

BUDGET ASSUMPTIONS

PUBLIC UTILITIES
1996
OPERATING AND CAPITAL BUDGET ASSUMPTIONS

Below are general and specific budget assumptions/guidelines provided to utilities for preparation of their 1996 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 1996.

RATE INCREASES:

Rate increases must meet certain criteria before being proposed. Namely, budget reductions should be considered as an alternative to rate increases. In addition, one or more of the following conditions need to be satisfactorily demonstrated:

- Debt service coverage no longer adequate.
- Projected cash reserves for working capital no longer adequate on a sustained basis to cover operating costs during 1995/96.
- Debt/equity ratio projected to fall below criteria established by the regulatory body authorized to oversee the utility.
- Increased rate revenue determined to be the most prudent funding source for maintaining the utility's plant in a cost-effective working condition.

MUNICIPAL UTILITY SPECIAL ASSESSMENT (MUSA):

Mill rates for MUSA (in lieu of taxes) were assumed to be same as 1995 mill rates. MUSA does not apply to the Port or Merrill Field. 1.25% MUSA will continue to apply only to Solid Waste Disposal and to the Anchorage Telephone Utility.

REVENUE DISTRIBUTIONS:

The Port (and ATU) will continue to provide a revenue distribution to general government. The Port's revenue distribution will increase \$243,000 in 1996 so that it more closely approximates a MUSA-like payment. Solid Waste Disposal will begin providing general government a dividend in 1996 of \$200,000. It is assumed that ATU will provide general government with the same \$5.5 million dividend provided last year. All other utilities will continue to work toward providing their owners (the general public) with an appropriate rate of return, guided by industry standards and limited to each utility's ability to pay.

INTEREST:

Interest related to new 20-year G.O. bonds is assumed to be 5.85%-6.0% in 1996. For new Revenue bonds interest is assumed to be 6.15%-6.45%. Interest income from invested cash is assumed to be 5.9%-6.1%.

INTRAGOVERNMENTAL CHARGES (IGCs):

The Office of Management & Budget (OMB) provided each utility with IGC charges to be budgeted in 1996. In general, the most significant increase in utility IGCs was attributable to the reallocation of MISD costs due to a further reduction of services provided to ATU.

POPULATION:

Population in 1996 is assumed to be 1.0% or less.

INFLATION:

Inflation, in general, is assumed to be 3.0% in 1996. Each utility, however, has applied specific inflation rates to the commodities they use, as appropriate.

COMPENSATION COSTS (Salaries and Benefits):

A pay freeze is assumed for all labor groups in 1995. Wage increases in 1996 are assumed to be 2.9% for IBEW/ML&P and 2.5% for JCC. For all other labor groups, utilities were provided with a lump sum dollar amount to reserve for potential other wage increases in 1996. Inflationary increases related to benefits were also provided to the utilities based on recommendations by the Benefits Committee.

ENVIRONMENTAL MANDATES:

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

1996 BUDGET IMPACTS (specific to individual utilities)--

MUNICIPAL LIGHT AND POWER

ML&P's 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 established for 1996 will decrease the cost that ML&P pays for gas by approximately \$800,000 for 1996. The cost of gas is a flow through cost for ML&P; which means that as fuel costs change, revenues change correspondingly. ML&P's net income will, therefore, not be affected by the change in fuel costs.

Simultaneous with the fuel cost savings ML&P is proposing a rate increase of 2.57% in 1996. This rate increase is consistent with meeting the goals established in ML&P's equity management plan which the Assembly approved in 1990. It is anticipated that the fuel cost savings will offset the rate increase, so that ML&P customers will not experience an increase in the overall rate charged.

Key capital projects with significant dollar impact are the Superconducting Magnetic Energy Storage Device (SMES), Eklutna Hydroelectric Project and the Northern Intertie. These large projects are all in progress and scheduled to be completed as part of the proposed 1996-2001 Capital Program.

ANCHORAGE WATER AND WASTEWATER

AWWU has budgeted \$3 million in revenue bonds to be issued by the Water Utility. Additionally, the Wastewater Utility intends to borrow \$6.2 million in 1996 from the State loan program. AWWU's capital program will be funded with a mixture of debt and equity, which is necessary to offset the decline in State capital appropriations. Both the Water and Wastewater Utilities implemented APUC-approved Cost of Service studies during 1995. These studies resulted in changes to the various service rates, but did not result in an overall increase in total revenue collected by AWWU.

AWWU, ^{work to} ~~along~~ with its consultant, ~~are in position to~~ ^{has completed} update and refine AWWU's Information Systems Integration Plan for the years 1995-2001. Assuming approval is received for the project in late 1995, implementation would begin in 1996.

SOLID WASTE SERVICES

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. 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. SWS originally planned to upgrade the leachate collection system in 1995,

however the engineer's estimate for the project will not be complete until 1996. The \$3.8 million cost of the project is split \$1.2 million in 1995 and \$2.6 million in 1996. The \$2.6 million expense in Solid Waste Disposal's 1996 operating budget will result in a \$1.8 million net loss per Generally Accepted Accounting Principles (GAAP). This net loss is purely an accounting entry and therefore should not be construed as a sign of negative performance on the part of the utility. Solid Waste Disposal is expected to continue to generate strong financial results (e.g., in areas such as net income, cash balances, and equity levels) well into the future.

PORT OF ANCHORAGE

Increased revenues are expected from planned reductions to discounts on Preferential Usage Agreement charges and increased land valuations of Port lots. These increased revenues will be partially offset by the Port's 1996 Utility Revenue Distribution of \$601,000, which represents an increase over the prior year dividend amount.

The Port's 1996 Operating budget anticipate receiving \$830,000 from Petroleum Valve Yard Users to partially offset total construction costs associated with the new Petroleum Valve Yard facility. The Port's 1996 Capital budget includes a request for a \$4.2 million state grant to commence construction on the Port's 1996 Land Development Project-Transit Area "E".

MERRILL FIELD AIRPORT

Merrill Field Airport continues to actively pursue federal and state grant funding for capital improvement projects identified in the 1996-2001 Capital Program. Thus far in 1995, Merrill Field Airport has received \$1,030,000 in federal funds and the Federal Aviation Administration (FAA) has indicated an interest in continuing funding of capital projects for 1996 and beyond.