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Thank you for the opportunity to speak with you this evening. My name is Lee Ann Kreig. I am a Chugach Electric ratepayer and Anchorage taxpayer desiring safe, reliable power at the lowest cost possible. I believe that much greater efficiency in delivering electrical power is not only needed, but attainable, and I applaud the Chugach board and Mayor Begich in undertaking this initiative.

I am a business analyst and CPA. As a corporate planner for Alyeska Pipeline, I created a model to maximize the operational efficiency of the Trans Alaskan Pipeline, resulting in the shutdown of 3 pump stations. I have also prepared costing models for BP to identify uneconomic wells. For nearly 15 years I have provided financial and benchmarking analysis as a volunteer for Chugach Consumers, a grassroots ratepayer organization desiring greater accountability and economic efficiency for Railbelt electric customers.

Intuitively, a merger of these two utilities can only result in cost savings, and creating a model to optimize that consolidation seems like the best approach. Nevertheless, I do have some comments and concerns about Navigant's Phase I analysis.

First, the Excel models should have been made publicly available. Without them, full understanding of the various outcomes and their underlying assumptions is impossible and the sensitivity of their assumptions could not reasonably be ascertained.

Second, the appropriateness of using different regulatory treatments for each case is suspect and should be further evaluated. Navigant states on page 8 of their draft report, "This factor warrants more detailed consideration when refining the assessment of a short list of the more promising alternatives." This is a bit "cart before the horse" since the variety of rate-making assumptions creates bias in the screening results and is driving the selection of promising alternatives. This is especially true in assuming an 11% cost of equity for the private ownership option.

Third, cash accumulations varied greatly by case. In response to Chugach's questioning the lack of levelizing cash, Navigant wrote, "We abandoned that effort when it became clear that in those cases where large cash balances accumulated, the net increases in costs were similar to the end balances of accumulated cash. Effort could be undertaken to levelize the use of accumulated cash by using greater levels of equity for new capital, or by applying cash balances to fund operating expenses to reduce retail rates". Exactly my point! Navigant concludes "greater attention to applying the cash accumulations would have been necessary, likely requiring additional time and effort." This is very serious. For its 1/2 million dollar fee, Navigant did not bother to levelize cash. An appropriate model would have used that cash as Navigant suggested, to reduce debt or reduce costs, iterated to produce an optimal outcome for each case. Instead, Navigant increased costs for some cases in favor of cash accumulation. Accumulated cash is not shown in Table E-1 Key Results in the executive summary or in Table 10 on page 51 of the report. I repeat, this is very serious. All publicity for Navigant's findings focuses on Line 1 "Savings". Yet this number has in every case been inflated or deflated by cash accumulations. Even Case 3 shows a net savings when accumulated cash is taken into consideration.

Fourth, Chugach Electric confirmed in a previous study, which they initiated and paid for, that sharing a 260 megawatt generation plant would result in lower unit costs than a 130 megawatt plant, and they were actively looking for a partner to achieve these savings. $86 million in every scenario can be attributed to this. Shouldn't Chugach be acknowledged for having already identified these savings from ML&P joining in the purchase of the larger plant?

Fifth, this is a screening assessment of six alternatives (considering Case 6 and 7 as a single scenario). Based on this study, Cases 2 and 3 are dismissed out of hand as loser alternatives. This dismissal is based on one assumption alone – tax-exempt financing.

With tax-exempt financing as the major consideration, the results are so predictable, a model is not even required to know the results. Put it in the mental hopper:

- Case 1 vs. Case 2. With tax-exempt financing, ML&P acquiring Chugach would of course be better than visa versa if no other criteria is considered.

- Case 4 vs. Case 3. With tax-exempt financing, a government entity acquiring both would of course be better than a private entity if no other criteria is considered and if 100% debt financing is allowed, which is questionable.

And yet, with this one criteria being absolutely critical for determining whether a case made it to Phase II or be immediately discarded from further consideration, Navigant did not answer the all-important question as to whether tax exempt financing in Cases 1 or 4 would even be feasible. Navigant even suggested many reasons why this may not be possible, and yet based on the weight of it, they would toss out Cases 2 and 3 from further consideration. To determine which cases to pursue without a definitive answer on this one deciding factor is absolutely irresponsible. In responding to Chugach questioning that decision, Navigant claimed "that additional legal analysis was not undertaken due to the cost of such an assessment." The future course of this study and the fate of 100,000 ratepayers hinges on this single unexplored criteria.

If tax-exempt financing were the only investment consideration, there would be no privately owned electric companies in this nation -- they would all be government owned.

If I were at all cynical, I would think that Navigant was using a ruse to take us to a predetermined destination. I might even be suspicious about their being selected sole source and also for being identified by First Southwest Company, the municipality's very own financial advisor who would also provide the advice regarding utilization of tax exempt debt. Is it perhaps in the municipality's self-interest to eliminate the non-governmental alternatives first before determining the feasibility of tax exempt financing?

Another motive for stacking the decks comes from the Municipality's own website: "ML&P dividend boosts city coffers. An order by the Regulatory Commission of Alaska paved the way for ML&P to resume paying annual dividends to the Municipality, which had been prohibited since 1988. In 2006, ML&P expects to pay $7.4 million in dividends." In addition to now paying dividends, ML&P is allocated $1 million a year in municipal overhead charges. This is with 30,000 customers. If ML&P takes over Chugach's 70,000 customers, the public should be concerned that there may be a hidden agenda here for the city to triple its "dividend". This may be a creative way of getting around the tax cap to the tune of $25 million.

Cynicism aside, we know that merger makes sense, but what is the best way?

Navigant conceded on page 10 of their report that absent this financing bias, "Case 3 private third-party acquisition of both utilities offers the highest potential for operating efficiencies."

An important case not considered is a privatized highly efficient Chugach which is then contracted by the Municipality to manage ML&P, as well, of course, as joint investment in the 260 megawatt plant. This avoids the whole tax-exempt financing question because Chugach debt is already taxable and is placed on Wall Street in the private bond market. Additionally, it has almost all of the operating efficiencies of a private third party, unlike Case 6 the joint contracted operations scenario which creates a third entity that would require 36 more employees than a merger.

Sixth, Navigant wrote in their executive summary that their evaluation was made under the guidance of the Advisory Panel. Rather than accepting direction from the advisory panel, it appears to me that Navigant dictated to the panel what they were and were not going to do in the study and essentially dismissed concerns from various advisory panel members.

In the July 20, advisory panel meeting, Mike Barry asked if Navigant was going to allow IOUs to be considered. Ron Nichol's (Navigant project lead) answer was "Yes and no...if we had IOUs here I would say open the door to both consumer owned and lowest cost of capital rules. The lowest cost of capital is what is most important to you. Totally private could not come in here on the financing side and bring about operational efficiencies to offset the cost of financing."

Bob Ballow asked about benchmarking, asking whether Navigant would look at efficiencies in the private utilities in the Lower 48 and see what kind of efficiencies we should be looking at. Ron Nichols said that would take too much time and comparisons are not really necessary. "I don't think that's meaningful -- only cost of capital considerations will be assessed."

I disagree, and there is no excuse for this. There have been enough benchmarking studies done at Chugach Electric alone that could have been used by Navigant. They wouldn't have had to do much to develop comments and guidance and obviously just didn't want to.

Assemblyman Chris Birch said we should not rule out looking at private ownership and went on to acknowledge the ATU/ACS model that has been quite successful in Anchorage. Fred Boness admitted a work plan that he drafted had a bit of an ML&P focus but that the consultant has done an excellent job of redrafting the work plan for both utilities. In other words, Assemblyman Birch's concerns were not addressed.

At the September 6, advisory panel meeting, Ron Nichols made the statement that they are not going to get into a management audit to look at whether utilities were using best practices. Assemblyman Chris Birch asked if Navigant had received fully unbundled cost information. Ron Nichols said yes, but the allocators may be a little different. "We are looking to create an apples to apples comparison." It's very significant that Navigant's final report, notwithstanding his comments to Birch, has nothing in it about unbundled costs.

It's interesting that nothing at all is in Navigant's report acknowledging that Golden Valley Electric Association, a cooperative, found it feasible and advantageous to purchase and merge Fairbanks Municipal Utilities System, a tax exempt municipal utility ten years ago! Tax-exempt financing advantages certainly did not drive that decision. Shouldn't it have been covered in Navigant's report?

Bob Ballow asked if they would cover governance and management issues. Ron Nichols said, "We are looking through the windshield and not the rearview mirror". In other words, it appears he didn't want to look back and deal with the poor benchmarked performance of the utilities in the past or draw any lessons from why that might have occurred that would be useful in restructuring the utilities for the future. This seems to be just another of the blinders purposefully put on to focus the outcome of the Navigant study on a particular desired result rather than the lowest cost result.

As a final example of the disregard shown to panel members concerns, at the September public meeting, Co-chair Liz Vazquez objected to the obvious bias of Navigant focusing almost solely on tax-exempt financing to achieve savings. Ron Nichols assured her that it was simply to determine the magnitude of potential savings from the most difficult-to-obtain financing, saying, “if we can do this, we can certainly do the other ways of financing,” leaving the impression that its feasibility would need to be determined prior to creating a short list based on the, as then, unverified assumption. Instead, the alarm expressed by the co-chair has been confirmed.

I want to thank Chugach staff for their excellent set of questions for Navigant and for Navigant’s answers prior to this public hearing. The fact that there were no questions at all from ML&P leaves the impression of close alignment with Navigant and it appears to confirm suspicions that Navigant’s bias from the beginning was the municipalization of Chugach.

For the reasons stated, I do not believe that you can call Phase I complete and confidently select a short-list of cases based on Navigant’s review. There are sufficient deficiencies and biases in the work product that Phase II should not be done by Navigant and that any further expenditures be used to hire others in the critical subject areas that are missing from the analysis.

Thank you.