

MEMORANDUM

TO: MAYOR JENSEN AND BOROUGH ASSEMBLY
FROM: KARL HAGERMAN, UTILITY DIRECTOR 
SUBJECT: PMPL CAPITAL PROJECT BOND ISSUANCE – ORDINANCE #2021-12
DATE: 7/13/2021
CC: STEVE GIESBRECHT, BOROUGH MANAGER

Please find in the Assembly packet, Ordinance #2021-12, an ordinance that proposes to place the approval of \$7.8 million in Revenue Bonds on the October ballot for voter approval.

The ordinance directly addresses the needs of the power and light department to incur debt in order to complete two very important projects for the community – Blind Slough Hydro and Scow Bay Generation. A rundown of the projects is presented here:

Blind Slough Hydro Refurbishment

This project has been in development for approximately three years. It started with a condition assessment and a report from McMillen Jacobs and Associates that detailed the state of the various equipment in the powerhouse at the facility and recommended moving forward on a project to refurbish or replace much of the equipment for the first time since its last major update in 1957. What followed was a design contract that sought to fine tune the direction of the project and develop equipment procurement plans and specifications so that proposals for equipment could be considered by the Assembly. Proposals were received and the Assembly approved a conditional award to Gilkes Hydro for supply of equipment, contingent upon an approval of project financing. The ordinance before the Assembly is the next step in securing that financing for the equipment and for procuring the final construction plans, permitting and construction contractor. The project in total is estimated to cost up to \$9 million. The utility has planned to fund up to 30% of the project with electric fund reserves and that amount of contribution to the capital project fund has funded all professional services up to this point. The project itself will see replacements for virtually all equipment and switchgear in the powerhouse. The turbine and generator will be replaced, along with the governor system, lubrication system, all controls and other mechanical systems. To move forward with a Notice to Proceed to the equipment supplier and continue on with procurement of permitting and a construction contractor, the ordinance must be approved by the Assembly and subsequently approved by a majority of all voters in the Borough. The project will support the legacy of affordable local hydro power and stable rates that was begun by our local forefathers almost 100 years ago. Their vision of providing access to low-cost hydro power all those years ago has continued to pay dividends to our population and will continue this legacy far into the future.

Scow Bay Generation

This project is just beginning, but it is also very important to the utility and the community. As mentioned recently in a report to the Assembly, PMPL has seen winter peak loading on our system that is approaching our maximum rated standby power capacity. If additional generation is not procured, impacts to the community could be serious in the event of a SEAPA outage during the cold weather months. The best situation for citizens and businesses in the community is for PMPL to restore any outages with our diesel plant and Blind Slough, if SEAPA is unavailable for any reason. If our standby capacity cannot cover the peaks of our system, the utility must employ load shedding strategies to reduce the restoration load. This means that some customers will be without power for extended periods of time. To address this problem, PMPL has requested a proposal from Electric Power Systems (EPS) a firm that has been doing business with the utility for over 20 years. They

know Petersburg's system very well and provide exceptional service when called upon for professional services in the electrical supply field. EPS's proposal is included in this packet as the utility is seeking to award the work of completion of a design study to this firm. The design study will provide a road map to the utility insofar as developing load projections, strategies for increasing standby generation, strategies for retiring older generation units to maintain a high standard of reliability and costing information to help with budgeting and planning for major capital improvements that will be needed to satisfy standby system demands for the next 10 years. After the design study is complete, and financing is in place to move forward with the initial project to increase local generation, the utility will solicit for project design and then move to bidding for equipment and contractors to complete the work.

Ordinance #2021-12

This ordinance, if approved by the Assembly, will be placed on the October ballot for Borough-wide voter consideration. The principal amount of the bond issuance will be approximately \$7.8 million. This amount represents 70% of the costs of both projects under consideration as well as approximately \$100,000 in bond issuance costs and the establishment of a debt service reserve fund that will equal one year's value of debt service payments or approximately \$420,000. The ordinance has been developed with input from the Borough's bond counsel (Stradling), the Alaska Bond Bank, D.Hittle and Associates (rate consultant) and Sara Heideman (Borough Attorney).

Electric Rates

As a result of this proposed debt and the need to fully fund repayment of the debt service with power and light revenues, the utility has been working with a rate consultant since before the onset of the pandemic to understand the impacts to local rates. Presently, the final completion of the rate study and the recommendations for rate design is contingent upon the outcome of consideration of the bond issue. If the bond issue is not approved, local electric rates will look much different than if the utility is able to move forward to project completion. At present, if the bond issue is approved by the Assembly and public, rates will need to increase by 9.5% in FY22 and 9.5% in FY23 in order to generate the additional revenue required to repay the annual debt service. I will have additional information regarding the rate study and impacts to rates during the subsequent readings of ordinance #2021-12.

Project Importance

As mentioned above, both of these projects are vital to Petersburg. The cost of power produced from Blind Slough has consistently been much less than purchasing wholesale power from SEAPA. The expense of completing a replacement project does increase that cost but we still retain a lesser cost per kilowatt-hour produced when compared to the wholesale rate from SEAPA. Standby generation capacity to meet peak loads is a fact of life for utilities that have limited power supply resources to draw from. A failure to address adequate standby power needs would put citizens and businesses at risk during the winter, when heat is most important to Petersburg's health and safety.

All infrastructure of the Borough must be renewed from time to time. Major improvements to Blind Slough have not occurred for 65 years and it is time to rebuild this facility so that it can continue to provide low-cost, dependable power to our local grid for many more decades. The last update to the standby generation stable was accomplished in 2013 and load peaks have continued to grow since that time. Both projects need to be completed and it is my hope that the Assembly and community will agree with this assertion.

Thank you for your consideration.