

March 15, 2007

Mr. Ron Miller, Executive Director  
Alaska Energy Authority  
813 West Northern Lights Blvd.  
Anchorage, AK 99503

**Re: Written Testimony of CEA, GVEA, and ML&P in Response to MEA's Proposal to Purchase Alaska Intertie**

Dear Mr. Miller:

Chugach Electric Association, Inc. ("CEA"), Golden Valley Electric Association, Inc. ("GVEA"), and Anchorage Municipal Light & Power ("ML&P") hereby submit this statement in response to the Alaska Energy Authority's ("AEA") invitation for additional comment after the March 13, 2007, public hearing to consider a proposal by Matanuska Electric Association, Inc. ("MEA") to purchase the Alaska Intertie ("Intertie"). Specifically, this statement is in response to comments of Mr. Tuckerman Babcock of MEA at the public hearing on the interests of the Alaska Railbelt Energy Authority ("AREA") involving the Intertie. As the founding members of AREA, we would like to clarify a few points.

In the summer of 2005, CEA, GVEA, and ML&P formed the AREA. AREA is a joint action agency formed under Alaska Statutes 42.45.300 *et. seq.* AREA's mission is:

To insure that the interconnected electric generation and transmission grid servicing Alaska's Railbelt provides an adequate, reliable and economic energy infrastructure that will at all times maintain and enhance the ability of our communities and citizenry to realize their greatest possible prosperity and standard of living. We will accomplish our mission by fostering a coordinated approach to planning, construction and operation of traditional and alternative generation and transmission assets that maximizes efficiencies, cost-effectiveness and access to the most favorable financial markets.

To accomplish this mission, AREA has designated certain key projects, including possible acquisition of the Alaska Intertie:

The JAA was also formed to serve as a vessel for placement of State-owned electric infrastructure. In 2004, AIDEA/AEA sent a letter to all Railbelt electric utilities stating their interest in divesting the Alaska Intertie, the Bradley Lake Hydroelectric Project and the Healy Clean Coal Project, and their desire to have the assets go to one entity in which all the Railbelt electric utilities would participate. The JAA is the best structure for cooperatives and municipalities to participate in this new venture. AREA has now commenced operation and is beginning exploration of projects and acquisitions. Among acquisitions currently under review at various levels of industry and government is whether the legislature should authorize transfer to AREA of major state-owned energy assets serving the Railbelt. These may include the Bradley Lake Hydroelectric Power Plant supplying power from Homer to Fairbanks; the Alaska Intertie

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transmission system linking Southcentral Alaska with Fairbanks and intervening communities; and the Healy Clean Coal Plant so that it may be completed as a modernized, reliable and environmentally-friendly coal generation plant constituting a major economic power source to the Railbelt interior.

AREA has not yet filed a formal offer to acquire the Intertie, as this group is continuing to develop a comprehensive strategy on its role in and the best interests of the Alaska Railbelt. As we noted in our written statement on this matter dated March 12, 2007, we are willing and prepared to engage in discussions with AEA and other interested parties about new structures to own, manage, operate, and fund the Intertie should the AEA express an interest in transferring ownership of the Intertie. Regardless of the possible transferee, any proposal that AEA considers should be based upon the acceptance and recognition that any bona fide transfer proposal must be in the best interest of the entire Railbelt. MEA's proposal to purchase the Intertie does not serve the best interest of the Railbelt.

In Mr. Babcock's March 13 oral redirect statement, he noted that we should not lament the termination of the Alaska Intertie Agreement because of AREA's intention to acquire the Intertie for itself would result in termination of the Agreement anyway. In our opinion, the conclusion and inference he would like AEA and the general public to draw from this is plainly baseless. At no point has AREA (nor CEA, GVEA, or ML&P, individually, for that matter) stated, directly or indirectly, that we or AREA support the dismantling of the Alaska Intertie Agreement or the IOC cooperation of the utilities under the Agreement. We have been willing to entertain in good faith all reasonable forms suggested by all parties to resolve issues surrounding the Alaska Intertie Agreement. Our willingness to consider solutions and to cooperate in good faith should not be misconstrued as representing a hidden agenda on our part. In fact, we are discouraged by and disagree with AEA's October 16, 2006, notice of termination of the Agreement. Nevertheless, as we have consistently noted, we remain committed to working out a cooperative resolution to Intertie-related issues. We further note that until such time as termination of the Alaska Intertie Agreement is effective, the Agreement remains in place, including the restriction on its assignment: "[N]o Participant shall assign this Agreement nor any part hereof without the express written consent of the other Participants...."<sup>1</sup>

In our March 12 statement, we referenced AEA's own prior statement discouraging opportunities for a single utility to thwart resolutions to common issues and to generally cause chaos and mischief. In a letter dated April 30, 2004, regarding the State's divestiture of Railbelt energy assets, Mr. Ron Miller advised:

AEA believes that legislative approval of any divestiture plan may prove extremely difficult to obtain if all Railbelt utilities are not at least given the opportunity to share in the benefits and assume the risks and burdens of ownership of the AEA owned energy projects. AEA therefore believes that divestiture should be open to all Railbelt utilities who wish to be included. \* \* \* AIDEA believes none of the Railbelt energy assets should be transferred to any single utility without the same opportunity being presented to all Railbelt utilities with the disposition endorsed by the unified systems operator. (Emphasis added.)

If AEA expresses an interest in divestiture of the Alaska Intertie asset, and we determine that a potential transfer of the Intertie to AREA may be in the best interest of the Railbelt, AREA may well take

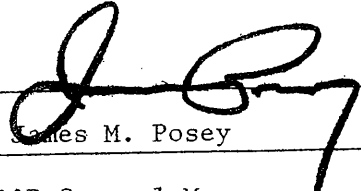
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<sup>1</sup> Alaska Intertie Agreement § 22.1.

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action in this direction. Mr. Babcock failed to note that membership in the AREA joint action agency is open, and will remain open, to municipal and cooperative public utilities. In fact, we have actively welcomed the participation of all Railbelt utilities. Membership in AREA is not only open to Railbelt utilities, but AREA is designed to enable participation on a project by project basis.

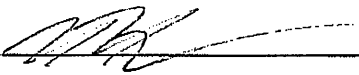
AREA has no hidden agenda with respect to owning the Intertie. We encourage an open and public process to review MEA's proposal, as is required to dispose of a State-owned asset, and we will continue to consider all possibilities to resolve Intertie issues in a manner that serves the best interests of the Railbelt. We remain committed to an open and genuine dialog with all parties to accomplish this purpose.

<p>CHUGACH ELECTRIC ASSOCIATION, INC.</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: _____</p> <p>Date: _____</p>	<p>ANCHORAGE MUNICIPAL LIGHT &amp; POWER</p> <p>By: </p> <p>Name: James M. Posey</p> <p>Title: ML&amp;P General Manager</p> <p>Date: <b>MAR 15 2007</b></p>
<p>GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: _____</p> <p>Date: _____</p>	

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<p>CHUGACH ELECTRIC ASSOCIATION, INC.</p> <p>By: </p> <p>Name: <u>William R. Stewart</u></p> <p>Title: <u>Chief Executive Officer</u></p> <p>Date: <u>March 15, 2007</u></p> <p>GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: _____</p> <p>Date: _____</p>	<p>ANCHORAGE MUNICIPAL LIGHT &amp; POWER</p> <p>By: _____</p> <p>Name: _____</p> <p>Title: _____</p> <p>Date: _____</p>
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