

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

4718 HJUD HB 356

290

Representatives Sund and Brown
January 27, 1988
Page 8

customer classes. This change addresses the potential problem created by the original language of section 2; the far reaching language in this section eliminates the APUC's ability not only to approve or disapprove costs, but also to allocate costs among customer classes. The original language of section 2 goes beyond providing for the automatic flow-through of Bradley Lake costs; it allows utilities to attribute more than an appropriate share of total costs to Bradley Lake, thereby by passing the regulatory process.

* * *

I hope this information is useful. Please do not hesitate to contact us if you have additional questions.

Attachments

ATTACHMENT A
House Bill 356

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 356

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the authority of the Alaska
7 Public Utilities Commission in connection with cer-
8 tain activities of the Alaska Power Authority and in
9 connection with calculating power cost equalization;
10 and providing for an effective date."

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

12 * Section 1. AS 42.05.431 is amended by adding a new subsection to
13 read:

14 (c) Notwithstanding (b) of this section,

15 (1) a wholesale agreement for the sale of power from a
16 project licensed by the Federal Energy Regulatory Commission on or
17 before January 1, 1937, entered into between the Alaska Power Authori-
18 ty and one or more other public utilities after October 31, 1987 and
19 before January 1, 1988, and related contracts for the wheeling, stor-
20 age, regeneration, or wholesale repurchase of power purchased under
21 such an agreement, and any subsequent amendments to the wholesale
22 agreement or related contract, are not subject to review or approval
23 by the commission; and

24 (2) a wholesale agreement or related contract described in
25 (1) of this subsection may require a covenant for the public utility
26 to establish, charge, and collect rates sufficient to meet its obliga-
27 tions under the contract; such a covenant is valid and enforceable.

28 * Sec. 2 AS 42.05.511 is amended by adding a new subsection to read:

29 (d) All costs incurred by a utility in connection with a

1 wholesale agreement or contract described in AS 42.05.431(c)(1),
2 including, without limitation, power and other costs incurred under
3 such an agreement or contract, must be allowed in the rates charged by
4 the utility.

5 * Sec. 3. AS 44.83.090(b) is amended to read:

6 (b) The authority is not subject to the jurisdiction of the
7 Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-
8 83.010 - 44.83.425] grants the authority any jurisdiction over the
9 services or rates of any public utility or diminishes or otherwise
10 alters the jurisdiction of the Alaska Public Utilities Commission with
11 respect to any public utility, including any right the commission may
12 have to review and approve or disapprove contracts for the purchase of
13 electricity by a public utility other than wholesale agreements and
14 contracts described in AS 42.05.431(c)(1).

15 * Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

16 (p) In calculating power cost equalization, the commission may
17 not consider validated costs or kilowatt-hour sales associated with a
18 United States Department of Defense facility.

19 * Sec. 5. This Act is retroactive to November 1, 1987.

20 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT B
Comparison of the Four Dam Pool
and Bradley Lake Power Sales Agreements

TABLE 1
COMPARISON OF THE FOUR DAM POOL AND BRADLEY LAKE POWER SALES AGREEMENTS

FOUR DAM POOL	BRADLEY LAKE
State loan: more flexible repayment and rate reopener	Bonded indebtedness: 30 year payments
Project managed by Project Management Committee comprised of a member from each purchasing utility	Project managed by Project Management Committee comprised of a member from each purchasing utility
Project Management Committee has similar duties to the Bradley Lake Project Management Committee	Project Management Committee has similar role but APA has required affirmative vote in some cases
Debt rate reopener on debt service component only	Set debt payments over 30 years, no rate reopener on debt service
State equity = \$293.3 million	State Equity provided = \$181 million*
State Loan = \$191.2 million, 45 year term, 4.3 cents/kwh current debt service component	Bonded Debt up to \$175 million
No excess payments	Excess Payments of up to 4 cents/kwh for the years 31-50, present value of payments equals approximately \$10 million
Debt service and O&M charged for power sold, any additional sales increases revenues to the State	Take-or-pay contract for 100% of project power

* Based on estimated construction costs.

Note: These provisions are based on a review of the Bradley Lake Hydroelectric Project, Agreement for the Sale and Purchase of Electric Power and Long-Term Power Sales Agreement, Four Dam Pool - Initial Project of the Alaska Power Authority.

Prepared by the House Research Agency, January 1988, (88.119).

ATTACHMENT C
Alternative Language 1

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, and related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement, and any subsequent amendments, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESale REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS] are not subject to review or approval by the commission; and

(2) a wholesale agreement or related contract described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet the Alaska Power Authority's financial [ITS] obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL] Power and transmission costs incurred by a utility in connection with a wholesale agreement or contract described in AS 42.05.431(c)(1), [INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS] incurred under such an agreement or contract, must be allowed in the rates charged by the utility.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT D
Alternative Language 2

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT, ARE NOT SUBJECT TO REVIEW OR APPROVAL BY THE COMMISSION; AND]

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(c)(1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

(d) The commission shall allow related contracts, including subsequent amendments, between utilities sufficient to enable performance under the wholesale power agreement described in (c)(1) above.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.011 (d).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ATTACHMENT E
Alternative Language 3

BILL ROOT: HB0356
BILL NUMBER: HB 356 INTRODUCED: 1/13/88 REFERRED:
Judiciary and Finance

SPONSOR:

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 356
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

"An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987 and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT, AND ANY SUBSEQUENT AMENDMENTS TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT, ARE NOT SUBJECT TO REVIEW OR APPROVAL BY THE COMMISSION] AND is not subject to review or approval by the commission.

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable.

* Sec. 2. AS 42.05.511 is amended by adding a new subsection to read:

(d) [ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(c)(1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

(d) A contract for wheeling, storage, regeneration, or wholesale repurchase of power purchased under a wholesale agreement in (c)(1), is not subject to commission review except as to the costs and their allocation through rates.

* Sec. 3. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter [AS 44.-83.010 - 44.83.425] grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.511(d).

* Sec. 4. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

* Sec. 5. This Act is retroactive to November 1, 1987.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Alaska Public Utilities Commission

Comments on HB356

January 26, 1988

I. Overall Analysis

The Commission concurs that exemption of the wholesale power contract between the Alaska Power Authority (APA) and purchasing utilities from Commission review and approval is necessary to meet the construction schedule for the Bradley Lake Hydroelectric Project (Bradley Lake) established by the APA. Therefore, if the Legislature supports this schedule, HB356 should be enacted insofar as it provides that "a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988...[is] not subject to review or approval by the commission."

The Commission also believes that the foregoing exemption protects the APA's bondholders by obligating the Commission to honor through rates the terms and conditions negotiated between the APA and the utilities. Therefore, the provision in HB356 which states that the wholesale power agreement may contain a valid and enforceable covenant for the utility to establish rates sufficient to meet its obligations under the contract appears to be redundant but is certainly not objectionable insofar as it concerns the wholesale power agreement between the APA and the purchasing utilities.

However, the Commission has questions regarding the provisions of HB356 which exempt from Commission review and approval the "related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under such an agreement and any subsequent amendments" to those contracts. The Commission understands that "related contracts" are the services agreements between the utilities purchasing Bradley Lake power which focus on arrangements for the transmission of the power. The scope of "subsequent amendments" is not defined.

The Commission believes that five basic questions should be answered before these agreements are exempted from Commission review. First, is total exemption of the agreements from Commission review necessary in order for the construction of Bradley Lake to proceed on schedule? Second, are there public policy reasons not to exempt totally the related contracts from Commission review? Third, are there regulatory policy reasons not to

exempt totally the related contracts from Commission review? Fourth, should the rate covenant provisions be extended to the "related contracts? Fifth, what, if any, exemption status is appropriate for "subsequent amendments" to related contracts?

The Commission does not believe that it is necessary to exempt totally the related contracts from Commission review in order for Bradley Lake construction to proceed on schedule. The APA is not a signatory to the related contracts and the costs for services pursuant to the related contracts are not part of the financial commitments to bondholders. Therefore, it is not necessary to extend to the related contracts the same rate covenant and cost recovery provisions which apply to the wholesale power agreement between the APA and the utilities. The Commission is unaware of any other legal requirement for total exemption of the "related contracts."

The Commission also believes that it would be poor public policy to exempt totally the related agreements from Commission review. Because the APA is not a signatory to the related contracts, the APA Board of Directors has not reviewed the contracts in the same public process or with the same diligence as the wholesale power agreement itself. The related contracts are the type of agreement which are typically subject to regulatory oversight and an exemption in this case would be contrary to the public policy established in AS 42.05 regarding the Commission's regulation of utilities.

Finally, the Commission believes that total exemption of the related contracts from Commission review presents significant regulatory problems. The "related contracts" affect the overall operation of the contracting utilities and involve facilities which are not dedicated solely to Bradley Lake but which are common facilities used to provide services to all customers. As such, the agreements raise basic issues with respect to dividing costs between regulated (non-Bradley Lake) and unregulated (Bradley Lake) functions. To illustrate:

-If exemption extends to facilities used or expenses incurred to regenerate, wheel, store and transmit Bradley Lake Power and non-Bradley Lake power, the generation and transmission operations of the regulated signatory utilities are essentially exempt from economic regulation.

-If exemption means that only non-Bradley Lake facilities and expenses are jurisdictional to the Commission, significant rate implications arise. Setting aside the arguments and challenges associated with allocating investment and expenses between regulated and unregulated portions of a whole, there is no assurance that the sum of the unregulated and regulated parts would equal the whole, thereby creating a situation of either over-recovery or underrecovery for the affected utilities. In other words, the customers of a purchasing utility could pay too much

or not enough depending on the particular circumstance, with the result that the customers of the transmitting utility would either be subsidized or be subsidizing the customers of the purchasing utility. It has been this Commission's experience that the issue of which customers should bear what share of an investment or expense is usually more important than the question of the total cost which must be paid.

-If exemption means that the Commission or any consumers cannot challenge the "relatedness" of a subsequent investment or expense relating to Bradley Lake, a substantial "hole" in the Commission's current jurisdiction would exist.

The Commission also believes that the provision ensuring the enforceability of rate covenants should not be extended to "related contracts." These contracts are solely between utilities; utilities should not be allowed to establish, by private contract, rate covenants which would be binding on the Commission.

While the Commission believes that it is important that its jurisdiction to regulate the rates for services provided under the related contracts be preserved, the Commission also recognizes that the utilities purchasing Bradley Lake power must be assured that the power can be transmitted from the project site to their service area or that, alternatively, there can be an "administrative" or "paper" transfer of the power. Therefore, the Commission believes that the related contracts between the utilities, to the extent that they establish operational methods to assure such delivery of power, are necessary and appropriate and should be exempt from Commission review. Thus, the Commission recommends that HB356 provide that the operational aspects designed to assure delivery of power be exempt from Commission approval, but that the Commission's authority to evaluate costs and establish rates for services be preserved.

II. Response to House Judiciary Committee Inquiries

There are four major differences between SB22 and HB356, other than elimination of sections regarding utility deregulation.

The first, and most significant, difference is that SB22 exempted from Commission review and approval only the wholesale power contract for Bradley Lake power and did not exempt "related contracts for the wheeling, storage, regeneration, or wholesale repurchase of power and any subsequent amendments." These "related contracts and subsequent amendments," were not mentioned in SB22 and would have remained under Commission jurisdiction under SB22.

The second major difference concerns the provisions which assure that utilities recover costs associated with Bradley Lake. SB22 stated simply that "power costs incurred by a utility in connection with [purchase of Bradley Lake power] shall be allowed in

the rates charged by the utility." HB356 enlarges this provision significantly. It states that "all costs...including, without limitation, power and other costs" incurred in connection with an agreement to purchase power from Bradley Lake must be included in rates. That broader provision could be interpreted to require recovery of costs associated with Bradley Lake that are normally excluded from rates by statute, such as lobbying and advertising expenses (AS 42.05.381). The legislation should make clear whether the contemplated exemption extends to every section of the Commission's existing statute.

The third major difference is that HB356 includes a completely new provision which provides that both the wholesale power agreement and related contracts may include rate covenants and such covenants are valid and enforceable. The Commission understands the term "covenant" to mean that utilities can "promise" the APA and each other, by contract, that they will establish rates at a specified level in order to make payments to the APA or other utilities. Because such a covenant is "valid and enforceable," the Commission assumes that it would be required to set rates sufficient to allow the utility to meet all expenses, even those imprudently incurred or unreasonable in amount; in other words, the Commission interprets "covenant" to mean that it could not disallow expenses or investment for any reason whatsoever, if it would cause a breach of the rate covenant.

The fourth major difference is that SB22 included a provision that the APA is not a public utility under AS 42.05. That provision is not included in HB356. The effect of the exclusion is that wholesale power contracts between the APA and other public utilities, other than those specifically exempted by HB356, will remain under the jurisdiction of the Commission.

HOUSE BILL NO. 356 (APUC)
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION
A BILL

For an Act entitled: "An Act relating to the authority of the Alaska Public Utilities Commission in connection with certain activities of the Alaska Power Authority and in connection with calculating power cost equalization; and providing for an effective date."

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

* Section 1. AS 42.05.431 is amended by adding a new subsection to read:

(c) Notwithstanding (b) of this section,

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more other public utilities after October 31, 1987, and before January 1, 1988, [AND RELATED CONTRACTS FOR THE WHEELING, STORAGE, REGENERATION, OR WHOLESALE REPURCHASE OF POWER PURCHASED UNDER SUCH AN AGREEMENT,] and any subsequent amendments thereto [TO THE WHOLESALE AGREEMENT OR RELATED CONTRACT],

are not subject to review or approval by the commission;
and

(2) a wholesale agreement [OR RELATED CONTRACT] described in (1) of this subsection may contain a covenant for the public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract; such a covenant is valid and enforceable; and[.]

(3) the operational provisions of a related contract entered into prior to January 1, 1988, and technical or clarifying amendments thereto, which are necessary for the wheeling, storage, regeneration, or wholesale repurchase of power purchased under an agreement described in (1) of this subsection are not subject to approval by the commission; provided, however, that the commission shall have the authority to determine the cost of and establish rates for any services provided pursuant to such a related contract.

[*SECTION 2. AS 42.05.511 IS AMENDED BY ADDING A NEW
SUBSECTION TO READ:

(D) ALL COSTS INCURRED BY A UTILITY IN CONNECTION WITH A WHOLESALE AGREEMENT OR CONTRACT DESCRIBED IN AS 42.05.431(C) (1), INCLUDING, WITHOUT LIMITATION, POWER AND OTHER COSTS INCURRED UNDER SUCH AN AGREEMENT OR CONTRACT, MUST BE ALLOWED IN THE RATES CHARGED BY THE UTILITY.]

*Section 2 [3]. AS 44.83.090(b) is amended to read:

(b) The authority is not subject to the jurisdiction of the Alaska Public Utilities Commission. Nothing in this chapter grants the authority any jurisdiction over the services or rates of any public utility or diminishes or otherwise alters the jurisdiction of the Alaska Public Utilities Commission with respect to any public utility, including any right the commission may have to review and approve or disapprove contracts for the purchase of electricity by a public utility other than wholesale agreements and contracts described in AS 42.05.431(c)(1) and AS 42.05.431(c)(3).

*Section 3 [4]. AS 44.83.162 is amended by adding a new subsection to read:

(p) In calculating power cost equalization, the commission may not consider validated costs or kilowatt-hour sales associated with a United States Department of Defense facility.

*Section 4 [5]. This Act is retroactive to November 1, 1987.

*Section 5 [6]. This Act takes effect immediately under AS 01.10.070(c).



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT Commerce and Economic Development	OFFICE Alaska Power Authority	BILL NUMBER HB 356	SPONSOR H RULES/BY REQUEST OF GOVERNOR
SHORT TITLE OF BILL "An Act relating to the authority of the Alaska Public Utilities Commission...."			
DEPARTMENT POSITION Do Pass			
PREPARED BY Robert E. LeRonde	DATE 1/25/88	COMMISSIONER'S SIGNATURE 	DATE 1/25/88

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Alaska Public Utilities Commission	CONSTITUENT GROUP(S) AFFECTED BY BILL
ORGANIZATIONAL SUPPORT FOR BILL	ORGANIZATIONAL OPPOSITION TO BILL

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT
 As a result of a 1986 amendment to APUC legislation, the APUC was provided with new regulatory authority to review and approve wholesale power agreements between utilities. The effect on the Alaska Power Authority has been demonstrated with those agreements and related contracts associated with the Bradley Lake project. The project has been unable to move forward because of the regulatory change adopted through the 1986 amendment. The intent of this bill is to provide the necessary exemption language to allow for construc-

ANALYSIS OF BILL/PROGRAM EFFECTS
 The amendments in Sections 1-3 (as described below) will provide the necessary APUC regulatory exemption for wholesale power agreements and related contracts associated with the Bradley Lake project. This amendment serves to clearly exempt these specific contracts without removing APUC's jurisdiction over all other power sales agreements between the Power Authority and utilities on future Power Authority power projects. These amendments provide the statutory exemption language necessary to allow for the Bradley Lake Hydroelectric project to proceed as planned, although now on a revised construction SCHEDULE (see attached). Proposed amendments in Sections 1-3 provide the necessary statutory authority to insure that long-term financing of the project is possible.

The amendment in Section 4 will not provide substantive change to the Power Cost Equalization (PCE) program. The amendment will provide necessary statutory clarification which will assist in maintaining the current PCE level of a local utility supplying power to a U.S. Department of Defense facility without increasing the cost of power to the residen-

AMENDMENTS PROPOSED
 The proposed amendments in Sections 1-3 of the above referenced bill AS 42.05.431, AS 42.05.511 and AS 44.83.090(b) respectively. Amendments to AS 42.05.431 and AS 42.05.511 will provide statutory authority to allow the Power Authority to contract with utilities to guarantee that the utilities will charge sufficient rates to cover the Power Authority's bond obligations on the Bradley Lake Hydroelectric project. These amendments also serve to expand the scope of the Bradley Lake project regulatory exemption to include secondary contracts that are associated with the project. Although not specifically named in the bill, these related contacts include an agreement for Wheeling and

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

1491/816(1)

BACKGROUND/LEGISLATIVE INTENT (Continued):

tion of the Bradley Lake project to commence this year (See attached sheet on '988 Construction Schedule).

Section 4 of this legislation provides the necessary statutory change which will serve to clarify that APUC may not include the kilowatt-hour sales to a U.S. Department of Defense facility when determining if a utility is eligible for PCE program benefits. This amendment will resolve a pending question regarding Naknek Electric Association's sale of power to King Salmon Air Force Base. The same potential question exists with the City of Galena and their future sale of power to the Galena Air Force Base.

ANALYSIS OF BILL/PROGRAM EFFECTS (Continued):

tial customers of the utility. This amendment provides compliance to the Federal SWAP Act of 1980 which allows for a U.S. Department of Defense facility to purchase power from a local utility, with the purchase resulting in a cost savings to the local utility without increasing costs to other consumers of power.

AMENDMENTS PROPOSED (Continued):

related services between Bradley Lake power purchasers and Chugach Electric Association, Inc., and an agreement for the sharing of transmission facilities between Bradley Lake power purchasers and Homer Electric Association, Inc.

The proposed amendment to AS 44.83.090(b) clarifies the existing statutory authority of the APUC to exempt from APUC review and approval only those wholesale power agreements and contracts described in AS 42.05.431(c)(1). (The Bradley Lake Hydroelectric project agreements and contracts).

Section 4 amends AS 44.83.162 and stipulates that APUC may not consider validated costs or kilowatt hour sales to a U.S. Department of Defense facility when determining if a utility is eligible for Power Cost Equalization (PCE) program benefits. This provision will prohibit PCE calculated from including rates paid on military bases utilizing power generated and sold by a local utility.

H3356

HELLER, EHRMAN, WHITE & MCAULIFFE
ATTORNEYS

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

333 BUSH STREET
SAN FRANCISCO, CALIFORNIA 94104-2878
TELECOMMER (415) 776-8888
TELEPHONE (415) 371-8000

4100 FIRST INTERSTATE CENTER, 900 THIRD AVENUE
SEATTLE, WASHINGTON 98104-4011
TELEPHONE (206) 447-0800 • TELECOPIER (206) 447-0840

575 UNIVERSITY AVENUE
PALO ALTO, CALIFORNIA 94301-1808
TELECOMMER (415) 324-0833
TELEPHONE (415) 324-7800

ERIC REDMAN, P.S.
PARTNER

1200 S.W. FIFTH AVENUE
PORTLAND, OREGON 97201-8888
TELECOMMER (503) 241-0880
TELEPHONE (503) 227-7400

M E M O R A N D U M

TO: Rep. John Sund
FROM: Eric Redman, of lawyers for
Chugach Electric Association, Inc.
DATE: January 27, 1988
SUBJECT: Services Agreement For Bradley Lake Energy

This memorandum is to confirm formally a point made by Commissioner Susan Knowles of the Alaska Public Utilities Commission ("APUC") and by me in our respective oral testimony before your Committee during hearings today on HB 356.

The wheeling rate for Bradley Lake Energy under the above-captioned Agreement is required, by the Agreement, to be determined in accordance with Appendix A of the Agreement in the context of Chugach "rate adjustment proceedings." Appendix A contains a formula for computing the wheeling rate, using specified Chugach costs, specified quantities of energy, and a constant. By design, the specified costs are those which the APUC must review and approve (or disapprove) in any event in the course of Chugach's periodic rate adjustment proceedings. Similarly, the quantities of energy used in the formula can or must be determined in such proceedings in order to review and approve (or disapprove) Chugach's rates generally, not just Chugach's wheeling rate for Bradley Lake Energy.

Thus, as Appendix A should have made clear, the parties recognize and intend that the costs and the quantities of energy used to establish the wheeling rate under Appendix A--as distinct from the formula itself and the constant used in that formula--would continue to be subject to APUC review in Chugach's rate proceedings, as they are today, regardless of HB 356's enactment.

The reason Appendix A does not specifically mention the APUC is simply that the parties wished to avoid a potential future dispute about whether Appendix A would continue to bind the parties in the (possible but unforeseen) event that APUC ceases to review and approve (or disapprove) Chugach's rates at some point during the 50 year life of the Agreement. The intent of the parties was that Appendix A should remain binding even in that event.

I hope this formal clarification will be of assistance to you.

DW.1/198801



Homer Electric Association, Inc.

CENTRAL OFFICE: 3977 LAKE STREET • HOMER, ALASKA 99603 • (907) 235-8167

February 1, 1988

Rep. C. E. Swackhammer
Alaska State Legislature
P. O. Box V
Juneau, Alaska 99811

A handwritten signature or set of initials, possibly 'JS', written in dark ink. The letters are stylized and somewhat cursive.

Dear Swack:

REF: HB 356

It is my understanding that HB 356 was passed out of House Judiciary Committee last Friday with some minor modifications. From the information I have been able to obtain Homer Electric supports HB 356 as amended by the Judiciary Committee, and we hope that the Finance Committee will approve it and pass it on.

I am sending a copy of this letter to John Sund to thank him and the rest of the Judiciary Committee members for their support and efforts to make HB 356 a workable Bill.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

A large, handwritten signature in dark ink, appearing to be 'B. Kent Wick'. The signature is written over the typed name and title.

B. Kent Wick
General Manager

BKW:em

cc: John Sund

RECEIVED
2/2/88

STEVE COWPER, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

January 29, 1988

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

Chairman John Sund
• House Judiciary Committee
Alaska State Legislature
House of Representatives
P.O. Box 4
Juneau, Alaska 99811

Re: Bradley Lake Power Sales Agreement
-- Excess Payments

Dear Chairman Sund,

Robert LeResche, Executive Director of the Alaska Power Authority ("the Authority"), has relayed your request for an opinion on the meaning of section 29 of the Bradley Lake Power Sales Agreement "the Agreement").

The Bradley Lake project is a hydroelectric project within the energy program for Alaska. Sec. 20, ch. 133 SLA 1982. Money received by the Authority for the sale of power from projects constructed under the energy program for Alaska must be transmitted to the commissioner of revenue for deposit in the state general fund unless the money has been pledged to secure bonds. AS 44.83.398(c).

Section 29 of the Agreement provides that the power purchasers of the Bradley Lake hydroelectric project will make payments in excess of actual debt service once the construction bonds have been retired. These "excess" payments will be made to the Alaska Power Authority for deposit into the Railbelt Energy Fund.

As you already know, the Railbelt Energy Fund is a special fund treated as an account in the general fund. AS 37.05.153. The fund is managed by the Department of Revenue. Interest received on money in the fund may be appropriated into the fund annually. Id. AS 37.05.153 specifically provides that "the legislature may appropriate money from the fund to assist in meeting Railbelt energy needs." Id.

Notwithstanding any agreement entered into between a state agency and a second party, only the Legislature may withdraw money from the state treasury. AK Const. art. IX, sec. 13. Thus only the legislature may appropriate money from the Railbelt Energy Fund. Nor can we expect that the Railbelt Energy Fund

will exist in perpetuity. With certain exceptions not applicable to this discussion, the Alaska Constitution prohibits the dedication of public revenues. AK Const. art. IX, sec. 7. In this case, a legislature meeting in the year 2038 may appropriate money from the Railbelt Energy Fund for expenditure on a public purpose other than railbelt energy.

It is my opinion that section 29 of the Agreement would still be enforceable if the legislature withdrew from the Railbelt Energy Fund moneys deposited there under the provisions of the Agreement. I attended all the negotiation sessions leading up to the Agreement. I personally advised all the participants that neither the Legislature nor the Authority could dedicate these excess payments for Railbelt energy needs. Nor could the Authority make any promises for the Legislature.

The utilities were quite conversant with the dedicated funds prohibition of the Alaska Constitution. They wished, however, to express in section 29 their very strong sentiments in favor of having the excess payments used for future Railbelt energy needs and in favor of a Kenai-Fairbanks intertie. All the negotiators interpreted section 29 as a statement of intent and not as a contract condition on which the excess payments were contingent. In fact, the contract specifically provides that "[t]he Purchasers' obligations to make payment under this Section 29 are not contingent upon the success of ... continued efforts to obtain a satisfactory intertie between Fairbanks and the Kenai Peninsula.

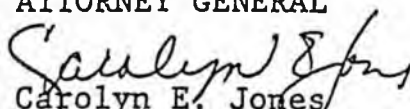
In summary, should moneys earned under this Agreement be deposited in the Railbelt Energy Fund, the Legislature may appropriate the moneys for Railbelt energy needs or as the Legislature deems appropriate. The Purchasers' obligation to make excess payments under the Agreement is not contingent upon dedication of these excess payments to expenditures on Railbelt energy needs.

Please call me if I can be of further assistance.

Very truly yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By:


Carolyn E. Jones
Assistant Attorney General

cc: Robert E. LeResche

February 4, 1988

Representative Albert Adams
Chairman, House Finance Committee

Dear Chairman Adams and House Finance Committee:

The Alaska Consumer Advocacy Program (ACAP), a utility consumer advocacy group, objects to the passage of House Bill No. 356 in its current format because it removes the consumers' check (the Alaska Public Utilities Commission) from the rate making and determination process.

However, ACAP believes that the amendments to H.B. 356 proposed by the House Judiciary Committee are in the consumers' best interest and if clarified, would ease some of the ratepayers' concern in regard to this bill.

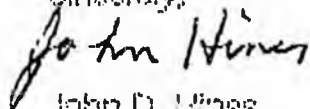
The following comment pertains to Section 2 (d), page 1.

ACAP believes the House Judiciary Committee's intent in inserting the phrase "validated costs, except those disallowed under AS 42.05.301 (a)", and the subsequent deletion of the phrase "without limitation, power and other costs incurred under such an agreement or contract", was to permit only validated costs to be included in the rates charged by utilities for Bradley Lake power. A semantic change would help ensure this goal. ACAP offers to this committee the following language changes, beginning on page 1, line 29, (d): Only validated costs, except those disallowed under and on page 2, line 2, described in AS 42.05.431(c)(1), shall be allowed ...

A second point of concern to consumers is the language relating to the time period for which the APUC is excluded from the rate making process. ACAP views the current language as vague. It can be inferred that any long term debt which is acquired will, over its retirement period, prevent the APUC from reviewing or approving the wholesale agreement or contracts. ACAP believes the intent of this amendment was to put a cap on the length of time in which the APUC was to be excluded. This cap was to be in affect only up to the time when the debt service for the construction and financing of the dam as it is currently contracted for and taking into account any refinancing schemes, was retired. ACAP urges the House Finance Committee to amend this language in such a manner that the time period for APUC exclusion includes only the time frame required to retire the debt service of initial costs as described above.

ACAP thanks Chairman Adams and the House Finance Committee for the opportunity to provide the consumers' perspective in these discussions and it urges them to include these comments. ACAP's objective is to keep oversight over a project which has the potential to create a large adverse impact on consumers' electric rates.

Sincerely,



John D. Hines
Staff Economist
Alaska Consumer Advocacy Program

JAN 29 1988

Alaska Consumer Advocacy Program

513 West Seventh Avenue • P.O. Box 103111 • Anchorage, Alaska 99510 • (907) 272-6355 or 278-3663

JAN 29 1988

FOR IMMEDIATE RELEASE

January 20, 1988

UTILITY CONSUMER GROUP
OBJECTS TO BILL TAKING APUC
OFF BRADLEY LAKE PROJECT

The Alaska Consumer Advocacy Program (ACAP) today released a letter of objection sent to Governor Steve Cowper, Neil Davis - Chairman of the APA and the House Judiciary Committee regarding the introduction of House Bill NO. 356. The bill, whose prime sponsor is Governor Cowper, would remove review and approval authority by the Alaska Public Utilities Commission over the wholesale power agreements between the Alaska Power Authority and the Railbelt utilities relating to Bradley Lake and also over any future APA projects.

ACAP, a statewide consumer advocacy group objects to this bill because it removes a check and balance on the consumer's right to least cost electricity.

cc: Governor Steve Cowper
Representative John Sund Chairman, House Judiciary Committee
Dr. Neil Davis Chairman, Alaska Power Authority Board

January 20, 1988

Representative John Sund
Chairman, House Judiciary Committee

Dear Chairman Sund and House Judiciary Committee:

The Alaska Consumer Advisory Program (ACAP), a utility consumer advocacy group, objects to House Bill No. 356, introduced at the request of Governor Cowper, because it will adversely affect the rights of consumers in the Railbelt to have electricity costs accurately reflected in their electric bills. This bill exempts all costs pertaining to wholesale power contracts between the Bradley Lake Hydroelectric Project and the Alaska Power Authority plus any future APA projects from either review or approval by the Alaska Public Utilities Commission. This bill goes far beyond the original stated intent of the legislation. From the consumers' perspective, exempting all projects in which the APA is involved from APUC review, including those projects which interrelate with public utilities, is setting a reckless precedence.

In the recent State BUDGET ADDRESS, Governor Cowper referred to his administration's and legislators' efforts to exempt Bradley Lake from the APUC's review process as a removal of "unnecessary government review". ACAP argues that this review process is a key ingredient to ensuring that consumers receive the least-cost electricity possible.

ACAP points out that there are three types of studies which are associated with projects such as Bradley Lake. The first type of study determines whether the project is feasible from an engineering perspective. The second type determines the financial/economic viability of the project. The third type of study evaluates the costs of the project and determines the effect on consumers' utility bills - it analyzes whether they are fair and just. Each of these studies employs distinct types of analysis and measures different outcomes.

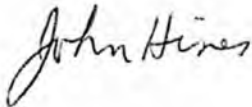
The feasibility and financial/economic analyses have been completed and reviewed by the proper agencies. The analysis of the impact on consumers' utility bills (to be completed by all participating utilities) and the terms of the wholesale power contracts (signed only two months ago) have not had any impartial expert evaluation or review. H.B. No. 356 will deny this review process. This review process is currently mandated by Alaska Statutes and the task is completed by the APUC. The APUC's duties include ensuring that all regulated utilities' rates, either demanded or received shall be fair, just and reasonable and based on actual, reasonable costs.

ACAP believes that this legislation bypasses the consumer's only meaningful check on his/her electric bills. For example, if H.B. No. 356 is passed, the Bradley Lake contracts stipulate that

each participating utility shall be able to charge rates sufficient to meet their debt service and all other costs or expense obligations deemed applicable, including any subsequent amendments over the 50 year life of the contracts, without any review or approval by the APUC. ACAP is concerned that without proper oversight, a tendency to insert excessive or improper costs into this "inviolable" project may develop among utilities.

Current ACAP estimates for Municipal Light and Power's and Chugach Electric Association's levelized Bradley Lake cost obligations is \$5 million and 5.9 million per year, respectively, for a fifty year time period. ACAP believes that it is in both the consumers' and governments' best interest to keep the APUC in the review process, especially when dealing with a \$350 million project. A "No" vote on H.B. 356 does not curtail Bradley Lake. It only allows this project to be impartially reviewed just like any other power source while keeping the APA within the review process.

Sincerely,



John D. Hines
Staff Economist
Alaska Consumer Advocacy Program

RESOLUTION NO. 87-19

A RESOLUTION of the Project Management Committee ("PMC") providing for the adoption of an open meetings policy.

WHEREAS, the members of the PMC desire to conduct their business in public; and

WHEREAS, the six parties to the Agreement establishing the PMC all routinely conduct business in open meetings; and

WHEREAS, while the PMC may not be a governmental unit, neither is it entirely a "private" entity, as that term is commonly used; and

WHEREAS, Alaska public policy favors openness and public access; and

WHEREAS, opening meetings to the public may have a positive substantive impact on the deliberations of the PMC by insuring that important decisions are made with adequate information; and

WHEREAS, public exposure may deter misconduct, discourage hasty decision-making, and enhance consumer acceptance of PMC actions; and

WHEREAS, Section 7(d) of the Agreement empowers the PMC to enact procedural rules.

NOW, THEREFORE, BE IT RESOLVED by the PMC as follows:

Section 1.

All formal meetings of the Committee and its subcommittees shall be open to the public except as otherwise provided in these bylaws. Except when voice votes are authorized, all votes shall be conducted in such a manner that the public may know the vote of each person entitled to vote.

Section 2.

If excepted subjects are to be discussed at a meeting, the meeting shall first be convened as a regular or special meeting and the question of holding an executive session to discuss matters that come within the exceptions contained in Section 3 of this rule shall be determined by a majority vote of the Committee. No subjects may be considered at the executive session except those mentioned in the motion calling for the executive session unless auxiliary to the main question. Formal action may not be taken during the executive session. Only members of the Committee and designated alternates, attorneys for members of the Committee and members of the Technical Standards Committee may attend an executive session, unless the motion calling for the executive session specifies other persons who are to present information to the Committee.

Section 3.

The following excepted subjects may be discussed in an executive session:

- (A) Matters the immediate knowledge of which would clearly have an adverse effect upon the finances of the Committee, the Initial Project, or any of the individual parties represented on the Committee;
- (B) Subjects that tend to prejudice the reputation and character of any person, provided the person may request a public discussion;
- (C) Matters which by law are required to be confidential;
- (D) Matters discussed with an attorney retained by the Committee members, or with a consultant retained by such attorney, the immediate knowledge of which could have an adverse effect on the legal position of the Committee, the Initial Project, or any of the parties represented on the Committee.

Section 4.

Reasonable notice shall be given for all regular or special meetings of the Committee.

Section 5.

Sections 1, 2, 3 and 4 shall not apply to:

- (A) Meetings at which a quorum is not present;
- (B) Informal discussions, by telephone or otherwise, among members of the Committee, at which votes are not taken and official business is not conducted;
- (C) Meetings and discussions, formal or informal, of Committee members in which all participants indicate they are acting individually as representatives of the parties to the Agreement and not as the assembled Committee, and at which no Committee business is conducted and no votes are taken.

DATED this 19 day of August, 1987.

PROJECT MANAGEMENT COMMITTEE

By: Richard A. Southworth
Chairman

ATTEST:

By: [Signature]
Secretary

APPROVED AT PROJECT MANAGEMENT COMMITTEE MEETING
HELD JULY 29-30, 1987.

Rates = who pays what to cover
the utility's costs

Assignment
of costs -
transmission
costs to
utilities

Classical
method
transmission
costs

MAP

ASST

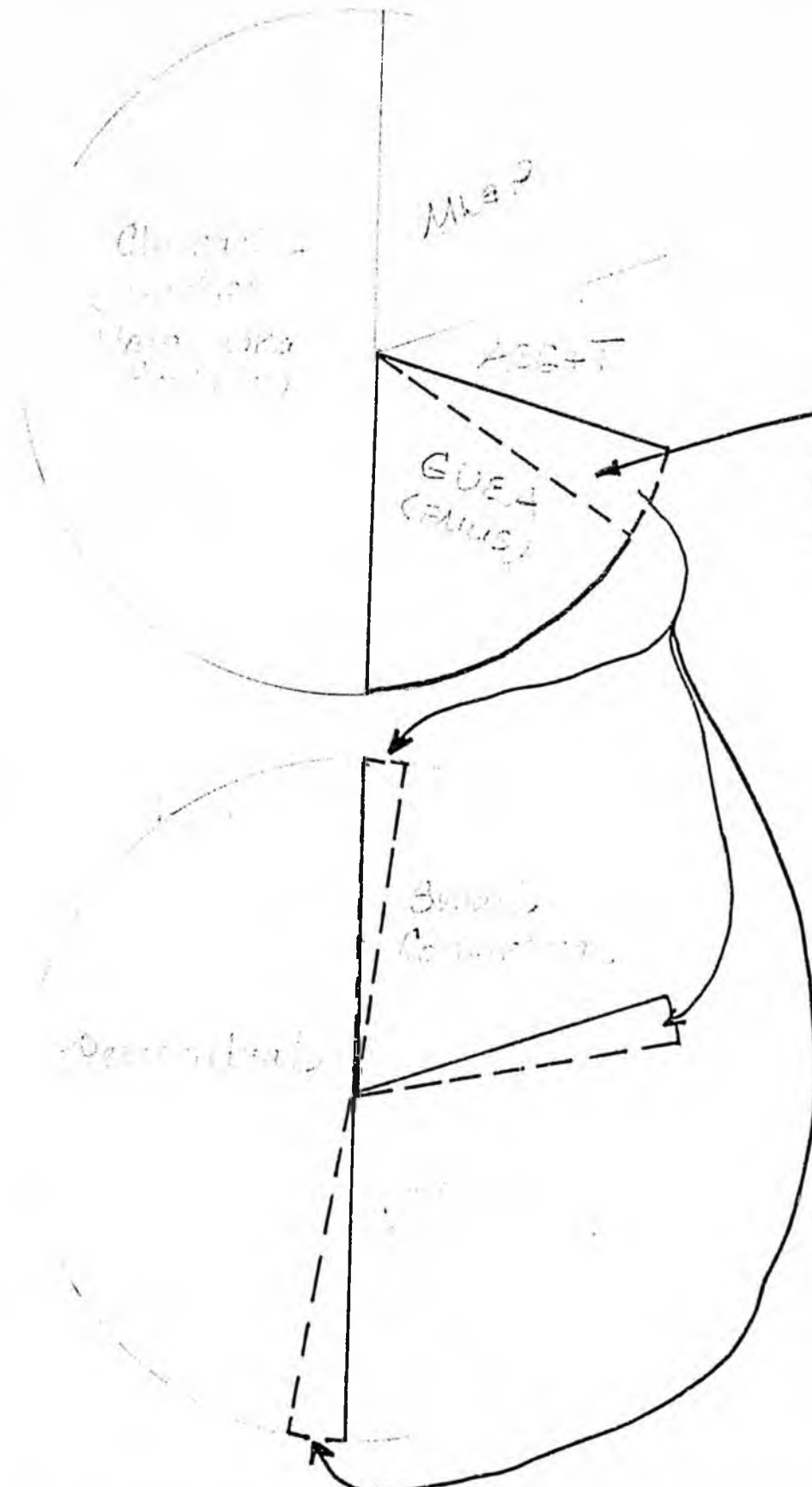
GUEA
(FNUSE)

excess
costs
assigned
to GUEA

Impact of
excess cost
assignment
on rates

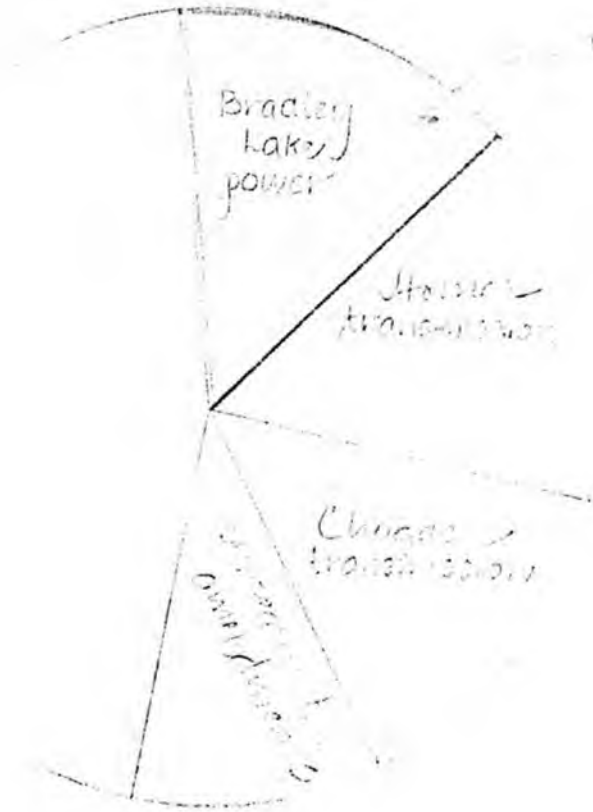
Decentralized

Shared
costs



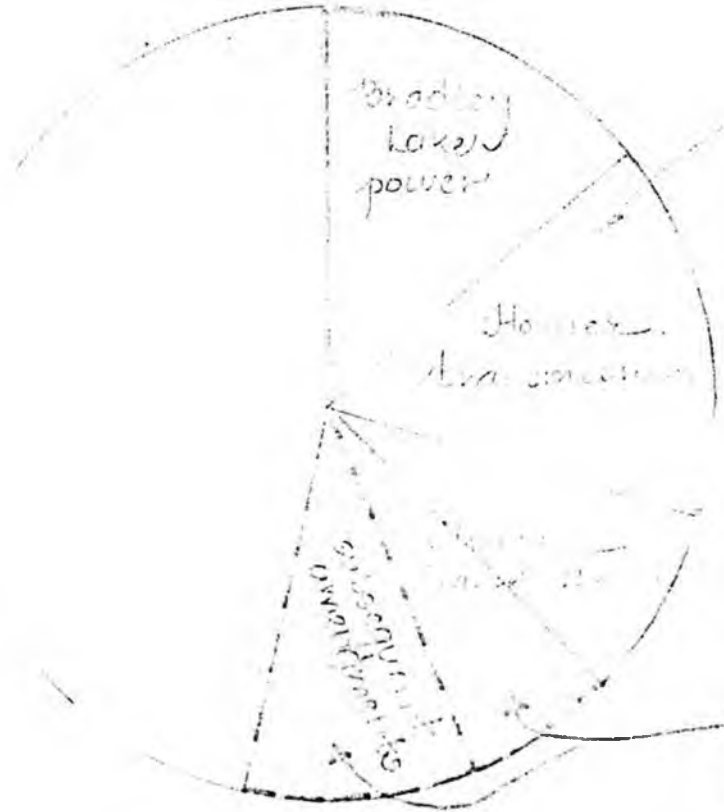
costs = the total dollars a utility is allowed to recover through rates

with exemption of wholesale power agreements



no APUC oversight of costs

with exemption of all services & surcharges



no APUC oversight of costs

APUC oversight of costs. uncertain

APPENDIX AComputation Of Wheeling Rates

Rates for wheeling services provided under Section 4 of this Agreement are intended to be computed on a fully allocated cost basis and to apply to all Wheeling Utilities in a "postage stamp" manner, in accordance with the following principles:

1. Basic Wheeling Rate.

(a) Formula. The basic wheeling rate shall be computed in each Chugach rate adjustment proceeding in accordance with the following formula, using actual values for each variable as determined for the ratemaking test year applicable to that rate adjustment proceeding:

$$R = \frac{A + B + C + D + E}{F} \times K$$

Where:

- R = The basic wheeling rate to be charged during the rate period;
- A = Chugach O & M expense allocated to transmission (currently REA Accounts 556 through 573), less such O & M expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;
- B = Chugach A & G expense allocated to transmission (currently REA Accounts 920 through 932), less such A & G expense properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;
- C = Chugach taxes allocated to transmission (currently REA Account 408), less such taxes properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;
- D = Chugach depreciation allocated to transmission (currently REA Account 403), less such depreciation properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

E = Chugach interest expense and generation-and-transmission TIER (or other applicable generation and transmission margin requirement) allocated to transmission, less interest expense and generation and transmission TIER properly allocated to Chugach's Beluga to Point MacKenzie transmission segment;

F = The sum in kilowatthours of (i) Chugach's total generation (exclusive of generation for economy sales) plus purchases, and (ii) the Bradley Lake Energy of the Wheeling Utilities;

and

K = The applicable phase-in factor or constant as set forth below in Provision 2 of this Appendix A.

(b) Notes on specific variables.

(i) The Point MacKenzie Substation is not part of Chugach's Beluga to Point MacKenzie transmission segment, and the costs of that Substation shall not be excluded in determining the values for those variables from which the costs of that segment are excluded.

(ii) Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment are not (and at this time cannot be) specifically identified and isolated from Chugach's total transmission O & M expense and A & G expense. Therefore, in computing "A" and "B" in the foregoing formula, reasonable estimates of Chugach's transmission O & M expense and A & G expense associated with Chugach's Beluga to Point MacKenzie transmission segment shall be used. Such estimates may be based on reasonable proxy variables, such as the percentage of total recorded annual hours of transmission O & M labor represented by recorded annual hours of transmission O & M labor on Chugach's Beluga to Point MacKenzie transmission segment.

(iii) As provided in Section 13(cc) of this Agreement, neither HEA nor AEG&T on behalf of HEA is a Wheeling Utility for purposes of this Agreement (except, potentially, as a successor or assignee of another Wheeling Utility's Bradley Lake Energy). Thus, "F" in the formula set forth above shall not include or be increased by any Bradley Lake Energy of HEA or AEG&T on behalf of HEA, even if such Energy is wheeled by Chugach pursuant to Section 8(f) of this Agreement at wheeling rates established under this Exhibit A.

2. Phase-In Factor (Years 1-15) And Constant (Later Years).

Beginning with the calendar year in which the Project achieves Commercial Operation, and in each of the next fourteen calendar years (Calendar Years 1 through 15 in the table below), the applicable wheeling rate shall be determined by multiplying the then-applicable base wheeling rate (as computed above) times a phase-in factor in accordance with the following table:

<u>Calendar Year</u>	<u>Phase-In Factor</u>
1 . . . . .	.3333
2 . . . . .	.3333
3 . . . . .	.3333
4 . . . . .	.3805
5 . . . . .	.4278
6 . . . . .	.4750
7 . . . . .	.5222
8 . . . . .	.5694
9 . . . . .	.6167
10 . . . . .	.6639
11 . . . . .	.7111
12 . . . . .	.7583
13 . . . . .	.8056
14 . . . . .	.8528
15 . . . . .	.9000

Beginning on the first day of the next calendar year after Calendar Year 15, and in all succeeding calendar years, the base wheeling rate (as computed under heading 1 above) shall be multiplied by 0.9000 as a constant. Any increase in the applicable wheeling rate resulting from an increase in the phase-in factor in accordance with the table above shall become effective without the need for any regulatory approval other than approval of this Agreement.



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

January 27, 1987

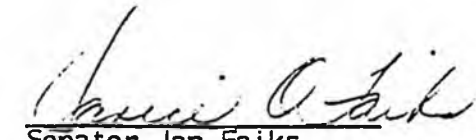
The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear President Faiks:

Chapter 30, SLA 86 (HCS CSSB 468 Loans) creating the Railbelt Energy Council mandates that the Council report its recommendations to the Legislature by February 15, 1987.

This enclosed report was unanimously adopted at a meeting held January 24, 1987, at which all members of the Council were present.

Respectfully submitted,



Senator Jan Faiks,
Chairman, Railbelt Energy Council

JF:KSD:lal

REPORT OF THE
RAILBELT ENERGY COUNCIL
TO THE
FIFTHTEENTH ALASKA STATE LEGISLATURE
FIRST SESSION

January 24, 1987

RAILBELT ENERGY COUNCIL MEMBERSHIP

LEGISLATIVE MEMBERS

Senator Jan Faiks (Chairman, REC), Anchorage

Senator Jack Coghill, Nenana

Representative Sam Cotten, Eagle River

Representative Steve Frank, Fairbanks

GOVERNOR'S APPOINTEES

Mano Frey, Executive President, Alaska State AFL&CIO

Steven Lewis, President, PETROSTAR

UTILITIES' MEMBERS

RON GARZINI, City Manager,
Seward Electric System

VIRGIL GILLESPIE, General Manager,
Fairbanks Municipal Utilities System

MIKE KELLY, General Manager,
Golden Valley Electric Association

RICK NEWLAND, General Manager,
Chugach Electric Association

JAMES PALIN, General Manager,
Matanuska Electric Association

TOM STAHR, General Manager,
Anchorage Municipal Light & Power

KENT WICK, General Manager,
Homer Electric Association Utilities
(Vice-Chairman, REC)

TABLE OF CONTENTS

	Page
LISTING OF RAILBELT ENERGY COUNCIL MEMBERS	ii
EXECUTIVE SUMMARY	1
INTRODUCTION	4
FINDINGS & RECOMMENDATIONS	7

EXECUTIVE SUMMARY

In 1986, the Alaska Legislature created the Railbelt Energy Council (REC) and charged it with addressing five areas of concern dealing with the Railbelt energy needs (Ch 30, SLA 1986). The Council membership consists of two members appointed by the Governor; two senators appointed by the President of the Senate; two members of the House of Representatives appointed by the Speaker of the House; and one representative from each of the seven interconnected Railbelt utilities. The Council was to report its recommendations to the Legislature by February 15, 1987.

The Council addressed the organizational and financial aspects as well as reviewed various alternatives for meeting the future energy needs of the Railbelt. The Council was unable to conduct the review of the alternatives in as great a detail as originally anticipated because of a freeze placed on the \$2.5 million appropriation to the Alaska Power Authority (APA) for that specific purpose. Despite these difficulties further exacerbated by the declining oil prices and state revenues, the Council has addressed the major issues and unanimously approved its findings and recommendations. They are summarized below.

FINDINGS:

1. DECREASING OIL PRICES AND STATE REVENUES ARE CAUSING SIGNIFICANT CHANGES IN THE FORECASTED RAILBELT ENERGY REQUIREMENTS FOR THE NEXT SEVERAL YEARS. THE IMPACT OF THESE DEVELOPMENTS ON LONG-TERM GROWTH IS UNCLEAR.

5. A PORTION OF THE RAILBELT ENERGY FUND SHOULD BE APPROPRIATED FOR THE COMPLETION OF THE ANCHORAGE-KENAI PENINSULA AND ANCHORAGE-FAIRBANKS INTERTIES IN CONJUNCTION WITH THE COMPLETION OF THE BRADLEY LAKE PROJECT.
6. THE BURDEN OF PROOF FOR DEMONSTRATING A COMPELLING NEED FOR ANY ADDITIONAL ENERGY PROJECT BEYOND BRADLEY LAKE AND THE RAILBELT INTERTIES, FOR WHICH STATE FINANCIAL ASSISTANCE IS BEING SOUGHT, IS ON THE PROJECT SPONSOR(S) AND SHOULD INCLUDE A CREDIBLE PLAN OF FINANCE AS WELL AS PUBLIC POLICY CONSIDERATIONS JUSTIFYING THE STATE ASSISTANCE.
7. AN ENERGY PROJECT REVOLVING FUND SHOULD BE ESTABLISHED, UTILIZING ANY MONIES REMAINING IN THE RAILBELT ENERGY FUND. A METHOD TO REPLENISH THE FUND SHOULD BE DEVELOPED WITH AFFORDABILITY TO THE RATEPAYER AS THE KEY TO ANY SUCH REPAYMENT PLAN.

work, the Legislature placed all of the remaining Susitna Project funds into the Railbelt Energy Fund (REF) (Chapter 29 & 41, SLA 1986) while retaining the sole authority for making appropriations from it. Further, as a way of assisting the Council, the Legislature appropriated \$2.5 million from REF to the APA for conducting a review and evaluation of Railbelt electric power alternatives (Chapter 42, SLA 1986).

While the Council has addressed the five areas mandated by statute, the report is not as comprehensive as desired largely because of two unplanned events. First, the previous Administration froze most of the \$2.5 million appropriation to the APA that was to be used to review and evaluate Railbelt electric power alternatives. Second, the decline of economic growth has substantially delayed the need for future generation facilities in the Railbelt.

Despite these obstacles, the Council has been able to forge unified positions on a number of major issues dealing with the Railbelt energy problems. The Council feels that implementation of its recommendations will go a long way toward assuring Railbelt consumers--who represent three fourths of the State's population--of more reliable and low cost electrical energy. Further, utilization of the REF for energy projects in the Railbelt will restore some of the regional equity originally envisioned under the Energy Program for Alaska.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

EXECUTIVE SUMMARY

In 1986, the Alaska Legislature created the Railbelt Energy Council (REC) and charged it with addressing five areas of concern dealing with the Railbelt energy needs (Ch 30, SLA 1986). The Council membership consists of two members appointed by the Governor; two senators appointed by the President of the Senate; two members of the House of Representatives appointed by the Speaker of the House; and one representative from each of the seven interconnected Railbelt utilities. The Council was to report its recommendations to the Legislature by February 15, 1987.

The Council addressed the organizational and financial aspects as well as reviewed various alternatives for meeting the future energy needs of the Railbelt. The Council was unable to conduct the review of the alternatives in as great a detail as originally anticipated because of a freeze placed on the \$2.5 million appropriation to the Alaska Power Authority (APA) for that specific purpose. Despite these difficulties further exacerbated by the declining oil prices and state revenues, the Council has addressed the major issues and unanimously approved its findings and recommendations. They are summarized below.

FINDINGS:

1. DECREASING OIL PRICES AND STATE REVENUES ARE CAUSING SIGNIFICANT CHANGES IN THE FORECASTED RAILBELT ENERGY REQUIREMENTS FOR THE NEXT SEVERAL YEARS. THE IMPACT OF THESE DEVELOPMENTS ON LONG-TERM GROWTH IS UNCLEAR.

2. DUE TO BUDGETARY LIMITATIONS, STATE PARTICIPATION IN FUTURE ENERGY PROJECTS WILL BECOME MORE CONSTRAINED.
3. INCREASING THE UTILIZATION AND EFFICIENCY OF THE EXISTING RAILBELT GENERATION AND TRANSMISSION RESOURCES REPRESENTS THE BEST SOLUTION IN THE NEAR TERM.
4. IMPROVING COOPERATION AND COORDINATION AMONG RAILBELT UTILITIES WILL INCREASE THE RELIABILITY AND COST EFFECTIVENESS OF THE REGION'S ELECTRIC SYSTEM.
5. THE LEGISLATURE ESTABLISHED THE RAILBELT ENERGY FUND FOR THE SOLE PURPOSE OF FINANCING ENERGY PROJECTS IN THE RAILBELT REGION.

MAJOR RECOMMENDATIONS:

1. CREATION OF A REGIONAL GENERATION AND TRANSMISSION TYPE UTILITY ORGANIZATION IS IN THE BEST INTEREST OF THE RAILBELT CONSUMERS AND SHOULD CONTINUE TO BE SUPPORTED BY ALL CONCERNED.
2. THE ALASKA POWER AUTHORITY SHOULD CONTINUE TO PERFORM ITS RAILBELT FUNCTIONS UNTIL THE LEGISLATURE AND ADMINISTRATION COMPLETE THEIR REVIEW AND DETERMINE THE APA'S FUTURE ROLE AND STRUCTURE.
3. THE COUNCIL RECOMMENDS THAT THE UTILITIES SHOULD HAVE REPRESENTATION ON THE ALASKA POWER AUTHORITY BOARD OF DIRECTORS.
4. CONSTRUCTION OF THE BRADLEY LAKE HYDROELECTRIC PROJECT SHOULD CONTINUE IN ACCORDANCE WITH A PLAN OF FINANCE AND POWER SALE AGREEMENTS PREVIOUSLY APPROVED OR AS MAY BE MODIFIED BETWEEN APA AND THE RAILBELT UTILITIES. ALL RAILBELT UTILITIES SHOULD BE GIVEN AN OPPORTUNITY TO PARTICIPATE IN THE BRADLEY LAKE PROJECT.

5. A PORTION OF THE RAILBELT ENERGY FUND SHOULD BE APPROPRIATED FOR THE COMPLETION OF THE ANCHORAGE-KENAI PENINSULA AND ANCHORAGE-FAIRBANKS INTERTIES IN CONJUNCTION WITH THE COMPLETION OF THE BRADLEY LAKE PROJECT.
6. THE BURDEN OF PROOF FOR DEMONSTRATING A COMPELLING NEED FOR ANY ADDITIONAL ENERGY PROJECT BEYOND BRADLEY LAKE AND THE RAILBELT INTERTIES, FOR WHICH STATE FINANCIAL ASSISTANCE IS BEING SOUGHT, IS ON THE PROJECT SPONSOR(S) AND SHOULD INCLUDE A CREDIBLE PLAN OF FINANCE AS WELL AS PUBLIC POLICY CONSIDERATIONS JUSTIFYING THE STATE ASSISTANCE.
7. AN ENERGY PROJECT REVOLVING FUND SHOULD BE ESTABLISHED, UTILIZING ANY MONIES REMAINING IN THE RAILBELT ENERGY FUND. A METHOD TO REPLENISH THE FUND SHOULD BE DEVELOPED WITH AFFORDABILITY TO THE RATEPAYER AS THE KEY TO ANY SUCH REPAYMENT PLAN.

INTRODUCTION

The Railbelt Energy Council was created by the Alaska Legislature (Chapter 30, SLA 1986) during the 1986 Legislative session. The Council was created in response to requests from the Railbelt utilities and other interested parties concerned that with the demise of the Susitna River Hydroelectric Project (Watana and Devil Canyon dams) early in 1986, the Railbelt's energy needs would not be met. The terms of financing for the Susitna project were found to be unacceptable due to its large capital cost and decreasing State revenues, although the project still appears economically feasible over the long run.

The demise of the two-dam Susitna project left the Railbelt Energy Program in question and with the problem of how best to utilize some \$280 million designated as part of the state's equity in that project.

Another issue that had to be addressed dealt with the perception that the cooperation and coordination among the Alaska Power Authority and the seven interconnected Railbelt utilities was not as effective as deemed necessary for formulating the most efficient solutions to Railbelt energy needs.

In general then, the Council was created to address the organizational, generation, transmission and financial issues as they related to the Railbelt energy problems. The statutorily specified issues are addressed later in this report. Pending completion of the Council's

work, the Legislature placed all of the remaining Susitna Project funds into the Railbelt Energy Fund (REF) (Chapter 29 & 41, SLA 1986) while retaining the sole authority for making appropriations from it. Further, as a way of assisting the Council, the Legislature appropriated \$2.5 million from REF to the APA for conducting a review and evaluation of Railbelt electric power alternatives (Chapter 42, SLA 1986).

While the Council has addressed the five areas mandated by statute, the report is not as comprehensive as desired largely because of two unplanned events. First, the previous Administration froze most of the \$2.5 million appropriation to the APA that was to be used to review and evaluate Railbelt electric power alternatives. Second, the decline of economic growth has substantially delayed the need for future generation facilities in the Railbelt.

Despite these obstacles, the Council has been able to forge unified positions on a number of major issues dealing with the Railbelt energy problems. The Council feels that implementation of its recommendations will go a long way toward assuring Railbelt consumers--who represent three fourths of the State's population--of more reliable and low cost electrical energy. Further, utilization of the REF for energy projects in the Railbelt will restore some of the regional equity originally envisioned under the Energy Program for Alaska.

The Findings and Recommendations of this report are keyed to the five specific reporting requirements of the statute (Ch. 30, Sec 2, SLA 1986). Each of the five parts under Findings & Recommendations is headed with one of the statute requirements, which is underlined for easier identification.

FINDINGS & RECOMMENDATIONS

1. Recommend the best option for planning, financing, constructing, and managing electric power facilities in the Railbelt area.

- A. Planning. The Railbelt Energy Council finds that a well coordinated planning effort among those responsible for supplying the service is absolutely essential to assure that the Railbelt customers will have the most reliable, efficient and economic electric supply system. While there are many interested parties that have much valuable input to offer to the planning process, THE FACT REMAINS THAT THE RESPONSIBILITY FOR SUCH PLANNING REMAINS WITH THE RAILBELT UTILITIES AND THE ALASKA POWER AUTHORITY. The Council should not be expected to become a substitute for such a planning entity.

THE COUNCIL BELIEVES THERE MUST EXIST A FORMAL ORGANIZATION of all interconnected Railbelt utilities. The creation of such a regional utility organization should continue to be supported by the responsible agencies, the Legislature and the Administration as being in the best interest of the Railbelt consumers.

While the Council recognizes that in the long-term the optimal solution would be a regional generation and transmission (G&T) utility organization, it is also aware that technical and political considerations may preclude such a solution in the short-term. Therefore, as an interim solution the Council recommends that:

1. The Railbelt utilities and APA work diligently toward establishing a regional organization as soon as possible.
2. Pending any change in its role and/or structure, the APA should continue to administer and perform its existing programs and functions relative to the Bradley Lake and the Railbelt interties projects.
3. The APA Board of Directors be immediately reorganized to include direct utility representation.

The Council recommends that the role of APA be re-evaluated. Two issues that should be taken into consideration in this review are the pending formation of a regional G&T utility and a significantly smaller state budget. Such a review by the Legislature and the Administration should begin during the 1987 session and provide for the Railbelt utility input.

B. Financing. The Council finds that it is not appropriate to recommend financing options without first having a specific project proposal. In general terms, the Council believes that each project will have some unique aspect and the optimal financing plan will have to be custom tailored after specific economic feasibility and all relevant financial factors have been identified and public policy aspects considered. The Council recognizes that new State capital project funds will most likely remain scarce in the immediate future.

Therefore, THE COUNCIL RECOMMENDS THAT THE LEGISLATURE CONSIDER THE FINANCING OPTIONS FOR EACH NEW PROJECT SEPARATELY AND ENSURE OPTIMAL USE OF THE STATE AND PRIVATE EQUITY FUNDS.

Specifically, THE COUNCIL RECOMMENDS THAT THE LEGISLATURE CONTINUE TO SUPPORT THE PREVIOUSLY APPROVED BRADLEY LAKE HYDROELECTRIC PROJECT NOW UNDER CONSTRUCTION.

The Bradley project has already been deemed economically and environmentally feasible and has received licensing approval from the Federal Energy Regulatory Commission. Construction was begun in the summer of 1986. The State of Alaska has appropriated approximately \$168 million for the project, \$50 million of which was frozen after the 1986 Legislative session.

The Railbelt Energy Council unanimously supports timely completion of the Bradley project and supports full additional funding of \$50 million for a total appropriation of \$218 million as previously approved by the Legislature and which was in effect at the time of the signing of conditional power sales agreements. Changes to the existing plan of finance should be contemplated only after a careful evaluation of the impact they would have on the existing power sale agreements, but with the recognition that all seven interconnected Railbelt utilities should have direct access to the Project through completion of the Anchorage-Fairbanks and Anchorage-Kenai Peninsula interties.

Further, THE COUNCIL RECOMMENDS THAT A PORTION OF THE RAILBELT ENERGY FUND BE USED TO COMPLETE THE ANCHORAGE TO FAIRBANKS AND ANCHORAGE TO KENAI PENINSULA INTERTIES. The Council finds that the completion of these interties will allow all of the Railbelt utilities to more equally share the benefits of the Bradley Lake project as well as provide more reliable and less costly electric service to all consumers in the region.

- C. Constructing. The Council finds that the owner or owners of a power project should retain the responsibility and authority to decide how best to construct it. Unless and until its role and/or structure are changed, the APA should

retain responsibility for the completion of the Bradley Lake Project and the Interties. The APA should closely coordinate its activities with the Railbelt utilities.

If at some future date there should come into being a regional utility organization, then any projects constructed by it should be accomplished totally under that organization's control.

D. Managing. The Council finds that in general the utilities are best qualified to operate and maintain the power supply facilities and recommends that the APA policy of contracting out such operations to local utilities be continued. The Council further recommends that management decisions, which are normally the prerogative of the owner and which could impact ratepayers, be closely coordinated among the owners, operators and users.

On the issue of divestiture, the Council finds that the transfer of the federal Eklutna Hydroelectric project to local utility or utilities makes sense only if the purchase price and terms are favorable to consumers and other interested parties. Accordingly, the Council recommends that the appropriate Railbelt utilities continue to pursue the divestiture process until the sale is consummated or it becomes clear that the process will not be successful due to political and other constraints.

2. Examine all alternatives and recommend the best method for meeting projected Railbelt energy demand.

As previously mentioned, the Council was unable to thoroughly examine a wide spectrum of energy alternatives because funds for energy alternative studies were frozen. In addition, the Council finds that the dramatic decline in oil prices since the end of the 1986 Legislative Session has had a profound effect on near-term Railbelt energy forecasts. For the near future, this seems to indicate that unless there is a significant upturn in the economy, there may not be a need for major new power plant additions after the completion of the Bradley Lake and Interties projects and excluding any existing plant replacements.

Given these circumstances, THE COUNCIL FINDS THAT THE PRUDENT STRATEGY TO FOLLOW AT THIS TIME IS TO INCREASE THE UTILIZATION AND OPERATIONAL EFFICIENCY OF THE EXISTING RAILBELT GENERATION AND TRANSMISSION FACILITIES AND THOSE UNDER CONSTRUCTION.

Specifically, this should include timely completion of the Bradley Project, constructing a new Anchorage-Kenai Peninsula intertie, upgrading the Anchorage-Fairbanks intertie, implementation of various conservation measures and extending the life of existing power plants.

There are many benefits of an improved transmission system. Some of these are not easily quantifiable into dollars. Examples of such benefits include improved reliability, decreased

standby generation requirements, flexibility of buying from lowest cost generation source, the increased competition due to greater access to alternative generation methods and facilitation of general economic development requirements. THEREFORE, THE COUNCIL RECOMMENDS THAT THESE PUBLIC POLICY ISSUES BE CONSIDERED AS AN IMPORTANT PART OF THE DECISION MAKING PROCESS IN ADDITION TO THE TRADITIONAL BENEFIT/COST ANALYSIS.

The Council finds that electricity has become a necessity and a prerequisite to improving the quality of life for the rural residents. While the Council recognizes that extending the electrical service to all rural residents is neither practical, nor desired by some of them, it finds that extension of such services along state routes and interties, on a priority basis, would be highly desirable. Accordingly, the Council believes that the Legislature and the Administration should adopt policies and appropriations designed to achieve that goal, thereby enhancing the economic development potential of the rural residents while concurrently improving their quality of life.

3. Recommend alternative financing plans for assisting the private sector and public utilities to meet the future energy needs of the Railbelt area.

The Council has in this report made specific recommendations covering methods of financing for Bradley Lake and the Interties. The Council recognizes that State revenues have severely declined and that no new generation, in addition to the Bradley Lake and

Interties projects may be needed in the near future. The Council generally supports construction of future power supply projects by the municipalities, utilities or the private sector.

The Council further recommends that the burden of proof for making a compelling case for State participation in any project rest with the project sponsor(s) to include demonstrating that private financing is not feasible or available and that public policy considerations warrant financial assistance by the State.

THE COUNCIL FINDS THAT THE LEGISLATURE ESTABLISHED THE RAILBELT ENERGY FUND FOR THE SOLE PURPOSE OF FINANCING ENERGY PROJECTS IN THE RAILBELT REGION. Accordingly, THE COUNCIL RECOMMENDS THAT A PLAN OF FINANCE BE DEVELOPED TO ASSURE THAT THESE FUNDS ARE USED SOLELY FOR THEIR INTENDED PURPOSE AND THAT REPLENISHMENT OF THE FUNDS BE CONSIDERED A KEY ELEMENT IN ANY SUCH PLAN.

4. Determine whether a regional generation and transmission utility organization can operate to the best interests of utility consumers.

As alluded to under Finding 1A, the Council is aware that previous studies have demonstrated that a regional power supply utility organization is in the best interest of consumers.

Currently, work is being pursued by the Railbelt utilities toward a regional generation and transmission utility organization. This includes a formal generation and transmission organization study and a possible modification of the existing Alaska Electric Generation & Transmission cooperative by-laws to accommodate further expansion.

The Council is convinced that a regional generation and transmission utility organization makes sense and that the goal is worthwhile pursuing despite potential implementation problems. Pending a successful resolution of the issue, the Council recommends that the APA become a formal member of any organization designated to deal with the Railbelt energy issues.

5. Cooperate with the Alaska Power Authority to examine the feasibility and desirability of energy projects.

The Council notes that APA and the utilities are already cost sharing in the study of the Anchorage-Kenai Peninsula Intertie feasibility. The Council finds that freezing of the \$2.5 million (except for the \$150,000 for the Anchorage-Kenai Peninsula Intertie feasibility study) designated for studying the Railbelt electric power alternatives limited the Council's ability to review and evaluate Railbelt electric power alternatives such as coal, gas, conservation, Devil Canyon, and other hydro generation options.

Should the Legislature desire additional analysis to determine whether any of the above options are desirable, the Council would recommend that a highly qualified team be assembled to prepare plans of finance to determine whether the projects are able to be financed before proceeding with a feasibility analysis. The Council believes that this sequence would preclude needless expenditure of funds on detailed feasibility studies for projects which are not able to be financed despite being economically feasible.

While the Council finds that restructuring the APA Board of Directors is the best solution to assuring improved cooperation and coordination between the Railbelt utilities and the APA, should the Legislature desire to extend the life of REC for any reason, then the APA should be made a full member.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Currently, work is being pursued by the Railbelt utilities toward a regional generation and transmission utility organization. This includes a formal generation and transmission organization study and a possible modification of the existing Alaska Electric Generation & Transmission cooperative by-laws to accommodate further expansion.

The Council is convinced that a regional generation and transmission utility organization makes sense and that the goal is worthwhile pursuing despite potential implementation problems. Pending a successful resolution of the issue, the Council recommends that the APA become a formal member of any organization designated to deal with the Railbelt energy issues.

5. Cooperate with the Alaska Power Authority to examine the feasibility and desirability of energy projects.

The Council notes that APA and the utilities are already cost sharing in the study of the Anchorage-Kenai Peninsula Intertie feasibility. The Council finds that freezing of the \$2.5 million (except for the \$150,000 for the Anchorage-Kenai Peninsula Intertie feasibility study) designated for studying the Railbelt electric power alternatives limited the Council's ability to review and evaluate Railbelt electric power alternatives such as coal, gas, conservation, Devil Canyon, and other hydro generation options.

Should the Legislature desire additional analysis to determine whether any of the above options are desirable, the Council would recommend that a highly qualified team be assembled to prepare plans of finance to determine whether the projects are able to be financed before proceeding with a feasibility analysis. The Council believes that this sequence would preclude needless expenditure of funds on detailed feasibility studies for projects which are not able to be financed despite being economically feasible.

While the Council finds that restructuring the APA Board of Directors is the best solution to assuring improved cooperation and coordination between the Railbelt utilities and the APA, should the Legislature desire to extend the life of REC for any reason, then the APA should be made a full member.

RAILBELT ENERGY PLAN

April 8, 1987

Last year, after the Susitna Hydroelectric Project was cancelled, the Legislature established the Railbelt Energy Fund and the Railbelt Energy Council. The purpose of the Railbelt Energy Fund was to reserve approximately \$280 million, previously earmarked for Susitna, for other Railbelt energy projects. A major purpose of the Railbelt Energy Council was to recommend such projects.

In creating the Railbelt Energy Fund and the Railbelt Energy Council, legislators and administration officials made one thing very clear to the seven electric utilities in the region: They needed to agree on a plan of action and they needed to work with and through the Railbelt Energy Council.

This has been done.

For the first time ever, all seven Railbelt utilities, which together serve more than three quarters of the State's population, have agreed on a Railbelt energy development plan. That plan consists of two basic elements: Completion of the Bradley Lake Hydroelectric Project and completion of a solid Railbelt transmission intertie system.

The plan was unanimously recommended by the Railbelt Energy Council in its January 24, 1987, report to the Legislature. Moreover, the plan has been endorsed by a broad Railbelt coalition that includes business, labor and government leaders. Many local governments and chambers of commerce throughout the Railbelt have passed formal resolutions of support.

Among the governmental entities are the Anchorage Municipal Assembly, Fairbanks City Council, Matanuska-Susitna Borough, Wasilla City Council, Palmer City Council, Kenai Peninsula Borough, Homer City Council, Kenai City Council and Soldotna City Council, as well as the Kenai Caucus and Unified Fairbanks organizations. Labor supporters include the Alaska AFL-CIO and its 48 unions and affiliates, including the International Brotherhood of Electrical Workers Local 1547, and Teamsters Union Local 959. Local chambers of commerce that have passed resolutions include Anchorage, Fairbanks, Wasilla, Palmer, Big Lake, Willow, Talkeetna, Kenai, North Kenai and Homer. The Alaska State Chamber of Commerce has made the Bradley Lake project and the intertie system one of its highest legislative priorities.

- Regional cooperation and coordination will be improved, as already evidenced through the establishment of the Railbelt Energy Council and the Railbelt energy coalition.

BRADLEY LAKE

The major benefit of the Bradley Lake project is the assurance of a stable, long-term supply of low-cost power, to be shared throughout the Railbelt utilizing the proposed intertie system. Because of higher capital costs, hydroelectric power is initially more expensive than that from fossil fuel plants. However, Bradley Lake energy is expected to become cheaper than the least-cost alternative of natural gas within the first five to seven years of Bradley's operation. The real payoff is that hydroelectric projects like Bradley Lake will last up to 100 years, compared to 20 or 30 years for gas turbines and other fossil-fuel generation facilities.

It is very important to remember that Bradley Lake will be more than an additional power source for the Railbelt. It will also be replacement power, because many of the region's existing gas-fired generation units will be wearing out in the early and mid-1990s.

The current plan, agreed to by all seven Railbelt utilities, is for the State and those utilities -- through long-term power sales agreements -- to split the cost of the project. Under the current \$350 million cost estimate, the State's contribution would be \$175 million, which is \$43 million less than a previously agreed-to state equity share of \$218 million. Should the cost of Bradley drop further, as many expect it will, the State's contribution would be reduced proportionately.

Of the \$175 million from the State, \$118 million already has been committed to project. The Governor has introduced legislation -- S.B. 159 and H.B. 165 -- to appropriate an additional \$50 million from the Railbelt Energy Fund, to replace \$50 million previously approved from the general fund but later rescinded. With the \$118 million, the \$50 million will bring the State's Bradley Lake contribution to \$168 million, or within \$7 million of the currently proposed \$175 million. It is expected that the final \$7 million will be appropriated by the current Legislature for fiscal 1988. Approximately \$50 million already has been spent on the project, much of it for site preparation and support facilities.

THE INTERTIES

Construction has not yet begun on the interties, but studies are well under way. An economic analysis on both the southern and northern interties has been completed. So has a preliminary engineering feasibility study on the southern intertie, with the final report due in the very near future. An engineering feasibility study on the northern intertie is in progress, with a final report due in early May. It is important that environmental work commence this year so the transmission system can be in place when the Bradley Lake project comes on line, or as soon afterward as possible.

Another very important general benefit of the interties is that they will facilitate economic development and commerce, the results of which will be felt even beyond the Railbelt. In this respect, the interties are analogous to a highway, whose contribution to economic development and commerce is easily understood yet difficult to model. Where a highway carries motor vehicles, the interties will carry an equally essential commodity -- electric energy. Like good roads, a good electric transmission system is essential to a region's development.

SUMMARY

The program to complete the Bradley Lake project and the Railbelt interties is sound. The projects will benefit the majority of Alaska's consumers, and there is unprecedented support from a broad spectrum of interests, including every electric utility in the region as well as labor, business and local government.

Both the Bradley Lake project and the interties are bona fide public works projects, and they will pay long-term dividends. The Railbelt's power supply network will be strengthened in a number of ways, including reliability and lower-cost generation in the future. The regional and statewide economies -- including the job sector -- will be stimulated during construction and for many years to come.

While there inevitably is disagreement over how best to use public funds, especially during times when revenues are less plentiful, there is a demonstrable need for the Bradley Lake project and the intertie system. This program fulfills a high public purpose.

present transfer capability of 70 MW to a full capability of 350 MW. No other change in the transmission system is assumed.

- 4) Full Railbelt Intertie Proposal: Both of the transmission improvements described above are assumed: the Anchorage/Kenai Peninsula Intertie and the Anchorage/Fairbanks upgrade.

The benefits that were quantified in this analysis are defined as the reduction in system cost that occurs as a result of a given transmission improvement. For example, the quantified benefit of the full Railbelt Intertie proposal is defined as the difference in system cost between scenario #1 and scenario #4, i.e. the base case cost minus the system cost given the full Intertie proposal. As discussed in greater detail in the report from Lotus Consulting Group, the value of the benefits identified in the system modeling exercise are as follows:

	Sum of Benefits in 1986 Dollars <u>(millions)</u>	Net Present Value of Benefits* <u>(millions)</u>
Full Intertie Proposal	\$423.2	\$204.6
Anchorage/Kenai Only	209.4	102.2
Anchorage/Fairbanks Only	210.6	101.2

* The base year for the net present value calculation is 1987.

Approximately 25% of the identified value of the Anchorage/Kenai Peninsula intertie is attributable to an estimated 100 MW of capacity cost savings made possible by reserve sharing. The other 75% of value is due primarily to siting flexibility for new plant capacity and economy interchange. It should be noted that the entire output of the Bradley Lake project is absorbed by the system in every scenario, including the base case. The effect of the intertie project on Bradley Lake would be to increase the distribution, not the amount, of Bradley Lake power sales.

The identified value of the Anchorage/Fairbanks upgrade is due primarily to the increased displacement of oil-fired generation in the Fairbanks area by natural gas-fired generation from the southcentral area. The key factors that contribute to this estimate are the assumed differential between the natural gas price and the fuel oil price, and the assumed electricity demand forecast over the long run for the Fairbanks area.

Other Benefits

- * System Reliability: Strengthening the transmission links between load centers creates a more resilient interconnected system that is better able to recover from disturbances such as the loss of a major generating unit. The existing transmission links between Anchorage and the Kenai Peninsula

and between Anchorage and Fairbanks will result in a separation of the three areas from one another if a significant disturbance occurs. This will usually result in the loss of load in at least two of the three areas. This separation occurs precisely at the time when it is most important to maintain the connection between areas to enable generating reserves to be transported to the area where the disturbance has occurred.

A stronger interconnection between the three load centers would reduce the probability of islanding (where one area loses its interconnection with another area), and consequently reduce the probability or magnitude of an outage.

- * Enhanced Competition Among Fuel Suppliers: Though the magnitude of this benefit to Railbelt consumers is particularly difficult to assess, it could be one of the most significant aspects of the Intertie project. An example might help to illustrate the potential. A conservative estimate of natural gas consumption for electric generation during the early years of the study period is 30 BCF per year. At \$1.60 per MMBTU, the cost of that gas in 1986 dollars would be \$48 million per year. If enhanced competition resulted in a reduction in the wellhead price of 5 cents per MMBTU, the annual savings in fuel cost would amount to about \$1.5 million per year. Extending that benefit over the 30 year study

period from 1991 through 2020, the total saving achieved in this manner would be \$45 million, with a present value of about \$24 million. Oil and coal suppliers would be faced with similar competitive pressures.

Comparison of Costs and Benefits

There are two routes that are presently under consideration for a new Anchorage/Kenai Peninsula intertie. The best construction cost estimates currently available are about \$76 million for one route and about \$96 million for the other route. Because the construction cost is not the only consideration in route selection, a decision on a preferred route has not yet been made. For purposes of this preliminary comparison of costs and benefits, a construction cost of \$86 million is assumed based on the average cost of the two routes.

A study aimed at careful development of a cost estimate for the Anchorage/Fairbanks upgrade is scheduled to take place during the month of April, 1987. Until that study is complete, the best figure available continues to be a rough estimate of \$100 million. Therefore, the construction cost of the full Railbelt Intertie proposal is assumed to be \$186 million (in 1986 dollars) for purposes of this comparison. Further, it is assumed that these costs would be spread over a two year construction period,

specifically that half of the cost would be incurred in 1989 and the other half in 1990.

The annual operations and maintenance (O&M) cost of a new Anchorage/Kenai Peninsula line has been estimated at 1.5% of the construction cost by the firm that performed the preliminary engineering and design of those alternatives. Applying that 1.5% factor to the estimated construction cost of the full Railbelt Intertie proposal yields an estimated annual O&M cost of about \$2.8 million (in 1986 dollars). For this comparison, it is therefore assumed that a \$2.8 million O&M cost is incurred for the full project for each year between 1991 and 2020.

The sum of the construction and O&M costs described above for the full Railbelt Intertie proposal is approximately \$270 million (in 1986 dollars) over the period 1989 through 2020. The present value of those costs is approximately \$210 million. (5)

The sum of the benefits identified in the modeling exercise is therefore approximately \$150 million higher (in 1986 dollars) than the sum of the estimated costs (i.e. \$423 million in benefits vs. \$270 million in costs). However, because most of the costs are incurred before most of the identified benefits are realized, the present value of costs and identified benefits are approximately the same. If the benefits not captured in the modeling exercise

were brought into this comparison, then the present value of benefits would exceed the present value of costs.

As stated earlier, the goal of this study was to produce an understanding of the benefits of both transmission proposals sufficient to judge whether they are promising with regard to economic feasibility criteria. On the basis of the analysis performed, it is concluded that the proposed transmission projects are capable of delivering economic benefits in excess of their costs, and consequently warrant further consideration.

FOOTNOTES

- (1) It is recognized that Chugach Electric Association, which operates the Beluga generating station, still has access to significant quantities of old gas at Beluga at prices in the vicinity of \$.30 per MMBTU. In the initial modeling runs performed for this study, the Beluga gas price (in 1986 dollars) was assumed to ramp up from \$1.04/MMBTU in 1991 to \$1.60/MMBTU in 2003, remaining constant at \$1.60 thereafter. The price prior to 2003 represented a blend of old and new gas with a declining proportion of old. It was assumed that gas at the blended price was available to generate power for economy sales to other utilities, though such sales to Anchorage Municipal Light and Power (AML&P) were limited by forcing the AML&P units to run. (AML&P operates most of the "Anchorage area" generating capacity.) The basis for this constraint was the Chugach policy of reserving its limited supply of old gas for the benefit of its own customers.

In the final modeling runs, however, the Beluga gas price (in 1986 dollars) was assumed to be \$1.60 in 1991 and to remain constant in real terms thereafter. By ignoring the declining quantities of old gas, production costs are overestimated for the early years of the study, but are

overestimated equally in the base case (with the existing transmission system) and in the alternate case (with the improved transmission system). The benefit of ignoring the old gas for purposes of the modeling is that the price of energy for economy sales from Beluga will always reflect the price of new gas at \$1.60, which is more realistic than the assumption used initially. By assuring that economy sales from Beluga will be based only on the new gas price, it became possible to remove the "must run" requirement for the AML&P units.

Further, the analysis incorporates the assumption that natural gas will be available in sufficient quantities at wellhead prices at Beluga and on the Kenai Peninsula, and at wellhead plus transportation in Anchorage, to meet all estimated demands at these locations through the year 2020. Variations regarding the natural gas supply assumption could produce alternative patterns of use for the proposed transmission projects.

(2) The estimated increase in the minemouth price to \$1.60/MMBTU for the Healy plant in 1995 is based on the following observations:

1) The current minemouth price for coal paid by

Fairbanks Municipal Utility System is \$34.48 per ton, which is approximately \$2.20/MMBTU.

- 2) The current minemouth price for coal paid by the U.S. military at Fort Wainwright is \$31.79 per ton, which is approximately \$2.05/MMBTU.
 - 3) The prices noted above were recently negotiated, and suggest that the price of coal for the Healy power plant will be subject to upward pressure when the current contract expires. However, particularly as a result of the Anchorage/Fairbanks intertie, the extent of such increase will be limited by competition. The assumption of a moderate increase was therefore adopted in balancing these considerations.
- (3) The high existing reserve margins in the Railbelt are, in large part, due to the more hostile operating environment, the relatively large size of certain generating resources with respect to the loads of the individual systems, and the limited extent of interconnection among the utilities. Most of the existing generating capacity was installed prior to the construction of the Anchorage/Fairbanks intertie and also before the establishment of a high capacity interconnection

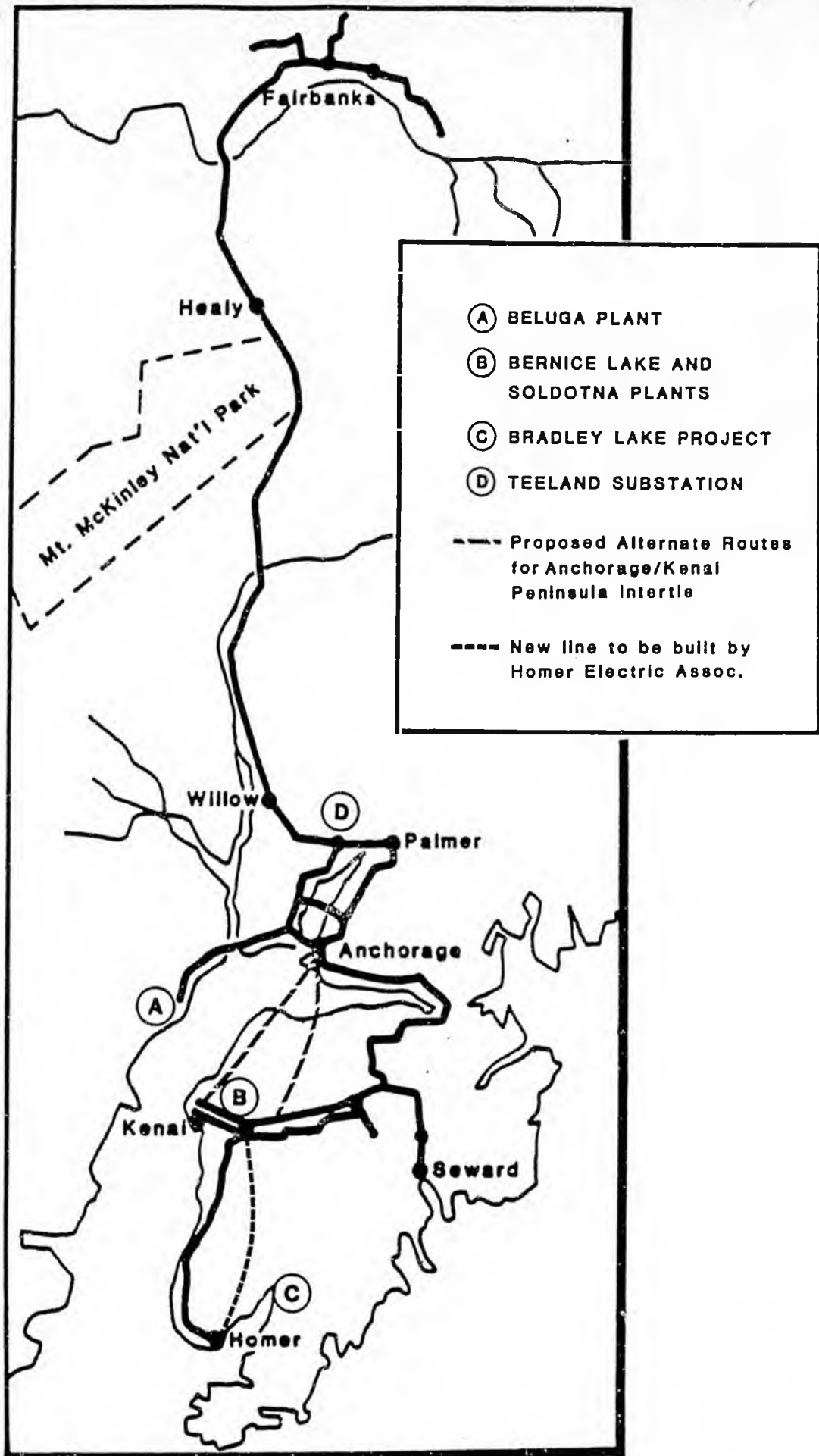
in Anchorage between Chugach Electric and Municipal Light and Power. Mild winters in recent years have also contributed to the appearance of high reserve margins.

(4) Although the reserve margins used in this analysis are considered reasonable for modeling purposes, actual reserve requirements may well depart from these general estimates according to the specific determinations and judgments of the utilities.

(5) For clarification, costs of the Intertie proposal were estimated as follows:

<u>YEAR</u>	<u>COST</u> <u>(Millions of 1986 Dollars)</u>	
1989	\$ 93.0	Construction
1990	93.0	Cost = \$186 million
1991	2.8	
1992	2.8	O&M Cost =
.	.	\$2.8 million / year
.	.	for 30 years
2020	<u>2.8</u>	
		(Net Present Value =
TOTAL	\$ 270.0	\$209.8 million)

Figure 1.



BRADLEY LAKE HYDROELECTRIC PROJECT

TRANSMISSION SHARING AGREEMENT

by and among

The HOMER ELECTRIC ASSOCIATION, INC.,

and

CHUGACH ELECTRIC ASSOCIATION, INC.,

The CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL
UTILITIES SYSTEM,

The GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.,

The MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER, and
The CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM.

Prepared: November 6, 1987

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
RECITALS	1
SECTION 1. PARTIES	2
SECTION 2. CONSTRUCTION OF TRANSMISSION LINE	2
(a) Construction Schedule	2
(b) Capacity	2
(c) Failure to Provide Voltage Support ...	2
SECTION 3. SALE OR LEASE OF CAPABILITY	2
SECTION 4. PAYMENT	3
(a) Amortization	3
(b) O & M Expense	3
(c) Initial Carrying Capacity	4
(d) Schedule of Payments	4
(e) Character of Expense	4
(f) Tax Consequences	4
(g) Purchaser's Obligation	4
SECTION 5. DUTY TO OPERATE AND MAINTAIN	4
SECTION 6. OUTAGES	5
(a) Forced and Scheduled Outages	5
(b) HEA's System	5
(c) Scheduling	5
SECTION 7. FAILURE TO CONSTRUCT ACCORDING TO SCHEDULE	5
(a) Default	5
(b) Takeover	5
(c) Cooperation by HEA	6

<u>Section</u>	<u>Page</u>
(d) Title	6
(e) Repayment of HEA's Costs	6
(f) Damages	6
SECTION 8. UPGRADING OF LINE	6
(a) Increased Share	6
(b) Reimbursement of Costs	6
(c) Treatment of Costs of Voltage Support	6
(d) Shared Costs	7
SECTION 9. INTERVENING TAPS ON TRANSMISSION LINE	7
SECTION 10. DOWNRATING	7
SECTION 11. SPECIAL PROVISIONS AFFECTING CHUGACH	7
(a) Chugach's Treatment of the Transmission Capability for Ratemaking Purposes ...	7
(b) Deliveries to AEG&T	7
(c) Conveyance to AEG&T	8
SECTION 12. TERM OF AGREEMENT; AMENDMENT	8
(a) Term	8
(b) Amendments	8
SECTION 13. DISPUTE RESOLUTION	8
SECTION 14. APPROVALS	8
SECTION 15. MISCELLANEOUS PROVISIONS	9
(a) Waiver	9
(b) Successors and Assigns	9
(c) Performance Pending Resolution of Disputes	9
(d) Applicable Law	9
(e) Section Headings	10

<u>Section</u>	<u>Page</u>
(f) Payment	10
(g) No Third Party Beneficiaries or Liability to Third Parties	10
(h) Notice and Access to Records	10
(i) Execution of Documents	10
(j) Multiple Copies	11
(k) Increase in Purchaser's Share	11
(l) Default by Purchaser	11
(m) Relationship to Alaska Intertie Agreement	11
SECTION 16. DEFINITIONS	11
(a) AEG&T	11
(b) Agreement	11
(c) Alaska Intertie Agreement	11
(d) Alaska Power Authority	11
(e) Authority	11
(f) Bradley Power	11
(g) Bradley Hydroelectric Project ...	12
(h) Construction Cost	12
(i) Construction Loan	12
(j) Date of Commercial Operation	12
(k) Delivery Point	12
(l) Effective Date	12
(m) Force Majeure	12
(n) Forced Outage	13
(o) Fritz Creek Substation	13
(p) Party	13

<u>Section</u>	<u>Page</u>
(q) Percentage Share	13
(r) Prudent Utility Practice	13
(s) Purchaser	13
(t) Purchaser's System	13
(u) Power Sales Agreement	13
(v) Project	13
(w) Project Management Committee	13
(x) Soldotna Substation	13
(y) Termination Date	14
(z) Transmission Line	14
ATTACHMENT A	
ATTACHMENT B	
ATTACHMENT C	
ATTACHMENT D	

AGREEMENT FOR SALE OF TRANSMISSION CAPABILITY

THIS AGREEMENT is entered into by and among HOMER ELECTRIC ASSOCIATION, INC. ("HEA"), CHUGACH ELECTRIC ASSOCIATION, INC. ("Chugach"), the CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL UTILITIES SYSTEM ("FMUS"), the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. ("GVEA"), and the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER ("ML&P"), each an electric cooperative or a municipality duly organized and with its principal offices located in the State of Alaska.

WITNESSETH:

WHEREAS, each Party hereto is an electric utility or operates an electric utility; and

WHEREAS, each Party has determined that its purchase of electric power from the Bradley Lake Hydroelectric Project pursuant to a Power Sales Agreement among the Alaska Power Authority and all other Parties is prudent under the circumstances, and that over the expected useful life of the Project such power is likely to produce net economic benefits for the electric ratepayers served by that Party; and

WHEREAS, the Parties have simultaneously herewith executed a Power Sales Agreement under which they will purchase power produced by the project from and after the Date of Commercial Operation (as defined in the Power Sales Agreement); and

WHEREAS, the delivery of Bradley Lake energy and power from the Project to the Parties requires use of electric transmission facilities; and

WHEREAS, HEA intends to construct, and is willing to commit to construct, between the Bradley Junction and the Soldotna Substation, a distance of approximately 46.8 miles, a 556 ACSR, 115 kv transmission line, at an approximate cost of \$14.1 million; and

WHEREAS, HEA is willing to convey to the parties a portion of the transmission capability of the line described above, to assist in the delivery of the energy pursuant to the terms hereafter set forth;

NOW THEREFORE, IN CONSIDERATION of the mutual covenants set forth herein, the Parties agree as follows:

SECTION 1. PARTIES

The Parties to this Agreement are HOMER ELECTRIC ASSOCIATION, INC. ("HEA"), CHUGACH ELECTRIC ASSOCIATION, INC. ("Chugach"), the CITY OF FAIRBANKS d/b/a FAIRBANKS MUNICIPAL UTILITIES SYSTEM ("FMUS"), the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. ("GVEA"), and the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER ("ML&P").

SECTION 2. CONSTRUCTION OF TRANSMISSION LINE

(a) Construction Schedule. HEA shall construct the Transmission Line in accordance with the schedule set forth in Attachment D, and place it into service on or before 90 days prior to the scheduled date for completion of the Project.

(b) Capacity. HEA shall construct and place into service such additional facilities, including capacitors, and shall provide or procure sufficient generation capability, to the extent that it is economically feasible, to provide voltage support to the line so that the capacity of the Transmission Line will be not less than 135 megawatts. HEA shall consult with the purchasers prior to the commencement of any such construction and shall allow the Purchasers to review its plans for such facilities.

(c) Failure to Provide Voltage Support. Notwithstanding the foregoing, HEA may elect not to provide the voltage support required by Section 2(b), or it may elect to provide voltage support, but to a lesser degree or at a later date, but unless and until HEA does provide such support, the right of HEA to use the Transmission Line shall be subordinate to the right of any Purchaser to use the Transmission Line to wheel that Purchaser's Bradley Lake energy, to the extent of the Purchaser's share of the capability of the Transmission Line. Any failure of HEA to provide voltage support sufficient to increase the capacity of the Transmission Line to the amount required by Section 2(b) shall not relieve a Purchaser of its obligation to pay for its share of the cost of providing any lesser amount of voltage support.

SECTION 3. SALE OR LEASE OF CAPABILITY

(a) On the Date of Commercial Operation, HEA shall sell or lease and each Purchaser agrees to purchase or lease a share of the capability of the Transmission Line in an amount (stated in megawatts) equal to that Purchaser's Percentage Share (stated in megawatts) of the Bradley Lake Project. For the purposes of this Agreement, Chugach's share of the capability of the Transmission Line shall be an amount equal to the combined Chugach, MEA and Seward Percentage Shares (stated in megawatts).

(b) HEA shall operate the Purchaser's Transmission Line capability as if it were part of HEA's system and make the Purchaser's Transmission Line capability available for the use of the Purchaser to deliver energy and power in the manner directed by the Purchaser. HEA shall be compensated for line losses, if any, resulting from power of the Purchasers flowing over the Transmission Line. The Project Management Committee will determine the amount of line losses and the appropriate amounts and manner of compensation.

(c) Use of Capability. Nothing in this Agreement is intended to limit or restrict the use of the transmission capability by the Purchasers for transmitting power in addition to Bradley Lake Power.

SECTION 4. PAYMENT

For capability purchased pursuant to this Agreement, each Purchaser shall pay amortization costs and operation and maintenance expenses as further set forth herein.

(a) Amortization Costs. Within one year of the Effective Date, each Purchaser shall elect in writing whether to pay amortization costs through direct payments pursuant to Section 4(a)(i) or through installment payments pursuant to Section 4(a)(ii). A Purchaser failing to make such an election shall be deemed to have elected to pay through direct payments pursuant to Section 4 (a)(i). Amortization costs shall thereafter be paid by each Purchaser in accordance with its election pursuant to the schedule described in Section 4(d).

(i) A Purchaser electing to pay amortization costs through direct payments shall pay a fixed portion of the Construction Cost as determined by the formula set forth in Attachment A.

(ii) A Purchaser electing to pay amortization costs through installment payments shall pay a portion of HEA's monthly payments on the Construction Loan as determined by the formula set forth in Attachment B.

(b) O & M Expense. In addition to making amortization payments, each Purchaser shall reimburse HEA in each month for a portion of HEA's actual expenses associated with operating and maintaining the Transmission Line in accordance with the formula set forth in Attachment C. Such expenses shall include but shall not be limited to all expenses related to providing necessary voltage support equipment for the Transmission Line installed at or between Bradley Junction and Soldotna Substation, and all