



Chugach Consumers

201 Barrow #11 • Anchorage, Alaska 99501-2429
e-mail: execdir@chugachconsumers.org • website: www.chugachconsumers.org

ML&P - Chugach Electric Merger Testimony of Chugach Consumers November 29, 2007 – Anchorage Alaska

Good afternoon. My name is Ray Kreig and I am testifying here as Chairman of Chugach Consumers, an advocacy group for electric utility customers. I have also served for 6½ years on the Chugach Electric board of directors and was board president for two years in the mid 1990's.

THE NAVIGANT REPORT

In a nutshell – to us – the Navigant report has been biased right from the start to arrive at a pre-determined outcome designed to eliminate all options except government owned entities from further analysis. Right out of the chute this sets off warning bells that something is wrong in Anchorage because worldwide trends in electric utility industry restructuring and reform clearly have been going in the opposite direction. Government owned assets are being privatized, converted to more economically efficient operation and service delivery while at the same time wherever possible exposing the utilities to competitive forces and modernized regulatory environments.

LACK OF UNBUNDLED COSTS

How can any of us rely on Navigant's conclusions as valid or responsibly developed when they don't even bother to identify and discuss the unbundled costs for the utilities involved? Worldwide, this is recognized as the very first thing that should be done in any electric utility restructuring analysis. In fact any utility that is not doing it routinely to monitor and improve its own operations should be put on a watch list for reform by regulators!

By cost unbundling, we mean separating and allocating utility costs into the four standard subdivisions of electric utility operations: Generation, Transmission, Distribution, and Customer service. Unless this is done there is no way to validly compare on an "apples to apples" basis how well or how poorly a utility is doing vis-à-vis the best practices in the industry segment.

For example, electric consumers in Anchorage have historically paid extremely high non-fuel rates for distribution service when compared to national standards of electric utility economic efficiency for similar system configurations. Customers are being

charged rates twice national norms for electric cooperatives. That's 100 percent higher than normal.

Chugach Electric in 1992 was charging distribution customers 3½¢ per kwh above the wholesale cost of generated power and transmission while national norms for systems of similar customer usage and service density had customers paying about 1¼¢ per kwh. The situation has changed little recently with Chugach Electric charging 4½¢ per kwh in 2004 while norms for similar systems nationally were then in the 1½¢ per kwh range.

Alaskans know that costs 15%-30% higher might be credible, but not the 60% to 100% higher costs that are all too common in our electric utility activities!

Chugach Electric has unbundled its costs into at least wholesale and retail functions for most of the last decade.

ML&P has never issued unbundled costs that enable a similar direct “apples to apples” comparison but we believe the numbers show similar or worse performance than those for Chugach Electric.

The public has been left to believe that ML&P is somehow a better utility than Chugach Electric, because their rates are superficially 20 to 30% below Chugach. But this is highly likely to be entirely due to ownership of its interest in the Beluga gas field. ML&P has over 80 customers per mile of distribution line and a much higher commercial customer mix than Chugach at 45 customers per mile. That means its distribution costs per kwh should be significantly lower than Chugach's and it's entirely possible that ML&P's economic efficiency could be the worst in the Railbelt because of its ability to internally subsidize poor operations and management performance by diverting some of the savings from its low-cost natural gas supply. ML&P's refusal to unbundle its costs helps conceal what is actually going on. *Regulators, please take note!*

By the way, at last Tuesday's Alaska Energy Authority technical conference, former Alaska Public Utilities Commissioner Mark Foster also identified the importance of this long overdue reform in electric utility reporting and accountability.

NAVIGANT STAKEHOLDER INTERVIEW

In our stakeholder interview with Navigant, we emphasized the critical need for unbundled cost assessment of ML&P and comparisons of same to be made with other utilities. We discussed concern that whatever successor entities are created, be they munis, cooperatives, government authorities, or investor-owned utilities that due attention be paid to designing governance and regulation to remedy long-standing problems with special-interest interference in lightly attended utility elections and political and management processes in the utilities.

We asked how other areas of the world have restructured to handle these reforms? Ron Nichols told me that they would not be studying these issues and that from what

they have seen the costs here didn't seem to be out of line. This was a clear early warning that important areas germane to any decision about restructuring Chugach Electric and ML&P were off the table and would be ignored. I point out that it has been authoritatively determined that electric utility costs in the Railbelt are in fact quite out of line and in need of reform.

RECOMMENDATIONS

Are we here today recommending that the necessary Chugach Electric and ML&P merger be by privatized sale? NO!

But we are insisting that Anchorage electric utility customers be given a full deck of cards as to the alternatives. This has not happened with this Phase I report from Navigant. It's not an adequate basis to screen out any of the alternatives. Only the muni and governmental authority entity forms have been given a reasonable analysis.

We do not yet have an "honest broker" opinion for the cooperative and privatized options and the various hybrids of those.

Fortunately, the Chugach board has brought in consultants from the National Rural Electric Cooperative Association and we are getting more information and assessment on that solution.

Very little has been done on the privatization and hybrid options.

Phase II needs to emphasise these poorly assessed gaps and it should not be done by Navigant.

Thank you.

ABOUT CHUGACH CONSUMERS

Chugach Consumers was formed in 1996 to advocate for the general public interest of Chugach Electric ratepayers, to educate consumers, and to diversify our economy. It is a group of fiscally-concerned ratepayers and others that support safe, reliable, low cost power for South Central Alaska.

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 configuration and manner possible because this will hold down costs and deliver better value for all electric customers (including Chugach retail and wholesale customers as well as those of ML&P).
- 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.