



General Manager
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TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting General Manager

DATE: December 7, 2021

RE: **Authorizing Budget Transfer – 2021 Whitman Lake Hydroelectric Project 2021 True-Up Payment to Southeast Alaska Power Agency (SEAPA)**

The motion detailed below was prepared at the request of Electric System Engineering Manager Jeremy Bynum, who asked that it be placed before the City Council for consideration at its meeting of December 16, 2021. If adopted, the motion provides for transferring \$563,200 from the Electric Division's 2021 Purchased Power Account (Account No. 525.05) to the Whitman Lake - SEAPA True-up Account (Account No. 525.10), in order to provide sufficient funds to make the 2021 Whitman true-up payment to the agency. The true-up payment for 2021 is projected at \$775,200. The Engineering Manager's transmittal memorandum is attached and requires no elaboration on the part of the General Manager's office. I concur with Mr. Bynum's recommendation.

The Finance Director and Electric Division Manager will attend the City Council meeting of December 16, 2021, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended the City Council adopt the motion authorizing the Acting General Manager to transfer \$563,200 from the Electric Division's 2021 Purchased Power Account (Account No. 525.05) to the Whitman Lake - SEAPA True-up Account (Account No. 525.10), in order to provide sufficient funds to make the 2021 Whitman true-up payment to the Southeast Alaska Power Agency.

Recommended Motion: I move the City Council authorize the Acting General Manager to transfer \$563,200 from the Electric Division's 2021 Purchased Power Account (Account No. 525.05) to the Whitman Lake - SEAPA True-up Account (Account No. 525.10), in order to provide sufficient funds to make the 2021 Whitman true-up payment to the Southeast Alaska Power Agency.



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TRANSMITTAL MEMORANDUM

TO: Lacey Simpson, Acting KPU General Manager

FROM: Jeremy T. Bynum PE, Electric System Engineering Manager

DATE: December 6, 2021

SUBJECT: **Whitman True-up Agreement Budget Transfer**

The Whitman Lake Hydroelectric Project (Whitman Project) is a power generating facility wholly owned and operated by the City of Ketchikan, d.b.a. Ketchikan Public Utilities (KPU). KPU is a Member Utility of the Southeast Alaska Power Agency (SEAPA) and a signatory of the Power Sales Agreement (PSA) with SEAPA, Petersburg, and Wrangell.

Both SEAPA and KPU (Parties) agreed that operation of the Whitman Project independently by KPU may result in lost sales to SEAPA in any given calendar year, and that development of a methodology to quantify the loss in sales in megawatt-hours (MWh) is the principal task to be accomplished by the agreement, the Whitman True-up Agreement. Both Parties agreed that “lost sales to SEAPA” in the agreement is defined as a calculated amount of energy that may spill at Tyee and/or Swan lakes that would not have spilled but for the operation of the Whitman Project during those times when SEAPA had the energy and capability to match the Whitman Project output. The Whitman True-up Agreement was initially executed on July 30, 2014 and updated on June 22, 2018; term and renegotiation are set upon expiration or termination of the PSA with an option to renegotiate three (3) years after the effective date.

In KPU’s 2021 Budget, KPU planned for ninety-eight (98) gigawatt-hours (GWh) of SEAPA purchased power (\$6,646,000) and three and a half (3.5) GWh for the Whitman True-up (\$212,000); the budget assumed that there would not be a significant need for a Whitman True-up payment. During the current Whitman True-up period, weather conditions trended toward heavy rain/inflows and all lakes achieved spill, displacing SEAPA sales. The Whitman Project is estimated to provide eleven and four-tenths (11.4) GWh of energy this year, this prompts for a larger than projected Whitman True-up payment (\$775,200).

One positive outcome of the weather conditions has been an increased utilization of KPU “legacy” generating facilities; this increase in local generation has reduced the need for purchased power from SEAPA by \$1,185,000, which will provide a funding source for the Whitman True-up payment. The Electric Division is projecting a Whitman True-up total of \$775,200 and a purchased power total of \$5,461,000. KPU’s 2021 Budget has \$212,000 for the Whitman True-up and \$6,646,000 for purchased power. Projections leave a Whitman True-up shortfall of \$563,200 and a purchased power surplus of \$1,185,000. A transfer of surplus purchased power funding will meet the needs of the Whitman True-up shortfall.

This request is to authorize a budget transfer of \$563,200 from Account 525.05, Purchased Power, to Account 525.10, Whitman Lake - SEAPA True-up. This transfer of funding will bring the total funding for the Whitman True-up from \$212,000 to \$775,200 and reduce Purchased Power from \$6,646,000 to \$6,082,800.

Cc: Andy Donato, Electric Division Manager
Michelle Johansen, Finance Director
Diane Bixby, Administrative Assistant