

EXHIBIT H

PLANS AND ABILITIES TO OPERATE AND MAINTAIN RELIABLE SERVICE

INFORMATION TO BE PROVIDED BY ALL APPLICANTS

PLANS AND ABILITIES TO OPERATE AND MAINTAIN RELIABLE SERVICE

Increase in Capacity

The Licensee has no plans to increase capacity at this time.

Coordinate with Upstream and Downstream Projects

There are no upstream or downstream projects within the Blue Lake and Sawmill Creek watershed.

Coordinate with Electrical Systems to Minimize Costs

The Licensee has the only electrical system in the area and is not interconnected to any other systems. This electrical system includes the Blue Lake and the Green Lake Projects which are operated jointly to service the entire system load and provide stable, reliable power at minimum cost.

SHORT AND LONG TERM NEED FOR PROJECT POWER BY THE APPLICANT

Reasonable Costs and Availability of Alternative Sources of Power if License is Denied

The Sitka electric system is an isolated electric utility with no interconnection to other electrical supplies. 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 purchase power from outside its own system.

The Blue Lake 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. The annual cost of fuel and operations at \$0.18/kWh would be \$11,700,000.

Cost Increases Incurred For Alternative Power, If License Is Denied

Hydroelectric Resource Replacement

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

At assumed diesel fuel prices of about \$2.00 per gallon¹, the cost to produce 65,000,000 kWh, the average annual energy generation capability of the 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.

Effects Of Alternate Power Sources

The Applicant's Customers

Hydro Replacement

If the Blue Lake Project were replaced by the most likely hydroelectric facility (Takatz Lake) costs to the City's rate payers would increase dramatically. The Blue Lake project carries no current debt service and any new hydro development would have substantial front-end costs and associated debt service which would be borne by the rate payers. Further, the Blue Lake Project is fully interconnected with the Green Lake Project, and gains substantial operating efficiency and flexibility from the two Projects' close proximity and ability to operate in concert to meet both base and peak load. Some of this efficiency would likely be lost if Blue Lake Project were replaced by a more distant and probably less adapted hydroelectric project.

Diesel Replacement

As stated above the cost to the customer to replace the blue lake hydro project with diesel generation would be \$0.18/kWh.

Load Operating Characteristics

Hydro replacement

Replacing the Blue Lake Hydro project with a new hydro could improve the load operating characteristic due the installation of modern turbines and governors. However, updated equipment could also be installed at the Blue Lake project during the term of the new license, at substantially lower cost than building a new project.

Diesel replacement

Generation reliability would suffer under diesel generation because diesel generation is not as reliable as hydro. While generation stability at the Blue Lake Project degrades at low reservoir levels, this condition is rarely seen and can to a great extent be avoided through operational criteria.

On The Communities Served

Hydro Replacement.

Electrical rates increases would impact economic development primarily in the residential, light industry an small businesses sectors.

Diesel Replacement.

The same economic effects of hydro replacement would occur under diesel replacement, but with increased air pollution and storage and transfer risks associated with use of diesel fuel.

DATA SHOWING NEED, COST AND AVAILABILITY OF ALTERNATE POWER SOURCES

Annual Cost Of Project Power, Including Basis For Calculation

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 H-1 (This table is also presented as Exhibit D-1 in Exhibit D of this Application).

Table H-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.

Direct annual fixed costs for depreciation are about \$271,000 per year, or \$0.005 per kilowatt-hour (kWh) at an 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 H-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.

Resources Required By Applicant To Meet Applicant's Capacity & Energy Needs Over Short and Long Term

Energy and Capacity Resources

As shown in Table D-4 in Exhibit D, 111,716 MWh will be required in the year 2014 at a median load growth projection of 0.8 percent. 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 system peak requirement. The Project capacity margin contributes to overall electric system security and ability to meet load.

Resource Analysis

The existing Sitka electrical system has an average annual energy of 124,000 MWh as described in Exhibit B.

Load Management Measures

Because of Sitka's electrical system isolation, the City manages the entire load to the existing generating resources. No load management measures are available from outside parties.

Costs and Merits of Alternate Power Sources

Note: Because no new capacity is envisioned and because there is no possibility for off-system power purchases of load management measures, only alternate hydro and conversion to a diesel-based system are discussed in the sections below.

Annual Cost Of Alternatives

The annual cost of diesel generation would be \$0.18/kWh as described in Exhibit D. The annual cost of Takatz Lake hydro replacement would be \$0.05/kWh.

Basis of Cost

For alternative hydroelectric generation, the basis of cost is strictly debt service cost at a lending rate of 7.0%. For alternative diesel generation, the cost basis would be \$0.18/kWh, due primarily to fuel costs.

Discussion Of Relative Merit Of Each Alternative

From a financial standpoint, relative merits of both Takatz Lake and the diesel alternatives are poor compared to the merits of the existing project. The environmental effects of development of a new hydro project and continued use of diesel add to the negative effects of the alternatives

Effect On Direct Providers Of Alternative Power Sources

There are no alternative direct energy provider in the Sitka service area.

EFFECT OF LOSING POWER ON APPLICANT'S OWN INDUSTRIAL FACILITIES

The City of Sitka owns no industrial facilities. The City owns the Sawmill Creek Industrial Park, but does not own or operate facilities at this site. All industries at the Park are leased from the City by the owners and operators. The Blue Lake Project facilities are use to provide drinking water for the city of Sitka. Removing the project facilities would eliminate Sitka's main potable water source.

STATEMENT OF TRIBE'S NEED FOR POWER

N/A

IMPACT ON APPLICANT'S TRANSMISSION SYSTEM OF RECEIVING/NOT RECEIVING LICENSE

Analysis Of Effects Of Redistributing Flows, Line Losses, New Lines, With Costs

It is not possible, under the current system, to redistribute flows and it is unfeasible to add new lines or transmission routes.

Analysis Of Advantages Of Applicant's Transmission System In Distribution Of Power

The blue lake hydro transmission line also conveys the Green Lake Project hydro power to the Sitka load center. There is no alternative transmission service. The entire system load is carried on the Blue Lake transmission line. In the absence of the Blue Lake project, there is no way of transmitting Green Lake Project power to the load center.

Detailed Single-Line Diagrams

The single-line diagram is Exhibit F-1, located in Exhibit F of this Application.

PLANS TO MODIFY, STATEMENT OF NEED TO MODIFY PROJECT AND CONFORMANCE WITH COMPREHENSIVE PLANS

There are no plans to modify any current project features.

STATEMENT OF CONFORMITY WITH COMPLIANCE PLANS

Plans will not be modified at this time and are in conformity with Plans shown in Exhibit F of this Application.

APPLICANT'S FINANCIAL AND PERSONNEL RESOURCE to MEET OBLIGATIONS UNDER NEW LICENSE

The City has dutifully performed those tasks that are necessary to keep the Project operating efficiently while minimizing costs to ratepayers. The Electric Department consists of 23 employees responsible for the operation of power plants, turbines, generators, switchgear, SCADA networks and transmission and distribution lines. The Blue Lake System facilities are well maintained and have a consistent history of excellent performance and reliability and customer service. Sitka residential electrical rates remain the lowest in the State of Alaska.

NOTIFICATION BY CERTIFICATION OF LAND OWNERS, IF EXPANSION PLANNED

No expansion is planned.

APPLICANT'S ELECTRICITY CONSUMPTION EFFICIENCY IMPROVEMENT PROGRAM

The Licensee does not have a formal conservation program in place.

NAMES AND ADDRESSES OF INDIAN TRIBES AFFECTED BY THE PROJECT

The Sitka Tribe of Alaska is a federally-recognized Indian tribe which has participated in the Project relicensing and has made recommendation for measures to protect, mitigate and enhance Project-related resources. Their address is:

INFORMATION TO BE PROVIDED BY APPLICANT WHO IS AN EXISTING LICENSEE

STATEMENT OF MEASURES BY LICENSEE TO ENSURE SAFE MANAGEMENT, OPERATION, and MAINTENANCE of PROJECT

Descriptions of Project Operation During Flood

As described in Exhibit B, the Project is operated slightly below spill elevation for flood control whenever possible. During spill events there is no flood control but the channel downstream is short and narrow and flood control is not necessary for safety reasons.

Warning Devices to Ensure Downstream Safety

There are dam failure warning sirens at the Fish Valve Unit and Blue Lake Unit powerplant locations, as outlined in the Emergency Action Plan.

Changes Which May Affect Emergency Action Plan Under Part 12

There are no changes which might affect the EAP under Part 12.

Existing Or Planned Structural Monitoring Devices

There are no continuous monitoring devices. The City surveys the project structures twice annually and reports the outcome to the FERC Regional Office.

Employee & Public Safety Record

There have been no lost time accidents at the Blue Lake Project in the last 10 years. There have been no reported public accidents within the Project Boundary in the last 10 years. There have been three fatalities within the Project drainage. The City is working

with the USFS to provide signage to warn of the hazards in the drainage, and to provide safety improvements to the Blue Lake road.

CURRENT OPERATION OF PROJECT AND CONSTRAINTS

Projector operation is constrained by several applicable water rights and FERC license Articles. These constraints are described in detail in the Final Preliminary Draft Environmental assessment in this Application. Generally, the City must release 50 cubic feet per second (cfs) instream flow from the Fish Valve Unit year around. In addition, there are constraints on operations below certain reservoir levels governed by both FERC license Articles and state water rights conditions.

HISTORY OF PROJECT OPERATION & MAINTENANCE

The Project history is outlined in Exhibit C of this Application. Operation and Maintenance actions are recorded in a log book at the BLU powerhouse. Capitol expenditure records are kept at the City and Borough of Sitka Electric Department Jarvis Street Office.

POWER LOSSES OVER LAST 5 YEARS

System losses have been in about 6 % in the last 5 years, as reported in the 2005 load forecast in 2005 Electric System Load Forecast, Final Report, Sept 2005, D Hittle & Associates, INC.

LICENSEE'S COMPLIANCE RECORD

There have been no compliance issues or violations within the past 10 years.

ACTIONS TAKEN BY EXISTING LICENSEE THAT AFFECT THE PUBLIC

There have been no actions which have negatively affected the public.

EXPENSES THAT WOULD BE REDUCED IF PROJECT IS TRANSFERRED

If this project were not relicensed, the Operation and Maintenance costs of about \$51,000 would be saved annually.

ANNUAL FEES PAID UNDER THE FPA

The Commission's annual fee for 2004 was \$7,194.00 as shown in Table D-2 Exhibit D of this Application.