



City and Borough of Juneau  
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DATE: November 5, 2017

TO: Jesse Kiehl, Chair, Assembly Finance Committee

FROM: Rorie Watt, PE, City Manager 

RE: Snettisham - Additional Information

In response to questions and requests for information, below is a brief summary of information about Snettisham, and attached are detailed documents.

In 1998 AELP created a subsidiary company called Snettisham Electric Company (SEC) for the purpose of eventually acquiring ownership of the Snettisham facilities. The facilities were originally constructed and operated by the Alaska Power Authority (US Government) and in 1998 were sold to AIDEA (State of Alaska). Contemporaneously, AELP also agreed to purchase all of the power that Snettisham produces. Snettisham remains under State of Alaska ownership – at the time, CBJ and AELP determined it was in the best interests of the rate payers to maintain state ownership.

Under the terms of the contract to purchase the facilities, AIDEA issued \$100M in bonds to cover the purchase price of close to \$82M, debt service reserve funds, closing costs, etc., although parties recognize that the actual replacement costs (or original construction costs escalated for inflation) greatly exceed that amount. For the past twenty years AELP has made the debt payments, managed the facilities, purchased all of the power and performed necessary maintenance. AELP shows Snettisham on its books as a capitalized lease (offsetting assets and liabilities).

Per the agreement, SEC can take ownership of the facilities at any time by agreeing to pay the remaining debt (which AELP is already paying). AELP has not done that because it would force them to raise customer rates for two reasons. First, if AELP acquired title, the facilities would become privatized and CBJ would charge property tax, that tax would be circled back to the customer base. Second, there would be additional negative impacts to the rate payers based on FERC licensing requirements and additional right of way payments that would be triggered by the purchase.

Please let me know if there are further questions on this matter.

December 23, 1997

Alaska Public Utilities Commission  
1016 West 6th Avenue, Suite 400  
Anchorage, Alaska 99501

**Tariff Advice No. 271: Snettisham Power Sales Agreement**

Ladies and Gentlemen:

In compliance with the Alaska Public Utilities Commission Act, and Sections 3 AAC 48.200 – 3 AAC 48.390 and 3 AAC 52.470 of the Alaska Administrative Code, a contract entitled "Agreement for the Sale and Purchase of the Electric Capability of the Snettisham Hydroelectric Project (Snettisham) between the Alaska Electric Light and Power Company (AELP) and the Alaska Industrial Development and Export Authority (AIDEA)" (see Attachment (1)) is hereby submitted for approval. Hereafter the contract will be referred to as the Power Sales Agreement (PSA).

Separately, AELP will file with the Commission a special contract for sale of Snettisham energy to the Alaska Department of Fish & Game (ADF&G) for its fish hatchery located at Snettisham and a related amendment to AELP's Certificate of Public Convenience and Necessity. AELP asks that the electric power sales provisions of the proposed special contract and the certificate amendment be considered in the same Commission docket as approval of the PSA.

AELP understands that AIDEA intends to ask the Commission for an exemption from certification requirements for AIDEA in its prospective capacity as the owner of Snettisham, and that AIDEA will communicate directly and separately with the Commission with respect to this request.

**Background**

Snettisham is a hydroelectric generating facility currently owned by the U.S. Government and operated by the Alaska Power Administration (APA), a Federal power marketing administration. AELP in turn operates and maintains

Snettisham under contract with the APA. Snettisham is located approximately 28 miles south of, and across Taku Inlet from, the AELP service territory. Construction of the Long Lake portion of Snettisham, with a firm energy capability of 179 million kwh and 47 MW capacity, was completed in 1973. With the exception of the ADF&G fish hatchery at the Snettisham site, AELP is currently the only purchaser of power from Snettisham.

Initially AELP purchased Snettisham energy under U.S. Government Contract No. 14-15-0001-SN-1, dated November 19, 1973, as approved by the Commission. In 1990 the Crater Lake Addition to Snettisham became operational and added capability of 105 million kwh of firm energy and 31 MW of capacity. In 1993 Contract No. 14-15-0001-SN-1 expired and was replaced by another 20 year agreement, Contract No. DE-SC85-93AP10034, approved by the Commission in Tariff Advice No. 236-1. Both contracts with the APA were "take and pay" (no power, no pay) type power sales agreements. From 1973 until today the cost of firm Snettisham energy has increased from 1.56 cents per kwh to 3.47 cents per kwh.

AELP also purchases Snettisham interruptible energy from APA under Contract No. DE-SC85-93AP10034 and resells it under various tariffs designed to improve AELP's total system load factor or encourage utilization of hydroelectric surplus energy.

In total, Snettisham currently supplies approximately eighty-five percent (85%) of AELP's annual energy requirements.

AELP has operated the Thane Substation, which dispatches Snettisham and other AELP generation facilities, for APA since 1973. In 1992 AELP assumed responsibility for routine maintenance of the Snettisham transmission line. In 1996 AELP assumed responsibility for operation and maintenance of the Snettisham generation plant and water works, and in 1997 AELP was assigned the APA's engineering and purchasing functions.

The U.S. Government has been trying to sell the APA assets since April 1, 1987 when the APA issued requests for proposals (see Attachment (2)) to purchase Snettisham and the Eklutna Hydroelectric Project, located near Palmer. (The sale of Eklutna to three Alaska electric utilities was consummated on October 2, 1997.) The City and Borough of Juneau (CBJ) with AELP assistance carefully analyzed various ownership scenarios and concluded that ownership by the State's Alaska Power Authority (APAuth) would provide the lowest long term stable energy rates for Juneau. In addition APAuth had the financial strength and expertise to oversee Snettisham operations. Consequently, on July 20, 1987 the

CBJ Assembly passed Resolution No. 1256 asking the State of Alaska to purchase Snettisham and sell its energy to AELP (see Attachment (3)). APAAuth and APA subsequently negotiated the Snettisham Purchase Agreement which was signed on February 10, 1989 (see Attachment (4)). AFI.P and the CBJ were parties to the negotiations.

From 1989-1996 the approval of the sale of Snettisham and Eklutna worked its way through the U.S. Congress. During this period the APAAuth's name was changed to the Alaska Energy Authority and later AIDEA assumed the State of Alaska's responsibility for the Snettisham purchase. On November 6, 1995 the Congress, along with removing restrictions on exporting of North Slope oil, approved the sale of Snettisham and Eklutna. The President subsequently signed the legislation into law on November 28, 1995 (see Attachment (5)).

The Snettisham Purchase Agreement establishes the procedures to determine the purchase price, and specifies that the price will be set on the date of the sale. The price will be based on the discounted value of Snettisham cash flows the U.S. Government would have expected to receive under continued Federal ownership until all of its investment and interest were recovered. The discount rate will be the actual interest rate AIDEA pays on the tax-exempt revenue bonds that AIDEA issues to purchase Snettisham, plus 2%. The specific cash flows the U.S. Government would have received have been established and included as a table in the Snettisham Purchase Agreement. There is a price "floor" in the Snettisham Purchase Agreement protecting the U.S. Government from the purchase price falling below 85% of the predicted Snettisham discounted cash flows, using a discount rate of the average 30-year U.S. Treasury bond yields for the 90 days immediately preceding the closing date. The net effect is that, unless the price floor provision kicks in, the Snettisham purchase price will vary with interest rates but the annual debt service to repay the bonds will remain relatively constant.

Several other pieces of legislation were necessary in order for the Snettisham purchase to be consummated. On June 27, 1996 the Governor of Alaska signed HB 526, which among other things authorized AIDEA to purchase Snettisham and to issue up to \$100 million of bonds to complete the purchase (see Attachment (6)). On August 20, 1996 the President signed H.R. 3448 addressing various tax matters including making specific exception allowing AIDEA to sell tax-exempt bonds to finance the Snettisham transaction even though Snettisham already exists and therefore cannot meet the "new facility" test generally applicable to tax-exempt bond financing (see Attachment (7)).

As previously discussed, to purchase Snettisham AIDEA will issue tax-exempt revenue bonds. The sole source of security for the AIDEA bonds will be the "take or pay" PSA between AIDEA and AELP submitted for Commission approval. The bond issue will include moneys for a debt service reserve, R & R Fund, financing costs (including due diligence investigations) and installation of a redundant set of submarine cables crossing Taku Inlet (see Attachment (8)). The bond issue will be based on the financial strength and credit worthiness of AELP and will not be backed by the moral obligation of the State of Alaska.

The Snettisham bonds are expected to receive a Baa rating. The following is a breakout of the bond issue assuming the bonds were rated Baa and based upon a 5.72% yield that probably would have been effective on December 17, 1997:

	\$ x 1000
Purchase Price	\$74,438
Cable Cost (net)	14,400
Debt Service Reserve	7,015
R & R Fund	3,081
Cost of Finance-2%	<u>2,019</u>
<b>Total</b>	<b>\$100,955</b>

As previously stated, the State's authorization for Snettisham bonds is \$100 million. Interest rates at the time of the sale will be different from today's estimate. If the total value of the moneys required to consummate the transaction exceeds \$100 million, then AELP will fund the difference.

#### Submarine Cable

The submarine cable portion of the Snettisham transmission line is three miles long and reaches depths of 600 feet. Presently there are four cables rated at 138 kV cooled by an oil circulation system. This is the most vulnerable portion of Snettisham as major failure would take around twelve months to repair and be expensive. In the meantime AELP would mostly have to rely on its standby diesel generation facilities. During such a Snettisham outage period AELP's customers, in addition to the "take or pay" debt service requirement, could expect substantial rate increases due to fuel costs which would be passed on through the existing Emergency Fuel Cost Rate Adjustment (see Schedule 98, AELP Tariff Sheet 172).

The due diligence investigations, conducted in preparation for the bond sale, discovered that the underwater transmission cables were in a high risk condition - corrosion of the exterior aluminum shield and risk of mechanical failure due to long and unsupported catenary spans over steep underwater cliffs.

One of the cables was later found to have a small oil leak. APA, in AELP's opinion, has not properly repaired that leak.

Investigations have been carried out regarding installation of the new cables. The installation of 138 kV submarine cables requires long lead times for fabrication and is expensive. There are only six (6) companies in the world which manufacture 138 kV submarine cables, all located overseas. Because 138 kV is a relatively high voltage for submarine cables, a circulating cooling system is required, which adds to the cost and complexity of the installation. Normally, special cable laying ships are necessary and cables must be loaded aboard using heavy duty equipment not available in Juneau.

Raytheon Engineers and Constructors estimates the cost to purchase and install four 138 kV, 86 MW capacity cables to be \$16.9 million. The most reliable cost estimates come from comparing the proposed project with other similar projects and adjusting for dissimilarities. In the case of 138 kV oil cooled submarine cables there are few installations and recent construction cost data is sparse. AELP believes Raytheon's cost estimate to be liberal and that the cost of the new cables may be less. AELP and AIDEA also believe the cables may be purchased and installed less expensively if accomplished outside of the Federal procurement system. There is also the possibility that the U.S. Government may help pay for the cost of the new cable installation in excess of the \$2.5 million already committed. AELP is pursuing further Federal funding, but it will not be known whether it will be forthcoming until the Fall of 1998.

The bond underwriters, John Nuveen & Co., Goldman Sachs and Prudential Securities, have reviewed the precarious cable situation. The underwriters are unwilling to proceed, and AELP and AIDEA are unwilling to finance the change of Snettisham ownership, unless there is satisfaction that a redundant set of cables will be installed to ensure the reliability of the Snettisham energy supply for Juneau. In addition, as provided in the proposed Operation and Maintenance Agreement (see Attachment (9)), AELP will obtain debt service insurance for the event of any Snettisham submarine cable failure which precludes Juneau use of Snettisham energy. However, the insurance coverage will not begin paying until after the first 90 days of a failure. Such insurance coverage is available today but under different insurance market conditions may not be, or might be prohibitively expensive.

To reiterate, to protect the technical integrity of the Snettisham transmission system another four redundant cables will be installed that will address some of the technical shortcomings of the existing cables, e.g., better sheathing to prevent corrosion, and bathymetric surveys to determine the

appropriate alignment to minimize risk of mechanical failure. This, coupled with presently available debt service insurance, should provide cost effective protection for AELP's customers against (or in the event of) loss of the Snettisham energy supply.

### **Power Sales Agreement**

To provide further understanding of the PSA, also included for information in this filing are the proposed Operation and Maintenance Agreement and the Power Revenue Bond Resolution (see Attachment (10)), among other documents that may be useful to the Commission. (As is customary in financings of this sort, the Bond Resolution effectively remains in draft form until just before the actual bond sale, at which time it will be finalized.)

The following is a discussion of the important concepts of the PSA from AELP's perspective:

1. The PSA submitted for Commission approval is substantially different from the 20 year agreement, Contract No. DE-SC85-93AP10034, approved by the Commission in Tariff Advice No. 236-1. This PSA is a "take or pay" agreement, which means AELP will be obligated to make debt service payments whether or not Snettisham is providing energy to AELP. This type of commitment by AELP is necessary in order for AIDEA to sell bonds to raise the money to purchase the project from the Federal government. In return AELP will receive all of the output of Snettisham on an assured long-term (and probably permanent) basis under terms and conditions AELP believes to be favorable. AELP will also have the right to increased Snettisham output resulting from improvements. Under previous contractual arrangements with the APA, AELP purchased Snettisham energy on a "take and pay" basis. AELP paid a prescribed cost per kwh as specified in the APA Tariff. If Snettisham was not operating, AELP paid APA nothing. The new PSA will indeed represent a major increase in AELP's contractual obligation to purchase Snettisham energy.
2. AELP will be responsible for the total operation and maintenance of Snettisham including the generation plant, water works, transmission line and underwater cables and the Thane Substation at Juneau. In November of each year AELP will submit an Operations and Maintenance Budget for the following calendar year for AIDEA approval.

3. An R & R Fund will be established for the purpose of paying the cost of Snettisham repairs that are classified as capital expenditures. During the due diligence process a capital expenditure program for the next 35 years was prepared by AIDEA's consultant, Raytheon Engineers & Constructors. The R & R Fund initially will be funded from the Snettisham bond sale at an agreed level, which will probably be the maximum level allowed by IRS regulations. Thereafter annual contributions will be required of AELP starting out at \$653,000 per year (under current estimates). The annual contribution thereafter will be escalated for inflation. At least every three (3) years the R & R Fund will be reviewed and the annual contribution adjusted up or down to account for experience and changed circumstances.
4. The PSA requires that AELP obtain various types of Snettisham insurance including property coverage for normally insured electrical facilities and liability insurance. When available at reasonable costs, debt service insurance will be obtained to cover the cost of Snettisham "take or pay" debt service payments during periods when the Snettisham underwater cable or generating plant has failed and cannot deliver energy to the Juneau load center.
5. To assure the reliability of Snettisham, as the primary energy source for Juneau and a revenue stream to satisfy the "take or pay" debt service requirement, four new redundant cables will be installed across Taku Inlet, tentatively in the summer of 1999. The new cables will be paid from the proceeds of the bond issue and some Federal assistance.
6. The PSA provides AELP the flexibility to operate Snettisham within the limits of prudent utility practice and allows for financing improvements and major repairs with bonds secured on a parity basis with the Snettisham bonds.
7. Disputes between AELP and AIDEA would normally be addressed through a process involving an Independent Consultant, and, if necessary, arbitration.
8. AELP will have the option to purchase the entire Snettisham project from AIDEA five (5) years after the purchase from the U.S. Government is consummated. Such a future transaction is contemplated in the authorization legislation passed by Congress.



AELP's purchase price will be the Snettisham debt outstanding at the time. Because AELP would most likely assume direct responsibility for the AIDEA issued bonds originally sold to purchase Snettisham, a second round of financing will not be necessary.<sup>1</sup>

### Rate Impacts

The estimated 1998 total annual cost of Snettisham energy, including the cost of the new cables -- assuming (1) the sale were consummated on January 1, 1998, (2) a "take or pay" arrangement, and (3) a \$100,955,000 bond issue -- is estimated to be \$9,129,000, as broken out below:

	<u>\$ x 1000</u>
Debt Service	7,015
AELP Operation & Maintenance Cost	1,472
AIDEA Administration Costs	100
Insurance	190
AELP Administration Costs	100
R & R Fund Contribution (est.)	653
Less: Interest on Debt Service Reserve	<u>-401</u>
<b>Total</b>	<b>9,129</b>

The APA/AIDEA Snettisham Purchase Agreement, signed in 1989, was negotiated with the intention of making the transfer of Snettisham ownership a relatively rate-neutral transaction. That would be the case today if it were not for the need to install a redundant set of submarine cables. AELP is currently paying the APA, on a "take and pay" arrangement, 3.47 cents per KWH for firm Snettisham energy. But to make past rates comparable to the "take or pay" arrangement with AIDEA, Snettisham energy costs should be viewed on an annualized basis with the debt service impact of the new cables deducted.

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<sup>1</sup> AELP's option to purchase the Project (an option that may be exercised either by AELP or an affiliate) is described in the Option Agreement attached to the PSA as Exhibit D. The Parties contemplate that any exercise of the option and purchase of the Project by AELP or an affiliate would be governed by a Project Sale Agreement. The Parties intend to draft the Project Sale Agreement in the weeks ahead so that a final version will be in place in 1998 prior to AIDEA's sale of the Snettisham acquisition bonds. AELP recognizes that exercise of the option and acquisition of the Project by AELP or an affiliate would be subject to Commission review and approval, and that (under existing law) any affiliate that acquired the Project from AIDEA and sold the Project capability to AELP under the PSA would also require either a Certificate of Public Convenience & Necessity or a Commission exemption from that requirement.

AELP's total cost for Snettisham energy for the calendar years 1990-1997 and estimated for 1998 are summarized below:

<u>Year</u>	<u>Firm Energy Purchases-MWH</u>	<u>Total Cost \$ x 1000</u>
1990	212,637	6,124
1991	210,565	6,259
1992	211,660	6,794
1993	215,732	6,925
1994	223,912	7,188
1995	245,041	8,260
1996	253,036	8,781
1997-budget	244,333	8,478
1998-est., no cables	-	7,983
1998-est., with new cables	-	9,129

The gross increase in annual debt service requirements due to moneys borrowed to install the redundant cables is estimated at \$1,146,000 (see Attachment (8)). If Snettisham remained under Federal ownership, redundant cables would still be needed, and, in all likelihood, such cables would be installed and the additional incremental Federal debt service would be added to the Snettisham rates that AELP would pay. If replacement of the cables under both Federal and non-Federal ownership is assumed -- that is, if the cost of the cables is separated out as an unavoidable expense in any event -- then the change of Snettisham ownership can still be said to be rate-neutral.

It is anticipated that any initial increase in the cost of Snettisham electric energy will be passed on to AELP customers on an interim basis through the Cost of Power Adjustment (COPA) Clause (see Schedule 98, AELP Tariff Sheets 167-171). The purchased power cost used for the COPA computation would be AELP's actual costs of buying Snettisham power from AIDEA; this would include the total of debt service, Snettisham operation and maintenance costs, AIDEA administration, insurance, AELP administrative costs, and the R & R Contribution, minus the interest earned on the debt service reserve fund and electric revenues received from the Snettisham fish hatchery.

If the Snettisham transaction were to close on January 1, 1998 the impact on AELP's COPA would be 0.09 cents per kwh as estimated in the sample COPA calculation (see Attachment (11)). Based upon AELP's estimated 1997 average revenue per kwh of 8.51 cents, the short term impact of the Snettisham ownership transfer on average retail electric rates -- assuming that cable replacement costs are

those estimated above -- would be a 1.1% increase. (This would be independent of the rate impact of any non-Snettisham COPA adjustments occurring at the same time.)

The major factors subject to further change that affect Snettisham electric rates under State ownership would be the interest rate on bonds sold by AIDEA to consummate the purchase, the installed cost of the redundant underwater transmission cables, and whether further Federal aid to help pay for the new cables is received. It is expected that the cables will be installed in the summer of 1999.

AELP expects to file a new revenue requirement approximately one year after installation of the cables and, if necessary, a general AELP rate proceeding can be conducted at that time, based on initial operating experience following the change in Snettisham ownership and installation of the new cables. As previously stated, in the meantime AELP proposes to use the COPA to address Snettisham energy cost fluctuations, but only as an interim measure.

### Recommendation

It is recommended the Commission approve the PSA for the following reasons:

1. AELP believes that in the long run the cost of Snettisham power under State ownership will be less than under continued Federal ownership. Presently, under Federal ownership money is borrowed at 3%, for 50 years, and with flexibility to repay principal. In the past there have been calls within and outside of the Federal Government for "rate reform," meaning that interest rates on all Federally owned power projects should reflect prevailing market rates, debt should be repaid over a shorter term, and/or more discipline should be required in assuring timely repayment of principal and accrued interest. Such "rate reform" might or might not require an Act of Congress, but it undoubtedly would result in substantial rate increases for Federal projects, particularly standalone projects like Snettisham. With the present national emphasis on reducing the Federal debt and balancing the Budget, some form of "rate reform" in the long run may well be inevitable.
2. The cost to construct the Long Lake portion of Snettisham (including the transmission line and Thane Substation) in 1973 was \$98.6 million. The Crater Lake Addition was completed in 1989 for \$71.8 million. Total Federal investment in Snettisham as of

September 30, 1997 was therefore at least \$170.4 million. The purchase price based on the bond underwriter's interest rate estimate of 5.72%, assuming the bonds were sold today, would be \$74,438,000. Looking to the future, it is likely that further sales of Federal Power Marketing Administrations' hydroelectric assets will not be on an electric rate neutral basis. With the 1995 and 1996 APA legislation, the U.S. Department of Energy, AIDEA and Alaska's Congressional Delegation have effected a favorable transaction for AELP's customers that is unlikely to be duplicated in the event the Snettisham purchase is not consummated now.

3. In the past APA and AELP hydroelectric utilization policies sometimes conflicted. APA's objective was to sell as much Snettisham energy as possible. AELP owns three hydroelectric projects - Gold Creek, Annex Creek and Salmon Creek. It has been difficult for AELP to coordinate energy production of its three projects and Snettisham in a manner so as to optimize overall hydroelectric energy production. This will become more important as AELP's load grows and existing hydroelectric resources are more fully utilized to meet AELP customers' annual energy requirements. Under State ownership, AELP will have full operational control of Snettisham and will be able to better optimize overall hydroelectric production for its customers.
4. As previously discussed, the Snettisham cables crossing Taku Inlet are in high risk condition and bring into question the reliability of AELP's primary energy source. After extensive evaluations by AELP, AIDEA and AIDEA's consultant, Raytheon Engineers and Constructors, AELP believes redundant cables should be installed as soon as possible. In order for APA to repair all four cables a Congressional appropriation would be required and a time consuming process initiated to install redundant cables. During the foreseeable period of delay in that Federal process, Juneau's power supply would be vulnerable unnecessarily. Under AIDEA control and through the single bond issue, the moneys for the new cables will be provided along with the proceeds to purchase Snettisham. AELP and APA are convinced that the cables can be installed for less money and more quickly by AIDEA/AELP than APA.
5. In an overall sense, approval of the PSA will make AELP able to provide lower cost and more reliable electric service over the long run. AELP will have control of its primary source of energy which

will be insulated from Federal rate change vicissitudes that are not subject to State regulation, and which could be expected under continued Federal ownership.

It is requested that the Commission approve the PSA no later than April 1, 1998 to facilitate the timely and economical installation of the new submarine cables and so that Snettisham replacements and improvements planned for 1998 can proceed.

Communications

Copies of all communications with respect to this matter should be directed to (1) the undersigned at the address indicated on this letterhead, and (2) counsel for AELP in this matter:

Eric Redman  
Heller Ehrman White & McAuliffe  
701 Fifth Avenue, #6100  
Seattle, Washington 98104  
(206) 389-6000 (phone)  
(206) 447-0849 (fax)  
eredman@hewm.com (e-mail)

Very truly yours,

*William A. Corbus*

William A. Corbus  
President

by ER

Attachments

cc (with Attachments):

Rodney Adelman, Alaska Power Administration  
Randy Simmons, Alaska Industrial Development & Export Authority  
Hon. Dennis Egan, Mayor, City & Borough of Juneau  
*The Juneau Empire*

Presented by: The Manager  
Introduced: 03/16/98  
Drafted by: J.R. Corso

## **RESOLUTION OF THE CITY AND BOROUGH OF JUNEAU, ALASKA**

**Serial No. 1921**

**A Resolution Requesting the Alaska Public Utilities Commission Approve the Alaska Electric Light and Power Company's Application for Approval of the Agreement for Purchase of the Electric Capability of the Snettisham Hydroelectric Project Between the Alaska Electric Light and Power Company and the Alaska Industrial Development and Export Authority Submitted on December 23, 1997.**

WHEREAS, on April 1, 1987 the Alaska Power Administration on behalf of the United States issued a Request for Proposals to purchase its Snettisham Hydroelectric Project, and

WHEREAS, on August 3, 1987 the Assembly, expressing concern over the possibility of federal rate reform that could "drastically increase the wholesale price of electricity", adopted Resolution 1256 requesting that the State of Alaska submit a proposal to purchase the Snettisham Project, and

WHEREAS, representatives of the City and Borough of Juneau Staff, Juneau Energy Advisory Committee and the Alaska Electric Light and Power Company participated in the negotiations leading to the Snettisham Purchase Agreement between the Alaska Power Administration and the Alaska Power Authority dated February 10, 1989, and

WHEREAS, from time to time between 1987 and 1995 the Assembly, the Mayor, and the Manager consulted with the Alaska Electric Light and Power Company and other interested parties on the status of congressional proceedings regarding the Snettisham sale, and

WHEREAS, the Assembly Committee of the Whole and the Juneau Energy Advisory Committee have recently convened to consider a proposed agreement between the Alaska Electric Light and Power Company and the Alaska Industrial Development and Export Authority for purchase by Alaska Electric Light and Power Company of the electric capability of the Snettisham Hydroelectric Project, and


WHEREAS, the Assembly of the City and Borough of Juneau believes approval of the agreement is the best method of ensuring continuation of the reliable service and reasonable rates currently enjoyed by the people of the City and Borough of Juneau;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

**Section 1.** That the Assembly respectfully requests the Alaska Public Utility Commission approve the Application of the Alaska Electric Light and Power Company submitted December 23, 1997 for approval of the Agreement for the Sale and Purchase of the Electric Capability of the Snettisham Hydroelectric Project between the Alaska Electric Light and Power Company and the Alaska Industrial Development and Export Authority.

**Section 2. Effective Date.** This resolution shall be effective immediately upon adoption.

Adopted this 16<sup>th</sup> day of March 1998.

  
\_\_\_\_\_  
Dennis Egan, Mayor

Attest:

  
\_\_\_\_\_  
Marian J. Miller, Clerk

**AGREEMENT BETWEEN**  
**THE CITY & BOROUGH OF JUNEAU**  
**AND**  
**ALASKA ELECTRIC LIGHT AND POWER**

**A. Recitals**

1. The Government of the United States, acting by and through the Alaska Power Administration, built and currently owns the Snettisham Hydroelectric Project ("Snettisham"), which the Government of the United States has decided to sell to the Alaska Industrial Development & Export Authority ("AIDEA").

2. Alaska Electric Light And Power Company ("AELP") purchases electric power from Snettisham for resale to customers within the City & Borough of Juneau ("CBJ"), for whom Snettisham represents the primary source of electric power.

3. AIDEA will finance its purchase of Snettisham by issuing bonds that will be secured by AELP's take-or-pay commitment to purchase Snettisham power from AIDEA and pay the costs of AIDEA's Snettisham debt, including in potential circumstances in which Snettisham is not producing power.

4. AELP's Snettisham power purchase commitment to AIDEA and the Bond Trustee is set forth in a Power Sales Agreement ("PSA") and other documents related to the financing of AIDEA's proposed purchase of Snettisham.

5. The PSA requires the approval of the Alaska Public Utilities Commission ("APUC"), and AELP has requested that the CBJ adopt a resolution asking the APUC to grant such approval.



**B. Agreement**

1. CBJ support. The CBJ will promptly express to the APUC its support for approval of the PSA, and take such other steps as AELP or AIDEA may reasonably request to help assure AIDEA's ability to complete successfully the acquisition of Snettisham.

2. Ratemaking treatment of Snettisham power costs. So long as the PSA and the APUC's authority over AELP retail ratemaking both remain in effect, AELP as the purchaser of Snettisham power under the PSA will request that the APUC continue to treat as "purchased power expense" for retail ratemaking purposes all of AELP's costs of buying Snettisham power. If AELP purchases Snettisham and the APUC continues to regulate AELP's retail rates, then for ratemaking purposes AELP will seek to have the APUC treat Snettisham in the same manner as other generating resources that AELP owns.

3. Preservation of Snettisham benefits. So long as AELP ratepayer loads within the CBJ continue to require Snettisham power, AELP will dedicate Snettisham power to meet those loads. If AELP or an affiliate acquires Snettisham from AIDEA, then neither AELP nor the affiliate will thereafter sell Snettisham to any unaffiliated third party unless that third party also agrees to dedicate Snettisham power to meet ratepayer loads within the CBJ.

4. CBJ's right of first refusal. If AELP or an affiliate, having acquired Snettisham from AIDEA, ever agrees to sell Snettisham to any unaffiliated third party, then the CBJ shall have a right of first refusal to purchase Snettisham instead, under the same terms and conditions (including any assumption of risks and any refunding of outstanding debt) as

agreed to by such third party; provided that (a) such right shall be exercised within ninety (90) days, and the CBJ's purchase of Snettisham shall be completed within eighteen (18) months, of notification to the CBJ of a proposed sale of Snettisham to such third party, unless AELP and the CBJ agree to extend these deadlines; and (b) the CBJ's exercise of such right is consistent with then-existing Snettisham debt and AELP's then-existing obligations; provided further, that AELP shall consult with the CBJ from time to time with respect to AELP's plans regarding ownership of Snettisham.

5. Enforcement. This Agreement may be enforced only by the parties, and only through binding arbitration in accordance with rules of the American Arbitration Association. Each party shall bear its own costs in any such arbitration, unless the arbitration panel orders otherwise. The parties shall use their reasonable best efforts and shall cooperate in good faith to agree upon such procedures as may be necessary to allow the arbitration to proceed with promptness and efficiency.

C. Effectiveness

1. This Agreement shall become effective on the first date when (a) the Agreement has been executed by both parties, and (b) the CBJ has adopted for purposes of Alaska Statutes 44.88 a resolution substantially in the form of Attachment A hereto.

2. This Agreement shall cease to be effective if AIDEA has not acquired Snettisham on or before August 20, 1998, the deadline for this transaction established by Federal statute.

3. This Agreement shall be governed by the laws of the State of Alaska.

Monday March 16 version

ALASKA ELECTRIC LIGHT AND POWER

William A. Corbus  
William A. Corbus, President

Date: March 16, 1998

CITY AND BOROUGH OF JUNEAU, ALASKA

Donna B. Pierce  
Donna B. Pierce  
Acting City Manager

Date: March 16, 1995

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman  
Alyce A. Hanley  
Dwight D. Ornquist  
Tim Cook  
James M. Posey

In the Matter of the Power Agreement            )  
Between ALASKA ELECTRIC LIGHT AND            )  
POWER COMPANY, ALASKA INDUSTRIAL            )  
DEVELOPMENT & EXPORT AUTHORITY, and        )  
ALASKA DEPARTMENT OF FISH & GAME for        )  
the Sale and Purchase of the Electric         )  
Capability of the Snettisham Hydro            )  
Electric Project                                    )  
\_\_\_\_\_ )  
  )

U-97-245

ORDER NO. 1

ORDER APPROVING POWER SALES AGREEMENT, SUBJECT TO CONDITIONS;  
APPROVING APPLICATION AND RELATED HATCHERY ELECTRIC SERVICE  
AGREEMENT, SUBJECT TO CONDITIONS; AND REQUIRING FILING

BY THE COMMISSION:

Background

On December 24, 1997, ALASKA ELECTRIC LIGHT & POWER COMPANY (AEL&P) filed a power sales agreement (PSA) for the purchase of electrical power from the Snettisham Hydroelectric Project (Snettisham). The application indicates that the ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA) will purchase Snettisham from the Alaska Power Administration (APA), an agency of the federal government, with the proceeds of bonds payable from revenues received from AEL&P's purchase of the entire energy capability of Snettisham. The application also indicates that AIDEA's purchase

of Snettisham from the APA is scheduled to close in July 1998 and, pursuant to federal law must close by August 20, 1998.

The PSA application was noticed to the public with a closing date of February 16, 1998, for comments in favor of or in opposition to AEL&P's application. On February 5, 1998, Michael J. Notar, Assistant Business Manager of the International Brotherhood of Electrical Workers, filed a letter supporting AEL&P's application. On March 12, 1998; March 24, 1998; and April 28, 1998, Kurt S. Dzinich filed comments opposing AEL&P's application and questioning the terms of the agreement.

On March 6, 1998, AEL&P filed an application to amend its service area held under Certificate of Public Convenience and Necessity (Certificate) No. 1 and for approval of a special contract with the Alaska Department of Fish and Game (ADF&G). AEL&P proposes to add to its service area the ADF&G hatchery (hatchery) located adjacent to the Snettisham power plant. The special contract entitled Snettisham Hydroelectric Project Hatchery Electric Service Agreement (HESA) details the terms and conditions under which AEL&P will provide service to ADF&G.

The initial notice did not include information related to AEL&P's related service area expansion. A second public notice was

issued containing information regarding AEL&P's service area expansion. The application was noticed to the public with a closing date of April 13, 1998, for comments in favor of or in opposition to AEL&P's application. To date, no comments have been filed regarding AEL&P's service area expansion.

The Commission Staff (Staff) reviewed the applications and on June 2, 1998, submitted its analysis and recommendation (Report) thereon. A copy of Staff's Report is attached to this Order as an Appendix.

Staff's Report sets out in detail the history of the proceeding, including comments and Staff's findings and recommendations regarding disposition of the applications. Based on the information provided, Staff recommended that the Commission approve the PSA, find that the public convenience and necessity requires the proposed service, find that AEL&P is fit, willing, and able to provide the proposed service, and approve the HESA.

Staff recommended that the Commission approve the PSA contingent upon AEL&P's or AIDEA's consummating the sales agreement with APA and arranging the required proceeds at less than \$101 million. Staff recommended that AEL&P file executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs within five days of the transaction's closing. Staff recommended that the Commission establish an inception energy rate at a value no higher than 4.02 cents per kilowatt-hour (¢/kWh) for Snettisham power. Staff

further recommended that the inception rate be interim and refundable until AEL&P completes a rate case.

Staff also recommended that within five days of the transaction's closing, AEL&P should make a tariff filing reflecting its Snettisham inception rate along with its base rate as well as any tariff sheets that have been revised to reflect this change. Staff stated that the inception rate should include any costs associated with Snettisham including AEL&P's treatment of the special contract with ADF&G. To satisfy the bondholders, Staff recommended that the Commission indicate, with the above limitation, that the inception rate would be set no lower than what is required for AEL&P to cover its payment obligations.

Staff stated that AEL&P should continue to use the emergency fuel cost rate adjustment (EFCRA) to cover only its additional cost of fuel during an emergency period and seek approval for a rate revision if it needs to recover additional payment obligations. Staff asserted that the debt-service insurance is highly advisable. If AEL&P does not obtain such insurance, Staff recommended that AEL&P submit to the Commission information on the cost of the insurance and the reasons AEL&P did not purchase the coverage. Staff recommended that by June 1, 2000, AEL&P file a revenue requirement study, a cost-of-service study, and a rate-design study based on a 1999 test year. If AEL&P/AIDEA secures additional funding for the submarine cables after the rate case is completed,

Staff recommended that AEL&P notify the Commission of the appropriation approval and file within thirty days thereafter sufficient information for the Commission to determine if another rate case is warranted.

Staff also recommended that the Commission find AEL&P fit, willing, and able to provide the proposed service at the ADF&G Snettisham Hatchery contingent upon AEL&P's or AIDEA's providing a statement from a professional engineer or a qualified electrical administrator that the outside plant at the hatchery meets the requirements of the National Electric Safety Code (NESC). With the correction indicated on the Appendix at Attachment Pcm-3, Staff recommended tariff Sheet No. 8.1, filed with the service area application be approved effective the date of the order granting approval of the application. Staff further recommended that the HESA be approved contingent upon successful execution of the PSA.

#### Discussion

##### **PSA**

Based on its review of the record in this proceeding, the Commission concurs with Staff and will approve the PSA with the conditions delineated below. The Commission is faced with allowing the project to proceed while protecting the interests of the rate-payers. This is especially difficult in this case since the costs are not fully established. Nevertheless, while allowing the financing to progress, the Commission believes it most appropriate



to establish limits and conditions under which it will approve the PSA.

The Commission is concerned about the impact the financial arrangements may have on rates as well as the financial risk placed on the utility, which risk might ultimately be borne by its customers. To address this concern, the Commission believes it should limit AEL&P to a capital expenditure of no more than \$1 million towards the initial purchase of Snettisham and the submarine cable installation. By state law,<sup>1</sup> AIDEA is limited to bond issuances of no more than \$100 million.

Also, the Commission will set an inception rate no higher than 4.02¢/kWh for Snettisham power. The inception rate will be interim and refundable until AEL&P files and receives approval of a rate case.

Within five days of closing the transaction, AEL&P should submit a tariff compliance filing reflecting its Snettisham inception rate along with its base rate and any tariff sheets that may need revision to reflect the changes. The inception rate should include prudently incurred costs associated with Snettisham, including AEL&P's treatment of the special contract with ADF&G. The filing should also include executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs.

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<sup>1</sup>Section 25, ch. 111 SLA 1996.

Because the full cost of the submarine cable will not be known until installation is complete, which will occur after the bond sales, the Commission would like assurances that the total project cost, including the submarine cables, will not exceed \$101 million. If costs do escalate beyond \$101 million, the Commission will not allow these costs to be passed on to the ratepayers. Any additional costs will be borne by the Federal Government, AIDEA, or AEL&P. During AEL&P's rate case, the Commission will closely examine the costs associated with installing the submarine cable to determine if they are reasonable and allowable in rate base. Among other things, a copy of the construction-award documents, as well as copies of all changes in the cable construction contract, must be filed with the rate case. All construction changes must include a description of the change, the contractor's proposal, and the final cost of the change. Additional information may be required at the time of the filing.

By June 1, 2000, AEL&P shall file a revenue-requirement study in conformance with 3 AAC 48.275(a), a cost-of-service study in conformance with 3 AAC 48.540, and a rate-design study, all based on a 1999 test year. If AEL&P/AIDEA secures additional funding for the submarine cables after the rate case is completed, AEL&P shall notify the Commission of the appropriation approval and file within thirty days thereafter sufficient information for the Commission to determine if another rate case is warranted.

The Commission concurs with Staff that AEL&P should continue to use the emergency EFCRA only for its additional cost of fuel during an emergency period and seek Commission approval for a rate revision if AEL&P needs to recover additional payment obligations.

The Commission also concurs with Staff that the debt-service insurance is highly advisable. If AEL&P does not obtain such insurance, AEL&P shall file information on the cost of the insurance and the reasons it did not purchase the coverage.

**AEL&P's Service Area Expansion and Special Contract with ADF&G**

Based on its review of the record in this proceeding, the Commission agrees with Staff that AEL&P is fit, willing, and able to provide the proposed electric service; that electric service in the requested area is required for the public convenience and necessity; and that the HESA is in the public interest. Thus, the Commission has accepted Staff's recommendations that AEL&P's application for an amendment to its Certificate should be approved and that the HESA between AEL&P and ADF&G filed March 6, 1998, should be approved contingent upon successful execution of the PSA and upon AEL&P's or AIDEA's providing a statement from a professional engineer or a qualified electrical administrator that the outside plant at the Snettisham Hatchery meets the requirements of the NESC. With the correction indicated on the Appendix hereto at Attachment PcM-3, tariff Sheet No. 8.1, filed with the application, will be approved.

Staff's Report is incorporated herein by reference and adopted as the Commission's findings of fact and conclusions of law.

ORDER

THE COMMISSION FURTHER ORDERS:

1. The Snettisham Hydroelectric Project Agreement for the Sale and Purchase of the Electric Capability of the Snettisham Hydroelectric Project (Power Sales Agreement) filed by Alaska Electric Light & Power Company is approved with the conditions set out in Ordering Paragraph Nos. 2 - 4 below.

2. Alaska Electric Light & Power Company is limited to a capital expenditure of no more than \$1 million towards the initial purchase of Snettisham Hydroelectric Project and the submarine cable installation, as more fully discussed herein.

3. Alaska Electric Light & Power Company is authorized to charge an inception energy rate no higher than 4.02 cents per kilowatt-hour for its Snettisham power. The inception rate shall remain in effect pending the filing by Alaska Electric Light & Power Company of a full rate case and approval thereof by the Commission.

4. Within five days of the Snettisham transaction's closing, Alaska Electric Light & Power Company shall submit to the Commission a tariff compliance filing indicating the Snettisham inception rate along with the utility's base rate and any tariff

sheets that may need revising to reflect the Snettisham changes. The inception rate shall include prudently incurred costs associated with Snettisham including Alaska Electric Light & Power Company's treatment of the Snettisham Hydroelectric Project Hatchery Electric Service Agreement with the Alaska Department of Fish and Game. The filing must also include executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs.

5. If Alaska Electric Light & Power Company does not obtain debt-coverage insurance, it shall submit to the Commission information on the cost of the insurance and the reasons the utility did not purchase the coverage.

6. As more fully discussed in the body of this Order, by June 1, 2000, Alaska Electric Light & Power Company shall file a revenue requirement study, a cost-of-service study, and a rate-design study, all based on a 1999 test year. If Alaska Electric Light & Power Company or Alaska Industrial Development and Export Authority secures additional funding for the submarine cables after the rate case is completed, Alaska Electric Light & Power Company shall notify the Commission of the appropriation approval and file within thirty days thereafter sufficient information for the Commission to determine if another rate case is warranted.

7. As more fully discussed in the body of this Order, the application filed by Alaska Electric Light & Power Company for an amendment to its Certificate of Public Convenience and Necessity

No. 1 to provide electric public utility service and the Snettisham Hydroelectric Project Hatchery Electric Service Agreement filed March 6, 1998, are approved subject to execution of the Snettisham Power Sales Agreement and the utility's compliance with the conditions set out in Ordering Paragraph No. 8 below.

8. By 4 p.m., August 10, 1998, Alaska Electric Light & Power Company or Alaska Industrial Development and Export Authority shall file with the Commission a statement from a professional engineer or a qualified electrical administrator that the outside plant at the Snettisham Hatchery meets the requirements of the National Electric Safety Code.

9. Tariff Sheet No. 8.1 filed with the Certificate application discussed herein and as corrected on the Appendix hereto at Attachment PcM-3, is approved effective the date of this Order.<sup>2</sup>

DATED AND EFFECTIVE at Anchorage, Alaska, this 24th day of June, 1998.

BY DIRECTION OF THE COMMISSION  
(Commissioners Tim Cook and James M. Posey,  
dissenting without separate statements.)

( S E A L )

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<sup>2</sup>A validated copy of the approved tariff sheet will be forwarded to the utility under separate cover.

STATE OF ALASKA  
**The Alaska Public Utilities Commission**  
1016 West Sixth Avenue, Suite 400  
Anchorage, Alaska 99501

**M E M O R A N D U M**

TO: Commissioners:

DATE: June 2, 1998

Sam Cotten, Chairman  
Alyce A. Hanley  
Dwight D. Ornquist  
Tim Cook  
James M. Posey

FROM: Paul Morrison, Chief Utility Engineer

Subject: U-97-245 In the Matter of the Agreement Between ALASKA ELECTRIC LIGHT AND POWER COMPANY, ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY, and ALASKA DEPARTMENT OF FISH & GAME for the Sale and Purchase of the Electric Capability of the Snettisham Hydro Electric Project

U-98-21 In the Matter of the Petition for Exemption from the Requirement that the ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY Obtain a Certificate of Public Convenience and Necessity Related to the Snettisham Hydroelectric Project

**Recommendation**

Staff recommends:

- 1) The Commission approve the power sales agreement (PSA) contingent upon Alaska Electric Light & Power Company (AEL&P) or Alaska Industrial Development & Export Authority (AIDEA) consummating the sales agreement with the Alaska Power Administration (APA) and arranging the Required Proceeds at less than \$101 million.
- 2) Within 5 days of closing the transaction AEL&P should file executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs. The filing should indicate which costs are fixed and which are estimated.
- 3) The Commission establish an inception rate set at a value no higher than 4.02¢/kWh for Snettisham power. The inception rate should be interim and refundable until AEL&P completes a rate case.

- a) Within 5 days of closing the transaction, AEL&P should make a tariff compliance filing indicating its Snettisham inception rate along with its base rate and any tariff sheets that have been revised to reflect this change. The inception rate should include any costs associated with Snettisham including but not limited to AEL&P's treatment of the Special Contract with ADF&G.
  - b) To satisfy the bondholders, the Commission should indicate, with the above limitation, the inception rate will be set no lower than what is required for AEL&P to cover its payment obligations.
- 4) Staff believes AEL&P should continue to use the EFCRA to only cover its additional cost of fuel during an emergency period and seek Commission approval for a rate revision if it needs to recover additional payment obligations.
  - 5) Staff believes the debt service insurance is highly advisable. If AEL&P does not obtain this insurance, it should submit to the Commission information on the cost of the insurance and the reasons it did not purchase the coverage.
  - 6) By June 1, 2000, AEL&P should file a revenue requirement study, cost of service study and rate design study based on a 1999 test year.
  - 7) If AEL&P/AIDEA secure additional funding for the submarine cables after the rate case is completed, AEL&P should notify the Commission of the appropriation approval and file within 30 days sufficient information to determine if another rate case is warranted.
  - 8) As further explained in Staff's April 16, 1998 recommendation in docket U-98-21, for future ratemaking purposes Staff recommends the Commission affirm that the depreciated value of Snettisham is set at the purchase price AIDEA is paying for the project.
  - 9) Staff believes the Commission should find AEL&P is fit, willing and able to provide the proposed service at the ADF&G Snettisham Hatchery contingent upon:
    - a) AEL&P or AIDEA providing a statement from a Professional Engineer or a Qualified Electrical Administrator that the outside plant at the hatchery meets the requirements of the National Electric Safety Code (NESC).
  - 10) With the correction indicated on attachment PcM-3, Staff recommends Tariff Sheet No. 8.1, filed with the application, be approved effective the date of the order granting approval of AEL&P's application.
  - 11) Based on the above, Staff recommends the Snettisham Hydroelectric Project Hatchery Electric Service Agreement (HESA) be approved contingent upon successful execution of the PSA.



## **Background**

### Power Sales Agreement (PSA)

On December 24, 1997, AEL&P filed for Commission approval a PSA for the purchase of electrical power from the Snettisham Hydroelectric Project (Snettisham). AIDEA will purchase Snettisham with the proceeds of revenue bonds payable from revenues received from AEL&P's purchase of the entire energy capability of Snettisham. The application indicates AIDEA's purchase of Snettisham from the United States Government is scheduled to close in July 1998 and pursuant to federal law must close by August 20, 1998.

According to the application, Snettisham is located approximately 30 miles south of Juneau and consists of two hydroelectric generators, a 46 MW and 27 MW unit. Snettisham is currently owned by the United States Government, and is operated by AEL&P under contract with the APA, a Federal entity under the Department of Energy. The federal government has been attempting to sell the APA assets, including Snettisham, since 1987. APA issued requests for proposals, which invited the state of Alaska and local municipalities and electric public utilities to bid for the APA assets. AEL&P and the City and Borough of Juneau (CBJ) analyzed various ownership options and concluded at that time that ownership by the State would likely provide the lowest long term energy rates for Juneau. The state and federal governments entered into the Snettisham Purchase Agreement dated February 10, 1989, as amended. The US Congress authorized the purchase of Snettisham and the Alaska Legislature authorized AIDEA to purchase Snettisham.

AIDEA will obtain title to the Snettisham assets, including power production, transmission and all other facilities and assets related to Snettisham, including rights-of-way over federal lands from transmission lines and other facilities. The purchase price for Snettisham will be paid to the federal government with proceeds from tax-exempt bonds that AIDEA will issue. The tax-exempt bonds will be repaid solely from amounts AEL&P pays for Snettisham energy under the PSA. With the exception of the Snettisham assets, neither the assets nor credit of AIDEA nor the state are pledged to the bonds. After five years an affiliate of AEL&P may elect to purchase and obtain title to the power production, transmission and all other facilities and assets at Snettisham.

From its inception, Snettisham has supplied energy to AEL&P, and currently supplies approximately 85% of AEL&P's annual energy requirement. AEL&P purchases Snettisham energy from the United States under contracts, under which AEL&P pays for each kWh it receives. The contract was approved by the Commission and has a 20-year term commencing in 1993.

The filing indicates AEL&P will operate, manage and control Snettisham through an Operations and Maintenance Agreement. To ensure AEL&P maintains maximum control over Snettisham operations, the parties provide that their agreements "shall be implemented and interpreted at all times in a manner that allows the Purchaser [AEL&P] maximum Project-related operating flexibility consistent with the Authority's [AIDEA] responsibilities under [the Agreements] and the [Bond Resolution]." AIDEA indicates the contract with AEL&P limits its primary responsibility

to financing the Snettisham purchase by issuing bonds. AIDEA's ability to remove AEL&P as operator of Snettisham is limited to monetary defaults by AEL&P or defaults of AEL&P's duty to operate the project in accordance with prudent utility practices.

The application was noticed to the public with a closing date of February 16, 1998, for comments in favor of or in opposition to AEL&P's application. On February 5, 1998, Mr. Michael J. Notar, Assistant Business Manager of the International Brotherhood of Electrical Workers, sent a letter in support of AEL&P's application. On March 12, 1998, March 24, 1998, and April 28, 1998, Mr. Kurt S. Dzinich filed comments in this proceeding as well as U-98-21.

In his March 12, 1998, letter, Mr. Dzinich expressed concern that Exhibit D of the PSA only allows AIDEA to sell Snettisham to AEL&P or its affiliates without further discussion or public hearings. He is concerned that this transaction would occur without further review, public due process or the Commission making a finding that there is a compelling and valid reason for the deal and whether it is a better deal for the CBJ ratepayers than the continued ownership by the federal government. Mr. Dzinich requests the Commission not approve an exemption for a CPC&N because it would remove what little oversight the sale would undergo and decidedly that would not be in the public or CBJ ratepayer's interest. Mr. Dzinich concludes by requesting the Commission hold a hearing, or at least teleconference the proceedings, before making a decision.

In his March 24, 1998, letter, Mr. Dzinich indicates that AIDEA has not conducted the process in accordance with the law. He indicates AIDEA did not seek municipal approval before entering into any agreements and did not provide the required public hearing. He states the whole process seems to be on a fast track that precluded meaningful public participation. Mr. Dzinich urges the Commission not to approve AIDEA's petition. Mr. Dzinich indicated that the CBJ and AEL&P concluded a side agreement that gives the CBJ the right of first refusal should AEL&P or its affiliate decides to sell Snettisham. Mr. Dzinich would like a condition placed on the transaction, which gives the CBJ the right of first refusal to buy Snettisham if and when AIDEA decides to sell it.

On April 6, 1998, AIDEA filed a response to Mr. Dzinich's letters in docket U-97-21. AIDEA asserts that it complied with all of the statutory requirements. AIDEA indicates that the PSA has not yet been executed and that all statutory requirements will be met prior to executing the PSA. Attached to its letter is a March 16, 1998, resolution from the CBJ consenting to the location of, and approving, the Snettisham Hydroelectric Project. AIDEA also asserts that it followed all of the public involvement and notification required under AS 44.88.

On April 16, 1998, Staff submitted its analysis and recommendation (Report) in docket U-97-21 to the Commission. Staff recommended the Commission deny AIDEA's petition for exemption from any obligation to obtain a CPC&N. Staff further recommended, contingent upon approval of the PSA and any conditions associated with its approval, the Commission find that the public convenience and necessity requires the proposed service and that AIDEA is fit, willing, and able to provide that service. For future ratemaking purposes Staff recommended the Commission affirm that the depreciated value of Snettisham is set at the purchase price AIDEA is paying for the project. As of this writing the Commission has not issued its order regarding this matter.

On April 28, 1998, Mr. Dzinich filed a response to AIDEA's reply. Mr. Dzinich states that he was involved in the drafting of the CBJ Resolution 1256, dated August 3, 1987. He indicates that the CBJ anticipated the Alaska Power Authority, an agency of the state with a specific mission to construct, own, and operate hydropower facilities would purchase Snettisham, not AIDEA who has indicated that owning and operating hydropower project is not part of their mandate. Mr. Dzinich requests the PSA be modified to give the CBJ the right of first refusal when AIDEA decides to sell the project.

On May 11, 1998, AEL&P amended its application by filing a letter informing the Commission of changes to the PSA and other Snettisham documents and to explain the need for Commission approval of the PSA no later than June 1, 1998. AEL&P indicates it will provide a "blacklined" version of the documents showing the revisions. AEL&P explains that the annual payments under the PSA and the Bond Resolution may now be set to meet a "debt service coverage" ratio specified in the Bond Resolution to make the AIDEA bonds more readily marketable at favorable interest rates. AEL&P indicates that in order for AIDEA's bonds to be marketable, only a "bankruptcy-remote" corporate affiliate of AEL&P, and not AEL&P itself, should be able to acquire ownership of Snettisham from AIDEA at any time when the AIDEA bonds remain outstanding. The AEL&P corporate affiliate needs to exist now (to be called Snettisham Electric Co. (SEC)) and that a "Project Sale Agreement" between AIDEA and SEC must exist before the transaction closes. AEL&P indicates that it is not asking the Commission to take action on this at this time but is providing the information as part of the overall project. AEL&P indicates there may be other changes that come about as a result of rating agency reviews and other financing and/or rate constraints. AEL&P indicates it will keep the Commission informed of any such changes. AEL&P explains how it would like to use its Cost of Power Adjustment (COPA) clause in its tariff to recover the payment obligations. AEL&P also describes new discoveries found of the submarine cables linking Snettisham to Juneau. AEL&P describes the Federal tax treatment of its payments to AIDEA and how AEL&P will be considered the "tax owner" of the Snettisham project as a result of the PSA. Included in the filing is a unanimously approved resolution supporting the Snettisham transaction from the CBJ. Among other things, the resolution states that AEL&P agrees that if it or a corporate affiliate, having acquired ownership of Snettisham, ever proposes to resell the project to an unaffiliated third party, then AEL&P will provide the CBJ a right of first refusal to purchase Snettisham at that time. Finally, AEL&P asks the Commission to approve the PSA by June 1, 1998 in order to meet the timeline required to execute the sale from APA to AIDEA

On May 12, 1998, AEL&P filed projected COPAs as promised in the May 11<sup>th</sup> filing. On May 13, 1998, AEL&P faxed calculations showing the purchase price and cost of financing. On May 14, 1998, AEL&P filed revised copies and a blackline showing the changes of the PSA, Snettisham Option Agreement, Snettisham Power Revenue Bond Resolution, Operation and Maintenance (O&M) Agreement, and the Project Sale Agreement. On May 19, 1998, AEL&P faxed a letter explaining the rate impacts of the transaction and explaining the consequences of what it thinks the rate impacts will be if the transaction is not consummated.

## AEL&P's Service Expansion and Special Contract with ADF&G

On March 6, 1998, AEL&P filed an application to amend its service area and for approval of a special contract with ADF&G. AEL&P proposes to add to its service area the ADF&G hatchery (hatchery) located adjacent to the Snettisham power plant. The special contract entitled Snettisham Hydroelectric Project Hatchery Electric Service Agreement (HESA) details the terms and conditions under which AEL&P will provide service to ADF&G.

The application was noticed to the public with a closing date of April 13, 1998, for comments in favor of or in opposition to AEL&P's application. To date, no additional comments from those indicated above have been filed.

### **Discussion**

#### Power Sales Agreement

The standard for approval of a power sales contract is that the rates are just and reasonable, that load forecasts justify the need for the contract, and that the contract is the most feasible means of meeting the forecasted load. AS 42.05.381; AS 42.05.431(b); 3 AAC 52.470(d). (12 APUC 285 (1992)).

Snettisham is an existing project presently supplying approximately 85% of the electric power to Juneau. As such, changes in rates and costs associated with the project significantly impact the utility or the ratepayers, whichever is exposed to the particular risk.

AEL&P indicates the underlying reason for the transaction is to take advantage of an opportunity to secure Snettisham and its apparent long-term benefits for AEL&P, its customers, the Juneau area, and Alaska. In its filing, AEL&P states that it believes in the long run the cost of Snettisham energy under State ownership will be less than under continued Federal ownership. Under continued federal ownership, there would be no assurance of long-term benefits from the project. The filing indicates Snettisham is currently financed through a 3% loan with a 50 year term on the entire project cost. Federal legislation allows flexibility to repay principal. This flexibility allows the APA to offer the "take and pay" contract with levelized rates as payments towards principal can be deferred to later years, if current power sales are below predicted amounts. AEL&P believes there will be increased pressure on Congress to implement rate reform. This may include changing the interest rates to more closely match market rates over a shorter term and a requirement for repayment of principal and accrued interest on a more traditional schedule.

AEL&P included in its May 19<sup>th</sup> fax a letter from the APA dated July 7, 1987. The APA letter responded to AEL&P's request for an estimate as to the effects of rate reform on Snettisham's revenue requirement and rates. For years 1990 through 1992, the letter calculated a base rate of 2.97¢/kWh with sales of 240 GWH per year under the existing funding mechanism. With rate reform the letter indicated the rates might rise as high as 6.73¢/kWh. Staff believes the rates are potentially volatile but doubts the federal government would implement such a drastic rate redesign.

AEL&P also indicates in its May 19<sup>th</sup> letter that if the transaction with AIDEA is not consummated, it is possible the federal government may attempt to again divest itself of Snettisham. It is AEL&P's fear that this divestiture will occur through a competitive bidding process whereby the Commission in applying its traditional ratemaking principles will base rates on a higher sale price or book value rather than the substantially lower purchase price AIDEA is currently paying.

*Terms and Conditions*

The PSA is effective upon execution and will terminate when all Bonds and parity obligations are retired. It is a "Take or Pay" contract whereby AEL&P will repay the tax-exempt bonds as well as the operating and maintenance expenses, including AIDEA's administration costs through rates. The payment obligation exists even if AEL&P is not purchasing or cannot purchase any power from Snettisham. The PSA is established as the sole source of security for the AIDEA bonds. In addition, AEL&P must maintain generative reserve in case the power from Snettisham is interrupted.

Under the PSA AEL&P is required to seek rates to provide revenues sufficient to met its PSA obligations. AEL&P cannot enter into contracts or agreements which will take or pay for power which is payable from revenues required by the PSA that are on parity with or superior to the payment obligation of the PSA. AIDEA retains first right of refusal on the sale, merger or consolidation of AEL&P.

AEL&P is working with AIDEA and the bond underwriters to establish a term that will be rate neutral to customers. The initial term was anticipated to be 30 years but may lengthen depending on the cost of the submarine cables. AEL&P has indicated terms of 35 and 40 years are being pursued.

Insurance coverage requirements are established in Section 5 of the O&M agreement as follows:

<b>Insurance Coverage Requirements</b> (Section 5 of the O&M Agreement)	
<b>Coverage</b>	<b>Amount</b>
Commercial General Liability (including but not limited to): <ul style="list-style-type: none"> <li>• Premises and Operation</li> <li>• Independent Contractors</li> <li>• Owners and Contractors Protective</li> <li>• Products/Completed Operations</li> <li>• Broad Form Property Damage</li> <li>• Blanket Contractual - covering all oral and written contracts (including but not limited to Section 7(a) of the O&amp;M Agreement (Indemnity))</li> <li>• Explosion, Collapse, and Underground</li> <li>• Personal Injury</li> <li>• Incidental Malpractice</li> </ul>	\$1 million primary and \$4 million umbrella

Automobile Liability <ul style="list-style-type: none"> <li>All Owned Vehicles</li> <li>All Hired Vehicles</li> <li>All Non-owned Vehicles all while used in the operation and management of the Project.</li> </ul>	\$5 million
Workers' Compensation and Employer's Liability Insurance	Sublimit of not less than \$1 million
All Risk Property Insurance Includes earthquake and flood on property of every kind and description forming part of the Project	Reasonable and Consistent with Industry Practice*
Insurance Covering Payment of Debt Service Insurance to cover the cost of Snettisham "take or pay" debt service payments during periods when the Snettisham underwater cable or generating plant has failed and cannot deliver energy to the Juneau load center	The cost of Snettisham "take or pay" debt service payments*
Liability for Pollution	Not indicated*

\* The obligation to obtain this insurance is subject to the general availability of such coverage at reasonable cost and under reasonable terms and conditions prevailing at the time of original issuance and any renewals or replacements thereof. AEL&P is to obtain a written waiver from AIDEA if it deems it is unable to reasonably obtain the insurance.

AEL&P has indicated it will purchase the above insurance. However, in its May 11, 1998, filing AEL&P indicates that it is still looking into the debt service insurance. It is unable to state definitively if it is able to get the insurance due to new discoveries on the condition of the submarine cables. In a phone conversation with Staff on May 13, 1998, AEL&P stated it is looking at insurance with a \$50 million cap on the debt service insurance that should cover the debt payment obligation for 4 to 5 years.

#### *Purchase Price*

Snettisham is being purchased from the APA using tax-exempt revenue bonds issued by AIDEA. AIDEA has a \$100 million cap to finance the project. Any amounts above this will be borne by AEL&P. The purchase price will be determined using the "floor" calculation. The floor calculation sets the purchase price at 85% of the predicted Snettisham discounted cash flows, using a discount rate of the average 30-year U.S. Treasury bond yields for the 90 days immediately preceding the closing date. The May 13<sup>th</sup> fax indicated the bonds would receive a BBB rating with an interest rate of 5.65%. The 90-day average 30-year bond rate was 5.92%, which will establish a purchase price of \$80.8 million. With the additional net Cable Costs (\$14.8 million), discussed in more detail below, Capitalized Project Costs (0.7 million), Debt Service Reserve (\$7.1 million), Reserve and Replacement Fund (R&R Fund) (\$1.8 million), and the Cost of Finance (\$1.3 million) the anticipated AIDEA debt is \$106.5 million. As this is above the AIDEA authorized bond cap of \$100 million, AEL&P and AIDEA are working with the underwriters to arrange the financing so it is below this cap. According to AEL&P's May 19<sup>th</sup> fax, AEL&P is pursuing options to reduce and awaiting finalized costs to establish the anticipated debt including (1) additional Congressional appropriations for the cable crossing, (2) construction costs for the cable crossing, net of Federal appropriations, may come in below the Engineer's

conservative installed cost estimate of \$14.8 million; (3) the timing of financing improvement of long term interest rates, thereby reducing the purchase price, or (4) a surety bond may be available at a reasonable cost and acceptable to the bondholders for financing purposes, to replace approximately \$6 million debt service reserve fund requirement.

### *Submarine Cables*

As discussed above, the submarine cables are significantly adding to the cost of the acquisition and consequently the debt service. AEL&P has advised the Commission that the four oil-filled submarine cables under Taku Inlet are currently in a high risk condition. The submarine cables travel 3 miles underwater and reach depths of 600 feet. Three cables are required to maintain service to Juneau. One of the cables developed a leak that was repaired. Though the oil was stopped, the success of that repair is unknown. Recently another of the cables was found not to be properly buried in the inter-tidal area, and, in the exposed portion, to be missing completely its protective aluminum armor. The sole remaining protection for this energized cable is the lead sheath, wrapped in a thin layer of polyvinyl. This problem is predicted to lead to the early electrical failure of the cable. The cables are also prone to mechanical failure due to long and unsupported catenary spans over steep underwater cliffs.

According to the filing, of the four existing cables, currently only three can be energized prudently, and at least two are now known to be at risk of failure. AEL&P, AIDEA, and the bond underwriters have concluded that another four-cable crossing (with better materials, and installation) must be completed as soon as possible in order to assure the integrity of the Snettisham power supply and revenue stream needed to secure the bonds. Without this action being taken, the filing indicates the underwriters believe the transaction could not be financed.

The lead-time required to purchase cables and have a contractor on board to install them is approximately 12 months. The cost of purchasing and installing submarine cables is also very expensive, especially for a 138 kV line. AEL&P is working with the Federal government to obtain additional funding but the success of their attempts will not be known until the fall. AEL&P is pursuing the installation of the submarine cables and has informed Staff that they anticipate opening bids on the materials and installation of the cable on June 26, 1998. The projected cost of the submarine cables is \$17.3 million. The uncertainty of costs associated with this project is one of the factors making it difficult for AEL&P to project the final cost and the impact on rates. AEL&P is including the costs associated with the submarine cables in the purchase price of Snettisham to take advantage of the favorable cost of money available from the bond sales.

With the installation of the additional cables, there will be eight cables crossing Taku Inlet. Three are required to transport electricity, two are suspected to be defective, leaving three cables that can be considered redundant. Staff questions the need to maintain so many redundant cables since each is filled with oil and requires a certain amount of maintenance and has a liability associated with it. AEL&P has informed Staff that the environmental liability of maintaining the cables is small and can be significantly reduced if the oil is pumped out of the conduit. AEL&P also

indicates it is not possible to remove the cables without damaging them beyond repair. AEL&P believes the cost of maintaining the redundant lines is small in comparison to replacing the cables.

*Rate Impact and Rate-Making*

As indicated above, the PSA is a "Take or Pay" contract in which AEL&P is obligated to cover all of Snettisham's costs, including AIDEA's debt service on the bonds, through rates. AEL&P is working with the bond underwriters to establish terms that will leave rate payers unaffected by the ownership change. Referenced in the PSA is the O&M Agreement, which was also included in the filing. The two are tightly linked together. In the O&M Agreement AEL&P is to pay AIDEA all of AIDEA's reimbursable administrative costs included in the annual operating budget plus the debt service.

According to the December 23<sup>rd</sup> filing, AEL&P has been purchasing between 244 and 253 GWH of power per year at a cost between \$8.3 and \$8.8 million for the last three years. However, as conveyed to Staff in phone conversations with AEL&P, AEL&P's purchases from Snettisham thus far this year have been 6% lower than last year's purchases due to warmer than usual weather. For planning purposes AEL&P uses 253 GWH per year. Below, Table 1 compares the impact on rates using the projected power purchases, the impact of installing the submarine cables, the rate based on standard rate base treatment and the impact of reduced power purchases. Currently AEL&P's customers are paying a base rate of 3.47 ¢/kWh for power.

Snettisham Power	(\$ x 1000)					
	Budgeted Power Purchases			Low Purchases		
	(a)	(b)	(c)	(d)	(e)	(f)
	Incl In Rate Base			Incl In Rate Base		
<u>No Cable</u>	<u>With Cable</u>	<u>With Cable</u>	<u>No Cable</u>	<u>With Cable</u>	<u>With Cable</u>	
1 Debt Service On AIDEA Bonds	6,007	7,070		6,007	7,070	
1a Capital Cost Included in Rate Base			8,283			8,283
2 AEL&P O&M Cost	1,472	1,472	1,472	1,472	1,472	1,472
3 AIDEA Admin Costs	100	100	100	100	100	100
4 Insurance	210	210	210	210	210	210
5 AEL&P Admin Costs	100	100	100	100	100	100
6 R & R Fund Contribution (est.)	653	653	653	653	653	653
7 Less: Interest on Debt Service Reserve	<u>(336)</u>	<u>(396)</u>	<u>(396)</u>	<u>(336)</u>	<u>(396)</u>	<u>(396)</u>
8 Total	8,206	9,209	10,422	8,206	9,209	10,422
9 Estimated mWh Purchases	253,733	253,733	253,733	229,279	229,279	229,279
10 Average ¢/kWh - AIDEA	3.23	3.63	4.11	3.58	4.02	4.55
11 Blended Rate 85% Snettisham Rate plus 15% @ 3.47 ¢/kWh	3.27	3.61	4.01	3.56	3.93	4.38

**TABLE 1**



The debt service in Table 1 is based on a \$90.4 million total principal for the no cable scenario and \$106.4 million principal with the cable costs. The current interest rate of 5.60% and a 35 year term is also used. Based on this, if the submarine cable did not have to be replaced the annual cost of power is projected to be \$8.206 million which equates to a rate of 3.23 ¢/kWh (line 10 column a or cell 10a) using the planned purchase amounts. This is less than current purchase costs and base rate of 3.47¢/kWh. With the new submarine cables the annual cost of power is anticipated to be \$9.209 million which equates to a rate of 3.63¢/kWh (cell 10b). Though this is higher than the existing rate AEL&P points out that the APA would have been revising its rates to recover the costs of installing additional submarine cables. AEL&P states it thinks it can install the cables at a lower cost and faster than government procurement can, thus saving CBJ ratepayers additional expenses and eliminating the risk of premature unplanned cable failure.

Due to the "take or pay" provision of the PSA the impact on rates increase if power purchases are lower. As previously indicated, power purchases from Snettisham are down this year. This has the effect of increasing the estimated rate from Snettisham to 4.02¢/kWh (cell 10e). Because AEL&P receives 85% of its power from Snettisham and 15% from its own resources, which include smaller hydroelectric projects which Staff assumed is produced at the base rate of 3.47¢/kWh, the blended rate to AEL&P customers will be 3.93¢/kWh (cell 11e) under this scenario.

According to the May 8 filing, AEL&P's accountants have advised that the take-or-pay obligation of AEL&P under the PSA will have the effect, for accounting purposes, of requiring AEL&P to record on its balance sheet a liability and a corresponding asset of approximately \$100 million, the likely amount of AIDEA's forthcoming bond sale. AEL&P states that this should have no immediate or direct impact on AEL&P's financial well being or ratemaking methodology under the PSA. In addition AEL&P's accountants have also advised it that, for federal income tax purposes, the PSA will result in AEL&P being considered the "tax owner" of the Snettisham project. This means that AEL&P will not be able to deduct for federal income tax purposes that portion of AEL&P's annual payments to AIDEA that correspond, for example, to repayments of principal on AIDEA's bonds or annual contributions to the R&R Fund. AEL&P will be recording the transaction on its books as an asset, liability and depreciation expense for tax purposes.

Given the above, for tax and accounting purposes, AEL&P is purchasing Snettisham. For ratemaking purposes AEL&P would like to continue treating Snettisham capability as purchased power or an operating expense. AEL&P is a monopoly subject to Rate Base Rate of Return ratemaking principles. Purchased plant is normally a capital expense, which is used as the basis for establishing rates. Utilities are allowed to include purchased plant in rate base, which provide the opportunity for a return on rate base and depreciation expense allowances. Though the PSA puts AIDEA and AEL&P in a closer contractual relationship than currently exists between the APA and AEL&P, AEL&P would like to continue treating purchases from Snettisham/AIDEA as operating expenses/purchased power as it currently does under the Snettisham/APA agreement.

AEL&P will not own title to any of the plant nor can it take title to any of the plant while the bonds are outstanding and the PSA is in effect. AIDEA will hold title and SEC will take over title

to the plant should the purchase option be exercised. SEC's purchase option will be discussed below.

Table 1 shows the impact of this rate treatment. Additional worksheets showing Staff's derivation of Capital Costs are included on attachment PcM-1 & 2. As a comparison of columns b/c and e/f of Table 1 demonstrates, the effect of treating Snettisham as a capital expenditure would increase rates over AEL&P's proposed treatment as an operating expense. Therefore Staff believes it is in the public interest to treat the purchases from Snettisham as operating expenses. Otherwise, the sale of bonds by AIDEA would not be possible and the opportunity for inexpensive debt financing would be foregone.

### *COPA*

AEL&P proposes to initially pass on any rate changes resulting from the sales transactions through a revision to its existing COPA mechanism. AEL&P believes a revised COPA is needed because of cost elements that cannot yet be known with certainty or that will not be incurred immediately. AEL&P indicates the amount of power purchases, the installation cost of additional submarine cables, debt service associated with that cost, the amount of additional federal funding (if any) for submarine cable work, contributions to the R&R Fund (which begin in 1999), actual costs of insurance (which can only be estimated at this time), and actual O&M expenses (which may be in flux initially) are difficult to project accurately enough for rate making purposes.

Staff does not believe the COPA should be used in this manner. Staff is concerned continued use of the COPA mechanism proposed by AEL&P will perpetuate piece meal ratemaking. The proposed COPA includes all of AEL&P's rate element costs for the Snettisham project, including interest and other costs of bonds, operating and maintenance costs, and AIDEA's Administration Costs, insurance, taxes, AEL&P's administrative and general expenses, depreciation expenses (later in the project), and the Renewal and Replacement fund. By including all of the costs into an adjustment clause, Staff is concerned the COPA would eliminate management incentives to minimize certain expenses and would not take into account any simultaneous reduction in utility expenses through increased productivity.

Commission approved COPAs address expenses that are significant, volatile and beyond the control of the utility. Typically these expenses are associated with producing power (i.e. fossil fuels). Any adjustments to the COPA are easily identified and documented with actual receipts and other verifiable documentation. Adjustments in other rate factors are made in accordance with the procedures identified in and the supporting information required by 3 AAC 48.275 and 3 AAC 48.500 through 48.560 (Revenue Requirement, Cost of Service, and Rate Design Studies).

In lieu of AEL&P's proposed COPA, Staff recommends the Commission establish an inception rate for the PSA. Based on the projected power purchases for the remainder of the year and estimated annual costs presented in Table 1 (cell 10e), Staff recommends the inception rate be set at a value no higher than 4.02¢/kWh for Snettisham power. The inception rate should be interim and refundable until AEL&P completes a rate case. Within 5 days of closing the transaction, AEL&P should make a tariff compliance filing indicating its Snettisham inception rate along with

its existing base rate and any tariff sheets that have been revised to reflect this change. The inception rate should include any costs associated with Snettisham including but not limited to AEL&P's treatment of the Special Contract with ADF&G discussed below. To satisfy the bondholders the Commission should indicate, with the above limitation, the inception rate will be set no lower than what is required for AEL&P to cover its payment obligations. By June 1, 2000, AEL&P should file a revenue requirement study, cost of service study and rate design study based on a 1999 test year. The rate case should establish AEL&P's base rate, which will include all purchases from Snettisham.

AEL&P intends to continue to use the *Emergency Fuel Cost Rate Adjustment* (EFCRA) included on Sheet No. 172 of its tariff. In its May 11<sup>th</sup> filing, AEL&P included sample calculations showing the impact to rates should Snettisham be unable to deliver power for a prolonged period of time. Using the projected debt service and other costs, AEL&P estimates the loss of Snettisham power will increase rates by 8.18¢/kWh for the first 45 days until the insurance coverage is invoked. After that, the impact to rates will be an increase of 3.69 ¢/kWh. AEL&P indicates the immediate increase in rates will send proper signals to its users to conserve energy during the crisis period.

With the "take or pay" provision of the PSA the impact to customers will be immediate, not only because of the cost of additional diesel generation but also due to required payments to AIDEA under the PSA. Currently the APA is able to defer payments on the principal so the impact to customers in such a situation is not immediate but spread over a longer period. Under the bond covenants AIDEA is not able to defer any of the principal. AEL&P's use of the EFCRA creates an immediate shift of risk of Snettisham outages to the customers. These risks include both the Snettisham payments and diesel generation costs. When the Commission approved the EFCRA the only risk that was being passed on to customers was the additional fuel cost of diesel generation.

The immediate risk amounts to a 29%<sup>1</sup> increase in generation costs above what customers would pay under APA ownership before the insurance is invoked and a 9%<sup>2</sup> increase after the insurance is invoked. Because the EFCRA has the same features and limitations as a COPA, Staff believes including non-fuel costs associated with the PSA in the EFCRA is improper use of the tariff provision. Instead, Staff believes AEL&P should continue to use the EFCRA to recover its additional cost of fuel during an emergency period and seek Commission approval for a rate revision if it needs to recover additional payment obligations. The Commission may consider an interim refundable rate to provide immediate relief to AEL&P.

#### *Other Provisions*

Dispute resolution is through an independent consultant and then arbitration.

As indicated above, the PSA will terminate upon payment of all of the bond obligations. After five years of operation, SEC, a bankrupt remote affiliate company of AEL&P, will have the

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<sup>1</sup> Cost of Snettisham divided by the sum of Snettisham and diesel generation Costs  $141250/(141250+2520340)=0.29$

<sup>2</sup>  $187500/(187500+1884457)=0.09$

option to purchase the Snettisham assets. Included in the PSA as Exhibit D is an Option Agreement and a Project Sale Agreement, between AIDEA and SEC. The agreement, if invoked, will transfer ownership of Snettisham to SEC and allow the AIDEA issued tax-exempt bond to remain outstanding. The PSA will remain in effect as filed.

To satisfy the needs of AEL&P, its customers, AIDEA, and the bondholders Staff believes the Commission can approve the PSA provided certain conditions are met. Specifically, AEL&P has claimed that it is trying to make execution of the PSA a rate neutral event exclusive of the submarine cables. Therefore, Staff believes the Commission can approve the PSA contingent upon AEL&P/AIDEA arranging the Required Proceeds at less than \$101 million. A principal of \$100 million in bonds are being issued AIDEA and AEL&P has indicated it is able to contribute equity up to \$1 million which it would like to recover in rates. Within 5 days of closing the transaction AEL&P should file executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs. The filing should indicate which costs are fixed and which continue to be estimates.

Also, Staff believes the debt service insurance is highly advisable. If AEL&P does not obtain this insurance, it should submit to the Commission information on the cost of the insurance and the reasons it did not purchase the coverage.

With the conditions and modifications indicated above, Staff believes the alternative rate methodology is just and reasonable, that the load forecasts justify the need for the contract and that the contract is the most feasible means of meeting the forecasted load.

#### AEL&P's Service Expansion and Special Contract with ADF&G

##### Issues

- 1) Whether AEL&P should be granted an amendment to its certificate.
  - a) Whether granting of an amendment to its certificate is required for the public convenience and necessity.
  - b) Whether AEL&P is fit willing and able to provide electric service in the requested expanded service area.
- 2) Whether the Special Contract with ADF&G should be approved.

##### *Public Convenience and Necessity*

According to the application, the hatchery is currently receiving electric service from Snettisham under a contract with the APA. Electric service is one of the provisions included in the contract with the APA. The contract allows ADF&G to take fresh water from Snettisham to operate the hatchery, to utilize Snettisham's domestic water, sewer and communications systems as well as use Snettisham's airstrip, barge dock, float plane dock, roads and other necessary facilities. The hatchery employs 6 to 7 people and has a number of facilities, living quarters, and out buildings

that require electric service. Based upon the above, Staff believes the Commission should find that the public convenience and necessity requires continued electric service at the hatchery.

#### *Fit, Willing and Able*

AEL&P is an investor owned utility that currently serves the City of Juneau and the surrounding area. AEL&P holds CPC&N No. 1. The resumes of the key management personnel indicate they have broad experience in operating electric utilities. The applicant provided information on its engineering and technical resources and plans for the new service area. AEL&P will have personnel on site that will be responsible for the maintenance and operation of the plant. Included in its application are one line diagrams of the distribution system.

In its application AEL&P states that it believes the facilities generally conform to the National Electric Safety Code (NESC). AEL&P did not provide a statement signed by a Professional Engineer or an Electrical Administrator indicating that all existing and new plant meets the minimum requirements of the State electrical safety standard, i.e. the NESC. As a condition of approval, either AIDEA or AEL&P shall provide such a statement.

According to the pro forma schedules filed with the application, AEL&P anticipates additional operating revenues of \$60,000 on a revenue requirement of \$60,000. AEL&P indicates AIDEA will have title to all of the plant used to serve the hatchery. Therefore, no depreciation of plant or return element was included in the pro forma schedules. By contract, AEL&P will not be recovering anything other than its cost of providing electricity therefore, there are no tax liabilities shown in the pro-forma schedules. According to the filing, providing service to the hatchery will have no financial impact on AEL&P's financial condition.

AEL&P's consolidated financial statements for the year ended December 31, 1996, shows it had assets of \$55.77 million, liabilities and deferred credits of \$12.98 million, total stockholders' equity and retained earnings of \$24.73 million, and Long Term Debt of \$18.05 million. The income statement for the year ended December 31, 1996, shows that AEL&P had total revenues of \$25.67 million, total expenses of \$20.75 million, and net interest expense of \$1.74 million for an operating income of \$3.18 million. AEL&P had other income of \$0.21 million and nonutility income of \$0.05 million for a net income of \$3.45 million.

Based upon the above and contingent upon AEL&P or AIDEA providing a statement from a Professional Engineer or a Qualified Electrical Administrator, Staff believes the Commission should find AEL&P is fit, willing and able to provide the proposed service.

#### *Tariff and Service Area Map*

Included, as Attachment PcM-3, is a New Tariff sheet No. 8.1 showing a map of the proposed service area. With the correction indicate on the attachment, Staff recommends Tariff Sheet No. 8.1, filed with the application, be approved effective the date of the order granting approval of AEL&P's application. Attachment PcM-4 is the revised Attachment A to the Certificate.

Also included with the filing is a USGS service area map that conforms to Commission requirements.

### *Special Contract*

Included with the application is a special contract with ADF&G for service to the hatchery. The HESA contains four significant sections, Term of Agreement, Rates; Service Conditions, and Lost Energy.

The term of the agreement is 18 years with a re-opening during year 2007. The four sections mentioned above are open to renegotiations at this time. The application indicates that any changes to the agreement will be submitted for Commission approval. Staff concurs that any changes to the HESA should be filed for Commission approval

The rates provided under the HESA are meant to duplicate as closely as possible Section 5.a. of the APA/ADF&G contract. One of the provisions (section 9 paragraph 3) of the APA and Alaska Power Authority (AIDEA's predecessor), sales agreement is that "Any new agreement will contain terms at least as favorable to ADF&G as now exist." This has the support of federal law in that Public Law 104-58 Sec 103(b) dated November 28, 1995, states "The Secretary of Energy is authorized and directed to sell Snettisham to the Snettisham Purchaser in accordance with the terms of this Act and the Snettisham Purchase Agreement." AEL&P is honoring this requirement in provisions of the HESA. ADF&G under the APA contract is paying the wholesale power rate for electricity from Snettisham which is currently 3.47¢/kWh. The HESA proposes to provide this rate until December 31, 1999. After which time the rates will be adjusted every three years to provide ADF&G stable rates for budgeting reasons. The rates will be set to recover AEL&P's cost to provide the energy. AEL&P will use a Cost of Power Adjustment (COPA) similar to that already in its tariff. The HESA COPA will only use those costs associated with providing energy to ADF&G and will not be included in AEL&P's regular COPA. The HESA COPA will have a balancing fund to adjust for any over or under recoveries.

As indicated above, AEL&P will not own any plant that is used to serve the hatchery, AIDEA will own the plant. As only the cost of energy will be recovered, AEL&P will not be recovering its administrative and general expenses associated with providing service to the hatchery. In its filing, AEL&P indicates this is "justified because (1) it satisfies Federal law, (2) the hatchery's location at the Snettisham site distinguishes it from other AELP customers, and (3) the impact on AELP's other customers is minimal (and a small price to pay for a transaction that brings those customers and the Juneau area and economy a significant economic benefit)."

Staff recommends AEL&P be required to keep track of and identify all costs associated with providing service to the hatchery. During the rate case indicated above the Commission will have the benefit of actual values and will be able to determine if those costs are reasonable and prudent and whether they can be recovered. The Commission may consider in passing legislation to sell Snettisham, Congress's mandate that ADF&G be granted preferential rate treatment. ADF&G will enjoy a subsidy provided by AEL&P's ratepayers and sanctioned by the U.S. Congress.

The HESA does provide safeguards to make sure ADF&G does not resell the power and that it uses the power in a prudent manner. The HESA contains some constraints to prevent low load and power factors.

The HESA also contains provisions and a calculation to recover the lost energy associated with operating a water control structure at the discharge of the Snettisham project. The water control structure is required for the operation of the hatchery and reduces the amount of head available to generate electricity during certain periods. The HESA sets out a methodology to recover these losses.

Based on the above, Staff recommends the HESA be approved contingent upon successful execution of the PSA.

### **Conclusion**

Based on the above, Staff recommends the Commission approve the PSA contingent upon AEL&P or AIDEA consummating the sales agreement with APA and arranging the Required Proceeds at less than \$101 million. Within 5 days of closing the transaction AEL&P should file executed copies of all of the agreements as well as a summary of the established and estimated interest rates, terms, and costs. The filing should indicate which costs are fixed and which are estimated. The Commission should establish an inception rate set at a value no higher than 4.02¢/kWh for Snettisham power. The inception rate should be interim and refundable until AEL&P completes a rate case. Within 5 days of closing the transaction, AEL&P should make a tariff compliance filing indicating its Snettisham inception rate along with its base rate and any tariff sheets that have been revised to reflect this change. The inception rate should include any costs associated with Snettisham including but not limited to AEL&P's treatment of the Special Contract with ADF&G. To satisfy the bondholders, the Commission should indicate, with the above limitation, the inception rate will be set no lower than what is required for AEL&P to cover its payment obligations. Staff believes AEL&P should continue to use the EFCRA to only cover its additional cost of fuel during an emergency period and seek Commission approval for a rate revision if it needs to recover additional payment obligations. Staff believes the debt service insurance is highly advisable. If AEL&P does not obtain this insurance, it should submit to the Commission information on the cost of the insurance and the reasons it did not purchase the coverage. By June 1, 2000, AEL&P should file a revenue requirement study, cost of service study and rate design study based on a 1999 test year. If AEL&P/AIDEA secure additional funding for the submarine cables after the rate case is completed, Staff recommends AEL&P notify the Commission of the appropriation approval and file within 30 days sufficient information to determine if another rate case is warranted.

Staff believes the Commission should find AEL&P is fit, willing and able to provide the proposed service at the ADF&G Snettisham Hatchery contingent upon AEL&P or AIDEA providing a statement from a Professional Engineer or a Qualified Electrical Administrator that the outside plant at the hatchery meets the requirements of the NESC. With the correction indicated on attachment PcM-3, Staff recommends Tariff Sheet No. 8.1, filed with the application, be

approved effective the date of the order granting approval of AEL&P's application. Staff further recommends the HESA be approved contingent upon successful execution of the PSA.



## Capital Cost

AIDEA / AEL&P  
Snettisham Purchase  
Capital Costs

### Return on Rate Base

Snettisham Purchase Price (per AEL&P fax 5/20/98)		\$78,210,528.00	
New Cable Cost		\$14,800,000.00	
Total additional rate base	(A)	<u>\$93,010,528.00</u>	
Return on rate base approved for AEL&P in U-96-34 (adjusted for the new debt)	(B)	<u>7.32%</u>	
Snettisham return on rate base	(A)x(B)		\$ 6,811,866.07

### Depreciation Expense

Snettisham Purchase Price (per AEL&P fax 5/20/98)		\$78,210,528.00	
Estimated useful life in years		<u>80</u>	
Annual depreciation estimate			\$977,631.60
New Cable Cost		\$14,800,000.00	
Estimated useful life in years		<u>30</u>	
Annual depreciation estimate			<u>\$493,333.33</u>
Estimated annual capital costs for Snettisham			<u><u>\$ 8,282,831.01</u></u>

## Cost of Capital - Estimated

Cost of Capital - Estimated

	Balance	% of Capitalization	Cost	Weighted Cost
Total AEL&P Equity form U-96-34	\$21,086,028.00	14.48%	14.00%	2.03%
Series H	\$3,150,000.00	2.16%	9.76%	0.21%
Series I	\$5,000,000.00	3.43%	9.56%	0.33%
Series J	\$7,000,000.00	4.81%	8.23%	0.40%
AEA 1	\$ 481,731.00	0.33%	8.60%	0.03%
AEA 2	\$ 86,122.00	0.06%	7.00%	0.00%
AEA 5	\$ 923,705.00	0.63%	9.95%	0.06%
AEA 6	\$ 534,733.00	0.37%	9.29%	0.03%
AEA 7	\$1,867,929.00	1.28%	9.95%	0.13%
AEA 8	\$ 466,982.00	0.32%	9.95%	0.03%
AEA 9	\$1,333,643.00	0.92%	9.29%	0.09%
<b>New Debt</b>	\$103,722,793.00	71.21%	5.60%	3.99%
	\$145,653,666.00	100.00%		7.32%

The above are based on AEL&P's last rate case (docket U-96-34) with the addition of new debt.

APUC No. 1

Original

Sheet No. 8.1

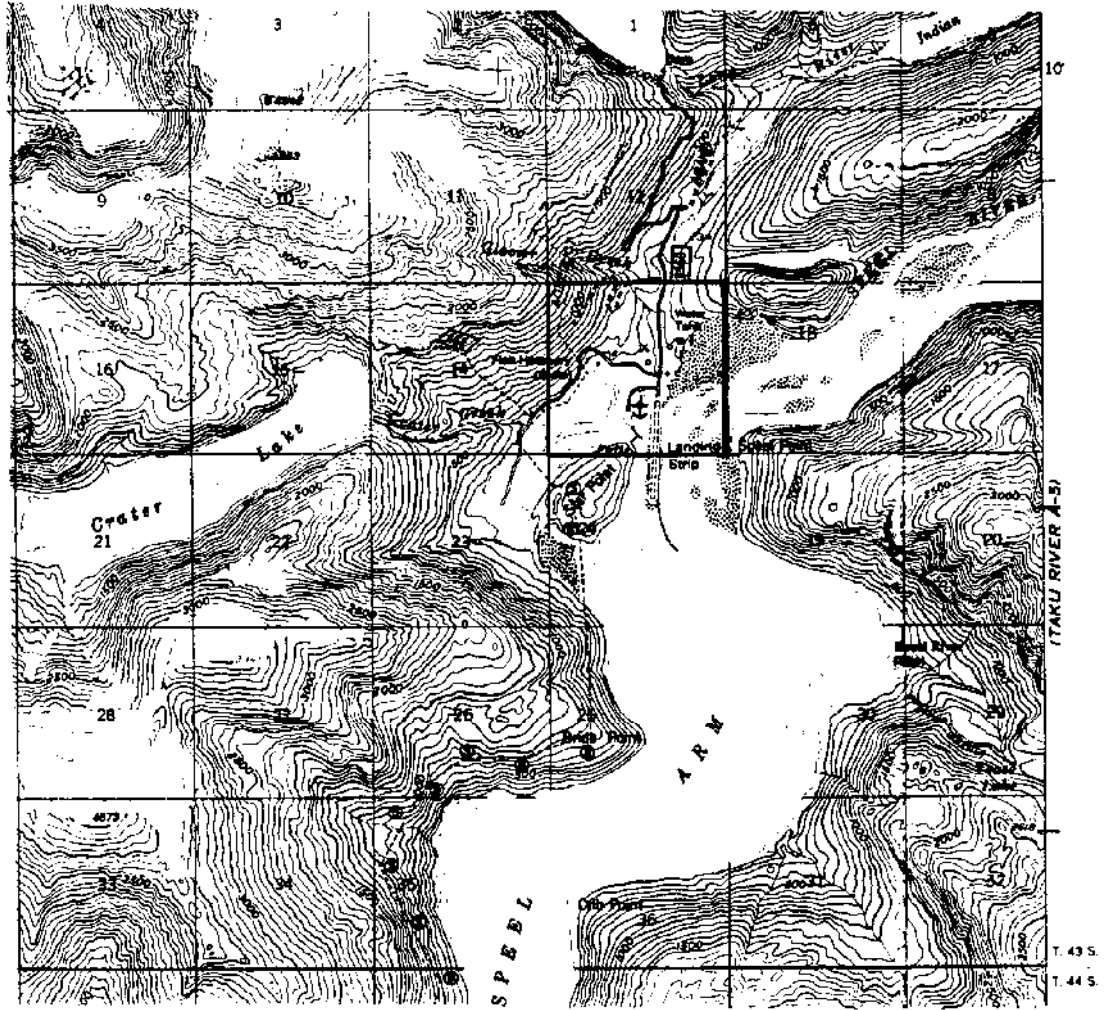
Canceling

Sheet No.

Alaska Electric Light and Power Company, Inc.

State of Alaska  
Public Utilities Commission

Rules and Regulations  
Map of Service Area (Continued from Pg. 8)



U-97-245

Effective \_\_\_\_\_

Tariff Advice No. 271

Issued by

Alaska Electric Light and Power Company, Inc.

By

*Stephen D. Kopp*

Title

Secretary-Treasurer

APPENDIX A

Certificate of Public Convenience  
and Necessity No. 1 Granted to

**ALASKA ELECTRIC LIGHT AND POWER COMPANY**

DESCRIPTION OF SERVICE AREA:

T37S R63E Sections: 10 through 14, 23, 24, 25, and 36

...

T42S R68E Sections: 4 through 11, 14, and 15

T43S R71E Sections: 13

(All the above in reference to the Copper River Meridian)

CHRONOLOGY:

Certificate Granted: 01/01/64  
Extension of Service Area: 05/29/68 (U-67-016)  
Certificate 56 Incorporated: 02/23/73 (U-73-003(1))  
Certificate 12 Incorporated: 11/07/88 (U-88-026(2))  
Extension of Service Area: ??/??/98 (U-97-245(?))