

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

November 19, 2003

ACTION REQUIRED

AGENDA ITEM NO. IX.C.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Chugach Electric Association's position on participation in the Anchorage-Kenai Intertie (Southern Intertie).

DISCUSSION

Chugach is currently a 30.23 percent participant in the Southern Intertie. A participant can withdraw from the project only upon providing written notice to the other participants on or before a particular date referred to as the "decision date". The participants established November 21, 2003, as this decision date.

By virtue of increased costs and reduced funds due to state government action, Chugach should provide notice that we will not participate in the project. It is with great disappointment and a strong sense that the citizens of the Railbelt have been short-changed that staff recommends withdrawal. We believe that all Railbelt members would well be served in the long run by an additional electrical intertie between Anchorage and the Kenai Peninsula. In the near term, however, there are many impediments to building this line. These include the aforementioned seizure by the state of Alaska of promised funding, the intention of both wholesale customers (Homer Electric Association and Matanuska Electric Association) to not participate, the potential of higher construction costs and risk that Chugach members would not achieve adequate benefits to cover the increased costs. When Chugach realistically reviews the array of obstacles standing in our path, we find that we cannot justify the risk to our members of continuing with this project regardless of its necessity or long-term benefit.

CEO's RECOMMENDATION

Move that the Board of Directors approve the resolution authorizing the Chief Executive Officer to withdraw from participation in the Southern Intertie per section 4(b)(3) of the Participants Agreement and authorize the Chief Executive Officer to make a formal demand to AIDEA for unreimbursed funds expended on the Southern Intertie for preliminary studies by Chugach and other utilities.

RESOLUTION

WHEREAS Chugach was granted \$46.8 million per Senate Bill 126 dated May 10, 1993, for the benefit of the participating utilities for construction of the Southern Intertie project;

WHEREAS Chugach, Anchorage Municipal Light & Power (AML&P), Homer Electric Association, Inc. (HEA), Matanuska Electric Association (MEA), Golden Valley Electric Association (GVEA), and City of Seward Light & Power Division (SES) are the participants in the Southern Intertie project and entered into the Grant Transfer and Delegation Agreement, the Intertie Grant Administration Agreement and Intertie Participant Agreement and those utilities are collectively referred to as the Intertie Participants Group (IPG);

WHEREAS the IPG proceeded with Phase 1 of the project which provided for preliminary design and route selection of the project, and;

WHEREAS a Final Environmental Impact Statement (FEIS) was completed and a Record Of Decision (ROD) was published by the lead and cooperating agencies; and

WHEREAS the routing established by the FEIS did not follow the Intertie Participants Group's preferred route and consequently, the costs for the approved route were higher than the preferred route; and

WHEREAS an updated cost estimate was prepared for the project indicating an increase in the project estimate from \$100 million to approximately \$120 million;

WHEREAS the preliminary design and environmental work exceeded the funding amount established for Phase 1 due to protracted environmental studies; and

WHEREAS Chugach and other IPG members entered into a Settlement Agreement with AIDEA to contribute 25% of funds in excess of Phase 1 funding in an effort to show good faith that the utilities were serious about building the Southern Intertie; and

WHEREAS that good faith has been demonstrated by the utilities; and

WHEREAS funds available for construction of the Southern Intertie were anticipated to be approximately \$75 million at the time of construction; and

WHEREAS The state of Alaska, on April 7, 2003, determined that interest earned on the original grant fund was not legally obligated to the project and ordered the Alaska Industrial Development and Export Authority (AIDEA) to transfer \$28.5 million of interest earnings to the State Treasury; and

CHUGACH

WHEREAS the utilities reevaluated the economics of the project without the interest earnings;

WHEREAS Chugach's wholesale customers, HEA and MEA, have indicated that they will not participate in the project;

WHEREAS, Chugach's share of the project costs without HEA and MEA exceed the benefits to Chugach's retail members;

The Chugach Board of Directors hereby resolves:

- 1) That the Chief Executive Officer is authorized to withdraw from participation in the Southern Intertie per Section 4 (b) (3) of the Participants' Agreement.
- 2) That the Chief Executive Officer shall demand payment from AIDEA for funds expended in pursuit of necessary studies that have not been reimbursed by AIDEA.
- 3) That the Chief Executive Officer shall take appropriate steps to develop alternative plans and strategies for use of the remaining \$39.5 million held by AIDEA.

CERTIFICATION

I, Patricia Jasper, do hereby certify that I am Secretary of Chugach Electric Association, Inc., an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska: that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the 19th day of November, 2003; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the corporation the 19th day of November 2003.

Secretary