

BUDGET ASSUMPTIONS

**PUBLIC UTILITIES
1995
OPERATING AND CAPITAL BUDGET ASSUMPTIONS**

Below are general and specific budget assumptions/guidelines provided to Utilities for preparation of their 1995 Operating and Capital Budgets.

REGULATION:

Assume continued economic regulation by Alaska Public Utilities Commission (APUC) for Anchorage Water and Wastewater and for Municipal Light & Power.

Assume continued economic regulation by the Federal Maritime Commission (FMC) for the Port of Anchorage.

Assume continued operational oversight by the Federal Aviation Administration (FAA) for Merrill Field Airport.

UTILITY OWNERSHIP:

Assume continued Municipal ownership in 1995.

RATE INCREASES:

No new, overall rate increases projected for 1995. Rate increases would need to be considered if one of the following were to occur:

- Debt service coverage borders on technical default
- Projected cash reserves fall below that required to maintain an adequate working capital balance
- Debt/equity ratio falls below criteria established by the regulatory body specific to that utility
- The plant in a given utility is no longer in good working condition

Any rate increases shown in the outyears (1996-2000) are for purposes of projections only and have not been approved for implementation. It is intended that they be reviewed closely each year in conjunction with establishing operating budgets.

MUNICIPAL UTILITY SPECIAL ASSESSMENT (MUSA):

Assume mill rates for MUSA (in lieu of taxes) to be same as 1994 mill rates set prior to adjustment for taxes collected in excess of the amount levied by the Assembly. MUSA (in lieu of taxes) does not apply to the Port or Merrill Field. 1.25% MUSA applies only to Solid Waste Disposal and to the Anchorage Telephone Utility.

REVENUE DISTRIBUTIONS:

Assume that only the Port (and ATU) will be required to make a revenue distribution to General Government. The Port's revenue distribution will be \$358,000 in 1995, which is approximately double the prior year amount. The Administration has proposed that ATU provide a \$5.5 million Utility Revenue Distribution in 1995; this represents a \$1.5 million increase over the prior year. All other Utilities will work in the future toward providing their owners, the general public, with an appropriate rate of return, guided by industry standards, and limited to a particular Utility's ability to pay dividends.

INTEREST:

Assume debt service for new G.O. bonds and Revenue bonds at 6.0% - 6.3%. Interest income is assumed at an overall rate of 4.5% - 4.75%.

INTRAGOVERNMENTAL CHARGES (IGC's):

In general, no significant net IGC increases over prior year except for change caused by the new organizational structure as implemented by the Administration.

POPULATION:

Assume a 1.0% growth rate for Anchorage in 1995.

INFLATION:

Inflation, in general, is anticipated to approximate 3.0% in 1995. Each utility, however, has applied specific inflation rates to the commodities they use.

COMPENSATION COSTS (Salaries and Benefits):

Assume a labor costs freeze for all labor groups through December 31, 1995. Health benefit rates are expected to increase approximately 9-11%; other benefit rates are assumed relatively static.

ENVIRONMENTAL MANDATES:

Federal and state environmental mandates will continue to impact operation and capital development costs at the same or greater level experienced in prior year.

1994 BUDGET IMPACTS (specific to individual utilities)--

ANCHORAGE WATER AND WASTEWATER (AWWU):

AWWU has budgeted \$3 million in revenue bonds to be issued by the Water Utility. Additionally, the Wastewater Utility intends to borrow \$6 million in 1995 from the State loan program. Both the Water and Wastewater Utilities have filed Cost of Service Studies with the APUC in 1994; implementation date is planned for mid-1995. These studies will result in changes to the various service rates, but will not result in an overall increase in total revenue collected by AWWU.

MUNICIPAL LIGHT AND POWER (ML&P):

ML&P, together with Chugach Electric and Matanuska Electric, has submitted a proposal to the Federal Government to purchase the Eklutna Hydroelectric Project. The Federal Administration has approved the sale and the House of Representatives has recently passed the purchase legislation. The legislation is currently in the Senate awaiting their approval. ML&P has budgeted to purchase the Eklutna Project in late 1994. The corresponding changes to the Operating Budget are reflected under the budget categories of Purchased Power, labor and Hydroelectric Generation.

The price per thousand cubic feet ("MCF") of gas is established during the 3rd quarter of each year. It is determined by the average price of third quarter light sweet crude oil futures. The price, as verified with Arco, will increase 3.2% per MCF for 1995. The cost of gas is a flow through for ML&P which means that as fuel costs increase, revenues increase correspondingly. ML&P's net income will therefore not be affected by the rise in fuel costs.

Two key capital projects with significant funding budgeted for 1995 are the Superconducting Magnetic Energy Storage Device (SMES) and the Northern Intertie project. See additional discussion under Highlights and Future Events and within the 1995-2000 Capital Improvement Financial Summary.

SOLID WASTE SERVICES (SWS):

In 1987 the Merrill Field Landfill was closed after approximately fifty years of operation. Although the closed landfill no longer accepts solid waste it still has systems that must be maintained in order to be in compliance with environmental regulations. A study completed in 1994 recommended the leachate collection system at the landfill be upgraded to prevent the possibility of offsite migration of leachate. SWS plans to upgrade the leachate collection system in 1995. Normally costs associated with a capital project are capitalized and depreciated over the life of the asset constructed. Since the landfill no longer accepts solid waste, accounting regulations require all costs associated with the upgrade be expensed in the year the costs are incurred. Accordingly SWS has budgeted \$3.8 million in the 1995 Solid Waste Disposal Utility operating budget. Including this \$3.8 million expense in Solid Waste Disposal's operating budget will result in a \$2.2 million loss for 1995.

PORT OF ANCHORAGE (PORT):

The Port has budgeted for a \$2,000,000 revenue bond sale in 1995 to finance major renovations to the Port's Petroleum Valve Yard. The new Petroleum Transfer Fee, established in 1994, and higher appraised valuations on land leased by the Port should positively impact 1995 Port Operating Revenues. Tonnage across the Port's dock is anticipated to increase slightly in 1995.

MERRILL FIELD AIRPORT (MF):

None.