



Anchorage Daily News

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OPINION

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POINTCOUNTERPOINT Anchorage-Kenai intertie?

Intertie promises to provide affordable power to Railbelt

ERIC P. YOULD, *Alaska Rural Electric Cooperative Association*



A project to benefit Alaska and Alaskans for the next 50 years is moving forward, thanks to the vision and efforts of legislators and electric utilities.

The Southern Intertie, an important new link in the Railbelt electric grid, recently passed a major milestone with the completion of comprehensive environmental reviews. After a thorough and public environmental impact statement process, three federal agencies last fall issued records of a decision identifying a route along the Kenai bluff of Cook Inlet and under the mouth of Turnagain Arm as the preferred path for the new transmission line.

The intertie will be a new transmission line between Nikiski and Anchorage that will improve the reliability of the Railbelt power grid. However, its most important function will be to help move power throughout the region from where it's most economical to make it to where customers need it. All six of the electric utilities that serve customers in the Railbelt are participating in the project. All six are not-for-profit utilities working on behalf of their customers. The current estimated cost of the line is \$100 million. Approximately \$70 million of the project will be paid by a state grant made by the Legislature in 1993 from the Railbelt Energy Fund — set up in 1988 to invest in projects that benefit Alaskans throughout the state's most populous region.

With the EIS completed, attention now

turns to design and construction. If work proceeds on schedule, Alaskans may be taking home paychecks from construction by 2004 and the new line could be in service by 2006 or 2007. That might seem a ways off, but it's just around the corner when you consider the need for this project that has been in the planning since the early 1980s.

Infrastructure is vital to Alaska's current and future health and economy. A strong interconnected Railbelt electric system that allows power to be made economically in one area and moved efficiently to another helps ensure that individual Alaskans and the businesses that employ them have reliable, affordable electric service. The Southern Intertie will do just that.

Critical infrastructure is often ignored or taken for granted until something goes wrong or existing facilities are overwhelmed by demand. That's why it's so important to plan. The fact you can flip a switch today and have the lights come on doesn't just mean someone did something special today. It happens because Alaskans decades ago had the foresight to put an electric grid in place to make it happen. It is our collective responsibility to provide the same benefit to our children and other people who are the future of this great state.

■ Eric P. Yould is executive director of Alaska Rural Electric Cooperative Association.

Southern Intertie's benefits likely not worth the cost

RAY KREIG, *former Chugach Electric board member*



Clearly the Southern Intertie has some benefits. The question is whether they are worth the cost. Are there better uses for \$125 million in public and ratepayer funds? History indicates that cost overruns are highly likely, totally at ratepayer expense.

Currently, power is on 99.975 percent of the time. How much is it worth to gain a part of that remaining 0.025 percent (two hours a year)? Utility boards, legislators and the public have no way of judging without fair, impartial and unbiased project economic advice from independent experts.

Of great concern should be a history of deceptive manipulation of intertie benefit claims by utility managers. When I was Chugach board president in 1998, we received misleading benefit-cost advice from management on the northern intertie (between Healy and Fairbanks). If Chugach had participated in that project, it would have cost our ratepayers \$600,000 a year.

We then insisted on a very detailed and comprehensive study of the benefits and cost of the Southern Intertie. We retained Decision Focus Inc. because it had performed several studies on intertie economics for the state. DFI found only \$58 million in benefits. Chugach management kept that February 1998 study secret from the public.

Meanwhile, unbeknown to the board, Chugach management supervised the same

consultant's preparation of another report issued for public consumption in March 1998. It conveniently claimed \$143 million in benefits — enough to show the \$125 million intertie cost to be barely justified. That was the only benefit information provided by Chugach to regulators and the public during the 1998-2002 environmental impact statement process.

Same consultant, two vastly different benefit numbers. What gives? In DFI's own words: "We believe our comprehensive approach (in the February 1998 study) is much more accurate."

In 1990, the state utility consumer advocate, Alan Mitchell, also found the Southern Intertie benefits to be only \$51 million to \$63 million. There is no independent third party that has found the benefits of the Southern Intertie anywhere near the \$125 million cost of this project.

Considering the deterioration that has occurred in Alaska's financial condition since the original appropriation in 1993, Southcentral utility boards and local governments should look very hard at the intertie and ask the Legislature to reappropriate the \$70 million in state funds pledged to the project. The money would better benefit Southcentral Alaskans if used to reduce utility or municipal and school debt by \$500 per household.

■ Ray Kreig is a former president of Chugach Electric Association and served on the executive committee of Alaska Rural Electric Cooperative Association.

EXHIBIT PAGE 3 TO 2



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OUR VIEW

Southern intertie

Good reason to question this Railbelt energy project

In 1993, the Alaska Legislature set aside \$46.8 million for building a second high-voltage power line between Anchorage and the Kenai Peninsula.

Some important things have changed in the 10 years since then. Alaska's state government finances have deteriorated, and easy spending money has disappeared. Lawmakers routinely balance the state budget by drawing at least half a billion dollars each year from a dwindling savings account.

Another noteworthy change is that doubts have recently come to light about the economic viability of the proposed power line. A 1998 utility company study that was kept secret for four years concluded the southern intertie would produce barely 50 cents' worth of benefit for every dollar spent.

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reconsidering the matter. The intertie money was the final part of a political deal that triggered a splurge of spending on energy projects and subsidies starting in the early 1980s. Anchorage and the southern Railbelt would be denied their fair share of state-funded energy goodies, intertie advocates say, if this final project is not built.

The project's defenders say a deal's a deal, even if it means throwing good money after bad. The day when Alaska could get away with such a cavalier approach to spending money is long past.

But for purposes of argument, let's accept the basic framework of this supposedly unbreakable deal. Let's grant that regional equity requires the money to be spent to benefit the southern Railbelt. Let's grant that it has to be spent to supply cheaper energy. Let's even grant that it has to be spent on a particular type of energy, namely electricity. Granting all that, it is still not clear that the southern intertie is the best way to do it.

The money could be used to retire debt at the region's electrical utilities. It could be used to upgrade and repair the existing high-voltage power line between the Kenai Peninsula and Anchorage. It could be used to install a centralized power dispatching system, to ensure that the most efficient mix of Railbelt power plants is used to meet electricity demand as it fluctuates during the day and during the year.

The new Anchorage-Kenai intertie should, at minimum, have to prove that it is a better investment than those options. That will require an independent, rigorous look at the intertie's costs and benefits and how they compare with the alternatives.

Intertie II

Is \$23 million of interest money legally available?

During debate over the proposed electrical intertie between Anchorage and Kenai, an interesting question has come to light. Just exactly how much state money is available for the project?

The state agency handling the project, Alaska Industrial Development and Export Authority, says the available funding is about \$70 million. That's the original \$46.8 million that the Legislature set aside in 1993 plus another \$23 million or so in interest.

There's just one problem with that claim. The 1993 legislation that set aside \$46.8 million (SB 126) imposed certain conditions. One condition requires utilities involved with the project to agree in advance that they will pay all costs of the intertie over and above \$46.8 million. No legislation passed since then has repealed that requirement.

It appears that state law is clear: Only \$46.8 million of the appropriation is available to pay for the intertie. (Unless, of course, state lawyers can come up with a convincing theory that explains why the law on the books doesn't mean what it says.)

The more utilities have to pay for the Anchorage-Kenai intertie, the less likely they are to pursue it.

This question is the kind that could make or break the \$100 million project. The intertie is an economically questionable investment that, even in the most optimistic analysis, produces minimal gain to Railbelt ratepayers. The more utilities have to pay for the Anchorage-Kenai intertie, the less likely they are to pursue it. In fact, project supporters are asking the Legislature to spend another \$30 million on it.

The powers that be in the Legislature and the Murkowski administration have shown no inclination to question the assumption that interest money is legally available for the southern intertie. But as critics of the project note, the legality of spending the interest money is one more important question facing an already questionable project.