

Henri Dale, Golden Valley Electric Association 3/13/2007

The concept of the sale of the Alaskan Intertie is ill conceived and bad public policy.

In the early 1980's the Legislature decided to electrically interconnect the two largest cities in Alaska. Originally, the Intertie was envisioned to be the first step in providing power to the Railbelt from the Susitna Hydroelectric Project, with a designed voltage of 345,000 volts. The transmission line has since been operated at 138,000 volts.

The Legislature looked at the addition of the Alaskan Intertie as a way to invest in Alaska's future, using non-renewable oil money to fund infrastructure that would benefit the entire Railbelt. The Alaskan intertie is a reason that Golden Valley Electric Association went for 18 years without a rate increase. Overnight, the cost to generate a kilowatt-hour went from 5 cents to 2.5 cents, all without debt repayment or interest expense. What a brilliant use of State oil

revenues. What a boost to the State economy that sparked numerous opportunities and growth opportunities. Interior Alaska benefited by the reduced cost of energy being supplied from Chugach Electric and Anchorage Municipal Light and Power, all while the South Central utilities benefited through increased sales and profits. As a cooperative Chugach Electric shared these increased margins as a lower net cost of energy with their distribution members including Matanuska Electric Association and Homer Electric Association.

The Alaska Intertie allowed Interior Alaska to participate with other Alaskan Utilities in the Bradley Lake Hydroelectric Project that was constructed in the 1990's. GVEA looks forward to participating in other joint projects such as Fire Island. The simple interconnection of Fairbanks and Anchorage increased communications and collaboration amongst the Railbelt utilities. All the utilities received benefits from this interconnection.

Alaskan utilities are currently faced with huge decisions that will affect the entire State of Alaska for generations. Currently, most of the electrical generators in the Railbelt either are or soon will be thirty years old. Turbines do not typically operate beyond a 40 year life. Said another way, 1,000 megawatts of aging electrical generation will be required to be replaced within the next ten years, at a cost of between \$1 billion to \$2 billion. The concept of selling the Alaska Intertie is in effect, a rearrangement of the deck chairs or enlarging the leaks in the Titanic. AEA is misguided and needs to return to their mission. Rather than selling public assets, AEA should be focusing on how it can assist in the building of infrastructure and organizations, such as the Alaska Railbelt Energy Authority Joint Action Agency (AREA JAA) that will propel Alaska into the future.

I am now going to shift gears to the MEA proposal. For years, Matanuska Electric has been sending disparaging statements about the Alaska Intertie' snow loading problem. The Intertie Operating Committee (IOC) that provides management of the Alaska Intertie, has reviewed this situation and taken prudent action to address this situation. The snow loading problem was discovered just after construction. AEA conducted settlement discussions with the designer which was monetarily addressed in a sealed settlement agreement. The IOC hired an independent engineer to evaluate the situation and selected a load monitoring system from a list of options. The Snow Load Monitoring system was installed and is currently monitoring the Alaska Intertie in the rare event that the line would sag under excessive snow loading. Matanuska Electric has conducted media campaigns attacking the safety of the Alaska Intertie under these conditions. The IOC has recently reviewed the snow loading situation and made changes to the protocol under snow loading

conditions where low clearances may occur. Why would MEA propose purchase of the Alaska Intertie which they have been claiming is as safety hazard to the Public?

Several months ago, AEA gave the Railbelt utilities notice of termination of the Alaska Intertie Operating Agreement. This termination will occur four years after the termination notice. The Intertie Agreement runs in perpetuity and can be terminated when, "...APA determines such action to be required to improve Power systems serving the Alaska Railbelt Utilities." The Railbelt Utilities have been working with AEA to resolve the issues which AEA thought were fatal flaws to the IOC agreement. Three items were presented by AEA as fatal flaws, no Replace and Repair (R&R) fund, IOC not following agreement budgeting procedure, and deferment of certain capital repairs.

Last year, Chugach Electric Ass'n., Anchorage Municipal Light & Power and Golden Valley Electric Ass'n. all agreed to assume debt for the R&R fund for the Alaska Intertie. They also agreed to modifications of the budgeting process to incorporate the current practices which were necessary following the reorganization of Alaska Energy Authority, when they were placed with AIDEA. The three generating utilities also agreed which projects would initially be performed using the proceeds of this debt.

The IOC agreement includes a provision for Amendments that states any modification must be approved by all of the participants. Matanuska Electric and Homer Electric are participants to the agreement through Alaska Electric and Generation Cooperative (AEG&T). Matanuska Electric has stated repeatedly that they would not support any modification of the Intertie Agreement. This action or inaction was the go-ahead for AEA to terminate the Alaska Intertie based on their "fatal flaws". Matanuska Electric hands are not clean

on this questionable alliance. On one hand they obstruct resolution which all other parties were in agreement, and on the other they make a purchase offer for the same intertie that is potentially up for sale due to their withholding of their approval to modify the agreement.

Why is the Intertie Agreement important? The intertie agreement governs the operations of the intertie including the payment for use of the intertie. With the Intertie Agreement in place there are no provisions for the recovery of debt service or interest. If the intertie were sold with the Intertie Agreement in place, the purchasing party has no mechanism to recover their investment. This is exactly how the Legislature envisioned the funding of infrastructure to work. For Matanuska to purchase the Alaska Intertie, the Intertie Agreement had to be terminated. AEA's hands are not clean on this issue.

What is the impact of debt service on the Alaska Intertie? Over the years, the differential cost of electricity has been reduced. If debt service were added to the intertie, there would be less incentive to purchase non-firm power over the Alaska Intertie. With AIDEA's recent agreement for the Healy Clean Coal Project, Homer Electric would become the main user of the Alaska Intertie in the future with their export of HCCP power to the south. This transfer will not only have to support the Operations and Maintenance of the intertie, but following intertie agreement termination, the sale would also have to cover the additional debt and interest payments of the new owner. The termination of the agreement, which is the basis of the rules and procedures to which the railbelt utilities together operate, allows AIDEA to provide HCCP sales with no operating rules to abide by. AIDEA's hands are not clean on this issue.

This is an intricate web that has been woven by several parties which are behaving poorly. This is bad public policy. What other public assets will spring up for sale? What other agreements will have to be terminated to allow the sale? This appears to a great strategy, by AIDEA/AEA to make one of their great successes into a non-performing asset.

If AEA wants to divest itself of Railbelt infrastructure, they should consider a transfer of these assets to a entity which all the utilities can belong to continue the original intent of the Legislature of supporting growth in Alaska through support on infrastructure.

Please stop rearranging deck chairs, and let's work to keep the ship afloat. One to two billion dollars in the next ten years is a huge challenge that we can only resolve if we all work together. Let's focus

on the big picture and moving toward a common goal of a sustainable, stable-priced, reliable energy supply for Alaska's future.

I will end with my opening statement.

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