APPENDIX AU

Overview of Energy Funds

1. History

- Late 1970's. The most grandiose proposal by several prominent political figures transforms a significant portion of Alaska's new oil wealth into a "permanent fund of hydroelectric power projects" with "dividends" of perpetual, inexpensive energy for Alaska. Inexpensive energy is seen as one of the best means for promoting economic development. The premier energy project fueling this hope is the proposed Susitna Dam to serve the Railbelt area.

- 1976. The Alaska Power Authority is created. In establishing the power authority, the Legislature proclaims (Chapter 278, SLA 1976):

  "There exist numerous potential hydroelectric and fossil fuel generating sites in the state. The establishment of power projects at these sites is necessary to supply lower cost power to the state's municipal electric, rural electric, cooperative electric, and private electric utilities, and regional electric authorities, and thereby to the consumers of the state, as well as to supply existing or future industrial needs. The achievement of the goals of lower consumer power costs and long-term economic growth and of establishing, operating and developing power projects in the state will be accelerated and facilitated by the creation of an instrumentality of the state with powers to incur debt for constructing, and with powers to operate, power projects. It is declared to be the policy of the state, in the interests of promoting the general welfare of all the people of the state … to reduce consumer power costs and otherwise to encourage the long-term economic growth of the state, including the development of its natural resources, through the establishment of power projects by creating the public corporation…."

  Ultimately, the Alaska Power Authority spends $1 billion to construct a series of power projects.[1] The Legislature, through the General Fund, loans or contributes approximately $825 million. The state also issues bonds totaling approximately $180 million.[2] The projects of the Four-Dam Pool consist of:

[1] For the most part, the Alaska Power authority itself was not involved in the efforts to promote the never-constructed Susitna project. Most of the projects the Authority became responsible for had been initiated by local utilities (e.g., the projects included in the Four Dam Pool). The Authority took over these projects when the local utilities got into trouble trying to construct them.

[2] The Authority issued almost $620 million in bonds over the ten-year period 1982 to 1992. Some bonds were repaid with state appropriations and some bonds were issued to refinance earlier borrowings.

- Tyee Lake serving Wrangell and Petersburg
- Solomon Gulch serving Valdez and Glennallen
- Swan Lake serving Ketchikan
- Terror Lake serving Kodiak
- Bradley Lake Hydroelectric Project
- Larson Bay Hydroelectric Project
- Anchorage-Fairbanks Intertie

- 1989. Executive Order 75 moves two energy programs -- the Bulk Fuel Loan Program and the Power Development Loan Program -- from the Department of Commerce and Economic Development to the Alaska Power Authority. The Executive Order also changes the name of the Alaska Power Authority to the Alaska Energy Authority.

- 1993. The Legislature completely restructures the energy authority and its programs. New legislation abolishes the separate board for the authority, and transfers responsibility for managing the authority to the Alaska Industrial Development and Export Authority (Chapter 18, SLA 1993). The legislation also moves several programs from the energy authority to the Department of Community and Regional Affairs. The 1993 legislation establishes the Four Dam Pool Transfer Fund, which became the holder of the loan agreement between the state and the Alaska Energy Authority (the $186 million was reflected as a "non-liquid" asset of the General Fund). Appendix AS contains a more detailed description of the arrangements pertinent to the Four-Dam Pool funds.

- FY 1995. The member utilities began discussions with the State of Alaska to purchase the projects.

- FY 1996 and 1997. The five utilities purchasing power from the Four-Dam Pool withhold $27 million in payments under the wholesale power sales agreement. The withheld money is to fund a "self-help" effort to repair the facilities. Forty percent of the withheld money would have gone to fund the Power Cost Equalization Fund.

- FY 2002. The State of Alaska purchases the projects on January 31, 2002. As a result of the sale, the Four Dam Pool Power Agency (FDPPA) was created. The proceeds from the sale of the projects were used to establish the Power Cost Equalization Endowment which is used to partially offset the very high electricity rates in many of the smaller communities in the State.

- FY 2006. The member utilities of the FDPPA began discussions to restructure the Agency whereby one or more projects could be sold back to t he member utilities.

- FY 2009. The FDEPPA was successful in selling two of the projects back to member utilities. On February 24, 2009, the FDPPA sold or transferred the Terror Lake project to Kodiak Electric Association and the Solomon Gulch project to Copper Valley Electric Association. The name of the Agency was changed to the Southeast Alaska Power Agency (SEAPA) to better reflect the geographic location of the remaining projects (Swan Lake and Tyee Lake). In addition, SEAPA is completing construction of the Swan-Tyee Intertie which has been a long-planned project and will interconnect the Swan Lake and Tyee Lake projects. As a result, all of the remaining member utilities (Ketchikan, Wrangell and Petersburg) will be interconnected for the first time and the hydroelectric projects can be more efficiently operated and existing surplus power from the Tyee Lake project can be used to displace diesel generation in Ketchikan.

Power Sales Agreement

The Power Sales Agreement (PSA) is the chief governing document for the agency and its three member utilities. The PSA extends for a term of 25 years to 2034, beyond the maturity of the bonds (2028), and requires written consent of all members for termination.

Under the PSA, all member utilities are required to purchase firm power requirements (net of existing hydroprojects in service prior to 1985 for Ketchikan and Petersburg) from the agency (unless the agency consents or cities are required to do otherwise by law), but are not committed to any minimum level of purchases nor are they obligated to pay for power not delivered (take and pay).

All power generated by the agency must be sold to the three member utilities, the agency is required to make power continuously available to the members, and no significant opportunity for wholesale sales of surplus energy exists regardless of the PSA given the lack of connectivity to a regional power grid.

The net electrical requirements of Petersburg and Wrangell are significantly lower than the energy generation capability of the Tyee Lake project. Until new interconnected loads develop, the Tyee Lake project will continue to be significantly underutilized. With the completion of the Swan-Tyee Intertie some of the surplus capability of the Tyee Lake project will be used to serve loads in Ketchikan.

2. Facts and Figures

The largest and most controversial set of programs and funds transferred from the energy authority to the Department of Community and Regional Affairs involve the Power Cost Equalization Fund and the Four-Dam Pool. Of the $500 million expended to construct the Four-Dam Pool, $181 million was provided by a long-term state loan. Loan payments are supposed to be made from revenues generated by the sale of wholesale power to the communities' utilities. Payments are to cover interest-only through 2000; principal is to be repaid from 2000 through 2030.

As the Department of Community and Regional Affairs receives payments from the Four-Dam Pool power purchasers,[3] the Department of Community and Regional Affairs, subject to appropriate annual appropriations, distributes those payments to three other funds established by the 1993 legislation:

- The Power Cost Equalization and Rural Capitalization Fund (40 percent of the distribution).
- The Southeast Energy Fund (40 percent).
- The Power Project Fund (20 percent).

The Legislature has appropriated additional money to each of these funds over the years, in addition to the loan repayments from the Four-Dam Pool. Additional information is shown in the following table:

[3] Since mid-1995, the local utilities and the Alaska Energy Authority have withheld payment with respect to the wholesale power purchases from the Four-Dam Pool to pay for certain repairs. Through July 1997, the total amount withheld was $27 million.

Funds Relating To The Four Dam Pool

GASB Fund Number	Fund Description	Legal Authority
11149	**Four Dam Pool Transfer Fund** Established by Chapter 18 SLA 1993, effective August 11, 1993. The Department of Community and Regional Affairs is the custodian. The fund consists of repayments of principal and income that would have been deposited in the former power development revolving loan fund under AS 44.83.500. Subject to appropriation, the balance of the fund will be transferred each month as follows: 40% to the Power Cost Equalization and Rural Electric Capitalization Fund; 40% to the Southeast Energy Fund, and 20% to the Power Project Fund. The loans are long-term, principal payments are not due until the year 2000.	AS 42.45.050
11150	**Power Cost Equalization & Rural Electric Capitalization Fund** Established by Chapter 18 SLA 1993, effective August 11, 1993. The Department of Community and Regional Affairs is the custodian. The fund includes money transferred to it under AS 42.45.050, which are monthly transfers (subject to appropriation) of 40% of the balance in the Four Dam Pool fund. The fund is used to make grants to eligible utilities under AS 42.45.180 to subsidize utility rates.	AS 42.45.100
11148	**Southeast Energy Fund** Established by Chapter 18 SLA 1993, effective August 11, 1993. The Department of Community and Regional Affairs is the custodian. The fund includes money transferred to it under AS 42.45.050, which are monthly transfers (subject to appropriation) of 40% of the balance in the Four Dam Pool fund. The fund is used to make grants to utilities participation in the power transmission Intertie between the Swan Lake and Tyee Lake hydroelectric projects, for power projects.	AS 42.45.040
21645	**Power Project Fund** This fund is to make loans to electric utilities, regional electric authorities, municipalities, regional and village corporations, village councils, independent power producers, and non profit marketing cooperatives to pay the cost of reconnaissance studies, feasibility studies, license and permit applications, preconstruction engineering, and design of power projects; constructing, equipping, modifying, improving, and expanding small-scale power production facilities; reconnaissance studies, preconstruction engineering, design, construction, equipping, modification, and expansion of potable water supply including surface storage and groundwater sources and transmission of water from surface storage to existing distribution systems. The fund includes money transferred to it under AS 42.45.050, which are monthly transfers (subject to appropriation) of 20% of the balance in the Four Dam Pool Fund.	AS 42.45.010

The 1993 legislation places three additional energy-related funds in the Department of Community and Regional Affairs:

Other Funds Administered by the Department of Community and Regional Affairs Resulting From or Transferred by the 1993 Transfer Legislation		
GASB Fund No.	Fund Description	Legal Authority
11151	**Electrical Service Extension Fund** Established by Chapter 18 SLA 1993, effective August 11, 1993. The Department of Community and Regional Affairs is the custodian. The fund consists of money appropriated to it by the legislature. The purpose of the fund is to make grants to electric utilities to pay for costs of site preparation and construction for the extension of electrical service to private residences and small businesses not currently served by an electric utility, and for making improvements to existing utilities.	AS 42.45.200
21646	**Rural Electric Revolving Loan Fund** The fund provides for loans for the purpose of extending new electric service into an area of the state that an electric utility may serve under a certificate of public convenience and necessity issued by the Alaska Public Utilities Commission.	AS 42.45.020
21647	**Bulk Fuel Revolving Loan Fund** This fund is established to assist communities in purchasing bulk fuel.	AS 42.45.250

The remaining energy-related funds invested with GeFONSI are:

GASB Fund No.	Fund Description	Legal Authority	Responsible Agency
11125	**Fuel Emergency Fund** This fund is used when the governor determines that a shortage of fuel is sufficiently severe to justify state assistance to make grants to a city or borough, or to a village or unincorporated community to purchase emergency supplies of fuel.	AS 26.33.400	Governor's Office
21619	**Alternative Energy Revolving Loan Fund** To make loans for the development of an alternative energy system. Loans may be used to finance the cost of purchase, construction, and installation of an alternative energy system or centralized multifuel heating system which is likely to result in energy conservation or energy cost savings.	AS 45.88.010 to AS 45.88.500	Commerce & Economic Dev.
21623	**Residential Energy Conservation Fund** This fund is for loans for the purchase, construction, and installation of an energy conservation improvement in a residential building.	AS 45.89.010 to AS 45.89.500	Commerce & Economic Dev.
11123	**Railbelt Energy Fund** Consists of money appropriated to it by the legislature and is used to assist in meeting railbelt energy needs.	AS 37.05.520	Revenue
11127	**Railbelt Intertie Reserve**	N/A	N/A