

Submitted by: Chair of the Assembly at the
Request of the Mayor

Prepared by: Municipal Light & Power

For reading: July 29, 2008

CLERK'S OFFICE
AMENDED AND APPROVED ANCHORAGE, ALASKA
Date: 7-19-08
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.

10
11
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, and

32
33 WHEREAS, ML&P and CEA determined the sharing and allocation of such costs and the
34 SCAPP's generating capacity can best be accomplished by acquiring, owning and managing
35 the related property rights necessary to build, own and operate the SCAPP as tenants in
36 common; and

37
38 WHEREAS, ML&P desires for the SCAPP be operated in a cost-effective manner; and
39

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

10
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 25th 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; **provided that it shall not do so until it**
37 **reaches a cost sharing agreement with CEA on the transmission line that connects the**
38 **SCAPP to the ML&P system.**

39
40 **Section 2.** **Prior to executing the Participation Agreement, ML&P shall obtain a**
41 **commitment from CEA to seek economically viable ways to utilize the waste heat from**
42 **SCAPP and to share the benefits from such use equitably between ML&P and CEA.**

43
44 **Section 3.** **ML&P and CEA are encouraged to negotiate with MEA to permit MEA to**
45 **join the SCAPP project.**


46
47 **Section 4[2].** ML&P is authorized to proceed, with CEA as procurer, using its competitive

bid process to acquire the turbines for the Project.

Section 5[3]. ML&P is authorized to expend up to \$3,000,000 to fund its share of the Project's 2008 expenses.

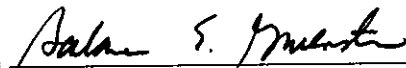
Section 6[4]. This resolution shall take effect immediately upon passage and approval by the Anchorage Assembly.

PASSED AND APPROVED by the Anchorage Assembly this 19th day of August, 2008.



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

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

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

From: MAYOR

Subject: 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.

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

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

Significant Project milestones include the following events:

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

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

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

| | |
|------|-------------------|
| 2008 | \$2,580,000 |
| 2009 | 11,910,000 |
| 2010 | 36,240,000 |
| 2011 | 31,841,000 |
| 2012 | <u>27,990,000</u> |
| | \$110,561,000 |

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

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

The net present value total costs associated with participation in the SCAPP project for ML&P over the next twenty years are actually less than a "base case" of maintaining ML&P's older, relatively inefficient gas turbines. That is, introduction of the SCAPP project into ML&P's portfolio of generation assets reduces twenty year base case

expenditure requirements for fuel, variable and fixed operation and maintenance expense, capital costs, etc. from \$847.7 million to \$780.8 million, for a net present value savings of \$66.9 million. Over the next twenty years, the Project reduces ML&P's fuel consumption by 20.470 billion cubic feet of natural gas.

As the Mayor discussed at the Assembly work session on July 11, the Municipality and CEA are moving forward with plans to create a Municipal Generation and Transmission (G&T) utility and a separate member owned Distribution Cooperative. Once these proposals are approved by the CEA Board of Directors, the Anchorage Assembly and all regulatory agencies, including the RCA, the Municipality plans to acquire CEA's 70% interest in this project. At that time, the financing plan changes. The specifics of how it the plan changes depends upon the timing of the acquisition, the relationship between short-term and long-term market rates, the then-estimated cost of the project and other factors.

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

THE ADMINISTRATION RECOMMENDS APPROVAL OF 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.

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

Content ID: 006612**Type:** Ordinance-InvolvingFunds - AO

AN ORDINANCE 1) AUTHORIZING THE MUNICIPAL MANAGER TO EXECUTE A PARTICIPATION AGREEMENT, AN OPERATION AND MAINTENANCE AGREEMENT AND A LEASE AGREEMENT (AGREEMENTS) WITH CHUGACH ELECTRIC ASSOCIATION (CEA) ON MUNICIPAL LIGHT & POWER'S (ML&P) BEHALF FOR THE JOINT DEVELOPMENT, CONSTRUCTION, OPERATION, AND OWNERSHIP OF THE SOUTH CENTRAL ALASKA POWER PROJECT (SCAPP OR THE PROJECT) GENERATION FACILITY, 2) AUTHORIZING ML&P TO EXPEND UP TO \$3,000,000 TO FUND ITS SHARE OF THE PROJECT'S 2008 CAPITAL EXPENDITURES, AND 3) AUTHORIZING ML&P TO PROCEED WITH CEA TO PROCURE THE TURBINES FOR THE PROJECT.

Author: maglaquijp**Initiating** MLP**Dept:****Date** 7/21/08 1:17 PM**Prepared:****Director** James M Posey
Name:**Assembly****Meeting** 7/29/08**Date:****Public**
Hearing 9/9/08 8/12/08
Date:

2008 JUL 23 PM 3:04
C:\MSD\2008\006612

| Workflow Name | Action Date | Action | User | Security Group | Content ID |
|--------------------------|---------------------|---------------|-------------------|-----------------------|-------------------|
| Clerk_Admin_SubWorkflow | 7/25/08 10:21 AM | Exit | Heather Handyside | Public | 006612 |
| MuniMgrCoord_SubWorkflow | 7/25/08 10:21 AM | Approve | Heather Handyside | Public | 006612 |
| MuniManager_SubWorkflow | 7/25/08 10:03 AM | Approve | Michael Abbott | Public | 006612 |
| MuniManager_SubWorkflow | 7/24/08 4:16 PM | Checkin | Joy Maglaqui | Public | 006612 |
| Legal_SubWorkflow | 7/24/08 3:41 PM | Approve | Rhonda Westover | Public | 006612 |
| CFO_SubWorkflow | 7/24/08 1:51 PM | Approve | Wanda Phillips | Public | 006612 |
| OMB_SubWorkflow | 7/23/08 3:59 PM | Approve | Wanda Phillips | Public | 006612 |
| MLP_SubWorkflow | 7/21/08 1:35 PM | Approve | Joy Maglaqui | Public | 006612 |
| AllFundOrdinanceWorkflow | 7/21/08 1:26 PM | Checkin | Sandra Fletcher | Public | 006612 |



CONSENT AGENDA - INTRODUCTION