

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

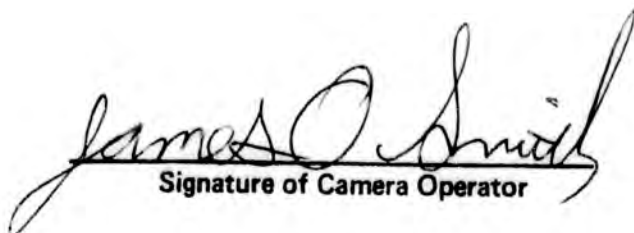
1327 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86



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Date

SCOMM

#50:25

3/15

COMMITTEE REPORT
HOUSE

(5)

FURTHER: JUDICIARY

2/20/85

Date: 3/14/85

Mr. Speaker:

The Committee on HOUSE SPECIAL COMMITTEE
ON STATE LOANS has had HB 217

"An Act relating to interest rates; and providing for an effective date."

under consideration and reports it back as follows:

- ☐ do pass ☐ do not pass
- ☐ do pass with attached amendments(s)
- ☒ replace with CS for HB 217 (60-3) ☒ same title
☐ new title
- and recommends _____
- ☐ AND attaches a "Letter of Intent" ☐ New Fiscal Note
- ☒ reports it back without recommendation ☒ Zero Fiscal Note Attached
- ☐ referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

Introduced: 1/30/85
Referred: House Special Committee
on State Loans, Health, Education &
Social Services and Finance

1 IN THE HOUSE

BY FURNACE AND COLLINS

2

HOUSE BILL NO. 146

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to housing loans for the permanently
7 disabled."

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

9 * Section 1. AS 18.56 is amended by adding a new section to read:

10 Sec. 18.56.102. LOANS FOR THE PERMANENTLY DISABLED. (a) The
11 corporation shall establish a residential housing loan program for the
12 permanently disabled under the special mortgage loan purchase program
13 (AS 18.56.098). A loan may be made under this section to an indi-
14 vidual who is eligible under (e) of this section, or to a parent or
15 guardian of the individual if the parent or guardian is living with
16 the individual.

17 (b) A loan made under this section shall be at a fixed annual
18 interest rate of **six percent**. The loan amount may not exceed the
19 maximum loan amount for a single family residence under the special
20 mortgage loan purchase program, and the appraised value of the resi-
21 dence may not exceed the loan amount by more than **25 percent**. The
22 corporation may not require a borrower to make a down payment toward
23 purchase of a residence under this section.

24 (c) The value of the equity in a residence purchased with a loan
25 under this section may not be used to deny the borrower state benefits
26 to which the borrower may be otherwise entitled.

27 (d) The corporation may require a borrower under this section to
28 prove present and future financial ability to repay the loan. How-
29 ever, a loan may not be denied solely because of circumstances caused

How Family UNITES Higher %
Granting loan / 25% exceeds
17% Fiscal Year

History (Clarified)

1 by the disability under which the borrower became eligible for the
2 loan.

3 (e) For an individual or a parent or guardian of the individual
4 to be eligible for a loan under this section, the individual must

5 (1) provide a written statement from a physician stating
6 that the nature of the individual's disability is permanent;

7 (2) establish that the individual has a specialized housing
8 need; and

9 (3) establish that the individual is severely disabled,
10 through

11 (A) a statement from the federal Veterans Administra-
12 tion indicating that the individual is at least 70 percent dis-
13 abled;

14 (B) proof of eligibility as a blind or disabled person
15 under the federal supplemental security income program (42 U.S.C.
16 1381 - 1385) or the federal disability insurance benefits program
17 (42 U.S.C. 423);

18 (C) a statement of eligibility from the Board of
19 Vocational Rehabilitation (AS 23.15.010); or

20 (D) a statement of disability from the division of
21 public health, family health section.

HESS

STATEMENT By PUBLIC HEALTH

60% money

Original sponsors: Duncan, Pearce,
Ringstad and Boucher

1 IN THE HOUSE

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

2 CS FOR HOUSE BILL NO. 217 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to interest rates; and providing for
7 an effective date."

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

9 * Section 1. AS 06.20.320(a) is amended to read:

10 (a) A licensee or lender who, in the making or collection of a
11 loan contract, does any act that [WHICH] violates AS 06.20.230 -
12 06.20.260 or 06.20.280 - 06.20.310 shall at the option of the commis-
13 sioner reimburse the portion of the interest and charges in excess of
14 that provided in those sections, or, in the case of repeated viola-
15 tions of those sections by the licensee, the commissioner may, upon a
16 hearing, require the licensee to adjust the loan contract interest or
17 other charges down to 10.5 percent a year [THE CONTRACT INTEREST
18 LIMITATION SPECIFIED IN AS 45.45.010(a)].

19 * Sec. 2. AS 06.40.160(a) is amended to read:

20 (a) A lender who, in the making of any contract, loan or premium
21 finance agreement or the collection of interest or charges, does any
22 act that [WHICH] violates AS 06.40.010, 06.40.020, 06.40.090, or
23 06.40.110 - 06.40.130 shall at the option of the commissioner reim-
24 burse that portion of the interest and charges in excess of that
25 provided in those sections, or, in the case of repeated violations of
26 those sections by the lender, the lender shall adjust the contract,
27 loan, or premium finance agreement interest and other charges down to
28 10.5 percent a year [THE CONTRACT INTEREST LIMITATION SPECIFIED IN
29 AS 45.45.010(a)].

1 * Sec. 3. AS 06.45.060(5)(A)(vi) is amended to read:

2 (vi) the rate of interest may not exceed [THE
3 GREATER OF] 15 percent a year [OR THE RATE SPECIFIED BY
4 AS 45.45.010(b)];

5 * Sec. 4. AS 45.10.120(c) is repealed and reenacted to read:

6 (c) A seller or holder of a retail charge agreement, revolving
7 charge agreement or other retail charge agreement may charge, receive
8 and collect a service charge at a rate of 1.5 percent a month computed
9 on the outstanding balance from month to month. If the service charge
10 so computed is less than \$1 for any month, then the service charge is
11 \$1. The service charge may be computed on a schedule of fixed amounts
12 if as so computed it is applied to all amounts of outstanding balances
13 equal to the fixed amount minus a differential of not more than \$5
14 provided that it is also applied to all amounts of outstanding bal-
15 ances equal to the fixed amount plus at least the same differential.

16 * Sec. 5. AS 45.45.010(b) is repealed and reenacted to read:

17 (b) Parties to a contract or loan commitment may charge by
18 express agreement a rate of interest that does not exceed 24 percent a
19 year. A contract or loan commitment in which the principal amount
20 exceeds \$25,000 is exempt from the limitation of this subsection.

21 * Sec. 6. AS 44.33.020(11) is repealed.

22 * Sec. 7. This Act takes effect July 1, 1985.
23
24
25
26
27
28
29

*MOST FAVORED
LENDER
DOCTRINE*

* Sec. . AS 45.45.010(b) is amended to read:

(b) No interest may be charged by express agreement of the parties in a contract or loan commitment which is more than eight [FIVE] percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds \$25,000 is exempt from the limitation of this subsection.

RETAIL

* Sec. 4. AS 36.90.001(b) is amended to read:

(b) If the state fails to make a payment due the contractor under this section within 30 days after receiving a contractor's billing, the state shall pay interest to the contractor [UNDER AS 45.45.010(a)] on the amount due at the following rate of interest:

(1) 10.5 percent a year except as provided in (2) and (3) of this subsection; (2) if expressly agreed by the parties to a contract that has a principal amount of \$25,000 or less, a rate that is no more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day when the contract is made; (3) if expressly agreed by the parties to a contract that has a principal amount of more than \$25,000, any rate.

* Sec. 5 AS 36.90.001 (c) is amended to read:

(c) The state or a political subdivision of the state is liable to a contractor registered under AS 08.18 for interest [AT THE RATE PROVIDED IN AS 45.45.010(a)] on retainage on a contract for public works or public construction. Interest on retainage accrues from the date of approval of a pay estimate until the date of payment to the contractor. A contract provision purporting to waive the interest provisions of this subsection is void as contrary to public policy. The interest rate to be paid on the retainage is (1) 10.5 percent a year except as provided in (2) and (3) of this subsection; (2) if expressly agreed by the parties to a contract that has a principal amount of \$25,000 or less, a rate that is no more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on

the day when the contract is made; (3) if expressly agreed by the
parties to a contract that has a principal amount of more than
\$25,000, any rate.

A M E N D M E N T

Offered in the HOUSE

By Duncan

TO: HB 217

Page 2, line 10, following "(2)":

Insert "and (3)"

Page 2, line 11, following "parties,":

Insert "to a contract that has a principal amount of \$25,000 or less,"

Page 2, lines 14 and 15, delete the last sentence of the section and following "made":

Insert "; (3) if expressly agreed by the parties to a contract that has a principal amount of more than \$25,000, any rate."

Page 2, line 25, following "(2)":

Insert "and (3)"

Page 2, line 26, following "parties,":

Insert "to a contract that has a principal amount of \$25,000 or less,"

Page 2, line 28 through page 3, line 1 delete the last sentence of the section and following "made":

Insert "(3) if expressly agreed by the parties to a contract that has a principal amount of more than \$25,000, any rate."

Credit Card Rates for Loans over \$1,000

Group 1: No Limit

Arizona, Delaware, Idaho, Illinois, Montana, Nebraska, Nevada,
New Mexico, New York, Oregon, South Carolina, South Dakota, Virginia

Group 2: 30%

New Jersey

Group 3: 36% up to \$1,400.

27% \$1,400 - \$4,000

Louisiana

Group 4: 24%

D.C., Maryland

Group 5: 21%

Colorado, Indiana, Kentucky, Mississippi, Oklahoma, Rhode Island
Utah, Wyoming

Group 6: 18%

Alabama, Connecticut, Florida, Georgia, Hawaii, Iowa, Wisconsin
West Virginia, Washington, Vermont, Texas, Tennessee, Pennsylvania,
Ohio, Massachusetts, Maine, Michigan, Montana, New Hampshire,
North Carolina, North Dakota.

down 0.5
comparisons
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d wire reports

WS

Federal Express employees work "the sort" separating packages coming into the state on the firm's free package promotional deal to businesses that has swamped their Anchorage headquarters.

Bill would hike loan interest to 24%

By JIM ERICKSON
Daily News business reporter

Alaska bankers are seeking changes to state law that would allow lenders to charge more for small loans and consumer credit plans, such as charge cards.

But a state consumers group said this week some banks are already charging far more for certain loans than state law allows though a federal loophole in banking law.

Maureen Kennedy, executive director of the Alaska Public Interest Research Group (AKPIRG), said she found it "appalling" that the Alaska Bankers Association is lobbying for a measure now before a House committee that would allow lenders to charge up to 24 percent interest annually for loans of \$25,000 or less.

The current cap for the so-called "consumer loans," such as car or boat loans, is 13.5 percent.

The bill was introduced by Rep. Jim Duncan, D-Juneau, Drue Pearce, R-Anchorage, John Ringstad, R-Fairbanks, and H.A. "Red" Boucher, D-Anchorage. Pearce is a

former employee of the Alaska Bank of the North.

At the same time bankers are pushing for the bill, "they are ignoring state law and implementing wholesale increases in interest rates on consumer loans," she said.

For example, she said, First Interstate Bank is now charging 22 percent interest on loans under \$2,500.

"The smaller borrower, the one that can least afford it, is being hit hardest by the bank's belligerence," she said. Interest rates on loan amounts of more than \$25,000 are not regulated.

Derrell Smith, president of the Alaska Bankers Association, said at least one Alaska bank began exceeding state limits about five years ago. Others are increasingly following suit.

That's because a federal banking law known as the "most favored lenders doctrine" allows federally-chartered banks to charge as much as other Alaska lenders, such as small loan companies, Smith said.

Under the state's Small Loan

Act, national banks based in Alaska can charge up to 36 percent annual interest on loans of \$850 or less, and 24 percent annual interest on the principle balance of a loan between \$850 and \$10,000, said Dave Lawer, a local lawyer whose firm recently reviewed how the most favored lenders doctrine applies in Alaska.

The doctrine extends to state-chartered banks as well, said Willis Kirkpatrick, director of the state Division of Banking.

The state's largest bank, National Bank of Alaska, last year began charging 15 percent annual interest on auto loans and 17.5 percent on other consumer loans. The rate of small loans from Alaska Statebank increased two weeks ago to 14.5 percent, from 13 percent.

Kennedy said AKPIRG is considering a court test of the legality of the most favored lenders doctrine — and whether Alaska banks can use it to circumvent state law.

AKPIRG this week asked the

remarks. Valdez could not be reached for comment Wednesday.

At issue are statements made by Valdez to the Fairbanks Daily News-Miner, which were published in an Associated Press article that appeared last week in the Anchorage Daily News.

In July 1983, J.H. Money-maker Construction Inc. and Hub City Construction Inc., owned by Andrews, were contracted by ASHA to build the 40-unit senior citizen housing project in Fairbanks. The project was shut down later that year and again in 1984 because of structural design deficiencies, the lawsuit said.

Money-maker and Andrews eventually terminated their contract with ASHA because of the prolonged shutdowns and other problems with the design of the structure, Money-maker officials said recently.

Money-maker-Hub City's dispute with ASHA over the project is the subject of a separate multimillion dollar lawsuit that is pending in Anchorage Superior Court.

Meanwhile, the Fairbanks newspaper began an investi-

See Page D-4, BILL

See Page D-2, ASHA

Reorganized North Pacific to fly again

By HAL BERNTON
Daily News business reporter

A reorganized North Pacific Airlines plans to resume commuter flight service later this month, according to a spokesman for the carrier's owner, Nondalton Native Corp.

North Pacific suspended all flight service on Feb. 14, 10 days after one of its commuter planes crashed near Soldotna and killed nine people.

Bill Bellows, a public relations officer representing Nondalton, said details of the reorganization plan will be released within two weeks.

Luxury line fights to stay airborne

The Associated Press

WASHINGTON — Regent Air, the "all-frills airline" that offers everything from an in-flight beauty parlor to private compartments, is struggling to stay airborne — in-part because of government concern over alleged links between its founders and organized crime.

The Transportation Department said Wednesday it has told the airline it could fly for



Bill would allow lenders to hike loan interest to 24 percent

Continued from Page D-1

Consumer Protection Section of the state Attorney General's Office to investigate the matter, she said.

According to state and federal officials, the state usury laws are not enforced by regulators. In most instances, consumers must press action in court if they feel a bank has violated the law.

"We don't step into the shoes of the borrower," said Debra Chong, a senior attorney for the Comptroller of the Currency in San Francisco. "The borrower has to sue on their own."

Smith said the apparent increasing willingness by banks to charge more than state law allows "puts a different complexion on the bill."

Although "we'd feel comfortable using the most favored lenders doctrine" with-

out changes to state law, Smith said, the provision does not go far enough.

"My personal preference is to completely deregulate," he said.

Raising the lending cap to 24 percent is a good compromise, he said.

"Obviously, (bankers) are trying to get the law changed so there is never any hint of them being in violation of state law," said Gary Jenkins, director of governmental relations for the National Federation of Independent Business/Alaska.

The 3,000-member federation opposed the bill, because small businessmen fear banks would begin charging more for small business loans of \$25,000 or less.

The measure is backed by the Alaska Bankers Association, the state Chamber of Commerce, and the Alaska Retail Association.

A hearing on the bill was held Tuesday by the House Special Committee on State Loans. Another hearing is scheduled for 3:30 p.m. today in Juneau. The hearing is not going to be teleconferenced.

The bill has been referred on to the House Judiciary Committee.

Bank officials say national deregulation has forced them to pay more for deposits. But Alaska's "usury" law prevents corresponding increases in loan charges and cut profit margins.

"Although banks have been profitable the last few years, the next few years don't look so good unless we try to match revenue to expenses," Smith said.

Alaska retailers and bankers have been lobbying to raise or eliminate interest rate caps since 1980, because of the increasing costs of servicing small loans.

Besides raising the ceiling on small loans, the bill introduced this year also would raise allowable interest rates for credit card account balances above \$1,000 from 10.5 percent to 18 percent.

Without the changes, banks are not willing to make small consumer loans, according to lenders.

Alaska's usury laws are among the most restrictive in the nation, bankers said. Almost all states have limits of 18 percent or higher; 13 states have eliminated caps entirely.

The industry argues that consumer credit would be more available if restrictions were eased.

However, Kennedy of AK-PIRG said that "has clearly not been the case" in states where deregulation has occurred.

Alyeska al

Continued from Page

problems with high water content in the oil.

Another independent Anita L. Hartman of the bolt firm, said she actually see where the oil came from. But, she didn't think it possible to substitute samples with knowledge.

Two employees of the Petroleum Inc., which owns the refinery at North, rebutted testimony from former MAPCO chemist indicated high water level found in oil delivered to refinery.

James H. Boltz, manager of the refinery, said the content was high at one time. But Alyeska officials

ALASKA BUSINESS EXECUTIVE DEVELOPMENT

**DON'T
LET IRS TAKE
— SHELTER
WITH
TAX STRATEGIES THAT**

March 14, 1985
Hotel Captain Cook
5:00 - 10:00





ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

March 13, 1985

Rep. John Sund
Chair, House Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Rep. Sund:

I wanted to follow up my earlier letter regarding HB 217. In the last year or so, additional information has become available bolstering our arguments that the Committee should not pass HB 217 out.

Will competition keep rates down?

New York state senator Franz Leichter completed a study in 1983 evaluating the effects of deregulation of the banking industry in New York in 1980. This study follows up the work done by the NY Banking Dept. in 1981. Leichter's study, entitled, Deregulation of Consumer Lending in New York: The Rates Went up but Never Came Back Down, concludes exactly that.

In 1980, at deregulation, the prime rate was 17.7%, and the interest rate on an unsecured loan averaged 13.21%. In January of 1981, the prime was at 20.50% while the average interest rate on an unsecured loan had climbed up to 18.21%. In November of 1982, however, the prime declined by nearly 50% to 12%, but interest rates inched up to 18.35%. By February of 1983, the prime dropped further to 10.5%, yet loan interest rates continued to increase up to 19%. Credit card rates followed roughly the same pattern. The pattern to be drawn is not that interest rates vary with the cost of money, but that regardless of what happens to the prime, interest rates will trend upward in a deregulated market (or effectively deregulated market, as we are proposing here).

Will increased rates increase availability of credit?

I have not seen any additional information addressing the credit availability issue. On the other hand, I have not heard any bankers resorting to that argument in the last year either.

Nevertheless, in 1981, the NY Banking Dept. study concluded that increased rates did not transfer into increased availability. In fact, 93% of banks increased their rates substantially just after deregulation, but did not loosen new-borrower standards.

Are bank profits being squeezed unfairly in today's market?

There has been much discussion recently of record bank profits. In April of 1984, the Daily News reported that 4 Alaskan banks placed among the 10 most profitable in the nation. An article within the last 3 months reemphasized the banks' profitability.

Leichter's study also addresses the cost of money issue:

...(I)t is true that money is costing the banks more than it once did, but it is also true that the rates on most of the major sources of borrowed funds has declined considerably during the past several months (this is mid-'83). Commercial paper (60 day) was at an 8.5% rate in early March, several points below the year earlier level, and another major source of funds, "federal funds" was at 8.35% on March 14th as compared with 14.2% one year earlier. Two year Treasury notes yielded 9.66% on March 16th, down from 14.14% a year earlier. Generally, the overall cost of all the long-term and short-term money the banks borrow has been under 10% for several months, and with most consumer lending at 17% and above, the difference between the cost of the money borrowed by the bank and the money lent to the consumer by the bank has been from 7% to 10%. Traditionally, this gap has been around 4% or 5%.

The report also notes that, "(t)he spread between the cost of funds and the prime rate is larger than normal, according to a February 24, 1983 American Banker article, which found that, 'over the past six years that spread has almost doubled.'"

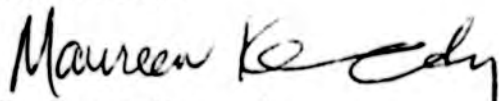
A Newsweek article of a year ago pointed out that banks are bringing in additional revenues through miscellaneous charges and fees. Our own Anchorage Guide to Banking Services bears this out. Security National now charges \$25 for a stop payment order, up from \$15 a year ago. Alaska Pacific Bank charges up to \$50 for overdrafts, up from \$15 a year ago. Minimum balances are increasing, monthly fees and per check charges are increasing. Consumers are paying the price and the banks are earning record profits.

Finally, banks are violating the state interest rate ceiling right now. In doing research on HB 217, I found that NBA has been charging more than the specified 13.5% rate on consumer loans for a year and a half, and several other banks in town have just this week begun charging the higher rates. They are relying on the federal "most favored lender" doctrine and a 1981 state AG opinion in doing so. The move is subject to legal challenge, and our attorneys are examining the issue.

I find it particularly offensive that the banking industry is asking the legislature to authorize an increase in the cap at the same moment it is violating the cap previously set by the legislature.

If I can answer any questions, please be sure to give me a call.

Sincerely,

A handwritten signature in cursive script that reads "Maureen Kennedy". The signature is fluid and stylized, with the first and last names being clearly legible.

Maureen Kennedy
Director

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 217

Title: An Act relating to
interest rates

Sponsor: Duncan, et al.

Requestor: House Special Committee on Loans Banking and Securities

Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: _____

Public Protection

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Attach a separate page if necessary

Prepared By: N. T. Lusk

Phone: 465-2521

Division: Banking, Securities and Corporation

Date: _____

Approved by Commissioner: Loren H. Lounsbury

Date: 3/7/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

1736Wa22285a

7/1/84



ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3881

March 10, 1985

Rep. John Sund
Chair, Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Rep. Sund:

I understand that HB 217 will come before your committee on Tuesday. Although the new bill is a vast improvement over last year's deregulation bill, AkPIRG continues to be opposed to the final section.

As I understand it, the first two sections embody housekeeping changes, in that the contract interest limitation specified in AS 45.45.010 is 10.5% a year.

Sections 4 and 5 seem reasonable. We are not opposed to Section 6, which would increase the interest rate on balances above \$1,000 from 10.5% up to 18%. Although passage of such a change will entail additional costs to consumers, we feel that consumers eligible for credit cards carrying a monthly balance over \$1,000 should be sophisticated enough to "know what they're getting into." This section is also a vast improvement over last year's bid to increase credit card rates from 18% to 24% across the board.

Section 7, however, is a problem. The current cap on interest rates is so far below the proposed 24% cap that we are, in effect, not raising the cap but deregulating interest rates again. And in that case, the arguments we put forth last year apply to this year's bill as well.

Rates will go up. Studies in states around the country that have deregulated or increased ceilings indicate that rates increase 3 or 4%. An ABA study published early in 1983 examined installment credit increases in Montana, Mississippi, NJ and Ohio. Just after deregulation, rates increased between 1/2% (Ohio) and 3 3/4% (NJ).

The bankers argue that rates later came down, so its "not the end

of the world for consumers." But by late '82, rates were still between 1 1/2% and 2 3/4% above their original levels. The prime averaged 10.81% through '82, down from a high of 20.5% in mid '81. Overall interest rates in NJ increased between 6 and 7% just after ceilings were lifted in 1981--they hadn't come down by mid 1983. In Maryland, interest rates on credit cards went up and stayed up 3% after the ceiling was lifted in '82. In NY, rates on credit cards increased nearly 6% shortly after deregulation. By late '82, rates on other types of loans increased as much as 6 1/2%.

Consumers will suffer. Extrapolating from conservative national figures, Alaskan consumers will pay \$6.4 million more to banks for each 1% increase in interest rates on installment credit alone. Assuming rates go up 3%, we're talking about a \$19.2 million transfer from Alaskan borrowers to lenders--just on installment credit. As I've already demonstrated, banks will not compete, thereby keeping rates in check. A "pack mentality" is at work, and even bankers say that increased ceilings "give us something to shoot for."

Consumers will not gain greater access to credit under HB 217. The NY State Banking Dept. study found that 93% of commercial banks increased rates substantially, but did not loosen new-borrower standards. Eighty three percent did not increase access to their own customers. The study indicates similar behavior for credit unions, finance companies, S&Ls and retailers.

Bankers will needlessly increase their profits. Business Week reported last August that banking nationwide was the 10th best profitmaking industry with a 34% increase in profits over 1982. In December, the magazine reported a 15.2% increase in earnings per share for banks. Consumer installment credit increased by \$1 billion between March of '82 and March of '83. Closer to home, Alaska Business reported that the six largest Alaskan banks had profit to earnings ratios ranging from 4.73 to 12.00. All the state's banks increased earnings through 1982; many posted record earnings. Total assets and deposits increased more than 25% according to the June issue; Security National doubled its assets while its deposits increased by 137%. The bankers I've spoken with agree that regulatory relief is not necessary now--they want to hedge their bets against a repetition of 1980's economic conditions.

Careful adjustments to interest rate laws are appropriate when economic conditions demand them. For instance, last year, several witnesses at the hearing in Anchorage testified that it might be appropriate to widen the margin between the discount rate and the interest rate limit (i.e., the limit might be equal to 8 percentage points above the discount rate rather than only 5). We feel we have not yet reached that point.

We urge you not to pass HB 217 out of committee at this time. I found out about today's hearing by chance this morning and have not yet had time to look at the bill extensively or in research new developments since last spring.

Sincerely,

A handwritten signature in cursive script that reads "Maureen Kennedy". The signature is written in dark ink and is positioned above the typed name.

Maureen Kennedy
Director



Monday marketplace

Minneapolis Star and Tribune

Monday
January 28/1985

1M

DEPT. 766 W
FEB 25 1985



**Dick
Youngblood**

Credit sales are a cost for retailers

I've been a union man most of my working life, but dagnab it, there are times when I think that no one can ignore economic reality with more contrary, wrongheaded predictability than a labor leader bent on saving us all from corporate greed.

One of those times came a few days ago when Minnesota's major retailers asked the Legislature to raise the interest-rate ceiling on consumer credit from 16 percent, lowest in the nation, to 18 percent a year.

Far from trying to swell their profits on charge accounts, the retailers said, what they'd sort of like to do is cut down a mite on the millions of dollars in losses they post on consumer credit each year.

Their blandishments didn't faze Bernard Brommer, secretary-treasurer of the powerful Minnesota AFL-CIO, whose knees began to jerk almost immediately: "We've opposed (a higher rate ceiling) historically," he grumped. "Increasing interest rates for consumers and working people ... I just don't think it's very wise."

The way he sees it, apparently, retailers can afford to absorb those credit losses a whole lot easier than us working stiffs. Unfortunately, this is yet another example of Big Labor's enduring effort to rewrite the economics textbooks, which assure us that there is no such thing as a free lunch.

There sure isn't: My exhaustive investigation uncovered no retailing executives who are taking pay cuts to offset their employers' losses on consumer credit. Ditto for shareholder dividends.

Instead, the credit losses are being translated into higher retail prices paid by the very working people the AFL-CIO aims to protect, including the 20 to 30 percent of us who rarely or never use credit cards.

Actually, Brommer isn't the only one jerking his knees. Our resident populist, who manages at times to overcome his rather extensive economics training, began muttering about the avarice of retailers who try to raise interest rates even as a declining prime rate cuts their cost of money.

"What about the poor guy who has to buy on credit?" he demanded.

Let's go through this economics lesson just once more: Just as Social Security isn't designed to lift the elderly out of poverty and commodity programs cannot save the small farmer, retailers shouldn't be expected to solve the problem of the low-income consumer. These are issues best addressed by sharply focused programs that eliminate as many middlemen as possible.

My colleague had a point about timing, however — interest rates have fallen a couple of points in the past year. I sought an explanation from Dayton Hudson Corp., a solid corporate citizen with a reputation for sensitivity to the needs of the consumer. (It has a no-questions-asked policy on merchandise returns, and its Target chain spends \$750,000 a year testing toys and other products for safety.)

What I got from James Dirlam, vice president of credit sales at Dayton's, were some impressive numbers: In Minnesota during 1983, the combined credit operation of Dayton's and Target spent \$8.3 million for operating expenses (payroll, postage, supplies), \$2.7 for bad debts and \$17 million for interest on the cash used to finance accounts receivable.

Customer finance charges raised just \$18.4 million, however, leaving their Minnesota credit operations \$9.6 million in the red!

Even if the interest ceiling had been 18 percent instead of 16, Dirlam said, the increased revenue from finance charges would have trimmed the loss only to \$7.3 million.

Moreover, the 1983 loss was calculated on the basis of a 12 percent interest rate on the cash used in credit operations, he said. Even if the rate had been 10 percent, one-half point below the current prime rate, the loss still would have been about \$4.5 million.

That strikes me as quite a lot to ask a retailer to pay for the privilege of granting us credit.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

RECEIVED
FEB 14 1985

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM

February 14, 1985

SUBJECT: Interest rates
(Work Order No. 14-0378)

TO: Representative Jim Duncan

FROM: Theresa L. Bannister *TB*
Legislative Counsel

You has requested this office to prepare a sectional analysis of Work Order 14-0378, relating to interest rates.

Section 1 of the bill sets 10.5% as the annual interest rate to which the Commissioner of Commerce and Economic Development can reduce the contracts of small loan licenses that violate the interest and charges provisions of the Alaska Small Loans Act. (AS 06.20.010 - .920).

Section 2 of the bill sets 10.5% as the annual interest rate to which the Commissioner of Commerce and Economic Development can reduce the contracts of premium financing lenders that violate the licensing, advertising, disclosure, contents, interest, prepayment and delinquency charge provisions of the Premium Financing Act (AS 06.40.010 - .190). That act covers the financing of loans to purchase insurance policies.

Section 3 sets at 15% per year the maximum interest rate that a state-chartered credit union can charge for loans to members.

Section 4 of the bill amends AS 36.90.001(b) to maintain the present interest rate that the state must pay to a public construction contractor on late payments. The present rate is 10.5% a year or, if expressly agreed to by the parties, up to 5 percentage points above a floating Federal Reserve rate.

Section 5 of the bill amends AS 36.90.001(c) to maintain the present interest rate that the state must pay to a

Representative Jim Duncan
February 14, 1985
Page 2

public construction contractor on the retainage on a public construction contract. (The present rate is the same given in Section 4 of this analysis.)

Section 6 of the bill sets at 18% per year the maximum interest rate that sellers can charge on a charge account.

Section 7 of the bill sets at 24% per year the maximum interest rate that parties to a contract or loan agreement for less than \$25,000 can set by express agreement. (Over \$25,000, there is no limit.)

Section 8 of the bill deletes the requirement that the Department of Commerce and Economic Development furnish certain organizations such as banks, with the maximum annual interest rate allowed under AS 45.45.010(b) each quarter.

Section 9 of the bill makes the bill effective July 1, 1985.

TLB:ojb
J11/096

MEMORANDUM

State of Alaska

TO: Julius Brecht
Banking & Securities
Dept. of Commerce and Economic
Development

DATE: January 2, 1981

FILE NO: ~~J-66-432-81~~ 166-946-81

TELEPHONE NO: 465-3675

FROM: WILSON L. CONDON
ATTORNEY GENERAL

SUBJECT: Depository Institutions
Deregulation and Monetary
Act of 1980.

By: 
Leslie J. Ludtke
Assistant Attorney General

You have requested this department's opinion regarding interest rates applicable to state chartered credit unions under the Depository Institutions Deregulation and Monetary Control Act of 1980. (Public Law 96-221) You have asked whether 12 U.S.C. §1757(5)(A)(vi) (1980 Deregulation and Monetary Control Act §310) applies to state chartered credit unions. We conclude that it does not.

Section 1757 of the federal Credit Union Act applies only to federally chartered credit unions. 12 U.S.C. § 1757 states that "A federal credit union . . . shall have power." The term "federal credit union" is defined under 12 U.S.C. § 1752 as "a cooperative association organized in accordance with the provisions of this chapter . . ." Therefore, the provisions of 12 U.S.C. § 1757 do not apply to state chartered credit unions. 12 U.S.C. § 1757(5)(A)(vi) provides in part:

(vi) the rate of interest may not exceed 15 per centum per annum on the unpaid balance inclusive of all finance charges, except that the Board may establish

(I) after consultation with the appropriate committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies, an interest rate ceiling exceeding such 15 per centum per annum rate, for periods not to exceed 18 months, if it determines that money market interest rates have risen over the preceding six-month period and that prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth;

January 2, 1981

Recently, the National Credit Union Administration (NCUA) Board raised the interest rates under this section to 21 percent. This rate supercedes the otherwise applicable rate established in 12 U.S.C. § 1785(g)(1) (1980 Deregulation and Monetary Control Act § 523). In relevant part, this section states:

(g)(1) If the applicable rate prescribed in this subsection exceeds the rate an insured credit union would be permitted to charge in the absence of this subsection, such credit union may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this subsection, take, receive, reserve, and charge on any loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State, territory, or district where such credit union is located, whichever may be greater.

Additionally § 528 of the 1980 Deregulation and Monetary Control Act provides that if one or more provision of the Act, or of any other law, applies to the same loan, the loan may be made at the highest applicable interest rate. The issue raised is therefore whether state chartered credit unions may charge 21 percent interest as authorized by 12 U.S.C. § 1757(5)(A)(vi) or whether state chartered credit unions are limited to the rate set by 12 U.S.C. § 1785 when federally chartered credit unions are permitted to charge a higher rate under 12 U.S.C. § 1757(5)(A)(vi). Our conclusion that state chartered credit unions are not permitted to charge the higher rate established by the NCUA Board under 12 U.S.C. § 1757(5)(A)(vi) is based on three factors.

First, 12 U.S.C. § 1757 is not directly applicable to state chartered credit unions. This section sets out the powers which a federal credit union may exercise. The NCUA regulates the activities of federal credit unions by adopting rules to carry out this section. The activities of state chartered credit unions are not regulated by the NCUA and state chartered credit unions are not subject to the limitations nor are they granted the powers of federal credit unions under 12 U.S.C. § 1757. The conference report on the 1980 Deregulation and Monetary Control Act reinforces the conclusion that state chartered credit unions are not subject to 12 U.S.C. § 1757.

The report states in part:

The conferees adopted a provision which would allow federal credit unions to raise their loan rates up to an annual rate of 15 percent subject to rules issued by the National Credit Union Administration. The legislation would also permit the National Credit Union Administration to raise the loan ceiling above 15 percent for periods not to exceed 18 months, after consultation with appropriate Congressional committees, the Department of Treasury, and the other federal financial regulator agencies. 1980 Deregulation and Monetary Control Act. CCH Reports, paragraph 2036, pg. 211.

State chartered credit unions are, however, subject to regulation under 12 U.S.C. § 1785 which sets out the requirements governing federally insured credit unions. State chartered credit unions are federally insured. The Conference Report on 12 U.S.C. § 1785, 1980 Deregulation and Monetary Control Act § 523, states in part:

State usury ceilings on all loans made by Federally insured depository institutions (except national banks), and small business investment companies will be permanently preempted...

Because state chartered credit unions are federally insured depository institutions, the preemptive interest rate set out in 12 U.S.C. § 1785(g)(1) applies.

Secondly, 12 U.S.C. § 1785(g)(1) permits state chartered credit unions to charge interest at a rate of "not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State...where such union is located..." The phrase "at the rate allowed by the laws of the State" has been interpreted to mean at the highest rate allowed by the state to be charged by any lender for a particular type of loan.

For example, small loan licensees are permitted to charge a higher rate of interest under AS 06.20 for loans under \$25,000 than other financial institutions may charge for these same loans.

January 2, 1981

Therefore, 12 U.S.C. § 1785(g)(1) would permit a federally insured state chartered credit union to charge the same rate as the small loan licensee for a loan under \$25,000. 1/

The phrase "at the rate allowed by the laws of the State" is derived from the National Bank Act, 12 U.S.C. § 85, and is commonly referred to as the "most favored lender" doctrine. This doctrine originally was established to ensure parity between national banks and state chartered financial institutions. It allows a national bank, or in this instance a federally insured, state chartered credit union, to charge the same interest rate as any state chartered or licensed financial institution would be permitted to charge on a particular type of loan. 2/ The national bank, or state chartered credit institution, is granted parity by being permitted to charge the highest rate allowed for the state's most favored lender. The doctrine therefore focuses on the type of loan offered rather than establishing parity with the same type of financial institution. 12 U.S.C. § 1785(g)(i) incorporates this concept of most favored lender. It does not, however, establish a state chartered credit union's right to parity with a federally chartered credit union.

1/ The fact that a credit union is not licensed under AS 06.20 would not alter this result. See n.2, below.

2/ In Marquette Nat'l Bank v. First of Omaha Corp., 439 U.S. 299, 314 (1978) the Court stated that the "most favored lender" doctrine had "been interpreted for over a century to 'give advantages to National banks over their state competitors'." 12 C.F.R. § 7.7310 incorporates the "most favored lender doctrine", as expressed by case law, into the regulations of the Comptroller of the Currency. 12 C.F.R. § 7.7310 reads:

§7.7310 Charging interest at rates permitted competing institutions . . .

(a) A national bank may charge interest at the maximum rate permitted by State law to any competing State-chartered or licensed lending institution. If State law permits a higher interest rate on a specified class of loans, a national bank making such loans at such higher rate is subject only to the provisions of State law relating to such class of loans that are material to the determination of the interest rate. For example, a national bank may lawfully charge the highest rate permitted to be charged by a State-licensed small loan company or morris plan bank, without being so licensed.

January 2, 1981

The "most favored lender" doctrine refers to the highest permissible rate under state law. The authority to charge 21 percent on loans, under 12 U.S.C. § 1757(5)(A)(vi) is not a right granted by state law, but a right given by federal law. No law of Alaska specifically allows any financial institution to charge on a loan. Nor does state law incorporate any maximum rates set under federal law in establishing allowable state maximums. Therefore, although the concept of most favored lender is incorporated into 12 U.S.C. § 1785(g)(i), state chartered credit unions are not granted parity with federal credit unions. To construe the phrase "at the rate allowed by the laws of the State" to include the rate permitted by 12 U.S.C. 1757(5)(A)(vi) would constitute a misapplication of the "most favored lender" doctrine.

Third, Section 528 of the 1980 Deregulation and Monetary Control Act does not authorize state chartered credit unions to charge the rate set by the NCUA Board under 12 U.S.C. § 1757 (5)(A)(vi). This section reads:

Sec. 528. In any case in which one or more provisions of, or amendments made by, this title, section 529 of the National Housing Act, or any other provision of law, including section 5197 of the Revised Statutes (12 U.S.C. 85) apply with respect to the same loan, mortgage, credit sale, or advance, such loan, mortgage, credit sale, or advance may be made at the highest applicable rate.

This section permits financial institutions to charge interest at the "highest applicable rate". Because we have concluded that 12 U.S.C. §1757(5)(A)(vi) does not apply to state chartered credit unions, Section 528 does not by its terms permit state chartered credit unions to charge a higher rate of interest than what would otherwise be permitted by 12 U.S.C. § 1785(g)(1). Section 528 authorizes the lender to charge the higher rate only when "one or more provisions . . . apply with respect to the same loan". 12 U.S.C. § 1757(5)(A)(vi) does not apply to loans made by state chartered credit unions.

It is our conclusion that state chartered credit unions are limited to charging the maximum interest rate established by 12 U.S.C. § 1785(g)(1). Although this provision incorporates the "most favored lender" doctrine, it does not grant state chartered credit unions most favored lender status with regard to interest rates set by federal law.

January 2, 1981

Additionally, it should be noted that the reference to state interest ceilings in 12 U.S.C. § 1785(g)(1) incorporates the relevant state law as to how interest may be computed and what charges are considered interest. 3/

LJL:wjp

3/ See First National Bank in Mena v. Nowlin, 509 F.2d 872
(8th Cir. 1975)

Section 1 amends Chapter 20, Alaska Small Loans Act. of the Banks and Financial Institutions Statutes.

AS 06.20.320 Civil and Criminal Penalties is amended by changing the penalty for violations of:

- AS 06.20.230. Maximum Interest Permitted
- AS 06.20.250. Computation and Payment of Interest
- AS 06.20.260. Charges Prohibited
- AS 06.20.280. Maximum Charge by Licensee
- AS 06.20.285. Open-end Loans
- AS 06.20.287. Credit Insurance on Open-ended loans
- AS 06.20.290. Purchase of Wages for \$25,000 or less
- AS 06.20.300. Maximum Charges By nonlicensee on Loans
- AS 06.20.310. Illegal Interest Rate

Currently repeat violators of the above sections may be required by the Commissioner to Adjust the loan contract interest or other charges down to the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 10.5 percent a year.

Section 2 amends Chapter 40. Premium Financing Act. of the Banks and Financial Institutions Statutes.

AS 06.40.160. Civil and Criminal Penalties is amended by changing the penalty for violations of:

- AS 06.40.010. License Required
- AS 06.40.020. Applicability
- AS 06.40.090. Advertising of Misleading Statements Prohibited; Disclosure of Interest
- AS 06.40.110. Contents of Premium Finance Agreement
- AS 06.40.120. Maximum Interest Permitted: Prepayment, Refund
- AS 06.40.130. Delinquency Charge

Currently repeat violators of the above sections shall at the option of the Commissioner adjust the contract, loan, or premium finance agreement interest and other charges down to the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 10.5 percent a year.

Section 3 amends Chapter 45. Alaska Credit Union Act. of the Banks and Financial Institution Statutes.

AS 06.45.060. Powers of a Credit Union is amended by changing the maximum rate of interest.

Currently the rate of interest may not exceed the greater of 15 percent a year or the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 15 percent per year.

Sections 4 and 5 amend Chapter 90 Miscellaneous Provisions. of the Public Contracts Statutes.

AS 36.90.001. Public Construction Contract Payments is amended to avoid changing the rate of interest the state currently pays contractors on amounts not paid within 30 days of receiving a contractors billing and the rate paid by the state or a political subdivision on retainage on a contract for public works or public construction.

Section 6 amends Chapter 10. Alaska Retail Installment Sales Act. of the Trade and Commerce Statutes.

AS 45.10.120. Extent of Service Charge is amended by changing the rate of interest that may be charged on retail charge agreements, revolving charge agreements or other retail charge agreements.

Currently the interest that may be charged on outstanding balances of less than \$1000. is 1.5 percent per month but on balances exceeding \$1000. the rate is one twelfth of the annual 12th Federal Reserve rate plus five percentage points on that portion over \$1000. The amendment will fix the rate at 1.5 percent a month on the outstanding balance from month to month.

Section 7 amends Chapter 45 Trade Practices. of the Trade and Commerce Statutes.

AS 45.45.010 Legal Rate of Interest is amended by changing the maximum rate of interest charged by express agreement of the parties in a contract or loan commitment on principal amounts up to \$25,000.

Currently the rate is the 12th Federal Reserve rate plus five percentage points. The amendment will make the maximum rate 24 percent a year on principal amounts up to \$25,000.

Section 8 Repeals the requirement for the Department of Commerce and Economic Development to notify lending institutions, title insurance companies, mortgage companies and clerks of the respective superior courts of the 12th Federal Reserve District discount rate that is to be used during that calendar quarter for computing the maximum rate of interest. Section 7 will amend the rate to a fixed 24 percent a year.

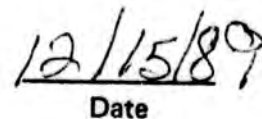


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#50:26

ALASKA POWER AUTHORITY
FOUR DAM POOL
OBJECTIVES IN NEGOTIATIONS

- 1) Form the foundation for a statewide energy program for Alaska;
- 2) Establish debt service so that rate shock is not experienced by the communities;
- 3) Establish entry rates for the communities at no higher than their avoided cost; and
- 4) Establish long-term rates which benefit the communities as well as provide a return to the state.

3/4/85

MEMORANDUM

TO: Rep. John Sund, Chair,
House Special Committee on Loans

FROM: John Hartle, AA *JH*

RE: Analysis of HB 219 (Hydro)

The purpose of this bill is to set out in law terms for the \$196 million loan from the Department of Commerce and Economic Development to the Alaska Power Authority which was appropriated last year to take out the short term bonds issued to complete construction of the four dam pool hydroelectric projects. The Department currently has broad discretion to set the terms of loans from the Power Development Revolving Loan Fund, but agreement has not been reached with the four dam pool communities.

The bill is based on the power sales proposal from the communities and will lead to long term power sales agreements if enacted. It adds a new subsection to AS 44.33.620 (attached) - terms for Power Development Loans. This subsection specifically addresses loan terms only for the initial project (as described in AS 44.83.398(a), "initial project" is the four dam pool).

The bill does not constrain the Department of Commerce's flexibility now in law for setting terms for future projects (Bradley, Susitna, etc.). In HB 219 we avoid interfering with the Department's discretion in setting the terms of loans for those projects.

Sectional Analysis:

Section 1: This section expands the definition of "qualified utility" to include joint operating agencies. A joint operating agency is an instrumentality of two public utilities owned and operated by municipalities. The primary purpose of this section is to allow Wrangel and Petersburg to jointly operate the Tyee Hydroelectric Project, without subjecting them to economic regulation by the APUC. There may be other communities in the state with the same needs.

Section 2: This section just adds the words "Except as provided in (d) of this section." It also shows current law setting loan terms.

Section 3: The new subsection. (1) Sets the loan terms to provide for an interest rate not to exceed four percent, fifty-year maximum term, forty-year amortization period.

(2) Sets the payment rate per kilowatt hour for the debt service component of electric rates. The rate is based on spreading the debt service payment over the total amount of electricity offered by the

project for sale. This will produce a fixed debt service rate for the life of the loan, subject to the "ramping" provision in (3).

(3) Allows repayment to be adjusted during the first five years to provide a "ramp up" in rates, avoiding a severe rate shock. Interest deferred during the first five years is added to the principal balance and scheduled for full repayment in later years.

(4) Provides that any principal not paid under subsection (2) be paid off, with interest, during the last ten years of the loan terms.

Section 4: Adds regional electric authority to the definition of "Qualified Utility" for APUC certification. (Same purpose as section 1.)

FOUR-DAM POOL DEBT SERVICE

ALASKA POWER AUTHORITY

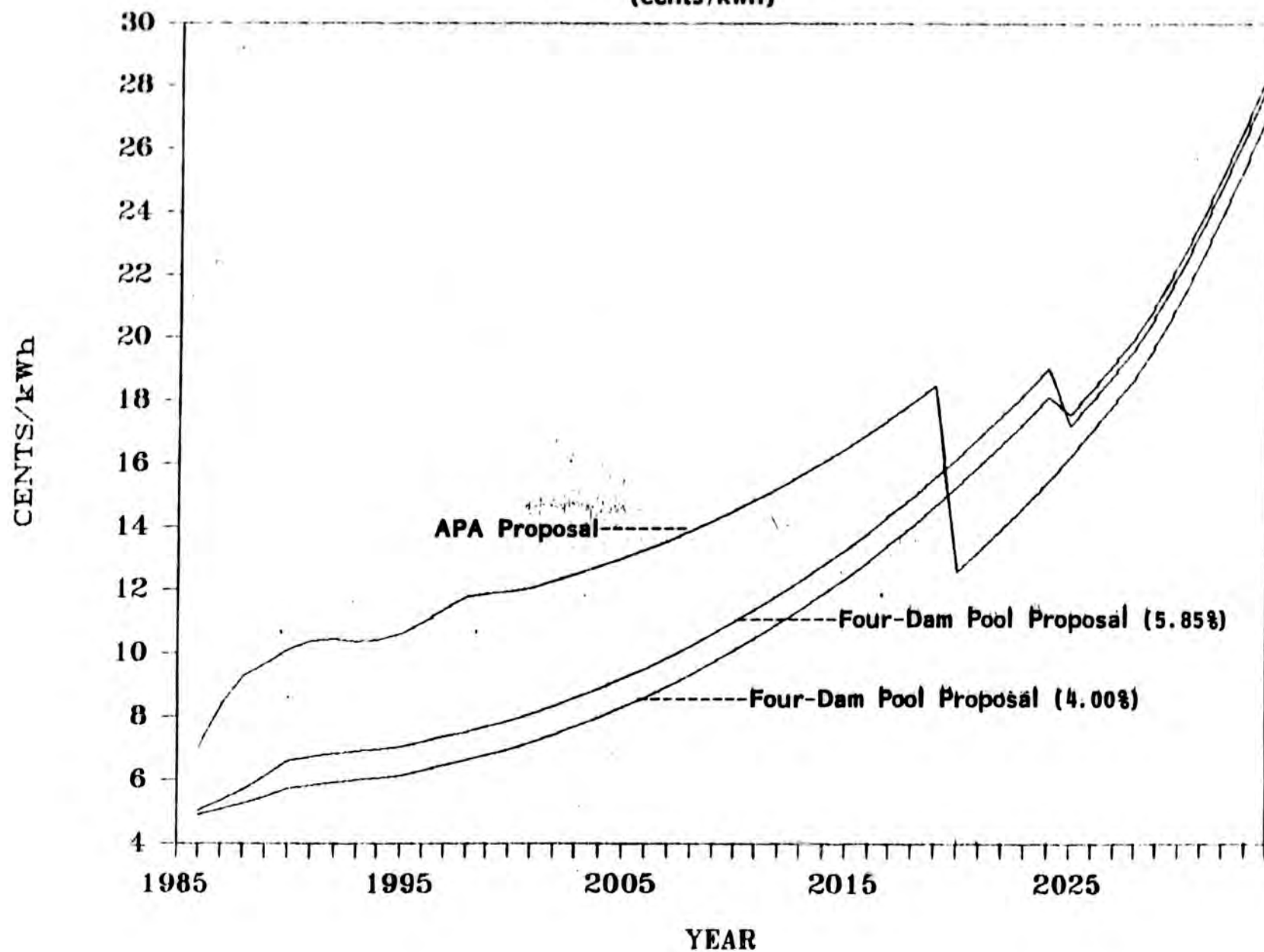
VERSUS

PARTICIPANTS' PROPOSAL

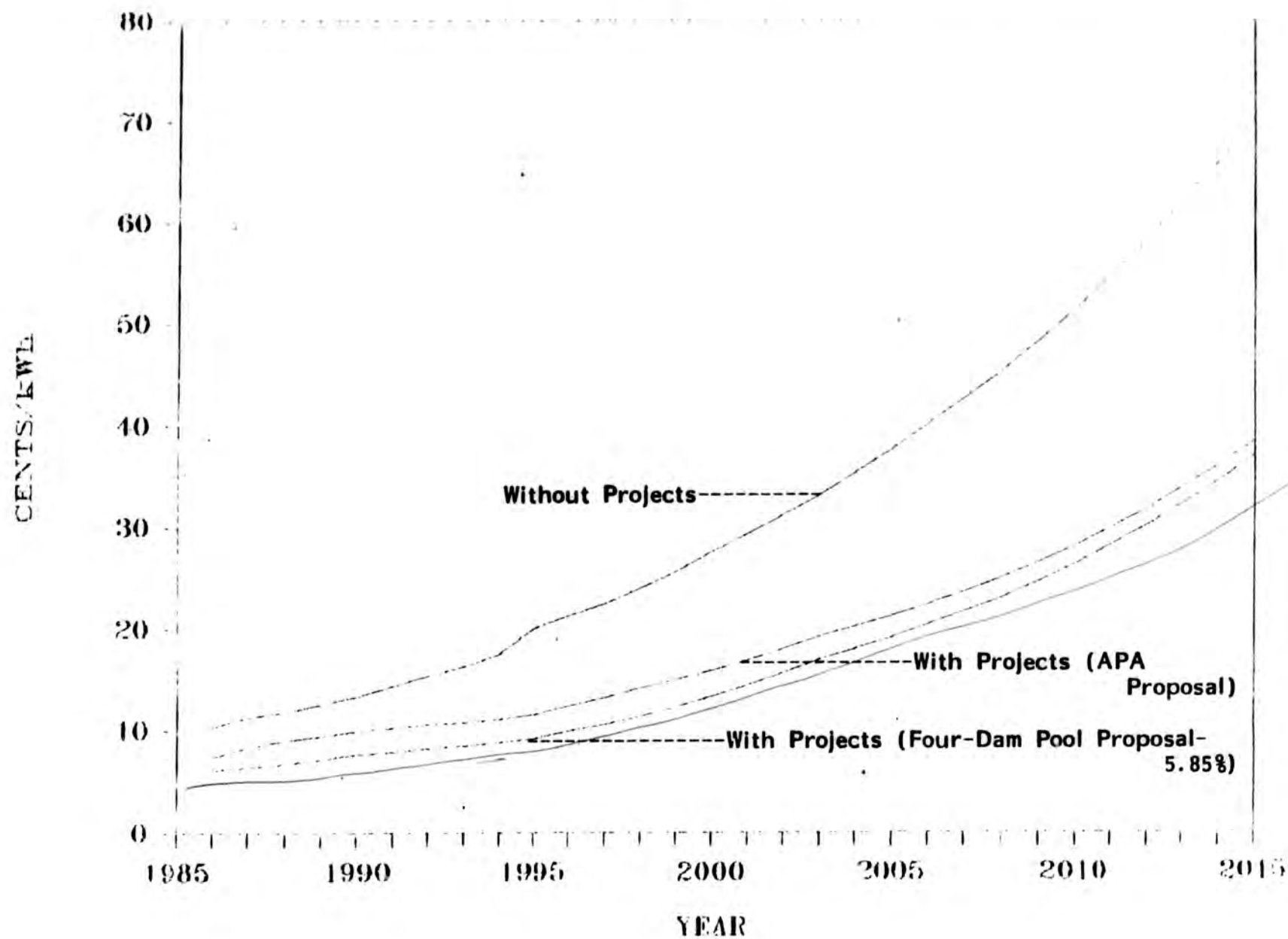
**Comparison of Major Issues
Alaska Power Authority Proposal vs. 4-Dam Pool Proposal**

<u>Issue</u>	<u>Alaska Power Authority</u>	<u>4-Dam Pool</u> <i>4% HB-219</i>
Interest Rate Amortization Period Annual Debt Service	- 8% Yield on Total Loan - 35 Years - Level Debt Service With Ramp Features.	- 5.8% (3.3% Yield on Total Loan) - 40 years - Level debt service with Purchasers to pay amount in proportion to energy usage; Ramp features included.
Ramp Features	<i>WHAT IS IT NOW!</i> - Initially 2¢/KWH below alternative cost (2.5¢ for CVEA) decreasing to 0¢ at the point where Project costs without ramp and alternative costs cross.	- Defer part of principal and interest payments in years 1-5 and repay, with interest, in years 6-40.
Deferred Payments	- All payments deferred in Ramp features are repayed with interest by the end of 35 years.	- Principal amount deferred due to unused Project capability is repaid, without interest, in years 41-50. Principal and interest deferred due to ramp features is repayed, with interest, in years 6-40.

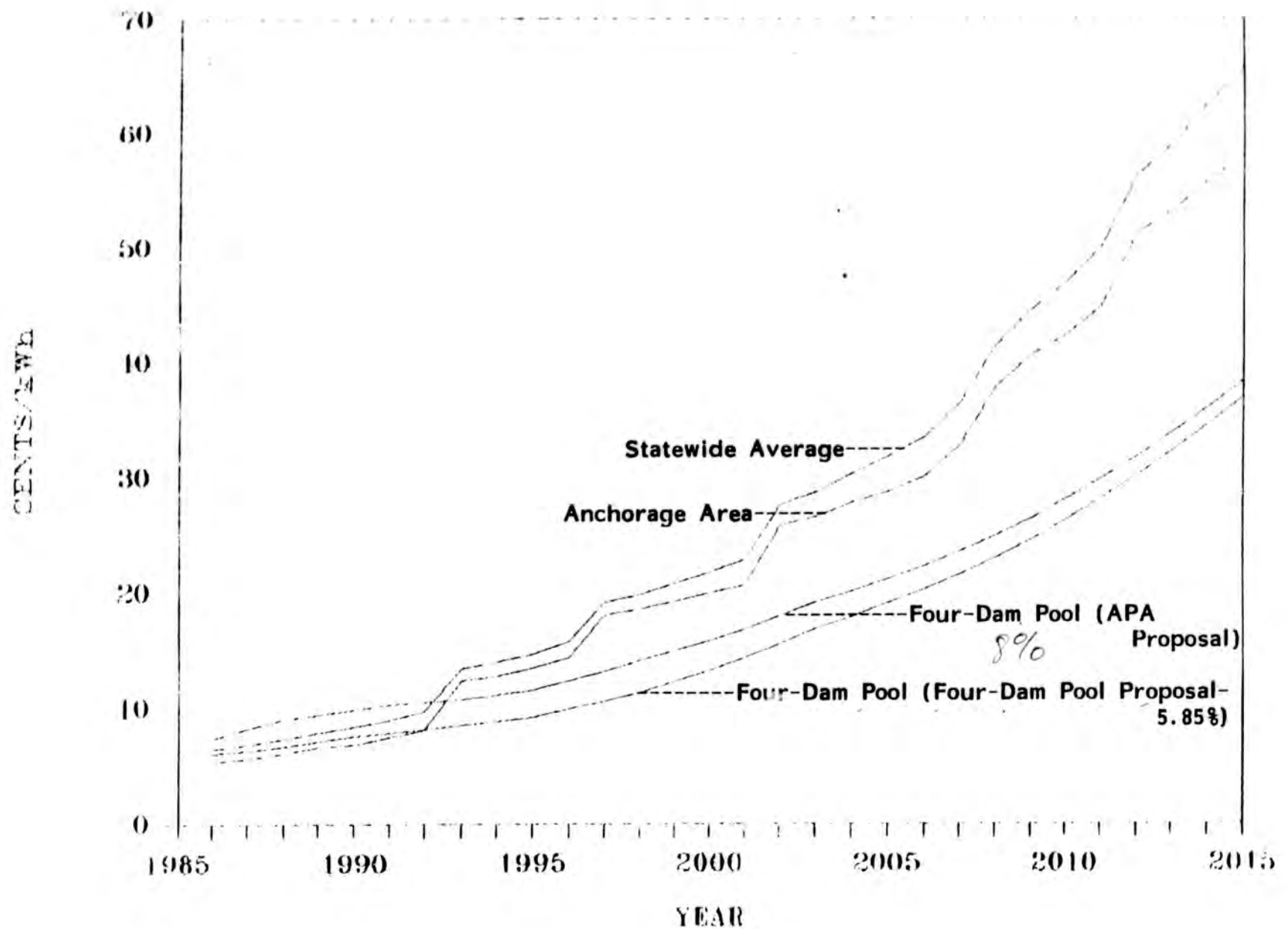
**ALASKA POWER AUTHORITY
FOUR-DAM POOL ANALYSIS
PROJECT COSTS
(cents/kWh)**



**ALASKA POWER AUTHORITY
FOUR-DAM POOL ANALYSIS
PARTICIPANT PRODUCTION COSTS
WITH AND WITHOUT PROJECTS
(cents/kWh)**



ALASKA POWER AUTHORITY
FOUR-DAM POOL ANALYSIS
PRODUCTION COSTS
(cents/kWh)



	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
	A-B PROPOSAL					FOUR-DAM POOL PROPOSAL - 5.056					W/O PROJECT						*****PROJECT COSTS ONLY***** FOUR-DAM POOL PROPOSAL - 4.00X			
	DEBT SERVICE (1980)	D & M (1980)	OTHER COSTS (1980)	TOTAL NOMINAL (C/KWH)	1966 (C/KWH)	DEBT SERVICE (C/KWH)	D & M (1980)	OTHER COSTS (1980)	TOTAL NOMINAL (C/KWH)	1966 (C/KWH)	W/O EXIST D & M (C/KWH)	OTHER (1980)	TOTAL (C/KWH)	1966 (C/KWH)	GENERATION (GWh)	PROJ SALES (GWh)	DEBT SERVICE (1980)	DAM (1980)	PROJ COSTS (C/KWH)	
YEAR																				
1986	7713	5827	8513	7.4	7.4	4879	5827	8513	6.1	6.1	9.7	1082	10.3	10.3	287.6	181.3	3858	2.12	5827	4.9
1987	10622	5354	8865	8.3	7.8	4835	5354	8865	6.4	6.0	10.7	1040	11.3	10.6	290.9	191.4	4386	2.25	5354	5.0
1988	12810	5782	9459	9.0	8.0	5653	5782	9459	6.7	5.9	11.2	1778	11.8	10.4	389.9	199.2	4751	2.39	5782	5.3
1989	13882	6872	10186	9.4	7.8	6571	6872	10186	7.1	5.9	12.0	1758	12.6	10.4	319.6	206.0	5212	2.53	6872	5.5
1990	15096	6467	11055	9.9	7.7	7633	6467	11055	7.6	5.9	12.8	1754	13.3	10.4	329.1	213.0	5714	2.68	6467	5.7
1991	15902	6887	12021	10.3	7.5	7851	6887	12021	7.9	5.8	13.9	1756	14.4	10.5	337.7	219.1	5877	2.68	6887	5.8
1992	16351	7335	13109	10.6	7.3	8132	7335	13109	8.2	5.6	14.8	1766	15.3	10.5	347.4	226.9	6088	2.68	7335	5.9
1993	16668	7812	14245	10.8	7.0	8464	7812	14245	8.5	5.5	15.8	1694	16.3	10.5	358.4	236.2	6336	2.68	7812	6.0
1994	17380	8320	15778	11.2	6.7	8812	8320	15778	8.9	5.4	17.0	1867	17.5	10.6	378.8	245.9	6597	2.68	8320	6.1
1995	18248	8868	17488	11.6	6.6	9154	8868	17488	9.2	5.2	19.6	1455	20.0	11.3	384.8	253.4	6853	2.68	8868	6.1
1996	19189	9436	20038	12.4	6.6	9338	9436	20038	9.9	5.3	20.9	1536	21.3	11.3	398.7	260.6	6991	2.68	9436	6.3
1997	20211	10850	24148	13.2	6.6	9529	10850	24148	10.6	5.3	22.2	1197	22.5	11.2	412.3	265.9	7134	2.68	10850	6.5
1998	21316	10783	28285	14.1	6.6	9729	10783	28285	11.4	5.4	23.7	1153	24.0	11.3	426.5	271.5	7283	2.68	10783	6.6
1999	21646	11399	33068	15.0	6.6	9939	11399	33068	12.3	5.4	25.3	1138	25.6	11.3	440.7	277.3	7441	2.68	11399	6.8
2000	21774	12140	38485	15.9	6.6	10159	12140	38485	13.3	5.5	27.3	1058	27.5	11.4	455.8	283.5	7686	2.68	12140	7.0
2001	21882	12929	44787	16.9	6.6	10329	12929	44787	14.4	5.6	29.1	1052	29.3	11.4	471.0	288.2	7732	2.68	12929	7.2
2002	21882	13769	51763	18.0	6.6	10394	13769	51763	15.6	5.7	31.0	1054	31.2	11.4	485.8	298.0	7781	2.68	13769	7.4
2003	21882	14664	59761	19.2	6.6	10462	14664	59761	17.0	5.8	33.0	1053	33.2	11.4	500.8	291.9	7832	2.68	14664	7.7
2004	21882	15617	66687	20.2	6.5	10532	15617	66687	18.0	5.8	35.1	1053	35.3	11.4	516.2	293.9	7885	2.68	15617	8.0
2005	21882	16632	74484	21.2	6.4	10605	16632	74484	19.1	5.8	37.4	1053	37.6	11.4	532.1	295.9	7939	2.68	16632	8.3
2006	21882	17713	82995	22.3	6.3	10682	17713	82995	20.3	5.8	39.8	1053	40.0	11.4	548.6	298.1	7997	2.68	17713	8.6
2007	21882	18865	92564	23.6	6.3	10761	18865	92564	21.6	5.8	42.4	1053	42.6	11.4	565.5	300.3	8056	2.68	18865	9.0
2008	21882	20091	103215	24.9	6.2	10844	20091	103215	23.0	5.8	45.2	1053	45.4	11.4	583.0	302.6	8118	2.68	20091	9.3
2009	21882	21397	115448	26.4	6.2	10931	21397	115448	24.6	5.8	48.1	1053	48.3	11.3	601.0	305.0	8183	2.68	21397	9.7
2010	21882	22788	129866	28.0	6.2	11021	22788	129866	26.3	5.8	51.2	1053	51.4	11.3	619.6	307.5	8251	2.68	22788	10.1
2011	21882	24269	144245	29.8	6.2	11115	24269	144245	28.1	5.8	54.6	1053	54.7	11.3	638.8	310.2	8321	2.68	24269	10.5
2012	21882	25846	161151	31.7	6.2	11213	25846	161151	30.1	5.9	58.1	1053	58.3	11.3	658.6	312.9	8395	2.68	25846	10.9
2013	21882	27526	179978	33.8	6.2	11315	27526	179978	32.2	5.9	61.9	1053	62.1	11.3	679.1	315.8	8471	2.68	27526	11.4
2014	21882	29316	200939	36.0	6.2	11422	29316	200939	34.5	5.9	65.9	1053	66.1	11.3	700.1	318.7	8559	2.68	29316	11.9
2015	21882	31221	224272	38.4	6.2	11533	31221	224272	37.0	6.0	70.2	1053	70.4	11.3	721.9	321.8	8634	2.68	31221	12.4
2016	21882	33258	238858	39.5	6.0	11649	33258	238858	38.1	5.8	74.8	1053	74.9	11.3	744.3	325.1	8721	2.68	33258	12.9
2017	21882	35412	254375	40.6	5.8	11769	35412	254375	39.3	5.6	79.6	1053	79.8	11.3	767.3	328.4	8811	2.68	35412	13.5
2018	21882	37713	270989	41.8	5.6	11895	37713	270989	40.5	5.4	84.8	1053	84.9	11.3	791.1	331.9	8905	2.68	37713	14.0
2019	21882	40165	288518	43.0	5.4	12026	40165	288518	41.8	5.2	90.3	1053	90.5	11.3	815.7	335.6	9003	2.68	40165	14.6
2020	0	42776	307272	41.6	4.9	12163	42776	307272	43.1	5.1	96.2	1053	96.3	11.3	840.9	339.4	9106	2.68	42776	15.3
2021	0	45556	327245	43.0	4.7	12385	45556	327245	44.4	4.9	102.4	1053	102.6	11.3	867.8	343.4	9212	2.68	45556	15.9
2022	0	48517	348516	44.4	4.6	12454	48517	348516	45.8	4.7	109.1	1053	109.2	11.3	893.9	347.5	9323	2.68	48517	16.6
2023	0	51671	371169	45.9	4.5	12609	51671	371169	47.2	4.6	116.2	1053	116.3	11.3	921.6	351.8	9439	2.68	51671	17.4
2024	0	55829	395295	47.4	4.3	12778	55829	395295	48.7	4.5	123.8	1053	123.9	11.3	950.2	356.3	9568	2.68	55829	18.1
2025	0	58606	420989	49.0	4.2	3522	58606	420989	49.3	4.2	131.8	1053	131.9	11.3	979.6	361.0	9826	1.34	58606	17.6
2026	0	62416	448354	50.6	4.1	3522	62416	448354	50.9	4.1	140.4	1053	140.5	11.3	1010.0	365.9	9826	1.32	62416	18.4
2027	0	66473	477497	52.2	4.0	3522	66473	477497	52.6	4.0	149.5	1053	149.6	11.3	1041.3	371.0	9826	1.38	66473	19.2
2028	0	70793	508534	54.0	3.8	3522	70793	508534	54.3	3.9	159.2	1053	159.3	11.3	1073.6	376.3	9826	1.28	70793	20.1
2029	0	75395	541589	55.7	3.7	3522	75395	541589	56.1	3.7	169.6	1053	169.6	11.3	1106.9	378.6	9826	1.27	75395	21.2
2030	0	80296	576792	57.6	3.6	3522	80296	576792	57.9	3.6	180.6	1053	180.7	11.3	1141.2	378.6	9826	1.27	80296	22.5
2031	0	85515	614283	59.5	3.5	3522	85515	614283	59.8	3.5	192.3	1053	192.4	11.3	1176.6	378.6	9826	1.27	85515	23.9
2032	0	91073	654212	61.4	3.4	3522	91073	654212	61.7	3.4	204.8	1053	204.9	11.3	1213.0	378.6	9826	1.27	91073	25.3
2033	0	96993	696736	63.5	3.3	3522	96993	696736	63.7	3.3	218.1	1053	218.2	11.3	1250.6	378.6	9826	1.27	96993	26.9
2034	0	103298	742023	65.6	3.2	3522	103298	742023	65.8	3.2	232.3	1053	232.4	11.3	1289.4	378.6	9826	1.27	103298	28.6

NOTES

<u>Column No.</u>	<u>Explanation</u>
(1)	Debt service per Commerce Loan Agreement.
(2)	Estimated by APA and inflated at the assumed general inflation rate (6.5% per year).
(3)	Other power production costs of the Participants including diesel generation and transmission (estimated by R. W. Beck and Associates).
(4)	$(\text{Col. (1)} + \text{Col. (2)} + \text{Col. (3)}) / \text{Col. (15)} / 10$. Total production costs with the Projects.
(5)	Discounted at 6.5% per year.
(6)	Per January 23, 1985, memorandum from the Four-Dam Pool to the APA Board of Directors - Tab D.
(7)	Same as Col. (2).
(8)	Same as Col. (3).
(9)	$(\text{Col. (6)} + \text{Col. (7)} + \text{Col. (8)}) / \text{Col. (15)} / 10$. Total production costs with the Projects.
(10)	Same as Col. (5).
(11)	Weighted average "avoided cost" of Participants and includes some fixed costs. Estimated by R. W. Beck and Associates.
(12)	Existing debt service of Participants. Estimated by R. W. Beck.
(13)	$\text{Col. (12)} / \text{Col. (15)} / 10 + \text{Col. (11)}$. Total production costs without the Projects.
(14)	Same as Col. (5).
(15)	Total generation of Participants including the Projects and other generation. Estimated by R. W. Beck.
(16)	Generation of Projects utilized by the Participants. Estimated by the Participants.
(17)	Per proposal by the Participants utilizing 4.0% interest on loans.
(18)	$\text{Col. (17)} / \text{Col. (16)} / 10$.
(19)	Same as Col. (2).
(20)	$(\text{Col. (17)} + \text{Col. (19)}) / \text{Col. (16)} / 10$. Project costs only and CANNOT be compared with Cols. (4), (9), and (13).

PARTICIPANTS' TOTAL PRODUCTION COSTS

YEAR	APR PROPOSAL		4 DP PROPOSAL		ALT. COSTS		BM AVG (C/KWH)	ANCHORAGE (C/KWH)	PROJECT COSTS ONLY		
	NOMINAL	1986\$	NOMINAL	1986\$	NOMINAL	1986\$			APR	4-DP	4-DP
	(C/KWH)	(C/KWH)	(C/KWH)	(C/KWH)	(C/KWH)	(C/KWH)				(5.85\$)	(4.00\$)
1985											
	7.4	7.4	6.1	6.1	10.3	10.3	6.5	5.4	7.0	5.0	4.9
	8.3	7.8	6.4	6.0	11.3	10.6	6.9	5.7	8.3	5.3	5.0
	9.0	8.0	6.7	5.9	11.8	10.4	7.4	6.1	9.3	5.7	5.3
	9.4	7.8	7.1	5.9	12.6	10.4	7.9	6.6	9.7	6.1	5.5
1990	9.9	7.7	7.6	5.9	13.3	10.4	8.4	6.9	10.1	6.6	5.7
	10.3	7.5	7.9	5.8	14.4	10.5	9.0	7.5	10.4	6.7	5.8
	10.6	7.3	8.2	5.6	15.3	10.5	9.7	8.1	10.4	6.8	5.9
	10.8	7.0	8.5	5.5	16.3	10.5	13.4	12.4	10.4	6.9	6.0
	11.2	6.7	8.9	5.4	17.5	10.6	14.0	12.8	10.4	7.0	6.1
1995	11.6	6.6	9.2	5.2	20.0	11.3	14.7	13.5	10.6	7.1	6.1
	12.4	6.6	9.9	5.3	21.3	11.3	15.8	14.4	11.0	7.2	6.3
	13.2	6.6	10.6	5.3	22.5	11.2	19.2	18.1	11.4	7.4	6.5
	14.1	6.6	11.4	5.4	24.0	11.3	19.9	18.6	11.8	7.5	6.6
	15.0	6.6	12.3	5.4	25.6	11.3	20.9	19.3	11.9	7.7	6.8
2000	15.9	6.6	13.3	5.5	27.5	11.4	21.8	20.0	12.0	7.9	7.0
	16.9	6.6	14.4	5.6	29.3	11.4	22.9	20.7	12.1	8.1	7.2
	18.0	6.6	15.6	5.7	31.2	11.4	27.7	25.9	12.3	8.3	7.4
	19.2	6.6	17.0	5.8	33.2	11.4	28.8	26.6	12.5	8.6	7.7
	20.2	6.5	18.0	5.8	35.3	11.4	30.4	27.9	12.8	8.9	8.0
2005	21.2	6.4	19.1	5.8	37.6	11.4	31.8	28.8	13.0	9.2	8.3
	22.3	6.3	20.3	5.8	40.0	11.4	33.5	30.1	13.3	9.5	8.6
	23.6	6.3	21.6	5.8	42.6	11.4	36.5	32.8	13.6	9.9	9.0
	24.9	6.2	23.0	5.8	45.4	11.4	41.4	37.8	13.9	10.2	9.3
	26.4	6.2	24.6	5.8	48.3	11.3	44.5	40.6	14.2	10.6	9.7
2010	28.0	6.2	26.3	5.8	51.4	11.3	46.9	42.3	14.5	11.0	10.1
	29.8	6.2	28.1	5.8	54.7	11.3	49.9	44.8	14.9	11.4	10.5
	31.7	6.2	30.1	5.9	58.3	11.3	56.3	51.3	15.3	11.8	10.9
	33.8	6.2	32.2	5.9	62.1	11.3	59.0	53.1	15.6	12.3	11.4
	36.0	6.2	34.5	5.9	66.1	11.3	62.5	55.8	16.1	12.8	11.9
2015	38.4	6.2	37.0	6.0	70.4	11.3	65.7	58.0	16.5	13.3	12.4
	39.5	6.0	38.1	5.8	74.9	11.3			17.0	13.8	12.9
	40.6	5.8	39.3	5.6	79.8	11.3			17.4	14.4	13.5
	41.8	5.6	40.5	5.4	84.9	11.3			18.0	14.9	14.0
	43.0	5.4	41.8	5.2	90.5	11.3			18.5	15.6	14.6
2020	41.6	4.9	43.1	5.1	96.3	11.3			12.6	16.2	15.3
	43.0	4.7	44.4	4.9	102.6	11.3			13.3	16.9	15.9
	44.4	4.6	45.8	4.7	109.2	11.3			14.0	17.5	16.6
	45.9	4.5	47.2	4.6	116.3	11.3			14.7	18.3	17.4
	47.4	4.3	48.7	4.5	123.9	11.3			15.4	19.0	18.1
2025	43.0	4.2	49.3	4.2	131.9	11.3			16.2	17.2	17.6
	50.6	4.1	50.9	4.1	140.5	11.3			17.1	18.0	18.4
	52.2	4.0	52.6	4.0	149.6	11.3			17.9	18.9	19.2
	54.0	3.8	54.3	3.9	159.3	11.3			18.8	19.7	20.1
	55.7	3.7	56.1	3.7	169.6	11.3			19.9	20.8	21.2
2030	57.6	3.6	57.9	3.6	180.7	11.3			21.2	22.1	22.5
	59.5	3.5	59.8	3.5	192.4	11.3			22.6	23.5	23.9
	61.4	3.4	61.7	3.4	204.9	11.3			24.1	25.0	25.3
	63.5	3.3	63.7	3.3	218.2	11.3			25.6	26.5	26.9
	65.6	3.2	65.8	3.2	232.4	11.3			27.3	28.2	28.6
2035											

3/4/85

MEMORANDUM

TO: Rep. John Sund, Chair
House Special Committee on Loans

FROM: J. Hartle, AA *JH*

RE: Electric power rates for four dam pool communities (HB 219)

	KEA	CVEA	KPU	Petersburg	Wrangell
Operations and Maintenance	2.0	2.76	2.91	4.59	4.59
Debt Service	2.68	2.68	2.68	2.68	2.68
Total APA	4.68	5.44	5.59	7.27	7.27
Retail Rate [*]	16.6	19.1 ^{**} 15.1	10.0	11.1	14.9

* Per KWH at 750 KWH/Month, as of 2/16/85

** 19.1 = Copper River; 15.1 = Valdez

KEA = Kodiak

CVEA = Copper Valley

KPU = Ketchikan

LETTER OF UNDERSTANDING

The negotiating team representing APA, Ketchikan, Copper Valley Electric Association, Kodiak Electric Association, Petersburg and Wrangell have agreed on the terms and conditions of a power sales agreement incorporating the following:

1. The written and oral understandings of the parties heretofore reached shall be placed in writing in agreed final form, and remaining comments of the parties will be mutually and expeditiously resolved and also incorporated in the agreement.
2. A rate stabilization fund shall be established as proposed in the communities' 17 point proposal funded in part by a State appropriation of \$49,000,000.
3. The system increment proposal of the communities shall also be incorporated in such agreement.

We mutually recognize that certain statutory amendments are required to implement the agreements reached to date.

We expect to conclude draft O & M agreements and interconnection agreements following a mutual review of proposed contract revisions.

We will recommend to our respective boards and councils that the agreements be adopted and that we be authorized to execute them and to assist in the steps necessary to complete the financing.

DATED March 20, 1984

ALASKA POWER AUTHORITY

By: Larry R. Crawford

CITY OF KETCHIKAN

By: John Newland

COPPER VALLEY ELECTRIC ASSOCIATION

By: J. A. Tillinger

CITY OF WRANGELL

By: John R. Bush

KODIAK ELECTRIC ASSOCIATION

By: David H. McNamee

CITY OF PETERSBURG

By: Don Koenigs

SENATE FINANCE COMMITTEE

MAY 26, 1984

9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER. OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY, AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE \$210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THEY WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE \$210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 589(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE \$210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

MEMORANDUM

TO: House Special Committee on State Loans

FROM: Richard D. Newland, Utilities Manager
Ketchikan Public Utilities

RE: Wholesale Power Cost Comparison

DATE: March 5, 1985

Attached you will find a tabulation, accompanied by a graphic presentation, showing projected wholesale power costs for the City of Ketchikan under three alternative scenarios. The generation of power from the Swan Lake Hydroelectric Project is compared under HB 219 and the package proposed by the Alaska Power Authority (APA); we also project the costs of a like amount of power generated by diesel.

Several points should be emphasized regarding these numbers. First, these are wholesale rates. Rates to the customer would be considerably greater than what is presented here. Second, these are "marginal" rates, i.e., rates for power generated by the Swan Lake Project or by diesel generation used in lieu of Swan Lake. Their effect on Ketchikan's retail rates, up or down, is mitigated by Ketchikan's other sources of power, including other hydroelectric generation. Third, these rates do not account for needed generation in the future. Swan Lake is projected to meet Ketchikan's needs for approximately the next ten years, after which we will need to rely on new generation. Our future rates will therefore continue to be affected by changes in the energy program for Alaska.

In constructing these projections, we have relied on the following sources:

1. Load forecasts were developed by the APA.
2. Swan Lake operation and maintenance costs are from our current budget. They are inflated annually at the assumed inflation rate.
3. Diesel operation and maintenance costs are from the studies used to develop our most recent proposed rate ordinance. They are also inflated annually.
4. Diesel operation and maintenance costs are divided into fixed and variable costs. The fixed costs have been included under the Swan Lake projections because the diesels will be used as reserves.

5. APA debt service costs are from their projection of February 12, 1985.
6. Diesel fuel projections are from the Alaska Department of Revenue Mean Forecast of World Oil Price (Saudi Medium), calculated in 1983 dollars and then inflated at the assumed inflation rate.
7. Each of our cases uses different assumptions about 1985 diesel costs and about the rate of inflation. These assumptions are printed on the tables. The base case (Case 1), uses a 1985 diesel cost of 71¢ per gallon, computed from information provided by Chuck Logsdon, Petroleum Economist for the Department of Revenue. The base inflation rate is 5% per year.

I would like to thank the Committee for the opportunity to present this information.

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

PAGE 1 OF 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	2,629,725	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWH)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45

APA ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17

DIESEL ALTERNATIVE:

O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,428,906	1,859,868	2,042,655	2,232,376	2,520,082	2,816,192	3,116,427	3,473,113
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,726,175	2,999,072	3,273,100	3,651,362	4,045,357	4,451,400	4,922,398
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.22	7.24	7.42	7.79	8.15	8.48	8.88

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

PAGE 2 OF 2

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365

HB 219 ALTERNATIVE:

O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWH)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56

APA ALTERNATIVE:

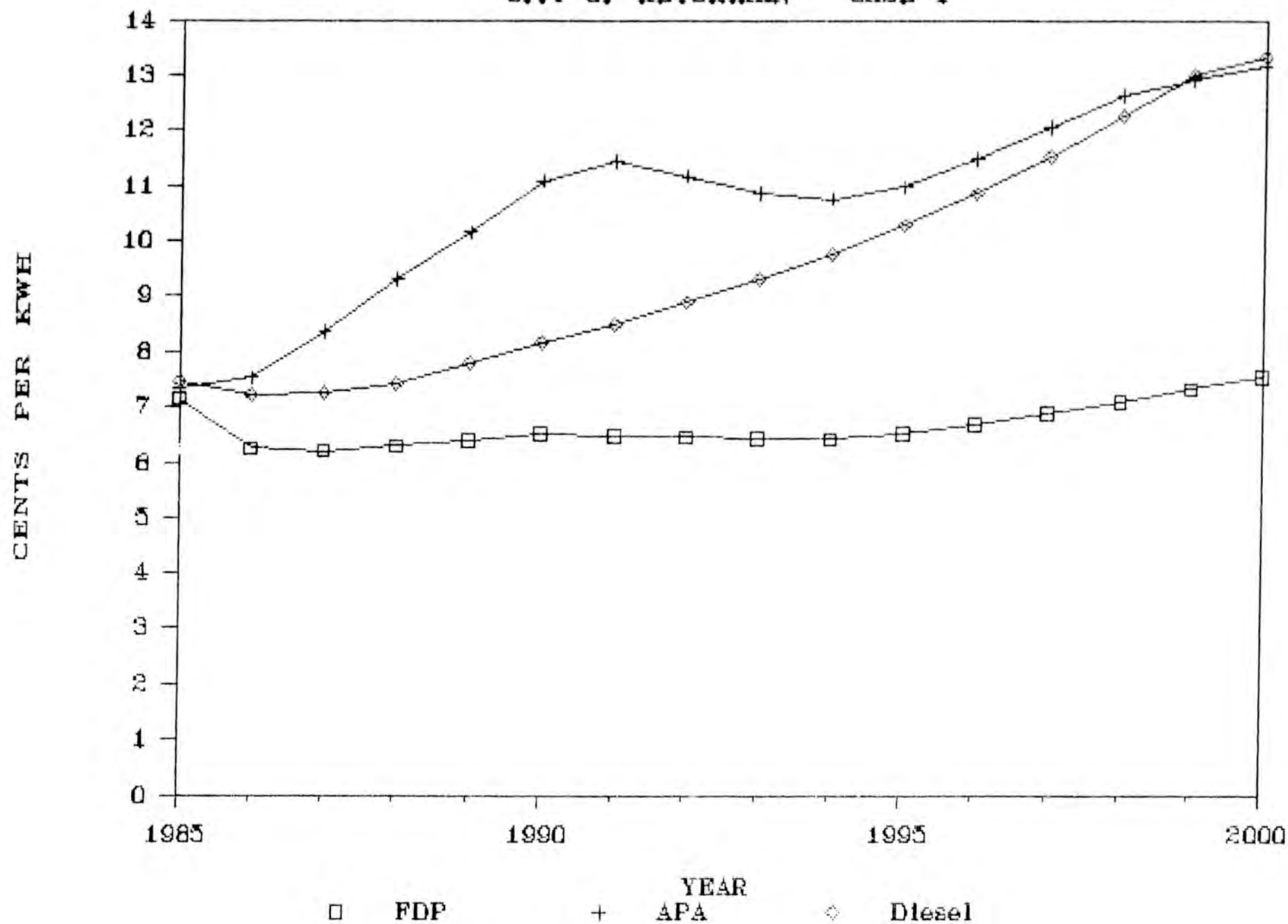
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17

DIESEL ALTERNATIVE:

O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	3,868,973	4,317,809	4,688,043	4,959,980	5,292,433	5,651,642	6,033,542	6,120,134
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	5,441,933	6,028,153	6,515,705	6,879,025	7,307,430	7,767,390	8,255,077	8,452,746
DIESEL ALTERNATIVE (Cents/KWH)	9.32	9.77	10.28	10.86	11.53	12.26	13.03	13.34

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 1



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

PAGE 1 OF 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430

HB 219 ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWH)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98

APA ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70

DIESEL ALTERNATIVE:

O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,428,906	1,824,442	1,965,581	2,107,226	2,333,492	2,558,008	2,776,799	3,035,669
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,674,248	2,885,910	3,089,605	3,381,011	3,674,485	3,966,287	4,302,414
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.08	6.97	7.00	7.21	7.40	7.55	7.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

PAGE 2 OF 2

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365

HB 219 ALTERNATIVE:

O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWH)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34

APA ALTERNATIVE:

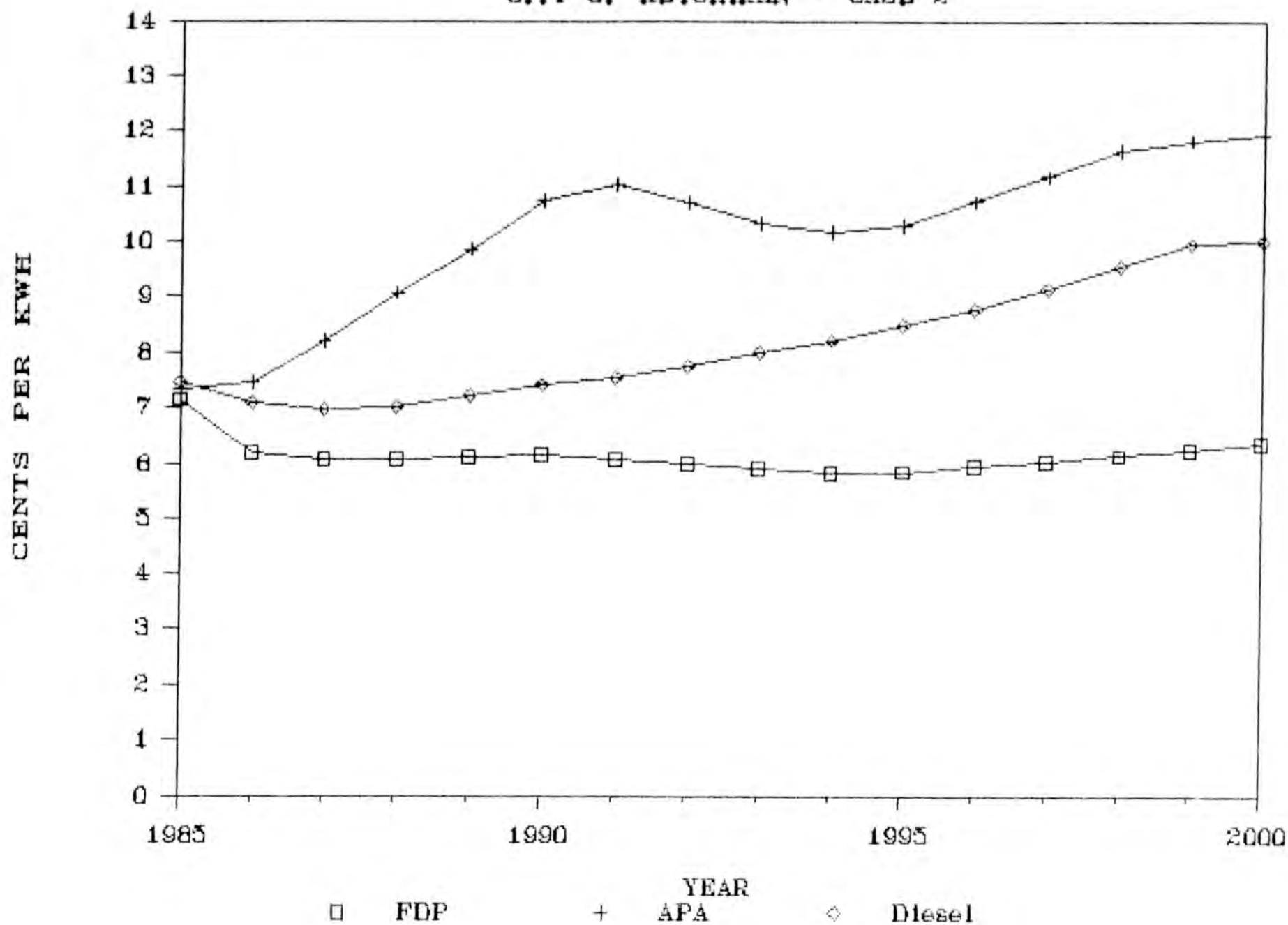
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Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94

DIESEL ALTERNATIVE:

O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,317,257	3,631,573	3,867,861	4,014,275	4,201,752	4,401,470	4,609,388	4,586,484
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	4,665,912	5,070,089	5,375,770	5,567,421	5,801,493	6,049,203	6,306,553	6,334,564
DIESEL ALTERNATIVE (Cents/KWH)	7.99	8.22	8.48	8.79	9.16	9.55	9.95	10.00

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 2



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

PAGE 1 OF 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430

HB 219 ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	955,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	2,776,325	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWH)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45

APA ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
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Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17

DIESEL ALTERNATIVE:

O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,690,537	2,200,407	2,416,662	2,641,121	2,981,505	3,331,833	3,687,040	4,109,035
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,066,714	3,373,080	3,681,844	4,112,786	4,560,997	5,022,013	5,558,321
DIESEL ALTERNATIVE (Cents/KWH)	8.35	8.12	8.14	8.34	8.77	9.18	9.56	10.03

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	94.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

PAGE 2 OF 2

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365

HB 219 ALTERNATIVE:

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Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWH)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56

APA ALTERNATIVE:

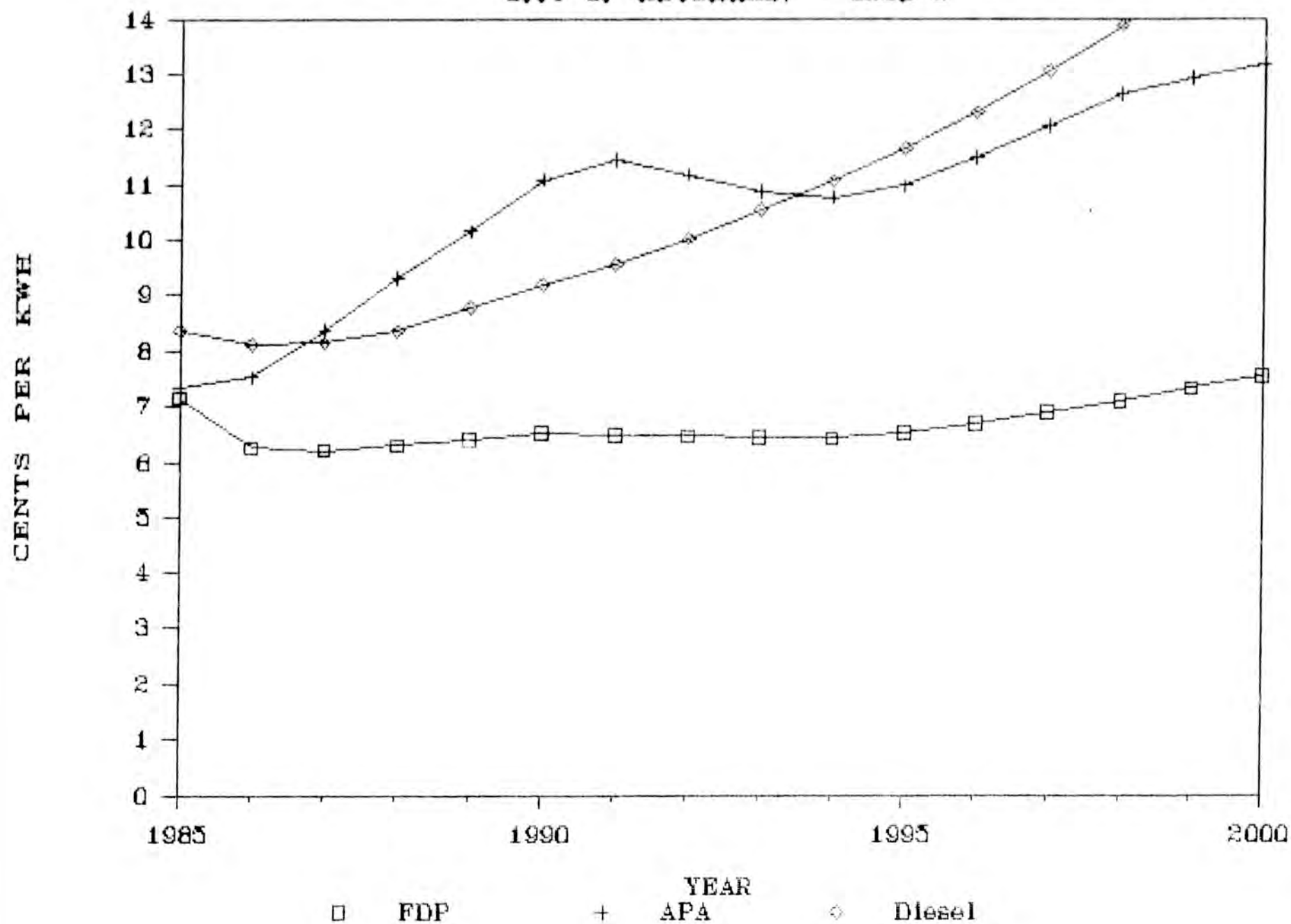
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TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17

DIESEL ALTERNATIVE:

O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	4,577,377	5,108,394	5,546,417	5,868,145	6,261,469	6,686,450	7,138,275	7,240,722
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	6,150,336	6,818,738	7,374,079	7,787,190	8,276,467	8,802,197	9,359,810	9,573,334
DIESEL ALTERNATIVE (Cents/KWH)	10.53	11.05	11.64	12.29	13.06	13.89	14.77	15.11

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 3



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

PAGE 1 OF 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
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Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
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Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWH)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98

APA ALTERNATIVE:

O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70

DIESEL ALTERNATIVE:

O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,690,537	2,158,494	2,325,476	2,493,056	2,760,751	3,026,375	3,285,227	3,591,496
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,008,300	3,245,805	3,475,435	3,808,270	4,142,852	4,474,715	4,858,241
DIESEL ALTERNATIVE (Cents/KWH)	8.35	7.97	7.84	7.87	8.12	8.34	8.52	8.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	84.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

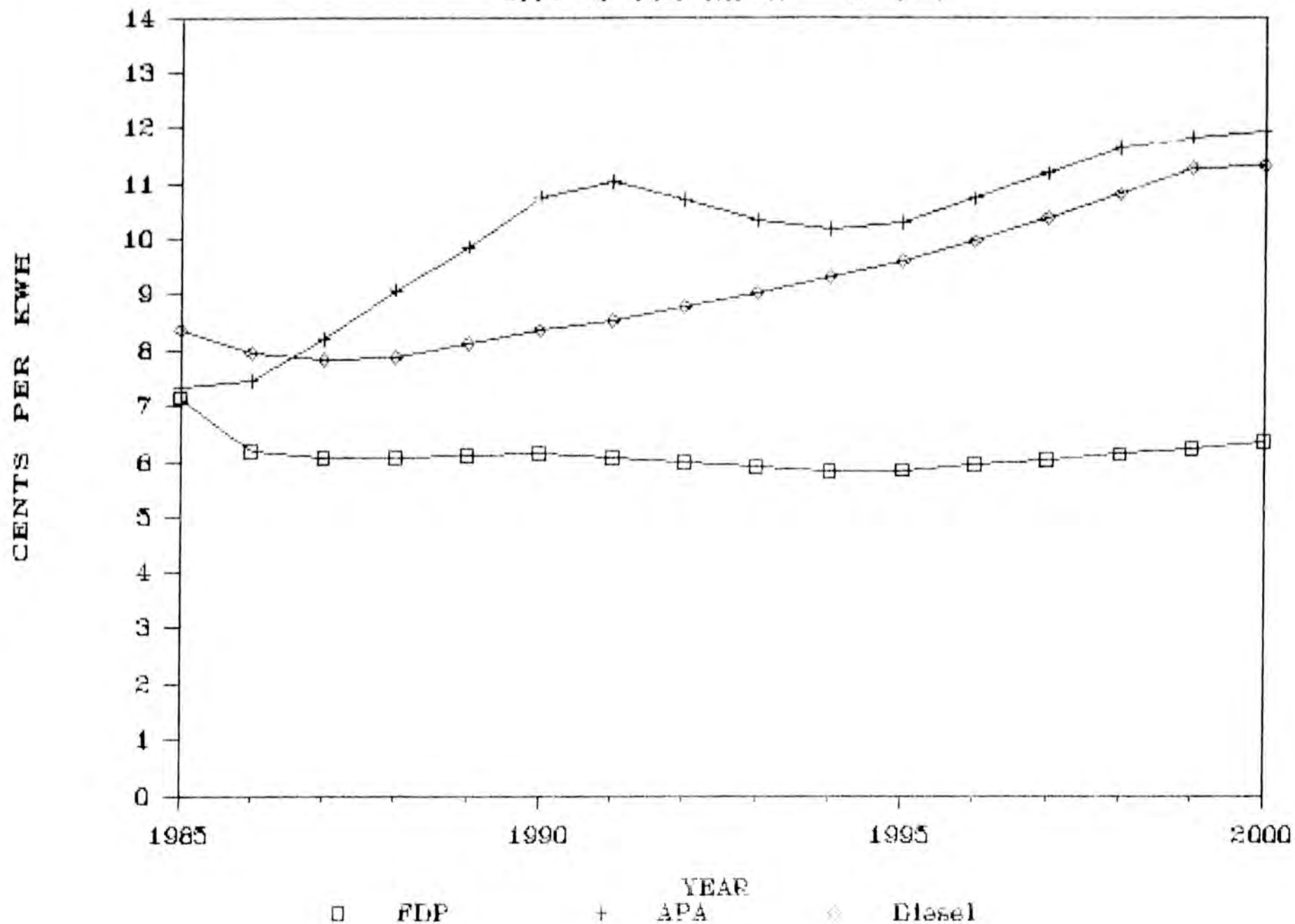
WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

PAGE 2 OF 2

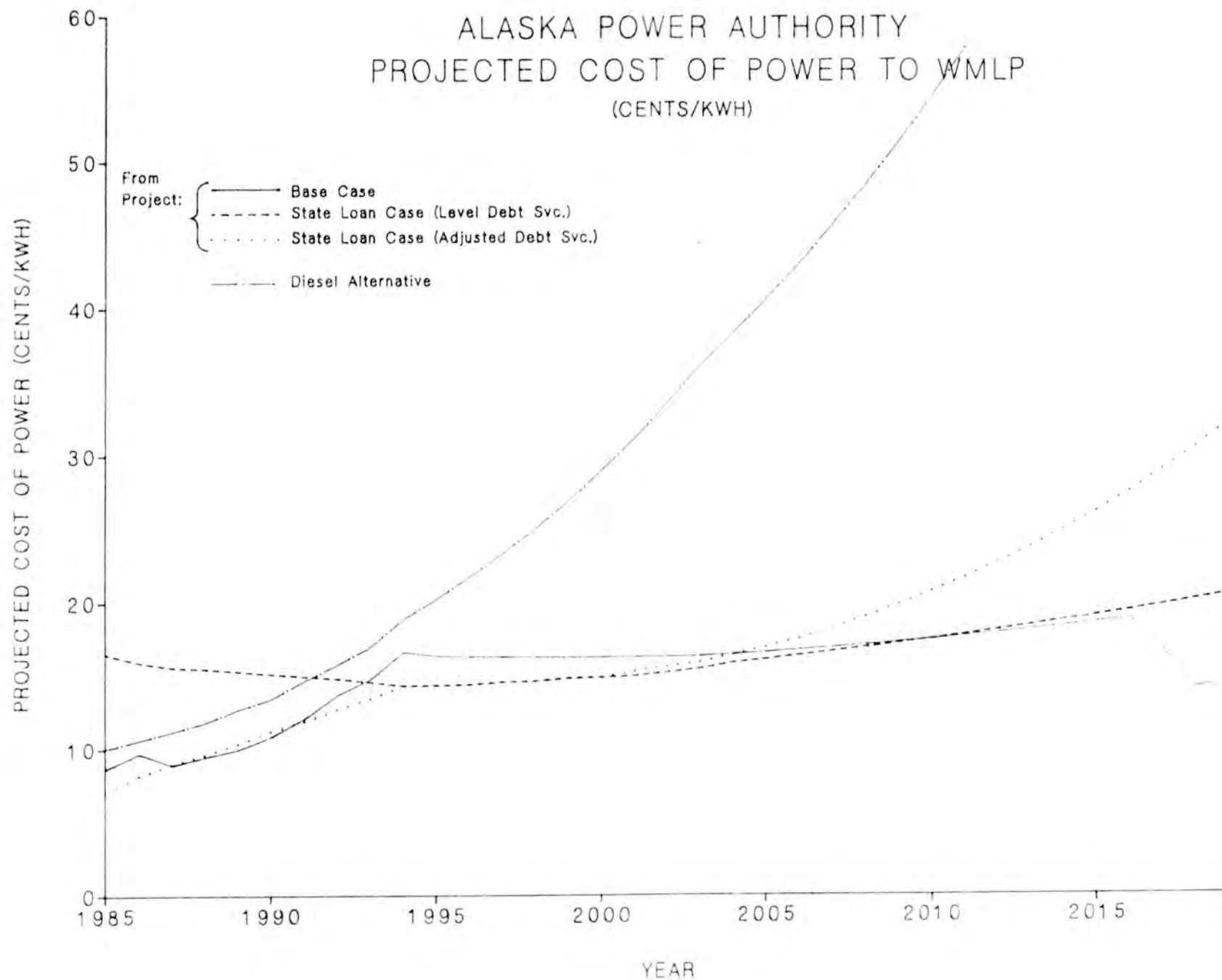
	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MMH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWH)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWH)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94
DIESEL ALTERNATIVE:								
O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,924,642	4,296,509	4,576,060	4,749,283	4,971,087	5,207,372	5,453,361	5,426,262
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	5,273,297	5,735,025	6,083,970	6,302,429	6,570,828	6,855,105	7,150,526	7,174,342
DIESEL ALTERNATIVE (Cents/KWH)	9.03	9.30	9.60	9.95	10.37	10.82	11.28	11.32

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 4



ALASKA POWER AUTHORITY
PROJECTED COST OF POWER TO WMLP
(CENTS/KWH)



94

196

5.8%
4.0%

RAILBELT

Introduced: 2/20/85
Referred: House Special Committee
on State Loans, Resources and
Finance

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

1 IN THE HOUSE

2 HOUSE BILL NO. 219

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the applicability of the Alaska
7 Public Utilities Commission Act to certain electric
8 utilities; power development loans; and the energy
9 program for Alaska."

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

11 * Section 1. AS 42.05.711(b) is amended to read:

12 (b) Public utilities owned and operated by a political subdivi-
13 sion of the state and regional electric authorities established as an
14 instrumentality of two or more public utilities owned and operated by
15 a political subdivision of the state, none of whose utilities is in
16 competition with any other utility, are exempt from the provisions of
17 this chapter, other than the provisions of AS 42.05.221 - 42.05.281,
18 unless the owner and operator elects to be subject to all provisions
19 of this chapter.

20 * Sec. 2. AS 44.33.620(a) is amended to read:

21 (a) Except as provided in (d) of this section, a [A] loan from
22 the fund must be repaid in accordance with the terms that the depart-
23 ment determines to be appropriate. In establishing the terms, includ-
24 ing provision for a return to the state of an amount in excess of the
25 principal amount of the loan, the department shall consider the reve-
26 nue that the authority could reasonably derive from the sale of power
27 from the projects based upon

28 (1) the market rate of interest for a loan of comparable
29 size and duration at the time the loan is made; and

2.68 D-SERVICE

1 (2) the estimated costs of alternative sources of energy
2 generation for utilities purchasing power from a project financed with
3 a loan from the fund.

4 * Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

5 (d) A loan from the fund to finance the initial project, as
6 described in AS 44.83.398(a), shall be subject to the following terms:

7 (1) the loan must be amortized based on an annual interest
8 rate not to exceed four percent, a term not to exceed 50 years, and a
9 40-year amortization period;

10 (2) the annual debt service payment per kilowatt hour for
11 energy purchased by utilities from the initial project equals the
12 total annual payment needed to amortize the loan on the terms set out
13 in (1) of this subsection divided by the long-term average annual
14 kilowatt hour capability of the initial project;

15 (3) repayment may be adjusted so that the debt service
16 payment per kilowatt hour, as determined under (2) of this subsection,
17 increases gradually over the first five years of the loan and remains
18 fixed over the next 35 years; and

19 (4) deferred principal shall be repaid with interest in
20 equal annual installments during the last 10 years of the loan.

21 * Sec. 4. AS 44.83.425(5) is amended to read:

22 (5) "qualified utility" means an electric utility or a
23 regional electric authority established as an instrumentality of two
24 or more electric utilities [THAT IS] certified by the Alaska Public
25 Utilities Commission to serve all or part of a market area that is
26 served or will be served by the power project, [AND] that the author-
27 ity determines is capable of operating and maintaining the power
28 project.



KETCHIKAN PUBLIC UTILITIES

334 FRONT STREET

KETCHIKAN, ALASKA 99901

TELEPHONE 907-226-3111

MUNICIPALLY OWNED
ELECTRIC WATER PHONE

November 27, 1984

ANALYSIS FOUR DAM POOL PROPOSAL

The Four Dam Pool proposal addresses, within existing law, several problems of the energy Program as currently structured and administered. I emphasize that these problems arise largely out of the statutory framework within which the APA operates. All prior contract negotiations with the APA have attempted to deal with these statutory structures. I believe our proposal simply does so more effectively than prior proposals. The problems we encounter are as follows:

- Uncertainty Under the Energy Program, we do not know the cost of power before we buy. Because power is priced according to the amount sold, a reduction or termination anywhere in the system could raise the price of power and force us to "true up" our bill after the fact.
- Unbearable Risks Unless otherwise limited, the Program makes each Purchaser jointly and severally responsible for the entire debt of the APA. A longterm contract on these terms could lock a small community into a fifty-year, open-ended obligation to pay off billions of dollars in debt.
- Guaranteed Inflation In order to pay for projects that are too big and too expensive for the communities' current needs, the APA has had to borrow money and accept a repayment schedule that includes "negative amortization" and periodic increases in debt service. These increases are purportedly based on predicted increases in the cost of diesel fuel. Even if these predictions were accurate, which we dispute, how can we benefit from hydropower if we aim for the diesel price? In fact, while diesel prices have been dropping, the only certainty about the APA's payment obligation is that it will increase.
- Unequal Benefits The Energy Program has been based on the idea that each community would pay according to the cost of APA facilities available to serve it. This formula ignores other variables such as whether the facilities are entirely necessary to that community and

Mayor Charles Freeman
November 27, 1984
Page Two

whether such costs would result in large disparities between the retail rates of that and other communities. Anomalies result. For example, one community could end up paying a "system increment" increase in order to subsidize a project in another community that already enjoys lower rates. Likewise, a community could find itself ultimately worse off by gaining the "benefits" of hydropower and thereby losing its power cost assistance entitlement.

- Out-of-Reach Prices No matter how theoretically elegant, a power cost formula fails if ratepayers cannot afford the power. In the best of circumstances, prices under the current Program are projected at or just above what the communities estimate they can afford to pay without suffering serious economic dislocation. If assumptions underlying the projections are wrong -- if loads do not materialize, for example -- the results could be disastrous.
- Uncontrollable Costs Finally the existing Program gives the purchasers of power little ability to learn about, much less to control, the debt service obligations and operations, maintenance, and administrative overhead costs incurred by the APA. Yet these costs are passed directly through to the purchasers. Such unanticipated costs can add substantially to the unpredictability discussed above. Since utilities cannot easily recover previously incurred costs from their ratepayers, the result could be extremely disruptive to a utility's ability to plan. As I have emphasized before, long-term planning is essential to the proper management of an electric utility.

The Four Dam Pool proposal is aimed at overcoming the problems described above, without the need for statutory change. The principles behind our proposal are applicable to the Energy Program state-wide, although possibly not without new legislation. Those principles are as follows:

- Certainty The creation of a Power Development Revolving Loan Fund enables the APA to borrow money upon very flexible terms from the Department of Commerce and Economic Development. We propose terms that would permit the APA to charge a fixed rate for power. Purchasers would thereby know the price of power before they buy.
- Acceptable Risks Our proposal is that debt service

Mayor Charles Freeman
November 27, 1984
Page Three

on the state loan be related to project usage, with power priced as though projects were fully utilized. This would place the risks of over-capacity and reduction in sales upon the State. Such a risk allocation is appropriate, since excess electric capacity is part of the infrastructure used to promote economic development throughout the State.

- Flat Rates Except for a brief initial "ramp up" to ease the rate shock for some utilities, we propose that debt service costs be flat throughout the contract period. This would assure that the benefits of hydropower are passed on to the citizens of the State, and that utilities would achieve a measure of predictability necessary for long-term planning.
- Equity Our proposal entails equal debt service costs for each member of the Four Dam Pool. Applied statewide, this principle might mean equality per kilowatthour for debt service, wholesale power costs, or total system revenue requirements.
- Affordability The ultimate wholesale power rate proposed by the Four Dam Pool was derived from what the communities believe they can afford. In most cases, that amount results in rates to the consumer at or near what those rates are today. We believe that no community in the State should be forced beyond its means to purchase power.
- Cost Control The role of the APA should be limited to helping finance the Energy Program. The only way operations and maintenance costs can be held in check is if they are placed within the control of those who must ultimately pay them. All APA borrowing, expenditures, and administrative overhead should be subject to strict audit, and should be governed at least in part with the active participation of the power purchasers.

Very truly yours,

KETCHIKAN PUBLIC UTILITIES


Richard D. Newland
Utilities Manager

Table 6. Hydroelectric Projects Operating in Alaska

<u>REGION</u>	<u>SERVICE AREA</u>	<u>PROJECT</u>	<u>INSTALLED CAPACITY (MW)</u>	<u>AVERAGE ANNUAL GENERATION (Mwh)</u>	<u>DATE CONSTRUCTED</u>
South Central	Anchorage	Cooper Lake	15.0	42,000	1961
	Anchorage	Eklutna	30.0	147,875	1955
	Kodiak	*Terror Lake	20.0	139,700	1984
	Valdez	*Solomon Gulch	12.0	55,000	1982
Southeast	Juneau	Annex Creek	3.5	27,500	1915
	Juneau	Gold Creek	1.6	6,000	1904
	Juneau	Snettisham	46.7	211,000	1973
	Juneau	Upper Salmon Creek	2.8	14,000	1914
	Ketchikan	Beaver Falls	5.4	36,200	1947
	Ketchikan	Ketchikan Lakes	4.2	16,400	1957
	Ketchikan	Silvis	2.2	11,000	1974
	Ketchikan	*Swan Lake	22.0	88,000	1984
	Metlakatla	Purple Lake	3.0	15,800	1956
	Pelican	Pelican Creek	0.5	2,500	1940
	Petersburg	Crystal Lake	1.6	11,000	1956
	Petersburg/ Wrangell	*Tyee Lake	20.0	133,000	1984
	Sitka	Blue Lake	8.0	39,800**	1961
	Sitka	Green Lake	18.5	46,500**	1982
	Skagway	Dewey Lakes	0.7	700	1909

* APA Projects.

** Firm energy rather than average annual generation.

Table 1
Electric Rates and Production Costs For Selected Utilities
1983

Utility	Production Cost (cents/kwh)	Retail Rate (cents/kwh)	Difference (Rate-Cost)
<u>Regulated</u>			
Alaska Electric (AEL&P)	3.5	5.9	2.4
Alaska Power (AP&T)	12.4	16.1	3.7
Alaska Villages (AVEC)	29.6	44.8	15.2
Anchorage (AML&P)	3.6	5.5	1.9
Aniak (APC)	28.3	33.9	5.6
Barrow (BU&EC)	2.7	9.0	6.3
Bethel (BUC)	15.7	18.1	2.4
Bettles (BL&P)	25.5	49.1	23.6
Chugach Electric (CEA)*	3.0	6.5	3.5
Cold Bay (NP&E)	16.4	19.3	2.9
Copper Valley (CVEA)	8.3	13.3	5.0
Ft. Yukon (FYU)	24.5	34.3	9.8
Galena (M&DE)	30.2	38.1	7.9
Golden Valley (GVEA)	6.4	10.0	3.6
Haines (HL&P)	13.7	16.4	2.7
Kodiak (KdEA)	12.1	16.4	4.3
Kotzebue (KtEA)	18.0	23.4	5.4
McGrath (MGL&P)	24.5	32.0	7.5
Northway (NP&L)	18.9	26.5	7.6
Pelican (PUC)	8.3	10.6	2.3
Sandpoint (PUC)	15.5	17.3	1.8
Tanana (TPC)	24.6	31.8	7.2
Tlingit-Haida (THREA)	25.3	38.4	13.1
Yakutat (YPI)	13.3	18.1	4.8
<u>Unregulated</u>			
Cordova (CEC)	14.6	20.4	5.8
Fairbanks (FMU)	6.6	7.5	.9
Glacier Highway (GHEA)	5.2	11.1	5.9
Ketchikan (KPU)	5.9	9.0	3.1
Metlakatla (MP&L)	5.6	8.2	2.6

Table 1 (continued)
Electric Rates and Production Costs For Selected Utilities
1983

Utility	Production Cost (cents/kwh)	Retail Rate (cents/kwh)	Difference (Rate-Cost)
Naknek (NEA)	14.7	22.8	8.1
Nome (NTUB)	17.7	20.4	2.7
Petersburg (PMP&L)	10.4	13.3	2.9
Sitka (SED) [†]	8.0	6.8	-1.2
Wrangell (WML&P)	10.5	14.6	4.1

* Homer Electric Association, Matanuska Electric Association and the City of Seward are combined with Chugach Electric. Seward is an unregulated utility.

[†] According to John McCracken, Finance Director for the City and Borough of Sitka, the utility did show a paper loss of approximately \$69,000 in 1983; however, this does not account for the large negative difference between the retail rate and the production cost. This difference is the result of not counting substantial income from interest on cash reserves and on overlapping financing, while apportioning the interest expense of this financing to production costs.

Source: Alaska Power Authority, Advisory Committee Report on Statewide Power Production Costs, December 15, 1984.

Table prepared by the House Research Agency, February 1985.

Initial Loan Principal	\$196,000,000	Ramp Period (Years)	5	4-DAM POOL
Loan Interest Rate	4.00%	D. S. Entry Rate (c/kW.h)	2.20	LOAN REPAYMENT SCHEDULE
Loan Term (Years)	40	Entry Rate Annual Escalation	6.05%	
Total Energy Capability (GW.h/yr)	378,607	D. S. Rate Ceiling (c/kW.h)	2.682840	CASE 4-A

Year	DEBT SERV COMPONENT (c/kW.h)	PAYMENT FROM ELEC REVENUE	ENERGY SALES (GW.h)	UTILIZ- ATION	CURRENT PRINCIPAL BALANCE	INTEREST DUE FROM 4-DAM POOL	ACTUAL PAY- MENT LESS INT. DUE	PRINCIPAL REPAYMENT DEFERRED	DEFERRED PRINCIPAL BALANCE
1985	2.00	3,104,120	155,206	40.99%	196,000,000	3,213,926	(109,006)	1,217,061	1,217,061
1986	2.12	3,849,550	181,496	47.94%	194,892,746	3,756,990	92,561	1,116,790	2,333,851
1987	2.25	4,306,077	191,437	50.56%	193,683,395	3,954,721	351,356	1,102,865	3,436,735
1988	2.39	4,751,347	199,181	52.61%	192,229,154	4,095,758	655,589	1,099,544	4,536,279
1989	2.53	5,212,390	206,042	54.42%	190,474,021	4,205,259	1,007,139	1,099,799	5,636,078
1990	2.68	5,714,200	212,994	56.25%	188,367,003	4,300,727	1,413,561	1,097,712	6,733,790
1991	2.68	5,877,217	219,067	57.86%	185,855,010	4,361,163	1,516,054	1,099,757	7,833,547
1992	2.68	6,007,552	226,907	59.93%	183,239,999	4,449,374	1,630,178	1,087,542	8,921,089
1993	2.68	6,336,412	236,103	62.30%	180,514,278	4,557,304	1,779,100	1,061,804	9,982,973
1994	2.68	6,596,916	245,093	64.35%	177,673,206	4,664,016	1,932,100	1,029,060	11,012,041
1995	2.68	6,853,020	255,439	67.47%	174,712,118	4,760,231	2,092,789	993,250	12,005,291
1996	2.68	6,990,569	260,566	68.82%	171,625,000	4,767,619	2,222,950	989,301	12,995,272
1997	2.68	7,133,591	265,897	70.23%	168,413,149	4,771,637	2,361,954	983,002	13,970,354
1998	2.68	7,283,428	271,402	71.71%	165,060,112	4,772,574	2,510,054	971,743	14,950,097
1999	2.68	7,440,669	277,343	73.25%	161,505,516	4,770,144	2,670,525	955,320	15,905,417
2000	2.68	7,605,529	283,400	74.88%	157,959,671	4,763,757	2,841,772	933,243	16,838,660
2001	2.68	7,732,481	288,220	76.13%	154,184,656	4,725,569	3,006,912	922,200	17,760,940
2002	2.68	7,781,390	290,043	76.61%	150,255,456	4,633,629	3,147,761	939,834	18,700,702
2003	2.68	7,831,907	291,926	77.11%	146,167,861	4,536,187	3,295,720	956,646	19,657,420
2004	2.68	7,884,572	293,889	77.62%	141,915,495	4,433,170	3,451,401	972,301	20,629,009
2005	2.68	7,939,463	295,935	78.16%	137,491,713	4,324,205	3,615,257	986,853	21,616,662
2006	2.68	7,996,661	298,067	78.73%	132,809,602	4,208,091	3,707,770	999,059	22,616,521
2007	2.68	8,056,300	300,290	79.31%	128,101,973	4,086,022	3,969,470	1,011,153	23,627,674
2008	2.68	8,110,400	302,606	79.93%	123,121,342	3,957,546	4,160,342	1,020,474	24,640,147
2009	2.68	8,183,279	305,023	80.56%	117,939,925	3,820,549	4,362,730	1,027,560	25,675,716
2010	2.68	8,250,833	307,541	81.23%	112,549,627	3,675,330	4,575,503	1,032,102	26,707,818
2011	2.68	8,321,231	310,165	81.92%	106,942,022	3,521,300	4,799,922	1,033,753	27,741,570
2012	2.68	8,394,633	312,901	82.65%	101,100,347	3,357,095	5,036,730	1,032,125	28,773,696
2013	2.68	8,471,140	315,753	83.40%	95,039,403	3,184,420	5,206,719	1,026,010	29,800,514
2014	2.68	8,550,802	318,725	84.18%	88,725,946	3,000,199	5,550,603	1,017,397	30,817,911
2015	2.68	8,634,023	321,824	85.00%	82,157,066	2,804,469	5,029,554	1,003,334	31,821,245
2016	2.68	8,720,652	325,053	85.85%	75,324,978	2,596,405	6,124,247	984,130	32,805,376
2017	2.68	8,810,903	328,420	86.74%	68,216,601	2,375,152	6,435,031	959,147	33,764,523
2018	2.68	8,905,124	331,929	87.67%	60,821,622	2,139,753	6,765,371	927,769	34,692,291
2019	2.68	9,003,262	335,507	88.64%	53,120,403	1,809,200	7,114,062	809,265	35,501,556
2020	2.68	9,105,559	339,400	89.64%	45,125,156	1,622,397	7,403,162	842,864	36,424,421
2021	2.68	9,212,202	343,375	90.69%	36,799,130	1,338,166	7,074,035	707,707	37,212,120
2022	2.68	9,323,352	347,510	91.79%	28,137,300	1,035,234	8,200,110	722,002	37,935,010
2023	2.68	9,439,197	351,036	92.93%	19,126,307	712,229	8,726,960	647,379	38,582,389
2024	2.68	9,559,970	356,330	94.12%	9,752,041	367,600	9,192,299	560,052	39,142,441
2025	1.34	4,025,070	361,030	95.36%	(310)	1,565,605	3,260,105		35,001,945
2026	1.32	4,025,070	365,921	96.65%		1,435,270	3,390,592		32,491,353
2027	1.30	4,025,070	371,019	98.00%		1,299,654	3,526,216		28,965,137
2028	1.28	4,025,070	376,334	99.40%		1,150,605	3,667,265		25,297,872
2029	1.27	4,025,070	378,607	100.00%		1,011,915	3,013,955		21,403,917
2030	1.27	4,025,070	378,607	100.00%		859,357	3,966,514		17,517,403
2031	1.27	4,025,070	378,607	100.00%		700,696	4,125,174		13,392,229
2032	1.27	4,025,070	378,607	100.00%		535,609	4,290,181		9,102,040
2033	1.27	4,025,070	378,607	100.00%		364,002	4,461,700		4,640,260
2034	1.27	4,025,070	378,607	100.00%		185,610	4,640,260		(0)
TOTALS		347,620,906	15,046,933			151,620,906	196,000,000	39,142,441	

1 The following exchange illustrates the point made earlier that
2 Congress' primary concern was only that the overall revenue derived
3 from rates be sufficient to repay the Federal investment in the
4 power project.

5 "Mr. KING. There may be some provision in the bill,
6 but I have failed to discover any--and I may say that
7 I have had the bill which passed the House, instead
8 of the Senate committee bill--which will provide for
9 reimbursement to the Government of the United States
10 of the enormous sums which are to be appropriated
11 under the provisions of the bill. I ask the Senator
12 whether or not it is contemplated that the Government
13 is to be reimbursed, and what provisions are found in
14 the bill to effectuate that purpose?

15 "Mr. McNARY. Mr. President, that is a very natural
16 question. On page 12 the bill provides:

17 'Rate schedules shall be drawn having regard to
18 the recovery (upon the basis of the application
19 of such rate schedules to the capacity of the
20 electric facilities at Bonneville project) of
21 the cost of producing and transmitting such
22 electric energy, including the amortization of
23 the capital investment over a reasonable period
24 of years. . . .'

25 "Mr. ELLENDER. While the Senator is considering
26 section 7 of this bill will he explain the meaning of
27 the language which appears in parenthesis on lines 18
28 and 19, page 12?

29 "Beginning at line 18, I find this language in
30 parenthesis:

31 'Upon the basis of the application of such rate
32 schedules to the capacity of the electric
33 facilities of Bonneville project.'

34 "Mr. STEIWER. Mr. President, there is some language
35 included in the parenthesis on page 12, line 18, to
36 which the Senator from Louisiana directs attention,
37 and with the permission of my colleague I will
38 undertake to answer the question by saying that in
39 figuring the amortization of the capital investment
40 it is necessary, of course, to have a formula of
41 revenue. That formula consists of the rate
42 multiplied by the amount of energy which presumably
43 will be offered for sale.

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"Mr. ELLENDER. Will that take into consideration the cost of the entire project?

"Mr. STEIWER. Ultimately it will. The parenthesis is merely to state the formula. It uses the words 'upon the basis of the application of such rate schedules to the capacity of the electric facilities of Bonneville project.'

"Mr. ELLENDER. Suppose the capacity of the plant is not used; how will the rate then be fixed so as to amortize the entire cost of the project in a given period?

"Mr. STEIWER. The rate will be figured on the capacity. It necessarily must be so, or we never could initiate the use of that power. The rate will be figured on the capacity; but, of course, the amortization will proceed more slowly, for the project is only partly completed, and only part of the energy is being sold.

"Mr. ELLENDER. Suppose the time for amortization is fixed. How would that language then be applicable? Am I to understand that the rate is fixed on a basis of the full capacity of the entire plant?

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"Mr. STEIWER. That is correct.

"Mr. ELLENDER. Suppose the entire production is not sold and the time for amortization has been fixed. Would not the number of years in which the cost of the plant is to be repaid be changed, or would it not be necessary to increase the rates?

"Mr. STEIWER. It would have the practical effect of doing what the Senator first suggested, because the rate, being a fixed amount, if less capacity than anticipated should develop, of course, it would tend to postpone the time of complete repayment to the Treasury.

"Mr. ELLENDER. Does the Senator from Oregon understand from the language in section 7 that the Government will eventually get back operating expenses and also the entire amount of money spent for erecting the plant?

"Mr. STEIWER. Yes, the Government would get the entire amount, less the charge-off for navigation. Our government never recovers money expended for the building of rivers and harbors. The amount charged off for navigation, therefore, will not be recovered; but the amount that is charged for the development of hydroelectric power will be recovered eventually.

1 The rate of recovery, of course, will be dependent
2 upon the market and the amount of energy sold." 81
3 Cong. Rec. 8524 (1937).

4 One final argument conclusively refutes the California
5 utilities' contention that BPA's NF-2 rate must be cost-based, and
6 that is that one of the Act's primary objectives would not have
7 been achieved had the rates been required to have been cost-based.

8 The Bonneville Project Act emphasized the objective "to
9 encourage the widest possible use of all electric power . . ." The
10 widespread use policy appears three times in sections of the Act
11 authorizing building of transmission lines, requiring preference
12 for public and cooperative systems, and as guidance for setting
13 wholesale rates (Sections 2, 4, and 6).

14 Widely debated during the drafting of the bill was whether a
15 postage stamp or uniform rate would encourage widespread use more
16 than a zone rate, which is lowest at the dam and increases with
17 distance.

18 A zone rate reflects the actual power and transmission costs
19 associated with a particular user while the uniform rate does not.
20 It was thought at the time that if zone rates were charged, those
21 domestic and rural consumers farthest from the dam would not be
22 able to afford the actual cost of service, and thus the objective
23 of widespread use would not be attained.

24 As explained by the following exchange in the House Hearings on
25 H.R. 7642, Congress was concerned that rates not reflect the actual
26 cost of providing service, for to do so would price out those
27 farthest from the dam and allow big industry to locate near the dam
28 and buy up all the available power:

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Alaska State Legislature



House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

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AGENDA

MONDAY, 3/4/85, 3:30 p.m.
Room 124 (House Judiciary)

- * HB 219 "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

TUESDAY, 3/5/85, 3:30 p.m.
Room 124 (House Judiciary)

Continuation of HB 219.

For more information, contact JOHN HARTLE
CAPITOL ROOM 411
465-4919

* Indicates first public hearing.

3/5/85

MEMORANDUM

TO: Rep. John Sund, Chair
House Special Committee on Loans

FROM: John Hartle, AA *JH*

RE: Questions for the APA

1. The single most critical assumption in all the forecasts of future electric rates is that of oil prices. WHY does the APA insist on using different forecasts than those made by the Department of Revenue?

[The importance of this cannot be stressed too much. The difference is so significant in all the APA forecasts. EXAMPLE: (see attached) In the year 2000, measured in 1983 dollars
Dept of Revenue = \$25.42/bbl; APA = \$40.00/bbl
Virtually everything the APA does depends on the price of oil for comparison - the financial feasibility of dams, comparing four dam pool electric rates to those of the rest of the state, etc.

Again: Why not use the official State of Alaska forecasts?

2. Will the APA charge different debt service component rates per kilowatt hour for each of the communities? WHY? Is this legal? (I was under the impression we were talking about pooling those rates.)

3. To the proposed one-year hold-everything-and-study-some-more plan: Steve Sealey, (Wrangell mill owner), and others like him, can't wait that long to make their decisions - they will generate their own power by then - this would mean the difference between a 36% useage of Tyee and the current 18% useage.

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641
(907) 276-0001

February 25, 1985

RECEIVED

FEB 27 1985

DOUGLAS H. ROSENBERG

Doug Rosenberg
2000 IBM Bldg
P. O. Box 2927
Seattle, Washington 98111

Subject: Oil Price Forecasts

Dear Mr. Rosenberg:

Attached are the two oil price forecasts that we discussed by telephone on February 19:

- 1) Alaska Department of Revenue mean forecast, issued December 1984;
- 2) Sherman H. Clark Associates "no supply disruption" forecast (adopted by the Power Authority as the base case for Susitna), issued August 1984.

Sincerely,



Richard Emerman
Senior Economist

RE/amh