ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6397 SENATE LABOR & COMMERCE

801

generally pertains to mandatory revocation or suspension of an insurer's license.

Section 17. AS 21.09.200(a). Annual Statement
Page 8, line 26 to page 9, line 13.

This section pertains to the format of the annual financial statement required by each licensed insurer. Amendment to this section provides for the adoption of the National Association of Insurance Commissioners (NAIC) format, which has been utilized historically. This promotes consistency in financial reporting in all states. Additionally, this section has been amended to allow the director to require that the financial statement be filed via electronic media (e.g. on computer disc).

Section 18. AS 21.09.200(f)
Page 9, lines 14-22.

This section requires all domestic insurers to also file their annual financial statements with the NAIC and to pay the appropriate fee to the NAIC. The purpose of this is that the NAIC has developed a data base for all insurers and provides analytical services to the various states. (Each state is linked by computer to the NAIC data base.) Eventually, it is expected that only one filing of the financial statement via electronic media will be filed with the NAIC. This would eliminate the need of a "hard copy" annual financial statement being filed in each state in which an insurer is licensed. This will be an expense savings. Also, it will provide for a more timely analysis of each financial statement.

Section 19. AS 21.09.205. Quarterly Statement
Page 9, line 23, to page 10, line 3.

This new section allows the director to require that quarterly financial statements be filed with the division. A means is provided for more closely monitoring the financial well being of an insurer. Quarterly statements, when required, are due to be filed within 60 days after the end of a calendar quarter and a penalty of $100 per day for late filing is imposed.

**KINDS OF INSURANCE, LIMITS OF RISK, AND REINSURANCE. (Sections 20-21)**

In order to limit risk to meet with statutory requirements and sound business practices, insurers transfer risk to other insurers via reinsurance contracts. These sections provide the guidelines and parameters for an Alaska domestic

insurer reinsuring its insurance contracts with reinsurers. Credit (reduced liabilities) is allowed in the financial statement for reinsurance ceded if done in accordance with the guidelines. The term "reinsurance" is defined.

Section 20. AS 21.12.020. Reinsurance Credit Allowed a Domestic Ceding Insurer

Page 10. line 4 to page 15. line 14.

In order to help protect their financial integrity and to meet the requirements that no more risk be retained in any one subject than 10% of its policyholders surplus, most insurers reinsure the insurance contracts they have underwritten. By appropriately passing this risk to a reinsurer, an insurer is allowed to reduce the liabilities for claim payments it is required to exhibit in its financial statement by an amount commensurate with the risk reinsured.

If a reinsurer becomes insolvent, all of the risk previously transferred falls back to the insurer. For that reason, it is important that standards exist for reinsurers that domestic insurers may transfer risk to and receive credit for the risk transferred in the form of reduced claim liabilities. The repeal and reenactment of this section provides the criteria for the reinsurers that domestic insurers may use and receive credit for in their financial statements.

Generally credit is allowed for reinsurance ceded by a domestic insurer to a reinsurer if:

1. the reinsurer is licensed in this state as in insurer;

2. the reinsurer is an accredited reinsurer in the state;

3. the reinsurer is domiciled in a state that employs standards for reinsurance substantially the same as Alaska and submits to examination by the division;

4. the reinsurer is an alien reinsurer that trustees specified amounts of funds in the United States and the trustees provide an annual accounting of the funds trusteed, and provides certification of its solvency by a independent auditor and the domestic regulator; or

5. the reinsurer does not meet any of the criteria in 1. through 4. above, then credit is allowed only if funds are trusteed in a form (cash, approved securities, or acceptable letters of credit) and for amounts corresponding to only the amount of funds trusteed.

This section also maintains the existing laws requirement that no credit for reinsurance is allowed if the reinsurance contract does not contain the classic "insolvency provision". The "insolvency provision' essentially provides that reinsurance will continue to be paid if due even if the ceding insurer were to become insolvent.

The director is also given the discretionary authority to require an insurer to provide information in regards to any material change in its reinsurance transactions.

Section 21. AS 21.12.120. Reinsurance Defined
Page 12, lines 15-19.

The term "reinsurance" is defined in this new section. This term was not previously defined in Title 21. The definition is intended to convey that a transfer of risk directly flowing from the underlying insurance contract is required to meet with this definition. It is necessary to define this term as other contractual arrangements between insurers have been reported as reinsurance when in fact the transactions are other financial arrangements having nothing to do with the transfer of the risk of the underlying insurance contract. Many such arrangements have been utilized due to recent changes in the federal income tax schema for insurers.

**ASSETS AND LIABILITIES. (Sections 22-27)**

These sections pertain to the basics in determining an insurer's solvency. It includes amended rules for determining which assets may be included and those which are specifically excluded in determining the asset base for an insurer. Requirements for the establishment of liabilities for the contractual obligations of an insurer are included. A material change requiring title insurers to establish an unearned premium reserve is included. Also, the director may require a surety insurer to establish a special reserve for bail bonds or other single premium bonds that do not have a definite expiration date.

Section 22. AS 21.18.010. Allowable Assets
Page 15, line 20 to page 21, line 27.

This section has a number of general changes in defining the types of assets allowed in the determination of the insurer's ability to pay its liabilities.

Paragraph (1) is essentially the same as the existing Paragraph (1). The allowance of deposits in solvent savings and loan associations has been added . This adds alternative financial institutions to those already listed in the current law, such as banks and trust companies.

Paragraphs (2)(A)-(C) remain the same as the current law.

Paragraph (2)(D) essentially the same as the existing Paragraph (2)(D). The allowance of interest due or accrued on deposits in solvent savings and loan

associations to complete its inclusion as an allowed depository above has been added .

Paragraph (2)(E) further defines allowable interest due or accrued as that earned on real estate mortgage loans which are allowed in the investments section of this title. Also changed is the exception that, when the interest or any taxes are overdue more than three months, none of the interest due or accrued may be allowed on that loan. This changes the exception in the current law from interest overdue 18 months to interest overdue for three months and includes the exception when taxes are overdue for three months. These modifications ensure that interest on only mortgages acceptable per this chapter are allowed and the exception eliminates those interest amounts not yet paid that may not be forthcoming.

Paragraph (2)(F) has been changed. It adds the requirement that, when collateral is accepted to guarantee the payment of rent more than three months overdue, the collateral must have a current market value that is at least 75% of the amount of total rent due. With this addition, when the current market value is less than 75% of the total rent due, the due and accrued rent cannot be allowed as an asset. This applies only when rent is more than three months overdue. All other due and accrued rent less than three months overdue is allowed as an asset without collateral as defined in current law.

Paragraph (2)(G) remains the same as the current law.

Paragraph (3) remains the same as the current law.

Paragraph (4) has been added to allow as an asset bills receivable for premiums and installment premiums for other than life insurance policies when the total of the receivable is not more than the unearned premium held for the policy and only when the payments are current.

This allows the insurance company to record premium receivable only when past payments have been made thereby showing a good chance that future payment will be received. The receivable is limited in that it cannot be more than the unearned premium held on the individual policy which ensures this is an ongoing policy that has some premium in reserve for future policy periods.

Old Paragraph (4) has been renumbered (5) and remains the same as the current law..

Old Paragraph (5) has been renumbered (6) and reformatted to add Subparagraph (A). To Subparagraph (A) has been added two subparagraph. These are regarding exemption from the limitation of allowing as assets only three months of premium in course of collection (less commissions) per policy.

Paragraph (6)(B) exempts reinsurance premiums from reinsurers authorized to do business in this state from this three-month limitation.

Paragraph (6)(C) allows as an asset more than three months of reinsurance premiums receivable from reinsurers when a corresponding liability is recorded by the reinsurance company but not when the amount due more than 90 days is more than 10% of the total assets reported in the last financial statement filed with the director. This helps to ensure the receivables are recognized by the reinsurer and the reinsurer has the ability to pay.

Paragraph (7) deals with premiums receivable less commissions payable from a person controlled by or controlling the insurer. This control is through ownership or by contract and when the person owes more than 50% of the insurer's premium in course of collection as reported in the financial statement.

In (7)(A), the premiums collected by the controlled or controlling person must be held in a trust account at a bank approved by the division. These funds must be kept separate from all other funds and paid only to the insurer or the insured. The investment income from the account can be allocated as the parties wish. All premiums collected by the controlled or controlling person must be deposited in the trust account within 5 working days. This ensures the receipt of premiums receivable by the insurer and reinforces the person's fiduciary responsibilities.

In (7)(B), the controlled or controlling person must provide a clean, unexpired irrevocable and unconditional letter of credit payable to the insurer for a term of at least one year which meets or exceeds the amount of the premiums payable to the insurer at any time. The letter of credit must have an automatic extension for one year unless the insurer has received 30 days prior to expiration written notice that the letter will not be renewed. The letter of credit must be issued by a Federal Reserve Bank and satisfactory to the division. This subsection is meant to ensure that premiums collected by a person controlled by or controlling an insurer will be available and paid to the insurer when due and, therefore, can be reported as an asset.

In (7)(C), the controlled or controlling person must provide a financial guaranty bond payable to the insurer for a term of at least one year which meets or exceeds the amount of the premiums payable to the insurer at any time. The guarantee bond must be of a continuous term and cancelable only when the insurer receives a 30 day written notice of termination with the bond continuing to cover any acts committed prior to the termination. The financial guaranty bond must be issued by an insurer authorized to transact business in Alaska, who is not related to the insurer or the purchaser of the bond and be satisfactory to the division. This subsection is meant to ensure that premiums collected by a person controlled by or controlling an insurer will be available and paid to the insurer when due and, therefore, can be reported as an asset.

In (7)(D), the premiums receivable from a controlled or controlling person can be allowed as an asset when a financial evaluation shows the person is solvent and able to pay. This financial evaluation can be called by the director and would be based on a review of books and records of the person.

Paragraph (8) is the same as Paragraph (7) of the existing law.

Paragraph (9) is the same as Paragraph (8) of the existing law.

Current law allows as an asset, amounts receivable by an assuming insurer when a solvent ceding insurer withholds funds under a reinsurance treaty. Paragraph (10), which is similar to Paragraph (9) of the existing law, has been amended to require the amount allowed as an asset not to exceed the amounts recorded as a liability by the assuming insurer for unpaid losses and reserves under the reinsurance treaty. This subsection requires that, when a ceding insurer withholds funds under a reinsurance treaty to guarantee the payment of amounts due, the assuming reinsurer may report these amounts withheld as an asset when they also have reported the payable as a liability. Any excess withheld over the liability may not be reported as an asset by the assuming insurer.

Paragraph (11) is the same as Paragraph (10) of the existing law.

Paragraph (12) defines the EDP equipment that is allowable as an asset. The asset can only be electronic data processing and related equipment and operating software that is a data processing, record keeping, or accounting system. The system must cost $50,000 or more and the cost must be depreciated fully (periodically charged to expense) over ten calendar years or less. The current law allows a system of $25,000 or more in cost, but the proposed law has increased this to $50,000 to ensure only true data processing systems are allowed as assets. The ten-year period for depreciation has not changed.

Paragraph (13) has been added to allow as an asset, receivables which arise from income tax allocations between organizations. These assets must stem from a tax allocation agreement which meets IRS regulations, describes the method of allocation, and sets a reasonable time for settling the balances receivable after filing of the tax return. The receivable must be due from a solvent organization that is not in default on its obligations and must meet all other requirements for admitted assets. The receivable must also have a related liability established by other organizations participating in the agreement. This Paragraph defines the requirements which must be met before a receivable based on a tax allocation can be allowed as an asset.

Paragraph (14) has been added to allow as an asset the effect of the excess of assets over liabilities on conversion to U.S. currency when the items are reported in foreign currencies. By way of explanation, if each of the asset and liability items is reported in foreign currency, this entry would convert the net total to U.S. dollars. If each individual line item is converted to U.S. dollars,

the resultant gain or loss in foreign exchange rates is recorded on the statement of operations.

Paragraph (15) is added to allow as an asset only the unsecured receivable from a solvent affiliate that is not more than six months past due and where a related liability has been reported by the affiliates. This ensures that the receivable is recognized as a payable by the affiliate and payment will be made within six months.

Paragraph (16) allows as an asset, a receivable from a wholly or partially uninsured accident and health plan. This would arise from a self-insurance plan of the insurer.

Paragraph (17) is substantially similar to Paragraph (12) of the existing law. but revises the process that requires the approval of the director as necessary for the reporting of assets not specifically listed in this chapter of statutes. It is replaced with an allowance for those assets included in the annual statement form and consistent with instructions published by the NAIC (as approved by the director).

Paragraph (18) is the same as Paragraph (13) of the existing law.

Section 23. AS 21.18.030. Assets Not Allowed
Page 21. line 28 to page 23. line 13.

Subsections (a)(1)-(3) remain the same as the current law.

Subsection (a)(4) is amended to specifically exclude from assets tangible personal property, including but not limited to that listed in the current law. It is also amended to remove the broad exception that allows property permitted under AS 21.21 (Investments) but retains the exemption in 21.21.270 regarding acquisitions of property through the foreclosure of chattel mortgages. These amendments add a broad definition of the types of property that cannot be held and limits the exceptions included in AS 21.21.

Subsection (a)(5) remains the same as the current law.

Subsection (a)(6) excludes bonds and notes which are secured by mortgages or deeds or trust which are in default.

Subsection (a)(7) is added to exclude the payments of Alternative Minimum Tax or other tax refunds receivable from U.S. or state taxing authorities which are in dispute. This eliminates the recording as an asset of long-term tax receivables in dispute and noncollectible.

Subsection (a)(8) is added to exclude the amount of committed commissions where the present value of future commissions is paid in advance to agents.

Subsection (a)(9) is added to exclude as assets the forwarding of commissions and fees before the earning of these amounts by agents. These subsections exclude what would be a prepayment amount to agents that would be highly uncollectible for the payment of liabilities.

Subsection (a)(10) excludes unsecured loans from outside sources since these are unknown collection risks.

Subsection (b) requires that all assets which are not allowed because of doubtful value or character be deducted from the gross assets unless the director permits a reserve (liability) instead. This section requires a full reporting of assets held and deducting assets with questionable value to determine an insurer's ability to meet its contractual obligations.

Section 24. AS 21.18.060(a). Unearned Premium Reserve
Page 23. lines 14-18 .

This subsection has been amended only to reflect editorial changes. No change in the existing law or intent has been undertaken.

Section 25. AS 21.18.060(b). Unearned Premium Reserve
Page 23. line 19 to page 24. line 16.

This subsection has been amended only to reflect editorial changes. No change in the existing law or intent has been undertaken.

Section 26. AS 21.18.073. Unearned Premium Reserve for Title Insurance
Page 24. line 17 to page 25. line 28.

This section is added to require reserves in addition to those required to pay losses for Title insurance. This is to take the form of a guaranty fund or unearned premium reserve and such funds cannot be used for general purposes. Investment of these funds is allowed and interest can be included in the insurer's general income. This reserve shall be calculated for: (1) policies issued after January 1, 1991 as 10% of premiums written in the calendar year which will be reduced by 5% for each of the next 20 years; and (2) policies issued before January 1, 1991 as $.30 per $1,000 face amount of all policies issued in the last ten years. No additional reserve of this type is required for policies issued more than ten years ago. This ensures sufficient assets to pay claims.

Section 26. AS 21.18.075. Bail Bond Reserve
Page 25, line 29 to page 26, line 7.

The director may require a reserve for bail bonds or other single premium bonds that are without an expiration date and furnished in judicial proceedings in the amount of 25% of total consideration charged for those bonds outstanding. This ensures sufficient reserves to pay claims and is in place of the unearned premium reserve required by AS 21.18.050.

Section 27. AS 21.18.120. Valuation of Bonds
Page 26, lines 8-27.

This section, in general, sets out the valuation of bonds that are allowed to be purchased and how they are to be recorded. It is amended to require the bonds be issued by a solvent entity and requires amortization of bond premium or discount.

Section 28. AS 21.18.900. Definitions
Page 26, line 28 to page 27, line 22.

A new section has been added to define terms used in AS 21.18.

**INVESTMENTS. (Sections 29-50)**

The investment of an insurer's assets in appropriate and safe investments is important for continuing solvency. These sections extensively expand on the kind, quality, and amounts of investments allowed to be made by an insurer of its assets. The types of equities and investments have changed significantly in the last twenty years and the amendments bring recognition of these new investments and the rules for an insurer desiring to invest its assets in them.

Section 29. AS 21.21.020(c). Eligible Investments
Page 27, lines 23-26.

Changes simplify the language and delete the grandfathering necessary for the 1966 major redrafting of this chapter but which now, after 22 years, is not required.

Section 30. AS 21.21.030(c). General Qualifications
Page 27, line 27 to page 28, line 7.

Editorial changes in this Section accommodate changes made in Section 27.

Section 31. AS 21.21.030(d)-(e). General Qualifications
Page 28, line 8-18.

These modifications close a loophole in the law. Insurers can acquire otherwise ineligible assets by accepting these assets as payment under a contract of reinsurance. The new section requires the prior written approval of the director concerning a reinsurance contract being purchased substantially with ineligible assets. Should such a transaction have occurred without the prior approval of the director, the director is given a range of options for dealing with either the ineligible assets or the contract of reinsurance.

Section 32. AS 21.21.050. Diversification of Investments
Page 28, line 19 to page 30, line 29.

These changes exempt a new clan of securities from the general prohibition of lending based upon the credit of or investing in any one person or category of risk more than five percent of an insurer's assets. The new category is the general obligation of a state of the United States of America not insolvent and whose securities are not then in default. These securities are judged to be a safe and prudent investments with the change allowing larger investments by Alaskan insurers in the securities of the State of Alaska.

An investment limitation designed to add to the safety and soundness of Alaska's domestic insurance industry is increased. Current law requires a dollar figure equal to a domestic insurer's minimum required capital to be invested in specified assets having a minimum of associated risk. The changes modify the minimum dollar amount to the higher of the previously specified minimum capital or one-half of the insurer's reported capital as shown on its most recent statement of financial condition filed with the director. The specified "minimum risk" assets are modified to require bank deposits to be fully insured or collateralized, and real estate mortgage loans are eliminated as a "minimum risk" asset.

Finally, the director is given the authority to consent to an insurer investing more than ten percent of its assets in common stocks which is the same authority granted the director in Subsections (5) and (7) which deal with corporate obligations and miscellaneous assets.

Section 33. AS 21.21.080. State, County, Municipal and School Obligations
Page 31, lines 1-13.

The amendments to this section require that more conservative investment choices be made by insurers in respect to investment in the obligations of the political subdivisions of a state or province. They eliminate, as an eligible investment, the obligations secured by a pledge or assignment of specific revenues of a political subdivision. This parallels the recent tightening done

by the federal government with respect to tax exemption for the interest from industrial revenue bonds. Bonds which are payable only from a specific revenue source may carry the patina of safety associated with the political subdivision by whom they are issued but, in fact, are not required to be paid should the source of revenue fail, as would be the case, with a subdivision's general obligation bond. Revenue bonds of states and provinces and political subdivisions thereof continue as eligible investments under this chapter.

These changes further require that for obligations of states and political subdivisions to be eligible for investment, the associated state or province be:

(1) solvent;

(2) have the power to levy taxes for prompt payment; and

(3) not be in default on its obligations.

Section 34. AS 21.21.130. Inter-American Development Bank
Page 31, lines 14-20.

This change adds the African and Asian Development Banks to the eligible list of development banks into which investments can be placed. Provisions regarding solvency and nondefault status are also added for eligibility. This section is contained in SB 353 by Senator Kelly which is in the House Labor and Commerce Committee.

Section 35. AS 21.21.140(a). Corporate Bond and Debentures
Page 31, line 21 to page 32, line 9.

Amendments to this section are to enhance the clarity of the language. The intent of the existing law is not altered.

Section 36. AS 21.21.140(b). Corporate Bond and Debentures
Page 32, lines 10-21.

Amendments to this section are to enhance the clarity of the language. The intent of the existing law is not altered.

Section 37. AS 21.21.140(c). Corporate Bond and Debentures
Page 32, line 22 to page 33, line 4.

Amendments to this section are to enhance the clarity of the language. The intent of the existing law is not altered.

Section 38. AS 21.21.140(d). Corporate Bond and Debentures
Page 33. lines 5-8.

Amendments to this section are to enhance the clarity of the language. The intent of the existing law is not altered.

Section 39. AS 21.21.150. Preferred or Guaranteed Stocks
Page 33. line 9 to page 34. line 1.

The changes to this section tighten up the eligible preferred or guaranteed stock investments by adding a nondefault requirement. Changes for the purpose of clarification are made with respect to the final year measurement of dividends during the immediate preceding two fiscal years.

Section 40. AS 21.21.160. Common Stocks
Page 34. lines 2-17.

This change tightens up the eligible common stock requirement by adding a nondefault requirement.

Section 41. AS 21.21.170(a). Insurance Stocks
Page 34. lines 18-22.

This change tightens up the eligible insurance stock requirement by adding a nondefault requirement.

Section 42. AS 21.21.190. Equipment Trust Certificates
Page 34. line 23 to page 35. line 1.

These changes are editorial only.

Section 43. AS 21.21.245. Pooled Investments
Page 35. lines 2-16.

Prior statute language was written before the advent of mutual funds, investment trusts, unit investment trusts and similar popular investment vehicles. This new section provides a statutory method for allowing and controlling a domestic insurer's use of these investment mechanisms by establishing a category titled "Pooled Investments" into which investment will be authorized by an insurer only if the pooled investment appears on a list of eligible pooled investment entities to be maintained by the director. This approach is similar to the treatment used to manage pooled investments by credit union regulators and makes use of definitions established under the Investment Company Act of 1940 and the Internal Revenue Code of 1986.

It may be argued that any "pooled investment" that contains eligible securities should also be eligible for investment by insurers. This, however, is an extremely dangerous assumption which is best illustrated by example.

U.S. Government Securities are generally held to be the standard for a safe and sound conservative investment. Most U.S. government mutual funds also allow use of options and interest rate future's contracts which can either be highly speculative or income protecting ledger depending on their use. Thus, depending on the ranking of priorities in the pooled investment's investment objectives, the experience of the fund manager and other intent language in the registration documents, a pooled investment can on the surface appear to be conservative while, in practice, it is managed in a manner which puts the pooled investment at the opposite end of the safety and soundness spectrum, a result which would frustrate the legislative intent of this title.

Insurers should be allowed the use of pooled investment techniques because they lower risk through diversification and provide another source of professional funds management. This section's approach provides that opportunity with a mechanism to avoid the risk of speculation and which "piggybacks" on the work of other regulators. Other changes dealing with how insurers will be measured with reference to adherence to the investment diversification and concentration prohibitions of this chapter and a method for treating currently held pooled investments after adoption of this section are also included.

Section 44. AS 21.21.250(c). Miscellaneous Investments
Page 35. lines 17-22.

A new subsection is added that permits an insurer to invest in obligations of the life and disability guarantee fund when established.

Section 45. AS 21.21.270(b). Chattel Mortgages
Page 35, lines 23-29.

The change provided in this section pertains to an insurer's chattel mortgages and requires that appraisers hired to value an insurer's interest in a property must be independent of the insurer.

Section 46. AS 21.21.270(c). Chattel Mortgages
Page 35, lines 23-29.

The changes provided in this section pertains to an insurer's chattel mortgages and enhances an insurer's ability to place liens on personal property for the improvement of that insurer's collection efforts even when that lien is a property interest in what otherwise may be an ineligible investment.

Section 47. AS 21.21.280. Real Estate
Page 36. line 9 to page 39. line 25.

The first change in this section dealing with insurer-owned real estate clarifies how the maximum allowable investment will be measured.

Other changes enhance and clarify an insurer's authority to own real estate in excess of that which was previously allowed. Ownership of excess space for rent to others is newly authorized if such space is reasonably anticipated to be required for future expansion or in order to have a building that will be an economic unit. A provision is also made for insurers, under certain conditions, to hold real estate for the production of income with the prior approval of the director and only up to a maximum limit of five percent of the insurer's assets.

Section 48. AS 21.21.310(a). Failure to Dispose of Real Estate, Property or Securities
Page 39. line 26 to page 40. line 2.

This change, made for the purposes of clarification, specifies that assets required to be disposed of may not be allowed as an "admitted" asset for the purpose of determining an insurer's financial solvency.

Section 49. AS 21.21.350. Investment Transactions with Affiliated or Controlling Persons
Page 40. line 3 to page 41. line 11.

This new section provides for prudent rules for insurers to deal with investment transactions with affiliated or controlling persons. Before purchasing or selling an otherwise permissible investment issued by, due from or through the use of a broker who is an affiliated or controlling person or purchasing or selling either to or from same, an insurer must first disclose the facts and circumstances of the relationship fully to its board of directors. Once the insurer's board has the facts, they then are required to specifically authorize the transaction. Investments or loans are required to be at current market transfer prices or at commercially reasonable rates with the board being required to make that determination. Exceptions are provided for the board to rely on independent third party experts and to ignore transactions where the financial interest is nominal.

Section 49. AS 21.21.355. Certain Deposits Not Prohibited
Page 41. lines 12-21.

This addition clarifies that nothing in this chapter prohibits an insurer from making a deposit of its securities for the purposes of protecting the interests of its policyholders, or where it is necessary to secure permission to transact

business or as collateral for the securing of any bond for the business of the insurer. These purposes generally are designed to protect the interests of the insurance consuming public and this change is an attempt to avoid inadvertently frustrating that objective.

Section 49. AS 21.21.360. Options and Futures Contracts
Page 41. line 22 to page 45. line 10.

Over the last decade, the U.S. financial markets have developed organized options and future contract markets. Proper use of these financial instruments when undertaken under a policy of hedging, as approved by an insurer's board of directors and prudently executed, can be an important part of reducing an insurer's overall investment risk. Reduction of investment risk increases the safety and soundness of insurers and, thus, protects Alaska's insurance consuming public. There currently exists no mechanism under Alaska's Insurance Law which provides our domestic insurers with the opportunity to utilize options and future contracts.

This new section specifies that options and future contracts may be entered into by a domestic insurer if done under a policy of hedging an insurer's risk from market fluctuations approved by both the insurer's board of directors and the director.

With regard to valuation and accounting on the insurer's financial statements, this new section closely follows the model rule adopted by the National Association of Insurance Commissioners, Securities Valuation Office. Put options, call options, other stock options, stock purchase warrants and financial future contracts are all treated in some detail. Conservative valuation requirements, specified accounting treatments and consistency requirements are intended to mandate prudence.

Section 50. AS 21.21.600. Definitions
Page 45. line 11 to page 47. line 18.

This definitional section is highly expanded to clarify the technical terms utilized in AS 21.21. When possible, we have specified that certain definitions are to be consistently applied between this and other chapters of this title. An attempt has been made to rely on regulatory structures supervised by the federal government or the National Association of Insurance Commissioners where those regulatory structures have become the standards for the insurance industry and closely parallel the regulatory intent of this title.

**SURPLUS LINES INSURANCE. (Section 51)**

This section recognizes mutual protection and indemnity associations as nonadmitted insurers that may be classified as eligible surplus lines insurers. The financial requirements for an insurer to be included on the "white list" of eligible surplus lines insurers have been increased. The capital and surplus requirements are increased as well as the amount of assets required to be trusteed in the United States by alien insurers.

Section 51. AS 21.34.040(c). Eligible Surplus Lines Insurers Required
Page 47, line 19 to page 49, line 17.

The changes in this section generally are for the purpose of strengthening the financial requirements for a nonadmitted insurer to be declared an eligible insurer for the purposes of the lawful underwriting of surplus lines insurance under AS21.34. The policyholder surplus requirement for foreign insurers is increased to $6,000,000 at 12/31/90, $10,000,000 at 12/31/91, $12,500,000 at 12/31.92, and $15,000,000 at 12/31/93. The policyholder surplus requirements for alien insurers is the same as those above for foreign insurers. The amount of trusteed assets required in the United States for an alien stock or mutual insurer has been increased from $1,500,000 to $2,500,000. Additionally, the policyholder surplus requirement for an "insurance exchange" domiciled in another state has been increased from $15,000,000 to $50,000,000.

**TRADE PRACTICES AND FRAUDS. (Section 52)**

This section provides for civil immunity for a person that provides information to law enforcement officials, the NAIC, the Division of Insurance, or other states' insurance regulators pertaining to fraudulent insurance acts.

Section 52. AS 21.36.430. Immunity for Reports on Fraud
Page 49, lines 18-29.

This new section provides for civil immunity for any person reporting information covering suggested, anticipated, or completed fraudulent acts as long as the reporting does not entail reckless, willful, or intentional misconduct.

**TITLE INSURANCE COMPANIES. (Sections 53-57)**

The amendments found in these sections are to provide for the same treatment of title insurers as for other types of insurers in financial reporting and examination by the director. (The amendments mirror those found in Sections 5, and 17-19 of this Act which pertains to insurers other than title insurers.)

Section 53. AS 21.66.080. Annual Statement
Page 50. lines 1-20.

Amendments to this section prescribe that title insurers file the required annual financial statement in the format consistent with that adopted by the NAIC and approved by the director. The director may require that the annual financial statement be filed via electronic media. These amendments place the title insurers on the same financial reporting basis as other types of insurers noted in Section 17 of this Act.

Section 54. AS 21.66.080(b). Annual Statement
Page 50. lines 21-23.

This Section requires Title insurers to file their annual financial statements with NAIC. This amendment is the same required of other types of insurers in Section 18 of this Act.

Section 55. AS 21.66.085. Quarterly Statement
Page 50. line 24 to page 51. line 4.

This new subsection allows the director to require that title insurers file quarterly financial statements on the same basis as for other types of insurers noted in Section 19 of this Act.

Section 56. AS 21.66.090(b). Application for Certificate of Authority
Page 51. lines 5-11.

Amendment to this subsection clarifies that title insurers are responsible to pay the examination costs associated with the director's examination of any title plant associated with a title insurer.

Section 57. AS 21.66.130. Expenses of Examination
Page 51, lines 12-15.

The repeal and reenactment of this section provides for the payment of examination expenses associated with the director's examination of any title insurer on the same basis as that used for other types of insurers as revised in Section 5 of this Act.

**ORGANIZATION AND CORPORATE PROCEDURES. (Section 58)**

This amendment is editorial in nature. It replaces extensive verbiage relating to the description of financial impairment of an Alaska insurer with the term "impaired" which has now been defined by the Act in AS 21.90.900 (Section 81).

Section 58. AS 21.69.530 (a). Impairment of Capital or Assets
Page 51, lines 16-25.

Amendment to this section is editorial in nature. The full description for what impairment of an insurer means is removed and replaced by the term "impaired" which is defined in AS 21.90.900 (see Section 81) but also applies to this chapter.

**REHABILITATION AND LIQUIDATION. (Sections 59-80)**

Although extensive amendment is proposed, the basic intent of the existing law (AS 21.78) in regard to conducting the affairs of a financially impaired or insolvent insurer is unchanged. The procedures, requirements, and guidelines have been expanded and clarified so that the affairs of a financially troubled insurer can be conducted in an orderly and equitable manner without undue litigation.

Section 59. AS 21.78.020. Commencement of Delinquency Proceedings
Page 51, line 26 to page 53, line 12.

Although substantial amendment to this section has been undertaken, the basic intent remains unchanged. This section is clarified to clearly indicate that the director is the only person that may commence what amounts to a bankruptcy proceeding (rehabilitation or liquidation) for a domestic insurer. Additionally, this section provides that the director be the court appointed receiver and describes the jurisdiction of the court in these proceedings.

Section 60. AS 21.78.030. Injunctions and Orders
Page 53, line 13 to page 54, line 14.

The intent of this amended section remains the same in allowing the director to seek, without bond, orders or injunctions to prevent hypothecation, waste, dissipation or other inappropriate transfer of assets of a bankrupt insurer. Amendment to this section further describes those situations in which these types of court orders may be sought.

Section 61. AS 21.78.040. Grounds for Rehabilitation
Page 54, line 15 to page 55, line 5.

In addition to the 10 grounds on which the director may seek an order of rehabilitation under AS 21.78, four new grounds are added by the amendments to this section. The new grounds are as follows:

1. an insurer fails to remove an officer found, after hearing, to be dishonest or untrustworthy;

2. if the insurer fails to make available records of its transactions for examination;

3. if an insurer has within four years willfully violated its charter or bylaws, any Alaska insurance law, or any valid order from the director; and

4. if an insurer has failed to file any required financial statement or report.

Because the grounds for liquidation found in AS 21.78.050 include, by reference to AS 21.78.040, the same grounds as are available for rehabilitation, the above new grounds are also established for commencing a liquidation proceeding.

Section 62. AS 21.78.040(b). Grounds for Rehabilitation
Page 55, lines 6-25.

In addition to the new grounds described in the last Section, additional grounds are added relating to criminal activities impacting the insurer. These are: on which the director may seek an order of rehabilitation under AS 21.78, four new grounds are added by the amendments to this section. The new grounds are as follows:

1. the occurrence of fraud which endangers the insurer's assets;

2. control of an insurer is by a person found, after hearing, to be untrustworthy; and,

3. if an officer has refused to be examined under oath concerning an examination of the insurer.

Because the grounds for liquidation found in AS 21.78.050 include, by reference to AS 21.78.040, the same grounds as are available for rehabilitation, the above new grounds are also established for commencing a liquidation proceeding.

Section 63. AS 21.78.090. Order of Rehabilitation
Page 55. line 26 to page 56. line 25.

Amendment to this section adds new subsections pertaining to an order of rehabilitation and its effect. An order of rehabilitation stops any legal proceeding against an insurer for 90 days and puts on hold any statute of limitation time limit for a legal action which an insurer might take for 60 days. This section now makes it clear that any guarantee association may intervene in a rehabilitation proceeding if the association is required to act the result of the entry of an order of rehabilitation. The receiver is required to provide periodic accountings to the court of the condition of the insurer in rehabilitation.

Section 64. AS 21.78.100. Order of Liquidation. Domestic Insurers
Page 56. line 26 to page 59. line 6.

New subsections pertaining to an order of liquidation and its effect are added to the section. Liquidation orders are required to call for specified periodic accountings to the court of the affairs of an insurer being liquidated. Orders of liquidation are required to contain provisions for the termination or continuation in force of all insurance contracts of the insurer according to the guidelines now set forth in this section. This section also contains the effects that an order of liquidation has on legal proceedings similar to those found pertaining to orders of rehabilitation. Also, this section now provides for any guarantee associations to intervene in a liquidation proceeding if the association is required to act as the result of the entry of an order of liquidation.

Section 65. AS 21.78.130. Conduct of Delinquency Proceedings Against Domestic and Alien Insurers.
Page 59. line 7 to page 60. line 23.

The new subsections added to this section augment the powers and authority of the receiver in a rehabilitation or liquidation. The receiver is allowed to pursue on behalf of the insurer all legal remedies from any person due to tortuous acts, breach of contract, or breach of fiduciary obligation.

If the receiver finds that reorganization, consolidation, merger, conversion or other transformation of an impaired or insolvent insurer is appropriate, the receiver is required to develop a plan for the appropriate action and submit the plan to the court for approval, disapproval or modification. A plan of this nature may include a moratorium on nonforfeiture benefits under contracts insured by an impaired or insolvent life insurer.

If an insolvent insurer's estate does not possess sufficient cash or other liquid assets to cover the costs of rehabilitation or liquidation, funds may be advanced by the Division of Insurance for that purpose. However, these funds are required to be repaid out of the first available money and take priority over all other claims against the estate.

The receiver is granted the authority to conduct examinations in conjunction with a delinquency proceeding with the same ability to subpoena, examine under oath, and review records as the director has in the examination of any insurer. The receiver is also granted the power to move records of the insurer to any location that would facilitate the rehabilitation or liquidation and to provide reasonable access to those records necessary to any guarantee association to carry out its lawful duties.

The receiver may also intervene in similar proceedings in other jurisdictions and act as a receiver or trustee in another jurisdiction if an appointment is offered. The receiver may enter into agreements with a receiver or other insurance regulatory official of another state which relates to a delinquency proceeding affecting an insurer that is or has conducted business in both states.

Section 66. AS 21.78.170. Form of Claim
Page 60. line 24 to page 61. line 2.

This section contains the provisions pertaining to claims filed against the estate of an insolvent insurer. Subsection (c) has been amended to require the receiver to notify a claimant if the claim has been denied in part or in whole in writing by first class mail. The claimant must raise any objection with this determination within 60 days of when the notice was mailed or is barred from any objection.

Section 67. AS 21.78.170. Form of Claim
Page 61. lines 3-9.

If the receiver receives an objection, the amendments to subsection (d) provide that the receiver request the court to conduct a hearing on the matter if the receiver does not change the original determination after such objection is made.

Section 68. AS 21.78.170. Form of Claim
Page 61. line 10 to page 62. line 1.

New subsections (e) through (h) have been added to provide further guidelines for claims made against an insurer in liquidation. A claim does not have to be considered or allowed if not all the required supporting documentation is provided or if the prescribed (and court ordered) claim form is not used. The receiver may at any time request that additional information be provided by any claimant and may take testimony under oath to obtain supplementary information. A judgement or an order against an insured or an insurer entered after the date of a liquidation order or a judgement or an order entered at any time by default or collusion need not be considered as support of evidence of liability or amount of damages in connection with a claim. A claim by any guarantee association against the estate of an insurer in liquidation must be in a form and contain support agreed to by the receiver and the guarantee association.

Section 69. AS 21.78.180(d). Priority of Certain Claims
Page 62. lines 2-15.

This section is amended to clarify certain circumstance involving claimants whose claims against the estate of an insurer in liquidation are secured. Amendment to subsection (d) provides the methodology for arriving at the value of the security and allows for the entire claim to be allowed if the security is surrendered to the receiver.

Section 70. AS 21.78.180(e). Priority of Certain Claims
Page 62. line 16 to page 63. line 1.

A new subsection (e) has been added to allow in certain circumstances for a person other than the secured creditor to file a claim with the estate of an insolvent insurer. That other person must be the person that provided the security via some undertaking and the secured creditor has failed to file and prove a claim. In such a circumstance, that person may file a claim in lieu of the secured creditor. However, the secured creditor will get any distributions from the estate of the insolvent insurer and the other person that made the claim will only be entitled to a portion of the distribution if the distribution and the amount paid on the undertaking exceed the entire amount of the secured creditor's claim. Any such excess must be held in trust by the secured creditor for the benefit of the other person who made the claim.

Section 71. AS 21.78.200(a). "Uniform insurers liquidation act."
Page 63. lines 2-5.

This is an editorial change to amend internal cross references. No substantive change.

Section 72. AS 21.78.250. Fraudulent Transfers Before Petition
Page 63, line 6 to page 64, line 26.

Currently AS 21.78.250 gives a broad outline as to how transfers of property made by or on behalf of an insurer before an order of rehabilitation or liquidation are treated when the transfer was accomplished with the intent to gain a preference or a greater percentage of the insurer's assets in a delinquency proceeding. In essence, the receiver may avoid or reverse these transactions unless the insurer received fair value for the asset transferred. This broad outline is repealed and replaced with a more detailed description of the acceptable transfers and unacceptable transactions which may be voided. The essential intent of current AS 21.78.250 is retained.

The reenacted AS 21.78.250 pertains to transfers occurring prior to a petition for rehabilitation or liquidation. This new section specifically recognizes transactions involving reinsurance contracts.

Section 73. AS 21.78.251. Fraudulent Transfer After Petition.
Page 64, line 27 to page 66, line 11.

New section AS 21.78.251 pertains to transfers and transactions occurring after a delinquency proceeding has been undertaken but before an order of rehabilitation or liquidation has been entered or before the receiver takes possession of the insurer's property.

Section 73. AS 21.78.252. Voidable Preferences and Liens.
Page 66, line 12 to page 71, line 16.

New section AS 21.78.252 provides the detailed guidelines for the voiding or reversing improper transfers of property. This section maintains the personal liability of any person, (including insurer employees, officers, or shareholders), acting on behalf of an insurer that knowingly participates in giving of a preference who knows or has a reasonable cause to believe that an insurer is or is about to become insolvent.

Section 73. AS 21.78.253. Claims of Holders of Void or Voidable Rights
Page 71, line 17 to page 72, line 5.

New section AS 21.78.253 outlines how claims of person who received a preference are to be treated. In general such claims are to be disallowed and not allowed to participate in any distribution of the insolvent insurers estate. However, a claim by such a creditor will be allowed as an "excused late claim" only if the transfer which provided for the preference is reversed.

Section 74. AS 21.78.260. Priority of Distribution
Page 72, line 6 to page 74, line 10.

The current law governing liquidations does not provide for a statutory priority for distribution of an insolvent insurer's estate. By interpretation, the administrative expenses to liquidate an insurer receive priority treatment. Currently, AS 21.78.260 provides a priority for wages owed employees up to $500. The new version of AS 21.78.260 provides for a specific priority for the distribution of an insolvent insurer's estate. Additionally, a methodology is defined that calls for all claims in each class to be paid or sufficient funds set aside before any claims in the next lower priority class are paid. The order of distribution is as follows:

1. Class 1. The expenses and costs administration for the rehabilitation or liquidation;

2. Class 2. Wages for employees for up to two months pay but principal officers and directors are not allowed to benefit by this priority;

3. Class 3. All claims for losses incurred under insurance policies including third party liability claims and claims of any guarantee association;

4. Class 4. Claims for unearned premiums under nonaccessible insurance policies, other premiums refunds, and claims of general creditors including claims made by ceding or assessing reinsurers under contracts of reinsurance;

5. Class 5. Claims of federal, state, or local government other than claims made under Class 3;

6. Class 6. Claims filed late or any other claims other than those claims under Class 7 or Class 8;

7. Class 7. Surplus notes, contribution notes, or similar obligations, and premium refunds under assessable insurance policies; and

8. Class 8. Claims of shareholders or other owners in their capacity as shareholders or owners.

Section 75. AS 21.78.270. Setoffs and Counterclaims
Page 74, lines 11-29.

This section clarifies the requirement that mutual debts or credits between the impaired or insolvent insurer and any other person be netted out with a resultant single amount either paid to the insurer or paid by it.

Section 76. AS 21.78.271. Recovery of Premiums Owed
Page 75, lines 1-20.

This new section requires that any person, including licensed agents and brokers, responsible for the payment of premium to an insurer pay to the receiver the amount of premium due for the entire term of the policy at the time of the declaration of insolvency. The amounts are to include commissions. The director may impose a monetary penalty of up to $1,000 for each violation of this section and may also suspend or revoke the agent's or broker's license.

Section 76. AS 21.78.272. Reinsurers Liability
Page 75, lines 21-28.

This new subsection pertains to a reinsurer's obligations to the estate of an insolvent or impaired insurer. Payments under a contract of reinsurance due an insurer in delinquency may not be reduced as a result of the rehabilitation or liquidation proceeding. Unless the reinsurance contract specifically provides for payment to a person other than the impaired or insolvent insurer, a payment to a person other than the impaired or insolvent insurer does not reduce the reinsurer's obligation to that insurer.

Section 77. AS 2[illegible] [illegible]pecial Claims.
Page 75, [illegible] to page 76, line 25.

Currently AS [illegible].280 contains provisions pertaining to both contingent and unliquidated [illegible]s, and third party liability claims. This one section has now been divided [illegible] to two separate sections with AS 21.78.280 pertaining to contingent ar[illegible] unliquidated claims and AS 21.78.281 pertaining to third party claims.

AS 21.78.280 provides that a contingent and unliquidated claim will be allowed to participate in a distribution of an insolvent insurer's estate only if, either the claim becomes absolute before the last day allowed for the filing of claims or a surplus of funds remains after all other claims are paid.

Section 78. AS 21.78.281. Special Provisions for Third-Party Claims.
Page 76, line 26 to page 78, line 14.

New section AS 21.78.281 provides the special guidelines for third party claims. It provides for either the third party or the insured of the insurer in liquidation to file a claim against the insolvent insurer's estate. The receiver is required to make recommendations to the court in regard to the allowance of a third party claim based on the receiver's consideration of the probable outcome of the pending action against the insured. If several third party claims against one insured are made which exceeds the policy limits, each

claim will be proportionately reduced so that the total paid does not exceed the policy limits. No separate third party claim is allowed if covered by any guarantee association.

Section 79. AS 21.78.290. Notice to Creditors and Others
Page 78. line 15 to page 79. line 14.

This section has been repealed and reenacted to provide for a more detailed outline of how the receiver is to provide notice to potential claimants and other persons affected by the liquidation of an insolvent insurer. Notice is required to be made by several different media.

The notice must be given by the receiver as soon as is possible after the entry of the order of liquidation and must specify the amount of time allowed for the filing of claims. The time allowed for the filing of claims must be at least six months after the date of the liquidation order is entered.

Section 80. AS 21.78.291. Duties of Agents
Page 79. line 15 to page 80. line 15.

This new section requires that each appointed, licensed agent of an insurer in liquidation provide written notice to each policyholder issued coverage through the agent of the liquidation order. This notice must be accomplished within 15 days from the date the agent receives notice under AS 21.78.290. The written notice must include the name and address of the agent, identification of the policy affected, and the nature of how the policy is affected such as termination under AS 21.78.100. The receiver may waive the notice required by this section if other appropriate notice has been given to policyholders.

Section 81. AS 21.78.292. Filing of Claims
Page 80. line 16 to page 81. line 20.

This new section requires that proof of a claim must be filed in the form required by AS 21.78.170. This section also provides for the guidelines under which late filed claims may participate in the distribution of the estate of the insolvent insurer.

Section 80. AS 21.78.293. Receiver's Recommendation to the Court
Page 81. line 21 to page 81. line 10.

This new section requires the receiver to report to the court the nature of each claim made to include the name and address of the claimant and amount of claim recommended. The court may approve, disapprove, or modify the report on the claims made. However, if the court takes no action on a report

within 60 days of the date of reporting, the claims will be considered to be allowed in the amount reported. In no event, will a claim under a policy of insurance be allowed in an amount in excess of the applicable policy limits. This report or reports as accepted by the court provide for the detail of the claims which will participate in the orderly distribution of the assets of an insolvent insurer.

Section 80. AS 21.78.294. Distribution of Assets
Page 82. lines 11-18.

This new section requires the receiver to accomplish the final distribution of funds to claimants under the court's supervision. The distribution plan must recognize the statutory priorities and provide for a reasonable balance of expediency with the protection of unliquidated and undetermined claims including third party claims.

Section 80. AS 21.78.295. Unclaimed and Withheld Money
Page 82. line 19 to page 83. line 11.

This new section provides that any unclaimed funds subject to distribution under a liquidation proceeding remaining when the court is going to end the receivership will inure to the state without going through any further proceedings.

Section 80. AS 21.78.296. Termination of Proceedings
Page 83. lines 12-20.

This new section provides for the receiver to apply to the court for discharge from the rehabilitation or liquidation proceedings when all duties have been performed. The court may grant the discharge and issue any other orders it deems appropriate. It is anticipated that such orders would include an order dissolving the corporate existence of an insolvent and liquidated insurer.

This section allows any other person to apply to the court at any time for an order discharging a delinquency proceeding. However, if the application is denied, the applicant is required to pay the costs incurred by the receiver in resisting the application.

Section 80. AS 21.78.297. Reopening Liquidation
Page 83. lines 21-27.

For good cause including the discovery of additional assets, the director or any other person may petition the court to reopen a previously closed liquidation. If sufficiently justified, the court must reopen the liquidation.

Section 80. AS 21.78.298. Disposition of Records During and After Termination of Liquidation.
Page 83, line 28 to page 84, line 4.

This new section allows the director to recommend to the court and the court to order which records of a liquidated insurer should be retained and which should be destroyed.

**OTHER. (Sections 81-89)**

Section 81. AS 21.90.900. Definitions for Title
Page 84, lines 5-24.

This section is amended to provide definitions for the terms "impaired", "impairment", "insolvent", "insolvency", and "policyholder surplus". These terms are used in several chapters of Title 21.

Section 82. Repealer
Page 84, lines 25-26.

Sections repealed are:

AS 21.09.080(b). This repeal requires domestic insurers to maintain the currently required capital and surplus amounts.
AS 21.09.080(c). This repeal requires domestic insurers to maintain the currently required capital and surplus amounts.
AS 21.21.020(b). This repeal deletes the grandfathering necessary for the 1966 major redrafting of this chapter but which now, after 22 years, is not required.
AS 21.21.270(d). Moved to definition section AS 21.21.600(6).
AS 21.78.330(1). Definition of "ancillary state" removed.

Section 83. Change of Civil Rule 62(a)
Page 84, line 27 to page 85, line 1.

Section 84. Change of Civil Rule 65(c)
Page 85, lines 2-6.

Section 85. Change of Civil Rule 41
Page 85, lines 7-11.

Section 86. Change of Civil Rule 19
Page 85, lines 12-14.

Section 87. Effective date for Section 18 (should read 20)
Page 85, lines 15-17.

This section delays the effective application of the changes affecting reinsurance credit allowed a domestic ceding insurer.

Section 88. Effective date for certain applications of Section 43
Page 85, lines 18-24.

This section deals with the application of Section 43 dealing with the "pooled investments" list.

Section 89. Effective date of Act
Page 85, line 25.

The Act takes effect immediately.

# SB 220

6-1021E
Cramer
3/27/89

Original sponsor: Kerttula, Szymanski, Kelly, and Fischer

IN THE SENATE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 220 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act authorizing certain transmission lines and approving construction costs for those lines; and providing for an effective date."

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

* Section 1. In accordance with AS 44.83.185(c), the Anchorage to Kenai Peninsula 230 kilovolt transmission line is authorized at a construction cost of $82,000,000 in 1987 dollars.

* Sec. 2. In accordance with AS 44.83.185(c), the upgrade of the transmission interties from Wasilla to Willow and from Healy to Fairbanks to 345 kilovolt transmission lines is authorized at a construction cost of $118,000,000 in 1987 dollars.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

6-1021H
Cramer
3/9/90

Original sponsor(s): SEN. KERTTULA, Szymanski, Kelly, Fischer

IN THE SENATE BY THE LABOR & COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 220 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing a transmission line between Anchorage and the Kenai Peninsula; and providing for an effective date."

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

* Section 1. AUTHORIZATION. In accordance with AS 44.83.185(c), the Alaska Energy Authority is authorized to design and construct a 138 kilovolt electric transmission line between Anchorage and the Kenai Peninsula at a cost of $89,000,000 in 1990 dollars if the authority meets the conditions set out in sec. 2 of this Act.

* Sec. 2. CONDITIONS. The authorization contained in sec. 1 of this Act is contingent upon the Alaska Energy Authority and participating electric utilities entering into a written agreement in which the participating utilities agree to pay the amount by which the design and construction costs for the transmission line between Anchorage and the Kenai Peninsula exceed $74,664,430. The authorization is also contingent upon the utilities and the authority entering into a written agreement in which the participating utilities agree to pay the operating and maintenance costs for the transmission line.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

6-2336A
Cramer
3/8/90

BY THE LABOR AND COMMERCE COMMITTEE

IN THE SENATE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing a transmission line between Healy and Fairbanks; and providing for an effective date."

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

* Section 1. AUTHORIZATION. In accordance with AS 44.83.185(c), the Alaska Energy Authority is authorized to design and construct a 138 kilovolt electric transmission line between Healy and Fairbanks at a cost of $60,000,000 in 1990 dollars if the authority meets the conditions set out in sec. 2 of this Act.

* Sec. 2. CONDITIONS. The authorization contained in sec. 1 of this Act is contingent upon the Alaska Energy Authority and participating electric utilities entering into a written agreement in which the participating utilities agree to pay the amount by which the design and construction costs for the transmission line between Healy and Fairbanks exceed $50,335,570. The authorization is also contingent upon the utilities and the authority entering into a written agreement in which the participating utilities agree to pay the operating and maintenance costs for those transmission lines.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

CHUGACH ELECTRIC
ASSOCIATION, INC.

April 26, 1990

Senator Richard I. Eliason
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator Eliason

Attached are two letters of rebuttal which the Anchorage Daily News refused to print in response to Representative Sam Cotten's Compass Article (copy attached) of April 13, 1990, concerning the Railbelt Interties.

I was told by the Daily News Managing Editor Dave Carey that these responses could only be printed as a letter to the editor if their length was shortened to 250 words or less and that they would not be used as a Compass Article.

As I told Mr. Carey, limiting responses to an article that was nearly 1,000 words in length with a response one-fourth that size is unfair.

The Anchorage Daily News obviously opposes the interties. While they have printed a number of editorials and news stories which have opposed the projects, they refuse to let intertie supporters air their views with equal representation in their paper.

I realize that this is a busy time for you, but I would ask you to read the attached letters so that you will know both sides of this important issue.

Sincerely,

CHUGACH ELECTRIC ASSOCIATION, INC.

Daniel E. Bloomer
Executive Staff Assistant

DEB/sb
DEB:82

Attachments

5601 Minnesota Drive • P.O. Box 196300 • Anchorage, Alaska 99519-6300
Phone 907-563-7494 • FAX 907-564-8406 or 907-562-0027

## Response to Compass Article of 4/13/90

I read with interest Representative Sam Cotten's Compass Article concerning the Railbelt Intertie proposals. Representative Cotten expressed his opinion rather eloquently, however, a couple of the statements which were presented require rebuttal.

1. "The Railbelt Energy Fund was created by the Legislature in 1986". This is true, however, Representative Cotten fails to mention that the fund was earmarked specifically for energy projects in the railbelt. The reasoning behind the funds "legislative intent" is simple - the people who live in the bush were given Power Cost Equalization and certain other non-railbelt communities received hydroelectric generating plants, all in an effort to help keep energy costs down. The Railbelt Energy Fund, as it was earmarked, was the railbelt's "piece of the pie".

2. "A new study (prepared by the utilities) that intertie proponents claim show positive benefits for the construction of "downsized" projects". First of all the "new study" was not prepared by the utilities, the Railbelt Electric Utilities hired the firm Decision Focus (the same firm which the Alaska Energy Authority (AEA) had used for their analysis in 1987), to perform an economic feasibility study of building the intertie transmission lines at the downsized 138kV capacity. There were two major reasons for hiring Decision Focus - 1) The same basic data from the AEA study was used for the downsized capacity study which maintained the integrity of the study and minimized the cost. 2) The utilities recognized that a thorough study was required to secure funding from the legislature.

3. "Still, there is plenty of generation capacity available to take up the slack should Beluga go down... That power can be accessed without constructing new interties". Although, it is true that Alaska currently has more than adequate generation capacity, the contention that this power can be readily accessed without the new interties is false. In 1991 when the Bradley Lake Hydroelectric Plant comes on line there will be a total of 228 megawatts (million-watts) of generation capacity on the Kenai Peninsula. The existing transmission line between Anchorage and the Peninsula has the capability of delivering only 61 megawatts into Anchorage. The Homer Electric load on the Kenai Peninsula has never exceeded 82 megawatts. The math is simple: 228 - (61 + 82) = 85 megawatts of available generation which can never be transferred to the Anchorage area or north to Fairbanks in case of an emergency. The existing transmission line from Anchorage to Fairbanks has virtually the same transfer capability (62 megawatts) as the Southern line. The Northern line is used primarily for economy energy sales from Chugach to Golden Valley Electric in Fairbanks. During much of the winter months this line is

loaded to capacity. The result is lower cost electric service for the ratepayers in Fairbanks. The earnings to Chugach from these sales flow through to the Chugach ratepayers (including Homer Electric and Matanuska Electric Association members) to reduce the cost of service for the majority of the electric consumers in the railbelt.

The additional transmission line from Healy to Fairbanks would nearly double the transfer capability between Anchorage and Fairbanks and would allow even greater transfers of low cost energy. This would increase the savings. Additionally, the amount of energy which could be shipped to the Anchorage area from Fairbanks in an emergency would double. It's true there's plenty of generation in Alaska for the present, but the utilities need the interties so that they can utilize the lowest cost source of energy available today and also have the ability to move large blocks of power to areas in need during emergencies.

4. "Providing $150 million from the Railbelt energy Fund for their construction would not be a responsible action on the part of the legislature". The most recent cost estimates for construction of the two interties (prepared by the Alaska Energy Authority) shows a cost of $149 million. The railbelt electric utilities were told early on that they probably would not have any chance of receiving full project funding from the legislature. The utilities signed agreements with the Alaska Energy Authority agreeing to pay all constructions costs over $125 million (not $150 million) and also to be responsible for operation and maintenance costs over the 50 year life of the projects. These agreements were widely distributed to the legislature.

   The Railbelt Electric Utilities should be proud of these efforts to secure state funding for the interties, regardless of the ultimate outcome in Juneau of the energy fund. After all, providing reliable energy at the lowest cost to the member/consumers is their mission and the appropriate use of the Railbelt Energy Fund for the interties will help to meet that goal.

Dan Bloomer
Employee of Chugach Electric Association, Inc.

Phone 907-278-4653

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Diamonds — PRECISION CUT MAKES THE DIFFERENCE

April 18, 1990

Editor
Anchorage Daily News
P.O. Box 149001
Anchorage, AK 99514-9001

Re: "Compass" Article of Friday, April 13

Dear Editor:

I have just perused Representative Sam Cotten's "Compass" article of Friday, April 13, 1990, and feel compelled to clear up several points about which Mr. Cotten reported inaccurate information. If, as Mr. Cotten says, looking out for the electrical consumers on the Railbelt is "stubborn dandelions", then so we are. I can't help but wonder what are the objectives of our elected representatives of the Railbelt and why they would differ from ours? Certainly it can't be to let the money, which has been earmarked for Railbelt energy projects, go to the Bush. One cannot deny that there is a public interest at stake here, particularly when we see more than 5,000 responses to the Chugach mail-out regarding the interties.

Rep. Cotten says that in the recent past, each session the Legislature has provided a resounding "NO" to use of the Railbelt Energy Fund for electrical interties. This statement is pure hogwash. In the past, the Legislature has not been able to get its act together to decide how to apportion the fund. No one has ever provided a resounding "NO."

Rep. Cotten also failed to fully explain the rationale behind the creation of the Railbelt Energy Fund. In 1986, the Railbelt share of what remained of the Susitna Hydroelectric project was placed in the Railbelt Energy Fund to ensure meeting future Railbelt energy needs. That was the original guidance, that remains the guidance today, and that is the rationale the Legislature should use in appropriating the money, for the good of the Railbelt consumer.

Rep. Cotten has selectively chosen studies to support his point that the interties are not a wise expenditure of money. The original Alaska Energy (Power) Authority (AEA) intertie study, which commenced in 1987 and was completed in 1988, showed that building of the high-capacity (230kV) line was not cost-effective

under the original set of circumstances. The second study, the so-called "new" information mentioned by Mr. Cotten, showed positive benefits for a lower-capacity (138kV) line. Rep. Cotten states that utilities can purchase power wholesale from Chugach cheaper than they can generate it themselves and that is why Beluga is the cornerstone of the Railbelt generation system. This is true. Then he states that this power can be accessed without the construction of new interties. We do not know how to do this. It is a known technical fact that the current intertie system is inadequate to effectively use the output of the $328 million Bradley Lake project that will be on-line by mid-1991. Rep. Cotten further takes exception to the so-called intertie advocates who argue that the December 11, 1989 outage would have been of a shorter duration had the interties been in place. The fact of the matter is, with the limited capacity on the southern line, it was impossible to capitalize on all available generation; a great deal of which, was in the Kenai Peninsula.

Rep. Cotten further states that $150 million is far too much money for the State to pay simply to reduce the off-time during a major power outage. First, Mr. Cotten is wrong about the numbers. The utilities agreed to a maximum of $125 million. Secondly, I should make it clear at this point that no one ever suggested that the rationale for the interties was simply to reduce downtime, so to speak. We believe the interties are necessary to effectively use available generation capacity in the Railbelt, and thereby, to reduce rate impacts on the consumer. Mr. Cotten cites two independent reviews of the latest Railbelt utility-funded study that are in disagreement with the results. He fails to examine the basis for the independent reviews and takes them as straight gospel.

Mr. Cotten then says that if the interties were such a good deal, the utilities should be willing to use their own money to build these projects. It is clear that Rep. Cotten does not understand the nature of cooperative enterprises, more specifically that the utility business is a highly-regulated environment and the cooperative utilities don't have any money of their own. They only have consumer's money. If it is necessary for the utilities to build the interties without State help, then the only possible place that the money can come from inevitably is the consumer, who must pay for the project. That is, rates will go up.

As a finale, Rep. Cotten states that the AEA, the Legislative Research Agency and the State utility consumer advocate have all taken a close look at the proposed interties and found that they fail an economic feasibility test, implying that it would be irresponsible to fund the interties. I submit that to not use the fund for energy projects is the irresponsible act. To not fund these interties is unconscionable as the Railbelt consumers who

utilize the energy will inevitably have to provide the capital. Until the interties are built, the Bradley Lake project will be grossly under-utilized. It is clear to this writer that Mr. Cotten would do well to learn a bit more about the nature of the utilities in his own district.

Sincerely,

Robert McGrane, Director
Chugach Electric Association, Inc.

By REP. SAM COTTEN

# COMPASS

POINTS OF VIEW FROM OUR COMMUNITY

The Railbelt interties have a life similar to that of stubborn dandelions. No matter how hard you work to keep them from coming up, every spring their rear their heads.

Each session since the Railbelt Energy Fund was created, the legislature has been lobbied by Southcentral electric utilities to appropriate money from the fund to construct electrical interties that would stretch from Fairbanks to the Kenai Peninsula. Each session the legislature has provided the same answer: a resounding "No!"

The Railbelt Energy Fund was created by the legislature in 1986. It is an account within the state's general fund that contains $230 million. The money was originally earmarked for the Susitna hydroelectric project which has been shelved indefinitely.

In 1986, the utilities proposed constructing new, 230-kilovolt electrical interties to upgrade the existing transmission system. The legislature responded by directing the Alaska Energy Authority (AEA) to perform a comprehensive feasibility study of all proposed energy projects and alternatives in the Railbelt, including new interties. An appropriation of $2.5 million was made to the AEA to fund the study. After two years of exhaustive analysis, the AEA released its report March 31, 1989.

The conclusions were clear: The Railbelt interties will cost far more to build than they can provide in benefits. Based on the AEA's study, the legislature chose not to appropriate any money for the interties or for further study of the projects last session.

Two recent developments have given "new life" to the interties:

1) the system-wide power outage in the Railbelt on Dec. 11, 1989, and;

2) a new study (prepared by the utilities) that intertie proponents claim show positive benefits for the construction of the "down-sized" projects. Neither of these new developments have persuaded me that the interties are an appropriate use of $150 million of public funds.

The power outage that inconvenienced Railbelt consumers Dec. 11 resulted from a valve failure that cut off the flow of natural gas to Chugach Electric Association's Beluga power plant. At the time of the outage, approximately 50 percent of the electrical load in the Railbelt was being serviced by Beluga. The loss of that much power from the system caused widespread failure and most consumers in the Railbelt lost power.

It has been suggested that utilities in Southcentral rely too heavily on Beluga-generated power. However, Beluga provides only 28 percent of the total power supply in the Railbelt. The reason that utilities want to use Beluga power to provide electricity to their consumers is that it is inexpensive.

Utilities can purchase power wholesale from Chugach cheaper than they can generate it themselves. That is why Beluga is the cornerstone of the Railbelt generation system. Still, there is plenty of generation capacity available to take up the slack should Beluga go down; it just costs a little more to use. That power can be accessed without constructing new interties.

Intertie advocates argue that the outage would have been shorter if the interties were in place. This is misleading, at best. The truth is that Golden Valley Electric Association had power flowing to all its consumers in Fairbanks within 30 minutes, and was delivering power to Matanuska Electric Association one hour and 15 minutes after the Beluga plant went down.

Chugach Electric was able to get power from Anchorage Municipal Light and Power and from facilities on the Kenai Peninsula. All Anchorage consumers had power back within a few hours of the failure. The interties would not have prevented the Railbelt blackout, and even if construction of the interties would have shortened the length of the outage, $150 million is far too much money for the state to pay to simply reduce the "down-time."

The utilities now argue that scaling the interties down to 138-kilovolt lines would make the projects economically attractive, and they paid for a study that says so. However, two independent reviews of the utility-funded study are in sharp disagreement. These independent reviews found major methodological flaws with the utility study including a single mathematical error that inflated intertie benefits by $25 million. In short, even the smaller "down-sized" 138-kilovolt projects are not economically justified.

The utilities say the interties must be built, yet they have not been willing to use their own money and have rejected the idea of low-interest loans from the Railbelt energy fund to build the projects.

The Alaska Energy Authority, the Legislative Research Agency and the State Utility Consumer Advocate have all taken a close look at the proposed interties and all have found that these projects fail the economic cost-benefit test. Providing $150 million from the Railbelt energy fund for their construction would not be a responsible action on the part of the legislature.

☐ Rep. Sam Cotten is Speaker of the House of Representatives

4/13/90 Daily News

ALASKA SYSTEMS COORDINATING COUNCIL

*An association of Alaska's electric power systems promoting improved reliability through systems coordination*

P.O. Box 190869
Anchorage, Alaska 99519-0869



March 20, 1990

The Honorable Richard I. Eliason
Alaska State Senator
P.O. Box V
Juneau, Alaska 99811

Dear Senator Eliason:

A report is enclosed from the North American Electric Reliability Council (NERC) that evaluates the reliability of Alaska's Railbelt interconnected electric utility systems for the 1990-1999 period. I have found this report quite useful and enlightening. I hope this information will aid you in evaluating the proposed Kenai-Anchorage intertie and the Healy-Fairbanks intertie. Please call if you have any questions.

Sincerely,

Michael P. Kelly, Chairman
Alaska Systems Coordinating Council

PH:MPK:it

Enclosure as stated

7903/126(7)

**FINAL REPORT**

# RELIABILITY ASSESSMENT

# OF THE

# RAILBELT INTERCONNECTED ELECTRIC UTILITY SYSTEMS

# OF THE

# ALASKA SYSTEMS COORDINATING COUNCIL

# 1990-1999

**March 16, 1990**

**by**

**a Subgroup of**

**NERC's 1990 Reliability Assessment Subcommittee**


**John H. Stout, Chairman**
(Manager of Engineering Design and Development
Houston Lighting & Power Company)

**Chisna H. Fleming, Vice Chairman**
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**Richard E. Phillips, Operating Committee Representative**
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**Virginia C. Sulzberger, NERC Staff Coordinator**
(Director-Engineering
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## Preface

A subgroup of NERC's 1990 Reliability Assessment Subcommittee (RAS) recently reviewed the overall reliability of the Railbelt interconnected electric utility systems of the Alaska Systems Coordinating Council (ASCC) at the request of ASCC. This assessment reviewed the adequacy of the existing system and the proposed generation and transmission plans for the Railbelt electric systems over the 1990-1999 period. Included in this review were the reliability impacts of two proposed transmission interconnections — a Soldotna to University 138 kV line and a Healy to Fort Wainwright 138 kV line.

This assessment was performed over an approximate eight week period from mid January to mid March 1990.

In preparing this report, the RAS subgroup interviewed representatives of the Alaska Energy Authority, Anchorage Municipal Light & Power, Chugach Electric Association, and Golden Valley Electric Association. These interviews were conducted February 12-14, 1990 in Anchorage, Alaska.

In addition to the interviews, the assessment is based primarily on electric utility data and plans for 1990-1999 provided by the Railbelt interconnected systems on a basis consistent with the annual April 1 Coordinated Bulk Power Supply Program (IE-411) Reports submitted to the U.S. Department of Energy by each of NERC's nine Regional Reliability Councils and from the completion of additional annual data submittals generally requested by the Reliability Assessment Subcommittee from the nine Regions. Several reports of others, either prepared by outside consultants for the Railbelt electric systems or prepared by individual Railbelt electric systems, were also reviewed and provided background information.

This reliability assessment report is the culmination of these efforts and reflects the expertise, judgment, and interpretations of the RAS subgroup.

## Reliability Assessment
## of the
## Railbelt Interconnected Electric Utility Systems

### Overview

*The Alaska Railbelt electric utility systems began interconnected operations in 1984 by linking together the Fairbanks area with the Anchorage Bowl. (The Anchorage Bowl had been previously interconnected with the Kenai Peninsula in the 1960s.) The unique geographic, economic, and electrical characteristics of the electrical systems in these three areas have resulted in an interconnection that is far less reliable than the four major electric Interconnections of the North American Electric Reliability Council (NERC). For example, the relatively small electrical size of the Railbelt interconnection causes automatic shedding of customer load to take place following most generation and Railbelt interconnection transmission line contingencies. Nonetheless, this Railbelt interconnection has improved the reliability of electric supply to utility customers, primarily in the Anchorage Bowl area.*

*Two important reliability issues face the Alaska Railbelt interconnected systems. First is the need for additional transmission interconnection lines between the three major load centers and their generation facilities. The existing area interconnection lines are single, limited capacity lines prone to outage by weather and avalanche. Second, is the need to maintain a proper balance between economy and reliability. The cost of reliability is exceptionally high for the Railbelt systems resulting in compromises to the generally accepted electric utility reliability criteria in the lower 48 states and most of Canada. The expectations of the Alaska Railbelt customers toward reliable electric supply show signs of increasing. As a result, the interconnected Railbelt's seven members are recognizing that, along with sharing the economic benefits of interconnection operation, they must also share the responsibilities of reliability.*

*Assessment of the 1990-1999 generation adequacy clearly indicated that sufficient generating capacity margins exist in each of the three major load areas: the Fairbanks area, the Anchorage Bowl, and the Kenai Peninsula. Neither forced outages or maintenance outages are expected to adversely impact generating reserve adequacy. These three areas all have capacity margins well above the interconnection agreement requirement of 30% generation reserves. As electric demand within the Railbelt systems increases, the member systems should recognize that these margins will likely move down toward the 30% minimum. Of concern is the fact that the 30% reserve criteria is not founded on technical reliability studies such as loss of load probability analyses. The Alaska Railbelt systems should reassess carefully the justification of a 30% criteria and revise their interconnection agreement in accordance with such a reassessment.*

*The existing single line transmission interconnections between the Kenai Peninsula and the Anchorage Bowl and between the Anchorage Bowl and the Fairbanks area constrain the sharing of generation between and among load centers and pose a significantly higher than traditional reliability risk for system-wide blackouts due to single contingency outages.*

*In terms of traditional reliability criteria, the proposed Soldotna-University 138 kV transmission line provides a second circuit between the Kenai peninsula and the Anchorage Bowl and is necessary to help improve the reliability of electric supply to the Kenai peninsula, the Anchorage Bowl, and the Fairbanks area. This line will increase the electric transfer capability between the Kenai peninsula and the Anchorage area, improve system stability, and help to reduce the number of load shedding incidents in the Anchorage and Fairbanks areas and the black out or loss of electric supply to Kenai peninsula customers following certain system outages or contingencies. It will also help to reliably distribute the output of the Bradley Lake hydro generating facility to the appropriate utility purchasers of the hydro capacity. Without this line, reliability in the Kenai peninsula will likely be reduced following the completion of the Bradley Lake project.*

*The proposed Healy-Fort Wainwright 138 kV transmission line is needed for the reliability of electric supply to the Fairbanks area. It provides a second transmission path from Healy to the Fairbanks area for both Healy generation capacity and capacity purchases from the Anchorage area (and the Kenai peninsula). This line provides both improved reliability and economic benefits (Bradley Lake capacity) to the Fairbanks area. Its reliability impact, however, will not be as dramatic as the Soldotna-University 138 kV line, but based on traditional planning criteria, the tie is required to assure an adequate source-to-load path from Healy to the Fairbanks area. In fact, under traditional reliability criteria, a second transmission line between the Anchorage Bowl and the Fairbanks area would likely be required (either via Teeland and Healy, or preferably via a separate transmission path such as from the Anchorage Bowl to Glennallen to Jarvis Creek).*

*Finally, many of the planning and operating practices and procedures followed by the Railbelt systems have evolved and been developed from years of experience. In many systems, these guidelines needed for reliability have not been written down or formalized. Therefore, the Railbelt utilities should develop, formulate in writing, and approve appropriate planning and operating reliability criteria for their respective systems and service areas as well as for interconnected planning and operations.*

## Peak Demand and Generation Adequacy

A comparison of planned capacity resources, projected available resources, and projected winter peak demands in Figure 1 indicates that the Alaska Railbelt interconnected electric utility systems should have adequate capacity resources throughout the 1990-1999 assessment period. However, the assessment of the Alaska Railbelt systems generation adequacy should not be made solely on an aggregate interconnection basis. This is because the transmission interconnections between the three major load centers: the Fairbanks area, the Anchorage Bowl, and the Kenai Peninsula consist of single, limited capacity transmission lines. As such, these interconnection lines constrain the sharing of generation between load centers. A proper assessment of generation adequacy requires that the Fairbanks (Golden Valley-Fairbanks) area, the Anchorage Bowl, and Kenai Peninsula be evaluated individually.

The distribution of installed generating capacity among the three geographical regions of the Railbelt electric utilities is generally proportional to the load distribution as shown in Table 1. About 63% of the winter peak demand of the Railbelt is located in the Anchorage Bowl area, 22% in the Fairbanks area, and 15% in the Kenai Peninsula. Similarly, the installed generating capacity is 67% in the Anchorage Bowl, 20% in the Fairbanks area, and 13% on the Kenai Peninsula. The small mismatch is not significant as all areas have capacity margins of 35% or more in the early years of the assessment period.

With the addition of Bradley Lake hydro plant in 1991 at the southern extremity of the Kenai Peninsula, along with some planned retirements and replacements of capacity, the distribution of installed capacity by the winter of 1999/2000 will shift slightly resulting in about 61% in the Anchorage Bowl, 20% in the Fairbanks area, and nearly 19% on Kenai. The capacity margins will continue to be adequate in the three load areas and are projected to range from 38% to 54% at the end of the assessment period.

The makeup of the generating capacity and the relative economics of operating the various types of capacity in the three areas distort the apparent balance of generating resources and demand requirements. As shown in Figure 2, about 92% of the 1989/1990 installed capacity is primarily gas- or oil-fired with only about 4% consisting of coal-fired steam turbines (with all 45 MW of that located in the Fairbanks area) and the remainder about 4% hydro. About 32 MW of the 49.2 MW of hydro capacity is located in the Anchorage Bowl with the remaining hydro on the Kenai Peninsula. With the addition of Bradley Lake hydro plant (and other generating capacity replacements and retirements through 1999), the proportion of

hydro will shift to nearly 13% with 125 MW of the 157 MW being concentrated on the Kenai Peninsula.

Due to relative fuel costs, the Fairbanks area relies primarily on its coal-fired steam generation and significant imports from the south. That is, depending on the time of the year, some 50% or more of its electrical energy requirements are imported over the single 170 mile line from the Anchorage Bowl area. These imports plus the output of the 25 MW coal-fired steam turbine at Healy, in turn, depend upon the single 103 mile line to Gold Hill substation to reach the Fairbanks area customers.

Similarly, except for a small amount of hydro and one combustion turbine spinning in standby at Bernice Lake, there is limited generation normally operated on the Kenai Peninsula, and the 89 mile transmission interconnection line from Quartz Creek to the Anchorage Bowl is relied on for imports approaching 60% of the load requirements of the Kenai area. However, after the completion of the Bradley Lake 108 MW hydro plant, that import situation will change. The Kenai Peninsula will become a net exporter of capacity entitlements to the systems north of the peninsula via the Anchorage Bowl during most of the year over that same single 89 mile interconnection line.

In the Anchorage Bowl area today, the electrical generation output is generally equal to twice the customer requirements in the area, or more. Net exports from the Bowl therefore equal or exceed the Bowl area demand. Nearly one-half of the generation in the Anchorage Bowl is located at Beluga generating facility at the western extremity of the Bowl on the western shore of Cook Inlet. This is also the most economical generation. The output of Beluga and the 32 MW of hydro at Eklutna (near Palmer), along with some generation in downtown Anchorage are relied upon heavily to support both the Anchorage Bowl load and the exports to the Fairbanks area and the Kenai Peninsula. This result is a mix of generation of some 80% or more of the total operating capacity in the Railbelt interconnection concentrated in the Anchorage Bowl, 10 to 15% in the Fairbanks area, and 5% or so in the Kenai Peninsula.

After the addition of Bradley Lake in 1991, it appears that the typical operating generation mix would shift to approximately 65 to 70% in the Anchorage Bowl, 20% in the Kenai Peninsula, with the Fairbanks area retaining its 10% to 15% share.

Sufficient generating capacity exists in the three major Railbelt electric areas for normal and emergency operation. However, the economic realities of the cost of operating that generation results in a preponderance of the electrical energy requirements of the Railbelt interconnection being generated in the Anchorage Bowl area. The Fairbanks and Kenai areas rely heavily on imports of that generation to supply their electrical requirements. Therefore, the transmission interconnection transfer capability and its reliability both north and south of the Bowl are critical. Although the addition of the Bradley Lake hydro plant will somewhat reduce the generation requirements in the Anchorage Bowl area and would result in Kenai Peninsula being a net exporter much of the time, the same transmission interconnection between Anchorage and the Kenai Peninsula would be relied upon to maintain that supply and the capability and reliability of the north and south transmission interconnection lines would continue to be important.

Assessment of generation adequacy clearly indicates that sufficient generating capacity margins exist in each of the three Alaska Railbelt areas. Neither forced outages or maintenance outages are expected to adversely impact generating reserve adequacy. However, while the individual utilities or areas may have capacity margins well above the interconnection agreement requirement of 30% reserves, the Railbelt member systems should recognize that as demand increases the margins will likely move down toward the 30% minimum. Of concern is the fact that the 30% criteria is not founded on technical reliability studies such as loss of load

probability analyses. The Alaska Railbelt systems should reassess carefully the justification of a 30% criteria and revise their interconnection agreement in accordance with such a reassessment.

## Transmission Adequacy

As the loads and generating capacity of the Railbelt electric systems are generally in three geographically separate areas, each of the areas had developed its own transmission systems prior to establishing interconnected operation. As a consequence, there are three transmission voltages (115 kV, 138 kV, and 230 kV) in use that are interconnected by transformation at five substations in the Anchorage Bowl area as shown in Figure 3. In addition, there is underlying subtransmission in each of the areas consisting primarily of 69 kV facilities as well as some 34.5 kV.

In the Golden Valley area, which encompasses Fairbanks and extends from Denali Park up the Tanana River valley past Fairbanks to Delta Junction, the transmission system is a single 138 kV circuit of approximately 212 miles in length, except for a 33 mile section between the North Pole and Carney substations currently bridged by 69 kV facilities. However, there are plans to add a 138 kV segment to complete this system in 1994. The Fairbanks area (Golden Valley and Fairbanks) is interconnected with the Anchorage Bowl area by 170 miles of single circuit line between the Healy generating plant near Denali Park to Teeland substation. Teeland substation is an interconnection point for all three transmission voltages of these systems and is located in the northwestern portion of the Anchorage Bowl area.

The Kenai Peninsula is the southernmost of the three areas and has a transmission system of 115 kV which is essentially a single circuit serving the peninsula with branches to Homer, Lawing, and Bernice Lake. Approximately 180 miles of 115 kV transmission line serves the Kenai Peninsula. (Future plans are to convert 24 miles of 69 kV line south of Lawing to 115 kV thereby extending the 115 kV branch to Seward.) The Kenai Peninsula is interconnected with the Anchorage Bowl by a 89 mile 115 kV circuit between Quartz Creek substation (41 miles north of Seward) and University substation. University substation is another interconnection point for three transmission voltages and is located in the southeastern portion of the Anchorage Bowl area.

The Anchorage Bowl area includes the city of Anchorage and the surrounding countryside between the Turnagain and Knik Arms of Cook Inlet, extending northward to Palmer and the Matanuska Valley area, and westward to the area north and west of the Knik Arm. The transmission system within Anchorage is 115 kV with an extension southward to the three voltage University substation and one north to Palmer and westward to the Teeland substation interconnection point. In addition, there is an overlay of about 98 miles of 230 kV transmission extending from Beluga generating station on the west shore of Cook Inlet to a 230/138 kV stepdown substation at Point MacKenzie, then north to the Teeland substation interconnection point as well as eastward from Point MacKenzie across Knik Arm (via submarine cable) to Anchorage where it is interconnected to the 115 kV system, and then southward to University substation with another transformation to 115 kV. The 230 kV loop is closed by 138 kV, transformed from 115 kV at University substation, along the southern boundaries of Anchorage to Point MacKenzie stepdown substation and extended west to the Beluga generating plant.

The transmission in the Anchorage Bowl area is such that it can be considered a network and, as such, should be able to withstand loss of any given circuit. The Kenai Peninsula is essentially a branched circuit with underlying subtransmission on the cross-peninsula sections, such that loss of any branch should be sustainable with only loss of the area served by that branch. However, the 89 mile single circuit tie between Kenai Peninsula and the Anchorage Bowl is, and has historically been, subject to outages due in large part to avalanches. These

outages place the Kenai Peninsula in jeopardy from the effects of isolation from the Anchorage Bowl. The addition of the 108 MW Bradley Lake hydroelectric plant at the southern extremity of the peninsula near Homer along with 60 miles of 115 kV transmission between Fritz Creek and Soldotna will tend to exacerbate this situation with the further problem that loss of the existing Kenai-Anchorage Bowl interconnection would interrupt Bradley Lake capacity entitlements of the Anchorage Bowl and Fairbanks area utilities.

The addition of the proposed 138 kV circuit between Soldotna substation, requiring transformation from 115 kV at that point, to the 138 kV portion of University substation would not only provide a parallel path to the existing tie but would also make the Kenai electric system more of a loop arrangement. It is in view of this that the following comments are offered as regard reliability aspects:

- The existing 115 kV interconnection line has a poor reliability history and has a transmission transfer capacity limit under 75 megawatts (MW). The chances of significantly improved performance is not great due to its physical/geographical location and system conditions that exist.

- The second (currently proposed Soldotna to University 138 kV line) Kenai interconnection to the Anchorage Bowl area would improve reliability by preventing the shedding of customer load if the existing interconnection line trips, (with the possible exception of those times when the Kenai Peninsula generation is operating in anticipation of loss of the existing tie).

- When Bradley Lake comes into service, reliability will suffer without a second interconnection tie. That is, the second Kenai Peninsula to Anchorage Bowl line is necessary to support Bradley Lake and to help reliably distribute the Bradley Lake capacity to the purchasing systems, to minimize blackouts in the Kenai Peninsula, and to minimize underfrequency load shedding in the Fairbanks area and the Anchorage Bowl.

As indicated above, the Golden Valley-Fairbanks area transmission system is essentially a 212 mile single circuit from the primary electrical source at the Healy generating plant to the eastern extremities of the system at Jarvis Creek substation near Delta Junction. Of this, only about 50 miles has underlying transmission and therefore this system is highly exposed for loss of any single 138 kV circuit segment, particularly the 103 mile circuit between Healy and Gold Hill. It is in view of this that the following comments are offered as regard reliability aspects.

- The addition of the proposed 105 mile 138 kV circuit between Healy generating plant and Fort Wainwright substation would not only provide an alternate path for loss of the circuit to Gold Hill, but would also provide essentially loop service between the Healy plant and the major part of the load in this area.

- The reliability of the Healy-Gold Hill line has been good, such that additional facilities will not have as dramatic an impact on reliability as the second Kenai Peninsula to Anchorage Bowl tie. However, based on traditional planning criteria, the Healy-Fort Wainwright tie is required to assure an adequate source-to-load path from the dual sources at Healy (Healy generation plus the capacity purchases from the Anchorage Bowl and later from Bradley Lake) to the Fairbanks area.

The 170 mile interconnection line between Teeland substation and Healy generating plant is vulnerable to single circuit outage and would cause loss of transfer capability between the Anchorage Bowl area and Healy. Future consideration should be given to providing an additional transmission path between the Anchorage Bowl area and the Fairbanks area. Under

traditional reliability criteria, a second transmission line between the Anchorage Bowl and the Fairbanks area would likely be required (either via Teeland and Healy, or preferably via a separate transmission path such as from the Anchorage Bowl to Glennallen to Jarvis Creek).

## Operations

The following comments are made concerning the operational aspects of the Alaska Railbelt interconnected systems:

- Each Railbelt system indicated it brings on additional generation for reserves in recognition of adverse weather conditions. These reserves were indicated to be geographically located such that they would not be bottled by transmission contingencies. This type of response enhances reliability and should be encouraged.

- It was indicated in the interviews that customer load would be shed if economy or non-firm transactions were interrupted. This does not confirm to the traditional interpretation of NERC criteria for these types of transactions in the interconnected systems of the lower 48 states. The three traditional broad categories of electrical transactions and a summary of their application is as follows:

  Economy – Economy transactions are, by definition, immediately withdrawable. Receiving systems have the obligation to maintain generation backed-off and spinning to replace the economy without loss of load.

  Non-Firm or Interruptible – The receiving system must have generation available to replace the purchase within a specified time. The seller must maintain the delivery for the duration of this same specified time. Interruption of the transaction within this predetermined time frame is accomplished without any loss of load.

  Firm – A firm purchase is treated as a generator on the receiving system and a load on the sellers system.

- Lack of agreement exists over who must cut what generation schedules if a transmission constraint exists. This condition is partially due to conflicting terms between new and existing contracts, e.g. contracts between Chugach and Fairbanks and contracts associated with Bradley Lake. There is also a lack of definition in the area of transmission ownership vs use. These are policy decisions that should not wait for shift dispatchers to solve when the condition occurs.

- Additional spinning generator reserves will not always prevent underfrequency load shedding for the loss of generation. Reliance on load shedding as spinning reserve is not traditional and is avoided by most NERC systems. However, due to the unique nature of the Railbelt systems, their generation inertia and size of loads, this technique may not only be appropriate, but essential.

- Each Railbelt system should develop written operating criteria and procedures for its system. These criteria and procedures could then be compared and utilized to develop overall operating criteria and procedures for the Railbelt interconnection.

## Reliability Issues

The existing Railbelt utilities lack comprehensive planning and operating criteria as well as interconnection criteria for integrated planning and operations. Therefore, the existing and proposed Railbelt electric utility systems were evaluated against traditional reliability criteria and practices followed by the interconnected electric systems of NERC's Regional Reliability Councils in the lower 48 states and Canada.

For example, NERC's Planning Guides recommend to the extent practicable that an excessive concentration of generating capacity in one unit, at one location or in one area, be avoided, that excessive dependence on a single transmission line be avoided, and that a system be designed to withstand credible contingency situations. Under traditional criteria, a single generation or transmission contingency generally would not black out an entire interconnected system or cause the shedding of a portion of system load. In contrast, within the Alaska Railbelt systems, a single contingency such as the loss of fuel supply to the Beluga generating plant on December 11, 1989 can and has blacked out the interconnected Railbelt electric systems. Similarly, based on information given to the RAS subgroup, during periods of high capacity transfers from the Kenai Peninsula Bradley Lake project, the sudden outage of the existing 115 kV interconnection line between the Kenai peninsula and the Anchorage Bowl would likely cause load shedding in the Anchorage and Fairbanks areas and a blackout of the complete Kenai electric system. These two examples illustrate the lack of compliance with traditional NERC planning and operating criteria.

Based on a comparison of the current Railbelt interconnected systems planning and operating procedures with traditional electric utility planning and operating reliability criteria in NERC-U.S. and NERC-Canada, the RAS subgroup offers the following comments:

- Planning and Operating Criteria The Railbelt utilities should develop, formulate in writing, and approve appropriate planning and operating reliability criteria for their respective electric systems and service areas. In addition, coordinated interconnection planning and operating reliability criteria should similarly be developed, formulated in writing, and approved under the auspices of the existing Interconnection Agreement or under the ASCC umbrella. NERC's Planning Policies encourage the development of planning and design criteria by Regional Councils, power pools, and individual systems applicable to their Region or area.

- Load Shedding and Spinning Reserve Studies The Railbelt utilities are currently conducting two important reliability related studies. The first involves the application of underfrequency load shedding schemes. Underfrequency load shedding is critical to the Railbelt utilities, because it is the primary method of preventing system blackouts following a loss of generation or certain transmission line outages. This is because the relatively small electrical size of the Railbelt interconnection and the mismatch between generator governor response and system transient response require that automatic load shedding take place following most generation and Railbelt interconnection transmission line contingencies. The second study involves spinning reserve requirements after the Bradley Lake hydro project comes into service. This study will also play an important role in determining the ability of the Railbelt utilities to avoid uncontrolled loss of customer load following a system disturbance. Both studies are likely to result in Railbelt members having to make difficult decisions affecting the balance between economy and reliability. Interconnected operation will require that such decisions be made, and complied with, as one, rather than as seven separate systems. The importance of these studies dictates that they be completed promptly and that the Railbelt utilities quickly determine and implement whatever policy and procedures are identified by those studies.

- Bradley Lake Hydro Project The Bradley Lake hydro project, on the Kenai Peninsula, is nearing completion, but the Railbelt utilities have not yet received approval for construction of the transmission facilities needed to reliably transfer capacity from the project to major load centers. As discussed elsewhere in this assessment, this is a direct threat to the reliability of the Railbelt systems. However, it is also an indication of an even greater threat, the lack of an integrated, coordinated process of planning transmission to accompany generation resources. Electric system reliability is much like a chain, with generation, transmission, and distribution facilities as individual links. Making the generation link stronger is ineffective unless the transmission link is at least as strong. In the future, the Railbelt utilities must proactively and collectively plan and build transmission to support any generation or purchased capacity options. Reliability will likely suffer if transmission planning and construction continue to lag behind the planning and construction of new generation sources.

- Economy vs Reliability The most significant issue affecting the reliability of the Railbelt utilities is maintaining a proper balance between economy and reliability. If judged against the reliability levels generally maintained by the NERC Interconnections, it would appear that, within the Railbelt utilities, economics has encroached on reliability. However, given the unique geographic, electrical, and economic circumstances facing the Railbelt systems, the existing balance may be proper. The cost of providing reliability is exceptionally high for the Railbelt utilities, but there are indications that the reliability expectations of the customers in the Railbelt utilities are increasing. The lack of a clear, written definition of what constitutes adequate reliability for the Railbelt utilities makes a final judgment impossible. However, one judgment that can be made is that more than in any other NERC Region, the balance between economy and reliability is of concern. The members of the Railbelt utilities must pay utmost attention to this balance. It is easy to share in the economic benefits of an interconnected system. It is more difficult, but nevertheless just as important, to also share the responsibilities of maintaining reliability.

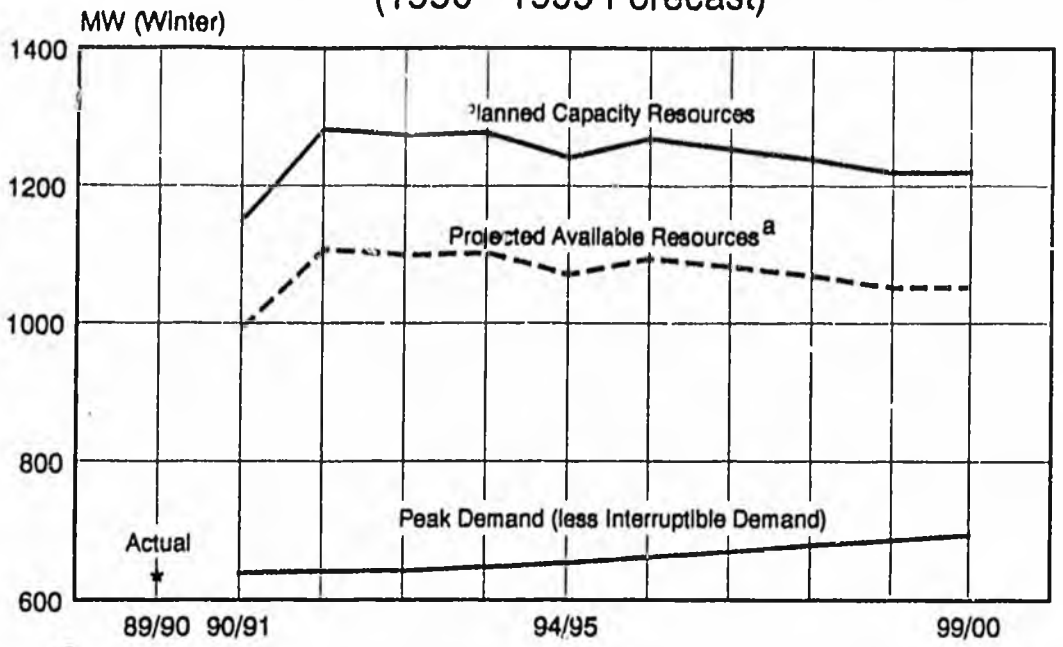
**Table 1**
**RAILBELT INTERCONNECTED ELECTRIC UTILITY SYSTEMS OF ASCC**
**PEAK DEMAND & CAPACITY RESOURCES — MW**
**Winter Season**

| Major Electric Load Centers | Utilities | 1989/1990 Demand | 1989/1990 Capacity | 1999/2000 Demand | 1999/2000 Capacity |
|---|---|---|---|---|---|
| Fairbanks Area | GVEA | 109 | 197 | 122 | 221 |
| | FMUS | 30 | 44 | 33 | 28.5 |
| | Total | 139 | 241 | 155 | 249.5 |
| Anchorage Bowl | CEA | 163.8 | 413.8 | 170.0 | 383.9 |
| | APAD | 0 | 32 | 0 | 32 |
| | MEA | 97 | 0 | 113 | 0 |
| | AML&P | 143 | 331.8 | 155 | 331.8 |
| | Total | 403.8 | 777.6 | 438 | 747.7 |
| Kenai Peninsula | CEA | 13 | 99 | 13.3 | 63.7 |
| | HEA | 73.9 | 40 | 76.3 | 40 |
| | SES | 10.5 | 10.5 | 14 | 13.5 |
| | AEA | 0 | 0 | 0 | 108 |
| | Total | 97.4 | 149.5 | 103.6 | 225.2 |
| All Systems | Total | 640.2 | 1168.1 | 696.6 | 1222.4 |

Sources: Draft of the Railbelt interconnection's responses for the 1990-1999 period to the U.S. Department of Energy's annual April 1 Coordinated Bulk Power Supply Program (IE-411) Report and the NERC Reliability Assessment Subcommittee's data request forms 01 through 08.

Figure 1

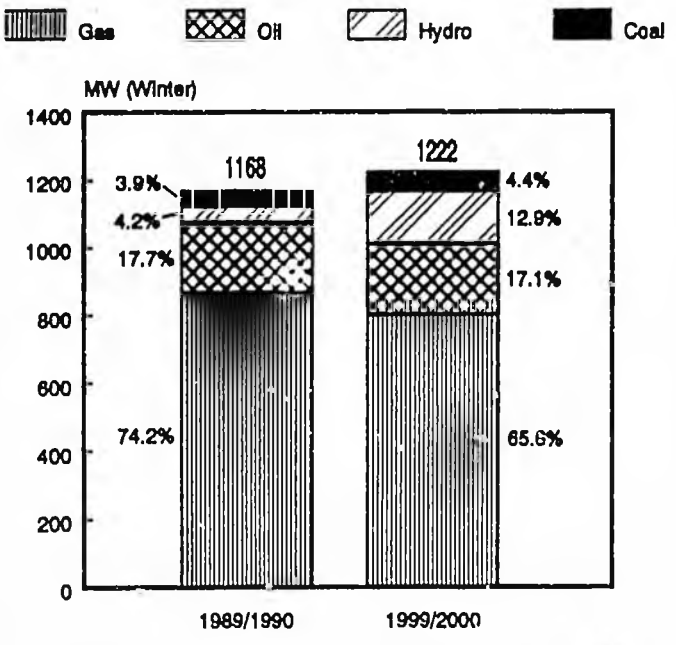
## Alaska Railbelt Electric Utility Systems
## Peak Demand & Projected Available Resources
(1990 - 1999 Forecast)

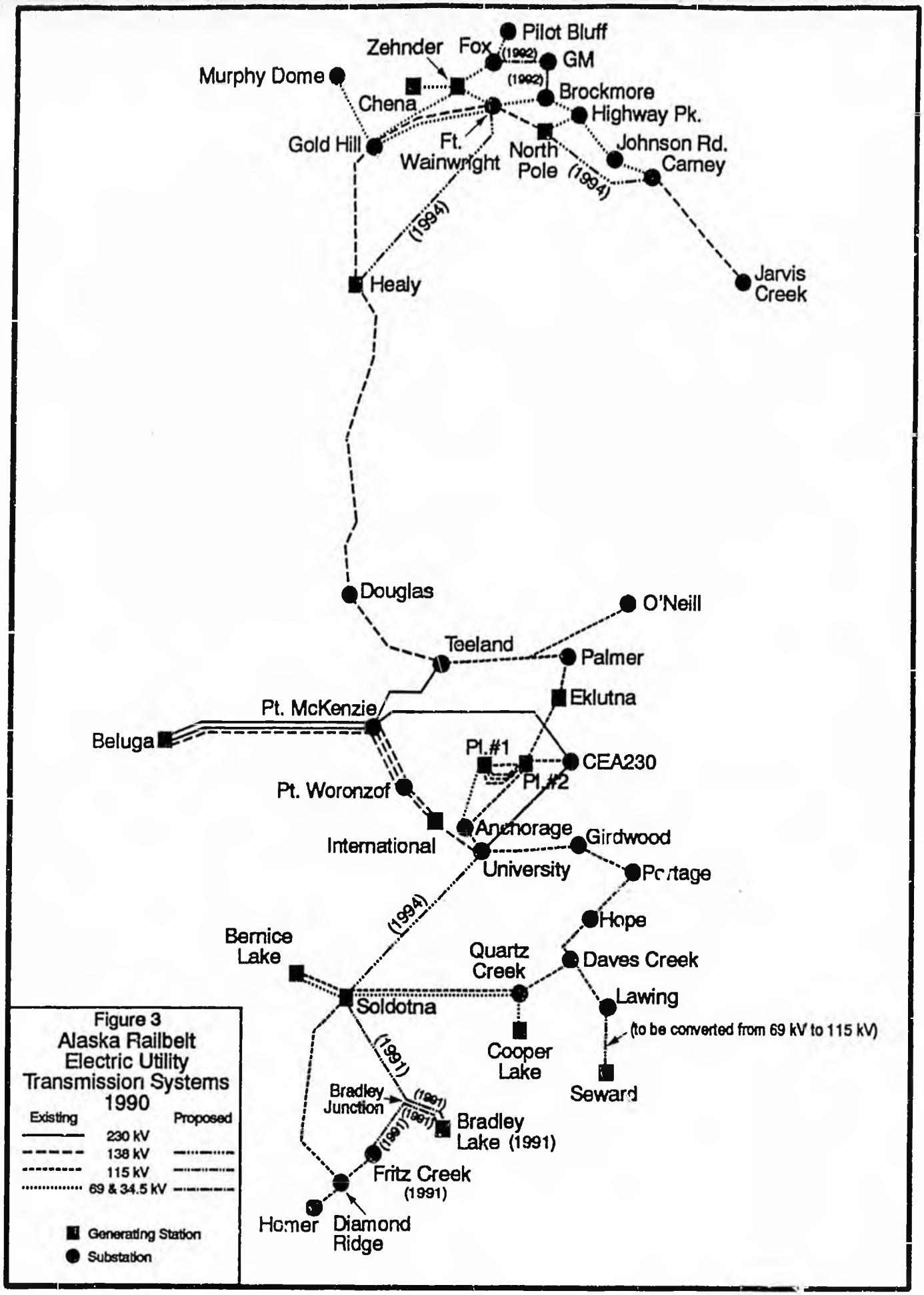



[a] Projected Available Resources are equal to Planned Capacity Resources less average unavailable capacity at the time of system peak.

Figure 2

## Alaska Railbelt Electric Utility Systems
## Generating Capacity by Fuel



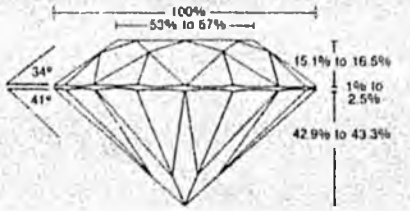

Pilot Bluff
Zehnder
Fox
(1992)
GM
(1992)
Murphy Dome
Chena
Brockmore
Highway Pk.
Gold Hill
Ft.
Wainwright
North
Pole
(1994)
Johnson Rd.
Carney
(1994)
Healy
Jarvis
Creek
Douglas
O'Neill
Teeland
Palmer
Eklutna
Pt. McKenzie
Beluga
Pl.#1
CEA230
Pl.#2
Pt. Woronzof
International
Anchorage
Girdwood
University
Portage
(1994)
Hope
Bernice
Lake
Quartz
Creek
Daves Creek
Soldotna
Lawing
(to be converted from 69 kV to 115 kV)
Cooper
Lake
Seward
(1991)
Bradley
Junction
(1991)
(1991)
Bradley
Lake (1991)
(1991)
Fritz Creek
(1991)
Homer
Diamond
Ridge
Figure 3
Alaska Railbelt
Electric Utility
Transmission Systems
1990
Existing
Proposed
230 kV
138 kV
115 kV
69 & 34.5 kV
Generating Station
Substation

Phone 907-278-4653

Fine Jewelry and Alaskan Gifts

McGrane Jewelers

345 West 5th Avenue
Anchorage, Alaska 99501




PRECISION CUT MAKES THE DIFFRENCE

Diamonds

March 5, 1990

Senator Dick Eliason
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator Eliason:

Recently there has been a lot of talk about the proposed electrical interties connecting Anchorage with Kenai and Fairbanks. What most people have failed to recognize is that if the interties are not funded from the Railbelt Energy Fund, then you and I will have to pay for them as part of our monthly power bills in the near future.

The interties are needed now, but will require up to five years to secure the right of way, proper permits and construct. In the meantime, people from Girdwood to Homer will experience power outages due to avalanches and other occurrences. Much of this inconvenience could be eliminated with the addition of the proposed Southern Intertie. The additional line south would offer a contingency if a natural disaster occurs. It would also allow low cost energy to be transferred either north to Anchorage or south to the Kenai Peninsula depending on where the energy could be generated at the lowest cost. Especially with Bradley Lake coming on line in 1991 leaving Chugach with more excess power for Fairbanks.

By utilizing the existing intertie to the north, Fairbanks is purchasing excess power generated in Anchorage. This benefits customers in Fairbanks by purchasing energy which is less expensive than the cost of generating it locally. It also benefits the customers in Anchorage since profits of the sales to Fairbanks flow through to the Anchorage rate payers. This is a win-win situation. Additional energy could be transferred in this manner if the northern intertie was upgraded.

What I am trying to point out is that the interties are not just for the benefit of Kenai and Fairbanks alone, but for the good of all railbelt electrical users.

Support using the Railbelt Energy Fund for the interties this year, or we will pay for them in the future through higher rates.

Sincerely,

Robert McGrane
Vice-President, Board of Directors
Chugach Electric Association, Inc.

The Alaska Scene Alaska REC Association

by Dave Hutchens,
executive director,
Alaska Rural Electric
Cooperative Association

# Use Railbelt Energy Fund to improve railbelt electrical transmission system

The Railbelt Energy Council was correct in its 1987 report to the legislature: The highest and best use of the Railbelt Energy Fund (REF) is construction of electrical interties to more solidly interconnect railbelt sources of power with the communities in which the power is consumed.

Much of the generating capacity for the whole railbelt region is located on the Kenai Peninsula. Existing plants include Chugach Electric Association's Bernice Lake gas-fired plant and the Cooper Lake hydroelectric plant, and the Soldatna #1 plant, owned by Alaska Electric Generating and Transmission Cooperative. When the Alaska Power Authority's Bradley Lake plant comes on line in 1991, there will be 221 megawatts of generating capacity on the Kenai, with only one weak transmission line connecting it to most of the people it should serve in Anchorage and beyond.

This existing transmission line can only carry about 55 megawatts of power from the Kenai Peninsula to Anchorage, and it is susceptible to outages caused by avalanches and windstorms. The peak demand on the Kenai Peninsula is about 80 megawatts. When you take the generating capacity and subtract the power used locally, that leaves 141 megawatts of capacity available to meet the needs of people in Anchorage, the Mat-Su valleys, and the Fairbanks area. But the transmission line can only carry about 55 megawatts.

Faults will occur naturally on any electrical system. A tree falls across the line, or the wind tosses the wires around until they come in contact with each other. The lights go out. The goal of the utility is to have as few of these outages as possible, and when they occur, to have them affect as few people for as short a time as possible.

A recent study of the operating characteristics of the electrical transmission system in southcentral Alaska shows that we are facing enormous problems if we try to use the generating resources even to the limits of existing transmission capacity. Without substantial changes in the transmission system outages will be unacceptably widespread and long-lasting.

The number one priority for using the Railbelt Energy Fund should be construction of a new Anchorage-Kenai Peninsula intertie. The cost of the new line is estimated at $80 million to $100 million, depending on the route selected.

Sales of economy energy from Anchorage to Fairbanks were made possible by the Willow-to-Healy intertie, built a few years ago. Those sales are now limited by the transfer capacity on the old lines south of Willow and north of Healy.

Upgrading the transmission capacity between Anchorage and Fairbanks, Alaska's largest cities, should be the other priority use of REF money. The upgrade can be accomplished by either eliminating the bottlenecks at both ends of the existing intertie, or by constructing a new line along a different route, from Palmer through Glennallen to Delta Junction.

The benefits of the proposed new transmission line between Anchorage and Fairbanks via Glennallen are substantial. Constructing a new 230-kv line—a northeast intertie—would tie Valdez, Glennallen, and the Copper River basin into the grid system, giving those communities access to low-cost, gas-fired electrical power from the Anchorage area. New opportunities for mining or other development would be enhanced with this line, and military facilities such as the Backscatter radar installation could be served economically. This new line would provide railbelt utilities access to approximately 14 million kilowatt-hours of electricity annually from the Solomon Gulch Hydroelectric Project, one of the "four-dam pool" projects. This energy is now spilled as water over the dam because there is no market for it within the area which can be reached by the existing Copper Valley Electric Association transmission system. Sale of this power to railbelt utilities could earn the state an additional $400,000 or more in revenues each year.

The most important benefit associated with the new northeast intertie proposal is increased reliability. The intertie would provide a second line between Anchorage and Fairbanks, significantly improving the transmission system security between the two largest load centers of the railbelt.

The cost of the northeast intertie is estimated at $150 million.

Two key benefits of upgrading the existing Parks Highway transmission circuit between Anchorage and Fairbanks are lower cost and increased transfer capacity. At present, Fairbanks electric utilities must run oil-fired generation to meet peak loads when temperatures are lower than minus 10°F. This condition will only worsen as electric loads grow. Improving the existing system to allow for operation at 230 kv would increase transfer capacity by three to four times the present capacity. This would allow Fairbanks electric utilities to purchase more low-cost, gas-fired electric power from Anchorage, reducing the cost of power to consumers in both cities. The reliable, high-capacity electrical link would also allow Fairbanks to assist Anchorage during periods when avalanches separate the city from Kenai generation, or other natural disasters, such as volcanoes or earthquakes, threaten Anchorage generation sources.

The cost of upgrading the existing Parks Highway transmission system is estimated to be $118 million.

## Benefits of having the grid

The benefits of improving the transmission grid between the Kenai Peninsula and Anchorage and between Anchorage and Fairbanks justify the cost.

There are several types of benefits associated with the proposed improvements in the railbelt transmission system:

- ***Economy interchange:*** An improved transmission system would allow for higher capacity transfer, allowing lower-cost generation produced in one area to displace higher-cost generation produced in another area. Economy interchange between Anchorage and Fairbanks is limited by the capacity of the fully loaded existing transmission line.
- ***System reliability:*** Improvements to the transmission system can reduce the number and extent of power outages especially between Anchorage and the Kenai Peninsula, where lines are plagued by natural occurrences such as avalanches and windstorms.
- ***System efficiency:*** Power transfers between Anchorage and Fairbanks presently suffer losses exceeding 10%. If the voltage of the transmission system were increased from 138 kv to 230 kv, those losses would be reduced dramatically.
- ***Reserve sharing:*** With an improved, reliable transmission system in place, electric utilities could reduce the amount of costly reserve capacity they maintain. They could rely instead on reserves available elsewhere in the interconnected system.
- ***Flexibility for new generation:*** An improved transmission system in the railbelt would allow greater flexibility in choosing a site for future generation facilities. New plants could be sited wherever the cost of operation and fuel are least expensive, while still maintaining access to any load center in the railbelt. To highlight the current limitations on power plant siting, it should be pointed out that a mine-mouth power plant of optimum size cannot be located at the site of Alaska's only operating coal mine (Usibelli) because of severe transmission constraints.
- ***Access to Bradley Lake power:*** An improved transmission system would ensure that all railbelt electric utilities have freer and more direct access to the full peaking output of Bradley power, resulting in equal distribution of benefits from the project for all railbelt communities.
- ***Utility coordination:*** Strengthening the transmission system in the railbelt would afford electric utilities increased opportunity to better coordinate their planning and operations.
- ***Fuel supply competition:*** Improvements to the railbelt transmission system would provide electric utilities with full access to a variety of energy sources, enhancing competition among fuels and fuel suppliers.

The Railbelt Energy Fund has been held in trust pending two conditions that must be met in order for it to be spent: 1) it must be spent only to benefit railbelt consumers; and 2) it must reduce railbelt energy costs.

If the legislature appropriates the REF for construction of the interties, the state will own a money-saving project which we can point to with pride for the next 50 to 100 years.

On the other hand, if the fund is raided to balance the state operating budget, we challenge the governor and the legislature to show us how we have benefited from their stewardship five years from now.

Two final points: 1) The interties are being subjected to tough cost-benefit scrutiny. Those who would raid the fund propose no such tests for their spending plans. 2) If we build the interties, the state will not suffer one penny of operations and maintenance costs. The 300,000 railbelt consumers will gladly pay the tab out of the long-term savings they will realize from these worthwhile projects.

# The Railbelt Energy Fund

Prepared By: The Alaska Rural Electric Cooperative Association

F12-15-88

ities to rural Alaska. Almost half of the money appropriated went to proposed hydro projects that would serve the Petersburg-Wrangell area, Kodiak, Sitka, Ketchikan, Glennallen and Valdez, and the Kenai Peninsula. Another $300 million was appropriated for hydropower projects during the 1982 legislative session. $122.5 million of the appropriations for power projects was used to construct the Parks Highway Intertie between Willow and Healy.

The Susitna project received $124.7 million of the total appropriations to hydro projects in the period 1979-1984, all of which was used for work related to feasibility studies, APA administration, and Federal Energy Regulatory Commission (FERC) licensing.

During the 1984 session, the legislature also set aside $100 million in the Power Development Fund for the construction of Susitna. It was the first appropriation earmarked strictly for construction of the project. An additional $200 million was set aside for Susitna in the PDF during the 1985 session. Appropriations for the construction of Susitna then totaled $300 million.

In mid 1985, after the legislature had adjourned, the APA Board of Directors determined that the Susitna project, as proposed, could not be financed on terms that were acceptable to the State. The price of oil had begun its downward spiral and the

developed. It was the REC's job to develop that alternative plan, and its directive from the legislature was to "recommend the best options for planning, financing, constructing, and managing electric power facilities in the Railbelt area." The REC was comprised of representatives of the seven Railbelt electric utilities, four legislators - two from each body and two public members appointed by the Governor. The group worked through the summer and fall of 1986 and presented its report to the legislature early in the 1987 legislative session.

The best alternative use of the REF, the Council's report stated, is to construct an intertie between the Kenai Peninsula and Anchorage and upgrade the transmission system between Anchorage and Fairbanks. The estimated cost to complete the proposed transmission projects was $200 million.

The Council concluded that "the prudent strategy to follow at this time is to increase utilization and operational efficiency of the existing Railbelt generation and transmission facilities under construction." The REC specifically cited the Bradley Lake Hydroelectric Project and the interties as projects that should be completed in a timely manner.

A strong coalition of business, labor, and utility groups lobbied hard during the 1987 session for the legislature to pursue the recommendations of the REC by appropriating $200

Gov. Sheffield also froze an appropriation of $50 million to the Bradley Lake project in July of 1986. During the 1987 session the legislature changed the source of funding from the State's General Fund to the REF. That reduced the balance of the REF to approximately $235 million.

Several bills were introduced in the legislature in 1987 that called for spending part or all of the Railbelt energy fund. One of those bills was SB 206. This measure, put forth by Sen. Jack Coghill (R-Nenana), proposed to establish a new power project loan fund from which loans and grants could be made for various projects. The measure would have combined many of the State's existing energy loan programs and would have been funded initially by the balance of the REF <u>after</u> the interties and Bradley Lake had been funded to the extent necessary. The bill, as originally written, received marginal legislative support and eventually died in the House Judiciary Committee.

Sen. Bettye Fahrenkamp (D-Fairbanks) introduced legislation midway through the session to authorize construction of a natural gas pipeline between Wasilla and Fairbanks. The two measures (SB 417 and SB 418) proposed the REF be used to fund the gas line's construction. The bills were not given a committee hearing until the 1988 session, and did not move from their first committee of referral. The lobby supporting the gas line, headed by Enstar Natural Gas Company, was successful in getting the

The exception was a $7 million appropriation needed to complete the Bradley Lake financing plan, which the legislature did approve.

Gov. Cowper advocated using the REF in 1988 as a means of covering projected budget deficits. Other proposals for using the REF were also being advocated, and it appeared the fund might be swept up in general spending and not be used for energy purposes at all.

The only new proposal during the 1988 legislative session for using the REF for its intended purpose was put forth by Rep. Sam Cotten (D-Eagle River). HB 482 and HB 483 would have loaned approximately $165 million at a below-market interest rate to the APA for the construction of Bradley Lake. This would have prevented the necessity for the APA to issue revenue bonds - which would have a higher interest rate - to complete construction of the project.

Electric utilities reluctantly embraced HB 482 and 483 on the grounds that the lower interest rate would save Railbelt rate payers roughly $100 million during the first 30 years of the project's operation, and because it appeared that might be the only way to retain the REF for energy purposes. The bills were brought to the House floor for a vote, but amendments calling for additional expeditures from the REF got out of hand and the

REF relate to the Fund's intended purpose. It is seen by many as a pot of money to be used to help reduce the State's projected budget deficit, or as a source of capital funding for projects that are totally unrelated to energy.

A new 230-kV transmission line would eliminate these stability problems and greatly increase the overall reliability and the transfer capacity of the transmission system between the Kenai Peninsula and Anchorage. In addition to Bradley Lake, other generation facilities on the peninsula totaling 131 megawatts include the Cooper Lake and Bernice Lake plants and Soldotna Unit #1. Reliability of the link between these generating plants and Anchorage is crucial to the many thousands of people who live in the area.

The utilities believe an upgrade in the Anchorage-Kenai Peninsula transmission system must be the number one priority for use of the REF. The cost of this new line is estimated at $80 million to $100 million, depending on the route selected.

Upgrading the transmission capacity between Anchorage and Fairbanks, Alaska's largest cities, should also be a priority use of REF money. The upgrade can be accomplished by either eliminating the existing bottlenecks at both ends of the State's Parks Highway intertie that exist between Willow and Healy, or by constructing a new line along a different route from Palmer through Glennallen to Delta Junction.

The benefits of the proposed new transmission line between Anchorage and Fairbanks via Glennallen are substantial. Constructing a new 230 kV line - a northeast intertie - would tie

cost and increased transfer capacity. At present, Fairbanks electric utilities must run oil-fired generation to meet peak loads when temperatures are lower than minus 10 degrees Fahrenheit. This condition will only worsen as electric loads grow. Improving the existing system to allow for operation at 230 kV would increase transfer capacity by three to four times the present capacity. This would allow Fairbanks electric utilities to purchase more low-cost, gas-fired electric power from Anchorage, reducing the cost of power to consumers in both cities. The reliable, high-capacity electrical link would also allow Fairbanks to assist Anchorage during periods when avalanches separate the city from Kenai generation or other natural disasters, such as when volcanoes erupt or earthquakes threaten Anchorage generation sources.

The cost of upgrading the existing Parks Highway transmission system is estimated to be $118 million.

* Reserve Sharing: With an improved, reliable transmission system in place, electric utilities could reduce the amount of costly reserve capacity they maintain. They could rely instead on reserves available elsewhere in the interconnected system.

* Flexibility for New Generation: An improved transmission system in the Railbelt would allow greater flexibility in choosing a site for future generation facilities. New plants could be sited wherever the cost of operation and fuel are least expensive while still maintaining access to any load center in the Railbelt. To highlight the current limitations on power plant siting it should be pointed out that a minemouth powerplant of optimum size cannot be located at the site of Alaska's only operating coal mine (Usibelli) because of severe transmission constraints.

* Access to Bradley Lake Power: An improved transmission system would ensure that all Railbelt electric utilities have freer and more direct access to the full peaking output of Bradley power, resulting in equal distribution of benefits from the project for all Railbelt communities.

* Utility Coordination: Strengthening the transmission system in the Railbelt would afford electric utilities increased opportunity to better coordinate their planning and operations.

April 14, 1989

Senator Dick Eliason, Chairman
P. O. Box V
Juneau, AK 99811-3100

Dear Senator Eliason:

NorthEast Intertie Concerned Residents (NEICR) are dismayed by the release of the Railbelt Intertie Feasibility Study published by the Alaska Power Authority April 11, 1989. NEICR's dismay stems from the lack of public notification and public input in the study process. Such public participation is mandated by AS 44.62.312 and AS 44.83.177(4). When NEICR members expressed their concerns at a meeting with APA officials the night of April 11, NEICR was assured by those officials that the document titled Railbelt Intertie Feasibility Study is in fact NOT a feasibility study, but is merely a reconnaissance study. In a truly cavalier fashion, Mr. Richard Emerman, the project manager for the Railbelt Intertie Feasibility Study, shrugged off the discrepancy as "a poor choice of words". NEICR emphatically disagrees. We believe that an error much more grievous than word choice was made.

In his introductory letter enclosed in the copies of the Railbelt Intertie Feasibility Study, Mr. Emerman four times refers to the document and it's contents as a feasibility study. Several times during the meeting of April 11, he referred to the document as a feasibility study. He further stated several times during the same meeting that the intent of the preparers of the Railbelt Intertie Feasibility Study was to do "feasibility study level work". Throughout the Railbelt Intertie Feasibility Study, the document itself and it's contents are referred to as a feasibility study. The Table of Contents of the Railbelt Intertie Feasibility Study indicates that the contents of the study fulfill the requirements of a feasibility study as outlined in AS 44.83.181. After examination of the contents of the Railbelt Intertie Feasibility Study, NEICR feels that the Railbelt Intertie Feasibility Study is indeed what it's title says it is: a FEASIBILITY study.

If, as NEICR claims, this document is a feasibility study, then APA is in violation of AS 44.83.177-179, which requires that a reconnaissance study be done before embarking on the preparation of a feasibility study. If, as claimed by Mr. Emerman, this document is a reconnaissance study, then APA is in violation of AS 44.83.185, which requires that, before being presented to the legislature for action, any study must be carried to the feasibility stage, and of AS 44.83.177(4), which requires public input in reconnaissance studies. In any case, APA has not followed mandated procedures and is in a legally untenable position.

We of NEICR do not mean to be picking at semantic nits. This is more than a simple misnaming of a document. We feel threatened by the lack of public input into the Railbelt Intertie Feasibility Study and by APA's failure to follow mandated procedures in the study process. We fear that APA may, in the future, fail again to follow Alaska statutes. We feel that the intent and possibly the letter of Alaska State Law was violated by the preparation of the Railbelt Intertie Feasibility Study. AS 44.83.177(4) requires that such feasibility studies provide for public input through "comment from residents of the community and adjacent area" during the reconnaissance phase of the study. This simply was not done. Calling the Railbelt Intertie Feasibility Study a reconnaissance study changes none of the facts.

The objectionable matter in this case is the Railbelt Intertie Feasibility Study, but we are really disgusted with the actions and attitudes of the Alaska Power Authority and it's officials.

Sincerely,

Tom Wright Jr

Tom Wright
Vice Chair Person NEICR, HC03, Box 8496, Palmer, AK 99645, 745-4763
James Colver, Co Chair Person, 745-8474
Stan Gillespie, Co Chair Person, 745-4203

Greater Fairbanks Chamber of Commerce

P.O. Box 74446

709 Second Avenue (907) 452-1105 Fairbanks, Alaska 99707

RESOLUTION #11-0389

A RESOLUTION URGING SUPPORT FOR INTERTIE CONSTRUCTION USING RAILBELT ENERGY FUNDS

WHEREAS, the Railbelt Energy Fund was originally appropriated to be used exclusively to meet the energy needs of Alaskans in the railbelt region, and

WHEREAS, Alaskans in other regions of the state continue to enjoy the benefits of state-financed energy projects and the Bush continues to receive annual energy cost subsidies through the Power Cost Equalization program, and

WHEREAS, the Railbelt Energy Fund is in danger of being diverted almost entirely to uses other than its original purpose unless it is appropriated for Railbelt energy projects this legislative session, and

WHEREAS, the Railbelt Energy Council endorsed use of a portion of the Railbelt Energy Fund to upgrade the Anchorage-Fairbanks electrical intertie system, including construction of a new transmission line between Fairbanks and Healy, and

WHEREAS, because of limited intertie capability between Fairbanks and Anchorage, Golden Valley Electric Association is currently required to operate oil-fired generation to meet load whenever temperatures are below -10 degrees F, and

WHEREAS, a new electrical transmission line between Healy and Fairbanks will enable the Usibelli cogeneration project to deliver its full output to the Fairbanks electrical load center, and

WHEREAS, the original estimate for the Anchorage to Fairbanks 230 kV transmission upgrade was $118 million, and

WHEREAS, the utilities have been asked by key legislators to reduce their request for intertie funding in recognition of state financial difficulties, and

WHEREAS, the Golden Valley Electric Association, working with the Alaska Power Authority, has reduced their request for the Anchorage-Fairbanks intertie upgrade from $118 million to approximately $60 million by reducing design voltage from 230 kV to 138 kV and by eliminating the request for a new transmission line between Wasilla and Willow;

NOW, THEREFORE BE IT RESOLVED, that the Greater Fairbanks Chamber of Commerce urges the Governor and the legislature to support an appropriation of $60 million from the Railbelt Energy Fund to the Alaska Power Authority for construction of a new 138 kV line between Healy and Fairbanks and the addition of construction of a new 138 kV line between Healy and Fairbanks and the addition of voltage compensation on the existing Anchorage-Fairbanks transmission system.

Signed this 4th day of April, 1989.

By _____
W.R. Cox
President and CEO

By _____
George Whyel
Chairman of the Board

Distribution:
Governor Steve Cowper
Members, Alaska State Senate
Members, Alaska State House
Robert LeResche, Alaska Power Authority
Dave Hutchens, Alaska Rural Electrification Assn.

Greater Fairbanks Chamber of Commerce

P.O. Box 74446

709 Second Avenue (907) 452-1105 Fairbanks, Alaska 99707

RESOLUTION #10-0389

RESOLUTION URGING THE LEGISLATURE TO SUPPORT AN APPROPRIATION OF $30 MILLION FROM THE RAILBELT ENERGY FUND TO ENHANCE THE OPPORTUNITY OF SECURING FEDERAL CLEAN COAL FUNDS IN 1989

WHEREAS, the Healy Cogeneration Project (HCP) is a prospective significant development in Alaska's economically depressed Railbelt Region; and

WHEREAS, the HCP, comprising a 50 MW high-technology coal-fired powerplant and a coal processing (drying) plant which will produce 500,000 tons of premium fuel per year, will bring major economic benefits to Alaska and the Railbelt region in particular; and

WHEREAS, the HCP will utilize and promote the increased and wise use of Alaska's most abundant non-renewable resource - Coal - in an environmentally sound and efficient manner; and

WHEREAS, the HCP will create at least 130 direct long-term quality jobs as well as numerous indirect jobs exclusive of a construction force which could peak at 300, and

WHEREAS, the HCP could be a prototype development leading to broad commercialization of coal-drying (beneficiation) technology to produce large volumes of premium low-sulfur fuel having great potential in export markets; and

WHEREAS, the electrical power to be produced from the HCP will be used in the Northern Railbelt to meet power requirements and support economic expansion in the region; and

WHEREAS, the Board of Golden Valley Electric Association is supportive of the HCP construction using federal, state and private financing to provide a long-term source of reliable and attractively priced electrical power; and

WHEREAS, the HCP sponsors recognize that a new transmission line from Healy to Fairbanks is essential to deliver HCP produced electricity to Fairbanks; and

WHEREAS, the project sponsors are being encouraged to submit the HCP for possible federal funding under the Department of Energy Clean Coal Technology Program; and

WHEREAS, chances of obtaining federal clean coal funds, which could approximate $55 million for the HCP, will be greatly enhanced by the demonstration of strong political and financial support for the HCP from the State of Alaska; and

WHEREAS, the HCP is an energy producing project located in the Railbelt.

NOW, THEREFORE BE IT RESOLVED that the Greater Fairbanks Chamber of Commerce urges the Governor and Legislature to support an appropriation of $30 million from the Railbelt Energy Fund to enhance the opportunity of securing federal clean coal funds in 1989 for this very important economic development project.

Passed this 27th day of March, 1989.

By _____
W.R. Cox
President and CEO

By _____
George Whyel
Chairman of the Board

# GRASLE AND ASSOCIATES, INC.

ELECTRICAL CONTRACTORS
P.O. BOX 1187 • FAIRBANKS, ALASKA 99707 • (907) 452-4415 • FAX #451-8533


March 6, 1990

Senator Dick Eliason
State of Alaska Senate
P.O. Box V
Juneau, AK 99811

Dear Senator Eliason:

As you are aware, the Railbelt Energy Fund was established in the early 1980's as a savings account to provide lower cost and reliable electrical energy to the Railbelt area. All other areas of the State of Alaska received similar grants which have been spent on hydro-electrical projects with the exception of those areas which had no hydro-electric potential and those areas were granted funds through the Power Production Assistance Program.

We would like to see this fund remain available for its original purpose and not be spirited away for other budget concerns. Your support for the upgrade of the Soldotna to Anchorage and the Healy to Fairbanks electrical intertie projects will greatly help to stabilize the cost and provide reliable electrical energy within the Railbelt area from Fairbanks to Seward/Homer and all points in between. Don't let this fund disappear, leaving the Railbelt area with no alternatives to high energy costs. Please work with us to protect this fund.

Sincerely,

GRASLE AND ASSOCIATES, INC.

Robert M. Herman
President

RMH:jfc

March 31, 1989

Senator Dick Eliason
P. O. Box V
Juneau, AK 99811-3100

Dear Senator,

Enclosed is a copy of a letter sent to Alaska Power Athority in Juneau along with a Resolution of NEICR (Northeast Inter-Tie Concerned Residents), residents near the Matanuska Glacier.

The matter of an inter-tie power line being placed in the sight of the Matanuska River Valley is of grave concern to us and we request your assistance in the matter.

The enclosed material is information to assist you in making intelligent decisions in the days to come. This matter is not a small one when it affects life, property, and the future of one of our main industries in the State, that being tourism.

Thank you for your time given to this matter and we will appreciate any communication you can give us at this time.

Sincerely,

Stan Gillespie
Co-Chair Person of NEICR
HC03, Box 8392
Palmer, AK 99645-9405 745-4203

James Colver, Co-Chair Person 745-8474
Tom Wright, Vice Chair Person 745-4763

Enclosures

mg

March 31, 1989

Alaska Power Authority
P. O. Box AM
Juneau, AK 99811

Attention: Bob LeResche, Director

Dear Mr. LeResche,

On March 30, 1989 at 7:00 PM, a meeting of N. E. I. C. R. (North East Inter-Tie Concerned Residents) representing Glacier View, Victory and Sheep Mountain was held. This meeting also included residents from Chickaloon, Eureka, and Nelchina.

During this meeting, the enclosed Resolution was ratified representing the feelings of this very well attended meeting. There was also a good cross-section of these communities from Mile 70 to Mile 140 of the Glenn Highway.

On March 30th at 12:00 noon a representative of your office hurriedly set up a meeting for April 11, 1989 at 8:30 PM to discuss the "New Comprehensive Study". This was the first communication for a meeting from your office. We request that a full discussion of your response to the enclosed Resolution be dealt with at that time and also a response in written form.

It is not our intent to disrupt the Northeast Inter-Tie or either of the two present line extensions: one at Sheep Mountain with Copper Valley and the second at Fish Lake near Chickaloon with Matanuska Electrical Association. It is our intent to develop a dialogue to see our concern of the Northeast Inter-Tie out of sight and presence in the beautiful Matanuska River Valley dealt with.

We are looking forward to your quick response and future dialogue.

Sincerely,

Stan Gillespie
Co-Chair Person of N.E.I.C.R.
745-4203

James Colver, Co-Chair Person 745-8474
Tom Wright, Vice Chair Person 745-4763

RESOLUTION Serial #89-1

We submit the following resolution for the purpose of rerouting the proposed Northeast Intertie out of the Matanuska River Valley corridor and into the valley corridors immediately behind the mountains on the north side of the highway where applicable, and beyond the visual range in the other areas where appropriate.

Let it be known that we are not against the installation of the intertie powerline. Indeed, we sincerely seek to establish an avenue of communication whereas we, the North East Inter-tie Concerned Residents (NEICR) and the Alaska Power Authority (APA), may work amicably together toward a more favorable rerouting process, culminating in a mutually beneficial solution.

However, let it also be known that the APA has been remiss in its obligations to the citizens of the state of Alaska, specifically the residents living along the Glenn Hwy., in that the residents, to this date, have not been informed in any way, nor has APA made any attempt to do so , of the designing or routing plans and procedures of this proposed power line, and that we have been unsuccessful in acquiring accurate, uncontradictory, and timely information when we have attempted to contact pertinent agencies, and that, therefore, we believe our legal rights have been usurped, and that the law-given rules of procedure have been miscarried, pursuant to the following Alaska Statutes (AS):

AS44.62.310 Agency meetings published.
"All meetings...are open to the public..."
AS44.62.312 State policy regarding meetings.
(2) "...actions of those units [i.e. APA] be taken openly and that their deliberations be conducted openly."
(4) "The people...do not give their public servants [i.e. APA] the right to decide what is good for the people to know and what is not good for them to know."
(5) "The people's right to remain informed shall be protected so that they may retain control over the instruments they have created."
AS44.82.220. Public records; open meetings.
"The authority [i.e. APA] shall publish a proposed agenda of it's meetings and afford the public an opportunity to be heard in accordance with AS44.62.312."
and, whereas the APA is required at the reconnaissance study phase to "include public comment from residents of the community and adjacent area" (as per AS44.83.177. [4] Reconnaissance study.)
and, whereas the APA, by which they are required by law to

do so pursuant to AS44.83.177 (a) "...the authority shall...complete a reconnaissance study for each proposed new power project or combination of projects" (there are no exceptions mentioned within this law),

and, whereas the reconnaissance study phase is to precede the feasibility study phase (into which the APA is currently acting upon),

and, whereas in recognition of the APA's power of eminent domain as granted them by section as44-83-080 inaccordance with AS09.55.240-09.55.460,

we feel sufficiently concerned, and compelled, to list items to accomplish the following:

I. Declare, and give reasons for, out desire to reroute the inter-tie.

II. Submit our own route proposal.

III. Initiate a number of requirements and guarantees in accordance with our right to do so under the Alaska laws.

I. Reasons for rerouting.

A. Scenic and Tourism:

1. Scenic qualities disrupted, due to right-of-way clearings, and steel tower and line placements.

2. Tourism adversely affected, due to disrupted scenic qualities.

a. Mat-Su Convention and Visitors Bureau's efforts to designate the "Golden Circle" route, of which the Glenn Hwy. is a major portion of, would be seriously damaged, again hurting tourism.

3. Local businesses, therefore, would also be adversely affected, due to a decrease in highway touring use.

B. Effects upon residents.

1. Relocation of residents, due to close proximity of powerline, concern for health risks from electromagnetic radiation and unsightliness of powerline.

2. Relocation of businesses, or the same reasons as above.

3. Decrease in property values, for the same reasons as above.

4. Possible communications interference.

5. Increased activities along powerline right-of-way. resulting in a potentially unpleasant and dangerous environment, due to increases in firearm use, ATV use, and noise levels associated with these activities. The Jan. 27th, 1989 Feasibility Study warns to that affect in sec IX> p.7, "There is potential for increased hunting and fishing due to access form right-of-way."

C. Health hazards.

1. Higher risks of leukemia (especially in children), brain cancer, and various brain disfunctions. Abundant, eclectic, recent research very strongly correlates extremely low frequency (ELF) radiation, such as given off by high-powered electric lines, with abnormally high incidences of all of the above mentioned maladies. The APA, as stated in its

Feasibility Study, had decided to disregard any potential health hazard concerns in any further reports, based entirely upon a single, antiquated report issued by the U.S. Dept. of Energy (1982). We believe the more recent research demonstrates enough evidence of health problems to call into question the wisdom of APA's decision, that the evidence should not be avoided, nor disregarded, so easily, and that, at the very least, it warrants further consideration.

II. Our powerline proposal.

A. (see exhibit A. of attached sheets for maps and routes).

B. The route generally runs from Sutton to Gunsight Mt. behind the Talkeetna mountains immediately facing the highway from the north, and follows various valley corridors therein. From Gunsight Mt. on, it generally should remain far enough away from the highway so as not to be visually disruptive, or be of much consequence to humans healthwise.
(see exhibit B. of attached sheets for more detailed descriptions).

C. This new proposed route is more favorable for the following reasons:

1. It is shorter than the APA's proposed Northwest and Southeast routes. due to a more direct, less encumbered, and straighter route.

2. It has fewer potential avalanche hazards.

3. Much, or most of the route is on already existing roads or trails, and traverses high-ground areas in the Talkeetna mountains, consisting mostly of treeless and/or low brush or tundra vegetation, thus affording minimal clearing and eliminating much future vegetation control.

5. The scenic view and health hazard consequences would be virtually negligible.

Whereupon we declare

III. Our requirements and guarantees.

A. We require representation by an individual, or individuals, approved by the NEICR, for the purpose of reviewing and approving all research designs, actively participating in field investigations, attending all meetings relating to any matters concerning the proposed Northeast Inter-tie, or at least having the opportunity to do so for all of the above.

B. A guarantee of ample notification of all meetings or actions relating to the proposed Northeast Inter-tie, pursuant to Alaska State Law.

C. A guarantee of public participation in any and all matters pertaining to the routing and/or design of the Notheast Inter-tie, pursuant to Alaska State Law.

D. A guarantee that the APA will abandon for ever its proposed routes, specifically the segments that traverse through residential communities, along the Glenn Hwy. route, ad infinitum, and that the APA will endeavor to earnestly and

honestly work with the residents of the highway to plan a more favorable route.

E. That the APA Northeast Tansmission Inter-tie Feasibility Design and cost Estimate Study, and any subsequent, updated draft or reports thereof, be amended to reflect and accommodate the aforementioned proposals, suggestions, and concerns of the residents.

F. That a meeting be arranged and conducted post-haste at the Glacier View School with members and/or representatives of the NEICR and representatives from the APA, for the purpose of discussing any and all matters concerning the routing of the Northeast Inter-tie.

We expect the APA will recognize that our route is a proposal, and that, therefore, we are not limited by it.

It is of our opinion that Hart Crowser, Inc. and Power Engineers, Inc., the firms responsible for conducting and drawing up the feasibility study, overemphasized system studies in lieu of drastically underemphasizing the selection process of the physical route, as evidenced by APA's statement that, "..a significant part of the criteria for selection was the ease of obtaining the right-of-way" (sec. IX p.1 of the feasibility study) and, "To minimize potential problems with acquiring rights-of-way...the route is contained within the highway rights-of-way" (sec. X. p.1 of feasibility study), and that this plicy was followed, together with the exclusion of the reconnaissance study phase, for the express purpose of expediting the entire powerline routing process, in order to reach the feasibility study phase, so that the project could be submitted to the legislature this session to show a viable need for the Railbelt Energy Fund moneys, all at our expense.

We regret, and abhor, the temerity with which the APA has conducted itself in this entire matter. As proclaimed in AS44.62.312 (3), "the people of this state do not yield their sovereignty to the agencies which serve them." We have blatantly been misled, disregarded, and ignored repeatedly by the APA since October, when our inquiries first began. Numerous letters have been sent, and phone calls made to no avail.

In light of the evidence, we sincerely believe that the spirit and intent of the law have not been honored and served by the APA, that APA is in violation of the law, and that the best interests of the citizens of this state have been served with callous disregard.

Therefore, we, the members of NEICR, hereby summon the APA to rectify all transgressions, and contact and inform us of its reactions, opinions, and/or recommendations regarding this resolution and its proposals, requirements, guarantees, and findings, no later than April 15, 1989, and that further actions are pending upon receipt.

We sincerely hope for an expeditious and equitable solution to this entire matter for all parties concerned.

Herein, witness the attached list of residents who, herewith, did ratify and sign this resolution in concurrence with its contents thereof, on this day of March 30, 1989.

The list of residents who are in concurrence with the attached said resolution, dated March 30th, 1989.

| PRINTED NAME | SIGNATURE | ADDRESS |
|---|---|---|
| Frances L. Whitmill | Frances L Whitmill | HC03 Box 8445 PALMER, AK. |
| Cecila T Rinke | Cecila T Rinke | HC03 Box 8447-A Palmer, Ak. |
| James C. Colver | James C. Colver | PO Box 427 Palmer, A[illegible] |
| Elden Reese | Elden Reese | HC03 Box 8451 Palmer, AK |
| Nancy Reese | Nancy Reese | HC03 Box 8451 Palmer AK. |
| Eugene Whitmill | Eugene Whitmill | HC03 Box 8445 PALMER AK |
| Michael J MEEKIN | Michael J Meek | HCO3 Box 8513 Palmer AK |
| Mark D. Owe. | Mark D. Owen | HC03 Box 8426 Palmer, AK. |
| Herbert P. Simon | Herbert P. Simon | HCO-3 Box 8591, PALMER, AK |
| Jacqueline H. Simon | Jacqueline H. Simon | HCO 3 Box 8591 Palmer AK |
| Linda DenBleyker | Linda DenBleyker | HCO 3 Box 8376, Palmer, AK |
| Thomas H. Wright | Thomas H. Wright | HCO-3, Box 8496, Palmer, AK 99645 |
| JOHN M. THATCHER | John M. Thatcher | HCO-3 BOX 8425 PALMER, AK 99645 |
| Arlis D Ridolfo | Arlis D Ridolfo | HC03 Box 8438 Palmer AK 99645 |
| Herbert L. Fey | Herbert L. Fey | PO Box 1101 Chickaloon AK 99674 |
| Virginia Brannum | Virginia Brannum | P.O. Box 1101 Chickaloon AK 99674 |
| Sherry May | Sherry May | HC03 Box 8438-Z Palmer AK 99645 |
| Lewis May | Lewis E. May | SRC Box 8438-Z Palmer AK 99645 |
| Dennis Potocnik | Dennis Potocnik | HC03 Box 8442-A Palmer AK. " |
| [illegible] | [illegible] | HC03 Box 8446-Z Palmer AK 99645 |

# CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

The list of residents who are in concurrence with the attached said resolution, dated March 30th, 1989.

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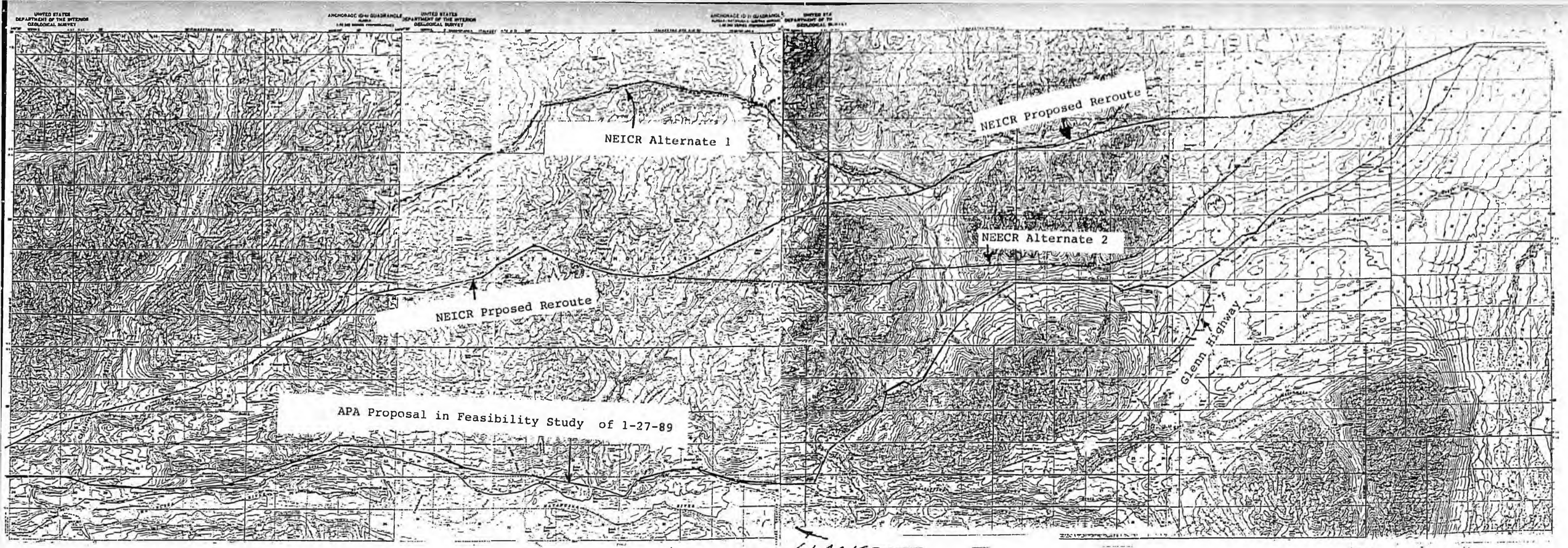
| Elden Reese | Elden Reese | HC03 Box 8451 Palmer, AK |
| Nancy Reese | Nancy Reese | HC03 Box 8451 Palmer AK. |
| Eugene Whitmill | Eugene Whitmill | HC03 Box 8445 PALMER AK |
| Michael J MEEKIN | Michael J Meek | HC03 Box 8513 Palmer AK |
| Mark D. Owen | Mark D. Owen | HC03 Box 8426 Palmer, AK. |
| Herbert P. Simon | Herbert P. Simon | HC0-3 Box 8591, PALMER, AK |
| Jacqueline H. Simon | Jacqueline H. Simon | HC03 Box 8591 Palmer AK |
| Linda Den Bleyker | Linda Ann Bleyker | HC03 Box 8376, Palmer, AK |
| Thomas H. Wright | Thomas H. Wright | HC03, Box 8496, Palmer, AK 99645 |
| JOHN M. THATCHER | John M. Thatcher | HC03 Box 8425 PALMER, AK 99645 |
| Arlis D Ridolfas | Arlis D Ridolfas | HC03 Box 8x x Palmer AK 99645 |
| Herbert L. Fay | Herbert L. Fay | PO Box 1101 Chickaloon Ak 99674 |
| Virginia Brannum | Virginia Brannum | P.O. Box 1101 Chickaloon Ak 99674 |
| Sherry May | Sherry May | HC03 Box 8438-Z Palmer AK 99645 |
| Lewis May | Lewis V. May | SRC Box 8438-Z Palmer AK 99611 |
| Dennis Potocnik | Dennis Potocnik | HC03 Box 8442-A Palmer, AK. " |
| William C WAGNER | William C Wagner | HC03 Box 8484-Z Palmer, AK 99645 |
| RICHARD P. WOOD | Richard P Wood | HC03 8407 Palmer 99645 |
| DIANE MOFFATT | Diane E. Moffatt | P.O Box 1122 Chickaloon AK 99674 |
| Loren M. Thomas | Loren M Thomas | HC 03 Box 8364-Y, Palmer 99645 |
| RONALD J. ANTAYA | For A | HC03 Box 8184 PALMER, AK 99645 |
| Lloyd Dietrich | Lloyd M Dietrich | HC03 Box 8484 PALMER AK 99645 |
| Drew J Taylor | Drew J Taylor | HC03 Box 8449 Palmer, AK 99645 |
| DENNIS ALLEN | Dennis Allen | HC03 Box 8443 D Palmer, AK 99645 |
| Colleen Dietrich | Colleen Dietrich | HC03 8484 Palmer, AK 99645 |
| Keith W. Allen | Keith W. Allen | HC03 8443 Palmer AK 99645 |
| Katherine Wright | Katherine Wright | HC03 8496 Palmer AK. 99645 |
| Nancy H. Cohen | Nancy H. Cohen | HC03 8378 Palmer AK 99645 |
| Patrick M. Cohen | Patrick M. Cohen | HC03 Box 8378 PALMER, AK. 99645 |
| MARIA DEN BLEYKER | Maria Den Bleyker | HC03 Box 8376 PALMER, AK 99645 |
| DOROTHY STEADMAN | Dorothy L Steadman | HC03 Box 8453 PALMER AK 99645 |
| CLIFFORD B STEADMAN | Clifford B Steadman | HC03 Box 8453 Palmer AK 99645 |
| Roger M. Winier | Roger M. Winier | HC03 Box 8449B Palmer, AK 99645 |

| PRINTED NAME | SIGNATURE | ADDRESS |
|---|---|---|
| Stan Gillespie | Stan Gillespie | HC03 Box 8392 Palmer |
| | Signed and Sealed before me on the 30th day of March 1989 | |
| | Frances L. Whitmill | |
| | FRANCES L. WHITMILL, NOTARY PUBLIC STATE OF ALASKA MY COMMISSION EXPIRES 1/19/92 | |




EXIBIT "A"
NORTHEAST INTERTIE CONCERNED RESIDENTS
RESOLUTION 89-1

March 30, 1989