



**Matanuska Electric
Association, Inc.**

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VIA Facsimile and Certified Mail

December 30, 2002

Mr. Dave Calvert, P.E.
Chairman, Intertie Participants Group
City of Seward
P.O. Box 187
Seward, Alaska 99664

Subject: Southern Intertie Meeting, January 2, 2003, 10:00 a.m. at
Chugach Electric Association Headquarters

Dear Mr. Calvert:

I am writing to you, in your capacity as Chairman of the Intertie Participants Group (IPG), to express Matanuska Electric Association, Inc.'s concerns over the haste with which the IPG is moving forward with efforts to declare a "decision date" for construction of the proposed Southern Intertie project.

As you know, a public meeting of the IPG has been scheduled for 10:00 a.m. Thursday, January 2, 2003 at the Chugach Electric offices at 5601 Minnesota Drive in Anchorage. It is MEA's understanding that the primary purpose of this meeting is to declare a "decision date" for the project. Under the January 24, 1994 Participants Agreement, this "decision date" represents the final date by which each utility must make an irrevocable decision to either opt out of the project, or remain in and assume financial responsibility for it.

It is MEA's view that any such action at this time would be premature, for the reasons that follow.

1. A credible cost estimate for the Southern Intertie has not yet been prepared.

The Southern Intertie is typically described to the public as a \$100 million project. What is less widely known is that the cost estimate cited in the July 2002 Final Environmental Impact Statement (\$106.2 million for the proposed Pt. Woronzof option) is based on a "conceptual design" developed by outside consultants in 1997/1998 using typical construction methods and preliminary layouts only. This does not constitute the "requisite" cost estimate mandated by Section 4(b)(3)(B) of the Participants Agreement as a condition precedent to declaration of a "decision date".

This information is contained on pages 2-1 and 2-2 of the Final EIS, which are attached to this letter.

2. The conceptual cost estimate is stated in 1997 dollars.

The reliance on circa 1997 dollars is clearly stated at the top of Table 2-1 in the Final EIS, which sets forth the conceptual cost estimate. For example, if we assume an annual cost escalator of 5%, the 1997 cost estimate of \$106.2 million is really a \$142.3 million project in 2003 dollars.

Table 2-1 of the Final EIS can be found on the attached page 2-2 from the Final EIS.

3. The request for an additional \$30 million of state funding should be resolved to allow the utilities to make an informed decision.

It is MEA's understanding that Anchorage Municipal Light & Power (ML&P), Golden Valley Electric Association (GVEA), Homer Electric Association (HEA), and Chugach Electric Association (CEA) have jointly endorsed a request for an additional \$30 million of state grant funding for this project, potentially raising the total state subsidy from approximately \$70 million to \$100 million. The request is being advanced through the lobbying efforts of the above-named utilities and also the Alaska Rural Electric Cooperative Association (ARECA), of which MEA is not a member.

An additional \$30 million in state subsidies would significantly affect the level of financial obligation that participating utilities would be required to assume. To illustrate the point, if we assume that the 1997 conceptual cost estimate is a credible number, this \$142.3 million project (in 2003 dollars) might make economic sense with a \$100 million subsidy but not with a \$70 million subsidy. While MEA is not currently participating in the lobbying effort for the additional \$30 million, it should be obvious that a prudent decision on whether it is in the economic interest of MEA members to support the project cannot be made until the level of state subsidy is known.

4. The supplemental funding request of \$30 million may encourage the Legislature to rethink the original \$70 million subsidy.

By placing a request for an additional \$30 million before the Legislature, MEA believes these utilities are increasing the likelihood that the Legislature will reconsider the wisdom of its original Southern Intertie grant, which with interest has now grown to almost \$70 million. The fiscal picture confronting our current Legislature is significantly worse than when these funds were first committed, and it is inevitable that the question of whether the original subsidy remains the highest and best use of limited public resources will come up in the course of debate on the proposed \$30 million in additional funding. Chugach Electric General Manager Joe Griffith has already acknowledged his concern that the Legislature could find other uses for the money:

"The risk if we don't do something is that the Legislature will be looking hard for money this year. They could pass a law and take the money back. They have an interest and they know the money's out there." ("*\$100 Million Too Much for Power Line to Kenai?*," Anchorage Daily News, December 16, 2002, p. A1)

During this discussion, the Legislature will no doubt consider the lessons learned from other state investments in recent years. It also must be considered that we have a new Administration that may wish to reconsider this project in light of competing spending priorities, as well as the significant gap between state general fund expenditures and revenues.

In closing, I wish to emphasize that MEA has not yet made a decision on whether participation in the Southern Intertie is in the best interests of our members, for the simple reason that the information necessary to make such a decision is not yet available. We are anxious to see a credible project cost estimate, in current dollars, and to know the level of state subsidy available to fund the Southern Intertie. Upon receipt of this information, we will cooperate fully in moving toward the declaration of a "decision date" within a time frame that allows MEA to conduct the cost-benefit study necessary to determine whether the Southern Intertie is in the best interest of its 35,000 member-owners.

Forcing such decisions to be made before this information is made available would be a costly disservice to all of Southcentral Alaska's electric consumers.

Sincerely,



Wayne D. Carmony
General Manager

Attachments

cc: IPG Participants
James McMillan, Acting Director, AIDEA

CHAPTER 2 – SUPPLEMENTAL INFORMATION

2.1 INTRODUCTION

Information in this chapter addresses addenda, modifications, and corrections to the DEIS. This includes any additional information that was not included in the DEIS, modifications to information presented in the DEIS, and corrections to any erroneous information in the DEIS.

2.2 SUPPLEMENTAL INFORMATION

In this section, additional or more detailed information has been added to the FEIS to supplement the DEIS and address comments and information requests received during the public comment period on the DEIS. The information includes (1) additional information on project benefits and costs including cost by route option, (2) a comparison of cost and technical factors of alternatives, (3) additional information regarding undergrounding of transmission lines, (4) expanded explanation on elimination of BESS as an alternative to the Project, (5) update on beluga whales, (6) update on Kenai Peninsula brown bears and wolverines, (7) environmental cost/benefit analysis review summary, and (8) additional information on avian collision.

2.2.1 Project Costs and Benefits

The following information supplements the DEIS cost section (DEIS pages 1-31 through 1-32) and provides additional economic information for alternatives considered in detail.

Construction and Life Cycle Costs

The construction costs for the Project were estimated by Power Engineers, Inc. in 1996 and were updated in 1997/1998 (Power Engineers 1998) to reflect the facility requirements identified for the Project. The updated cost study also determined the present value of the operation and maintenance, and submarine cable replacement costs over the 40-year Project life. A discount rate of 4.5 percent was used as recommended by the Alaska Energy Authority (AEA) based on the long-term real cost of money (AEA March 1991). The results of this study are summarized in Tables 2-1 and 2-2 (pages 2-2 and 2-3) of the FEIS. For a description of the routes see Chapter 2, Sections 2.6.2 and 2.6.3 of the DEIS.

Construction Cost

To determine the construction cost for the Project, conceptual designs were prepared for each aspect of the Project and are documented in the *Power Engineers Cost Summary Report* (Power Engineers 1998). Determination of the construction costs included specifying typical overhead line structure types by line segment depending on expected weather and terrain conditions, and

preparing preliminary layouts for the substation and cable transition stations. For the underground and submarine cable installations, typical cable sizes and installation techniques along with land and submarine ground or bottom conditions were reviewed as well. Where appropriate, vendor quotations for materials were obtained and combined with historical prices from actual projects. Estimated costs for the submarine cable and installation were compared to the actual bids received by CBA (January 1998) for replacement of their Knik Arm cables. Also included in the estimate were both winter and summer construction, and air support for transportation of personnel and materials.

**TABLE 2-1
SUMMARY OF COSTS AND COST/BENEFIT RATIOS
(MILLIONS OF 1997 DOLLARS)**

Routes	Constructed Cost	Present Worth of Operation and Maintenance Costs	Present Worth of Submarine Cable Replacement Costs	Total Life Cycle Costs	Cost/Benefit Ratio*
Tesoro Route Alternative					
via Pt. Campbell Route Options A, D and N	\$99.5	\$4.3	\$10.7	\$114.5	1.25
via Fire Island Route Options A and B	\$99.4	\$5.4	\$13.0	\$117.8	1.22
Pt. Woronzof via Submarine cable direct Route Options A and C	\$106.2	\$4.7	\$13.2	\$124.1	1.16
Enstar Route Alternative					
Soldotna South/Alaska Railroad Route Options Es, F, H and K	\$90.2	\$6.1	\$3.3	\$99.6	1.44
Soldotna North/Alaska Railroad Route Options En, F, H and K	\$89.7	\$6.1	\$3.3	\$99.1	1.45
Soldotna South/Klatt Road Route Options Es, F, G and J	\$90.1	\$3.8	\$3.5	\$97.4	1.47
Soldotna North/Klatt Road Route Options En, F, G and J	\$89.6	\$3.8	\$3.5	\$96.9	1.48
Soldotna South/Old Seward Highway Route Options Es, F, I and M	\$90.1	\$3.6	\$2.8	\$96.5	1.49
Soldotna North/Old Seward Highway Route Options En, F, I and M	\$89.6	\$3.6	\$2.8	\$96.0	1.49
* Project benefits are \$143.5 million from Table 1-11 in the DEIS. Es - E South En - E North					