EXHIBIT D

STATEMENT of COSTS and FINANCING

INTRODUCTION

The City and Borough of Sitka (Sitka) is the current licensee and applicant for a new license for the Blue Lake Hydroelectric Project (Project), Federal Energy Regulatory Commission (FERC) No.*2230*. The Federal Power Act (FPA) requires that FERC must compensate Sitka if it decides not to issue Sitka a new license for the Project. Specifically, Section 14 of the FPA provides that the entity to which FERC issues the new license for the Project must pay Sitka its "net investment" in the Project, plus the value ("severance damages") of any other property for which the value is "dependent for its usefulness upon the continuance of the license." Sitka believes that this draft license application demonstrates that it should receive a new license for the Project. Nevertheless, as required by FERC's regulations, this exhibit provides the basic information upon which FERC can establish the compensation that would be required in the event that it determined not to issue a new license to Sitka.

ORIGINAL COSTS

This section does not apply to the Project because Sitka is not applying for an initial license for the Project.

TAKEOVER COST PURSUANT TO SECTION 14 of the FEDERAL POWER ACT

Pursuant to Section 4.51(e)(2) of Title 18 of the Code of Federal Regulations (CFR), this section does not apply to the Project because Sitka is a municipality.

NEW DEVELOPMENT COSTS

As used here, "new development costs" include (a) any capital expended to carry out improvements or betterments to the Project consistent with existing long-term plans that will continue during the term of a new license, or with the proposals contained in Exhibit B, as well as (b) any capital required to provide environmental mitigation or enhancement during the term of a new license.

New development costs, based upon proposed Project improvements, operations proposals, and protection, mitigation, and enhancement (PME) measures, will be included in the final license application. The information will include the cost of developing the license application as well as the estimated capital cost and estimated annual operation and maintenance expenses for each proposed PME measure.

ANNUAL COSTS OF PROJECT

OPERATION and MAINTENANCE EXPENSES

Estimated annual costs of operating the Project are presented in Table D-1. These costs are based on current operations and do not include costs associated with the potential changes in Project operations discussed in Exhibit B of this draft license application. The costs associated with energy production at Blue Lake are primarily related to annual plant operations and maintenance (O&M) and minor administrative fees related to the amount of energy produced, as summarized in Table D-1.

Table D-1. Blue Lake Hydroelectric Project Annual Production Expenses

Item	Fiscal Year Ending June 30				
	2000	2001	2002	2003	2004
Personnel Salaries, Wages and Benefits	$ -	$ -	$ -	$ 736,606	$ 708,969
Insurance				218,277	227,967
Other				153,940	113,002
Total Production Expenses	$ 1,076,265	$ 1,209,439	$ 1,056,269	$ 1,108,823	$ 1,049,939
Net production (kilowatt-hours) [1]	40,396,374	47,358,090	48,269,803	41,521,450	54,429,727
Expenses per net kilowatt-hour [2]	$ 0.027	$ 0.026	$ 0.022	$ 0.027	$ 0.019

[1] Includes energy production of the small hydroelectric generator at the fish release valve.

The Project also has fixed costs associated with ownership of the facility and its availability for providing capacity to the Sitka municipal electric system, producing energy, and providing other services. Under current financial conditions, direct annual fixed costs for depreciation amount to about $270,945 per year, or $0.005 per kilowatt-hour (kWh) at energy output of 54,429,727 kWh, the 2003-2004 Project generation. There are no interest charges associated with the Project since the loans incurred by Sitka to fund the initial construction of the Project have been retired. The total of production expenses shown in Table D-1 and depreciation is approximately $1,320,000 per year or approximately $0.024 per kWh based on energy generation of 54,429,727 kWh.

All costs incurred by Sitka in relicensing of the Project will be added to and included in the Project book value at an appropriate time. This will increase the plant fixed costs and will be recovered in rates charged to electric customers. Currently the total costs of energy produced by the Blue Lake and Green Lake hydroelectric system in Sitka is about 6.0 cents per kWh and this unit cost has been used to evaluate changes in the operation of the Sitka hydroelectric power generation system.

ANNUAL FEES AND CHARGES

Sitka pays annual FERC administrative charges and fees under Section 10(e) of the FPA. Table D-2 summarizes the annual administrative fees that Sitka has paid over the past 10

years to FERC, as well as annual fees that it pays for the use of federal lands managed by the USDA Forest Service.

Table D-2. Blue Lake Hydroelectric Project Annual Administrative and Land Use Fees

Fiscal Year Ending June 30	Administrative Charges	Land Use Fees	Total Annual Charges
1995	$ 6,180	$ 10,690	$ 16,870
1996	6,205	10,670	16,875
1997	6,025	10,705	16,730
1998	6,043	10,636	16,679
1999	5,171	10,428	15,599
2000	6,238	10,237	16,475
2001	5,282	10,140	15,422
2002	6,068	9,965	16,033
2003	8,589	9,901	18,490
2004	7,194	10,337	17,531

PROPERTY TAXES

No lands within the Project boundary are subject to property taxes.

CAPITAL EXPENDITURES

Capital expenditures associated with the Project have averaged approximately $146,000 per year over the past ten years, which represents roughly 11.5 percent of the annual capital expenditures for the Sitka electric department over the last ten years as a whole.

CAPITAL and OPERATING COSTS of PROPOSED ENVIRONMENTAL MEASURES

The estimated costs of potential PM&E measures associated with a new FERC license for the Project are shown in Table D-3.

Table D-3. Blue Lake Hydroelectric Project Estimated Costs of Proposed PM&E Measures (2005 dollars)

Item Description	Initial Capital Cost (2005$)	Annual O&M Expense [1]	Replacement Power Cost [2]	Average Total Annual Cost [3]
1. Campground Culvert	[$30,000]	$ -	$ -	$ -
2. Campground Grading	[10,000]			
3. Overlook Improvements	[10,000]			
4. Third Turbine at Blue Lake	[10,000,000]			
Item 5				
Item 6				
Total	$ -	$ -	$ -	$ -

[1] Estimated average annual operation, maintenance and related administrative and general expenses.

[2] Estimated diesel generation cost to replace Project power generation foregone as a result of specific PM&E measure.

[3] Sum of Annual O&M cost, Replacement Power Cost and annual interest and depreciation expense associated with Initial Capital Cost.

ESTIMATED COST to DEVELOP the LICENSE APPLICATION

Sitka's estimated total cost of processing and filing this FERC application is about [$750,000].

VALUE OF PROJECT POWER

The Sitka electric system is an isolated electric utility with no interconnection to any other electric utilities. As such, Sitka must use its own generating resources to supply the total power needs of the residential and commercial customers in the community. Further, the lack of a regional transmission grid in Southeast Alaska means that Sitka has no ability to sell power it generates outside its own system.

The Project provides a significant portion of Sitka's overall power and energy requirement. Without the Project, diesel generators would need to be used to generate the power currently supplied by the Project. There is no natural gas or coal in Southeast Alaska and diesel fuel used in Sitka must be transported by sea-going barge and stored locally. To replace the energy generation capability of the Project would require an estimated 4.4 million gallons of diesel fuel per year. In addition to the risks associated with transporting, handling and storing such a large quantity of fuel, it is estimated that using diesel generation to supplant the generation capability of the Project would result in annual pollutant emissions of 126 tons of sulfur oxides, 110 tons of nitrous oxides and over 26,700 tons of carbon dioxide.

It is also important to note that as a municipal electric system, Sitka's electric rates are cost based. The benefits of the Project, when compared to the much higher cost of diesel generation, are passed on directly to the end consumer. From the other perspective, any additional cost burden placed on the Project must be recovered through electric rates

charged to the residents and businesses of Sitka. The Sitka electric system has no revenue source other than the revenues received from sales of electricity to its customers.

Estimates of the value of the Project generation, both capacity and energy, and for the ancillary services provided by the generation source, may vary widely depending on the type of resource assumed for replacement and the possible location.

REPLACEMENT COSTS of ENERGY and CAPACITY

Hydroelectric Resource Replacement

The cost to replace the Project's generation with generation from a new hydroelectric facility are best defined by somewhat recent engineering studies of proposed hydroelectric developments in the general vicinity of Sitka. The isolated location of the Sitka electric system does not permit the purchase of power from other utilities or participation in other hydroelectric facilities. Further, any new hydroelectric developments on Baranof Island would potentially require substantial investment in new transmission facilities to deliver power to the Sitka electric system.

The proposed 20-megawatt (MW) Takatz Lake hydroelectric project was previously determined to be the least cost alternative among several potential hydroelectric projects available to Sitka. In 1993, the cost of the Takatz Lake project was estimated to be [$105.7] million or $5,285 per installed kilowatt, including the necessary transmission facilities. At that cost, if a suitable location could be found and acknowledging twelve years of cost escalation since the 1993 cost estimate, a 6-MW hydroelectric installation would require over [$40] million in capital investment.

Diesel Generation Replacement

The Project's replacement value relative to equivalent diesel based generation can be considered in terms of both energy production and capacity.

Energy

The average energy capability of the Project represents about 52 percent of the annual energy required to meet Sitka's current annual generation requirement. A measure of the Project's value is the cost that would be incurred to replace the Project's energy with equivalent energy from diesel generators. If the Project were unavailable to produce electricity, additional energy would have to be provided by existing and/or new diesel generators at higher costs. At assumed diesel fuel prices of about [$2.00] per gallon[1], the cost to produce 65,000,000 kWh, the average annual energy generation capability of the

[1] Fuel prices in April 2005 have exceeded $2.00 per gallon.

Project, with diesel generation is approximately $8,870,000 per year ($0.14 per kWh) for fuel costs alone. Non-fuel O&M costs for diesel generation would add another $0.04 per kWh to this amount bringing the current total cost of diesel generation to $0.18 per kWh.

The hydroelectric energy generation provided by the Project provides important fuel diversity for Sitka. Natural gas is not available in Sitka and diesel fuel must be delivered by barge transported through Southeast Alaska's Inside Passage waterway. Diesel fuel prices are highly variable as witnessed during the past 18 months when the city's cost of #2 diesel fuel delivered into its tanks at the diesel generating plant ranged between $1.16 and the June, 2005 price of $2.25 per gallon. Although availability and timely delivery of diesel fuel has not been a significant problem in the past, there is no certainty that reliable fuel deliveries can be guaranteed in the future.

Sitka estimates that its system energy requirements will increase at an average annual rate of 0.8 percent per year over the 2005–2025 timeframe (Sitka 2005 Load Forecast, medium load growth scenario). Many residential and commercial buildings in the community have the ability to switch between electricity and oil for space heating. As a result, the cost of fuel oil will have a significant impact on future electric requirements in Sitka. At fuel oil prices exceeding approximately $2.75 per gallon, it is estimated that electricity in Sitka becomes more cost effective for space heating. In recent months the delivered price of heating fuel in Sitka has approached this price range.

Projected load forecasts for the next ten years are summarized in Table D-4 for the medium load growth scenario. The high price of fuel oil, if it continues, will have a significant impact on the load forecast shown in this table. With continuing high fuel prices, Sitka should see noticeably higher electric power requirements than shown in Table D-4. An alternative, high load growth scenario developed as part of the 2005 Load Forecast, projects total energy requirements to increase at [2.0]% per year on average during the 2005-2025 period as compared to 0.8% for the medium growth scenario. In addition, Sitka has undertaken an interruptible energy sales program to sell hydroelectric generation surplus to the needs of its firm energy customers to municipal and industrial facilities. The interruptible energy sales will be used in these facilities to offset the use of fuel oil for space and water heating. Depending on the water conditions in any particular year and once the program is fully implemented, the amount of interruptible energy sales is estimated to vary between zero and potentially 20,000 MWh per year. The Project will be used to supply the higher power requirements without the need for any additional diesel generation in Sitka.

Table D-4. Sitka Electric Department Forecasted Energy Sales and Requirements Medium Load Growth Scenario Excluding Interruptible Sales (kilowatt-hours)

Fiscal Year Ending June 30	Retail Energy Sales	Losses and Non-bill	Total Energy Requirements
2005	97,377,000	7,811,300	105,188,300
2006	97,907,900	7,853,200	105,761,100
2007	98,102,700	7,873,600	105,976,300
2008	98,163,000	7,885,500	106,048,500
2009	99,198,900	7,959,700	107,158,600
2010	100,074,900	8,023,800	108,098,700
2011	100,894,500	8,084,300	108,978,800
2012	101,822,700	8,151,800	109,974,500
2013	102,637,500	8,212,000	110,849,500
2014	103,444,400	8,271,900	111,716,300

Capacity

Sitka depends upon the Project's rated capacity of 7.54 MW to meet the system peak load requirement. At certain times, capacity is provided by other Sitka resources including diesel generation to meet the electric system peak requirement. The Project capacity also contributes to the adequacy and security of the electric system by inclusion in Sitka's installed capacity margin and affects the timing and character of resources necessary to meet load.

A budgetary, estimated installation cost of a new diesel power plant to replace the capacity of the Project is $12.0 million. This amount is based on approximately $1,500 per installed kW for a new diesel generation facility in Sitka as estimated by the Sitka electric department. Costs for development of a new power plant site and the additional equipment necessary for operation (controls, electrical switchgear, transformer, fuel handling and storage, etc.) would add considerably to the installed cost, representing a significant portion of the estimated total cost of a new diesel power plant in Sitka. Sitka has determined that space is not available at the location of its existing diesel power plant to add additional generating units.

VALUE of ANCILLARY SERVICES

The replacement costs of energy and capacity are not a complete representation of the value of the Project power resource. The Project also provides necessary operational support to the Sitka electric system in terms of spinning reserve, operating reserve and voltage support. The value of these benefits cannot be fully quantified.

EFFECT on the VALUE OF PROJECT POWER DUE to PROPOSED CHANGES in PROJECT OPERATIONS

The final license application will include the estimated annual average increase or decrease in the value of Project power due to any proposed changes in Project operations that may be included in Exhibit B of the final license application.

SOURCES OF FINANCING AND REVENUES

Sitka's sources of funds for capital needs associated with continuing operation of the Project are revenues from the sale of electricity to retail customers. Borrowing, usually with tax-exempt revenue bonds issued by Sitka as authorized by the City and Borough Municipal Assembly, is used occasionally for major expenditures.