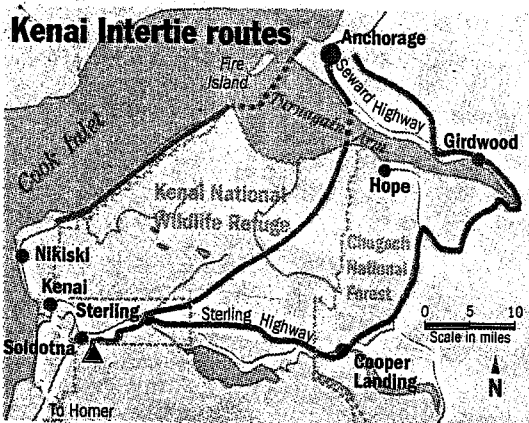


# \$100 million too much for power line to Kenai?



**KEY**  
 ■ Approved Tesoro route—Cost: \$100 million  
 ■ Kenai Refuge route—Cost: \$90 million  
 ■ Existing Intertie  
 ■ Submarine line

CHARLES ATKINS / Anchorage Daily News

**ON THE WEB**  
 For more on the southern intertie:  
[www.chugachelectric.com/news/events/sinter\\_tie.html](http://www.chugachelectric.com/news/events/sinter_tie.html)  
 Raising questions about the project: [www.chugachconsumers.org/Lib/Int/SouthernIntertie.htm](http://www.chugachconsumers.org/Lib/Int/SouthernIntertie.htm)

■ **SUMMIT:** Six Railbelt power firms to discuss feasibility of Kenai to Anchorage project.

By **TOM KIZZIA**  
 Anchorage Daily News

The last surviving offspring of the doomed Susitna dam, a \$100 million backup electric intertie between Anchorage and Kenai, will be the subject of a summit meeting this week of Railbelt utility officials.

The utilities will debate Friday whether it's finally time to commit to building the major power line. Three-fourths of the cost of the line will be

paid for by the state, using most of what remains in a special energy fund created when plans for a \$20 billion Susitna River hydro project collapsed in 1986.

"The risk if we don't do something is that the Legislature will be looking hard for money this year," said Chugach Electric Association general manager Joe Griffith. "They could pass a law and take the money back. They have an interest and they know the money's out there."

In Alaska's new age of fiscal uncertainty, the Kenai intertie is a big pro-

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## INTERTIE: Critics argue that high costs don't justify marginal benefits

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ject left over from the heady days of oil wealth, when the Legislature could afford to make farsighted — or, to critics, marginal and foolhardy — investments in economic infrastructure.

The Kenai intertie faced serious environmental opposition when it was first proposed more than a decade ago. In October, federal regulators rejected the utilities' preferred route along the front range of the Kenai Mountains on the Kenai National Wildlife Refuge.

The alternative route, outside the refuge on the Kenai Peninsula coast, is slightly more expensive because it has a longer submarine-cable crossing of Turnagain Arm. But it has removed the major environmental objections.

From its inception, the Kenai intertie has been dogged as well by suggestions that it will do more for the construction industry than for utility ratepayers. The state, critics have said, would do better to spend its money on roads and schools, or even retiring the utilities' existing debt, then let the utilities build the line themselves if it's such a good idea.

Some elected officials shared those concerns, and the project stalled for several years. Finally, in 1993 the Legislature pried free Kenai-intertie funds that have grown, with interest, to \$70 million.

The utilities have said they will pay the rest of the cost themselves. But this month the utilities' lobbying arm, the Alaska Rural Electric Co-op Association, said it will seek another \$25 million next year from the Legislature for the line, draining the last of the Railbelt fund.

Utility officials say it's a smart investment.

They say a second and larger intertie would save money by allowing them always to draw from the cheapest combination of generators — especially the Bradley Lake hydroelectric plant near Homer — without worrying about transmission bottlenecks. The intertie would also avoid the avalanche-prone mountains, they say, and improve reli-

### CORRECTIONS

12-16-02

A front-page story Monday on the proposed electrical power lines between Anchorage and the Kenai Peninsula incorrectly said money from the Railbelt Energy Fund was used to build an intertie in the 1980s between Willow and Healy. That power line was built with a special legislative appropriation. Also, the \$20 billion cost figure given in the story for the once-planned Sustina hydroelectric project should be clarified. In 1985, before the two-dam project was abandoned, advocates proposed selling \$5.3 billion in bonds for construction. The \$20 billion figure was used at the time to indicate the total eventual cost to the state treasury, accounting for future interest payments and inflation.

**CHUGACH CONSUMERS COMMENT:** Former Chugach president Ray Kreig was characterized as being critical of the current board but he says it should have said he is critical of Chugach Electric Association MANAGEMENT.

Chugach Consumers  
 P.O. Box 101822  
 Anchorage, AK 99510-1822

MORE INFORMATION: [www.chugachconsumers.org/SI](http://www.chugachconsumers.org/SI)

ability by reducing regional power outages — a benefit that is harder to quantify.

"All the analyses we've done have shown it makes sense," said Chugach's Griffith. "We need the infrastructure because it's what makes the economy work."

In 1998, a state-funded study concluded a second Kenai intertie would bring \$143 million in benefits to the Railbelt. Federal regulators cited those numbers in approving the project this fall.

But just last week, Chugach released an internal analysis done in 1998 that found only \$57 million in benefits. The same California consultant prepared both studies.

Steve Haas, a consultant involved in the two studies, said last week the more pessimistic internal study was probably the more accurate of the two. It was designed to look at the impacts on Chugach ratepayers and made conservative assumptions, he said. The public study, which updated a decade-old analysis, was more "generous," he said.

"Without the state grant, the line would be difficult, if not impossible, to cost justify," the internal 1998 study said.

Chugach officials disagree. They said last week the internal study suffered from a faulty model that undervalued fuel-cost savings. They also place a much higher value on improved reliability than their consultant did. They said a new analysis prepared this year by their own staff found overall benefits similar to the \$143 million in the public study.

submarine crossing is more vulnerable to scraping by tides and ice.

Remaining environmental concerns include interfering with beluga whales while laying cable and possible disruption of Kincaid Park in Anchorage, where the power lines might emerge above ground. But conservation groups no longer stand in the way.

Skeptics, however, continue to challenge the economic justification for spending so much state money.

The average residential electric bill for Chugach will go down 60 cents a month from economies with the new intertie, analysts told the utility



"The only reservation I have is I want to make certain this project has a direct benefit to our members," said Chris Birch, the Chugach board member who pressed to release the internal study. "I feel it's very marginal."



"Let's spend \$70 million in public funds to make your bill go down 60 cents a month? Was that supposed to be impressive?" said Phil Kaluza, who attended last month's utility board meeting for the Alaska Public Interest Research Group.

he wants to take another close look before moving ahead. He's worried about cost overruns during construction.

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But Chugach officials point out that even the cautious internal study recommended investing in the intertie. The utilities, after all, were getting a power line for just \$30 million.

"The state is investing in the health of the economy as a whole and improved reliability," Chugach spokesman Phil Steyer said. "I guess you can go back and debate that. But as long as all parties are being faithful to the agreement in place, it's a moot argument."

The six utilities meeting this week in Anchorage to discuss investing in the intertie are Chugach, Homer Electric Association, Seward Electrical System, Anchorage's Municipal Light & Power, Matanuska Electric Association and the Golden Valley Electrical

board last month. That struck Phil Kaluza, sitting in the audience, as odd.

"Let's spend \$70 million in public funds to make your bill go down 60 cents a month? Was that supposed to be impressive?" said Kaluza, who attended the meeting for the Alaska Public Interest Research Group.

Ray Krieg, a former Chugach president who is critical of the current board, said the utilities should have to justify the cost of the entire project, not just their share.

"The utilities look on the state money as free money. It's not free money to the owners of the utility,"

The conflicting studies are nevertheless providing ammunition for the line's critics.

"I think it's very clear that the project doesn't make sense if you consider the total cost," said Alan Mitchell, a telecommunications analyst who critiqued an earlier set of cost-benefit studies under a state contract. "The first state study showed it to be a dog. The utilities hated it and hired someone to trump up some other numbers."

Chris Birch, the Chugach board member who pressed to release the internal study last week, said

Association of Fairbanks.

All have expressed an interest in the Kenai project. For construction to begin next year, the utilities must now set a deadline for anyone to back out.

The utilities refer to the Kenai-Anchorage power line as the "southern intertie." Its sibling, the Healy-Fairbanks northern intertie, is now being built by Golden Valley for \$115 million, including \$65 million from the state.

The state began talking about investing in Alaska's future power needs in the 1970s, as North Slope oil money began to flow into the state treasury. Political deals in the Legislature funded dams in Kodiak and Southeast and guaranteed power subsidies for rural villages.

For Southcentral Alaska, the state spent \$132 million on studies for a huge hydro project on the Susitna River before oil prices plummeted and the project collapsed under its own weight.

Another \$230 million originally set aside for Susitna was then placed in a special Railbelt Energy Fund. Some of that money helped build the missing Willow-Healy leg of the Anchorage-Fairbanks intertie.

Legislators began chipping at the fund for nonenergy projects in 1989.

Environmentalists and the U.S. Fish and Wildlife Service opposed the utilities' first choice for the southern intertie, a 73-mile route across the Kenai National Wildlife Refuge. Opponents said the power line would be a visible scar across the refuge, hurting bears and moose by promoting human access, fragmenting habitat and impeding controlled burn programs.

"We are very happy that the refuge determined the route was going to be incompatible and that the companies involved have decided not to appeal it," said Nicole Whittington-Evans, assistant director of the Wilderness Society's Alaska office.

The coastal route chosen this fall by the federal Rural Utilities Services, which finances the utility portion of the project, is 11 miles shorter but \$10 million more expensive. The

said Krieg. "The Railbelt has half the state's population. That means half of it's paid for by the ratepayers themselves out of another pocket."

But utility officials say subsidies to keep down electric rates make sense, just like state subsidies to hold down school taxes.

"Relative to other regions of the state and other sectors of public infrastructure, we're probably the least subsidized here in the Railbelt," said Mike Scott, general manager of Anchorage's ML&P. "That's what the Railbelt Energy Fund was about. From this point on, we're on our own."