

Submitted by: Chair of the Assembly at the  
Request of the Mayor  
Prepared by: Municipal Light & Power  
For reading: July 29, 2008

ANCHORAGE, ALASKA  
AO No. 2008-94

1 **AN ORDINANCE AUTHORIZING THE MUNICIPALITY TO EXECUTE A**  
2 **PARTICIPATION AGREEMENT, AN OPERATION AND MAINTENANCE**  
3 **AGREEMENT AND A LEASE AGREEMENT BETWEEN CHUGACH ELECTRIC**  
4 **ASSOCIATION (CEA) AND MUNICIPAL LIGHT & POWER (ML&P) FOR THE**  
5 **JOINT DEVELOPMENT, CONSTRUCTION, OPERATION, AND OWNERSHIP OF**  
6 **THE SOUTH CENTRAL ALASKA POWER PROJECT GENERATION FACILITY;**  
7 **AUTHORIZING ML&P TO EXPEND UP TO \$3,000,000 TO FUND ITS SHARE OF**  
8 **THE PROJECT'S 2008 CAPITAL EXPENDITURES; AND AUTHORIZING ML&P**  
9 **TO PROCEED, WITH CEA, TO PROCURE THE TURBINES FOR THE PROJECT.**

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12 **WHEREAS**, ML&P and CEA need new electric generation to replace part of their less  
13 efficient, aging generation and determined economies-of-scale can be achieved through the  
14 joint construction and operation of a larger single plant capable of producing new generation;  
15 as a result, ML&P and CEA decided to proceed with the joint development, construction and  
16 operation of the South Central Alaska Power Project (SCAPP) to be operated for their mutual  
17 benefit; and

18  
19 **WHEREAS**, ML&P desires to build the SCAPP as a combined cycle natural gas burning  
20 generation facility at a size meeting ML&P's and CEA's needs for electric energy and new  
21 capacity; and

22  
23 **WHEREAS**, the new generating facility is to be located adjacent to CEA's existing  
24 International Generation Terminal at 5601 Electron Drive in Anchorage, Alaska; and

25  
26 **WHEREAS**, ML&P intends to rely on the capacity and electric energy generated by the  
27 SCAPP as part of its system planning and reliability needs and to serve the needs of its current  
28 and future customers; and

29  
30 **WHEREAS**, the cost to develop, build and operate the SCAPP makes it advisable for ML&P  
31 and CEA to share the related financial and operational costs associated with such a project,  
32 and

33  
34 **WHEREAS**, ML&P and CEA determined the sharing and allocation of such costs and the  
35 SCAPP's generating capacity can best be accomplished by acquiring, owning and managing  
36 the related property rights necessary to build, own and operate the SCAPP as tenants in  
37 common; and

38  
39 **WHEREAS**, ML&P desires for the SCAPP be operated in a cost-effective manner; and  
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1 **WHEREAS**, ML&P and CEA prepared a Participation Agreement and an Operation and  
2 Maintenance Agreement to provide for their respective ownership of the SCAPP as tenants in  
3 common and also to set forth certain responsibilities and mechanisms for the design,  
4 construction, ownership, operation, maintenance and repair of the SCAPP; and

5  
6 **WHEREAS**, the Participation Agreement provides for an Operation and Maintenance  
7 Agreement as well as a Lease Agreement, and defines the management of the SCAPP,  
8 composed of a Participation Committee, with CEA as the Managing Participant of the SCAPP,  
9 an Operating Committee, with CEA as the Operator of the SCAPP; and

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11 **WHEREAS**, the term of the Participation Agreement is 30 years, with automatic extensions at  
12 the end of the 30-year period, but providing the Municipality an option to terminate,  
13 commencing in the 25<sup>th</sup> year, with five years notice; and

14  
15 **WHEREAS**, ML&P and CEA each provide for its own financing in proportion to its  
16 ownership shares in the SCAPP, *approximately* 70% for CEA and 30% for ML&P; and

17  
18 **WHEREAS**, on the effective date of the Participation Agreement, ML&P and CEA each have  
19 a financial obligation to proceed with the SCAPP, including the procurement of the gas  
20 turbines for the SCAPP; and

21  
22 **WHEREAS**, ML&P's estimated share of the gas turbine costs is between \$19 to \$25 million  
23 over a two year time frame with an expected down payment of 10% (\$1.9 to \$2.5 million) due  
24 when the order is placed, to be paid from retained earnings; and

25  
26 **WHEREAS**, ML&P included new generation in its 2008-2014 Capital Improvement Plan,  
27 with \$3,000,000 appropriated in its 2008-2009 budget for new generation in 2008; and

28  
29 **WHEREAS**, ML&P's overall cost for its participation in the SCAPP from 2008 through 2013  
30 is estimated to be *approximately* \$110,561,000; now therefore,

31  
32 **THE ANCHORAGE ASSEMBLY ORDAINS:**

33  
34 **Section 1.** The Municipality is authorized to execute the Participation Agreement,  
35 Operation and Maintenance Agreement, and Lease Agreement between ML&P and CEA, in a  
36 form substantially as presented to the Assembly.

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38 **Section 2.** ML&P is authorized to proceed, with CEA as procurer, using its competitive  
39 bid process to acquire the turbines for the Project.

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41 **Section 3.** ML&P is authorized to expend up to \$3,000,000 to fund its share of the  
42 Project's 2008 expenses.

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44 **Section 4.** This resolution shall take effect immediately upon passage and approval by the  
45 Anchorage Assembly.

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48 PASSED AND APPROVED by the Anchorage Assembly this \_\_\_ day of August, 2008.

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\_\_\_\_\_  
Chair of the Assembly

ATTEST:

\_\_\_\_\_  
Municipal Clerk

**MUNICIPALITY OF ANCHORAGE**  
**Summary of Economic Effects -- Utilities**

AO Number: 2008-94

Title: AN ORDINANCE AUTHORIZING THE MUNICIPALITY TO EXECUTE A PARTICIPATION AGREEMENT, AN OPERATION AND MAINTENANCE AGREEMENT AND A LEASE AGREEMENT BETWEEN CHUGACH ELECTRIC ASSOCIATION (CEA) AND MUNICIPAL LIGHT & POWER (ML&P) FOR THE JOINT DEVELOPMENT, CONSTRUCTION, OPERATION, AND OWNERSHIP OF THE SOUTH CENTRAL ALASKA POWER PROJECT GENERATION FACILITY; AUTHORIZING ML&P TO EXPEND UP TO \$3,000,000 TO FUND ITS SHARE OF THE PROJECT'S 2008 CAPITAL EXPENDITURES; AND AUTHORIZING ML&P TO PROCEED, WITH CEA, TO PROCURE THE TURBINES FOR THE PROJECT.

Sponsor: MAYOR  
 Preparing Agency: ML&P  
 Others Impacted: Chugach Electric Association

<b>CHANGES IN EXPENSES AND REVENUES:</b>	<b>(In Thousands of Dollars)</b>				
	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
<b>Operating Expenditures:</b>					
1000 Personal Services					
2000 Supplies					
3000 Other Services					
4000 Debt Services					
5000 Capital Outlay					
<b>TOTAL DIRECT COSTS:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
6000IGC'S					
<b>FUNCTION COST:</b>					
<b>REVENUES:</b>	0	0	0	0	0
<b>CAPITAL:</b>	\$2,580	\$11,910	\$36,240	\$31,841	\$27,990
<b>POSITIONS: FT/PT AND Temp</b>					

**PUBLIC SECTOR ECONOMIC EFFECTS:**

The first expense or revenue impacts are expected in 2013 when the SCAPP begins commercial operation. During construction (2008- 2012) all costs associated with the Project will be capitalized. ML&P's share of the cost to construct the facility amounts to \$110,561,000. Once the Project enters commercial operation, over a twenty year time horizon, it is expected to yield \$66.9 million in net present value savings when compared to a "base case" of maintaining and operating our existing relatively inefficient generation assets. The Project is expected to yield 20.470 billion cubic feet of fuel savings over the next twenty years.

**PRIVATE SECTOR ECONOMIC EFFECTS:**

Same as Public Sector Economic Effects

Prepared by: \_\_\_\_\_ Telephone: 263-5826  
 Daniel B. Helmick, Manager, Regulatory Affairs, ML&P

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_  
 James M. Posey, General Manager, ML&P



MUNICIPALITY OF ANCHORAGE  
ASSEMBLY MEMORANDUM

No. AM 498-2008

Meeting Date: July 29, 2008

1 **From:** MAYOR

2  
3 **Subject:** AN ORDINANCE AUTHORIZING THE MUNICIPALITY TO  
4 EXECUTE A PARTICIPATION AGREEMENT, AN OPERATION  
5 AND MAINTENANCE AGREEMENT AND A LEASE AGREEMENT  
6 BETWEEN CHUGACH ELECTRIC ASSOCIATION (CEA) AND  
7 MUNICIPAL LIGHT & POWER (ML&P) FOR THE JOINT  
8 DEVELOPMENT, CONSTRUCTION, OPERATION, AND  
9 OWNERSHIP OF THE SOUTH CENTRAL ALASKA POWER  
10 PROJECT GENERATION FACILITY; AUTHORIZING ML&P TO  
11 EXPEND UP TO \$3,000,000 TO FUND ITS SHARE OF THE  
12 PROJECT'S 2008 CAPITAL EXPENDITURES; AND AUTHORIZING  
13 ML&P TO PROCEED, WITH CEA, TO PROCURE THE TURBINES  
14 FOR THE PROJECT.

15  
16 Having a need to replace aging generation assets with new, more efficient generation units,  
17 ML&P and CEA have since April, 2008 been negotiating the terms of Agreements to  
18 provide for the joint development, construction, operation, and ownership of the South  
19 Central Alaska Power Project (SCAPP). The Project consists of a 180-270 MW gas fired  
20 plant to be located next to CEA's current International Generation Terminal at 5601  
21 Electron Drive, and is expected to cost approximately \$368,537,000, including interest  
22 during construction. ML&P's 30 percent share of the project will provide 54-81 MW of  
23 new generation and ML&P's share of Project costs is expected to be approximately  
24 \$110,561,000. The Project is anticipated to enter commercial operation in the final quarter  
25 of 2012.

26  
27 Among other things, the Agreements (1) define the Project; (2) establish ownership shares,  
28 rights and obligations; (3) provide for CEA management of Project construction and  
29 operation; (4) require each party to develop and deliver a plan for financing the costs of its  
30 share; (5) define defaults and remedies, as well as dispute resolution procedures; (6)  
31 establish a management committee for governance; (7) allocate duties to CEA as the  
32 operator; (8) define the operators' general and specific duties; (9) allocate responsibility  
33 for budgeting, accounting, maintenance of records and the conduct of audits; (10) establish  
34 policies for insurance and indemnification; (11) provide for interconnection protocol; and  
35 (12) establish the land lease rate (\$1/year) and lease term (upon termination of  
36 Participation Agreement).

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38  
39 Significant Project milestones include the following events:

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2	Execution of Three Agreements	August 13, 2008
3	Review of Gas Turbine RFPs	April 22 – August 20, 2008
4	Award Gas Turbine Contract	August 21, 2008
5	Preliminary Engineering & Permitting	April 1, 2008 - December 31, 2009
6	Construction Contract Awarded	April 1, 2009
7	Site Preparation Begins	October 2, 2009
8	Construction Begins	January 1, 2010
9	Commercial Operation Begins	Final quarter 2012

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11 ML&P intends to fund its proportionate share of the SCAPP costs through establishment of  
12 a Commercial Paper program in an amount up to \$100 million and through the use of  
13 retained earnings up to \$10 million. The Commercial Paper program requires ML&P to  
14 obtain a letter of credit from a financial institution. The Commercial Paper program is  
15 expected to be maintained for a three to five year period. ML&P expects to refinance the  
16 commercial paper with long term senior lien revenue bonds within the next five years. No  
17 general obligation debt is required to finance the project. The Commercial Paper program  
18 is utilized for monthly progress payments draws to CEA, as construction manager, for  
19 ML&P's share of Project costs.

20  
21 Currently, budgeted cash flow for ML&P's share of the Project is as follows:

22		
23	2008	\$2,580,000
24	2009	11,910,000
25	2010	36,240,000
26	2011	31,841,000
27	2012	<u>27,990,000</u>
28		\$110,561,000

29  
30 ML&P's Assembly approved 2008/2009 Capital Improvement Budget (CIB) appropriated  
31 \$3,000,000 for new generation for 2008 and approved \$77,000,000 for new generation for  
32 2009, subject to appropriation of funds (November, 2008), in accordance with Charter  
33 Sections 13.04 and 13.05. Further, ML&P's six year CIB budgets \$100,000,000 and  
34 \$70,000,000 for 2010 and 2011, respectively for new generation. Thus, ML&P has  
35 \$250,000,000 budgeted for new generation between 2008 and 2014 in its six year CIB.

36  
37 On the effective date (August 13, 2008) of the Participation Agreement, ML&P has a  
38 financial obligation to proceed with the SCAPP and the purchase of gas turbines for the  
39 SCAPP; the gas turbine proposals are valid through August 21, 2008. ML&P's estimated  
40 share of the gas turbine costs is between \$19 to \$25 million over a two year time frame with  
41 a required down payment of 10% (\$1.9 to \$2.5 million). As with the procurement process  
42 for the gas turbines, major resources required for the project (e.g. engineering, construction)  
43 are to be competitively bid by CEA. ML&P plans to assist CEA with Request for Proposal  
44 (RFP) preparation, as well as participate in the RFP response review and selection.

45  
46 The net present value total costs associated with participation in the SCAPP project for  
47 ML&P over the next twenty years are actually less than a "base case" of maintaining  
48 ML&P's older, relatively inefficient gas turbines. That is, introduction of the SCAPP  
49 project into ML&P's portfolio of generation assets reduces twenty year base case  
50 expenditure requirements for fuel, variable and fixed operation and maintenance expense,

1 capital costs, etc. from \$847.7 million to \$780.8 million, for a net present value savings of  
2 \$66.9 million. Over the next twenty years, the Project reduces ML&P's fuel consumption  
3 by 20.470 billion cubic feet of natural gas.  
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5 As the Mayor discussed at the Assembly work session on July 11, the Municipality and  
6 CEA are moving forward with plans to create a Municipal Generation and Transmission  
7 (G&T) utility and a separate member owned Distribution Cooperative. Once these  
8 proposals are approved by the CEA Board of Directors, the Anchorage Assembly and all  
9 regulatory agencies, including the RCA, the Municipality plans to acquire CEA's 70%  
10 interest in this project. At that time, the financing plan changes. The specifics of how it the  
11 plan changes depends upon the timing of the acquisition, the relationship between short-  
12 term and long-term market rates, the then-estimated cost of the project and other factors.  
13

14 Once those factors are known and the terms of the acquisition are known, the  
15 Administration will present a new resolution to the Assembly for approval of the acquisition  
16 and new financing plan. This may be either a separate resolution or it may be part of the  
17 request to approve creation of the G&T and Distribution Cooperative.  
18

19 **THE ADMINISTRATION RECOMMENDS APPROVAL OF AN ORDINANCE**  
20 **AUTHORIZING THE MUNICIPALITY TO EXECUTE A PARTICIPATION**  
21 **AGREEMENT, AN OPERATION AND MAINTENANCE AGREEMENT AND A**  
22 **LEASE AGREEMENT BETWEEN CHUGACHE ELECTRIC ASSOCIATION (CEA)**  
23 **AND MUNICIPAL LIGHT & POWER (ML&P) FOR THE JOINT**  
24 **DEVELOPMENT, CONSTRUCTION, OPERATION, AND OWNERSHIP OF THE**  
25 **SOUTH CENTRAL ALASKA POWER PROJECT GENERATION FACILITY;**  
26 **AUTHORIZING ML&P TO EXPEND UP TO \$3,000,000 TO FUND ITS SHARE OF**  
27 **THE PROJECT'S 2008 CAPITAL EXPENDITURES; AND AUTHORIZING**  
28 **ML&P TO PROCEED, WITH CEA, TO PROCURE THE TURBINES FOR THE**  
29 **PROJECT.**  
30

31 Prepared by: Municipal Light & Power  
32 Approved by: James M. Posey, General Manager  
33 Municipal Light & Power  
34 Fund certification: Sharon Weddleton, CFO  
35 530-M8040-1071-M3018 BP 2008  
36 \$3,000,000 Capital Funds  
37 Concur: James N. Reeves, Municipal Attorney  
38 Concur: Michael K. Abbott, Municipal Manager  
39 Respectfully submitted, Mark Begich, Mayor  
40