



April 12, 2017

Mayor Ethan Berkowitz
Municipality of Anchorage
632 W. 6th Avenue, Suite 840
Anchorage, AK 99501

Assembly Chair Elvi Gray-Jackson
Municipality of Anchorage
Box 196650
Anchorage, AK 99519-6650

Board Chair Janet Reiser
Chugach Electric Association
5601 Electron Drive
Anchorage, AK 99501

Mr. Lee Thibert
CEO
Chugach Electric Association
5601 Electron Drive
Anchorage, AK 99518

Mr. Mark Johnston
General Manager
Municipal Light & Power
1200 East First Avenue
Anchorage, AK 99501

RE: Recommendations of the AEDC Electric Utilities Working Group

Dear Mayor Berkowitz, Chair Gray-Jackson, Chair Reiser, Mr. Thibert and Mr. Johnston:

I write to you today to present the recommendations of a working group of Anchorage business leaders Anchorage Economic Development Corporation (AEDC) brought together to discuss the current state of the electric utility system in Anchorage and how it might be improved. AEDC organized this discussion in the face of growing concerns in the business community regarding the potential for significant increases in the cost of commercial and residential electric rates in the next several years.

The AEDC Electric Utilities Working Group met in four sessions to better understand the current facts and circumstances of the electric utility marketplace in Anchorage. As a result of these initial discussions, the working group's main recommendation is 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).

The working group also recommends that every effort be made to complete and improve upon the great work the two utilities are engaged in to align, where possible, on developing new power generation, power pooling and shared fuel supply management.

Background-

In mid-2016 several local businesses contacted AEDC with their concerns about ML&P's proposed electric rate increases that were before the Regulatory Commission of Alaska (RCA). In those conversations a number of 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 has become concerned about this issue, so we developed the concept of the Electric Utilities Working Group. The goal of the working group would offer a way 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, ML&P and CEA.

With the working concept in hand, AEDC then contacted leadership at ML&P and CEA and received their support for this group in late summer of 2016. In the following months AEDC worked to identify and engage a group of business leaders whose companies held significant property investments in both ML&P and CEA service areas. As electric ratepayers, these companies are directly impacted, both positively and negatively, by the costs and quality of services offered by the pair of utilities. Ten companies and organizations agreed to participate in the working group. These companies and organizations brought with them significant experience and knowledge of the role and impacts electric utilities have in both the business sector and the economy of the community at large. They include:

- JL Properties
- Cook Inlet Housing Authority
- Providence Health Care Systems
- Renewable Energy Alaska Project
- Visit Anchorage
- Alaska Regional Hospital
- IBEW Local 1547
- GCI
- The Alaska Railroad Corporation
- The Wilson Agency

In late March 2017, the working group began a series of four meetings that culminated in the development of this document. In the first meeting, open to the public and media, the working group met with senior leadership of ML&P and CEA to receive an overview of the current condition, issues and future outlook for both utilities. There were significant questions and detailed discussions of the important efforts both utilities were engaged in to better align their strategies and programs, which included:

- Joint investment in new power generation capacity



- Power pooling/dispatch agreement
- Joint ownership of the Beluga natural gas resource

In the second public meeting AEDC was able to engage Mr. Kurt Strunk, Director of Economic Consulting for NERA Economic Consulting. Mr. Strunk is a noted expert in the national electric utilities marketplace and has consulted for both ML&P and CEA over the previous years. Mr. Strunk's long-time involvement in the Railbelt electric utilities marketplace provided an arm's length view of the Anchorage electric utility market. His perspectives helped the working group to better understand the current situation and future outlook for the utilities and marketplace, and provided clarity on the range of options that could be considered to improve the current system.

In the third and fourth meetings, the working group went into closed session to discuss what they had learned from their first two meetings. The working group used their mutual understandings to develop this letter to present its recommendations for consideration by the Municipality, ML&P and CEA.

Working Group Observations-

Based on the inputs of ML&P, CEA and NERA, as well as the expertise of its members, the working group has made the following observations:

- The current model of two electric utilities serving the majority 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 near future 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
 - Based on the national experience of other communities in the lower 48 shared



with the working group by Mr. Strunk, the efforts already undertaken by the two utilities regarding power pooling, power generation, and fuel supplies are the only major opportunities the two separate utilities could engage in short of merging into one utility

Recommendations-

- 1. The working group urges the Municipality of Anchorage, ML&P and CEA to engage local stakeholders including rate payers, labor, renewable and efficiency energy industry and begin substantive steps to explore merger opportunities of the two utilities.**

It is the strong belief of the working group members that the economies of scale in the Anchorage marketplace do not support the economics of two separate electric utilities for the following reasons:

- Capital costs for generation and maintaining the local grid are expensive and create unnecessarily duplicative investments
- Current per-capita costs of services are increasing and could be further reduced through a merger to help address future trends on per capita costs
- A merger could provide more favorable market conditions to more broadly integrate renewable energy sources, micro-grids, net metering, etc. that would further diversify fuel sources for power generation
- The alignment of development strategies with political and consumer priorities would provide more efficient future development of the Anchorage electric grid

- 2. The working group strongly encourages ML&P and CEA to fully execute and expand to the best degree possible the existing efforts to align both utilities' efforts in power pooling, shared generation and joint fuel supplies.**

Whether or not merger discussions are initiated, the working group strongly believes that these three opportunities are critical and are meaningful options available for the two separate utilities to improve efficiencies and control cost increases. It is vital these three efforts be fully developed and expanded to the greatest degree possible.

On behalf of the members of the AEDC Electric Utilities Working Group members, I respectfully submit these recommendations and supporting facts and observations for your consideration. We hope that your respective organizations will give full consideration to our recommendations and implement them at the earliest opportunity. The members of the working group stand ready to assist in your efforts in any manner appropriate.

Sincerely,

Bill Popp
President & CEO, AEDC