

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6419 SENATE LABOR & COMMERCE

823

Original sponsor(s): Labor & Commerce Committee by Request

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 514 ()
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - SECOND SESSION
5 A BILL

6 For an Act entitled: "An Act relating to the exemption from regulation by
7 the Alaska Public Utilities Commission of public
8 utilities owned and operated by political subdivi-
9 sions."

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

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

12 (b) Except as otherwise provided in this subsection, public
13 utilities owned and operated by a political subdivision of the state,
14 or electric operating entities established as the instrumentality of
15 two or more public utilities owned and operated by political subdivi-
16 sions of the state, are exempt from this chapter, other than AS 42.-
17 05.221 - 42.05.281 and 42.05.385. However,

18 (1) the governing body of a political subdivision may elect
19 to be subject to this chapter; [AND]

20 (2) a utility or electric operating entity that is owned
21 and operated by a political subdivision and that directly competes
22 with another utility or electric operating entity is subject to this
23 chapter with respect to the service for which there is direct competi-
24 tion; and

25 (3) a utility furnishing telecommunications service that is
26 owned and operated by a political subdivision that has a population of
27 more than 150,000 is subject to this chapter [AND ANY OTHER UTILITY OR
28 ELECTRIC OPERATING ENTITY OWNED AND OPERATED BY THE POLITICAL SUBDIVI-
29 SION IS ALSO SUBJECT TO THIS CHAPTER].

SB 514: "An Act relating to the exemption of municipal utilities from APUC."

The commission believes that the changes proposed by SB 514 are contrary to sound public policy and, therefore, opposes its enactment. As currently written, AS 42.05.711(b) sets out the presumption that utilities owned and operated by political subdivisions are exempt from commission regulation as to rates and quality of service. Paragraph (2) of this subsection creates an exception in cases where such utilities directly compete with another utility. In that instance, the competing utility as well as all other utilities owned by the political subdivision become subject to regulation.

The commission believes that the existence of the current statutory language provides for a level of public protection which extends beyond the mere resolution of utility "turf wars." Subsection .711(b)(2) also protects the public from the possibility of a municipality (or other political subdivision) subsidizing its utility to thwart competition.

Under regulation, the commission provides reasonable assurance that the competitive playing field remains level. In the absence of regulation, the potential for uneconomic competition is real. Consequently, the commission supports the continuation of subsection .711(b)(2) as sound public policy but offers the modification described below.

As noted, the current statutory language requires the regulation of all utilities owned and operated by a political subdivision even if only one of them is found to be in direct competition with another utility. This provision assists the monitoring of transactions and cost allocations between utilities to ensure that cross-subsidization does not occur. The commission is satisfied, however, that its ability to investigate such issues would not be substantially impaired if noncompeting utilities owned or operated by political subdivisions were not regulated as to rates and quality of service.

Since this "catch-all" provision seems to have been the most objectionable, the commission would not oppose substitute language which still required the regulation of a competing utility but did not require the regulation of all other utilities owned by the political subdivision. The commission's proposed language is as follows:

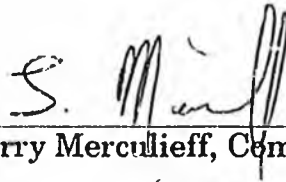
PROPOSED COMMITTEE SUBSTITUTE FOR SB 514

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

(b) Except as otherwise provided in this subsection, public utilities owned and operated by a political subdivision of the state, or electric operating entities established as the instrumentality of two or more public utilities owned and operated by political subdivisions of the state, are exempt from this chapter, other than AS 42.05.221 - AS 42.05.281 and AS 42.05.385. However,

(1) the governing body of a political subdivision may elect to be subject to this chapter; and

(2) a utility or electric operating entity that is owned and operated by a political subdivision and that directly competes with another utility or electric operating entity is subject to this chapter [AND ANY OTHER UTILITY OR ELECTRIC OPERATING ENTITY OWNED AND OPERATED BY THE POLITICAL SUBDIVISION IS ALSO SUBJECT TO THIS CHAPTER].



Larry Mercurieff, Commissioner

Date: 3/6/90

LM/LW/dgl6411D
3690a

Municipality of Anchorage



OFFICE OF THE MAYOR

Tom Stahl

P.O. BOX 196650
ANCHORAGE, ALASKA 99519-6650
(907) 343-4431

TOM FINK,
MAYOR

March 12, 1990

Economic Self-Regulation
HB 549 and SB 514

Municipality of Anchorage Support

Last summer, the Municipality of Anchorage held public hearings prior to passing an ordinance self-regulating its utilities. The process began in June and ended August 15, 1989. The APUC was aware of this effort yet never provided any testimony objecting to self-regulation.

The Assembly and the Mayor unanimously support economic self-regulation. The utilities also agree the Alaska Statute should exempt Anchorage just as all other municipal public utilities are exempt. The border dispute between ML&P and Chugach Electric has been resolved for over 5 years yet the Statute has been unchanged. The control is left in the hands of the APUC not with the Municipality of Anchorage.

Home Rule Issue

The State Constitution supports Home Rule. This issue is at the heart of self-regulating Anchorage utilities. The Municipality of Anchorage must be allowed to be exempt from APUC regulation. Local control is supported by the Legislature.

Public Policy, Consumer Protection

Elected officials, the Anchorage Assembly, will determine economic issues such as rate changes. They are not a bureaucratic state agency but a group of locally elected officials accountable to the public, the consumers. All other municipalities in Alaska are exempt from economic self-regulation.

Utility Regulatory and Advisory Commissions

Under self-regulation, these commissions in Anchorage review and make recommendations to the Mayor and Assembly on regulatory matters. Thirty-one (31) members of the public sit on these commissions and hear from the consumers and the public on utility matters. A very public friendly process. Not quasi-judicial like the APUC.

Cost Savings

The MDA estimates savings of over \$3 million over the next 4½ years. The APUC has stated cost savings of 10%. We believe that Anchorage area utility matters consume in excess of 40% of the APUC's staff and budget.

The Legislative Budget and Audit Committee recommended exempting Anchorage from APUC in a February 1989 report. In response to the Legislative Budget and Audit Committee report, the APUC agreed.



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 886-89

Meeting Date: September 12, 1989

From: Mayor

Subject: Assembly Resolution No. AR 89-152(S) Amending the Code of Regulations and Adopting Municipal Regulations 4.70 and 4.80 Relating to Rules of Procedure for the Anchorage Utility Advisory Commissions and Anchorage Utility Regulatory Commission, Respectively

The subject resolution has been resubmitted for Anchorage Assembly approval pursuant to Anchorage Municipal Code 3.40.040 and in conjunction with the Assembly approving AR No. 89-113 and AO No. 89-51(S-3) pertaining to economic self-regulation of municipal public utilities. Recognizing that effective self-regulation requires the implementation of certain uniform rules of procedure by the advisory and regulatory commissions, the subject resolution and associated rules of procedure are submitted for Assembly consideration and approval.

Regulation 4.70 sets forth procedures applicable to regular and special meetings conducted by the municipal advisory commissions at which ongoing utility matters are systematically addressed, and procedures applicable to public hearings on matters of permanent rate increases and customer complaints per AMC 3.40 and 3.60, respectively, and on other matters as provided for per AMC 4.70.010. Particular consideration is given the public in permanent rate and complaint matters due to the direct effect decisions made in these areas have on the utilities' customers. Such consideration in matters of permanent rates is reflected in the public notice provisions of 4.70.404 and throughout Articles III, IV and V which specifically address the public hearing process, including filing requirements and public participation in the permanent rate and associated cost-of-service and rate design processes. Special provision is made for abbreviated filings, where applicable and special contracts to ensure appropriate review within shorter and specific timeframes. As indicated in 4.70.402, applications for review of complaint matters shall be reviewed in accordance with the administrative adjudication procedures in AMC 3.60.

Regulation 4.80 sets forth procedures applicable to meetings conducted by the regulatory commission at which primarily rate matters would be addressed, and procedures for reviewing recommendations received from the advisory commissions on rate matters. Discretion is afforded the regulatory commission to make its own recommendation, accompanied by draft ordinance,

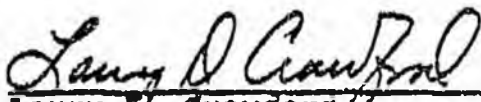
based solely on the review of the record as developed before the advisory commissions and made available to it, or upon a public hearing conducted by the regulatory commission itself. The same consideration given the public in the advisory commission regulations apply to, and appears throughout the regulatory commission regulations, particularly with respect to noticing and participatory provisions and throughout Articles III, IV and V.

Municipal Regulations 4.70 and 4.80 are designed to provide a framework within which the respective advisory and regulatory commissions can be relied upon to function both responsibly and effectively in assisting the Municipal Assembly in regulating municipal public utilities.

Municipal Regulations 4.70 and 4.80 reflect the coordination and cooperative efforts of the administration, municipal utilities, and the utility commissions. The Administration recommends approval of AR No. 89-152(S) adopting Municipal Regulations 4.70 and 4.80 relating to advisory and regulatory commissions rules of procedure.

Concur:

Prepared by:



Larry D. Crawford
Municipal Manager



Lee R. Nunn, Executive Manager
Enterprise Activities

Respectfully submitted,



Tom Fink
Mayor

6/comm

Submitted by: Mayor Tom Fink
Prepared by: Enterprise Activities
For Reading: September 12, 1989

APPROVED

Date: 9-12-89

ANCHORAGE, ALASKA
AR NO. 89-242(S)

1ST AND LAST PAGES ONLY

A RESOLUTION OF THE MUNICIPALITY OF ANCHORAGE, ALASKA, AMENDING THE CODE OF REGULATIONS AND ADOPTING REGULATION 4.70 RELATING TO THE ANCHORAGE UTILITY ADVISORY COMMISSIONS' RULES OF PROCEDURE AND REGULATION 4.80 RELATING TO THE ANCHORAGE UTILITY REGULATORY COMMISSION'S RULES OF PROCEDURE.

THE ANCHORAGE MUNICIPAL ASSEMBLY RESOLVES:

WHEREAS, the Municipality of Anchorage adopted Assembly Resolution No. 89-113 on August 15, 1989 exempting itself, pursuant to Alaska Statute 42.05.711(b), from economic regulation by the Alaska Public Utilities Commission; and

WHEREAS, the Anchorage Municipal Code 3.40.040 requires that regulations adopted by municipal commissions for purposes of governing its procedures be approved by resolution of the Assembly to be effective.

NOW THEREFORE, BE IT RESOLVED by the Assembly of the Municipality of Anchorage, Alaska, as follows:

Section 1. The Assembly hereby finds and concludes that it would best serve the interests of the citizens of Anchorage and the customers of the Anchorage municipal public utilities if uniform rules of procedure were adopted and approved for the Anchorage Utility Advisory Commissions and the Anchorage Utility Regulatory Commission.

Section 2. Based on its findings, the Assembly hereby amends the Code of Municipal Regulations to read as follows:

Regulation 4.70

ANCHORAGE UTILITY ADVISORY COMMISSIONS
RULES OF PROCEDURE

Sections:

ARTICLE I -- OFFICERS

- 4.70.101 Chair and vice-chair.
- 4.70.102 Secretary.

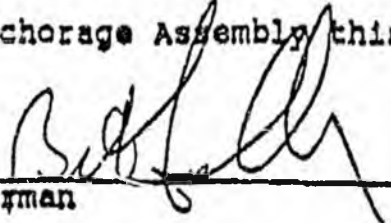
ARTICLE II -- MEETINGS

4.80.500 Rate design.

Each municipal public utility shall submit appropriate justification for and analysis of changes to the rate structure as such relate to its pricing objectives.

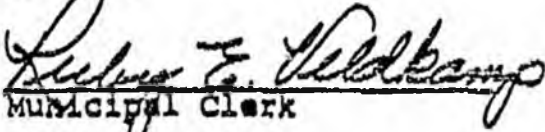
Section 3. This resolution shall become effective immediately upon passage and approval by the Anchorage Municipal Assembly.

PASSED and APPROVED by the Anchorage Assembly this 12th
day of September, 1989.



Chairman

ATTEST:



Municipal Clerk

P/DENNIS-DENNIS12/c1s

MUNICIPALITY OF ANCHORAGE

Proposed Bill to Exempt MOA From Economic Regulation
by Alaska Public Utilities Commission

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SUMMARY

Current statutes allow municipal public utilities to be exempt from economic regulation by the Alaska Public Utilities Commission (APUC). Due to the border dispute between Municipal Light and Power (ML&P) and Chugach Electric Association (CEA) the utilities of the Municipality of Anchorage (MOA) were subject to regulation. The border dispute and competition between ML&P and CEA has been resolved and there is no need for economic regulation by APUC since the Municipality can regulate the utilities. The current statute does not make it clear as to how the municipal public utilities become exempt.

The proposed bill would allow municipal public utilities to be exempt from APUC regulation unless the Municipality allowed a utility to be regulated.

- The proposed changes have no effect on the regulation of rural electric association's or investor-owned utilities.
- Legislative audit found in February 1989 that municipal public utilities should not be regulated by the APUC.
- Anchorage's municipal public utilities are the only ones in the state now regulated.
- APUC regulation would still exist for service areas, joint use and inter-connection.
- Additional regulation above the Administration and the Assembly is unnecessary and a wasteful resource.
- A significant cost savings for the State and the Municipality would be achieved.
- The MOA has an ordinance and rules of procedure to self-regulate its municipal public utilities that involves the public and exceeds the level of APUC/public review.

SELF-REGULATION PROCESS OF THE MUNICIPALITY OF ANCHORAGE

Economic regulation of utilities by the Municipality of Anchorage requires the utilities to prepare justification for presentation to the public at hearings held by the citizen commissions established to advise and another regulatory commission to review recommendation by the utilities. The regulatory commission includes a member from the four advisory commissions and three members drawn from the general public. The Assembly has the final authority over economic regulation and rate changes require a public hearing by the Assembly.

The Administration and the Assembly will regulate the utilities quicker and at less cost than the lengthy and costly proceedings before the APUC.

(See attached chart)

MUNICIPALITY OF ANCHORAGE

Economic Self-Regulation Flow Chart

Proposals From Utilities

- Revenue Requirements Study
- Revenue Deficiencies
- Cost of Service Study
- New Tariff Offerings
- Special Contracts

Determinations by
Commissions

- Public Hearings
- Review and Recommendations
of Rates, Regulations and
Policies
- Findings and Conclusions
- Complaints

Approval by Assembly

- Public Hearings
- Ordinance Submitted by
Mayor
- Assembly Approval of Rates,
Contracts and Regulations

Anchorage Utilities

Anchorage Telephone Utility
Anchorage Sewer Utility
Anchorage Water Utility
Municipal Light and Power
Anchorage Refuse Collection
Utility
Anchorage Solid Waste Disposal
Utility

Anchorage Commissions

Advisory:

Anchorage Telephone Commission
Anchorage Water and Wastewater Commission
Municipal Light and Power Commission
Anchorage Solid Waste Services Commission

Regulatory:

Anchorage Utility Regulatory Commission

TITLE: Municipal Utility Self-Regulation

SPECIAL LEGISLATIVE REQUEST:

Revisions to the state statutes limiting the power of the APUC to regulate rates and clarifying Anchorage's right to exempt its municipal utilities from economic regulation by the APUC.

BACKGROUND/JUSTIFICATION:

Alaska Statute 42.05.711 currently provides that public utilities owned and operated by municipalities are exempt from economic regulation by the Alaska Public Utilities Commission unless they choose to be regulated or direct competition is found to exist between a municipally-owned public utility and another public utility. If direct competition is found to exist, AS 42.05.711 directs that all of the municipally-owned public utilities are subject to economic regulation by the APUC. The Municipality of Anchorage believes that AS 42.05.711 should be amended to eliminate the "direct competition" exception to economic deregulation, thereby limiting APUC rate regulation to those municipal utilities who specifically choose to be regulated.

1. The Municipal Light and Power Department/Chugach Electric Association boundary dispute, which precipitated the onset of AS 42.05.711, has been resolved.
2. Whether or not a municipal public utility is subject to economic regulation by the APUC, the APUC retains jurisdiction per AS 42.05.221, over such matters as wasteful duplication of facilities where direct competition within the same service area occurs (as was the case before the ML&P/Chugach Electric boundary settlement dispute).
3. Concerns over the potential for cross-subsidization between municipally-owned utilities are unnecessary because (a) the Anchorage owned public utilities are independently operated and by Charter must have separate books of accounts, (b) the Mayor and Assembly are directly accountable to the voting public, (c) the public and its consumer representatives have the right to participate in the ratemaking process under economic self-regulation, and (d) all rate decisions are eligible for judicial review in the Alaska Court System.

A legislative priority is to remove the "direct competition" exception from the statute, thereby allowing Anchorage, absent its consent, to regulate the rates of its utilities and allow for adequate rates of return for its respective utilities.

STAFF CONTACT: Will Gay, Acting Executive Manager,
Enterprise Activities, 343-4906

12/18/89

Offered:
Referred:

Original sponsors:

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 related to municipal utility self-regulation."

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

Article 10. General Provisions.

Section	Section:
711. Exemptions	720. Definitions
712. Deregulation ballot	721. short title

Sec. 42.05.711. Exemptions. (a) The provisions of this chapter do not apply to a person who furnished water, gas or petroleum or petroleum products by tank, wagon, or similar conveyance, unless the person is thereby supplying water, gas, petroleum or petroleum products to a public utility in which the person has an "affiliated interest."

(b) Except as otherwise provided in this subsection, public utilities owned and operated by a political subdivision of the state, or electric operating entities established as the instrumentality of two or more public utilities owned and operated by political subdivisions of the state, are exempt from this chapter, other than AS 42.05.221 - 42.05.281 and 42.05.385. However,

(1) the governing body of a political subdivision may elect to be subject to this chapter. [; AND]

(2) A UTILITY OR ELECTRIC OPERATING ENTITY THAT IS OWNED AND OPERATED BY A

POLITICAL SUBDIVISION AND THAT DIRECTLY COMPETES WITH ANOTHER UTILITY OR ELECTRIC OPERATING ENTITY IS SUBJECT TO THIS CHAPTER AND ANY OTHER UTILITY OR ELECTRIC OPERATING ENTITY OWNED AND OPERATED BY THE POLITICAL SUBDIVISION IS ALSO SUBJECT TO THIS CHAPTER.]

(c) The ownership in whole or part, of the corporate stock of a public utility does not make the owner a public utility.

(d) The commission, on a finding that no legitimate public interest will be served, may exempt a utility from all or any portion of this chapter.

(e) Notwithstanding any other provisions of this chapter, any electric or telephone utility that does not gross \$50,000 annually is exempt from regulation under this chapter unless 25 percent of the subscribers petition the commission for regulation.

(f) Notwithstanding any other provisions of this chapter, any electric or telephone utility that does not gross \$325,000 annually may elect to be exempt from the provisions of this chapter other than AS 42.05.221 - 42.05.281 under the procedure described in AS. 42.05.712.

(g) A utility, other than a telephone or electric utility, that does not gross \$100,000 annually may elect to be exempt from the provisions of this chapter other than AS 42.05.221 - 42.05.281 under the procedure described in AS 42.05.712.

(h) A cooperative organized under AS 10.25 may elect to be exempt from the provisions of this chapter, other than AS 42.05.221 - 42.05.281, under the procedure described in AS 42.05.712.

(i) A utility which furnished collection and disposal service of garbage, refuse, trash, or other waste material and has annual gross revenues of \$200,000

or less is exempt from the provisions of this chapter, other than the certification provisions of AS 42.05.221 - 42.05.281, unless 25 percent of the subscribers representing 25 percent of the gross revenue of the utility petition the commission for regulation.

(j) The provisions of this chapter do not apply to sales, exchanges or gifts of energy to an electric utility certificated under this chapter when the energy which is the subject of the sale, exchange or gift is waste heat, electricity, or other energy which is surplus or the by-product of an industrial process. In an area in which no electric utility is certificated for service, energy provided by sale, exchange or gift may be provided to any utility which is certificated for service to that area. A contract for the sale, exchange or gift of energy exempt under this subsection does not make the supplier a public utility, and does not transfer the responsibility to provide utility services from a certificated utility to any other person.

(k) A utility which furnishes cable television service is exempt from the provisions of this chapter other than AS 42.05.221 - 42.05.281 unless 25 percent of the subscribers petition the commission for regulation.

(l) A person, utility, or cooperative that is exempt from regulation under (a) or (d) - (k) of this section is not subject to regulation by a municipality under AS 29.35.060 and 29.35.070. (§ 6 ch 113 SLA 1970; am § 3 ch 76 SLA 1973; am § 8 ch 83 SLA 1980; am §§ 7 - 9d 136 SLA 1980; am § 89 ch 59 SLA 1982; am § 1 ch 30 SLA 1983; am § 68 ch 74 SLA 1985; am § 1 ch 80 SLA 1985; am § 2 ch 107 SLA 1986).

Offered:
Referred:

Original sponsors:

IN THE HOUSE

HOUSE BILL NO. _____

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

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Alaska Municipal League
Policy Statement

1990



Adopted at the Business Meeting
of the 39th Annual Local Government Conference
of the
ALASKA MUNICIPAL LEAGUE
Juneau, Alaska
November 17, 1989

PART VI

UTILITIES AND ENVIRONMENT

A. UTILITY REGULATION

1. Alaska Public Utilities Commission: The League supports the current statutory exemptions that allow municipal utilities to operate in the best interest of the consumer public without regulation by the APUC.

2. Acquisition: In order to eliminate service area conflicts between municipalities and utilities, the League supports legislation that would allow municipalities to acquire the facilities of a utility under specific terms that would fairly compensate the utility.

3. Utility Relocation Costs: The League opposes any effort to shift to municipalities the cost of utility relocations associated with municipal public works projects.

4. Deregulation of Solid Waste: The League supports statutory changes to eliminate APUC regulation of solid waste collection and disposal.

Solid waste collection and transport are essentially freight hauling issues and there is no need for APUC regulation. If regulation is needed, local government can focus on the needs at a local level. AS 29.35.060(b) should be repealed to make this deregulation complete and effective.

5. Waste Disposal Sites: The League encourages the State to hold local area public hearings concerning waste disposal sites and their locations.

B. FUNDING ASSISTANCE FOR UTILITIES

1. Construction Grant Program: The League strongly endorses the concept of the State's paying at least 50 percent of the cost of sewage systems, auxiliary equipment, solid waste facilities, and water systems constructed by municipalities under

Self Registration

A PERFORMANCE REPORT ON THE
DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT
ALASKA PUBLIC UTILITIES COMMISSION

February 14, 1989

Audit Control Number

08-1354-89-R

Commissioner, Department of Commerce and Economic Development	Larry Marculieff
Deputy Commissioner, Department of Commerce and Economic Development	Jeffrey W. Bush

Members of the
Alaska Public Utilities Commission

Chairperson	Susan M. Knowles
Member	Carolyn S. Guess
Member	Peter Sokolov
Member	Louis E. Agi
Member	Kathleen L. Whiteaker

STATE OF ALASKA

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

February 21, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Titles 24 and 44 of the Alaska Statutes, the attached report is submitted for your review.

A PERFORMANCE REPORT ON THE
DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT
ALASKA PUBLIC UTILITIES COMMISSION

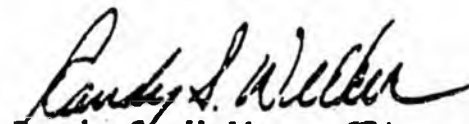
February 14, 1989

Audit Control Number

08-1354-89-R

The objectives of this audit were to examine the activities of the Alaska Public Utilities Commission to determine if there is a demonstrated public need for its continued existence and if the commission has been operating in an efficient and effective manner.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. Audit scope and methodology are discussed in the Report Objectives, Scope, and Methodology section of this report. Audit results may be found in the Report Conclusions, Findings and Recommendations, and in the Analysis of Public Need sections of this report.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

We believe that cable television may be a natural monopoly in the small and medium-sized towns. As such, these may be candidates for economic regulation. However, the cost of regulation may outweigh the benefits for these small markets. The economic regulation that is available is also limited to basic services, as the federal Cable Communications Policy Act of 1984 prohibits price regulation of the premium packages. In the largest cities, the competitive environment indicates that there is not a natural monopoly present for cable television, thus certification and economic regulation is inappropriate.

The federal Cable Act was designed to promote the expansion of cable television systems by promoting local franchising and limiting rate regulation. This law would not allow any rate regulation in Anchorage or Fairbanks but would allow basic service rates to be regulated in other areas such as Juneau or Homer. It does, however, appear to allow us control over the possible competitive side effect of duplicate cabling. By statute we could require the segregation of cable distribution companies and these could be fully regulated. The cable programming could then be opened to competition.

In summary, regardless as to whether or not cable television is viewed as essential, we recommended that the present certification requirement be deleted from the statute. To the extent that this service is deemed essential, municipal franchising or certification and regulation of distribution-only companies should be considered.

We also must point out a potential liability to the State under the Cable Act if this recommendation is implemented. The Cable Act outlines specific criteria which must be shown to deny a franchise and the proposed statute amendment would categorically retract the certificates (franchise) without this showing. However, the Attorney General's Office indicated to us that the State would prevail in court. We recommend that a formal opinion on this potential liability be obtained from the Attorney General before this statute is amended.

D. Alaska Statute 42.05 should be amended to exempt the smaller utilities from economic regulation.

Electric, telephone, gas, water, and sewer utilities have traditionally been considered essential services and are often natural monopolies. Nevertheless, we should refrain from economic regulation if its cost

exceeds the benefits. However, this information is not available nor can it be reasonably generated. "Cost" would include incremental APUC and utility time and materials as well as the effect of project delays on long-term rates; this component of the equation could be studied and estimated. The "benefits" of regulation include a financially stable utility providing consistent service uniformly to customers who are assured of equitable rates and services now and in the future; this cannot be quantified.

Nevertheless, in consideration of the State's dwindling resources and the public's disenchantment with the proliferation of state government, we believe that it is appropriate for us to presume that the cost of regulation presently exceeds its benefits for many smaller utilities and that the gross revenue exemption levels provided in the statutes should be raised.

Alaska Statute 42.05.711 exempts electric and telephone utilities with gross revenues under \$50,000 from certification and economic regulation. It also allows a utility's consumers to elect economic deregulation for utilities, electric or telephone utilities with gross revenues under \$25,000 in annual gross revenues, and for utilities which does not gross \$100,000 annually. We propose that an across-the-board gross revenue-based exemption from economic regulation be established. Three options are presented in the following table. It was prepared based upon APUC's FY 88 Annual Report and represents all utilities that are currently economically regulated with the exclusion of the industries we have recommended for categorical deregulation.

Number of affected utilities and customers, based upon gross revenues:

Type	Under \$500,000		Under \$750,000		Under \$1,000,000	
	Util.	Customers	Util.	Customers	Util.	Customers
Electric	10	819	15	1,990	18	2,691
Telephones	-0-	-0-	1	343	2	863
Gas	-0-	-0-	-0-	-0-	1	908
Water	22	3,715	22	3,715	22	3,715
Sewer	2	15	3	382	3	382
Total	34	4,549	41	6,430	46	8,559
Percent	40.5%	.8%	48.8%	1.1%	54.8%	1.5%

The above percent calculations represent the reduction in the coverage of economic regulation under each revenue scenario; however, we caution the inference from the table that APUC's workload would decrease

proportionate to the decrease in the number of utilities. While there certainly should be some relationship, the commission has no time sheet data available to correlate these factors.

In concert with an amendment to exempt these smaller utilities, the following areas should also be addressed:

1. The petition provision which allows customers to request economic regulation of exempted utilities should be amended. Alaska Statute 42.05.711 presently requires 25% of an exempted utility's subscribers to sign the petition. We believe that this is much too great an obstacle to overcome and recommend that an election be called if APUC receives a petition demonstrating significant consumer interest. For example, the petition requirement could be set at the lesser of 5% or 500 customers.
 2. This proposed gross revenue exemption statute should not take effect for 6 months to allow utility customers who wish to retain regulation to do so without interruption.
 3. The results of past deregulation elections should be honored, thus not requiring a new vote on failed deregulation elections.
 4. The customers who continue the benefits of APUC's economic regulatory oversight should be expected to pay for this service (See Recommendation No. 2).
- E. Alaska Statute 42.05 should be amended to cease mandatory economic regulation of certain utilities owned by political subdivisions.

Alaska Statute 42.05.711(b) generally exempts utilities owned by political subdivisions from economic regulation, unless they so elect. However, it also provides that if any of a subdivision's utilities directly competes with any other certificated utility then all the subdivision's utilities shall be economically regulated. We presume the intent of this provision was to eliminate the wasting of resources from facility duplication resulting from the then ongoing electric service area dispute as well as preventing the cross-subsidization of rates which might accompany such a dispute. The only utilities falling under this provision, at present, are owned by the Municipality of Anchorage.

The Anchorage service area dispute has been resolved and the present day competition is in the form of economy energy sales of electricity and perhaps telephone communication systems. This type of competition does not encourage the massive facility duplication or the cross-subsidization of rates that a service area dispute might. Service area concerns can be adequately addressed through the certification process without economic regulation.

In conjunction with an amendment to delete this mandatory economic regulation, the following areas should also be addressed:

1. The utilities previously regulated by APUC due to competition should continue to be so regulated unless rejected by the governing body.
2. A governing body should be allowed to withdraw a previous election.
3. The consumers who, through their local government, have chosen to continue the benefits of APUC's economic regulatory oversight should be expected to pay for this service. Specifically, the Municipality of Anchorage Assembly should decide whether their utilities should be regulated locally or by APUC. If they choose to "hire" APUC to perform this regulatory function in their behalf, citizens from all across the State should not be forced to pay for that service with General Funds (See Recommendation No. 2).

Recommendation No. 2

Alaska Statute 42.05 and Alaska Statute 42.06 should be amended to more fully allocate the costs of regulation.

APUC is currently being funded primarily by General Funds with a program receipts supplement from partial direct allocations of cost. The statutes require the cost of investigations and hearings to be allocated among the parties, including the commission, as is just under the circumstances. The commission has traditionally not allocated costs to itself and has allocated only the hired consultant fees, attorney general services, and other incremental out-of-pocket costs. In a 1988 decision, the Alaska Supreme Court interpreted the present statutes on cost allocations to disallow attorney general services. The court also remanded the case back to the commission to determine what portion of the cost allocation they should absorb.

Basic fairness prescribes that only the consumers who benefit from the regulatory services provided by APUC should pay the cost of this service. This is the "user fee" concept of funding. A funding method should also be designed to allow responsive adjustments to be made in the level of regulation as desired by consumers. With these criteria in mind, we have briefly commented on three predominant alternatives.

To the extent of its general funding, any approach fails to equitably match the regulatory cost to the consumers who benefit. General funding may be viewed as a payment by all citizens all across the State, while the benefit may accrue primarily to consumers in Anchorage. The utilities owned by the Municipality of Anchorage have contributed greatly to the commission's workload, yet a significant portion of the total cost of the proceedings is paid out of General Funds.

General funding is also less responsive to appropriate regulatory levels; in fact, it probably wastes some of the State's dwindling resources. Given that there is a regulatory cost/benefit break-even point and that certain consumers are given the opportunity to elect full economic regulation, general funding will likely be perceived as payment by "someone else" with the result that regulation will always be extended past this break-even point. Thus, government is providing an unnecessary service.

Funding of APUC through a gross receipts tax levied against the utilities and pipelines that is passed through to consumers could provide a reasonable matching of costs to beneficiaries. This assumes tax rates were established by utility size, by industry, and by level of regulation. However, there would always be inequities.

This tax approach would be responsive to regulatory needs only to the extent that the matching is accurate. However, taxation has traditionally focused on ability to bear rather than resource utilization and, thus, such a funding approach may not be responsive. For example, if a tax was designed which levied 100% of the commission's costs against the pipeline companies and none to the utilities, this approach would do nothing to reduce unnecessary regulation of the utilities.

Full and direct allocation of the commission's costs provides the most accurate and defensible matching among the three alternatives. As such, it would not only be an effective method in eliminating unwarranted government regulation but it could also make the regulatory process more efficient by encouraging adequate and appropriate filings.

To administer this full allocation program would require time sheets for commission staff and attorney general

services, and the use of account codes to share docket proceeding costs among the parties and to allow recovery of general overhead. The administrative cost of this program should be less than with the tax approach but, of course, greater than with the General Fund design. These costs could potentially be offset by increased staff efficiency through time sheet accountability. We believe the benefits of a full-cost allocation program would far outweigh a slightly higher administrative cost.

Based upon the above, we recommend that the statutes be amended to establish a full-cost allocation funding approach for APUC. In conjunction with this shift toward program receipts funding, AS 42.05.651 and AS 42.06.610 should be amended, as follows:

1. These statutes should be amended to specify that all costs of the commission may be allocated.
2. Alaska Statute 42.05.651 should be changed to require interim allocation, rather than awaiting completion of a proceeding. The commission has estimated their unbilled utility allocations at \$1.6 million with an average age of 3.0 years. We note that the related pipeline statute, at AS 42.06.610, already requires interim billings. However, APUC does not appear to be in compliance, with their estimated unbilled pipeline allocations at \$2.1 million with an average of 4.7 years. Further, APUC should amend their regulation at 3 AAC 48.157 which provides for cost allocations after pipeline hearings rather than on the required interim basis.
3. These statutes presently require allocation to the parties of a proceeding including the commission; these should be modified to exclude the commission. However, the provisions allowing the commission to allocate among the parties as is reasonable and just should be retained, thus the commission may occasionally absorb some costs indirectly and have a need for minimal General Fund monies.
4. For economically regulated companies, on a case-by-case basis, the commission should be allowed to determine whether the costs being allocated are to be passed through to the consumers.

Recommendation No. 3

APUC should develop a topical reference system for commission orders and court decisions.

The commission is a quasi-judicial agency which issues decisions based upon finding of fact and conclusions of law.

STATE OF ALASKA

STEVE COWPER, GOVERNOR

ALASKA PUBLIC UTILITIES COMMISSION

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

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ANCHORAGE, ALASKA 99501
(907) 276-6222

MAR - 9 1989

March 7, 1989

Mr. Randy Welker
Legislative Auditor
Division of Legislative Audit
State of Alaska
P. O. Box W
Juneau, Alaska 99811-3300

Re. Response to Preliminary Audit Report

Dear Mr. Welker:

The following is the response of the Commission to the preliminary audit report and recommendations submitted by the Division of Legislative Audit on February 14, 1989, as a result of its performance review of the Commission.

The Commission concurs with the fundamental conclusion of the report that the

Alaska Public Utilities Commission is operating in an efficient and effective manner and should continue to regulate public utilities and pipelines. (Page 5.)

The Commission does not agree with all of the statements of regulatory theory and philosophy in the preliminary audit report but has focused its comments on the actual recommendations.

Recommendation No. 1A

Alaska Statute 42.05 should be amended to cease certification and regulation of companies furnishing collection and disposal service of garbage, refuse, trash, or other waste material.

The Commission supports this recommendation as it did the identical recommendation made in the 1979 and 1985 Sunset Audits. The auditor's statement that the public health and sanitation aspects of this service are monitored by local governments and the Department of Environmental Conservation addresses the Commission's previous reservation on deregulation.

Recommendation No. 1B

Alaska Statute 42.05 should be amended to cease certification and regulation of radio common carriers.

The Commission concurs with this recommendation based on the character of radio common carrier (RCC) services and the current regulatory status of RCCs operating in the state. However, as noted in the Commission's response to the same recommendation in the 1985 Sunset Audit, future developments in the telecommunications industry may require reimposition of RCC regulation at some later time.

The Commission also believes that its authority to partially or fully deregulate a particular utility industry in response to current circumstances is a desirable and appropriate supplement to the legislative action advocated by the auditor. Accordingly, the Commission requests legislative guidance on the validity of its decision to economically deregulate the RCC industry in the event this recommendation is not implemented by statute.

Recommendation No. 1C

Alaska Statute 42.05 should be amended to cease certification of cable television.

The Commission concurs with this recommendation with some qualifications, as it did with the same recommendation in the 1985 Sunset Audit. The recommendation appropriately eliminates the anomaly in the current regulatory scheme for cable television (CATV) services whereby CATV providers hold monopoly certificates but are economically deregulated. However, the Commission would encourage the Legislature to use its legal and research staffs to examine the implications of the following on full CATV deregulation: (1) the Cable Communications Policy Act of 1984, (2) the Federal Communications Commission's recent initiatives to eliminate the existing ban on cross-ownership of CATV and telephone companies, (3) the availability and status of local government oversight, (4) shared use of rights-of-way, (5) community access and institutional network use of CATV systems, and (6) disposition of certificates held by existing CATV providers. In any event, as noted in response to the 1985 Sunset Audit recommendation, CATV certification is not a large element of the Commission's workload.

Recommendation No. 1D

Alaska Statute 42.05 should be amended to exempt smaller utilities from economic regulation.

The Commission opposes this recommendation because it disagrees with the auditor's unsupported presumption that the cost of economic regulation presently exceeds its benefits for smaller utilities. Rather, the Commission concludes from its experience

CORRECTION

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

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Recommendation No. 1D

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The Commission opposes this recommendation because it disagrees with the auditor's unsupported presumption that the cost of economic regulation presently exceeds its benefits for smaller utilities. Rather, the Commission concludes from its experience

that regulation of small utilities is at the core of its public protection function, especially given the geographic and demographic characteristics of Alaska. The Commission also believes that the burden and cost of regulation on smaller utilities can and should be reduced administratively, and it is currently addressing this issue.

As the auditor points out, it is extremely difficult to quantify the cost of regulation, both to the regulated and to the regulator. At the same time, it is relatively easy to inflate or deflate cost figures to support a given predisposition for or against regulation. Regardless of amount, costs are relatively meaningless unless they are compared to benefits.

The Commission agrees with the auditor that the primary benefits of regulation are a financially stable utility which provides reliable, safe service to all customers at reasonable, non-discriminatory rates. With the exception of 22 water companies, the utilities affected by this recommendation are providing service in rural Alaska and are predominantly electric utilities. It has been the Commission's experience that the need for regulation and the potential benefits provided by regulation are frequently greater for smaller utilities than for larger utilities for many reasons, including, the logistical challenge of operating in remote locations; inexperienced personnel; unsafe facilities as a result of non-compliance with the National Electric Safety Code; lack of familiarity with utility management, maintenance, and accounting procedures; discriminatory actions by utility management; failure to request rate increases when needed; and procurement of wrong equipment. In addition, it can be argued that the consumers in rural Alaska are even more captive than those in the urban areas, and, therefore, are particularly dependent on a high level of protection.

Although the reduction in workload would be approximately commensurate with the loss of Commission staff over the past three years if this recommendation were enacted, and from that standpoint may be appealing, the Commission does not believe that the public interest would be served by wholesale deregulation of utilities serving perhaps the most (or one of the more) vulnerable segment(s) of the ratepaying public.

The Commission believes that the concern about the cost of regulation that has been voiced by the auditor as well as others, for the most part, is directed at the expense (both in time and dollars) associated with regulatory requirements when a utility desires or needs to change its rates. The Commission has recognized for some time that the regulatory scheme that exists and has been applied to both large and small utilities should be examined. To that end, on February 3, 1989, the Commission has issued a Notice of Inquiry. The purpose of the Inquiry is to receive information which would assist the Commission in proposing regulations to simplify rate and other regulatory proceedings for smaller utilities. A copy of this order is attached. (See Appendix A.)

In summary, the Commission believes that the issue of the cost of regulation as it relates to the smaller-sized utilities can be substantially mitigated through administrative procedures rather than legislation which would eliminate the important public protection function today provided by economic regulation.

However, if the Legislature believes public policy is better served by deregulating smaller utilities, the Commission would propose, as it did in response to the 1985 Sunset Audit, the following amendment to AS 42.05.711 to expand the deregulation election process found in AS 42.05.712 which would replace the provisions of AS 42.05.711(e), (f), (g), and (i):

All utilities which have gross revenues of \$500,000 or less may elect to be exempt from the provisions of AS 42.05, other than AS 42.05.221-42.05.281, under the procedures described in AS 42.05.712.

This approach conforms with the Commission's position that regulation for utilities that heretofore have been regulated should be continued unless the people most affected, the consumers, vote to become deregulated.

The Commission also concurs with the auditor's suggestion that consideration be given to reducing the number of customers required to petition for regulation under AS 42.05.711.

Recommendation No. 12

Alaska Statute 42.05 should be amended to cease mandatory economic regulation of certain utilities owned by political subdivisions.

The Commission supports the philosophy underlying this recommendation. However, the Commission does not believe that elimination of AS 42.05.711(b)(2) is necessary to achieve the auditor's objective and has proposed an alternative legislative approach and language.

It is reasonable that if regulation is elected at one time by a governing body as currently provided under AS 42.05.711(b)(1), then a future governing body should have similar authority to vote to revoke that election. If such revocation is exercised, it is presumed that the public protection function provided by the Commission will be assumed by the governing body of the

political subdivision, thus giving affected consumers a forum and recourse for concerns and complaints.

The Commission recognizes that this recommendation presently affects only the Municipality of Anchorage. It is pertinent to consideration of this recommendation that, at the present time, there are a number of outstanding issues before, and outstanding requirements by, the Commission for the Anchorage Water and Wastewater Utility (sewer), the Anchorage Telephone Utility, and the Anchorage Municipal Light and Power Department.¹ It is reasonable to assume that the Anchorage Assembly would take into consideration the status and results of proceedings before the Commission at such time as it considers any decision to end economic regulation by the Commission.

¹Docket U-87-47 is an investigation into the general management practices of Anchorage's sewer utility. In Dockets U-88-18 and U-87-61 the Anchorage Telephone Utility is before the Commission requesting a 54.03% rate increase and responding to an investigation into the general and financial management practices of the utility. Commission decisions are currently pending in these sewer and telephone cases. At the present time, the Municipal Light and Power Department is required to provide an equity management plan and obtain Commission approval before further debt refunding is issued because of its poor financial condition.

Rather than eliminating AS 42.05.711(b)(2), as the auditor appears to suggest, AS 42.05.711(b) should be expanded to provide for deregulation of a municipal entity if its governing body so elects, once competition no longer exists between it and other utilities, and to allow the governing body of a political subdivision to revoke a previous election. The Commission believes it is desirable to continue a protective mechanism for regulated utilities in the event a future situation arises involving competition with a municipal utility. Proposed language is attached. (See Appendix B.)

Recommendation No. 2

Alaska Statute 42.05 and 42.06 should be amended to more fully allocate the costs of regulation.

The Commission concurs in part, and opposes in part, this recommendation. The Commission agrees with the auditor's suggestion that, in light of the current economic climate as well as a recent court decision, discussion should be focused on the appropriate method to fund this agency. Clearly, the time is ripe to evaluate funding options; however, the Commission disagrees with the method of funding advocated by the auditor. Regardless of the outcome of the broader funding discussion, the Commission concurs that AS 42.05.691(a) should be amended to allow interim allocations during a proceeding and to exclude the Commission from bearing any costs of a hearing or investigation.

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - Utilities

AO Number: 89-51 Title: Municipal Regulation of Utilities

Sponsor: Enterprise Activities

Preparing Agency: Municipal Light & Power/OMB Others Affected: ATU-AWWU-SWS

CHANGES IN REVENUES AND EXPENSES (Thousands of Dollars)

	FY 6mo. 89	FY 90	FY 91	FY 92	FY 93
Operating Expenses:					
ATU - Regulation Expense (Net)	(154)	(306)	(306)	(306)	(306)
ML&P - Regulation Expense (Net)	(123)	(245)	(245)	(245)	(245)
AWWU - Regulation Expense (Net)	(68)	(137)	(137)	(137)	(137)
SWS - Regulation Expense	8	15	15	15	15

Expense Recap: (1989-6 months only)

	<u>ATU</u>	<u>ML&P</u>	<u>AWWU</u>	<u>SWS</u>
APUC Regulation Expense Savings	(168)	(133)	(100)	-0-
New Municipal Regulation Expense	14	10	32	8
Net change in Expense	(154)	(123)	(68)	8

Expense Recap (1990 and outyears)

	<u>ATU</u>	<u>ML&P</u>	<u>AWWU</u>	<u>SWS</u>
APUC Regulation Expense Savings	(335)	(265)	(200)	-0-
New Municipal Regulation Expense	29	20	62	15
Net Change in Expense	(306)	(245)	(137)	15

Impact on General Government (Yes or No) No

Public Sector Economic Effects: \$3,029,000 savings over the next 4 years 6 months. The public sector effect of Municipal regulation by commissions as an alternative to the current requirement to be regulated by the APUC would be to reduce Utility operating expenses. The avoided costs above are comprised of attorney fees, consulting contracts, expert witness cost and some reduction in internal cost created by an assumed simplification of the rate making process. New expenses include increased compensation for commissioners, supplies, advertising and court reporting. Under self regulation the utilities will continue to incur some level of professional service expenses. However, the reductions noted result from more abbreviated and less protracted rate hearings. Costs were derived using a three year average and assuming six (6) months in 1989. No allowance has been made in succeeding years for inflation.

During past legislative sessions the APUC has proposed bills requesting a .55% charge on gross revenues on all regulated utilities and a .14% gross revenue charge for all utilities exempt from their jurisdiction. If such a bill were to pass it would result in an immediate extra cost to the utilities of approximately \$725,000 per year based on 1987 gross revenues, if regulated.

Private Sector Economic Effects:

The private sector effects of regulation by Municipal commissions would be a reduction in utility operating cost which may alter the timing of rate increases.

If further explanation is necessary, a separate page may be attached.

Coordinated by: Fred Traber
~~Prepared~~ by: *Fred Traber* Telephone: 343-4462
(Name, Title)

Validated by OMB: _____ Date: _____

Approved by: _____ Date: _____
Director, Preparing Agency

Concurred by: _____ Date: _____
Director, Affected Agency:

Approved by: _____ Date: _____
Executive Manager

UTILITY COMMISSION EXPENSE DETAIL

AWWU

26 Regular meetings @ \$210	\$ 5,460
28 Special meetings for rates, tariffs, & budget @ \$280	7,840
16 Hearings for rates and tariffs @ \$700	11,200
12 Hearings for complaints @ \$700	8,400
Supplies	1,000
Court Reporter for 54 meetings @ \$300	16,200
Advertising for 54 meetings @ \$200	10,800
Rental space for 16 hearings @ \$100	1,600

\$62,500

ATU

24 Regular meetings @ \$210	\$ 5,040
10 Special meetings @ \$280	2,800
4 Hearings for rates & tariffs @ \$700	2,800
2 Hearings for complaints @ \$700	1,400
Supplies	1,000
Court Reporter for 30 meetings @ \$300	9,000
Advertising for 30 meetings @ \$200	6,000
Rental space for 6 hearings @ \$100	600

\$28,640

SWS

12 Regular meetings @ \$350	\$ 4,200
2 Special meetings @ \$280	560
3 Hearings for budget & rates @ \$700	2,100
Supplies	500
Court Reporter for 15 meetings @ \$300	4,500
Advertising for 15 meetings @ \$200	3,000

\$14,860

ML&P

12 Regular meetings @ \$210	\$2,520
6 Special meetings @ \$280	1,680
2 Hearings for rates @ \$700	1,400
6 Complaint hearings @ \$700	4,200
Supplies	500
Court Reporter for 20 meetings @ \$300	6,000
Advertising for 20 meetings @ \$200	4,000

\$20,300

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APR 09 1990

ALASKA PUBLIC UTILITIES COMMISSION
COMMENTS ON CS FOR SB 514
APRIL 9, 1990

OFFICE OF THE
COMMISSIONER

The Commission reiterates its previous position that it does not oppose the elimination of the "catch-all" provision in the current statutes which requires the economic regulation of all utilities owned by a political subdivision if any one of them is found to be in direct competition with another utility. The Commission believes that unfair competition could be prevented if regulation were limited to just those utilities owned by a political subdivision that directly compete with other utilities.

To further limit the regulation of a competing utility to just the service in which it directly competes, however, is fraught with practical complications. Utility plant and personnel are usually shared to provide many services; consequently, it would not be possible to examine a portion of the utility's costs without examining the whole utility. Additional difficulties would arise in trying to isolate the service that would be subject to regulation, particularly when the competing service is integrated with other services. In any event, (at best) the exercise of regulating single services would be almost as costly as regulating the entire utility and be frustrating for all participants.

The Commission believes that it is good public policy to regulate the integrated statewide telecommunications network and thus supports AS 42.05.711(b)(3).

FORUM

Utilities should remain under APUC regulation

By JOEL A. ROTHBERG

In proposed ordinances and in his most recent newspaper column, Mayor Fink has urged removing Anchorage municipal utilities from economic regulation by the Alaska Public Utilities Commission (APUC). As a substitute he proposes making the Anchorage Assembly the final authority on all questions of rates, rules, regulations and conditions of service for municipal utilities. Mayor Fink's proposal is illegal under state law and seriously flawed in both concept and execution.

Mayor Fink in his column makes no mention of AS 42.05.711 (a), which requires that where a particular municipally-owned and operated utility "directly competes with another utility or electric operating entity," it must be regulated by the APUC, along with all other utilities owned and operated by the municipality. The

common sense purpose behind the statute is to prevent unfair competition through cross-subsidization among municipal utilities and to avoid unjustified cost burdens on municipal ratepayers.

This statute applies to Anchorage municipal utilities because at least one of them, ML&P, directly competes with Chugach Electric Association for sales to Golden Valley Electric Association. In a recent APUC public hearing, ML&P vigorously asserted its status as a competitor in arguments against what it deemed anti-competitive clauses in contracts between Chugach and Marathon Oil and between Chugach and Golden Valley. Thus, according to the statute, all of Anchorage's municipally owned and operated utilities must remain under APUC regulation.

Mayor Fink asserts that APUC regulation has been a



source of excessive delay and cost. Speaking for the Alaska Consumer Advocacy Program, which has represented consumers before the APUC for many years, I have not observed undue delay or inefficiency. In addition, utilities are financially protected while rate increase requests are being considered. That's because the commission normally grants the interim, refundable increase the utility desires.

Actually, in recent years Anchorage municipal utilities have received most of what they have requested for permanent rate increases. When ML&P managed to turn itself into a utility that is 95 percent debt, to give it a boost back toward financial health, the commission still allowed it

an additional \$2 million over what its bond covenants required.

Legal constraints aside, Anchorage municipal utilities must remain under APUC regulation because the assembly has not demonstrated that it would be able to provide expert, impartial regulation, even with the assistance of municipal utility advisory commissions. By ATU's own admission, from 1983 to 1987 it suffered a loss of at least \$8 million, funded by regulated ratepayers, in its unregulated business. (The APUC figures the loss at \$9 million.) It has demonstrably wasted many millions more in buying excess capacity. ML&P has not been a paragon of efficiency either, and water rates are leaping into the stratosphere.

Mayor Fink and other proponents of removal of the APUC undoubtedly will point to these facts as sup-

port for their own position. They would be wrong. This history cannot be used as an indictment of the APUC because under current statutes, municipal utilities, even when regulated, have the ability to make multi-million-dollar commitments for debt and construction well before they come to the APUC for a rate increase.

The authority to control irresponsible utility behavior already resides in the assembly and the mayor's office. It has not been used because the city has been interested in its utilities mainly as a source of revenue. Even when ACAP presented much of the information presented here to the assembly last December, it still voted to take a \$3 million dividend distribution from ATU.

What is needed? Certainly not an elimination of the expert, independent regula-

tion the APUC provides. Rather, we need to strengthen the commission's authority to require utilities to give meaningful advance notice to the commission and the public before major financial commitments are made.

Finally, the mayor's proposal is flawed in execution because the proposed ordinances do not provide standards for the creation of a staff of sufficient size and expertise to critically evaluate complex utility proposals. Without that staff expertise, the mayor, the municipal advisory commissions, the assembly and the Anchorage ratepayer are at the mercy of utility rationales. Anchorage deserves more than what the mayor is offering.

□ Joel A. Rothberg is staff attorney for the Alaska Consumer Advocacy Program

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6-2336A
Cramer
3/8/90

BY THE LABOR AND COMMERCE COMMITTEE

1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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

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

9 * Section 1. AUTHORIZATION. In accordance with AS 44.83.185(c), the
10 Alaska Energy Authority is authorized to design and construct a 138 kilo-
11 volt electric transmission line between Healy and Fairbanks at a cost of
12 \$60,000,000 in 1990 dollars if the authority meets the conditions set out
13 in sec. 2 of this Act.

14 * Sec. 2. CONDITIONS. The authorization contained in sec. 1 of this
15 Act is contingent upon the Alaska Energy Authority and participating elec-
16 tric utilities entering into a written agreement in which the participating
17 utilities agree to pay the amount by which the design and construction
18 costs for the transmission line between Healy and Fairbanks exceed
19 \$50,335,570. The authorization is also contingent upon the utilities and
20 the authority entering into a written agreement in which the participating
21 utilities agree to pay the operating and maintenance costs for those trans-
22 mission lines.

23 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).
24
25
26
27
28
29

Alaska State Legislature

REPRESENTATIVE
MARK BOYER

VICE-CHAIRMAN, HOUSE
HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

MEMBER, HOUSE LABOR AND
COMMERCE COMMITTEE

CHAIR, CHILDREN'S CAUCUS



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House of Representatives

TO: Senator Dick Eliason

FROM: Representative Mark Boyer *MB*

RE: HB 520, providing AIDEA authority to bond for the construction of the Healy Cogeneration Project, and HB 237, providing for an appropriation of \$30 million from the Railbelt Energy Fund for the Healy Project.

DATE: March 6, 1990

As you will recall, during the last legislative session we segregated \$30 million within the Railbelt Energy Fund as a contingent appropriation for the construction of a coal cogeneration power plant at Healy.

The contingencies to that appropriation were: that draft power sales agreements be in place before the effective date of the actual appropriation; that other funds, especially federal funds would be available to the project of at least \$30 million; and that a financial plan for the project be available to the legislature.

Since that time, the federal Department of Energy priorities have refocused on clean coal burning and power generating processes which resulted in a revised Healy project and the allocation of \$92.3 million for that project from the Clean Coal Technology grant program. The federal allocation would go to the Alaska Industrial Development and Export Authority which is currently developing a full financial plan to be presented to the legislature early next week. Additionally, AIDEA and the Alaska Energy Authority are working with the Golden Valley Electric Association and the Usibelli Coal Company to develop draft power sales agreements.

Attached are two important information pieces pertaining to the new Healy project. Some supporters of last year's \$30 million contingent appropriator have expressed concern that the project they supported has changed and is no longer supportable. It is my hope that you will review the attached information and come to the same conclusion as I; the Healy Cogeneration Project has changed its initial focus in favor of a greater and more specific federal interest but maintains its

FAIRBANKS 20B

original coal beneficiation (coal drying) thrust and continues to be the premier RBEF energy project. As envisioned, the demonstration project will move ahead and the coal drying technology will be pursued without state funds after construction of the project and its federal demonstration period.

Because of the importance of this project to the Railbelt and potentially to the United States, the Senate and House Resources Committee will meet in joint session to review the AIDEA authorization and the new technology and its potential application on Tuesday, March 13.

Wednesday, March 14.

I remain steadfast in my commitment to the project. It remains the only project which once on-line will result in stable electric rates for railbelt consumers and is the only project being considered for construction from the Railbelt Energy Fund which leverages federal and other funds with such a small state commitment.

The federal government is committed and the rate payers in the Northern railbelt remain committed. It is my hope that the legislative commitment is equally firm.

The following questions and answers are from a state-wide poll that was conducted for the Usibelli Coal Mine. I think that you will agree the consensus is overwhelming public support for this project.

"Under its clean coal technology program, the U.S. Department of Energy has offered to pay approximately half the total cost of building a new, coal-fired power plant at Healy, Alaska, which is about halfway between Anchorage and Fairbanks. The Healy project was selected because it will use clean-burning technology and low sulphur coal, and may become the cleanest coal-burning plant in the world.

Do you basically support or oppose the idea of developing a high-technology, clean-burning, coal-fired power plant?"

Support.....	81%
Oppose.....	11%
Unsure.....	8%

"If constructed, the Healy project could bring world-wide attention to clean-burning coal technology and Alaska's large reserves of clean coal. How important is this to Alaska?"

Very important.....	61%
Somewhat important.....	28%
Not too important.....	5%
or Not at all important...	3%
Unsure.....	3%

"While electricity generated by the proposed Healy plant will be mainly used in the northern railbelt region, the plant

could also provide power to the Anchorage area and Kenai Peninsula communities during power outages and other emergencies. How important is this to you?"

Very important.....	33%
Somewhat important.....	32%
Not too important.....	21%
Not at all important...	11%
Unsure.....	3%

"The 230 million dollar Railbelt Energy Fund was created by the Alaska Legislature to help provide low-cost power to railbelt communities from Kenai to Fairbanks. Last year the state legislature reserved 30 million dollars from the Railbelt Energy Fund for the Healy project if it was selected for the clean coal program. Now that Healy has been selected, do you feel the legislature should or should not grant the 30 million dollars that was set aside for the project?"

Should.....	79%
Should not.....	9%
Unsure.....	12%

enclosure (2)



A Summary of the Usibelli Coal Beneficiation Project

Contents

I. Summary of project investigations	2
II. Potential markets for value-added coal products	3
III. Overview of coal beneficiation technology	4
IV. Chronology of UCM coal beneficiation efforts	6



Future plans

Having largely completed preliminary tests and research into thermal and mechanical coal drying processes, UCM will next investigate the technical performance and economics of mild gasification. This will include analyzing the markets for mild gasification products, reviewing existing mild gasification technologies, and testing the performance of UCM coal in bench scale tests. If the results are positive, a feasibility analysis of mild gasification will be performed and the results compared with analyses for thermal and mechanical drying.

A final review of thermal drying, mechanical drying and mild gasification will be made and the most promising technology selected. If the technology is insufficiently developed, the construction of a pilot-scale test facility will be necessary. If the technology is sufficiently developed, a full scale commercial plant could be built.

It is very probable that future rounds of the Clean Coal Technology program will make cost sharing available for coal beneficiation projects such as UCM's. In fact, it is likely that a well prepared Alaska coal beneficiation project will be as attractive to the objectives of the program as was the HCP project. However, with the exception of possible research funding from the Alaska Science and Technology Foundation, state public funds are not anticipated to be needed for the development of either a pilot scale or commercial size beneficiation plant.

UCM foresees construction of the pilot and/or commercial plant adjacent to the HCP plant which, depending upon existing demand, could provide energy for the a pilot plant in the form of either process heat or electrical power.

II. Potential Markets for Value-Added Products

Potential export markets

There are several export market areas for value-added products created from Alaskan subbituminous coal.

- Power plant fuel: Though this is a highly competitive market, a low-moisture, low-sulfur coal with the high combustion reactivity of UCM coal would command a top price at electrical utility plants.

- Industrial fuel: The same considerations for power plants would apply to industrial processes, such as cement making, which require large amounts of process heat for manufacturing.

- Steel making: Coal char, a high-value product of mild gasification, is receiving increased attention as a substitute for coke in steel making.

- Transportation fuels: Pulverized coal-and-water mixtures and coal liquids both have the potential to replace petroleum products for internal combustion engines, especially for low speed diesels, such as large marine engines.

- Heating fuels: Japanese and Korean homeowners commonly heat with smokeless, high cost, coal briquettes produced from imported and domestic coals.

- Chemicals: Common chemicals that can be produced from coal such as benzene, tar, and pitch have high value and are currently imported by Pacific Rim countries.

Alaska subbituminous coal and products derived from it will enjoy advantages over competing sources.

- Alaska subbituminous coal has an extremely low sulfur content and a low ash content that will result in environmentally superior products and reduced ash handling costs.

- Alaska subbituminous coal has a high combustion reactivity.

- Due to Alaska's proximity to potential customers, Alaska products will enjoy lower ocean-freight costs.

- Alaska products may enjoy an additional market advantage by helping to reduce customer trade imbalances with the U.S.



Products of advanced coal beneficiation

There are five basic products resulting from the four types of advanced coal beneficiation: dried coal, low moisture solid fuel, char, oil, and gas. Figure 2 shows the types and comparative value of products generated from each of the four advanced processes.

-Dried coal: Dried subbituminous coal could be substituted for higher rank bituminous coal in power and industrial plants. The cost per million Btu to transport the dried coal would be lowered and the heat output at the end-user's plant could be maintained or increased. Any reabsorption of moisture during handling, transportation and storage would reduce processing gains.

- Low moisture solid fuel: Like dried coal, this product could be substituted for bituminous coal but would have a higher energy value (Btu/

lb), higher carbon content and lower rate of moisture reabsorption than dried coal.

-Char: Char is primarily carbon with a very low volatile (gas) content. Char is a potential substitute for coke in steel making and could also be used as a clean, smokeless fuel for residential heating in Pacific Rim countries.

- Oil: Liquefaction of coal produces a product similar to crude oil. It can be refined, like crude oil, to yield a variety of high value products that are used as feedstocks for manufacturing a variety of chemicals or liquid fuels.

- Gas: Coal gasification produces a gas, similar to natural gas but with lower heating value, that can be used for generating process heat or electricity.

<p>Mechanical Drying</p> <p>Low Moisture Solid Fuel \$2.40/MMBtu</p> <p>\$30/ton</p>	<p>Conversion</p> <p>Gas \$1.50/MMBtu *Oil \$3.10/MMBtu</p> <p>\$47/ton</p>
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* Value of oil assumed at \$18 per barrel

Figure 2. Types of advanced coal beneficiation processes and the comparative value of their products in SU.S. per million Btu's (MMBtu) and SU.S. per ton of feed coal.

CORRECTION

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



A Summary of the Usibelli Coal Beneficiation Project

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I. Summary of Project Investigations

Introduction

The process of upgrading raw coal to increase its quality is referred to as beneficiation. As with other raw materials or products, any process that upgrades the quality of the coal also increases its value in the marketplace.

In addition to simple coal beneficiation methods such as crushing, screening, and washing, there are a variety of processes being developed that use high temperatures and pressures to reduce the moisture content of coal, increase its quality, and, in some cases, transform it into completely different energy forms.

Usibelli Coal Mine, Inc. (UCM) currently beneficiates its coal by crushing to a size of 2 inches or less. But though simple crushing adequately prepares UCM coal for its current markets, the coal contains a high moisture content typical of subbituminous coals. While the ultra-low sulfur content of UCM coal suggests that it could become a premium product in the Pacific Rim, its high moisture content and resulting low heat value presently make it incompatible with most existing coal plants in the Pacific Rim.

Summary of investigations

The goal of the Usibelli coal beneficiation project is to identify a process and develop a commercial scale plant that will upgrade Alaskan subbituminous coal into a product (or products) that will have expanded opportunities in domestic and export markets.

Over the last four years, UCM has committed over \$100,000 investigating thermal drying processes and doing preliminary research into more advanced processes. Thermal drying of UCM coal received the greatest emphasis because the existing coal handling and transportation systems appeared suitable for handling a dried coal product. It was also felt that a thermal drying plant would be an appropriate candidate for funding under the U.S. Department of Energy's Clean Coal Technology program.

While simple thermal drying techniques are

widely used to heat and dry the surface of washed or naturally wet coal, the moisture in subbituminous coal is chemically bound and more intense heating processes are required to drive it out. Testing has shown that subbituminous coal may fragment as it dries, which complicates handling. Furthermore, the dried coal may reabsorb moisture during subsequent storage and transportation.

Between 1986 and Spring 1989, samples of UCM coal were shipped to beneficiation pilot plants in the United States and Canada. The resulting products were tested at the University of Alaska Fairbanks' Mineral Industry Research Laboratory (MIRL). UCM purchased laboratory autoclave equipment for MIRL which was used to test advanced high pressure drying processes. Additionally, consultants were retained to evaluate test results and to advise on project design and scope.

In January 1989, UCM contracted with Stone & Webster Engineering Corporation (Stone & Webster) to analyze test results, to review the economic and technical aspects of the various thermal drying processes, and to make recommendations to UCM for future work.

The Stone & Webster report was completed in June 1989 and found that thermal drying technologies for subbituminous coal had not been sufficiently developed, tested and refined to meet the requirements of the current round of the Clean Coal Technology program. As a result, it was concluded that the inclusion of a coal drying process into the Heat Cogeneration Project (HCP) would significantly weaken the proposal.

Prior to developing a commercially sized drying plant, the report recommended that a pilot scale plant be built and bulk samples of dried coal be produced and shipped to prospective markets. A bulk pilot test would accomplish two things. It would determine moisture reabsorption rates under actual conditions and, equally important, demonstrate the performance of the dried coal product -- a necessary step before a new fuel product can expect to gain market acceptance.

The report also concluded that other processes, including mild gasification and mechanical drying, might provide better market opportunities by producing higher value products. However, while these processes are technically viable, further research would be needed to be sure market economics were favorable.



Future plans

Having largely completed preliminary tests and research into thermal and mechanical coal drying processes, UCM will next investigate the technical performance and economics of mild gasification. This will include analyzing the markets for mild gasification products, reviewing existing mild gasification technologies, and testing the performance of UCM coal in bench scale tests. If the results are positive, a feasibility analysis of mild gasification will be performed and the results compared with analyses for thermal and mechanical drying.

A final review of thermal drying, mechanical drying and mild gasification will be made and the most promising technology selected. If the technology is insufficiently developed, the construction of a pilot-scale test facility will be necessary. If the technology is sufficiently developed, a full scale commercial plant could be built.

It is very probable that future rounds of the Clean Coal Technology program will make cost sharing available for coal beneficiation projects such as UCM's. In fact, it is likely that a well prepared Alaska coal beneficiation project will be as attractive to the objectives of the program as was the HCP project. However, with the exception of possible research funding from the Alaska Science and Technology Foundation, state public funds are not anticipated to be needed for the development of either a pilot scale or commercial size beneficiation plant.

UCM foresees construction of the pilot and/or commercial plant adjacent to the HCP plant which, depending upon existing demand, could provide energy for the a pilot plant in the form of either process heat or electrical power.

II. Potential Markets for Value-Added Products

Potential export markets

There are several export market areas for value-added products created from Alaskan subbituminous coal.

- Power plant fuel: Though this is a highly competitive market, a low-moisture, low-sulfur coal with the high combustion reactivity of UCM coal would command a top price at electrical utility plants.

- Industrial fuel: The same considerations for power plants would apply to industrial processes, such as cement making, which require large amounts of process heat for manufacturing.

- Steel making: Coal char, a high-value product of mild gasification, is receiving increased attention as a substitute for coke in steel making.

- Transportation fuels: Pulverized coal-and-water mixtures and coal liquids both have the potential to replace petroleum products for internal combustion engines, especially for low speed diesels, such as large marine engines.

- Heating fuels: Japanese and Korean homeowners commonly heat with smokeless, high cost, coal briquettes produced from imported and domestic coals.

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Potential domestic markets

The potential in-state market for value-added coal products is probably much smaller than the potential export market, but there may be similar needs.

- Power plant fuel: Reduced transportation costs and increased power output possible from a higher energy coal fuel could be attractive.
- Industrial fuel: The availability of high energy solid or liquid fuels derived from in-state coal may become attractive for larger Alaska industrial users.
- Transportation fuel: The production of coal liquids or coal-water-mixtures may be useful for fuel additives or substitutes.
- Chemicals: Coal liquids such as methanol may be useful for oil-field operations, while tar and pitch may be useful for briquetting coal for home heating.

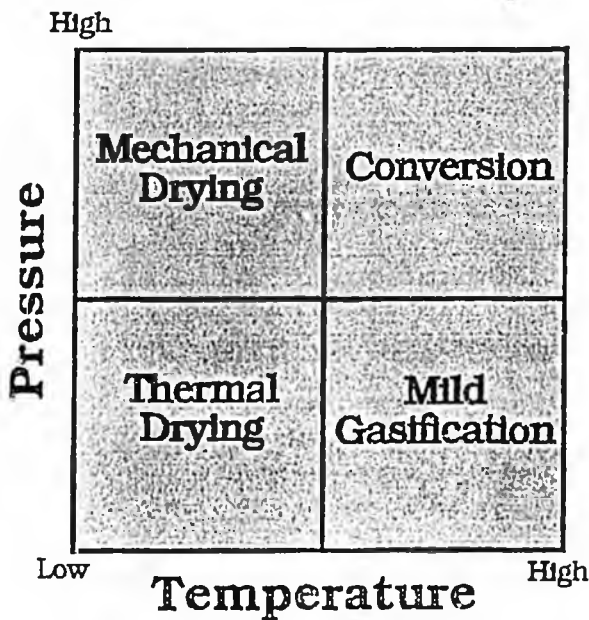


Figure 1. Advanced beneficiation processes classified by operating temperature and pressure.

III. Overview of Advanced Beneficiation Technologies

The beneficiation of coal spans a spectrum of processes. Conventional techniques include crushing, sizing, washing, surface drying and briquetting. There are a variety of advanced beneficiation technologies of which some are still in the early stages of research.

Advanced beneficiation technologies

There are four general types of advanced beneficiation processes and they may be classified by the level of heat and pressure used in each process (figure 1). The type and form of end-products vary with each process. In general, operating and capital costs increase with increasing process temperatures and pressures.

- Thermal drying: Raw coal is heated at relatively low temperature and pressure, which results in a short to moderate term moisture reduction. Thermal drying preserves the reactive nature of the coal (which contributes to its rapid and thorough combustion) and minimizes the loss of volatile gases (which contributes to its total energy content). However, dried coals are subject to fragmentation (breaking into fine particles) and to the reabsorption of moisture during storage and transportation.
- Mechanical drying: Raw coal is heated to moderate temperatures at high pressure to squeeze out moisture. This results in a low moisture product with longer term stability than simple thermal drying. However, there is often significant loss of volatile gases and briquetting is frequently required because of fragmentation.
- Mild gasification: Also referred to as pyrolysis, raw coal is heated to high temperatures at low pressure. The process produces low volatile carbon (char), water, liquids (oil), and volatiles (gas). These products may require further refinement to meet market specifications.
- Conversion: Using high pressure and high temperature, the coal is converted into liquids (liquefaction) and/or gas (gasification). As with mild gasification, these products generally require further refinement to meet market specifications.



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Figure 2. Types of advanced coal beneficiation processes and the comparative value of their products in U.S. per million Btu's (MMBtu) and U.S. per ton of feed coal.



IV. Chronology of UCM Coal Beneficiation Efforts

October 1986: A two ton bulk sample of UCM coal was shipped to Butte, Montana for thermal drying tests at Western Energy Company's pilot plant.

July 1987: UCM, through consultant Brown & Root USA, Inc., began investigating the potential for a cogeneration plant at Healy which would produce 150 megawatts of electricity and 500,000 tons per year of beneficiated coal.

April 1988: Consultants Brown & Root completed a report for the "Usibelli Cogeneration and Beneficiation Project" that provided conceptual designs and estimated costs for a 150 megawatt/500,000 ton per year cogeneration plant.

September 1988: UCM purchased an autoclave for the UAF Mineral Industry Research Laboratory to perform high-pressure beneficiation tests on UCM and other Alaska coals.

November 1988: UCM completed an internal evaluation on the market potential of thermally dried coal. The evaluation found that while potentially large sales at premium prices could be expected due to the low sulfur content of thermally dried Alaska coal, the potential for moisture reabsorption was a key factor in the technical and economic viability of the process.

January 1989: Stone & Webster Engineering Corporation was selected to review work done to date and prepare a report analyzing the technical and economic feasibility of coal beneficiation processes suitable for UCM coal.

January 1989: Coal samples were shipped for

bench testing to several firms developing coal beneficiation technologies including K-Fuels in Gillette, Wyoming; Carbontec in Bismark, North Dakota; Western Energy in Butte, Montana; Coal Mining Research Center in Devon, Alberta; Hazen Research Laboratory in Golden, Colorado; and Synfuels Genesis in La Jolla, California.

May 1989: The products resulting from the January 1989 tests were returned to the UAF Mineral Industry Research Laboratory (MIRL) for analysis. The product quality results of the MIRL analyses were forwarded to Stone & Webster for use in their report.

June 1989: Stone & Webster Engineering Corporation reviewed the thermal drying test work done for UCM and recommended that the inclusion of a thermal drying process into the HCP project would significantly weaken the proposal, and that prior to developing a commercially sized thermal drying plant, a pilot scale plant should be built and a bulk sample of dried coal be produced and shipped to market. The report also found that a combination of thermal drying and mild gasification may prove to be economically attractive. Stone & Webster recommended that further testing and market analyses should be done before UCM selects a beneficiation technology for development.

July 1989: A 2 1/2 ton bulk sample of UCM coal was shipped to the Japanese New Energy Development Organization (NEDO) for gasification testing.

October 1989: A 1 1/2 ton bulk sample of UCM coal was shipped to the Western Research Institute (WRI) in Laramie, Wyoming for testing in a 100 lb/hr pilot plant using an inclined fluid-bed dryer. WRI is currently preparing a proposal to perform work using the inclined fluid-bed dryer to test mild gasification.

February 1, 1990

Healy Cogeneration Project



The combination of new coal-burning technologies and low-sulfur Alaska coal will result in one of the cleanest coal-burning power plants in the world

Healy Cogeneration Project Selected

In August 1989 the Alaska Industrial Development and Export Authority (AIDEA) submitted a proposal for the Healy Cogeneration Project (HCP) to the U.S. Department of Energy (DoE) under the DoE's Clean Coal Technology Program. In December 1989, the HCP proposal was selected from among 48 other projects for grant funding of up to \$93.2 million. The grant will finance nearly half of the design, capital and initial operating costs of the HCP plant. The project schedule calls for plant construction to be complete in 1995 with a one-year start-up and test program to follow.

The HCP project will construct a state-of-the-art coal-fired power plant at Healy, Alaska. The power plant will provide 50 megawatts of competitively priced electricity to satisfy increasing railbelt demand; will demonstrate innovative coal burning technologies; and may provide energy for the future development of a pilot-scale plant to benefit high-moisture Alaska coals. The combination of new coal-burning technologies and low-sulfur Alaska coal will result in one of the cleanest coal-burning plants in the world.

Alaska Benefits

The Healy Cogeneration Project will draw national and interna-

tional attention to the demonstration of leading-edge technologies and provide a variety of benefits to the state's economy. The project will employ approximately 200 workers during a two year construction period and create about 50 year-round jobs in Healy once the plant is fully operational. In addition to employment, several other long-term economic benefits will contribute to the future well-being of Alaska's railbelt.

Satisfying Growing Railbelt Energy Needs

The addition of a new, efficient 50 megawatt power plant will provide power to satisfy increasing railbelt energy demands and will help diversify the fuel base of the railbelt power grid. Between 1984 and 1989, kilowatt-hour sales by GVEA increased nearly 24 percent. By the mid to late 1990's, additional base load generating capacity will be needed. While primarily serving northern railbelt customers, the strategically located generating plant would also be available for transmitting power to the southern railbelt.

Technology for New and Existing Power Plants

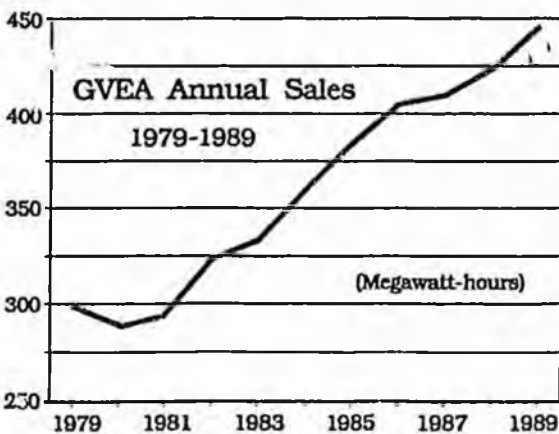
The HCP will demonstrate a clean-burning technology that can be used to retrofit or repower existing power plants in Alaska, the nation, and the Pacific Rim.

Most coal-fired power plants in Alaska and other states will require life extension work within the next 10 to 15 years. EPA's stringent New

The addition of a new, efficient 50 megawatt power plant will provide competitively priced power to satisfy increasing railbelt energy demands.

Source Performance Standards will be applied to these plants and HCP technology may be the lowest-cost solution for meeting these standards.

In addition to environmental advantages, the use of HCP technology to retrofit coal-fired power plants in the Pacific Rim will open new markets for Alaskan coal. Currently, few Pacific Rim plants are designed to use Alaska's high-mois-



ture low-energy coal. HCP technology will allow Alaskan coal to be burned in these plants without the need for extensive boiler modifications.

The project may also demonstrate the feasibility of new power plants in other areas of Alaska. The reduced size of HCP technology relative to conventional coal plants will make the use of modular construction possible. This may result in lower construction costs for small sized plants which heretofore have not been economically feasible.

Beneficiation of Alaska Coal

A future component of the project may be the use of energy from HCP in a proposed pilot plant which will test methods to increase the quality of Alaskan subbituminous coal by reducing its moisture content or by producing entirely new fuel products. Alaska subbituminous coal has superior environmental qualities compared to coal from virtually all other states and countries. However, its low energy value -- due primarily to its high-moisture content -- makes the coal costly to transport and puts it at an economic disadvantage in international markets. The value and competitiveness of Alaska coal could be increased through drying, gasification, liquefaction or a combination of these processes. The excellent environmental qualities and high energy value of beneficiated Alaska coal would result in a premium fuel for export markets.

Focus on Alaska's Coal Resources

Alaska has enormous resources of coal and could become a major energy supplier to the Pacific Rim. The HCP project will be a showcase for leading-edge coal-burning technology and will bring national and international attention to Alaska's low-sulfur coal resources. The proj-

ect will also send a clear signal to industry that Alaska is serious about using new and environmentally superior technologies to utilize the state's enormous natural resources.

Clean Coal Technology Program

The Clean Coal Technology program (CCT) was created by the U.S. Congress in response to concerns about acid rain. The program is administered by the DoE and focuses on the reduction of air pollutants considered to be precursors of acid rain. Five rounds of funding totaling over \$2.5 billion have been planned. The first two rounds made \$973 million available while the third and current round has \$540 million available to support qualifying projects. The \$93.2 million granted to HCP represented over 17 percent of the total funding available in round three.

The objectives of the current round of CCT funding are to promote, through demonstration projects, the commercialization of innovative technologies which are capable of significantly reducing emissions of sulfur dioxide and nitrogen oxides in existing coal burning facilities and/or providing for future energy needs in an environmentally acceptable manner.

The DoE may match up to 50 percent of the costs for the design, construction and initial operation of selected projects. Project owners are responsible for financing the re-

The project will employ approximately 200 workers during a two year construction period and create about 50 year-round jobs when complete

remainder of the cost. Under the terms of the program, AIDEA and DoE must negotiate an agreement during 1990 for the design, construction, demonstration and financing of the HCP project before federal funding may be awarded.

Project Description

The Healy Cogeneration Project involves six participants. These include the Alaska Industrial Development and Export Authority (AIDEA), which will own the project and be assisted by the Alaska Energy Authority; Golden Valley Electric Association (GVEA) which will operate, maintain and purchase power from the project; Usibelli Coal Mine, Inc. (UCM) which will supply coal and has offered a project location site; Stone & Webster Engineering Corporation, which will act as project design and management engineer; TRW Combustion Business Unit, which will provide proprietary combustion technology; and Joy Technologies Inc. which will provide proprietary emission control technology.

The HCP power plant will use an innovative design integrating advanced combustion, heat recovery, and emission control technologies. The environmental emissions from the HCP plant, including sulfur dioxide and nitrogen oxides, may be lower than any other coal-based power system in the world.

The HCP plant will use approximately 300,000 tons per year of low-sulfur subbituminous coal and will

produce 50 megawatts of competitively priced electrical power. The plant will contribute to energy resource conservation by burning both run-of-mine coal and high-ash waste coal that could not be normally utilized. In the project's demonstration phase, various Alaska coals will be tested and the plant will be made available for testing coals from other states.

The estimated cost of the project is \$192 million. The HCP was selected for up to \$93.2 million of cost-sharing by DoE. Additionally, in the 1989 legislative session, the Alaska legislature reserved \$30 million from the Railbelt Energy Fund for potential appropriation to the HCP project. The appropriation of the reserve was to be contingent upon the selection of the project by DoE, the preparation by AIDEA of an acceptable financial plan, and the drafting of power sales agreements. The HCP participants are requesting that the reserved funds be appropriated to the project during the 1990 legislative session. The balance of the project costs will be secured by AIDEA through the sale of revenue bonds.

Project Participants

Six participants cooperated in the preparation of the HCP proposal and will participate in the performance of the project.

1. The Alaska Industrial Development and Export Authority (AIDEA) supervised the prepara-

tion and submittal of the HCP proposal to DoE and will:

- be the HCP project owner and coordinate the functions of the Alaska Energy Authority;
- prepare a financial plan for submittal to the Alaska legislature; and
- issue revenue bonds to finance project costs not covered by federal or state grants.

2. Golden Valley Electric Association (GVEA) will:

- oversee the project's design and construction;
- operate and maintain the HCP power plant;
- purchase electricity produced by the project;
- manage the training of operator personnel; and
- perform power plant start-up activities.

3. Usibelli Coal Mine, Inc. (UCM) initiated, oversaw and funded the costs of preparing the HCP proposal and will:

- make land owned or leased by UCM available for the siting of the HCP project;
- supply coal to HCP and dispose of plant ash; and
- review project design and construction activities.

4. Stone and Webster Engineering Corporation acted as consulting engineer and prepared the HCP proposal under contract to UCM and will:

- act as design engineer and supply key members to the project management and design team; and
- provide construction and management services to AIDEA.

The project will draw international attention to the demonstration of leading-edge technology and provide a variety of benefits to Alaska's economy.

5. TRW Combustion Business Unit assisted in the preparation of the HCP proposal and will:

- provide proprietary combustion technology to the project;
- participate in the project design; and
- provide warranties and guarantees covering the design and performance of TRW equipment.

6. Joy Technologies Inc. assisted in the preparation of the HCP proposal and will:

- provide proprietary technology for the sulfur and ash removal;
- participate in the project design; and
- provide warranties and guarantees covering the design and performance of Joy Technologies equipment.

New Technologies

The Healy project will integrate entrained coal combustion (ECC) technology developed by TRW Combustion Business Unit and spray dryer absorber (SDA) technology developed by Joy Technologies Inc.

Entrained Coal Combustion

In ECC technology, pulverized coal is injected into a precombustion chamber where it is entrained in swirling air and partially burned. The ash contained in the coal is converted to molten slag which is collected and drained off the chamber walls. The removal of over 80 percent of the ash before reaching

the boiler minimizes conventional maintenance problems and allows the combustion technology to be used with boilers originally designed for other fuels.

Additional air is added in a secondary burner where further combustion of the hot gases takes place before entering the boiler. At the entrance to the boiler, limestone is injected into the combustion gases to react with and provide first-stage removal of sulfur dioxide. The temperatures and oxygen levels throughout the combustion stages are carefully controlled to both minimize the formation of nitrogen oxides and maximize sulfur removal.

Pilot tests of ECC have demonstrated its reliability and high energy efficiencies, while emissions of sulfur dioxide and nitrogen oxides have been shown to be equal to or lower than those from other new technologies. Additionally, the size of ECC combustion units are relatively small compared with other new technologies. Therefore, they can be more easily adapted to existing boilers and may make smaller-scale coal plants feasible.

Spray Dryer Absorber

In addition to sulfur reductions in the ECC combustion system, Joy Technologies' SDA emission control system further reduces sulfur dioxide levels in the flue gases. A recycled ash product, produced by the limestone injected during combustion, is mixed with water and sprayed into the flue gases. Sulfur

dioxide reacts with the spray and is removed along with the remaining ash in filter bags. The second-stage removal of sulfur dioxide and the reduced costs of limestone recycling contribute to the environmental and operational efficiencies of the HCP design.

Project Contacts

For further information on the Healy Cogeneration Project, contact the personnel listed below.

Alaska Industrial Development and Export Authority

John Olson, Project Manager
480 W. Tudor Road
Anchorage, AK 99503
Tel. (907) 561-8050
Fax. (907) 561-8998

Golden Valley Electric Association

Mike Kelly, General Manager
Vayla Colonell, Member Services
758 Illinois Street
P.O. Box 71249
Fairbanks, AK 99707-1249
Tel. (907) 452-1151
Fax. (907) 451-5633

Usibelli Coal Mine, Inc.

John Sims, Vice President Marketing
Steve Denton, Consulting Engineer
122 First Avenue, Ste. 302
Fairbanks, Ak 99701
Tel. (907) 452-2625
Fax. (907) 451-6543

S B

525

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act authorizing the issuance of bonds by AIDEA, etc.
 Sponsor: Senate Labor & Commerce
 Requestor: Senate Labor & Commerce

Agency Affected: Commerce & Economic Dev.
 BRU: Alaska Industrial Development and Export Authority
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0			
CAPITAL	0	0	0			
REVENUE	0	0	0			

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

(SEE ATTACHED)

Prepared by: Bertram L. Wagon, Executive Director Phone: 561-8050
 Division: AIDEA/Commerce and Economic Development Date: _____

Approved by Commissioner: Larry Mercurieff *Larry Mercurieff* Date: 3-22-90
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):

- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
- 2182W/32290c

ANALYSIS:

Section 1 of SB 525 would give AIDEA the authority to issue up to \$40 million in bonds for the Skagway dock project.

Section 2 would give AIDEA the authority to issue up to \$10 million in bonds for the Unalaska dock project.

Payments from users of the facilities will pay operating costs and debt service on the bonds. Revenue funds will be maintained as required by the bond documents. User agreements will provide necessary revenue for operations, maintenance, and debt service.

No separate legislative appropriation is required for AIDEA to issue the revenue bonds; therefore, the fiscal note is zero.

Sheiler file



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

April 4, 1990

The Honorable Dick Eliason
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Senator Eliason:

Thank you for the opportunity to provide clarification on HB 123 and SB 525 and their impact on Skagway.

Should neither bill become law, the Authority would be unable to either finance any facilities for Skagway⁽¹⁾ or own itself and allow others to utilize any facilities in Skagway.

Should only HB 123 become law, the Authority would be able to finance, in conjunction with a financial institution, under our normal financing program (44.88.155 up to a limit of \$10 million) a dock facility in Skagway. The discussed project was never intended to be handled in this way however, it is technically possible.

Should only SB 525 become law, the Authority could issue bonds and own a dock facility in Skagway. It could be somewhat troubling not having Sections 2 & 3 of HB 123 but, most likely could be made to work.

If both HB 123 and SB 525 become law, both options would of course be available. It should be noted that under either program, consent is required by the local governing body.

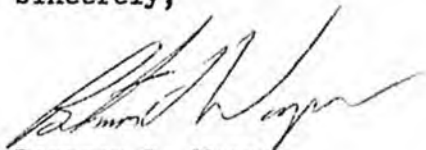
The rumor mill is very active that White Pass and Curragh are close to an agreement under which Curragh would obtain White Pass's interest in the existing ore terminal. It is anticipated that Curragh will need Authority participation in such a transaction. Local reaction to such a transaction is subject to speculation however, in my hearings in Skagway a considerable voice advocated keeping the terminal/industrial portion of the water front in its current location (away from the small boat harbor and park). Unsure what this would do to the election however, SB 525 would work under either case with one minor amendment.

Letter - Senator Eliason
April 4, 1990
Page Two

On another note, attached is the March 30, 1990, Simon & Seafort's menu. Thought you would find the description of the "Canadian King Salmon" interesting.

If you should have any questions, please let me know.

Sincerely,



Bertram L. Wagnon
Executive Director

BLW/ss
attachment(s)

(1) Current law provides that the Authority may issue bonds to finance projects in conjunction with a financial institution in an amount not to exceed \$10 million. Without HB 123, no bonds can be issued which precludes usage of 44.88.155, our normal financing activities under \$10 million.

House Bill 123
Provisions That Could Impact Skagway Project

Section 2

Includes a municipal along with federal state entities. This may not be fatal however, it could complicate Skagway as well as the Unalaska project. Most likely I can work around it but it would certainly give considerable comfort to know the legislature wanted the Authority to work with municipal entities.

Section 3

This section provides flexibility in transferring funds between the various accounts to facilitate the issuance of bonds through either the Economic Development Account or the Enterprise Development Account. It is an internal accounting provision allowing usage of assets for projects that have been approved. It may not be fatal to not have this section however, it would complicate the funding side of the transaction.

Sheila



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

January 12, 1990

The Honorable Tim Kelly
Senate President
P.O. Box V
Juneau, Alaska 99811

Dear Senator Kelly:

Legislation extending the authorization of the Authority to issue bonds failed to pass during the last session of the Legislature. H.B. 123, at the Authority's request, has been referred to the Senate Labor & Commerce Committee. It is my hope that the committee will take up the bill in the near future to consider necessary amendments which the Authority has proposed. Once H.B. 123 passes the Senate, it will return to the House for concurrence. Absent the passage of this legislation, the Authority is prohibited from issuing bonds after January 1, 1990.

During the interim, the Authority was approached by the City of Unalaska requesting assistance in expanding the City's port facilities to accommodate a dramatically increased level of activity. The Authority entered into an agreement with the City whereby the Authority would finance the improvements, subject to legislative approval. The Governor plans to introduce legislation shortly authorizing the Unalaska dock project. H.B. 123 also is critical to the Authority's ability to access the bond market and perform its role in financing infrastructure developments.

In order to allow preliminary engineering and design to commence immediately, the Authority has agreed to advance fund portions of the project so that a schedule could be maintained allowing for construction in the Summer of 1990. I want to assure you that this in no way is intended to circumvent legislative approval and no bonds will be issued without such approval. It is merely a mechanism to allow preliminary work to proceed so that this needed infrastructure project can be constructed this summer.

I would be happy to discuss the proposed legislation with you at any time.

Sincerely,

Bertram L. Wagnon
Executive Director

Honorable Tim Kelley
January 12, 1990
Page Two

cc: Senator Dick Eliason, Chairman
Senate Labor & Commerce Committee

Senator Fred F. Zharoff

CITY OF SKAGWAY, ALASKA
RESOLUTION 90-7R

A RESOLUTION REQUESTING AMENDMENT AND PASSAGE BY THE ALASKAN LEGISLATURE OF HOUSE BILL 455 AND SENATE BILL 525.

Whereas, the City of Skagway and the Alaska Industrial Development and Export Authority (AIDEA) have negotiated a tidelands lease for the purpose of development of an ore terminal and multi-use port facility; and

Whereas, the City of Skagway approved this lease by Ordinance 90-3 on condition that the ordinance be ratified by a vote of the citizens of Skagway on April 17, 1990; and

Whereas, House Bill 455 contained a provision that would authorize AIDEA to issue bonds in the amount of \$40 million for purposes of port development in Skagway; and

Whereas, this provision for AIDEA participation in Skagway port development was subsequently removed from House Bill 455; and

Whereas, on April 6, 1990, Curragh Resources, the proposed principal user of the AIDEA port development project, made arrangements with Skagway Terminal Company to continue to use the existing ore transshipment facility in Skagway under a sublease agreement to be approved by the City of Skagway; and

Whereas, this agreement renders the port development project as proposed under Ordinance 90 - 3 unnecessary due to the loss of the principal facility user; and

Whereas, AIDEA participation in the agreement between Curragh Resources and Skagway Terminal Company is possible.

NOW THEREFORE BE IT RESOLVED THAT THE COMMON COUNCIL OF THE CITY OF SKAGWAY requests the immediate amendment and passage of House Bill 455 and Senate Bill 525 authorizing AIDEA to issue bonds for the financing of port improvements in Skagway, specifically to acquire and rehabilitate the existing ore terminal in Skagway; and

BE IT FURTHER RESOLVED that this authorization shall not apply to the port development plan as proposed by AIDEA involving construction of a new ore terminal on lands leased from the City, as proposed under City of Skagway Ordinance 90 - 3.

PASSED AND APPROVED THIS 12TH DAY OF APRIL, 1990.

Stan Selmer
Stan Selmer, Mayor

ATTEST:

Lorene S. Gordon
Lorene S. Gordon, City Clerk

DRAFT

Suggested Amendments to S.B. 525

Section 1. The Alaska Industrial Development and Export Authority may issue bonds to finance the acquisition, design, and [construction] reconstruction of a public use [multi-purpose] ore terminal [and dock facility] in Skagway to be owned by the Authority. The principal amount of the bonds may not exceed [~~\$40,000,000~~] \$20,000,000. This section grants the legislative approval required under AS 44.88.090 and 44.88.172(c).

Section 4. Deleted

Section 5. Deleted

Shula

TWENTY-EIGHT NEW JOBS were created in Skagway as a direct result of Curragh Resources' mine haul over the highway to the deep water port of Skagway.

8 MECHANIC OPERATORS

2 SECRETARIES

1 MANAGER

2 FREIGHT WORKERS

1 ADDITIONAL CUSTOMS OFFICER

1 FULL-TIME IMMIGRATION OFFICER (Previously part-time)

6 PART-TIME SHIP LOADERS

2 ADDITIONAL FULL-TIME D.O.T. HIGHWAY EMPLOYEES

5 ADDITIONAL PART-TIME D.O.T. HIGHWAY EMPLOYEES

In addition to these jobs is the spin off to other businesses and services in town. More restaurants have been open year round; school enrollment has increased; over \$1,000,000 in new payroll money is being spent in the city.

WE MUST KEEP THESE JOBS AND ADD TO THEM !

Office Copy

THE TIDELANDS LEASE

LESSOR - CITY OF SKAGWAY

LESSEE - PACIFIC & ARCTIC RAILWAY & NAVIGATION COMPANY
(WHITE PASS/SKAGWAY TERMINAL COMPANY)

THE PURPOSE HERE IS TO DESCRIBE THE TIDELANDS LEASE AND THE RELATIONSHIP WHICH HAS EVOLVED BETWEEN THE CITY OF SKAGWAY AND THE LESSEE IN DEMONSTRATION OF THE NEED FOR ADDITIONAL DEVELOPMENT OF THE SKAGWAY SEAPORT.

This report was written by Gil Acker, a former City Manager at the request of citizens for Public Port Development.

CHRONOLOGY

1957 FEDERAL LEGISLATION INTRODUCED FOR AUTHORIZATION OF THE TRANSFER OF TIDELANDS FRONTING MUNICIPALITIES TO THE TERRITORY OF ALASKA

MARCH 1957 BY ORDINANCE CITY OF SKAGWAY EXPRESSED INTEREST IN ACQUIRING TIDELANDS (CY COYNE, MAYOR)

SEPT 7, 1957 CONGRESS PASSED PL 35-303 AUTHORIZING TRANSFER OF TIDELANDS TO TERRITORY OF ALASKA

JUNE 1959 CITY OF SKAGWAY APPLIED FOR TITLE TO TIDELANDS

DEC. 20, 1960 SKAGWAY BECAME FIRST CITY IN ALASKA TO OBTAIN TIDELANDS GRANT.

JAN 3, 1961 TRANSFER CEREMONEY IN SKAGWAY

MARCH 1964 PACIFIC & ARCTIC RAILWAY AND NAVIGATION COMPANY LTD (WHITE PASS) FILED FOR TIDELANDS UNDER THE OLD DOCK

FEB

1967 WHITE PASS ADVISED CITY OF SKAGWAY OF INTEREST IN DEVELOPMENT OF AN ORE DOCK AND REQUESTED PURCHASE OF TIDELANDS SUBJECT TO FAVORABLE OUTCOME OF ENGINEERING SURVEY. CITY APPROVED CONDUCT OF SURVEY PRINCIPAL PURPOSE - STORING AND SHIPLOADING OF BULK CONCENTRATES OF ORES FROM MINES IN THE YUKON TERRITORY.

JAN 1968 CITY HAD AN APPRAISAL MADE OF THE TIDELANDS PARCEL DESIRED BY WHITE PASS

ABOVE MEAN HIGH TIDE	6.5 acres
BETWEEN MEAN LOWER LOW WATER AND MEAN HIGH TIDE	45.5 acres
BELOW MEAN LOWER LOW WATER	18.2 acres
TOTAL	<u>70.2</u>

APPRAISERS VALUATION - 60,000.00

RECOMMENDED ANNUAL RENTAL 5,000.00

JAN 24, 1968 WHITE PASS APPLIED TO CITY FOR LEASE OF TIDELANDS FOR PERIOD OF 55 YEARS.

JAN 25, 1968 EXTRACTS FROM CITY ATTORNEYS' RESPONSE TO WHITE PASS /STATED:

1) THE APPLICATION, EVEN IF BASED ON THE STATE FORM, DOES NOT MEET SEC. 2, ARTICLE III, ORD. 229, INSOFAR AS SHOWING A DEVELOPMENT PLAN. EVEN IF THE PLAT OF JANUARY 3 IS ATTACHED TO THE APPLICATION."

2) "STUDY OF THE PLAT SHOWS THE PROPOSED LEASE COVERS THE ENTIRE AREA OF TIDE AND SUBMERGED LAND AVAILABLE AND SUITABLE FOR SUCH PURPOSES. YET THE LACK OF A DEVELOPMENT PLAN, OR ANY REPRESENTATION WHATEVER BY WHITE PASS TO THIS EFFECT, SIMPLY RESULTS IN THERE BEING NO JUSTIFICATION OF LEASING THIS ENTIRE AREA."

3) "THUS, THE SITE ITSELF, COMPRISING IN EFFECT THE WHOLE WATERFRONT. IS GEOGRAPHICALLY UNIQUE. WHILE IT IS TIED GEOGRAPHICALLY INTO LOGICAL USE ONLY BY THE WHITE PASS AS THE PRESENT SOLE TRANSPORTATION LINK BETWEEN ALASKA TIDEWATER AND THE YUKON, THERE IS A POSSIBILITY OF THE CARCROSS ROAD BEING EVENTUALLY CONSTRUCTED AND WHEN THAT DOES HAPPEN IT WOULD MAKE SKAGWAY LOOK PRETTY SICK IF AT THAT TIME THERE WAS NO TIDELAND AVAILABLE FOR OTHER DEVELOPMENTS, OR IF THERE WAS NO PROVISION IN THE LEASE REQUIRING THAT THE FACILITIES ON THE SITE, OR THE PRESENT PUBLIC DOCK FACILITIES OF THE WHITE PASS BE MADE AVAILABLE FOR SHIPPING THE COMMERCE DEVELOPED BY THE ROAD. PERHAPS THE FERRY COULD BE CONSIDERED SUCH AN ALTERNATIVE, BUT I RATHER DOUBT IF IT COULD BE CONSIDERED AN ECONOMIC ALTERNATIVE."

4) "THE APPLICATION WILL ALSO NEED TO BE EXPANDED TO INCLUDE THE "USE, VALUE AND NATURE" OF THE IMPROVEMENTS TO BE CONSTRUCTED, AS WELL AS THE "TYPE" OF CONSTRUCTION. I THINK THAT THE "NATURE" OF THE IMPROVEMENTS CALLS FOR A BRIEF DESCRIPTION OF THEIR (1) LOCATION, (2) AREA NEEDED, (3) WIDTH, LENGTH AND HEIGHT, AND (4) FRAME, STEEL, CONCRETE OR WHATEVER. AS THE SUBMISSIONS NOW STAND IT IS IMPOSSIBLE FOR THE CITY TO DETERMINE OTHER THAN THAT THE SURFACE WILL BE USED FOR THE STATED USES."

FEB 5, 1968 BY RESOLUTION #31, CITY APPROVED LEASE OF TIDELANDS BY COMPETITIVE BID.

INITIALLY
MARCH 8, 1968 AT 10AM AUCTION HELD AT CITY HALL, NO ONE APPEARED AND NO APPLICATION WAS RECEIVED. AT 10:15AM A REPRESENTATIVE OF PACIFIC AND ARCTIC RAILWAY AND NAVIGATION COMPANY APPEARED AND MADE PAYMENT OF \$1794.55

MARCH 19, 1968 BY RESOLUTION #32, THE CITY OF SKAGWAY APPROVED ENTERING INTO A LEASE OF THE TIDELANDS WITH THE PACIFIC AND ARCTIC RAILWAY AND NAVIGATION COMPANY. SIGNIFICANT TERMS OF THE LEASE INCLUDED:

- 1) TERM OF THE LEASE - 55 YEARS
- 2) ANNUAL RENTAL - \$3600.00 PAYABLE MONTHLY
- 3) LEASE RENTAL SUBJECT TO ADJUSTMENT ON FIFTH ANNIVERSARY DATE OF LEASE AND EACH ANNIVERSARY DATE THEREAFTER DEVIABLE BY 5.
- 4) LESSEE TO COMMENCE CONSTRUCTION WITHIN 2 YEARS OF SPUR RAIL LINE, BULK MINERAL STORAGE AND HANDLING FACILITY, DOCK AND DOLPHINS AND A DEEP WATER BASIN AT THE FACE OF THE DOCK
- 5) COST FOR COMPLETION OF FACILITIES TO BE NOT LESS THAN 2 MILLION DOLLAR
- 6) ALL IMPROVEMENTS WITHIN LEASED PROPERTY OTHER THAN THE EXCAVATED BASIN AND FILL MATERIAL TO BE SUBJECT TO TAXATION BY THE CITY

DEC 1968 WHITE PASS ASSIGNED THE LEASE TO SKAGWAY TERMINAL COMPANY

MARCH 1973 THE CITY AND WHITE PASS FAILED TO ADJUST THE LEASE RENTAL ON THE 5th ANNIVERSARY DATE, MARCH 1973. REASON UNKNOWN

OCT 23, 1974 CITY LETTER TO WHITE PASS PROPOSED TO CONSTRUCT COMBINED FERRY TERMINAL - BARGE FACILITY IN EAST SIDE OF BASIN AND REQUESTED RELEASE THAT PORTION OF THE TIDELANDS LEASE.

THERE FOLLOWED SEVERAL YEARS OF DISCUSSIONS AMONG THE CITY, STATE AND WHITE PASS

OCT 1975 CITY NOTIFIED SKAGWAY TERMINAL COMPANY THAT TIDELANDS WOULD BE APPRAISED AS A BASIS FOR ADJUSTMENT OF RENTAL

DEC 30, 1975 CITY INFORMED LESSEE OF RESULTS OF APPRAISAL: REQUESTED PAYMENTS OF RENTS RETROACTIVELY FOR PERIOD FROM MARCH 1973, CY 74 and CY 75 AND PROPOSED SCHEDULE OF RENTALS FOR PERIOD CY 76 THRU CY 79. DEC 1975

TIDELANDS 70.2 ACRES - APPRAISED VALUE	300,000.00
LOTS 11, 12, BL 44 & part Lot 7 BL 45	30,000.00
#(Additional tract leased to White Pass & included in tidelands)	
Total	<u>330,000.00</u>

ANNUAL LEASE RENTALS FOR BOTH TRACTS, RENT COMMENCING FROM JAN 1976 19,800.00

BACK RENTALS DUE FOR PERIOD MARCH 1973 THRU CY 74 & CY 75 31,140.00

APRIL 15, 1976 CITY PROVIDED LESSEE WITH EXPLANATION OF APPRAISERS METHODOLOGY AND REQUESTED PAYMENTS BE MADE

JUNE 7, 1976 WHITE PASS REQUESTED RECONFIRMATION BY APPRAISER OF BASIS FOR HIS APPRAISALS

AUGUST 12, 1976 CITY ADVISED WHITE PASS OF RESULTS OF REVIEW OF MATTER WITH APPRAISER, ADJUSTED VALUES OF LEASED PROPERTIES, ADJUSTED RENTALS AND PAST RENT DUE THE CITY AS OF AUGUST 1976.

AUGUST 24, 1976 WHITE PASS RESPONDED IN GENERAL AGREEMENT BUT QUESTIONED APPRAISERS VALUATIONS OF DECEMBER 1975

SEPT 2, 1976 STATE DOT LTR TO CITY RE FERRY-BARGE PROJECT

1) " WITH REGARD TO THE LATEST INFORMATION PRESENTED BY WHITE PASS, I CAN ONLY SAY THAT IN MY OPINION IT IS A DELIBERATE ATTEMPT TO DISTORT AND CONFUSE THE ENTIRE ISSUE. WE DO NOT FEEL THAT OPERATION OF THE PROPOSED NEW FERRY TERMINAL WILL HAVE ANY SIGNIFICANT DETRIMENTAL EFFECT ON WHITE PASS USE OF THE SHIP BASIN, EITHER PRESENTLY OR IN THE FUTURE.

2) THE LUXURY OF WASTING AVAILABLE HARBOR SPACE WITH RIP RAP PROTECTED SIDE SLOPES CAN NO LONGER BE TOLERATED AT SKAGWAY. IT IS PAINFULLY OBVIOUS THAT MUCH OF THE AVAILABLE AREA WITHIN THE EXISTING WHITE PASS SHIP BASIN IS ALREADY BEING POORLY UTILIZED BECAUSE OF EXCESSIVE USE OF SIDE SLOPE CONSTRUCTION.

3) THE DEPARTMENT OF PUBLIC WORKS HAS EXPENDED EVERY EFFORT TO ARRIVE AT AN AMIABLE COMPROMISE WHICH WOULD HAVE THE LEAST DETRIMENTAL EFFECT ON THE CITY OR WHITE PASS AND AT THE SAME TIME COULD BE ACCOMPLISHED WITHIN THE FUNDING AVAILABLE. THE CITY SHOULD BEAR IN MIND THAT THE STATE IS NOT COMPELLED TO UNDERTAKE ANY NEW IMPROVEMENTS AT SKAGWAY, EITHER TO THE FERRY TERMINAL, BARGE FACILITY OR SMALL BOAT HARBOR."

NOV 22, 1976 CITY AGAIN REQUESTED PAYMENT OF BACK DUE RENT AS AS OF DECEMBER 1, 1976 IN AMOUNT OF \$34,953.39

NOV 24, 1976 WHITE PASS FORWARDED RENTAL PAYMENT IN AMOUNT OF \$34,347.50

NOV 29, 1976 WHITE PASS TELEGRAM PROTESTING CITY - STATE PLANS FOR NEW FERRY - BARGE FACILITY

1) " A DOCK FOR 35,000 TON ORE CARRYING SHIPS WAS BUILT ON THE WEST SIDE OF THE BASIN AND THE BASIN WAS DREDGED WIDE ENOUGH TO ACCOMMODATE A FUTURE CARGO DOCK FOR LARGE DEEP DRAFT SHIPS ON THE EAST SIDE OF THE BASIN AS CALLED FOR BY LONG TERM PLANS DEVELOPED AND WRITTEN UP AT THE TIME.

2) IT IS OUR POSITION THAT SKAGWAY HARBOR MUST HAVE A PLACE WHERE MUCH BIGGER CARGO SHIPS CAN DOCK REGULARLY IN FUTURE.

3) THE BEST EXAMPLE OF THIS IS THAT OUR CONSULTANTS THINK SEVERAL HUNDRED THOUSAND DOLLARS CAN BE SAVED BY USING SLOPED EMBANKMENTS TO SUPPORT DREDGED FILL, INSTEAD OF USING COSTLY VERTICAL SHEET PILE BULKHEADS WHICH THE STATE PLANS FOR USE FOR THE SAME PURPOSE.

4) THE FACT REMAINS THAT IN 1974 (PRIOR TO THE SYSTEMATIC PREPARATION OF ANY OVERALL HARBOR PLAN) THE STATE DETERMINED TO PUT A FERRY IN THE BASIN, AND NO AMOUNT OF PLANNING OR EXPERT COMMENT HAS BEEN ABLE TO CHANGE THEIR MINDS. THIS APPEARS TO BE A CASE OF SHEER PERSISTENCE ON THE FACE OF INCREASINGLY OBVIOUS EVIDENCE THAT THERE IS NO JUSTIFICATION FOR BUILDING A FERRY BERTH IN THE SHIP BASIN. IF THERE IS ANY OTHER REASON FOR THIS CONTINUING CONTROVERSY WITH THE STATE, WE CAN ASSURE YOU THAT IT HAS NOTHING TO DO WITH US AND WE DO NOT KNOW WHAT IT IS."

SEPT 19, 1977 CITY ADVISED WHITE PASS OF PENDING LEASE RENTAL ADJUSTMENT IN MARCH 1978 AND INVITED WHITE PASS TO PARTICIPATE IN APPRAISAL

JULY 28, 1978 CITY ADVISED WHITE PASS OF RESULTS OF APPRAISERS VALUATIONS AND NEW RENTALS EFFECTIVE MARCH 1978.

APPRAISED VALUE (TIDELANDS & LOTS)	\$467,111.00
RENTAL (INCLUDING 3% SALES TAX)	28,667.46 pr

JULY 29, 1978 CITY LTR TO EDA REQUESTS ADDITIONAL FUNDING ASSISTANCE FOR CITY - STATE FERRY BARGE TRANSFER BRIDGE PROJECT.

AUGUST 31, 1978 WHITE PASS RESPONDED TO NEW MARCH 1978 PROPOSED LEASE RENTALS:

" PLEASE BE ADVISED THAT WE HAVE BRIEFLY EXAMINED YOUR LETTER UNDER REPLY AND OUR OVERALL REACTION IS THAT THE RATES ARE RATHER HIGH. WE ARE LOOKING INTO THIS MATTER FURTHER AND SHALL ADVISE YOU IN DUE COURSE. DUE TO A

RECENT, LARGE, RE-ORGANIZATION OF THE WHITE PASS & YUKON ROUTE, WE MUST INFORM YOU THAT IT MAY TAKE SOME TIME BEFORE WE ARE ABLE TO GET BACK TO YOU ON THIS MATTER. WE DO HOPE THIS DOES NOT CAUSE YOU TOO MUCH INCONVENIENCE."

SEPT 6, 1978 THE CITY ANSWERED THIS AS FOLLOWS:

"THE ASSESSOR ADVISES THAT THE APPRAISALS ARE BASED ON VALUES OF COMPARABLE WATERFRONT PROPERTIES IN SOUTHEASTERN ALASKA; THAT THIS IS AN ACCEPTED METHOD OF ASSESSMENT; AND THAT THE VALUATIONS ARE CONSIDERED TO BE QUITE EQUITABLE. THE CITY CONCURS IN THIS JUDGEMENT.

THE CITY DOES NOT DESIRE TO ENTER INTO PROTRACTED CORRESPONDENCE ON THIS MATTER, AS WAS THE CASE FOR THE PREVIOUS RENTAL ADJUSTMENT. THE CITY'S FINANCIAL CIRCUMSTANCES ARE SUCH THAT IT IS NOT IN A POSITION TO SERVE AS A BANKER FOR YOUR COMPANY - E.G. THE CITY'S BUDGET INCLUDES AS REVENUE THE RENTAL PAYMENTS COMPUTED AT THE ADJUSTED RATE. THEREFORE, THE CITY WOULD BE GRATEFUL TO RECEIVE THE RENTAL PAYMENTS AT YOUR EARLIEST CONVENIENCE AND, IF YOUR DELIBERATIONS AND THE FORWARDING OF RENTS ARE TO EXTEND BEYOND THE FIRST OF OCTOBER, THE CITY WILL EXPECT THE PAYMENTS TO BE INCREASED TO INCLUDE AN INTEREST CHARGE ON THE AMOUNT OF RENT UNPAID COMPUTED AT THE RATE OF 8% PER ANNUM."

MAY 9, 1979 CITY LTR TO EDA RECONFIRMING NEED FOR FERRY - BARGE FACILITY HEAVY DUTY TRANSFER BRIDGE (SIGNED BY CITY MANAGER, M.P.TAYLOR VICE MAYOR AND CHAIRMAN SKAGWAY PORT AUTHORITY AND BY E.E.FAIRBANKS, PRESIDENT SKAGWAY CHAMBER OF COMMERCE).

SEPT 18, 1979 CITY REQUESTED OF WHITE PASS PAYMENT OF DELINQUENT LEASE RENTAL PAYMENTS IN THE AMOUNT OF \$8679.92 FOR THE MONTHS OF JUNE, JULY, AUGUST AND SEPTEMBER 1979.

OCT 6, 1983 CITY ADVISED WHITE PASS OF LEASE RENTAL ADJUSTMENTS BASED ON CITY ASSESSORS VALUATIONS AS OF 17 MARCH 1968

TIDELANDS & LOTS	\$897,000.00
RENTALS (PLUS 3% SALES TAX)	4,619.55 per mo
ADJUSTMENT DUE FOR PERIOD MARCH THROUGH SEPT 1983	18,760.14

OCT 27, 1983 WHITE PASS RESPONDED AND STATED INTENTION TO APPEAL THE RENTAL RATES

FEB 14, 1984 CITY ADVISED WHITE PASS OF MAJOR DELINQUENCIES IN LEASE PAYMENTS

FEB 28, 1984 WHITE PASS RESPONDED THAT COMPANY COMMISSIONED APPRAISAL NEARING COMPLETION AND HOPE FOR RESOLUTION OF ISSUE BY APRIL

MAY 8, 1984 WHITE PASS ORE TERMINAL DOCK UPGRADED TO PROVIDE BCW RAMP; PROJECT RECEIVED STATE AND FED FUNDING AND WHITE PASS AGREED TO GUARANTEE 3 CRUISE SHIP BERTHS FOR PERIOD OF 15 YEARS.

JULY 16, 1984 APPRAISAL COMPANY OF ALASKA VALUED TIDELAND 70.2 ACRES AT \$350,000.00

OCT 11, 1984 CITY AND WHITE PASS AGREED TO RESOLVE RENT RATE ISSUF THRU ARBITRATION.

NOV 21, 1984 ARBITRATOR, THE WAKELAND COMPANY, SUBMITTED ITS DECISION: TIDELANDS MARKET VALUE AND RENTALS FOR PERIOD MARCH '83 - MARCH '88:

TIDELANDS		\$525,000.00
UPLAND LOTS		40,000.00
	Total	<u>565,000.00</u>
ANNUAL RENTALS 33,900.+3% SALES TAX 1017. = Total		34,917.00

SEPT 13, 1985 WHITE PASS LTR TO SOUTHEAST STEVEDORING (COPY TO CITY) EXPRESSES OPPOSITION TO CONSTRUCTION OF ANOTHER RAMP OFF LOADING FACILITY

1) "IF ANOTHER RAMP IS CONSTRUCTED FROM LEFT OVER STATE TAX DOLLARS, JUST BECAUSE IF THEY ARE NOT SPENT THEY MUST BE RETURNED TO THE STATE, IS AN INAPPROPRIATE REASON TO DUPLICATE A FACILITY WHICH ALREADY HAS STATE TAX DOLLARS IN IT AND GUARANTEES A RETURN TO THE CITY. WE SERIOUSLY QUESTION IF THE PENDING PLAN TO SPEND THESE FUNDS MEETS THE LAWFUL INTENTION. FROM THE VIEWPOINT OF A LONG TIME ALASKA TAXPAYER, IT IS THE HEIGHT OF RIDICULOUSNESS.

2) I CANNOT HELP BUT FEEL THE COURSE OF ACTION BEING TAKEN BY THE CITY OF SKAGWAY IS BASED, FOR A LARGE PART, ON PERSONALITIES, BIASES, CONFLICTS OF INTEREST AND ATTEMPTS TO NEGOTIATE OTHER PARTIES' AGREEMENTS. THIS RESULTS IN UNSOUND BUSINESS PRACTICES IN THEIR HASTE TO SPEND \$700,000 BRFORE RETURNING IT TO THE STATE. JUST A DESIRE TO "CONTROL" DOESN'T WASH

3) IT CANNOT BE DENIED THAT WHITE PASS HAS BEEN A GOOD CORPORATE CITIZEN IN SKAGWAY AND THE STATE OF ALASKA FOR EIGHTY-FIVE YEARS AND IT IS OUR INTENTION TO REMAIN SO. WE CAN ONLY DO SO IF ALLOWED TO BE COMPETITIVE ON FAIR AND EQUAL TERMS. TWO LOADING/UNLOADING RAMPS, COMPETING WITH PRIVATE INDUSTRY, BOTH BUILT BY STATE TAX DOLLARS, PROVIDING GUARANTEED REVENUE FOR THE CITY, IS NOT A TRUE OR EQUAL COMPETITIVE POSITION. ONE PAYS LEASE FEES, PROPERTY TAXES, COLLECTS SALES TAX, USES LOCAL LABOUR, GUARANTEES A FIXED PERCENTAGE OF FREIGHT TARIFFS TO THE CITY AND HAS GUARANTEED THREE CRUISE BERTHS FOR FIFTEEN YEARS. THE SECOND RAMP WOULD HAVE NO SUCH OBLIGATIONS. WE TOOK SEVERAL MILLION DOLLARS IN PROPERTY TO THE PARTY, THE STATE PUT IN STATE TAX DOLLARS. THE CITY PUT IN NOTHING. WE FURTHER PUT IN A PRIORITY BERTH SCHEDULE FOR CRUISE VESSELS OVER FREIGHT VESSELS. MUCH WAS DONE ON GOOD FAITH INTERPRETATION OF INTENT AND MORAL COMMITMENTS. IT APPEARS THE WINDOW HAS CLOSED ON MORAL COMMITMENT, GOOD FAITH AND INTENT."

JAN 25, 1988 CITY ADVISED WHITE PASS OF PENDING LEASE RENTAL ADJUSTMENT ON MARCH 19, 1988 AND OF REQUIREMENT FOR 3% SALES TAX ON WHITE PASS SUB LEASE TO CURRAGH RESOURCES. (CITY SALES TAX INCREASED TO 4% IN 1989)

APRIL 22, 1988 CITY ADVISED WHITE PASS OF ASSESSED VALUATIONS AND RENTALS COMMENCING MARCH 1988.

APPRAISERS VALUATIONS:

		<u>Annual Rental</u>	(+ 3% sales tax)
TIDELANDS	\$702,000.00	\$42,120.00	:
LOTS	51,300.00	3,078.00	:
TOTAL	<u>753,300.00</u>	<u>45,198.00</u>	= 46,553.94

RETURNS AND BENEFITS

AS IS THE CASE NORMAL TO ANY LONG TERM ECONOMIC VENTURE INVOLVING PARTICIPATION BY PUBLIC/GOVERNMENTAL ACTIVITIES AND PRIVATE BUSINESS ENTERPRISE, A DISTINCTION MUST BE MADE BETWEEN THE RETURNS TO THE GOVERNMENT SIDE WHICH ARE IMMEDIATELY MEASURABLE UPON RECEIPT AND THE BENEFITS WHICH ACCRUE OVER TIME OR ARE CUMULATIVE IN NATURE.

THE FIRST CATEGORY CONSISTS OF THE FINANCIAL RETURNS TO THE CITY'S COFFERS GENERATED BY:

- 1) THE CITY'S LEASE RENTAL FEE FOR THE TIDELANDS LEASE.
- 2) THE CITY'S SALES TAX ON THIS RENTAL FEE.
- 3) THE CITY'S PROPERTY TAX ON IMPROVEMENTS OWNED BY THE LESSEE AND
- 4) THE CITY'S SALES TAX ON THE SUB LEASE RENTAL FEES.

HOWEVER, A FIGURE OF ABOUT \$90,000.00 HAS BEEN SUGGESTED. ON THE BASIS OF THIS AMOUNT IT MAY BE INFERRED THAT THE ANNUAL SUB LEASE RENTAL PAID TO WHITE PASS BY CURRAUGH APPROXIMATES 2 MILLION AND THAT THE TOTAL ANNUAL RETURN TO THE CITY FROM THE TIDELANDS LEASE IS ABOUT \$175,000.00 THIS RETURN MAY BE COMPARED WITH THAT WHICH MIGHT BE EXPECTED FROM THE PROPOSED LEASE OF THE CITY'S REMAINING TIDELANDS TO AIDEA. SUCH RETURNS WOULD CONSIST OF:

- 1) THE CITY'S LEASE RENTAL FEE FROM AIDEA.
- 2) THE CITY'S SALES TAX ON RENTALS PAID TO AIDEA BY SUB LESSEES (CURRAUGH HAS COMMITTED AND THERE LIKELY WOULD BE OTHER SUB LEASES)
- 3) CITY PROPERTY TAX ON ANY PROPERTY OWNED BY SUCH SUB LESSEES.

THERE WOULD BE NO SALES TAXES ON THE BASIC RENTAL FEE PAID OR PROPERTY TAXES ON IMPROVEMENTS OWNED BY AIDEA AS IT IS AN AGENCY OF THE STATE. THE CITY WOULD CONTINUE TO RECEIVE THE FIRST THREE TYPES OF RETURN UNDER THE ORIGINAL TIDELANDS LEASE: THEREFORE, OVER ALL FINANCIAL RETURNS TO THE CITY FROM A LEASE TO AIDEA WOULD BE NO LESS AND LIKELY BE GREATER.

THE SECOND CATEGORY, THE BENEFITS GENERATED BY ACTIVITIES ASSOCIATED WITH THE LEASED TIDELANDS CAN NOT BE MEASURED PRECISELY IN DOLLAR AMOUNTS: HOWEVER, THEY ARE OF GREATER LONG TERM VALUE TO THE CITY THAN THE CALCULABLE FINANCIAL RETURNS. THEY CONSIST OF SUCH THINGS AS INCREASED POPULATION, INCREASED EMPLOYMENT OPPORTUNITIES, INCREASED SCHOOL ENROLLMENT, INCREASED EXPENDITURES WITHIN THE COMMUNITY ALONG WITH THE MULTIPLIER EFFECT OF SUCH EXPENDITURES AND INCREASED ACCESSIBILITY AND VISITATION TO THE CITY RESULTING FROM YEAR AROUND MAINTENANCE AND OPERATION OF THE KLONDIKE HIGHWAY. CURRAUGH MAKES A MAJOR CONTRIBUTION TO HIGHWAY MAINTENANCE. IT IS UNLIKELY THAT THE ROAD WOULD BE OPERATIONAL YEAR AROUND WITHOUT THIS SOURCE OF FUNDING. AND, AS IN THE CASE OF THE FINANCIAL RETURNS, THE BENEFITS TO THE COMMUNITY WOULD BE GREATER THAN THOSE RECEIVED UNDER THE PRESENT LEASE AS THE MULTI PURPOSE DOCK FACILITY WOULD BE AVAILABLE FOR ADDITIONAL SUB LEASE BY COMMERCIAL CARGO CARRIERS AND CRUISE SHIPS.

MOST IMPORTANTLY, THE AVAILABILITY OF THE MULTI PURPOSE DOCK WOULD INSURE THE CONTINUATION OF SHIPMENT OF MINERALS THROUGH SKAGWAY AS CURRAUGH HAS COMMITTED TO AIDEA THAT IT WILL USE THIS DOCK. IN CONTRAST, IF CURRAUGH WERE TO DISCONTINUE USE OF THE WHITE PASS DOCK BY REASON OF OBSOLESCENCE, ENVIRONMENTAL UNSUITABILITY OR INABILITY TO AGREE TO LEASE TERMS WITH WHITE PASS AND THERE WERE NO ALTERNATIVE FACILITY AVAILABLE FOR ORE SHIPMENT THROUGH SKAGWAY, THE CITY WOULD LOSE A GREAT PORTION OF THE CURRENT FINANCIAL RETURNS AND ESSENTIALLY ALL OF THE BENEFITS PRESENTLY BEING RECEIVED FROM THE TIDELANDS LEASE.