



Chugach Consumers

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Mayor Mark Begich
Municipality of Anchorage
PO Box 196650
Anchorage, Alaska 99519-6650

July 10, 2003

RE: Southern Intertie decision date (July 15, 2003)

Dear Mayor Begich:

ML&P has given no indication that it intends to withdraw from the clearly uneconomic Southern Intertie project. The critical deadline for withdrawal without further obligation is rapidly approaching. Please refer to Exhibit A – Point Paper, attached.

We believe the idea that ML&P has no existing financial obligation because the Assembly would have to approve any monies required is in error. A \$20 million commitment appears to have been made by the Assembly in 1993 and is at risk.

ML&P now has only one way to cleanly exit this project which has no positive benefits for Anchorage: It must formally withdraw before the firm July 15th deadline.

If a decision to withdraw is made after the deadline, then ML&P additionally could well be obligated to return to AIDEA its ultimate share of the \$7 million in engineering and environmental costs that otherwise can be paid out of the grant principal.

The claims made by general manager Jim Posey that ML&P invest in the Southern Intertie because its Bradley Lake hydro assets are “stranded” are without merit.

The three utilities identified as having the most to gain from the Southern Intertie have already indicated they are pulling out. **Clearly, more and more of the Railbelt, and the state at large, are seeing this project for what it is – a money pit that will not help electric ratepayers or the state’s economy in the tougher times ahead.**

For the good of both ML&P customers and all Railbelt electric ratepayers, WE URGE THE MUNICIPALITY OF ANCHORAGE TO AFFIRMATIVELY WITHDRAW FROM THE SOUTHERN INTERTIE PRIOR TO THE JULY 15, 2003 DEADLINE.

Sincerely,

CHUGACH CONSUMERS

[SIGNED AND TRANSMITTED ELECTRONICALLY]

Ray Kreig, Chairman

Attach: Point Paper

cc: Assembly, ML&P (Posey), ML&P Commission

Safe, Reliable, Low Cost Power for South Central Alaska!

ML&P.si.Mayor.wpd

- The Assembly on 12/14/1993 approved AM 1346-93 with ML&P's share for the Interties identified as \$20.2 million. Mayor Tom Fink ratified the municipality's participation by signing the Intertie Participants Agreement dated 1/24/94.
 - The agreement promises that ML&P will make payments of money and will enter into a Construction Agreement to build the Southern Intertie.
 - If ML&P does not exercise the only exit option it has on July 15, 2003, it becomes subject to the above provisions and a potential obligation of up to \$20.1 million. (details: EXHIBIT B – LEGAL RISK OF NOT ADHERING TO THE 7/15/03 DEADLINE FOR WITHDRAWAL FROM THE SOUTHERN INTERTIE)
- The most comprehensive and detailed study of Southern Intertie project economics (DFI 2/98) identified project life cycle costs of \$125 million and benefits of only \$58 million for the entire Railbelt, a net loss for both ML&P and the Railbelt.
- Current Chugach President Bruce Davison and current Chugach Consumers chairman Ray Kreig (both then Chugach board members) were the Board's representatives on the Board-Staff group that launched this study and defined its scope of work.
- Chugach management chose to suppress that work product for the four years of the public EIS process. Instead it issued, without the knowledge of the Board, another product (DFI 3/98) which conveniently stated benefits two and a half times higher at \$143 million.
- The DFI 3/98 product was just an update to a much earlier, less sophisticated project promotional effort. DFI has stated that their 2/98 study was more accurate.
- Estimated costs to build the Southern Intertie have now climbed to \$125 million or more with an additional \$25 million in life cycle costs to be added. Many insist the new \$150 million total estimate is too low in the current construction environment and that there will surely be substantial cost overruns.
- Governor Murkowski and the legislature recovered \$27 million in grant interest.
- General Manager Jim Posey claims ML&P has to have the Southern Intertie because its 26% share of Bradley Lake Hydro could be "stranded" without a transmission path to Anchorage. This assertion is without merit. From 1991-99 ML&P actually received more energy from Bradley than it was entitled to receive and only once in nine years was it briefly unable to access its power.
- General Manager Posey claims a \$73 million Southern Intertie benefit from a nonsense case based on 40 years where Chugach Electric blocks ML&P power flows on the existing Bradley Lake line; ML&P sells none of the resulting stranded power locally on the Kenai Peninsula; yet continues to pay debt and makes no effort to sell the "stranded" project. This is a fairy tale that has 0.0000% chance of ever occurring. The Regulatory Commission of Alaska would never allow Chugach to permanently block that line. Furthermore,

Chugach has surplus transmission capacity and wants the revenue from ML&P.

- Chugach management prepared in-house numbers on 6/5/03 (withheld from public until 7/8/03) claiming net Railbelt losses of \$5 million as follows:

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	??	
Golden Valley	20%	\$15 million net loss	??	

- These numbers claim the biggest gain for any utility is \$11 million for Homer Electric. Yet on June 10, Homer's board, based on their own analysis of the economics, unanimously withdraw its support for the Southern Intertie project citing "economic concerns and reduced need". Seward, also one of the strongest backers of the project will withdraw on Monday. Matanuska is also expected to pull out on Monday.
- All utilities that Chugach claims will GAIN from the intertie have indicated they will pull out of the project.**
- Project economics are clearly adverse and neither Chugach Electric nor ML&P have made any good faith effort to answer the many questions raised in the media and in public forums numerous times over the past six months.
- ML&P now has only one way to cleanly exit without risking \$20 million on a project that has no positive benefit for Anchorage: It must formally withdraw before the firm July 15th deadline set by the Intertie Participants Group (IPG) on January 2, 2003.
- If that deadline slips by and later ML&P tries to abandon the project, ML&P could well be obligated to return to AIDEA its ultimate \$7 million share of engineering+environmental costs that otherwise would be paid out of the grant.
- For the good of both ML&P and municipal taxpayers, WE URGE THE MAYOR AND ASSEMBLY TO AFFIRMATIVELY WITHDRAW FROM THE SOUTHERN INTERTIE PRIOR TO THE JULY 15, 2003 DEADLINE.

MORE INFORMATION?

See Southern Intertie pages: <http://www.chugachconsumers.org/si.htm> For links to most of the documents in the events mentioned above. Select the "DETAILED SOUTHERN INTERTIE EVENTS & DOCUMENT LOG" link [man peering into book].

EXHIBIT B – LEGAL RISK OF NOT ADHERING TO THE 7/15/03 DEADLINE FOR WITHDRAWAL FROM THE SOUTHERN INTERTIE

- Some do not think it necessary for ML&P to do anything about the July 15th deadline to withdraw from the Southern Intertie without financial penalties or obligation in the belief that ML&P would have to come back to the Assembly before any money is committed to the project.
- However the IPG agreement clearly states that ML&P is IN and must affirmatively do something to get OUT. There is nothing in it giving a utility another chance to leave after inaction on July 15th. The Assembly Memo approved in 1993 includes a potential obligation of up to \$20.1 million. ML&P could find a way to finance this out of rates without a bond issue requiring them to go to the Assembly again.
- One of the grounds in the IBEW lawsuit against Chugach for rescinding the Intertie MOU (one of the related agreements circulated among the utilities in the early 1990's) was to enforce that the parties in good faith stick to the agreement.

From 1996 IBEW lawsuit against Chugach:

(17) The MOU unequivocally commits the - parties to forego any effort to invalidate it in court or through administrative proceedings. It also requires the parties to negotiate such modifications or amendments as necessary to effectuate the MOU's original intent, and to return the parties to "(t)he position that each would have enjoyed" if the MOU were to be adjudicated invalid or unenforceable, presumably by a third party;...

This is the type of claim that the Municipality may have to contend with if it doesn't cleanly exit the project before 7/15/03.

- See Exhibit C attached with language quotes from the 1994 Intertie Participant's agreement.
- **See especially where Chugach has “independently determined that its participation in the Project under the terms and conditions set forth in this and related Agreements is prudent under the circumstances, and that over its expected useful life the Project is likely to produce net economic benefits (directly and through improved reliability) for the electric ratepayers...”)**
- That is certainly not true and has never been true and ML&P ratepayers are exposed to substantial unnecessary costs unless the municipality acts and gets out of the project according to the procedure in the agreement before July 15th.

Attachment: Exhibit C – Language of concern in 1/24/03 “1993 Alaska Intertie Project Participants Agreement” binding ML&P to performance

Exhibit C – Language of concern in 1/24/03 “1993 Alaska Intertie Project Participants Agreement” binding ML&P to performance

WHEREAS, each Party hereto has already executed the Intertie Grant Agreement ("Grant Agreement") and Grant Transfer And Delegation Agreement for the Project...

WHEREAS; each Party has independently determined that its participation in the Project under the terms and conditions set forth in this and related Agreements is prudent under the circumstances, and that over its expected useful life the Project is likely to produce net economic benefits (directly and through improved reliability) for the electric ratepayers served by that Party;... (page 1)

....

(c) Payment Obligations. Each Participant shall (1) meet in timely fashion each and all of its obligations under this Agreement, including without limitation its obligations to make payments of money for or with respect to the Project, and (2) make such payments of money in such amount, in such manner, and at such time as may be required by this Agreement, or by operation of law. (page 7)

....

(k) Duty to Negotiate Construction Agreement. The Parties shall negotiate in good faith in an effort to reach agreement on reasonable terms and conditions for, and to enter into, a Construction Agreement containing terms and conditions substantially as set forth in this Section 7. (page 15)

...

(j) Covenant of good faith and fair dealing. In order to permit this Agreement, throughout its term, to be fully effective in accordance with the original intent of the Parties; each Party agrees that it shall at all times act in good faith and with fair dealing in performing its obligations and in exercising its rights under this Agreement. (Page 25)

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