

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1348 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86



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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 24, 1986

Mr. Lee Nunn
Chairman
Alaska Power Authority
6311 Habicht Court
Anchorage, AK 99504

Dear Lee:

It's my understanding that the Board of Directors of the Alaska Power Authority will be meeting in Juneau soon, and even though I've had meetings with you and other members of the Board on different occasions, I thought perhaps it would be appropriate at this time to reiterate my thoughts on APA and Railbelt energy.

As we have discussed previously, it is my suggestion that during the next six-to-nine months, APA:

- undertake a complete review and examination of all potential alternative sources of electrical energy for meeting Railbelt requirements; this review shall include coal, Cook Inlet natural gas, North Slope natural gas, hydroelectric, alternative sources of renewable and non-renewable energy and energy conservation;

- simultaneously, contract to update and bring current the feasibility and economic studies of a hydroelectric project at Devil Canyon.

When this work is completed, at the end of six-to-nine months, APA would then turn the data over to Railbelt user groups, assuming the Railbelt utilities were formed together, even loosely, in some kind of an organization that could evaluate the data and use it for its own planning purposes. It remains my hope that those utility groups will be looking into the formation of such a group during the time APA is completing and updating its studies. As I have

Mr. Lee Nunn

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April 24, 1986

indicated before, I believe there needs to be a formal organization of some kind bringing the utilities together if they ever hope to finance any major project to serve the energy needs of Railbelt residents.

Once the data is turned over to the Railbelt user groups, it seems to me that APA has largely completed that portion of the task it was created to do. If you have any questions regarding my position on these matters, please don't hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Sheffield".

Bill Sheffield
Governor

cc: APA Board Members

MAY 2, 1976

SECTIONAL ANALYSIS (COMPOSITE)

CS FOR SENATE BILL NO. 476 (Finance)^{am} an Act relating to hydroelectric projects

Section 1. Contains findings about the cost of Susitna studies and the conclusion reached by these studies. Criticizes the performance of the APA in this project.

Section 2. States the intent of the legislature that as a component of any feasibility study for a power project, the APA provide for an independent comparative analysis of all reasonable alternatives to the project.

This section states additional intent that OMB comply with the law which requires it to review the feasibility study and plan of finance for any project, that OMB submit its recommendations to the legislature by next April 15th, and that the APA not submit a FERC license application for Devil Canyon until the legislature has approved the project as required by law.

Section 3. This section is amended to include the conditional power sale agreement as an element of the plan of finance. A conditional power sale agreement would provide hard evidence to the Legislature that the utilities understood the plan of finance and its impact on their rates and would therefore allow the Legislature to make a better informed decision as to whether to continue to appropriate funds for further project development.

Section 4. This section is amended to explicitly prohibit the APA from submitting a FERC license application until the Legislature approves the project on the basis of a feasibility study, plan of finance, conditional power sale agreements, and an independent cost estimate. APA and AG have argued in the past that the current statute is ambiguous on this point. The prohibition is logical and timely in that the FERC license application should not be submitted unless the Legislature intends to construct the project. Applying for a FERC license without that commitment is analogous to starting a 1000 mile voyage with only a 100 mile supply of fuel and could result in needless expenditure of funds for the licensing process.

Section 5. This section must be amended if AS44.83.325 is repealed as noted in Section 10 below. The revised section does that as well as clarifying that a Susitna project must follow the approval process required of all other new projects before start of construction.

Section 6. Requires the APA to prepare an annual report on the status of any Susitna River hydroelectric project which has been approved by the legislature as required by law. (The present law refers to "the" Susitna project, implying only the two-dam project.)

Section 7. Further describes the study of power alternatives that will be financed in SB 477. This section calls

for a study of alternatives that can be incorporated into the feasibility study required by law, calls for preliminary plan of finance for the best alternative, and calls for the completion of a reconnaissance study when submitting the other studies to the governor and legislature. Finally, it requires the APA to regularly report to the Budget and Audit Committee on its implementation of these requirements.

Section 11 gives this section an effective date when funds are appropriated to the APA for reviewing Railbelt power alternatives, e.g., upon the effective date of SB 477.

Section 8. Because of previous reconnaissance studies done on Susitna River hydro sites, this section exempts a future project located at any of these sites from undergoing another such study.

Section 9. Approval of the Watana phase should be repealed now in order to clear the books and in view of the withdrawal of the FERC license application. This would allow any new project to follow the approval process without potential complications due to Watana dam authorization.

Section 10. This section should be repealed as it has caused considerable confusion over the years. It is not logical to allow construction of the Susitna project within one year of the approval of a preliminary report by the Legislature and which is inferior to a feasibility study. AS44.83.320 had called for submittal of two preliminary reports to the Legislature by March 30, 1981 and again by April 30, 1982. APA submitted both of these, however, the Legislature never got around to approving the latter one as contemplated in this section. Finally, there is no reason for the Susitna project not to follow the approval process established for all other new projects.

Section 11. See Section 7 above.

Section 12. Gives all sections of the Act except Section 7 an immediate effective date.

Alaska State Legislature

Advisory Council Members
Senator Bennett, Chairman
Senator Amodeo
Senator Kurtz
Senator Sackett



PO Box V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

Senate Advisory Council

MEMORANDUM

TO: Senator Jan Faiks
Alaska State Legislature

FROM: Kurt S. Dzinich *KSD*
Senior Advisor

DATE: March 31, 1986

SUBJECT: Devil Canyon Project

In response to our discussion of March 27, 1986, I have reviewed the activities related to the Susitna Hydroelectric Project to include the APA Board action of March 26, 1986, which resulted in Resolution 1986-04. I believe that the course of action adopted in Resolution 1986-04 is not prudent nor in the best long-term interest of Alaska for the reasons outlined below.

Since 1979 the State has spent \$145 million on Susitna related studies and FERC licensing activities. The cost of federal studies by the Bureau of Reclamation, Alaska Power Administration and the Corps of Engineers between 1950 and 1979 are not available. Three things stand out. First of all, the studies conclude that Susitna option represented the best long-term solution to the Railbelt energy needs. Second, the written audit trail of project development and decision making by APA, such as it is, is difficult to follow or non-existent. Third, the coordination and cooperation between APA and utilities leaves much to be desired. The second deficiency is of major significance and is all the more exasperating when it is realized that the statutory requirements for project development have not been complied with. Specifically, these requirements for each proposed project are:

1. AS 44.83.177 Reconnaissance study
2. AS 44.83.179 Review of Reconnaissance study by OMB
3. AS 44.83.181 Feasibility study and Plan of Finance
4. AS 44.83.183 Review of feasibility study and finance plan by OMB with recommendation to the Governor and Legislature.
5. AS 44.83.185(a) Submission to the Legislature of the Feasibility Study and Plan of Finance.

In addition following statutory requirements apply only to the Susitna Project:

6. AS 44.82.320(a) Preliminary report by March 30, 1981
7. AS 44.83.320(b) Preliminary report by March 30, 1982
8. AS 44.83.325 Legislative approval of Preliminary report referenced in item 7 above.

As best as I have been able to ascertain, written record indicates that only items 6 and 7 have been officially accomplished. I should add that the Susitna specific requirements are confusing while the requirements of item 1 and 2 seem redundant since the Corps of Engineers had started feasibility level studies when the APA took over the project in 1979.

In view of APA Resolution 1986-04, of major significance is the requirement AS 44.83.181(b)(3) which states that a feasibility study shall include "a comparative analysis of all reasonable alternatives to construction of the proposed project; and". Item 5, on page 2 of that resolution calls for a review and examination of all potential alternative sources of electrical energy for meeting the Railbelt requirements. In other words, the APA Board decision is to ignore numerous studies covering a period of almost 7 years and costing \$145 million to date. Further, after completion of the APA review, there will still exist the requirement to prepare a feasibility study and a plan of finance.

Based on the draft Plan of Finance, and second opinion by Prudential-Bache, the two-dam Susitna option does not appear to be financable i.e. the State cannot afford the commitment of funds that would be required to make the two-dam Susitna energy rates marketable in the early years. Since factors leading to that conclusion are not forecasted to change in the foreseeable future, I believe the decision to withdraw the two-dam FERC license application and conclude all work associated with that option is correct. I believe that the prudent course to follow now would be to ascertain whether a smaller Susitna option exists that is both feasible and financable (that was the course being followed by APA until around March 15 when inexplicably all discussion on Devil Canyon dam option was terminated). If no, then the Susitna option can be laid to rest properly. If yes, I would expect the 1987 Legislature to make a decision as to whether APA should submit the new FERC license application for the Devil Canyon stand-alone dam project. The scenario would be as follows:

1. APA completes a feasibility study and a plan of finance in cooperation with the utilities and in accordance with AS 44.83.181. As a major component of the feasibility study, the APA should conduct a cooperative analysis of all reasonable alternatives as required specifically by statutes. This part of the study can be accomplished by an independent expert. The feasibility study contains all information that is required for a FERC license application.

Senator Jan Faiks
March 31, 1986

2. APA and utilities conclude conditional power sale agreements by March 15, 1987. These agreements should constitute an essential part of the plan of finance.
3. APA submits the feasibility study and plan of finance to the Legislature by March 15, 1987, and in accordance with AS 44.83.185(a).
4. OMB reviews above documents in accordance with AS 44.83.183 and submits its recommendation to the Legislature and Governor by April 15, 1987.
5. Based on above documents, the 1987 Legislature decides whether to approve the project in accordance with AS 44.83.185(c) thereby allowing APA to submit a new FERC license application. If the feasibility study and plan of finance conclude that the Devil Canyon is not the best long-term alternative, or that even the smaller project is not affordable, the 1987 Legislature will have to consider other options for meeting the Fairbelt energy needs.

My rough estimate is that of the \$145 million spent to date 40% was related to the Devil Canyon site and 60% to the Watana site. The reason for the difference is due to such factors as Watana dam being larger, of earthfill construction, more geotechnical work, larger area inundated by water, etc. In other words if we were starting today we could have expected to pay about \$60 million for submitting a FERC license application. In view of the data we have already, I estimate that completion of a feasibility study/FERC license application, a plan of finance/conditional power sale agreements, legal, and APA costs would total about \$1 million in FY 86 and about \$4 million in FY 87 assuming that work is allowed to proceed within the next 30 to 60 days. In summary, a \$60 million effort can be obtained for no more than \$5 million. If the decision is made in 1987 to submit a new FERC license application, there would most likely be some additional costs associated with the licensing process.

Since the FERC licensing process is lengthy and costly, APA should ascertain if there is any way of obtaining an exemption. In my opinion, the only possibility would be thru Congressional legislation as I do not believe that FERC has the authority to waive the licensing requirements.

In order to implement the above scenario it will be necessary to amend existing statutes, appropriate FY 87 funds, clarify use of FY 86 remaining funds, and issue a letter of intent. Following are proposed:

1. Repeal sec 10, Chapter 169 which authorized the Watana Dam phase of the Susitna River Project.
2. AS 44.83.325 is repealed.
3. AS 44.83.330 is amended to read:

Construction, maintenance and operation of project. [Within one year after approval of its preliminary report submitted under AS 44.83.320(b),] The authority may enter into a

Senator Jan Faiks
March 31, 1986

contract for the construction of a [the] Susitna River Hydroelectric Project in a manner consistent with the purpose of the project as described in AS 44.83.310. and only after approval of the project by the Legislature in accordance with AS 44.83.185.

4. New Section: In view of the extensive and numerous studies of the Susitna River Hydroelectric sites the provisions of AS 44.83.177-44.83.179 do not apply to the Devil Canyon dam project.

5. AS 44.83.181(a) is amended to read:

Unless the reconnaissance study has been disapproved by the office of management and budget under AS 44.83.179, the authority shall complete a feasibility study and a plan of finance which includes conditional power sale agreements with the appropriate utilities for each proposed project.

6. AS 44.83.185 (b) is amended to read:

The authority may not proceed with work on the engineering or final design phase, or may not submit a FERC license application [of] for a proposed new project for which legislative approval is required until the legislature approves the proposed new project. However, the authority may proceed with the engineering or design work necessary to meet the requirements for submission of a license application for the proposed new project to the Federal Energy Regulatory Commission without obtaining legislative approval of the proposed new project.

7. New Section: A sum of \$4,000,000 is appropriated to the Alaska Power Authority from the Railbelt Energy Fund for the purpose of preparing a feasibility study and a plan of finance for the Devil Canyon dam project in accordance with AS 44.83.181.

8. New section: Standard effective date clause.

In terms of how best to proceed for the remainder of FY 86, the Legislature had set a limit of \$24,109,000 on APA for what could be used for Susitna project activities from the Power Development Fund. It appears now that there would be around \$8 million left over due to the decision to stop the two-dam Susitna project. APA could use one million dollars of those funds to start work on the Devil Canyon dam documents for the remainder of FY 86 although a Budget and Audit Committee approval might be required.

Attached is a Letter of Intent and a specific sectional analysis. The purpose of the letter of intent is to clarify and amplify to the Alaska Power Authority exactly what it is that the Legislature desires to be accomplished.

Please let me know if there are any questions.



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April 23, 1986

PRELIMINARY BUDGET ESTIMATE

Railbelt Alternatives Study
(Thousands of Dollars)

<u>Tasks</u>	<u>Personal Services and Contractor Overhead</u>	<u>Direct Costs*</u>
A. Review Utility System Data Base	\$ 20.0	\$ 5.0
B. Load Forecast (Incl. ISER and Battelle)	60.0	10.0
C. Power Supply Alternatives		
1. Gas Price Forecasts	80.0	6.0
2. Gas Supply	10.0	5.0
3. Gas Plant Characteristics	10.0	3.0
4. North Slope Natural Gas	40.0	12.0
5. Coal Price Forecasts	50.0	6.0
6. Coal Plant Characteristics	40.0	5.0
7. Oil Price Forecasts	40.0	5.0
8. Non-Susitna Hydro	60.0	10.0
9. Other Alternatives	30.0	6.0
10. Conservation	80.0	12.0
11. Devil Canyon	10.0	5.0
D. Financial Evaluations	10.0	2.0
E. Supply Plans		
1. Inflation, Interest, Discount	20.0	5.0
2. Methodology	30.0	10.0
3. Develop plan	80.0	20.0
F. Related Issues	10.0	6.0
G. Progress Meetings	40.0	20.0
H. Final Report Production/Printing	40.0	5.0**
I. Management/Contract Admin.	<u>60.0</u>	<u>5.0</u>
SUBTOTAL	820.0	+ 163.0
	=	983.0
J. Contingency (20%)		197.0
TOTAL		<u>\$ 1,180.0</u>

Additional Costs:

Harza-Ebasco

- | | |
|--|-------|
| 1. Replying to inquiries, document control and limited admin. support. | 100.0 |
| 2. Devil Canyon: Upstream storage investigation | 225.0 |

APA

- | | |
|---|-------|
| 1. Staff and expense related to alternatives study | 125.0 |
| 2. Matching funds for study of Anchorage-Kenai Intertie | 150.0 |

Finance Team

100.0

Additional Costs Subtotal	700.0
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Contingency (20%)	<u>140.0</u>
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GRAND TOTAL	<u><u>\$2020.0</u></u>
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- * Direct costs include travel, telecommunications, per diem, computer time etc.
- ** Cost based on Harza-Ebasco providing typing and printing services for 300 copies of a 300 page report.

Note: No costs are included for public hearings other than the monthly steering committee meetings.