

**SB**

**25**

<TARGET><BILL>SB 25</BILL><SUBJECT>SB  
25</SUBJECT><COMM>HF IN27</COMM></TARGET>



# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version CSSSB 25(L&C)  
Fiscal Note Number 2  
(S) Publish Date 2/24/12

Identifier (file name) SB025-DCCED-AIDEA-02-10-12 Dept. Affected DCCED  
Title AIDEA Participation in Energy Projects Appropriation Alaska Industrial Development & Export Authority  
Allocation Alaska Industrial Development & Export Authority  
Sponsor Senator Lesil McGuire  
Requester Senate Labor & Commerce OMB Component Number 1234

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Services	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Revised to reflect the changes in the Sponsor Substitute.

Prepared by Mark Davis, Deputy Director Investments, Finance, and Analysis  
Division Alaska Development & Export Authority  
Approved by JoEllen Hanrahan, Director Administrative Services  
Commerce, Community, and Economic Development

Phone 907-771-3080  
Date/Time 2/15/12 3:30 PM  
Date 2/15/2012

FISCAL NOTE #2

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. CSSSSB 25(L&C)

**Analysis**

SB 25 adds legislative intent language to re-capitalize AIDEA with \$250 million for FY 13 and FY14 that would be used to fund a new loan and loan guarantee program to finance energy projects. This fiscal note represents the zero operating expenses required to administer this fund.

The bill accomplishes these goals by: (1) an appropriation of \$250,000,000 for FY13 and FY14 to carry out the agency's statutory purposes; (2) setting up a new loan fund in AIDEA; (3) making changes to AIDEA's general powers to add energy projects as a development goal; (4) amending AIDEA's powers so that it can make direct loans or offer loan or bond guarantees for qualified energy projects; and (5) amending the definitional section of the agency's statutes to add and define the term "energy project".

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version       CSSSSB 25(FIN)        
 Fiscal Note Number       3        
 (S) Publish Date       4/11/12      

Identifier (file name)       CSSSSB 25(FIN)/Fund Cap/DCCED       Dept. Affected       Fund Capitalization        
 Title       AIDEA Sustainable Energy Program       Appropriation Allocation       Sustainable Energy Transmission and Supply Dev. Fund        
 Sponsor       Sen. McGuire        
 Requester       Senate Finance       OMB Component Number       

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>	<b>FY13</b>	<b>FY13</b>					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous	125,000.0						
<b>TOTAL OPERATING</b>	<b>125,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>FUND SOURCE</b>		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF	125,000.0					
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
<b>TOTAL</b>		<b>125,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>POSITIONS</b>							
Full-time							
Part-time							
Temporary							

<b>CHANGE IN REVENUES</b>							
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Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required;  
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

This fiscal note sets the amount of capitalization for the Sustainable Energy Transmission and Supply Dev. Fund.

Prepared by       Darwin Peterson        
 Division       Senate Finance Committee        
 Approved by       Senator Hoffman, Co-Chair        
                         Senator Stedman, Co-Chair      

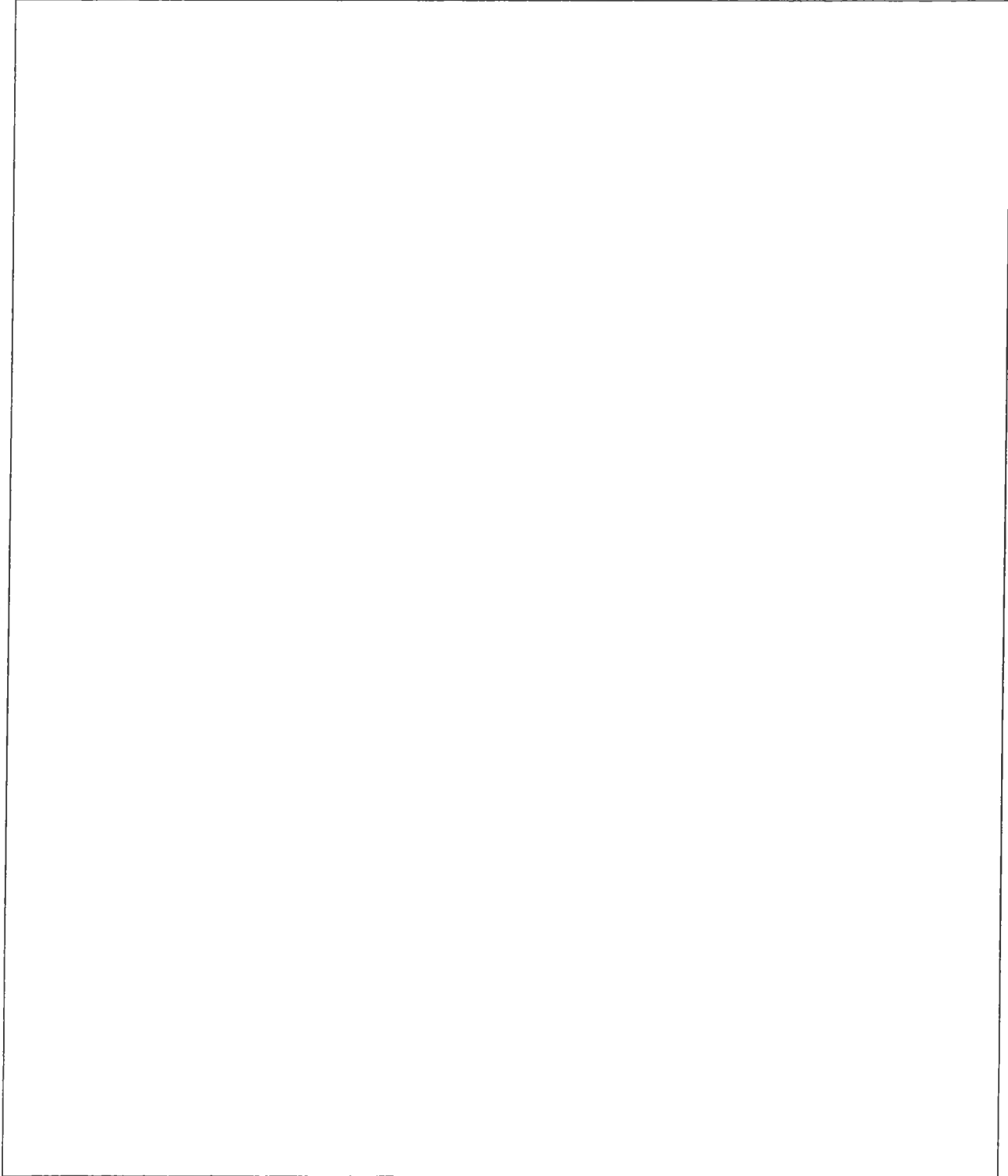
Phone       907-465-3873        
 Date/Time       4/10/12 3:24pm        
 Date       4/10/2012

FISCAL NOTE #3

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. CSSSSB 25(FIN)

**Analysis**



# ALASKA STATE LEGISLATURE

Session  
State Capitol Building, Room 125  
Juneau, Alaska 99801-1182  
Phone (907) 465-2995  
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## SENATOR LESIL MCGUIRE

### SPONSOR STATEMENT FOR SENATE BILL 25: A.S.S.E.T.S Alaska's Sustainable Strategy for Energy Transmission and Supply

*"An Act relating to participation by the Alaska Industrial Development and Export Authority in energy projects."*

Alaskans once again find themselves confronting the familiar paradox of high oil prices, which deliver windfall revenues to the treasury while burdening Alaskan communities with increased energy costs. Recognizing this, the Legislature made energy policy a priority issue and focused state resources on finding solutions. To date, we have invested millions in making our schools, homes, and public facilities more energy efficient. We have started work on an in-state gas pipeline and reinvigorated activity in Cook Inlet with targeted tax incentives and regulatory changes. We have begun developing the Susitna hydroelectric project, encouraged exploration for geothermal energy, and opened the door for emerging technologies like biomass, wind, and even small nuclear facilities.

Although each of these energy initiatives contributes to a more sustainable future for Alaska, the recent declining throughput in the trans-Alaska pipeline reminds us of how precarious our present condition is. Declining oil production and increasing demands on the treasury challenge us as policymakers to craft new strategies that to do more with less and to find sustainable ways to use Alaska's resources to grow our local economy. That is why I have introduced Senate Bill 25, *Alaska's Sustainable Strategy for Energy Transmission and Supply* ("ASSETS").

With ASSETS I am proposing that the State recapitalize the Alaska Industrial Development and Export Authority (AIDEA) and expand AIDEA's existing authority to finance, or facilitate the financing of, energy infrastructure projects. AIDEA is already invested in energy projects such as the Snettisham hydroelectric project, which has provided low-cost, renewable power to Juneau for years. With a stronger balance sheet and greater access to credit markets, AIDEA could help finance or facilitate the financing of energy projects in Alaska. Senate bill 25 creates a new fund within AIDEA: the sustainable energy transmission and supply development fund (SETS) and proposes \$250,000,000 be invested in the fund.

Senate Bill 25 also expands the powers of AIDEA to finance, or facilitate the financing of energy projects through the SETS fund by granting the authority the ability to:

1. Insure project obligations and guarantee loans or bonds for projects.
2. Defer principle payments and capitalize interest.

# ALASKA STATE LEGISLATURE

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## SENATOR LESIL MCGUIRE

3. Offer financing terms of up to 30 years for energy projects or 50 years for transmission and hydroelectric projects.
4. Enter into lease agreements, sales-lease-back agreements, build-operate-transfer agreements and other agreements to finance energy projects.
5. Offer a reduced interest rate for renewable projects, projects in rural areas or projects that promote economic development.

These additional powers will provide flexible terms that can reduce the ultimate cost of energy to consumers and enable projects to move forward toward construction. However, SB 25 also requires legislative approval is required for investments that are more than one-third of a project's capital costs or if a loan guarantee exceeds \$20 million. By subjecting certain investments to legislative approval, SB 25 maintains an appropriate level of due diligence for projects.

By making credit available we empower communities and give utilities an alternative to the traditional grant model that too often underfunds projects and leads to delays. Relying on credit also ensures that project sponsors have some skin in the game and a stake in a project's success or failure. Most importantly, we start to put some of Alaska's assets to work growing the economy within our state. Currently, Alaska's savings accounts are invested in stocks and bonds that drive economic activity outside Alaska. ASSETS suggests instead that some of those savings be invested here in Alaska through AIDEA, not as blank checks to development projects but as loans for energy infrastructure.

With ASSETS, Alaska has the chance to break the colony model and sustainably grow its economy. As each loan is repaid, the capital becomes available to recycle into new loans. The recently completed Railbelt Integrated Resource Plan alone identified more than \$5 billion in infrastructure that will need to be financed. Without ASSETS, debt interest payments made by Alaskan utilities will continue to leave the state. With ASSETS, on the other hand, Alaska will actually make money. AIDEA currently pays a dividend to the treasury of between \$20 and \$30 million per year. A larger balance sheet would increase AIDEA's earnings and thus its annual dividend to the state.

Together, the Legislature's commitment to fiscal prudence and its focus on energy issues lay the foundation for a bright future for our state. By putting more of our assets to work locally, we can create opportunities, develop our resources and create a sustainable economy for generations to come.

February 7, 2012

# ALASKA STATE LEGISLATURE

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## SENATOR LESIL MCGUIRE

### Changes to CS SS SB 25 (27-LS0290\S) in HCS SS SB 25 (27-LS0290\Y)

Please note that this analysis is not an authoritative interpretation of changes to the bill. The bill itself is the best statement of its contents.

The following references are to the S version of CS SS SB 25 (FIN)

- Title** Language reflecting provisions relating the taxes paid on interests in property owned by AIDEA as it relates to the local contribution for public funding related to that property was removed.
- Section 2** Legislative intent to appropriate \$250,000,000 in FY 13 and FY 14 was removed from the bill.
- Sections 3-5** Sections 3-5 excluding interests in property owned by AIDEA from the full and true value of the taxable real and personal property in a district, if the property is exempt from city or borough tax was removed.

The following references are to the Y version of HCS CS SS SB 25 (L&C)

- Section 13** New language was added to the definition of **qualified energy development** to exclude financing of "a natural gas pipeline project for transporting natural gas from North Slope or Cook Inlet."

# Alaska's Sustainable Strategy for Energy Transmission & Supply

A.S.S.E.T.S

Committee Substitute for Sponsor Substitute for Senate Bill

HCS CS SS SB 25 (L&C)

Senator Lesil McGuire (District N)

April 12, 2012

# Disclaimer

- \* The following presentation contains slides which present estimates of capital spending based on projects identified in reports prepared for or by the Alaska Energy Authority. This presentation should not be considered an endorsement of any particular project, fuel source, or combination of projects identified by the authority and/or its contractors.

# Agenda

- \* Description of the problem A.S.S.E.T.S is intended to address:
  - \* Highlights from selected reports: capital
  - \* Highlights from selected reports: financing
- \* Introduction to SB 25
  - \* Sections of the bill.
  - \* Powers and limitations for S.E.T.S
  - \* AIDEA

# The Problem

Significant capital investment will be required to develop the energy infrastructure Alaska needs.

# Alaska Energy Pathway; Toward Energy Independence

AEA July 2010

our into regions as defined by existing regional native corporations.

Table 1. Capital Cost Rollup.

Capital Cost Rollup							
Native Corporation	Immediate (0-10 Years)	Short-Term (1 - 3 Years)	Mid-Term (2-10 years)	Long-Term (5 -15 Years)	Stretch-Goal (15+ years)	Capital Cost per Region	Capital Cost per Capita
Ahtna, Incorporated	\$9,863,000	\$18,961,000	\$41,925,000	\$18,456,000	\$14,698,000	\$103,923,000	\$34,710
Aleut Corporation	\$24,104,000	\$34,481,000	\$359,890,000	\$20,209,300	\$0	\$438,484,300	\$59,918
Arctic Slope Regional Corp.	\$22,252,000	\$29,020,000	\$0	\$47,349,481	\$0	\$98,621,481	\$14,836
Bering Straits Native Corp.	\$30,882,000	\$49,560,000	\$158,950,000	\$41,132,382	\$0	\$280,504,382	\$29,952
Bristol Bay Native Corporation	\$24,011,000	\$65,871,000	\$220,744,000	\$83,078,468	\$1,467,000	\$375,171,468	\$51,569
Calista Corporation	\$81,189,800	\$65,708,000	\$180,031,000	\$118,208,706	\$1,277,000	\$424,414,506	\$17,263
Chugach Alaska Corporation	\$23,126,000	\$41,150,000	\$37,817,000	\$23,741,592	\$0	\$125,634,592	\$17,694
Doyon, Limited	\$23,079,600	\$50,777,000	\$104,062,500	\$30,258,596	\$18,142,447	\$226,320,143	\$32,349
Koniag, Incorporated	\$30,266,100	\$28,451,000	\$63,861,000	\$902,449	\$3,088,760	\$126,549,309	\$13,789
NANA Regional Corporation	\$23,487,000	\$29,195,000	\$46,339,647	\$53,288,779	\$3,607,000	\$155,915,626	\$21,858
Sealaska Corporation	\$222,971,300	\$96,123,000	\$182,172,408	\$57,809,096	\$2,505,248	\$542,981,052	\$8,040
Rural Region Totals	\$514,631,800	\$511,297,000	\$1,355,392,755	\$472,432,829	\$44,765,455	\$2,898,519,839	\$27,453
Railbelt Region	\$1,485,000,000	\$840,000,000	\$2,631,000,000	\$2,959,000,000	\$780,000,000	\$7,290,000,000	\$18,200
Statewide Totals	\$1,999,631,800	\$1,451,297,000	\$3,986,392,755	\$3,431,432,829	\$804,765,455	\$10,188,519,839	\$43,653

- Projected “immediate” (0-10 years) capital spending of **\$1.999 billion** for energy projects statewide (p. 25).

Source: <http://www.akenergyauthority.org/alaska-energy-plan.html>

# Railbelt Integrated Resource Plan (RIRP)

AEA February 2010

**Table 1-4  
Summary of Results – Economics**

Case	Cumulative Present Value Cost (\$000,000)	Average Wholesale Power Cost (¢ per kWh)	Renewable Energy in 2025 (%)	Total Capital Investment (\$000,000)
<b>Scenarios</b>				
Scenario 1A	\$13.625	17.26	62.32%	\$9,087
Scenario 1B	\$13.625	17.26	62.32%	\$9,087
Scenario 2A	\$20.162	19.75	42.64%	\$14,111
Scenario 2B	\$21.109	20.68	65.83%	\$18,805
<b>Sensitivities</b>				
1A/1B Without DSM/EE Measures	\$14,507	17.40	67.10%	\$8,603
1A/1B With Double DSM	\$12,546	15.89	65.15%	\$8,861
1A/1B With Committed Units Included	\$14,109	17.87	46.84%	\$8,090
1A/1B Without CO2 Costs	\$11,206	14.20	49.07%	\$8,381
1A/1B With Higher Gas Prices	\$14,064	17.82	61.95%	\$9,248
1A/1B Without Chakachamna	\$14,332	18.16	38.06%	\$7,719
1A/1B With Chakachamna Capital Costs Increased by 75%	\$14,332	18.16	38.06%	\$7,719
1A/1B With Susitna (Lower Low Watana Non-Expandable Option) Forced	\$15,228	19.29	61.01%	\$12,421
1A/1B With Susitna (Low Watana Non-Expandable Option) Forced	\$15,040	19.05	63.01%	\$15,057
1A/1B With Susitna (Low Watana Expandable Option) Forced	\$15,346	19.44	63.01%	\$15,588
1A/1B With Susitna (Low Watana Expansion Option) Forced	\$14,854	18.82	66.90%	\$14,069
1A/1B With Susitna (Watana Option) Forced	\$15,683	19.87	70.97%	\$13,211
1A/1B With Susitna (High Devil Canyon Option) Forced	\$14,795	18.74	66.92%	\$11,633
1A/1B With Modular Nuclear	\$13,841	17.53	60.51%	\$9,105
1A/1B With Tidal	\$13,712	17.37	65.52%	\$9,679
1A/1B With Lower Coal Fuel and Lower Coal Capital Costs	\$13,625	17.26	62.32%	\$9,087
1A/1B With Tax Credits for Renewables	\$12,954	16.41	67.56%	\$9,256

**Table 1-6  
Summary of Proposed Transmission Projects**

Project No.	Transmission Projects	Type	Cost (\$000)
A	Bernice Lake – International	New Build (230 kV)	227,500
B	Soldotna – Quartz Creek	R&R (230 kV)	126,500
C	Quartz Creek – University	R&R (230 kV)	165,000
D	Douglas – Teeland	R&R (230 kV)	62,500
E	Lake Lorraine – Douglas	New Build (230 kV)	80,000
F	Douglas – Healy	Upgrade (230 kV)	30,000
G	Douglas – Healy	New Build (230 kV)	252,000
H	Eklutna – Fossil Creek	Upgrade (230 kV)	65,000
I	Healy – Gold Hill	R&R (230 kV)	180,500
J	Healy – Wilson	Upgrade (230 kV)	32,000
K	Soldotna – Diamond Ridge	R&R (115 kV)	66,000
L	Lawing – Seward	Upgrade (115 kV)	15,450
M	Eklutna – Lucas	R&R (115 kV/230 kV)	12,300
N	Lucas – Teeland	R&R (230 kV)	51,100
O	Fossil Creek – Plant 2	Upgrade (230 kV)	13,650
P	Pt. Mackerzie – Plant 2	R&R (230 kV)	32,400
Q	Bernice Lake – Soldotna	Rebuild (115 kV)	24,000
R	Bernice Lake – Beaver Creek – Soldotna	Rebuild (115 kV)	24,000
S	Susitna Transmission Additions	New Build (230 kV)	57,000

- Projected capital spending estimates range from **\$13.625 billion to \$21.109 billion** (p. 1-17, 1-19)

Source:

<http://www.akenergyauthority.org/regionalintegratedresourceplan.html>

4/14/2012

# Southeast Integrated Resource Plan (SEIRP)

AEA December 2011

Table 1-2 Refined Screened Potential Hydro Project List

PROJECT NAME	LOCATION	CATEGORY	CAPACITY (MW)	CAPITAL COST		ANNUAL ENERGY (MWH)
				(\$ MILLIONS)	\$/KW	
<b>SEAPA</b>						
Anita - Kunk Lake	Wrangell	Storage	8.60	90.54-135.82	10,528-15,793	28,100
Cascade Creek	Petersburg	Storage	70.00	146.35-219.53	2,091-3,136	202,300
Connell Lake	Ketchikan	Storage	1.70	5.40-10.80	3,176-6,353	10,600
Lake Shelokum	Wrangell	Storage	10.00	39.00-91.00	3,900-9,100	40,000
Mahoney Lake	Ketchikan	Storage	9.60	34.50-51.76	3,594-5,392	46,066
Orchard Lake	Meyers Chuck	Storage	10.00	34.20-79.80	3,420-7,980	56,000
Ruth Lake	Petersburg	Storage	20.00	84.54-126.82	4,227-6,341	70,700
Scenery Creek	Petersburg	Storage	30.00	128.98-193.48	4,299-6,449	128,700
Sunrise Lake	Wrangell	Storage	4.00	16.64-24.96	4,160-6,240	13,500
Thoms Lake	Wrangell	Storage	7.50	110.11-135.17	14,681-18,023	24,200
Triangle Lake	Metlakatla	Storage	3.50	12.63-18.95	3,609-5,414	13,100
Tyee New Dam Construction	Wrangell	Storage	1.40	36.60-85.4	26,143-61,000	9,100
Tyee New Third Turbine	Wrangell	Storage	10.00	13.20-30.80	1,320-3,080	-
Virginia Lake	Wrangell	Storage	12.00	103.21-154.81	8,601-12,901	43,800
<b>Baranoff Island</b>						
Takatz Lake	Sitka	Storage	27.70	117.04-175.56	4,225-6,338	106,900
<b>Chichagof Island</b>						
Crooked Creek and Jim's Lake	Elfin Cove	Storage/Run-of-River	0.16	1.48-2.22	9,250-13,875	666
Indian River	Tenakee Springs	Run-of-river	0.25	2.02-3.02	8,080-12,080	916
Water Supply Creek	Hoonah	Run-of-river	0.40	5.49-8.23	13,725-20,575	1,480

PROJECT NAME	LOCATION	CATEGORY	CAPACITY (MW)	CAPITAL COST		ANNUAL ENERGY (MWH)
				(\$ MILLIONS)	\$/KW	
<b>Juneau Area</b>						
Lake Dorothy Expansion	Juneau	Storage	28.00	71.40-166.60	2,550-5,950	96,000
Sweetheart Lake	Juneau	Storage	30.00	82.82-124.08	2,761-4,136	136,000
<b>Upper Lynn Canal</b>						
Connelly Lake	Haines	Storage	12.00	36.80-55.20	3,067-4,600	39,762
Schubee Lake	Skagway	Storage	4.90	36.00-54.00	7,347-11,020	25,000
Walker Lake	Chilkat Valley	Run-of-river	1.00	6.08-9.12	6,080-9,120	2,750
West Creek	Skagway	Storage	25.00	112.00-168.00	4,480-6,720	76,600

- The low end capital cost estimates contained in the *refined screened potential hydro project table* (p. 1-15,16) identify **\$1.327 billion** in potential expenditures.
- The capital cost estimates in the *results of transmission interconnection economic evaluation table* (p. 1-19) identify **\$1.424 billion** in potential expenditures.
- The SEIRP *results of integrated cases – regional summary table* (p. 1-37) estimates capital spending for the *optimal hydro/transmission case* at **\$1.407 billion**.

Source:

<http://www.akenergyauthority.org/southeastIRP.html>

# Summary: Capital Estimates

- \* Alaska Energy Pathway (AEA 2010) near term:
  - \* \$1.999 billion.
- \* Railbelt Integrated Resource Plan (AEA 2010) long term:
  - \* \$13.625 - \$21.109 billion.
- \* Southeast Integrated Resource Plan (AEA 2011) long term:
  - \* \$1.407 billion
- \* ***Takeaway: there will be substantial spending on energy infrastructure in Alaska over the next five to ten years.***

# Financing: Legislative Intent



## LAWS OF ALASKA

2011

FIRST SPECIAL SESSION

Source  
HCS CSSB 46(FIN)

Chapter No.  
\_\_\_\_\_

### AN ACT

Making and amending appropriations, including capital appropriations, savings deposits in the form of appropriations to the statutory budget reserve fund, and other appropriations; making appropriations to capitalize funds; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1

“It is the intent of the legislature that the state’s capital investment into energy generation projects not exceed 50% of the total investment required to fully complete those projects.”

Page 136, Chapter 5 SSLA 11

4/14/2012

# Financing

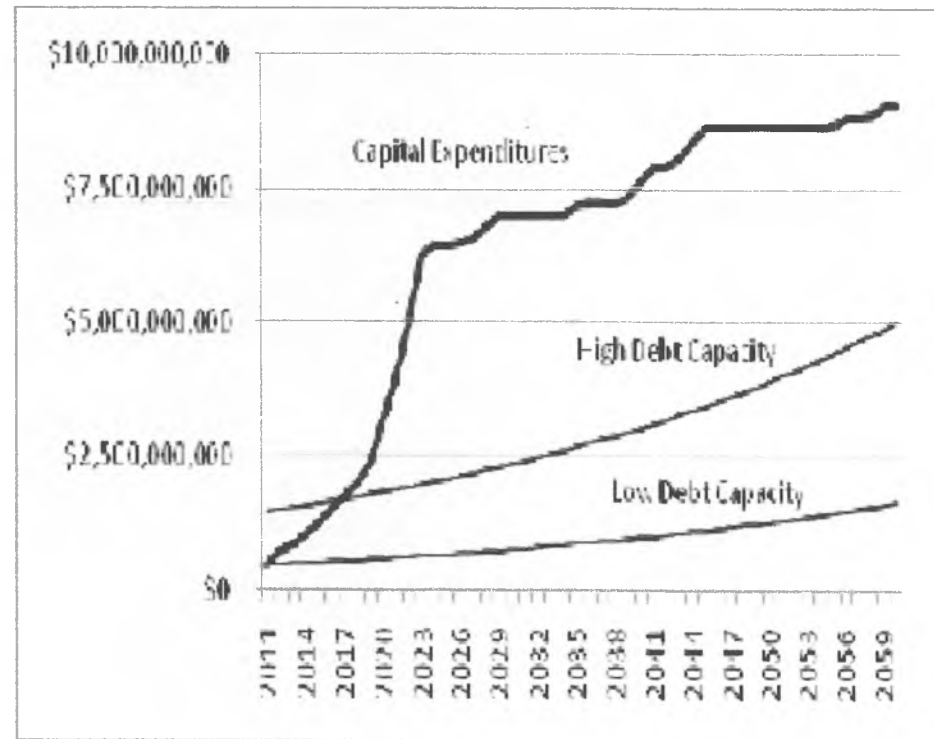
## Alaska Energy Pathway: AEA July 2010

“The largest identified challenge is how to finance projects that have been identified as economic. There is a financial gap between the projected capital expenditures and the debt capacity of the Railbelt utilities. This gap is apparent in Figure 1, excerpted from the Railbelt IRP document. The debt capacity curve indicates a low capacity of \$1 billion and a high capacity of \$2.5 billion. These debt capacities leave a Financing Gap from \$4.5 billion to \$6.5 billion for the Railbelt electric infrastructure alone.

There are three options to close the financial gap:

1. *Reduce capital expenditures by reducing the number and size of projects.*
2. *Increase debt capacity by building a healthy economic base, **obtaining favorable financing terms such as loan guarantees, low interest rates or grant assistance.***
3. *Obtain grant funding from state, federal or other outside sources.”*

Figure 1-9  
Required Cumulative Capital Investment (Scenarios 1A/1B) Relative to Railbelt Utility Debt Capacity



Source: SNW Report included in Appendix C.

Source: <http://www.akenergyauthority.org/alaska-energy-plan.html>

# Financing: continued

Southeast Integrated Resource Plan: Appendix B AEA July 2010

Selected Inputs into the model:

- \* Project Cost: \$250,000,000
- \* Long Term Debt: \$306,890,758
- \* Interest Rate: 5.5%
- \* Generation: 25 MW
- \* Capacity Factor: 65%
- \* Project Life: 50 years

Debt Service	Operation Year 1
Interest Accrual in Operation Year	\$16,822,278
Principal Payments in Operation Year	\$4,181,330
Total Principal & Interest Payments	\$21,003,614
Debt Service as % of Revenue	78.1%

Debt Service (Principal & Interest)					
Interest Accrual in Operation Year	16,822,278	16,589,143	16,343,008	16,083,150	15,808,904
Principal Payments in Operation Year	4,181,330	4,174,472	4,000,000	4,020,404	5,104,910
Total Year 1 Debt Service Payments	21,003,614	21,003,614	21,003,614	21,003,614	21,003,614
Total Principal & Interest Payments	21,003,614	21,003,614	21,003,614	21,003,614	21,003,614
Cash Flow net Debt Service	4,200,725	6,200	(6,389)	6,581	6,718

Source: Southeast Integrated Resource Plan; Appendix B: [http://www.akenergyauthority.org/SEIRP/12-23-2011\\_Vol3\\_SoutheastAlaskaIRP.pdf](http://www.akenergyauthority.org/SEIRP/12-23-2011_Vol3_SoutheastAlaskaIRP.pdf)

# Summary: Financing

- \* The legislature has expressed the intent that state funding for generation projects not exceed 50% of the total investment required for the projects; necessitating financing.
- \* AK Energy Pathway: *“The largest identified challenge is how to finance projects that have been identified as economic.”*
- \* Financing costs represent a significant portion of the revenues of any energy project.
- \* ***Takeaway: financing is an important part of project development and a challenge in Alaska.***

# Senate Bill 25: A.S.S.E.T.S

Alaska's Sustainable Strategy for Energy Transmission and Supply

## 1. Sections

1. Makes conforming changes to AIDEA's mission by including **energy** in the legislative findings of AIDEA's enabling statutes AS 44.88.010(a) [section 2].
2. Creates a new *Sustainable Energy Transmission and Supply* (SETS) development program and fund within the Alaska Industrial Development and Export Authority (AIDEA) [sections 12 & 13]
3. Sets the interest rates for loans/investments from the fund [sections 6-10]
4. Allows for an incentive interest rate for "renewable energy development" in addition to the existing rural and economic development criteria [section 11].
5. Makes changes to AIDEA's loan participation program AS 44.88.155(d) [section 4].

# SB 25: Powers and Limitations of SETS

1. Section 10 a new *Sustainable Energy Transmission and Supply (SETS)* development program and fund within the Alaska Industrial Development and Export Authority (AIDEA). Some of the powers granted to AIDEA are to use the SETS fund to:
  1. To finance qualified projects, insure project obligations, guarantee loans or bonds and establish reserves.; and
  2. Defer principal payments or capitalize interest on project financing; and
  3. Enter into project financing agreements; and
  4. Finance projects up to a term of 30 years or 50 years for a hydroelectric or transmission project; but
  5. AIDEA must obtain legislative approval if it finances:
    1. More than one-third of the capital cost of an energy project; or
    2. Guarantees a loan that exceeds \$20 million.

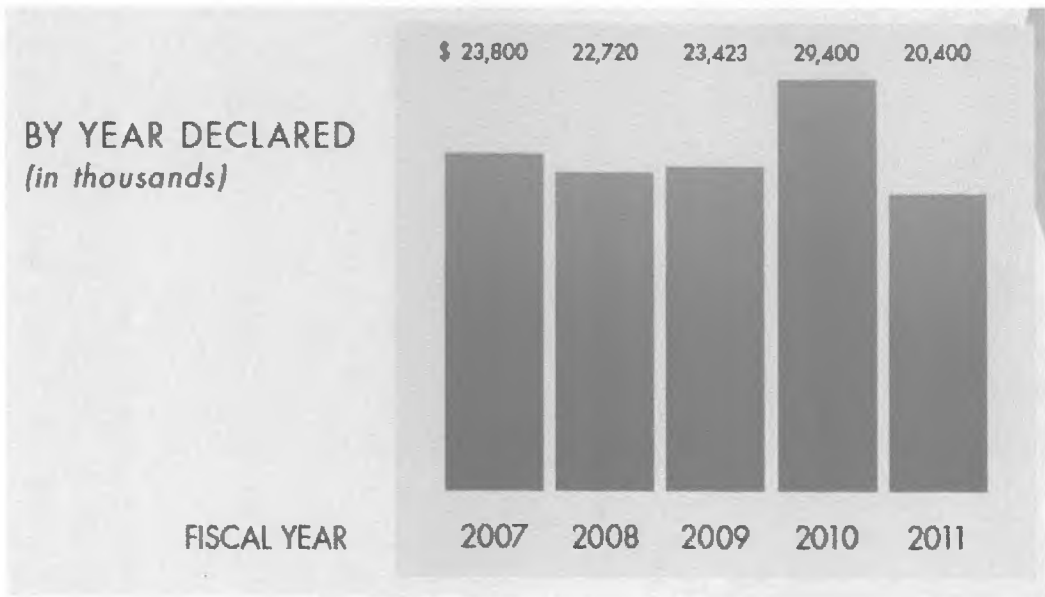
# Why AIDEA?

# AIDEA's obligations are not obligations of the State.

## Sec. 44.88.120. Nonliability on bonds.

- \* (a) Neither the members of the authority nor a person executing the bonds are liable personally on the bonds or are subject to personal liability or accountability by reason of the issuance of the bonds.
- \* (b) The bonds issued by the authority **do not constitute an indebtedness or other liability of the state** or of a political subdivision of the state, except the authority, but shall be payable solely from the income and receipts or other funds or property of the authority. The authority **may not pledge the faith or credit of the state or of a political subdivision of the state**, except the authority, to the payment of a bond and the issuance of a bond by the authority does not directly or indirectly or contingently obligate the state or a political subdivision of the state to apply money from, or levy or pledge any form of taxation whatever to the payment of the bond.

# AIDEA pays a dividend.



Since inception, AIDEA has paid \$324,500,000 in dividends to the state of Alaska and has net assets of nearly \$1 billion. AIDEA was capitalized with the transfer of \$384,500,000 in general funds and loans beginning in 1981.

Source: AIDEA Annual Report 2011

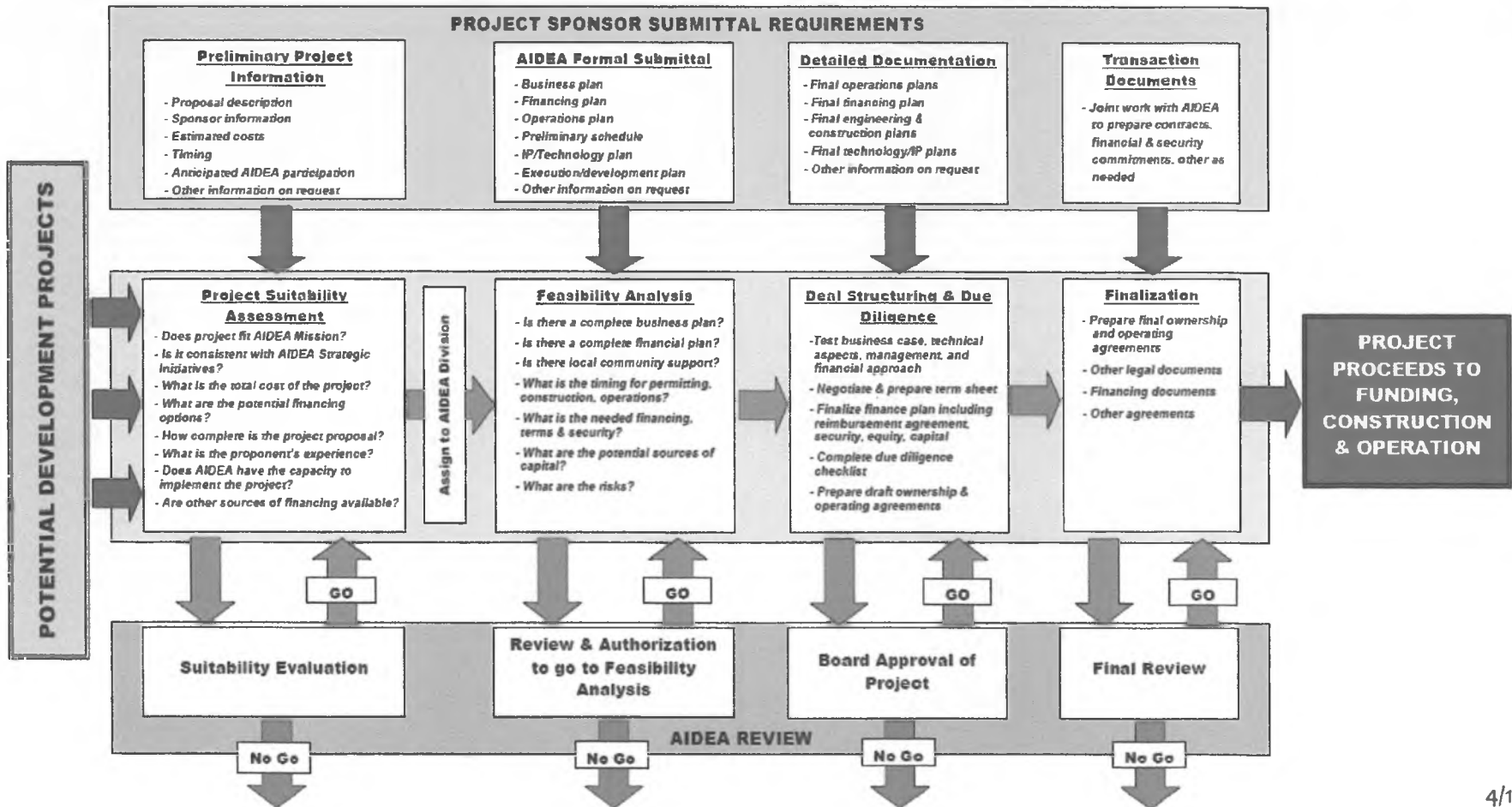
# AIDEA has a strong credit rating.

The most recent ratings report for AIDEA (Standard and Poor's, December 13, 2010) reaffirmed AIDEA's "AA-" rating due to:

1. "A pledged portfolio of private activity economic development loans;
2. A currently low loan delinquency rate;
3. Projected cash flows and debt service coverage that meet Standard and Poor's requirements for the 'AA' category for state revolving fund programs;
4. Strong legal covenants, including an additional bonds test requiring either in excess of 1.50x annual debt service, or the maintenance of unrestricted surplus equal to \$200 million or principal outstanding and never less than \$100 million; and
5. Covenants to maintain what we view as good liquidity in the authority's unrestricted cash equivalents balance."

# AIDEA has a developed process for evaluating and initiating financing decisions.

## AIDEA DEVELOPMENT RELATED PROJECT INTAKE, ANALYSIS & DECISION MAKING PROCESS



# How SETS will work within AIDEA

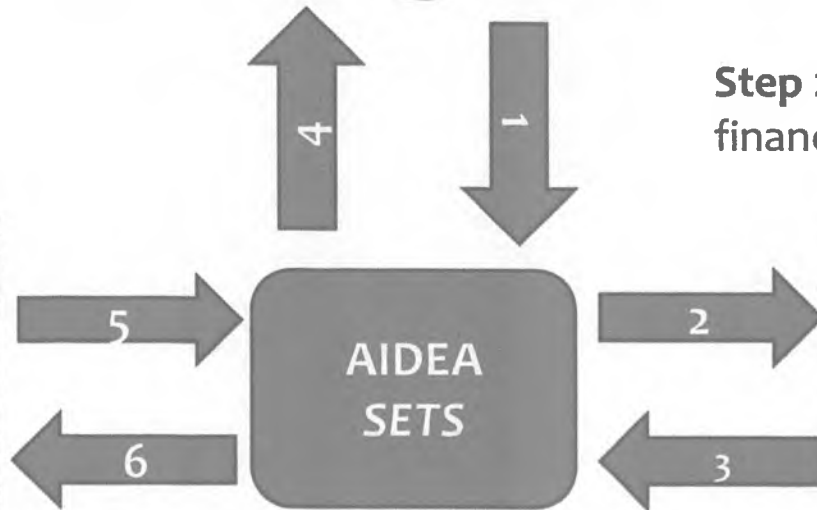


**Step 1:** the state of Alaska establishes SETS and capitalizes the fund.

**Step 5 & 6:** AIDEA can access the financial markets to make more credit available through SETS.



**Step 2:** AIDEA uses SETS to finance an energy project.



**Step 4:** AIDEA pays dividends to the state.

**Step 3:** the energy project repays the loan/investment from AIDEA.

# Summary

1. Senate Bill 25 creates a sustainable strategy for energy transmission and supply by putting some of Alaska's financial assets to work within the state in order to fund energy projects.
2. The strategy is sustainable because each investment is an asset that will generate revenues for AIDEA and the state and earnings that can be reinvested in future projects.
3. Senate Bill 25 is not the answer to Alaska's energy challenges. The high costs, vast distances and small populations will often require direct state participation in energy projects for generations to come.
4. However, Senate Bill 25 does provide a tool that will help facilitate the development of energy projects in Alaska and is complimentary to the work the legislature and the Governor have done to date to address the energy needs of Alaska.

# Questions?

Contact: Senator Lesil McGuire

907-465-2995

[Senator\\_Lesil\\_McGuire@Legis.state.ak.us](mailto:Senator_Lesil_McGuire@Legis.state.ak.us)

# ALASKA STATE LEGISLATURE

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## SENATOR LESIL MCGUIRE Sectional Analysis HCS for CS SS SB 25 (L&C) (27-LS0290\L)

-Please note that this analysis is not an authoritative interpretation of the bill. The bill itself is the best statement of its contents.

### Title

- Section 1** Establishes a short title for the bill: The Alaska Sustainable Strategy for Energy Transmission and Supply
- Section 2** Adds **energy** to the legislative findings establishing AIDEA.
- Section 3** Adds **energy** to the legislative policy establishing AIDEA.
- Section 4** Amends the AIDEA loan participation program by allowing AIDEA to participate through a private lending institution in the financing of energy infrastructure (defined throughout the bill as **qualified energy development** in section 13). Also allows AIDEA purchase loans for energy efficiency improvements from qualified financial institutions.
- Section 5** Makes a corresponding change adding **qualified energy development** to AIDEA's ability to waive certain provisions of AS 44.88.155 if it intends to own the development.
- Section 6** Amends AS 44.88.159(a) to establish interest rates for loan purchases from the proceeds of tax-exempt bonds secured by the fund established in section 12.
- Section 7** Amends AS 44.88.159(b) to establish interest rates for loan purchases from the proceeds of taxable bonds secured by the fund established in section 12.
- Section 8** Amends AS 44.88.159(d) to establish interest rates for loans from the fund established in section 12.
- Section 9** Amends AS 44.88.159(e) to establish interest rates for a loan made from the fund established in section 12 and establishing minimum interest rates for those loans.
- Section 10** Amends AS 44.88.159(f) to waive the minimum interest rate requirements to resolve lending limits or lending restrictions.

# ALASKA STATE LEGISLATURE

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## SENATOR LESIL MCGUIRE

**Section 11** Amends AS 44.88.159(g) to allow AIDEA to offer an incentive interest rate reduction of up to 1% for **renewable energy development**.

**Section 12** Amends AS 44.88 by adding new sections:

1. Sec. 44.88.700 establishing the sustainable energy transmission and supply development program to finance qualified energy developments.
2. Sec. 44.88.710 establishing the sustainable energy transmission supply and development fund within the authority to finance qualified energy developments.
3. Sec. 44.88.720 defining the uses of the fund.
4. Sec 44.88.730 establishing the powers and duties of the fund.
  - a. To finance, insure project obligations, guarantee loans or bonds and establish reserves;
  - b. Acquire real or personal property by purchase, transfer or foreclosure when necessary to protect the authority's interest.
  - c. Defer principal payments or capitalize interest.
  - d. Enter into build-operate-transfer, lease and other project financing agreements.
  - e. Enter into agreements with government entities to transfer control of facilities, rights-of-way and studies.
  - f. Subject to AIDEA's existing statutes and limitations in AS 44.88.090 borrow money or issue bonds.
  - g. Pay off the principal of and interest on bonds issued by a municipality if the municipality continues making payments and establishes a sinking fund.
5. Sec 44.88.740 establishing limitations on financing.

**Section 13** Definitions

**Section 14** Instructions to the revisor.



# LEGISLATIVE RESEARCH SERVICES

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## Memorandum

TO: Senator Lesil McGuire  
FROM: Susan Haymes, Legislative Analyst  
DATE: December 5, 2011  
RE: State Investment in the Seward Grain Terminal and the Alaska Seafood International Manufacturing Facility  
*LRS Report 12.059*

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***You asked about the state's investment in the Seward grain terminal and the Alaska Seafood International manufacturing facility. Specifically, you asked for a history of each project including the lessons learned from the state's experience.***

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The state of Alaska invested \$8 million in the Seward grain terminal and over \$50 million in the Alaska Seafood International (ASI) manufacturing facility. Both projects were failures. The Seward grain terminal was never built, while the ASI facility never became fully operational and eventually closed after several attempts at restructuring. Both projects were attempts to diversify the state's economy and to create jobs for Alaskans. While the desire to diversify the economy is natural, especially given the state's reliance on the oil industry, attempts at instantaneous diversification have been problematic. Both of these projects failed primarily because of their large scale, although other issues such as changes in the administration and legislative priorities led to a decline in support. In the case of the Seward grain terminal, the construction of a competing grain terminal, and an unexpected and precipitous decline in barley prices also contributed to the project's failure.

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### Seward Grain Terminal

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In the 1970s and 1980s, the state of Alaska invested millions of dollars to develop a large-scale agricultural industry. The state was flush with oil revenue and Governor Jay Hammond supported the development of an agricultural industry in Alaska as a way to broaden the economic base of the state, stabilize food costs, provide alternative job opportunities, and improve rural life. In a 1975 study, the Federal-State Land Use Planning Commission for Alaska recommended the development of a large-scale demonstration project to test the feasibility of grain production in the state. As a result, in 1978, the Delta Barley project (known as Delta I) was initiated and, in 1979, the Alaska Agricultural Action Council (AAAC) was created to manage the Delta project and recommend future projects to the legislature.<sup>1</sup> Delta was designed to produce feed grain for the in-state livestock industry and eventually for export markets. Alaska's livestock industry could not be price-competitive with imported meat products unless the industry had a reliable source of feed grain available at a competitive price. Barley was selected as the main crop because it matures at cool temperatures and has a short growing cycle.<sup>2</sup>

A grain terminal at port was considered not only a necessity to the success of a grain export industry, but also to the development of a livestock industry in Alaska. To ensure the existence of a reliable source of feed grain at a competitive price, the supply had to be large enough so that local demand would not force the price of barley upward. Before farmers could increase production, however, they needed assurance that there was a market for any surplus barley. A tidewater grain terminal would provide the means to export the surplus barley to Asian markets, thereby providing the necessary safety valve by assuring a market for all the barley the farmers could grow. A secondary function of the terminal would be to reduce grain costs to Kenai Peninsula and Kodiak livestock producers by reducing the costs of transporting grain to those areas.<sup>3</sup> The AAAC

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<sup>1</sup> The AAAC was created as a separate agency and included the commissioners of the Departments of Natural Resources (DNR) and Commerce and Economic Development (DCED), two private citizens, and the special projects coordinator from the Governor's office who served as chair. The DNR retained authority over land disposal as directed by the state constitution and related statutes. We note that DCED is now called the Department of Commerce, Community and Economic Development (DCCED).

<sup>2</sup> Alaska Agricultural Action Committee, "First Report to the Legislature on the Development of a Plan for Alaska Agricultural Development," February 1982.

<sup>3</sup> David Teal, "Seward Grain Terminal," House Legislative Research Report 83.034, March 8, 1983.

estimated that a minimum of 250,000 acres needed to be available for barley production to make for a viable livestock industry and export trade.<sup>4</sup>

### *Selection of Seward as the Site for a Grain Terminal*

Once the decision was made that an export grain terminal was needed, the question became where to locate such a facility. After two years of study and debate, the AAAC selected Seward as the grain terminal site. The decision, however, was not without its detractors. A 1979 report, "Transportation and Grain Assessment for the Delta Agricultural Project" considered five potential candidates for the grain port—Anchorage, Haines, Seward, Valdez, and Whittier.<sup>5</sup> The report did not clearly recommend a site, but discussed transportation costs associated with each city, and concluded that overall, Anchorage and Seward had the most favorable attributes. Seward and Anchorage were accessible by both rail and truck transport, and could serve agricultural development from both the Nenana and Delta areas. In contrast, Valdez was served by truck only and Whittier by rail only and neither were accessible to the Nenana markets. Seward also had the benefit of a continuous ice-free, deep water port and reduced sailing time compared to the Anchorage alternative.

In a 1980 report, the Alaska Agricultural Action Council Transportation Committee focused on solely the Anchorage and Seward alternatives but again made no firm recommendation. The report noted that because of the uncertainty regarding volumes through a port facility, the investment should be kept at a minimum, and therefore the existing loading facilities in Seward were attractive. On the other hand, the additional \$2.00 per ton rail cost to move the grain to Seward was a mitigating factor, so Anchorage might be more cost-effective.

In early February 1981, legislation was introduced (HB 49 and SB 162) that appropriated \$8.2 million for a grain terminal, loading facilities and railroad cars.<sup>6</sup> Later that month, the AAAC Transportation Committee recommended Anchorage as the location for the grain terminal, if the cost of site preparation and facility construction were within \$2 million of the estimated costs to build at Seward. The decision was based on the lower cost of transporting grain from Delta and Nenana to Anchorage. At the same time, the Alaska Railroad, which owned the Port of Seward, noted its interest in development of the terminal. The Committee eliminated Valdez and Whittier primarily because of the absence of multiple transportation corridors, which eliminated all possibility of competition between transportation modes.

In March 1981, after the Alaska Railroad agreed to absorb the cost of the conveyor and ship loading system, saving \$2 million, and reducing the rate differential between Anchorage and Seward from \$2.00 a ton to as low as \$.50 a ton, the AAAC reversed its decision and recommended Seward as the preferred location for the grain terminal.<sup>7</sup>

Meanwhile, in June the Senate adopted the conference committee report on SB 162. The House adjourned one week later without voting on the conference committee report. On July 6, the Attorney General ruled that the appropriations bill had passed and that the effective date was 90 days after it was signed by the governor. On July 16, the Senate president signed the bill and sent it to the House. The Speaker of the House did not sign the conference committee report but signed a bill that was identical except for the effective date. The AAAC signed a contract for construction of the foundation of the terminal and purchased 20 rail cars with payment to be deferred until after the effective date. On August 24, 1981, Governor Hammond signed the appropriations bill.

On August 27, 1981, Representative Ramona Barnes and others filed suit to stop construction of the Seward grain terminal, contending that SB 162 had not become law with the governor's signature because the bill had not passed the House. Representative Barnes argued the question involved a separation of powers between the two branches of government; however, she had also made it clear that the AAAC had overstepped its legislative mandate by choosing to construct the grain

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<sup>4</sup> The state disposed of the rights to 60,000 acres of agricultural land in the Delta I lottery. The state auctioned an additional 25,000 acres as part of the Delta II land disposal. The goal was to have 500,000 acres in production by 1990.

<sup>5</sup> Haines was eliminated from extensive analysis because 1) access was limited to trucks; 2) a significant portion of the road to Haines from Delta was unpaved; and 3) the distance from Delta to Haines is the longest of the five sites.

<sup>6</sup> Chapter 120, SLA 1981. In the legislation, \$6.5 million was appropriated for a grain terminal, an additional \$700,000 was appropriated for a grain sub-terminal and elevator facility between Fairbanks and Delta Junction, and \$1 million for railroad hopper cars.

<sup>7</sup> Anne DeVries, "Seward Grain Terminal," House Legislative Research Report 82-031, March 4, 1982.

terminal in Seward and not Anchorage.<sup>8</sup> The Court issued a provisional ruling that the appropriation bill had not passed and a temporary restraining order to stop construction. Appealing to the Supreme Court, the state admitted that contracts were signed before the bill was signed by the governor. In October 1981, the Supreme Court refused to hear the case. In November, the Attorney General again determined that SB 162 was in effect. Also, in November, the City of Valdez entered the lawsuit as a plaintiff intervener and challenged the AAAC's choice of Seward as the site for the grain terminal. On July 13, 1982, the Superior Court ruled in the state's favor; funds were made available for construction of the terminal. Although issues were resolved in a settlement agreement signed in January 1983, the delay in the project allowed other events to intercede and helped to derail the project.

### *Competing Project: Valdez Grain Terminal*

At the same time the AAAC was beginning its site selection process, the city of Valdez began aggressively pursuing an export grain terminal. Valdez was interested in a grain terminal for the "backhaul" that barley would give to trucking operations between Valdez and interior Alaska. According to Mark Lewis, then City Manager of Valdez, a grain export terminal would lower the cost of freight into and out of Valdez because trucks delivering freight to the interior could then carry grain on the haul back to Valdez.<sup>9</sup> In 1979, the city first approached the AAAC to formally request the export terminal be built in Valdez, and hinted that the city might pay a portion of the costs for the terminal. In a January 8, 1981 letter, Mr. Lewis proposed to waive all dock and wharf fees for a period of five years if the terminal was built in Valdez. On March 23, 1981, the Valdez Port Director claimed Valdez could store and handle grain at a price not to exceed \$4 per ton for the next 15 years. The AAAC noted that the offer should not be taken seriously because it was much lower than comparable charges in the Pacific Northwest. After not getting far with the AAAC, Valdez proceeded with plans to build a grain export terminal concurrently with the Seward terminal. In the fall of 1981, Valdez voters approved a \$10,000,000 bond issue to construct a grain storage and handling facility for the export of grain produced in Delta. The City Council awarded the bonds in February 1982, and the facility was completed in December 1982 with a capacity for about 14,000 tons of grain.<sup>10</sup> No grain, however, was ever exported using the Valdez grain terminal.

The construction of the Valdez grain terminal appears to have been a significant factor in the decision to stop construction of the Seward facility. Soon after taking office, Governor Sheffield appointed new members to the AAAC, which met on January 13, 1983, to recommend that construction on the terminal cease because an export market was not available and alternatives were available which "preclude the economic wisdom of completion now."<sup>11</sup> Commission member Peter McDowell, then director of Office of Management and Budget, stated that a major issue for the administration was whether the state should directly compete with the Valdez grain terminal, a private sector and local government project. The two agricultural members of the AAAC noted that the cost of shipping grain to Valdez could be prohibitively expensive for farmers, and further that the decision to terminate the Seward project appeared to be more political than economic.<sup>12</sup> Clearly, there was an issue whether the Valdez terminal made economic sense in the development of a grain industry; however, by this time the new administration and many legislators no longer supported the state's investment in the agricultural industry.

### *Interagency Conflicts and Changes in Administration*

Prior to the AAAC, the Department of Natural Resources (DNR) had managed all agricultural programs. Although DNR retained its authority over state lands, the AAAC was created as a special projects entity in the governor's office to oversee the

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<sup>8</sup> Representative Ramon Barnes, "Agriculture: A Choice Must Be," Position Paper, March 19, 1982.

<sup>9</sup> Ann Cony, "Valdez Joins Suit Over Grain Terminal," *Anchorage Daily News*, September 23, 1981.

<sup>10</sup> The completed facility had one-half of the capacity originally envisioned. In addition, the building site was chosen poorly, and the terminal needed approximately \$500,000 in dredging to allow barges close enough to load grain. Memorandum from House Community and Regional Affairs staff to Representative Barbara Lacher, "Valdez Grain Terminal Summary," May 12, 1983.

<sup>11</sup> The *Anchorage Daily News* reported that the AAAC's decision was a done deal before the meeting because on January 11, 1983, two days before the January 13 meeting, the state signed a settlement agreement to resolve the remaining issues in the Barnes lawsuit, and as part of the settlement agreed to close the Seward grain terminal. As a result a second public meeting was held a week later, which the governor attended. The decision, however, remained the same. Steve Seplocha, "Senator: Secret Pact Axed Terminal," *Anchorage Daily News*, May 20, 1983.

<sup>12</sup> The city of Valdez and its partner in the terminal, Alaska Grain, had lobbied Representative Barnes and other lawmakers to support the Valdez terminal over the Seward site. Memorandum from House Community and Regional Affairs staff to Representative Barbara Lacher, "Valdez Grain Terminal Summary," May 12, 1983.

Delta barley project and to pursue new agriculture projects. Agricultural supporters argued that the economic future of the industry depended on the continuous and rapid expansion of agricultural lands and the development of infrastructure projects such as the grain export terminal. Thus, the development of an agricultural industry depended to a large extent on cooperation between AAAC and DNR. Tensions between the two agencies became apparent as the AAAC began implementing Delta I. The AAAC became frustrated with the perceived lack of cooperation among DNR staff to disperse land for agricultural use in a timely manner. In an analysis of Alaska agricultural policy implementation, the authors conclude that much of the tension between DNR and the AAAC resulted from conflicting objectives. The DNR's responsibility was comprehensive management including planning and disposal of all state lands, while AAAC's responsibility was to get land into agricultural production quickly.<sup>13</sup> The AAAC had difficulty accepting the complexity of existing statutes and regulations that underscored many actions of DNR and, at the same time, DNR's regulations did impede AAAC's actions.

Furthermore, most resource decisions by DNR required coordination with other state agencies such as the Alaska Department of Fish and Game (ADF&G). The shift of decision-making to AAAC also undermined this inter-departmental cooperation. All of these problems were highlighted during the Delta II land disposal. Getting more land into production was seen as critical to the export grain market as well as the livestock industry. The Delta II land sale was postponed due to ADF&G concerns regarding the free-ranging bison herd and crop damage, and conflicts over timber and agriculture. Staff of ADF&G publicly opposed the Delta west land sale and urged their commissioner to reverse his endorsement of the project. The Delta II east sale finally occurred; however, the governor postponed indefinitely the Delta II west sale due in part to inter-agency conflicts and the public perception that the Delta east sale was not handled well.

To proceed with any degree of success, a government-induced agricultural industry, or any large government project, requires strong and consistent support from the legislature, the governor, and the affected bureaucracy. In this case, the attempts by the AAAC to implement Delta I and II led to resistance from DNR and other established departments. Initially, agricultural projects had strong public and legislative support. Alaska, however, had no sizeable political base that supported agriculture, and as projects were delayed and setbacks occurred, support diminished quickly.

In addition, as an entity in the governor's office, AAAC's power to implement stemmed from the strong individual connection between its chairman and the governor. When a new governor took office in 1982, he appointed new members to the AAAC who immediately took action to cancel the Seward grain terminal project. No additional appropriations were ever made to fund the construction and the terminal elevator was never realized.

### *Grain Prices*

In 1981 and 1982, the barley harvest was less than expected due to a multitude of problems ranging from early snowstorms, crop depredation from bison, lack of grain drying and storage facilities, and grasshopper infestations. Farmers were able to meet in-state demand but there was little barley for an export market, which led to declining support for the construction of the Seward grain terminal and the development of an export market. The production of barley in Alaska reached its peak in 1984; unfortunately at the same time the commodity prices for small grains declined dramatically. The drop in international prices made imported grain cheaper than barley produced in Alaska. In short, too little barley was being produced to export, and prices were too low for that to be an economical solution. As debt mounted, the number of farmers in Delta began decreasing.<sup>14</sup> At the same time, the state was facing increasing fiscal constraints due to declining oil prices in the 1980s.

Even if the Seward grain terminal had been constructed, the potential for success of an in-state livestock and export barley industry is debatable. The decline in commodity prices in 1984, coupled with the difficulty in creating a large-scale agricultural industry essentially out of nothing, would have been difficult to overcome.

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<sup>13</sup> C.R. Engelbrecht and W.C. Thomas, "Agricultural Policy Implementation in Alaska," *Agricultural Administration and Extension*, 26 (1987) pp. 75-90.

<sup>14</sup> Division of Legislative Audit, "A Special Report on the Department of Natural Resources Delta Agricultural Project," Audit Number 10-4248-86-S, August 15, 1986.

## Alaska Seafood International Manufacturing Facility

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Alaska's commercial fisheries are currently worth \$1.5 billion to fishermen and have a wholesale value of \$3.6 billion. Alaska's fisheries support a large processing industry with over 500 licensed processors, more than half of which are catcher-processor vessels that both harvest and process seafood. The remaining processors are located shoreside, and of those about 30 handle most of the harvest. The majority of processing in Alaska consists of *primary processing*, which usually involves heading, gutting and freezing. In contrast, most *secondary processing*, which adds value to the product by creating skinless/boneless fillets, fish patties, and other products, occurs outside of the state. The Alaska Seafood International (ASI) manufacturing facility was to represent Alaska's entry into the secondary processing industry, thus creating jobs and revenue for Alaskans.

Howard Benedict, president of Alaska Seafood Center, began promoting a large-scale Anchorage seafood processing facility in the 1980s.<sup>15</sup> Mr. Benedict organized a small group of private investors and approached the Alaska Industrial Development and Export Authority (AIDEA) about the state's interest in investing in such a project. In 1992, Alaska lawmakers introduced legislation (HB 417), which provided AIDEA the authority to issue bonds for up to \$50 million for an Anchorage seafood processing facility. The bill's sponsors decided to delay action on the bill to allow time for Alaska Seafood Center to find additional investors for the project and to develop a business plan. The following year legislation was again introduced and passed that provided AIDEA with bonding authority not to exceed \$50 million to construct and own a seafood manufacturing facility to be located in Anchorage (ch 27 SLA 93).<sup>16</sup> Mr. Benedict testified that the Center had lined up additional financing from a New York investment bank, and a market for all of the products appeared to be available. He further testified the facility would provide approximately 200 jobs during the construction phase and 450 year-round jobs once the facility was operational. The Center would not compete with existing primary processors, but would make major, year-round purchases from Alaska's primary processors for use in secondary processing. The "ready-to-heat" products would then be shipped to domestic and international markets. Mr. Benedict noted the company was not seeking a subsidy, but would repay AIDEA as it would commercial lenders. He further noted the project would bring \$100 to \$115 million in outside money to the state.<sup>17</sup> The Department of Commerce and Economic Development (DCED) also supported the project because of its value in creating jobs, diversifying seafood exports, and providing a 45 million pound public cold storage facility.<sup>18</sup>

When asked why the project was not located in Dillingham or Dutch Harbor, Mr. Benedict explained that already the facility would experience a \$2.5 million disadvantage per year per 100 million pounds of production for being located in Alaska. To overcome this disadvantage, the facility would be equipped with the latest in processing technology to increase efficiencies, and the City of Anchorage had agreed to provide electricity at a rate that was 38 percent below Seattle's cost. Construction of the facility in another part of the state would not have the transportation advantage provided by the Anchorage Airport, and the cost of power outside of Anchorage would put the cost of electricity totally out of the economic picture.

### *Construction and Early Years*

Several years passed before Mr. Benedict secured a large investor for the project. In 1996, the Alaska Seafood Center joined with Central Investment Holdings (CIH), a Taiwan investment company, to form Alaska Seafood International. In November 1998, AIDEA and ASI signed an agreement whereby AIDEA would provide interim financing for construction of the facility.<sup>19</sup> The 184,000 square foot plant—the largest seafood processing facility in the country—was built to turn 80-100 million pounds of fish a year into "ready to heat" seafood meals. On September 23, 1999, AIDEA purchased the completed facility with its own funds without use of the bonding authority provided by the legislature in 1993. After six months of delay, ASI claimed it was ready to start operations in December 1999, with plans to start shipping products to customers by the end of January.

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<sup>15</sup> Mr. Benedict, previously a Connecticut real estate developer, moved to Alaska in 1981. He founded the Alaska Seafood Center, the precursor to ASI.

<sup>16</sup> In 1993, Senator Johnny Ellis introduced SB 16 to provide AIDEA with the authority to issue bonds for an Anchorage seafood facility. Later in the session, the language from SB 16 was included in SB 171 and passed the legislature.

<sup>17</sup> Senate Finance Committee meeting minutes on SB 16, April 5, 1993. The minutes can be accessed at [www.legis.state.ak.us/basis/get\\_single\\_minute.asp?ch=S&beg\\_line=0416&end\\_line=0665&session=18&comm=FIN&date=19930405&time=0810](http://www.legis.state.ak.us/basis/get_single_minute.asp?ch=S&beg_line=0416&end_line=0665&session=18&comm=FIN&date=19930405&time=0810).

<sup>18</sup> Department of Commerce and Economic Development (DCED) Position Paper signed by then Commissioner Paul Fuhs on March 16, 1993.

<sup>19</sup> The total cost for the project was \$125 million. The AIDEA provided \$50 million for construction and long-term financing of the processing building, land and power plant, private sector investment financed equipment, the cold storage facility, working capital and provided other required funds.

The company had hired only ten workers, but planned to add more as production increased. At the time, there was some speculation as to how many customers ASI actually had and how much raw fish they had for processing. ASI reassured the state and other investors that the company had found a market and had purchased millions of pounds of frozen fish which was waiting in the adjacent cold storage facility.<sup>20</sup>

Nonetheless, many in the seafood industry questioned whether ASI could ship seafood to Anchorage, process it, and transport the product to national and international markets, while selling it cheaply enough to compete with similar seafood products produced out of the state. According to Stephanie Madsen, then vice president of Pacific Seafood Processors Association, other processors had looked at value-added product and found that it was not economically feasible to produce in Alaska. Other seafood processors called the venture too ambitious and questioned its success because of the formidable distance from the fishing grounds to Anchorage and outside suppliers.

The plant never became operational or produced any product for market in early 2000 due to the loss of operating cash. According to AIDEA and ASI, in February 2000, due to a change in political parties in Taiwan, CIH was directed to withdraw money from foreign investments. Central Investment Holdings was the largest private investor in the plant and provided the operating cash for the business. With the loss of operating cash, the plant was idle or operated at a very low capacity, and AIS began seeking a new equity investor.<sup>21</sup> We note that AIS never explained why the company did not begin processing the millions of pounds of already purchased seafood for its customers in December and January.

### *Three Restructuring Plans*

The AIDEA began working with ASI on the first of three restructuring plans that would be attempted to keep the company afloat. During the summer of 2000, AIDEA had been reluctant to provide more money unless the operation could meet certain conditions, which included finding a new investor with seafood experience. At the same time, a number of legislators wrote to AIDEA in support of providing additional funding for ASI. Representative Gail Phillips, among others, argued too much private and public money had been invested to just walk away. Wilson Hughes, then AIDEA board chairman, noted that weighing whether giving the seafood company additional funds made good business sense, as opposed to political sense, was essential.<sup>22</sup>

In October 2000, the AIDEA board narrowly voted to lend \$6.5 million in cash and rent concessions to ASI. The vote was 3-2, with representatives from DCED and the Department of Revenue voting against the proposal. The plan included the AIDEA contribution of \$6.5 million in exchange for 22.5 percent ownership of the venture; the private investment group headed by Howard Benedict would slip from 38 percent to 5 percent ownership and Mr. Benedict would lose his board seat; AIDEA would seek a new investor with food-processing expertise to contribute \$5 million for a five percent ownership; and CIH would contribute \$10.5 million in new money and own the remainder of Alaska Seafood International. The plant was to restart production of fish portions and meals in January of 2001.<sup>23</sup>

The vote allowed the restructuring efforts to continue and, in January 2001, ASI announced the company's finances had been restructured, resulting in \$14 million in new cash and a fresh commitment from the Taiwanese. The AIDEA became a 25.4 percent owner in ASI in exchange for \$2.5 million and forgiveness or deferral of \$8 million in rent. Jeff Bush of DCED, who had previously voted against the deal that made AIDEA an owner, became chairman of the new, nine-member board. Mr. Bush acknowledged the company had significant issues but thought the venture could be salvaged. The company needed not only a new line of credit to buy raw processing materials, including fish, seasonings, and packing materials, but also needed to reformulate a sales and marketing plan to generate orders.<sup>24</sup> Under the restructuring plan, the Benedict investors were left with less than one percent of ownership in ASI.

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<sup>20</sup> Tony Hopfinger, "Seafood Center Set to Open," *Anchorage Daily News*, December 11, 1999.

<sup>21</sup> "Alaska Seafood International – Seafood Manufacturing Facility Final Fact Sheet," AIDEA, July 18, 2005; and Wesley Loy, "Seafood Factory Loses Investor," *Anchorage Daily News*, June 20, 2000. The AIDEA Fact Sheet can be accessed at [www.aidea.org/PDF%20files/ASIfactSheet.pdf](http://www.aidea.org/PDF%20files/ASIfactSheet.pdf).

<sup>22</sup> Associated Press, "Agency Urged to Provide More Aid to Struggling Seafood Plant," *Juneau Empire*, August 15, 2000.

<sup>23</sup> Wesley Loy, "Seafood Factory Gets \$6.5 Million Reprieve," *Anchorage Daily News*, October 25, 2000.

<sup>24</sup> Wesley Loy, "ASI Plant Gets New Board," *Anchorage Daily News*, March 3, 2001.

A series of lawsuits followed filed by Howard Benedict, the company's founder; a marketing firm; and a Kodiak fish processor. The AIDEA continued to recruit a new investor and to restart production. According to news reports at the time, relations between the Benedict investors and CIH were strained, and new management at CIH did not like the investment and couldn't understand why their predecessors made it in the first place.<sup>25</sup>

In May of 2001, ASI announced a second restructuring of the company's finances. At this time, a new investor, Sunrise Capital, a New York-based investment firm that specialized in turning around troubled companies, assumed a 51 percent interest and management control of ASI. At the same time, ownership shares of the other investors decreased, so AIDEA had to assume a 29 percent equity share. A new CEO, Russell Schreck, was appointed and Sunrise pledged to line up operating cash to buy raw fish. In all, Sunrise pledged \$32.5 million to revive the plant. Joseph Julian, a principal with Sunrise in New York, commented that ASI's original concept was good, just poorly executed.<sup>26</sup> Mr. Schreck replaced senior managers with a management team experienced in food manufacturing and fisheries. He also established a sales staff in markets in the lower 48, the first time sales representatives had been hired. Several new buyers signed contracts and the company's prospects seemed to be improving.<sup>27</sup> The company filled a number of large orders for Sam's Clubs and Albertson's grocery stores under The Great Alaska Seafood Co. brand. By August 2002, however, all of the orders had been filled and only 40 workers remained.<sup>28</sup> While Sunrise had shown ASI could be a viable concept with sales to large retailers, the lack of steady customers and supply problems doomed the company again.

The third restructuring occurred in the fall of 2002. According to AIDEA, staff alerted the board that ASI was facing liquidity problems and advised that it could be time to begin an orderly wind-up of the company. Under direction from the Governor's office, however, AIDEA agreed to a third restructuring of ASI in October 2002. This restructuring provided additional capital to carry the company through June 2003. As part of the deal, AIDEA invested \$2.5 million by acquiring adjacent property valued at \$2.6 million, and agreed to purchase additional shares in the company up to \$500,000, which was to be paid in monthly installments of \$100,000.<sup>29</sup> At this point, AIDEA had invested \$50 million in ASI and owned title to the company's building and land, had another 20 percent stake in the company through unpaid rent, as well as the land parcel valued at \$2.6 million.<sup>30</sup> In the spring of 2003, AIDEA's new board and management informed ASI that after the last installment of \$100,000 was paid in June 2003, ASI could expect no further contributions from AIDEA.

The new management at ASI recast the company as a smaller, less ambitious operation, and for the first time the company had a steady customer in BJ's Wholesale Club, an east coast retailer similar to Costco. The one customer, however, was not enough to keep the company going and ASI conceded they had neither the money nor the sales to sustain operations for more than a year. The company employed about 50 people and the small operation, set up inefficiently on either end of the building, took up only about 20 percent of the 184,000 square foot facility.<sup>31</sup>

### *The End and Lessons Learned*

As ASI's debt mounted, in May 2003, the company again asked the governor for help. Specifically, ASI asked for \$100,000 a month to pay utility, insurance and other costs for upkeep of the building and asked the state to defer the \$360,000 monthly rent payments for nine-months. In addition, ASI asked for some of the \$50 million allocated for the salmon industry marketing and revitalization plan.<sup>32</sup> In June 2003, ASI secured additional capital from Sunrise and Grandway Investments

<sup>25</sup> Wesley Loy, "Founder Sues Fish Factory-ASI Suit is One of Several Against Stalled Start-Up," *Anchorage Daily News*, March 14, 2001.

<sup>26</sup> Wesley Loy, "Seafood Factory Revives-New CEO Expects Production at Alaska Seafood International to Begin by July," *Anchorage Daily News*, May 18, 2001.

<sup>27</sup> Associated Press, "Business Picks Up for Seafood Plant," *Juneau Empire*, January 2, 2002.

<sup>28</sup> James McPherson, "Chicken Expert Takes Aim at Fish Plant," *Alaska Journal of Commerce*, August 12, 2002.

<sup>29</sup> "Alaska Seafood International – Seafood Manufacturing Facility Final Fact Sheet," AIDEA, July 18, 2005.

<sup>30</sup> James McPherson, "State Sinks Another \$2.5 Million Into ASI Plant," *Alaska Journal of Commerce*, October 21, 2002.

<sup>31</sup> Wesley Loy, "Big Seafood Factory Thinks Small," *Anchorage Daily News*, March 22, 2003.

<sup>32</sup> Associated Press, "Troubled Seafood Plant Asks Governor for Help," *Alaska Journal of Commerce*, May 27, 2003.

International Corporation. The AIDEA declined the presumptive right to purchase additional membership under the agreement. The infusion of cash did not help, and in September 2003, ASI voted to dissolve the company.

The demise of ASI resulted in significant financial losses to the state and other creditors. Doug Bell, president of ASI, said that secured creditors were owed about \$20 million and unsecured creditors were owed at least \$1 million. Many were never paid as ASI's equipment, meager cash reserves and seafood supplies were not nearly enough to pay secured creditors. Officials at the AIDEA estimated the state had invested about \$53 million in the venture.<sup>33</sup>

The AIDEA regained possession of the building and was responsible for oversight of the facility. The ASI conducted a public sale of the processing equipment and other personal property for approximately \$3 million, which was used in part to satisfy past due property taxes owed by ASI to the Municipality of Anchorage. The AIDEA wrote off at least half of the investment as a loss and, in 2005, sold the facility to Anchorage Community Development for \$24.5 million.

The overriding criticism from the beginning of the ASI venture was simply that it was too large. Constructed as the largest fish manufacturing facility in the country, the company had to immediately produce product for numerous customers on a large scale to sustain the operation. Instead, ASI from the outset had management problems and difficulty finding customers and maintaining a steady supply of fish for product. As ASI president Doug Bell said, the venture "just started on too grand a scheme instead of starting small and building." The original model of starting large-scale with the intent of immediately taking a big bite of the processed seafood business proved to be a mistake.<sup>34</sup>

Others noted that politics exacerbated the problems. Mike Barry, AIDEA board chairman in 2005, reflected that the AIDEA board would better serve the public by being more independent of politics. He suggested this could be accomplished by adding two more independent directors on rotating terms. He noted that this was not a reflection on the present governor's relationship with the board, but that "There are always going to be lobbyists and special interests that will try to take advantage of opportunities, and the public, to be protected from that, has to have a more independent board than we have today." He also emphasized that numerous people in the fishing industry had warned the project was ill-advised but those voices had been ignored.<sup>35</sup> Under the second restructuring, Sunrise had some success operating a smaller scale facility, but by that time mounting debt made any venture unsustainable.

We hope this is helpful. If you have questions or need additional information, please let us know.

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<sup>33</sup> Wesley Loy, "Troubled Seafood Plant Closes Doors," *Anchorage Daily News*, October 1, 2003.

<sup>34</sup> Wesley Loy, "Troubled Seafood Plant Closes Doors," *Anchorage Daily News*, October 1, 2003.

<sup>35</sup> Margaret Bauman, "Seafood Plant Sale Finalized Under Revised Terms," *Alaska Journal of Commerce*, June 12, 2005.

## Alaska Industrial Development and Export Authority; State Revolving Funds/Pools

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# Alaska Industrial Development and Export Authority; State Revolving Funds/Pool

## Credit Profile

US\$14.47 mil revolvd fd bnds (Private Activity - Non-Amt) ser 2010B dtd 12/22/2010 due 04/01/2031

Long Term Rating

AA-/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the Alaska Industrial Development and Export Authority's revolving fund bonds, series 2010B and affirmed its 'AA-' rating on the authority's revolving fund bonds outstanding.

The ratings reflect our opinion of:

- A pledged portfolio of private activity economic development loans;
- A currently low loan delinquency rate;
- Projected cash flows and debt service coverage that meet Standard & Poor's requirements for the 'AA' category for state revolving fund programs;
- Strong legal covenants, including an additional bonds test requiring either in excess of 1.50x annual debt service, or the maintenance of unrestricted surplus equal to \$200 million or principal outstanding and never less than \$100 million; and
- Covenants to maintain what we view as good liquidity in the authority's unrestricted cash equivalents balance.

The bonds are a general obligation (GO) of the authority for which the full faith and credit of the authority's revolving fund are pledged. The authority intends to issue the series 2010B bonds to fund a loan for the construction of a wastewater facility that will serve a state prison near Wasilla.

The authority has a number of programs through which it carries out its economic development activities. It conducts the majority of its business through its revolving fund, the net income and assets of which serve as the source of repayment on the bonds. As of June 30, 2010, the revolving fund had total assets of \$1.2 billion, of which \$1.09 billion were available to contribute toward satisfying obligations on revolving fund bonds outstanding. Total available assets included \$383.8 million of unrestricted cash and investments. Other assets consist of \$377.7 million in loans that had been purchased by the authority through a loan participation program, and \$326.1 million of projects owned directly by the authority under its development finance program, including \$224 million for an ore transportation system and \$45.8 million for a clean coal generating project, which has suspended operations.

Overall financial trends for the authority have been positive, with historical annual debt service cash basis coverage in the last five years ranging from 4.00x in fiscal 2006 to 9.0x in fiscal 2010, including \$31.8 million of revenue from three directly owned development projects. Coverage by loan repayments alone was more than 5.0x in 2010. At fiscal year-end June 30, 2010, less than 1% of revolving fund loans were delinquent. The authority projects debt service coverage of 7.36x in fiscal 2011 by all revenues, and 3.10x by loan revenues alone. It currently projects debt service to peak in 2014 at \$14.4 million and to be covered by authority-projected revenues 6.43x, and 2.74x by loan revenues alone, commensurate with our 'AA' category rating level after being stress tested using Monte Carlo

modeling techniques.

We anticipate debt service coverage to remain strong based on the authority's currently limited additional debt plans. The authority has \$330 million in existing bond authorization for various specific projects around the state. It has indicated no immediate plans to bond for additional revolving fund loans or projects.

Legal provisions provide operational and asset-based protection to existing debt by limiting the issuance of additional parity debt unless certain provisions are met. Operationally, annual net income must produce 1.5x annual debt service in any year in which the authority has debt outstanding. Alternatively, the authority may maintain an unrestricted surplus equivalent to the lesser of \$200 million or principal outstanding of bonded indebtedness. Regardless of which of the above tests apply to authority debt, the authority further pledges that at no time will it maintain a balance of the lesser of \$50 million in unrestricted cash equivalents or 25% of the amount outstanding of revolving fund bonds. Allowed short-term investments were previously expanded to include 'AAA' rated money market investment funds and 'A-1' or higher rated commercial paper in addition to cash and U.S. Treasuries. All cash and cash equivalent investments must have maturity schedules of one year or less.

## Outlook

The stable outlook reflects Standard & Poor's expectation of adequate debt service coverage and active program management. The outlook is also supported by the strong performance in the authority's underlying loan pool. We could lower the rating if the state's significant economic development projects fail to produce adequate revenue or experience significantly high loan delinquencies, or if there was a significant change in the reserves maintained by the authority.

## Loan Participation Program

Through the enterprise development program, the authority purchases participations in loans made by financial institutions to their customers. Currently, the authority's loan portfolio consists of 283 loans with principal outstanding of \$401.8 million. Revenues from loan repayments represent approximately 40% of total annual cash flows available for debt service. Loan performance is in our view strong, with a very low delinquency rate of less than 1.0%. The loan portfolio has good borrower diversity with 25% of borrowers in the tourism sector, 20% in retail, 16% in office or warehousing, and 13% in office or business condos. The 10 largest borrowers comprised 30% of loans, with the largest loan to the Anchorage Community Development LLC at \$22.9 million for an office/warehouse. Geographically, the portfolio is more concentrated, with 59% of loans to borrowers in the Anchorage area. This does not include the revolving fund's \$224 million direct investment and ownership in the DeLong Mountain Transportation System in support of lead/zinc mining activities in northwestern Alaska. Loan parameters and policies are good and include the following provisions:

- Participation is not to exceed 90% of the loan amount or \$20 million, whichever is lesser.
- Total loan to value is not to exceed 75%.
- The term on the authority's portion of the loan may be up to 25 years when the loan is secured by real property, and up to 15 years when secured by personal property, but in either case, not more than 75% of the remaining economic life of the collateral.

## Economic Development Account

Through the economic development program, the authority has the ability to own and operate facilities for economic development purposes in the state. These projects represented \$326.1 million of net book value at June 30, 2010, and generated \$31.8 million of net annual cash flow in fiscal 2010, or 31% of total cash flows available for debt service. Some of the major projects conducted under this program are the following:

- DeLong Mountain Transportation System (DMTS) is a 52-mile industrial haul road and shallow draft port to transport ore. The DMTS is operated by Teck Alaska Incorporated and guaranteed by Teck Resources Ltd. ('BBB' issuer credit rating) and serves the mining district that includes the Red Dog Mine, the world's largest zinc/lead producer. The authority's revolving fund interest in DMTS consists of direct ownership valued at \$223.9 million as of June 30, 2010, which the authority projects will bring in a minimum of \$17.7 million of net revenues per year.
- Federal Express Aircraft Maintenance Facility is a wide-body aircraft hanger at the Ted Stevens Anchorage International Airport. The authority owns the hanger and leases the space to the FedEx Corporation for \$2.99 million per year. The authority's current net investment for the revolving fund in the hanger was valued at \$11.5 million as of June 30, 2010. FedEx's current lease expires in March 2015.
- Ownership of the Ketchikan Shipyard, which was originally developed by the state Department of Transportation and Public Facilities, was transferred to the authority in 1997. The authority subsequently entered an operating agreement with the Alaska Ship and Drydock. The value of the shipyard stood at \$35.6 million at June 30, 2010. Payments from the shipyard are uncertain and are determined on a percentage of revenues basis, with revenues first applied to reimbursing the authority for administrative costs, then to a repairs and replacements fund, and then to the authority and to other contributing local governments.
- The authority reports its Skagway Ore Terminal is substantially complete with a direct investment of \$9.4 million, although completion may require further investment. The authority projects annual revenues of \$3.1 million from this project.

## Investment Portfolio

Interest earnings and amortized principal from the revolving fund's \$383.8 million (June 30, 2010) unrestricted investment portfolio are also pledged to bond repayment and bolster coverage considerably, albeit with significant variance. In some years, investment earnings represent as much as 34% of annual cash flows, although in 2010 earnings were a lower 13.7% of pledged income. An additional \$18.9 million of revolving fund investments were restricted and not available for bond debt service. Asset management is conducted both internally (23% of assets) and externally (77%) and is governed by the authority's investment policy as well as restrictions in state statute. The authority reports that as of June 30, 2010, 42% of its investment portfolio consisted of either U.S. Treasuries or U.S. guaranteed agencies or securities rated 'AAA', while an additional 25% was in government-sponsored securities, 4% was rated 'AA', 16% 'A', 10% 'BBB', and 1% 'BB'. At June 30, 2010, 26% was invested in U.S. Treasuries, 6% in U.S. agencies and government-supported entities, and 6% in cash. In addition, 30% was invested in corporate securities, 30% in mortgage-backed securities, 1% in asset-backed securities, and 1% in municipal bonds. The authority's internal investment policy objective is safety and liquidity, and limits investments to those of investment-grade credit quality ('BBB-' and higher) and precludes investment of more than five percent of the portfolio in unrated securities. Duration is limited to two years for internally managed portfolios. For externally

managed assets, the authority's goal is safety and return.

## Related Criteria And Research

USPF Criteria: Long-Term Municipal Pools, Oct. 19, 2006

<b>Ratings Detail</b> (As Of December 13, 2010)		
Alaska Indl Dev & Export Auth state revolv fd		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Alaska Indl Dev &amp; Export Auth revolv fd rfdg bnds dtd 06/20/2002 due 04/01/2007-2014</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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The McGraw-Hill Companies



Renewable Energy  
Alaska Project

April 12, 2012

Senator Lesil McGuire  
State Capitol, Room 125  
Juneau, Alaska 99801-1182

RE: SB 25

Dear Senator McGuire:

On behalf of Renewable Energy Alaska Project (REAP) I am writing to support the passage of SB 25, a bill to expand the authority of AIDEA to make loans for energy projects and to establish a dedicated fund so that the loan program can be capitalized by the legislature.

REAP is statewide, non-profit coalition of over 80 dues-paying members representing small and large electric utilities, conservation and consumer groups, businesses and Alaska Native organizations. Since 2004, REAP has been working to educate the public about the importance of energy efficiency (EE) and flat-priced renewable energy (RE) to the state's economy. REAP has also advocated for state policy that creates long-term incentives to increase investments in EE and RE.

SB 25 will fill a significant financing gap that currently exists and will facilitate the advancement of many important energy projects in Alaska. It will provide a much needed source of funding for commercial enterprises who wish to make their businesses more energy efficient but who lack the up-front capital to pay for the improvements themselves. The return on investment for energy efficiency is significantly quicker than the return on generation projects, and saving energy means more money will remain circulating in the state's economy instead of being exported out of state. The bill will also provide financing for various renewable energy projects across Alaska that cannot be financed with state grant funds alone.

Thank you for your leadership in bringing this bill forward. REAP supports both the creation of the dedicated fund at AIDEA and the proposed \$250 million capitalization.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Rose", written in a cursive style.

Chris Rose  
REAP Executive Director



Alaska Power Association  
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Anchorage, Alaska 99503-6650  
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[www.alaskapower.org](http://www.alaskapower.org)

April 2, 2012

Senator Bert Stedman, Co-Chair, Senate Finance Committee  
Senator Lyman Hoffman, Co-Chair, Senate Finance Committee  
Alaska State Capitol  
Juneau, Alaska 99801-1182

Dear Senators Stedman and Hoffman:

Alaska Power Association (APA) is the statewide trade association representing utilities that supply power to a majority of Alaskans from Barrow to Unalaska, through the Interior and Southcentral, and down the Inside Passage.

APA supports Senate Bill 25, establishing a \$250 million energy loan program at the Alaska Industrial Development and Export Authority (AIDEA).

In furtherance of the goals set forth in recent years by the legislature through the Alaska Sustainable Energy Act, state energy policy, and the renewable energy program, the Alaska electric utility sector needs sources of capital for power supply infrastructure — both generation and transmission. The energy loan program envisioned by Senate Bill 25 will help ensure that our state's electric utilities have access to affordable financing to keep us moving forward with much needed infrastructure statewide. Additionally, the AIDEA program under Senate Bill 25 will have the tangible benefit of keeping interest payments for power supply loans within Alaska instead of going to lenders in other states, as is currently the case.

APA and its members urge the legislature to pass Senate Bill 25.

Sincerely,

Marilyn Leland  
Executive Director

cc: Senator Lesil McGuire

*Copper Valley Electric*



## Copper Valley Electric Association, Inc.

P.O. Box 45 • Glennallen, Alaska 99588 • [www.cvea.org](http://www.cvea.org)

Telephone: 907-822-3211 • Facsimile: 907-822-5586 • Valdez: 907-835-4301

---

February 13, 2012

*email: [wilkinson@cvea.org](mailto:wilkinson@cvea.org)*

Senator Lesil McGuire  
Alaska State Legislature  
120 4<sup>th</sup> Street, State Capitol, Room 3  
Juneau, Alaska 99801-1182

SUBJECT: Senate Bill 25 Letter of Support

Dear Senator McGuire:

Copper Valley Electric Association enthusiastically supports your recently introduced sponsor substitute for SB 25 establishing the Sustainable Energy Transmission and Supply Development Program within the Alaska Industrial Development & Export Authority.

CVEA is the certificated electric utility serving Valdez and the Copper River Basin along 260 miles of the Richardson and Glenn Highways. I refer you to the attached brochure which provides background about the cooperative and summary information about the Allison Creek Run of the River Hydroelectric Project that we are currently developing.

With the growing number of energy infrastructure projects contemplated or in the development stage throughout our State, the financing program under SB 25 fills a significant void in state energy policy. Presently, many electric utilities and other energy project developers are able to secure funding for reconnaissance, feasibility and other preliminary studies through the Renewable Energy Fund but no source of construction funding exists for viable medium sized projects such as the \$40 million Allison Creek Hydro.

Large grants are becoming increasingly scarce and on the federal level are almost non-existent. Reliance on sufficient, reasonably priced credit will certainly increase. For energy projects such as CVEA's, we must rely on specialized lending institutions out of State. Our payments go to banks in the Washington, DC area, when those dollars could be retained in Alaska for reinvestment.

---


Your Member-Owned Cooperative

SB 25 will go a very long way toward resolving the dual issues of tailored credit sources and of keeping our money in-state while providing for Alaskans' long term energy needs, in most cases with renewable resources. SB 25 is tailored to the needs of the electric industry and other energy providers in the following ways:

- meaningful funding (\$250 million authorized)
- meaningful amounts available for individual projects (up to one third of capital costs, or \$20 million)
- longer amortization (up to 50 years for hydro or transmission projects)
- AIDEA ability to defer principal payments, permit capitalized interest, and interest rebate incentives of up to one percent for renewable energy projects

As the Legislature knows, much of Alaska electric power supply infrastructure is aging and in need of replacement, at the very time renewable and alternative energy technology offers cleaner and more efficient ways to generate and transmit this vital resource. Moreover, continued dependence on fossil fuel sources drains valuable resources from communities which instead could be used to support development of renewable energy. At CVEA we applaud your initiative to provide a program to support this difficult and costly transition away from oil in favor of renewable energy. SB 25 could not have come at a more opportune time. CVEA urges lawmakers to enact this law without delay.

Sincerely,



Robert A. Wilkinson  
Chief Executive Officer

Attachment

# Copper Valley Electric Association

**Vision:** To reduce or eliminate our dependence on fossil fuel and stabilize the Cooperative's cost of generation with regional, sustainable resources

**Mission:** To provide exceptional customer service through safe, reliable, cost-effective electric service and programs

January 2012

## About CVEA

- CVEA provides electric service to over 3,800 business and residential customers in the Copper River Basin and Valdez regions of the state
- CVEA covers a large area: 160 miles north to south and 100 miles east to west; we provide service from Valdez to Kenny Lake to Sourdough to Sheep Mountain
- Dependent on fossil fuel (50% of the annual generation requirement)
- CVEA does not participate in the Power Cost Equalization program
- CVEA is not interconnected electrically to any other utility

## CVEA Assets

- 45 Alaskan employees
- Over 500 miles of distribution and transmission line
- 8 substations
- Solomon Gulch hydro, Cogen Plant, 2 Diesel Plants
- SCADA system with remote control of all four generating plants from one main station
- Density of 9 customers per mile

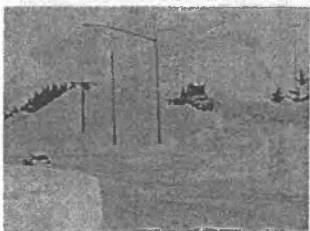
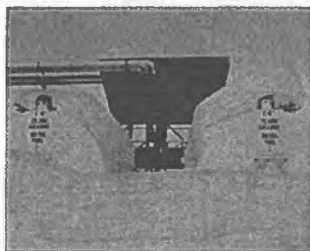
## The Winter of 2011-2012



In the Copper Basin we get COLD!



In Valdez we get SNOW!



## Major Undertakings

- Build Allison Creek
- Move transmission line out of avalanche zone in Thompson Pass
- Implement 2011 Rate Study
- Evaluate mid-system hydro opportunity
- Participate in Regional Energy Plan
- Find ways to deal with fuel costs

Web: [www.cvea.org](http://www.cvea.org)

Jim Manning, President Board of Directors  
Robert A. Wilkinson, Chief Executive Officer  
P.O. Box 45, Glennallen, AK 99588  
Phone: (907) 822-3211 Fax: (907) 822-5586  
Email: [Wilkinson@cvea.org](mailto:Wilkinson@cvea.org)

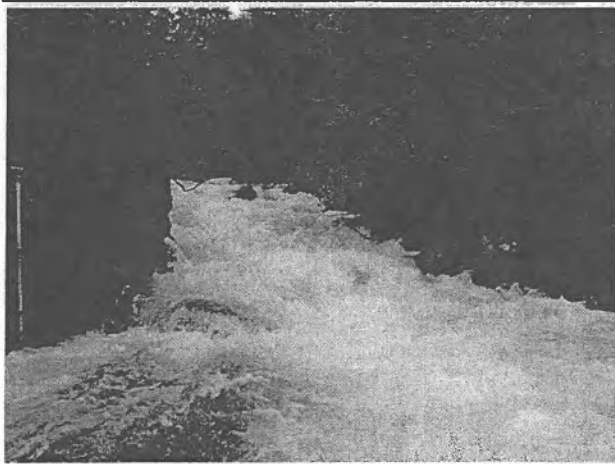


# Copper Valley Electric Association



January 2012

**ALLISON CREEK HYDROELECTRIC PROJECT** – Will provide members of the Cooperative with 23 million kilowatt hours of sustainable, environmentally clean energy

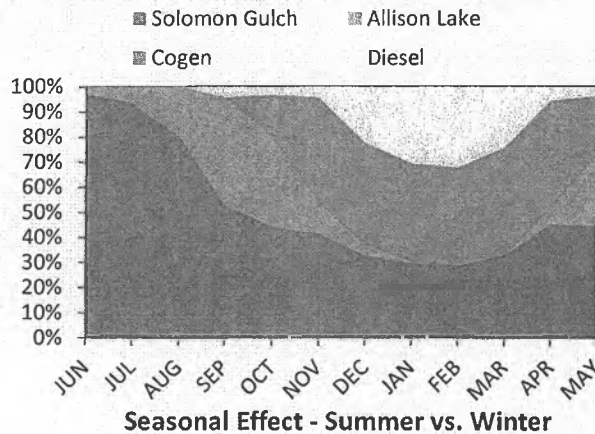


## 2011 Progress & Milestones

- CVEA chose Run of River alternative in October 2010
- Retooled engineering and environmental effort in early 2011
- Formed Aquatic Resources Task Force to focus on fish issues
- FERC review of preliminary draft application for license, found complete
- Filed application for original license on August 29, 2011
- FERC noticed application for filing on August 30, 2011
- FERC found application acceptable for filing on December 9, 2011
- Final design underway, procurement strategy being developed
- Plan of Finance development is ongoing

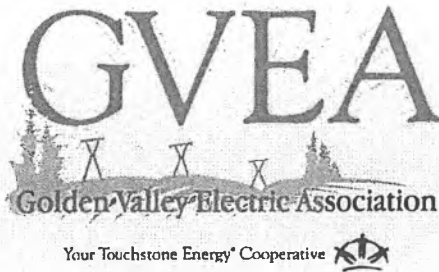
## Renewable Energy Benefits

- Allison Creek will displace 1.1 million gallons of fuel annually when it is commissioned in 2015
- Allison Creek will eliminate 13,000 tons per year (TPY) of carbon dioxide, 9 TPY of carbon monoxide, 39 TPY of nitrogen oxide, and 6 TPY of sulfur dioxide annually
- At current fuel cost (\$.25/kwh) Allison Creek will lower annual power cost by \$1.44 million per year



## Project Economics

- In 2010 dollars, the project is expected to cost \$39 million
- \$14 million of project financing is in place including a \$10 million State grant obtained in 2011
- CVEA estimates the first year cost of power to be 16¢/kwh
- This cost assumes borrowing \$25 million at 7%
- A 1% reduction in interest rates would reduce power cost by .6¢; every \$1 million in grant funds received reduces power cost by .5¢



March 9, 2012

Senator Lesil McGuire  
State Capitol Building  
120 4<sup>th</sup> Street, Room 3  
Juneau, Alaska 99801

Re: Senate Bill 25

Dear Senator McGuire:

Golden Valley Electric Association (GVEA) would like to express its support for the passage of Senate Bill 25, "An Act establishing the sustainable energy transmission and supply development program in the Alaska Industrial Development and Export Authority."

The expansion, rehabilitation and replacement of energy generation and distribution infrastructure are critical if we are to grow the state's economy. SB 25 proposes to help address these needs by expanding the power of AIDEA to finance, or facilitate the financing of, energy projects. This increased authority is paired with additional flexibility that may be necessary as the state's energy players develop new options. The ability for the state to assist with the financing of more energy infrastructure means the interest paid by Alaska communities would be retained in-state and made available for additional Alaska investments.

GVEA appreciates the time and effort you and your staff have dedicated to the introduction and advancement of this legislation. If passed and signed into law, it will do much to restore the state's ability to support commercially viable energy projects.

As SB 25 proceeds through the committee process, please do not hesitate to contact me if I may be of assistance to you.

Sincerely,

Brian Newton  
President and CEO



**ARCTEC**  
**ALASKA RAILBELT COOPERATIVE TRANSMISSION & ELECTRIC COMPANY**

c/o Matanuska Electric Association, Inc. Post Office Box 2929, Palmer, Alaska 99645 (907) 761-9212

Board of Directors

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Brad Janorachko  
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Doug Robbins

February 15, 2012

Senator Lesil McGuire  
Alaska State Legislature  
120 4<sup>th</sup> Street, State Capitol, Room 3  
Juneau, Alaska 99801-1182

SUBJECT: Senate Bill 25

Utility Members

Chugach Electric Assn., Inc.  
(907) 563-7494

City of Seward, Light & Power  
(907) 224-4073

Golden Valley Electric Assn., Inc.  
(907) 482-1161 or  
Toll free (800) 770-4832

Homer Electric Assn., Inc.  
(907) 236-8661

Matanuska Electric Assn., Inc.  
(907) 761-2900 or  
Toll free (800) 478-3121

Dear Senator McGuire:

The Alaska Railbelt Cooperative Transmission & Electric Company (ARCTEC) wholeheartedly supports SB 25. As you know, ARCTEC has developed a plan to implement Generation and Transmission for the Railbelt.

ARCTEC's rationale is to pursue three elements that benefit the entire Railbelt.

1. Mitigate the current fuel supply problem in Cook Inlet
2. Seek funding for class 1 transmission upgrades (those transmission systems that directly support multiple electric systems in the Railbelt)
3. Support large scale renewable energy projects

Our investment plan includes utilities and independent power producers (IPP). We feel strongly that SB 25 is excellent investment legislation that will allow AIDEA to invest in commercially feasible projects such as ours.

If ARCTEC can provide further support, please contact our President, Joe Griffith (MEA) at 761-9263.

Sincerely,



Rick Schikora  
Chairman



February 15, 2012

Senator Lesil McGuire  
Alaska State Legislature  
120 4<sup>th</sup> Street, State Capitol, Room 3  
Juneau, Alaska 99801-1182

SUBJECT: Senate Bill 25

Dear Senator McGuire:

As you are aware the energy infrastructure in Alaska is in need of much repair and upgrades. Senate Bill 25 is crafted with the electric utilities in mind and tailored to meet the needs of other energy providers. I applaud your introduction of the concept.

We offer our strong support of SB 25 and believe that this bill is an excellent investment tool that will permit AIDEA to support commercially viable energy projects as has not been done by the state since 1993. SB 25 fills a major void by creating a revolving loan fund through AIDEA for energy projects that will help remove politics from project funding.

Implementation of this concept will take us back to the days when energy infrastructure projects were enthusiastically supported by the state through the Alaska Energy Authority.

Sincerely,

Evan J. Griffith  
General Manager

Z:\JOE\2012\MEA Correspondence\021512 McGuire - SB 25.docx



## Homer Electric Association, Inc.

---

**Corporate Office**  
3977 Lake Street  
Homer, Alaska 99603-7680  
Phone (907) 235-8551  
FAX (907) 235-3313

**Central Peninsula Service Center**  
280 Airport Way  
Kenai, Alaska 99611-5280  
Phone (907) 283-5831  
FAX (907) 283-7122

February 16, 2012

Senator Lesil McGuire  
Alaska State Legislature  
120 4<sup>th</sup> Street, State Capitol, Room 3  
Juneau, Alaska 99801-1182

RE: Senate Bill 25

Dear Senator McGuire,

Homer Electric Association would like to add its name to the list of supporters of Senate Bill 25. This legislation is important in respect to both its timing and its scope.

The 2010 Railbelt Integrated Resource Plan estimates long term capital spending on Railbelt energy projects at between \$13 and \$21 billion. It is critical that the Railbelt utilities are able to obtain favorable financing terms as they pursue these important projects.

One of the key components of SB 25 is the creation of a fund within the Alaska Industrial Development and Export Authority (AIDEA) that would be used to finance qualified energy projects. This is an excellent opportunity to use existing state financial assets to help address the energy needs of Alaska.

SB 25's inclusion of an incentive interest rate for "renewable energy development" is also supported by Homer Electric Association as we continue to work on the licensing of a small scale hydro project at Grant Lake on the Kenai Peninsula.

Thank you for your work in developing energy solutions for the State of Alaska.

Sincerely,

Bradley P. Janorschke  
General Manager



February 7, 2012

Senator Lesil McGuire  
State Capitol Room 125  
Juneau AK, 99801

Re: AIPPA support for Senate Bill 25 -Alaska Sustainable Strategy for Energy  
Transmission and Supply (ASSETS) Act.

Dear Senator McGuire,

The Alaska Independent Power Producers Association (AIPPA) is a membership organization comprised of Alaska's leading Alaska Independent Power Producers and developers. Our members' locations span Alaska and are invested or interested in geothermal, wind, biomass, hydrokinetic and hydropower developments. Our membership recently met and went over Senate Bill 25 and we would like to support this important piece of legislation that will assist our State in developing energy infrastructure to serve our citizens.

Alaska comprises one third of the land mass of the United States and is blessed with the equivalent reserves of vast and rich energy resources. The Alaska Center for Energy and Power at UAF funded by National Renewable Energy Laboratory just released its Preliminary Overview of Stranded Renewable Energy Resources of Alaska. This is a statewide investigation of the huge amount of renewable energy that is stranded in Alaska. I have attached the entire presentation for your review and showcase the excellent work being done by the University of Alaska via the ACEP. Hopefully, you will continue to support their research efforts to put these stranded resources to work for Alaska and our Nation. I would like to point out some of the information contained in the preliminary overview by ACEP.

1. Alaska has over 677 MW of known geothermal capacity a good portion is located in SE Alaska.
2. Alaska has the largest amount of Class 7 wind in the United States
3. Alaska possesses 90% of the tidal potential and 50% of the wave energy potential of the US.
4. Alaska has tremendous hydropower potential with a huge and well researched amount located in SE.

Unfortunately, Alaska also has some of the highest energy costs paid by some of our citizens. We believe that the Senate Bill 25 is excellent investment legislation that will allow AIDEA to invest in commercially feasible projects that will provide competitive cost energy to Alaskans. We think it is wise to have project funding and investment decisions made on the merits and feasibility of a particular project.

In addition, AIPPA and its members dream of a future where the currently stranded renewable energy resources of Alaska are made available to the rest of our Nation. It is not very often that an organization gets the chance to participate in the challenge of removing the technical, logistical and economic barriers and it the process creates a new industry that will bring badly needed jobs, tax base and economic well-being in the residents of Alaska. Senate Bill 25 will greatly assist in these efforts and your foresight and vision is greatly appreciated in this regard.

Senate Bill 25 supports our 2010 Declaration of State Energy Policy (HB 306-2010), specifically:

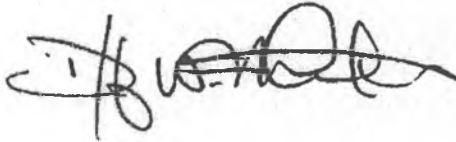
- (2) encourage economic development by
- (A) promoting the development of renewable and alternative energy resources, including geothermal, wind, solar, hydroelectric, hydrokinetic, tidal, and biomass energy, for use by Alaskans;
  - (B) promoting the development, transport, and efficient use of nonrenewable and alternative energy resources, including natural gas, coal, oil, gas hydrates, heavy oil, and nuclear energy, for use by Alaskans and for export;

(C) working to identify and assist with development of the most cost-effective, long-term sources of energy for each community statewide;

If we were to make suggestions for improvements, we would ask that the fund amount be increased from \$500 million to a billion dollar fund since projects built at economies of scale that produce competitive power are quite expensive. Secondly we would suggest the bill continue to look for ways to ensure and safeguard that politics stay out of the business and investment decision making process.

AIPPA and our members are pleased to support your efforts and will monitor SB 25 through the process to assist you in this wise bill that will help Alaska meet its renewable energy goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Duff Mitchell". The signature is stylized and somewhat cursive, with a prominent loop at the end.

Duff Mitchell  
Executive Director



# RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

Founded 1975  
Executive Director  
Rick Rogers  
2011-2012 Executive Committee  
Tom Maloney, President  
Phil Cochrane, Sr. Vice President  
L.F. "Len" Horst, Vice President  
Eric Fjelstad, Treasurer  
Ralph Samuels, Secretary  
Wendy Lindskoog, Past President

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Peter Taylor  
Michael Terminel  
Jan Trigg

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Senator Mark Begich  
Senator Lisa Murkowski  
Congressman Don Young  
Governor Sean Parnell

February 17, 2012

Senator Dennis Egan, Chair  
Senate Labor and Commerce Committee  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Re: SB25, AIDEA Sustainable Energy Program

Dear Senator Egan:

On behalf of the Resource Development Council for Alaska, Inc., (RDC), I am writing in support of SB25, which expands the authority of AIDEA to make loans to energy projects and establishes a dedicated fund for the purpose of capitalizing

RDC is a statewide, non-profit, membership-funded organization founded in 1975. The RDC membership is comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries, as well as Alaska Native corporations, local communities, organized labor, and industry support firms. RDC's purpose is to link these diverse interests together to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

Energy production and transmission projects are vital to grow our economy and provide the needed energy for resource development projects and community development. SB25 builds on the success of AIDEA in providing a means for in-state financing of a portion of the capital needs for energy projects. This bill provides a new financing strategy to do more with less, a welcome tool in helping capitalize needed projects in a climate of declining revenues and increasing demands on the treasury.

We encourage the Committee to vote in favor of this bill. Thank you for your consideration.

Sincerely,

Rick Rogers  
Executive Director



Associated Builders  
and Contractors, Inc.

*Alaska Chapter*

March 26, 2012

Senator Lesil McGuire  
Alaska State Senate  
State Capitol, Room 125

RE: CSSSSB 25(L&C)

Dear Senator McGuire:

On behalf of the Associated Builders and Contractors of Alaska (ABC of Alaska), a construction trade organization that represents the merit shop construction industry in Alaska, I submit this letter of support for CSSSSB 25(L&C).

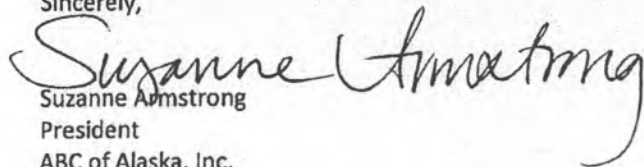
ABC of Alaska supports policy initiatives that will assist in lowering the long term cost of energy in Alaska communities. The high cost of energy is causing financial hardship for many Alaska families and has a profound impact on business in our state. It is imperative to the health of our overall economy to have access to reliable, affordable energy. Reducing the high cost of energy will foster economic development and growth for our state.

The passage of SB 25 will extend AIDEA's existing authority to finance, or facilitate the financing of energy infrastructure projects through Alaska. We think that this is a positive departure from the current path that the State of Alaska has been on in awarding grants to entities and local communities to fund energy infrastructure projects. By making credit available, communities and project sponsors assume a greater stake in the project's success or failure. As each loan is repaid, the capital becomes available to recycle into new loans, creating a financing mechanism to assist with Alaska's aging infrastructure, as well as provide for new energy projects aimed at lowering overall energy costs in our state.

The Alaska State Legislature has made energy policy a priority issue and has focused a significant amount of state resources on finding solutions to the problems that plague our communities, businesses, and families. ABC of Alaska believes that SB 25 will provide an additional tool for Alaska communities and energy project sponsors working towards affordable energy solutions.

Thank you for your consideration of this matter.

Sincerely,

  
Suzanne Armstrong  
President  
ABC of Alaska, Inc.



## ASSOCIATED GENERAL CONTRACTORS of ALASKA

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8005 Schoon Street • Anchorage, Alaska 99518  
Telephone (907) 561-5354 • Fax (907) 562-6118

3750 Bonita Street • Fairbanks, Alaska 99706  
Telephone (907) 452-1809 • Fax (907) 456-8599

February 11, 2012

Senator Lesil McGuire  
State Capitol, Room 125  
Juneau, AK 99801-1182

Re: SB 25

Dear ~~Senator McGuire~~: *lesil*

On behalf of the Associated General Contractors of Alaska, a construction trade association of over 650 business members, representing the majority of the construction industry in Alaska, thank you for your sponsorship of SB 25.

SB 25 would establish and capitalize a revolving loan program within AIDEA and give them the authority to finance energy projects.

This model departs from the more traditional Alaska model of outright grants for projects, by making credit available for project owners and sponsors. This assures that others have a stake in the success of the project. It also assures that there be more eyes of due diligence on the investment thus minimizing the risk to AIDEA and the State.

The availability and cost of energy is one of the largest expenses in Alaskan households. Energy, along with transportation, is also the greatest impediment to resource development. As you know, our hope of keeping a healthy economy in Alaska for our citizens depends on development of our resources.

While we'll never return to those halcyon days of cheap energy, as a State we can make wise investments that will help to hold down the inevitable future increases in energy costs for our residents.

Thank you for sponsoring SB 25.

Sincerely,

John MacKinnon  
Executive Director  
Associated General Contractors of Alaska



# CIRI

---

March 16, 2012

The Honorable Senator Lesil McGuire  
Alaska State Legislature  
State Capitol, Room 125  
Juneau, AK 99801

Re: Senate Bill 25

Dear Senator McGuire:

Cook Inlet Region, Inc. (CIRI) supports the passage of SB 25, "An Act establishing the sustainable energy transmission and supply development program in the Alaska Industrial Development and Export Authority" by the Alaska Legislature. We appreciate your sponsorship of this legislation and believe that its passage would mark an important recognition of the role of private investment and financing of energy projects and energy infrastructure development.

Affordable and available energy is a vital component necessary to grow and sustain our economy. Much of our legacy energy system will need to be replaced, strengthened or rebuilt to achieve a comfortable availability and cost of energy in the Railbelt. Whole new systems will need to be built to achieve reasonably priced power in most rural communities. New tools will be needed to achieve these goals. SB 25 is one of those tools.

SB 25 would use AIDEA, and its expertise and track record in funding economic development projects in Alaska, to provide an in-state financing mechanism for a portion of the capital needs for energy projects. We support this approach and SB 25's private participation in project lending. We believe that project lending in which the State is but one of several lenders achieves two important objectives. Such syndicated lending spreads the State's finite resources further by limiting its lending to any one project. And it necessitates the robust and expert due diligence performed by banks and other private lenders in evaluating the project. We have found that the discipline required to obtain private lending for an energy project assures that assumptions are reasonable, all material issues have been thought through, risks are mitigated or insured, and generally that the project development plan is thorough and complete.

While we support SB 25, we encourage you to add several new subsections to the definition of "energy project" proposed for amendment of AS 44.88.900 as follows:

- (16) (G) gasification of coal or biomass into synthesis gas; or
- (H) the chemical, catalytic or biological upgrade of synthesis gas into methane; or

Senator Lesil McGuire  
March 16, 2012  
Page 2 of 2

(l) the manufacture of hydrogen from any feedstock, except the mechanical separation from air;

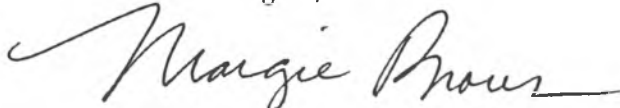
We would also ask you to consider rewording subsection 16(C) to read as follows:

(16) (C) the chemical, catalytic or biological upgrade or conversion of natural gas, coal, or biomass to hydrocarbon liquids;

We encourage prompt committee review and passage of this bill. We also support passage of SB 25 by the legislature. Thank you for your consideration.

Sincerely,

Cook Inlet Region, Inc.

A handwritten signature in cursive script that reads "Margie Brown". The signature is written in black ink and is positioned above the printed name and title.

Margie Brown  
President and Chief Executive Officer



**CALISTA CORPORATION**  
www.calistacorp.com

February 22, 2012

Senator Lesil McGuire  
Alaska State Capitol  
Room 125  
Juneau, AK 99801-1182

Dear Senator McGuire:

On behalf of Calista Corporation, this letter is to indicate support on Sponsor Substitute for Senate Bill 25 creating a Sustainable Energy Transmission and Supply (SETS) program by putting Alaska's financial assets to work.

All of rural Alaska, and in particular our Yukon Kuskokwim region is in dire need of stable, alternative energy--beyond diesel--lower cost energy and a transmission grid infrastructure which currently does not exist. It can be difficult if not impossible to obtain financing for rural projects without direct state participation due to high capital costs, remoteness, and small populations served. However rural citizens are important and those more remote areas are also the location of a majority of Alaska's developable resources needed for a healthy economy.

SSSB 25 as written will enable our state to invest in itself, and provide a tool to improve the ability of qualified rural projects to obtain the financing necessary to develop infrastructure solutions for some of our energy challenges. The bill will:

- Establish and capitalize a sustainable reserve fund to finance energy projects
- Utilize an existing entity--Alaska Industrial Development and Export Authority (AIDEA) to manage and utilize existing State financial assets in order to obtain financing on qualified energy projects in rural areas
- Allow the energy projects then repay their loans or investments from AIDEA
- Repayments to AIDEA then provide dividends back to the state
- Create a program that will finance hydroelectric and transmission project terms for up to 50 years (a standard life cycle)
- AIDEA can then access financial markets which are otherwise unreachable to make more credit and thus more Alaskan and particularly rural projects available
- And the program would still enable and require legislative authorization and approval on project financing over certain monetary limits

We believe there are two areas of the bill which could use some greater clarification for enabling rural energy projects. They are:

1. Clarify Line 27 Sec. 6 (d) (2) (B): Clarifying the language to indicate "with respect to the loan" since it currently is only implied in (i). Or separate the items (i) and (ii).
2. Add language to Line 30 Sec. 6 (d) (3): To add "future collateral on what's built" to the language. The



**CALISTA CORPORATION**  
www.calistacorp.com

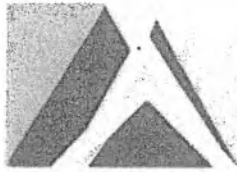
language as currently written concerns us due to the fact that rural projects generally have no hard assets until the energy project is actually built. As long as this is understood, then this line works but it should be clarified.

Calista Corporation is very supportive of the intent and efforts of this bill through SETS. Please feel free to contact my office if there is anything we at Calista can do to help.

Sincerely,

**CALISTA CORPORATION**

**Andrew Guy**  
**President & CEO**



**ALASKA PARTNERSHIP  
FOR ECONOMIC DEVELOPMENT**

**A RESOLUTION OF THE ALASKA PARTNERSHIP FOR ECONOMIC DEVELOPMENT  
BOARD OF DIRECTORS SUPPORTING SENATE BILL NUMBER 25;  
"AN ACT ESTABLISHING THE SUSTAINABLE ENERGY TRANSMISSION AND SUPPLY  
DEVELOPMENT PROGRAM IN THE ALASKA INDUSTRIAL DEVELOPMENT AND  
EXPORT AUTHORITY: AND PROVIDING FOR AN EFFECTIVE DATE."**

**Resolution #12-11**

Whereas; the Alaska Regional Development Organizations (ARDOR) was established by the Alaska Legislature in 1988; and

Whereas; the ARDOR's statutory mandate is to encourage the formation of regions development organizations to prepare and implement regional development strategies; and

Whereas; the ARDOR's represent a diverse network of public, private and economic development groups that drive local initiatives and advance economic diversification through partnerships with state and local governments; and

Whereas; the ARDOR's established the Alaska Partnership for Economic Development, (APED), in 2009, to advance economic development and address initiatives affecting development and to help develop a state-wide comprehensive strategic plan; and

Whereas; the ARDOR/APED programs have established partnerships with more than 300 local, regional, private, municipal and public organizations to pool resources, decrease duplication and foster new businesses; and

Whereas; the APED now comes in support of the following legislation being considered by the Alaska State Legislature:

**NOW THEREFORE BE IT RESOLVED;** the Alaska Partnership for Economic Development supports *Senate Bill Number 25; "AN ACT ESTABLISHING THE SUSTAINABLE ENERGY TRANSMISSION AND SUPPLY DEVELOPMENT PROGRAM IN THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE."*

**BE IT FURTHER RESOLVED** that a copy of this resolution be sent to the SENATOR MCGUIRE, the prime sponsor of SB25.

APPROVED THIS 24<sup>th</sup> DAY of FEBRUARY 2012.

President 2/24/2012

Date

Katherine S. Orvik

ATTEST:

Secretary 2/24/2012

Date

Andy Van