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**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**



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MEMORANDUM

To: Marco Pignalberi
Commission on Privatization and Delivery of Government Services

From: Keith Laufer
Financial and Legal Affairs Manager
Alaska Industrial Development and Export Authority

Subject: Alaska Intertie

Date: December 1, 1999

This memorandum is provided in response to the request related to the Alaska Intertie made by Senator Ward at the Commission on Privatization meeting on November 30, 1999.

The Alaska Energy Authority (AEA) owns the Alaska Intertie (the Intertie"). An approximately 26-mile segment of transmission line is owned by Matanuska Electric Association and, by agreement, has been incorporated as part of the Intertie. Operation and use of the Intertie is governed by the Alaska Intertie Agreement (the "Intertie Agreement") between AEA (formerly known as the Alaska Power Authority) and the participating utilities.

Under the terms of the Intertie Agreement, the participating utilities are required to pay all Intertie operating, maintenance, repair, renewal and replacement and other costs. The utilities are not required, however, to make any payments to AEA (as a return of capital or otherwise) for use of the Intertie. Accordingly, AEA generates no revenues from its ownership of the Intertie. Any participating utility may terminate its participation in the Intertie upon 48 months notice. AEA may terminate the Intertie Agreement upon 48 months notice but only if it determines that termination is "required to improve Power systems serving the Alaska Railbelt Utilities."

As the operation and use of the Intertie is governed by an existing Agreement which provides no revenue to the owner of the line, we believe it is unlikely that a purchaser could be found that would be willing to pay for this non-revenue producing asset. While it is conceivable that the Intertie or the Intertie corridor could have value for uses other than the transmission of energy (for example telecommunications), currently no one has expressed interest in the Intertie for such uses. Moreover, a legal analysis would be necessary to determine if the rights of way underlying the Intertie allow for such ancillary uses and if so, what rights the participating utilities might have in the benefits derived from any such uses.

If the Commission has additional questions, please feel free to call.

Bill History/Action Display

BILL: HCR 10 SHORT TITLE: SALE OF FOUR DAM POOL
 BILL VERSION: CSHCR 10 (FIN)
 SPONSOR(S): REPRESENTATIVES(S) AUSTERMAN, Harris, Grussendorf, Smalley
 CURRENT STATUS: (S) L&C STATUS DATE: 5/12/99

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

Full Text Bill/Resolution has Zero Fiscal Note(s).

Committee Action With Bill History

Jrn-Date	Jrn-Page	Action
4/22/99	<u>914</u>	(H) READ THE FIRST TIME - REFERRAL(S)
4/22/99	<u>914</u>	(H) URS, FIN
4/29/99	<u>1072</u>	(H) URS RPT CS(URS) 3DP 4NR
4/29/99	<u>1072</u>	(H) DP: PORTER, GREEN, HUDSON;
4/29/99	<u>1072</u>	(H) NR: BERKOWITZ, DAVIES, COWDERY,
4/29/99	<u>1072</u>	(H) ROKEBERG
4/29/99	<u>1072</u>	(H) ZERO FISCAL NOTE (H.URS/DCED)
5/08/99	<u>1257</u>	(H) FIN RPT CS(FIN) 7DP 1DNP 3NR
5/08/99	<u>1257</u>	(H) DP: MULDER, KOHRING, GRUSSENDORF,
5/08/99	<u>1257</u>	(H) WILLIAMS, FOSTER, AUSTERMAN, MOSES;
5/08/99	<u>1257</u>	(H) DNP: BUNDE; NR: THERRIALT, DAVIES,
5/08/99	<u>1257</u>	(H) DAVIS
5/08/99	<u>1257</u>	(H) ZERO FISCAL NOTE (H.URS/DCED) 4/29/99
5/11/99	<u>1324</u>	(H) RULES TO CALENDAR 5/11/99
5/11/99	<u>1324</u>	(H) READ THE SECOND TIME
5/11/99	<u>1324</u>	(H) FIN CS ADOPTED UNAN CONSENT
5/11/99	<u>1324</u>	(H) AM NO 1 NOT OFFERED
5/11/99	<u>1324</u>	(H) PASSED Y35 N2 A3 CSHCR 10 (FIN)
5/11/99	<u>1328</u>	(H) COSPONSOR(S): SMALLEY
5/11/99	<u>1328</u>	(H) TRANSMITTED TO (S)
5/12/99	<u>1384</u>	(S) READ THE FIRST TIME - REFERRAL(S)
5/12/99	<u>1384</u>	(S) L&C

Similar Subject Match or Exact Subject Match .

ENERGY

PUBLIC UTILITIES

UTILITIES

Bill Root:

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BASIS Last Updated 11/12/99 4:20 PM

CS FOR HOUSE CONCURRENT RESOLUTION NO. 10(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 5/8/99

Referred: Rules

Sponsor(s): REPRESENTATIVES AUSTERMAN, Harris, Grussendorf, Smalley

A RESOLUTION

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

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

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

7 WHEREAS the Four Dam Pool is owned by the Alaska Energy Authority, which is
8 a party to a 45-year power sales agreement with local utilities to sell the power generated by
9 the facilities; and

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

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

1 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the Alaska
2 Energy Authority to divest itself of its interest in the Four Dam Pool power projects by
3 entering into negotiations for the sale of the power projects, open only to the electric utilities
4 in the communities served by the Four Dam Pool power projects or to a consortium of electric
5 utilities in those communities, with terms that will assure that

6 (1) the state receives a fair market value for the power projects;

7 (2) the authority gives due consideration to the prospective purchaser's
8 commitment to Alaska hire, contracting, and Alaskan participation in the purchasing entity;
9 and be it

10 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that
11 the Alaska Energy Authority enter into the negotiations for the sale of the power projects as
12 soon as practicable; and be it

13 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that
14 the Alaska Energy Authority evaluate methods by which private sector interests with
15 experience in acquisition, ownership, operation, and maintenance of hydroelectric facilities
16 may propose to purchase the Four Dam Pool power projects in a manner that honors the
17 existing power sales agreement and indemnifies the State of Alaska for its current ownership
18 liabilities.

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

House SPECIAL COMMITTEE ON UTIL RESTRUCTURING Minutes



HCR 10 - SALE OF FOUR DAM POOL

CHAIRMAN HUDSON announced that the next order of business was House Concurrent Resolution No. 10, proposing recommendations concerning the sale of the Four Dam Pool hydroelectric facilities.

Number 1926

CLIFF STONE, Legislative Assistant for Representative Austerman, Alaska State Legislature, stated that the adoption of HCR 10 will request the Alaska Energy Authority (AEA) to divest itself of its interest in the Four Dam Pool. These projects were constructed in the mid-1980s and they served the communities of Copper Center, Glennallen, Ketchikan, Kodiak, Petersburg, Port Lions, Valdez and Wrangell. Representative Austerman took HCR 16 and used it as a template to construct HCR 10. The wording, "fair market value," has been subject to some question; can we really expect this to go out to the market in the form of a request for proposals (RFP) and will it be open to just those communities listed or will people be given the opportunity to bid on this RFP?

Number 1812

REPRESENTATIVE BERKOWITZ noted, "The Sitka wildflower has cropped up amongst the devils club again on this sponsor sheet." He wondered how much money will go into the general fund on account of the sale when the dust settles.

REPRESENTATIVE AUSTERMAN responded that a lot of numbers have been thrown around. The question is, what is the fair market value? He said that he would love to see \$125 million go into the general fund, but he has heard numbers a lot lower than that, so it is anyone's guess.

REPRESENTATIVE DAVIES said that when the issue was dealt with last there was a major concern with the term, "commitment of the price." He asked the committee if they remembered something of that nature. He indicated that in the construction of the dams, he believes there was a certain price that was guaranteed to communities.

REPRESENTATIVE AUSTERMAN explained that there is a power sales agreement that is a 40-year agreement that was originally signed with the construction of the dams and it has been a problem all along. Senator Grevel, when he was attempting to purchase this, it became obvious that he would have to break that power sales agreement to make his agreement work, and that is why HCR 10 is directing Alaska Energy Authority (AEA) to go out into the community to negotiate. He said that there are a lot of liabilities the state of Alaska has with the four dams, and he would like to see the state get out of the liability.

Number 1678

REPRESENTATIVE DAVIES referred to line 12 of HCR 10, where it states, "WHEREAS the Alaska Energy Authority retains, under the power sales agreement, significant liabilities relating to the power project," but in the "resolves" it is not mentions. He

wondered if it is Representative Austerman's intent to continue to honor the power sales agreement.

REPRESENTATIVE AUSTERMAN stated that the intent is that the state of Alaska get out of the agreement all together; The AEA sell the four dams as a consortium or individually to each community. The best thing that could happen is for the Four Dam Pool to become the Four Dam Pool Inc. and buy the facilities and everything from the state of Alaska.

Number 1620

REPRESENTATIVE DAVIES wondered if the power sales agreement is a commitment to the consumers in that area; that the liability being referred to is the state's contract with the consumers in the region, which means that there would have to be some concurrence by those consumers.

REPRESENTATIVE AUSTERMAN replied correct. He indicated that he would have to have someone that has been more directly involved with the sales agreement in order to provide a definite answer on how they would address that issue.

REPRESENTATIVE GREEN stated that it seems that the sale of the Four Dam Pool would have to be an all or nothing thing, as opposed to one at a time.

REPRESENTATIVE AUSTERMAN stated that he believes the AEA cannot divest one unit without all four units agreeing to it.

Number 1534

REPRESENTATIVE PORTER asked if the utilities being serviced by the Four Dam Pool have a first right of refusal.

REPRESENTATIVE AUSTERMAN replied that he does not know and would have to defer to one of the utilities themselves. He said that he does know all four units could be sold individually if they all agree. The divestiture and the power sales agreement have been the biggest problem with why the Four Dam Pool has not sold in the past; if there is an outside entity they don't want to except the power sales agreement and everything else tied to it. Later on when the income stream was set up and divided it up there was nothing in the agreement that protected the state, but did protect all the utilities. There is a self-help clause within the whole thing; if the state doesn't come up with general funds to prepare the dams then they have there self-help clause and they can take their income stream that is being divided up and make the repairs. He added that the problems that existed when this agreement was set up are being worked out now.

ED KOZAK, General Manager, Kodiak Electric Association (KEA), testified via teleconference from Kodiak. He stated that KEA is a member-owned non-profit cooperative that has provided service to Kodiak and the village of Port Lions for 57 years. The KEA Board of Directors and management staff strongly support HCR 10. They believe that it is through the sale of the Four Dam Pool that long term economic strength is promoted in their utilities in the community. He asked, "Why should we support ownership?" He said that first, significant opportunities for rate reductions, cost control, reliability and protection of service are there with utility ownership. There is the potential for increased economic development opportunity in the community with local control and decision making authority. The personnel knowledge and training necessary to keep the project well maintained is already in place.

He said that they feel it is critically important with the isolated stand-alone electric utilities that are in the Four Dam Pool. Electric utilities served by the Four Dam Pool are either a cooperative or a municipal, which means that 100 percent of the savings will remain with the people in the state of Alaska. In example, over \$3 million in capital credits have been returned by KEA to its members over the last three years. He added that the Kodiak Chamber of Commerce and the City of Port Lions have both passed resolutions in support of local ownership. He indicated that the state has divested boat harbors and roads to the local communities; therefore, it makes perfect sense to divest the Four Dam Pool to the local communities as well. It is their belief that local ownership of the projects will result in rate reductions at the retail levels and the sale of the projects to the utilities will provide a stable economic base in all eight communities that are served by the projects, which will result in a stronger state of Alaska.

Number 1256

REPRESENTATIVE PORTER wondered whether or not the utilities in the communities have the first right of refusal under the power sales agreement.

MR. KOZAK replied that the power sales agreement is a 45-year agreement, in which, the state and five communities are signatory to that agreement and all the utilities are contracted by that agreement to buy all of their energy from the projects that they serve the community. He added that he believes the answer to Representative Porter's question is yes.

Number 1219

CHAIRMAN HUDSON pointed out that it may be true.

REPRESENTATIVE DAVIES wondered if one of the communities was not in favor of the implied change in the contract if they would have a veto power.

MR. KOZAK responded that any change in the power sales agreement has to be agreed to by all the parties that signed the agreement.

BOB EVANS, Copper Valley Electric Association, Four Dam Pool, stated that he believes he is hearing two questions; Representative Davies is responding to a question that deals with the power sales agreement and the right of each community to be unanimous in their decision making and Representative Porter is asking whether or not the communities have the first right of refusal of the sale of the projects. The questions merge in some respects. If there is going to be a sale of the projects, ultimately it is going to require the approval from each of the communities to give up the power sales agreement. The reality is in the municipalities; it is going to require a vote of the people.

Number 1070

RICHARD TRIMBLE, Alternate Representative, Project Management Committee, Four Dam Pool and Power Project Manager, Ketchikan Public Utilities (KPU), testified via teleconference from Ketchikan. He stated that Ketchikan has consistently supported a divestiture of the Four Dam Pool facilities to the purchasing utilities. He indicated that KPU has worked hard to craft an agreement that works for both the Four Dam Pool communities and the state. They feel that HCR 10 seeks to accomplish this objective. On the other hand, they do not support the concept of selling the

facilities under a general RFP, because they do not believe the Four Dam Pool communities or the state of Alaska will be best served through that process. He asked will the RFP process bring a higher price for the Four Dam Pool? He said that it won't bring a better price from the purchasing utility. He pointed out that they are not in a good position to respond to an open RFP. He asked will a RFP bring a higher price for the Four Dam Pool from a private enterprise? He responded that is possible, but in the long run it is a losing proposition for the state. The risks that were jointly evaluated by the communities and the state during the vestiture negotiations are real. The communities have been prudent in their evaluation of that risk, because they recognize that they will bear them for decades to come. He said that it will be the communities and the state who will be left holding the bag when the risks do materialize and the venture fails; therefore, relieving the state of the liabilities is a vestiture to the Four Dam Pool. He indicated that they are ready to proceed; however, they do not support an RFP process.

Number 0890

REPRESENTATIVE PORTER explained that in his reading of the "RESOLVE" in HCR 10, the only divestiture that would be available would be to the individual communities or a consortium of the community; there is no opportunity for an outside proposer under the RFP.

MR. EVANS pointed out that if there was an RFP and a higher bidder, other than one of the communities, each community would have to approve the third party purchaser to take control of the power sales agreement. If the communities chose not to, presumably the state could still sale the property, but they would also retain the risk under the power sales agreement; therefore, without the approval of the communities the state cannot assign the risk under the power sales agreement.

Number 0802

REPRESENTATIVE PORTER said that he is assuming the permission would not be given, so the opportunity of an outside purchaser is mute.

REPRESENTATIVE DAVIES pointed out that he did not read the "RESOLVE" in HCR 10 as Representative Porter did; it states that the request for proposals for the sale of the power projects is open to the electric utilities in the communities. It does not say that it is open only to them; therefore, a third party could respond to the RFP.

CHAIRMAN HUDSON said that is why the question of whether or not they have the first right of refusal came up.

REPRESENTATIVE ROKEBERG stated that it should be clear in HCR 10 whether it does or does not.

Number 0742

MR. EVANS indicated that the Four Dam Pool communities want HCR 10 to reflect that they are the sole purchasers of these projects.

REPRESENTATIVE PORTER made a motion to adopt a conceptual amendment, "on line 5, page 2, after the word 'open' you would say 'only'."

REPRESENTATIVE DAVIES wondered, if it is open only to the electric utilities in the communities, then why would a RFP be used. He

asked isn't it then a negotiated sale? He said maybe the line should read, "divest itself of its interest in the Four Dam Pool power projects - preparing a request for proposals for the sale, by negotiating a sale of the power projects to those utilities."

REPRESENTATIVE BERKOWITZ wondered if it would only be the utilities themselves that could make the purchase; the communities themselves would be precluded from doing so.

Number 0610

REPRESENTATIVE AUSTERMAN explained that the issue of whether a consortium of all the Four Dam Pools buy them or a consortium of two of them or if they individually buy them could produce three different RFPs.

REPRESENTATIVE BERKOWITZ stated that the language presently in HCR 10 would necessitate that the utility would make the bid and ultimately the purchase. There might be a different mechanism that the community would want to employ rather than the direct sale to the utility itself.

REPRESENTATIVE PORTER said that even though some of the utilities are owned by municipalities and some are cooperative, they're made of the same ingredients.

REPRESENTATIVE GREEN expressed his concern with regards to output, gigawatts per year, because on line 8 of HCR 10 it states, "the state receives a fair market value for the power projects." What if, for example, the smallest project, Solomon Gulch, had an accounting process that tells the state what would be a good price and they find out it is 1.5 times the best possible bid. He wondered if it would kill the whole deal or if everyone in the group would agree on buying three and leaving one to the state.

REPRESENTATIVE AUSTERMAN stated that the power sales agreement would preclude that from happening, because they all have to agree.

REPRESENTATIVE GREEN interjected that they might all agree, but they might not want to come up with that kind of money; therefore, they might agree on three being sold, but also agree that one is priced too high.

Number 0385

REPRESENTATIVE AUSTERMAN said that if that were the case there would not be agreement among all of them.

REPRESENTATIVE BERKOWITZ pointed out that HCR 10 is not suppose to dictate the terms of the sale, but just ask that some steps be taken to move towards a sale.

MR. EVANS agreed. He said that HCR 10 is simply asking the AEA to come to the table and come up with a price.

REPRESENTATIVE ROKEBERG requested clarification on whether the AEA had been instructed that an appraisal be done to determine fair market value.

MR. EVANS indicated that a study has already been done on risk assessment. There are probably many approaches or concepts by which to come to some kind of evaluation. He expects that the AEA and the communities, during the interim, will attempt to find some basis that is acceptable to the legislature.

REPRESENTATIVE ROKEBERG pointed out that the term, "fair market value," implies that some type of appraisal would be done. He wondered if the mechanism should be implicit or explicit in the resolution.

REPRESENTATIVE AUSTERMAN responded that the AEA has the responsibility and he has no doubt that they will do what they are required to do with regards to do diligence.

REPRESENTATIVE ROKEBERG wondered if there should be legislative approval of any transaction.

MR. EVANS explained that when negotiations began a couple of years ago the Governor's office issued a letter and set up certain standards before any approval of a sale could happen. The most important one was there would be no sale short of legislative approval.

Number 0059

CHAIRMAN HUDSON asked if there was any objection to the proposed amendment, "on line 5, page 2, after the word 'open' you would say 'only'." There being no objection, the amendment was adopted.

Number 0005

REPRESENTATIVE PORTER made a motion to move CSHCR 10 (URS) out of committee with individual recommendation. There being no objection, CSHCR 10 (URS) moved from the House Special Committee on Utility Restructuring.

Bill Root:

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BASIS Last Updated 11/12/99 4:20 PM

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

NOVEMBER 30, 1999

**Subcommittee Members: Lee Wareham, Chair;
Dave Carlson, Tom Friesen, Marco Pignalberi, Walt Sapp, Robert Wilkinson, Eric Yould**

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

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1. Alaska Intertie Recommendation:

Keep the status quo. Transfer of the Alaska 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

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.

2. Four Dam Pool Divestiture Recommendation

Sell the Four Dam Pool projects for fair value to the electric utilities within the communities served.

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.

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 an 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, not including self help payments mentioned below, 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.

Barriers

Fair Value—the determination of the fair value and agreement between the state and utilities will be difficult, but in general should include the present worth of the projected payment stream adjusted for risk over the life of the project. 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.

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.

3. Bradley Lake Hydroelectric Project Recommendation

Keep the status quo. 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.

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.

11/19/99 Roll Call

Hydro Electric Projects Subcommittee Membership								
Wareham	Lee	688-2540	688-4009	229-0306	International Path Finder	clwancak@aol.com		
Carlson	Dave	772-4203	772-9287	772-3765				
Friesen	Tom		225-0568	225-4905				
Sapp	Walt	486-6990	486-2441	486-3386	Cell: 528-8743	wsapp@ptialaska.net		
Wilkinson	Robert	822-8340	822-5586	822-3112	Copper Valley Electric	wilkinson@cvea.org	PO Box 45	Glennallen
Yould	Eric	561-6103	561-5547	745-8367	ARECA Cell: 441-7483	eric@areca.org	703 W Tudor Rd	Anchorage
Laufer	Keith	269-3000	269-3044	345-9090	Alaska Energy Authority	klauffer@aldea.org	480 W Tudor Rd	Anchorage

269-3020

11/19/99

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.

change word

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.

11/19/99

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, not including self help payments mentioned below, have ranged in recent years from approximately \$9 million to \$11.5 million depending on the number of kWh purchased under the agreement.

→ Amendment approved

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.

11/19/99

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.

Barriers

Fair Value—the determination of the fair value and agreement between the state and utilities will be difficult, but in general should include the present worth of the projected payment stream adjusted for risk over the life of the project. 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.

amendment approved

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.

11/19/99

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.

11/19/99

Subject: Anchorage/Fairbanks Intertie Position Paper

Date: Fri, 19 Nov 1999 11:32:50 -0900

From: "Dave Carlson" <dcarlson@alaska.net>

To: "Marco Pignalberi" <Marco_Pignalberi@legis.state.ak.us>

I will be unable to make today's 3 PM teleconference. I understand that the only remaining piece of business is approving the position paper on the Anchorage-Fairbanks Intertie. This topic was discussed at last Wednesday's meeting and I think the understanding was that this project would be treated similar to the Bradley Lake hydro project where significant benefits would not accrue to either the State or the utilities utilizing the intertie as a result of transfer.

Please accept this email as my intention to vote in favor of the position paper on the Anchorage/Fairbanks Intertie.

Would you please send me, at your convenience, all three position papers electronically? You can send them to this email address.

Thanks for the opportunity to participate. Let me know if additional meetings are scheduled.

Dave carlson

Walter
Sent

11/19/99

Hydro-Electric Subcommittee.
Lee Wareham.
Keith:

Changes:

Approve amendments.

2nd Paragraph & Barriers.

FOUR - DAM POOL. DIVESTURE.

Approved.

A.K. Intertie

Approved.

Bradley Lake

Approved.

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.

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ask for extension
of P.V.

Deadline = legis. Session

Recommendation = legis provide deadline

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. *

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.

will
shedding
help
effect
state
credit
rating.

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.

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* Fair Value = NPV adjusted for Risk.

*Parad
11/17/99
unannounced*

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.

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.

CED Hydro Subcommittee Membership

LAUFER

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

FACSIMILE TRANSMITTAL LETTER

Date: 11/12/99

Please deliver to: Name: Marco Pignatelli

Firm: Rep Cowden's office

Phone #: 2 Fax #: 269 0223

Total number of pages: 18
(including transmittal letter)

Sent by: Robert Wilkinson

If the correct number of pages is not received or if you have received this transmittal in error,
please call collect the number indicated above as soon as possible:

Message:

Hard copy to follow via USPS:

☐ Yes

☒ No

Office Use Only			
Initials:	Date:	Time:	CVEA Account #:

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

34

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.

...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.

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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[illegible]

11/12/99 3:13 PM

11-12-99 Hydro Proj Group

1. INTRO - BRIEFS - RIMCO - MARCO
 2. INTRO SELF - MEMBERS - K. THOMAS
- Kadok Elect Assoc.
Copper Valley Elect.
- L. WAREHAM. ✓
W. SAPP ✓
R. WILKINSON ✓
J. LINDFORD

- 1 TERRACE LK - Kad.
- 2 SOL Gulch - Copper V.
- 3 Swan Lk. - Kadok
- 4 Tree Lk - Ptasby.
- 5 BRADY LAKE - HOMER

~~me~~

776-5132 OPTIONS

ORIGINAL RATIONALE → BGT IMPERATIVES → PRIVATIZATION

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

Issue: Should state divert to local govt or to private buyer who will pay more.

⑤ \$500M cost - current value = PV of fr. stream + Cost of Damming

Valuation methodology

LTPA - first rev. stream; total liability for water; max. fr. state

\$500K

**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 Nephelen 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

Name:

Work Phone:

Home Phone:

Fax:

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: 84.002286
- 1 Title: Overview and Status of Hydroelectric Spending
- 1 - File Number: 84.002816
- 1 Title: Analysis of Alaska Power Authority Letter
- 1 - File Number: 85.002645
- 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: 86.002946
- 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: 88.000161
- 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: 88.000164
- 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

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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