

GVEA Ballots Hit the Mail 11/20/06!
They should not be thrown out with the rest of your junk mail!

Ballot Issue 1 strips GVEA Members' voting rights forever
We Recommend: Voting NO on Ballot Issue #1, and YES on Ballot Issue #2

By a vote of its members, GVEA is proposing to transfer \$300 million worth of power generation plants and transmission lines to a separate co-op known as GVEA G&T (i.e., Generation and Transmission). If Ballot Issue 1 is approved, the new entity would never again need GVEA member's approval for major decisions. Members would lose the ability to vote on matters related to power generation plants and transmission lines, features of ownership that have the greatest impact on our electric bills.

According to our review, numerous problems exist under GVEA's proposal. For example:

- The potential savings which GVEA claims under a G&T co-op are highly inflated. They are based on an “apples and oranges” economic comparison, rather than the financial criteria established by the Rural Utilities Service for loans to utilities.
- Currently, GVEA Ratepayers have the ability under the existing bylaws to intervene on bad decisions such as the Healy Clean Coal Power plant fiasco (\$300 million total cost and still rising, which was partially funded by GVEA). Under the GVEA G&T Bylaws, we would have no direct say over a future ill-fated plan or decision.
- GVEA G&T Bylaws could be amended without the explicit consent of GVEA Members to allow:
 - Expensive/controversial power generation and transmission projects that could only proceed with minimal public oversight (i.e., such as building a nuclear power plant or routing transmission lines through critical habitat).
 - The sale or purchase of major power generation and transmission assets.

As concerned Members, we've made in-depth comparisons between the current GVEA bylaws, those proposed for GVEA G&T, and GVEA management's promotional claims. Our analysis is a detailed 2-1/2 page technical report that summarizes: a) how and why these worst case scenarios and many others could unfold, and b) additional problems embedded in GVEA's promotional materials, and c) the proposed bylaws:

Source Document Links:

- GVEA Bylaws: <http://www.gvea.com/about/bylaws/>
- GVEA G&T Bylaws: <http://www.gvea.com/file/?id=gvea-g-and-t-bylaws---oct06.pdf>
- Ruralite GVEA G&T Promotion: <http://www.gvea.com/file/?id=nov-ruralite.pdf>
- Ballot Issues for 11/20/06 Ballot: <http://www.gvea.com/content/?id=gvea-gt&>

PROBLEM 1) GVEA'S MOST IMPORTANT PROMOTIONAL CLAIMS FOR THE GVEA G&T BALLOT ISSUE ARE AT ODDS WITH THE FACTS:

- GVEA PROMOTIONAL CLAIM:
 - “For every \$1,000 in interest expense a distribution co-op has, it must collect an additional \$750 to satisfy lenders. With the GVEA G&T, this additional amount decreases to \$100. If members approve the transfer, this \$650 difference is money we wouldn't need to collect from them.” (Source: November 2006 Ruralite)
- THE FACTS CONFLICT WITH GVEA'S CLAIM:
 - GVEA is using an “apples and oranges” comparison that inflates the potential savings from GVEA G&T.

- The Ruralite mistakenly implies that GVEA currently collects 75% of the interest expense for loans on capital projects.
 - The minimum amount that a distribution cooperative like GVEA is required to collect is 25% of the interest expense.
 - The minimum amount that a generation and transmission cooperative like GVEA G&T would be required to collect is 10% of the interest expense.
 - To minimize interest costs, GVEA would have to collect more than these minimum amounts, regardless of whether the current structure is maintained or the GVEA G&T structure is adopted.
 - A more accurate (i.e., apples and apples) comparison of the savings on a loan with \$1,000 of interest expense would compare the minimal amounts that must be collected. This would show a savings of \$150 (i.e., 25% minus 10% of a loan with \$1,000 in interest costs), rather than the claimed savings of \$650 from the Ruralite.
 - GVEA is currently collecting about 30% of the interest expense. Using the actual figures greatly reduces the potential savings.
 - The “savings” claimed by GVEA are from “capital credits” that are ultimately refunded to GVEA Members once the loan has been repaid. This further reduces the potential savings claimed by GVEA.
 - Reference:
http://a257.g.akamaitech.net/7/257/2422/01jan20061500/edocket.access.gpo.gov/cfr_2006/janqtr/pdf/7cfr1710.113.pdf
- GVEA PROMOTIONAL CLAIM:
 - The GVEA G&T Board “would be controlled by the board members you elect to represent your interest in GVEA. Initially the GVEA G&T Board will be comprised of GVEA’s seven elected board members” (Source: November 2006 Ruralite)
- THE FACTS CONFLICT WITH GVEA’S CLAIM:
 - The GVEA G&T Board consists of two elected Directors from the GVEA Board, and three Directors who were not elected by GVEA Members - these positions are currently filled with GVEA staff. (Reference GVEA G&T Bylaws, Section 4.03B)
 - Two out of five is a minority, thus the GVEA Board does not have control over the GVEA G&T Board.
 - Worst case scenario: The GVEA G&T Bylaws could be changed without a vote of the GVEA Membership. Thus the requirement that GVEA Directors nominate and elect GVEA G&T Directors could be eliminated without the expressed consent of GVEA Members. (Compare GVEA G&T Bylaws, Section 16.01 with GVEA Bylaws, Article XII, Sections 1 thru 3)
- GVEA PROMOTIONAL CLAIM:
 - The national model among over 900 electric co-ops is for a G&T to exist separate from the co-op. (Source: November 2006 Ruralite)
- THE FACTS CONFLICT WITH GVEA’S CLAIM:
 - Distribution co-ops typically establish G&T’s to pool the resources of multiple co-ops.
 - Each participating co-op is given a seat on the board of the G&T.
 - The Members of distribution co-ops that join a G&T typically do not forfeit their rights to control their power generation and transmission systems, rather they share their interests with other distribution co-ops.
 - We’re aware of only one case among these 900 electric co-ops where a G&T serves a single cooperative – i.e. Homer Electric Association.

PROBLEM 2) GVEA G&T BYLAWS ELIMINATE THE MOST SIGNIFICANT RIGHT OF GVEA MEMBERS - PROVIDING DIRECT CONSENT FOR MAJOR DECISIONS ABOUT POWER GENERATION AND TRANSMISSION:

ARTICLE III – MEETINGS OF MEMBERS

Section 2- Special Meetings

- GVEA Members lose their ability to call special meetings to address power generation and transmission issues with the responsible GVEA G&T Board Members. (Compare GVEA G&T Bylaws Section 3.02 with GVEA Bylaws, Article III, Section 2)

ARTICLE IV - DIRECTORS

Section 3- Qualifications

- A majority of the GVEA G&T Directors could be non-members of GVEA and non-residents of Alaska (Compare GVEA G&T Bylaws Section 4.03B with the GVEA Bylaws, Article IV, Section 3)
- Most of the ethical standards applicable to GVEA Directors would not apply to GVEA G&T Directors (Compare GVEA G&T Bylaws Section 4.03 with GVEA Bylaws, Article IV, Section 3)
 - Conflict of interest restrictions for GVEA Directors are excluded from the GVEA G&T Bylaws. Thus executives from an energy supplier (i.e., the Usibelli Coal Mine or North Pole Refinery) could serve as GVEA G&T Directors.
 - GVEA Staff, which is not elected by GVEA Members, currently occupy three of the five GVEA G&T Director positions.
 - The GVEA G&T Bylaws allow as little as 40% of the GVEA G&T Directors to also be members of the GVEA Board of Directors. This is a codified minority!

Section 5 - Removal of Directors by GVEA Members

- GVEA Members lose their right to remove a GVEA G&T Director. (Compare GVEA G&T Bylaws Section 4.04 with GVEA Bylaws, Article IV, Section 5)

Section 7- Compensation

- GVEA Members lose their ability to comment on or know the compensation of GVEA G&T Directors. (Compare GVEA G&T Bylaws Section 4.01 with GVEA Bylaws, Article IV, Section 7)

ARTICLE VIII - DISPOSITION OF PROPERTY

Section 2- Other Disposition

- As noted below, GVEA's power generation and transmission facilities could be sold without the expressed consent of the GVEA Membership.
- GVEA Members would lose control, GVEA Directors lose control, however GVEA G&T Directors who may not even be GVEA Members would gain control.
- GVEA is requesting GVEA Member approval to transfer power generation and transmission assets to GVEA G&T only because it's required under the current GVEA Bylaws. (See GVEA Bylaws, Article VIII, Section 2)
- If approved, GVEA G&T Directors will never have to seek approval by GVEA Members again to buy or sell power generation and transmission facilities. (Compare GVEA G&T Bylaws Article 9 with GVEA Bylaws, Article VIII)

ARTICLE XII – BYLAW AMENDMENTS

Sections 1 through 3

- GVEA Members would forfeit direct control over bylaw revisions affecting power generation and transmission assets if they are transferred to GVEA G&T. (Compare GVEA G&T Bylaws Article 16.01 with GVEA Bylaws, Article XII Sections 1 - 3)
- If GVEA Members forfeit direct control over power generation and transmission decisions, future bylaw changes could expand the problems described above.
- For example, GVEA G&T Bylaws could potentially be amended without the explicit consent of GVEA Members to:
 - Allow controversial power generation or transmission projects that could only proceed with minimal public oversight (i.e., such as building a nuclear power plant or routing a transmission line through critical habitat).
 - Allow the sale of power generation and transmission assets without input from either the GVEA Board or GVEA Members.