



MUNICIPALITY OF ANCHORAGE

Assembly Memorandum

No. AM - 2018

Meeting Date: _____

1 **From:** MAYOR

2
3 **Subject:** AN ORDINANCE AUTHORIZING THE SALE OF
4 SUBSTANTIALLY ALL ASSETS OF MUNICIPAL LIGHT &
5 POWER (ML&P) TO CHUGACH ELECTRIC ASSOCIATION, INC.,
6 AND APPROVING A THIRTY-FIVE YEAR POWER PURCHASE
7 AGREEMENT, WITH OPTION TO PURCHASE, WITH CHUGACH
8 ELECTRIC, INC. FOR POWER GENERATED BY THE EKLUTNA
9 HYDROELECTRIC PROJECT.

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11 This proposed ordinance authorizes the sale of substantially all of the assets and
12 business of Municipal Light & Power (ML&P) to Chugach Electric Association, Inc.
13 (Chugach Electric), and approves a companion thirty-five year Power Purchase
14 Agreement, with incorporated option to purchase, with Chugach Electric for the
15 power generated by the Municipality of Anchorage's (MOA) share of the Eklutna
16 Hydroelectric Project.

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18 In June of 2017 the Assembly, via AR 2017-235, directed the administration to
19 engage with ML&P and Chugach Electric to explore opportunities for merger of the
20 two utilities. This direction followed upon similar requests from the Regulatory
21 Commission of Alaska and local business leaders via the Anchorage Economic
22 Development Corporation. Through subsequent conversations it became clear
23 that a merger was not possible, but that a sale of ML&P might be an alternative to
24 achieve the efficiency and consolidation benefits desired by the Assembly.

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26 The administration commissioned an independent financial analysis to assess
27 ML&P's strategic position and potential market value in a sale transaction, and
28 received and reviewed expressions of interest from Chugach Electric and other
29 parties interested in a purchase of ML&P. Assessed against these metrics,
30 Chugach Electric proposed a competitive price and competitive terms for the
31 purchase of ML&P.

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33 Through AO 2018-1(S), passed by the Assembly on January 23, 2018, the
34 Assembly found that a directed sale to Chugach Electric would be in the public
35 interest because it would: (1) consolidate the majority of Anchorage electrical
36 service in a single utility, increasing efficiencies in power generation and electrical
37 infrastructure; (2) unify local control over the majority of Anchorage's electrical
38 service, through a utility cooperatively owned by residents of the Municipality; (3)
39 consolidate utility ownership within Alaska's Railbelt; (4) keep proceeds from

1 Anchorage electrical service in the local economy; (5) maintain consistent union
2 representation for ML&P employees; and (6) preserve existing rates for ML&P
3 customers. AO 2018-1(S) submitted to the qualified voters of the Municipality a
4 charter amendment permitting ML&P to be sold to Chugach Electric and
5 authorizing disposal of the proceeds of sale.
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7 On April 3, 2018, 65.08% of qualified voters voted in favor of Proposition 10, thus
8 amending the Municipal Charter to permit all or part of the assets and business of
9 ML&P to be sold, leased, or otherwise disposed of, to Chugach Electric, and
10 authorizing disposal of the proceeds of any such transaction. In accordance with
11 the terms of Proposition 10, the approved sale transaction was required to include
12 (1) payment of a competitive value of approximately \$1 billion for acquisition of
13 ML&P; (2) use of the proceeds to retire ML&P and MOA debt, replace ML&P's
14 current payments in lieu of tax, and fund the MOA Trust Fund; (3) no layoffs of
15 ML&P or Chugach employees as a result of the transaction; and (4) no increase in
16 base rates for existing ML&P and Chugach Electric ratepayers as a result of the
17 transaction. Other terms of the sale were left open for negotiation by MOA and
18 Chugach Electric.
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20 Representatives of MOA and Chugach Electric commenced negotiations of a sale
21 transaction upon voter approval of Proposition 10, and have been negotiating this
22 complex deal over the last six months. At this point, the negotiating teams have
23 reached agreement on a final deal structure which aligns with the requirements of
24 the Anchorage Charter (as amended), Proposition 10, AO 2018-1(S), and the
25 policy goals of MOA for the sale of ML&P. The full terms of the deal are reflected
26 in documents attached to this Ordinance as Exhibit A and Exhibit B. The key terms
27 of the deal are:
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- 29 • A total transaction value of one billion nine million six hundred thousand
30 dollars (\$1,009,600,000.00), subject to adjustment for any real property
31 assets retained by MOA by mutual agreement;
- 32 • Cash payment by Chugach Electric to MOA at closing in the amount of
33 seven hundred sixty-seven point eight million (\$767.8 million), subject to
34 adjustment for any real property assets retained by mutual agreement;
- 35 • Payments in lieu of taxes (PILT) by Chugach Electric annually for fifty years,
36 calculated based upon a formula tied to the adjusted net book value of the
37 proportion of assets located within the ML&P service territory as of the date
38 of closing, with an estimated total aggregate net present value of one
39 hundred sixty-six point eight million (\$166.8 million);
- 40 • A companion Power Purchase Agreement, with incorporated option to
41 purchase, for power generated by the MOA's share of the Eklutna
42 Hydroelectric Project, with a net present value of between forty-eight point
43 eight million (\$48.8 million) and seventy-five million (\$75 million), depending
44 upon the election of Matanuska Electric Association to purchase its
45 proportionate share of the MOA's share for twenty-six point two million
46 (\$26.2 million);
- 47 • A post-closing commitment by Chugach Electric that non-COPA rates (a/k/a
48 base rates) for existing ML&P and Chugach ratepayers will not increase as
49 a result of this transaction;
- 50 • Transfer of all IBEW-represented ML&P employees to Chugach Electric in
51 accordance with the terms of a Transition Agreement executed by and

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between IBEW and Chugach Electric;

- Offers of comparable employment to all non-represented and executive employees of ML&P as of the date of closing, including a salary and retirement contribution combined total value that is at least equal to the amounts paid by ML&P at the time of closing; and
- A post-closing commitment by Chugach Electric that no ML&P or Chugach Electric employees will be laid off as a result of this transaction

All terms of the deal are subject to approval by the Regulatory Commission of Alaska (RCA), including conditions or modifications that the RCA may impose, provided that the parties may elect not to close the deal if any required RCA condition or modification has a materially adverse effect on either party.

MOA's chief goals in negotiating the terms of this transaction have been: (1) minimizing the financial risk to the MOA; and (2) adhering to the protections for workers and ratepayers set forth in AO 2018-1(S) and Proposition 10. MOA has also sought to ensure that ML&P legacy customers do not bear a disproportionate financial burden as a result of the transaction, and that the structure of the transaction does not create a disincentive for continued investment in capital infrastructure in the ML&P legacy service areas. The proposed deal meets these goals because:

- The bulk of the purchase price is paid in cash at closing;
- MOA will exclude its interest in the Eklutna Hydroelectric Project from the assets sold, and MOA and Chugach Electric will enter into a companion Power Purchase Agreement for the power generated by this interest. This structure provides MOA the same financial benefit which would have been received from inclusion of the asset in the sale, and leaves MOA with title to this valuable asset during the term of the Power Purchase Agreement;
- PILT payments will be made for 50 years, assuring that taxes may not rise as a result of this transaction, and providing extensive lead time for MOA to transition away from this revenue source;
- All current ML&P employees will be offered comparable employment with Chugach Electric, and Chugach will commit that no ML&P or Chugach Electric employees will be laid off as a result of this transaction;
- Chugach Electric will commit that non-COPA rates (a/k/a base rates) for existing ML&P and Chugach ratepayers will not increase as a result of this transaction;
- ML&P legacy customers will bear the responsibility for PILT payments only while they are receiving the corresponding dedicated benefit of the Beluga River Unit gas; after December 31, 2033, both the burden of the PILT payments and the benefit of any remaining BRU gas will be shifted to all customers; and
- PILT will be calculated based on a formula tied to the adjusted net book value of the proportion of assets located within the ML&P service territory as of the date of closing, removing any incentive for Chugach Electric to move assets to or develop assets only within the Chugach legacy service territory.

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THE ADMINISTRATION RECOMMENDS APPROVAL.

Prepared by: Rebecca A. Windt Pearson, Municipal Attorney
Concur: Mark Johnston, General Manager, ML&P
Concur: Lance Wilber, Director, Office of Management and
Budget
Concur: Alex Slivka, CFO
Concur: William D. Falsey, Municipal Manager
Respectfully submitted: Ethan A. Berkowitz, Mayor