

ALASKA LEGISLATURE COMMITTEE FILES 1903-1900 00/2
4319 SRES HB 103 - HB 219 1198

Both the Kenai gas field and the Beluga gas field are more than 15 years into production. The Beluga field, which began production in 1968, has about 80 percent of its recoverable reserves remaining to be produced after 17 years of production. The Kenai field, which began production in 1962, has about 34 percent of its recoverable reserves remaining, but the State's effective royalty share is only about 2 percent in that field. To ensure that the State receives its share before the end of the field life, gas from other nearby fields could be pledged as a backup mechanism.

The possibility of arranging a trade of current production for future production holds promise as a way to resolve the current dispute without compromising the State's position in other royalty litigation or the lease enforcement process. However, we cannot pursue this possibility unless the statute is amended.

We think the underlift approach could be attractive to all parties because:

- Consumer electric and gas rate increases that would otherwise occur could be avoided (or at least postponed for perhaps 5-7 years);
- The State would be banking the resources until a local or foreign export market develops for the gas;
- Lengthy litigation could be avoided;
- All future options for disposition of the gas would remain open;
- The Legislature would have more time to consider the issue of using royalties to provide consumer energy subsidies;
- If the Legislature does desire to subsidize Southcentral utility rates through in-kind royalty sales in the future, more gas would be available to offset large price increases that will occur in the early 1990s when long-term contracts expire.

The expected fiscal impact of underlifting in the Beluga and Kenai fields, if agreement could be reached by the State, lessees, and utilities to allow that arrangement, would be a loss of about \$1.5 million in FY 86.

May 8, 1985

The State's options for disposition of the gas are limited at this time. Immediate local needs appear to be satisfied by existing contracts between the utilities and gas producers. Certain contractual provisions in those contracts may make in-kind royalty gas sales unattractive to the utilities at this time. For example, the Chugach Electric contract for Beluga Gas contains a "most favored nation" provision which would jeopardize the utility's favorable long-term contract price if it purchases gas from that field at a higher price. Enstar also would have no incentive to purchase royalty gas from the Kenai field because any such purchase would reduce the volume of gas Enstar is entitled to receive under its 61¢ long-term contract with Union and Marathon.

It is our expectation that the amendment will be proposed during Senate floor debate on CSHB 103(Finance). In addition to the underlift amendment, I urge your support of that bill. The bill would remove possible legal impediments to renewing with the same purchaser short-term, competitively bid royalty oil contracts.

If you have any questions, please call.

Sincerely,



Esther C. Wunnicke
Commissioner

Attachment

ZUMON! Perilla

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
TO: Senator Jalmar Karttula

State of Alaska

DATE: May 9, 1985

FILE NO:

TELEPHONE NO: 276-2653

SUBJECT: Underlift Amendment

FROM: Kay Brown, Director

Here is some additional background for your information.

	<u>Kenai gas field</u>	<u>Seluga gas field</u>
Date of first production	1962	1968
Years produced	23	17
Total recoverable gas	2410 BCF	985 BCF
Total production to date	1560 BCF	185 BCF
Percent of total recoverable gas produced to date	65	19
Average annual production	108 BCF	19 BCF
Years of production remaining (at current rates)	8	42
Year that 80% of recoverable gas will have been produced (at current rates)	1989	2016

1657K

Handle ASAP. Press Comments

DELIVER TO: <u>Ned Farquhar</u>	LOCATION: <u>465-2400</u>
FROM: <u>Kay Brown</u>	LOCATION: <u>265-4241</u>
TELEPHONE/TELECOPIER # _____	TOTAL NUMBER OF PAGES: <u>61</u>
TRANSMITTING ON SPEED _____	DATE: <u>5/9</u> TIME: <u>10 am</u>
NAME AND PHONE NUMBER: <u>265-4244 - Ballin</u>	

Introduced: 5/4/85
Referred: Resources

1 IN THE SENATE

BY FAIKS, KELLY AND V.FISCHER

2

SENATE BILL NO. 309

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 royalty value of a natural gas lease on state land; and providing for an effective date."

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

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* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

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* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

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(aa) Notwithstanding other provisions of this section, if the royalty share of natural gas reserved to the state under a lease issued under (f) of this section is taken in value, the value of production sold under a long-term sales contract may not be greater than the price received for the production under the long-term sales contract unless it is shown by clear and convincing evidence that the long-term contract price was unreasonably low at the time of contract.

* Sec. 3. This Act applies to leases issued before or after the effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 4/10/85
Referred: Resources

1 IN THE SENATE

BY P.FISCHER AND KELLY

2

SENATE BILL NO. 276

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 lease, sale, or disposal of
7 natural gas for a public use."

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

9 * Section 1. AS 38.05.810(a) is amended to read:

10 (a) The lease, sale, or other disposal of state land or re-
11 sources may be made to a state or federal agency or political subdivi-
12 sion, or the lease, sale, or disposal of coal deposits suitable for
13 mining or of natural gas may be made to a utility owned and operated
14 by a government agency or nonprofit cooperative association organized
15 to participate under the Federal Rural Electrification Act for the
16 purpose of generating electric power and energy or the production of
17 process steam, or both, for less than the appraised value as deter-
18 mined by the director and approved by the commissioner to be fair and
19 proper and in the best interests of the public, with due consideration
20 given to the nature of the public services or function rendered by the
21 agency, subdivision, or utility making application, and of the terms
22 of the grant under which the land was acquired by the state.

Offered: 3/8/85
For Today's Calendar

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2

CS FOR HOUSE BILL NO. 103 (Finance)

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 prerequisites for the disposal of
royalty oil and gas; and providing for an effective
date."

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

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* Section 1. AS 38.05.183 is amended by adding a new subsection to
read:

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(g) AS 38.05.035(e) does not apply to a sale, exchange, or other

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disposal of oil or gas under this section.

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* Sec. 2. AS 38.06.055(c) is amended to read:

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(c) A sale, exchange, or other disposition of oil or gas [MADE]

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under (b)(1) of this section may not be continued after the end of one

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year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR

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STORAGE CONDITIONS] without the prior approval of the legislature

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under (a) of this section. This subsection does not apply to a se-

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quential competitively bid sale of oil or gas made with the same party

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under (b)(1) of this section.

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* Sec. 3. This Act takes effect immediately in accordance with AS 01.-

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10.070(c).

allows for emergency if it occurs in future

Alaska State Legislature

ARLISS STURGGULEWSKI Chairman
BETTYE FAHRENKAMP Vice Chairman
JACK COGHILL
DICK ELIASON
MIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

April 1, 1985

TO: Senate Resource Committee Members

FROM: Senate Resource Committee Staff

RE: CS for House Bill No. 103 (Finance)
"An Act relating to prerequisites for the disposal of
royalty oil and gas and providing for an effective date."

Enclosed in this packet is:

- 1) A copy of the Governor's transmittal letter.
- 2) A zero fiscal note from the Department of Natural Resources.
- 3) A fact sheet from the Department of Natural Resources.
- 4) A letter from Kay Brown, Director of the Division of Oil and Gas, DNR, to Representative Pignalberi discussing the bill.
- 5) A chart prepared by DNR setting out the notice requirements for royalty oil sales.
- 6) A letter to Representative Adams from Kay Brown discussing the House Finance Committee Substitute.
- 7) A copy of the bill history.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB103

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Texico

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to royalty oil. The bill would (1) clarify and streamline procedural requirements for royalty oil and gas sales by expressly providing that the best-interest finding set out in AS 38.05.035(e) does not apply to those sales; and (2) enable the Department of Natural Resources to establish a regular program of short-term competitive royalty oil sales.

It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements set out in AS 38.05.182, 38.05.183, and AS 38.06, and are expressly committed to commissioner actions. AS 38.05.035(e), on the other hand, is essentially duplicative of those other processes and concerns actions taken by the director of the division of lands. Although we believe that the provisions of AS 38.05.0.5(e) are not presently applicable to oil and gas sales, such confusion does cast a cloud over royalty oil sales (particularly those that are entered into because of an emergency situation). The amendment in sec. 1 of the bill resolves the issue.

The second change, in sec. 2 of the bill, would allow competitive royalty oil sales for terms of less than one year to be conducted without legislative approval of those sales. To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sales. Under the present statutory scheme, however, there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one year period. Although it has been the

consistent position of this and previous administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether or not constitutional, would cast a cloud on any sale. Thus we believe that a clarification to allow short-term competitive royalty oil sales would be in the best interests of all.

Sincerely,

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

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 103
Title: An Act relating to royalty

FISCAL DETAIL

Agency Affected: Natural Resources
Program Category Affected: NRMEC

Sponsor: _____
Requestor: _____
Date of Request: _____

BRU, Program or Subprogram(s) Affected: _____
Minerals and Energy Management

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						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Kay Brown Phone: 265-4241
Division: Oil and Gas Date: December 7, 1984

Approved by Commissioner: William D. Amodeo, Deputy Date: December 10, 1984
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

DNR 3/18/85

BACKGROUND INFORMATION ON CS HB 103 (FINANCE)
AN ACT RELATING TO PREREQUISITES FOR DISPOSAL OF ROYALTY OIL & GAS

Section 1 of the bill addresses a problem related to emergency sales of royalty oil and gas.

Under present law and procedures, and assuming the requirements of AS 38.05.035(e) apply to royalty oil and gas sales, it takes at least 60 days to make a sale. If the state were suddenly to find itself without a buyer for already nominated in-kind royalty oil, a new sale would have to be arranged immediately; it may not be possible to wait 60 days. It is not clear that AS 38.05.035(e) applies; the bill makes clear that it does not. Other statutes (AS 38.05.182-.183 and AS 38.06) require a detailed process for royalty sales. For additional background, see attached letter to Rep. Pignalberi.

Section 2 of the bill is needed to allow the Department of Natural Resources to conduct additional short-term competitive royalty oil sales without legislative approval of those sales.

AS 38.06.055(a) provides that the legislature will approve all royalty oil and gas sales. Subsection (b) of that section sets out several exceptions for short-term and small volume sales which do not require legislative approval. Subsection (b)(1) makes an exception for sales of one year or less to relieve storage or market conditions, and this is the section under which we held the competitive sale in December 1984. Subsection (c), which is the section being amended in CS HB 103, goes on to say that a sale made under (b)(1) may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of the statute.

The Department of Law has advised us that there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent competitive royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one-year period.

We see no reason why a company which bids and wins in one competitive sale should not be able to bid again the next year and again win the right to receive oil if it bids the highest price.

To await legislative approval for a competitive bid contract of one year or less would defeat the entire purpose of that type of short-term competitive sale.

The bill was amended in the House Finance Committee at the Department's request. See attached letter to Rep. Adams for additional background.

Attachments as stated

1621K

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

March 4, 1985

The Honorable Marco Pignalberi
Alaska State House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Pignalberi:

This letter responds to your request for information on the procedural requirements for royalty oil and gas sales. Specifically, you asked that I further address the time savings that would accrue and the deadline conflicts that would be averted by the passage of CSHB 103 (Oil and Gas).

Under Section 1 of the bill, AS 38.05.035(e) would not apply to a sale of royalty oil or gas under AS 38.05.183. Therefore, AS 38.05.945 would not apply either since it requires notice of actions under AS 38.05.035(e).

The attached chart shows the major actions presently required to sell royalty oil, the timing of those actions, and the statutory, regulatory or contractual basis for the actions. The requirements differ for the four broad categories of royalty sales: (1) long-term competitive; (2) short-term competitive; (3) long-term negotiated; and (4) short-term negotiated. Each short-term sale is assumed to fall within AS 38.06.055(b)(1) as a sale of one year or less to relieve storage or market conditions.

As the chart shows, even if AS 38.05.035(e) and AS 38.05.945 were eliminated from the process, other provisions would require written findings and notice to the public.

Our biggest concern relates to sales necessary to relieve an emergency storage situation. If the state were suddenly to find itself without a buyer for already nominated in-kind royalty oil, a new sale would have to be arranged immediately. In that event, it might not be possible to wait the roughly 60 days necessary to accomplish a short-term non-competitive sale under the present procedures.

The Honorable Marco Pignalberi
Page 2
March 4, 1985

It is not the Department's intention to reduce the level of public participation prior to royalty sales. If the bill passes, it is our intention to continue using a "preliminary" and "final" format for notice and findings except in emergency situations where time does not permit, and we would revise the regulations to incorporate this change.

If you have other questions please let me know.

Sincerely,



Kay Brown
Director

Attachment as stated

cc: Representative Davis
Representative Shultz
Representative Adams
Representative Martin
Commissioner Esther C. Wunnicke
Assistant Attorney General Steve Porter

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MAJOR ACTIONS REQUIRED TO SELL ROYALTY OIL

Minimum Time Required	Action	Authority (Mandatory or Discretionary)		Long Competitive	Short Competitive	Long Non-competitive	Short Non-Competitive
1 - 6 months	Issue solicitation for proposals	AS 38.05.182-.183	D			X	X
	Select buyer		M			X	X(D)
	Negotiate terms of contract					X	X(D)
	Draft required findings:		M	X	X	X	X
	o The oil is surplus to in-state needs	AS 38.05.183(d)	M/ export	X	X	X	X
	o Competitive bidding is waived	AS 38.05.183(a), (c)	M			X	X
	o The sale is in the best interest of the state	AS 38.05.182(a) AS 38.05.035(e)	M	X	X	X	X
o The proposal offers maximum benefits to state citizens	AS 38.05.183(e)	M			X	X	
Day 1	Publish Preliminary Notice of Intent to Make Findings under AS 38.05.035	AS 38.05.945(a) (3)	M	X	X	X	X
	Issue solicitation for backup contracts	AS 38.05.183	D		(back-up)		X
	Notify Royalty Board of intent to waive competitive bidding	AS 38.06.050(c) AS 38.05.183(c)	M		(back-up)	X	X

Minimum Time Required	Action	Authority (Mandatory or Discretionary)		Long Competitive	Short Competitive	Long Non-competitive	Short Non-Competitive
	Preliminary findings & contracts are available to public & mailed to Royalty Board; notice to mailing list	AS 38.05.183(c),(d); AS 38.05.035(e); AS 38.05.945	M	X	X	X	X
Day 14	Deadline for submission of backup contract proposals		D		(back-up)		X
Day 18	Notice of Royalty Board public hearing	3 AAC 56.051	M	X	X(D)	X	X(D)
Day 30	Comments due on preliminary findings		M	X	X	X	X
Day 32	Royalty Board public hearing	AS 38.06.050(a)	M	X	X(D)	X	X(D)
Day 37	Comments from Royalty Board & public are incorporated into final findings; findings made public; Final Notice of Competitive Sale	AS 38.05.945(a)(4), AS 38.05.035(e)	M	X	X	X	X
Day 38	Backup purchasers selected and notified		D		(back-up)		X
Day 53	Backup contracts executed and returned to DNR		D		(back-up)		X
Day 58	Execute contracts; mail to Royalty Board	3 AAC 56.220(a)	M		(back-up)	X	X
Day 60	Nominate oil	Unit agreement/ leases; AS 38.05.182			X		X

Minimum Time Required	Action	Authority (Mandatory or Discretionary)		Long Competitive	Short Competitive	Long Non-competitive	Short Non-Competitive
Day 60	Publish Notice of Royalty Board public hearing	3 AAC 36.051				X	
Day 75	Royalty Board public hearing; Royalty Board signs resolution	AS 38.06.050	M			X	
Day 81	Applications received for qualification to bid	11 AAC 03.160; Invitation	D	X	X		
Day 88*	Introduction of bill in Legislature approving sale of royalty oil	AS 38.06.050-055	M			X	
Day 88	Supply-Demand report to Legislature	AS 38.05.183(d)	M/ export	X	X	X	X
Day 100	Commissioner determines which applicants are eligible to bid	11 AAC 03.160; Invitation	D	X	X		
Day 125	Competitive sale	AS 38.05.183(a)		X	X		
Day 127	Deadline to request conference with Commissioner	11 AAC 03.230; Invitation to bid	M	X	X		
Day 132	Competitive sale award notice issued	11 AAC 03.220	M	X	X		
Day 140	Deadline to return executed contracts	Invitation	M	X	X		
Day 141	Royalty Board public hearing; Royalty Board signs resolution	AS 38.06.050(a)	M	X			

Minimum Time Required	Action	Authority (Man- datory or Discretionary)		Long Com- pet- itive	Short Com- pet- itive	Long Non- com- pet- itive	Short Non-Com- petitive
Day 171	Introduction of bill in Legislature approv- ing sale of royalty oil	AS 38.06.050-055	M	X			
Day 208	Legislature approves contract	AS 38.06.055	M	X		X	
Day 215	Nominate in-kind oil	Unit agreement/ leases; AS 38.05.182		X		X	
Day 240	Date of first delivery				X		X
Day 395	Date of first delivery			X		X	

* Assumed to be Day 1 of the Legislative session.

March 4, 1985
Page 4

1603K

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH 7-034
ANCHORAGE, ALASKA 99510

DIVISION OF OIL AND GAS

March 5, 1985

The Honorable Al Adams, Chairman
House Finance Committee
Alaska State House of Representatives
Juneau, AK 99811

Dear Representative Adams:

CSHB 103 (Oil and Gas), which relates to prerequisites for disposal of royalty oil and gas, is scheduled for a hearing tomorrow in your committee.

At the House Resources Committee hearing on February 25, 1985, the question was raised as to whether the proposed amendment in Section 2 of the bill would allow a competitive bid sale of one year or less to be continued or renewed beyond one year without legislative approval and without going to competitive bid.

While the language could possibly be interpreted to allow that outcome, I am informed by the Attorney General's Office that the case law on competitive bidding would preclude it, since a competitively-bid contract cannot be materially amended after it is awarded.

Nevertheless, we believe the bill could be improved and an unintended construction could be prevented by adoption of the following language for Section 2 of the bill (substitute beginning on line 14):

*Sec. 2. AS 38.06.055(c) is amended to read:

(c) A sale, exchange, or other disposition of oil or gas [MADE] under (b)(1) of this section may not be continued after the end of one year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR STORAGE CONDITIONS] without the prior approval of the legislature under (a) of this section. This subsection does not apply to contracts awarded to the same party in sequential competitive sales of oil or gas under (b)(1) of this section.

Thank you for your consideration.

Sincerely,


Kay Brown
Director

cc: House Finance Committee Members
Commissioner Esther C. Wunnicke

HB 103

MEASURE HISTORY

PAGE 01 OF 02

CSHB 103(FIN)

AN ACT RELATING TO PREREQUISITES FOR THE DISPOSAL OF ROYALTY OIL AND GAS; AND PROVIDING FOR AN EFFECTIVE DATE.

PRIME SPONSOR: RULES COMMITTEE

BY REQ OF THE GOVERNOR

CO-SPONSORS:

\$000 GENERAL(FNOTE)

\$000 OTHER(FNOTE)

CURRENT STATUS: (S) RES

DATE		PAGE	ACTION
01/23/85	(H)	113	READ THE FIRST TIME - REFERRAL(S)
01/23/85	(H)	113	GOVERNOR'S TRANSMITTAL LETTER
01/23/85	(H)	113	FISCAL NOTE ZERO
02/15/85	(H)	359	O&G RPT W/CS(NEW TITLE) SDP INR
02/25/85	(H)	432	RES RPT W/CS(O&G) SDP INR
03/08/85	(H)	538	FIN RPT W/CS,NEW TITLE SDP INR
03/08/85	(H)	539	RLS TO CALENDAR 3/8/85
03/08/85	(H)	545	READ THE SECOND TIME
03/08/85	(H)	545	CSHB 103(FIN) ADOPTED UNAN CONSENT
03/08/85	(H)	546	AM NO 1 FAILED Y7 N28 X5

HB 103

MEASURE HISTORY

PAGE 02 OF 02

DATE		PAGE	ACTION
03/08/85	(H)	546	ADVANCED TO THIRD READING UNAN CONSENT
03/08/85	(H)	546	READ THE THIRD TIME
03/08/85	(H)	546	PASSED Y32 N3 X5
03/08/85	(H)	547	EFFECTIVE DATE SAME AS PASSAGE
03/08/85	(H)	547	MARTIN NOTICE OF RECONSIDERATION
03/11/85	(H)	569	RECONSIDERATION NOT TAKEN UP
03/11/85	(H)	569	TRANSMITTED TO (S)
03/12/85	(S)	516	READ THE FIRST TIME
			RESOURCES
			FINANCE
			RULES

* ORIGINAL *
* SENT: 05/03/85 TIME: 08:28 *
* FROM: LANA TRUJILLO *
* SUBJECT: POM *
* PRINT DATE: 05/03/85 TIME: 08:28 *
*

TO: ALL LEGISLATORS

FROM: JIM ESTES, 1512 OTTER, ANCHORAGE, 99504, 337-3839(HM),
276-1640(WK)

RE: HB 103, BINDING ARBITRATION

AS DISTRICT 14 DEMOCRATIC CHAIRMAN, I HAVE BEEN ASKED BY 131
TEACHERS OF THE 250 THAT LIVE IN THIS DISTRICT, TO ASK YOU TO
PLEASE SUPPORT HB 130 DEALING WITH BINDING ARBITRATION.



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

11/24/89
Date

H B

1 6 5

Introduced: 4/9/85
Referred: Resources and
Finance

*trans to Zarembo
or other appropriate
locations*

1 IN THE HOUSE

BY TAYLOR AND SUND

2

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 165

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 transplanting of elk."

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

8 * Section 1. The Department of Fish and Game shall, over the next three

9 years, cooperate with and assist in the transplanting to Zarembo Island of

10 up to 50 but not less than 10 elk during the fiscal year ending June 30,

11 1986, up to 50 but not less than 10 elk during the fiscal year ending

12 June 30, 1987 and up to 50 but not less than 10 elk during the fiscal year

13 ending June 30, 1988. The department shall utilize the services of volun-

14 teers, organizations and groups to accomplish this transplanting whenever

15 possible. The department is authorized to enter into agreements with simi-

16 lar agencies in other states to facilitate this transplant.

*Provided there shall not be taken
from -
or other appropriate location
in Alaska*

8

*attempted transplants
when elk + deer cohabit - compete
co-exist Podrako*

Field studies - criteria for feasibility study

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE, 5/1/85, 3:40 pm

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

May 3, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *HF*
Senate Resources Committee

RE: SSHB 165 "An Act relating to the transplanting of elk; and providing for an effective date."

SSHB 165 would allow for the transplant of up to 50 elk over the next three years to Zarembo Island near Wrangell, Alaska.

The Department of Fish and Game and the U.S. Forest Service have agreed to undertake a joint study of the feasibility of introducing elk to Southeast Alaska.

The legislation is supported by local sports groups, particularly the Alaska Sports and Wildlife Club of Ketchikan.

SSHB 165 passed the House by a vote of 30 yea and 8 nay.

Enclosures:

1. Bill analysis by the Department of Fish and Game
2. Letter from Alaska Sports and Wildlife Club supporting transplanar
3. Minutes of House Finance Committee hearing on HB 165 and HB 166
4. Research report on transplanting elk to Southeast Alaska by House Research Agency



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT Fish and Game	DIVISION Game	BILL NUMBER SSHB 165	SPONSOR Taylor-Sund
DEPARTMENT POSITION Neutral			
PREPARED BY Robert Hinman	DATE 4/17/85	COMMISSIONER'S SIGNATURE <i>Conrad Rasmussen</i>	DATE 4/17/85

SUMMARY

OTHER AGENCIES AFFECTED BY BILL U.S. Forest Service	CONSTITUENT GROUP(S) AFFECTED BY BILL Sportsmen's groups, Advisory committee Environmental groups
ORGANIZATIONAL SUPPORT FOR BILL Sitka and Ketchikan sportsmen's groups Alaska loggers	ORGANIZATIONAL OPPOSITION TO BILL Unknown

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT
Various groups, particularly the sportsmen's group from Ketchikan have supported a transplant of Roosevelt Elk to southeastern Alaska. This bill would mandate such an introduction.

ANALYSIS OF BILL/PROGRAM EFFECTS
Prior to transplanting elk or any other species, permission must be granted by the land managing agency--in this case, the U.S. Forest Service (USFS). The Forest Service has indicated that an Environmental Assessment (EA) will be necessary and possibly an Environmental Impact Statement (EIS) if the EA indicates that a more detailed evaluation is necessary. Board of Game policy is that an introduction or transplant of wildlife must be preceded by an analysis indicating that sufficient habitat exists to sustain the species, that the transplant would not adversely affect indigenous species, and that the transplant would likely serve a useful purpose. The department and the USFS have met and agreed upon proposed criteria (attached) for a feasibility study. The Commissioner has agreed with the USFS Regional Forester to work cooperatively in developing a plan for the feasibility study. Among the questions to be addressed are the potential effects on indigenous Sitka blacktail deer. Because predator-prey relationships, forage availability, and other factors may affect the (continued)

AMENDMENTS PROPOSED
Line 9: years, (COOPERATE and assist in the) Transplant(ING) to Zarembo Island or other appropriate location in southeastern Alaska (OF)
Delete last sentence, lines 15 and 16: the department already has this authority.

success of a proposed transplant, it is desirable to evaluate more than one possible transplant location.

The department is not currently funded to conduct the necessary feasibility study. Work of this type can be conducted over a period of years in conjunction with existing research and management activities. In this way, costs could be minimized, but a substantial period of time would be necessary. To conduct the work over a shorter period would require additional funding. Assuming the study indicates that the transplant is feasible, funding to cover the actual transport of animals (and related costs) would be needed.

INTRODUCTION OF ELK INTO SOUTHEAST ALASKA
PROPOSED CRITERIA FOR A FEASIBILITY STUDY

The following criteria should be addressed when conducting a feasibility study on the introduction of elk onto public lands in Southeast Alaska:

1. Consider possible implications of introducing elk to Southeast Alaska.
 - a. Biological implications
 - b. Ecological implications
 - c. Recreational implications
 - d. Economical implications
 - (1) Estimate of cost/benefit
2. Consider potential types of public use.
 - a. Sport hunting
 - b. Non-consumptive
3. Consider attitudes of people in Southeast Alaska towards introducing elk.
 - a. Public sectors
 - b. State and Federal agencies
4. Compliance with agency policies, direction, and regulations.
 - a. State of Alaska, Department of Fish and Game
 - b. USDA Forest Service, Alaska Region
5. Historical Record of Elk Introductions to Southeast Alaska.
 - a. Literature review
 - b. Past experience and results
6. Biological and Habitat Relationships
 - a. Suitability of habitats for elk
 - (1) Winter ranges-optimum/minimum acres
 - (2) Summer ranges-optimum/minimum acres
 - (3) Effect of timber harvest on elk habitat
 - b. Forage availability (quantity, quality, forage species)
 - (1) Winter range
 - (2) Summer range

- c. Habitat competition with other species
 - (1) Forage competition
 - (2) Space-competition
 - (3) Reproduction/breeding
- d. Biological potential for elk in Southeast Alaska
 - (1) Subspecies most suitable to Southeast Alaska
 - (2) Availability of transplant stock
 - (3) Habitat adaptability of the animal
 - (4) Reproduction
 - (5) Survival/mortality
- e. Predator/Prey Relationships
 - (1) Effects of predation on Elk
 - (2) Potential problems with other species
- f. Diseases and Parasites
 - (1) Potential problems with elk populations
 - (2) Potential problems with other species
- g. Land Use/Habitat Relationships
 - (1) Effect of timber harvest on public and native lands on habitat utilization by elk
 - (2) Effect of State land disposal activities

7. Management of the Elk Populations in Southeast Alaska.

- a. Mobility of the animals-likelihood of expansion to other areas outside the original transplant site.
- b. Population Management - regulations needed to maintain population size and areas occupied to meet management objectives
- c. Potentials for Animal Damage
 - (1) Land Use Conflicts - public and private lands

The following is a proposed budget assuming a transplant from Afognak Island. The budget will change depending on the origin of the animals and other factors. Volunteer labor and donation could offset part of the cost.

Helicopter time for animal capture	18,000
Transport of animal Kodiak-Wrangell	15,000
Materials for capture and transport	4,500
Unloading and release	4,000
Spotter plane to locate animals	4,500
Travel and per diem	<u>3,000</u>
	\$49,000

This does not include funding to follow-up and monitor the success of the transplant.

ALASKA SPORTS *and* WILDLIFE CLUB

P.O. Box 5122 • Ketchikan, Alaska 99901

Dear Prospective Member:

Thank you for your interest in our organization. The Alaska Sports & Wildlife Club is comprised of individuals who strive to help improve and protect our natural resources.

To give you a little history of our Club, it was organized in 1947 when our deer population started to decline and the wolf population increased. We requested and worked with the U.S. Fish & Wildlife on predator controls and feeding the remaining deer by cutting cedar boughs. We started the program of building skiffs and placing them at popular sportfishing lakes. In later years, we worked with the U.S.F.S. in building and maintaining recreational cabins on many of the lakes in the Ketchikan and Craig areas. The Club was founder of the Ketchikan King Salmon Derby and for years has been a strong advocate of predator control for proper management.

We support Senator Ted Stevens' bill S49, changing National Parks to preserve status for sports hunting. We are totally opposed to special interest groups trying to monopolize land for their exclusive use, such as Outfitter/Guide camps on Federal Land.

In 1982, we proposed an establishment of Mountain Goat on Revilla Island. In the summer of 1983, with the help of A.D.F. & G., the U.S. Forest Service and public support, it was accomplished, with our organization sponsoring \$25,000.00. Aerial count in 1984 shows six new kids born.

Member of Alaska Wildlife Federation and Sportsman's Council, Ron Sommerville (Executive Director) and Affiliate Member of the National Rifle Association supports our long-range goals.

Presently, the Alaska Sports and Wildlife Club is campaigning to arouse public support for a Roosevelt Elk Transplant in the Southern Panhandle area. We advocate the establishment of an Elk herd that will be accessible to the hunters in Southeast Alaska. We feel this herd should be placed in the vicinity of North Prince of Wales, Etolin or Zarembo Islands. The Afognak Island Elk herd was established in 1928 with eight Elk and today is estimated at six herds of nine hundred animals. We believe we could have an Elk herd in Southeast Alaska, if, with public support, we act NOW.

Thank you.

Dick Borch

Dick Borch, President
Bob DeWitt, Vice-President
Terry Myser, Secretary-Treasurer

Board of Directors:

Terry Clark	Art McMahon
Ken Eichner	Paul McGarrigan
Gary Emard	Earl Mossburg
Art Hack	Dr. Ron Tokar
Jonny Gilbert	

HOUSE FINANCE COMMITTEE

April 17, 1985

1:30 p.m.

(Tape HFC 85-41, Side 2, #324)

CALL TO ORDER

Chairman Adams called the meeting of the House Finance Committee to order at 1:30 p.m. and informed members they would be considering HB 147, HB 165, HB 166, HB 236 and HB 185.

PRESENT

All members of the committee were present. ALSO PRESENT: Representative Taylor; Commissioner Rudd, Department of Administration; Ron Williams, Alaska Native Brotherhood; Barry Best; Bob Dawkins, Political Action Committee United Black Community; Merwin Peters, Director, Equal Employment Opportunity, Department of Administration; and Roland Shanks, Special Assistant, Department of Fish and Game.

SUMMARY INFORMATION

- HB 147 An Act creating a Division of Equal Employment Opportunity in the Department of Administration.
- Bill assigned to a subcommittee consisting of Representative Duncan, Chair; Representative Szymanski and Representative Rieger.
- HB 165 An Act relating to the transplanting of elk; and providing for an effective date.
- Bill reported out of committee with a "do pass" recommendation.
- HB 166 An Act making a special appropriation to the Department of Fish and Game; and providing for an effective date.
- Bill reported out of committee with a "do pass" recommendation.
- HB 185 An Act relating to student loans; and providing for an effective date.
- Loans Committee Substitute reported out of committee with a "do pass" recommendation and zero fiscal note.

most states in the Union have statutory authority provided to their EEO Division in state government and Alaska, usually a forefront leader, should provide the same statutory authority. Mr. Best said there is a great need for the legislation. He said most Divisions in state government have statutory authority and EEO is generally last in line for financial and human resources and now statutory authority. Mr. Best did not feel this was the type of signal Alaska wanted to project around the nation. Mr. Best said the EEO issue is not only a minority issue but protects everyone. He said because of the size of state government, and limited staff of the Division, it is important to provide the Director with some type of authority in the complaints process area. Mr. Best said the Director needs some teeth to back up decisions and would hope the bill would provide this emphasis.

BOB DAWKINS, POLITICAL ACTION COMMITTEE UNITED BLACK COMMUNITY, said he worked with the committee on HB 147 from its inception. Mr. Dawkins felt that it was important to provide the Division with statutory authority putting "teeth" into the Division. He said the members of the community which he represented supported the bill.

Representative Szymanski asked Mr. Merwin Peters if he agreed with the policy regarding enforcement. MERWIN PETERS, DIRECTOR, DIVISION OF EQUAL EMPLOYMENT OPPORTUNITY, DEPARTMENT OF ADMINISTRATION, said it was his understanding that the enforcement issue was added by the State Affairs Committee and the intent was not to become an enforcement agency. He said the Division currently follows an informal method of resolution of complaints of discrimination in state government as other agencies exist to provide enforcement against discriminatory practices.

HB 147 was HELD in committee for review by a subcommittee consisting of Representative Duncan, Chair; Representative Rieger and Representative Szymanski.

HB 165 and HB 166

HB 165 - An Act relating to the transplanting of elk; and providing for an effective date.

HB 166 - An Act making a special appropriation to the Department of Fish and Game; and providing for an effective date.

Chairman Adams said the bill would facilitate the transplanting of elk to Zarembo Island for hunting. He said HB 165 had been rewritten by Representative Taylor to allow that only 10 elk per year be sent to Zarembo Island, for the Department of Fish and Game to utilize volunteer services and for the Department to work with other states. He said HB 166 currently appropriates \$50,000 for the transplant.

REPRESENTATIVE TAYLOR, PRIME SPONSOR OF THE BILL, felt the bill self explanatory. He said the analysis by the Department of Fish and Game appeared negative and believed it was due to a policy decision from past years in which the Department established there would be no transplanting. He said only large species have been transplanted by the federal government or through the Federal Fish and Wildlife group. Representative Taylor said constituents of Southeast asked that the issue be brought before the Legislature. He said one participating group last year raised \$25,000 and with volunteer efforts transplanted a herd of goats to Revilla Island. He said the herd is healthy and doing well. With regard to the need for an environmental assessment, Representative Taylor said the Forest Service is enthused about the transplant and believe it could be accomplished with a smaller statement than an environmental assessment. He said they had entered into a protocol for proposed criteria for a feasibility study with the Department of Fish and Game. He did not feel the transplant would require a lengthy study of the feasibility and environmental impact as proposed by the Department of Fish and Game. Representative Taylor discussed other transplant efforts. He said the fiscal impact of the bill would be substantially less utilizing volunteer services and alternative transportation methods such as the marine highway system. He said placement on Zarembo Island was considered due to its low population, assessibility and forage. He felt the potential of "poaching" would be significantly reduced by the location and through a volunteer effort.

ROLAND SHANKS, SPECIAL ASSISTANT, DEPARTMENT OF FISH AND GAME, said there was a meeting on April 16 between the Department and U.S. Forest Service at which time a proposal was presented on a joint study of the feasibility of introducing elk into Southeast Alaska. He said the Regional Forester and Commissioner of Fish and Game committed to undertake the study. Mr. Shanks said before a transplant would be undertaken there were federal requirements which would need to be met. He said in the past the Boards of Game have taken the position to discuss and study transplants before they occur to determine the viability of the incoming population and its effect on indigenous species in the area. Mr. Shanks said they hope the study would enable the development of this information and discussed specifics of the study. He said they hoped the study would be accomplished in one to two years. He said it would be accomplished without a line item in the budget and would attempt to obtain the information in context with other types of studies to be done in Southeast. Mr. Shanks discussed the basis of their budget summary stating should volunteer efforts be utilized it would be substantially reduced.

Chairman Adams stated that transplants had occurred in the past and suggested that the Department utilize the studies previously conducted.

When asked the effects of logging on Zarembo Island in relationship to a transplant, Representative Taylor said logging on the Island had primarily been accomplished, similar to the situation of Afognak Island.

Representative Ringstad MOVED AND ASKED UNANIMOUS CONSENT to report out of committee HB 165. There being NO OBJECTION, it was so ordered and HB 165 was reported out of committee with a "do pass" recommendation.

Representative Ringstad MOVED AND ASKED UNANIMOUS CONSENT to report out of committee HB 166. There being NO OBJECTION, it was so ordered and HB 166 was reported out of committee with a "do pass" recommendation.

HB 185

HB 185 - An Act relating to student loans; and providing for an effective date.

Representative Duncan, subcommittee chairman, said they had reviewed HB 185 along with HB 161. He said they were going to have a meeting on Friday, April 19, with regard to HB 161 and would recommend that the Loans version of HB 185 be reported out of committee. Representative Duncan MOVED to report out of committee CS HB 185 (Loans). There being NO OBJECTION, it was so ordered and CS HB 185 (Loans) was reported out of committee with a "do pass" recommendation and zero fiscal note.

HB 236

HB 236 - An Act creating a Quadrennial Olympic reserve account; and providing for an effective date.

The bill had been assigned to a subcommittee consisting of Representatives Ringstad, chair; Larson and Uehling. Subcommittee chairman Ringstad said they made several technical changes to the bill and explained each including the inclusion of a financial audit section, change in in-kind contributions, transfer to Military Affairs, and fiscal note reduction.

(Tape change, side 2)

Representative Larson said he still did not feel that information concerning the amount of funding and use of the funding were defined. He asked if the Department of Military and Veterans' Affairs would assume the responsibility without the \$50.0. Representative Ringstad said no positions were included not feeling it necessary as the Department of Administration would input the contributions, the forms were already printed, etcetera. Representative Larson referenced the responsibilities to be addressed by Military and Veterans' Affairs as included in




ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

December 12, 1984

MEMORANDUM

TO: Representative-Elect Robin Taylor

FROM: Sharman Haley 
Legislative Analyst

RE: Transplanting Elk to Southeast Alaska
Research Request 85-053

You requested information to help formulate legislation requiring the Department of Fish and Game to cooperate with sportsmen in a program to transfer elk from Afognak Island to Southeast Alaska. This memorandum provides some background on the issue, outlines the political and legal hurdles for undertaking a transplant, discusses some of the alternative methods for rounding up and transporting the elk, and draws some conclusions regarding legislation.

Background

The history of elk transplant to Southeast Alaska was summarized by the Director of Game in a letter to the Alaska Sportsmen's Council, Inc.:

As you are doubtlessly aware, there has been considerable public interest in an elk transplant to southeast Alaska since at least Statehood. During the early 1960s, two elk transplants were attempted but failed (to Revilla and Gravina Islands). Another transplant was planned in early 1972, but the department's request for Federal Aid funding was denied by the U.S. Fish and Wildlife Service on grounds that such a transplant was not biologically sound... The Service's denial of this request was primarily based on documented competition between deer and elk in several western states with the ultimate result being depressed deer populations. This was particularly evident in areas of harsh winter weather.

This federal action combined with an increasing biological awareness of resident species and habitat conditions in Alaska led the department to review proposed transplants much more critically during the 1970s and to establish firm policies governing transplants statewide. The Alaska Legislature, which had previously

Representative-Elect Taylor
December 12, 1984
Page Two

endorsed long-standing but biologically unsound transplant statutes, took a firm stance on such matters in 1970 and repealed Sections 16.25.020, 16.25.030, and 16.25.040 of Title 16, Alaska Statutes.¹

Last August, the Governor and the Commissioner of Fish and Game met with Representative Ron Wendte, Bob DeWitt, and other sportsmen's representatives on the issue of elk transplant to Southeast. Their conclusion was that if the sportsmen could get the support of the fish and game advisory committees, the Fish and Game Regional Council, and the State Boards of Fish and Game, the department would proceed with the transplant. When the issue came before the State Board of Game December 8, 1984, the board recommended that it be taken to the advisory committees.

Legal and Political Hurdles

Wild game may not be possessed or transported in the state without a permit from the Department of Fish and Game.² There are no specific statutory or regulatory guidelines for the department to follow in considering a permit request. The position of the department outlined in its letter to the Alaska Sportsmen's Council is as follows:

4. As a matter of policy, we will not approve of, nor participate in, transplants of nonindigenous wildlife without detailed feasibility studies and ecological investigations.
5. We are not currently funded, nor are we likely to be in the future, for elk transplant feasibility studies.
6. We would be willing to conduct or participate in elk transplant feasibility studies involving ecological investigations only if: (a) outside funding were made available; and (b) the Division of Game received additional positions for research biologists such that our existing research and management programs on resident species were not affected.
7. Until such time that detailed feasibility studies may be completed and the results closely analyzed, resource agencies in

¹Letter from W. Lewis Pamplin Jr. to Ronald J. Somerville, November 3, 1983.

²AS 16.05.255; 5AAC 81.040; 5AAC 81.130.

Representative-Elect Taylor
December 12, 1984
Page Three

Alaska should maintain consistent opposition to transplanting nonindigenous wildlife species.³

The approval of federal agencies is also required to transplant game. The National Environmental Protection Act (NEPA), requires an environmental analysis prior to federal action. This analysis could take the simpler form of an Environmental Assessment, or NEPA might be interpreted to require a more detailed Environmental Impact Statement.

If federal aid funds are to be used, which would normally be the case for a wildlife transplant program, approval of the U.S. Fish and Wildlife Service is required. In 1972, the U.S. Fish and Wildlife Service evaluated and rejected the State's proposal to transplant elk to Kruzof Island. The evidence suggested that the deer population would decline as a result of the elk's competition for forage, and that the proposal was therefore "biologically unsound."

With or without federal aid funds, approval by the U.S. Forest Service is required. The Forest Service is the federal manager of most of the land and habitat in Southeast. For fish and game management, the Forest Service has a Memorandum of Understanding with the Alaska Department of Fish and Game. One of the provisions of this agreement is that the department will not sanction the introduction of any species onto National Forest land without Forest Service agreement. Further, the department is obligated to conduct the necessary research for the Forest Service's environmental analysis of the proposal. My conversation with Phil Janik, Director of Wildlife and Fisheries for the Forest Service, indicated that the Forest Service review would likely be technical, not political; if the feasibility study and environmental assessment showed the proposal to be technically sound and indicated that the only significant biological impact would be a trade off of deer for elk, the Forest Service would not necessarily reject the proposal on that basis. The decision to proceed with the transfer would likely be left to the State's political process.

One way the State makes political decisions regarding game is the process agreed to in August by the governor and sportsmen's representatives and recently affirmed by the State Board of Game: the proposal should first be considered by each of the 18 Southeast fish and game advisory committees and the Southeast Regional Council before reviewed by the State Board. The State Board will consider the recommendations of the local and regional entities and make a final decision for the State. This process would allow residents in all areas that might ultimately be affected by the decision to be heard on the issue.

³W. Lewis Pamplin Jr., op cit.

Representative-Elect Taylor
December 12, 1984
Page Four

Legislation is another means of making a political decision on the elk transplant issue. A bill could be introduced directing Fish and Game to conduct the necessary studies, and subject to federal approval, transplant elk to Southeast Alaska. An appropriation would also be needed. If the legislation were passed and signed into law, action by the State Board of Game would not be required.

Operations

Once the decision is made to proceed, there are at least two methods of rounding up and transporting the elk. The most appropriate method for elk from Afognak Island would be to tranquilize the elk individually with darts and pick them up with a helicopter. The elk would then be flown to Kodiak and on to Southeast. This operation would likely require six to eight experienced people. An alternative method would be to import surplus elk from Washington or Oregon where the elk can be driven into existing corrals and loaded into trucks. Although a veterinary inspection would be required for every elk to be transported across state lines, this still might prove to be less expensive than a roundup on Afognak.

Conclusions

The first thing the Department of Fish and Game needs to participate in the proposed elk transplant to Southeast is a political mandate to do so. This could be accomplished through legislation. To facilitate the required federal cooperation, you may wish to specify in the legislation that no federal aid funds are to be used. This way only the approval of the Forest Service, and not of U.S. Fish and Wildlife Protection, would be required. You might also consider having the legislation drafted generally enough to allow the department to pursue the least expensive roundup and transportation option, and to direct them to utilize available volunteer services.

The second thing the department needs to proceed is money. If you introduce legislation, the department will be required to prepare a fiscal note estimating the costs to carry out your proposal. You and your staff (or you may request assistance from this agency) should review the fiscal note very carefully to determine whether you agree with the department's estimates. In particular, you may wish to ascertain whether the department has considered the volunteer services of interested sportsmen. You can expect that the department will request funding for additional research biologists to carry out the necessary studies. You may wish to review the department's existing research commitments to determine whether you agree that additional positions are needed, or whether you feel that existing staff should alter their

Representative-Elect Taylor
December 12, 1984
Page Five

research priorities to perform the necessary elk research. If you disagree with the department's fiscal note, you may want to prepare your own version for committee consideration.

* * * * *

I hope that this memorandum has provided you with useful information. More detailed information on specific requirements in terms of personnel, equipment, time, etc. will be forthcoming in a departmental fiscal note after legislation is introduced. If you have any further questions for this agency, please don't hesitate to call.

SH

HCB
165
70347

ANCHORAGE DAILY NEWS 4/22/85

Elk overpopulate Colorado national park

The Associated Press

ROCKY MOUNTAIN NATIONAL PARK, Colo. — Hundreds of elk in Rocky Mountain National Park may have to be shot because the herd is so big it is damaging the park, according to federal and state wildlife officials.

They estimate the park's elk population has increased by nearly 50 percent — to nearly 2,000 — since 1980. Counting the elk in and around the park, the herd has grown to 4,000 since 1982, partly because predators such as the grizzly bear and wolf no longer roam the park.

"It's almost a foregone conclusion that reductions in the herd will have to be made" soon, said Dave Stevens, a biologist at the park. The herd must be reduced by 400 to 500 elk each year for a few

But hunting may be curtailed in Wyoming

The Associated Press

JACKSON, Wyo. — Wyoming Game and Fish Department managers are recommending tighter restrictions on elk hunting north of Jackson Hole this year because the elk population is below the objective.

Department officials will recommend fewer licenses be issued when they go before the state Game and Fish Commission this month. The commission meets April 25 in Cheyenne to decide on the annual big game seasons.

The elk population north of Jackson currently is estimated at 9,300, while the objective is 11,000. The department thus plans to recommend that the number of limited quota elk licenses be reduced from 750 to 400.

Area supervisor Tom Toman said the department also will recommend that the commission issue 1,000 elk licenses for Grand Teton National Park, down from 1,800 last year.

years to stabilize it at between 1,000 and 1,500, he said recently.

The elk herd's exploding numbers coupled with its dwindling habitat are beginning to strain the park, Stevens said, noting that too

many browsing elk are damaging aspen and willow trees.

The elk in the area that would become Rocky Mountain National Park were gone by the turn of the century, so about 1915 about 50 elk were brought in from Yellowstone

in Wyoming. The herd has grown ever since.

The current overpopulation recalls earlier elk shootings by rangers in Rocky Mountain and Yellowstone National parks, that had to be halted because of public outcry.



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James A. Smith
Signature of Camera Operator

11/24/89
Date

HB

166

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907-465-3800

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE, 5/1/85, 3:40

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

May 3, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *A*
Senate Resources Committee

RE: HB 166 "An Act making a special appropriation to the Department of Fish and Game; and providing for an effective date."

HB 166 would appropriate \$50,000 for the transportation of elk from Afognak Island to Zarembo Island as authorized by SSHB 165.

HB 166 passed the House by a vote of 24 yea and 15 nay.

Enclosure:

1. Bill analysis and fiscal note by the Department of Fish and Game



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT Fish and Game	DIVISION Game	BILL NUMBER SSHB 165	SPONSOR Taylor-Sund
DEPARTMENT POSITION Neutral			
PREPARED BY Robert Hinman	DATE 4/17/85	COMMISSIONER'S SIGNATURE <i>Orville Nelson</i>	DATE 4/17/85

SUMMARY

OTHER AGENCIES AFFECTED BY BILL U.S. Forest Service	CONSTITUENT GROUP(S) AFFECTED BY BILL Sportsmen's groups, Advisory committees, Environmental groups
ORGANIZATIONAL SUPPORT FOR BILL Sitka and Ketchikan sportsmen's groups Alaska loggers	ORGANIZATIONAL OPPOSITION TO BILL Unknown

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

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ANALYSIS OF BILL/PROGRAM EFFECTS

Prior to transplanting elk or any other species, permission must be granted by the land managing agency--in this case, the U.S. Forest Service (USFS). The Forest Service has indicated that an Environmental Assessment (EA) will be necessary and possibly an Environmental Impact Statement (EIS) if the EA indicates that a more detailed evaluation is necessary. Board of Game policy is that an introduction or transplant of wildlife must be preceded by an analysis indicating that sufficient habitat exists to sustain the species, that the transplant would not adversely affect indigenous species, and that the transplant would likely serve a useful purpose. The department and the USFS have met and agreed upon proposed criteria (attached) for a feasibility study. The Commissioner has agreed with the USFS Regional Forester to work cooperatively in developing a plan for the feasibility study. Among the questions to be addressed are the potential effects on indigenous Sitka blacktail deer. Because predator-prey relationships, forage availability, and other factors may affect the (continued)

AMENDMENTS PROPOSED

Line 9: years, (COOPERATE and assist in the) Transplant(ING) to Zarembo Island or other appropriate location in southeastern Alaska (OF)

Delete last sentence, lines 15 and 16: the department already has this authority.

success of a proposed transplant, it is desirable to evaluate more than one possible transplant location.

The department is not currently funded to conduct the necessary feasibility study. Work of this type can be conducted over a period of years in conjunction with existing research and management activities. In this way, costs could be minimized, but a substantial period of time would be necessary. To conduct the work over a shorter period would require additional funding. Assuming the study indicates that the transplant is feasible, funding to cover the actual transport of animals (and related costs) would be needed.

INTRODUCTION OF ELK INTO SOUTHEAST ALASKA

PROPOSED CRITERIA FOR A FEASIBILITY STUDY

The following criteria should be addressed when conducting a feasibility study on the introduction of elk onto public lands in Southeast Alaska:

1. Consider possible implications of introducing elk to Southeast Alaska.
 - a. Biological implications
 - b. Ecological implications
 - c. Recreational implications
 - d. Economical implications
 - (1) Estimate of cost/benefit
2. Consider potential types of public use.
 - a. Sport hunting
 - b. Non-consumptive
3. Consider attitudes of people in Southeast Alaska towards introducing elk.
 - a. Public sectors
 - b. State and Federal agencies
4. Compliance with agency policies, direction, and regulations.
 - a. State of Alaska, Department of Fish and Game
 - b. USDA Forest Service, Alaska Region
5. Historical Record of Elk Introductions to Southeast Alaska.
 - a. Literature review
 - b. Past experience and results
6. Biological and Habitat Relationships
 - a. Suitability of habitats for elk
 - (1) Winter ranges-optimum/minimum acres
 - (2) Summer ranges-optimum/minimum acres
 - (3) Effect of timber harvest on elk habitat
 - b. Forage availability (quantity, quality, forage species)
 - (1) Winter range
 - (2) Summer range

Hein

Original sponsors: Taylor and Sund

Funding Information

General Fund	\$50,000
Other Funds	-0-
	<u>\$50,000</u>

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 SENATE CS FOR HOUSE BILL NO. 166 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-
7 ment of Fish and Game; and providing for an effective
8 date."

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

0 * Section 1. The sum of \$50,000 is appropriated from the general fund
1 to the Department of Fish and Game for the transplantation of elk to
2 Zarembo Island or other appropriate locations in Southeast Alaska.

3 * Sec. 2. The unexpended and unobligated portion of the appropriation
4 made by this Act lapses into the general fund June 30, 1986.

5 * Sec. 3. This Act takes effect on the effective date of an Act enti-
6 tled "An Act relating to the transplanting of elk."

- c. Habitat competition with other species
 - (1) Forage competition
 - (2) Space-competition
 - (3) Reproduction/breeding
 - d. Biological potential for elk in Southeast Alaska
 - (1) Subspecies most suitable to Southeast Alaska
 - (2) Availability of transplant stock
 - (3) Habitat adaptability of the animal
 - (4) Reproduction
 - (5) Survival/mortality
 - e. Predator/Prey Relationships
 - (1) Effects of predation on Elk
 - (2) Potential problems with other species
 - f. Diseases and Parasites
 - (1) Potential problems with elk populations
 - (2) Potential problems with other species
 - g. Land Use/Habitat Relationships
 - (1) Effect of timber harvest on public and native lands on habitat utilization by elk
 - (2) Effect of State land disposal activities
7. Management of the Elk Populations in Southeast Alaska.
- a. Mobility of the animals-likelihood of expansion to other areas outside the original transplant site.
 - b. Population Management - regulations needed to maintain population size and areas occupied to meet management objectives
 - c. Potentials for Animal Damage
 - (1) Land Use Conflicts - public and private lands

The following is a proposed budget assuming a transplant from Afognak Island. The budget will change depending on the origin of the animals and other factors. Volunteer labor and donation could offset part of the cost.

Helicopter time for animal capture	18,000
Transport of animal Kodiak-Wrangell	15,000
Materials for capture and transport	4,500
Unloading and release	4,000
Spotter plane to locate animals	4,500
Travel and per diem	<u>3,000</u>
	\$49,000

This does not include funding to follow-up and monitor the success of the transplant.



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James A. Smith
Signature of Camera Operator

11/24/89
Date

H B

2 1 9

STATE OF ALASKA
THE LEGISLATURE

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907-465-3800

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE, 4/24/85, 1:10

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FR ED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

April 23, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *[Signature]*
Senate Resources Committee

RE: CS HB 219 (Finance) "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."

CS HB 219 (Finance) would establish a set of criteria which must be followed in the negotiations for repayment of the \$196 million loan made last year to the Power Development Revolving Loan Fund for the four dam pool. Originally HB 219 called for specific terms and interest rates. This approach was found unsatisfactory in the House and a committee substitute was adopted in the House Finance Committee. CS HB 219 (Finance) now allows the parties involved to reach agreement within a framework of general conditions. CS HB 219 (Finance) passed the House by a vote of 33 yeas and 4 nays.

A memorandum from Representative John Sund to the Senate Resources Committee detailing the progress of the bill and a bill analysis is attached.

The fiscal note is zero.

Attachments: 1. fiscal note
2. Rep. Sund's memo with attachments

MEMORANDUM

April 23, 1985

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Senate Resources Committee

FROM: Staff
Senate Resources Committee

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CS HB 219 (Finance) would establish a set of criteria which must be followed in the negotiations for repayment of the \$196 million loan made last year to the Power Development Revolving Loan Fund for the four dam pool.

Originally HB 219 called for specific ^{TERMS AND} ~~rates of interest~~ ^{RATES.} ~~and terms.~~ This approach was found unsatisfactory ^{IN THE HOUSE} and a committee substitute was adopted in the House Finance Committee. CS HB 219 (Finance) now allows the parties

involved to reach agreement within a framework of general conditions. *CS HB 219 (FIN) PASSED THE HOUSE BY A VOTE OF 33 YEAS AND 4 NAYS.*

A memorandum from Representative John Sund to the Senate Resources Committee detailing the progress of the bill and a bill analysis is attached.

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2. Rep. Sund's memo with attachments

92
4/15

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST FISCAL DETAIL
 Bill/Resolution No.: CSHB 219 (Fin) Agency Affected: A.P.A.
 Title: 4 Dam Pool Loan terms Program Category Affected: _____
 Sponsor: Loans BRU, Program or Subprogram(s) Affected: _____
 Requestor: House Finance Committee
 Date of Request: 4/1/85

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-				

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

This fiscal note better expresses the impact of this bill since no new funds are involved. The loan funds were appropriated last year. This bill only puts loan terms into statute.

Prepared By: Representative ^{APA} Adams - Chairman Phone: 465-3706
 Division: House Finance Committee Date: 4/1/85

Approved by Commissioner: _____ Date: _____
 Agency: _____

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Alaska State Legislature



House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 8440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 485-4918

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Sund

RE: 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."

The purpose of this bill is to resolve the problems holding up four-dam-pool power sales agreements and to provide for payback of the \$196 million appropriation made last year to complete the hydroelectric projects. The Alaska Power Authority and the six communities served by the four dams have been negotiating power sales agreements for 2½ years without success. The goal is a long-term power sales agreement that provides affordable electricity for the communities and a maximum return on the state's investment.

\$210 million was appropriated last year; \$196 million has been spent to complete the dams and pay off short-term construction financing issued by the APA. This appropriation was structured as a loan from the Department of Commerce and Economic Development to the APA to be paid off through power sales from the project. AS 44.33.620 sets terms for the loan.

As in existing law, the Finance Committee Substitute does not set in law exact terms for the loan, nor does it set power rates. These are left open for further negotiation. The bill provides specific guidelines for resolving the issue under a plan developed by Gordon Harrison of the APA board.

The APA and the six communities report recent significant progress in power sales agreement negotiations; the plan they are now working with requires the passage of CSHB 219 (Fin). Action is required this session to permit sales agreements which will capture additional loads for the under-utilized hydroelectric capacity.

The bill is supported by both the APA and the four-dam-pool communities. Bob Heath, Executive Director of the APA and representatives of the communities are expected to testify before the Resources Committee.

Sectional analysis:

Section 1:

Sections 1 and 5, propose a change in law to allow two communities to get together for joint operation of a dam. The main purpose is to allow the Thomas Bay Power Authority to operate the Tyee Dam. Tyee serves two communities (Wrangell and Petersburg); Current law requires one or the other to operate the dam. This section corrects that by adding "electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state" to the APUC statutes. Like the communities, the 'joint operating entity' would not be subject to APUC regulation.

Section 2:

This section amends the loan terms for the Power Development Revolving Loan Fund (AS 44.33.620). This fund was created last session and the statutory loan terms give little direction to the APA. The added language sets clear guidelines for the agencies to work with. Deleted is the requirement that the loan terms be set considering market rates of interest.

Section 3 adds a definition: "initial project" means the four dams.

Section 4 adds a provision for power sales contract rate reopeners. This protects the state in times of inflation when the power sales rate could not provide sufficient loan repayment in real terms and protects the communities should the price of alternate power generation drop significantly. An important provision is added allowing an agreed schedule of wholesale power rates to be included in the contracts. This allows a contract to be reached through negotiation which will provide for certainty in power rates as needed by utility planners. This also will provide for a greater return to the state in debt service from the project.

Section 5 adds joint operating entities to the definition of "qualified utilities" which may purchase power from the APA. (See explanation of Section 1)

RETAIL RATES
(cents per kwh)

<u>Community</u>	<u>@ 200 kwh/month</u>	<u>@ 500 kwh/month</u>	<u>@ 700 kwh/month</u>
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

<u>Community</u>	<u>APA O&M</u>	<u>APA Debt Service</u>	<u>Other^{*/}</u>	<u>Total (@ 700 kwh/month)</u>
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

^{*/} "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Draft: April 23, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)^{*/}

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

4. Regulatory costs: For the cooperatives (Kodiak and Copper Valley), whose retail rates are regulated by the Alaska PUC, rate filings and rate cases will become more frequent, more complex, and more costly. If the past is a guide, the APUC may also require the co-ops to raise/lower retail rates to "track" the fluctuating wholesale cost of power to the co-op, thus producing fluctuating retail rates.

5. Planning problems: The search for alternative sources of power supply with more predictable long-term costs would be intensified and simultaneously complicated. Presumably the planning process would be biased (rationally) toward predictability, even if the price of predictability were that somewhat higher retail rates might result from the more predictable alternatives.

6. Uncertain impact on utility financing: It is not clear that a utility would be able to finance additions to its distribution system and/or its generating plant as easily or inexpensively as would otherwise be the case, since the utility's revenue stream and its ability to maintain required coverage ratios and reserves would be somewhat unpredictable.

B. Problems for the State of Alaska as the seller of power

1. Reduced revenue: Compared with long-term contracts under the terms of HB 219 pricing method, power sold on a percentage-of-avoided-cost basis is likely to produce less total revenue for the State, even if one assumes that loads are equal in both cases. But loads will actually be less (see ¶ A.1. above). The loss of potential large new loads that would have produced more revenue for the State would make the comparative revenue disadvantage to the State worse.

2. Increased revenue risk: This would take two forms. First, the State would take the entire risk of further downward movement in the price of diesel and the cost of alternative resources, whereas under HB 219 the communities would bear that risk entirely. Second, because the utilities would be free, over time, to switch wholly or partially to other sources of supply, and because the utilities would have an incentive to investigate and pursue such other sources, the State would face some risk of losing even the existing loads of the utilities, as well as utility load growth.

3. Risk of negative rate of return (failure to cover current costs): This simply indicates the extreme to which the State's additional risk could take it. Under HB 219, the State is assured that (a) O&M costs will be completely paid by the utilities, and (b) some positive return, in addition to return of the principal, will be earned on the State's loan. If wholesale rates are tied to actual avoided costs of the utilities, however, a sufficiently great drop in actual avoided costs would result in the APA failing to cover even its O&M costs. In less extreme cases, APA might cover its O&M costs but fail to earn sufficient revenue to repay the principal and/or interest on the loan.

4. Added administrative costs: Administering such a pricing system would be just as complex and labor-intensive for the APA as it would be for the utilities.

4/12/85

MEMORANUDM

TO: Rep. John Sund
FROM: J. Hartle, PA

RE: Amendment to Subcommittee draft of HB 219

Here are some reasons for adding the section:

*Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project financed under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398 but must include a provision for a rate reopener.

1. Will allow the present negotiations to continue.

Negotiations are presently moving forward under a plan from Gordon Harrison. His plan is to offer a wholesale power rate which combines debt service and O & M. The plan would offer the purchasers of power a certain rate per kwh, O&M would be taken out of that rate and whatever is left above O&M would go to debt service. This is not allowed under AS 44.83.398 which specifies that O&M and Debt service must be separated and debt service must be the same for all projects.

2. Will return more debt service to the state.

Per KWH, Tyee has the highest O&M rate; this rate is by itself almost equal to the cost of alternative sources of power. Therefore, if the "Harrison plan" is implemented, very little would be left over for debt service thus limiting the debt service rate that can be paid by the other projects as well (under 398). Other projects with lower O&M are, with this amendment, allowed to provide a greater return to the state for debt service.

3. It still leaves the rate open to negotiations.

The amendment only provides for an agreed schedule, it is silent as to what that rate will be. Under AS 44.83.398 there is no way to agree on a schedule - the rates must fluctuate with loads - if loads go down, rates go up, if loads go up, rates go down. This is the exact problem the communities are trying to get away from - certainty is more important than the actual rate itself; the amendment allows for agreement.

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.

Alaska State Legislature

Advisory Council Members
Senator Bennett, Chairman
Senator Kerttula
Senator Abood
Senator Sackett



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

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Senator Sturgulewski
Chairman, Senate Resources

FROM: Kurt S. Dzinich *KSD*
Senior Advisor

DATE: April 23, 1985

RE: HB 219

In preparing to address HB 219 in the Senate Resources Committee, I thought you might find a brief summary of where we are today and how we got here helpful. As you know I have been monitoring APA activities since January of 1982 in general and the four dam pool negotiations for over two years.

Contrary to popular belief APA had power sale agreements for all projects except Tyee before they proceeded with construction or acquisition. These were take or pay type contracts that required the utilities to pay regardless of whether the projects could deliver and at whatever the rates would be. Apparently the communities were not overly concerned with these provisions when they originally signed them believing that state grants would eventually fund all construction costs.

From 1981 on APA issued about \$200 million short-term (3 yr) bonds to complete construction of Swan, Terror and Tyee projects. In 1983 it became apparent that long-term revenue bonds would be needed to refinance the short-term notes coming due in 1984 and early 1985. The negotiations were carried out under increasing urgency as the due dates of the short-term notes approached in 1984.

By April of 1984 APA and most of the communities had reached a tentative agreement on the new power sale agreements. In order to make the agreements valid the legislature would be required to rescind the "Susitna blackmail clause" and to appropriate \$49 million for rate stabilization which would have assured that the APA rates were no higher than the alternative cost of generation in the early years (about 10) of projects operation.

Senator Sturgulewski
April 23, 1985
Page 2

Due to continuing uncertainty as to whether the plan would work, the legislature passed new legislation setting up the Power Development Revolving Loan Fund in the Department of Commerce and appropriating \$210 million for the specific purpose of repaying the short-term debt of the four dam pool. The statutes specified that an amount in excess of the principal amount would be repaid in not to exceed 50 years and at an interest rate that would consider the market rate of interest for comparable loans (upper limit now about 10.5%) and the estimated costs of alternative generation (lower limit never specifically established nor agreed to between APA and the participants).

Based on this new legislation and working backwards from the earlier revenue bond financing and \$49 million rate stabilization plan, APA prepared a new proposal that would have been for 35 years (same) and 8% yield on total loan (rates somewhat lower than under revenue bond financing). Under this proposal rate stabilization effect was achieved by trending the debt service and by charging about 3% less than market rate of interest or 11%. The communities rejected this and made a counteroffer in September of 1984 calling for a repayment period of 50 years and a 3.3% yield on total loan. Their counterproposal did not receive approval by the APA board.

Early in 1985 the communities sponsored introduction of HB 219 which was based on their earlier proposal of September 1984 and calling for a repayment period of 50 years and an interest rate not to exceed 2.3% yield on total loan (the bill actually said not to exceed 4% but in comparable terms to APA's interest that equates to about 2.3%).

The bill before you now, CSHB 219 (Finance), appears initially to be substantially different than the original version. Upon closer examination, and based on the testimony by the sponsoring parties, the four dam pool participants clearly expect that CSHB 219 (Finance) will eliminate existing loan term criteria and replace them with broad guideline type language which would enable the Department of Commerce to modify their loan terms and thereby allow APA to sign power sale agreements essentially along the lines proposed by the communities in the first place in HB 219. The communities only apparent concession was to allow for inclusion of mandatory rate reopener language in CSHB 219 (Finance) because otherwise HB 219 was perceived by many as a 50 year sweetheart deal. Only under the scenario of continually decreasing oil prices over 50 years could HB 219 be considered as a good deal for the State.

So where is the beef? Clearly, the Commerce loan terms are the central issue. I believe that the main reason for not concluding power sale agreements was the ambiguous loan term language of the existing statute, i.e., AS 44.33.620(a)(2) which is supposed to set the lower limit

on the interest rate to be charged by Commerce. On this critical point CSHB 219 again remains ambiguous and leaves it up to the communities and administration to work out an acceptable deal.

How is the Senate to judge whether the loan terms to be worked out are fair and equitable to all Alaskans? One way is to pass CSHB 219 and accept on faith that the administration will in fact negotiate such a deal. The danger is that political factors could overshadow economic factors thereby resulting in less than optimal contract terms. For example, would a 2.3% yield on total loan be acceptable?

The second way would be for the Senate to set a minimum rate of interest (yield on total loan) after considering such factors as:

1. Cost of alternative now (to determine entry rate) and over life of contract (to judge reasonableness of proposed future rates).
2. Load growth forecast.
3. Market rate of interest.
4. Cost of power at other Alaskan communities over the life of the contract.
5. Amount of state grants for the projects.
6. Affordability to consumers (really tied to item 1 but almost as difficult to define as good art or beauty).

It is fair to say that throughout the hearings on the House side, item 1 was never presented in equivalent terms so that apples could be compared to apples. For example, Ketchikan testified that they could buy diesel fuel for 75¢/gal and that their diesel alternative costs were about 5¢/KWH in 1985. Compare that to AEL&P of Juneau who in 1984 added three 2.5 MW diesel units:

Capital Costs	3.91¢/KWH
Maintenance Costs	1.33¢/KWH
Fuel Costs	<u>7.00¢/KWH</u> @ 95¢/gal, 13.6KWH/gal

Busbar Generation Cost 12.24¢/KWH

I believe that it is possible to conclude acceptable power sale agreements under the present statutes. If adopted, CSHB 219 (Finance) would increase the chances of concluding power sale agreements at whatever terms the administration set as long as the loan was repaid - principal

Senator Sturgulewski
April 23, 1985
Page 4

plus undefined excess - over the term not to exceed 50 years. The question is what would be the terms and how acceptable would they be. The Senate can either proceed on faith or provide specific guidance.

It is also possible to address this complex issue in the interim by extending the existing power sale agreements for one year and then addressing additional legislation after it has been thoroughly analyzed and reviewed.

Please let me know if you have any questions.

KSD;crb

RETAIL RATES
(cents per kwh)

<u>Community</u>	<u>@ 200 kwh/month</u>	<u>@ 500 kwh/month</u>	<u>@ 700 kwh/month</u>
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

<u>Community</u>	<u>APA O&M</u>	<u>APA Debt Service</u>	<u>Other^{*/}</u>	<u>Total (@ 700 kwh/month)</u>
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.3
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

^{*/} "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Bill may aid power sales pacts

JUNEAU (AP)—House lawmakers passed a bill Tuesday that supporters say offers new hope to officials trying to negotiate power sales agreements between the Alaska Power Authority and the so-called "Four-Dam Pool" communities.

The measure, first sponsored by Rep. John Sund, D-Ketchikan, was sent to the Senate after a 32-to-4 vote in the House.

The communities—Ketchikan, Wrangell and Petersburg, Kodiak, and Valdez and Glenallen—are all served by hydroelectric projects recently built in their backyards.

But municipal officials in those areas have been unable to reach long-term power agreements with the APA, fearing it will cost more to pay for hydroelectric power than to generate diesel-fueled power.

Officials from the communities are currently negotiating with the APA, trying to work out repayment schedules on a \$210 million loan set

aside last year by lawmakers to offset part of the cost of the four projects.

Sund said his bill outlines "general policy direction" for both sides involved in the power-sales negotiations.

A key provision in the measure would release the APA from offering repayment agreements at current market rates. By setting lower interest rates on the loan, APA officials hope to offer the communities power at more affordable rates.

State lawmakers in the late 1970s put together a \$462.5 million, four-

part hydroelectric project designed to make the state energy self-sufficient.

About \$285 million for the projects came from state grants, with the rest provided by interim financing.

Dams have since been built at Terror Lake near Kodiak and at Swan Lake near Ketchikan, along with a lake-tap project at Tyee Lake. That project serves Petersburg and Wrangell.

Another dam has been constructed at Solomon Gulch, serving Valdez and Glenallen.



Table 3. 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	*Tye Lake	20.0	133,000	1984
	Sitka	Blue Lake	8.0	39,800**	1961
	Sitka	Green Lake	18.5	46,500**	1982
	Skagway	Dewey	0.7	700	1909

* APA Projects.

** Firm energy rather than average annual generation.

5/9/85

SB 219
MAY 10 1985

MEMORANDUM:

RE: House Bill 219 Relating to Power Development Loans

Absence of my signature on the Memorandum of Understanding

Dated May 8, 1985 between APA and Four Dam Pool Communities indicates I do not endorse this agreement as it relates to HB 219.

Within this memo I strongly object to articles (1) periodic renegotiations, (7) two debt elements, (10) renegotiate in 15 years, (11) ties to Bradisy Lake

Project. Therefore do not support this memorandum, nor the passage of the bill.

Recommend deferring bill until next session.

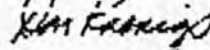
Further recommend this entire issue be determined in binding arbitration, conducted by a panel of three arbitrators. Two arbitrators, appointed respectively by the municipalities and Alaska Power Authority, would select the third.

Suggested Terms of Reference for Arbitration:

Are the facilities used and useful, and were the expenditures necessary and prudently incurred?

The arbitrators would determine a fair market rate of interest, the appropriate amortization schedule to be applied to the fair value of the facilities for the purposes of sale or electric rate making.

Sincerely,



Don Koenigs

