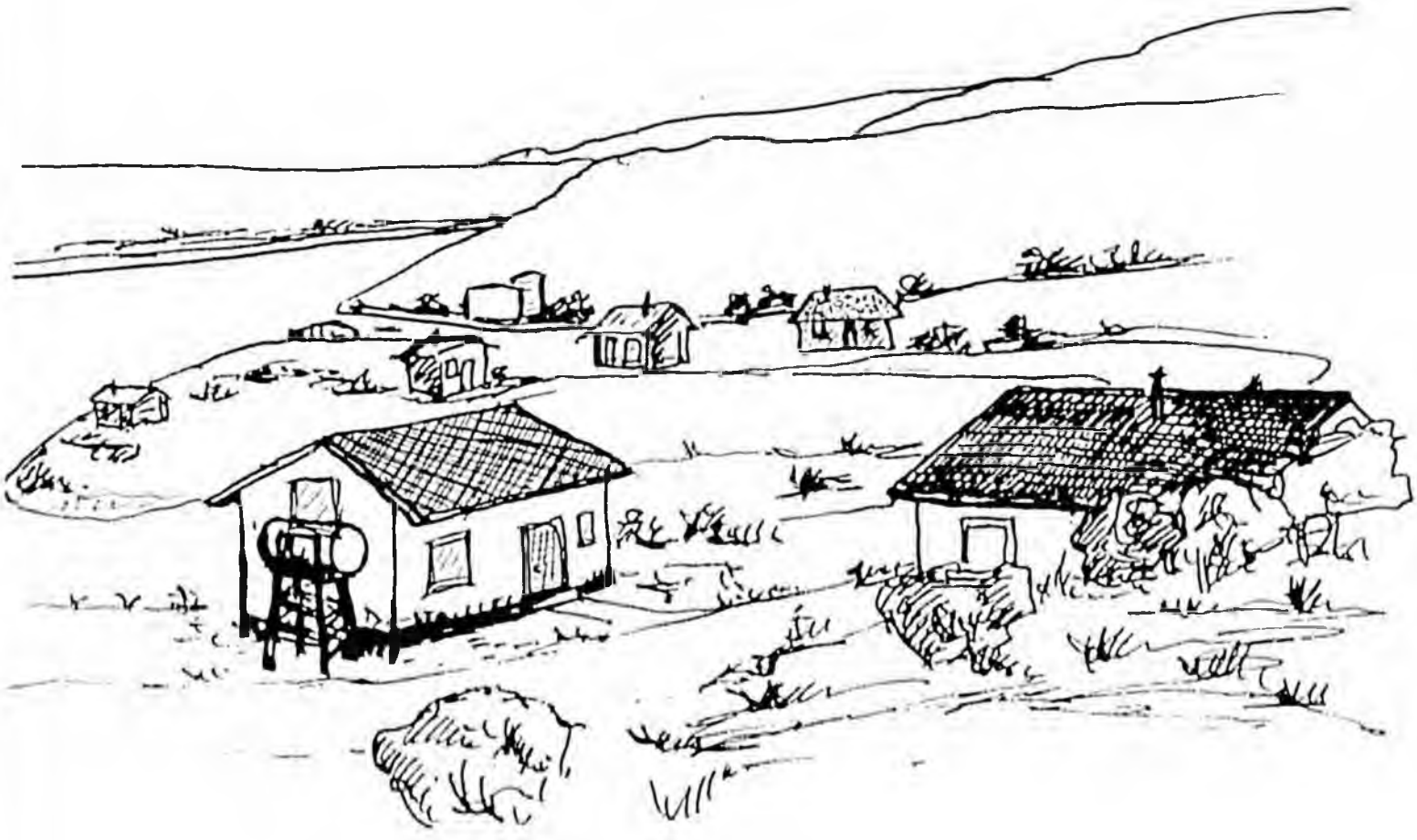
- Performance contracting - Money is provided by the company that installs the energy-saving technology and the savings are shared between that company and the building owner. The Sea Lion Corporation of Hooper Bay and the Rural Alaska Community Action Program, Inc., have such a contract in effect.

- Loans - Some state loan programs and private loan funds may be available.



- Reinvest savings from cooperative bulk fuel purchases - Cooperative purchasing will save you money on fuel costs. Use this money to install more energy-efficient heating systems, weatherize city buildings, install automatic controls on heating equipment, etc. Using information gathered during a cooperative purchasing process, you can decide which projects at what facilities will save you the most money.

- The State of Alaska - The Department of Community and Regional Affairs assists rural communities in making their operations more energy efficient. Services range from providing technical assistance, to assisting in finding financing, to actually making the needed improvements. For more information about energy conservation call the Department of Community and Regional Affairs Energy Resource and Information Service's toll free number, 1-800-478-4636.



Appendix A:

State and local laws on cooperative purchasing among municipalities

Municipalities in Alaska have the authority to do almost anything not specifically prohibited by the State of Alaska. This authority comes from Article X, Section 1 of the Alaska Constitution which directs that "A liberal construction shall be given to the powers of local government units."

Besides this very general authority, municipalities also are given specific authority to enter into cooperative arrangements. Article X, Section 13 of the Alaska Constitution, provides that "Agreements, including those for cooperative or joint administration of any fuctions or powers, may be made by any local government with any other local government, with the state, or with the United States, unless otherwise provided by law or charter.

In addition, Alaska Statue 29.35.010(13) says municipalities have the power "to enter into an agreement, including an agreement for cooperative or joint administration of any function or power with a municipality, the state, or the United States."

These provisions of Alaska law tell us cooperative agreements among two or more municipalities are legal.

Sample ordinance authorizing cooperative agreement

ORDINANCE NO_____

AN ORDINANCE OF THE CITY OF _____, ALASKA AUTHORIZING COOPERATIVE AGREEMENTS BETWEEN THE CITY AND OTHER PUBLIC ORGANIZATIONS

BE IT ENACTED BY THE CITY COUNCIL FOR THE CITY OF _____, ALASKA that Title ____, Chapter _____, of the _____ City Code of Ordinance is hereby amended as follows:

Sections

1. Cooperative agreements authorized
2. Sale, acquisition or use of property
3. Cooperative purchasing
4. Supply of personnel, information and technical services
5. Cooperative use of facilities
6. Dispute resolution
7. Effect of federal or state grants
8. Definitions

Section 1. Cooperative agreements authorized

The city, through the mayor or city manager, and subject to the approval by resolution of the city council, may participate in or sponsor, conduct, or administer a cooperative agreement for the procurement or cooperative use of property, equipment, services and supplies or the cooperative provision of services or sponsorship of activities with any other public organization in accordance with an agreement entered into between the city and the other public organization.

Section 2. Sale, acquisition or use of property

The city may sell or lease property to another public organization. The city may acquire from, or use any property belonging to another public organization.

Section 3. Cooperative purchasing

The city may enter cooperative purchasing agreements with other public organizations. Where the public organization administering a cooperative purchasing agreement complies with the agreement, the city, when participating in such purchase, shall be deemed to have complied with the provisions of this ordinance and any other purchasing ordinances, rules or regulations of the city.

Section 4. Supply of personnel, information and technical services

The city is authorized upon written request from another public organization to provide personnel, equipment or other property to the requesting public organization upon terms and conditions acceptable to the city council. The personnel, equipment or other property, and the information and technical services of the City may be made available to any other public organization provided that the requirements of the city have precedence over the requesting public organization.

Section 5. Cooperative use of facilities and equipment

The city may enter into an agreement for the joint or common use of facilities, for the interchange of any procured items, or the common lease, common purchase or common use of capital equipment or facilities with any other public organization subject to terms and conditions acceptable to the city council.

Section 6. Dispute resolution

The city is authorized to enter into an agreement with any other public organization to establish a procedure to resolve all disputes arish .g from cooperative agreements.

Section 7. Effect of federal or state grants

If federal or state grant requirements differ from the provisions of this ordinance or the provisions of any cooperative agreement entered into by the city, nothing herein is intended to absolve the city from any obligation to fully comply with the terms and conditions of federal or state grant requirements.

Section 8. Definitions

For the purposes of this chapter the term "public organization" shall include the federal government, the state government, a municipality, a Native traditional or IRA government, or a school district.

PASSED AND APPROVED BY A DULY CONSTITUTED QUORUM OF THE CITY COUNCIL FOR THE CITY OF _____THIS_____DAY OF_____, 19___.

Introduction:

Public Hearing:

_____
Mayor

ATTEST:

_____
City Clerk

Appendix B:

Cooperative agreements for the purchase of fuel

Sample No. 1:

COOPERATIVE AGREEMENT FOR THE PURCHASE OF FUEL

THIS AGREEMENT is made for the purpose of soliciting bids for the procurement of heating fuel, gasoline and other petroleum products for its signatories. As used in this agreement, the following terms shall have the following meanings, unless the context clearly indicates a different meaning is intended:

Association: The _____ Association;

City: Any incorporated city or governing body of an unincorporated community participating in this cooperative agreement;

Cooperative purchasing plan: The plan established by this agreement;

Coordinator: The coordinator shall be the executive director of the association or the designee of the association;

Participating agency: A public organization, nonprofit or charitable organization not otherwise a signatory to this agreement that desires to participate in the cooperative purchasing plan.

Lowest responsible bidder: The lowest responsible bidder shall be defined by criteria established by the coordinator and shall not necessarily mean the lowest bidder. The following factors are examples of relevant criteria for determining the lowest responsible bidder: The past performance of the bidder, the willingness of the bidder to provide a performance bond, the experience of the bidder in the area served by the association, and the contribution the bidder has made to the welfare of the communities in the area served by the association. These criteria may

also be used by the coordinator to determine the lowest responsible bidder in the event of a tie bid. The criteria set forth above shall not be exclusive.

SECTION 1. COOPERATIVE AGREEMENT. Upon ratification of this cooperative agreement by the official act of the governing body of each city and a copy of said ratification being delivered to the association, this shall constitute an agreement between each of said cities. Association shall deliver copies of ratifications to the signatory cities. Cities not ratifying the agreement shall not be entitled to the benefits of this agreement. Cities not signatories to the original agreement may become parties to this agreement by official ratification of the agreement by the governing body, and delivery of ratification to the association.

SECTION 2. COOPERATIVE PURCHASING PLAN. The following procedures shall constitute the cooperative purchasing plan:

A. Each city shall notify the coordinator in writing on a form similar to the form annexed hereto no later than _____p.m. on the _____ day of _____, 19__, of its intent to participate in the plan. Such notification will specify the estimated amount of heating fuel, gasoline and other petroleum products it desires to purchase and the approximate dates delivery is required. A minimum order of 2,500 gallons of heating fuel or gasoline shall be required for annual participation in the cooperative purchase. No city shall be obligated by virtue of said notice to purchase any amount. The coordinator shall also solicit participation from other public agencies and nonprofit organizations (participating agencies) within the region encompassed by the association, said participation to be in the form of a letter of agreement from said participating agencies to abide by the same terms and conditions set forth herein for cities and any other conditions as may be set by the association or the coordinator.

B. Upon receipt of said notifications, coordinator shall no later than _____p.m. on the _____ day of _____, 19__, prepare a solicitation of bids and deliver the solicitation by certified mail and publication to potential suppliers. All bids must be received by the coordinator no later than _____ p.m. on the _____ day of _____, or the first business day thereafter. Bids received later than the time set forth herein shall be rejected.

The purchase price for each petroleum item shall be stated by bidders

in price per gallon or other appropriate unit, which price shall be the same for all cities or participating agencies, or if the price is not the same, an explanation of the difference must be supplied. Each bidder shall also provide for each city and participating agency an estimated date of delivery. Bids not providing this information or other information the association or coordinator requires on the bid solicitation shall be rejected as nonresponsive.

No city or participating agency shall be entitled to receive a volume discount for its own account; all volume discounts shall be prorated among all cities and participating agencies. The coordinator shall select the lowest responsible bidder for recommendation to cities and participating agencies. If the coordinator selects a bid that is not the lowest bid submitted, he shall provide explanation for rejecting said bid.

C. Each city and participating agency shall have until __ p.m. on the _____ day of _____, 19___, or the first business day thereafter, to return a purchase order, contract or other form of commitment to coordinator. The commitment shall constitute an offer to purchase at the price stated by the lowest responsible bidder. The purchase order may contain an increase or decrease in amounts from the original estimate submitted to coordinator. Until the time a city or participating agency returns a commitment to the coordinator, it is free to independently solicit and obtain bids from potential suppliers; provided, however, that invitations for such individual bids shall not be advertised, nor shall bids be received individually during the period in which the coordinator is advertising for and receiving bids for fuel and other petroleum products, except in case of emergency or hardship.

D. The coordinator shall tabulate the commitments and submit the tabulation to the lowest responsible bidder within three business days. The submission shall be considered an aggregate offer to purchase at the price stated by the lowest responsible bidder. The lowest responsible bidder shall have three business days from the date of receipt of the coordinator's tabulation to notify the coordinator in writing that it accepts the offer. If the offer is accepted the coordinator shall release the commitments to the bidder and the binding agreement shall exist between said bidder and each city and participating agency. Thereupon, each city and participating agency shall be responsible for coordinating delivery and payment directly with the bidder.

E. If the offer is not accepted by the time set forth in paragraph D, each city and participating agency shall not be obligated to purchase from said bidder, and the coordinator shall return all commitments.

SECTION 3. COSTS OF ADMINISTRATION. Coordinator shall keep an accurate record of the cost of performing the duties of coordinator. Coordinator shall be entitled to compensation for services rendered plus out-of-pocket costs and expenses.

The association may, upon approval by a majority of members voting at the annual meeting, levy an administrative service charge not to exceed one cent per gallon against all organizations participating in the cooperative fuel purchase. Upon implementation by the association at its annual meeting, the charge shall remain in effect until altered or removed by the association at a subsequent annual meeting. The charge will be collected from each participating organization or city. Payment of the charge is a condition of future participation in the cooperative fuel purchase, and in the case of a member city of the association, payment of the charge is required for continued membership in the association.

SECTION 4. CONTRACT. Upon ratification of this agreement as provided in Section 1, this agreement shall constitute a contract between all ratifying cities, and shall remain in effect for each city unless and until the coordinator receives notification that a city will no longer be a participant. Thereafter, additional cities or public agencies may, from time to time, execute this agreement in the form prescribed by the association, and such execution subsequent to the date of this agreement shall not be deemed to require its re-execution by the original signatories.

EXECUTED THIS___DAY OF _____, 19__, AT _____, ALASKA

Attachment to contract

COOPERATIVE FUEL PURCHASE

NOTIFICATION OF INTENT TO PARTICIPATE

THE CITY OF _____ HEREBY NOTIFIES THE _____ ASSOCIATION OF ITS INTENT TO PARTICIPATE IN THE COOPERATIVE FUEL PURCHASE PLAN SPONSORED BY THE ASSOCIATION FOR THE YEAR 19__. FOLLOWING ARE THE ESTIMATED QUANTITIES OF FUEL REQUIRED BY THE CITY FOR THE YEAR AND THE APPROXIMATE DATES REQUIRED FOR DELIVERY:

PETROLEUM PRODUCT	QUANTITY	DATES FOR DELIVERY
Diesel fuel No. 1	_____	_____
	_____	_____
	_____	_____
Gasoline	_____	_____
	_____	_____
	_____	_____
OTHER		
_____	_____	_____
_____	_____	_____
_____	_____	_____

THIS NOTICE SHALL NOT BIND THE CITY TO ANY CONTRACT TO PURCHASE THE PRODUCTS LISTED ABOVE. THE NOTICE IS PROVIDED FOR INFORMATION AND BID SOLICITATION PURPOSES ONLY

DATED: _____ _____

CITY OFFICIAL

Sample 2:

COOPERATIVE PURCHASING AGREEMENT [1]

THIS AGREEMENT made this ___ day of _____, 19__, between the following:

CITY OF _____, a municipal corporation under the laws of the State of Alaska; and

CITY OF _____, a municipal corporation under the laws of the State of Alaska; and

CITY OF _____, a municipal corporation under the laws of the State of Alaska; and

OTHER PUBLIC ORGANIZATIONS which choose to participate in the provisions of this Cooperative Purchasing Agreement as hereinafter provided.

WITNESS:

Pursuant to the authority granted by the State of Alaska providing for cooperation between municipalities, and pursuant to authority granted by the governing bodies of the respective municipalities, the parties hereto, in consideration of the mutual promises contained herein, agree as follows:

1. The items and classes of items which may be designated by the parties hereto may be purchased jointly for the period commencing with the execution of this agreement and continuing until terminated as hereinafter provided. Each of the parties shall designate, in writing, the items to be purchased and indicate therein the quantities desired, the location for delivery and other requirements.

2. There is hereby established the _____ purchasing council, hereinafter referred to as "purchasing council," which shall consist of one representative from each public organization participating in this agreement. The purchasing council shall adopt such rules for organization and procedure as it may deem suitable for the conduct of its business.

3. The specifications for such items shall be prepared by the purchasing council. In all cases where appropriate to the use of the product, the purchasing council shall use standard specifications.

[1] Adapted from cooperative purchasing agreement used by cities of Pennsylvania.

4. The purchasing council shall designate the participating public organization which shall assume responsibility for advertising for bids. Such organization shall also be designated to receive and open the bids at the time and in the manner provided by law or provided by the procedures adopted by the purchasing council. Bids may be solicited for specified quantities of a product or may be solicited on a requirements basis, whichever is appropriate under the circumstances.

5. The cost of advertising and any other costs incidental to the bidding, the award of any contract or rejection of any bid, shall be apportioned equally between the parties.

6. Upon receipt of the bids by the organization who has advertised, the same will be submitted to the purchasing council. Not later than fifteen (15) days following its receipt of bids, the purchasing council shall submit to the appropriate authority of each party a complete tabulation of all bids received and shall certify as to the lowest responsible bidder.

If the purchasing council finds that the lowest bidder is not responsible and accordingly certifies that some other bidder is the lowest responsible bidder, it shall include an explanation and report on its findings when it transmits its tabulations and certification. The purchasing council shall not certify as the lowest responsible bidder any bidder who does not comply with the specifications as advertised in all respects, or who seeks to vary the specifications as advertised in any respect.

7. Contracts of purchase shall be awarded to the lowest responsible bidder as certified by the purchasing council. Separate contracts shall be prepared by each party to this agreement. If any one or more parties rejects the lowest responsible bidder for a distinct item as certified by the purchasing council, then all bids may be rejected and the item or items may be rebid either individually or cooperatively, except that Paragraph 8 shall apply when the rebid is on a cooperative basis.

8. Nothing in this agreement shall prevent any party from awarding contracts of purchase, with or without advertising, individually and on its own behalf; provided, however, that invitations for such individual bids shall not be advertised, nor shall bids be received individually during the period in which the purchasing council is advertising for and receiving bids for the same commodities, except in case of emergency or hardship.

9. The ordering of materials purchased through this agreement shall be the individual responsibility of each of the parties hereto and the successful bidder or bidders shall bill each of the parties directly for the materials ordered by it.

10. Each of the parties shall be liable only for the materials ordered by and received by it, and none, by virtue of this agreement, assumes any additional liability.

11. Specifications shall be prepared and approved by the purchasing council, and no changes will thereafter be made except in the case of error or omission. No change may be made without the approval of the purchasing council. Nothing herein shall be deemed to prevent changes in specifications for subsequent purchases.

12. Any dispute arising between any of the parties hereto and a successful bidder not relating to the validity of the award of contract of purchase or the rejection of any bid or bids, shall be settled by and at the cost of that one of the parties hereto involved in the dispute.

13. This agreement shall take effect upon the execution of the signatories. Thereafter, additional public organizations or municipalities may, from time to time, execute this agreement in the form prescribed by the purchasing council, and such execution subsequent to the date of this agreement shall not be deemed to require its re-execution by the original signatories.

14. This agreement shall continue in effect from the date of execution, unless any party shall give ten (10) days written notice to the other parties indicating its desire to terminate same.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed by their authorized officials the day and year first above written.

CITY OF _____ CITY OF _____

_____ _____

Appendix C:

Sample resolution approving cooperative fuel purchase agreement

RESOLUTION _____

OF THE CITY COUNCIL FOR THE CITY OF _____
APPROVING AGREEMENT FOR THE COOPERATIVE PURCHASE OF FUEL

WHEREAS: The city annually purchases significant amounts of fuel and other petroleum products for its general operations; and

WHEREAS: The cost of fuel and other petroleum products is a significant portion of the annual budget for the city; and

WHEREAS: The city council considers it to be in the best interests of the city to participate in any measures that may result in a reduction of the cost or use of fuel and other petroleum products to the city; and

WHEREAS: Purchasing fuel and other petroleum products in bulk in cooperation with other neighboring municipalities may result in cost savings to the city; and

WHEREAS: The city is authorized by ordinance to enter cooperative arrangements with other municipalities;

THEREFORE, BE IT RESOLVED that the city council approves the cooperative agreement for the purchase of fuel executed by its representative and the terms of the agreement are incorporated by reference into and made a part of this resolution.

PASSED AND APPROVED by a duly constituted quorum of the city council this _____ day of _____, 19__.

_____

Mayor

ATTEST:

_____

City Clerk

Appendix D:

Sample advertisement for request for fuel bids

REQUEST FOR FUEL BIDS, _____ Association

_____ Association is soliciting bids for the purchase and delivery of fuel to participating organizations. The estimated requirements are _____ gallons of diesel fuel No. 1 and _____ gallons of gasoline. All bids must be received no later than ____ p.m. _____, 19__, at the city offices in _____, Alaska. Information packages may be obtained by contacting _____, city manager, City of _____, at (907) __-_____ or P.O. Box _____, _____, Alaska, 99__.

Publish:

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Appendix E:

Sample fuel bid solicitation

SOLICITATION OF FUEL BID

for

_____ ASSOCIATION

The _____ Association is soliciting bids for the purchase and delivery of petroleum products on behalf of its member local governments and other public or nonprofit organizations serving the _____ region. You are requested to provide a quote for each product listed. The quote should be CIF (cost, insurance and freight) to the respective community and should include all taxes and other charges which may be applicable. The products and quantities desired by each participant along with space for your quote follow:

PARTICIPANT	PRODUCT	QUANITIY	YOUR QUOTE
City of_____	Diesel fuel No. 1	_____gals	$_____/gal
	Regular gas	_____gals	$_____/gal
	Unleaded gas	_____gals	$_____/gal
	Tractor hydraulic fluid	_____drums	$_____/drum
	_____	_____	$_____/
	_____	_____	$_____/

PARTICIPANT	PRODUCT	QUANTITY	YOUR QUOTE
City of _____	Diesel fuel No. 1	_____gals	$_____/gal
	Regular gas	_____gals	$_____/gal
	Unleaded gas	_____gals	$_____/gal
	Tractor hydraulic fluid	_____drums	$_____/drum
	_____	_____	$_____/
	_____	_____	$_____/

PARTICIPANT	PRODUCT	QUANTITY	YOUR QUOTE
City of_____	Diesel fuel No. 1	_____gals	$_____/gal
	Regular gas	_____gals	$_____/gal
	Unleaded gas	_____gals	$_____/gal
	Tractor hydraulic fluid	_____drums	$_____/drum
	_____	_____	$_____/
	_____	_____	$_____/

****

COMPANY:_____

ADDRESS:_____

PHONE: _____

SIGNATURE OF OFFICIAL: _____

TITLE: _____

****

If you are unable to quote all items, quote those items your company can provide. If conditions to your quote apply please attach an explanation. If your quote for a product is not the same for all participants, attach an explanation for the difference in quotes.

ALL BIDS MUST BE RECEIVED NO LATER THAN ___ P.M. on the _____ day of _____, 19___. BIDS WILL BE OPENED AT ___ P.M. on the _____day of_____, 19 _____. BIDS SHOULD BE MAILED TO THE ATTENTION OF _____, CITY MANAGER, CITY OF _____, P.O. BOX ____._____, ALASKA ____.

Questions may be directed to Mr./Ms._____ between the hours of__ a.m. and _____ p.m. at (907) ____-_____. The successful bidder will be notified by Mr./Ms._____. After notification, each participant will have until _____. 19__, to confirm an order with the successful bidder. Participants may confirm their orders through the Association or directly with the successful bidder. The successful bidder shall have until _____, 19__, to make final commitment for delivery. Each participant will contact the successful bidder regarding delivery and the portion of the items listed above it requires. Each community is also responsible for payment for its share of the items purchased.

THANK YOU FOR YOUR RESPONSE

_____ Association

Intentionally left blank

Appendix F:

Sample task outline: Who does what in a cooperative fuel purchase?

WHO			WHEN
PARTICIPATING COMMUNITIES	COORDINATOR	FUEL SUPPLIER	(date)
FUEL ESTIMATES DELIVERED TO COORDINATOR			
	COMPILE ESTIMATES SEND BID PACKAGES TO SUPPLIERS		
	MAIL ADS TO PAPERS		
		DELIVER BIDS	
	OPENS BIDS		
	PARTICIPANTS NOTIFIED OF LOW BIDDER		
NOTIFY COORDINATOR OF BID ACCEPTANCE, AMOUNT OF FUEL FOR PURCHASE			
SEND PURCHASE ORDER			

Chart continues on next page

WHO			WHEN
PARTICIPATING COMMUNITIES	**COORDINATOR**	**FUEL SUPPLIER**	**(date)**
	NOTIFIES SUPPLIER OF FINAL ORDER		
		ACCEPTS FUEL ORDER	
	RELEASES COMMITMENT TO SUPPLIER		
		NOTIFIES COORDINATOR OF ACCEPTANCE OF FINAL ORDER	
	RELEASES PURCHASE ORDERS TO SUPPLIER		
		FUEL DELIVERIES BEGIN	

Appendix G:

Fuel supplier contracts

Sample No. 1:

AGREEMENT FOR THE SUPPLY OF PETROLEUM PRODUCTS BETWEEN THE CITY OF _____ and _____ COMPANY *

THIS AGREEMENT made this ____ day of_____, 19__, by and between the City of _____, a municipal corporation of the State of Alaska, herein called "city," and _____ company, a corporation authorized to do business in the State of Alaska, whose address is_____ _____ _____, herein called "seller":

1. Purchase and Sale. Seller agrees to sell and deliver, CIF (cost, insurance and freight) to city fuel tanks located at _____, Alaska, No. 1 diesel fuel of a quantity described herein, and city agrees to purchase the fuel according to the terms set forth below.

2. Quality. All fuel delivered by seller shall conform to the specifications as attached hereto. City reserves the right to reject any delivery for failure to fully comply with the specifications (including the pour point specification) on a barge compartment-by-compartment basis and to require expeditious delivery of replacement fuel in full compliance with the specifications.

The fuel will be tested by a third party selected by city as it is loaded into each barge compartment at the refinery or at the loading berth. The testing shall determine, at a minimum, the BTUs per gallon, the cloud point, and the pour point of the fuel to be delivered to city. Seller will, within seventy-two hours (72) of completion of loading, supply city by fax machine with an estimate of the anticipated delivery date. The cost of third-party testing will be paid by city.

* Adapted from sample provided by Roger R. Kemppel from the law offices of Kemppel, Huffman & Ginder.

City shall be given forty-eight hours (48) advance notice of the time and place of lifting and shall be allowed access to perform additional testing of the contents of each barge compartment.

Prior to unloading, each tank of the barge will be checked for water. This will be done by using a water indicator paste with a sounding stick or tape. During unloading, the quality of the fuel actually delivered to city shall be independently verified by an independent testing laboratory selected by city. The quality of the fuel delivered to city shall be determined by extracting samples of fuel from each barge compartment prior to the delivery of the fuel. Samples will be drawn in either one pint or one quart measurements into new, clean, metal screw-cap containers. All samples will be delivered to the independent testing laboratory. A standard single test will be run to determine pour point, cloud point, and water content. An umpire series may be run with the required number of tests to determine the BTU value of the fuel. City will finally accept delivery upon receipt of test reports confirming that the fuel meets the specifications. City will supply seller by fax machine with a copy of the results of this testing within six (6) days of delivery. Rejection of all or part of the delivered fuel for any reason shall not relieve the seller from timely compliance with the terms and conditions of this agreement. The cost of this testing will be the responsibility of city.

3. Quantity. Seller will deliver and city will accept a quantity of approximately _____ gallons. Seller agrees to revisions in delivered quantities up to a total delivered amount of _____ gallons if nominated by city 30 days prior to the lifting schedule provided by the seller.

The city fuel tanks shall be checked for fuel content prior to delivery of the fuel required by this agreement. The liquid level shall be checked by using the installed guages and/or the thief hatch, whichever test is acceptable to the parties. In addition, prior to delivery, the temperature of the fuel in the tanks shall be determined and recorded. After delivery of the fuel and following a 24-hour settling period, the fuel levels and the temperatures in the tanks will be measured. Standard correction methods to sixty degrees Fahrenheit (60 degrees F) and certified tank strapping charts shall be utilized to determine the actual quantity of the fuel that has been delivered. City will give the seller 24-hours notice of intent to determine the quantity of fuel delivered and will allow representatives of seller to be present during determination of the quantity of fuel delivered

4. Price. The contract price to be paid by city for fuel delivered and meeting the standards required under this agreement will be $_____ per gallon. This price includes all product costs, loading, transportation,

cargo insurance and offloading expense. This price includes federal LUST and Superfund taxes, if applicable.

5. Price Adjustment. The contract price will be adjusted in either or any of the following circumstances:

A. The BTU content (gross heating value per gallon) is determined by the umpire tests set out in section 2 of this agreement to be less than one hundred and thirty eight thousand (138,000) BTUs per gallon, in which the contract price shall be proportionately reduced in the same proportion that the actual tested BTU content of the delivered fuel is less than one hundred and thirty eight (138,000) BTUs per gallon.

B. If the Oil Price Information Service (OPIS) Anacortes average reported price for diesel fuel No. 1 on the date of lifting of any particular delivery is different than $_____ per gallon, the contract price shall be either reduced or increased by the same amount in dollars that the OPIS Anacortes average reported price on the day of lifting is less than or more than $_____ per gallon (the adjusted price equals the contract price plus the figure created where $_____ per gallon is subtracted from the OPIS Anacortes average reported price for diesel fuel No. 1 on the day of lifting). Seller agrees to notify city of the exact date of lift and to supply city with a copy of the OPIS Anacortes average price for diesel fuel No. 1 as of the date of lifting prior to delivery to city.

6. Delivery. Seller agrees to begin and complete delivery for a minimum of _____ gallons within the period May 15 to June 15. Balance of delivery will be completed after August 1, but not later than September 30. In the event seller does not complete delivery within the dates stated above, city may, at city's option, declare seller in breach of this agreement and secure substitute fuel at the seller's expense except to the extent delivery is precluded by Section 10 (B) herein.

7. Discharge.

A. Except as provided herein, seller shall be solely responsible for delivery and offloading of fuel to city fuel tanks. Seller shall be the operator in charge of offloading and shall provide the services of a qualified person in charge to supervise the offloading to the city header during all times of discharge. Seller certifies that seller's barge and facilities are suitable for offloading to city. City certifies as follows:

(1) One Hundred Fifty Feet (150 ft.) of four-inch (4") oil transfer hose is adequate to reach from the side of the barge to city's pipeline header.

(2) City will, upon request, certify the length and diameter of the pipeline extension from the header at the dock to the three-way coupling.

(3) City will, upon request, certify the maximum working pressure of city pipelines.

(4) City has on file an applicable contingency plan as required by the U.S. Coast Guard, EPA and ADEC.

(5) City will provide appropriate warning signs as required by U.S. Coast Guard regulations.

B. Seller will deliver fuel by barge to city and will be responsible for all offloading of fuel, pumping, and connection of seller's facilities to the city pipeline header. Additionally, seller shall furnish personnel qualified to operate the barge, berth the barge, tie up the barge, untie the barge, and discharge fuel into city facilities. Work performed by the seller shall be performed with the exercise of ordinary care, and seller agrees to exercise such care toward the city facilities. In this respect, seller will hold city, together with its officers, agents and employees, harmless from and indemnify city from any liability or claim of liability, and defend city, its officers, agents and employees, from any such claim for damage to the dock facilities or other property located on the dock facilities as a result of seller's negligent operation of its barge or dischare of fuel.

C. Discharge of fuel by seller to city facilities will be accomplished at constant operating pressures not to exceed one hundred (100) psi. Qualified seller operators will be utilized to ensure that pumps are operated so as to avoid surging or air hammering which might permit pressure to exceed constant pressure requirements.

D. City agrees to provide shoreside personnel to be responsible for valve, tank, and pipeline watch.

E. City agrees to accept responsibility for leaks from city's header through its pipes and into its tanks except where leaks result from failure of seller to observe requirements of this agreement.

8. Payment. Invoices shall be submitted to city at the following address: _____. Invoices shall reflect the date and quantity of fuel delivered to the city. Invoices shall be paid within ___ days of receipt.

9. General Terms.

A. Default of any party or failure by any party to perform or fulfill any obligation imposed upon that party as described in this agreement shall justify termination of this agreement by the nondefaulting party. Waiver

by any party of any breach hereof shall not be deemed to be a waiver in the performance of this agreement.

B. Neither city nor seller shall be in breach of its obligations hereunder to the extent that performance is prevented, delayed, or diminished as a result of acts of god; strikes or labor troubles; changes in the applicable laws or regulations; fire, flood, windstorm, explosion, or earthquake; riot; war; sabotage; or hostilities; court injunction or orders; and any other similar cause or causes beyond the control of the party affected thereby.

C. This agreement constitutes the sole agreement between the parties. Any amendment to this agreement must be in writing signed by both parties.

D. Neither city nor seller shall in any event be responsible for consequential or special damages, including without limitation, loss of profits, loss of use of property, delay, or damages consequential upon loss of use, whether resulting from the negligence of either party and even if the possibility of such damages is or was foreseeable by either of them.

E. This agreement shall bind the successors and assigns of each party hereto, and no assignment shall be made without the consent of the other party.

IN WITNESS WHEREOF the parties execute this agreement for the purposes set forth therein

DATED: _____ CITY OF _____

_____
Mayor

ATTEST:

_____
ity Clerk

ATED: _____ COMPANY

By _____
Title_____

Fuel specifications

All diesel fuel delivered shall be premium quality, light colored, 100 percent distilled American Society of Testing and Materials (ATSM) diesel fuel No. 1, and meet the requirements of ASTM D975 for the Grade 1D fuel.

Diesel fuel No. 1 specification data:

1. API shall equal or exceed 39.0 gravity degrees

2. Cloud point shall be minus 35 degrees Fahrenheit or lower.

3. Pour point shall be minus 45 degrees Fahrenheit or lower.

4. S r shall be 0.10 mass percentage or lower.

5. Sediment and water volume shall be less than .05 of 1 percent.

6. Cetane number shall be within the range of 45, plus or minus 2.

7. BTU per gallon, gross - 133,600 minimum

8. Flash point, Pensky-Martens shall be within the range of 110 to 140 degrees Fahrenheit

9. ATSM distillation shall not exceed 420 degrees Fahrenheit at the range 90 percent recovered point

Any testing will be done in accordance with standard ASTM D975. Bidders shall submit a certificate verifying the product to be delivered equals or exceeds specified standards.

Sample No. 2:

AGREEMENT FOR THE SUPPLY OF PETROLEUM PRODUCTS BETWEEN THE CITY OF _____ AND _____ COMPANY

THIS AGREEMENT made this ____ day of _____, 19__, by and between the City of _____, a municipal corporation of the State of Alaska, herein called "city," and _____ company, a corporation authorized to do business in the State of Alaska, whose adress is _____ ___, herein called "seller":

1. QUANTITY: Seller agrees to sell the following described petroleum products, conforming to city specifications attached hereto and made a part of this contract, and deliver the same by waterborne transportation to the city at its storage tanks located on the city waterfront:

_____ gallons of diesel fuel No. 1

_____ gallons of regular grade gasoline

2. PRICE: City shall pay $____per gallon of diesel fuel No. 1 and $___ per gallon of regular grade gasoline within thirty days of invoice after delivery of products. The stated price is CIF (cost, insurance and freight) to the point of delivery and includes all federal and state taxes and any other fees or charges assessed against the products while in transit.

3. DELIVERY: Delivery of the above described products shall be on the following dates in the stated amounts plus or minus 14 days:

_____ gallons of diesel fuel No. 1 by _____.

_____ gallons of diesel fuel No. 1 by _____.

_____ gallons of diesel fuel No. 1 by _____.

_____ gallons of regular grade gasoline by ____.

_____ gallons of regular grade gasoline by ____.

_____ gallons of regular grade gasoline by ____.

Failure to deliver products by the dates stated shall result in a penalty of $ _____ per day until delivery is made. All fuel ordered must be delivered prior to the onset of freeze-up conditions that will prevent delivery by water borne transportation. The seller assumes the risk, subject to any conditions set forth in this agreement, of delivery prior to freeze-up conditions. It shall be sellers sole responsibility to deliver

products by other means of transportation for the same contract price should seller fail to make all deliveries by waterborne transportation prior to the onset of freeze-up conditions. The seller shall not be excused from the terms of this agreement because delivery of fuel by other means of transportation at the same price is too expensive or commercially impractical.

Delivery operations shall, whenever possible, take place when there is sufficient daylight to visually observe all areas affected by delivery, including city storage tanks and the fill line. A diligent effort shall be made by seller to provide adequate advance notice to city of each delivery and to establish a timetable for delivery. It will be the responsibility of seller to assign a responsible individual to monitor the city storage tanks, opening and closing valves as required and maintaining two-way communication with the pump operator during all pumping operations.

In no event is any city storage tank to be filled beyond ninety-four percent (94%) of its total capacity; doing so may result in fuel expansion beyond the capacity of the fuel tank resulting in a fuel spill.

3. METER TICKETS: Seller shall provide valid meter tickets from a meter currently legally calibrated in such a format as to indicate the exact number of gallons delivered into city storage tanks so that deliveries can be accurately and fairly determined. Signing of receipt for petroleum products shall be in such a manner that an explanation is given to the city representative, clearly and fairly explaining what is being signed and how the delivered quantity was determined.

4. INVOICES: Invoices shall be submitted to city at the following address: _____. Invoices shall reflect the date and quantity of fuel delivered to the city and shall be submitted with the appropriate meter ticket attached as described in section 3.

5. PRODUCT WARRANTY: Seller warrants that the petroleum products delivered shall conform to the specifications attached hereto. All products supplied are subject to verification testing by independent test. If testing indicates the product does not conform to specifications, the city at its sole option, may require the seller to either: a) remove the nonspecification product, including any existing product that may have been contaminated, and replace the nonspecification product and any contaminated fuel with product that complies with all specifications, or b) impose a penalty of ___ cents per gallon, which penalty shall be paid directly to city or deducted from payments due or to become due to the seller.

Whenever a periodic test indicates that product delivered does not conform to specifications, all product delivered since the date of the last

test may, at the sole option of the city, be considered as not meeting the specifications and shall be subject to the provisions of this section.

6. POLLUTION: Seller warrants that it will comply with the U.S. Federal Water Pollution Control Act of 1970 as amended, and that all transportation units shall have secured and carry aboard current U.S. Federal Maritime Commission Certificates of Financial Responsibility (oil pollution). Further, seller warrants that all transportation units are in compliance with all applicable U.S. Coast Guard regulations in effect from time to time, in particular, those regulations pertaining to the availability of oil spill containment equipment. Seller shall comply with all other laws, rules, and regulations relating to water or oil pollution.

It shall be seller's responsibility to take whatever measures are necessary to prevent or mitigate any damage that may result from an escape or discharge of oil which causes or threatens to cause environmental damage.

Seller shall carry third party pollution liability insurance covering all transportation units used in the performance of this contract. The limits of liability shall not be less than $1,000,000 per occurence. City shall be named as an additional insured on the policy with respect to the performance under this contract and the policy shall contain a waiver of subrogation against city.

7. PERFORMANCE BOND: A performance bond in form satisfactory to city shall be furnished by seller at its expense.

IN WITNESS WHEREOF the parties execute this agreement for the purposes set forth therein

DATED: _____ CITY OF _____

_____
Mayor

ATTEST:

_____

City Clerk

DATED: _____ _____ COMPANY

By _____

Title _____

Fuel specifications

All diesel fuel delivered shall be premium quality, light colored, 100 percent distilled American Society of Testing and Materials (ATSM) diesel fuel No. 1, and meet the requirements of ASTM D975 for the Grade 1D fuel.

Diesel fuel No. 1 specification data:

1. API shall equal or exceed 39.0 gravity degrees

2. Cloud point shall be minus 35 degrees Fahrenheit or lower.

3. Pour point shall be minus 45 degrees Fahrenheit or lower.

4. Sulfer shall be 0.10 mass percentage or lower.

5. Sediment and water volume shall be less than .05 of 1 percent.

6. Cetane number shall be within the range of 45, plus or minus 2.

7. BTU per gallon, gross - 133,600 minimum

8. Flash point, Pensky-Martens shall be within the range of 110 to 140 degrees Fahrenheit

9. ATSM distillation shall not exceed 420 degrees Fahrenheit at the range 90 percent recovered point

Any testing will be done in accordance with standard ASTM D975. Bidders shall submit a certificate verifying the product to be delivered equals or exceeds specified standards.

Appendix H:

Sample resolution for approving fuel purchasing contract

RESOLUTION _____ OF THE CITY COUNCIL

FOR THE CITY OF _____ APPROVING A CONTRACT FOR THE PURCHASE OF PETROLEUM PRODUCTS

WHEREAS: The City of _____ needs to purchase certain petroleum products; and

WHEREAS: _____ Company has offered to supply the required products at a price acceptable to the City Council; THEREFORE, BE IT RESOLVED the City Council approves the contract between the city and _____ Company for the purchase of specified petroleum products and the terms and conditions of the contract are incorporated by reference into and made a part of this resolution.

PASSED AND APPROVED by a duly constituted quorum of the city council for the City of _____, this ___ day of _____, 19_.

_____
Mayor

ATTEST:

_____
City Clerk

Intentionally left blank

Appendix I:

Charts for tracking fuel use at community buildings and facilities

Using this chart would be one method of keeping track of how much fuel each of your city facilities will use in a year. Keeping accurate records for several years will help you decide how much fuel you need to buy.

APPENDIX I:

VILLAGE MONTHLY FUEL CONSUMPTION RECORDS

NO.	FACILITY	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL	% OF TOTAL
1															
3															
TOTAL															
% OF TOTAL															

Appendix J:

Steps for safe fuel handling and barge delivery [1]

Before the barge arrives:

- Determine the quantity of fuel each tank can hold by measuring the tank with a hand-held gauge tape or stick and using tank volume charts.

- Check all tanks for water. Do this by using water-finding paste on your gauge tape or sticks. Place a thin film of water-finding paste on the lower end of your gauge line. Any water present in the tank will be on the bottom of the tank and will change the color of the paste. Drain the water from the tank before delivery.

- Check the cargo line and valves for leaks. Make sure the cargo lines are in good condition and not blocked or broken.

When the barge arrives:

- Communicate with the barge tankerman. Make sure you and the tankerman prepare a Declaration of Inspection (D.O.I.). Both of you will sign the D.O.I. Once this is done, you will know the quantities of product the barge is going to deliver to you, and the tankerman will know what quantity you can hold in your tanks.

- Sample the fuel on the barge before delivery. Use a clean glass jar for visual inspection. Visually check the fuel for floating particles; if you find any, the fuel is dirty and should be rejected. Visually check the fuel for a cloudy or hazy

[1] Steps for Safe Fuel Handling was prepared by Delta Western, Alaska's Petroleum Distributor.

- appearance. If you find it cloudy, your fuel has water in suspension and, again, the fuel should be rejected. The fuel should be clear, clean and bright before it is accepted.

- Hook up hoses to your cargo line headers, or run the hose to the tank. Before delivery starts, have a communications system set up between shore-side and barge personnel. Hand-held radios are the best mode of communication. If this is not possible, then hand signals and verbal signals should be used. Do not pump fuel unless there is a way for shore-side "tank watch" and barge tankerman to communicate. One person should be assigned as tank watch. This person will be responsible for filling the tanks, making tank switches and shutting down the barge when necessary. When fuel nears the top of the tank, the tankerman should be told to slow down the pumping of fuel. When the fuel reaches the desired level, pumping should stop immediately to avoid over-filling the fuel tank. Remember to leave enough room at the top of the tank for expansion of the fuel due to temperature increases.

- Assign a second person to move between the barge and your tanks. This person's responsibility is to assist tank watch, check cargo lines and valves for leaks, and help tank watch communicate with the barge. This person should also help take visual samples during delivery.

- There should be *no smoking* on or near the fuel tanks and barge, or where lines and hoses run between the two.

Before the barge departs:

- When the barge has finished, shut all valves, disconnect the hose, and gauge tanks to determine the quantity of oil received. The amount should be nearly the same as the amount the barge has given you an invoice for.

- Check the tank for water and remove any additional free water.

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 4/22/05

FURTHER: (Finance)

Date of 5-Day Notice: 4/21/05
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 4-28-05

Community and Regional Affairs Committee considered SENATE BILL NO. 188

SB 188 BULK FUEL REVOLVING LOAN FUND CAP

"An Act increasing the maximum amount of loans from the bulk fuel revolving loan fund to one borrower."

and recommends:

[X] be **replaced** with _____ **CS** SSSB 188 (CRA)

[ ] adopt **previous** _____ **CS** _____ (_____)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by _____ Committee

[ ] further referral to _____ Committee

CS Senate Bill:
[X] Same Title
[ ] New Title

SCS House Bill:
[ ] Same Title
[ ] Technical Title Change
[ ] New Title w/ SCR #____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DCCED	4/26			✓	1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

[ ] **APPROPRIATION - no fiscal note**

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
ELLIS	X			
WAGONER	✓			
STEDMAN	✓			
KOOKESH	✓			
CHAIR: G. STEVENS				