

ALASKA LEGISLATURE

1728

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

**HCR**

**16**

**HFIN**

**FILE**

#4

adopted 4/24/97

6-5

**CS FOR HOUSE CONCURRENT RESOLUTION NO. 16(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTIETH LEGISLATURE - FIRST SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVE BARNES**

**A RESOLUTION**

1 **Proposing recommendations concerning the sale of the Four Dam Pool**  
2 **hydroelectric facilities.**

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **WHEREAS** the state acquired land and constructed four hydroelectric facilities,  
5 referred to as the Four Dam Pool, to provide electricity to the communities of Copper Center,  
6 Glennallen, Ketchikan, Kodiak, Petersburg, Valdez, and Wrangell; and

7 **WHEREAS** the Four Dam Pool is owned by the Alaska Energy Authority, which is  
8 a party to a 40-year power sales agreement with local utilities to sell the power generated by  
9 the facilities; and

10 **WHEREAS** the Alaska Energy Authority retains, under the power sales agreement,  
11 significant liabilities relating to the power projects, including responsibility for uninsured  
12 facility failure, substandard performance, deficiencies in the reserve and replacement fund, and  
13 a loss of power sales; and

14 **WHEREAS**, during the last two years, the Alaska Energy Authority has entered into  
15 exclusive discussions with local utilities in the communities served by the Four Dam Pool  
16 power projects regarding the transfer of ownership of the power projects to the local utilities;

1 and

2       **WHEREAS** the Alaska Energy Authority determined that the power projects are worth  
3 \$84,000,000; and

4       **WHEREAS** the Alaska State Legislature feels compelled to allow the current  
5 negotiations with local utilities in the communities served by the Four Dam Pool regarding  
6 the transfer of ownership of the power projects to conclude; and

7       **WHEREAS** the Alaska State Legislature believes that the divestiture of the Four Dam  
8 Pool power projects should be conducted under an open competitive bid process that assures  
9 that the citizens of the state receive the best price possible for the projects while guaranteeing  
10 stable rates to the consumers served by the utilities that sell power generated by those power  
11 projects;

12       **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the Alaska  
13 Energy Authority to conclude its exclusive discussions with the local utilities served by the  
14 Four Dam Pool power projects by July 31, 1997; and be it

15       **FURTHER RESOLVED** that if the Alaska Energy Authority does not receive an  
16 acceptable proposal from the local utilities by July 31, 1997, that can be brought to the Alaska  
17 State Legislature for ratification, then the authority shall promptly prepare a request for  
18 proposals for the sale of the Four Dam Pool power projects; and be it

19       **FURTHER RESOLVED** that the request for proposals for the sale of the power  
20 projects that make up the Four Dam Pool shall be open to any qualified bidder and shall  
21 contain terms that will

22               (1) assure that the state receives a fair value for the power projects;

23               (2) protect the electric power rates of the local consumers from unwarranted  
24 increase;

25               (3) provide adequate power to the communities to allow for community  
26 growth; and

27               (4) allow adequate reserves to the purchasers to ensure that the power projects  
28 are adequately maintained and repaired; and be it

29       **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that  
30 the Alaska Energy Authority issue the request for proposals as soon as practicable and under  
31 the terms and conditions that will promote a successful competitive bid process resulting in

1 the completed sale of the power projects for fair value pending the sale's presentation to the  
2 Second Session of the Twentieth Alaska State Legislature for approval.

3 **COPIES** of this resolution shall be sent to Wilson Hughes, Chair of the Alaska  
4 Industrial Development and Export Authority and the Alaska Energy Authority; and to  
5 Ketchikan Public Utilities; Wrangell Municipal Light and Power; Petersburg Municipal Power  
6 and Light; Copper Valley Electric Association, Inc.; and Kodiak Electric Association, Inc.

8907 269 4645

DCRA/DIV OF ENERGY

04/01/97 11:01 2.000003

**FOUR DAM POLL  
and  
FOUR DAM POOL TRANSFER FUND**

**General Information**

**Four Dam Pool - Background**

The following hydroelectric projects and related transmission lines compose the Four Dam Pool; the projects are owned by the Alaska Energy Authority-AIDEA/State of Alaska (AEA):

- **Solomon Gulch Hydroelectric Project**  
Copper Valley Electric Association (CVEA), serving the Glenallen-Valdez area, operates the project and purchases wholesale power from it.
- **Swan Lake Hydroelectric Project**  
Ketchikan Public Utilities, serving the Ketchikan area, operates the project and purchases wholesale power from it.
- **Terror Lake Hydroelectric Project**  
Kodiak Electric Association, serving the Kodiak-Port Lyons area, operates the project and purchases wholesale power from it.
- **Tyee Lake Hydroelectric Project**  
The City of Petersburg and the City of Wrangell purchase wholesale power from the project. Thomas Bay Power Authority, a consortium of the two communities, operates the project.

The hydroelectric projects were respectively initiated by the communities/utilities now served by the projects. CVEA financed the construction of Solomon Gulch with federal loans; the other projects were initiated with state loans. In 1981-1982 the communities asked the State to take over ownership of the projects, each at different stage of construction, to insure their financing and completion. Consequently, the state loans were redesignated to grants, the State appropriated capital funds to cover part of the costs to construct the facilities, and the former Alaska Power Authority issued \$200 million Variable Rate Demand Bonds for the interim financing of portion of the construction costs of three facilities.

The overall cost of construction of the four facilities as of December 31, 1992, based on AEA's records available to this Division, was about \$ 500 million, funded as follows:

	State Appropriations	Proceeds from Investment	State Loan	Total Cost
Solomon Gulch	47,490,000	23,692,000	3,158,000	74,340,000
Swan Lake	73,075,000	-	23,551,000	96,626,000
Terror Lake	89,334,000	-	110,646,000	199,980,000
Tyee Lake	85,000,000	-	44,040,000	129,040,000
<b>Total \$</b>	<b>294,899,000</b>	<b>23,692,000</b>	<b>181,395,000</b>	<b>499,986,000</b>

The hydroelectric systems were initially stand-alone projects. However, 1964 legislation recognized the four facilities as one project, AS 44.83.398 (a). On October 28, 1985, AEA and the utilities/communities purchasing wholesale power from the systems (purchasers), entered into a forty five (45) years Long Term Power Sales Agreement (LTPSA). The LTPSA is a "take and pay" contract, in that the purchasers obligation is limited to the power they opt to purchase, and AEA is not obligated to provide power if not available.

Under the terms of the LTPSA the cost of wholesale power must include production costs plus about 4 cents per kwh, called debt service component, to cover AEA's financing costs on the state loan. In the years 2000 and 2015 the wholesale power rate can be "reopened" and the debt service component may include interest and principal on the state loan. The purchasers have contractually agreed to accept debt service on a capital of \$189,642,600, subject to the rate reopener clause.

The power purchasers pool the respective cost of operating the four hydroelectric projects and the debt service; this results in an equal wholesale hydroelectric power rate for all purchasers. The annual common wholesale rate is about 6 cents/kwh.

#### **Four Dam Pool Transfer Fund and State Loan**

In 1984, as the \$200 million Variable Demand Bonds became due, the State appropriated \$ 210 million to the Power Development Revolving Loan Fund (PDRLF) for a loan to AEA for the long term financing of the Four Dam Pool hydroelectric projects. AEA paid off the interim financing, lapsed substantial amounts to the general fund, and used the remaining loan proceeds to complete construction of the facilities.

The PDRLF was initially administered by the Division of Investments/DCED. In 1989 the fund was transferred to AEA (AS 44.83.500). Then Ch 18 SLA 93 repealed the PDRLF and transferred its assets to the Four Dam Pool Transfer Fund (AS 42.45.040), administered by the Division of Energy/DCRA.

The Four Dam Pool Transfer Fund is now the holder of the Loan Agreement between the State of Alaska and AEA. The loan is secured by: promissory Notes totaling about \$185 million; all revenues from the Four Dam Pool systems; AEA's rights under any agreement related to the systems and AEA's resulting rights to receive payments. The loan is also secured by the assets of the hydroelectric projects in the Four Dam Pool.

Until the year 2000, the estimated annual stream of revenue to the Four Dam Pool Fund, for debt service on the state loan, is about \$ 10-11 million (interest only). The debt service is equal to the debt service component that AEA collects under the terms of the LTPSA, represented by a charge of 4 cents/kwh on contracted forecast sales, and 3 cents/kwh additional sales.

As mentioned earlier, the revenue to the Four Dam Pool Transfer Fund is subject to the terms of the LTPSA. Therefore its amount varies depending on the power purchased and/or available; it also depends on determinations made by AEA and the wholesale power purchasers to retain part or all of the debt service to cover certain project risks.

When available, the revenue for a given fiscal year period (July 1-June 30) is deposited directly in the fund by the wholesale power purchasers in a lump amount, by July 31<sup>st</sup>. Subject to appropriation, the balance of the Four Dam Pool Transfer Fund can be allocated to other named statutory funds as follows:

- 40% to the Power Cost Equalization and Rural Electric Capitalization Fund;
- 40% to the Southeast Energy Fund;
- 20% to the Power Project (revolving loan) Fund.

AEA and the wholesale power purchasers are retaining debt service up through July 1997, for a total of about \$27 million.



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

## MEMORANDUM

TO: Dennis V. McCrohan  
Deputy Director, Energy

FROM: *DS* Daniel W. Beardsle,  
Contracts Manager, Energy

DATE: July 11, 1996

SUBJECT: Four Dam Pool Insurance Report

For the report to the PMC:

### INSURANCE COVERAGES (Remain the Same for FY 97)

#### Property (AEA Provides)

AEA Self Insured Retention	\$10,000,000
ARECA Excess Coverage	\$10,000,000
Willis Corroon Excess Cov.	\$30,000,000

#### Boiler & Machinery (AEA Provides)

AEA Self Insured Retention	\$ 300,000 (maximum)
ARECA	\$15,000,000

#### Comprehensive General Liability (PMC Provides)

Operator's Deductible	\$ 1,000
ARECA	\$ 7,000,000

#### Directors & Officers (PMC Provides)

Operator's Deductible	\$ 10,000
Coreagis	\$ 1,000,000

Dennis V. McCrohan

Page 2

July 11, 1996

**INSURANCE COST** (includes Risk Management Fees):**FY 96 Premiums**

**AEA** \$ 451,407  
 (ARECA Property \$180,332)  
 (Willis Property \$170,000)  
 (ARECA B&M \$76,510)  
 (Risk Management \$24,565)

**PMC** \$ 73,900  
 (D&O \$18,900)  
 (Liability \$55,000)

**FY 97 Premiums**

**AEA** \$ 450,210  
 (ARECA Property \$184,503)  
 (Willis Property \$161,500)  
 (ARECA B&M \$79,642)  
 (Risk Management \$24,565)

**PMC** \$ 62,541  
 (D&O \$8,541)  
 (Liability \$54,000)

**EXPENDITURES IN FY96****Risk Assessment:**

Total Disbursement \$ 244,014  
 Due from PMC (107,335)  
 Net Disbursed \$ 136,679

Terror Tunnel \$ 509,713

Swan Generator Repairs \$ 67,432

**FEMA Flood Damage**

Terror Lake \$ 29,392  
 Solomon Gulch 1,207  
 PMC Reimbursement for Terror Lake (7,741)  
 Due from PMC/FEMA \$ 22,858

**Administrative Costs**

FY 95 Trustee and LOC Fees \$ 4,899  
 FY 95 Other Administrative 415  
 FY 96 Trustee and LOC Fees 18,657  
 FY 96 Other Administrative 17,509  
 Total Administrative \$ 41,480

Dennis V. McCrohan

Page 3

July 11, 1996

**POTENTIAL CLAIMS**

FEMA Flood Damage	
PMC	\$325,000
AEA Insurance Fund	16,203
Harza Risk Assessment Balance	
(\$280,120.19 Authorized, \$214,669.32 paid)	
PMC	\$33,120.69
AEA	\$33,120.70

**INSURANCE FUND BALANCE:**

As of June 30, 1996	13,577,472
Four Dam Pool FY97 Payment	1,150,000
Interest Earnings	700,000
Reimbursement of FEMA project costs	22,858
Risk Assessment Balance	(33,120)
FY 97 Insurance Premiums	(450,210)
Trust and LOC Fees	(19,000)
Other Administrative Costs	(17,000)
Projected Balance	<u>\$14,941,000</u>

handout

4/10/97

## ALASKA POWER &amp; TELEPHONE COMPANY

P.O. BOX 222 • 181 OTTO STREET  
PORT TOWNSEND, WA 98368  
13601 365-1733 • 18001 882-0138  
FAX 13601 366-6177

November 7, 1996

Mike Gravel, Chairman  
The Energy Group  
1600 N. Oak Street  
Suite 1412  
Arlington, VA 22209

Dear Mr. Gravel:

Alaska Power & Telephone Company is a certified public utility holding Certificates of Public Convenience and Necessity Issued by the Alaska Public Utilities Commission. The Company also holds licenses for three hydropower plants issued by the Federal Energy Regulatory Commission located in Alaska. We have an existing professional staff of trained and skilled personnel familiar with hydropower operation and development and hold the required licenses and qualifications. In addition, we have developed relationships with other firms and individuals with specific areas of expertise to supplement our in-house experts. We have been successfully operating in Alaska since 1957 and are well known and respected within the industry and by state government.

I have enclosed several copies of our Annual Report to Stockholders which provides additional information on our company and financial information. As you know, we are an Employee-Owned Company (ESOP) with the majority of our shares owned by our present and past employee owners. We also have a web page on the internet (<http://www.olympus.net/apt/>) which contains additional information on our company.

We are very interested, intend, and are willing to enter into a mutually beneficial contract to operate any hydropower project your group may purchase in Alaska. We are familiar with these types of operations and have the knowledge to operate these projects in an efficient and cost effective manner without jeopardizing the reliability of the electrical supply to the communities dependent upon the projects for their energy requirements.

We also understand that a large portion of the economic benefit associated with the proposed purchase of the hydropower project known as the Four Dam Pool is and will be dependent upon our performance. Based upon our preliminary assessment we are confident that we can operate the projects at costs equal to about half of what is currently being incurred.

We look forward to this opportunity.

Sincerely,

  
Robert S. Grimm  
President

enc.

**LEGISLATIVE HEARING  
HOUSE CONCURRENT RESOLUTION 16  
SALE OF THE FOUR DAM POOL**

Mr. Chairman and members of the House Finance Committee. Thank you for allowing me to speak to you this afternoon about HCR 16. I am Walter Sapp, President of the Kodiak Electric Association Board of Directors. I am also the voting representative on the Four Dam Pool Project Management Committee as well as the voting representative on the Four Dam Pool Divestiture Committee.

Since April 4, the citizens of Kodiak have either delivered, mailed or faxed over a thousand letters to the Legislature in opposition to HCR16. I personally delivered 209 of those letters. We feel a stable, reliable, low cost, source of energy is absolutely essential to the economic well being of our community. We also feel that the best option for rate stabilization in Kodiak is for the divestiture negotiations with the utilities and communities and the Alaska Energy Authority to continue.

Many Alaska dollars were expended during the construction of the Four Dams. Since 1985, the communities that receive energy from the Four Dams have paid to the State almost a hundred million dollars in debt service alone. In addition to this, we have invested over 46 million dollars in operations and maintenance expenses. We know how important these dams are to our communities. The mere thought of the possibility that these dams could be owned by private investors outside of Alaska is unconscionable.

**House Concurrent Resolution 16**  
**Hearing Testimony**  
**(Cont.)**

As a member of the Four Dam Pool, we have direct control over rate stabilization. In fact, since 1985 the wholesale power rate of 6.4 cents kwh has been essentially flat. And, if you adjust these rates for inflation, the rate has actually declined. Contrary to a lot of what you've heard from the Energy Group about rate increases.

Additionally, the debt service payment under the Power Sales Agreement ends in 2030. This means that at that time, the wholesale power rate could conceivably be reduced 4.0 cents per kwh, thereby providing additional energy savings for the Four Dam Pool communities. If the Projects are purchased by private investors, these energy savings would surely be lost. If private investors could build a better mousetrap, why didn't they build the dams in the first place. The answer is simple. The cost would have been prohibitive. Now that the dams have been built with Alaska dollars, I feel strongly that the dams should remain in Alaska hands.

I feel the divestiture of these projects to the communities is the best way to ensure rate stabilization and encourage economic growth in rural Alaska.

Therefore, I encourage the Alaska Legislature to allow the divestiture negotiations to continue and to defeat HCR16.

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 27, 1997

FURTHER REFERRALS:

Date of Committee Action: 4/24/97

The FINANCE Committee considered:

HCR 16

HOUSE CONCURRENT RESOLUTION NO. 16

SALE OF FOUR DAM POOL

Proposing recommendations concerning the sale of the Four Dam Pool hydroelectric facilities.

recommends it be replaced  
with the following committee substitute

CS HCR 16 (FIN)

the same title  
 a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) DCED

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Theriault</i>	Theriault	X			
<i>Mark Hanley</i>	Hanley	X			
<i>Bob Foster</i>	FOSTER	X			
<i>John Mulder</i>	MULDER	X			
<i>Gene Gussendorf</i>	Gussendorf				X
<i>Gene Martin</i>	Martin	X			
<i>Wesley Moses</i>	Moses			X	
<i>Gene Davis</i>	G. DAVIS			X	
<i>Gene Kelly</i>	Kelly		X		

CO CHAIR'S SIGNATURE

*Gene Theriault*  
Theriault

*Mark Hanley*  
Hanley

# FISCAL NOTE

**STATE OF ALASKA**  
**1997 LEGISLATIVE SESSION**

**BILL NO.**                      **HCR 16**

Revision Date:                      April 9, 1997  
 Title: A Resolution concerning the sale of the Four Dam  
Pool hydroelectric facilities  
 Sponsor: Representative Barnes  
 Requester: Representative Thernault

Department: DCED  
 BRU: AIDEA  
 Component: AEA

**COMPONENT SERIAL NO.**                     

Expenditures/Revenues	(Thousands of Dollars)					
<b>OPERATING EXPENDITURES</b>	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	40.0					
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	40.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	80.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES</b>	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Corporate Receipts	120.0					
<b>TOTAL</b>	120.0					

Estimate of any current year (FY 97) cost: \$                      **0.0**

POSITIONS						
FULL-TIME						
PART-TIME						
TEMPORARY						

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

Please see attached page.

Prepared by:	D. Randy Simmons, Executive Director <i>[Signature]</i>	Phone: 907.269.3000
Division:	AIDEA and AEA	Date: April 9, 1997
Approved by Commissioner:	William L. Hensley <i>[Signature]</i>	Date: 4-9-97
Agency:	Commerce and Economic Development	

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## FISCAL NOTE

STATE OF ALASKA

BILL NO.

HJR 16

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1997 LEGISLATIVE SESSION

ANALYSIS: (continued)

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
Fiscal Note Calculations for

The Resolution provides a recommendation to the Alaska Energy Authority (AEA) to issue a Request For Proposal (RFP) for the sale of the Four Dam Pool projects, as soon as practicable. To undertake this recommendation, two AEA staff people will be required to conduct the following tasks: prepare a RFP, including the terms and conditions of the RFP; arrange site visits for potential buyers; issue public notices for the RFP; and evaluate the RFP bids. The AEA staff is limited, and for the purposes of this project, an outside professional engineering services consultant and financial consultant would be required to provide the necessary due diligence of the proposed sale and process. AEA staff will oversee the consultants.

The cost to hire outside consultants will be an additional \$80,000. The outside consultants would be tasked with all or portions of the following: suggesting terms and conditions for the RFP; review the RFP; provide technical answers to RFP questions; review the management and O&M plan and financial capability of the Buyer; and assist in the evaluation of the RFP bids.

**HEARING on HCR 16 - HOUSE FINANCE COMMITTEE****APRIL 10, 1997, 1:30 P.M.****APRIL 22, 1997, 1:30 P.M.**

Good afternoon. My name is Ed Kozak. I'm the General Manager of Kodiak Electric Association, a **member-owned, nonprofit** electric cooperative. This co-op has **provided** community service for **more than 55 years**.

I have been Manager of KEA for three years. **During this time we completed** a strategic planning process including a **Member Survey**, created a **Mission Statement** and **identified eight corporate goals**. Our average annual line loss during the three years is **3.23%**, which is **significantly lower** than the national standard of 8%. Our average annual outage time for each member is **3.8 hours**, also **significantly lower** than the national standard of five hours. In December 1996, KEA **reduced rates** by **1.85%**. In the last three years KEA has **returned more than \$1.6 million** of margins back to the members of the cooperative.

A 1995 DC'RA, Division of Energy document shows that **126 utilities** in the state have average rates **higher than KEA's rates**. **21 utilities** have rates **lower than KEA's**. Our rates are **lower today** than they were in 1986. **Before anyone condemns us** for bad management, give us a chance to do more for **our community and for our State**.

I do not have in-depth knowledge of previous political discussions of State energy issues that some of you may have. What I do have is a **strong belief** that long-term economic strength in our communities and our State **will be achieved** with reasonably priced and reliable electric energy.

**Without the Terror Lake project**, Kodiak and Port Lions would have used diesel generation and retail rates would have been **much higher** than they are now.

The effect of the Terror Lake Project for our community has been the **stabilization of retail rates**. The money that flows **annually** through the State of Alaska as a result of Kodiak's fishing industry is **substantial**. Let's continue that money flow by the **stabilization or reduction** of electric rates.

One of our **corporate goals** is to reduce retail rates. It is our belief that local ownership of the projects **will result in a reduction in retail rates**. A sale of the projects to the utilities **will provide a stable economic base** in those communities. This means a stronger State of Alaska!

It is our belief that retail rates **will increase**, if private ownership occurs. The State **will lose in the long run** with outside private ownership of the Four Dam Pool. Here is one example:

I recently paid off my house mortgage! The house is now mine and I can live in it without making another payment. Let's compare this to the ownership of the Four Dam Pool using three examples.

1. If the state continues to own the Four Dam Pool, at the end of the contract, the debt is paid off. The retail rate will be reduced because of **no debt payment**.

2. If the **utilities own** the Four Dam Pool, at the end of the term of the loan, the debt is paid off. **The retail rate will be reduced because of no debt payment.**
3. If a for profit firm owns the Four Dam Pool, at the end of the term of the loan, **do you think they will voluntarily reduce rates? Why continue to make payments to an out of state private firm for another 50 + years? Remember, hydro projects normally operate for 50 to 100 years!**

On March 20 utility representatives met with AIDEA and presented the **general parameters of a proposal for the purchase** of the Four Dam Pool. **Substantial progress** has been made by the utilities as indicated in AIDEA's letter of March 24.

The Board of Directors of KEA **supports the continuation of divestiture negotiations** between AIDEA and the utilities for the purchase of the projects. Remember, the utilities **are part of the communities.**

The City of Kodiak, Kodiak Island Borough, Kodiak Chamber of Commerce and the City of Port Lions **support local ownership of the projects.** On April 7, KEA held its 55th Annual Membership Meeting and **much support** was given by the membership for the sale of the projects **to the utilities.**

In eleven days **more than 936 letters** have been signed by Kodiak and Port Lions people and sent to legislators **in support of continued divestiture negotiations for the purchase of the projects.**

It is through **the sale of the Four Dam Pool to the utilities that long-term economic strength** is promoted in our communities. Eight Alaskan communities, that are economically strong for 50 to 100 years, help to insure a **strong and healthy State of Alaska!**

The electric utilities served by the Four Dam Pool are either cooperatively or municipally owned. **This means that 100% of all savings will remain with the people in the State of Alaska, not 50%!**

Thank You!

4/21/97

Farled 5/6

AMENDMENT # 1 amended

OFFERED IN THE HOUSE FINANCE COMMITTEE

BY: Rep. Ben Grussendorf

TO: CSHCR 16 (FIN)

Page 2, line 17 is amended to read:

State Legislature for ratification <sup>\*</sup>and ~~that~~ if A.I.D.E.A. decides that <sup>\*</sup>the Four Dam Pool Projects should be sold, then the authority shall promptly prepare a request for proposals for the sale of the Four Dam Pool power projects; and be it

n/o adopted  
\* and request for  
proposal is appropriate  
at that  
time

Failed 5/6

AMENDMENT #2

OFFERED IN THE HOUSE FINANCE COMMITTEE

BY: Rep. Ben Grussendorf

TO: CSHCR 16 (FIN)

Page 2, line 24 is amended to read:

increase and continue the power sales agreements:

as in place <sup>adopted</sup> today

~~the states obligation under~~

Withdrawn  
AMENDMENT # 3

OFFERED IN THE HOUSE FINANCE COMMITTEE

By: Representative Gary Davis

TO: CSHCR 16 (FIN)

Page 2, Line 14, is amended to read:

Four Dam Pool power projects to the extent that a completed sale is imminent, by July 31, 1997.

passed 7/4  
#4

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE DAVIES

TO: CS HCR 16 (FIN)

Page 2:

Delete lines 2 - 3

4-6  
7 added

#5

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE DAVIES

TO: CS HCR 16 (FIN)

Page 2, line 14:

Delete "July 31, 1997"

Insert "December 31, 1997"

August

Page 2, line 16:

Delete "July 31, 1997"

Insert "December 31, 1997"

August

**COMMENTS ON AMENDMENTS AND  
TESTIMONY AT THE FINANCE COMMITTEE  
HEARING OF APRIL 22, 1997**

**Amendment No. 1** by Rep. Ben Grussendorf

Page 2, line 17:

for ratification and that if the A.I.D.E.A. decides that the Four Dam Pool Projects should be sold then the authority shall

**Comment:** This amendment appears to be "a set up" for the local utilities to later politically pressure the AEA to not sell the dams in the event they choose not to offer a fair price. The local utilities consider that the dams belong to them. The 1995 legislative directive was designed to realize that *perceived fact* with a transfer of ownership. However, the AEA properly established a value for the dams that the local utilities found to be "far from anything reasonable." The local utilities' position (see Exhibit A, page 13 & 14, Primer) was to get the dams for nothing; otherwise, they prefer the status-quo, where the state continues to suffer the liabilities (today \$27 million) and the local utilities enjoy the benefits (See Exhibit B, page 5 & 7, Primer).

**Amendment No. 2** by Rep. Ben Grussendorf

Page 2, line 24:

Increase and continue the power sales agreements:

**Comment:** This is an attempt to lock in an agreement that grossly disadvantages the state and is totally biased in favor of the local utilities. The legislature should not attempt to micro-manage the details of a sale. The Crandall/Ellig Study (see Exhibit C, page 21, Primer) makes a similar policy recommendation. Rather, the Legislature should reserve its judgement until the final results of an open competitive bid process are presented to it for ratification in the next session. This would permit the Power Sale Agreement to be legally examined at the expense of the competing interests and objectively tested by the financial marketplace.

**Eric Yould, ARECA Executive Director, testimony.**

**Paraphrase:**

The REAs have higher operating costs than privately owned electric utilities because they serve rural, highly dispersed customers.

**Comment:** This is correct. However, the REAs receive low, government subsidized interest rates on loans to offset the economic disparities in serving unconcentrated customers. This was taken into account and the values adjusted in the chart—The Case for Privatization (see Exhibit D, page 22 & 23, Primer).

Noteworthy in this regard, is an analysis of the Kodiak Electric Association. It pays the same rate for wholesale power as the other communities, yet its retail rates are the highest for a community its size in Alaska. Its distribution system is not rural in character with dispersed customers. It is confined to an island with a concentrated population.

The Copper Valley Electric Association was so frustrated by its inefficiencies that it fired its manager and put itself up for sale to the private sector in 1996. Its board later changed its mind and withdrew from the bid process.

**Eric Yould, ARECA Executive Director, testimony.**

**Paraphrase:**

The reason for the operating cost difference--2.5 cents per kilowatt-hour for the Four Dam Pool and less than a cent for the national average--is that the national average includes the volume savings realized by including TVA and Bonneville, two large government-owned projects.

**Comment:** This statement is uninformed and irresponsible. The cost comparison only involves private sector hydroelectric plants, many of which are remotely located, as they are in Alaska (see Exhibit E, page 26, Primer).

**Finance Committee Member**

**Paraphrase:**

Concern over the meaning "adequate reserves" item (4) page 2 line 27.

**Comment:** No one can predict at this time how this issue will play out in the financial marketplace and what are the interests of the state. Presently, there are several million dollars in a reserve fund that the pool has been paying into at a rate of \$500,000 per year. These funds were not used for present repairs, which are funded by the "self-help" clause of the PSA which uses the monies that would be paid the state as debt service (interest only). Again, it would seem best to not micro-manage a competitive sale process that should be AEA's responsibilities. The Legislature will have ample opportunity to exercise its final judgement in the next session when all factors are played out and the legislature is privy to more informed counsel.

**Conclusion**

The issue before the committee is the propriety and the legal precedent of selling a valuable state asset without the benefit of an open competitive bid process. The local utilities are lobbying the Legislature to permit a sale procedure that would not be legal in their own local government jurisdictions (see Exhibit F).

The Barnes Resolution, now a committee substitute, extends the courtesy to the AEA and the local utilities to complete their sole-source negotiations by July 31, 1997. This extension is what the AEA and the local utilities requested of the legislature. That the local utilities now want additional time calls into question the avowed "good faith" they continually profess.

The local utilities have the most knowledge about the dams of all the parties involved, since they have been operating them for the last 12 years. If these utilities are unable to make a reasonable offer to the AEA after more than two years of negotiations, there is only one conclusion: there exists a hidden agenda that obviously is not in the best interests of the state and all Alaskans.

Respectfully submitted by M. Gravel

# Sale's Effort

- Essentially a "Sole-Source Arrangement"
- The PMC crafted a Memorandum of Understanding, August 2, 1995 "...for negotiation of an ownership transfer." P. 4 (emphasis added)
- February 1996 meeting... "AEA shocked the Utilities by proposing... (1) pay...\$84 million, (2) assume costs of repairing (3) assume all-risks. The utilities ended negotiations ...proposal is so far from anything ...reasonable ..." P. 6

History cont'd

13

## 5 Utilities' Position

- “The utilities determined that the...risks they would assume is high enough that it essentially offsets value...they believe the basic deal needs to be that the price they pay the State is to accept (and therefore relieve the State from) the significant risks facing AEA over the next few decades.” P. 6
- Sole-Source “transfer” efforts at an impasse after 2 years

# PSA Responsibilities

- 5 Utilities: Operation and maintenance (O&M) insurance, routine replacements, administration, and debt service, on a kilowatt hour basis, limited by "self help clause"
- State: Risks of facility performance failures, insufficiency in R&F Fund, uninsured losses, inflation, power sales losses, and catastrophic events

??

History cont'd 

## 5 Utilities sue the State

- Filed in April 1995 for State to pay for repairs
- Settled June 1995 (Legal or Political)
- Administration: Proposed bonding \$25 million
- Legislature: Decided to use debt service payments as "self help" to pay for repairs
- impact on State budgets and the PCE fund  
- \$27 million

## Crandall/Ellig (cont'd)

- The lower the barriers to customer choice, the greater the benefits. Choice will provide the most benefits.
- Competitive markets continue to evolve in response to consumer needs. Markets should be allowed to evolve. Government policy makers should not over plan the transition or try to design market mechanisms.

# The Case for Privatization

Electricity Revenues per Kilowatthour from Sales to Ultimate Consumers  
by Type of Utility Ownership, 1990

Type of Utility	Share of Electricity to Ultimate Consumers (percent)	Average Prices to Ultimate Consumers (cents per kilowatthour)	Difference	%
Investor-owned Utilities	76.3	6.8	-	-
Municipal/State Utilities	14.2	7.33	.53	+8%
Rural Electric Cooperatives	7.4	8.15	1.35	+20%

## Sources: (for the previous table)

- Federal Energy Subsidies: Direct and Indirect Interventions in Energy Markets, by **Energy Information Administration**, US. Department of Energy, Washington, DC, November 1992, p. 57
- Subsidies and Unfair Competitive Advantages Available to Publicly-Owned and Cooperative Utilities, by Putnam, Hayes & Bartlett, **Edison Electric Institute**, Washington, DC, September 1994, p. B-13
- Federal Power: The Case for Privatizing Electricity, by Douglas A. Houston, the **Reason Foundation**, Los Angeles, CA, March 1996, p.2, 5

# Power Production Cost

## Hydroelectric Plants Owned by Major Investor-Owned Electric Utilities\*

1991

(Mills per Kilowatthour)

Operations	3.88
Maintenance	<u>2.89</u>
Total	6.76
or cents per kilowatthour	.00676

## Four Dam Pool Operating Costs\*\*

1995

Operations & Maintenance cents per Kwh	2.5
--	-----

Source: \* Electric Plant Cost and Power Production Expense 1991, Energy Information Administration, US. Department of Energy, Washington, DC May 1993, p.11.

\*\* Independent Auditor Reports, Parisena, Stronberg & Company, 1988 - 1995

## EXHIBIT F

*Info gathered 4-9-97*

Below is a cross section of city policies. The information in the parentheses indicates where the information came from. I'm still waiting on Kodiak info.

- Anchorage** Mayoral directive that assets must be sold through a RFP or auction. Charter requires that it be in the public's best interest. \$30,000 limit on sole source purchases, needs Assembly approval. (Purchasing)
- Fairbanks** Assets, like their utilities, must be disposed through a public solicitation for sale. May or may not be an actual RFP, but does involve public notice and solicitation of offers. (Purchasing)
- Ketchikan** Charter requires assets must be sold through auction or RFP. In the case of telephone utility, an RFP was issued for a broker; broker conducted public solicitation of bids, city council approved process. Three different companies submitted bids to city. Winning bid, PTI's, was put to public vote. Vote failed. (Finance Department)
- Valdez** All assets disposed shall be through public auction or RFP. Valdez Municipal Code, Chapter 4.04 (City Clerk's office)
- Wrangell** Assets are sold through sealed bid or auction. Public is notified. Wrangell Municipal Code 16.12.030 (City Clerk's office)
- Petersburg** To sell an asset less than \$25,000 in value takes a resolution of the city council. More than \$25,000 requires three hearings of the council. Over \$500,000 takes a vote of the people. Petersburg Municipal Code 16.12.060 and 16.12.070. (City Clerk's office)

*Kodiak*

*\$10,000 threshold*

To: Joe Hayes

4/16/97

FAX 463-5515

## RESOURCE MANAGEMENT

**9.0** MAPI is an equal opportunity employer. It is MAPI's policy to support and promote the use of local Alaskan labor and resources. You are requested to respond with a plan that addresses the following:

1. How will you utilize local Alaskan labor for this project?
2. Have you studied the Alaskan labor market for these resources?
3. What is your plan to maximize use of these resources while maintaining a fast track schedule for this project?
4. How do you plan to utilize local Alaskan contractors?
5. How do you plan to utilize equipment available locally?

Your response to these questions will be a part of the subjective analysis of your bid.

### **9.1 Sub-contractors and Personnel**

MAPI reserves the right of approval for all sub-contractors and all employees employed by the contractor for this project and contract.

### **9.2 Alternatives**

MAPI cannot over-emphasize the importance of a value added approach by contractors and prospective contractors. After you have responded to the specifics of this RFB, please feel free to offer any alternatives or innovations as to the type of contract, proposed schedule, and proposed programs as you deem fit.

*MAPI = MAPCO Alaska Petroleum Inc.*

**CS FOR HOUSE CONCURRENT RESOLUTION NO. 16(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTIETH LEGISLATURE - FIRST SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVE BARNES**

**A RESOLUTION**

**1 Proposing recommendations concerning the sale of the Four Dam Pool  
2 hydroelectric facilities.**

**3 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

**4 WHEREAS** the state acquired land and constructed four hydroelectric facilities,  
**5** referred to as the Four Dam Pool, to provide electricity to the communities of Copper Center,  
**6** Glennallen, Ketchikan, Kodiak, Petersburg, Valdez, and Wrangell; and

**7 WHEREAS** the Four Dam Pool is owned by the Alaska Energy Authority, which is  
**8** a party to a 40-year power sales agreement with local utilities to sell the power generated by  
**9** the facilities; and

**10 WHEREAS** the Alaska Energy Authority retains, under the power sales agreement,  
**11** significant liabilities relating to the power projects, including responsibility for uninsured  
**12** facility failure, substandard performance, deficiencies in the reserve and replacement fund, and  
**13** a loss of power sales; and

**14 WHEREAS,** during the last two years, the Alaska Energy Authority has entered into  
**15** exclusive discussions with local utilities in the communities served by the Four Dam Pool  
**16** power projects regarding the transfer of ownership of the power projects to the local utilities;

1 and

2 **WHEREAS** the Alaska Energy Authority determined that the power projects are worth  
3 \$84,000,000; and

4 **WHEREAS** the Alaska State Legislature feels compelled to allow the current  
5 negotiations with local utilities in the communities served by the Four Dam Pool regarding  
6 the transfer of ownership of the power projects to conclude; and

7 **WHEREAS** the Alaska State Legislature believes that the divestiture of the Four Dam  
8 Pool power projects should be conducted under an open competitive bid process that assures  
9 that the citizens of the state receive the best price possible for the projects while guaranteeing  
10 stable rates to the consumers served by the utilities that sell power generated by those power  
11 projects;

12 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the Alaska  
13 Energy Authority to conclude its exclusive discussions with the local utilities served by the  
14 Four Dam Pool power projects by July 31, 1997; and be it

15 **FURTHER RESOLVED** that if the Alaska Energy Authority does not receive an  
16 acceptable proposal from the local utilities by July 31, 1997, that can be brought to the Alaska  
17 State Legislature for ratification, then the authority shall promptly prepare a request for  
18 proposals for the sale of the Four Dam Pool power projects; and be it

19 **FURTHER RESOLVED** that the request for proposals for the sale of the power  
20 projects that make up the Four Dam Pool shall be open to any qualified bidder and shall  
21 contain terms that will

22 (1) assure that the state receives a fair value for the power projects;

23 (2) protect the electric power rates of the local consumers from unwarranted  
24 increase;

25 (3) provide adequate power to the communities to allow for community  
26 growth; and

27 (4) allow adequate reserves to the purchasers to ensure that the power projects  
28 are adequately maintained and repaired; and be it

29 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that  
30 the Alaska Energy Authority issue the request for proposals as soon as practicable and under  
31 the terms and conditions that will promote a successful competitive bid process resulting in

1 the completed sale of the power projects for fair value pending the sale's presentation to the  
2 Second Session of the Twentieth Alaska State Legislature for approval.

3       **COPIES** of this resolution shall be sent to Wilson Hughes, Chair of the Alaska  
4 Industrial Development and Export Authority and the Alaska Energy Authority; and to  
5 Ketchikan Public Utilities; Wrangell Municipal Light and Power; Petersburg Municipal Power  
6 and Light; Copper Valley Electric Association, Inc.; and Kodiak Electric Association, Inc.

# FISCAL NOTE

**STATE OF ALASKA**  
**1997 LEGISLATIVE SESSION**

**BILL NO.**                      **HCR 16**

Revision Date:                      April 9, 1997  
 Title:                      A Resolution concerning the sale of the Four Dam  
                     Pool hydroelectric facilities  
 Sponsor:                      Representative Barnes  
 Requester:                      Representative Therault

Department:                      DCED  
 BRU:                      AIDEA  
 Component:                      AEA

**COMPONENT SERIAL NO.**                     

Expenditures/Revenues	(Thousands of Dollars)					
<b>OPERATING EXPENDITURES</b>	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	40.0					
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	40.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	80.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES</b>	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Corporate Receipts	120.0					
<b>TOTAL</b>	120.0					

Estimate of any current year (FY 97) cost: \$                      0.0

POSITIONS						
FULL-TIME						
PART-TIME						
TEMPORARY						

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

Please see attached page.

Prepared by:                      D. Randy Simmons, Executive Director *[Signature]*  
 Division:                      AIDEA and AEA  
 Approved by Commissioner:                      William L. Hensley *[Signature]*  
 Agency:                      Commerce and Economic Development

Phone:                      907.269.3000  
 Date:                      April 9, 1997  
 Date:                      4-9-97

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## FISCAL NOTE

STATE OF ALASKA

BILL NO.

HJR 16

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1997 LEGISLATIVE SESSION

ANALYSIS: (continued)

### DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT Fiscal Note Calculations for

The Resolution provides a recommendation to the Alaska Energy Authority (AEA) to issue a Request For Proposal (RFP) for the sale of the Four Dam Pool projects, as soon as practicable. To undertake this recommendation, two AEA staff people will be required to conduct the following tasks: prepare a RFP, including the terms and conditions of the RFP; arrange site visits for potential buyers; issue public notices for the RFP; and evaluate the RFP bids. The AEA staff is limited, and for the purposes of this project, an outside professional engineering services consultant and financial consultant would be required to provide the necessary due diligence of the proposed sale and process. AEA staff will oversee the consultants.

The cost to hire outside consultants will be an additional \$80,000. The outside consultants would be tasked with all or portions of the following: suggesting terms and conditions for the RFP; review the RFP; provide technical answers to RFP questions; review the management and O&M plan and financial capability of the Buyer; and assist in the evaluation of the RFP bids.

Below is a cross section of city policies. The information in the parentheses indicates where the information came from. I'm still waiting on Kodiak info.

- Anchorage            Mayoral directive that assets must be sold through a RFP or auction. Charter requires that it be in the public's best interest. \$30,000 limit on sole source purchases, needs Assembly approval. (Purchasing)
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# Alaska State Legislature

4/10/97

Anchorage  
P. O. Box 103382  
Anchorage, AK 99510  
(907) 258-8163

State Capitol  
Juneau, AK 99801-1182  
(907) 465-3438

Official Business  
MEMBER  
Natural Resources  
Committee

## Chair, Legislative Council Chair, World Trade And State/Federal Relations

REPRESENTATIVE  
**RAMONA L. BARNES**  
District 22

### SPONSOR STATEMENT HCR 16

Recently, the communities that are served by the Four Dam Pool have been involved in negotiations to acquire the dams from the Alaska Energy Authority. Unfortunately, they are not willing or unable to give the state reasonable payment for the value of the property. I oppose any divestiture process that does not guarantee the state full value for the Four Dam Pool. In my opinion, a competitive sale resulting from a public request for proposals (RFP) is the best guarantee that the people of Alaska will receive fair and full value for a valuable asset.

My constituents in Anchorage have as great a financial interest in this divestiture process as do the citizens of the communities that buy the power from the dams. All Alaskans are owners of these dams that were built and paid for with state funds in the amount of approximately \$500 million.

This controversy over the Four Dam Pool stirs up old political wounds and frustrations over unfulfilled regional energy agreements. Throughout my legislative career I have worked with other dedicated legislators and business leaders to fashion an equitable energy policy for the entire state. We sought and continue to seek to develop and export our fossil fuel resources. Substantial portions of oil revenue generated by that successful policy were appropriated to build and support the building of energy projects like the Four Dam Pool, which were designed to lower the cost of electricity to Alaskan residential and business consumers.

In areas of the state where electric generation costs could not be lowered with present technology, we instituted a power cost equalization program in the interest of simple economic justice. Since the oil wealth of Alaska belongs to all its citizens, a fair energy policy dictates that every community should have reasonable electric rates, a fundamental prerequisite for community growth and economic viability.

There are those who feel the state should relieve itself of the liabilities of ownership. The state sells the power generated by the dams to local utilities pursuant to a Power Sales Agreement (PSA). Under the PSA the state bears the liability burdens for substantial repairs, uninsured losses, inflation, loss of power sales, insufficiency in the R&R fund, performance failures and the liability of a catastrophic event.

The state is now paying for substantial repairs to these facilities from the income stream of the Four Dam Pool through the self-help clause in the PSA which are projected at approximately \$27 million over the next three years.

The AEA has pursued and continues to pursue a divestiture process that is flawed. Since August 1995 the AEA's sale negotiations have only been with the local utilities that operate the dams for the state. The AEA has received inquiries from the private sector and in one instance an offer to pay the state's asking price. I see no inherent reason why the private sector should be shut out of the sale process in favor of a sole-source effort to transfer the dams to local governments and associations for 0 to \$20 million. To the contrary, how else can we be assured that we secure the best price for valuable state assets? Also, what better way is there than an open competitive bid process to evaluate who best serves the interests of rate-paying consumers?

This resolution is not meant to address to whom the dams should be sold but how the dams are to be sold. The AEA should employ a public competitive sale process and publish as soon as possible an RFP to elicit qualified buyers. The RFP should be designed to secure greatest value for the state, with guarantees that the sale will not alter existing rates to local communities under the PSA.

The AEA has volunteered to seek final approval for the sale from the Legislature. This does not begin to correct the flawed sole-source process itself. It merely passes on to the legislature serious procedural errors and their attendant conflicts. Passing the buck to us after a flawed process wastes the time of the legislature not to speak of the wasted costs to the AEA and to the consumers for their attorneys and the travel expenses for utility officials.

It is my hope that the AEA will react with dispatch in publishing an RFP so that this legislature will know before the end of this session that the divestiture process of the Four Dam Pool is being properly handled.

STATEMENT OF ERIC REDMAN  
counsel for  
THE CITY OF WRANGELL, ALASKA  
regarding  
HCR 16

---

Juneau, Alaska  
April 10, 1997

A. Introduction

My name is Eric Redman. I am a lawyer with Heller Ehrman White & McAuliffe. Since 1975, my work has consisted primarily of electric power, environmental, and other regulated industry matters. I am testifying today on behalf of the City of Wrangell. For the past 14 years, I have represented Wrangell on the Tye Lake Project and on Four Dam Pool matters. In the mid-1980s I was among those who negotiated and drafted the long-term Power Sales Agreement ("PSA") and related documents for the Four Dam Pool projects. During those years, I worked on Four Dam Pool legislation in Juneau in the 1984 and 1985 sessions.

For many years I have also represented other Alaska entities, including (1) Alaska Electric Light & Power on Snettisham power sales agreements and related matters, and (2) Chugach Electric Association on Bradley Lake, Susitna, certain Railbelt Intertie

matters, other power and transmission projects, natural gas matters, and related utility contracts.

My work has given me great respect for the tenacity and effectiveness of HCR 16's sponsor, Representative Barnes, in assisting power project development throughout Alaska, and particularly in the Railbelt. Like many others, I share a number of the frustrations that Representative Barnes expressed in her recent floor statement regarding the history of funding for Railbelt energy projects.

I also agree with Representative Barnes that, if the State is determined to do so, the State can "cash out" its interests in the Four Dam Pool through divestiture, either to obtain funds for Railbelt energy projects or for other purposes. Whether the State should divest itself of the Four Dam Pool projects is a policy question on which I have no strong views.

The best means to achieve divestiture if the State is determined to do so, however, is a question of judgment. Similarly, the choice of the State's primary divestiture objective -- whether to cut its losses and reduce its future risks, or instead to maximize cash on the barrelhead -- is also one on which reasonable minds might differ. On these issues -- how best to achieve divestiture, and what divestiture should accomplish -- I do have strong views, based on my Four Dam Pool experience and my participation in the current divestiture negotiations with AIDEA.

I believe the shortest route to an optimal divestiture outcome -- one that works in the real world, and one that will satisfy the Legislature -- is for both sides, the State and the Four Dam Pool utilities, to stay the course in those current negotiations, at least for now. If either side drags its feet, or if no agreement is reached, or if an agreement is reached but that agreement fails to satisfy the Legislature, then a different course may make sense, because the negotiations will have failed. They have not failed yet. I do not expect them to fail.

I also believe there are very strong reasons of prudence and policy for trying, at least initially, to divest these facilities to the Four Dam Pool communities rather than to other parties, if the divestiture can be accomplished on terms acceptable to the Legislature and the State.

#### B. Overview & Summary

If adopted, HCR 16 would effectively terminate -- prematurely, in my view -- an on-going Four Dam Pool divestiture negotiation. Reasonable people may differ on whether the current divestiture negotiations are a good idea, and whether they are likely to produce an outcome acceptable both to the State and to the Four Dam Pool communities. As one of the negotiators, I believe that, on balance, the negotiations are a good idea and have a significant likelihood of success. Like other representatives of the Four Dam Pool communities, I hope you will allow us a reasonable time within

which to complete our negotiations and present you a fully-drafted divestiture proposal for your consideration before you impose an alternative divestiture process on us.

In support of this position, I respectfully ask that you consider four basic points.

First, the current divestiture negotiation process (including the ground rules for negotiation) was selected by AIDEA on behalf of the State; it has been relied on by the Four Dam Pool utilities, at significant expense to themselves; and, most important, it appears to be working. If this negotiation process fails, then some alternative divestiture process -- perhaps the request for proposals ("RFP") process this legislation contemplates -- may be appropriate. But the negotiation process has not failed yet. Dave Carlson of Petersburg, the head of the Project Management Committee of the Four Dam Pool, and Ron Saxton, the PMC's lawyer, will both testify today about the history and status of the negotiations.

Second, as all parties to the current divestiture negotiations recognize, any negotiated divestiture proposal will necessarily require enactment of enabling legislation. No divestiture can be implemented under existing law. Therefore, no negotiated divestiture will be possible except on terms and conditions the Legislature first reviews and ultimately approves. In other words, if we agree with AIDEA on a divestiture proposal but that proposal does not satisfy you, we will have failed as surely as if we reach no agreement at all. We are well aware of this ultimate legislative

test. We ask that you give us a reasonable opportunity to meet it.

Third, the State and the Four Dam Pool utilities are bound to one another through the PSA, a long-term contract from which neither side can be forced to release the other against its will. The laws governing assignment of contracts may allow Party A to assign its contract to another entity, but even assignment does not let Party A entirely "off the hook" unless Party B agrees. One ground rule the State established for the current negotiations is that it does not want to end up entirely "off the hook." For this to occur in any divestiture of the Four Dam Pool to any entity, as a practical matter a successful negotiation between the State and the Four Dam Pool utilities will therefore be necessary in any event. Because we can't avoid eventual negotiations, it makes sense to continue our current negotiations so long as reasonable progress continues to be made.

Fourth, the very purpose of the State's huge and often frustrating investment in the Four Dam Pool and other energy projects was to provide economic benefit to the State and its citizens through a reliable and affordable power supply that would maintain and, if possible, enhance economic development in particular Alaska localities. Despite the Four Dam Pool's disappointing power supply economics -- disappointing not just to the State, but to the Four Dam Pool communities as well -- that original purpose should not be lost. On the contrary, some portion of that original purpose has been and can still be achieved, so long as the financial benefits

of the Four Dam Pool -- not just its financial burdens -- flow to the State and these communities. That is what the Four Dam Pool communities propose.

Given the history and circumstances of the Four Dam Pool, I think it would be very sad -- given all the State has spent, all these five communities have paid, and all the lofty principles that motivated the Energy Program For Alaska in the first place -- if the facilities of the Four Dam Pool were sold to private investors at prices far below cost, at least at this time, when a negotiated and legislatively approved divestiture to the Four Dam Pool utilities remains a realistic possibility.

Most divestitures take place at prices lower than the cost of the assets being sold. Divestiture of the Four Dam Pool will necessarily follow this rule. The result of a below-cost sale of these particular assets to private parties would be that at least a portion of the economic benefit that these facilities are still capable of producing for the public would be sacrificed, and would instead be transferred into private hands. I hope the State would not prefer that result at a time when a process is still underway through which, if successful, the State and the communities for whom those projects were built can and will retain in public hands -- and serving public ends -- whatever economic benefits these projects can still produce.

### C. Current Context

Two years ago, prompted by the Legislature, AIDEA asked the five consumer-owned utilities that buy power from the Four Dam Pool to discuss the possible divestiture of these State-owned projects to the utilities. It is important to emphasize that AIDEA, not the utilities, initiated these discussions and dictated the ground rules -- including that, at the end of the day, the State should be totally "off the hook" with respect to any continuing Four Dam Pool risks or obligations. Despite misgivings in the communities we represent, the utilities agreed to participate in these discussions.

Over time, our discussions evolved into negotiations, and those negotiations have made genuine progress. Much of the credit belongs to AIDEA, which has conducted itself with a degree of openness, cooperation, and professionalism that has largely overcome the mutual mistrust that characterized past Four Dam Pool negotiations. Relying on that growing trust and continuing progress -- and despite some very thorny technical problems -- both AIDEA and the Four Dam Pool utilities have now invested large amounts of time and money in an effort to bring these divestiture negotiations to a successful conclusion. A successful conclusion would be one that AIDEA, the Four Dam Pool communities, and the Legislature all accept, and that can be implemented.

As I've mentioned, one of AIDEA's primary objectives in these negotiations has been to make sure the State ends up "off the hook" and free from any continuing Four Dam Pool risks and obligations. In our negotiations, this means AIDEA wants to transfer risks and obligations to the Four Dam Pool communities themselves. Our discussion of a potential purchase price has been driven by this reality, namely that the price has to be low enough so that the Four Dam Pool communities can pay it, take on the Four Dam Pool financial risks currently borne by the State, and still not end up worse off than they are today under the PSA.

If the State's objective were to maximize the purchase price rather than to get rid of every residual Four Dam Pool obligation and risk, the negotiations would probably take a very different course. The Four Dam Pool communities could pay somewhat more for the projects and still end up no worse than they are today if the State remained responsible for some or all of the project risks. This is where the State's choice of divestiture objectives really matters.

#### D. History

The problem of high costs and high risks is what characterizes the history of the Four Dam Pool. Financially, these projects have greatly disappointed the original expectations of the State and the Four Dam Pool communities alike.

The State ended up having to spend far more to build these projects than it ever intended -- about \$500 million in total. In addition, as Representative Barnes pointed out in her recent floor statement, the State did not end up building the Susitna project and was able to fund other major Railbelt energy projects only partially. If the State had had any way of anticipating these outcomes, few if any of the Four Dam Pool projects would probably exist today.

The financial expectations of the communities were bitterly disappointed, too. The Tyee Lake project, for example, was begun in the belief that its entire construction cost could be funded by then-available grant monies. Wrangell and Petersburg hoped for cheap power that would spur local economic development. Instead they and the other Four Dam Pool utilities have ended up paying 6.4 cents per kilowatthour for wholesale power alone --- not the highest price in the State, but a very high price nonetheless. This is twice the price of power from Bradley Lake or Snettisham, for example.

The Four Dam Pool communities often feel that others do not understand our relatively costly power, and instead regard Four Dam Pool power as some type of priceless gift for which the communities are somehow insufficiently grateful. We also hear that the communities, despite agreeing to pay these disappointingly high rates, somehow took advantage of the State in the PSA. I could not disagree more.

The source of all these disappointed expectations and bruised feelings is simply stated: the Four Dam Pool projects, taken as a whole, turned out to be very, very expensive for the relatively small amount of power they produce. At a time when nuclear plants were being cancelled throughout the Lower 48 because their costs had reached the astronomical level of \$3000 per kilowatt of installed capacity, the Tye Lake Project was being built at more than twice that cost. Except for Swan Lake, the other Four Dam Pool projects also suffered massive cost overruns, which required debt financing as well as grants, which in turn produced high power rates for the communities and a very poor overall economic return for the State on its investment.

Despite their costs, some of the Four Dam Pool projects also turned out to have serious design and construction flaws that have cost many millions of dollars to correct. The costs of those errors in original construction are borne by the State under the PSA. Why? Because the PSA obligates the communities to pay every cent they reasonably could just to receive power from the projects when they are capable of producing power and delivering it, and because the State, having spent so much to build the projects, had no taste for funding customary project reserve funds.

In recent years, some funds the communities pay the State for debt service have been diverted to AIDEA on an emergency basis through the PSA's self-help provisions to fund repairs of initial design and construction flaws. This, too, has been financially

painful for all sides. But if the repairs were not made, there is a significant risk that all project power, and all project revenues, could be lost entirely for some significant period of time. Again, the culprit is that the projects are turning out to be even more expensive than earlier thought -- one more major disappointment, and one more thorny problem to consider in any divestiture. There simply has not been enough money to go around.

#### E. Putting It All Together

The ground rules AIDEA imposed on our negotiations included two key ones: the existing PSA could not be changed, and the State had to end up completely free of all risks and obligations under the PSA. We have been negotiating in that context. If we succeed, the State will receive significant value for the projects (another condition on which AIDEA has insisted), and be well-shed of the Four Dam Pool and all its headaches. The communities will have to work hard just to prevent power cost increases resulting from the combination of having to buy the projects and bear the project risks.

I believe AIDEA thinks it is following the Legislature's previously expressed intentions in attempting to rid itself of the Four Dam Pool's costs and risks. We in turn have been trying to play by AIDEA's rules. That is why the dollar value of the purchase price we are likely to finally agree upon -- subject to your approval -- will not necessarily be as high a price as the State

might receive if the State instead divested itself of the Four Dam Pool assets but retained some or all of the insurance-like risks the State now bears under the PSA. That is also why no other buyer, and certainly no private buyer, is likely to be willing to buy the projects and perform the PSA as currently written -- another condition on which AIDEA has insisted in our negotiations.

In short, divesting the Four Dam Pool to the communities on the terms AIDEA has insisted upon, as opposed to selling the same assets to a private buyer for the maximum possible price, are two separate concepts. They are not comparable objectives. They do not produce comparable divestiture processes or outcomes. They are apples and oranges.

We will bring you -- I hope -- an apple. We will try to bring it to you soon. We hope you will examine it as an apple, and decide whether you like it. If you don't, or if you decide you'd prefer an orange, you will have ample time to send us all down a different road. Please let us get to the end of this road first.

Thank you.

**Four Dam Pool  
Project Management Committee**

**Briefing Materials**

## Summary of Position

- ▼ Since their construction, the State has dedicated the Four Dam Pool hydroelectric projects to serve their respective communities.
- ▼ The Four Dam Pool Utilities actually pay more in debt service (per kWh) than the Bradley Lake purchasing utilities pay for debt service and Operation and Maintenance costs.
- ▼ The power rate in the Four Dam Pool communities is among the highest non-subsidized (*i.e.*, not eligible for Power Cost Equalization) rate in the State.
- ▼ The Purchasing Utilities of the Four Dam Pool have paid to the State in Debt Service alone, over \$91 million dollars since 1985.
- ▼ The Purchasing Utilities have invested over \$46 million in operations and maintenance expenses since 1985.
- ▼ The AEA has committed to negotiate exclusively with the Purchasing Utilities. Both the Purchasing Utilities and the AEA are continuing ownership transfer negotiations.
- ▼ The AEA and the Purchasing Utilities agree that the Long-Term Power Sales Agreement must be honored.
- ▼ Mike Gravel's Energy Group has proposed that negotiations between the AEA and the Purchasing Utilities be put on hold and that The Energy Group be given the exclusive right to pursue the purchase of these projects.
- ▼ The Energy Group's proposal was premised on revising the current Long-Term Power Sales Agreement between the Purchasing Utilities and the AEA. As proposed, this would deliver half of any future cost savings to private investors outside our communities and State, rather than the Four Dam Pool communities.
- ▼ The utilities unanimously agreed that Alaska utility ownership of the projects provided significantly greater opportunities for rate reductions, cost control, and the protection of quality of service.

## History of the Four Dam Pool Initial Project

In the mid-1970s, energy demand was growing rapidly. The major energy concern for both legislators and regulators was the ability of utilities to finance and build generation capacity to meet the growing demand.

The State decided that hydroelectric projects should be considered the most desirable resource option. However, the high, front-end construction costs compounded by the sheer magnitude of the financing made it very difficult for a single utility or an association of utilities to embark on such a project, even if it was in the utilities' best interest.

Hence, the situation required State intervention. In 1981, legislation enacted the Energy Program for Alaska. The Energy Program was created to facilitate the financing and construction of non-nuclear power projects through direct State appropriations, and provide a mechanism for pooling the costs of debt-financed projects.

During the 1980s, the AEA constructed or acquired four hydroprojects under the Energy Project for Alaska. The purpose of the acquisitions was to provide a long-term, reliable source of power for the communities of Petersburg, Wrangell, Ketchikan, Kodiak, Glennallen and Valdez, at an ongoing operating cost that was expected to be less than the diesel generation units that were in operation in those communities.

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

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

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

In an effort to equalize power costs for the communities served by the dams, the

Alaska legislature provided that these four projects would be considered as one project -- the Initial Project. Together, they would be operated and managed jointly and the wholesale power rate for power sales would be the same. The financing, operation and management of the four projects were combined, statutorily named "The Initial Project," and are commonly known as the "Four Dam Pool."

Under the Energy Program for Alaska, the AEA was authorized to have "qualified utilities" operate the projects. The AEA decided to have the local utilities operate the dams, with decisions affecting operations made by a Project Management Committee. The statute requires the AEA to review and approve the annual budget for the operation and maintenance of the projects and assure that the projects are being operated efficiently and consistently with national standards for the industry. This relationship is a unique arrangement of oversight and control from the local utility, a Project Management Committee, and the State.

# The Four Dam Pool Long-Term Power Sales Agreement

**Term:** Signed on October 28, 1985, the term of the contract is 45 years (1985 to 2030), and is renewable as long as the projects are operable.

**Parties:** The City of Petersburg  
The City of Wrangell  
The City of Ketchikan  
The Kodiak Electric Association, Inc.,  
The Copper Valley Electric Association, Inc.  
(known as the "Purchasing Utilities"), and  
The Alaska Energy Authority.

**Projects:** Four operating hydroelectric projects owned by the State of Alaska:

Lake Tyee, dedicated to serving Petersburg and Wrangell;  
Swan Lake, dedicated to serving Ketchikan;  
Terror Lake, dedicated to serving Kodiak; and  
Solomon Gulch, dedicated to serving Copper Valley.

None of the Projects are interconnected.

## Basic Terms:

- ▼ **Power:** Each Purchasing Utility is entitled to receive all the power available from its dedicated facility, and benefit from the sale of any surplus power.
- ▼ **Project Management Committee:** The PMC oversees the operation of the four dams, and each year, makes decisions about budgets, maintenance standards and schedules, and sets a "postage stamp" wholesale power rate. The Committee consists of representatives from each of the five utilities and the AEA.
- ▼ **Wholesale Power Cost:** Each community pays the same "postage stamp" rate for power. The rate is established at the start of each fiscal year to cover estimated operating costs and agreed contributions toward debt retirement for the four projects, combined.
- ▼ **Operating Costs:** The utilities, through purchase of power from the projects, bear direct responsibility for certain defined "Power Production Costs," such as routine operation and maintenance costs, insurance, costs of the PMC, and certain AEA administrative costs.

- ▼ *Debt Service:* The debt service component started at 2.6 cents per kWh in 1985, and ramped up in steps to 4.0 cents per kWh over the next four years. The 4.0 cents per kWh debt service component will remain in place until the year 2000, when a "rate reopener" mechanism will establish the basis for rates in the years 2000 - 2015. The Reopener formula is not expected to generate an increase in the debt service component.
  
- ▼ *Risks:* While the PMC operates the projects, the AEA retains the responsibilities of ownership, including the responsibility for the coverage of various contingencies. This includes premature failure of any project equipment not covered by insurance, and any costs associated with substandard performance of any of the facilities. To insure that there would be adequate funds to cover these risks, the PSA provides that the PMC may withhold debt-service payments from the State and use that money for repairs or renewals and replacements. This PMC right is commonly referred to as "self-help." This "self-help" provision was recently invoked to pay for Tyee Transmission Line repairs, estimated at \$20 million.
  
- ▼ *Renewal and Replacement Fund:* The PSA requires the AEA and PMC to establish a Renewals and Replacement Fund ("R&R Fund") for the routine renewal and replacement of the existing facilities and equipment of the Initial Project. The monies in the fund consist, among others, of annual contributions made to the fund by the power purchasers, and interest earned. The PMC currently transfers \$500,000 annually to the R&R Fund. The AEA is responsible for any insufficiencies in the Fund.

## **Four Dam Pool -- Needed System Rep<sup>s</sup> 3**

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

**Tyee Transmission Line.** Major repairs are needed on the Tyee Transmission Line. A report prepared by Dryden and LaRue (electrical consulting engineers) analyzed the failures and concluded that \$30 million would be necessary to correct design deficiencies, of which \$16 million is essential for the reliable operation, and safety of the project. A subsequent preliminary estimate provided to AEA by another engineering firm, Power Engineers, confirmed that the Tyee Transmission Line could need \$20 million in immediate repairs.

The AEA has accepted legal responsibility for the repair of the transmission line. In June 1995, the AEA signed an agreement acknowledging its obligation to pay for Tyee repairs as part of the settlement of the lawsuit brought by four of the Purchasing Utilities.

**Terror Lake Tunnel and Trap Remediation Work.** A repair project in 1994 and a mandatory FERC five-year inspection in 1995 identified a number of problems that would impact the economic life of the Terror Lake Project. The problems included excessive leakage, erosion, rock damage and debris.

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

## Four Dam Pool Divestiture Talks

In 1993, the State Legislature passed a bill that restructured the AEA. Prior to the Act, the AEA was a public corporation of the State of Alaska, with a separate and independent legal existence. After enactment, the AEA's power to acquire new facilities was eliminated, the AEA was transferred to the domain of AIDEA, and AIDEA's Board now directs AEA operations.

That legislation, coupled with the State's financial responsibility for necessary repairs to the Four Dam Pool (estimated at between \$15 to \$30 million) led the parties to begin discussing the possibility of the State divesting the four hydroprojects.

Recognizing the importance of the dams in their communities, the AEA committed to negotiate divestiture exclusively with the Purchasing Utilities. The parties agreed that the negotiations would be governed by the following terms:

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

The AEA and the Purchasing Utilities contracted with Harza Northwest, Inc. to perform a risk assessment for the four projects. The purpose of the assessment was to identify the risks associated with the ownership and operation of the Projects. The Harza Report identified expected risk-related repair costs of approximately \$1.1 million per year for the four projects, and an annual shortfall in the R&R Fund of about \$2 million. It also identified about \$30 million of repairs needed within the next five years. Virtually all of these costs will be the responsibility of AEA under the Power Sales Agreement. As a result, the costs identified by Harza became a major factor in setting a fair price for the projects, if sold to the utilities.

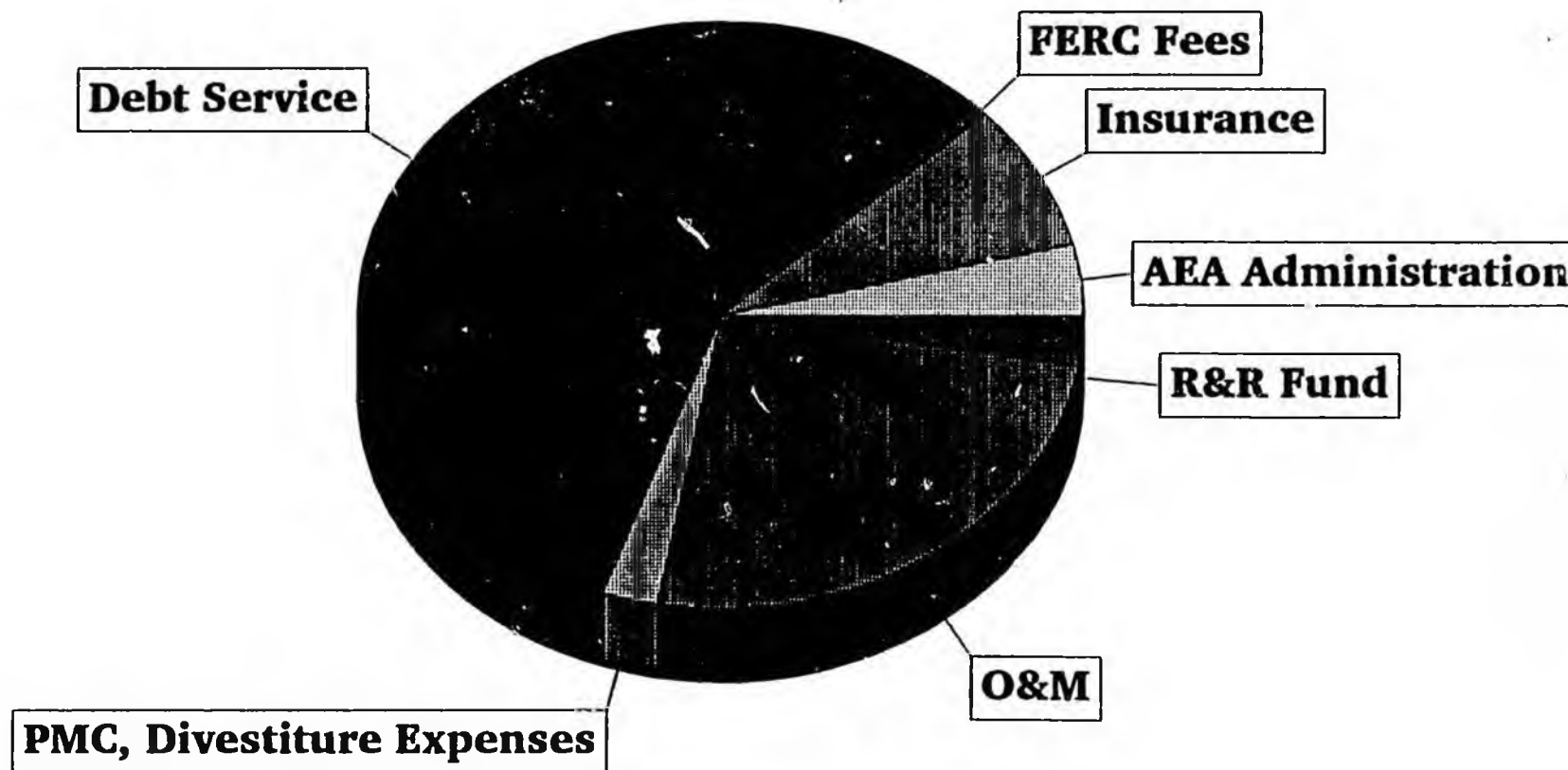
In broad general terms, the steps necessary for the transfer of Project ownership can be generally summarized as follows:

1. Negotiate terms of transfer (price, conditions, etc.).
2. Obtain approval of transfer terms by Legislature and utility-governing bodies, and maybe the APUC.
3. Create a new entity to own and manage the projects.
4. Raise capital required for purchase, reserve funds and other financial requirements.
5. Obtain transfer of various permits, licenses and agreements.

Lowering wholesale power rates and obtaining local control was the Purchasing Utilities' motivation for suggesting a divestiture. Any ownership transfer of this magnitude requires careful study and analysis. The Purchasing Utilities have done extensive legal analysis, performed a detailed review of the Harza work, and retained a financial advisor to determine the financial consequences to the communities of assuming ownership. The Purchasing Utilities and the State are committed to working with each other on structuring the various divestiture options.

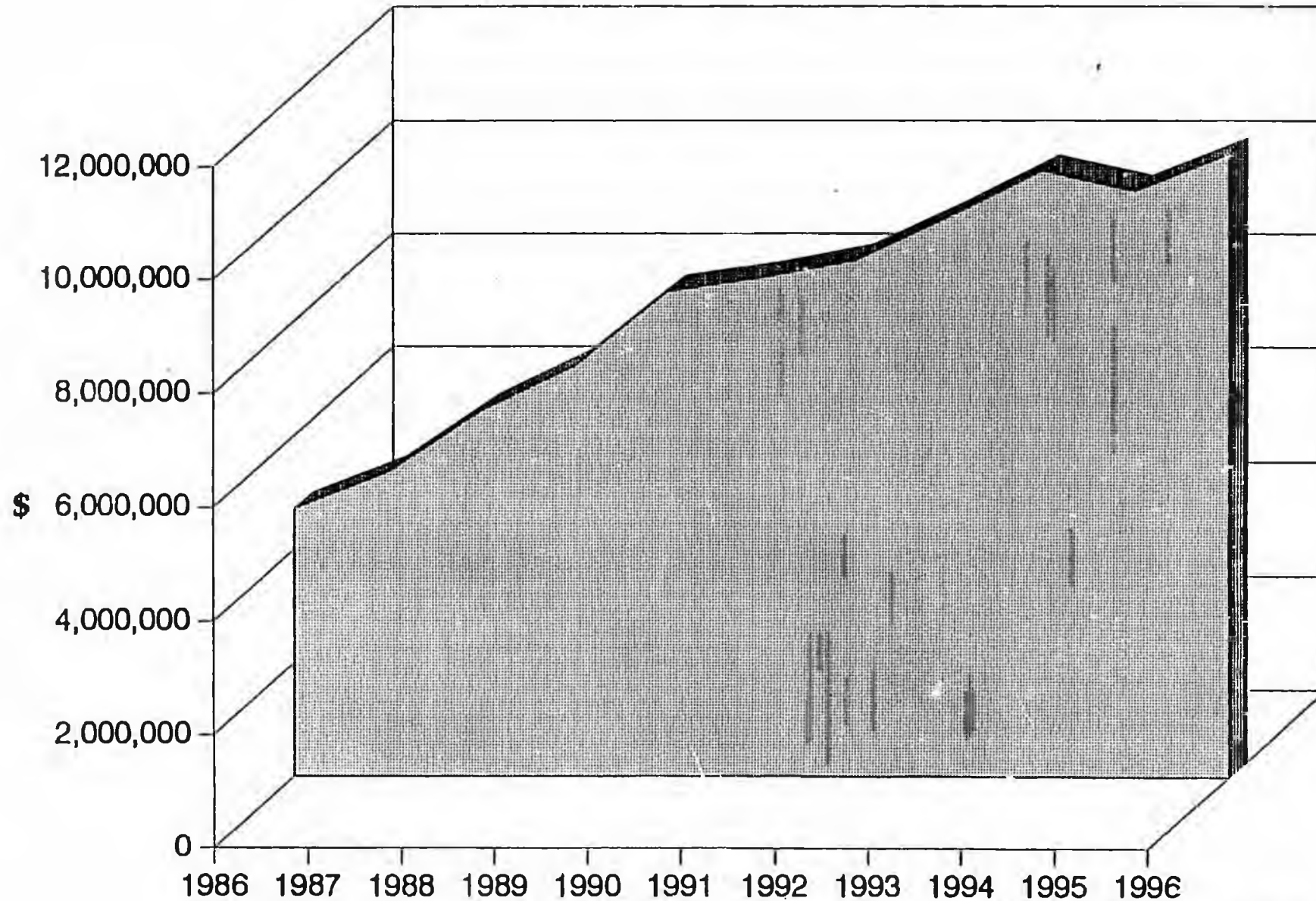
# WHOLESALE POWER COST COMPONENTS

## FISCAL YEAR 1996



# ANNUAL DEBT SERVICE PAYMENT

FISCAL YEARS 1986-1996



Purchasing Utilities of the Four Dam Pool - January 20, 1997

## DEREGULATING ELECTRICITY

WASHINGTON POST APRIL 6, 1997

# First Planes, Then Phones. Soon, the Light Switch.

By Glenn Hodges

A lot of Americans saw their first electricity commercial this year. Taking its place beside Nike and McDonalds during both the Super Bowl and the NCAA basketball tournament was Enron, the nation's largest "power marketer." With all the accoutrements of a Reaganesque, morning-in-America portrait—happy townsfolk, a homey diner, flags at sunset—the commercial told the story of Peterborough, N.H., where residents in an experimental pilot program saved between 10 percent and 20 percent on their electric bills. "You may choose

*Glenn Hodges is a writer in Washington, D.C.*



your neighbors," the narrator intoned, "and soon you may choose your energy company." Just when you were beginning to get comfortable with choosing your long-distance provider, deregulation—or demonopolization—of the electric utility industry is coming down the pike. Eight states are well on their way to allowing retail competition, a few more are getting close, most of the rest are studying it, and Congress is awash in bills mandating competition nationwide. Now you get your electric bill and you pay it; soon Candice

Bergen—or pitchmen from any number of "power marketers" selling electricity from their own or others' generators—may try to tempt you with a sweeter deal. Your present utility will still deliver your power, but who generates it may be up for grabs.

Because of the tremendous costs involved in building power plants and transmission lines, electric utilities were once considered to be "natural monopolies"—providing a service only one entity in a given area could deliver efficiently. Utilities were granted exclusive franchises in exchange for agreeing to submit to regulation, which would ensure that the utilities provided adequate service at a reasonable cost.

See DEREGULATION, C2, Col. 1

# Power Trip

DEREGULATION, From C1

But the electricity industry has changed since the 1930s, when the current monopoly systems were established. Because utilities' transmission lines are now linked, it is possible to move power from one region to another. In 1992, Congress opened the industry to wholesale sales, or "wholesale wheeling," across transmission lines; the next logical step is "retail wheeling," where consumers directly contract with power generators for their electricity.

In the long run, deregulating the industry will almost surely save money for consumers as a whole. But important questions remain: Which consumers? How much money? What kinds of trade-offs? Restructuring a \$200 billion industry is bound to produce big winners—and at least a few losers.

Though electricity is a unique commodity, the last 20 years have given us an indication of what happens when major industries are deregulated. According to a joint study by researchers from the Brookings Institution and the Center for Market Processes, deregulation of long-distance telephone service, airlines, natural gas, trucking and railroads has lowered prices by between 25 percent and 50 percent. But not everyone has come out on top. Back in the days of big Ma Bell, for instance, high long-distance rates subsidized local telephone service. Once AT&T went its own way, local rates rose, and people who made lots of long-distance calls benefited disproportionately.

In the airline industry, the big winner from deregulation has been the "leisure traveler" who can book in advance and stay over a Saturday. Business travelers, in contrast, typically pay two to four times as much to fly, often more than they did under regulation. Deregulation also freed airlines from their requirements to serve smaller, more remote communities. As a result small cities across the country have lost service and faced higher fares.

Unprofitable electricity customers face a similar risk in a competitive world. Currently, revenues from high-density areas offset the higher costs of serving rural customers. People who can afford to pay full price subsidize those who cannot. Without government protections, poor and rural customers will probably wind up losers.

So when you hear promises that competition will save everyone between 15 percent and 43 percent on their electric bills, beware of the hype. Enron's commercial, for example, neglects to mention that over half of the Peterborough residents' electric-bill savings were due to a state-mandated subsidy designed to ensure that people would participate in the pilot. Much

where," says Tom Getz, executive director of the New Hampshire Public Utilities Commission. "It's just too early to quantify ... those benefits."

It's even harder to quantify potential benefits for people who live in states where electricity prices are already below the national average. States with high electric rates, like California and most northeastern states, are the ones most aggressively pursuing retail competition, hoping it will bring rates down. Lower-rate states, meanwhile, are afraid they'll wind up losing if Uncle Sam makes them join the mix. By increasing the demand for their low-cost power, competition could drive up their prices. And hasty deregulation could lead to new systems that are less efficient than current ones.

Scott Neitzel, the former point man on utility competition for the Wisconsin Public Service Commission, is concerned that Wisconsin's rates, which are half those of higher cost states, might go up. "In New Hampshire, 90 of 100 options will do something to lower rates. In Wisconsin, only five or 10 out of 100 will."

Nor will any benefits deregulation delivers come without hassle. Consumers who are profitable targets for marketers will have to field their pitches, compare deals and figure out bills (services will be "unbundled," meaning everything from generation to transmission to metering could be itemized). The New Hampshire pilot program's solicitations were so confusing, and voluminous, that a number of people called their utility begging for the pitches to stop.

People who really want to save money may have to pay a lot closer attention to their usage patterns. Much like long-distance calling, electricity prices are going to be cheaper in the off-peak hours—"easily" half the cost of peak rates, predicts Stanford University economist Frank Wolak. Consumers who can take advantage of that, via changed habits or timed appliances, will benefit the most.

But in the short term, the biggest beneficiaries of competition are likely to be large industrial companies, who are pushing hard for deregulation. Industries have much stronger bargaining power when it comes to electric rates, and utilities already have been cutting them special deals so they won't move to lower-rate areas or start generating their own power. Nationwide, residential customers now pay an average of 75 percent more for electricity than industrial buyers, though that's partly because power is cheaper to ship in bulk. Deregulation will probably widen the divide. In New York, one of the states leading the charge toward competition, the first of seven proposed deals between state regulators and state utilities would guarantee a 25 percent rate reduction over five years for large manufacturers—versus only a 3.3 percent reduction for homes and small businesses.

Of course, even consumers who don't get lower rates may benefit if companies' lower electricity costs lead to lower prices on their products. But if residential rate payers get stuck with the costs of the transition to competition, they may have to wait years before the benefits of deregulation outstrip their losses.

The most expensive transition cost, and the biggest potential obstacle to deregulation, is utilities' "stranded costs"—the money they've invested in power plants and power-purchasing contracts that will be unprofitable in a competitive environment. Estimates of these costs range between \$45 billion and \$400 billion, much of that from nuclear plants built or planned when fossil fuels were much more expensive. Utilities don't want to get stuck with the costs of these investments since they were made in a monopolistic environment with the approval of regulators; they fear bankruptcy if they're forced to compete saddled with the expense. Meanwhile, consumer advocates want to make sure residential ratepayers don't have to pay the costs, especially since full recovery of these costs could amount to an overly generous windfall for utility shareholders.

Some states, like California and Massachusetts, are allowing utilities to recover most or all of their stranded costs, but they are requiring them to sell some or all of their power plants in exchange. This solution prevents the old mo-

nopoles from putting their new competitors at a disadvantage, since they, as the continuing owners of the transmission and distribution systems (i.e. the power wires), might give their own power plants special treatment.

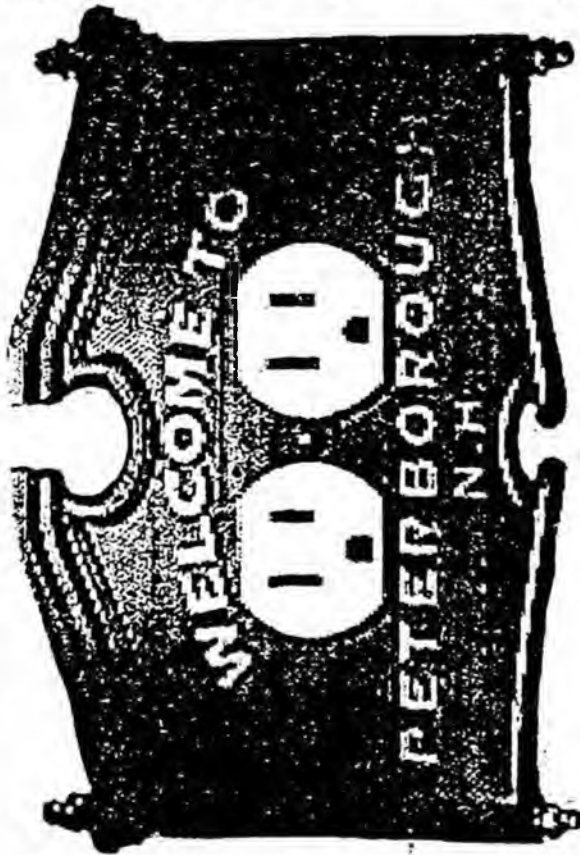
The question of "market power" is a big one in the deregulation debate, and the old monopolies are just part of the potential threat. There have already been at least 18 proposed mergers between utility companies since 1995, and there's worry that too much concentration could inhibit robust competition. The Federal Energy Regulatory Commission (FERC) scrutinizes mergers for potential anti-competitive effects; with utilities, electricity generators and power marketers scrambling to grab as much market share as they can in newly opened markets, FERC will have its work cut out for it.

Most of the states pursuing retail competition are making sure that residential rate payers don't see rate hikes in the short run. But they're finding that they can't help utilities recoup 100 percent of their stranded costs, give industry big price breaks and reduce residential rates at the same time. In California, when it became clear that people's rates would actually increase after competition began, the state issued billions of dollars in bonds to finance a 10 percent rate cut. Critics point out that rates would have dropped 12 percent without deregulation, and taxpayers wouldn't have had to pay for it.

Nor are prices the only issue. A sure-fire effect of deregulation, at least in the short run, will be dirtier air. When buyers start shopping for power, it's coal—the cheapest fuel by far, and also the dirtiest—that will get them the lowest rates. A Merrill Lynch analysis predicts that competition could push coal consumption from 850 million tons a year to 1.1 or 1.2 billion tons. Many coal plants, especially in the Midwest, are running well below full capacity, and a number more are "mothballed"—not in use but ready to go if needed. To make matters worse, hundreds of these older coal plants were exempted from the pollution controls of the 1970 Clean Air Act.

The long-run picture might be better. The old coal plants are inefficient and could eventu-

## DEREGULATED ELECTRICITY: WHO'S GOT IT, WHO'S GETTING IT



### WASHINGTON METROPOLITAN AREA

Maryland (which has rates just above the national average) and Virginia (which has rates just below the national average) plan to introduce restructuring legislation in the 1998 General Assembly sessions. The District is unlikely to do anything independent of Maryland, since its electricity supplier, the Potomac Electric Power Co., also serves Maryland and is awaiting regulatory approval for a merger with Baltimore Gas & Electric Co.

### EARLY SIGNS OF COMPETITION

This quaint, electrifying image, left, was but one of many in Enron's 30-second commercial broadcast during this year's Super Bowl. A February article in the New York Times said that the Houston-based energy giant won the right to power Peterborough over 30 other utility competitors by signing up 700 of the town's 5,300 residents, and the town itself.

### STATES THAT HAVE PASSED ELECTRIC RESTRUCTURING INITIATIVES

(all in 1996 or '97)  
California (customer choice by 2001)  
Pennsylvania (by 2001)  
Rhode Island (by 1998)  
New Hampshire (by 1998)

### A SAMPLING OF WINTER RESIDENTIAL ELECTRIC RATES

(in cents per kilowatt hour)

Washington Water Power Co. (Idaho): \$.04  
Potomac Electric Power Co. (Maryland): \$.07  
Virginia Power (Virginia): \$.08  
Southern California Edison Co. (California): \$.13  
Consolidated Edison Co. of N.Y. (New York): \$.15  
Citizens Utilities Co. (Hawaii): \$.18

SOURCE: National Association of Regulatory Utility Commissioners; Strategic Energy Ltd.; Washington Post research

ally fall into disuse—though that's what people said in 1970 when they were exempted from the Clean Air Act controls. Natural gas, which is by far the cleanest-burning fossil fuel and has been dropping in price for years, may make tremendous gains in a competitive environment. Consumers could also choose to pay more for "green-friendly" power.

As the country careens toward competition, it's important to keep a close watch on the details of the deregulation process. In Rhode Island, consumers were told that the state's deregulation plan would lower their rates dramatically. So they were shocked when the first thing utilities freed from the thumb of regulators did was to raise rates. What happened? "It was no secret that the electric companies essentially wrote the underlying [deregulation] bill and got everything they could get to position themselves well for competition," says Adrienne Southgate, general counsel to Rhode Island's Public Utilities Commission.

In the end, however, what may slow the rush in Congress is news that the highly touted telecommunications deregulation bill passed last year threatens to increase rates for local phone service dramatically. As regulators remove subsidies that have kept some people's bills artificially low, others' rates have to rise to make up the difference. Some members of Congress are already expressing regret that they voted for the telecom bill.

William W. Hogan, a professor at Harvard's Kennedy School of Government and an expert on utility deregulation issues, says Congress shouldn't rush to pass legislation this time around. "The issues are more complicated than most people realize. And if they make hasty decisions on what they know now, they're not likely to do very well."

So when you hear the promises of immediate 10, 15 or 25 percent savings, beware. Unless they're guaranteed or paid for by the government, as they have been in California and New Hampshire, they might be a while in coming. Changing a market from monopoly to competition is a long-term—and unpredictable—process.

Vera Plumb  
441 Hillcrest  
Ketchikan, AK 99901

Finance Committee  
ALASKA STATE LEGISLATURE  
Juneau, AK 99811

Re: HCR 16

Greetings:

Since the inception of the Four Dam Pool and the subsequent Power Sales Agreement, the communities served by the Four Dam Pool have enjoyed stable electric rates. The Four Dam Pool is currently negotiating with the State to transfer ownership of the Four Dam Pool projects from the State to the utilities servicing the communities. HCR 16 undermines the progress that has been made in those negotiations and will in all probability put an end to the negotiations.

Because HCR 16 has the potential to adversely impact the stable electric rates enjoyed by the Four Dam Pool communities, I oppose HCR 16. Please do not bring HCR 16 out of the Finance Committee.

Respectfully,



Vera Plumb



**WILLIAMS INC.**  
**3816 TONGASS AVE.**  
**KETCHIKAN, ALASKA 99901**  
Phone (907) 225-1279 Fax (907) 225-0657

April 7, 1997

To: Alaskan Legislators

From: Ben F. Williams, CEO, President  
Williams Inc. dba Alaskan and Proud to Be Stores

Please be advised that Williams Inc. Owns 6 Southeast Alaska Locations and employees in excess of 400 people.

As such, we are major consumers of electric power.

This correspondence is to inform you that we as a company are extremely opposed to any legislation that would force the sale of the Four Dam Project before the negotiations between the Four Dam Pools Communities can be completed.

Please give our communities the opportunity to determine their own futures, we again urge you to take another look at this legislation.

Thank you in advance for your consideration.

**ALASKAN & PROUD MARKETS**

Ketchikan Thorne Bay Lighthouse Klawock Haines Juneau



Official Business

# Alaska State Legislature

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

## MEMORANDUM

**TO:** House Finance Committee Members

**FROM:** Representative Bill Williams *Bill Williams*  
Representative Ben Grussendorf *B. Grussendorf*  
Representative Alan Austerman *Alan Austerman*  
Representative Gene Kubina *G. Kubina*  
Representative Irene Nicolia *Irene Nicolia*  
Senator Robin Taylor *R. Taylor*  
Senator Jerry Mackie *Jerry Mackie*

**RE:** HCR 16 "Proposing recommendations concerning the sale of the Four Dam Pool hydroelectric facilities.

**DATE:** April 7, 1997

We the above representatives of those Alaskan communities served by the Four Dam Pool request that the House Finance Committee not pass out HCR 16 during this session of the Alaska Legislature.

The communities served by the Four Dam Pool are Ketchikan, Wrangell, Petersburg, Kodiak, Glennallen and Valdez. The Four Dam Pool recently met with the AEA/AIDEA to discuss the parameters of a proposal for the purchase of the facilities. AEA/AIDEA believes the parameters presented by the utilities are worth pursuing. The AEA/AIDEA has stated if there is no substantial progress with the utilities by July 31, 1997, they would pursue other alternatives.

We along with our 44,000 constituents believe that if the Legislature refrains from enacting HCR 16 we will have a proposal which will serve all Alaskans. Please give our communities the time to negotiate the purchase of the Four Dam Pool. This Legislature will have ample opportunity to review the sale next session and either accept or reject the proposal.



GOLDEN VALLEY ELECTRIC ASSOCIATION INC. Box 71249, Fairbanks, Alaska 99707-1249, Phone 907-452-1151

April 8, 1997

The Honorable Gene Therriault  
Alaska State House of Representatives  
State Capitol  
Juneau AK 99801-1182

RE: House Concurrent Resolution No. 16

Dear Representative Therriault:

As Manager of Golden Valley Electric Association, Inc., I am writing to express my concern about House Concurrent Resolution No. 16 which addresses the potential sales of the Four Dam Pool Hydroelectric facilities.

The State of Alaska has made a substantial investment in electric system infrastructure over the past two decades. The pattern for each of these projects, whether it be the Four Dam Pool, the Anchorage-Fairbanks Intertie or Bradley Lake, has involved significant state grant funds, together with benefited utilities accepting responsibility for operations, maintenance and some portion of capital costs. In every instance, the investment of state funds has been for the purpose of providing improved electric service to the intended communities.

To the extent the state wishes to consider transferring ownership of any of these projects, every reasonable effort should be made to assure that the ownership is transferred to the utilities that serve the respective communities and were the intended beneficiaries from the beginning.

Although I understand that this Resolution applies only to the Four Dam Pool, the principle is the same as it would be if the legislation addressed the Anchorage-Fairbanks Intertie, for example. Golden Valley would be strongly opposed to any consideration of a process that would transfer the ownership of the Anchorage-Fairbanks Intertie to a party other than the Railbelt utilities. These projects were not built to maximize revenue to the state, they were built to provide service to the state's residents through the local utilities.

For any state-owned projects, I would urge the state to make every reasonable offer to arrange a transfer to the local communities and utilities before any consideration of outside owners.

Best regards,



Michael P. Kelly  
General Manager

cc: GVEA Board  
Ron Saxton, Ater Wynne  
Eric Yould, ARECA

TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

June 29, 1995

P.O. Box 110801  
Juneau, Alaska 99811-0801  
(907) 485-3900  
Fax (907) 485-3938

Mr. Dennis Lewis, Electrical Superintendent  
Petersburg Municipal Power & Light  
P.O. Box 329  
Petersburg, AK 99833

Dear Dennis,

I am pleased the Four Dam Pool utilities were able to work out an agreement with the Alaska Industrial Development and Export Authority/Alaska Energy Authority (AIDEA/AEA) on the short-term solution to address the Four Dam Pool repair issues. Also, I am pleased you and AIDEA/AEA are going to move forward on divestiture discussions relating to the transfer of the Four Dam Pool projects from AEA to an entity formed by the utilities.

Prior to entering into discussions, I believe it is necessary to set out those principals the Administration feels are essential to reach a successful resolution. They are: (1) the power sales agreement must remain in effect after the transfer, (2) AEA's duties and obligations under the power sales agreement will be completely transferred to the joint utility entity and AEA will be fully released from those obligations and duties, (3) the state will receive adequate value (to be determined) for the projects, and (4) the transfer will be subject to review by the Legislature. I am certain that while there are numerous other issues that must be resolved, as long as these principles are followed, our discussions will be fruitful.

I understand Riley Snell, executive director of AIDEA/AEA, will be sending you a proposed outline for divestiture discussions. The outline will more fully address the issues the Administration feels are necessary for the successful completion of the discussions. I look forward to the parties reaching a mutually beneficial agreement that ensures the long-term success of the Four Dam Pool projects for the state, the utilities, and Alaskan families who need a reliable source of reasonably priced electricity.

Sincerely,

  
Jim Ayers  
Chief of Staff

cc: Riley Snell, AIDEA



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

*Copy for  
Admirals*



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

Ans'd.....

March 24, 1997

The Honorable Gail Phillips  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, Alaska 99811

Subject: Four Dam Pool

Dear Speaker Phillips:

The Four Dam Pool purchasing utilities met on March 19, 1997, to discuss a revised proposal for transfer of the Four Dam Pool projects from AEA to the utilities. I met with representatives of the utilities on the following day. The utility representatives presented to me the general parameters of a proposal for their purchase of the facilities. I believe the parameters presented by the utilities are worth pursuing as they substantially comply with the prerequisites of divestiture that were established prior to entering into negotiations in 1995.

Based upon the results of yesterday's meeting, formal negotiations with the utilities are now being scheduled. If we are unable to make substantial progress with the utilities by July 31, 1997, that could lead to a transfer, AEA intends to consider other alternatives for the projects. In any event, AEA intends to submit a plan for the projects to the Legislature next session.

Should you have any questions, do not hesitate to call.

Sincerely,

D. Randy Simmons  
Executive Director

cc: Wilson Hughes, Chairman of the Board  
David Ramseur, Deputy Chief of Staff  
Pat Pourchot, Legislative Director

# City of Saxman

April 7, 1997

Alaska House of Representatives  
Office of the Speaker of the House  
ATTN: Speaker of the House Rep. Gail Phillips  
Finance Committee  
ATTN: Co-Chair Rep. Mark Hanley  
Co-Chair Gene Therriault  
Juneau, AK 99811

Dear Representatives:

The purpose of this letter is to request that you take whatever action is necessary, consistent with your position and responsibilities, to retain House Resolution HCR 16 "Sale of the Four Dam Pool" within the Finance Committee.

As a representative of a community impacted by this action, it is my firm belief that the ongoing negotiations should be allowed to progress to their natural conclusion. As you are well aware, bringing this Resolution to the floor has the potential of wiping out all the previous effort on this issue and placing the communities in a position of having rate increases as well as lessen local control. Changes which could be avoided if negotiations are permitted to continue.

Ketchikan, and a number of the other communities served by the power sources involved in this activity, have already been hit by economic downturns unrelated to this question. None of us need additional loss of control of the elements which support our communities, or the increased costs associated with the Gravel concept.

Once again, I ask that you support the communities that have already invested so much time, effort and money in the negotiation process.

Sincerely,



Mamie Markle  
Vice Mayor

cc: Tom Friesen, Ketchikan

4-7-97  
(date)

Finance Committee

Representative Mark Hanley, Co-Chairman  
Representative Gene Therriault, Co-Chairman

FAX NO. 907-465-2418  
FAX NO. 907-465-3884

Alaska State Legislature  
State Capitol (MS3100)  
Juneau, AK 99801-1182

Dear Representatives:

This letter is to let you know that I oppose the recently introduced House Concurrent Resolution No. 16 concerning the sale of the Four Dam Pool. I support the continuation of divestiture negotiations between AIDEA and the utilities and communities who buy power from the projects.

Kodiak Electric Association, City of Kodiak, Kodiak Island Borough, City of Port Lions and the Kodiak Chamber of Commerce support the transfer of the projects to the utilities and communities who receive power from the projects. It is through this transfer that long-term economic stability is promoted in our communities resulting in a stronger State of Alaska.

Sincerely,

Craig A. Zimmer  
(signature)

CRAIG A. ZIMMER  
(print name)

BOX 3144  
(mailing address)

KODIAK, AK. 99610

4/8/97  
(date)

Finance Committee

Representative Mark Hanley, Co-Chairman

Representative Gene Therriault, Co-Chairman

Alaska State Legislature

State Capitol (MS3100)

Juneau, AK 99801-1182

FAX NO. 907-465-2418

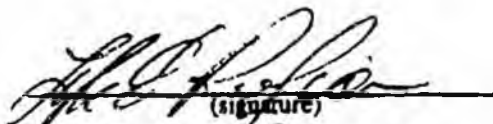
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Sincerely,

  
(signature)  
LYLE REFIOR  
(print name)

201 Center St  
(mailing address)  
Kodiak, AK 99615

4-8-97

(date)

## Finance Committee

Representative Mark Hanley, Co-Chairman

Representative Gene Therriault, Co-Chairman

Alaska State Legislature

State Capitol (MS3100)

Juneau, AK 99801-1182

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Sincerely,

Randy Chase

(signature)

RANDY Chase

(print name)

P.O. Box 1883

(mailing address)

Kodiak, AK 99615

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

4/8/97  
(DATE)

Finance Committee

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Representative Gene Therriault, Co-Chairman

Alaska State Legislature

State Capitol (MS3100)

Juneau, AK 99801-1182

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Sincerely,

  
(signature)  
LYLE REFIOR  
(print name)

201 Center St  
(mailing address)  
Kodiak, AK 99615

4-08-97  
(date)

Finance Committee

Representative Mark Hanley, Co-Chairman

Representative Gene Therriault, Co-Chairman

Alaska State Legislature

State Capitol (MS3100)

Juneau, AK 99801-1182

FAX NO. 907-465-2418

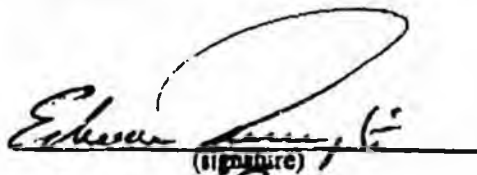
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Sincerely,

  
(signature)

EDWARD PENNINGTON  
(print name)

P.O. Box 277  
(mailing address)

KODIAK, AK 99615

4-8-97  
(date)

**Finance Committee**

**Representative Mark Hanley, Co-Chairman**

**Representative Gene Therriault, Co-Chairman**

**Alaska State Legislature**

**State Capitol (MS3100)**

**Juneau, AK 99801-1182**

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**Sincerely,**

Randy Chase  
(signature)  
RANDY Chase  
(print name)

P.O. Box 1883  
(mailing address)  
Kodiak, AK 99615