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Members of the Alaska State Legislature,

The purpose of this letter is to express Alaska Power & Telephone Company's support of House Bill 78, an act bearing the short title of the Alaska Competitive Energy Act of 2015 (ACEA).

About Alaska Power & Telephone Company

Alaska Power & Telephone Company (AP&T) is an investor- and employee-owned utility founded in Skagway, Alaska in 1957 – just prior to statehood. Since that time, our Alaskan presence has grown to include 39 Alaskan communities, where we provide certificated, regulated utilities services, as well as non-regulated services.

AP&T's subsidiaries include both independent power producer (IPP) entities, and incumbent utilities providing certificated, regulated, generation, transmission, and distribution services. We believe that we have the unique distinction of having the perspective of an IPP, and an incumbent utility.

Alaska has incredible undeveloped renewable energy potential, including 40% of total US river hydropower, 90% of the total US tidal energy potential, the largest terrestrial Class 7 wind potential in America, and the largest offshore wind potential in the US.¹ And yet, communities across the State pay some of the highest energy costs in America, and Alaska has a lower level of private investment than any other State in the US (4% in Alaska, versus 37.4% US-wide).²

This unsettling juxtaposition of statistics is in no small part due to the fact that Alaska's regressive utility laws, policy, and regulation fail to encourage a competitive electrical industry, and do not attract or support private investment with the same success as the rest of the US. Key failings of Alaska's legal and regulatory environment include: lack of open access to

¹ Sources: UAF Alaska Center for Energy and Power, and the Wind Energy Atlas of the US.

² US EIA

transmission; lack of an equal playing field for IPPs and utilities; lack of standards governing fair interactions between IPPs and utilities; inconsistency between the State and federal definitions of “avoided cost” (state “average” versus the federal “incremental” requirement); inadequate oversight of public utilities including Joint Action Agencies; and the fact that Alaska’s energy policies are “aspirational” rather than directive of the RCA.

The Benefit of ACEA to Utilities and their Ratepayers

Alaska Power & Telephone has reviewed the Alaska Competitive Energy Act of 2015, and finds that it is in the best interest of utilities, ratepayers, IPPs, and the State of Alaska. Our reasons are as follows:

- **Affordable Energy.** Helps utilities better serve their ratepayers with more affordable electricity, better meeting the intent of utilities’ Certificates of Necessity and Public Convenience, and their RCA-determined “public best interest.”
- **Competitive Procurement.** Supports competitive procurement from the lowest cost, lowest risk energy sources available, determined based upon objective economic factors.
- **Financial Sustainability.** ACEA is fully protective of utilities’ long-term financial best interests, as utilities are still allowed to recover non-avoided costs.
- **Safeguards Utilities’ Credit Ratings.** Private investment in new projects reduces strain upon utilities’ bonding/debt capacity, allowing utilities to keep their good credit ratings, and reducing risks to ratepayers. Additional private investment in energy also helps reduce the State’s exposure to project risks/costs, protecting the State’s excellent credit rating.
- **New Revenue.** Generates new revenue from use of underutilized transmission capacity, allowing utilities to share transmission upkeep costs with others.
- **Cost/Risk Sharing.** Reduces the level of risks, costs, and debt that must be assumed by utilities and their ratepayers.
- **New Sources of Funding.** Diversifies funding sources to include private sector investment during the present time of declining State and local government revenues.
- **Standardized Transactions.** Standardizes the processes by which utilities and IPPs interconnect, cooperate, and share costs.
- **Fixes Legal/Regulatory Uncertainty.** Eliminates regulatory uncertainty and legal liabilities which are produced by the current inconsistencies between federal PURPA law, and how it is applied in Alaska by the RCA.
- **Supports Local and Regional Plans.** Supports regional IRPs, and helps utilities realize their individual visions of greater access to affordable, clean energy from renewable sources.

It is important to note that the changes proposed within ACEA are neither new nor revolutionary concepts. Instead, they provide Alaska with the type of investment environment which utilities and ratepayers everywhere else in the US – where energy costs are far lower – have been benefitting from for decades. It is time for Alaska to update its legal/regulatory framework so that our State is able to compete successfully for private investment in the electrical infrastructure needed to maintain, grow and diversify our economy.

Harmonizing Relationships between Utilities and IPPs

Many of the IPP opportunities which AP&T has considered or pursued within Alaska have been frustrated by lack of willingness of incumbent utilities to partner with new private developers and investors. This has unfortunately limited our ability to apply our specialized expertise in renewable energy development, and deploy private capital, in support of the State of Alaska's energy development needs and objectives.

Limits to our ability to invest in Alaska are in large part produced by the fact that many incumbent utilities – particularly municipal utilities and cooperatives – would prefer to utilize their political influence to obtain State grants and subsidies so that they can build infrastructure at no cost, or reduced cost, rather than partnering to leverage the benefits of private investment. While the State is an important investment partner, and certainly has a role to play in development of energy infrastructure, it is imprudent for the State to bypass opportunities for new private investment in Alaska's economy – which is underweighted in private investment in electrical infrastructure -- during a time of declining revenues. It is also imprudent for the State to utilize tax dollars to invest in a utility project which competes with a project undertaken by a private business which pays taxes. The State should be mindful of the fact that if it provides grants and subsidies to incumbent utilities, but not to private developers, incumbents will always be incentivized to choose government subsidies over the opportunity to share costs and risks with the private sector.

AP&T believes that private investors and developers have significant resources, experience, and assets which can be leveraged for the benefit of ratepayers. This is particularly true in Alaska, where many ANCSA corporations own lands located near established communities, which bear significant renewable energy potential. AP&T believes that IPP projects and incumbent utility "self-build" projects should be required to compete against each other on an equal playing field – not one which is skewed in favor of one project or the other by subsidies. We believe the State should invest in whatever project competes best due to economic – rather than political – factors. A State investment approach which is agnostic to ownership and political factors helps assure that public monies are used in the most responsible manner possible, to provide utilities, ratepayers, taxpayers with the greatest level of value. An investment approach based on economic factors alone also has the benefit of insulating the State from "taking sides" in local disagreements based on political differences, which are unfortunately common in the energy sector.

In Alaska, it is unfortunately true that IPPs and utilities tend to have a strained relationship, and struggle to do business together. This is in part due to the above-described "self-build" preference – supported by grants and subsidies. It is also because the current lack of rules and regulation governing utility/IPP transactions creates a dubious investment environment in which incumbent utilities have a number of flexible options available for avoiding interaction with IPPs, and maintaining monopolistic-like market control. ACEA seems to bring the strained and dysfunctional relationship between Alaska's incumbent utilities and prospective IPPs to the forefront of the public's attention. The temptation for IPPs and incumbent utilities to fault and demonize each-other is high – but this type of dichotomization is helpful to no one, least of all ratepayers, and the State.

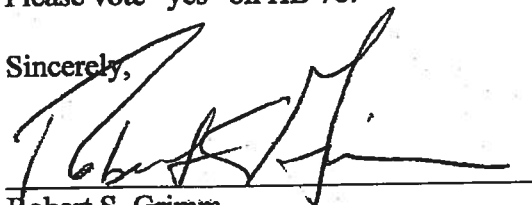
While every relationship and interaction is unique, there is a common and overwhelming theme of prospective IPPs and incumbent utilities across Alaska failing to compete and collaborate together to provide more affordable energy to ratepayers. There is also a theme of failure of the State of Alaska to assure an environment where this type of collaboration and competition can occur. This failure is seen in Alaska's 4% total private sector participation in electrical energy generation, versus 38% across the US.

ACEA will solve the diverse problems that prospective IPPs and incumbent utilities struggle with, by providing a level playing field which maximizes cooperation and competition for the ultimate benefit of ratepayers, utilities, and the State of Alaska. ACEA will fix the suite of IPP/utility problems using the same solutions which have been utilized to great success in the rest of the US for decades. ACEA will assure that energy development occurs in a manner which is supportive of State energy policy (ex: 50% renewable energy by 2025, support for private sector development of resources), as well as the goals and objectives of regional Integrated Resource Plans.

Thank you for your consideration. AP&T hopes you will agree that adoption of ACEA supports the best interests of the State of Alaska, ratepayers, incumbent utilities, and independent power producers alike.

Please vote "yes" on HB 78.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert S. Grimm", written over a horizontal line.

Robert S. Grimm

President & CEO, Alaska Power & Telephone