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March 7, 2018

RE: Policy Statement- Municipal Ballot Proposition 10, Sale of ML&P to Chugach Electric Association

AEDC supports Proposition 10, through which the voters of Anchorage approve the next step in the ongoing public process of developing a proposed final purchase agreement. While the AEDC Board supports the passage of Proposition 10, there is significant work yet to be done to finalize the details of the purchase agreement. Voter approval of proposition 10 would begin the appropriate review and due diligence process to determine whether or not the sale of ML&P to Chugach Electric Association is the best direction for the community to pursue.

If Proposition 10 is approved by Anchorage voters, AEDC will be closely following the development of the final agreement that will ultimately be presented through 3 public processes for final approval. The 3 public processes will require approval by:

- The Anchorage Assembly
- The Chugach Electric Association Board of Directors
- The Regulatory Commission of Alaska.

For AEDC to support the final proposal presented to these three public bodies, AEDC will measure the proposed final agreement through its ability to meet the following criteria:

- The sale will result in lower operating costs through improved efficiencies in a unified Anchorage electric grid
- The sale will result in lower long-term electric rates and improved service for business and individual consumers
- Property taxes will not increase because of the sale of ML&P to CEA
- There will be significant retirement of Municipal bonded indebtedness
- Local control of the unified electric grid will be maintained
- Significant revenues will be provided under the tax cap to the MOA over the course of the agreement
- The sale of ML&P will provide the best value to the Municipality of Anchorage and the rate payers of Chugach Electric Association

For these reasons, the AEDC Board of Directors urges Anchorage voters to vote "Yes" on Ballot Proposition 10 on the April 3, 2018 Municipal election ballot.

Bill Popp
President and CEO

Raquel Edelen
Chair, AEDC Board of Directors

Background-

In mid-2016 several local businesses contacted AEDC with their concerns about Municipal Light & Power's proposed electric rate increases that were before the Regulatory Commission of Alaska (RCA). In those conversations many opinions were expressed as to the causes of the proposed rate increases. One theme was consistent -- the outlook for increases in the coming years will have a negative impact on the cost of doing business and the cost of living in Anchorage.

AEDC responded to these concerns by forming an Electric Utilities Working Group. The goal of the working group was to develop a consensus view of the issues from the business community and a corresponding set of recommendations for consideration by the Municipality of Anchorage (MOA), ML&P and Chugach Electric Association.

The AEDC Electric Utilities Working Group met in four sessions in early 2017 to better understand the current facts and circumstances of the electric utility marketplace in Anchorage. Based on the work in these four sessions that included in-depth discussions with ML&P, CEA and a nationally recognized industry expert, as well as the expertise of its members, the working group believes the current model of two electric utilities serving most of Anchorage's 295,000 citizens has resulted in inherent inefficiencies that are creating growing costs for ratepayers. These include:

- A complex system of separate grids with separate system strategies that are difficult to align
- Duplicative infrastructure such as headquarters, warehouses, purchasing, etc.
- National and local trends of declining per-capita demand through efficiencies such as LED lighting, more efficient appliances, control systems, etc. are decreasing utility revenues that are contributing to increasing per-capita costs for businesses and consumers
- Separate service areas make it more difficult to integrate new renewables and micro-grid sourced generation that could otherwise reduce long-term fuel costs for power generation
- The abilities of two separate utilities to find new operational efficiencies are becoming significantly challenged in the face of the rapidly changing economies of scale in the relatively small Anchorage marketplace
- The current outlook is on track to significantly increase costs in the coming years if solutions to this situation are not acted upon quickly
- The working group was very concerned about the impact to jobs any new efficiency initiative or potential merger of the two utilities could create and will need to be clearly understood and mitigated to the greatest degree possible
- Divergent ownership structures, organizational purposes and strategies for generation and major infrastructure investments result in excess capacity and costs

Because of these observations, the working group's main recommendation was that a more in-depth effort be initiated in the community to work with all stakeholders to engage in substantive discussions about the merging of Municipal Light & Power (ML&P) and Chugach Electric Association (CEA). These recommendations were forwarded to Municipality of Anchorage, Municipal Light & Power, and Chugach Electric Association.

The Anchorage Economic Development Corporation (AEDC) has been a leader in economic development and business assistance for 31 years. Our 260 investor companies represent the largest employers in Alaska, and a mix of locally grown and national corporations across every major industry in Anchorage and the state. Our primary mission is to grow and diversify in the economy, and as a fundamental component of that mission, the AEDC Board of Directors adopted as its strategic vision making Anchorage the #1 city to live, work and play in America.