



Chugach Consumers

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Russell Nogg, Chairman
ML&P Commission
2600 Cordova St, Ste 208
Anchorage, AK 99504

July 13, 2003

RE: Southern Intertie decision date (July 15, 2003) – UPDATE #1

Dear Mr. Nogg:

Having copied the Commission with our 7/10/03 letter to Mayor Begich on the approaching Southern Intertie deadline, we would like to update you on what has subsequently been learned.

We met Friday with Deputy City Manager Mike Abbott and were glad to hear that the MOA has no intention of supporting the construction of the Southern Intertie.

But we will not be relieved until the MOA either cleanly withdraws on 7/15/03 or offers a convincing and credible reason to take on the substantial risk of not doing so.

What we've heard so far is maneuvering to try and save the money and get it reappropriated for some other electrical project. This has such a remote chance of being successful in the adverse state budgetary environment we're in as to hardly be worth trying.

Mr. Abbott did not leave us with the impression that the financial and legal risks had been either recognized or adequately addressed.

At 8:30 am Monday, an emergency meeting of the Intertie Participants Group has been called and an attempt will be made by Chugach Electric to obtain a vote to extend the 7/15/03 action deadline. This is a highly controversial move because the agreement seems to be clear that a unanimous vote would be needed and that is unlikely to happen.

How will ML&P vote at this IPG meeting?

We now have this situation:

Electric Utility	%	Chugach 6/5/03 analysis	Affected utility's own evaluation and recommendations as of 7/9/03	
			Action	Comments
Homer	12%	\$11 million net benefit	Pulled out	\$ no benefits for HEA
Seward	1%	\$6 million net benefit	Pull out	\$ no benefits for SES
Matanuska	14%	\$4 million net benefit	Pull out	\$ multi-million loss for MEA
Chugach	30%	\$1 million net loss	??	
ML&P	22%	\$10 million net loss	??	Deputy Municipal Manager says no intention to build the Southern Intertie
Golden Valley	20%	\$15 million net loss	??	

Three out of the six utilities have stated they are withdrawing and the Municipality of Anchorage indicates it has “no intention of supporting construction”.

If there is a vote to extend the deadline, how will these utilities explain what they are doing to AIDEA, which has the power to recover the money at any time by declaring a lack of progress on the project, or politically to the legislature and the governor? And possibly even to a judge in court later.

If ML&P goes along with the attempt to change the date, does not withdraw, and does nothing to shed its obligations under the 1993 Assembly action and later MOA signature on the Intertie Participants Agreement AND the attempt to change the decision date is later invalidated then:

The obligations of ML&P in reality hinge on what as few as only four Chugach Electric directors ultimately do. These are directors that appear to think the Southern Intertie should be built irrespective of economic sense or reason if they can get away with it. And, from their public statements and actions, there is a high likelihood that there are four such directors and a Chugach Electric management that appears to agree with them. If they happen to be in a position to force ML&P to honor its obligations to payup for this loser project, they will be only too happy to do so.

The whole sorry twelve year history of these Intertie projects is a series of efforts to conceal poor project economics and advance the process without providing governing bodies with full, unbiased information. Chugach Consumers feels there is STILL a real danger of entrapment here for ML&P.

REMEMBER, former ML&P General Manager Tom Stahr was fired in June 1997 after he was discovered to have secretly signed (without telling Mayor Mystrom) another Intertie Participants Group document, the MOU restricting competitive bidding, thus bloating the cost of the Interties. <http://www.chugachconsumers.org/MOU/bidding.htm>

It is paramount that the Municipality take the utmost care and caution in this situation. The only safe option is to exit cleanly before the July 15th decision date.

Additionally, we are puzzled as to why the ML&P Commission has not been asked for a recommendation on this matter. You have been briefed by both Chugach Electric and your management some months ago but we are not aware of any debate, discussion or resolution to guide the mayor, assembly or the public on the issue.

The Southern Intertie is clearly within the frame of reference of the commission (see ATTACHMENT A – ML&P COMMISSION ENABLING ORDINANCE), especially C. (recommendations for electric utility contracts) and F. (recommendations as to any necessary expansions, improvements or economies of the municipal electric utility).

AGAIN, get out of the Southern Intertie before July 15th. It's the safest thing to do!

Sincerely,

CHUGACH CONSUMERS



[SIGNED AND TRANSMITTED ELECTRONICALLY]

Ray Kreig, Chairman

Attach

cc: ML&P Commissioners, General Manager, Mayor (M. Abbott)

ENDNOTE

It may be asked, "Why is Chugach Consumers interested in matters involving ML&P?"

- Chugach Consumers is in favor of all Railbelt utilities operating in the most cost effective manner possible because this will foster stronger competitive forces that will tend to hold down costs and deliver better value for all electric customers (including Chugach retail and wholesale customers).
- Chugach Electric's own latest figures show that ML&P will lose ten times as much as Chugach on this project. ML&P's decision is likely to be the decisive vote that determines the fate of the Southern Intertie and whether Chugach ratepayers are saddled with these unnecessary costs.
- The majority owners of ML&P happen to also be Chugach Electric members who comprise the majority of residents of the Municipality of Anchorage which owns ML&P.

ATTACHMENT A – ML&P COMMISSION ENABLING ORDINANCE

AMC 4.70.030 Municipal light and power commission.

There is established a municipal light and power commission consisting of five members.

The municipal light and power commission shall be staffed by the general manager and staff of the municipal light and power department. The general manager of the municipal light and power department shall be the executive secretary and technical advisor to the commission.

The commission shall have the duties and be empowered to:

- A. Conduct public hearings, when deemed advisable by the commission, following notice according to law, on matters pertaining to electric utility rates and regulations and, after such hearing, by resolution duly enacted, to recommend adoption of electric rates;
- B. Recommend adoption of electric utility service regulations;
- C. Initiate, negotiate and review for recommendations municipal electric utility contracts;
- D. Review electric service policies and practices;
- E. Review annually the municipal light and power department budget and its operations;
- F. Make recommendations as to any necessary expansions, improvements or economies of the municipal electric utility;
- G. Perform such other duties as the assembly may refer to it from time to time.