

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 86/2

9356 HOUSE LABOR & COMMERCE

WORK ORDER REQUEST FORM

W.O. [20] LS-1639

KEYWORDS: COMMITTEES, LEGISLATIVE ASSIGNED: Cook

UTILITIES

REQUEST FOR: Resolution TAKEN BY: Barnes

SUBJECT: Create Joint Sp Cmte Electric Utility Restructuring

REQUESTED FOR: HC HL&C BY: Shirley PHONE: 465-4968

DELIVER TO: Rep. Rokeberg, Cap. 24

INSTRUCTIONS: Draft resolution establishing a Joint Special Committee on Electric Utility Restructuring, per attached.

OBTAIN	SPECIAL DRAFTING INSTRUCTIONS ATTACHED [] AUTHORIZED TO CONFER WITH _____ _____ RETURN _____ _____ TO REQUESTOR APPROVED: <u>X</u> DIRECTOR, LEGAL SERVICES
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REVIEWED _____ IN <u>02/25/98</u> DUE _____ TYPED: Draft _____ Date _____ Final _____ Date _____ PROOFED _____ DELIVERED _____	SPECIAL INSTRUCTIONS to TYPING/PROOFING _____ _____ Request for DRAFT
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CHUGACH ELECTRIC ASSOCIATION, INC.

February 9, 1998

Representative Norman Rokeberg
State Capitol
Juneau, AK 99801-1182

Dear Representative Rokeberg:

Thank you for the opportunity to meet with you Jan. 29.

In our discussion, Don Edwards and I talked about changes in the electric utility industry and customers having the right to choose the company that provides their electric power. Over the past few months Chugach has supported these changes in articles contained in Chugach's member newsletter, the Outlet. I have enclosed a copy of Chugach's most recent newsletter for your information.

If you have any questions, I would welcome a call from you. My number is 762-4709.

Sincerely,

A handwritten signature in cursive script that reads "Eugene N. Bjornstad".

Eugene N. Bjornstad
General Manager

Enclosure

/pb

44-1240R/11-30 2000



Chugach_{ECO}
your energy company.

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News Notes

- **The 1998 Chugach annual meeting** will be held at the Egan Civic and Convention Center on Thursday, April 30.

- **A record date will be set for the 1998 election.** This date — will fall in mid-April and will govern who is entitled to vote in the election. The records in place at the close of business on the record date will determine who is eligible to vote in the election or at the annual meeting.

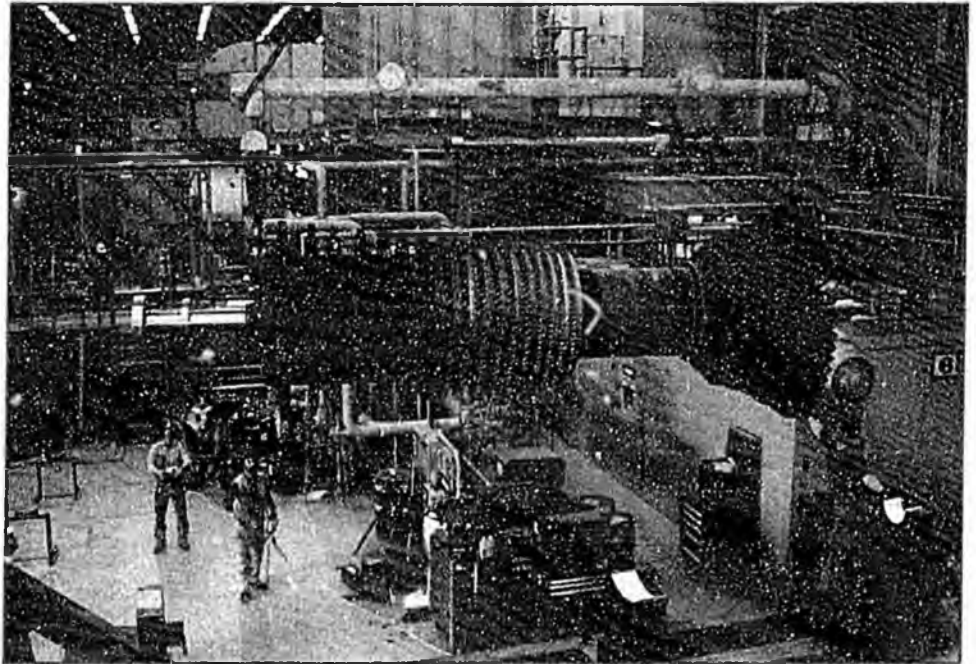
- **Two seats on the board will be filled in the upcoming 1998 election.** Members interested in meeting with the Nominating Committee should submit a resume by Thursday, Feb. 5. For more information, call 762-4736.

see **News notes** page 2

THE CHUGACH OUTLET

Jan/Feb
1998
Number 167

Budget flat for 1998



The 1998 budget includes \$4.9 million for a major overhaul of Unit No. 7 at the Beluga Power Plant. The overhaul includes removing the rotor for cleaning, inspection and repair.

In an attempt to hold the line on rates, the board approved a 1998 budget that is essentially in line with the 1997 budget. The board took the actions at its Dec. 3 meeting.

The board set a \$147.1 million operating budget for 1998 — the same figure approved for 1997. Operating expenses for 1998 — known as “the total cost of electric service” — anticipates \$138.1 million in expenditures compared to \$137.8 million in 1997 expenses.

Margins for 1998 are budgeted at \$9.5 million, down from \$10.3 million in 1997. Although the projected margins have been reduced, they would still be sufficient to meet the requirements of Chugach’s lenders.

No changes are anticipated to base

rates for retail customers. Those are the rates covering the customer, energy and demand charges. The anticipated change to the rates paid by customers in 1998 will come through the fuel adjustment factor. The fuel surcharge can change quarterly and allows Chugach to recover fuel and purchased power costs over and above the amounts collected through base rates.

Chugach filed to raise the fuel surcharge with January bills for both retail and wholesale customers. The fuel surcharge increase for retail consumers became effective Jan. 1. If approved by the Alaska Public Utilities Commission, the increase to wholesale consumers will also become effective for usage starting Jan. 1.

see **Budget 1998** page 2

General Manager's message by Gene Bjornstad



Legislative agenda: customer choice

The legislature reconvenes in Juneau this month. A number of legislators have announced issues they see as high priorities this season, including subsistence, child welfare and the budget. I'd like to add one to the list: confirming that customers have the right to choose the company that provides their electric power.

As I've been saying for some time now in this column, Chugach supports customer choice and competition in the electric industry. History has shown that competition leads to better services, lower prices and innovative thinking — all of which benefits customers.

However, while competition is the rule in most businesses, electric utilities have — until recently — operated as regulated monopolies. Consequently, there is a great deal of ingrained institutional resistance to the idea of change. That has often made Chugach's position as the

champion of customer choice a lonely one.

Across the country, efforts are underway to reshape our industry and empower individual customers with the ability to choose the company that provides their electric power at home and work. The pace of change varies from state to state. However, one thing is clear. Change is coming.

In the old days, if a person wanted to change electric providers, they had to sell their house or give up their lease and physically move to another {1110192 Wh} company's service territory. That seems like a pretty drastic thing to ask people to do. Especially when the infrastructure is in place to allow power to flow over an interconnected grid from a variety of generation sources to individual homes and businesses. We think it would be much easier on customers if they could choose a power provider by picking up the phone or clicking a

mouse.

Chugach's position is that free trade law says that competition is not just "allowed," but the rule for the electric industry in Alaska. However, not everyone involved in the discussion agrees. That's why we are planning to push for legislative action to confirm that customers have the right to choose. At the same time, we are arguing our case before the Alaska Public Utilities Commission.

We expect to find strong support in Juneau for the right of customers to make their own buying decisions. I'll let you know how we do.

Eugene N. Bjornstad

Residential Service Costs	
Customer charge	\$6.25/month
Kilowatt-hour charges:	
Energy charge	7.727¢
Fuel adjustment	1.731¢
State tax (RCC)	0.028¢
Total per kwh	9.486¢

News notes continued from page 1

• **Gift of Light gift certificates** are available year-round in any amount. You can buy one in person or order one over the phone. Call 563-7366 for more information.

• **Call 762-7888 to report a power outage**, day or night. It's a special number just for outages, and will be faster than going through customer service or our main number, although they'll both work. If you are calling to report a hazard or med-electric alert situation, use 762-7890. Both numbers are in the phone book.

• **Finding your member number** in the Outlet is worth \$50. Each month we put three member numbers into the copy inside brackets like this { }. Your member number is the root of the account number printed on your bill. It's the set of numbers preceding the dash and three sub-account numbers. We've also included the first two letters of the name on the account as a helpful hint. If you find your member number, call the service center at 563-7366 to claim your prize. You may win for either the current or immediate past month's issue of the Outlet.

Budget 1998 continued from page 1

The decision to raise the fuel surcharge in 1998 came after much effort to buffer customers from the impact of rising fuel costs. Chugach elected to hold the line on rates and write off a total of \$3.5 million in increased fuel and purchased power expenses in 1997. Continued higher fuel costs have driven the decision to pass along the actual cost of fuel to customers. Chugach is paying more for the natural gas it purchases to generate electricity. That's because a combination of national and world events in the past year have led to increases in the indexes used to adjust the prices paid to the various companies which supply fuel to the

utility. If prices fall as the year progresses, it may be possible to readjust the fuel surcharge paid by customers to lower rates.

The budget predicts that retail kilowatt-hour sales will grow modestly, increasing about 2 percent over 1997 levels. Wholesale sales to utilities serving areas of the Kenai Peninsula and Mat-Su valleys are expected to increase by nearly 5 percent, reflecting increased load growth outside the Anchorage Bowl. However, economy energy sales (sales of power on the "spot market" — primarily to the Fairbanks area) are expected to drop by nearly 83 percent in 1998, largely due to the Healy Clean Coal Project coming on-line in January.

In addition to the \$147.1 million operating budget, the board also approved a \$37.6 million capital budget for 1998. That will fund construction projects, inventory and general plant purchases and deferred debit projects. By comparison Chugach's 1997 capital budget was \$26.3 million.

The capital budget includes \$1 million for Phase 2 of the Klatt Substation upgrade, \$4.9 million for a major overhaul of Unit No. 7 at Chugach's Beluga Power Plant and \$3.1 million for the Year 2000 software conversion project. The Year 2000 project will replace Chugach's financial package software and includes a new work management system and new computer hardware system to replace an antiquated mainframe. Chugach's goal is to make its software systems "year 2000 compliant" by the end of 1998.

The 1998 budget was reviewed in detail at a series of meetings with a board committee and management prior to its approval at the December meeting.

Board viewpoint

by Pat Jasper, President



Benchmarking highlights successes

If you've followed this column in the past couple of years, you've seen us talk about benchmarking projects. Chugach has participated in a number of these studies in recent years. We've compared the cost, timeline and results of doing a variety of key tasks and functions with other utilities in other places.

The goal is to use benchmarking projects as a measuring tool to see how you compare to others in the business. While the results are confidential, you do see how your organization stacks up in relation to your partners in each study.

Since Chugach has operated as a regulated monopoly, we haven't had the opportunity to measure our performance by traditional marketplace tools — like sales. Because we've historically had a captive market, it has been hard to gauge our successes or shortcomings by things like increasing or decreasing sales. That's one reason we've embraced benchmarking in recent years. It lets us "compete" in a study against other utilities to see how we're doing.

The goal is to learn from the best of the best. While it's true that we sometimes find we've got a ways to go, occasionally we are pleasantly surprised to find we're at the head of the pack. Let me give you an example.

We know that reliability is critically important to our customers. In a recent study of 21 electric utilities from the United States, Canada, the

United Kingdom, Australia and New Zealand, we learned that Chugach has outstanding system reliability. Both the frequency and the duration of our system outages were "world class," according to the study authors.

That was good to hear. Not only for our work force, but also for each of us as customers who depend so much on the electricity which powers and enhances our everyday lives.

However, we learned another thing about our system reliability. It comes at a price. And that price is high compared to other study {2918 De} participants. That pair of facts will lead to decisions about how to balance reliability and costs.

This example illustrates the benefit of benchmarking. It's a way to learn what you're doing well — as well as what you could do better. We've gained valuable knowledge from our prior benchmarking efforts that have improved efficiencies and lowered costs. We plan to continue benchmarking as we position Chugach for success in the coming competition for your business.

Board report

Board approves capital credit retirements

The board approved a pair of capital credit retirements at its Dec. 3 meeting. A retail retirement of \$1.9 million will return the remainder of retail capital credits earned by Chugach members of record in 1983. The \$1.2 million wholesale capital credits retirement will return credits earned in 1987 to Chugach's wholesale customers. Matanuska Electric Association will receive \$649,408, Homer Electric Association will receive \$506,314 and Seward Electric System will receive \$49,788. Chugach has an agreement with its wholesale customers to return capital credits on a 10-year rotation schedule.

In addition, at its Dec. 17 meeting, the board approved a special \$88,818 wholesale capital credits retirement of 1985 credits. Matanuska Electric will get a check for \$49,361, Homer Electric will receive \$34,464 and Seward Electric System will get \$4,993. The special retirement returns margins previously withheld from the 1995 retirement.

Chugach sold 199.4 million kilowatt-hours of electric power in November, about 15.1 million kwh less than projected by the budget. Wholesale power sales accounted for 84.5 million kwh, retail sales for 95.3 million kwh and economy energy sales for about 19.6 million kwh. Year-to-date sales stood at approximately 2 billion kwh, about 49.1 million kwh less than projected by the budget.

Chugach finished November with operating

revenues of \$15.1 million, about \$2 million more than anticipated by the budget. Year-to-date operating revenues stood at \$130.5 million, about \$1.5 million less than anticipated by the budget.

November expenses were \$11.9 million, about \$413,000 more than projected by the budget. Year-to-date expenses stood at \$124.3 million, about \$435,100 more than projected by the budget.

At November's end, Chugach's equity-to-total-capitalization ratio was 26.23 percent.

By comparison, Chugach's year-to-date November 1996 power sales totaled 2 billion kwh, while operating revenues were \$121.3 million and expenses were \$114 million. Chugach's equity-to-total capitalization ratio at the end of November 1996 was 25.64 percent.

In other action at the December and January meetings, the board:

- Approved the 1998 operating and capital budget
- Authorized the general manager to enter into a contract with the City of Seward for the sale and purchase of electric power and energy.
- Authorized the general manager to execute a \$2,262,535 utility agreement with the State of Alaska for Phase IV of the electrical transmission relocation work between Bird Point and Girdwood
- Approved writing off \$152,349.19 in

uncollectible electric accounts for the six-month period ending Oct. 31, 1997. By comparison, Chugach wrote off \$150,794 for the six-month period ending April 30, 1997. Even though the uncollectibles are "written off," Chugach continues to aggressively pursue repayment of the debts.

- Approved writing off \$31,293.21 in uncollectible miscellaneous electric accounts for the six-month period ending Oct. 31, 1997. By comparison, Chugach wrote off \$7,605.25 for the six-month (1120131 St.) period ending April 30, 1997. Chugach also pursues repayment of these debts even after they've been written off.
- Approved paying \$37,936.88 in capital credit payments to 171 estates, bringing the 1997 total to date to \$250,346.04
- Appointed paying \$14,422.90 in capital credit payments to 74 estates at the Jan. 7 meeting.
- Appointed Nola Hogge and Betty Poeschel to the 1998 Nominating Committee after extending the original application date
- Appointed Sally Löhnhardt, Diane Lommel, Nayyar Malik, Walter Smith and Wes Thompson to the 1998 Election Committee.
- Tabled the issue of maintaining membership in the Alaska Rural Electric Cooperative Association until the Feb. 25 meeting
- Re-adopted NRECA's retirement and security program
- Approved director's expenses

How to reach us

Our service center at 5601 Minnesota Drive is open from 8 a.m. - 6 p.m., Monday-Friday. Switchboard hours are 8 a.m. - 5 p.m.

Frequently called numbers

Main number	563-7494
Toll free	(800) 478-7494
Customer service	563-7366
Customer service fax	762-4678
Credit	563-5060
Power theft hotline	762-4731
Danger tree hotline	762-7227
On-line	http://www.chugachelectric.com

Payment options

You may pay your bill by mail, automatic debit from your checking account, in-person at our service center or by using our curbside drop box. You may be able to pay by phone if your bank or credit union offers this service. Current payments may also be made at any Anchorage branch of the First National Bank of Anchorage.

To report a power outage

Monday - Friday, 8 a.m. - 5 p.m.	563-7366
After hours	563-7494
Outside Anchorage	(800) 478-7494

Printed in Alaska with vegetable inks on recycled paper. 100% recycled, 20% post-consumer waste.



The Chugach Outlet

A Publication of Chugach Electric Association, Inc.
5601 Minnesota Drive
P.O. Box 196300, Anchorage, Alaska 99519-6300

Chugach Electric Association, Inc. is a not-for-profit member-owned electric cooperative and Alaska's largest electricity supplier. Chugach's mission is to meet the energy needs of members and customers by providing competitively-priced, reliable, safe energy and services today and into the future through prudent and responsible planning, maintenance and management of the assets of the cooperative.

Patricia Jasper, President	Jewel Lake
Ed Grainger, Vice President	Oceanview
Chris Burch, Secretary	Valli Vuo
Mary Minder, Treasurer	Sand Lake
Pat Kennedy, Director	Satellite Park
Ray Kreig, Director	Turnagain
Bruce Davison, Director	Sand Lake
Gene Bjornstad, General Manager	



CHUGACH ELECTRIC
ASSOCIATION, INC.

February 4, 1998

Representative Norman Rokeberg
Room 24
State Capitol
Juneau, Alaska 99801-1182

Dear Representative Rokeberg:

You expressed an interest in receiving some legislative history on A.S. 42.05.221 when we met last week. I have had it delivered to Jerry Reinwand and he will drop it off to you. We continue to explore the best options for a vehicle to allow the development of Customer Choice in Anchorage. We will keep you informed of our progress.

Sincerely,

A handwritten signature in cursive script, appearing to read "Don Edwards".

Don Edwards
General Counsel

cc: Jerry Reinwand

JERRY REINWAND

Consultant • Lobbyist

2 Marine Way - Suite 219

Juneau, Alaska 99801

MEMORANDUM

TO: Representative Norm Rokeberg
Chairman
House Labor and Commerce Committee

DATE: February 8, 1998

FROM: Jerry Reinwand  SUBJ.: Proposed Joint Resolution

I appreciated the "heads-up" which you gave me regarding the proposed Joint Resolution which you are planning to introduce to create a study commission to review the issue of electric retail competition. After thinking about, I wanted to share the following thoughts with you so that you will not be "blind-sided" by Chugach Electric Association's (CEA) potential response to a study commission.

CEA's Likely Response to a Study Commission Proposal

First, it is CEA's strong belief that Alaska statutes already allow competition to occur that the APUC's only authority is to either shape or stop ongoing competition which may be harmful to the public interest. Therefore, I think CEA will strongly oppose any legislation--even a resolution--which could potentially undermine that position. I believe CEA will see the introduction of a resolution to study retail electric competition as a step backwards as it would send signals to the APUC that the Legislature is not exactly certain what the Commission's authority is in this area. Such a resolution could also undermine a current proceeding before the APUC in which this very issue is being debated and studied.

Second, members of the CEA Board are strongly behind the "push" to get retail electric competition started in Anchorage. Six members of the CEA Board will be in Juneau the week of February 16 to promote the issue of competition. Any resolution which would be introduced prior to the CEA Board arriving in Juneau--I would guess--would not be warmly received.

Mr. Chairman, an alternative which you may wish to consider is for your Committee to hold a work session (much as you did on the telecommunications issue two years ago and which was very successful) on the issue of retail electric competition. You could put "sideboards" on the presentations to the Committee (30 minutes from CEA, 30 minutes from ARECA, same time for the APUC, etc.). This would give CEA an opportunity to present its case to the committee and bring the lawyer who argued the Columbia Steel case to Juneau to highlight the key elements of the decision, and how it may affect the APUC's statutory authority to deal with this issue. Likewise, ARECA would have an opportunity to present its side of the issue. I believe a work session or formal Committee hearing on the issue of retail electric competition would have several positive benefits.

Benefits of Holding a Committee Hearing on the Issue

Here is the Reader's Digest version of what I believe would be the benefits of either a Committee hearing or work session on the retail electric competition issue:

1. If orchestrated properly, there will be considerable public interest in the hearing, and therefore, considerable press coverage of it. This press coverage will bring an important educational element to the issue.
2. It will reacquaint your Committee with the issue. It has been nearly 10 months since the Committee last addressed this issue, and it would seem to be appropriate to update your fellow members of what the current status of the issue is in Alaska.
3. It would seem to make more sense to hold a hearing or work session on the issue prior to making a Committee decision regarding what course of action the Committee will take. It may be that--after listening to all of the facts--you and your Committee may decide on a different course of action than creating a study commission.

One final comment. My personal view is that "Task Forces" or "Study Commissions" can sometimes serve a useful purpose, but generally they are used to simply dodge tough issues. I strongly believe in the integrity of elected officials and the integrity of the legislative process. You and your Committee have proven time and time again that you have the ability, intelligence and fortitude to deal with tough and complex issues. Therefore, I urge you to reconsider your decision to introduce a Joint Resolution to create a task force to study the issue of retail electric competition.

Thanks for taking the time to review this memo and best regards.

ALASKA STATE LEGISLATURE
House of Representatives

COMMITTEE ASSIGNMENTS:

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JUDICIARY COMMITTEE, MEMBER
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FAX: (907) 465-2040

Representative Norman Rokeberg

JUST THE FAX

Date: 2/24/98

TO: LAA Legal

FAX: 2029 Telephone: 2450

FROM: Representative Norman Rokeberg / Shirley

FAX: (907) 465-2040 Telephone: (907) 465-4968

Number of Pages: 4 (including this page)

Comments: Elsewhere supra draft

Shirley

Shirley

Have a Nice Day

ALASKA STATE LEGISLATURE

House of Representatives

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Labor and Commerce Committee

MEMORANDUM

TO: Legislative Legal Services

FROM: Representative Norman Rokeberg, Chairman *NR*
House Labor & Commerce Committee

DATE: February 24, 1998

SUBJECT: Draft Resolution

Please prepare a draft resolution for introduction by the House Labor and Commerce Committee.

A RESOLUTION

Establishing a Joint Special Committee on Electric Utility Restructuring

BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES AND SENATE

WHEREAS electricity is among modern society's most basic requirements and commodities; and

WHEREAS even other forms of infrastructure such as water and waste water systems are largely dependent on electricity; and

WHEREAS the provision of adequate, reliable and reasonably priced electrical energy is essential to the daily functions, safety and economic well being of individual Alaskans, their local communities and the state; and

WHEREAS it has been long-standing public policy in Alaska, as in other states, to require state regulation of electric utilities as to service areas, and state or local regulation as to rates, safety and quality of service; and

WHEREAS fundamental restructuring of the electric utility industry is now under deliberation by Congress and in other states; and

WHEREAS electric utility restructuring is a highly complex issue carrying with it profound implications for all classes of electrical consumers; and

WHEREAS the implications and ramifications of such restructuring deserve detailed, careful and informed decision-making by the Alaska State Legislature;

BE IT RESOLVED by the House of Representatives and Senate that a Joint *Special* Committee on Electrical Utility Restructuring is established to study this issue, and be it

FURTHER RESOLVED that the Speaker of the House of Representatives and the President of the Senate shall appoint the chair of their respective Labor and Commerce Committees as co-chair of the joint special committee; and be it

FURTHER RESOLVED that the Speaker of the House of Representatives and the President of the Senate shall determine the number and composition of additional members to the joint special committee and shall appoint such additional members; and be it

FURTHER RESOLVED that the joint special committee may meet during and after the Second Session of the Twentieth Alaska State Legislature and is terminated on the convening of the First Session of the Twenty First Alaska State Legislature; and be it

FURTHER RESOLVED that the joint special committee shall publish written recommendations on whether and how to implement electrical utility restructuring in Alaska.

**HP OfficeJet
Personal Printer/Fax/Copier**

Fax Log Report

Feb-24-98 08:23 PM

<u>Identification</u>	<u>Result</u>	<u>Pages</u>	<u>Type</u>	<u>Date</u>	<u>Time</u>	<u>Duration</u>	<u>Diagnostic</u>
2029	OK	04	Sent	Feb-24	08:21P	00:01:48	002485030022

2.0.0

Author: ibew1547@alaska.net (Anne Hays) at CC2MHS1
Date: 2/27/98 8:46 AM
Priority: Normal
TO: Representative Norman Rokeberg at LAA_TRANS
Subject: attn. Shirley

Shirley-

Found this on my e-mail this am, forwarded from a member in Kodiak who received it as junk e-mail. I haven't even looked at, but I suspect its not all it is to uted to be.

> From: electricity@selin.com
> To: investor@domain.com
> Subject: Sell Electricity! New Laws can make YOU wealthy!
> Date: Saturday, February 21, 1998 6:00 PM

> -----
> 38 Year Old Man Discovers the
> Secret to Permanent Wealth!
> -----

> He has discovered the powerful secret of how
> to get paid every time someone turns on a
> light bulb, turns on the air conditioner, or
> even turns on the TV! Just imagine that!
> And....

> \$215 BILLION Discovery can shove more money in
> your bank accounts than you could ever imagine
> -- NOW!

> Look, there isn't time for hype or a long letter
> filled with catchy sales lingo, or promises.....
> just CALL NOW!

> Toll Free at:
> 1-800-600-0343 Ext. 2451

> All you have to do is decide now to call,
> However.... fair warning -- calling us may
> suddenly cause YOU to take charge of
> YOUR life -- NOW!

> So don't call now unless you are ready to
> be amazed and convinced that this
> opportunity is for YOU!

> To take a peek into what will make you RICH
> beyond your dreams. Right now, imagine....
> It's like having Your Own Power Company!

> 1-800-600-0343 Ext 2451 CALL NOW!

> Note: This business is HOT! If you find the
> number busy due to volume, please keep
> trying! Its worth it!!

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Now what about this letter to Editor? *sh*

There seems to be increasing media attention, self-generated and otherwise, regarding the possibility of opening our electric utilities to competition, something that has never been done before in Alaska.

In Anchorage in particular, there seems to be an urgency on the part of some to throw away the traditional regulatory barriers. Implicit in that desire is that those of us who want to look before we leap are somehow hindering progress. I take strong issue with interests who see the Legislature, or least the House Labor and Commerce Committee which I chair, as obstructionist. *Begin*

As with the telecommunications industry, restructuring and competition in the electric utility industry is a hugely complex issue. It is an issue that affects - or will affect - nearly every individual, business and government facility in our State. Electric utility competition will most likely happen in Alaska (as it will elsewhere), and I believe in the concept.

However, electric utility competition should not be something we simply wake up to find the next morning. As I said, it is far too complicated, and the stakes and impacts are far too great. My fellow legislators and I are just getting into the issue, and the more we do the more we realize how complicated it is. The electric utility industry in Alaska is itself not in agreement on how things should proceed. Congress has been working on the issue for several years, and still is. Our public utilities commission is just getting started.

So I caution those who want to dive right in. Please join me and my committee in first getting a proper handle on the issue. Electric utility competition - or some form of it - will probably come to Alaska, but only after we fully discern its affects and develop appropriate public policy. I believe the legislature should be directly involved in an issue this far-reaching, and I assure you that my committee will be.

Alaska State Legislature



State Capitol
Juneau, AK 99801-1182
(907) 465-3720
(907) 465-2689

Official Business
Fax: (907) 465-3472

Speaker of the House of Representatives

Memorandum

To: Representative Norman Rokeberg, Chairman
House Labor and Commerce Committee

Norm

From: Representative Gail Phillips
SPEAKER OF THE HOUSE

Gail

Subject: Electrical Utility Restructuring Committee

Date: March 20, 1998

Per our earlier conversations about establishing the Joint Committee on Electrical Utility Restructuring, please prepare the resolution for introduction the first week in April.

Thank you for your assistance with this issue.

Norm - Pls bring me a copy of the draft resolution before you send it in for final. We need to take out any reference to the Chairman from the resolution - just include the # of members from each body. Thanks - I will be appointing you as the House Co-Chair, but this should not be in the resolution language.

Gail

Power Suppliers Face Pennsylvania Lawsuits

Continued from Page 1

latory hoops because they were phony-baloney," Barbara Petito, a spokeswoman for Fisher told *Electric Co-op Today*. "In our view, NuSkin never had the ability to sell electricity. Its intent was to recruit additional distributors."

The agreement struck between the attorney general's office and NuSkin halts the legal proceedings for 30 days. During that period, NuSkin said it would clarify with "distributors," or independent salespeople, that it is not marketing power and will issue refunds to them. If, after 30 days, Fisher is dissatisfied with NuSkin's efforts, he can proceed with the lawsuit.

Kara Schneck, a NuSkin spokeswoman speaking out of its headquarters in Provo, Utah, said that the company had considered selling electricity but shelved those plans once it discovered the sheer complexity of the task. "There may have been some distributors who, in their enthusiasm, talked about selling electricity," she said.

These latest developments cast

doubt on whether Pennsylvania's registration procedures for electric power suppliers are as airtight as state regulators claim.

John Frazier, a spokesman for the Pennsylvania Utility Commission, said that the

state has no plans to follow California's lead by tightening procedures for retail energy providers.

Pennsylvania's procedures, which regulators are currently finalizing, call for electric power suppliers seeking to sell energy in the state to apply for a license with the commission and post a \$250,000 bond. In turn, he said, regulators check applicants' "technical and financial fitness" to sell energy.

"We think that these measures should screen out any applicants that might not be on the up and up," Frazier said, adding that the commission has approved 50 licenses and that several others are pending. □



Pa. Attorney General Mike Fisher

Pyramid Schemes Raise Doubts About Deregulation

By Victoria A. Rucha

March has been an eventful month so far for electric suppliers trying to strike it rich in Pennsylvania.

Following a lawsuit filed a week earlier by Pennsylvania Attorney General Mike Fisher, NuSkin International, a health and beauty products manufacturer, agreed March 3 to suspend its sale of electricity during a 30 day "cooling off" period. That same day, Fisher sued Pennsylvania-based Boston-Finney for allegedly running a pyramid scheme to sell electricity in the state, the second lawsuit filed by a state attorney general against the power supplier. (See last week's *Electric Co-op Today*.)

The changes in this latest round of lawsuits against renegade electric power suppliers are similar to those in California's Boston-Finney case. Fisher had charged NuSkin with running an alleged pyramid scheme, violating Pennsylvania's Consumer Protection Law and representing its ability to sell energy through its multi-level marketing program.

However, neither NuSkin, maker of products such as NuSkin Nu Colour Cosmopolitan Red lipstick, nor Boston-Finney registered with Pennsylvania state regulators as retail energy providers.

Since NuSkin never registered with state regulators as it was required to do, the company "never had to jump through reg

Continued on Po

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

February 25, 1998

SUBJECT: Joint committee on electric utility restructuring (Work Order No. 20-LS1639\A)

TO: Representative Norman Rokeberg, Chair
House Labor and Commerce Committee

FROM: Tamara Brandt Cook
Director *TBC*

Here is a draft bill establishing a joint committee. Be aware that Uniform Rule 21(b) provides: "The persons who co-chair a joint committee shall be chosen in the manner provided by the presiding officers." The requirement in this draft that the co-chairs be the chairs of the two labor and commerce committees does not comply with this provision. I wish to alert you to the need to obtain funding for the committee because subsection (c) provides that a "joint committee may expend money only in accordance with an appropriation made for the work of the committee."

Lastly, note that rather than requiring that the committee recommendations be published, I have required that the committee report its recommendations to the legislature in writing. If this approach is not acceptable, please let me know and I will change it.

TBC:glc
98-101.glc

Enclosure

02-25-98 05:00 PCD

0-LS1639A
Cook
2/25/98

HOUSE CONCURRENT RESOLUTION NO.
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Introduced:
Referred:

A RESOLUTION

1 **Establishing a Joint Committee on Electric Utility Restructuring.**

2 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **WHEREAS** electricity is among modern society's most basic requirements and
4 commodities; and

5 **WHEREAS** even other forms of infrastructure, such as water and waste water systems,
6 are largely dependent on electricity; and

7 **WHEREAS** the provision of adequate, reliable, and reasonably priced electrical energy
8 is essential to the daily functions, safety, and economic well-being of Alaskans, their local
9 communities, and the state; and

10 **WHEREAS** it has been long-standing public policy in Alaska, as in other states, to
11 require state regulation of electric utilities as to service areas, and state or local regulation as
12 to rates, safety, and quality of service; and

13 **WHEREAS** fundamental restructuring of the electric utility industry is now under
14 deliberation by the Congress and other states; and

15 **WHEREAS** electric utility restructuring is a highly complex issue, carrying with it
16 profound implications for all classes of electrical consumers; and

17 **WHEREAS** the implications and ramifications of such restructuring deserve detailed,

1 careful, and informed decision making by the Alaska State Legislature;

2 **BE IT RESOLVED** by the Alaska State Legislature that a Joint Committee on Electric
3 Utility Restructuring is established; and be it

4 **FURTHER RESOLVED** that the Speaker of the House of Representatives and the
5 President of the Senate shall appoint the chair of the Labor and Commerce Committees of
6 each house as co-chair of the joint committee; and be it

7 **FURTHER RESOLVED** that the Speaker of the House of Representatives and the
8 President of the Senate shall determine the number and composition of additional members
9 to the joint committee, and that the Speaker of the House of Representatives shall appoint a
10 number of representatives to the committee and that the President of the Senate shall appoint
11 an equal number of senators to the committee; and be it

12 **FURTHER RESOLVED** that the joint committee may meet during and after the
13 Second Session of the Twentieth Alaska State Legislature and is terminated on the convening
14 of the First Session of the Twenty-First Alaska State Legislature; and be it

15 **FURTHER RESOLVED** that the joint committee shall provide to the legislature
16 written recommendations on whether and how to implement electric utility restructuring in
17 Alaska.



CHUGACH ELECTRIC *HOR34* ASSOCIATION, INC.

March 23, 1998

Dear Chugach commercial customer:

As you may have heard, Chugach is trying to ensure that individual customers like you have the right to choose the company that provides their electric power. Chugach supports customer choice in the electric business because we think it will be good for consumers.

Customers have benefited from the restructuring of other former regulated industries – like airlines, trucking and telecommunications. Empowering individual customers to make the best choices for themselves and their businesses has led to lower prices and better services for all levels of consumers.

We're clearly not alone in this view. In a recent survey of Anchorage residents, more than 92 percent said customers should have the right to choose their power provider. Of course, not everyone agrees with our position. As expected, we have run up against the entrenched interests of other monopoly electric utilities in the state. Many are attempting to delay or block the idea of customer choice with a "slow down and study it" approach.

Alaska statutes do not prohibit competition in the electric industry. However, before it can become a reality, the Alaska Public Utilities Commission must establish access charges to move power to individual customers over each utility's lines. In June of last year, Chugach asked the Commission to clarify that service territories are not exclusive and that competition has not been constrained. The Commission declined to answer that question. Last fall, after customers of Anchorage Municipal Light & Power asked Chugach to provide their power, the city-owned utility refused to provide us access. Chugach asked the Commission to establish access charges but it has yet to rule on Chugach's request.

We've also gone to Juneau to advocate for customer choice and have found that most lawmakers expressed support for competition. Nevertheless, we also found that legislators have a number of pressing issues which could crowd out their consideration of this important issue unless they conclude that their constituents want action this year.

There are at least five reasons why delay is not a good idea. First, consumers will be denied the benefits of competition for the period of the delay. Second, the existing local electric utilities need to learn how to compete so that they can compete with Outside firms. The sooner we start, the better prepared we will be. Third, local jobs will be endangered. If local firms are not competitive, Outside firms will take their place and local jobs will be moved Outside. Fourth, the

Commercial Customer

March 23, 1998

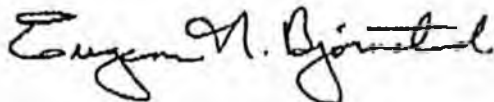
Page 2

efficiencies induced by competition will make Anchorage a better place in which to live and do business. Each dollar not paid for electric service is a dollar available to be spent locally for other purposes. Finally, as 92% of customers already know, effort and money spent on debating whether competition is good is a waste. We will be better off spending that effort on questions involving implementation and the sooner the better.

I'd like to ask for your help in emphasizing the need for action on this issue this legislative session. Do you agree that individual customers should have the right to choose their power provider -- just as they can choose a phone company? Do you think you would see benefits from competition in the electric business? If so, please consider sending that message to your legislator. We have enclosed contact information for your reference, along with a card you can mail back to us letting us know your opinions on this issue.

Thank you for taking the time to consider this request. If you'd like more information or want to discuss this idea further, feel free to give my office a call at 762-4709.

Sincerely,



Eugene N. Bjornstad
General Manager



GOVERNMENTAL AFFAIRS

CHUGACH ELECTRIC ASSOCIATION INC
PO BOX 196300
ANCHORAGE AK 99519-9972

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Chugach customer choice feedback card

_____ Please keep me on the list to receive additional information about customer choice.

_____ I'd be willing to publicly express my support for customer choice.

Name: _____ Company: _____

Mailing Address: _____ City, State, Zip: _____

Phone Number: _____ Fax: _____ E-mail address: _____

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465-4998
Fax 465-4419
800-689-4998

Joe Green Room 118
465-4931
Fax 465-4316
800-870-4931

Mark Hanley Room 507
465-4939
Fax 465-2418
800-465-4939

J. Allen Kemplen Room 112
465-2435
Fax 465-6815
800-550-2435

Terry Martin Room 502
465-3783
Fax 465-2293

Eidon Mulder Room 501
465-2647
Fax 465-3518
888-465-2647

Brian Porter Room 214
465-4930
Fax 465-3834
800-331-4930

Norman Rokeberg Room 24
465-4968
Fax 465-2040
800-773-4968

Joe Ryan Room 420
465-3875
Fax 465-4583
800-922-3875

Jerry Sanders Room 414
465-4945
Fax 465-3478

The mailing address for all legislators is:
State Capitol, Juneau AK 99801-1132
Mailstop: 3100

Email address for Senators is:
Senator_FirstName_LastName@legis.state.ak.us

Email address for Representatives is:
Representative_FirstName_LastName@legis.state.ak.us

To send a Public Opinion Message (POM):
Call the Legislative Information Office at 258-8111

Restructuring for 2000

ARECA

LEGISLATIVE CONFERENCE

**February 18-19, 1998
Juneau, Alaska**

Final Program

ARECA Legislative Conference: (Elks)

Wednesday, February 18

8:00 a.m. Continental Breakfast
8:15 a.m. Welcome/Conference Proceedings
8:30 a.m. Round Table on Restructuring – Steve Daniel, Principal, GDS

Participants:

Howard Useem, Senior Staff, U.S. Senate Energy & Natural Resources Committee
Senator Loren Leman, Chair, Senate Labor & Commerce Committee
Representative Norman Rokeberg, Chair, House Labor & Commerce Committee
Representative Pete Kott, Chair, House Rules Committee
Sam Cotton, Chair, Alaska Public Utilities Commission
Charlie Walls, President & CEO, Alaska Village Electric Cooperative, Inc.
Ray Kreig, Director, Chugach Electric Association, Inc.
Gene Bjornstad, General Manager, Chugach Electric Association, Inc.
Bob Grimm, President, Alaska Power & Telephone Company
Robert Wilkinson, General Manager, Copper Valley Electric Association, Inc.
Meera Kohler, General Manager, Anchorage Municipal Light & Power
Steve Bushong, General Manager, Nushagak Electric Cooperative, Inc.

11:30 a.m. Legislative Review – Eric Yould
Lunch Group Lunch Provided
Afternoon Meetings with Legislators/Committee hearings
Dinner with Your Legislator (Scheduled by individual utilities)

Thursday, February 19

8:00 a.m. ARECA Board of Directors Meeting
8:30 a.m. Senator Mike Miller, Senate President
8:45 a.m. Representative Gail Phillips, Speaker of the House
9:00 a.m. Governor Tony Knowles
9:30 a.m. Board Meeting Wrap-up
10:15 a.m. Break
10:30 a.m. Percy Frisby, Director, Alaska Division of Energy
10:45 a.m. Ernie Brannon, State Director, USDA Rural Development
11:00 a.m. Rodney Adelman, Administrator, Alaska Power Administration

11:15 a.m.-12 noon Consideration of Resolutions
Conference wrap-up and adjournment



Memorandum

TO: ARECA Members
 FROM: Eric Yould, Executive Director
 DATE: February 13, 1998
 RE: Updated Calendar of ARECA (in bold) and Numerous NRECA Meetings and Conferences.

1998 Meeting Calendar

Date	Time	Description of Meeting	Location	Place
Feb. 15-20		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Feb. 17	1:00pm	ARECA - ASCC, Managers Meeting And Rural Issues Forum	Juneau, AK	Westmark Baranof
Feb. 17	5:00pm - 7:00pm	ARECA Legislative Reception	Juneau, AK	Elks
Feb. 18-19	8:00am	ARECA Legislative Conference	Juneau, AK	Elks
March 4		ARECA Insurance Management BOD Mtg.	Teleconference	Anchorage, AK
March 4-7		NRECA Tech Advantage Expo	Nashville, TN	Nashville Convention Center
March 5		PCE Blue Ribbon Panel	Teleconference	Anchorage AK
March 5-6		NRECA Rural Electric Update	Nashville, TN	Opryland Hotel
March 5-8		NRECA Pre-Annual Training	Nashville, TN	Opryland Hotel
Mar. 8-11		NRECA Annual Meeting	Nashville, TN	Nashville Convention Center
Mar 15-20		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Mar 16-26		NRECA Management Internship Program	Lincoln, Neb.	U. of Neb.-Lincoln
Mar 22-27		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Mar 23-25		Alaska Governors Safety and Health Conference	Anchorage, AK	Egan Civic & Convention Center
Mar 25	10:00am	ARECA Communication Committee Mtg.	Anchorage, AK	ARECA Office
April 6-16		NRECA Management Internship Program	Lincoln, Neb.	U. of Neb.-Lincoln
April 9		PCE Blue Ribbon Panel	Juneau, AK	
April 27- May 1		NWPPA's Engineering & Operations Conference	Bellevue, WA	
Apr 27-May 7		NRECA Management Internship Program	Lincoln, Neb.	U. of Neb.-Lincoln
May 3-6		NRECA Legislative Conference	Washington, DC	Hyatt Regency

1998 Meeting Calendar

Date	Time	Description of Meeting	Location	Place
May 3-8		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
May 12-15		NRECA Human Resource Management Conference	San Antonio, TX	La Mansion Del Rio
May 18-19		ARECA Accounting Workshop	Dillingham, AK	
June 14-17		NRECA Information Services & Technology Conference	Louisville, KY	Hyatt Regency
June 15-20		NRECA Summer School Central	Gatlinburg, TN	Park Vista Resort Hotel
July 26-29		NRECA Accounting & Finance Conference	Charleston, SC	Charleston Place
Aug. 3-8		NRECA Summer School West	Breckenridge, Colorado	The Village at Breckenridge
Aug. 15-19		NRECA Annual Manager's Conference	Minneapolis, Minn.	Minneapolis Hilton & Towers
Aug. 16-21		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Aug. 18-19		ARECA Director Pre-Training	Wasilla, AK	Lake Lucille Inn
Aug. 19		ARECA Insurance Exchange Dinner	Wasilla, AK	Lake Lucille Inn
Aug. 20-21		ARECA Annual Meeting	Wasilla, AK	Lake Lucille Inn
Sept. 13-18		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Oct. 9-14		NRECA Employee Benefit Conference	Las Vegas, NV	Convention Center
Oct. 18-21		NRECA Executive Assistant Conference	Louisville, KY	Hyatt Regency
Oct. 18-23		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Nov. 8-13		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln

1999 Meeting Calendar

Date	Time	Description of Meeting	Location	Place
Jan. 24-29		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Feb. 7-12		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
Feb. 21-26		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
March 4-7		NRECA Pre-Annual Meeting Training	Anaheim, Cal.	
March 7-10		NRECA Annual Meeting	Anaheim, Cal.	
March 7-12		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
March 21-26		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
April 11-16		NRECA Loss Control Internship	Lincoln, Neb.	U. of Neb.-Lincoln
May 2-5		NRECA Legislative Conference	Washington, DC	Hyatt Regency

ACRE/CARE 1997/1998

Coop	Last Name	First Name	ACRE	CARE	Total
AEG&T					0
ARECA					0
ARECA					0
ARECA	Johnston	Thomas	25	25	50
ARECA					0
ARECA					0
ARECA					0
AVEC					0
BUEC	Parkin	Wayne	50	50	100
CEA					0
CEA					0
CEA					0
CEA	Kreig	Ray	25	25	50
CEA					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CEC					0
CVEA	Granger	Colleen	25	25	50
CVEA	Lanegan	Linda	25	25	50
CVEA					0
CVEA	Wilkinson	Robert	50	50	100
CVEA	Williams	Fred	25	25	50
CVEA	Woodworth	Ray	25	25	50
CVEA					0
CVEA					0
CVEA					0
GVEA	Abegg	Frank	25	25	50
GVEA	Bergh	Ron	100	100	200
GVEA	Colonell	Vayla	25	25	50
GVEA	Haggland	Pete	100	100	200
GVEA	Haagenson	Steve	50	50	100
GVEA	Hansen	Robert	25	25	50
GVEA	Kelly	Mike	100	100	200
GVEA	Nissen	Dwight	100	100	200
GVEA	Nordmark	Bill	100	100	200
GVEA	Osborne	Dan	100	100	200
GVEA	Riddle	Marvin	50	50	100
GVEA	Schikora	Rick	100	100	200
GVEA	Woodke	Don	100	100	200
GVEA					0
GVEA					0
GVEA					0
GVEA					0
HEA					0
HEA					0
HEA					0
HEA					0
HEA	Eckert	Rick	25	25	50
HEA	Fitzpatrick	Ruth	25	25	50
HEA	Ghormley	Sandra	25	25	50
HEA	Stinchcomb	David	25	25	50
HEA	Turkington	Bob	25	25	50
HEA					0
HEA	Lancaster	Ken	100	100	200
HEA	Parlow	Duane	25	25	50
HEA					0
HEA	Stead	Don		25	25
HEA	Story	Norm	50	50	100
HEA					0
INN					0
INN					0
INN					0

2/18/98 - Mike Store McDowell
Muller - set up a special
Committee -

①

- 1) What kind issues should the
Committee focus on - what
questions should be asked?
Legislature looking to this
group to show them where
to go. In Sharp because of
his background in utility
management will be helpful
to the legislature - but

(202) 224-6567 direct line

Howard Usher - Murkowski wants
to make sure that there is a level
playing field - Murkowski put
bill forward to get both sides to
come to the table to resolve problems -
they knew that the piece of
legislation was not perfect -
Murkowski has always wanted
to make sure that the municipal
and coops are protected before anything
final is done -

APUC has established a electrical
docket to look at deregulation -

Murphy
Statement in Congressional Record

Ray McDonald - complex lot of detail -
been involved last 27 years -
its here and it is happening

② California on leading edge of
 dereg - of electricity

Florida is doing nothing

Really it is an experiment going
from a regulated industry to a
market driven industry -

Competition - what are you talking about

1) prices

2) choices -

a) supplies

b) product/services (broader than just
electricity may have a bundle
of

c) degree of reliability

Competition has been evolving
1978 - Public Utility Regulatory Act
(to encourage conservation)

1992 Energy Policy Act
(did not allow access to wires
for retail access)

Ferc Order Nos. 888/889 -
most muni and coop or
public power are not
covered -

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

Ray McDonald - complex lot of detail -
been involved last 27 years -
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Ferc Order Nos. 888/889 -
most muni and coop or
public power are not
covered -

③ Primary Driver of Capital

• Surplus Capacity Energy

(1980's - mid/late 1990's)

• Long Run Marginal Cost

(Economists View) less than

average Embedded Cost

of (Regulatory View)

how many economists does it take
to change a light bulb - all of them

1 to change light bulb

all the rest to hold everything

constant

Most Critical aspects of Deregulation

Woahy environment

Lack of Power

No barriers to entry

Probably be some deregulation and a lot
of re-regulation

Legislation

CA IL, MA ME, MT, NH, NV, OK, PA, RI,

Commission Order

AZ MD MI NJ NY VT

Under Study all other

no action IA, KY, ND, SD, TN

(4)

all other groups

most of high cost areas
driving deregulation

Need a Structural "Deregulation" Model

Benefits vs Costs - little data

Stranded Costs - Big issue lot of plans

Mitigation of Market Power

Identification of Competition
and Monopoly Services

Separation of Regulated & Non Regulated

Functions in a way that makes
sense in a partially regulated
environment

Structural Common "Deregulation" Models

Power Exchange

Bilateral Contracts

Hybrid

Combination of Power Exchange

and bilateral contracts

Potential Benefits

Choices - in telecom act

Lower Rates

Technology Deployment

Economic Efficiency

cellphones, callm id etc
are available because of
dereg.

- ⑤ Potential Costs of Retail Competition
- Power Exchange Implementation/Operation
 - Independent System Operator Implementation/Operation
 - New regulatory Certification/Oversight
 - Metering Equipment
 - Power flow

Stranded Costs

- Does it exist?
- How do you define it?
- Should it be net of stranded benefits
- Who pays
- How will it be mitigated over the long haul

Market Mitigation Factors

- functional unbundling - merchant/transmission
 - divestiture of generation
 - independent system operator
 - Code of conduct to prevent market abuse
- transmission function becoming colusive

Factors Unique to Alaska

- 1. Predominately Public-Owned System
 - (Nebraska all public or coop and have a 3 year study phase to look at deregulation and privatizing)
- 1. Many isolated small systems
- 1. Limited interconnectors
 - (what there is is in the rail belt / south central area)
- 1. No interconnectors
- 1. Limited generation resources
- 1. diversity
- 1. limited size of load
- 1. No appreciable seasonal diversity - winter peaking / summer peaking
- 1. economic environment - very different

Big Myth

- 1. All consumers will benefit
 - 1. all consumers will experience lower rates -
- he doesn't think so

⑦ has consumer benefited from the deregulation of Cetecon

a) He said he is probably no better off - maybe worse off - he does not use long distance service enough to benefit)

b) jury is out

c) gas bill is higher than ever been - dereg rates for along as dereg of electricity

Deregulation of business will be generation but wire services would still be regulated - so that a provider that owns both the generation and wire services do not do things to benefit themselves over competitors -

Do you really feel that dereg of electricity ^{will benefit} customers of Alaska?

Not sure - not enough info
The Northeast feels that anything they do will help lower rates.

⑧

Mississippi experience - is not showing very much savings -

What about people are they better off with a choice -

answer - most people have not really studied upon it -

California has budgeted \$30 - \$40 million - to educate the consumer on the benefit of deregulation

Potential beneficiaries are big business / big users will benefit and stand to gain the most - the phase in on the front end will benefit the most -

Loren Lora - favors Competition

Colton - He thinks the law currently allows Competition

Bostad - Should it be generated and services end - Langford was both for competition

⑨ Survey by Chugach - 93% what choice
in February
of supplies

Do you think that
having that choice
will result in better
price and service
75% think it will
lower prices -

Chugach - not suggesting duplicate
infrastructure - the poles
will etc - probably the
APAC will have to regulate

Is it true that there is no place for
non-profit coops - or is the market
or profit driven utilities the best
way -

USAA
largest
non profit
insurance
company

profit driven savings are often times
offset by income tax payments - and
non profit do not pay taxes -

Total peak load in the rail belt is
less than 1 generation unit in
the lower 48 -

(10) Certain areas better operated
as a regulated entity -
Investment cost per consumer
(small customer) is average
about \$10,000 per customer -

The reason that some people
don't benefit is there a
perception that there are
interclass subsidies that keep
prices high - small customers will not
~~benefit~~: - benefit as much as large
customers - so do it that
small customers are being
subsidized by large customers
and that small customers do not
pay the full cost to bring power
to them -

Choice - it is a perception
issue -

Chicago - people in Chicago are
from somewhere else
and do not have a firm
grasp of the market they
are in for electricity -
Chicago is talking about
Choice to avoid talking
about other items - Chicago
has problem with labor
etc.

⑪ Coops - should be treating their customers as owners of the coop like investor owned utility -

When will savings come from in a deregulated environment?

What areas will create these savings?
The economies of scale have not proven the premise that bigger, consolidation has not provided the lower cost - guess it bottomed out in 1960's and 1970 - most of the abuse occurred in the early 1900's when utilities took advantage of customers in monopolies - now there is technology that has shown that you do not have to be big -

If you can enter the market with a large generator capacity and be able to sell to the local utility the generating capacity available wholesale - would they buy the power only if it was cheaper than the embedded cost but more attractive than competition -

⑫ MLP & Chugach are looking long and hard at big investments for future because of the problem of whether there will be stranded costs and the uncertainty as to whether those costs can be recovered and when or what kind of competition will be allowed -

Done business for 38 years under 1 set of rules -

How would a full requirement contract be handled - long term contracts - full requirements contracts MEA has with MLP - Chugach says that MEA could redo contract just signed a contract with Seward for full requirement contract -

Chugach talking about MEA using tax exempt bonds

Chugach Coop - large loan with REA - they achieved a very large discount \$30-40 million discount on the payoff the REA loans -

Village Phoenix

The Struggle to Recreate
Alaska Village Electric Cooperative, Inc.



by
Loyd M. Hodson
Retired General Manager

VILLAGE PHOENIX

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The name PHOENIX
originated in early mythology
referring to an entity
with the ability to recreate itself
even when seemingly destroyed

FORWARD

Village Phoenix

This booklet gives the reader a historical insight into the struggles the Leadership and Management faced as Alaska Village Electric Cooperative, Inc. was created. Because our Native culture places great value on history, whether it be verbal or written, this booklet was commissioned at the direction of the AVEC Board of Directors.

Today, many in our villages take their electric service for granted. It is assumed that it will always be there, instantly available at the flick of a switch. Because of this mindset, it is good to remember the struggles to establish that service which is so fundamental for the promotion of quality of life. Without adequate, reliable, and affordable electric service we have no hope of building self-sustaining modern economies in our villages.

We owe a great debt to those who helped build AVEC to what it is today. First and foremost, thank you to all the membership for making sure your bills are paid on time, this sets the foundation for the corporation. Thank you to Loyd Hodson for his many years of loyalty and commitment to the vision that electrical service can one day be affordable in rural Alaska; and to the past Board members, who sacrificed countless hours of their personal life to set the direction of the Cooperative. We appreciate the dedicated staff, from the managers to the secretary, who have carried the organization from its infancy. Compliments to the current Board of Directors and staff for their leadership in these changing times.

We pray that we will learn from our past history and strive to leave a stronger AVEC to continue serving the future generations who follow us. Quyana.

Robert L. Beans, Sr.
Chairman of the Board of Directors
Alaska Village Electric Cooperative, Inc.

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Page 66 photo of Loyd Hodson from AVEC files

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The mission of Alaska Village Electric Cooperative is to provide the best electric utility service for rural Alaska villages and to assist its members in improving the quality of life in their communities. AVEC is a non-profit cooperative that is owned by those it serves.

OPENING COMMENT

The path to build Alaska Village Electric Cooperative (AVEC or Cooperative) into a viable organization involved many hundreds of decisions on a wide range of issues. One purpose of this summary history report is to cover several of the key items of critical importance, including the struggles to:

1. Obtain adequate dependable operating revenues and maintain feasibility.
2. Obtain continuing Rural Electrification Administration (REA) loan funds at lowest interest rates.
3. Respond to a total change in operation of the village school systems — the largest village electric load and largest source of revenue.
4. Build a stable organization staff structure capable of dealing with the required tasks.
5. Build a reasonable working relationship with the village governments and the village operators.
6. Change the direction of major equipment selection for most of the major systems to substantially improve reliability, performance, and efficiency.
7. Improve internal efficiency and optimize cost control.
8. Obtain State Assistance and the vital role of Power Cost Equalization (PCE).

The primary emphasis is on the decade of roughly 1970-1980 because this is when most of the truly difficult, potentially killer problems were evident. Some areas are carried into the 1980's to clarify or demonstrate continuing progress.

STARTING PICTURE

Village life in the mid-1960's was much different than it is today. There have been so many changes that the younger generation of village citizens may wish to learn about the difficult struggles to achieve what has been accomplished. There are lessons to be learned in planning for future projects by reviewing the past.

If we could step back in history to a typical Alaska village 30 years ago we would find:

No electricity	Short, unlighted airport runways easily turned to mud
No central water	Marginal health clinics
No television	Little use of modern household appliances
Very few adequate homes	No waste disposal systems
Many other unmet needs	

Likely there was a school complex established by the Bureau of Indian Affairs (BIA) seeming like a rather prosperous separate island. Included with the school were certain of the above services, but they were generally not available to the village residents. The school had electricity but very few others had access.

Remember also at this time there was:

- No Alaska Native Claims Settlement
- Very limited Alaska state budgets
- Generally marginal business conditions
- Erratic capital spending mostly originating from Federal funds

EARLY VISIONS

A few Native leaders who had worked their way through the system recognized that the real key to general progress in the village was the establishment of ELECTRICAL SYSTEMS.

In the 1966-1967 period some preliminary meetings were held that later in the fall of 1967 led to the foundation meeting of AVEC.

As further background, we need to look at the larger national political situation at this time in history and how it changed, rather dramatically, several times over the critical early years. The United States was engaged in an enlarging confrontation in Vietnam that dominated national attention through the 1960's and early 1970's.

The Rural Electrification Administration (REA) is an important and relatively successful agency in the U.S. Department of Agriculture established in the Depression era of the early 1930's with the specific purpose of assisting with financing of electric systems in lower population density areas which could not be developed otherwise.

NATIONAL ELECTION AND FEASIBILITY?

This raises for the first time a most important word to remember — FEASIBILITY. All REA financing is through LOANS, not grants. In order to make a loan the REA must have a very high probability of loan repayment, hence, feasibility.

An early request to REA came back with the idea that, sure, there is a great need for electricity in the villages but there was no FEASIBILITY of repayment due to the very high costs of construction and operation in the villages. Now the political pressure was on, as the 1968 elections were looming ahead; so the administration directed REA to take another look.

As indicated, the 1968 elections were on the horizon and the popularity polls were running strongly against the incumbent administration because of the Vietnam crisis. Therefore, every effort to try to improve the public image was in style and AVEC fit the bill in many eyes. Hence, the first major difficulty in AVEC history was to soon develop. A tremendous pressure to in effect force-fit FEASIBILITY.

The REA people involved, while well intended, set the stage for an early failure with very unrealistic projections of construction costs, future operational cost, and revenue needs. This was further compounded by very unsound choices of major equipment components as we will explore later.

The early organizers of AVEC had a very high aim, but, in retrospect, limited knowledge of the actual needs to operate and maintain a viable electric system in remote rural Alaska.

These problems of a cooperative of this pioneering nature were formidable enough but were compounded by a number of other major challenges all emerging rapidly while the Cooperative was still an infant in the cradle.

The net result of the whole early picture was in 1968 REA did make a loan to AVEC and the first village was "electrified" with some fanfare at Christmas 1968. The initial hoopla was now over with the seeds of possible failure soon to sprout but not yet visible.

At this stage we now have in place a most noble goal — to electrify village Alaska but without many of the tools to accomplish this on a long-term basis.

A FIRST DIP TOWARD FAILURE

The next 18 months were consumed in a desperate struggle to achieve unrealistic construction goals with an inadequate construction staff and improper major equipment selection. This resulted in a steady build up in friction between the Board and Staff plus the major Federal funding agencies at the time. All were caught up in a project of great importance to thousands of village people but with totally inadequate financing and seemingly no one with the leadership to seize control and make the hundreds of decisions to get turned on a correct road to success.

In addition, there was a major shift in the Federal government as a result of the elections of 1968. The new administration had as yet an unrevealed goal of totally doing away with REA, the root source of AVEC construction funds. This became very apparent a few years later in 1972-73. In the interim, they put in place a number of administrative restrictions which made obtaining loans and administering loans more difficult.

This period of increasing chaos first saw several of the initial key staff at AVEC resign on short notice and excessive interference or paralysis by well-intended but equally misguided and confused Federal agencies. Finally, by the spring of 1970 serious problems were beginning to surface everywhere and the first General Manager was asked to resign. The Cooperative then entered a drifting vacuum and very nearly went into bankruptcy by the fall of 1970. This was the first of several low points over the 1970's which we explore in more detail below.

WHAT AND HOW OF FEASIBILITY

In other terms, feasibility means you must collect enough revenue from the sale of electricity to meet all future operating expenses plus pay all interest on the loan and ultimately the entire principal of the original loan. At this time there was a certain amount of REA loan money available at 2% annual interest rate if fairly strict qualifications were met.

The big and unique problem at AVEC was to squarely face the problem of very high costs of operating a great number of relatively small size generation plants across a vast isolated Arctic area with unknown ability to regularly collect enough revenue. It is very important to again remember that when AVEC was founded in 1967 there was little revenue from oil, no pipeline, and no knowledge of the major impact the North Slope oil boom would have on State finances or the wholesale change to come in village school construction and operation. After wrestling with various plans, the initial course chosen to begin AVEC involved tapping the resources of a number of agencies to establish nominal feasibility/loan funding.

At the Federal level the main involvement included:

1. The REA was to provide loan money for village electrification. They were also supposed to provide technical expertise in equipment selection and close technical support. Any REA funded project must meet uniform standards for accounting and this includes meeting the requirements of regular REA audits.
2. The then Office of Economic Opportunity (OEO) was to provide limited grants to assist with the early startup costs of the project. Goals of OEO were generally broader in nature and less clearly defined. The overall goal was to assist qualifying citizens to upgrade their standard of living. The OEO operated with a different set of rules and much different personalities than typical at REA; hence the agencies in some ways were pulling in opposite directions.
3. The BIA was to enter into contracts with the new Cooperative to purchase electric service for village schools at a guaranteed monthly minimum rate to help establish a guaranteed source of revenue. The BIA was supposed to provide other general assistance which never materialized to any meaningful dependable degree.

At the State level involvement included:

1. The Alaska Department of Education, State Operated Schools (SOS), was to enter into contracts with the new Cooperative to purchase electric service for the SOS village schools, already operated by the State, at a guaranteed monthly minimum rate to help establish guaranteed revenue sources.
2. The State was also to assist in programs to train village citizens with skills to operate and maintain the village electric systems.

Make no mistake about it, the founding Board Members of AVEC are owed a great deal of gratitude for pursuing a noble goal and getting the ball moving and likely started in a rare window of opportunity.

In the final analysis, things have generally worked out well to date. This document is written primarily to outline some of the major problems encountered during the first difficult years of the Cooperative and some of the actions taken to overcome the problems. As indicated, the time of great difficulty for AVEC was from mid-1970 until the enactment of the State Power Production Cost Assistance (PPCA) in mid-1980 and successor programs, which substantially stabilized revenue and provided a foundation for a steady course of improvement.

It should be mentioned that a special thanks is extended to Matanuska Electric Association (MEA) and then General Manager Mason Lazelle, and MEA (later AVEC) attorney John Shaw, for their early assistance in helping establish the Cooperative. The Board of Directors of AVEC has been generally a steady foundation through the many external whirlwinds through the years which has been helpful to keep things on the right general course.

In order to hold down the amount of the initial REA loan a number of poor assumptions were made which, ultimately, nearly led to the collapse of the cooperative and had to all be overcome or changed throughout the next decade. How did these poor decisions get made? A mix of many reasons:

1. The early staff selection included some people with REA financed Cooperative experience but no Arctic, village, or Alaskan experience.

2. The initial low dollar REA loan amount forced the selection of marginal equipment. For instance, the initial low bid diesel generators selected would have best been used at a 3-month construction camp, not for reliable 24 hours, 365 days a year prime power requirements for decades. Other examples of inadequate systems selected are mentioned elsewhere herein.
3. Construction time tables were totally unrealistic considering the limited staff funding, limited and seasonal surface transportation, unresolved land title problems, etc.
4. Agency representatives were inclined in some situations to totally step back from the emerging problems. In other cases there was excessive, misdirected criticism. This frequently resulted in already thin resources being diverted into unproductive efforts responding to ever growing special conditions and restrictions.
5. A general rush to get something done - ANYTHING, regardless of the ultimate consequences with little or no consideration of fire hazards, environmental impact, or long-term reliability. At the same time, very untimely reporting and a deteriorating financial status, caused a fog to rise so rapidly that building problems at almost every level were not recognized. There was almost paralysis in timely or effective reactions to these events. You can still enjoy a picnic on a beach five minutes before the unknown tidal wave hits.

EARLY PROVISIONS FOR STAFF

The heart of any organization is the ability and skill of members of the required staff. This is where the original proposal and initial organizational attempts were considerably off base.

A review of the early foundation documents and correspondence reveals references to "free" labor and Vista Volunteers, a consistent theme of the REA and OEO dreamers involved in the initial planning. A lot of this "thinking" mirrors back to the glamour of miracle projects of the dust bowl days of the 1930's, not the reality of high labor cost already evident by 1968 in most every REA financed utility operation in Alaska. There was an element of unrealistic third-world thinking in the whole early process. As if the actual conditions in Alaska really somehow did not or should not apply to this infant Cooperative. The real facts were the electric utility business in Alaska has been largely dominated by

one of the strongest and consistently highest wage demand unions in the country, the IBEW. In addition, labor costs on most Alaska projects are determined by Davis-Bacon and "little" State Davis-Bacon laws and administrative directives. You cannot live in two separate worlds for long in a free enterprise society. You cannot, no matter how noble the goal.

One of the biggest failures in the early planning of AVEC was a very unrealistic attitude toward labor costs and labor skills required at every level. This included:

1. Too low of staff levels in the organization with absence of recognition of the key roles of Logistics and Operations and Maintenance (O&M) in this complex task with many new social as well as environmental considerations.
2. Low uncompetitive pay rates with poor benefits competing in an industry known for good benefits.
3. Improper definition of skills required to support a complex O&M organization. Vague reference to "\$200 for each member connected" agreement for village labor when in reality actual pay at best had to comply with the prevailing minimum wage and overtime rules.
4. Inadequate payment to the village governments for operation of the power plants with inadequate definition of who was responsible for many key functions.

Alaska villagers even at that time had already been exposed to Davis-Bacon wages at various construction projects in their areas which were to rapidly increase in the next few years due to both Federal and State expenditures. It was a totally invalid assumption that there would be any major reliable element of "free" labor for more than a very short time. This would mean someone working on the school or the Public Health Service water system would receive \$10 or \$12 per hour while the person working as hard or harder on the Cooperative electrical system received a thank you and a free lifetime pass on the closest subway. This was of course during the short (3 to 4 months) construction season when required commercial or subsistence fishing is in direct competition for time and labor. The initial planning elements used were so unrealistic that even the biggest fan of rose colored glasses should have had second thoughts on using these assumptions.

All of this ensured high employee turnover and considerable turmoil with the villages, even without considering the multitude of other problems, which were soon to move the Cooperative onto financial and operating quicksand.

The initial attempts to underfund and understaff AVEC have been a horseshoe around the neck of the Cooperative throughout the early years and some of the steps taken to mitigate the resultant problems continue intermittently to cause some misunderstanding.

TRANSITION IN MANAGEMENT

The transition to the new General Manager took place after the long vacuum in the fall of 1970. The General Manager position had been highly advertised nationally including the New York Times, Seattle papers, National Rural Electric Cooperative Association (NRECA) publications, and also in the most widely distributed Alaska newspapers. Over 600 applications were received for the position.

It was a bit of a shock in September 1970 to go from the seeming glamour and publicity hype of the job as advertised, directly into the real world of up to your eyeballs in alligators and sinking fast feeling which became evident only hours after entering the old office on Tudor Road. The problems were so numerous and serious that only a few need be mentioned to establish the prevailing picture. I effectively got little briefing on the status of the business. The REA Field Representative at this time was of very minor help. The OEO had no real concept of the problems. It was a big lonely world with complaints and criticism of every sort several times a day and a totally inadequate staff. Even more of the remaining staff had made plans to bail out and were giving notice to follow the people who had already left. The most immediate problems that had to be addressed:

1. Determine the cash flow position as payrolls had to be met and creditors paid as books were substantially behind and of questionable accuracy. Vendors were taking action to stop shipment of vital generating and construction equipment and supplies.
2. Determine how electric service could be maintained and restored in many areas, due to cable breaks, generator failures, etc.

3. Serious and growing problems with revenue collections. This was the first exposure of many consumers to paying a regular monthly bill.
4. Serious staff morale, pay, and benefit problems threatened the whole organization.
5. Similar serious problems with member villages with poor operator morale, inadequate slow payment, and rapid loss of confidence in the Cooperative.
6. The OEO grant funds were running out rapidly and no new application had been organized.
7. Breaking the news to the Board and the funding agencies of the true crisis situation that existed.

The above introduction provides a brief general explanation of the difficult situation that had emerged. For several months it was a job of juggling with an ever-increasing number of hot poker.

At that time I made a major decision. I could clearly see the problem. The Native village people had been made a promise — that promise was not going to be kept if the current course was not changed. I felt that I had acquired the skills and courage to help deal with Federal and State officials and others and was determined to use them because the Native people were threatened to be shortchanged again through no fault of their own. I have long studied and always been fascinated by the history of Native Americans and how they had all too often been treated unjustly. One of the things that brought me to Alaska was my love for the outdoors and I learned to admire the freedom and lifestyle of the Native people. Put it all together and I dedicated myself in late 1970 to carry this long battle through to success rather than take the easier course and run for greener pastures or the soon-to-be Trans-Alaska Pipeline bonanza.

KEY VISIT TO WASHINGTON, D.C.

After a few days on the job I decided REA was not playing anywhere near the role they should considering the overwhelming problems and the potential risk of default. The only regular REA Staff Representative in Alaska at the time was simply not up to the large task in motivation or inclination.

I prepared a long telegram to the headquarters of REA in the fall of 1970 outlining most of the problems discovered to date and requested increased REA assistance and support. At about the same time I informed the Board of the same problems and my concern about the lack of candor concerning the many difficulties. I also took a personal pledge to do everything I could to save the organization. The Cooperative is a great idea and having dealt with government organizations for years I believed that given the right support AVEC would grow and prosper.

Shortly after this in November 1970, Board President Willie Hensley and I made a week long trip to Washington to visit face to face with REA, OEO, and BIA officials and Congressional representatives.

The purpose of this trip was to emphasize to these agencies the serious problems AVEC had, the need for greater assistance, and increase their confidence level that with adequate support AVEC would ultimately succeed. I pulled no punches and told them how it was and what was needed both in money and freedom of action. For someone two months on the job and new to dealing with these agencies it took some courage, but our had-to-win attitude and the desperate nature of the problems dictated an aggressive course. The trip was a success in the fact that a much higher level of confidence was indeed established with top officials at REA, OEO, BIA and provided the groundwork for additional congressional support through the next few critical years.

This was very important because of growing opposition to both REA and OEO in the new Washington administration which was rapidly coming to the surface. The Alaskan Congressional delegation, however, has never shared this view regarding REA and generally been very supportive of the program. In no small measure this is due to the substantial number of REA financed utilities in Alaska with a large number of Alaskans dependent on REA financing for electric power establishment or improvements.



Willie Hensley
First AVEC Board President

STAFF NEEDS

Back home after a relatively successful Washington, D.C. trip and some verbal assurances of additional OEO grant help, the problems of a totally inadequate organization came roaring back to the front. One of the first early major challenges was to try to build an adequate staff with totally inadequate initial resources. At this time AVEC had relatively limited benefits, inadequate salaries, and no course for improvement. The Cooperative was burdened not only with the usual REA rules, but with far more stringent and limiting rules of OEO, for hiring. Basically the objectives of the two agencies in the personnel area were totally in opposite directions. The OEO wanted low-cost short-term help with a great deal of idealism. The REA desired long-term career-orientated people and relative stability among the staff. However, REA in their hesitant zeal to get the project going also imposed conditions on the loan which had serious negative consequences particularly in regard to village labor and payment for on-going operations.

Having recently served for a number of years as Site Manager at the Ballistic Missile Early Warning Station (BMEWS) at the Clear Air Force installation I was familiar with the type of organization it took to perform a top notch Operation and Maintenance task. The requirements to detect a massive missile attack without fail, with national survival at risk if the Operation and Maintenance was not performed in a top notch manner, defined the task at Clear. The problems faced at AVEC were in some ways a similar challenge with nowhere near the same resources.

While all areas were weak at this time, the area of immediate need was an Operation and Maintenance Manager. The original "plan" was to have a single mechanic of undefined skill to keep the soon to be well over 100 plus diesel electric units operating in 50 separate locations across thousands of square miles of roadless remote Arctic areas. An absolutely impossible job!

At this time in the fall of 1970 complaints were coming in about failing generators, broken wires, fluctuating voltage and frequency, total loss of service, etc. There was only one trained person to try and address this and he had already given notice of termination, prior to my arrival, in total frustration. There was effectively zero qualified O&M help available. Only the limited earlier training of the

village operators and spotty help from construction people, already overburdened, stood in the way of total chaos in the winter ahead.

It became obvious to me that in order to build any type of organization, to begin to address the problems, the yoke of OEO control had to be lifted, and yet OEO funds were still badly needed. The OEO required all staff additions, salaries, benefits, etc. to be approved by slow-moving bureaucrats in Washington, D.C., if you can imagine. All of this was causing terrible insurmountable problems and was unnecessary. The Board had also become sensitive to this problem.

One way to gain some independence was to demonstrate an ability to get things done with little "Outside" assistance if adequate resources were made available. Many things were not clear at this time about who could be hired and at what salary. One thing was clear. If we did not get an aggressive, well trained O&M Manager, and very soon, we would not have to worry about the other problems arising from the serious difficulties building in the field and a rising tide of complaints from village consumers. My years of dealings with the Air Force while at Clear, with regular trips to Elmendorf Air Force Base for meetings, had taught me the value of the training and the key role noncommissioned officers (NCO's) contributed to mission success. So, I stepped forward and hired a newly retired Air Force NCO as O&M manager in early 1971 as my first choice on the way to building a good organization. This had the added benefit of a ready path of some impromptu help and advice from Elmendorf Air Force Base. This also created a link which has been very helpful by assisting AVEC to recruit retired NCO's in key positions through the years.

The further buildup and evolution of the staff at AVEC is a story unto itself. The real key is to try to hire the right people in the first place and as their skills emerge promote from within. Roughly two thirds of the positions at AVEC have been filled with internal promotions through the years. The Cooperative is currently blessed with a central cadre of key people who are dedicated to a very demanding but equally rewarding job. Keep the organization lean and loyal and responsive. Keep communication lines short. Know your people and the key people will always come through for you no matter the sometimes flying cannonballs. My boot camp training in the United States Marine Corps, 20 years earlier, also helped by continually reminding me of three points: keep your head low under fire, don't retreat, and take the offensive at the first opportunity.

A BASIC PROBLEM - HIGH INFLATION

Would AVEC have been founded if the founders/lenders knew that inflation and resultant long-term interest rates during the next 20 years would be the highest in the history of the country?

How many of the readers can remember the horrific years of high inflation during the period from 1974 and lasting through 1982? Can you remember when long-term interest rates exceeded 14% in both 1981 and 1982?

The year of 1967 when AVEC was founded interest rates on long-term U.S. government bonds averaged near 5%. In looking at the next 20 years the interest rate has been HIGHER every year and never back down to 5%. By 1974 the rate was up to over 7% and then averaged near 9% in an upward trend for the next ten years peaking at 15% in 1981!

Inflation impacts AVEC in virtually every area. Some of the largest items of expense are:

- The cost of insurance
- The cost of diesel fuel oil
- The cost of capital equipment
- The cost of labor in every category
- The cost of shipping and transportation

Due to the rapidly rising costs in every area resulting from this inflation, AVEC had still another continuing threat to survival during this unusual decade.

To demonstrate how serious the problem was to deal with, if AVEC had been started for example 10 years earlier the average inflation rate from 1958 to 1967 was 1.7% per year. The inflation rate from 1968 to 1977 (AVEC's first 10 years) was an average annual rate of 6.2% per year running nearly 4 times higher EVERY year than the previous decade. Inflation on the national level continued to an even higher level, peaking at an all-time record high of over 13% in 1980 while staying at an average level of near 12% per year through 1979 to 1981.

Of course, the primary reason for this increase was once again the politics of the Middle East, the source of the majority of the world oil supply. Oil embargoes forced oil prices into the \$30 to \$40 per barrel range or some five times higher than only 10 years earlier.

Fortunately, nationwide inflation has fallen back and now is averaging near 3% annually. Alaska generally tends to follow the U.S. national trend but at times takes substantial deviations such as in 1975 when inflation at 13.7% per year ran 4.6% higher than national figures. Alaska lagged national figures in 1987-89 with a general economic slowdown resulting from oil price weakness starting in 1986, lasting up to the Iraq/UN hostilities in the last half of 1990 into 1991.

As a matter of interest, Alaska suffered more from inflation in the three years 1974-1976 with a buildup of over 32% than any similar period in history. This period of time, not surprisingly, was also the time of rapid activity and completion of the Trans-Alaska Pipeline. A similar high three year period resulted from 1979-1981 of 28.9%. The two highest periods of inflation in history in both the Nation and the State developed during this fateful decade. Both of these periods are important in gaining an understanding of the relationship of the world price of oil, the financial fortunes of the State of Alaska, and the direct cost impact on AVEC's largest annual expense item — diesel fuel oil. All of these items are directly related and understanding is necessary to better comprehend the complex relations involving the State, and yes, also the Federal government since AVEC borrows the loan funds for new and expanded facilities from the government. The cost of money (interest paid) when the U.S. treasury borrows is directly related to expectations of inflation.

The amount AVEC pays for almost everything is directly related to inflation, and this in turn is also reflected in electric rates. The only way you can truly offset the effects of inflation are to improve efficiencies (reduce the cost of each unit of production.)

Carry this discussion a step further, the reason inflation was high was because of high oil prices. And you guessed right — who is one of the great benefactors from high oil prices — the State of Alaska! So in straight-forward terms while the State of Alaska was rolling in dough in late 1979, AVEC was choking from runaway inflation, electric rates well over 40 cents per KWH with fuel cost adjustments

and hence, the setting for still another chapter — the final push and enactment of Power Production Cost Assistance (PPCA).

BATTLE TO KEEP RESIDENTIAL KWH COST DOWN

Throughout the history of AVEC a concentrated effort has been made to hold residential rates down despite rapidly increasing costs at times. The initial rate structure with KWH costs ranging from 20 cents to 9 cents per KWH was too low to support the Cooperative as rapidly became apparent. We also knew that many village people had limited cash incomes and could not afford major increases.

When it became clear in 1970-71 that major increases in revenue were required for survival, we made the decision to turn to the potential best sources of funds — the State of Alaska and the U.S. government. They had been critically instrumental in founding AVEC and had, or should have had, a strong fundamental interest in the long-range success of the Cooperative due to the essential service provided and substantial investment already made.

In the case of the State this involved the then existent SOS and in the Federal government the BIA which at the time operated a majority of village schools in AVEC service areas.

There has been much misunderstanding among some school officials concerning this policy through the early years. The answer is simple. AVEC was attempting to isolate the average village consumer from major price increases during the early years when we had price inflation at the highest levels in the history of the country as noted in a prior section.

ROLE OF SCHOOL REVENUE

Earlier mention was made of the role of the BIA and State schools in initial AVEC feasibility. Sale of electric services to the school or schools in each village is a vital element in the success of an electric utility. The logic is developed along these lines. The schools are the largest load in a village. They require the most capital investment to serve that load. There is no alternative place to sell the power in a village if the school does not buy the electricity. As is common in many utilities, the only way to deal with this

situation is with contracts of long duration. That is what happened initially to help get AVEC started. The difference being you only had two major organizations to deal with in the late 1960's — the BIA and the SOS. Both were good-sized organizations with decision making restricted to a few persons.

The initial contracts with the schools dealt mainly with identifying the schools to be served and two very important provisions required to support AVEC feasibility to obtain loans:

1. A guaranteed monthly minimum payment of \$1200 per month per school regardless of consumption.
2. A guarantee to reimburse AVEC at \$90,000 per location, if for any reason the school did not purchase power. This provision was required to protect the REA loan and help repayment if worse came to worst.

This was to provide a solid source of reliable revenue in an otherwise unknown and untested environment. As indicated before, the assumptions for this monthly dollar amount were based on unrealistic under projections of expenses and needs. Immediately after we obtained increased temporary grant commitments from OEO to keep the first wolf outside the door, it became very evident that the schools would need to increase their monthly payment to provide enough revenue to tackle the many problems overwhelming AVEC. Remember, grant funds do nothing as far as long-term feasibility is concerned, but did help pay some pressing current expenses.

A concentrated effort was made to increase funding from electric sales. To set the stage for these revenue increases, I performed a very detailed financial analysis of the Cooperative and for the first time began to lay out some more realistic manpower and resource needs to actually perform the job at a more acceptable level. This had a parallel purpose since I also contributed a great deal to writing the OEO grant requests and this increased the detailed knowledge to both change the direction and more clearly justify further needs in the near future.

This analysis translated into a projection of future expenses and hence, future revenue needs. I drew up a series of projections which clearly demonstrated that if the schools did not increase their monthly payments, the Cooperative was headed toward bankruptcy. A series of letters was then sent to all the

key players explaining what would soon happen if there was no response and the resulting general chaos. The BIA was persuaded to increase their level of funding to \$2,000 a month minimum per school in early 1971. The State was more hesitant at first. After a face-to-face meeting with Governor William Egan in Juneau we persuaded the State to agree. The State increased the amount paid per SOS school to \$2400 per month by mid-1971 over the objections of some in the State administration. This was a direct result of personal diplomacy and preparing and presenting a supportable detailed analysis of actual financial needs. This was the first major breakthrough for AVEC on the long road to eventual recovery. Then State Senator Willie Hensley played a key role in helping the effort.

In fact, if we would have continued to have normal inflation, if the schools had continued to operate as a BIA/SOS system, and no very rapid increase in school construction due to settlement of the Hootch case, this initial adjustment would have been adequate. The great controversies that developed later would have been avoided. Of course, none of that happened!

1971 - A TURNAROUND YEAR (THE FIRST)

By mid-1971 through a combination of persuading officials to increase both OEO and REA assistance from Washington, convincing the State and BIA to each effectively double their revenue for electric sales to the schools, AVEC was through the first critical round of battles. As a result, AVEC enjoyed a modest positive margin for 1971, the first in the history of the Cooperative. If we had not obtained the school revenue increases, there would have been a major operating loss and set a whole different course of history for AVEC.

In summary 1971 was a turnaround year for AVEC. Under the existing conditions AVEC was in a much more comfortable position entering 1972 than only a year earlier. Note that I indicated "the First" turnaround year. The Cooperative had to be turned around several other times because of problems that were not even defined in 1970.

It is also worthy to note that AVEC set up the first State energy cost assistance program for village residents in 1971, although not defined as such at the time. This was due to the State/BIA absorbing the rate increase while leaving residential rates unchanged.

A TRYING DECADE AHEAD

AVEC had a number of inherent problems which without any new ones would have made for a difficult experience. However there were several very large additional problems and situations which emerged through the 1970's which were major challenges to the survival of the Cooperative and all had to be overcome or mitigated:

- INFLATION- as mentioned, the decade of the 1970's saw the highest sustained rate of inflation in the history of the country.
- MAJOR OIL PRICE JUMP- not once but TWICE in 1973-74 and 1979-80 fuel prices doubled and then redoubled again.
- FURTHER INFLATION IN ALASKA- caused by a push to the firewalls attitude toward constructing the Trans-Alaska Pipeline causing severe competition for labor/rapid higher wage pressures.
- A COMPLETE CHANGE IN VILLAGE SCHOOL OPERATING STRUCTURE
- LARGE SCALE NEW SCHOOL CONSTRUCTION- causing AVEC to have to abandon much of the original generation equipment and double or triple capacity in a short time to meet requirements.
- COMPLETE NEW SET OF ENVIRONMENTAL LAWS & REGULATIONS- evolved with inconsistent provisions and put even more pressure on future costs and rates.
- REQUIRED ADDITIONAL REA LOAN FUNDS- over the decade of over four times larger than the amount of the whole original creation loan. This was unprecedented in the history of REA to more than quadruple the investment in a distribution cooperative in 10 years. The irony here is the new schools, requiring huge amounts of new investment, were simultaneously changing to new operating administrations and eliminating AVEC feasibility unless corrected.

INTENSE LABOR COMPETITION

In 1973-74 fuel prices suddenly spurted upward and everyone in the villages faced a crisis. In fact the cost of diesel fuel increased every year from 1973 onward through 1982. This touched off general inflation throughout the country, affecting wages, transportation, construction materials, etc. Further aggravating the inflation situation in Alaska was the rapid construction of the Trans-Alaska Pipeline, with huge injections of private capital spending, in a state with no private industry history of handling such a huge project. As mentioned, Alaska had resulting inflation exceeding even the national average at times. This was another very heavy and continuing hammer blow to an infant AVEC still struggling to crawl. A number of employees left for the much higher paying jobs available on the Trans-Alaska Pipeline, creating gaps in the just starting organization structure. This forced fierce wage competition throughout Alaska. Trying to hold on against this giant magnet was difficult. The Cooperative moved as rapidly as possible to try to become more competitive but always lagged during this period.

SOS/BIA ASSISTANCE AGAIN

Again, in early 1974, AVEC turned to the only possible source with adequate funds — the SOS and BIA school contracts. By now there had been substantial change in the political climate, which at all times can affect results in Federal or State funding. The administration in Washington by 1973 had grown substantially more hostile to programs like REA, OEO, and BIA, all still required for AVEC survival. The REA and OEO were under direct attack by strident aggressive efforts even up to total phaseout of the programs. All of this was happening in an ever more divisive atmosphere as a result of the growing Watergate crisis. The saving grace at this time was a good relationship with and support from our Congressional delegation and local BIA officials which after great efforts, allowed the required increase from BIA schools to be finalized by mid-1974.

The situation with the State also changed considerably from 1971 to 1974. Fortunate, from AVEC's perspective, was the presence of Governor William Egan. I had known Governor Egan for a number of years as he had visited the Ballistic Missile Early Warning Station at Clear, Alaska while I was General Manager in the 1960's. He was understanding of small community problems and in my view could get through to the heart of a problem. A critical meeting was arranged with the Governor in January 1974.

This was attended by a substantial number of State and Federal officials. I had been writing increasingly strident letters for the prior six months about the growing crisis at AVEC brought about by serious new threats to survival:

1. Huge fuel price increase
2. Extremely high general inflation
3. Major change in generation and fuel tank requirements, due to major new school additions
4. Serious competitive threat for manpower and resources from the rapid Trans-Alaska Pipeline buildup

On the following page is an exact copy of the agenda for this important 1974 meeting. It explains items covered at the critical meeting and the nature of several major problems facing AVEC at the time.

REA sent one of the top officials from Washington, D.C. to attend this 1974 meeting as the stalemate was delaying a much needed, much larger, REA loan to begin to meet the huge electrical needs of new schools, among many other things. AVEC was rapidly running out of generating capacity as the first large new schools came on line. We had already stuck our necks out very substantially by ordering several large generators before the contracts were signed and before we had approval of a new REA loan. If we had not, due to equipment lead time and seasonal shipping, it would have been impossible to meet the loads even if a last-minute agreement was worked out.

Governor Egan asked me a direct question — Could I make AVEC work if we received the requested funding? I indicated yes we could, as things were beginning to improve before the latest series of setbacks. Governor Egan then overrode some members of his own administration and guided a somewhat hesitant legislature to obtain the required State funds. Once again a thoughtful and wise



Governor William Egan

AGENDA

SUBJECT: MEETING BETWEEN STATE OF ALASKA, BIA, RURAL ELECTRIFICATION ADMINISTRATION, AVEC, AND OTHER AGENCIES TO DISCUSS FUTURE OF ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

- One Brief history of AVEC
- Two Firm requirements for immediate State and BIA contractual support so REA will make new loan for immediate procurement requirements to meet winter of 74-75 electrical demands of new high schools and other new loads and allow AVEC to comply with new mandatory requirements of the Environmental Protection Agency effective January 10, 1974 concerning fuel spill prevention.
- Three Discuss AVEC rate philosophy and the impact major changes would have on any economic development, PHS projects, or future housing in rural Alaska.
- Four The need for an application of fuel price adjustment clause to reflect recent major increases in prices of diesel oil and transportation services utilizing petroleum products and other inflationary effect on AVEC.
- Five Impact of pipeline on AVEC in costs, retention of personnel, saturation of transportation system, loss of village operators.
- Six A workable procedure with the State to negotiate binding contract changes with AVEC concerning new schools, new villages, and rate changes without costly delays and uncertainty.
- Seven Impact of the change of administration of schools, including shifting to borough, Independent school districts, possible phaseover of schools from BIA to State, possible other changes.
- Eight Some trend for large new outside loads to be placed under school contract such as new PHS, or EPA facilities and impact of more elaborate school quarters.
- Nine Obtain State support so AVEC can obtain adequate fuel allocation for winter of 74-75 requirements.
- Ten Number of future new villages to be electrified, if any, by AVEC with State or BIA contractual support and the yearly schedule to be followed.
- Eleven Other Issues of interest to participants.

gesture and a help for AVEC at a critical juncture. This was quite a vote of confidence largely based on faith and not on any great operational performance up to that time.

Things began to look somewhat better again by the fall of 1974 as a new REA loan was obtained after the revised school contract funding was in place to restore feasibility. Once again the top three immediate financial problems at AVEC were apparently solved by the fall of 1974 and the second major crisis phase was passed.

Basic residential rates were protected and isolated throughout all these early major crises but the story of AVEC had many turns during the 1970's and another was ahead. The next crisis was largely brought about by the State of Alaska through a lack of well thought out coordinated policies.

MAJOR SCHOOL RESTRUCTURING

By this time AVEC had already (in 1971 and 1974) made it abundantly clear to the State and BIA at the highest levels, the vital requirement of the school contracts for FEASIBILITY. Amazingly, they stumbled into a new school operating system with no provision for existing contract protection. This crisis resulted from a complete breakup of the SOS, phase out of BIA schools, and creation of many independent and regional school districts in 1975-77 without adequate planning and attention to details.

As a result, the task of maintaining feasibility was much more difficult because now we were dealing with a great number of scattered administrative areas which were still largely dependent on the State for funding, but could go their own ways on many policies. Certain of the new school districts objected to entering into agreements of any type, not realizing they were jeopardizing AVEC's ability to supply their own rapidly growing requirements for more electrical power. Without FEASIBILITY there could be no REA loans which were required to buy the larger generators, more fuel tanks, etc. required. In addition, the regional schools balked very strongly at offering any guarantees of contract termination charges required by REA in the original loan and still required.

Misunderstandings resulting from these items, plus the confusion concerning required rates caused by high inflation, touched off the State-funded Alaska Public Utilities Commission (APUC) study of

1977-78. One of the problems recognized was that the new school systems were no longer willing to pay more so village residents could be somewhat isolated from the rapid increase in energy prices as they had been previously. The SOS and BIA had previously both felt strong obligation to help AVEC when the chips were down. By 1977 the regional school districts were forming and there was no formal provision to handle transferring contract obligations to the regional school districts. Hence, the APUC study was to propose some rates which would be cost based. This resulted in an APUC order in the spring of 1978 directing AVEC to effectively double our residential electric rates to 37.2 cents per KWH for village consumers. The schools at the same time had their rates lowered and have since always been billed at a lower cost per KWH than others consumers. Based on classic rate making rules the school rates were probably justified. This order had the effect of throwing down the gauntlet and AVEC would either sink or swim. Stated another way, village consumers would either pay near 40 cents per KWH for electricity or do without. There was no State assistance at this time and none planned. This was the second time in less than two years the State had left AVEC out to dry.

The rates ordered by APUC were potentially a death blow to AVEC if we could not find a way to overcome them. Predictably, accounts receivable quickly grew very large, with the city governments leading the way. This is another story and is picked up under the Power Assistance section. Continuing on with the school role and AVEC, following the APUC order, the schools now found themselves in a relatively more favorable cost per KWH position. Through a number of meetings and continually stressing the vital nature of the schools entering into contracts the attitude began to change again towards a more favorable position. Several of the school districts were now willing to enter into contracts with AVEC for power purchase IF the State would guarantee the termination charge in the event of contract termination.

The next shift of focus was now on Juneau. If we could get the State of Alaska to provide this guarantee, then REA could continue to make government loans. After several rounds of negotiation and more meetings the State entered into this vital contract in July 1978. So finally we got a start towards eventually getting out of the quagmire created largely and unnecessarily by the State. This new State contract now opened the door for approaching all of the new school districts with new contracts.

We were dealing with a whole new group of people, in many different headquarter locations with their attention on many other problems of directing the new schools on the right course. This is an area where our Board Members helped considerably. Several members of the AVEC Board had ties to the schools and helped the educational effort. Some AVEC Annual Meeting Delegates also took steps to lift School Board support. This helped provide a faster push to get the first required approvals. Entering into the contracts was vital to AVEC's ability to obtain future REA loans since feasibility and further loan fund advances would be questioned until this was achieved. Before, we had two contracts to be concerned about and now the total number of contracts multiplied several times.

After several extensive rounds of correspondence, telephone calls, and personal contacts the school contracts were executed one by one. By mid-1979 this vital requirement was largely in place and the relationship with the schools took a definite turn toward improvement. By 1980 the biggest problems with the schools were solved and behind us. The role of the schools, after some painful years and misunderstanding, now settled into a traditional role of a large very important consumer of electric power. Right after this a fourth round of serious and threatening problems for AVEC developed in 1979-1980 with another Arab/Israel conflict, a doubling again of fuel prices and State rate assistance not yet in place.

FUEL OIL PRICE CONTAINMENT

The price of diesel fuel oil is closely tied to the price of the underlying crude oil. There are two major elements included in the price of fuel oil in village Alaska. The price of the fuel oil and the cost of transporting the fuel all the way from the crude oil refinery to the village tank. Transporting oil in large ships, smaller ships, large barges, small inland water barges, and pipelines are all included in the price plus any required intermediate storage at distribution points. The delivered cost of fuel oil has been and will continue to be a major cost factor for the Cooperative. On the next page is a chart entitled "AVEC Fuel Oil Price Report" reflecting 20 years history shows the tremendous variance in fuel oil cost. The price has ranged from a low of \$.35 per gallon in the starting years through 1973 to a high of \$1.61 per gallon by 1982 or an increase of some 450% in less than ten years!

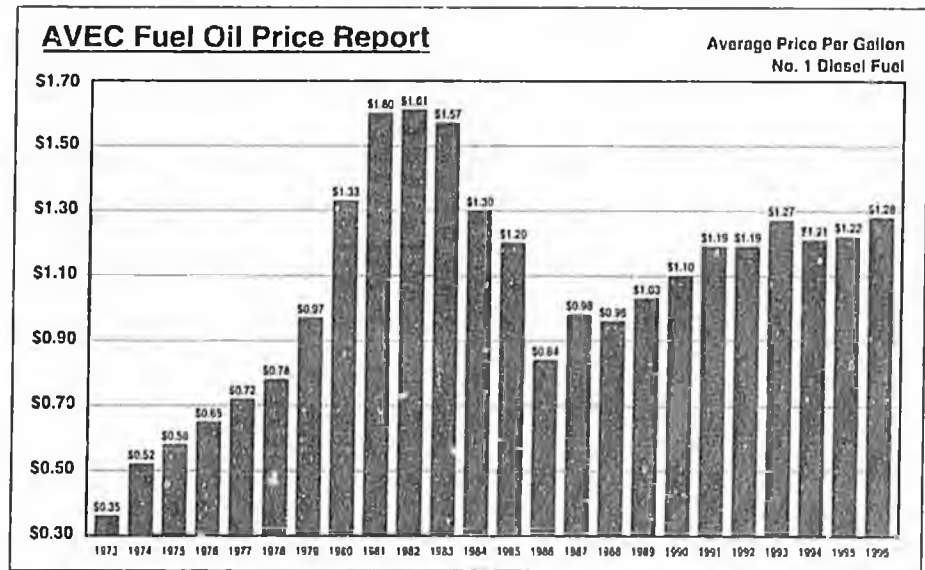
It was very evident by early 1974 that a sustained effort had to be undertaken to bring the total growing cost exposure down in two major ways.

1. Introduce substantial competition in the bidding process to lower prices.
2. Improve engine efficiency to lower the amount of fuel oil used per KWH generated.

In the early 1970's the fuel oil market in most parts of rural Alaska was dominated by just one supplier and they controlled the overwhelming majority of critical terminal

storage. Prices were relatively low and the profit potential was limited. No one else was interested in making the investment for fuel storage. Of course, the combination of the rapid increase in fuel oil prices and the large increase in fuel quantities required by the new schools and AVEC changed the previous ball game. In addition, new refineries in Alaska were moving ahead. The Cooperative initiated a series of progressively more aggressive competitive bidding strategies which over the years resulted in better prices for AVEC and helped the entire fuel oil pricing environment, particularly in western Alaska. As opportunities developed we involved more companies in the bidding process for both fuel and transportation and brought in new interest from formerly dormant parties. We developed a comprehensive advanced form of bidding specifications which more accurately reflected the Cooperative needs. The specification helped to control a variety of other long-standing problems, such as tightening certification of quantities delivered and moisture content.

It should be pointed out that these steps largely resulted in one-step savings. Most of the factors that influence world oil prices are totally beyond control of anyone in Alaska. The biggest contribution AVEC made was a remarkable and continuing improvement in fuel use efficiency.



EFFICIENCY IMPROVEMENT IN EQUIPMENT

More important in the long view was to improve the efficiency of diesel engines. Up until 1973 there had been minor attention given to generation fuel efficiency because of low cost of petroleum products. The crude oil embargo in 1973 and rapid increase in prices over the next few years changed that mode of thinking throughout the world and particularly woke up the major diesel engine manufacturers. The process of purchasing diesel engines prior to 1973 was to look at a fuel consumption chart supplied by the manufacturer which frequently contained testing assumptions which were not uniform. For instance, was a muffler installed or was a water pump installed, etc. which all caused variable results. Some even used heavier weights of fuel oils at low tank temperatures to gain an advantage in relative BTU content (energy) which was not readily apparent in available sales literature. No one had ever done any meaningful accurate testing with the light diesel fuels required in Arctic Alaska. In spite of limited resources at that time we had to get a closer feel for the actual engine fuel consumption.

This involved obtaining equipment to more accurately evaluate the various engines and independently conduct the tests. The Cooperative initiated a program of testing engines under controlled conditions and through the years has perfected the process to a relative high degree. The Cooperative established an in-house small "Consumer Reports" test lab and learned a great deal about a variety of characteristics of engines and accessories over the years. The results of this program has resulted in a steady increase in kilowatt hours generated per gallon of fuel oil. Pioneering efforts by AVEC in this area benefited not only the Cooperative but others in rural Alaska in helping to hold down fuel costs for remote generation.

This initial investment of a few thousand dollars in test and measurement equipment has saved AVEC millions of dollars by reducing fuel purchase quantities. Not only did the direct fuel oil quantities required drop, but large savings resulted from reducing the number of fuel tanks required. This in turn reduced the cost and labor to install the tanks and the required pipelines, reduced diking requirements and cut down on the amount of loan money borrowed and, hence, interest costs. As an example if a village needed 8 fuel tanks in 1971 they could easily need 20 or more tanks by the 1990's due to rapid increase in electrical load. By steadily increasing the fuel efficiencies by a factor of 100% or more, the actual number of tanks required could be reduced to 10 or 12, a tremendous cost savings. Particularly when you consider that AVEC has more fuel tanks than anyone else in Alaska. The Cooperative could

now own near 1,000 fuel tanks if not for the major fuel efficiency improvement. Still another factor would be a need for considerably larger power plant land lots to provide space for installing the tanks. This is a fine example of why it is important to really concentrate on overall efficiency in certain key areas and how cost savings do multiply throughout.

The engine manufacturers began more serious attempts at improving efficiency in the mid-1970's and accelerated this still more in the 1980's. The pattern of success has not, however, been uniform nor has any one manufacturer maintained a dominant position for many years. The Cooperative helped stimulate some of this effort by direct factory visits and sharing the results of our tests. The Cooperative is the largest operator of continuously running diesel electric sets in the smaller size range in the country. We build up a lot of useful operations information in a short time which is useful to help correct any design problems in newly introduced engines. Manufacturers are very interested in the data we collect from tests and actual operating experience.

In the size range of engines used by AVEC one of the early leaders in improving efficiency was Caterpillar which was soon matched and in cases exceeded by Cummins. A late bloomer has been Detroit Diesel which has recently moved the efficiency curve for small diesels into record territory of over 15 KWH of electricity generated per gallon of diesel fuel burned. At this level small diesel sets have caught up with the larger units after lagging well behind for the past long century. The growing competition in this area has benefited the Cooperative considerably over the past 20 years. The ability to test engines is of tremendous benefit since observing competitive sales literature, or the pitch of sales representatives, does not cast light on cold hard facts revealed by competitive fuel tests under standardized conditions.

Electronic engine controls and sophisticated attention to higher fuel injector pressures and timing have allowed thermal generation efficiencies to hit ever higher levels. At the same time, engine reliability has generally improved which is another major factor to be considered in engine selection.

WILL THERE BE FUEL?

Another problem, aside from all the others confronting AVEC in 1973-1974, was the ability to simply get enough fuel. Many of us remember the long gas lines and shortages of this period. The Cooperative

faced a very serious threat at this time. Extracted here is the situation reported to the AVEC Board by the General Manager's Report to Board dated November 14, 1973.

"Fuel Supplies"

Substantial changes in the fuel supply situation have developed since the last Board meeting and represent a serious threat to the future expansion of the Cooperative and our ability to serve new loads in the villages. This has come about largely due to the recent Mid-East War and the subsequent cutoff of fuel supplies by the Arab countries to the United States. As a result of this, the energy crisis has become extremely critical and particularly in the type of products which AVEC uses. Diesel fuel is in particularly short supply and a fuel allocation program is being set up by the Federal Government. This program basically establishes allocations based on 1972 fuel consumption information. A copy of two letters which have been received, from Standard Oil of California are included. Basically, the way this program will affect AVEC is that we have a most complex situation since we bought our fuel oil from Standard Oil of California and Tesoro both in 1972. In 1973, we have purchased all of our fuel for Standard Oil of California under a purchase contract, which was entered into earlier this year. We also used substantially increased quantities of fuel oil this year compared to the previous year. The possible legality of this contract, which provided for increasing supplies, is now in question, with the imposition of the new Federal laws relating to 1972 consumption information. This raises many questions which will have to be answered in the next few weeks in regard to our future fuel supply and what we may have to do in the way of rationing or curtailment of use of electricity, cutting back on expansion into new villages, and even our ability to serve such major new loads as the high schools mentioned above. We simply will have to have additional fuel oil if we are to supply the huge new electrical loads that are being imposed by these high schools, Public Health Service facilities, and other items going into the villages. Needless to say, AVEC will be in a most serious position if they should further cutback on the supply and start formalized rationing procedures. In addition, the price of fuel is going up at an extremely fast rate. It would appear that our average cost this year is going to be close to 36 cents per gallon, compared to around 33 cents the previous year. Next year, without any further increases other than what we already know is happening to the price of crude oil, we can expect that the price of fuel oil very well may average four to six cents per gallon more than this year. It could be more. This is making it mandatory that we seek rate increases in order to compensate the Co-op for the substantial increased generation costs which will be involved. AVEC has no alternative but to use diesel power at this time, and the cost of our diesel fuel is the single largest item in our cost structure."

POWER PLANT BUILDINGS?

Due to the very low funding for early construction projects together with lack of critical engineering by early AVEC and REA staff, serious problems threatened the Cooperative from still another front — **FIRE**. The equally costly-to-fix difficulties associated with environmental protection were somewhat slower to develop.

One of the really serious design deficiencies in the early power plants was the lack of any type automatic shut off system for the day tank fill system. As a quick explanation for those not too familiar with power plants, it is common procedure to have a smaller fuel tank close to the engine which provides enough fuel for typically one day of operation. The operator refills the day tank daily. Unfortunately in the early systems, the electric pump could be turned on and keep pumping until turned off. Most operators stayed at the plant and paid attention. A few didn't and as a result fuel overflowed and saturated the interior of the power plant.

This was a multiple losing situation for several important reasons:

1. Extremely high fire hazard for the power plant building.
2. Loss on the ground of up to 10,000 gallons of expensive fuel oil on each occasion.
3. Potential and serious environmental damage in the vicinity of the plant if not cleaned up immediately.
4. Bad public relations for the operator, AVEC, and the village.
5. Possible running out of fuel prior to the next summer delivery.

Once again due mostly to strangled budgets, lack of thoughtful engineering, and little help from REA staff, a poor initial choice of power plant buildings was made in 1968-69. The initial AVEC power plant buildings were basically a wood frame building set on a wood frame floor and supported by a wood frame foundation. There was a thin metal veneer outer facing but as history proved, this building can burn quickly. The design of this plant is not unlike the structure of a typical Viking funeral pyre of

crossed wood planks with more combustible material stacked high on top. When saturated with fuel oil as noted above they can make an even more stunning impression with unpleasant lasting results.

Still another serious fire hazard was related once again to having a low bid rush delivery with no time for evaluation. Diesel engines operate at relatively high stress levels and can have fuel injection lines operating at very high pressure. When hours build on these engines some very troubling problems begin to develop. The fuel injection lines begin to develop pinhole size leaks. As a result a fine stream of atomized fuel oil could be sprayed on the hot engine. If it happened to hit the hottest point — the turbo charger — fire could result.

Unfortunately at the time many of these problems developed, AVEC had insufficient funding for a really adequate response, but actions were started to reduce loss potential.

One of the first steps was to design and retrofit a system to provide an automatic cutoff on the day tank fuel supply pump. This was done because it was relatively low cost, relatively quick and reduced a very serious hazard.

Over the years a series of steps has been taken to make the interior design of the older plants somewhat more resistant to easy fire starts by modifications to interior material. This included steps to cover the original all-wood floors with metal flooring. But due to the initial oversights in material selection and the rush to select first plant locations, the old original buildings can never be ideal. The Cooperative also arranged to have their own fuel injection lines specially fabricated out of a higher quality steel alloy material virtually eliminating the fuel spray fire hazard problem as replacement parts were installed.

SERIOUS POWER PLANT FIRES

The initial power plants contained virtually no fire resistant materials and only small manual fire extinguishers. The manual fire extinguishers, being among the few in town, were frequently used somewhere else and could take many weeks getting recharged and returned. There was no automatic fire suppression system at all in any of the original plants, no request in the loan documents and zero loan funds for this purpose in the original loan.

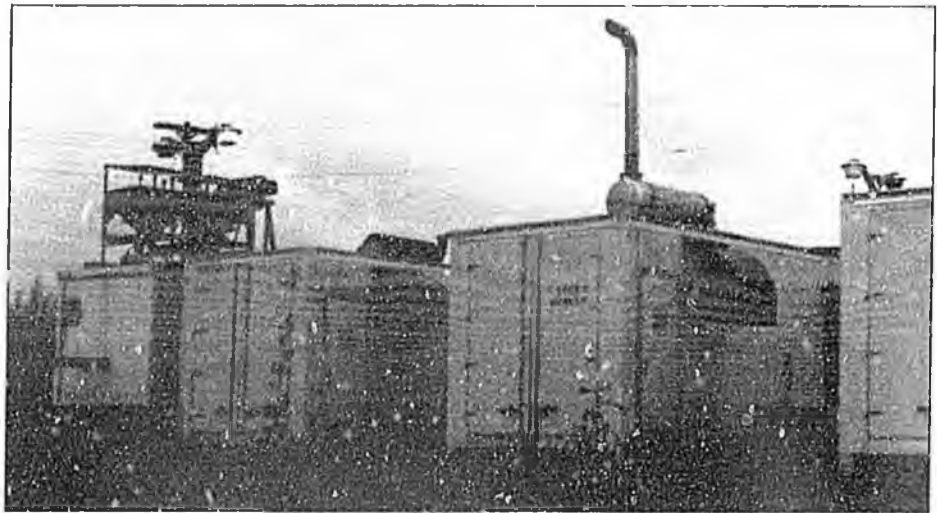
As a result AVEC suffered through a myriad of power plant fires primarily in the mid-1970's with over 10% of the original plants lost. This caused a serious loss of revenue, high cost of emergency recover efforts, and loss of consumer confidence.

Most, if not all, of these fires can be directly assigned to one of the above hazards. In one other case there was suspicion the operator was using gasoline for cleaning in the plant, but there is rarely clear evidence for a single isolated cause. Frequent high winds and lack of operational village fire suppression equipment can and did make bad situations even worse.

THE ROAD TO MODULES

The ideal power plant would be specified to have absolute minimum combustible material in the building structure. The Cooperative finally obtained REA approval in 1975 for the first use of prefabricated all-metal modular type of buildings. These modular buildings have many advantages, but one big advantage is much greater resistance to sustaining a fire to prevent loss and reducing the risk of total loss by spacing units apart. Modular buildings do cost more initially but the many benefits come shining through for village applications over the building's useful life. Ambler, constructed in 1975-76, was the first village to have a full modular system.

The Cooperative developed a system of automatic fire suppression systems for retrofit in the older plants and installation in the newer modular buildings.



Ambler Modular Buildings Power Plant

These systems provide around-the-clock fire suppression capability in the largely unattended AVEC power plants. They have prevented major losses on several occasions and helped cut the fire losses substantially.

As a result of these steps taken the tide was turned and fire losses dropped again by the late 1970's. The best direct avoidance of fire is for an alert village plant operator to carefully inspect the plant on each visit. However, until replaced over time by newer, fire resistant, modular designs the original plants continue to represent a potential threat due to initial inadequate designs.

Modules do take more village land area for proper design layouts.

POWER PLANT LOCATIONS

Another problem that developed due to the early breakneck planning process, relatively poor surveys, and sometimes intervention of village politics, was the initial poor choice of location and undersized lots for the village power plant facilities. This ultimately cost the Cooperative tens of thousands in extra expenditures and in some case the plant still may not have a truly ideal location. Poor location and small lots contributed to extra fire hazards and fire loss. The combination of poor choice of a power plant building, marginal equipment and materials, and poor location increases potential for a disastrous fire.

The location of a village power plant requires the balancing of a number of factors:

1. Availability of adequate space with clearance around the perimeter.
2. Availability of adjacent land for expansion to meet growing fuel or equipment storage needs.
3. Far enough from most residents to minimize noise.
4. Close enough to navigable water to allow seasonal fuel delivery rapidly through pipelines to prevent extra barge time charges.
5. Not too far away to discourage regular required checks by the plant operator.
6. Big enough to allow a safety area between the plant and tanks and adjacent buildings.

7. High enough to prevent flooding.
8. Not too swampy or poor foundation soil.

The Cooperative has had to pay for many extra repetitive installations because of a combination of various events including:

1. Total village relocations to a new area.
2. Fire damage to facilities
3. Serious flooding.
4. Inadequate space for expanding needs.

The problem of village land title and drawn out administrative and legal proceedings was just one more in a series of special difficulties.

If the Cooperative had even one more year in the early planning stages perhaps many of these early mistakes could have been avoided. It does take an understanding and sympathetic local city government together with thoughtful engineering to avoid these types of problems. Neither of these two conditions were in abundance in the early stages so many more extra holes had to be crawled out of as a result. Many of the problems came to a head in the 1970's and steps were taken to overcome them if possible, or reduce the risks, if revenue or available loan funds did not allow a direct solution. In several cases the villages provided much better locations when a second opportunity was presented. In some locations, however, the mistake of not restricting new building construction close to power plants has been continued.

UTILIDORS

Early 1971 started with a disastrous situation for a number of the village distribution systems. The original REA promoted idea of all-buried systems was proving to be an ever-expanding disaster. There

were numerous cable breaks with severe and long power outages. This in turn caused major loss of revenue while at the same time caused a major increase in expenses which had not been anticipated or provided for in the original planning.

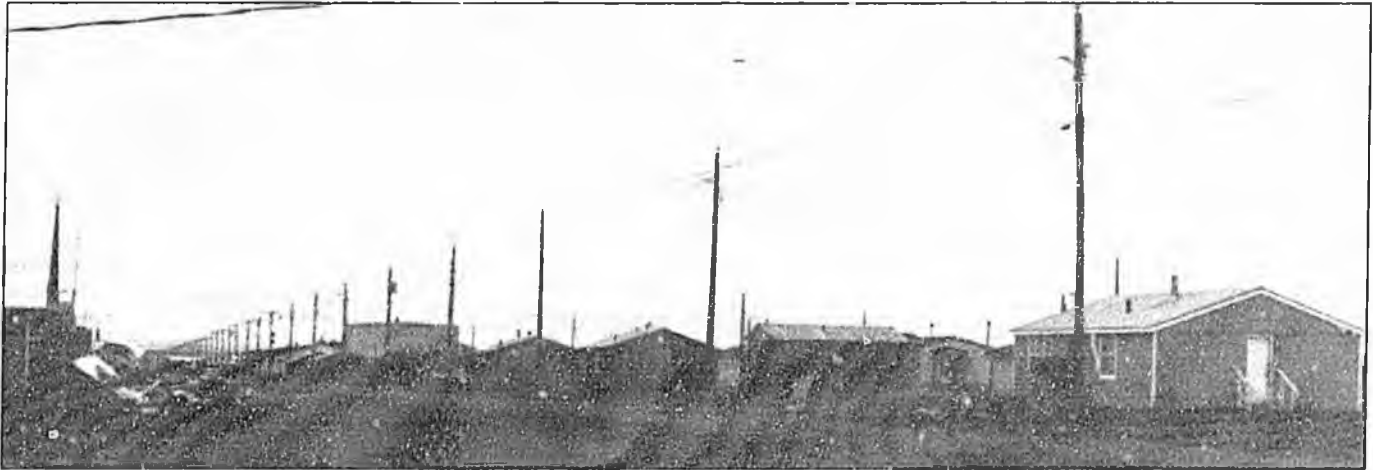
Due to the very limited staff and frozen ground, many of the village fixes frequently consisted of simply laying cable on top of the ground between pedestals and resulted in increased safety hazards. At this time there were very few telephone systems in village Alaska and the few there did not meet criteria for joint pole use or safety requirements for overhead systems. There was no loan or other funding for a complete rework of the distribution system. Feasibility was already on very shaky ground, a condition which continued for most of the next ten years.

By this time in 1971, fortunately, a much more qualified and realistic field engineer was on the scene for REA. After several meetings, it was the consensus of AVEC staff and the REA field engineer that under the existing circumstances the distribution systems with the worst problems would be converted to a surface utilidor system. The utilidor system was basically a box constructed of two-inch thick lumber with some special transition pieces for service entrances, road crossings, etc. The decision to go to utilidor was based on the circumstances at the time which included:

1. REA was opposed at this time (1971) to financing a full overhead system.
2. This would mean total abandonment of the buried system. At this time OEO was also opposed to overhead on the basis of possible village appearance deterioration.
3. Utilidors would work to quickly eliminate the great majority of safety problems and stop the serious drain on revenues and slow down member service complaints.
4. The skill level to build utilidors was easily handled by local labor in most cases.
5. The construction timetable could be extended somewhat due to the absence of the need to dig in frozen ground in most cases.
6. Required materials for corrective action were immediately available for ordering.

The utilidor system began to appear in the fall of 1971 and did work relatively well initially. In fact, parts of the utilidor system operated for 20 years or more, but it became evident over the years that the utilidor system would be an interim system. The long-range goal of converting the great majority of the system to traditional overhead line construction had to wait for a better opportunity and adequate funding.

OVERHEAD SYSTEMS COMING



Shaktoolik Overhead System

The developments which allowed the consideration of conversion to overhead over the next few years included:

1. In 1976 the Cooperative received approval from REA for a prototype overhead system to be installed in Alakanuk. This was a minor shift in REA policy but proved significant in the big picture.
2. During this time period and onward, a number of overhead telephone systems began to appear in the villages. Over a period of time joint use agreements were developed and signed which provided for joint installation of telephones, electric and other systems on installed poles. This

helped all parties by reducing costs and improved the economic situation to allow overhead systems more and more.

3. By the early 1980's after the Power Cost Assistance/Equalization program was enacted, AVEC's feasibility improved substantially. As a result of favorable experiences with the earlier systems, a growing consensus was developing by all parties that AVEC should undertake a program over the years to convert the majority of the system to overhead. The REA loan requests were developed and a major and steady increase in overhead distribution conversion was soon underway which continues to this day.
4. The quality and quantity of AVEC staff was steadily improving. One result of the labor negotiations between AVEC and the electricians union (IBEW) in the 1980's was the better definition of field skill levels. As a result, AVEC was able to increase the skills of personnel to better handle maintenance on the expanding overhead distribution systems
5. Overhead systems were proving themselves to be the best systems for Arctic rural Alaska by actual performances.
 - a. They were more reliable.
 - b. They were easier to repair. Generally repairs were quicker and at lower cost.
 - c. They reduced potential safety hazards in most cases but not totally.
 - d. The loss of revenue and service interruption complaints dropped substantially.
 - e. The overhead systems had a much more accurately predictable life and allowed more confidence in distribution and depreciation cost per year figures used for planning.

A PUSH FOR ADEQUATE QUARTERS

When I walked into work the first day in 1970 the office was obviously badly overcrowded and was in a building with considerable potential fire hazard. Among the other tenants was a woodworking/paint shop with attendant risks of fire. The rented warehouse was several miles distant making for increased cost of communication and control. The high fire risk in this marginal building subjected the very limited spares/construction materials inventory to considerable exposure of total loss. With the many

other threatening problems at the time, the desire for something far more adequate had to be placed to the back of a long list of future "to do" things.

By 1973-74 it became increasingly evident that the faster than anticipated growth of AVEC due to the very rapid rise in village school construction and larger equipment required was swamping the very limited rental space. Rapid increase in rents due to pipeline construction activities also dictated a move forward in plans for a Cooperative-owned headquarters/warehouse facility.

The first move in this direction came about by convincing local REA representatives of the need for a better and more efficient facility. This was relatively easy since they saw every day the growing problems and true needs AVEC faced. The first initial request for an REA loan for a headquarters facility started in January 1973. Initially, the request met with some skepticism at REA in Washington, D.C. but with steady pushing they slowly came around.

When the badly needed new REA loan finalized in November 1974 included were funds for an AVEC headquarters facility.

Inflation at this time in Alaska was running nearly 1% per month due to high fuel costs and the oil boom frenzy roaring through the State.

I am proud to say that by keeping active in every phase of the headquarters facility planning, AVEC ended up with a very efficient facility and a very favorable price.

The first part of the adventure was to locate a suitable building site. Among the criteria in the back of my mind was reasonable access to the airport, major vendors and a central location for employees commuting to work. We looked at many locations over a six month period, but finally settled on three lots at a high spot on Eagle Street at the corner of 48th Street in a new commercial section. The lots were purchased in the spring of 1975. The location choice has proven to be very good through the years.

The next phase was planning a facility. This started out with considerable discussion with the staff which evolved into rough sketches of needs and desire. Plenty of space was allowed for repair shop