

MANAGERS REPORT
January 23, 2012

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE

UPDATES / FOLLOW-UP

South Peninsula Gas Line and Distribution System Update

This Manager's Report is devoted entirely to the proposed natural gas transmission line and the gas distribution system within the Homer city limits. I think this is appropriate because there is a lot happening on this front right now and it would be good for the Council to be engaged and proactive. There are very specific steps the Council can take in the next few months that can greatly assist in making this project a reality.

The Transmission Line

This past summer, the Governor vetoed capital funding which would have financed construction of an 8 inch gas transmission line from Anchor Point through Homer to Kachemak City. In his veto message, and in subsequent interviews, the Governor indicated that he wanted local consumers to participate in financing the line. In other words, he wanted to see some "skin in the game". Although, we still believe there are numerous valid arguments against this position, the City lobbyist and many key legislators believe this is something that must be addressed if we want the Governor's support.

Since the Governor's veto, Representative Seaton has been working with Enstar and the RCA on a possible tariff increase that would enable local consumers to pay for some of the cost of constructing the transmission line. It would be a local match of sorts. The current idea on the table is that local consumers would pay an additional \$1.00 per mcf above the "postage stamp" rate for gas (what everyone else in the Enstar service area pays) for 10 years. This would raise about \$2.5 Million. The extra dollar in the tariff would be extinguished after 10 years or sooner if the target of \$2.5 Million is reached. Enstar would provide the \$2.5 Million upfront and would be repaid through the tariff increase. Instead of asking the state for 10.5 Million, the request would now be in the neighborhood of \$ 8 Million.

This idea seems to be gaining traction and support. Enstar has agreed in concept. Key legislators who are in positions of power and have the ear of the Governor appear to be lining up in favor. A meeting with key legislators, the Governor, and Enstar is expected to take place in the next month/ In short, this could be a key tipping point in making this project a reality.

It would be beneficial if the City Council took a position on this idea. I think a constructive role for the City would be to disseminate information to the public and make sure local residents understand this proposal and what it would mean for them in terms of cost and payback period. My understanding is that even with this additional cost on the gas bill, the consumer would still save over 50% on heating costs at current prices. Note: I am talking here about just the cost of gas. This does not include the costs associated with getting the gas to your house or making necessary conversions. We hope to have some updated spreadsheets addressing this type of information at the meeting. We also plan to provide a list of anticipated distribution line and conversions costs.

The Distribution System

Local consumers will pay for the cost of building the distribution system within the Homer City limits under any scenario. The big question is whether the City will stimulate and quicken the pace of construction of the distribution system and make it easier for its residents to hook up by providing financing with attractive terms. I have requested projected construction costs and a build-out plan from Enstar so that the Council could fully evaluate its options. Last week we received a proposed build-out plan for the “core area” and a first shot at estimated costs. There were good reasons for starting with the core area but however, there are also good arguments for doing the entire town at once. We think that the build-out plan could be revised in certain areas and that the costs can be lowered. We will be working with Enstar and the City Planning and PW departments on that this week. We plan to have the build-out map available at the meeting. The core area contains 37 miles of road and an estimated cost of about \$6 Million.

I believe that the local economy and cost of living would benefit substantially if the City providing financing for the distribution system. There are arguments on either side of this but I think the proper timing for this discussion is now. The Borough and Kachemak City are already positioned to provide financing. City participation is important because it may have a bearing on whether this project moves ahead. I am aware that City participation is anticipated and assumed by Legislators, the Governor, and Enstar. But, it is the City’s finances, fund balances, and credit rating that we must also take into consideration. Key factors to be considered include:

- The costs/and benefits to the economy and local business and residents
- The type of financing mechanism (LID, Special Service Area), etc.
- The lending institution (Commercial Bank, AIDEA, Bonds, etc).
- The overall fiscal health of the city and its capacity to take on debt.
- Is a public vote required or desirable

Financing Mechanisms

I believe the two most logical approaches would be an LID or a Special Service Area. One uses property taxes to repay the debt, the other uses special assessments on

benefitted properties, similar to what the City already does with water and sewer LIDs. There are very definite advantages and disadvantages to each which we can discuss in more detail. I am currently looking at the options and will be prepared to make a recommendation very soon. If Council decides to move ahead, key considerations will be:

1. The scope of the LID or SSD
2. Whether the LID or SSD is Council initiated or initiated by the benefitted property owners.
3. Whether a vote is needed or desirable.

Next Steps:

- A workshop, probably several or one that lasts more than an hour
- Decision on whether to provide financing. Supporting resolutions, ordinances, etc.
- Revise Utility Code
- Revise LID Code

ATTACHMENTS

1. Homer Area Natural Gas Pipeline Project: Approved 2011-2012 Action Plan
2. Proposed gas line and gas line distribution system maps and spreadsheets will be available at the meeting.