

Presentation of Matanuska Electric Association at March 13, 2007
Alaska Energy Authority Public Hearing on the Alaska Intertie

by James L. Walker, Senior Counsel

Good morning Mr. Strandberg. On behalf of MEA, I want to thank you, and the Alaska Energy Authority, for holding this public hearing as a first step in the process of considering MEA's offer to purchase the Alaska Intertie. MEA understands that in holding this public hearing, the Authority is making no commitment to accept MEA's offer. However, MEA believes that this public hearing is a sign that the Authority is actively engaged in the process of considering options for the future of this transmission line.

MEA is not here today to publicly negotiate, or even discuss, specific terms and conditions for a transfer of the Alaska Intertie to MEA. According to the public notice, the purpose of this hearing is to gather information regarding sale of the Alaska Intertie and how such sale might affect the Railbelt electric grid. In requesting this hearing, Authority Board Chair Mike Barry stated his opinion on December 1, 2006 that, in considering any potential sale of this asset, the Authority must look "out for what's best for the state of Alaska and those people who are served by Electrical Utilities up and down the railbelt by this asset". These are the policy issues MEA is here to discuss.

MEA notes that since October 16, 2006, when the Authority gave notice that it was terminating the Alaska Intertie Agreement in 48 months, no proposals for a replacement intertie agreement have been brought forward. Effectively, ten percent of the time allowed to negotiate such replacement agreement has now passed. This is consistent with the long process leading up to the Authority's termination notice, during which the utilities and the Authority were unable to negotiate modifications to the Alaska Intertie Agreement allowing construction of public safety improvements and projects resolving maintenance problems with this facility.

The Authority does not have a tariff in place under which default rates can be charged for wheeling over the Alaska Intertie, nor has it adopted regulations governing the manner under which such tariff could be adopted or modified. The Authority has no means of forcing the utilities to negotiate a reasonable wheeling charge for use of the Alaska Intertie based on the requirements of AS 44.83.090, and the failure to enter into such a contract could result, by default, in uncontrolled use of the line by the utilities. This does not appear to be in the State's best interest. Therefore, new options must be considered and it is in this context that MEA's offer to purchase the Alaska Intertie for approximately \$50 million has been brought forward.

MEA believes that sale of the Alaska Intertie is only appropriate if the purchaser is both a tax-exempt non-profit entity and a certificated public utility fully subject to the requirements of AS 42.05. By imposing these conditions, the State is maximizing the likelihood that the Alaska Intertie will be operated, maintained, and improved in a manner that prudently meets the public's needs at a cost that the State determines through public adjudication to be just and reasonable. The public's interest will be further protected by AS 42.05.391, which prohibits a public utility owner from charging unreasonably discriminatory rates in violation of the cost-causer/cost-payer principle.

MEA notes that the Authority has been unable to resolve the user utility impasse which was caused in part by the inequitable rate methodology adopted in the Alaska Intertie Agreement. Further, as evidenced by the recent TLS line docket, U-03-100, the Regulatory Commission of Alaska has demonstrated it has sufficient authority under AS 42.05 to impose wheeling terms and conditions when the utilities are unable or unwilling to successfully negotiate such an agreement. As a point to consider, the Regulatory Commission of Alaska currently regulates the transmission systems connected to both the north and south ends of the Alaska Intertie. Regulatory consistency can only be achieved if the Alaska Intertie itself also becomes subject to Commission regulations.

The State made a \$124 million dollar investment in the Alaska Intertie at a time when Railbelt utility loads were insufficient to economically justify this investment. The Railbelt electric utility systems are now sufficiently mature to pay their share of the costs associated with use of this transmission line. MEA's purchase proposal would allow the State to recover over time some, or possibly all, of its undepreciated investment in this facility, creating a cash flow that could be used for other State purposes. By way of example, and not a condition of purchase, these funds could be used to facilitate construction of the Railbelt transmission system loop recommended by the Alaska Energy Policy Task Force. These funds could also be used by the Authority to extend the interconnected Railbelt electric grid to communities receiving the PCE subsidy, reducing the pressure on available funding for that subsidy. Another possibility might be to dedicate a portion of these proceeds to subsidize otherwise uneconomic renewable energy projects currently being considered in the Railbelt.

Sale of the Alaska Intertie to MEA makes sense for several reasons. A substantial portion of the Alaska Intertie runs through MEA's service territory. MEA has been the Authority's maintenance contractor for the southern segment since the Alaska Intertie went into service because it already maintains an electric distribution system in that area. Thus, MEA's existing maintenance equipment and personnel can cost effectively service the southern segment of the Alaska Intertie. If the Alaska Intertie is acquired by MEA, it also stands willing to undertake maintenance of the northern segment of the Alaska Intertie if the current maintenance contractor for that segment is unwilling or unable to continue providing cost effective maintenance services for that segment pursuant to a contract with MEA.

Under the Alaska Intertie Agreement, long-term ownership risks have been entirely allocated to the Authority, while all benefits have been allocated to the user utilities. This separation of risk responsibility from the beneficiaries has caused large capital improvements and large maintenance projects to be delayed indefinitely because of the impacts such construction would have on wheeling rates. By unifying ownership risks with MEA, capital expenditures can be performed on a timely basis and recovered over a long period of time so as to reduce the wheeling rate impacts. Since the preponderance of the safety concerns on this line primarily affects MEA's membership, MEA is the appropriate utility to be addressing these concerns.

With regards to the three State owned Railbelt energy facilities, Alaska Energy Policy Task Force recommended that: "Current state ownership of energy assets should be transferred to a Unified System Operator to support the cooperation of the utilities in that endeavor."

Subsequently, ML&P and GVEA have both refused to participate in meetings on formation of a Railbelt wide Generation and Transmission (G&T) entity with ownership and operational responsibility for all existing and future generation and transmission facilities. The Authority's experience with the Healy Clean Coal Project is a classic example of the difficulty associated with the State's participation in a power project.

Sale of the Alaska Intertie to MEA would not be adverse to the concept of Unified System Operation. Based on years of debate by the various utilities on the merits, it appears unlikely that any single entity would purchase all of the generation and transmission assets of the Railbelt electric utilities. Thus, a Unified System Operator would have to obtain its authority to act pursuant to contractual arrangements that have yet to be negotiated. Given the fact that MEA already owns a significant portion of the Railbelt transmission system, and is in the process of developing its own generation facilities, any such contract will have to address MEA's concerns regardless of whether or not MEA owns the Alaska Intertie. In the same way, such contractual arrangements will also have to address the concerns of GVEA, ML&P, CEA, HEA, and possibly the City of Seward. Sale of the Alaska Intertie to MEA would potentially allow the Authority to become a neutral facilitator in negotiation of a unified system operations agreement, rather than a party bringing yet another layer of costs and concerns to the bargaining table.

While MEA is unwilling to discuss the details of its confidential purchase offer at this public hearing, we are willing to try and answer any general questions that you might have at this time.

Thank you.