



April 22, 2004

The Honorable Gene Therriault
Senate President
Alaska State Legislature
Juneau, Alaska 99801-1182

Re: Alaska Intertie Issues

Dear Senator Therriault:

Thank you for your April 7, 2004 letter regarding construction of a new segment of the Alaska Intertie (Intertie) from Wasilla to Willow (the "MEA-TLS Bypass" project). I assume the appropriation you referenced in your letter is the \$20.3 million appropriation to the Alaska Energy Authority (AEA) that was included in Chapter 1 SSSLA 2002.

To help understand the current status of this project, below we provide some background information regarding the management and operation of the Alaska Intertie.

The Intertie was constructed entirely with state funds at a cost of \$124 million. The utilities participating in the Intertie include the Municipality of Anchorage d/b/a Municipal Light and Power (ML&P), Chugach Electric Association, Inc. (Chugach), Golden Valley Electric Association, Inc. (GVEA), and Alaska Electric Generation and Transmission Cooperative, Inc. (consisting of Homer Electric Association, Inc., and Matanuska Electric Association, Inc. (MEA)). Under the terms of the Alaska Intertie Agreement (Agreement), the participating utilities are required to pay all of the costs of the Intertie, including operation, maintenance, insurance and renewals and repairs. Budgeting and other operational decisions related to the Intertie are made by an Intertie Operating Committee (IOC), composed of representatives of the participating utilities and AEA. No payments are made to the state with respect to the capital costs of the Intertie.

While your letter focuses on the MEA-TLS Bypass project, we believe it important to also report the status of other anticipated upgrades and repairs to the Intertie. In addition to the MEA-TLS Bypass, the IOC has recommended other necessary repairs to the Intertie, including snow-load mitigation repairs, SVC control upgrades, and tower foundation repairs. Preliminary engineering has been initiated on these repairs and attachments A and B are two reports related to ongoing analysis of Intertie repairs.

The IOC utilities have disagreed amongst themselves regarding prioritizing the use of appropriated funds for upgrade projects. IOC utilities have discussed using the appropriated funds for various repairs prior to or in conjunction with the proceeding on the MEA-TLS bypass project. The 2002 appropriation was made for AEA to "upgrade and extend the Anchorage to Fairbanks power transmission to the Teeland substation." AEA, based upon its review of background material related to the appropriation, agrees with your assessment that the legislature intended the appropriation to be used first for the MEA-TLS Bypass project. MEA has suggested that the appropriated funds, instead, should be used for other Intertie needs,

including mitigation of snow-load problems. *See, e.g.,* Attachment C (this is a confidential proposal from MEA to purchase the Intertie; AEA may provide you with a copy with your assurances that you will retain its confidentiality).

Based upon discussions with IOC utilities, AEA believes that potential controversy regarding use of the appropriated funds will be avoided through the coordination of management and funding for all anticipated Intertie upgrade projects. *See* Attachment D. The General Managers for GVEA, Chugach and ML&P have committed to work with AEA to obtain debt financing through revenue bonds for upgrade project costs not covered by the appropriation. Revenue bond obligations will be paid as part of the annual operating expense of the Alaska Intertie. By addressing the potential problem of inadequate funding for all project needs, we believe we can avoid potentially disruptive disputes regarding prioritizing upgrade projects. However, to whatever extent disputes arise, AEA's position is that the appropriated funds should first be devoted towards the MEA-TLS Bypass project, and only after that project is completed or full funding assured, may any appropriated funds be devoted to fund other upgrade projects.

AEA also agrees with the IOC utilities' suggestion that significant cost savings and efficiencies could be realized if the utilities are given significant management control over the project. AEA anticipates that ML&P will soon be appointed project manager for all the Alaska Intertie upgrade projects, including the MEA-TLS Bypass project. *See* Attachment D. We further anticipate that ML&P will coordinate or subcontract with other IOC utilities, as appropriate, to accomplish all of the project upgrades efficiently.

With that background, we turn to your more specific questions.

You asked a number of questions regarding the status of the MEA-TLS Bypass project, expectations for the next six months, status of the route selection, and about whether public forums will be conducted related to route selection.

No specific route has yet been selected for the MEA-TLS Bypass. Attachment E is a January 30, 2004, report that analyzes various route selection options. The IOC utilities have requested that additional analysis be conducted to help determine the preferred route. The contractor who prepared Attachment E has been directed to perform this additional analysis by GVEA's President and AEA has requested input from the IOC to review alternative approaches to further refining a route selection process.

AEA anticipates that ML&P will soon take the project management lead, and will determine in conjunction with other IOC utilities and AEA a strategy for concluding route selection. That strategy may include public forums.

You also asked for a status report on the continued use of the MEA-TLS intertie until the bypass is constructed. Those issues are currently the subject of ongoing discussions mandated by the Regulatory Commission of Alaska ("RCA"). Various IOC utilities filed an action with the RCA requesting it order continued use of the MEA-TLS as part of the Alaska Intertie. The parties, by stipulation, agreed to meet to attempt to resolve disputes. The RCA accepted the stipulation, and ordered the parties to meet with AEA.

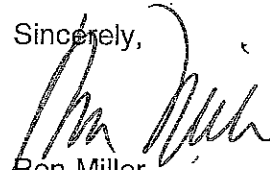
Of primary concern is that the agreement between AEA and MEA regarding using the MEA-TLS as part of the Alaska Intertie is scheduled to terminate on June 30, 2004. MEA and the other IOC utilities, as part of the RCA approved stipulation regarding meetings, agreed to extend through December 31, 2004, the right to use the MEA-TLS Intertie under the same basic terms

and conditions that currently exist. However, MEA will contract directly with the IOC utilities rather than contracting with AEA.

The purpose of extending the IOC utilities' right to use the MEA-TLS was to afford time for all of the IOC utilities, MEA, and AEA to meet to discuss various concerns, and attempt to negotiate a new agreement to provide for continued use of the MEA-TLS. If negotiations are unsuccessful, no later than June 30, 2004, the IOC utilities may return to the RCA and renew the request that the RCA order continued use of the MEA-TLS. As contemplated under the RCA order, meetings have been conducted in March and April and are expected to be concluded in May. MEA indicated that they would outline terms and conditions for continued use of the MEA-TLS in early May. It is therefore difficult to predict the likelihood that negotiations will be successful, or whether the other IOC utilities are likely to return to the RCA seeking the right to continued use of the MEA-TLS.

Please let us know if we can provide any further assistance regarding these matters.

Sincerely,



Ron Miller
Executive Director