



Chugach Consumers

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Board of Directors
Chugach Electric Association
PO Box 196300
Anchorage, AK 99519-6300

July 8, 2003

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

Dear Board:

Chugach Electric has given no indication that it intends to withdraw from the Southern Intertie project. While it is clearly uneconomic, an important deadline for withdrawal without further obligation is rapidly approaching (see Point Paper attached).

Chugach now has only one way to cleanly exit the project without wasting more of its members money: It must formally withdraw before the firm July 15th deadline that Chugach management itself engineered at the Intertie Participants Group (IPG) on January 2, 2003.

If a decision to withdraw is made after the deadline, then Chugach 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.

Clearly, more and more of the Railbelt, and in fact 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 Chugach and all Railbelt electric ratepayers, WE URGE THE CHUGACH BOARD TO AFFIRMATIVELY WITHDRAW FROM THE SOUTHERN INTERTIE PRIOR TO THE JULY 15, 2003 DEADLINE, so that board and management can refocus efforts to deliver better value to customers by running Chugach in the most cost effective manner possible.

Sincerely,

CHUGACH CONSUMERS

[SIGNED AND TRANSMITTED ELECTRONICALLY]

Ray Kreig, Chairman

Attach: Point Paper

- 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 Chugach 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 have recovered \$27 million in interest from the grant.
- It is our understanding that Chugach management has issued more in-house numbers claiming net Railbelt losses of \$5 million as follows:

Chugach Retail	-\$1	million (loss)
ML&P	-\$10	million (loss)
HEA	\$11	million (gain)
SES	\$6	million (gain)
MEA	\$4	million (gain)
GVEA	-\$15	million (loss)
TOTAL RAILBELT	-\$5	MILLION (LOSS)

- Those numbers, issued in early June, 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 approved a motion to withdraw its support for the Southern Intertie project citing "economic concerns and reduced need".
- **Clearly, more and more of the Railbelt, and in fact 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.**

- Against our urgings prior to Jan 2nd, Chugach arbitrarily committed itself to a firm decision by July 15, 2003.
- Project economics are clearly adverse and Chugach has made no good faith effort to answer the many questions raised in the media and in public forums numerous times over the past six months. Chugach has even stopped issuing its monthly *Chugach Outlet* newsletter, the most obvious form of communication with Chugach members.
- Chugach now has only one way to cleanly exit the project without wasting more of its members money. It must formally withdraw before the July 15th deadline that Chugach management itself engineered at the IPG.
- If that deadline slips by and later Chugach abandons the project, Chugach could well be obligated to return to AIDEA its ultimate share of the \$7 million in engineering and environmental costs that otherwise would be paid out of grant principal.
- There is no regular board meeting prior to the July 15 deadline; therefore we are sending this letter in advance of the July 9 Finance Committee meeting.
- There has been no Chugach board discussion and debate on the points we and others in the community have raised. Members have no idea what the board is thinking at this late date, less than a week before this deadline for action.
- Meaningful comment and input to the board – sufficiently in advance of the deadline – can no longer effectively be made in time before an irretrievable course of action is made.
- It would appear that a special board meeting would be needed to take action before the July 15 deadline, yet none is currently scheduled suggesting that Chugach has made the decision to stay in the Southern Intertie through discussion in executive sessions.
- For the good of both Chugach and all Railbelt electric ratepayers, WE URGE THE CHUGACH BOARD 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>