

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2796

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5 The commissioner shall exclude from
6 the total school construction cost of the school [LOCAL] district all
7 state and federal funds included in these costs except funds provided
8 under this section ~~and AS 43.50.140~~. In approving applications for
9 reimbursement, the commissioner shall

10 [(1) OFFSET AGAINST THE AMOUNT OF REIMBURSEMENT AUTHORIZED
11 THE AMOUNT OF ANY FUNDS DISTRIBUTED TO THE BOROUGH OR CITY IN THE
12 SECOND PRECEDING FISCAL YEAR FROM THE SCHOOL FUND PROVIDED FOR IN
13 AS 43.50.140;

14 (2)] require the borough or city to provide, with its appli-
15 cation, a certified copy of the notice to taxpayers required under
16 AS 43.18.030.

17 * Sec. 9. AS 43.18.100 is amended by adding new subsections to read:

18 (h) An allocation under (a)(3) of this section shall be reduced
19 by the amount of money used for the construction of residential space,
20 swimming pools, hockey rinks, planetariums, saunas, and other facilities
21 for special sporting or recreational uses which are not suitable for
22 other activities.

23 (i) For the purposes of (a)(3) of this section

24 (1) an indebtedness for bonds is incurred after the bonds
25 are sold;

26 (2) reimbursement for a cash payment may only be made after
27 the payment is made to a vendor; and

28 (3) payments may not be made for costs which are incurred
29 under a contract after the contract has been released.

* Sec. 10. AS 14.08.16 is repealed.

* Sec. 11. This Act takes effect July 1, 1981.

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7 * Sec. 10. AS 14.08.16 ~~repealed~~ repealed.

8 * Sec. 11. This Act takes effect July 1, 1981.
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AMENDMENT

#1 moved & flooring

OFFERED IN THE HOUSE:

By: MOSS, HAYES, ROBERTS FANNING
Bettisworth

To: CS

HOUSE BILL No. 12 (Fin)

SENATE BILL No. _____

PAGE: 1

LINE: 8

Delete Sections 1 through 7

Insert in its place:

* Section 1. ALASKA RAILROAD NEGOTIATING COMMISSION.

(a) There is established in the Department of Transportation and Public Facilities the Alaska Railroad Negotiating Commission.

(b) The Alaska Railroad Negotiating Commission consists of the following members: the commissioner of transportation and public facilities or his designee and four public members appointed by the governor who represent petroleum, mining, agricultural, tourism industries, regional corporations or other railroad user groups. A member of the commission must be a resident and qualified voter of the state and shall comply with the requirements of AS 39.50 (conflict of interest) relating to members of state boards and commissions. Members of the commission serve without compensation but are entitled to per diem and travel expenses authorized by law for boards and commissions.

(c) The Alaska Railroad Negotiating Commission shall initiate discussions with the federal government concerning the transfer of ownership of the Alaska Railroad to the state or to private enterprise and concerning additional access to other areas of Alaska not presently served by the Alaska Railroad. The commission shall also initiate discussions with the federal, provincial and territorial governments of Canada as well as interested private parties concerning the incorporation of the Alaska Railroad into a transcontinental rail system. The commission shall report its findings and recommendations concerning the transfer of ownership to the legislature as soon as possible or, if the legislature is not in session at the

AMENDMENT

OFFERED IN THE HOUSE:

By: _____

To: _____ CS _____ HOUSE BILL No. 12 (Fin) _____

SENATE BILL No. _____

PAGE: _____

LINE: _____

Amendment No. _____ continued

time of the report, to each member of the legislature.

(d) The House Committee on Transportation and the Senate Committee on Transportation shall have oversight responsibilities for the on-going work of the Alaska Railroad Negotiating Commission.

HOUSE FINANCE COMMITTEE

May 27, 1981

1:40 p.m.

(Tape HFC 81-97, Side 1 #461.)

PRESENT

All Members of the Committee were present except Representatives Cotten, Rogers and Montgomery. (Representatives Buchholdt, Malone and Meekins arrived later in the meeting.) Present to testify were: Senator Colletta, Phillip Wall, Administrative Director, Department of Revenue; and Jim Kelly, Aide to Senator Rodey.

SB 560

Vice Chairman Freeman called the meeting to order and brought SB 560 up for consideration.

SB 560 am -- "An Act relating to refunds of the 1980 state income taxes; and providing for an effective date."

SENATOR COLLETTA advised this bill extends the filing deadline for filing for refunds of state income tax from June 1, 1981 to October 15, 1981. He suggested amending the bill to extend the deadline for filing for 1979 refunds as well.

Senator Colletta said there is still approximately \$8 million in unclaimed refunds. There was brief discussion.

(Representatives Buchholdt and Malone arrived at this time.)

MR. PHILLIP WALL, Administrative Director, Department of Revenue advised if the Bill is amended to include 1979 taxes, SLA 1980, Ch. 2 has to be added.

Representative Carney asked why they couldn't mandate that the Department automatically make repayments. Mr. Wall explained they have refunded all the taxes in the Department of Revenue that are processable. He said the refunds they haven't processed are the ones where the taxpayer has not filed a return. He explained there are all kinds of problems with trying to pay on the w-2 forms: many employers don't give them the correct address and social security number; many employees work for more than one employer; sometimes people owe taxes from previous years; etc.

Representative Moss MOVED to amend the bill on line 6 to add "1979 and" before "1980", and on line 9, after "ch. 1" add "ch. 2". There was brief discussion.

(Representative Meekins arrived at this time.)

There being NO OBJECTION, the motion was adopted.

Representative Moss MOVED to report out a House CS for SB 560 incorporating that amendment. There being NO OBJECTION, it was so ordered. HCS SB 560 (fin) was reported out with a "do pass" recommendation.

Representative Malone MOVED to adopt the \$67.9 fiscal note ONLY. There being NO OBJECTION, it was so ordered.

SB 19

The next bill to be considered was SB 19.

SB 19 am -- "An Act relating to the legal rate of interest; and providing for an effective date."

MR. JIM KELLY, Aide to Senator Rodey, explained the House CS for SB 19 (L&C). He explained the bill reduces the number of loans that the interest rate is set by law, and changes the procedure by which legal rates of interest are set. Mr. Kelly further explained the bill, and he presented two proposed amendments to the bill. (See Attachment #1.)

(Representative Buchholdt left at this time.)

(Tape change, HFC 81-97, side 2.)

In answer to a question from Representative Malone, Mr. Kelly said large financial institutions have no problem determining the legal rate of interest because they are in constant contact with the San Francisco Reserve (12th district). He said the financing companies do not keep in regular contact. He explained the amendment says they will not be in conflict with the law if they make adjustments after being notified by our Division of Banking. He said that is the purpose of the proposed amendment. There was brief discussion.

Representative Carney said it is sensible to have a procedure to come back and rectify an error, but it seems like a "lot of hoops to jump through". He asked who is going to enforce this. Mr. Kelly said there is no problem for the banks, just the financing institutions. He said the rate doesn't change that often -- it's changed one or two times since December. There was further discussion.

Representative Meekins said he likes the bill. He said he has a problem with the last sentence of the amendment. He said he thinks they should have some leeway, but this would require the Department to monitor loans and check the date they were closed against the interest rate on that date. He said he would rather put the burden on the financial institution; otherwise they will be creating a tremendous amount of auditing in the Department.

Mr. Kelly commented it would be a nuisance for a financing company to have to go to court on this.

Representative Malone said he thinks Representative Meekins is correct. He said they didn't want the Department to have to review every loan on the books. There was further discussion.

Mr. Kelly continued his explanation of the bill.

Representative Meekins MOVED to amend the proposed amendment to delete "receipt of notification of the violation by the department" on the last two lines of the first paragraph, and insert "the closing of a loan". There being NO OBJECTION, it was so ordered.

Representative Meekins MOVED to delete "receipt of notification by the department of such violation" on the third and fourth line of the second paragraph, and insert "closing a loan". There being NO OBJECTION, it was so ordered.

Representative Meekins MOVED to adopt the proposed amendment as amended. There being NO OBJECTION, it was so ordered.

Representative Meekins MOVED to incorporate the amendment into a House Finance CS for SB 19. There being NO OBJECTION, it was so ordered.

Representative Meekins MOVED to report HCS SB 19 (fin) out of Committee. There being NO OBJECTION, it was so ordered. HCS SB 19 (fin) was reported out with a "do pass" recommendation.

ADJOURNMENT

The meeting adjourned at 2:30 p.m.

Tape HFC 81-97, side 1 #461 to end
side 2 #001 to #472

PROPOSED AMENDMENT

New. Sec. 2 :

Section AS 06.20.310 is amended to read:

Sec. 06.20.310. Illegal interest rate. No loan of the amount or value of \$25,000 or less for which a greater rate of interest, consideration or charge than is permitted by this chapter has been charged, contracted for or received, wherever made, may be enforced in the state, and every person participating in such a loan in the state is subject to this chapter. This section does not apply to loans legally made in any state or territory of the United States which has in effect a regulatory small loan law similar ⁱⁿ to principle to this chapter. This section shall not apply to loans as to which a licensee refunds, tenders a refund, or credits any overcharge to reflect the permissible interest, consideration or charge within thirty days after receipt of notification of the violation by the department.

New Sec. 3 :

Section AS 06.20.320 by adding a new subsection (d) to read:

Sec. 06.20.320(d). A licensee has no liability under this section for violation of this chapter if, within thirty days after ^{closing a loan,} ~~[receipt of notification by the department of such violation]~~ the licensee makes whatever adjustments in the appropriate account as are necessary to assure that the borrower will not be required to pay interest or other charges in excess of the amount permitted.

HOUSE FINANCE COMMITTEE

May 28, 1981

2:10 p.m.

(Tape HFC 81-97, side 2 #473.)

PRESENT

All Members of the Committee were present except Representatives Cotten and Montgomery. (Representatives Malone and Rogers arrived later in the meeting.) Present to testify were: Representatives Gardiner and Halford; Dick Ballard, President, Thomas Bay Power Authority; Bob Grant, Wrangle City Council; Harry Sundbert, Thomas Bay Power Authority; Milt Barker, Fiscal Analyst, Legislative Finance Division; and Mike Doogan, Aide to Representative Freeman.

HB 12

Vice Chairman Freeman called the meeting to order and brought HB 12 up for consideration.

HB 12 -- "An Act creating the Alaska Railroad Authority."

Vice Chairman Freeman advised there is a proposed 2nd Finance CS for HB 12 in members' bill file. Representative Meekins MOVED to report out 2nd CS HB 12 (fin) with the new fiscal note (\$184.3). There being NO OBJECTION, it was so ordered. 2nd CS HB 12 (Fin) was reported out with a "do pass" recommendation.

HB 279

The next bill to be considered was HB 279.

HB 279 -- "An Act relating to state aid for school construction."

Representative Meekins presented and explained a proposed finance CS. He said essentially what they did was pick the date of July 1, and say the State picks up 100% of debt service from that point. He said all the concerned parties agree on this bill.

Representative Carney pointed out there is an error in drafting and an amendment to correct that error has been presented for section 10.

Representative Meekins MOVED to report out a Finance CS for HB 279 incorporating the amendment to correct the drafting error.

Representative Adams said they would like to make this for all capital improvement projects. He commented the rural areas have to place their educational facility construction on capital

improvement projects, they don't have a way to get educational facilities through municipal bonds. There was brief discussion on school construction in rural areas.

(Representative Malone arrived at this time.)

There being NO OBJECTION, CSHB 279 (fin) was reported out with a "do pass" recommendation.

HB 487

The next bill to be considered was HB 487.

HB 487 -- "An Act relating to the Alaska Industrial Development Authority; and providing for an effective date."

Vice Chairman Freeman said the bill has been in Committee for some time, and the Committee can't seem to come to a consensus on a bill. He said his suggestion was to take out those areas where they could not reach a consensus, and try and get a bill out of Committee. He commented there is no doubt in his mind that the bill will go to Free Conference. He said he asked Mike Doogan (aide to Rep. Freeman) and Milt Barker (Fiscal Analyst, Legislative Finance Division) to come up with a bill for the Committee to vote up or down.

The proposed CS for HB 487 was briefly explained. Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT that CSHB 487 (fin) be reported out of Committee. Representative Buchholdt OBJECTED. She said her main gripe is there is a large section of society that never benefits from these loans, and she would hope to be able to take care of these people. She said she realizes she doesn't have enough votes to include in this bill the amendment she proposed at the last meeting, but she did want to voice her concern. She REMOVED HER OBJECTION to the motion.

(Tape change. HFC 81-98, side 1.)

In answer to a question from Representative Malone on section 21 of the bill, Mr. Doogan said an entity other than AIDA would have to finance. He said it might be that the bank holding the existing mortgage would participate and simply pick up the refinancing portion. Representative Malone said as he understands how it would work then, if he had an project financed by AIDA for \$2 million, and he wanted an additional \$1 million for expansion, he would be eligible for AIDA financing. Mr. Doogan said as he understands it, he would. There was further discussion.

Representative Malone asked what the major policy reason was for eliminating refinancing of existing debt from the project cost. Mr. Doogan said this was a request of AIDA last year. He explained their concern was that if refinancing was allowed the dollar volume of the requests would take up all the money they have. He said this was designed to prevent that from happening.

Representative Meekins said he does have two concerns with the bill: the "due on sale" clause -- he feels people should be allowed to make assumptions; and the question of multiple family housing. Vice Chairman Freeman said he understands Representative Miller intends to address that on the floor.

Vice-Chairman Freeman asked if there was any objection to reporting the bill out of Committee. There being NO OBJECTION, CSHB 487 (fin) was reported out with individual recommendations.

Representative Carney MOVED that the following amendment be offered as a Finance Committee Amendment to CSHB 487 (Finance):

Page 11, line 12:

Following "loan" add "or a utility which qualifies for a loan under the Federal Rural Electrification Act (7 U.S.C. 901 et seq) with gross revenues of \$20,000,000 or less for its annual reporting period which ended immediately before the application to the authority for a loan"

There being NO OBJECTION, it was so ordered.

RECESS

A recess was called at 2:40 p.m. and Vice Chairman Freeman recalled the meeting to order at 2:45 p.m. (Representative Meekins was not in attendance at this time.)

SB 25, SB 26 and SB 244

SB 25, SB 26 and SB 244 were brought up for consideration.

CSSSB 25 (fin) am -- "An Act establishing a power project development fund in the Alaska Power Authority and amending the Alaska Power Authority Act; and providing for an effective date."

CSSB 26 (Fin) -- "An Act making special appropriations to the Alaska Power Authority for energy projects and for the power production cost assistance program; and providing for an effective date."

CSSB 244 (Fin) am -- "An Act suspending the principal and interest due on certain loans authorized by law and by the Alaska Power Authority for power projects, and redesignating the loans as grants for power projects; and providing for an effective date."

Representative Gardiner explained this is a package of bills that came from House Resources on Senate Titles. He said SB 25 is the statutory authorization for the financing mechanism both for energy projects and the power production assistance program. He said SB 26 is the actual appropriation bill for energy, and SB

244 is the bill dealing with redesignation of power project loans. He explained in the Senate it was for forgiveness of loans for hydro power and other projects.

Representative Gardiner explained the Resources HCS for SB 25 and answered questions from Committee members.

(Tape Change, HFC 81-98, side 2.)

(Representative Rogers arrived at this time.)

Representative Gardiner continued his explanation of the bill.

MR. DICK BALLARD, President, Thomas Bay Power Commission, said they support SB 25 and SB 26. He said they have to have a bill this year. He commented on the problems they have had in getting hydro legislation passed in previous years. He said the bond market is so volatile and the interest rates are "so out of whack", that there is no way any one of these projects could go to the bond market by themselves. He said they feel if a bill is not passed they are not going to have a project this year. He said if they don't get financing this year they will lose at least nine months on the project.

Representative Malone asked if they preferred a direct loan program with reasonable interest rates to the proposal outlined in this bill. Mr. Ballard said this late in the session his options have been taken away. He said he has to support the legislation before them. Representative Malone asked "if there hands were not tied" would they prefer a loan program. Mr. Ballard said they always have. He said that is what they worked on for the last five years.

Representative Rogers asked what interest rate they would prefer to work with. Mr. Ballard said 3% to 5%. Representative Rogers asked if given a choice between direct loans at 3%-5% and the Resources CS, would they take loans? Mr. Ballard said yes. He commented further.

(Tape change, HFC 81-99, side 1.)

MR. BOB GRANT, Wrangell City Council, said it is difficult for them to go out and look for new industries to come into Wrangell at the present time. He said they have to settle their power problems. He said SB 25 and SB 26 could give them power at a reasonable rate. He said they have to have power that will maintain industries in the communities. He said, of all the state funding they get, what they really need is power.

There was brief discussion on Wrangell's present source of power.

MR. HARRY SUNDBERG, Thomas Bay Power Authority, said he agreed with the previous testimony. He said they are hopeful for passage of all three of these bills. He commented briefly on the cost of power in Petersburg. In answer to a question from

Representative Adams, Mr. Sundberg said as he understands the bill, it was intended to try and balance the rates overall. He said that is one of the things they are going to have to try and accept.

ADJOURNMENT

The meeting adjourned at 4:15 p.m.

Tape HFC 81-97, side 2 #473 to end
HFC 81-98, side 1 #001 to end
 side 2 #001 to end
HFC 81-99, side 1 #001 to #201

HOUSE FINANCE COMMITTEE

June 1, 1981

1:35 p.m.

(Tape HFC 81-99, side 1 #201.)

PRESENT

All Members of the Committee were present except Representatives Montgomery, Cotten, Adams and Buchholdt. (Representatives Carney and Rogers arrived later in the meeting.) Also present were Representatives Halford and Grussendorf; and Senator Dankworth.

SB 25, SB 26 and SB 244

Vice Chairman Freeman called the meeting to order. He said the purpose of the meeting was to hold a teleconference to take testimony on the energy legislation.

CSSSB 25 (fin) am -- "An Act establishing a power project development fund in the Alaska Power Authority and amending the Alaska Power Authority Act; and providing for an effective date."

CSSB 26 (Fin) -- "An Act making special appropriations to the Alaska Power Authority for energy projects and for the power production assistance program; and providing for an effective date."

CSSB 244 (Fin) am -- "An Act suspending the principal and interest due on certain loans authorized by law and by the Alaska Power Authority for power projects, and redesignating the loans as grants for power projects; and providing for an effective date."

Vice Chairman Freeman invited Senator Dankworth to explain the Senate versions of the Bills.

<u>Tape #</u>	<u>Description</u>
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<u>Tape HFC 81-99</u> <u>Side 1 #215</u>	
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	SENATOR DANKWORTH explained the Senate's version of SB 25 is to take the surplus funds and establish an equitable energy system throughout the State. The cost is roughly \$5 billion. He said the Senate's position is this should be done as grants. (Representative Carney arrived at this time.)
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<u>Side 1 #405</u>	
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	DAVE YOUNG, Anchorage, said he opposed the grant process for this type of program.
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He said alternative sources of energy should also be looked at. Regarding SB 244, Mr. Young said he approves of grants for reconnaissance studies and planning, but is opposed to grants for construction. He asked how this Legislature could commit future legislatures to expending the \$5 million. SENATOR DANKWORTH said this is not binding, in the sense that future legislatures could change it. MR. YOUNG commented further.

Side 1 #550

MR. DAN BOYETTE, City of Bethel, advised what a resident pays per kilowatt in Bethel. He said SB 26 appropriates less than 8% for power projects in Western Bush Alaska. If they are going to become self sufficient, money must be spend on projects to develop infra-structures in bush areas.

Side 1 #658

URBAN RAHOI, Susitna Now, Fairbanks, endorsed SB 25 and SB 26.

Side 1 #719

ROCKY Gutierrez, City/Borough of Sitka, said he doesn't see any incentive in the bill for good management. He said they don't think this is good legislation as presently written.

Tape HFC 81-99

Side 2 #102

DICK BALLARD, Wrangell, said if they don't get "something going in a productive manner" this year, everyone is going to see large increases in their electricity costs.

Side 2 #162

EMMA IVY, Ketchikan, said she supports Mr. Ballard's comments. She said they hope the Tyee project will be funded.

Side 2 #184

KENT WICK, General Manager, Homer Electric, said they support the original SB 25 and 26. He explained why. He explained the reservations they have with the House Resources CS concerning the provision that industry power costs must not be less than resident power costs. He said it was extremely difficult to determine feasibility of projects. He said they are also concerned about the CS's changes to the Board of the APA. He commented on the cost of power in the rail belt areas.

Side 2 #278

GERALD BROOKMAN, Soldotna, said the clause on page 5 of SB 25 -- not less than 5% pay back -- seems to be stacking the deck. He said he didn't like this approach. He recommended this legislation be held til next Session to give time for additional study.

Side 2 #315

DAVID NEESE, Manager, Kodiak Electric Asso-

ciation, said they support SB 25 and SB 26. He suggested this bill is not the place to address alternative energy source studies.

Side 2 #352

DONALD FISCUS, Kotzebue, said he is basically against SB 25, SB 26 & SB 244 because nothing is included for the Nome/Kotzebue area. He said all these bills provide for bush areas is a hand out.

Side 2 #400

PHIL D'NEIL, Matanuska-Susitna Electrical Association said they support SB 25 & SB 26 because it would bring a stable source of power to them. He said it would also bring employment and an upsurge in the economy.

Side 2 #434

JOHN W. JOHNSON, Petersburg Chamber of Commerce, said they are 100% behind hydro power and they support Rep. Haugen's position. He said they support long term low interest loans.

Side 2 #455

LIZ GILBERG, Member of the Board for Chugiak Electric and Susitna Power Now, said they support Sen. Dankworth's version of SB 25 & SB 26. She said they support grants rather than loans. She said they do not support the concept of changing APA's Board.

Side 2 #475

JIM DUFF, AVCP Housing Authority, Bethel, commented on the power production assistance program. He said the bills don't give villages an incentive to develop other means of power generation. He wondered how the villages were chosen to be included in the reconnaissance studies in the House Resources bill. He suggested this might be something that could be done by local energy resource personnel receiving technical assistance from the State where necessary. He said both Sec. 24 & 26 of SB 26 appropriate money for research and planning, and he asked what the reason for two different sections was.

Side 2 #547

MIALMA KAISER, Anchorage, said she supports the bills in their present form. She suggested page 3 of SB 25 be amended so income earned from investments goes back into the fund.

Side 2 #582

ALEXA DVORSON, College, said if the bills pass now, they will be appropriating funds without examining the results of feasibility studies.

Side 2 #625

MIKE MASSON, Anchorage, said he supports SB 25 and SB 26. He said he would rather see the earnings on these appropriations stay with the appropriation as a hedge against inflation. He recommended the APA Board be left as it is. Regarding the subsidy for bush areas, he suggested it be written so they are not subsidizing waste.

Side 2 #687

JIM PALIN, Manager, Copper Valley Electric, said they support SB 25 & SB 26, and encourages the Committee to pass legislation this year.

Side 2 #701

IRENE RYAN, Anchorage, said she approves of the development of alternative energy wherever it is feasible in the State. She has no feeling one way or other on whether this should be a grant or loan. She suggested a constitutional amendment would be necessary so the funds would not revert to the General Fund. Concerning the section on page 5 of HCS SB 25, she said those projects that are excessively large would in fact be subsidizing a portion of the cost of the smaller projects around the state.

Tape HFC 81-100
Side 1 #108

DON CASTLE, Wrangell, said they could live with SB 25 & SB 26.

Side 1 #138

TOM STARR, General Manager, Anchorage Municipal Light & Power, said they support a grant or equity investment concept; they don't support loans. He suggested the language on page 4 of the HCS is faulty as written, and suggested it be replaced with life cycle accounting of projects. He said the APA has done a good job, and putting bureaucrats in their place is not acceptable.

side 1 #215

ROBERT ARNOLD, City of Ketchikan, said they need help in the financing of their project. He said these bills are livable, although they would like to see changes made.

side 1 #302

ROBERT DAY, Anchorage, said he supports investment of Alaska's surplus funds in facilities that have long term benefits. He recommended changing the language in SB 25 to utilize true life cycle accounting.

side 1 #334

DAVID LACEY, Matanuska-Susitna Valley,

said he opposed this legislation. He said he didn't like direct grants. He said other energy sources don't get anything and conservation is ignored. Also, it is unfair to individual Alaskans not using electricity.

Side 1 #387

AL SHDWALTER, Anchorage, said he supports the original SB 25 & SB 26.

(Representative Rogers arrived at this time.)

Side 1 #426

WILLIAM DINESS, Member, Thomas Bay Power Authority, Petersburg, urged passage of legislation for long term low interest financing, and that it be done this session.

Side 1 #462

JOYCE MUNSON, Resource Development Council, Anchorage, said they support SB 25 & SB 26. She said there are problems with the HCS's. She said the state doesn't have an energy plan. She said they don't know why the APA is being changed in the House version.

Side 1 #515

PENNY STAUT STIETSTRA, Valdez, said she supports SB 25 & SB 26.

Side 1 #526

ERIC MYERS, AkPIRG, said they have a long standing interest and concern in the state's energy programs. He said they support some portions of the language in SB 25. He suggested, given the activities of OPEC, the predictions of revenue may not materialize. He said the bill only deals with electricity. He said they support section 11 of SB 25 regarding reconnaissance studies. He said they support the power production assistance program as a temporary measure. He commented on the language in the bill. He said the long term implacations of the legislation are only dimly understood. He suggested the bills not be passed this session, but studied in great detail.

Tape HFC 81-100

Side 2 #001

GARY NEWMAN, Fairbanks, said there seems to be a lack of consensus on the legislation. He said he supports the concept of conservation alterantives.

Side 2 #082

BOB ? (unclear), City Councilman, Wrangell, said they support SB 25 & SB 26.

Side 2 #114

MIKE KOONI, Ketchikan City Council, said the present APA Board seems to be doing

a good job. He said they go along with the program and like it.

Side 2 #138

JEFF WELTZIN, Matanuska-Susitna Valley, said they should not subsidize the cost of electricity. He said alternative energy and energy conservation are at a disadvantage. Regarding SB 244, he said loans should stay as loans and not be grants.

Side 2 #227

ERNIE NICHOLSON, Thomas Bay Power and Petersburg Power & Light, said he can't help feeling a detachment from those in Anchorage where the cheapest power is available to them. He commented on the front end costs of developing hydroelectric power. He said he didn't mind receiving something from the state, but he also doesn't mind paying it back.

Side 2 #345

SY MEELY, Glennallen, said he is in favor of SB 25 & SB 26.

Side 2 #358

BOB PENNEY, President, Anchorage Chamber of Commerce, said this is the most important legislation the Legislature will act upon. He said his membership thinks the Senate versions are very good. He said they feel the House Resource CS's are "a little bit obese". He said the HCS for SB 244 seems to be okay. He said they would prefer that the Senate version of SB 26 pass. Regarding SB 25, he is against this being a loan. He said section 44 on page 8 is a "bust" (APA). He commented further on the proposed change to the APA Board.

Side 2 #565

BOB HUFFMAN, Manager, Golden Valley Electric, said they are in favor of SB 244. Regarding SB 25, he said the Senate version is preferable to the House Substitute. He said it is ridiculous to have APA establish a separate rate category. He said APUC has jurisdiction now and should retain such. He sees no need to restructure the APA Board. Overall, he said the three senate bills may be the most important and beneficial legislation to come out of this session.

Side 2 #518

MATT BERMAN, Anchorage, said SB 25, dealing with the way the rate for electric power would be set, is not equitable. He urged the Committee to defer the issue on how rates for power will be set until there is more time.

Side 2 #715

ROBERT HUSTON, Matanuska Electric Association board encouraged 2% loans. He said by requiring that, projects would be judged on their feasibility.

Tape HFC 81-101

Side 1 # 20

JAN GRAY, Anchorage, feels these bills are unwise, hasty and inequitable.

Side 1 #075

HAROLD BERGMAN, Petersburg, urged passage of these bills.

Side 1 #097

MATTHEW ZENCY, Anchorage, asked if additional hydro projects are an appropriate way to distribute Alaska's resource wealth. He said he didn't see the need to act right away on this legislation.

Side 1 #207

NANCY LEE, Alternative Energy Resource Center, Anchorage, said they generally do not see SB 25 as a good bill. She said it has a number of problems.

Side 1 #330

JIM ROBERTSON, President, District Council of Laborers, said his membership is for these projects and wants to get this legislation passed.

side 1 #335

PAUL LOWELL, Alaska Chapter--Sierra Club, Anchorage, said they support hydroelectricity and other alternative energy. He said SB 25 & SB 26 are so complex, no one can understand what this legislation will do. He said some of the projects, like Tyee and Terror Lake are ready to go now, but many need greater study. He asked how cost overruns are going to be handled. He said the bill is biased towards urban areas of Alaska. He said he will submit additional comments in writing.

Side 1 #418

BILL FISTER, Energy Alternatives, University of Fairbanks, said the bills don't address the bush areas adequately. He said they only address one form of power -- hydro.

Side 1 #446

DREW ANGEL, Anchorage, said it is important that energy projects be designed well into the future. He commented on Susitna, and said he would like to expand it to include the Cook Inlet Region. He said the area between Anchorage and Fairbanks will benefit substantially from development of a tie-line

system.

Side 1 #524

PEG TILESTON, Alaska Center for the Environment, Anchorage, said they are in favor of development of alternative energy sources. She said hydro is an important component, but not the only one. She said SB 25 & SB 26 put an enormous amount of money on hydro without addressing other potentials. She said it seems unwise to put \$5 billion in urban areas without addressing non-urban. She said they feel energy should be funded by loans, not grants, and the state needs a long term energy plan.

Side 1 #556

MAX FOSTER, Anchorage, said he supports SB 25 & SB 26 as passed by the Senate. He said the bills are innovative, and they do not preclude the opportunity for conservation.

Side 1 #625

PAUL MARCHANT, Anchorage, said he is opposed to the Senate version of SB 25. He said going to just one source of energy is not the way to go. He said he is opposed to grants. He said he didn't believe there has been enough opportunity for public in-put and help.

Side 1 #675

WILL NEVESKY, President, Alaska Center for the Environment, said alternative energy sources should be addressed. He said if the purpose of the legislation is to address the energy needs of Alaskans to improve the quality of life, then they should wait for the findings of the feasibility studies before making commitments. He commented on Alaska's energy needs. He said he believes there are sufficient reasons to hold passage of SB 25. He said they shouldn't rush into the Susitna project. He said he would rather not see SB 25 & SB 26 pass this session and forfeit beneficial projects relating to renewable energy, than to see passage without adequate energy conservation measures.

Tape HEC 81-101

Side 2 #054

BOB CHILDERS, Anchorage, questioned whether this level of expenditure is justified.

Side 2 #184

DAVID BROOKE, Anchorage, said it appears there are serious problems with the financing structure in SB 25. For the projects ready for construction, he said it would be a disaster for them not to go

ahead. He suggested those projects and the village reconnaissance studies be passed this session, and the other questions left until next session. He said the feasibility studies have not been completed for Susitna.

Vice Chairman Freeman thanked those on the teleconference line for participating, and invited written testimony from anyone who wished to provide it.

ADJOURNMENT

The meeting adjourned at 5:40 p.m.

Tape HFC 81-99, side 1 #201 to end
 side 2 #001 to end
HFC 81-100, side 1 #001 to end
 side 2 #001 to end
HFC 81-101, side 1 #001 to end
 side 2 #001 to #276

HOUSE FINANCE COMMITTEE

June 2, 1981

1:40 p.m.

(Tape HFC 81-102, side 1 #001.)

PRESENT

All Members of the Committee were present except Representatives Cotten, Montgomery, Adams and Buchholdt. (Representatives Malone, Meekins and Rogers arrived later in the meeting.) Also present were: Representative Grussendorf; Sterling Gallagher, Vice President, Nuveen & Associates; Carolyn Guess, Member/Chairman, Alaska Public Utilities Commission; Arlon Tussing; Bob Martin Jr., General Manager, Tlingit-Haida Regional Electric Authority; Dave Hutchins, Executive Director, Rural Electric Association; Jim Ayers, Deputy Director, Rural Alaska Community Action Program; and Bob Brean, Chairman, Alaska Regional Energy Association.

SB 25, SB 26, SB 244

Vice Chairman Freeman called the meeting to order. He said the purpose of the meeting was to continue to receive testimony on SB 25, SB 26 and SB 244.

CSSB 25 (fin) am -- "An Act establishing a power project development fund in the Alaska Power Authority and amending the Alaska Power Authority Act; and providing for an effective date."

CSSB 26 (fin) -- "An Act making special appropriations to the Alaska Power Authority for energy projects and for the power production cost assistance program; and providing for an effective date."

CSSB 244 (fin) am -- "An Act suspending the principal and interest due on certain loans authorized by law and by the Alaska Power Authority for power projects, and redesignating the loans as grants for power projects; and providing for an effective date."

CAROLYN GUESS, Member/Chairman Alaska Public Utilities Commission (APUC) said section 8, on page 11 of the House Resources CS for SB 25 (new title: An Act relating to energy projects and programs of the Alaska Power Authority; and providing for an effective date.) is totally unworkable from an administrative standpoint. She said since APUC is the agency that determines the actual cost of the program, they are concerned that the requirement for participation be as clear as possible. She said they believe clarification is needed in many areas of this bill, and it needs to be rewritten throughout. She said APUC has the most expertise in one place regarding rates. She said APUC

offers to rewrite this section of the bill to make it administratively workable, while preserving the intent. She said they do need a source for clarification for a number of policy questions. She said if it is the desire of the Committee to have their agency do this, they could have the section rewritten by Friday night.

Ms. Guess said there is one problem this bill does not address that has come to their attention. She said there is not a requirement in for utilities to participate in this program; it is strictly voluntary. She said neither the section as written nor the original bill addresses this. As the agency charged with the responsibility, they are very concerned with having something that is administratively workable.

(Representative Malone arrived at this time.)

Vice Chairman Freeman said it would be very helpful to the Committee if Ms. Guess cared to offer a proposed amendment. He suggested she meet with the Resources Committee aides for clarification of policy issues in the bill.

(Representative Meekins arrived at this time.)

STERLING GALLAGHER, Vice President, Nuyeen and Associates (the State's financial advisor for the general fund) said he would attempt to look at this proposal from a state viewpoint and not necessarily from a bond financing viewpoint. From a state overall viewpoint, they should make sure that the projects meet a realistic market test of feasibility. As he understands the bill, they presently use the subsidized rate as the feasibility test, but all the rates float upwards. He said this could be creating several infeasible projects that from day one would not be feasible if the right interest rates were used. He recommended that the project analysis be made with current market rates and be very conservative. He said if that is done, it will insure selection of the very best projects.

Mr. Gallagher said it may be the state's desire to do some over capacity building. He said that is a state's right, and they should do that in certain cases. He said they should do it in cases where there is some regional economic growth and development potential they want to fulfill. He said a good example of that is the Petersburg project. He commented on that project.

Mr. Gallagher said heavily subsidized power cost will encourage more rapid growth in per capita usage, thus hastening the day when still more generation capacity will be built. He said meeting this induced demand will be difficult because the best hydro sites will by then be used, and they will be going to second-rate or a different sort of project. He said the State's financial condition will not be what it is today; the demand will still be there and growing quite fast; what will happen is the state will be in the same position the Pacific Northwest is currently. He

explained they had cheap power, now they have had to add new projects because of its cheapness, and the rates are going through the roof. He said all of a sudden the economic pattern they set up is being altered -- the aluminum plants are pulling out of the area or reducing their growth. So the economic infrastructure originally planned is no longer being accomplished.

Mr. Gallagher said there is such a thing as "price-lacticity" of demand of electricity. He explained the price-lacticity for electricity is not as high as it is for oil and gas. He commented on the situation with the Arabs in the past year, and said they are now shipping 25% less oil than they were a year ago. He said the price-lacticity for oil and gas is somewhere around .07; so for every 10% increase in the price of oil, there is a 7% decrease in the demand. He said the lacticity factors for electricity aren't quite so high; they are around 2%. But, Mr. Gallagher said, if there was a 10% price decrease, they could expect a 2% demand growth over and above what they already have. He said in most of the present communities these projects are helping to finance, the demand growth is around 4% to 5%. He said the subsidies being talked about in these bills will increase that load growth demand from that to 10%.

Mr. Gallagher said that means the State will have to replace those projects every seven years, which means they will have to start today to do the follow-on project to the project they are doing with these monies. He said it grows at a geometric rate: you have to get every-bigger plants because you are using compound growth rates. As the growth rate goes up, it doubles every seven years. He said most of these communities are being started down a road where they are going to have to start tomorrow to build their follow-on project.

Representative Meekins said that is one possibility, but if the follow up project isn't done, wouldn't the increased demand bid up the price? Mr. Gallagher said they would end up with the same situation the Pacific Northwest has today -- an economic pattern in the city or state has been built and all of a sudden they have to triple or quadruple the price to add a new project.

Representative Meekins said there are two possibilities: (1) adding a new project to take care of the increased demand; or (2) the demand keeps increasing because of sensitivity to the price until there is more demand than there is electricity available. He said the question would then be how to allocate, and he asked if the utilities commission didn't then raise the price and allocate by price. Mr. Gallagher said that would raise the price until it is prohibitive, so there is no more growth, and that's a high price because it would slow down the economic situation in the towns just when the State has run out of money.

Representative Carney asked if he was saying nothing should be done now because it is going to create demand in the future, which is going to cost more, so it is better to do nothing? Mr. Gallagher said he is not suggesting that at all. He said he is

saying they should make sure when analyzing projects that a market interest rate is used to evaluate it --they should pick the very best projects, and then, if the legislature wants to subsidize away from market rates, they should understand they are creating demand growths they may not be able to sustain. Representative Carney asked what happens if they aren't sustained. Mr. Gallagher said it will give a lurch to the whole economic growth pattern in the area. Representative Carney said in essence, in the future at some point, the State will be where Mr. Gallagher would like it to be now. Mr. Gallagher said he thinks it is entirely appropriate to help where they can. He said some of these projects have economic development ideas, like in the Petersburg area, and he thinks that is an excellent way to help the economic growth in that area. He said if the project's price starts out low today and is increased to help pick up the economic growth, they won't run into a problem. He said that should be considered in the rate making.

Mr. Gallagher said one of the political reasons there is a bill before the legislature is that several of the projects went and saw the price they were going to have to pay on the bond market, and realized that it would make for awfully expensive power. Mr. Gallagher said "that's the real world. No one loves bankers to tell you what the real world is like. But there are still some good advantages there." He said it is entirely appropriate to use subsidy money to help those projects that need a true subsidy. He said one of the losses they are giving up then, by not using bond financing in order to do the projects, is the loss of arbitrage earnings. He said the approximate loss of arbitrage earnings on this bill alone this year is probably around \$20 million to \$25 million that could be usefully used elsewhere in other state programs.

Mr. Gallagher said he doesn't see the bill as a platform to build future projects. He said if the State is going to subsidize things, they should use the subsidy in a manner that builds a base for the future, so, if the State runs out of money, there is an ongoing program to finance power projects. He said the way the bill is currently situated, all the money goes back to the State; it doesn't come back into an account that is used to help do new projects. He said if the bill was changed in that respect, it could be used as a basis to do future financing of these projects, and help the future demand growth. He said what this bill does is let it all come back to the state and let the future take care of itself.

Mr. Gallagher said he didn't think the bill adequately addressed project completion. He said they can go in having a good idea of project cost, but until all the geo-technic work and drilling is done, they never know whether it can be completed for cost. He said there is no provision in the bill so bonds could automatically be sold to complete the project, or to have an appropriation standing by. He said it can be very expensive to wait for the legislature to come back in session to appropriate money to complete the project.

Mr. Gallagher said the bill doesn't address the problem of major repair once a project is on line. He said when they sell bonds they always set up a 10%/15% reserve fund to be used in case major repairs need to be done to the project. He said it would be entirely appropriate to have a reserve set aside for these projects to assist them in getting back on line if there is ever a need for major repair.

Representative Meekins said the problem of artificially reducing prices or creating a change in the demand structure has happened many different times. He said it is probably very clear the demand is going to increase if the price goes down. He asked, with the experience the U. S. has had with artificially reducing prices on a commodity, if there wasn't some way to avoid the potential disaster. Mr. Gallagher said there is probably some way to adjust the price, but he is not sure politically the Legislature could sustain the political heat. He commented on political heat. He said he didn't believe this organization had the political will power to set aside \$5 billion over the next five years. He commented that is 20% of the state's money.

Representative Malone said it is not clear to him why they have to put the State in the position of dealing with this surge in demand and the shortage of power that may ensue. He asked why they can't just make a decision that x-number of dollars is allocated to various projects and after that it is the responsibility of the local utility and people in the community to deal with their situation. Mr. Gallagher said the best way to handle the problem is give them a sound financing base so this won't happen the second time around. He said the legislature should make sure any funds appropriated are trapped into a financial system so they can go ahead and get the projects done. He said the present bill has the money going directly back to the state and, therefore, it isn't trapped into the system to build future demand. He said under most bond financing programs, the reason they charge coverage is to make sure they have enough earnings to take care of future load growth.

Representative Malone said if the state, either through loan or grant, participates in a project, the utility or community responsible for the operation of the project could go through their own planning process and decide what reserves to set aside, etc. He said they have to do that today. Mr. Gallagher said a lot of them aren't meeting the market test today because the projects are either too large or the capital costs are beyond what is normally seen in the market place. Representative Malone said he is saying that if the earnings of the project above and beyond amortization were retained by the utility or community, couldn't they do that planning themselves? Mr. Gallagher said this bill creates a statewide system, and these people are expecting to be charged only the rate on the 5%. He said that would have to be built into the system from day one. He said if they are going to start a state system, they better figure out how they are going to do future financing. Representative Malone said they haven't started a state system yet, and he's not sure

they should. Mr. Gallagher said the bill is titled "to build an energy system for Alaska", it builds several projects statewide using a common rate. He said they should also make sure some of that money is used to take care of future demand.

MR. ARLON TUSSING said he was at a bit of loss as to how to approach this problem because he is not sure his particular expertise is relevant. He said economics has to do with allocation of scarce resources, and he thinks there are some members who may be starting with the presumption that money is free; in that case, he doesn't have much to say.

Mr. Tussing said he did a good deal of work for the Governor's Office last fall, and he's been a consultant to RurALCAP on this question so he may have developed some ideas that may be relevant. In working with the Governor's Office, Mr. Tussing said they started with the problem that conventionally financed hydro-power in Alaska would be extremely expensive in the first few years. Given the enormous capital costs of the project, the kind of amortization the bond buyers would require, and the current interest rate, there were very few places where building a hydro project would actually result in a reduction of consumer rates under a conventional financing scheme. In addition, he said, some of the projects that seemed the best projects for the particular community simply couldn't be financed at present markets. Mr. Tussing said they tried to find some way to get around these problems, both to help the various utilities finance the projects and also get the rates down to an acceptable level so the benefits of hydro would actually be enjoyed by the consumers in this generation and not be postponed for 30 or 40 years when the project was paid off. He said he started with the presumption that lower cost power does not necessarily require any subsidy. He said the rub is, if you took a typical Alaska hydro project that costs \$3,000 or \$4,000 per kilowatt installed, and came out with a typical first year price of power with conventional financing of .41 a kilowatt, it couldn't compete with diesel in its first year of operation. Mr. Tussing said that is a totally unacceptable outcome, particularly if they could show that over the life of the project the average cost of power would be .07 (inflation adjusted terms). He said they find that over 25 years the rate would go from .41 to .14 in the 25th year, and taking 8% inflation into account, that equals about .04. He said if this were levelized in some way in real terms at .07, and they could get .07 power to the people over the life of the project, starting in the first year, there would be no need for a subsidy. He said they looked at a number of ways to accomplish this, most of them using the restructuring of conventional debt.

Mr. Tussing said he started out with a conception whereby one-half the financing would be ordinary revenue bonds and half would be state subordinated loans. He said some of the banking consultants persuaded them, for awhile, to go to bonding of the whole amount with a state guarantee. He said they then met with the APA who presented a scheme that was very similar to his

original scheme -- partly revenue bonds, partly state equity grant, and equity investment. He said the Governor's office finally ended up with a very complicated scheme intended to restructure the debt. He said they intended to avoid the notion that you had to subsidize. He said in SB 25 there may be a way, within that frame work, to achieve very low initial cost to get the right prices without any subsidy.

Mr. Tussing explained why professional economists presume consumers should pay the full cost. He said one reason is project selection, which Mr. Gallagher dealt with. He said if the consumer does not pay the cost, and the cost is not reflected in their consumption demand, there is no reason for the utility, the local community, or anyone else, to restrict the size of the project or to choose the least costly project.

Mr. Tussing said if getting electricity at the least real cost doesn't concern the legislature, then what he is saying is irrelevant; but, whether or not consumers pay for it, you start with the assumption you want it produced most cheaply. He said if the State picks up the bill, or everything above a certain amount, then the community, construction interests, boomers of all sorts, people who want a public works project to generate jobs, there is no reason for not giving them what they want. He said there is no spur to the utility to manage the project efficiently, which could lead to over-sized, unnecessary projects, probably managed very inefficiently. He said anything that takes the risk off the back of the utility runs that risk. He commented further.

Mr. Tussing said he doesn't know how to deal with the wording in the Senate bill that says when making a feasibility evaluation you shall use these phony numbers which will prove that the most capital intensive project is the best one. He said he was glad to see the House Resources version dropped out those rigid, unrealistic assumptions about interest rates, inflation, fuel costs, etc. He commented Mr. Gallagher alluded to the problem of building in excessive demand long term. He said there is nothing wrong with low cost power that induces industrial growth if it is truly low cost power; on the other hand, they don't want to subsidize power and establish a low rate which encourages everybody to heat their homes with electricity, if it would really be cheaper to the State if they heated with gas. He said if there was a postage-stamp rate low enough to support an aluminum plant at Skagway, yet the actual cost of generation to Skagway was .30 a kilowatt hour, it would be irrational, and it gets to the point where surplus power is gone and you can't give it away to the aluminum company anymore. He said one of the reasons they have to build the expensive nuclear plants in the state of Washington is because it is politically impossible to take the cheap power away from the aluminum plants that were built in that region because of the cheap power.

Mr. Tussing said the cheap power in the Pacific Northwest was, according to the view of the people who sponsored those programs,

at cost. He said there is the danger of subsidizing power consumption that becomes very, very expensive when the first generation of subsidized plants get up to full capacity. He referred to Representative Meekins' suggestion to raise the rates and said the question then becomes who is going to pay those extra rates, and that is really a "donnybrook". He said there are ways of avoiding the problem, and getting the rates down to realistic levels and getting low cost power, without running up against the crunch where maybe you have the money and maybe you don't. He said the reason they wanted to use the bond market for at least some of this money -- they agreed on a rule of thumb that each project should be 50% funded with revenue bonds -- was that whatever the rate of interest is in the utility bond market, the state can lend its money out at a higher rate, so the State saves money by bonding a portion. He said if the revenue bonding is limited to 50% of the project cost, there aren't any coverage requirements, and the debt service can probably be levelized on the bonds, and they can probably get the lowest possible interest rate on the bonds.

(Tape Change, HFC 81-102, Side 2.)

Mr. Tussing said the other reason is that lenders are looking over their shoulder, and with only 50% revenue bonding the lenders and underwriters aren't going to make sure these are the lowest cost projects, but they are going to refuse to finance "the real dogs". He said they have somebody exercising second judgment.

Mr. Tussing said there is a way within the framework of SB 25 to achieve a low rate and a rate that reflects the cost of the individual project. He said the provision that these projects return 5% on the state contribution is the right concept, provided that 5% is 5% of the inflation adjusted value of the state's contribution, and not 5% of the original cost in 1983 dollars. He said they should adjust the original cost on the books upward every year for inflation. That means that after 20 years the project has returned to the State everything the State has put in. He said in effect the state has lent the use of the money to the utility, and has not taken any real interest on it. He commented further. He explained the project generates the same amount of revenue every year, the consumer rates don't go up (in fact they go down because the hydro projects will be built with excess capacity, and as load increases the real cost of power will fall in half during that period), so they have the real cost of power, and a stable growth in rates. He said the state gets the onus for choosing a project that's too large because the community is the one that has to pay for it.

Representative Meekins said he doesn't follow in terms of what it is that is changing the cost. He asked if Mr. Tussing was saying to do it administratively instead of having market forces do it; and if this is what he is saying, it seems difficult to do every year arbitrarily when they have political pressure not to do it. Mr. Tussing said there are several aspects in working through the

market with revenue bonds. He said if there is a project financed in the bond market, there are contractual obligations between the bond seller and the utility, and the utility must maintain sufficient rates to pay the debt service on schedule with a certain coverage, so the rates are built in and are hard to fiddle with politically. He said as soon as they get away from that kind of contractual arrangement, there is always the danger that the rules will be changed. He said neither the Senate or House version of SB 25 provide stability; it's one where the rate would change depending upon future actions of the Legislature, and he can't conceive of that particular formula lasting even until the 500 megawatts were installed. He said as soon as this is taken away from the conventional financing, there is that danger. He said he is suggesting a very simple formula, and it might be one that could be built into contracts between the utility and the power authority, that if the return to the State's equity goes up every year with inflation, if the result of charging 5% in the first year of operation is 10 cents a kilowatt hour, the rate is never going to go above 10 cents a kilowatt hour as adjusted for inflation. He said it will go down a little bit with load growth.

Representative Meekins said he agreed with Mr. Tussing's analysis regarding "postage stamp". He said it seems to him that can't withstand the political pressures to go up or down; but he doesn't see how adjusting the amount for inflation, even though the real costs in terms of debt service are level, it is still an arbitrary increase. Mr. Tussing said he doesn't see any way once the state gets into financing, it can get away from future political tinkering. He said the best way is to have a simple system that has a strong rationale. He said this rationale (say 5% is the rationale) that in 20 years the state has recovered everything it has put into it, the use of the money has been free, but the state has it's money back plus inflation. Representative Meekins agreed the postage stamp is more likely to be tinkered with, but Mr. Tussing's recommendation is also susceptible, but maybe less. Mr. Tussing agreed. He said the reason for the postage stamp rate is to get some sort of equity among various sections of the State. He said he doesn't see that in SB 25 because you have to get on a hydro project under this program to get the benefits. So the people who are going to have the highest cost power are not going to get the benefits. He said it is a confused notion of equity. He said you cannot really always reconcile equity and cost effectiveness. Perhaps the way to go on this he said, is that each project pay its own way with a 5% escalated formula. He said that means in places where the cost is higher, the people pay a higher rate.

Mr. Tussing suggested going along somewhat with the rationale proposed in the power cost assistance program: give everybody in the state the first 300 kilowatt hours free, and make that the basis of the state lowering rates. He said that means every customer gets the same benefit, as opposed to leveling the rate, which doesn't encourage the person to consume more. He said one advantage of having people pay what the power really costs is

that they consume the right amount of power. He said they shouldn't be consuming 25 cents of power as if it were worth 7 cents. He commented further. He said beyond that people should pay for power what it costs to generate the power.

Regarding the wholesale rate, Mr. Tussing said the administrative distribution costs should not be incorporated in the rate provided by the State. He said those costs should be in addition because if the State is going to pick up the administrative costs there is no spur to efficiency. He said in some of the systems the administrative/distributive costs are more than the power costs.

Representative Moss questioned the definition of subsidy. Mr. Tussing explained the subsidy is in the initial cost. He said this is another problem with SB 25 where it says the industrial rate may not be above the residential rate. He said once you have built the project you may as well give away the power, the cost is sunk. He said if you have excess capacity, the residential consumer doesn't lose anything if you give it away to a new industrial consumer on an interruptible rate that is cheaper than the residential rate. In fact, he said, the residential consumer may be better off. He said the kind of subsidy he is talking about is if the State buys the plant in the first place, that is a subsidy to the community and power users. He said there are a lot of problems with that, one of which is, there is no incentive for the utility or anyone else to economize. He said if there is a statewide rate, there is no incentive for anyone to try to economize at all because a person thinks "everyone else is paying the cost of my power".

Mr. Tussing said if he were to try and reconcile all these objectives, he would recommend making a commitment to get all the money back into the treasury, through the inflation-adjusted mechanism. He said that brings initial costs down very close to what the real costs are over the life of the project. Then, Mr. Tussing said, if they want to help the electric consumer even more, instead of lowering the rates across the board, he would recommend giving everybody 300 kilowatt hours free. He said that doesn't distort the project selection, and it doesn't lead to inefficiency in the management of the system, it doesn't encourage people to use electricity when it is cheaper to use gas, it doesn't give the wrong price signals to industries that might consider relocating. There was brief discussion. Mr. Tussing said there is no sense in encouraging people to waste power simply because they are getting something free.

Representative Carney asked how they could work up a rate that takes into consideration the life of the facility, assuming maximum production. Mr. Tussing said at the normal capital costs, the difference between 20 years and eternity is not really that great. He said the difference in cost is maybe 2% or 3%. He commented further.

Vice Chairman Freeman asked if the utilities around the State could borrow money at 3% interest, would there be any need to consider the bills now before the Committee. Mr. Tussing said in some cases yes. He said some of the projects wouldn't be viable at 3%. He suggested going for no real interest rate at all -- charging no interest above inflation.

Vice Chairman Freeman said if the State proceeds the way the bill proposes to go, the State is going to end up owning all the power generation plants. He said when you get into the subsidies, he can't see any incentive for anyone to "turn the toaster off", and that seems to him to be defeating the purpose. He said his community felt they could handle a hydro project up to 7% interest, beyond that they couldn't do it. He said it seems to him it would be more economically healthy in the long run if they could make it possible for the municipalities to borrow money at a low rate, let them manage their own affairs and pay the loan back, then there wouldn't be a tendency to overbuild or build unfeasible projects. Vice Chairman Freeman said he doesn't have enough confidence in the way government works to believe we are not going to have a disaster on our hands if we proceed this way. Mr. Tussing said most of the projects that are feasible could be done at 3%. He said they could be done at 3% inflation adjusted, which would pay the state back its full amount in 33 years.

Representative Meekins said he agrees with many of the points Mr. Tussing makes, but it seems back when allocation of resources was still a concern to the State, the thing that was good about hydro electric plants was that power was renewable and once the facility was built there was a flat rate, and inflation eventually made it cheap power. He said the only problem was the front end costs were so high, the projects sometime weren't feasible. Now, he said, it seems those basic things don't apply anymore; in fact Mr. Tussing is trying to find a mechanism so the pay back increases with inflation. He commented further, Mr. Tussing responded hydro is not that cheap. He said the capital costs are immense, and the capital that goes into building is not renewable. He said every human decision is a trade off, and this is a trade off for a huge once and for all cost against a long term energy cost. He said the front end costs of hydro are too high. He said the old rationale for hydro doesn't work. The problem is how to get the early year costs of hydro down to something like long term costs. He said there is no particular reason, aside from financing costs, why it has to be so high at the beginning; and there is no particular merit in having it low at the end -- why should they postpone the benefits for 20 or 30 years. He said his view is the most rational way to price power is to price it at the same inflation adjusted price over the life of the project, or guarantee people it won't go up.

(Representatives Haugen and Malone left at this time.)

MR. BOB MARTIN, JR., General Manager, Tlingit-Haida Regional Electric Authority, said he would like to speak in support of SB 25 and SB 26. He said he feels strongly these bills are good for

rural Alaska because there are funds made available for reconnaissance studies and construction of projects that will serve rural Alaska. He said it is not true that these bills don't address bush communities. Mr. Martin said they have been working on developing hydro-electricity in rural southeastern Alaska for five years, and there are areas in the bush that haven't yet started this process. He said it takes an intensive effort and the time period simply cannot be reduced.

Mr. Martin said this is a good bill for rural Alaska because it provides for the interim period -- now and in the future when they will have power in the bush -- funds are provided through the power cost assistance program. He said they expect to have projects on line in rural Alaska in 3 to 4 years. He commented those who are just starting this process may not have projects on line then; if they start now it may take 10-12 years.

Mr. Martin said the bills provide funds for all alternatives, not just hydroelectricity. He said the alternatives are listed in the bill and are available depending on feasibility studies. He said this bill allows for an actual reduction in rates as opposed to using a market rate for financing. He commented further.

Mr. Martin said these bills are a vehicle to help rural Alaska achieve its highest potential. He said allowing cheap energy in the bush will allow them to begin to solve their problems and come into their fullest potential.

Mr. Martin said they see this as a better plan for getting funds out per capita than what else has been proposed -- a certain number of dollars per capita. He commented that projects in the bush are more expensive. He said a low interest rate for loans puts rural areas at a disadvantage because the same amount of money per unit would mean less for the rural communities than urban communities.

(Tape change, HFC 81-103, side 1.)

Mr. Martin said they support SB 25 and SB 26 because they allow a distribution of excess oil revenues without having to pay income taxes.

Representative Moss commented on an amendment he intends to propose to the bill that would help generate distribution lines.

(Representative Haugen returned at this time.)

MR. DAVE HUTCHINS, Executive Director, Rural Electric Association, said he supports SB 25 and SB 26. He said the purpose is to provide an adequate power supply in the future and develop projects across the state where ever a need exists. He commented the opportunity hasn't been provided in many areas of the Bush, but the need may be there. He said they want to get the best rates for their customers. He said they also recognize

the need to assist others by 15%/20% -- people who don't directly benefit in terms of receiving direct services.

(Representative Carney left at this time.)

Mr. Hutchins commented on the power development fund. He said they support an amendment (Representative Moss indicated it is in members bill files) that would call for direct investment rather than a loan. He explained.

Mr. Hutchins commented further on the proposed legislation.

Mr. JIM AYERS, Deputy Director, Rural Alaska Community Action Program, Inc., presented testimony on SB 25 and SB 26. (See attachment #1.)

(Representative Rogers arrived at this time.)

(Tape change, HFC 81-103, Side 2.)

Mr. Ayers continued his testimony.

MR. BOB BREAN, Chairman, Alaska Regional Energy Association, said these bills effect different areas in different ways, but their position is the bills are necessary to insure a stable energy supply for the future. He said they feel these are not the only pieces of energy legislation that should be considered. He said they are greatly concerned with energy proposals that don't fit into the scheme proposed by SB 25 and SB 26. He said other necessary things include: conservation, village reconnaissance studies, and availability of appropriate technology. He urged these issues be considered parallel to hydro power.

Mr. Brean said they also support passage of HB 2 and HB 205. He said they feel that long term subsidies are not beneficial because it doesn't solve any of their problems.

Mr. Brean commented briefly on SB 25.

ADJOURNMENT

The meeting adjourned at 4:10 p.m.

Tape HFC 81-102, side 1 #001 to end
 side 2 #001 to end
HFC 81-103, side 1 #001 to end
 side 2 #001 to #198

TESTIMONY OF JIM AYERS, DEPUTY DIRECTOR
OF RURAL ALASKA COMMUNITY ACTION PROGRAM, INC.

TO

HOUSE FINANCE COMMITTEE

June 2, 1981

COMMENTS ON SENATE BILLS 25 and 26

Introduction

Mr. Chairman, members of the Committee, thank you for this opportunity to testify. My name is Jim Ayers, I'm the Deputy Director of the Rural Alaska Community Action Program.

RurAL CAP has been actively working with rural communities seeking solutions to the severe energy problems facing rural Alaska since we were founded in 1965. This effort, of course, increased with the 1973 Arab oil embargo. RurAL CAP firmly believes that the survival of self-sufficient villages is a goal that we all share. Further, that a major factor in obtaining this goal is assisting communities in developing viable energy programs. Our Energy Department has been dealing with this reality by responding in four primary areas of concern:

1. Energy Conservation and Weatherization
2. Fuel Loan Programs
3. Research and Planning
4. Community organization

1348

Attachment #1

6/2/81

There are numerous activities within each of these areas. For example; we have been operating an emergency fuel loan program that has helped over 100 communities avoid bulk fuel shortages. We have been a major contractor with the State in weatherizing homes in cooperation with low-income families throughout rural Alaska. We are just concluding a series of 14 regional energy planning workshops conducted with the assistance of regional non-profit associations on a statewide basis. This effort brought village leaders together to grapple with the major energy issues facing their communities. RurAL CAP also continues to support the efforts of the Alaska Regional Energy Association in their exchange of information among the different regions. I mention this because as you are probably aware that the State and RurAL CAP have been the partners in these accomplishments. The goals of the Energy Program at RurAL CAP are: (1) to restore a reliable supply of affordable energy to rural Alaskans without long-term reliance on subsidies or welfare payments, and (2) to increase the degree of local control over energy resource decision making.

These bills constitute a wealth distribution plan, and we believe that the crux of the issue is equitability. We do not believe that Senate Bills 25 and 26, in their current form, provide the basis for the formation of an equitable wealth sharing or an energy opportunity for rural Alaskans. These Bills do not provide opportunities for rural Alaskans to involve themselves in energy self-sufficient programs; rather it delivers a few projects and primarily, transfer payments for the Bush based on a major

concentrated effort in the development of hydro projects that will serve primarily the Railbelt area. These Bills do not provide sufficient incentives for conservation, or the development of reasonable energy power production projects for rural Alaska.

Problem Statement

Rural residents are being forced to spend more than half of their income on energy and transportation, and this proportional amount of expenses is rising. Remote villages in Western and Northwestern Alaska are finding that bulk oil deliveries to their communities have risen more than 300% since 1973. These are some situations where people are paying more than \$3.00 per gallon. This price is even higher if we consider that some villages are forced to fly fuel in during emergency fuel shortages. Many rural utility customers are paying in excess of 50¢ per kilowatt hour for electricity. This is more than 10 times what we pay in urban areas. Dramatic intervention by the State of Alaska is overdue. We commend the State Legislature for the ambitious effort that is outlined in Senate Bills 25 and 26. We reviewed this legislation in its various versions in order to determine, what impact it may have on rural energy problems. It is our opinion that this is wealth distribution program with bias toward hydro-projects and there is a lack of fair consideration in providing for the needs for rural Alaskans.

It is certainly to the benefit of all Alaskans that the use of our funds that this State Legislature holds in trust for its citizens

be invested in the most reasonable fashion possible. Further, it is to the advantage of all Alaskans if the investment in energy projects provides the most cost-effective method of delivering energy to the consumers. The intent of these Bills is admirable and well taken. However, it is unfair to commit a large portion of the funds that you hold in trust for all of us to questionable financial investment programs. We must remember to give due consideration to all Alaskans. Though some of us may benefit from certain portions of this plan, any distribution of wealth should be equitable and provide for future return. The inequity is in the provision of large sums of money for only certain areas for specific hydro-projects. The commitment in these Bills allows for over five billion dollars to eventually be provided as a major subsidy without reasonable return for development of energy projects that will neither serve the purposes or the needs of rural Alaskans, nor will it provide equitable opportunities for rural Alaskans to participate in the development of reasonable energy projects in their area.

It is expedient to simply provide transfer payments for those who do not live in a convenient area for the administering of hydro projects. But it is grossly unfair. There are some rural communities that have had experience with having major disruptions that occur when the price of energy is held below the market price and then suddenly deregulated. Village residents are actually hit twice by price increases, paying first for the increases in the basic product and then transportation costs, which are driven even higher by rising fuel prices. Short-term subsidies are needed to help

rural Alaskan residents manage the devastating, disruptive impact of the oil price increases. But subsidies are no part of a permanent solution to energy problems, they are a temporary bail-out and are addictive. When they become permanent, they become part of the problem.

It is interesting to note that electricity is less than 7% of the end-use energy in this State and that the State's draft of the long-term energy plan projects that it would still be less than 7% in the year 2005. This percentage would increase substantially if easy money is provided by the State to make conversion to electrical space heating attractive. But the provision of such massive subsidies by the State to such a small segment of one sector of the economy of one portion of our energy use is extremely inefficient. What we are doing is establishing worst kind of subsidy. What this entails is an incentive that provides that the more you use the more subsidy you receive! This is economically inefficient. Why subsidize electricity so heavily to the virtual exclusion of other energy end uses, and why are we making such a great commitment when even the end-use seems to be in question? What are the repercussions of mass changeover to electricity for space heating, etc. to other sectors of the economy?

The reality is that the cost of electricity in our world is not rapidly decreasing. What is happening is that people within the areas served by these subsidized projects and those forced to receive energy welfare will be living in an illusion that electricity is cheaper, and they will be encouraged to use more. All of us,

certainly, would be encouraged to use more of it and to make decisions that would allow us to convert our lives to more of this illusory, cheap energy. We are encouraging people to buy appliances and do massive space heating based upon the appearance of low-cost power. But the power really isn't cheaper.

Once the State commits these dollars we are expending funds that we hold in trust. And once the State's surplus declines, the wholesale power rate will have to be raised to provide income to the State. We own the project and the Legislature may set the wholesale power rate themselves, or choose the factors that they must cover. This could be extremely disruptive to electrical consumers, because they would then be forced to reduce their excessive dependence upon electricity. We have got to be responsible. We need to be careful that we are not constructing another economic nightmare for future generations.

Closing

We commend the Legislature for the obvious effort and perpetual travail that has gone into these bills.

We have three major objections:

- 1) This is a wealth distribution plan that is at this time inequitable.
- 2) It is a major commitment to subsidize electricity to the virtual exclusion of other energy alternatives.
- 3) It is a questionable economic investment practice causing an illusion of cheap energy and providing inadequate consideration of our children and future generations.

Our recommendations are:

- 1) In Section 44.83.490 of SB 25, entitled "SALE OF POWER FROM POWER PROJECT" beginning on page 4, line 22, we urge you to delete subsections (b)(1) and (b)(3).

Subsection (b)(2), page 5, lines 11-19 should be amended to provide that the operation and maintenance expenses of a particular project are in addition to the equity return requirement, not a part of it. Otherwise there is very little incentive to control operation and maintenance expenses.

The procedures for setting wholesale power rates should contain no reference to how the funds will

be used in the future. For example, on page 6, line 5, the reference to the "annual costs" of the power cost assistance program should be deleted. The power cost assistance program should be funded from the general fund, based on the need for it as a temporary bridge. It makes no sense to include it as a factor in setting wholesale power rates after 1992¹ when the same bill provides that the power cost assistance program will go out of existence that same year.

- 2) Provide a fair and comparable commitment to rural Alaskans for their energy projects including reconnaissance and conservation. Develop other comprehensive wealth distribution plans that are equitable.

1 The 500 megawatt system capacity is estimated by the APA to be achieved when the first stage of Susitna comes on line, possibly in 1992.

- 3) I have tried to focus our testimony on the major problems of SB 25 & 26 from a rural Alaskan perspective. Other testimony has focused on other needed improvements on the bill. It is very late in the session. The state deserves a major well-thought-out, in-state energy development plan. The "energy program for Alaska" set out in SB 25 & 26 needs major amendments in order to measure up to this standard.

Unless there is time to make these amendments this year, RurAL CAP recommends:

- A) Fund with SB 26 the projects that can effectively be started this year via the appropriate authority structure.
- B) Designate an interim committee to develop a balanced, carefully thought out Energy Program for Alaska, and implement it next session.

HOUSE FINANCE COMMITTEE

June 3, 1981

8:40 a.m.

(Tape HFC 81-103, side 2 #198.)

PRESENT

All Members of the Committee were present except Representatives Cotten, Montgomery, Rogers, Adams, Buchholdt and Meekins. Present to testify were Representative Grussendorf; Eric Yould, Executive Director, Alaska Power Authority; and Gregg Erickson.

SB 25, SB 26, SB 244

Vice Chairman Freeman called the meeting to order. He said the Committee would continue to receive testimony on the energy bills.

SB 25 -- "An Act establishing a power project development fund in the Alaska Power Authority and amending the Alaska Power Authority Act; and providing for an effective date."

SB 26 -- "An Act making special appropriations to the Alaska Power Authority for energy projects and for the power production cost assistance program; and providing for an effective date."

SB 244 -- "An Act suspending the principal and interest due on certain loans authorized by law and by the Alaska Power Authority for power projects, and redesignating the loans as grants for power projects; and providing for an effective date."

REPRESENTATIVE GRUSSENDORF said his main concern is the APA will be responsible not only for studying projects, but also for their maintenance, operation and administration. He said APA will have no incentive to keep operation and maintenance costs down and, eventually, costs will be higher to the users. He said for the past five/six years the City and Borough of Sitka has been requesting a 5% loan for a hydro project. He said they are on record saying they will take a 5% loan. He commented this bill started out in the Senate as a grant, which is most attractive, but not very business-like. He said Sitka feels they could borrow money on a hydro project at anything less than 10%. Representative Grussendorf said his fear is that they will end up with an energy project paying for the inefficiency of other projects.

Representative Grussendorf said in Sitka they are paying about 7%. He said this program offers to give them 5% money, but they loose control of the project -- it becomes the property of the State of Alaska.

Representative Grussendorf said in Sitka they are at the point of having to make a decision. He said they will have the Green Lake project on line in January 1982. He said it would not be worth trading 7% money for 5% money to have the State come in and own the project. He recommended the Committee look closely at projects that are under construction and meet the market test, and work out some arrangement so they would not be penalizing the start of a project.

Representative Grussendorf said they would be willing to pay 7% money. He said with a \$60 million loan they would be able to defease bonds and leave \$20 million on the table.

Representative Grussendorf said they are talking about APA doing the maintenance and operation, and the State having ownership -- just like the State runs the Alaska State ferries, where there is a need, but they have to be subsidized. He cautioned the Committee to be careful that they don't take away the incentive to keep a project profitable. He said their project is going and his feeling is that if others benefit from this program, Sitka should benefit too, but they should not be penalized.

There was brief discussion on the present cost of electricity in Sitka.

Representative Moss asked if they would rather have a loan than an outright grant that would encumber the project in State ownership. Representative Grussendorf said they have worked with the bond market on the project, and they have been begging for a hydro loan for many years. He said with projects such as Green Lake they intend to pay their own way, and they want to do their part. He said they don't want to be burdened with the State of Alaska taking over the project. He said they don't think they can do it.

MR. ERIC YOULD, Executive Director, Alaska Power Authority, explained they are basically a corporation of the State for the purpose of providing low cost power throughout the State. He said at the present time APA is bring forward a number of projects. He explained the process they go through to bring projects forward was implemented by the House Finance Committee last Session. He said the bill before the Committee today has received much criticism because projects are being looked at out of context. He stated they only bring projects forward if they are economically feasible. Regarding the economic feasibility of a project, Mr. Yould said the criteria is set out by statute.

Mr. Yould said in the past APA has generally attempted to sell tax exempt revenue bonds for long term financing of projects. He said the intent of the Legislature and the APA was that they report to the Legislature on the feasibility of various projects they are bring forward and the amount of state assistance necessary to bring the projects forward. However, he said they are now seeing a change from that. He explained where the Sitka project was financed at 7.58% revenue bonds, they are now looking

at 11%/12% 30-year bonds, which has had a tremendous effect on hydro financing. He said projects have found the front end costs were so significant that everyone went back to see if a state funded project could be put in instead.

Mr. Yould said he has received inquiries on various types of financing approaches. He said the resources of the State have opened up tremendous opportunities. He commented on various programs that have been proposed for financing hydro projects. He said this year there has been a shift to using power projects in general as a vehicle to distribute State funds to the general population.

Mr. Yould said the Senate has chosen the approach of making direct grants to bring hydro projects forward, with the stipulation that only those projects that are economically feasible shall be brought forward (SB 25). He said SB 26 provides up front financing to get the projects going. He said basically SB 26 as passed by the Senate is a good bill. He said it ferrets out the best projects in the State that should go forward. He said what is lacking in SB 26 is sufficient funding for an energy conservation program. He suggested SB 26 as passed by the Senate plus funding for an energy conservation program is probably a good step.

Mr. Yould said the major problem with SB 25 is that not everyone in the State has a renewable resource available to them. Also, he said there are really no teeth in the energy conservation program. He said when the Bill came to the House, Representative Duncan realized that if it was the desire of the State to proceed forward with direct grants or a minimal rate of return to the State, they would have to acknowledge if that income is used to develop hydro power, those sites represent a resource to the State of Alaska that should benefit all, and the benefits should be spread. Mr. Yould said he thinks that is workable and equitable. He explained the Resources Committee then went ahead and appropriated funds and inserted language that would insure that some semblance of an energy program would go forward. Mr. Yould said the appropriation bill includes a lot of new projects that have not really been looked at yet. He said the value of SB 25 is it would provide cheap power and insure that everyone shares, which could eliminate the "pork-balancing". Mr. Yould said he thinks the real objective is cheap power, not just projects for everybody.

Regarding the HCS Mr. Yould said he thinks it does a very poor job of trying to establish economic criteria. He said the criteria presently in the Statute is more than adequate. He said the criteria set up in the HCS goes in circles and he doesn't think it accomplishes anything. He said it is a step backward.

Mr. Yould said the bill creates a small conflict between APA and APUC as far as rate setting is concerned.

Mr. Yould said the bill changes the make up of the Board of the APA. He said he thinks that is very unfortunate. He said they have an extremely good record. He explained according to the Resources CS the Board would include three from the private sector and four from state agencies -- not designated. He stated it is going to be difficult to go into that transition, with a change in policy and a new Board. He said they are going to have a difficult time accomplishing much of the construction work scheduled to begin this summer. He recommended at least leaving as much of his board on board as possible to give them a transition period. He said he did not recommend stacking the board against the private sector.

Mr. Yould said the program is ambitious. He said basically APA has eight full time employees and eight paid out of capital funds. He said he would like to see, because of this bill and because they are presently strained to the limit, approval of the fiscal note they submitted. He said the fiscal note would move them from 8 full time employees to 25 full time employees.

In answer to questions from Representative Moss, Mr. Yould said it is technically feasible to put the entire State on hydro power, but if the State is paying for it they should use their funds as wisely as possible. He commented further.

(Tape change, HFC 81-104, side 1.)

Representative Moss asked if he was saying in the foreseeable future the State was going to have to consider fossil fuel as a source of energy. Mr. Yould said most definitely. He said they will still have some communities that are going to have to use fossil fuel for energy conservation.

Representative Malone asked how they decide which projects to bond. Mr. Yould said they have to look at it economically. He said that is the main, over-riding factor. In addition, he said they have to look at environmental trade-offs. He said they need to determine, given other alternatives available, whether or not a stream that would have significant environmental impact is a real alternative. He said they attempt to figure out what the cost of construction on a stream will be. He said economics, based on present day market rates (basically a 10% discount rate) decides whether a project is feasible or not. He commented further. He said they do try to project forward what the demands are going to be.

Representative Malone asked if alternatives were considered in the project selection process. Mr. Yould said those are the primary concern. He said they also consider the socio-economic impact and the environmental impact.

Representative Malone asked if these things were taken into account by APA at present. Mr. Yould said yes, they also try to conduct an extensive public hearing type program.

Representative Malone said the question has been raised, if they have a system of electric generation projects throughout Alaska owned by the State or APA, how is that going to work in conjunction with the needs of the local communities, particularly when it comes to the business of setting rates. Mr. Yould said the APA is only a wholesale power entity. He said they do not set retail rates. He said the local communities would buy wholesale power from them. He said they have no desire to operate projects where there is a capable entity involved willing to do so. He said he doesn't necessarily agree with the idea they are going to be operated more efficiently on a local level than APA would. He said the APA would recapture only the amount necessary to operate the project and sufficient funds to spread benefits to other portions of the State where they don't have hydro projects. He said basically they would be eliciting from local communities enough funding to accomplish that task. Regarding industry conservation, Mr. Yould said the bill acknowledges they might have situations where someone like Borax is going to come whether cheap power is available or not, so there is no need to give them an incentive. He explained it says if they do come on the system and are taking a surplus energy, they have to relinquish that energy if residential demand grows. He said that is being done on the federal level now. He said he thinks basically that is the way the State should control its business as well. He said he didn't think a lower rate should be given to large industries at the disadvantage of the local community if there is a state subsidy program in place.

Representative Malone commented on the impact of larger projects in the State by the FERC review and licensing procedure. He asked how that impacts the development of Alaska hydro projects, and whether or not APA requirements duplicate any of the requirements set down by the federal government. Mr. Yould said the FERC licensing process is set out by congressional statute. He said it would take an act of Congress for them to relinquish responsibility that to the State. He said he is not sure the State really wants to pick up that task even if they could. He explained FERC insures a project is safe, economically feasible, environmentally sound, complies with federal acts (clean air, etc.), that would have to be seen to be some State entity. He commented his understanding is that Senator Murkowski sits on the Subcommittee responsible for FERC, and the Committee might be better served to work with him to make the whole FERC licensing process more efficient, than to have them relinquish the responsibility.

Mr. Yould said he didn't think any project in the state has been resolved in less than 18 months. He said the other extreme is the Terror Lake project where they have been having a terrible time getting the project licensed. He said the FERC process can slow them down, but he thinks they would have a hard time getting around that process. He suggested working with the Congressional delegation in Washington D.C. to get the process streamlined.

Representative Malone said from an equity stand-point they should look at what might be done to reduce power costs in the rural areas of the State. He asked what the best approach might be to meet the power needs of the small rural Alaska communities in the long run. Mr. Yould said in the long run there has to be a break through in wind power. He said the resource is there, but the technology is such that generators themselves will not hold together and there is a problem with storage. He said energy work should be done with wood-gasification in particular -- either a wood fired generator or a steam fired generator. He commented further. He said some work is being done in developing stream flow turbans. He explained. Ultimately, he said, the solution will include those more innovative techniques, the continued use of diesel power, and the distribution of benefits from other areas of the State. Representative Malone asked if in the long run they will still be looking at an approach including a subsidy. Mr. Yould said yes, unless APA is given a mandate to make everyone self sufficient. He said it could be done, but it is not the most economically feasible thing to do.

There was further discussion. Representative Haugen said it all boils down to a project being properly planned and designed, and having a FERC license in the process. He said if they run into cost over-runs which were not considered in the project they can get a temporary revenue bond so it doesn't hurt the construction. Mr. Yould said that is essentially what the bill proposes. He said they should have no problem going to the bond market if they don't have enough funds to complete a project.

Mr. Yould said the Senate set up a program that would put money and the interest earned into a fund which goes back to that project. He said the House took a different approach -- the funding has to go alone, and interest reverts back to the general fund. He said there is a difference in the two approaches. There was brief discussion.

Vice Chairman Freeman said it seems the State should be able to fund the projects that are economically feasible. He said he is not sure it makes good sense to bond projects just because they are desirable. He asked if there wasn't some way they could make available to the communities that have economically feasible projects some assistance, and still have APA step in work on problems where small communities cannot come up with a project of their own. Mr. Yould said that is essentially what they have right now. He explained.

MR. GREGG ERICKSON, testified at this time. Mr. Erickson said SB 26 would allocate one half billion in appropriations this year, and the philosophy of the bill seems to contemplate the appropriation of about \$5 billion over the next several years, and his opinion is simply the state doesn't have that money. He said they certainly don't have it in the context of other things they want to do. He said he thinks Mr. Milt Barker's (Legislative Finance Division) revenue estimates are conservative and optimistic. He said his opinion is the run-down in oil prices is

going to be so substantial that this State may not have any surplus at all in the context of the needs that have been discussed and the anticipated uses of that money that have been considered.

Mr. Erickson said the run-down in oil prices has some other effects he would like to address in the context of SB 25, and the provision of the bill that establishes the economic feasibility of those projects. He said the bill provides the economic feasibility of a project shall be tested against the existing system in an area, and if there is none it shall be tested against diesel generating. He commented on existing facilities. Mr. Erickson said the City of Anchorage has the 3rd lowest electricity cost in the U.S. He said the Anchorage area has the lowest natural gas prices of any major city in the U.S. He said in real terms the electrical energy costs in the Anchorage area are actually declining. He said, obviously, the reason for the low cost there is the availability of natural gas. He said they will probably have continuing low prices in the foreseeable future.

Mr. Erickson said APA, in conjunction with Acres American is preparing an analysis concerning the feasibility of the Susitna project. He said they just recently issued a mid-study report which laid out four thresh-hold questions. He said if any one of them was answered in the affirmative, it would according to the criteria of the Study, be cause for terminating the study. One of those critieria was "is there any combination of projects which, between now and the time Susitna could come on line in the year 2015, produces lower cost energy than the project under study." Mr. Erickson said one of the alternatives considered in the study was the use of natural gas. In order to answer that question in a manner that allowed the study to proceed, he said it was necessary to assume that natural gas prices in the Anchorage area would be about five times higher than the average cost of natural cost that is currently being paid. Mr. Erickson said this was not a radical conclusion, it was a projection that coincided with conventional wisdom as it existed at the time the study was made. However, he said, it is simply not a realistic expectation.

Mr. Erickson said he prepared for the Power Alternatives Committee last year a study of natural gases and electric power alternatives for the railbelt. He said they demonstrated fairly conclusively in the study that natural gas prices are far more likely to decline, and indeed, they are declining at this moment. He said natural gas prices in the Cook Inlet basin are fundamentally tied to world oil prices, and those prices are declining. Mr. Erickson said he heard this morning that the Mexican's cut their oil price by \$4 a barrel yesterday and BP reported their North Slope oil net-back price was about \$2 a barrel less than it had been. He said this means the opportunities for shipping natural gas out of Alaska are much less favorable.

Mr. Erickson said the State finds itself in a situation with declining natural gas prices and a great surplus of natural gas in Cook Inlet. He said the existing known reserves of natural gas in the inlet are sufficient to provide electric power for the rail belt til the year 2071. Even in the worst of scenarios, he said, the one providing for the pac-Alaska project being constructed and the Northwest Pipeline not being constructed (which he gives less than a 10% chance of occurring), natural gas supplies are sufficient to provide power through the 1990's at least. He said the far more likely scenario is that the State will have a glut of natural gas, and the prices will continue to go down.

Mr. Erickson commented on the price of electricity in Fairbanks. He pointed out the average price for residential electricity consumption in Fairbanks is probably about nine cents a kilowatt hour, and the average price for residential electricity consumption in the U.S. as a whole is 5.5 cents a kilowatt hour. He said if the Northwest Pipeline is constructed it is very likely gas will be deliverable in Fairbanks somewhere in the neighborhood of \$1.50 per million BTU's. He said that nine cent power they are getting now is a result of \$6.50 per million BTU's fuel. He commented further.

Mr. Erickson said the Committee should also keep in mind that if there is an inter-tie between the Anchorage grid and the Fairbanks grid, the low and falling gas prices in Cook Inlet will be seen in the power costs paid in Fairbanks because it will be more economical to generate the power in the southern railbelt and wheel it North.

Mr. Erickson said any program which prices power at less than its real cost -- its cost in steel, concrete, human services, energy that goes into construction -- is a waste program. He said unless you give people the signals that this is what it cost, you are telling them "go ahead and leave the lights on."

Vice Chairman Freeman asked Mr. Erickson if he could be available to answer questions at the next meeting. Mr. Erickson said he would be.

ADJOURNMENT

The meeting adjourned at 10:05 a.m.

Tape HFC 81-103, side 2 #198 to end
HFC 81-104, side 1 #001 to end
side 2 #001 to #62

HOUSE FINANCE COMMITTEE

June 3, 1981

2:00 p.m.

(Tape HFC 81-104, side 2 #062)

PRESENT

All Members of the Committee were present except Representatives Montgomery, Cotten, Rogers, Buchholdt and Malone.) Present to testify were Senator Parr; and Mike Ford, Counsel, Judiciary Committee.

SB 133, SB 134

Vice Chairman Freeman called the meeting to order and brought SB 133 and SB 134 up for consideration.

CSSB 133 (SA) -- "An Act relating to memorials to Alaskan veterans; and providing for an effective date."

CSSB 134 (SA) -- "An Act making a special appropriation to the Department of Military Affairs for construction of a memorial to Alaskan veterans; and providing for an effective date."

SENATOR PARR said he introduced the Bills because the State of Alaska doesn't have a single memorial for Alaskan veterans. He said he thinks everyone will agree the appropriation shouldn't go to the State Council on the Arts. He said his thought was a group of veteran's should do this.

Senator Parr said the second question was where the memorial shall go. He said he didn't want to put it in an area which would make it a sectional memorial. He said he thought of Denali because it has the most statewide interest. He said a memorial could be put just off the highway.

Senator Parr said the third consideration was price. He said he doesn't know what the exact figure would be; this is the figure he came up with.

There was brief discussion on the location being accessible to the public.

Representative Adams said his personal feeling is they should take care of the living veteran. He said this \$200.0 could be better used for training or helping people with mental problems. Senator Parr said he understands what Representative Adams is saying. He said they did pass a bill to provide money for helping Vietnam Vets in Southeast Alaska. He said he thinks a memorial is good so upcoming generations can have something to look at, and see that these people fought for their country.

Representative Meekins MOVED to report the bill out of Committee. There being NO OBJECTION, it was so ordered. CSSB 133 (SA) was reported out with a "do pass" recommendation.

Representative Meekins MOVED to amend CSSB 134 (SA) as follows:

DELETE: "memorial to Alaskan veterans in Denali State Park"

INSERT: "memorial in Denali State Park to Alaskan veterans".

Representative Meekins FURTHER MOVED to report the bill out of Committee. There being NO OBJECTION, it was so ordered. CSSB 134 (SA) amended was reported out with a "do pass" recommendation.

SB 153

The next bill to be considered was HB 153.

HB 153 -- "An Act relating to ethics in government and establishing the Legislative Commission on Governmental Ethics; and providing for an effective date."

Representative Meekins explained this bill was one of many introduced by the Rules Committee at the beginning of the Session. He said the bill that came out of the Judiciary Committee (new title -- "An Act relating to the responsibilities of the Alaska Public Offices Commission; establishing standards of conduct for public officials; and providing for an effective date.") is the most comprehensive of these bills. He said the Judiciary Committee held hours of testimony on the Bill and redrafted it many times. He explained the Bill relates to establishing standards of conduct for public officers.

MR. MIKE FORD, Counsel, Judiciary Committee, spoke on the fiscal note to the bill. He said there is existing staff that would undertake many of the functions in the bill. However, he said there is a reclassification of positions as far as ranges. Representative Moss wondered why they needed the new equipment if all they are doing is upgrading positions. Mr. Ford pointed out the fiscal note includes the FY 82 budget. Vice Chairman Freeman said it appeared the fiscal note was incorrectly prepared.

Representative Meekins said he is not sure it makes much sense to go through the fiscal note before reviewing the bill. He said he thinks they do need a code of ethics, not only to limit the Legislature, but to have a "line drawn". He said he thinks they need to define that line in terms of proper and improper behavior.

Representative Meekins said one of the terms of the bill is a provision that allows a person to go to APOC and ask them for an advisory opinion.

Representative Meekins said the original bill established a Commission within the Legislature. He said the Attorney General said that was unconstitutional, so they decided to give the powers to the APOC. As controversial as APOC is, Representative Meekins said he thinks the Committee should review that decision.

Mr. Ford briefly explained the Bill.

(Tape change, HFC 81-105, side 1.)

There was discussion on the bill.

Mr. Ford said he believes one of the reasons the fiscal note is so large is because they have added municipalities. Vice Chairman Freeman asked why they are getting involved with municipal officials. Mr. Ford said there were recommendations from a number of areas that municipalities be covered. He said he thinks the communities felt the municipalities should have the same standards as other public officials. Vice Chairman Freeman commented that it seems every time they turn around they are making it less enjoyable for people to serve in a municipal government. He said it seems they do everything they can to discourage these people. He said he didn't think this should apply to the local level. There was further discussion.

Vice Chairman Freeman asked if subsection (c) of section 3 meant a secretary could be empowered to issue a subpoena. Mr. Ford said the intent of the section is to allow the Commission flexibility. Vice Chairman Freeman said he thinks that section should be removed.

There was further discussion on the bill.

Vice Chairman Freeman appointed Representatives Meekins, Adams and Moss to a Subcommittee to review HR 153 and report back to the full Committee with their recommendation.

ADJOURNMENT

The meeting adjourned at 3:25 p.m.

Tape HFC 81-104, side 2 #062 to end
HFC 81-105, side 1 #001 to #638

HOUSE FINANCE COMMITTEE

June 4, 1981

8:45 a.m.

(Tape HFC 81-105, Side 1 #638.)

PRESENT

All Members of the Committee were present except Representatives Cotten, Montgomery, Rogers, Malone and Adams. (Representative Buchholdt arrived later in the meeting.) Present to testify were: Gregg Erickson; Jack Krienheider and Alexander Hoke, House Research Agency; Jerry McHutchin; Roland Shanks, Alaska Environmental Lobby; and Milt Barker, Fiscal Analyst, Legislative Finance Division.

SB 25, SB 26 and SB 244

Vice Chairman Freeman called the meeting to order and stated the Committee would continue to receive testimony on the energy legislation.

CSSSB 25 (Fin) am -- "An Act establishing a power project development fund in the Alaska Power Authority and amending the Alaska Power Authority Act; and providing for an effective date."

CSSB 26 (Fin) -- "An Act making special appropriations to the Alaska Power Authority for energy projects and for the power production cost assistance program; and providing for an effective date."

CSSB 244 (Fin) am -- "An Act suspending the principal and interest due on certain loans authorized by law and by the Alaska Power Authority for power projects, and redesignating the loans as grants for power projects; and providing for an effective date."

MR. GREGG ERICKSON continued his testimony from the previous meeting. He commented on a Memo he prepared for the Committee in 1979. He said at that time the Legislature was expecting oil and gas revenues of about \$695 million, and he indicated they would probably get a great deal more than that. He said the State actually received in FY 80 about a billion dollars more than what was anticipated by the revenue forecasts at that time. He commented that Representative Haugen took him to task at that time for not indicating clearly enough the many downside risks that existed. Mr. Erickson said Representative Haugen was probably right, notwithstanding the fact that the revenues were substantially higher than anticipated. He said he would probably make up for not indicating those downside risks now.

Mr. Erickson said he concluded yesterday's testimony by indicating there were two ways that falling oil prices and revenues could affect the Committee's consideration of SB 25. One of those ways, he said, is that the state simply may not have the money. He said he reviewed Mr. Barker's forecast and his opinion is more pessimistic than Mr. Barker's.

Mr. Erickson said the other way falling oil prices could affect the Committee's consideration of SB 25, and specifically the Susitna Project, is the fact that natural gas prices in Cook Inlet and elsewhere in the country are tied to world oil prices. He said natural gas prices are, at this moment, falling in Cook Inlet as a consequence of the run-down in world oil prices. He said the export of LNG to Japan is priced in a manner that ties the price to the delivered price of crude oil in Japan and Tokyo, and that price is declining right now. He said there is a gas glut in the Inlet. Notwithstanding everything the Committee might have heard from the utilities or others about the fact that prices are going to rise, Mr. Erickson said it isn't going to happen. He said there is a tremendously large quantity of gas in Cook Inlet, more than there is a possibility of using for domestic use.

Mr. Erickson said exports are anticipated, but those exports depend on development of markets for LNG in California and Japan that have very little prospect of development right now. He said deregulation of natural gas has made it necessary for exports of LNG to be priced so low that it is simply not an economically viable product, and the fate of the Pacific Alaska LNG proposal is indicative of that.

Thirdly, Mr. Erickson said, there is more gas in the Inlet than the proved reserves would indicate. He said that is because the operators and prospective producers realize there is no point in advertising to the world that they have a glut. He said "you might as well keep the reserves under wraps in the hope that you can make your potential customers a little easier to deal with in terms of negotiating a price."

Mr. Erickson commented on the relationship of these changes to the Acres-American study that is underway under the auspices and management of the Alaska Power Authority. He explained that in order to arrive at the conclusion that there is no combination of projects that would provide lower cost power to the railbelt area during the period between now and 2015, they had to assume natural gas prices about 50% above the highest prices then being paid for gas, and about five times higher than the average price of natural gas in the Anchorage area. Mr. Erickson said that was, until recently, the conventional wisdom about gas prices, but it is clearly not the case anymore. He said he is confident that when the Acres-American study is completed they are going to have to either change the criteria or "cook the number".

(Tape change, HFC 81-105, side 2.)

Mr. Erickson said he doesn't have any strong opinions on what kind of criteria should be used, but he thinks they should look carefully at how the change is proposed, and consider carefully what the implications are, particularly if the low fuel and oil prices continue.

MR. JACK KREINHEDER and ALEXANDER HOKE, House Research Agency, presented and explained their Memo "Analysis of SB 25 and SB 26 Hydro Legislation". (See attachment #1.)

MR. JERRY McHUTCHIN said SB 26 needs to be amended on Page 8, line 11 and again on line 24, after "natural gas" add "or gas products". He said it looks like the technical problems with the gas line are years from solution. He commented further on the gas line, the price of natural gas, and alternatives to the gas line.

(Representative Buchholdt arrived at this time.)

MR. ROLAND SHANKS, Alaska Environmental Lobby, presented testimony on SB 25 and SB 26. (See attachment #2.)

(Tape change, HFC 81-106, side 1.)

Mr. Shanks continued his testimony.

MR. MILT BARKER, Fiscal Analyst, Legislative Finance Division presented and explained his Memo of March 31, 1981 -- "Hydro Financing and Distribution of State Wealth". (See attachment #3.)

ADJOURNMENT

The meeting adjourned at 9:58 a.m.

Tape HFC 81-105, side 1 #638 to end
side 2 #001 to end
HFC 81-106, side 1 #001 to #362



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

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

June 2, 1981

MEMORANDUM

TO: Members of the House Finance Committee

FROM: Alexander Hoke and Jack Kreinheder *AK*
Research Staff *AK*

RE: Analysis of SB 25 and SB 26 Hydro Legislation
Research Request No. 81-152

We have prepared two sets of computer printouts, which are enclosed, that summarize our analysis of the House Resources CS for SB 25 and the latest House Finance workdraft CS for SB 26. The first set of tables shows the expenditures and opportunity costs of these expenditures for power projects included in the SB 26 workdraft. In the second set, funding for construction of the Susitna project is added to demonstrate the effect of Susitna funding on other power projects and the total cost to the state for all projects.

The first printout of each set shows the total expenditures and opportunity costs for each power project over the period from FY 1982 to FY 2001, while the second printout presents a breakdown of these figures by each fiscal year in this period. The first column of each printout shows the planned expenditures for each project or fiscal year. It is important to note that these expenditures represent the full costs of each project, which for Bradley Lake and Solomon Gulch are higher than the amounts appropriated in SB 26.

Column 2 displays the net annualized cost, or opportunity cost, to the State of these expenditures, which we have calculated as the difference between the market rate of return available to the State (including payback of principal, as well as interest), and the actual return from the power projects. For example, the Bradley Lake project has a total cost in 1981 dollars of about \$200 million. The net annualized cost of this expenditure over the period from from FY 1982 to FY 2001 in the noSusitna case is about \$155.4 million. This figure is the difference between the amount which the State could receive each year from a loan or bond investment at an 11 percent market rate of interest, and the amount which the State would receive from the "equity return" on hydro projects specified in the House Resources CS for SB 25.

The Resources CS for SB 25 provides that this equity rate of return is 5 percent through 1986. If the legislature has not appropriated at least \$5 billion to the power development fund by FY 1986, in other

1371

Attachment #1

6/4/81

words if Susitna or another major project is not constructed, the equity return to the State would increase from 5 percent to 10 percent, thereby reducing the opportunity costs to the State (but also increasing power prices).

If Susitna or another major project is developed, the opposite effect would occur. The bill states that when 500 megawatts of generation capacity have been developed, the return to the State from the power projects will be reduced from 5 percent to a level which covers only operations and maintenance costs and other expenses. The opportunity costs to the State would therefore increase at this time. We have assumed that the 500 megawatt threshold would be reached in 1993 in the Susitna case.

Column three of the printouts converts the net annualized cost to the State into present value terms (as of 1981). The discount rate used for this conversion is 10.24 percent, which is the average inflation rate in Anchorage over the past five years, according to the Consumer Price Index.

It is important to note that we have analyzed the opportunity costs of power project expenditures only through 2001. These opportunity costs would be substantially higher than those presented here if the analysis covered the full life of the power projects. Legislative Finance has done a long-term cost analysis which demonstrates this point.

The second set of three columns presents the information discussed above in terms of the expenditure and cost per power consumer to be served by each power project. In some cases where the actual number of consumers was not readily available, we used an estimate based on the average ratio of power customers to population for communities throughout the State. The third set of columns shows expenditures and costs on a per capita basis, based on the 1980 census population figures.

We have also enclosed five graphs which illustrate the information contained in the printouts. Figure 1 shows the per capita distribution of the SB 26 power project funding by election district in the no-Susitna case. Figure 2 shows the same distribution with Susitna construction funding included. In Figure 3, the expenditures, net annualized costs, and present value costs for the no-Susitna case are charted. This graph corresponds to the first three columns of the first computer printout. Figure 4 shows the same expenditures and costs with Susitna included, demonstrating the proportion of these costs which are attributable to the Susitna project.

Members of the House Finance Committee
June 2, 1981
Page 3

In Figure 5, we have projected the assistance available under the Power Cost Assistance program between FY 1982 and FY 1992 at several levels of power costs. This chart assumes a 5 percent annual increase in power costs, which is equivalent to a 10 percent annual increase in the cost of fuel.

Although not included with this memorandum, we have also prepared a set of tables which show the expenditures and costs for each project for each fiscal year. We can provide these tables if this more detailed breakdown is necessary.

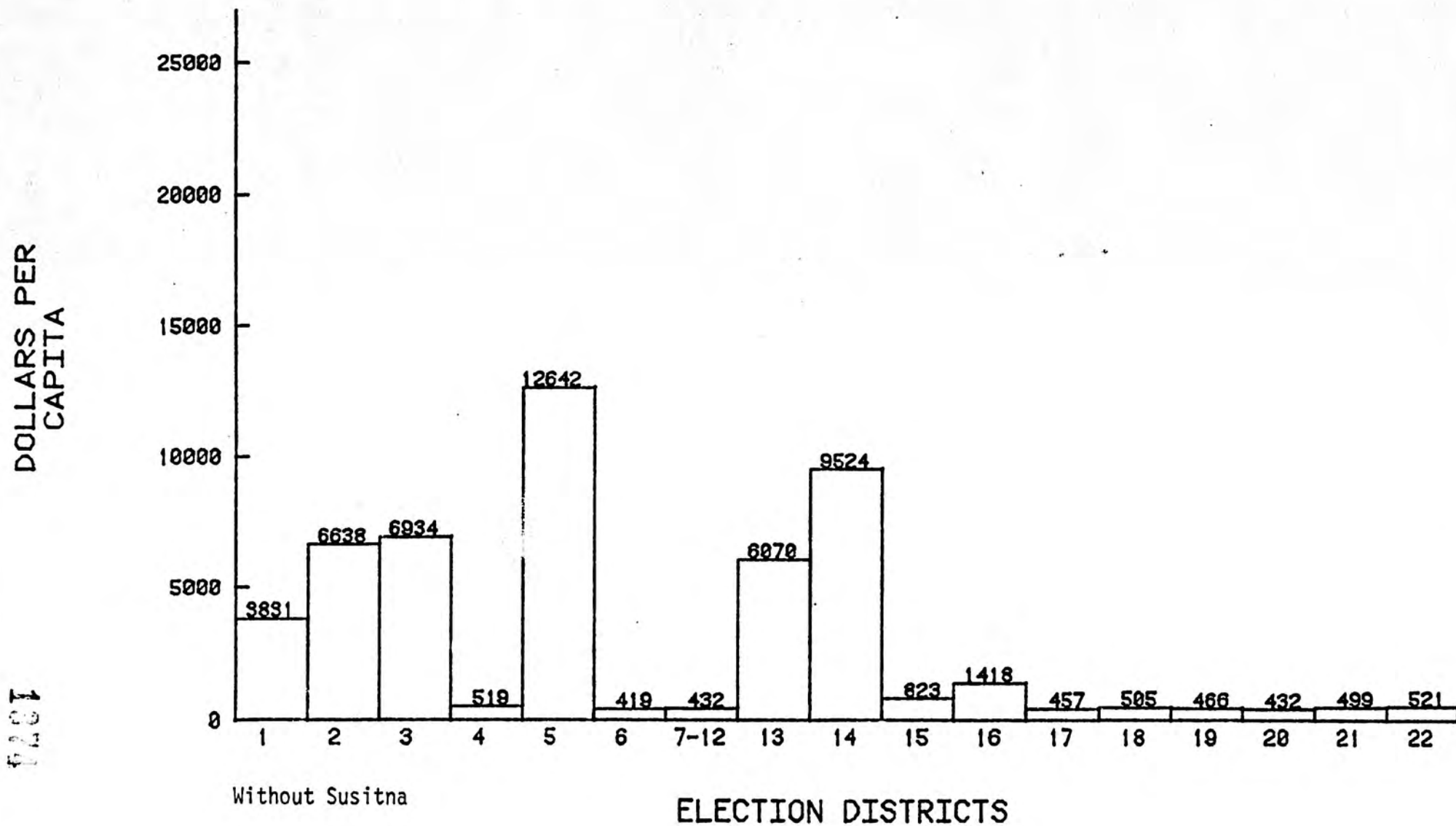
We hope this information is useful. If you have any questions or would like additional information, please let us know.

Enclosures

JK/bf

PER CAPITA DISTRIBUTION OF SB 26 POWER FUNDING (H. FINANCE DRAFT)

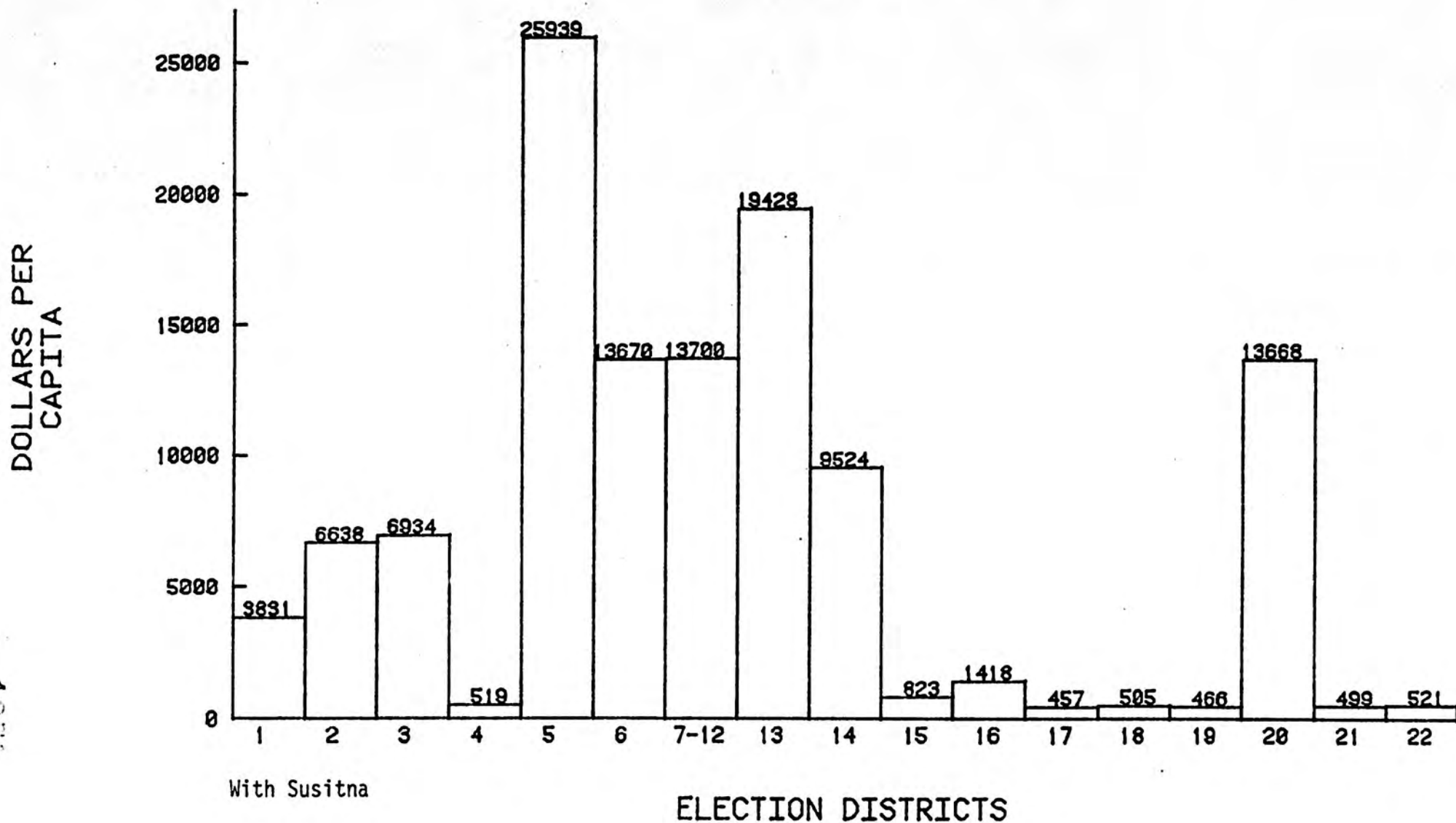
FIGURE 1



PREPARED BY:
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

PER CAPITA DISTRIBUTION OF SB 26 POWER FUNDING (H. FINANCE DRAFT)

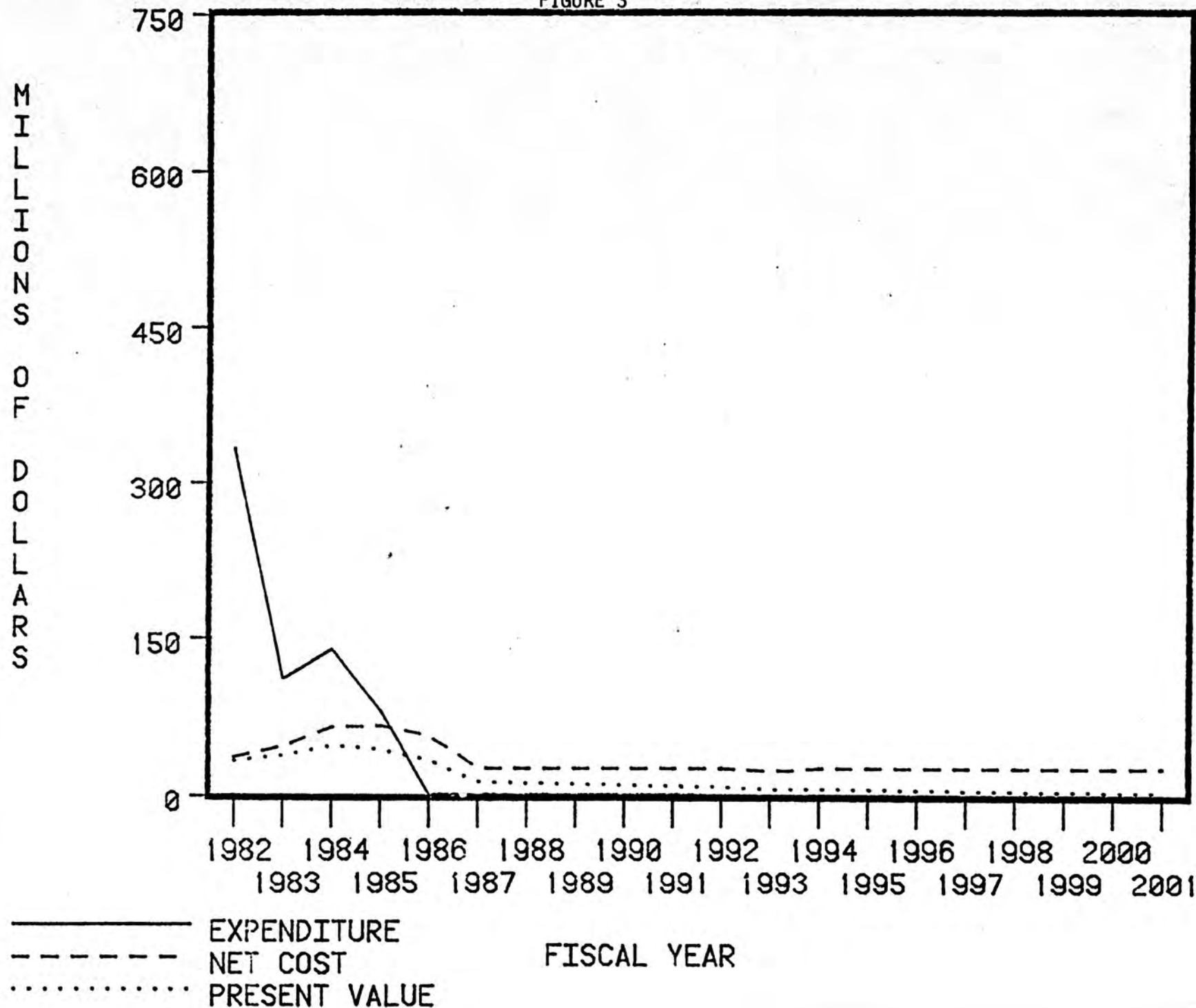
FIGURE 2



HYDRO FINANCING ANALYSIS (SB 26 (H. RESOURCES VERSION))

ASSUMES NO FUNDING FOR SUSITNA PROJECT

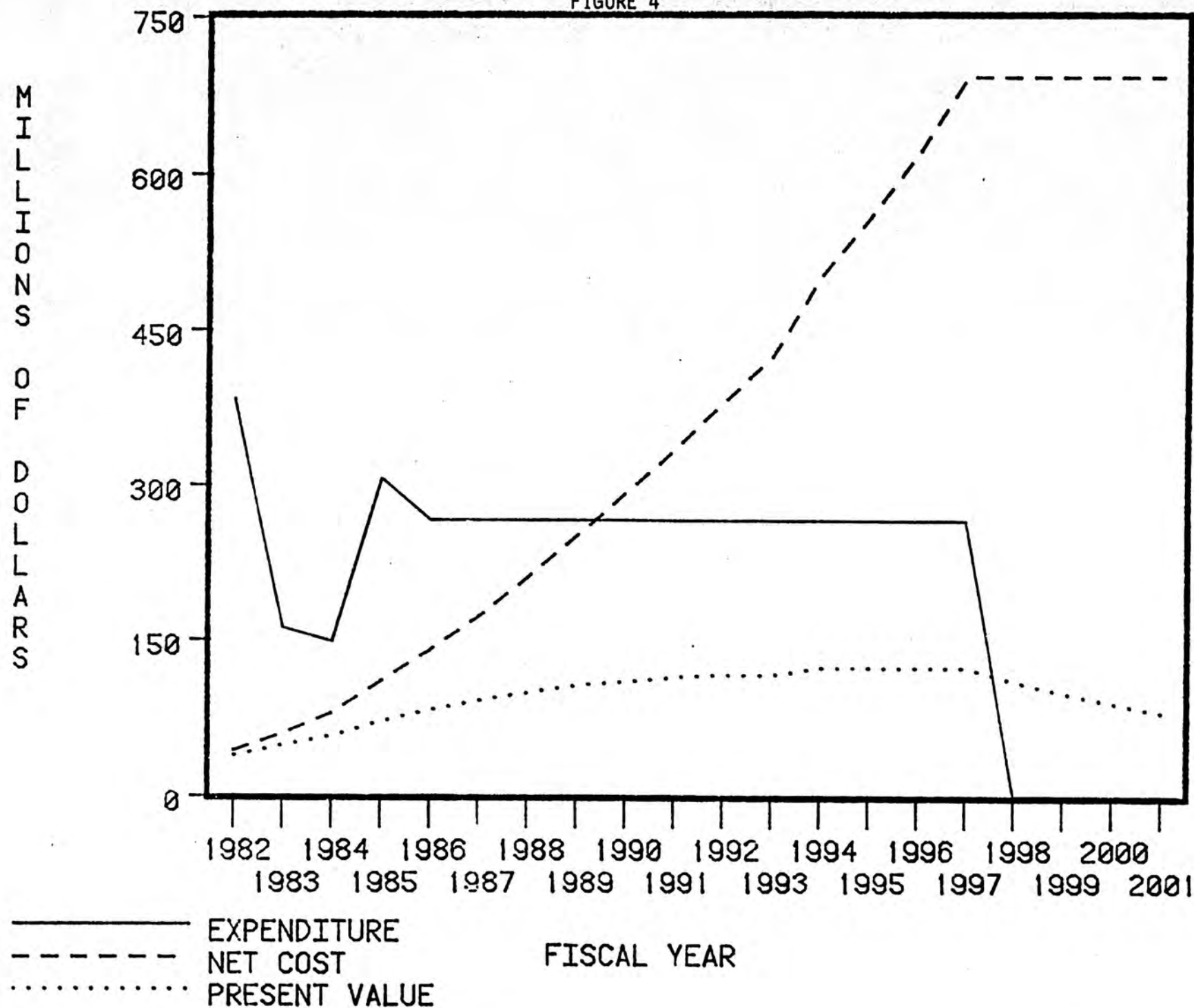
FIGURE 3



1970
0207

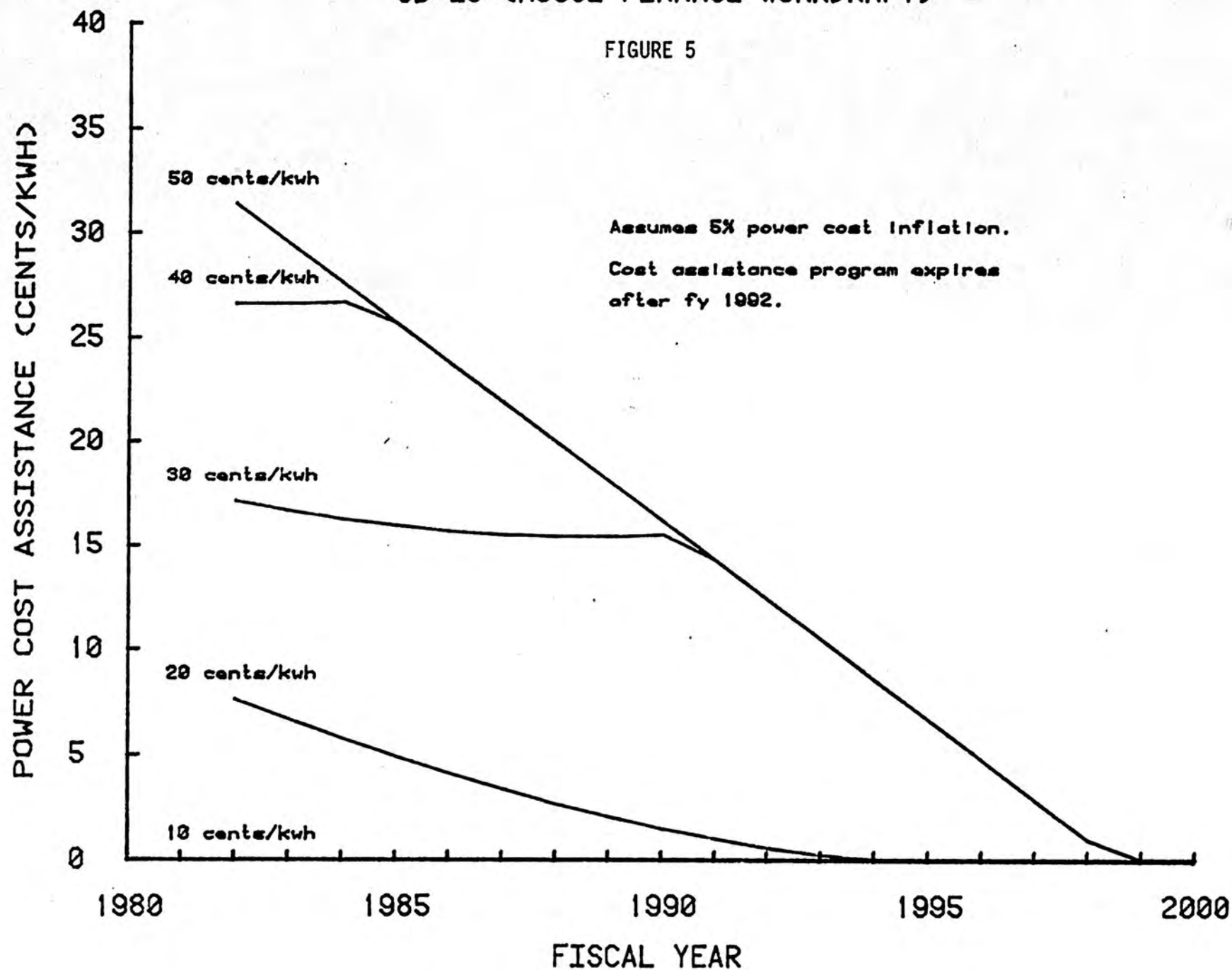
HYDRO FINANCING ANALYSIS - SB 26 (H. RESOURCES VERSION)
ASSUMES SUSITNA PROJECT FUNDING

FIGURE 4



ELECTRIC POWER COST ASSISTANCE LEGISLATION
SB 26 (HOUSE FINANCE WORKDRAFT)

FIGURE 5



HYDRO FINANCING ANALYSIS - SB 26 (HOUSE FINANCE DRAFT)

PARAMETERS USED IN ANALYSIS:

STATE RETURN ON HYDRO INVESTMENTS CONSIDERED AS CONVENTIONAL LOANS: 5 %

WITHOUT SUSITNA CONSTRUCTION

PREPARED
HOUSE RESEARCH AGENCY
JUNE 1, 1981

'EQUITY RETURN' STATE HYDRO INVESTMENTS ARE REPAID:

AT RATE OF 5% OF INITIAL EXPENDITURE UNTIL JULY 1, 1986

AT RATE OF 10% OF INITIAL EXPENDITURE THEREAFTER IF \$5 BILLION HAS NOT BEEN APPROPRIATED TO POWER FUND BY JULY 1, 1986

AT RATE SUFFICIENT TO OFFSET COSTS OF OPER., MAINT., AND EQUIP. REPLACEMENT AFTER TOTAL POWER PROJECT OUTPUT EXCEEDS 500 MEGAWATTS

ALTERNATIVE STATE MARKET RETURN ON INVESTMENTS: 11 %

INFLATION RATE 10.24 %

SUMMARY OF ALL POWER PROJECTS - SB 26 (HOUSE FINANCE DRAFT)

TOTAL COST TO STATE FOR PERIOD 1992 TO 2001

(THOUSANDS OF DOLLARS)

PROJECT	EXPENDITURE	ANNUALIZED STATE COST	PRES VAL ANNUALIZED STATE COST	EXPEND. PER CONS.	NET COST PER CONS.	PRES VAL NET COST PER CONS.	EXPEND. PER CAP	NET COST PER CAP	PRES VAL NET COST PER CAP
BRADLEY LAKE	200,000	155,399	68,048	21,431	16,652	7,292	7,977	6,198	2,714
PORT LIONS	1,400	1,136	596	19,718	16,001	8,402	6,511	5,284	2,774
SOLIMON GULCH	68,000	55,182	23,977	33,431	27,130	14,246	11,333	9,197	4,829
SWAN LAKE	53,000	44,985	22,972	14,021	11,901	6,077	4,670	3,964	2,024
TERROR LAKE	81,500	67,905	33,944	28,397	23,660	11,827	8,218	6,847	3,422
TYEE LAKE	40,000	33,399	16,736	19,569	16,340	8,188	6,522	5,445	2,728
ANCH-FBNKS INTERTIE	76,000	68,529	36,846	746	673	361	280	253	136
CRAIG-KILWOCK INTERTIE	2,000	1,823	1,005	7,117	6,487	3,577	2,372	2,162	1,192
TYEE-KAKE INTERTIE	5,300	5,111	2,716	32,222	28,395	15,093	10,603	9,343	4,966
KOSUK-SHUNGNAK LINE	200	152	76	2,325	1,770	886	778	592	296
BARROW-ATKASOOK LINE	7,062	5,377	2,692	10,083	7,682	3,846	3,017	2,298	1,150
GREEN LAKE	60,618	54,959	21,311	24,247	21,983	8,524	7,802	7,074	2,743
RURAL WASTE HEAT	655	1,645	637	1,048	2,632	1,020	350	879	341
BLACK BEAR LAKE	2,000	5,023	1,947	5,000	12,557	4,869	1,666	4,185	1,623
CHESTER LAKE	1,000	2,511	973	3,030	7,610	2,951	1,011	2,539	984
CHAKACHAMNA LAKE	1,000	2,511	973	9	24	9	3	9	3
GRANT LAKE	1,000	2,511	973	1,628	4,090	1,586	542	1,363	528
BETHEL REG. STUDY	1,000	2,511	973	778	1,956	758	235	716	278
POWER CREEK	700	1,758	681	688	1,730	670	220	554	214
SNETTISHAM	4,500	4,101	2,261	548	500	275	230	210	116
SUSITNA STUDY	18,100	45,458	17,627	177	446	173	87	218	84
TAZIMNA LAKE	2,000	5,023	1,947	5,714	14,351	5,565	1,846	4,638	1,798
RURAL FEAS. STUDIES	5,600	14,064	5,453	2,568	6,451	2,501	855	2,149	833
RURAL VIL. RECONNAISSANCE	560	1,406	545	194	487	189	64	162	63
HONAH-JUNEAU INTERTIE	996	907	500	3,112	2,837	1,564	1,471	1,341	739
PELICAN	42	105	40	552	1,387	538	233	586	227
LAKE ELVA	4,500	11,301	4,382	6,818	17,123	6,640	2,250	5,650	2,191
NONDALTON TRANS. SYSTEM	961	2,413	935	17,472	43,882	17,016	5,652	14,197	5,505
AELSP	7,000	6,575	2,845	952	894	386	400	376	162
UNALASKA GEOTHERMAL	5,000	12,557	4,869	11,627	29,203	11,324	3,843	9,652	3,742
VILLAGE ELECTRIFICATION	6,524	16,385	6,353	1,910	4,797	1,860	636	1,593	619
AVEC POWER COST ASSIST.	10,134	21,503	6,322	2,815	5,973	1,756	723	1,535	451
PORT LIONS COST ASSIST.	448	946	276	6,583	13,918	4,067	2,083	4,402	1,286
KOTzebue COST ASSISTANCE	271	662	244	459	1,123	414	132	324	119
TLINGIT-HAIDA COST ASSIST.	1,741	3,802	1,174	2,408	5,258	1,624	824	1,801	556
UNALAKIEET COST ASSIST.	280	614	191	1,352	2,967	922	455	998	310
MCCRATH COST ASSISTANCE	275	599	184	2,391	5,210	1,603	714	1,687	519
NOME COST ASSISTANCE	148	368	140	195	486	185	65	162	61
TOTALS	672,015	661,232	299,386	4,945	4,866	2,203	1,823	1,794	812

HYDRO FINANCING ANALYSIS - SB 26 (HOUSE FINANCE DRAFT)

PARAMETERS USED IN ANALYSIS:

WITHOUT SUSITNA CONSTRUCTION

PREPARED BY
HOUSE RESEARCH AGENCY
JUNE 1, 1981

STATE RETURN ON HYDRO INVESTMENTS CONSIDERED AS CONVENTIONAL LOANS: 5 %

'EQUITY RETURN' STATE HYDRO INVESTMENTS ARE REPAID:

AT RATE OF 5% OF INITIAL EXPENDITURE UNTIL JULY 1, 1986

AT RATE OF 10% OF INITIAL EXPENDITURE THEREAFTER IF \$5 BILLION HAS NOT BEEN APPROPRIATED TO POWER FUND BY JULY 1, 1986

AT RATE SUFFICIENT TO OFFSET COSTS OF OPER., MAINT., AND EQUIP. REPLACEMENT AFTER TOTAL POWER PROJECT OUTPUT EXCEEDS 500 MEGAWATTS

ALTERNATIVE STATE MARKET RETURN ON INVESTMENTS: 11 %

INFLATION RATE 10.24 %

TOTAL NUMBER OF CONSUMERS SERVED BY HYDRO PROJECTS: 135875

TOTAL POPULATION SERVED BY HYDRO PROJECTS: 368442

SUMMARY OF ALL POWER PROJECTS AND COST ASSISTANCE PROGRAM SB 26 (HOUSE FINANCE DRAFT)

	EXPENDITURE	NET ANNUALIZED COST TO STATE	PRESENT VALUE NET ANNUALIZED COST TO STATE	EXPENDITURE PER CONSUMER	NET COST PER CONS.	PRESENT VALUE NET COST PER CONS.	EXPENDITURE PER CAPITA	NET COST PER CAPITA	PRESENT VALUE NET COST PER CAPITA
FY 1982	332,878,000	36,574,121	32,828,931	2,449	269	241	903	99	89
FY 1983	111,490,000	46,746,850	37,663,271	820	344	277	302	126	102
FY 1984	138,366,000	64,777,610	46,846,101	1,022	476	344	376	175	127
FY 1985	81,285,000	66,155,754	42,943,654	598	486	316	220	179	116
FY 1986	1,243,000	56,324,202	32,817,785	9	414	241	3	152	89
FY 1987	1,214,000	25,670,127	13,425,333	8	188	98	3	69	36
FY 1988	1,192,000	25,840,855	12,130,725	8	190	89	3	70	32
FY 1989	1,138,000	26,009,451	10,959,580	8	191	80	3	70	29
FY 1990	1,022,000	26,166,867	9,896,857	7	192	72	2	71	26
FY 1991	901,000	26,312,037	8,932,703	6	193	65	2	71	24
FY 1992	786,000	26,445,501	8,058,664	5	194	59	2	71	21
FY 1993	0	22,645,501	6,194,069	0	166	45	0	61	16
FY 1994	0	26,445,501	6,492,751	0	194	47	0	71	17
FY 1995	0	26,445,501	5,827,893	0	194	42	0	71	15
FY 1996	0	26,445,501	5,231,117	0	194	38	0	71	14
FY 1997	0	26,445,501	4,695,450	0	194	34	0	71	12
FY 1998	0	26,445,501	4,214,636	0	194	31	0	71	11
FY 1999	0	26,445,501	3,783,057	0	194	27	0	71	10
FY 2000	0	26,445,501	3,395,672	0	194	24	0	71	9
FY 2001	0	26,445,501	3,047,955	0	194	22	0	71	8
TOTALS	672,015,000	661,232,887	299,386,216	4,945	4,366	2,203	1,823	1,794	812

HYDRO FINANCING ANALYSIS - SB 26 (HOUSE FINANCE DRAFT)

PARAMETERS USED IN ANALYSIS:

STATE RETURN ON HYDRO INVESTMENTS CONSIDERED AS CONVENTIONAL LOANS: 5 %

WITH SUSITNA CONSTRUCTION

PREPARED BY
HOUSE RESEARCH AGENCY
JUNE 1, 1981

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SUMMARY OF ALL POWER PROJECTS AND COST ASSISTANCE PROGRAM SB 26 (HOUSE FINANCE DRAFT)

	EXPENDITURE	NET ANNUALIZED COST TO STATE	PRESENT VALUE NET ANNUALIZED COST TO STATE	EXPENDITURE PER CONSUMER	NET COST PER CONS.	PRESENT VALUE NET COST PER CONS.	EXPENDITURE PER CAPITA	NET COST PER CAPITA	PRESENT VALUE NET COST PER CAPITA
FY 1982	382,878,000	42,852,903	38,464,766	2,817	315	283	1,039	116	104
FY 1983	161,490,000	59,403,757	47,860,761	1,183	437	352	438	161	129
FY 1984	188,866,000	83,926,660	60,694,379	1,389	617	446	512	227	164
FY 1985	351,285,000	121,072,106	78,591,481	2,585	891	578	953	328	213
FY 1986	266,243,000	147,152,491	85,739,676	1,959	1,082	631	722	399	232
FY 1987	266,214,000	180,373,605	94,334,390	1,959	1,327	694	722	489	256
FY 1988	266,192,000	218,499,806	102,572,505	1,959	1,608	754	722	593	278
FY 1989	266,138,000	257,928,415	108,683,080	1,958	1,898	799	722	700	294
FY 1990	266,022,000	298,903,062	113,051,403	1,957	2,199	832	722	811	306
FY 1991	265,901,000	341,745,299	116,019,499	1,956	2,515	853	721	927	314
FY 1992	265,786,000	386,876,141	117,891,700	1,956	2,847	867	721	1,050	319
FY 1993	265,000,000	430,935,582	117,870,868	1,950	3,171	867	719	1,169	319
FY 1994	265,000,000	513,253,561	126,011,140	1,950	3,777	927	719	1,393	342
FY 1995	265,000,000	569,490,608	125,500,767	1,950	4,191	923	719	1,545	340
FY 1996	265,000,000	632,130,397	125,040,106	1,950	4,652	920	719	1,715	339
FY 1997	265,000,000	703,831,529	124,966,676	1,950	5,179	919	719	1,910	339
FY 1998	0	703,831,529	112,170,088	0	5,179	825	0	1,910	304
FY 1999	0	703,831,529	100,683,871	0	5,179	741	0	1,910	273
FY 2000	0	703,831,529	90,373,843	0	5,179	665	0	1,910	245
FY 2001	0	703,831,529	81,119,561	0	5,179	597	0	1,910	220
TOTALS	4,272,015,000	7,803,702,045	1,967,640,570	31,440	57,432	14,481	11,594	21,180	5,340

HYDRO FINANCING ANALYSIS - SB 26 (HOUSE FINANCE DRAFT)

PARAMETERS USED IN ANALYSIS:

WITH SUSITNA CONSTRUCTION

PREPARED BY
HOUSE RESEARCH AGENCY
JUNE 1, 1981

STATE RETURN ON HYDRO INVESTMENTS CONSIDERED AS CONVENTIONAL LOANS: 5 %

'EQUITY RETURN' STATE HYDRO INVESTMENTS ARE REPAYED:

AT RATE OF 5% OF INITIAL EXPENDITURE UNTIL JULY 1, 1986

AT RATE OF 10% OF INITIAL EXPENDITURE THEREAFTER IF \$5 BILLION HAS NOT BEEN APPROPRIATED TO POWER FUND BY JULY 1, 1986

AT RATE SUFFICIENT TO OFFSET COSTS OF OPER., MAINT., AND EQUIP. REPLACEMENT AFTER TOTAL POWER PROJECT OUTPUT EXCEEDS 500 MEGAWATTS

ALTERNATIVE STATE MARKET RETURN ON INVESTMENTS: 11 %

INFLATION RATE 10.24 %

SUMMARY OF ALL POWER PROJECTS - SB 26 (HOUSE FINANCE DRAFT) TOTAL COST TO STATE FOR PERIOD 1992 TO 2001

(THOUSANDS OF DOLLARS)

PROJECT	EXPENDITURE	ANNUALIZED STATE COST	PRES VAL ANNUALIZED STATE COST	EXPEND. PER CONS.	NET COST PER CONS.	PRES VAL NET COST PER CONS.	EXPEND. PER CAP	NET COST PER CAP	PRES VAL NET COST PER CAP
SUSITNA CONSTRUCTION	3,600,000	6,520,942	1,520,049	35,357	64,045	14,929	13,293	24,079	5,612
BRADLEY LAKE	200,000	385,399	122,893	21,431	41,298	13,169	7,977	15,371	4,901
PORT LIONS	1,400	2,746	980	19,718	38,677	13,809	6,511	12,772	4,560
SOLOMON GULCH	68,000	133,382	47,624	33,431	65,576	23,414	11,333	22,230	7,937
SWAN LAKE	53,000	105,935	37,506	14,021	28,025	9,922	4,670	9,336	3,305
TERROR LAKE	81,500	161,630	56,293	28,397	56,317	19,614	8,218	16,298	5,676
TYEE LAKE	40,000	79,399	27,705	19,569	38,845	13,554	6,522	12,946	4,517
ANCH-FBNKS INTERTIE	76,000	155,329	57,687	746	1,531	566	280	575	213
CRAIG-KLAWOCK INTERTIE	2,000	4,123	1,552	7,117	14,672	5,528	2,372	4,890	1,842
TYEE-KAKE INTERTIE	5,800	11,781	4,307	32,222	65,450	23,929	10,603	21,537	7,874
KOSUK-SHUNGNAK LINE	200	382	131	2,325	4,445	1,524	778	1,487	510
BARROW-ATKASOOK LINE	7,062	13,499	4,629	10,083	19,284	6,612	3,017	5,768	1,978
GREEN LAKE	60,613	54,959	21,311	24,247	21,983	8,524	7,802	7,074	2,743
RURAL WASTE HEAT	655	1,645	637	1,048	2,432	1,020	350	879	341
BLACK BEAR LAKE	2,000	5,023	1,947	5,000	12,557	4,869	1,666	4,185	1,623
CHESTER LAKE	1,000	2,511	973	3,030	7,610	2,951	1,011	2,539	984
CHAKACHAMNA LAKE	1,000	2,511	973	9	24	9	3	9	3
GRANT LAKE	1,000	2,511	973	1,628	4,090	1,586	542	1,363	528
BETHEL RFG. STUDY	1,000	2,511	973	778	1,956	758	285	716	278
POWER CREEK	700	1,758	681	688	1,730	670	220	554	214
SNETTISHAM	4,500	9,276	3,495	548	1,131	426	230	476	179
SUSITNA STUDY	18,100	45,458	17,627	177	446	173	87	218	84
TAZIMNA LAKE	2,000	5,023	1,947	5,714	14,351	5,565	1,846	4,638	1,798
RURAL FEAS. STUDIES.	5,600	14,064	5,453	2,568	6,451	2,501	855	2,149	833
RURAL VIL. RECONNAISSANCE	560	1,406	545	194	487	189	64	162	63
HODNAH-JUNEAU INTERTIE	996	2,053	773	3,112	6,416	2,417	1,471	3,032	1,142
PELICAN	42	105	40	552	1,387	538	233	586	227
LAKE ELVA	4,500	11,301	4,382	6,818	17,123	6,640	2,250	5,650	2,191
NONDALTON TRANS. SYSTEM	961	2,413	935	17,472	43,882	17,016	5,652	14,197	5,505
AEL&P	7,000	6,575	2,845	952	894	386	400	376	162
UNALASKA GEOTHERMAL	5,000	12,557	4,869	11,627	29,203	11,374	3,843	9,652	3,742
VILLAGE ELECTRIFICATION	6,524	16,385	6,353	1,910	4,797	1,860	636	1,598	619
AVEC POWER COST ASSIST.	10,134	21,503	6,322	2,815	5,973	1,756	723	1,535	451
PORT LIONS COST ASSIST.	448	946	276	6,588	13,918	4,067	2,083	4,402	1,286
KOTZEBUR COST ASSISTANCE	271	662	244	459	1,123	414	132	324	119
TLINGIT-HAIDA COST ASSIST.	1,741	3,802	1,174	2,408	5,258	1,624	824	1,801	556
UNALAKLEET COST ASSIST.	280	614	191	1,252	2,967	922	455	998	310
MCCRATH COST ASSISTANCE	275	599	184	2,391	5,210	1,603	774	1,687	519
NOME COST ASSISTANCE	148	368	140	195	486	185	65	162	61
TOTALS	4,272,015	7,803,702	1,967,640	31,440	57,432	14,481	11,594	21,180	5,340



419 6th St., Suite 321
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TESTIMONY BEFORE THE HOUSE
FINANCE COMMITTEE ON SB 25/26

by

Roland Shanks

Thank You Mr. Chairman.

I have attached my testimony before the House Resources Committee and some other backup material on hydro-power and the APA to my testimony as reference material. Today, however, I would like to make a few comments on the proposal before you.

Sec. 44.83.470(b) on page 4 line 4 sets out the feasibility study criteria. This section is totally inadequate. They call for a cost-benefit ratio study, but the study as outlined is only a cost comparison. The comparison uses diesel generation, one of the more expensive means, as the cost to beat. Also the way it is written the cost comparison is between the "project" and diesel. There doesn't seem to be any place for conservation to come into the equation, and it also appears that there is no way to consider a system which includes a mix of several means of generation. The study never addresses the other side of the equation, benefits. It doesn't address the benefits to the consumer of cutting down their electric bills thru conservation. It doesn't address the benefits to the community of having a diverse generation system, and benefits to having internal back up capacity by having a diverse system. There also doesn't seem to be anyplace in the equation for other types of cost, like losing a salmon run or changing the lifestyle in an area. There is nothing in the equation to control the size of projects. Project size will be controlled by political power. Those who have, will get and those who don't, won't. Under the feasibility study in this bill only the biggest turkeys will get trapped.

Attachment #2

1383

6/4/81

The next provision I'd like to discuss is Sec. 44. 83.490 dealing with the sale of power from a power project. This section purports to set electric rates, but in fact it sets our new electric tax. I've always been told that when you pay for a service provided by the state that it's called a tax. So this is a tax. The state is going into the business of producing electricity. When we give poor people health care it's called socialism, but when we give poor people and rich people electricity it's called progress. So last year you repealed the income tax so that this year you could enact the electric tax. The only difference is the income tax is on how much you're able to make and the electric tax is how much you use. Maybe people are learning there ain't no free lunch.

Another interesting section is the blackmail clause. If you don't appropriate \$5 billion to the fund by 1986 everybody's rates double. That's an average of \$1 billion a year. How are we going to operate this state, buy things everybody thinks we need and still have money. Where is the money for tax relief, home loans, ag. loans, social programs, business loans, roads, airports, docks and the capital move going to come from. What are we going to do if we have another decline in revenue like the \$315 million that went away last week. This is designed to buy the votes to build Susitna. It's just a sneaky way to get around the studies now being done to determine whether the project is feasible or not.

Also under this section is the system that will be used to set the rate, excuse me the tax. But we heard the other day that some projects will still be built outside the program, under the hydro loan fund. Some communities will be nervous about giving up control over their projects. The local utilities won't have any control over rates, the rates will be set at the state level. The people in Sitka

wanted control of the Green Lake so bed they even selected the land under the reservoir, but now the APA will control the project. Unless they chose not to put their project into the program. Some projects will have strong economics and they may not be included in the program. What we'll have is the good projects going on their own and the losers becoming part of the program. What's this going to do for everybody's cheap electricity, or are we going to force the good projects to subsidize the bad projects. And how long will that last when people discover that their money is going to subsidize another project. Or better yet, how long will that last when they discover their money is going to subsidize power production cost assistance. How long will the legislature continue to fund power production cost assistance, when they could lower electric rates by not funding it. Also nowhere in this section does it take into account the fact that our electric generation system is going to be run by a state bureaucracy or that inflation will drive up the rates overtime. The people have been told this will provide cheap inflation proof electricity. It will not. It will neither be cheap or inflation proof.

If this legislation does pass you should reorganize the energy organizations in the state. Currently the APA does the recon studies, feasibility studies, engineering and design, financing, construction and operation. The APA should be disbanded. The only reason to have an authority is for bonding, and if we are going to direct fund these projects we won't need bonding. Any bonding that is required can be done by the State Bond Committee. The recon and feasibility studies could be done by the Division of Energy and Power Development. The engineering and construction should be put into the Department of Transportation and Public Facilities, that should afford us the economy of centralizing all the state's engineering and construction work. The operation and maintenance should be contracted out to the local utilities. The state should be able

to realize a large savings by consolidating these activities. This would also provide a system of checks and balances for each project.

Disbanding and relocating the work of the APA would also solve some the problems caused by the APA in the past. This should lead to better feasibility studies and engineering studies. This could cut down on cost overruns.. The Solomon Gulch project was estimated to cost \$32 million, but it has cost \$68 million so far. The Green Lake project is all ready \$5 million over estimate because the foundation rock was harder than expected. We also have the problem with Swan Lake that is outlined in the attached memo from Legislative Audit.

There has also been a problem with the APA creating constituencies for projects before any feasibility study has been completed, Tazimina Lake is a good example, even though there has never been a study completed on the project they had meetings on the area to build support for the project. The Fairbanks-Anchorage intertie is another good example. They had meetings in Fairbanks and Anchorage to release the results two months before the final report was completed. By molding public opinion before the feasibility study comes out nobody bothers to read the studies very well.

Many of these problems could be remedied and economies created by disbanding the APA and bring their functions back into normal line agencies.

I would also like to offer two alternative financing schemes.

The first alternative would put a question on the ballot in 1982. Should we put \$5 billion in a special fund to be managed as part of the permanent fund to be used to offset energy rates? Under this system all the utilities would provide the most economical electric generation system for their community. The proceeds from the fund would be distributed on a per capita basis to all citizens of the state.

Then the individual could use it to offset electric rates, fuel oil, or transportation fuel costs. But in this way all the citizens of the state would share equally in the energy nest egg and no facet of the energy picture is favored. If a person wanted conservation he could buy it. If he wanted alternative energy sources he could buy it. it doesn't favor any generation or conservation means, they all retain their relative position in the economy. After we get the fund established, if we can get a return of 10% we can give every man, woman, and child \$1250 a year to offset energy cost and never have to touch the principle. We could even tie this fund to the price we receive for our oil, and add money to the fund to cover the increase in cost of petroleum products.

The other system would be alot like the system used now for other capitol improvements. For an example, say the state decided they needed 300 megawatts of electricity in the Anchorage area. They would just put out a RFP, and see who could come up with the most economical system. This would let free enterprise dictate what would be built. This would let people be innovative and come up with new ideas. The state could evaluate all the bids and chose the cheapest means that still offered reliability and bring that on line.

I hope you will consider both of these alternatives before making a decision. We will support a program to bring economical energy to Alaskans, but it most meet the following criteria. It should include conservation as an important component. It most not favor any particular generation means. It most not foster overbuilding. It must establish strict economic feasibility criteria to insure that the best possible projects are built and that social cost are also considered. I realize that this is a tall order to fill before adjournment, but I feel that \$5 billion deserves alot of thought.



**Alaska
Environmental
Lobby**

419 6th St., Suite 321
Juneau, Alaska 99801

586-2345

To: House Resources Committee
From: Roland Shanks
Subject: HCSCSSSSB25

I would like to offer a few comments on this proposal.

This proposal has been offered as a way to provide cheap power while still providing a return to the state. But will really happen? In the background memo on this proposal it state that a 3.8¢ per KWH return can provide a 5% equity return. However in the list of projects used to justify these numbers there are three projects which have never had feasibility studies done, Chester Lake, Tazimina Lake, and Black Bear Lake. They also use Susitna to justify the lower price of 3¢ per KWH. The other problem with the figures is that the operation and maintenance are not inflated in the proposal. Over time the O&M cost will inflat and either the rates will have increase or the 5% return will have to be forgiven. This proposal also assumes that all the projects will be fully utilized from the first day of operation an unlikely situation. The pricing structure set out in the background memo will only work if all the project on that list are built, they are fully utilized, and they are build for the cost provided. At this time it is impossible to estimate the cost of four of those projects because the feasibility studies haven't been completed. However on some of the project being constructed at this time there have been some large over runs the Solomon Gulch project was estimated at \$32 million and now the final project cost is projected to be \$68million, it is projected that the Green Lake project will have an over run of at least \$5 million. I don't think that it is a good bet that these projects will meet all of these requirements that

are necessary if they are to provide a 5% return and still provide power at 3.8¢ per KWH.

I'm still not clear how the bonds for over runs are going to be handled. First we are assuming that bonds will be available. If the project don't have a good feasibility study bonding may be unavailable. If bonds are used then their payback will also have to be included in the rate structure. Also the bonds should be specific to the project they are for, otherwise a couple good projects could be used to carry a lot of poor projects. Also this would insure that the feasibility studies fully support each project. Just the fact that bonding is needed to complete a project says something about the quality of the feasibility study.

There has also been some discussion about feasibility studies. I don't feel that the discount rates should by law there should be some flexibility to determine future trends. I support strongly the concept of life line cost feasibility studies. They use the cost of construction, operation and maintenance over the life of the project to determine the best project. However for any study to be good it must consider all alternatives not just pit the project in question against a diesel generator. Just because it is more economical than the most expensive means of generation that doesn't mean it is the most economical either.

I hope you will keep these points in mind as you consider this bill.



**Alaska
Environmental
Lobby**

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586-2345

Testimony Before
The House Resources Committee
Regarding Energy Legislation
by Roland Shanks

I support the plan to place all energy projects into a single piece of legislation. I think this makes it much easier to view the entire energy picture. There should be more to energy legislation than hydro-electric projects.

I would like to quickly go through several of the components and offer some thoughts on them.

I believe that the legislature last year took a significant step towards meeting the energy crisis by creating the Alaska Energy Center. The center will help Alaskans develop systems that answer some of the unique problems faced by Alaskans. We support funding the Energy Center at the highest level it can utilize. We feel those are some of the best spent dollars in Alaska.

We also support the VERC project. I've traveled extensively in the bush regions of Alaska and nowhere is the energy situation more of a crisis. We must move to ease this situation. The VERC project seems to be a good balanced program. The housing, particularly the public housing in rural Alaska leaves a lot to be desired as far as energy efficiency goes. Helping to weatherize these homes will have an immediate benefit. Coupling that to a search for new energy sources should allow rural Alaska to overcome this crisis. I would like to make one point about these projects in rural Alaska. Some of the limits on these programs will not work in Rural Alaska. The \$300 weatherization grant will not buy anything in Shageluk. Until these programs can be completed the Power Production Cost Assistance will be necessary.

The weatherization and audit program also forward in the urban areas. Units of energy can only increase in cost; it is imperative that we lower the number of units that are needed. We would also support the Northern Technology grant program. We also feel that there are many benefits to be gained by supporting renewable energy businesses. They will lead us to a future that is not dependent on fossil fuels, while creating a new industry with new jobs.

At this time I'd like to take a look at CSSB 25 and 26.

We can't support grants. We believe the project should be funded at some reasonable level say 11%. This is still below the market value of this money, but it will provide a return to the state that over the long term will keep pace with inflation. We feel grants will encourage utilities to oversize projects. Everybody will basically try to get as much as they can and build as big a project as possible. We do not feel it is a wise use of Alaska's money to create large amounts of excess capacity. Large amounts of excess capacity could also have serious repercussions on the budding alternative energy industry in the state and for close the developments of other options.

We have always maintained that the projects must undergo some type of marketability test. This is the function of the bond market, to see if the project is economically feasible. I can understand the problems the rising cost of bond has caused. And I can understand the advantage of an energy project fund. But I feel that we must still provide some type of marketability test. I don't feel this can be accomplished when you have the same organization planning, designing, constructing, operating and financing power projects. I feel the fund should be set up as a separate organization. Hire five good bond councilors and give them a staff and let them fund the projects. This will isolate the builders from the funding. This will insure an objective evaluation of the projects.

Regarding the projects laid out in SB 26 I'd like to make a couple of comments.

In Section 3 it proposes to fund the intertie between Fairbanks and Anchorage. The feasibility study on this project isn't completed yet. However, this brings us to some interesting problems. Even though the study isn't completed, APA has held meetings in Anchorage and Fairbanks to discuss the benefits. This resulted in a front page story in the

Fairbanks Daily News-Miner stating that it will save the consumers in Fairbanks \$17 million a year. This story was based on a draft which is undergoing extensive re-write to discuss what effect deregulation of natural gas will have on utility rates. This report also had not been submitted to the Office of Budget and Management for review as is required by law. I feel that it was an irresponsible action on the APA's part to hold these hearings. This type of activity bothers me. It makes it very difficult to discuss the issues rationally. The legislature shouldn't fund this project until this report is completed. If GVEA feels that this project in their best interest, then they should think about funding it themselves. If they are going to save \$17 million a year like the News-Miner said then they can pay for it in six years.

Two more quick comments. Tazimina Lake is located within the Lake Clark National preserve and it might be worthwhile to determine if a project could be constructed there. And the Kisaralik is located in the Yukon Delta National Wildlife Refuge and is currently undergoing study as a wide and scenic river. These points should be kept in mind when looking at funding for these studies.

Like everybody else we have a few things we'd like to see included. Our inclusions are basically additions to the Susitna Studies. We would like to see Lake Chakachanna studied for possible development as an alternative to Susitna. This would be a lake tap project as I understand and it appears to have far less negative impacts than Susitna. It is a smaller project and may be more in line with the current demand projections.

We would like to see an electrical end use study in the railbelt added to the Susitna Studies. If we determined the end use of the electricity generated in the railbelt it would help us better assess the gains to be realized from conservation measures, and it would let us focus on alternatives that could supply the same end use.

We would also like to see a study done to determine the feasibility for fisheries enhancement in the upper Susitna Basin. Currently, no salmon spawn about Devil's Canyon. But preliminary studies show there are basically only two hydraulic barriers. If fishways could be constructed around these barriers it might be possible to open up a vast area to salmon production. Additional production of Cook Inlet Salmon could help alleviate the current problems in allocation of the Cook Inlet fisheries. It could also bolster the Cook Inlet fisheries creating new jobs and expanded opportunities in the fishing industry.

Lastly, we would like to see a comprehensive study done of wind generation potential both in the railbelt and other areas of the state. There are currently two commercial size wind farms outside. One farm in New Hampshire producing six megawatts and one in the Northwest producing seven and one half megawatts. There are also two other farms under construction in Southern California and Hawaii. It has been projected that there are five potential sites in the railbelt. We should give these more study and seriously think about a demonstration project in the near future.

I realize that this testimony has been long and kind of rambling, but the energy problems facing Alaska are complex. The answer can also be very complex, but I feel that with some foresight and planning we can answer those challenges in new and creative ways.



Fairbanks Environmental Center

218 DRIVEWAY
FAIRBANKS, ALASKA 99701
(907) 452-5021

30 March 1981

. . . MEMORANDUM . . .

TO:

FROM: Jeff Weltzin

RE: Environmentally-sound electrical power for the Railbelt

A look at Alaska's past government involvement in hydro development shows emphasis on large dams on major rivers. First, Rampart dam on the Yukon was promoted as a way to induce population and industrial growth with possible power export to the Lower 48.

Alaskans concerned with Rampart's size and environmental effects urged consideration of smaller sites such as the Devils Canyon project on the Susitna. This was not an endorsement of Susitna, for there were never any studies of fish and wildlife to judge possible impacts. Rather, it was to point out that looking at many possible power sources is needed in order to choose the best projects and avoid the most damaging ones.

Throughout the 1970's, hydro planners regarded medium-sized (100 to 500 MW) hydro sites as inadequate to meet projected Railbelt demand for electricity. Inflated growth projections and a "Susitna or nothing" approach precluded efforts to determine if medium-sized hydro was better suited for the Railbelt's needs.

Today, based on the most detailed projections done so far, medium-sized power sources show much promise to meet our needs without damming the Susitna. This is reflected in the ISER electrical growth projections used in the Susitna feasibility studies outlined in Table 1 and 2.

These projections produce a wide variation in possible demand, indicating that there is much flexibility in the Railbelt's future electrical needs. The Energy Probe forecast includes selected conservation measures, showing the opportunity Alaskans have to keep their electrical growth rates at moderate levels of 2% to 3% through conservation.

The significance of reducing Railbelt demand through conservation is demonstrated by the State's second largest utility, Golden Valley Electric Association. For the fifth straight year (1980), customers of GVEA have decreased their electrical usage. While 1975 residential consumption per customer was 17,332 kwh, conservation of electricity has reduced 1980 consumption to 9,771 kwh per customer. Even though GVEA has a record number of customers (over 17,000), indivi-