

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672
2769 SCOMM 122: COMMISSION ON PRIVATIZATION. ., 1999

11/17/99
passed
unanimous

Four Dam Pool Divestiture

Situation

The State constructed and acquired the Four Dam Pool projects in the mid 1980's. The cost of the projects to the State was approximately \$483 million. These costs were funded through direct appropriations as well as a interagency loan (current balance approximately \$185 million) from the Department of Commerce and Economic Development to the Alaska Energy Authority (AEA). The Four Dam Pool is owned by the Alaska Energy Authority (AEA) and consists of four hydroelectric projects serving five communities. Power from the Tyee Lake project is sold through Thomas Bay Electric Association to the communities of Wrangell and Petersburg. Power from the Swan Lake project is sold to Ketchikan Public Utilities. Power from the Solomon Gulch project is sold to the Copper Valley Electric Association serving the Glennallen and Valdez areas. Finally, power from the Terror Lake project is sold to Kodiak Electric Association. The power from all the projects is sold under the terms of a Long Term Power Sales Agreement (the "PSA") between the purchasing utilities and the AEA. The projects are operated by the individual utilities pursuant to operating agreements between the utilities and AEA.

Under the PSA (which terminates in 2030), to the extent the purchasing utilities require power, they are required to first purchase the power produced from the Four Dam Pool. Power from all four projects is sold at a uniform rate established under the PSA. For fiscal year 2000 the uniform rate was 6.8 cents per kilowatt-hour. The rate has two components. The first component (approximately 2.8 cents per kWh in FY 2000) covers the pooled operating cost of the four projects. The second component of the rate is the "debt service component." The debt service component (approximately 4.0 cents per kWh in FY 2000) is somewhat a misnomer as no debt was issued by the State to finance the projects (although an interagency loan was made to partially finance the projects). The debt service component is the payment to the State in partial repayment of the State's investment in the projects. The payments to the state under this provision of the PSA have ranged in recent years from approximately \$9 million to \$11.5 million depending on the number of kWh purchased under the agreement.

Under the PSA, AEA retains numerous liabilities related to the projects. In particular, AEA is responsible for uninsured facility failures, substandard performance, and deficiencies in the reserve and replacement fund. Moreover, the utilities' obligation to purchase power is not a "take or pay" obligation. Rather, the utilities only pay for power actually purchased from the projects. While the utilities are required to purchase power first from the Four Dam Pool projects to the extent they require power, if the projects are not producing power for some reason, there is no obligation for the utilities to continue to pay.

The PSA also creates a "self-help right" on the part of the utilities. Under that provision of the PSA, if AEA does not fulfill its obligations regarding repairs to the projects, the utilities may withhold their debt service payment to the State and utilize the funds withheld to perform the necessary repairs. In recent years self-help has been invoked to fund repairs to the Tyee transmission line and other state obligated repairs for the projects.

As part of the 1993 legislation that re-organized AEA, the legislature pre-allocated the debt service payments that are received from the Four Dam Pool to specific funds. As modified in 1999, pursuant to AS 42.45.050, debt service payments made by the Four Dam Pool utilities are to be appropriated by the legislature as follows: 60% to Power Cost Equalization and Rural Electric Capitalization Fund; and 40% to the Southeast Energy Fund.

Recommendation

The Four Dam Pool projects were constructed to benefit the communities served by the purchasing utilities under the PSA. Transfer of the projects to these communities, for fair value, should be pursued. The state has numerous liabilities with respect to these projects. These liabilities can interrupt the annual payments to the state and create substantial uncertainty. Sale of the projects to the utilities could eliminate these liabilities and provide a substantial cash payment to the state.

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Barriers

Fair Value—the determination of the fair value and agreement between the state and utilities will be difficult. The value of the projects is in large part dependent on a number of assumptions including projected inflation, interest earnings and discount rates. In addition, both the state and the utilities need to ensure that adequate reserves are maintained by the utilities to cover the future repairs and replacements for the projects. The determination of the fair value for the projects may also be complicated by the fact that third party utility companies may suggest a higher purchase price than the utilities. Such parties may have less incentive to create adequate reserves (their interest could be to maximize revenues). In addition, a third party purchaser would not be able to legally release the state from its existing liabilities without the consent of the utilities. Thus a third party purchase could leave the state with contingent liabilities for the project if the third party fails to perform adequately.

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Power Cost Equalization--Under legislation passed in 1993 and amended in 1999, 60% of the state's revenues from the Four Dam Pool projects are used to provide a portion of the funding for the Power Cost Equalization (PCE) program. Sale of the Four Dam Pool projects would eliminate this funding source. Accordingly, a sale of the projects must take into account this decrease in funding and provide alternative funding for PCE. Perhaps the sale proceeds could be dedicated to a PCE endowment fund.

Interagency Loan--- A portion of the cost of the Four Dam Pool was funded with an interagency loan of \$183 million from the Department of Commerce and Economic Development to AEA. Current and projected utility payments from the projects are not sufficient to amortize this loan. With the PSA in place it is clear that the value of the projects to the state is substantially less than the interagency loan amount. Nonetheless, there may be a belief on the part of some that the projects should not be transferred for less than that amount.

* Fair Value = NPV adjusted for Risk.

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Bradley Lake Hydroelectric Project

Background

The Bradley Lake Hydroelectric Project (the Project) is located in south central Alaska at the southern end of the Kenai Peninsula. Construction of the project was completed in 1991. The project has 126 megawatts of installed capacity that is normally scheduled at 90 megawatts to minimize losses. Two 20 mile, 115 kilovolt transmission lines connect the project to the Railbelt intertie system. The Alaska Energy Authority (AEA) owns the Project. Under the terms of a Power Sales Agreement (PSA) 100% of the capacity of the Project has been sold to the utilities in the Railbelt: Chugach Electric Association, Municipal Light and Power (Municipality of Anchorage), Matanuska Electric Association, Golden Valley Electric Association, Homer Electric Association and the City of Seward (the Power Purchasers). The projects were financed by the State with a combination of direct appropriations and the issuance of Alaska Energy Authority Bonds. The total cost of the project was approximately \$328 million of which \$163 million was funded by direct appropriations of the state and the balance by AEA's issuance of its general obligation bonds backed by the moral obligation of the state.

Under the terms of the PSA, the Power Purchasers are required to pay all of the costs of the project, including, operating and maintenance, insurance, and renewal and replacement requirements. In addition the Power Purchasers are required to pay the debt service costs for the bonds issued by AEA for the Project. Following the final retirement of all the bonds the Power Purchasers continue to make payments to the state. Under the terms of the PSA these payments to the state are to be used for Railbelt Energy Projects. Over the last several months the original bonds issued for the project have been refunded to take advantage of favorable interest rates. These newly issued bonds may not be redeemed or refunded for a period of ten years without incurring substantial penalties. In addition there may be federal tax implications of retiring the debt early. The current outstanding balance of the bonds is approximately \$154 million.

Recommendation

The existing financing structure and outstanding bonds do not lend themselves to transfer of the Projects at this time. It would be difficult or impossible to transfer the projects with the existing bonds in place. Redemption of the bonds would be expensive and might be prevented under federal tax rules. In addition, it is not readily apparent that significant benefits would accrue to the state or Power Purchasers as a result of transferring the projects.

CORRECTION

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



Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

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unanimous

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Deadline = Leg's Session
Recommendations = Leg's provide deadlines

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Recommendation

The existing financing structure and outstanding bonds do not lend themselves to transfer of the Projects at this time. It would be difficult or impossible to transfer the projects with the existing bonds in place. Redemption of the bonds would be expensive and might be prevented under federal tax rules. In addition, it is not readily apparent that significant benefits would accrue to the state or Power Purchasers as a result of transferring the projects.

Alaska Intertie

Situation

The 170-mile, 345-kilovolt Alaska Intertie (Intertie) interconnects the power distribution systems of Fairbanks with the distribution systems serving the Anchorage, Kenai Peninsula and Mat-Su areas. The Alaska Energy Authority (AEA) owns the Intertie. The Intertie ties the Chugach distribution system, at Teeland in the South, to Golden Valley Electric Association's transmission system, at Healy in the North. A 26-mile segment of the Intertie is owned by Matanuska Electric Association and is utilized by AEA as part of the Intertie under the terms of an Agreement that is subject to termination as early as 2004.

The Intertie was constructed entirely with state funds at a cost of \$124 million. The utilities participating in the Intertie include Municipal Light and Power (Anchorage), Chugach Electric Association, Golden Valley Electric Association, and Alaska Electric Generation and Transmission Cooperative (composed of Homer Electric Association and Matanuska Electric Association). Under the terms of the Alaska Intertie Agreement (Intertie Agreement) with the participating utilities, the utilities are required to pay all of the costs of the Intertie, including operation, maintenance, insurance and renewals and repairs. Budgeting and other operational decisions related to the Intertie are made by a committee composed of representatives of the participating utilities and AEA. No payments are made to the state with respect to the capital costs of the Intertie.

Recommendation

Transfer of the Intertie to the utilities at the current time would not appear to result in significant benefits to either the State or the participating utilities. Under the current structure, the utilities are already responsible for all of the costs associated with the Intertie. Due to the nature of the Intertie agreement between AEA and the utilities (with no current revenue stream to the State), the value of the Intertie is uncertain at this time. As the Intertie crosses a large number of parcels owned by differing landowners, transfer of the rights of ways would be a complex matter. In addition, as the Intertie benefits several utilities, it would likely be necessary to form a new joint utility entity to become the owner of the project. In the event technology changes or utility restructuring changes occur, it may be prudent to reconsider the appropriateness of transferring the Intertie.

[illegible]

Ross Kinney,



COPPER VALLEY ELECTRIC ASSOCIATION, INC.
P.O. Box 45 Glennallen, Alaska 99588

☐ Sent From..... ☐
(907) 822-3211 Glennallen Valdez (907) 835-4301
(907) 822-5586 Fax Fax (907) 835-4328

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On October 28, 1985, the Alaska Power Authority (now the Alaska Energy Authority), the Cities of Ketchikan, Wrangell and Petersburg, the Copper Valley Electric Association and the Kodiak Electric Association entered into a Long-term Power Sales Agreement.

- WHO** The long term power sales contract is between the City of Petersburg, the City of Ketchikan, the City of Wrangell, Kodiak Electric Association, Copper Valley Electric Association and the Alaska Energy Authority.
- WHAT** There are four operating hydroelectric projects owned by the State of Alaska: Lake Tyee, serving Petersburg and Wrangell; Swan Lake, serving Ketchikan; Terror Lake, serving Kodiak; and Solomon Gulch, serving Copper Valley.
- WHY** Energy from the projects displaces energy formerly generated by diesel plants in each community. Electricity costs no longer depend upon diesel fuel prices and were projected to be lower than diesel-generated

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power. The contract provides a long term resource with a relatively stable cost and predictable economic future.

- HOW** *Term:* The contract is for 45 years (1985 to 2030), renewable for a period up to the useful life of the projects.

Power: Each purchasing utility is entitled to receive, as needed, all the power available from its project and can benefit directly and indirectly from the sale of any surplus power from its project. The utility pays the agreed upon rate for the power it requires. No minimum amount or minimum payment is required.

Wholesale Power Cost: Each community pays the AEA a "postage stamp" rate for energy from the projects. The rate is established at the start of each fiscal year to cover estimated operating costs and agreed contributions toward debt retirement.

...minimum 10% per year. Each community pays the "pass-through" rate for energy from the projects. The rate is established at the start of each fiscal year to cover estimated operating costs and agreed contributions toward debt retirement.

Operating Costs: Payments cover actual on-site costs, project-specific costs incurred by the AEA and utility management personnel, maintenance, and a fixed annual contribution of \$500,000 to an equipment renewals and replacement fund.

Debt Service: A schedule of debt service rates is agreed in advance for successive 15-year periods during the contract. The 1986 rate started at 2.6 cents per Kwh, rising in steps to four cents per Kwh for the years 1990-2000. Prior to 2000, a "rate opener" mechanism will establish the basis for rates between the years 2000-2015.

Risks: As owner of the four projects the AEA bears certain risks throughout the term of the contract and any renewals. These risks are:

- Uninsured project failures;
- Substandard project performance;
- Inadequacies in the funds for renewal and replacement of components;
- Failure of any of the participating utilities to pay their share.

Operation and Maintenance: The five utilities operate and maintain the four projects through a combination of local control and oversight by a Project Management Committee. The Committee consists of representatives from each of the five utilities and the AEA, and operating decisions are subject to management procedures adopted by the Committee (see *Four Dam Pool Policies and Rules of Procedure Handbook*).

"UNUSUAL" PROVISIONS OF THE POWER SALES AGREEMENT

1. **Construction financing - substantial State grant**
 - no bonds (loan from general fund)
 - rate not tied to actual debt service
2. **Requirements obligation, no "take or pay" obligation**
3. **Pooling of costs - concept of "Initial Project"**
4. **Division of risks between Authority and Purchasing Utilities**
5. **Use of the PMC for contract implementation**

OBLIGATIONS OF THE AEA, PURCHASING UTILITIES AND PMC

The Long-Term Power Sales Agreement creates a number of duties and responsibilities. Some, such as the financial obligations, rest on the individual parties (the AEA and purchasing utilities). Other responsibilities are vested in the group jointly through the PMC.

A. Financial Obligations of AEA and Purchasing Utilities

The Long-Term Power Sales Agreement imposes certain financial responsibilities on both the Alaska Energy Authority, as seller, and the five utility signatories, as buyers.

Generally speaking, the obligations of the utilities are for regular, recurring expenses that are funded through the rates paid by the utilities to buy power from the AEA. The obligations of the AEA, on the other hand, are for the coverage of various contingencies.

1. AEA Financial Obligations

The agreement requires the AEA to pay for any of the following items:

- a. Any costs associated with damage to or premature failure of any Four Dam Pool equipment that is not covered by insurance (Sections 4(d) and 6(b)(ii));
- b. Any costs associated with substandard performance of any of the Four Dam Pool facilities (Sections 4(d) and 6(b)(ii));
- c. Any costs of necessary renewals or replacements of equipment at any of the Four Dam Pool facilities to the extent there are any unexpended proceeds from the loan used to finance the Initial Project (Section 6(b)(iii)(D));
- d. Any costs of necessary renewals or replacements of equipment at any of the Four Dam Pool facilities that exceed the amounts then available in the Renewals and Replacements Fund (Section 4(d)); and
- e. Any costs associated with the failure of any purchasing utility to make its required payments (Section 4(d)).

2. *Purchasing Utility Financial Obligations*

The agreement requires the purchasing utilities to pay for the following items:

- a. The total costs of operating the Four Dam Pool facilities, including the costs of insurance (Sections 5(b)(i)(A) and (B)(I));
- b. The specific administrative and general costs of the AEA required for administration of the Four Dam Pool facilities (Section 5(b)(i)(B)(II));
- c. The costs associated with the Project Management Committee (Section 5(b)(i)(B)(III));
- d. The annual contributions to the Renewals and Replacement Fund (Section 5(b)(i)(C)); and
- e. An agreed-upon contribution to the debt service on the loan from the Alaska Department of Commerce that financed construction of the Four Dam Pool facilities (Section 5(b)(ii)).

B. *Other Duties and Responsibilities*

In addition to financial obligations, the Long-Term Power Sales Agreement imposes duties and responsibilities for the operation and protection of the Initial Project:

1. *AEA Duties*

- a. To sell power to each Purchasing Utility up to the full capability of each dedicated facility (Section 3(a));
- b. To make power continuously available to each Purchasing Utility and subject to certain rights of interruption (Section 4(a));
- c. To construct, maintain and repair any AEA owned facilities in accordance with Prudent Utility Practice (Section 4(b)); and
- d. To maintain records necessary for purposes of the agreement and of FERC licensing requirements (Section 10).

2. Participating Utility Duties

- a. To purchase and pay for power needed for utility loads in excess of loads served by pre-existing hydro facilities (Sections 3(a), 3(b) and 3(c));
- b. To construct, maintain and repair any utility owned facilities in accordance with Prudent Utility Practice (Section 4(b));
- c. To maintain records necessary for purposes of the agreement and of FERC licensing requirements (Section 10); and
- d. To take actions necessary to maintain the integrity of the agreement (Section 12).

3. PMC Duties

- a. To establish and deposit funds in the Initial Project Revenue Fund (Section 5(e));
- b. To establish, administer and approve expenditures from the R&R Fund (Sections 6(b)(i), 6(b)(iii)(C) and 7(e)(ii));
- c. To disburse funds to pay operating costs and debt service and to make the R&R contribution (Section 5(f));
- d. To meet at least quarterly (Section 7(c));
- e. To adopt rules to govern the Committee's affairs (Sections 7(d) and 7(e)(iv));
- f. To develop annual budgets (Section 7(e)(i));
- g. To arrange for insurance for Initial Project facilities, including determination of coverage limits, choice of insurers and disposition of insurance claim proceeds (Section 7(e)(iii));
- h. To adopt standards and arrange for the annual audit of all power production costs (Sections 7(e)(iv) 7(e)(v) and 7(g));
- i. Develop and adopt technical, operating and maintenance standards for the Initial Project equipment and facilities (Section 7(e)(vi));

- j. Establish an annual rate that is sufficient to pay for all costs under the contract (Sections 7(e)(vii) and 5(f));
- k. Develop load estimates as necessary for the Agreement (Section 7(e)(viii));
- l. Develop standards for capital asset acquisition and accounting (Section 7(e)(ix));
- m. Develop standards for expenditures which acquire unanimous agreement (Sections 7(e)(x) and 1(f));
- n. To adjudicate disputes, or adopt procedures for the adjudication of disputes between parties, prior to litigation (Section 8(a)); and
- o. Various duties relative to rate reopener, the first such duty being to provide a load forecast by 1998 (Section 9(c)).

CREATION OF THE COMMITTEE

In order to implement the provisions of the Power Sales Agreement, the Project Management Committee was formed. The membership of the PMC consists of a representative of the AEA and one representative of each utility party to the agreement. The PMC has the general authority to implement the agreement and is charged with the overall management of the Project and operation of its facilities.

COMMITTEE PROCEDURES

1. **Representatives:** each party gets one, plus an alternative.
2. **Meetings:**
 - *annual, quarterly, special;*
 - *need public notice and are open to the public;*
 - *teleconferences okay;*
 - *quorum is any four members (but note special voting rules).*
3. **Manner of Acting:**
 - *roll call votes;*
 - *presumed to vote yes unless register dissent;*
 - *special majority necessary*
 - *for adoption of procedural rules,*
 - *annual budgets,*
 - *minimum levels of insurance for O&M standards.*
4. **Committees:** can create any committees, but all decisions are subject to PMC adoption.
5. **Officers:**
 - *Chairman*
 - *Vice Chairman*
 - *Secretary*
 - *Treasurer*
6. **Budget and Audit:**
 - *PMC to develop*
 - *Annual audit to verify expenses, true-up wholesale power rate*

7. Funds:

- *Initial Project Revenue Fund*
- *R&R Fund*
- *Construction Loan Fund*
- *Working Capital Fund*
- *Initial Project Revolving Loan Fund*

8. Insurance:

- *Amended Insurance Agreement*

**AMENDED AGREEMENT FOR SATISFACTION OF INSURANCE
COST PAYMENT
OBLIGATION AND CONCERNING RISK ALLOCATION**

PURPOSE: Fulfills the PMC's obligations from the Power Sales Agreement to arrange and pay the costs of satisfactory insurance for the Initial Project. Clarifies AEA's responsibility for Losses.

TERM: Original Agreement signed April 24, 1989. Amended Agreement effective June 23, 1994 and continues until terminated. Cannot be terminated prior to June 30, 1999.

AEA OBLIGATIONS:

- Responsible for all losses of the Initial Project.
- Responsible for substandard facility performance. No such thing as an "uninsured facility failures".
- Arrangements for insurance/self-insurance.
- Repair damaged facilities as quickly as possible.

PMC OBLIGATIONS:

- Annual Payment Amount - \$1,100,000. adjusted annually. To be renegotiated July 1, 1999.
- Payments for Operating Losses:
 - the first \$25,000 per occurrence;
 - total payments for losses (in excess of \$25,000 per occurrence), shall not exceed \$300,000 in any fiscal year.
- Premium on PMC treasurer fidelity bond.

PROCEDURES: AEA shall evaluate and process claims. AEA shall arrange for the initial payment of loss and shall bill the PMC for amounts only when (a) the final amount of loss has been determined or (b) when the amount of expense exceeds \$25,000.

THE PMC's TOP TEN LIST OF ISSUES

The Project Management Committee and Alaska Energy Authority are guided primarily by the provisions of the Power Sales Agreement. As the Agreement couldn't possibly contemplate all issues that could arise over time, it instead provided the parties with the basic tools to deal with issues encountered along the way. To memorialize certain Committee decisions, the PMC and AEA have entered into Memorandums of Understanding (MOU), or prepared resolutions to outline their reasoning and detail future practices.

Since 1985, the PMC has acted on many issues. The following list represents some of the major issues, MOU's and resolutions affecting the operation of the Initial Project.

1. AEA ADMINISTRATIVE COSTS

As the owner of the Initial Project, the AEA has specific duties. To formalize the duties and corresponding compensation, the parties adopted a MOU in June 1986.

AEA's Duties:

- Maintain all federal and state licenses, permits or certificates necessary for the operation of the Initial Project;
- Ensure that the construction and operation of the Initial Project complies with all applicable state and federal requirements; and
- Provide other services related to the Initial Project as time and resources permit.

In order to carry out these duties, the AEA is committed to provide the services of approximately 3½ full-time-equivalent personnel.

In return, the PMC compensates the AEA from the Revenue Fund. The amount was established in 1986 and escalates annually by either the GNP deflator or 6% (whichever is less). Payments are made monthly.

Should the duties of the AEA change, or if the duties can be accomplished by less than 3½ FTEs, the payment may be reduced.

2. CAPITAL ASSET ACQUISITION

The PMC and AEA adopted a MOU (April 1988) on capital asset acquisition and control. Upon execution of the MOU, the PMC transferred ownership of all capital assets held in trust for the Initial Project to the AEA. In return, the AEA transferred custody, control and future management of the assets to the PMC.

Capital assets include an asset that has a value of \$500 or more and a useful life of at least one year.

3. COMPLETION OF CONSTRUCTION

The five Purchasing Utilities filed a "friendly" lawsuit in November 1989 against the AEA on a variety of matters. These matters included (1) a demand that AEA deposit \$4 million in unspent construction funds into a fund for renewal and replacement purposes; (2) a request that the court determine that AEA be deemed "responsible" for several "uninsured losses" totalling about \$150,000; and (3) a request that the court determine that the Purchasing Utilities are entitled to the benefit of revenues from "incidental" uses of the facilities.

The settlement was executed by all parties to the lawsuit by May 1991, approved by the Attorney General in June 1991, and approved by the court in July 1991.

As part of the settlement, the AEA agreed to deposit \$1,000,000 into a loan fund (the Initial Project Revolving Loan Fund) and future interest is retained. The fund will be available to the PMC for loans relating to the Initial Project. Decisions about the use of the loan fund are made by the PMC. All monies borrowed must be repaid to the fund within five years. The AEA will serve as trustee to the fund.

The AEA also agreed to deposit \$3,000,000 into the R&R Fund which will be used for repairs and rehabilitation of the Tyce Transmission system and the installation of an automated maintenance management system at the Initial Project. Any remaining portion of the \$3,000,000 will be available for general R&R purposes.

The Purchasing Utilities agreed to pay the AEA \$120,000, related to the disputed issues.

4. WORKING CAPITAL FUND/LINE OF CREDIT

In an MOU approved September, 1990. (amended November 1990) the PMC and AEA agreed to a mechanism similar to a line of credit to finance the costs of recurring or special operation or maintenance activities that extend for more than one year. Such expenses might include R&R items (including items eligible for funding from the Initial Project Revolving Loan Fund), consultants for FERC inspections, special engineering work, stockpiling consumable items, and acquisition of spare parts or specialty tools or equipment.

The maximum term of any financing is five years and no more than \$1,000,000 in outstanding principal obligations can be financed at any one time.

The PMC approves all requests for financing in the annual budget or by passing a special supplemental budget resolution. The AEA is then responsible for attempting

to establish credit arrangements to finance the fund and develop a repayment schedule for the PMC to reimburse the fund. The PMC will set the wholesale power rate to produce revenues to make monthly principal, interest, and expense payments for any costs financed.

5. FERC FEES

Beginning in 1983, AEA thought itself exempt from the payment of Federal Energy Regulatory Commission (FERC) annual licensing fees for the Four Dam Pool projects. In August 1988, FERC staff denied AEA's exemptions.

The PMC, acting on behalf of AEA, appealed the staff decisions to the Commission. In October 1989 the Commission Issued an order denying the two appeals of staff action because: (1) the AEA was entitled to a fee exemption only if project power is sold to the public without profit; and (2) under Commission regulations, profit is realized when a purchasing utility's annual revenues exceed its annual expenses.

AEA petitioned for rehearing. In June 1990 the Commission denied AEA's petitions for rehearing, reiterating their earlier reasoning that the power was sold at a profit.

The PMC's alternatives were to accept the ruling or go to court. The PMC voted to file an appeal in the D.C. Court of Appeals. The case was filed under AEA's name. In July 1990, PMC filed an opening brief in November 1990 and reply brief in January 1991. Oral arguments were held February 1991.

The federal court decided (March 1991) that the AEA wasn't exempt from FERC licensing fees because the PMC utility purchasers accumulated annual revenues in excess of their annual expenses, thereby apparently making a profit on the resale of the power to consumers.

The PMC decided not to pursue further appeals or possible legislative solutions.

6. INSURANCE

The Power Sales Agreement requires the PMC to arrange for insurance of the Initial Project. The Committee approved the Agreement for Satisfaction of Insurance Cost Payment Obligation and Concerning Risk Allocation in April 1989.

In the agreement, the PMC is obligated to pay the joint insurance costs of the Initial Project which includes an annual payment amount (initially \$1,000,000), any operating losses (the first \$300,000 a year of costs not covered by insurance plus \$25,000 for each "event") and the premium on the PMC Treasurer fidelity bond.

The AEA retains responsibility for all losses associated with its ownership and operation of the Initial Project--losses to or from all real and/or personal property (such as boilers and machinery, transmission and generation facilities, and any improvements and betterments). This includes substandard facility performance. At the first meeting of each fiscal year, the AEA will report to the PMC on the arrangements for purchased insurance or retention of risks, previous amounts paid and identify outstanding claims.

The AEA will be responsible for evaluating, processing and defending any losses or claims.

7. INTERRUPTIBLE SALES

At projects where the firm loads utilize less than full project capability, -sales in excess of firm utility loads at a rate less than the wholesale rate are beneficial to PMC members. It utilizes an otherwise unused resource and brings in funds which offset utility, PMC and AEA costs.

Each utility must negotiate a contract and present the contract to the PMC prior to any sale of "discounted" energy. The PMC must unanimously approve each interruptible sale proposal. Each utility making sales under PMC interruptible rates must report to the PMC on a quarterly basis on sales made under the schedule and sales expected, along with other relevant information.

The PMC has approved several contracts for sales of interruptible power from the Initial Project:

- Sales to Alaska Pulp Corporation;
- Sales from Ketchikan Public Utilities and Ketchikan Pulp Company;
- Sales to the City of Wrangell for municipal building use; and
- Kodiak Schools interruptible sales;

8. OPERATION AND MAINTENANCE

At the August 1992 PMC meeting, the Committee approved a generic Operation and Maintenance contract. The contract is designed to make all project operation and maintenance consistent with each other and ensure that the appropriate level of O&M is implemented by project operators. In addition, O&M technical standards for all four projects have been standardized in several volumes of an O&M manual and distributed to the PMC utilities.

9. R&R FUND

Resolution 89-29 adopted in April, 1989, and an MOU adopted In April 1991 outlines R&R standards, defines permitted uses of R&R fund, sets forth a non-exclusive list of prohibited uses of R&R, and outlines a process approving proposed expenditures from R&R and withdrawal procedures.

R&R was designed as one source of monies for the routine renewal and replacement of existing Initial Project facilities and equipment for the purpose of continuing the function of those items. R&R is not to be used for uninsured facility failures, substandard facility performance or other risks borne by the AEA, loans for non-R&R expenditures, facility operating costs, or joint costs of the project.

All requests for an R&R Fund expenditure or reimbursement are made in writing, explaining the situation and need for funds. The AEA will evaluate the proposal and provide the PMC with a written recommendation. Upon PMC approval, the AEA will be responsible for arranging for the performance of the approved work.

10. TAXES

For several years the PMC pursued an effort to obtain a Letter Ruling from the Internal Revenue Service that the Four Dam Pool is not subject to taxation. The effort culminated in a successful response from the IRS (September 5, 1991) indicating that the Four Dam Pool is exempt under Section 501 (c)(4) of the Internal Revenue Code.

The only remaining question is the effective date of the IRS opinion. Although we were not successful in getting the IRS to formally opine that the opinion is effective back to 1985 (the creation of the Four Dam Pool PMC), the IRS gave an informal assurance that it would not pursue any back taxes. As indicated by the IRS, it was necessary for the PMC to file a tax form on an annual basis, starting in 1991.

To formalize the fiduciary relationship which governs the PMC's holding and administration of the R&R Fund, the PMC entered into a trust agreement in April 1991.

The trust agreement was intended to rework a portion of the Power Sales Agreement into traditional trust language to meet IRS expectations:

- The R&R fund is irrevocable and reverts to the State in the event of the end of the trust or the Initial Project;
- The individual PMC members are individually trustees of this money (which is why each PMC member individually signed the agreement);

- The trustees accept no personal responsibility for the liabilities of the trust; and
- Trustees are not to receive any special compensation for this trust responsibility and resignation as a trustee will be automatic with resignation from the PMC.

11. PURPA

The Power Sales Agreement provides that the Purchasing Utilities must purchase their power requirements from the Four Dam Pool projects. The only exceptions to this priority obligation are for any utility-owned hydroelectric projects that existed prior to the 1985 signing of the PSA, and purchases of power from any other resource as "required by law" (§ 3(c) PSA). An issue now exists as to whether private power developers can use the Public Utilities Regulatory Policy Act to require Four Dam Pool utilities to purchase from them and displace purchases from the Four Dam Pool projects.

There are now interests which plan to develop projects in areas currently served by the utilities of the Four Dam Pool. Mahoney Lake is a recently FERC licensed QF project from which Alaska Power and Telephone propose to provide power to Ketchikan. Other PURPA projects include Allison Lake on Kodiak and Twin Basin near Valdez (Copper Valley service area). There have been numerous discussion of this issue, but no binding legal resolution.

12. DIVESTITURE

For the past couple of years, the AEA has been exploring with the Four Dam Pool Utilities the possibility of transferring ownership of the projects to the Four Dam Pool Utilities. This would effectively remove the State from the "partnership," leaving the utilities with complete control.

Another party which has expressed interest in purchasing the projects is a for-profit entity called Citizens Power of Alaska (CPOA), headed by former US Senator from Alaska, Mike Gravel. After modifying his original proposal to terminate the Power Sales Agreement, Mr. Gravel later agreed to operate under the terms of the existing Power Sales Agreement, although his proposal continues to have features inconsistent with the agreement.

The Four Dam Pool Utilities made an offer to buy the projects. The underlying principle of the Four Dam Pool offer is that ownership of the projects by the participating utilities should not be detrimental to the communities, when compared to continued State ownership.

The Four Dam Pool Utilities submitted an offer of over \$104 million, including \$7 million per year for eleven years. The balance of the payment included the

State receiving use of \$16 million currently in an unused insurance pool created by past payments from the Utilities. The offer also creates opportunities to share benefits with the State if Four Dam Pool loads increase.

Under the Four Dam Pool offer, it is estimated that the cost of power could initially be reduced by five to ten percent, with possible future reductions as a result of increased operating efficiency or lower than forecast costs.

The status of divestiture remains unclear. While AEA has put negotiations "on hold" and proposes to continue State ownership, both CPOA and the Four Dam Pool Utilities remain interested in further talks.

13. SELF-HELP

Under the terms of the Long Term Power Sales Agreement, the State bears certain risks related to uninsured facility failures, substandard facility performance, inadequacy of the R&R fund, etc. If the State lacks the funds to meet this obligation, and certain repairs must be made to the Initial Project, the PMC is granted the authority to withdraw funds to pay for the repairs from the Initial Project Revenue Fund. The PMC can then reduce its debt service payments to the Initial Project Revenue Fund accordingly.

In 1995, the PMC sued AEA for preventing the PMC from exercising its rights under the PSA to pay for repairs to the Tyee transmission line. The Settlement Agreement entered into by the PMC and AEA affirmed that PMC's right to use self-help under the contractually defined circumstances and provided for immediate use of self-help for Tyee transmission repairs and certain Terror Lake work.

Every year since the settlement, the AEA and PMC have entered into an Agreement Regarding the Funding of Certain Repairs which outlines which repairs need to be made, clarifies that funds from other sources are not available to AEA to make such repairs and specifies the amount of self-help funds that is to be made available to AEA.

11/17/99

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NOTICE OF SUBCOMMITTEE MEETING

Subcommittee Name: **Hydro Electric Project**

Committee Members:

Dave Carlson	Eric Yould
Robert Wilkinson	Walt Sapp
Keith Laufer	Lee Wareham
Tom Friesen	

Date: **Wednesday, November 17, 3:30 PM**

Place: Legislative Information Office
716 W. 4th Avenue
Second Floor Conference Room
Ketchikan, Mat-Su LIO Teleconference Available

If you have any questions please call Representative John Cowdery's office at 269-0222.
The web site that has a current list of members and schedule of meetings
posted daily!

www.privatizealaska.org

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11/12/99 3:13 PM

11-12-99 Hydro Proj Group

1. INTRO - BRIEFING - NUMCO - MAREAN ✓
2. INTRO SELF - MEMBERS - K. THOMAS ✓
L. WAREHAM. ✓
Kadunk Elephant Assoc. ✓
COPPER VALLEY ELK. ✓
R. WILKINSON ✓
J. LINDFORD ✓

1. THOMAS LT - KAD.
2. SOL. GULCH - COPPER V.
3. SUNN LT. - KAD.
4. TREE LT - PRAIRY.
5. BRADY LAKE - HOMER

776-5132

OPTIONS

ORIGINAL RATIONALE → BEST IMPROVEMENTS → PRIVATIZATION

- 91 Proposed to sell project to State - 96. failed
- 99 Renamed

Issue: Ideal state hesitant to local govt or to private buyer who will pay more.

- ② \$ Genoa cost - current value = PV of pr. stream + cost of ownership

Valuation methodology

\$ SICK

LTPM - fixed rev. stream; Ltd liability for water; max. for sale

**RURAL HYDROELECTRIC ASSESSMENT AND DEVELOPMENT STUDY
PHASE 1 REPORT****EXISTING PROJECTS**

There are 52 projects identified in the database as existing projects. These include 20 projects licensed by the Federal Energy Regulatory Commission (FERC) along with three FERC exempted projects. Additionally there are two projects (Eklutna and Snettisham) currently owned by the Federal Alaska Power Administration (APA). Eklutna is scheduled to be purchased by a group of railbelt utilities, and Snettisham is slated for transfer to the State of Alaska in the near future. Finally, there are approximately 27 non-regulated projects, many developed by individuals or private companies (mainly canneries), some of which have been abandoned or are not operating. Table 4.1, on page 11, lists the existing FERC licensed, FERC exempted, and federally owned projects identified in the database and provides information, as available, on their status. Table 4.2, on page 12, lists those projects identified as existing in the literature, but not currently regulated. Information on the non-regulated projects often is sparse and difficult to obtain, so these entries should be viewed with caution.

As shown, of the approximately 357,202 kW of installed capacity (combined totals from Tables 4.1 and 4.2 on pages 11 and 12) represented by the existing projects identified in the database, approximately 66.7% (236,295 kW) is associated with the 20 FERC licensed and three FERC exempted projects. Twenty-five percent (90,000 kW) is associated with one project, Bradley Lake, currently the largest hydropower project in the State. Additionally, 30.3% (108,200 kW) of the total installed capacity is associated with the two federally owned projects, Snettisham and Eklutna.

Projects associated exclusively with small rural Alaskan communities are listed in Table 4.3 on page 12. These projects represent only about 0.04% (14,380 kW) of the total installed capacity of the State's hydroelectric projects.

In addition to the 52 existing projects discussed above, there are currently 17 sites with active preliminary permit or license applications on file with FERC. If these sites were to be developed, they would provide an additional 140 MW to the statewide hydroelectric project capacity. Table 4.4 on page 13 lists these sites, currently under investigation for development.

Of the existing small projects developed for rural Alaskan communities, three are reported to have had serious problems associated with them.

The first, the Chitina Project at Town Lake, has been abandoned as a result of problems. As reported, the project penstock includes a siphon to deliver water to the turbine. This siphon was constructed using high density PVC and was buried in or along a roadway, apparently without the use of sand or other material to properly bed the pipe. Shortly after the project went into operation, problems attributed to the entrainment of air into the siphon began, causing periodic shut down of the project. It is reported that the pipeline is thought to have deformed at the joints, possibly where the road crosses over the buried line, allowing air to enter and destroy the siphon action. The frequency of these events gradually increased over time, and for the past two to three years, the project has been abandoned, as the effort involved in continually restarting the siphon became too great to justify continued operation.

The second project with past problems, Larsen Bay, has been recently modified to address its major problems and is currently operating successfully. However, as in the case of the Chitina Project, Larsen Bay had problems with deformation of the penstock attributed to inadequate use of bedding material where it is buried. In this case, the deformation resulted in leakage. Additionally, the joint between the larger, low-pressure PVC section of the penstock and the smaller, high-pressure steel section failed and had to be repaired. This failure is thought to be due to poor installation. Additionally, there were substantial delays in the construction of the Larsen Bay Project, related in part to the need to revise the original project design and to deal with associated increases in construction cost. During this period, the project mechanical equipment was stored on the dock at Larsen Bay. Some corrosion occurred during storage and the generator bearings failed within a very short period after the project went on line. Finally, the project has had continual problems with debris, causing frequent outages. Recently, however, the

RURAL HYDROELECTRIC ASSESSMENT AND DEVELOPMENT STUDY PHASE 1 REPORT

Table 4.2 - Projects identified as existing, but not currently Federally owned or regulated by FERC.

Project Name	Location	Owner	Existing Generation (kW)
Akutan	Akutan	na	na
Annex Creek	Juneau	Alaska Electric Light and Power	3200
Bahovec	Warm Springs Bay	Mr. Fred Bahovec	3
Bear Cove	Bear Cove	na	15
Bear Creek	Juneau	na	10
Chester Lake	Metlakatla	Metlakatla Power and Light	1000
Chichagof-Superior	Chichagof Island	Superior Packing Co.	10
Chichagof-Swanson	Chichagof Island	Mr. Earnest Swanson	7
Chitina	Chitina	Chitina Electric	na
College	Sitka	Sheldon-Jackson Jr. College	50
Dayville Project	Valdez-Alison Ck	Mrs. O.B. Day	200
Gold Creek	Juneau	Alaska Electric Light and Power	1600
Keku	Kupreanof Island	Keku Canning Co.	30
Larsen Bay	Larsen Bay	Alaska Energy Authority	475
Linkum Creek	Kasaan	Pacific American Fisheries	17
Medvetcha River	Medvetcha River	Alaska Lumber Pulp Co.	na
Nugget Creek	Juneau	na	na
One Mile Creek	Kodiak Island	New England Fish Co.	8
Parks Canning	Kodiak Island	Parks Canning Co.	8
Pillars	Baranof Island	Stofold and Grondahl Packing Co.	15
Pitkas Point	Pitkas Point	na	na
Purple Lake	Metlakatla	Metlakatla Power and Light	3900
San Juan Lake	San Juan Lake	San Juan Fishing and Packing Co.	105
Sheep Creek	Thane	na	na
Short Project	Baranof River	Mr. Bill D. Short	3
Stockley Creek	Port Armstrong	Buchan and Helmen Packing Co.	14
Uganik	Kodiak Island	Uganik Fisheries Inc.	30
Walsh Creek	Revillagigedo Island	Wards Cove Packing	7
TOTAL			10707

TABLE 4.3 - Hydro projects associated exclusively with small rural Alaskan communities.

Project Name	Community	Owner	Existing Generation (kW)
Armstrong Keta	Port Armstrong	na	80
Black Bear Lake	Klawock	Black Bear Lake Hydro, Inc.	4500
Chester Lake	Metlakatla	Metlakatla Power and Light	1000
Chitina	Chitina	Chitina Electric	na
Dry Spruce Bay	Kodiak	na	75
Humpback Creek	Cordova	Cordova Electric Cooperative	na
Jetty Lake	Port Alexander	na	2000
Larsen Bay	Larsen Bay	Alaska Energy Authority	475
Pelican	Pelican	Pelican Utility Co.	700
Purple Lake	Metlakatla	Metlakatla Power and Light	3900
Skagway	Haines/Skagway	Alaska Power and Telephone	950
Tazimina Project	Iliamna	Iliamna Nwhalen Nondalton Elect. Coop.	700
TOTAL			14300

RURAL HYDROELECTRIC ASSESSMENT AND DEVELOPMENT STUDY PHASE 1 REPORT

operators have initiated a program of periodic clearing of debris from the reservoir, and this problem has been resolved.

A third existing project, a small facility constructed in Seward, has had problems severe enough to result in its abandonment. Reasons that this project is no longer utilized are not clear; however, difficulty of fitting generation into the city's diesel operation and lack of familiarity/interest in operation and maintenance of a hydro system appear to have played some role.

TABLE 4.1 - Existing FERC licensed hydro projects, projects with Alaska issued FERC exemptions, and Federally owned projects.

Project Name	Location	Owner	FERC License Number	Existing Generation (KW)
Non-Federally Owned				
Armstrong Keta	Port Armstrong	na	EXEMPT	80
Black Bear Lake	Klawock	Black Bear Lake Hydro, Inc.	10440	4500
Blind Slough	Petersburg	Petersburg Mun. Light and Power	201	2000
Blue Lake	Sitka	Sitka Electric Department	2230	9600
Bradley Lake	Homer	Alaska Energy Authority	8221	90000
Burnett River Project	Burnett River	Burnett River Hatchery	10773	80
Chignik	Chignik	Alaska Packers Assoc.	620	60
Cooper Lake	Cooper Landing	Chugach Electric Co.	2170	17200
Dry Spruce Bay	Kodiak	na	1432	75
Eklutna Recovery Project	Eklutna	Anchorage Water and Wastewater Utility	EXEMPT	750
Green Lake	Sitka	Sitka Electric Department	2818	18500
Humpback Creek	Cordova	Cordova Electric Cooperative	8889	na
Jetty Lake	Port Alexander	na	3017	2000
Ketchikan Lakes	Ketchikan	Ketchikan Public Utilities	420	4200
Pelican	Pelican	Pelican Utility Co.	10198	700
Salmon Creek	Juneau	Alaska Electric Light and Power	2307	7000
Sävis/Beaver Falls	Ketchikan	Ketchikan Public Utilities	1922	6400
Skagway	Haines/Skagway	Alaska Power and Telephone	1051	950
Solomon Gulch	Valdez	Alaska Energy Authority	2742	12000
Swan Lake	Ketchikan	Alaska Energy Authority	2911	22500
Tazimina	Iliamna	Iliamna Newhalen Nondalton Electric Cooperative	EXEMPT	700
Terror Lake	Kodiak	Alaska Energy Authority	2743	20000
Tyes Creek	Wrangell/Petersburg	Alaska Energy Authority	3015	20000
			Subtotal	238295
Federally Owned				
Eklutna Project	Eklutna	Alaska Power Administration	EXEMPT	30000
Snettisham Project	Juneau	Alaska Power Administration	EXEMPT	78200
			Subtotal	108200
			TOTAL	346495

RURAL HYDROELECTRIC ASSESSMENT AND DEVELOPMENT STUDY PHASE 1 REPORT

Table 4.4 - Active FERC Preliminary Permits and License Applications in Alaska as of 06/30/97¹.

Project Name	FERC Number	Expiration Date	Licenses/Permits	Capacity (MW)
Upper Chilkoot	11319	3/31/99	Haines Light and Power Co., Inc.	6.2
Upper Reynolds Creek	11480	11/30/97	Halda	1.5
LeAnne Lake	11497	11/30/97	Kodiak Electric Association, Inc.	2.8
Wolf Lake	11508	3/31/98	Alaska Power and Telephone Co.	na
Allison Lake	11510	4/30/98	ABIDC	8
Grant Lake	11528	6/30/98	ABIDC	7
Silver Lake	11548	10/31/98	Silver Lake Hydro, Inc.	16
Lace River	11553	11/30/98	Lace River Hydro, Inc.	62
Lake Dorothy	11558	12/31/98	Lake Dorothy Hydro, Inc.	17
Old Harbor	11561	2/28/99	Alaska Village Electric Coop., Inc.	0.33
Icy Gulch	11562	2/28/99	Alaska Gastineau Dev. Corp.	0.26
Power Creek	11584	3/30/99	Whitewater Engr.	5
Otter Creek	11588	10/31/99	Alaska Power and Telephone	4.5
Sunrise Lake	11591	12/31/00	Wrangell	1.5
Whitman Lake	11597	12/23/97	Ketchikan Public Utilities	4.5
Carlanna Lake	11598	8/2/00	Ketchikan Public Utilities	0.8
Connell Lake	11599	8/2/00	Ketchikan Public Utilities	1.7

¹ Does not include projects with license applications which have been submitted (Goat Lake, Mahoney Lake).

HYDRO-ELECTRIC PROJECT Subcommittee
Contact Information Sheet

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Company:

Email:

Address:

Utilities have into due to LTPA.

AIDest - want F.V. - & No future liability.

pay - org of utility cost around

Sell @ price determined
Phil adjusted PV Analysis

Left minutes

(HB) - Sale of 40 pool -

BRADY LAKE -

INTERIE PARTICIPANTS

→ Reg. Transmission Org.

CED Hydro Subcommittee Membership

11/12/99 9:29 AM

- 1 Title: Energy Program for Alaska/Susitna Blackmail Clause (House Bill 589)
- 1 - File Number: 84.000090
- 1 Title: Alaska Hydroelectric Project Statistics
- 1 - File Number: 84.000104
- 1 Title: Tyee Lake Hydroelectric Project
- 1 - File Number: 84.000839
- 1 Title: Cost of Funding Power Cost Assistance Program at Revised Eligibility Floors
- 1 - File Number: 84.001490
- 1 Title: Power Cost Assistance Program Funding Under Various Eligibility Floors
- 1 - File Number: 84.001626
- 1 Title: Power Cost Assistance Program
- 1 - File Number: 84.001857
- 1 Title: Summary of the State Energy Program
- 1 - File Number: 84.001858
- 1 Title: Status/Analysis of Four-Dam Pool Negotiations
- 1 - File Number: 84.001874
- 1 Title: Four-Dam Pool & Major Projects Fund
- 1 - File Number: 84.001917
- 1 Title: Susitna Hydroelectric Project
- 1 - File Number: 84.002298
- 1 Title: Overview and Status of Hydroelectric Spending
- 1 - File Number: 84.002816
- 1 Title: Analysis of Alaska Power Authority Letter
- 1 - File Number: 85.002845
- 1 Title: Current Status of Bradley Lake Hydroelectric Project
- 1 - File Number: 85.003207
- 1 Title: Alaska's Public Energy Resources
- 1 - File Number: 86.000070
- 1 Title: State Appropriations for the Susitna Hydro Project
- 1 - File Number: 86.002911
- 1 Title: Susitna Hydropower Options
- 1 - File Number: 86.002918
- 1 Title: Devil Canyon Project
- 1 - File Number: 86.002948
- 1 Title: Bradley Lake Project
- 1 - File Number: 87.000114
- 1 Title: Railbelt Energy Analysis
- 1 - File Number: 87.000152
- 1 Title: History of the Railbelt Energy Fund
- 1 - File Number: 87.000259
- 1 Title: Joint House and Senate Resources Hearing on Railbelt Energy
- 1 - File Number: 87.003161
- 1 Title: Bradley Lake Hydroelectric Project
- 1 - File Number: 87.003165
- 1 Title: Status of Sale of Federal Hydroelectric Projects
- 1 - File Number: 88.000119
- 1 Title: Bradley Lake Power Sales, Service and Transmission Agreements and House Bill 356
- 1 - File Number: 88.000181
- 1 Title: Using the Permanent Fund to Finance the Bradley Lake Hydroelectric Project
- 1 - File Number: 88.000163
- 1 Title: Interest Rates on the Four Dam Pool and Bradley Lake Hydroelectric Projects
- 1 - File Number: 88.000184
- 1 Title: Cost of Natural Gas to Produce an Amount of Power Equivalent to the Bradley Lake Hydroelectric Proj.
- 1 - File Number: 88.003235
- 1 Title: APUC/Bradley Lake Project: CSHB 356
- 1 - File Number: 89.000022
- 1 Title: Financial Analysis of the Bradley Lake Hydroelectric Project
- 1 - File Number: 90.000142
- 1 Title: State Funding for PCE and Four-Dam Pool Projects

- 1 - File Number: 80.000098
 - 1 Title: Eagle River Hydroelectric Water Resource and Hatchery Facility
- 1 - File Number: 80.000144
 - 1 Title: Fiscal Note for Legislative Oversight of Acres American Susitna Feasibility Study
- 1 - File Number: 80.400009
 - 1 Title: Hydrocarbons Processing: A Primer for Alaskans
- 1 - File Number: 81.000142
 - 1 Title: The Effect of SB 25 and SB 26 (State Costs of Hydroelectric Projects)
- 1 - File Number: 81.000152
 - 1 Title: The Effect of SB 25 and SB 26 (State Costs of Hydroelectric Projects)
- 1 - File Number: 81.000161
 - 1 Title: Economic Impact of Susitna on Fisheries: Review of ACRES Study
- 1 - File Number: 82.000013
 - 1 Title: Comparison of Hydropower Costs under Current Law and House Bill 655
- 1 - File Number: 82.000024
 - 1 Title: Comparison of Hydro Bills: House Bills 655 and 758 and Current Law
- 1 - File Number: 82.000036
 - 1 Title: Comparison of Bradley Lake and Gas Turbine Power Costs
- 1 - File Number: 82.000065
 - 1 Title: Railbelt Power Costs under House Bill 758
- 1 - File Number: 82.000087
 - 1 Title: Small-scale Hydro Studies and the SWGR Demonstration Project
- 1 - File Number: 82.000135
 - 1 Title: Hydroelectric Power Costs under House Bill 655
- 1 - File Number: 82.000138
 - 1 Title: Hydroelectric Power Costs under House Bill 9, House Bill 655 and Current Law
- 1 - File Number: 82.000157
 - 1 Title: Status Report on Susitna Project Studies
- 1 - File Number: 82.000199
 - 1 Title: Effect of the "Susitna Blackmail Clause" on Power Rates
- 1 - File Number: 82.001004
 - 1 Title: Status of Mini-Hydro in Alaska
- 1 - File Number: 83.000026
 - 1 Title: Update on the Susitna Hydroelectric Project
- 1 - File Number: 83.000032
 - 1 Title: Comparison of Susitna and Natural Gas Power Costs
- 1 - File Number: 83.000039
 - 1 Title: Lake Tye Power Costs and Project History
- 1 - File Number: 83.000054
 - 1 Title: History of Hydroelectric Projects in Election District 1
- 1 - File Number: 83.000089
 - 1 Title: Swan Lake Hydroelectric Project
- 1 - File Number: 83.000137
 - 1 Title: Susitna Feasibility
- 1 - File Number: 83.000145
 - 1 Title: Susitna Blackmail Clause [AS 44.83.396(b)(2)]
- 1 - File Number: 83.000166
 - 1 Title: Comparison of Fairbanks and Susitna Power Costs
- 1 - File Number: 83.000182
 - 1 Title: Power Rates for Alaska Power Authority Projects
- 1 - File Number: 83.000977
 - 1 Title: Status Report on Pelican Hydro Power
- 1 - File Number: 83.000988
 - 1 Title: Summary on Stirling Engine Application & Small River Hydro
- 1 - File Number: 83.000995
 - 1 Title: Update on Atka Hydroelectric Project
- 1 - File Number: 83.000998
 - 1 Title: Status Report on Crater Lake
- 1 - File Number: 83.000999
 - 1 Title: Status Report on Susitna Project
- 1 - File Number: 83.001000
 - 1 Title: Susitna Appropriations & Expenditures To Date
- 1 - File Number: 83.002633
 - 1 Title: Snettisham Hydroelectric Project: SB 105
- 1 - File Number: 84.000036



and Delivery of Government Services

www.privatizealaska.org

NOTICE OF SUBCOMMITTEE MEETING

Subcommittee Name: DEPARTMENT OF Community Economic Development
Working Group on **Hydro Electric Project**

Committee Members:

Dave Carlson	Eric Yould
Robert Wilkerson	Walt Sapp
Tom Friesen	Lee Wareham

Date: **Friday, November 12, 3:00 PM**
Monday, November 15, 3:00 PM

Place: Legislative Information Office
716 W. 4th Avenue
Second Floor Conference Room
Ketchikan, Mat-Su LIO Teleconference Available

If you have any questions please call Representative John Cowdery's office at 269-0222.
The web site that has a current list of members and schedule of meetings
posted daily!

www.privatizealaska.org

SCOMM

122:43

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
Internet e-mail address:
legaudit@legis.state.ak.us

SUMMARY OF: A Special Report on the Department of Corrections, Internal Controls Related to Cash and Negotiable Instruments for the Offender Financial Accounting System, May 18, 1999.

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, this report summarizes a review of internal controls over cash and negotiable instruments such as checks and money orders, involving funds belonging to individuals incarcerated in the State's correctional facilities. Additionally, the procedures followed by the Department of Corrections' Division of Administrative Services (DAS) in accounting for these funds held in trust for incarcerated individuals, were reviewed and evaluated.

REPORT CONCLUSIONS

The facilities' internal control procedures over cash and negotiable instruments are weak

Most of the discussion in the Findings and Recommendations section of this report reflects the central objective of our review. The internal controls over cash and negotiable instruments at the various correctional facilities administered by the Department of Corrections (DOC) are weak. The discussion reflects our conclusion that DOC facilities do not follow some of the basic tenets of internal controls. After making a general recommendation that DOC take measures to improve controls on an overall basis in Recommendation No. 2, specific internal controls, as follow, are discussed further in other recommendations:

1. Ensure record keeping data entry is accurate.
2. Develop and consistently follow good cash handling procedures.
3. Critical controls such as segregation of duties, limited access, and regular reconciliations are also important in situations involving cash.
4. Improve physical controls over assets.

DOC's central accounting for inmate funds must be improved

In addition to the variety of internal control weaknesses at the various facilities, we also determined DAS should improve its accounting for inmate funds maintained in the department's Offender Financial Accounting (HOFA) system. As set out in the Objectives,

Scope, Methodology section, the second set of objectives dealt with problems DAS was having in reconciling the subsidiary HOFA system to the State's overall accounting records.

As noted in the Background Information section, DOC currently cannot account for approximately \$200,000 of HOFA funds held in trust by the State. Periodic reconciliation and follow-up is an important internal control procedure. This procedure has not always been done by DAS in past years. In Recommendation No. 1 we discuss various aspects of the current HOFA balance, and offer our suggestions about what DAS should consider as it goes about bringing its reconciliation process current.

Structure of DOC contributes to lack of recognized and consistently followed procedures

Prison facilities, located around the State, are under the direction of the Division of Institutions within DOC. A superintendent at each facility acts as chief administrator. The offender trust accounting system is maintained and supervised by DOC's DAS, which is primarily located in Juneau. Given this dispersed organizational structure, it is difficult, although important, to implement a system that effectively secures and accounts for funds held in trust by the State on behalf of incarcerated individuals.

The nature and structure of DOC has made it difficult to put in place and effectively monitor a set of appropriate internal control practices that are consistently followed at each facility. The impact of poor controls is most apparent when viewed on a statewide basis. Accordingly, it is difficult to gain an appreciation for developing and enforcing effective controls at the correctional facility level. Despite difficulties that DOC's organizational structure presents, appropriate oversight of inmate funds is a responsibility of departmental management.

The problems set out in the Findings and Recommendations section of this report reflect this dichotomous situation. Superintendents are primarily interested in maintaining security of their facility, with the requirements of record keeping presenting a secondary concern. However, the day-to-day record keeping is critical for DAS to be able to reconcile and control the many accounts that make up the HOFA system.

Establishing and following procedures is central to DOC meeting its trust responsibilities

FINDINGS AND RECOMMENDATIONS

The shortcomings set out in the Findings and Recommendations section are numerous. By design we enumerated virtually all of the internal control deficiencies noted in the course of the review. Our eight recommendations are set out with a great deal of specificity. This was done in order to give DOC specific direction regarding the deficiencies identified. Many of the deficiencies, when viewed separately, seem inconsequential. However, collectively these deficiencies create a situation where DOC is not adequately and consistently accounting for, nor safeguarding the assets it holds in trust for incarcerated individuals.

To: Annette

From: Debbie

Date: 9/29/99

Re: Corrections Subcommittee Meeting of 9/28/99 @ 12:00 noon in room 670

1. Materials: 9/21 Minutes, materials requested from DOC – 7pgs + Chase Riveland Study, DOC Audit #20-4597-99
2. Faxed: Audit to Juneau & Mat Su
3. Mailed: Greg Pease/Juneau and Barbara Miller/Mat Su

DEPARTMENT OF CORRECTIONS PRIVATIZATION

SUBCOMMITTEE MEETING

SEPTEMBER 21, 1999

1. **Members Present:** Sharon Anderson, Garland Warren, Russell Lewis, Mary Pate, Gail Schubert. Subcommittee member Barbara Miller was present via phone from the Mat-Su LIO. Greg Pease Also present were Senator Ward and Representative Dyson.

- DOC personnel present via phone from Juneau: Dr. Mel Henry, Bruce Richards, Bill Parker, and Betsy Robson.

2. **Substance Abuse Presentation by Sarah Williams (DOC)**

3. **General Points**

- 85% of inmates have a problem with substance abuse: i.e. either alcohol, drugs, or both.
- 13 institutions within the system as well as the Point Mackenzie Work Farm. All of these have some sort of substance abuse program.
- The programs are focused on two areas: an education program and an outpatient program.
- Goal is to a) reduce threat to public safety; b) help the inmates make the transition from drug-free structured environment back to society; and c) to provide a springboard for further treatment once the inmate is released.
- All of the DOC treatment services are contracted out.
- The length of any given inmate's stay will affect the amount and success of the treatment that inmate receives.

4. **Program Highlights**

Minutes of the Department of Corrections Subcommittee Meeting

September 21, 1999

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Minutes prepared by C. Russell Lewis

(907) 258-0106

- The programs (education and outpatient) are designed to be culturally relevant, although significant work is still needed.
- Because of the diverse mission and location of the DOC institutions in Alaska, a major challenge is trying to create standardized programs.
- Programs consist of several topics.
- There are 9 topics covered in the Education Program
- There are 23 substance abuse counselors around the state, but more are needed to fill specific needs.
- Whenever an inmate enters a substance abuse program, the records of participation in that program stay with that inmate the rest of the time he or she is in DOC custody.
- Time spent in a program is totaled and provided on the inmates discharge summary.
- It is important to note that the programs are not designed (or capable) of being a complete treatment in and of themselves. The programs are designed to be a starting point. Inmates will need to continue treatment upon release because of the extra stressors placed upon them once they have ready access to drugs again.

5. Focus on Female Program at Hiland Mountain:

- 78% of female offenders are mothers, 73 % of those have children under the age of 19.
- The best treatment program is one that stops offenders at a young age.
- This particular program encourages participants by teaching them how to "be a mom" again. The promise of "being a mom" again is not enough, the female offender must be taught to be a mother again.
- 1/3 of the female offender population has mental health problems.

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(907) 258-0106

- Native inmates may retreat if the proper communication style is not used.
- The female offender program at Hiland Mountain provides a "culture day" for Native female offenders.

6. Senator Ward Seeks Cost/Benefit Information: How much do these programs cost and how is success measured?

- \$863,000
- The Women's Treatment Program at Hiland Mountain appears to be the only program with any cost measurement. That program used \$236,000 in federal dollars and \$82,000 in Alaska matching funds.
- Of the \$863,000 budget, 82% of that is contracted out. There is only 1 state employee full-time in the substance abuse program.
- Results are measured by a pre- and post- participation-testing scheme.
- Marker tests are used: one at 6-months after release and one at 2-years after release. The 2-year test has not happened yet.
- <Senator Ward reiterates the question: "Has the money that has been spent kept anyone out of jail?">
- Sarah Williams responds that there are difficulties in measuring this kind of question.
- Sarah Williams points out that the Women's Program at Hiland Mountain cost the state only \$86,000 where it takes approximately \$37,000 just to house one inmate for a year.
- Sarah Williams discusses follow-up: NO follow-up in outpatient programs. DOC needs new MIS to perform follow-up tasks. Forms don't work. Each program keeps records, but there is no record of follow-up work or what the inmates do after the programs.

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September 21, 1999*

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*Minutes prepared by C. Russell Lewis
(907) 258-0106*

- Senator Ward asks if the contractors could track inmates and their treatment.
- Sarah Williams responds that it is very cumbersome to track inmates.
- Senator Ward voices his concern over the \$150,000,000 being spent on DOC without measurable results.
- Sarah Williams notes that the improvement of DOC is fraught with challenge.

7. Discussion Regarding Bidding: Representative Dyson asks if "for-profit" concerns are prohibited from bidding on any services or group of services offered by DOC

- Sarah Williams and Betty Robson state that bidding on all services is open and based on competitive bids and the Alaska procurement code.
- Representative Dyson states that Health and Human Services does not allow bids by for-profit organizations: what about DOC?
- Sarah Williams indicates that the only criteria is that CARF or JCOAH (spelling???) approval is needed as a prequalification to bid on some items.
- Representative Dyson wants to know if the accrediting organizations prohibit for-profit organizations from bidding on services? Sharon Anderson indicates that the organizations do not prohibit bids by for-profit concerns.

8. Discussion Regarding Program Participation Tracking:

- Gail Schubert comments that contractors and service providers should be tasked with tracking participation in the various programs and not DOC.
- Representative Dyson notes that DOC needs a system to track participation in a program.

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(907) 258-0106

- Sarah Williams notes that OBSIS can provide limited tracking information on inmates. Ms. Williams also notes that DOC provides services to "very needy" individuals and the treatment does not fulfill all of those needs.
- Recidivism cannot be tied to any particular treatment program.
- Garland Warren asks if the substance abuse budget has been reduced. Senator Ward and Sarah Williams reply that it has not been reduced.
- Sarah Williams notes that the substance abuse counselors are stressed because of the workload they are under.

9. Questions Regarding the Effectiveness of the Substance Abuse Program:

- Russell Lewis asks if there are any measures of success available for the substance abuse program.
- Sarah Williams replies that UA testing shows a decline on an institution-by-institution basis. Some programs show a 100% decline in dirty UA tests.
- Garland Warren points out that this could be a problem of poor contract drafting and privatization in general.
- Sarah Williams notes that the contract is good, but that it doesn't really address tracking participation or recidivism.
- Representative Dyson expresses concern regarding whether the sub-committee will finish its mission.

10. Discussion Regarding Drug Use in Prison:

- Senator Ward expresses his concern over drug use in prison.
- Sarah Williams notes that drugs are a big problem and that inmates will find a way to get contraband.

- Sharon Anderson notes that the halfway houses have drug treatment programs. Sarah Williams mentions the Cordova Center, which has an eight-bed furlough drug treatment program.
- Sharon Anderson notes that a halfway house is not really a stable institution.
- Betty Robson notes that inmates at a halfway house are encouraged to prepare for re-entry into the community and to participate in community activities.

11. Discussion Regarding Audit and Review of DOC:

- Barbara Miller asks if there has ever been a management review of DOT
- Bill Parker responds that he is not sure what a management audit is, but that he doesn't recall one being conducted.
- Bill Parker notes that DOC is reviewed by legislative finance committee(s) every year.
- Senator Ward repeats that DOC and its institutions are scrutinized every year by the legislature.
- It is an open question whether there is an evaluation of DOC management.
- Representative Dyson asks for copies of the legislative audits of DOC for the past 10 years.

12. Discussion Regarding Focus of the Sub-Committee

- Representative Dyson concerned about losing focus on the major issues.
- Gail Schubert (referring to the substance abuse program) comments that one person managing a program sounds like success.

- Garland Warren notes his concern about the contracts issued by the DOC, including acceleration clauses, duration of contracts and the drafting of these contracts.

13. Culturally Relevant Programs:

- Senator Ward asks if there are culturally relevant elements in place for the substance abuse programs
- Sarah Williams replies that all of the institutions try to implement culturally relevant programs, but are limited by lack of resources.

14. Discussion Regarding DOC Budget:

- Barbara Miller asks what portion of the DOC budget goes into management.
- Bill Parker asks for a definition of management

15. General Discussion:

- Greg Pease interjects a question of whether the report is done yet. (Report by former Washington state DOC commissioner on AK. DOC efficiency)
- Bill Parker will look into the report. The contract was over by its terms one year ago.
- Greg Pease states that privatization is equivalent to a partnership and that some states are significantly ahead of Alaska.
- Representative Dyson notes that DOC should invite the private sector in to identify programs that could be done by the private sector.
- Garland Warren notes his concern that DOC should not rush into privatization and notes that Fort Richardson does a two-year study before privatizing any services. Mr.

Warren reiterates his concern with escalation clauses in any contracts issued by DOC.

- Greg Pease state that there are no escalation clauses in the contracts. Mr. Pease also notes that there are sizable providers of prison services in other states and that the sub-committee should focus on streamlining the State's business.
- Garland Warren notes his concern about profits going to private citizens.
- Senator Ward comments that a survey might be necessary wherein each DOC employee provides a statement of what they do. Senator Ward notes that this strategy is used by the military.
- Senator Ward also notes that Canada has turned its entire correction system over to private industry.
- Gail Schubert asks if DOC has put together a list of areas that can be privatized.
- Bill Parker notes that there is no list but that the medical area is an example of partnering.
- Senator Ward wants to see hard dollar figures as to why DOC cannot privatize.
- Mary Pate expresses concern about identifying areas for privatization since there is currently no measuring stick to assess the current performance.
- Senator Ward notes that he does not want to use a "meat ax" approach, but would rather selectively privatize.
- Sharon Anderson thanks the DOC personnel for helping.
- Barbara Miller asks if the _____ report will be made available. Sharon Anderson notes that copies will be provided.

16. Discussion Regarding Funding Sources:

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*Minutes prepared by C. Russell Lewis
(907) 258-0106*

- Gail Schubert asks if third-party contractors might have access to funding sources that the state cannot reach.
- Sarah Williams notes that inmates don't qualify for certain types of coverage.
- Senator Ward asks about the availability of coverage through Alaska Native Service or related agencies.
- Betty Robson says that there is no funding or coverage available through ANS or Alaska Native Health Service.
- Senator Ward asks for an explanation and exploration of this issue. Senator Ward states that there should be a letter opinion explaining that ANHS benefits are not available to inmates if that is indeed the case.
- Gail Schubert notes that there is law that allows DOC to seek reimbursement for care given to indigent persons.
- (Dr.??) Mel Henry notes that most 3d party programs will not pay for inmates in the care of the DOC.
- Senator Ward notes that the federal government has the first responsibility to care for Alaska Natives.

17. Closing: Senator Ward asks and Sharon Anderson concurs that everyone provide suggestions as to how to proceed from this point.

Meeting adjourned at 1:42 p.m.



DEPARTMENT OF HEALTH & HUMAN SERVICES
PUBLIC HEALTH SERVICE

May 17, 1991

Sarah Mathews
Dept. of Corrections
Major Medical
2200 E. 42nd Ave.
Anchorage, Alaska 99508

Dear Ms. Mathews:

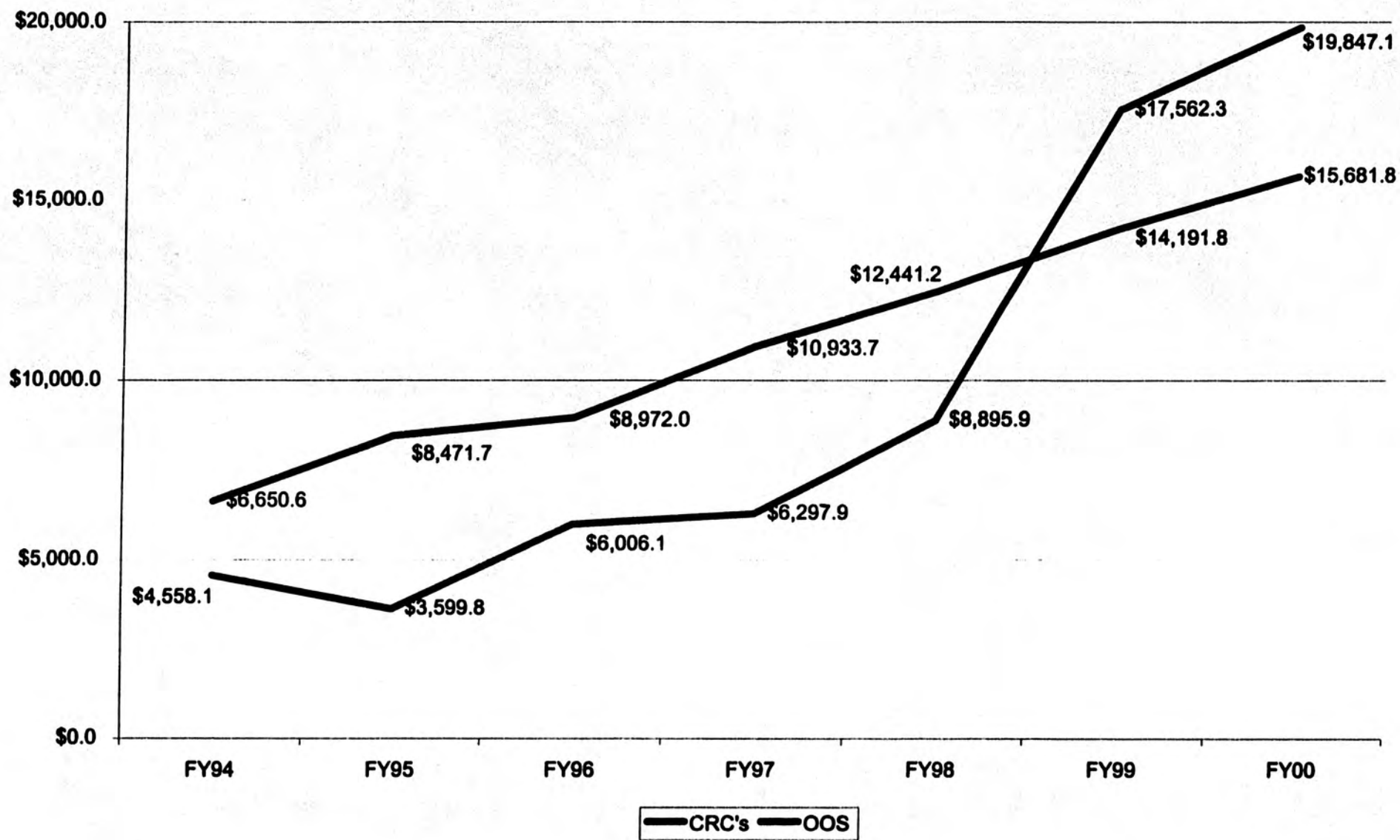
The Alaska Native Medical Center wishes to inform all local correctional facilities that its policy is not to accept prisoners for medical or dental treatment. This is based on national Indian Health Service and Alaska Area Native Health Service policy. Only in cases of emergency or other exceptional circumstances will treatment be provided. In these cases prior approval is required from the ANMC Medical Director.

Thank you for your cooperation.

Sincerely,

Steven Breithaupt
Hospital Environmental Control Officer

Total CRC and Out of State



DOC Annual Budgets FY 94 - 00

	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Admin. & Ops	\$108,278.9	\$114,330.1	\$116,715.1	\$116,311.8	\$118,264.7	\$118,159.3	\$116,604.5
Alternative Housing	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	\$200.0
CRC's	\$6,650.6	\$8,471.7	\$8,972.0	\$10,933.7	\$12,441.2	\$14,191.8	\$15,681.8
OOS	\$4,558.1	\$3,599.8	\$6,006.1	\$6,297.9	\$8,895.9	\$17,562.3	\$19,847.1
Community Jails	\$0.0	\$0.0	\$4,811.7	\$4,812.1	\$4,801.4	\$4,800.3	\$4,766.6
Pt. MacKenzie	\$1,512.0	\$1,571.3	\$1,916.2	\$1,981.7	\$1,909.7	\$1,992.1	\$2,122.9
VPSO	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	\$0.0
Facility Maintenance (I/A non-	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5
Food Service Apprenticeship	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1
Y2K	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	\$0.0
Cultural Relevance Study	\$0.0	\$0.0	\$0.0	\$0.0	\$50.0	\$0.0	\$0.0
Totals	\$120,999.6	\$127,972.9	\$138,421.1	\$140,337.2	\$146,362.9	\$158,210.8	\$167,099.5
		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	Total Increase
Admin & Ops		\$6,051.2	\$2,385.0	(\$403.3)	\$1,952.9	(\$105.4)	(\$1,554.8)	\$8,325.6
Alternative Housing		\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	(\$100.0)	\$200.0
CRC		\$1,821.1	\$500.3	\$1,961.7	\$1,507.5	\$1,750.6	\$1,490.0	\$9,031.2
Out of State		(\$958.3)	\$2,406.3	\$291.8	\$2,598.0	\$8,666.4	\$2,284.8	\$15,289.0
Community Jails		\$0.0	\$4,811.7	\$0.4	(\$10.7)	(\$1.1)	(\$33.7)	\$4,766.6
Pt. MacKenzie		\$59.3	\$344.9	\$65.5	(\$72.0)	\$82.4	\$130.8	\$610.9
VPSO		\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	(\$115.0)	\$0.0
Facility Maintenance (I/A non-add)		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5	\$7,780.5
Food Service Apprenticeship		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1	\$96.1
Y2K		\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	(\$1,090.0)	\$0.0
Cultural Relevance Study		\$0.0	\$0.0	\$0.0	\$50.0	(\$50.0)	\$0.0	\$0.0
TOTALS		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7	\$46,099.9

**Professional and Non-Professional Services Contracts FY 99
(Excluding Out of State and CRC contracts)**

Following numbers are from prior year actual expenditures:

Inmate Health Care - contractual (& contract) expenditures for Medical/Dental Hospital and treatment services = 6,806.1

Inmate Programs - expenditures for Education, Substance Abuse, Sex Offender Treatment and Batterers Treatment = 2,154.4

Institution Director's Office - Contract training and E.M. = 5.7

12 Institutions - Small contract services and Food = 4,144.2

Community Jail Contracts = 4,717.1

Probation/Parole contract services for UA testing, monitoring, education, and substance abuse contracts = 237.9

Point MacKenzie - small contract services, food and education/substance abuse contracts = 246.6

Psychological Testing contract for CO and PO applicants = 54.9

Rise Alaska contract (Management/Consultation Svcs.) = 154.6

TOTAL = 18,521.5

CONTRACT AWARDS BY NUMBER

AS OF: 09/24/99

#

PAGE 1

CA #	VENDOR	DESCRIPTION	FROM	TO	FACILITY	OPTIONS	CURRENT	NOTES
20001A	COMTEC BUSINESS SYSTEMS	TELE. UPGRADE/MAINT	01/16/99	01/31/01	PALMER CC	NONE	2004099	UPGRADE, & 24 MTH MAINT
2018306	COMTEC BUSINESS SYSTEMS	TELEPHONE SYSTEM/MNT	06/28/98	06/28/01	WWCC	1 YR MAINT	20-183-98	EXERCISE MAINT OPT. 6/00
24382	ANCHORAGE COLD STORAGE	SODA DISPENSING	09/16/99	09/15/00	PALMER CC	5 OF 5	20-023-00	
24383	ANCHORAGE COLD STORAGE	SODA DISPENSING	09/16/99	09/15/00	HMCC	3 OF 3	20-024-00	
24306	FOOD SERVICES OF AMER.	SE GROCERIES	02/01/99	01/31/00	SE REGION	4 OF 4	20-060-98	KCC, LCCC, ADD 34 4/12/99
24441	INTERSTATE BRANDS CORP	MISC BAKERY GOODS	02/01/99	01/31/00	DEPARTMENT	3 OF 3	20-046-98	ANCH, PALM., EAG. RIV, BETHEL
24440	PEPSI-COLA	SODA DISPENSING	07/01/99	06/30/00	WWCC	3 OF 3	20-007-00	
24467	WINTER TELECOMM	NEW TEL. SYSTEM	09/05/97	09/04/99	SCCC	NONE	20-116-97	INSTALL SYSTEM
24476	SECURITY TELECOMM CORP	INMATE TELEPHONE SYS	05/29/97	06/28/04	DEPARTMENT	NONE	20-	INSTALL & REVENUE
24483	FOOD SERVICES OF AMERICA	CENTRAL PRODUCE	09/11/99	09/10/00	FBKS CC	2 OF 4	20-025-00	FCC PRODUCE ITEMS
24484	FOOD SERVICES OF AMERICA	S.C. REGION PRODUCE	09/11/99	09/10/00	SC REGION	2 OF 4	20-008-98	ALL SC REGION PRODUCE
24485	FOOD SERVICES OF AMERICA	S.E. REGION PRODUCE	09/11/99	09/10/00	LCCC, KCC	2 OF 4	20-026-00	LCCC, KCC PRODUCE ITEMS
24488	PETERKIN DISTRIBUTORS	DAIRY PRODUCTS	08/17/98	09/16/00	VARIOUS	1 OF 3	20-014-00	SIXTH, HMCC, CIPT
24602	PETERKIN DISTRIBUTORS	MISC. DAIRY PRODUCTS	09/01/99	07/31/00	WWCC	3 OF 3	20-006-99	
27542	BEHRING DIAGNOSTICS	DRUG TESTING SUPPLY	12/01/97	11/30/98	DEPARTMENT	3 OF 3	20-039-98	EXPIRED
27629	KNIGHTWATCH SECURITY	UNARMED GUARD SERVICE	month	month	COMM OFF	M TO M	20-	SPAM CAN GUARD \$19.07/MTH
27831	AMERIGAS PROPANE	PROPANE KEEP FULL	01/01/99	12/31/99	PT MAC/PCC	4 OF 4	20-032-98	PT MAC & PCC
27861	ANACOMP	MICROFILM SERVICES	01/01/99	12/31/99	SERO	3 OF 4	20-036-98	
27892	ECOLAB INC	MISC CHEMICALS	06/01/99	05/31/00	DEPARTMENT	3 OF 3	20-052-99	LNDRY, WAREWASH, MISC CLEAN
27732	AURORA GAS INC	NATURAL GAS	01/01/99	12/31/99	VARIOUS	2-1 YR	20-082-97	CIPT, PTMAC, HMCC, MSPT, WWCC
DOC002	WAVE WHOLESALE CO	MISC. DAIRY PRODUCTS	09/14/99	09/13/00	VARIOUS	2 OF 3	20-060-97	PCC, MSPT, PT MAC.
DOC003	PEPSI-COLA BOTTLING	SODA DISPENSING	09/01/98	08/31/99	FCC	1 OF 4	20-002-98	CANCEL EFF. 8/31/99
DOC004	REGAL FOODS LLC	MISC BAKERY PRODUCTS	08/16/99	08/14/00	WWCC	2 OF 4	20-114-97	
DOC005	ODOM CO. (COCA-COLA)	SODA DISPENSING	04/01/99	03/31/00	LCCC	1 OF 4	20-013-98	LCCC
DOC006	ANCHORAGE COLD STORAGE	SODA DISPENSING	04/01/99	03/31/00	SCCC	1 OF 4	20-027-98	SCCC
DOC007	VALLEY WHOLESALE	MISC DAIRY PRODUCTS	04/16/99	04/15/00	LCCC	1 OF 3	20-082-98	
DOC008	WAVE WHOLESALE COMPANY	SC GROCERY	07/28/00	07/27/00	SC REGION	1 OF 4	20-062-98	
DOC009	WAVE, DBA HUB FOODS	C GROCERY	07/28/99	07/27/00	FCC	1 OF 4	20-083-98	
DOC010	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	09/01/99	08/31/00	C REGION	1 FO 4	20-030-00	FCC ONLY
DOC011	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	09/01/99	08/31/00	SC REGION	1 OF 4	20-028-00	NINE INST & PT MAC
DOC012	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	09/01/99	08/31/00	SE REGION	1 OF 4	20-028-00	LCCC & KCC
DOC013	FOOD SERVICES OF AMERICA	MISC DAIRY PRODUCTS	09/01/99	08/31/00	FCC	1 OF 3	20-027-00	
DOC014	PEPSI COLA	SODA DISPENSING	10/15/98	10/14/99	PT MAC	4-1 YR	20-022-98	
DOC015	PENAIR	AIRCRAFT CHARTERS	11/12/98	10/29/99	SCRO	3-1 YR	20-020-99	PRISONER TRANSPORT
DOC016	TEAMWORKS INC	SECURITY GUARDS	02/19/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC017	DETECNATIONAL SECURITY	SECURITY GUARDS	02/19/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC018	KNIGHTWATCH SECURITY	SECURITY GUARDS	02/19/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC019	PETERKIN DISTRIBUTORS	MISC DAIRY PRODUCTS	03/22/99	03/21/00	SCCC	3-1 YR	20-041-99	
DOC020	WORLD WIDE MOVERS	FREIGHT & MISC SVCS	05/19/99	05/15/00	ACI	4-1 YR	20-034-99	

Professional Services Contracts:

The department's professional service contracts for the most part do not contain language that would allow cost escalators for inflation. The department manages approximately 200 contracts per year. The majority of these contracts have either a firm annual dollar amount, or they provide for an hourly rate for services to be provided by the contractor, and establish a do not exceed amount during the term.

There are currently three contracts that the department maintains that contain price adjustment language. One of these three contracts is for out of state prisoner care (Arizona), and allows for the bed prices to be adjusted up or down, not to exceed 2% per year, and is to be based on changes in the nationwide CPI.

The other two contracts are for the purchase of furniture components and related services for the Alaska Correctional Industries program. The two vendors provide chair and systems furniture components to ACI. The contract's pricing structure establishes the amount of discount from the manufacturer's list price. While the discounted amount cannot change during the life of the contract, the manufacturer's list price can be adjusted at the time of renewal. Contractor must request the increase in writing, and must also provide sufficient justification for the increase.

Non-professional Services Contracts:

The department maintains approximately 45 contract awards per year. All of these contracts are established using formal bidding procedures. Most of these contracts are for food items and do contain language that allows annual price adjustments based on CPI or PPI fluctuations.

Thirty days before annual renewals each contractor must request any increases to their prices in writing. They must also provide justification why the increase is necessary. The department will determine if the request is justified and whether or not to accept the request. If the department determines that the increase is not justified we may cancel and re-bid the contract. A few of the contracts may be adjusted upon written request any time during the contract period, and are to be based on justifiable CPI fluctuations.

Nine of the contracts are for produce, meat, and groceries. These contracts are the larger volume food contracts and provide the department with the majority of our food items. Pricing is at the vendor's cost for the item, in addition to a pre-set management fee. The vendor's costs of the items may change (either weekly or monthly) but the management fee cannot change during the current term. Although these nine contracts allow for inflation increases, they only provide for increases to the freight portion of the management fee. Increases are based on fluctuations to Sealand or Tote tariffs and may be considered periodically, and no more than monthly. The freight rates may be adjusted if the department determines the increase is justified.

FY99 - Anticipatory Revocation Hearings**Alaska Board of Parole**

<u># Hearings</u>		<u>Decision</u>
1	-	Violation Withdrawn
2	-	Not Guilty
1	-	Reprimand and Warn
2	-	Revoke & Reparole
12	-	Continue
<u>14</u>	-	Revoke & Deny
32	-	TOTAL HEARINGS

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~~CORRECTIONS~~ Subcommittee Meeting

Commission on Privatization

Meeting Date: 9/28

Meeting Time: 12:00 noon

Number of Pages: 36

Final Report and Recommendations

submitted to the

Alaska Department of Corrections

by

**Chase Riveland
Riveland Associates**

June 21, 1997

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General Overview

An initial sense of urgency driven by a possible several million dollar budget cut dissipated somewhat at the conclusion of the 1997 Legislative session as the final cutback was considerably less onerous. However, the Department of Corrections faces critical times yet as the expectations of it and its projected population growth in both its jail, prison, probation and parole populations are continuing to rise. There appears to be no relief in sight for the Department either in the form of policy modifications to mitigate the growth, nor the resources to properly manage the growth.

Alaska's "natural challenges" of: expansive geography; a diverse population; fluctuating economy; distinct population centers--but also remote and isolated communities provide unique challenges to the Alaska Department of Corrections also. The Department's thirty-two institutions and field offices are spread out over distances that exceed those of any correctional jurisdiction in the country. The special needs of the Native Alaskan citizens, transient populations, large numbers of tourists and the military each add to the Department's challenges. The fluctuating economy, particularly when lagging, create resource problems for the states fastest growing state agency. And, although the bulk of the population to be

served resides in five boroughs (Anchorage, Fairbanks, Juneau, Kenai Peninsula, and Matanuska-Susitna boroughs), correctional supervision and services must be provided in reasonable form to the remainder of the population.

The political climate the Department of Corrections is operating in is not wholly unlike that being experienced by correctional agencies across the country. Several years of enhanced sentencing changes have driven correctional populations--and costs--markedly upward. This also is true of Alaska. The Department of Corrections is consuming an increasingly higher percentage of the state general fund. This of course, not being an attractive investment for elected officials, creates a situation in which they look for any alternative that is "cheaper". Certainly options such as expanded use of community residential centers, privatization, alternatives to incarceration should be addressed, but should be done in a rational and thoughtful manner. Contrastingly, it appears that the agenda in Alaska has been to cut the administrative portions of the Department of Corrections budget or to withhold funds that are critically needed to responsibly manage the agency. Ironically, some of the gaps in the Department's resources hinder the ability of the state to make the rational decisions that would result in an efficient, yet effective and responsive correctional agency. Investments in a reliable management information system, adequate staffing

for planning and evaluation, and additional resources in facility management are but a few examples of investments that would pay off for the state of Alaska in the future.

Over the last several years the Alaska Department of Corrections has been remarkably free of serious incidents (disturbances and assaults) in it's correctional facilities, but many of the conditions that have contributed to such difficulties in other jurisdictions are beginning to be present in the Alaska Department of Corrections: overcrowding accompanied by a reduction in programming and activity levels. To date, the "Cleary Final Order" and it's continual monitoring have resulted in relatively manageable population levels. A continued reduction in resources could put the system at some risk.

As mentioned in the May 29, 1997 "Observations" report (see Appendix C), the Alaska Department of Corrections has been the subject of many formal studies, master plans, business plans, and audits over the last several years. Those efforts have regularly described shortfalls in staffing, particularly in the areas of internal audit, research, planning and evaluation, management information, data processing, and several agency functional management areas. Seldom have the resources been made available to remedy the identified organizational weaknesses nor to carry out master

or business plan recommendations. Indeed, the recent budget reductions, although not nearly severe as originally feared, continue to erode the management base necessary to properly administer this fast growing agency.

Much has been studied and written about the absence of a reliable information system in the Department of Corrections. The Department accomplished an extraordinary feat last year in installing a system-wide LAN/WAN to at least provide the capability to bring much of the staff on line with E-Mail. Particularly in a jurisdiction with such unique geographic challenges, this is a significant enhancement. Of critical importance, however, is the need to significantly improve or replace the OBSCIS, HOFA, and general management information capability. Other problems in the Department continue to compound the longer these enhancements are delayed. Planning, evaluation, and simple provision of information to policymakers and the public cannot be data or fact driven until these improvements are made. Efficiency and effectiveness would be byproducts of these technological advancements.

Federal dollars available to the states, including Alaska, are decreasing in an amount and available only with more strings attached, and generally are limited to capital construction or other specified limited uses. Alaska's

potential acceptance as a site for the National Institute of Corrections "Criminal Justice System Project" could allow the state of Alaska to develop a thoughtful plan for the future with the assistance of Federal resources.

Overall, the Department of Corrections faces a very challenging future. It's diverse geography and population, political climate, and resource limitations magnify that challenge.

The remainder of this report will include discussions of and recommendations for the following topics, while keeping in mind the issues of task assignments, reporting and coordinating relationships, geographic locations of positions, and centralization vs. decentralization:

- ◇Organizational design

- ◇

- ◇Division of Human Resources

- ◇

- ◇Division of Community Corrections

- ◇

- ◇Division of Institutions

- ◇

- ◇Division of Administration

- ◇

- ◇Commissioner's Office

- ◇

- ◇Other issues identified during the review

Organizational Design

The Alaska Department of Corrections has undergone several changes in organizational design since its inception. The most radical was the creation of "mixed regions" and the subsequent return to a more traditional arrangement. Under the best of circumstances, a correctional Department providing the full range of correctional services that the Alaska Department of Corrections does, to include: probation and parole services; pre-sentence investigation services; pretrial detention; jail and prison services; correctional industries; community jail coordination; and all of the incumbent peripheral services that accompany these, would align with at least five operating divisions. They would normally be a Division of Institutions; a Division of Community Corrections; a Division of Administration; a Division of Human Resources; and a Division of Program Coordination. The Alaska Department of Corrections eliminated its program coordination division just a short time ago.

The reason many correctional agencies operate with a program coordination division is to assure that those programs that cross the operating division's (Divisions of Institutions and Community Corrections) boundaries, are coordinated department-wide, and not subject to organizational territoriality,

competing priorities, and lack of emphasis. Historically, operating divisions have been so consumed with fulfilling their basic obligations of supervision and security that program development, provision, and evaluation are largely relegated to a secondary status.

Many corrections departments create separate Human Resources Divisions in recognition of the complexities organizations face in dealing with their workforce issues. Recruitment, retention, training, safety, affirmative action, labor relations, promotions, grievances, disciplinary actions, etc., all are complex issues requiring enormous amounts of managerial and organizational time and resources. When aligned as a separate Division it simply highlights the importance of these activities in today's correctional organizations. The typical correctional manager spends as much of his or her time dealing with workforce issues as with operational issues relating to inmates, probationers, or parolees. Organizing with a Division of Human resources not only gives visibility to one of the most critical functions of today's organization, but also puts the reporting relationship directly to the director of the agency.

However, the Alaska Department of Corrections is restricted in its ability to organize itself by the limitations of the number of positions available to fulfill its obligations. In my opinion, the central management group of the Department is not sufficiently staffed to allow for an organizational

design that would allow it to fully manage all of its statutory, judicially driven, or "best practices" responsibilities. Therefore, the recommendations being made reflect the necessity to organize in a manner that may be more efficient, but not necessarily the most effective.

In addressing organizational design, reporting relationships, and job functions it is imperative to address the major activities attributed to and expected of the managers and management of an organization. Traditionally those activities are: leading, controlling, planning and forecasting, organizing, and coordinating. Obviously the management of an organization cannot, nor should not, provide equal amounts of these activities at any point in time. The environment the organization is operating in, its priorities, and its challenges may determine the mix of these activities. An organization should make some conscious attempt to determine which of these activities is most critical at a given point in time, and around which issues. Too frequently in correctional agencies the organizing and coordination is replaced, often by necessity, by control. This typically happens when human and technological resources are insufficient to allow for logical decentralization with central coordination and monitoring. This is true of the Alaska Department of Corrections in several areas, to include: time accounting, classification, compliance monitoring, health and mental health services, policy and procedure development, etc.

Several assumptions are being made in looking at organizational design:

- It is critical to organize in a manner that not only does not require new positions but that overall can free up positions, that may be deployed to higher priority needs, or to go unfilled to assist in budget cutbacks.
- Major geographic changes of personnel between Juneau and Anchorage are not being recommended. The costs of transfer and moving of people would not be commensurate with any gain in ability to manage or supervise due to physical proximity. On the other hand, whenever a vacancy occurs at either of the locations the intended function should be evaluated to determine which location it may be most useful. The Department of Corrections has serious communications problems it must address throughout the state-- the communication issues between Juneau and Anchorage being some of the easiest to resolve.
- Many of the major challenges, problems, and activities of the Department at present, and in the future, will be in the area of Human resources.
- Like functions should be consolidated into workgroups or into the Divisions that they dominantly relate to so that backup and crosstraining can be enhanced and efficiencies gained through focus of activity.
- Reporting relationships should be clear. Although matrix management is appropriate for some organizations, the Alaska Department of Corrections faces too many challenges, with too few resources, to have less, than clear reporting relationships.
- Training will be of paramount importance to the Department in the future. Not only will basic and skill enhancement training be important, but a great deal of training is needed in the use of the present information and E-mail system, and much more will be required when the Department upgrades its management information capacity.
- Although traditional management theory would suggest that span of control for any single supervisor or manager should be no more than eight, more contemporary theory would suggest that if the functions of the subordinates is basically the same, that span of control--in numbers can be extended considerably.
- Some attention should be given in any organizational arrangement to the way the Department of Corrections may wish to--or have to--do business in the future.

For purposes of organizational design I am also making the assumption that the position of Deputy Commissioner is congruent with and carries the authority of that of the Commissioner in her absence. The location of the Deputy Commissioner in Anchorage, assures a presence of the Commissioner's office in each location. It typically is the domain of the commissioner in such situations to determine how their total workload and responsibilities will be divided. For the purpose of this discussion I will assume that Division Directors formally report to the Commissioner with day-to-day working relationships evolving from their determination of priorities, influence of location, and personal strengths and skills.

Although it is frequently true in organizations that everyone feels they should report to the top boss, I would recommend that as few non-Division Directors as possible report to the Commissioner, other than her immediate support staff. Too many daily operational issues can detract from other critical responsibilities. The gauge should be the question: Does the position clearly directly support the Commissioner's specific responsibilities?

I am recommending that the Divisions of Community Corrections, Institutions, and Administrative Services be retained, with some modifications that will be enumerated later. I am also recommending the creation of a fourth division, the Division of Human Resources. The recommended

changes will follow with a discussion of each of the Divisions.

Division of Human Resources

I am recommending the creation of a separate Division of Human Resources that would also incorporate the responsibility for Department-wide training, along with all present human resources functions and activities. This would require moving the Training Officer III position; the Training Officer II positions; a Correctional Officer III position; and a Administrative Clerk II position (all located in Anchorage) in a reporting relationship to the Director, Division of Human Resources. I am making the recommendation for creation of this Division for the following reasons:

- ♦ The present functions performed by personnel officers and personnel assistants for the Department are terribly critical. Their ability to provide "one-stop-shopping" by handling a wide variety of personnel functions is to be commended. The personnel function is so critical to agency operations that the emphasis gained by having the Human Resources Director reporting directly to the Commissioner makes a clear statement, internally and externally.
- ♦ A human resources director with Division Director status should have enhanced status in working with external agencies such as the state personnel department and others.
- ♦ Recent delegation of authority of several personnel decisions from the state authority to the departments creates the need for greater prominence in the organization and access to the Commissioner for the human resources function.
- ♦ Issues such as affirmative action, promotion policy, etc. require direct attention from the Commissioner's office.

- ♦ This reorganization can occur without new positions.
- ♦ Training is an integral part of a human resources function. Although each of the other Divisions do some internal training and position-specific training, training such as basic training for correctional officers and generic training that applies across the Department is better managed as a part of an entire human services program.
- ♦ The probability that the Department of Corrections will have a much larger role in collective bargaining makes a case for greater prominence of the human resources/personnel function.
- ♦ A subsidiary benefit of this move would be to give some workload relief to the Director of Administrative Services, who probably can well use that capacity and time to deal with the upcoming major projects in the information services area.

Overall I was most impressed with the amount of service the personnel officers, personnel assistants, and training officers are able to provide the Department, with the small amount of staff available. I did not observe any positions that could be eliminated easily in the personnel nor training sections. Contrastingly, they may need bolstering as the workforce grows, more authority is delegated to the Department, and the collective bargaining responsibilities expand.

Division of Community Corrections

It is my opinion that a much greater role for the Community Corrections Division should be a part of the Department's vision for the future. I will, however relate to that in the section of this report entitled "Other Issues Identified During the Review".

Although not desirable, there are two positions that could be cut or reassigned in the Division of Community Corrections. Based on present day "enhanced span of control", the position of Deputy Director could be eliminated, leaving the Director with the supervision of the Probation Officer V's; the Criminal Justice Planners; the Administrative Manager II; and a Secretary I. The second position would be to free up a position by reorganizing to two regions from three. This would free up one Probation Officer V position and a corresponding clerical position. Obviously this position would have to be either the Juneau Probation Officer V position or the Fairbanks Probation Officer V position. This would retain acceptable span of control numbers, and equalize workloads between the Anchorage Probation Officer V and the remaining region. A case can be made for either Juneau or Fairbanks.

I would also recommend moving two positions to the Division of Community Corrections. First, I would recommend transferring the Community Jails Program Coordinator position to the Division, reporting to the Director or if retained, to the Deputy Director. The objectives for this program are much more consistent with those of the Community Corrections Division than those of the Administrative Services Division. Probation and parole staff around the state, particularly in the fifteen communities where the community jails are located could be of assistance in building relationships between the local officials and the Department.

Secondly, I would recommend moving the Rural Affairs Coordinator position to the Division of Community Corrections, reporting to the Director (or the Deputy Director). Again, the responsibilities of this position complement and are consistent with the mission of the Division. Many gains can be made by enhancing the working relationship between this position and the field staff of the Division of Community Corrections.

THE DIVISION OF INSTITUTIONS

The Institutions Division is presently operating with a lot of dotted line relationships, particularly with sections that are integral to its day-to-day operations. Although there are strong arguments to be made in correctional agencies for keeping such functions as classification centralized and out of the institutions divisions, a dearth of resources and a present need for more control would suggest the need to strengthen several reporting relationships in the Division of Institutions. I would recommend that there be two Deputy Director positions in the Division. The present Deputy for Operations should continue to have the twelve institution superintendents report to him as well as retaining responsibility for the recently transferred Community Residential Centers. The second deputy, a retitling of the present Assistant Director, should have reporting to her, in addition to her present