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Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501-3469

RE: Docket No. I-15-001: First Status Report on Voluntary Development of
Independent Railbelt Electric Transmission Company – Regulatory Commission of
Alaska Recommendation No. 1

Dear Commissioners:

On behalf of Anchorage Municipal Light and Power (ML&P), Chugach Electric Association, Inc. (Chugach), the City of Seward (Seward), Golden Valley Electric Association, Inc. (GVEA), Homer Electric Association, Inc. (HEA), Matanuska Electric Association, Inc. (MEA) and the American Transmission Company LLC, by its corporate manager, ATC Management Inc. (together ATC), the above parties (Parties) file this joint report on the progress of voluntary efforts to establish an independent electric transmission company (Transco) in the Railbelt.

On June 30, 2015, then Chairman Robert M. Pickett issued a response to the 2014 Legislative directive requesting the Commission's recommendation on "whether creating an independent system operator or similar structure in the Railbelt area is the best option for effective and efficient electrical transmission." The Commission's resulting Informational Docket includes a variety of assessments of, and suggested improvements to, the Railbelt transmission system leading to the efficient use of generation resources. The June 30, 2015 response letter includes a digest of that record and a number of specific recommendations. In Recommendation No. 1, the Commission endorses the creation of a Transco and requests a status report by September 30, 2015 on the current voluntary efforts amongst the Railbelt electric utilities to create such an entity. This filing provides a status report of those efforts.

Recommendation No. 1: *An independent transmission company should be created to operate the transmission system reliably and transparently and to plan and execute major maintenance, transmission system upgrades, and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. This independent transmission company should be certificated and regulated as a public utility under AS 42.05. The RCA should be granted siting authority for new generation and transmission, and granted explicit authority to regulate integrated resource planning in the Railbelt electrical system. A mandatory report on the status of the current efforts to develop an independent Railbelt electric transmission company shall be filed with the Commission no later than September 30, 2015. A second report on transmission restructuring shall be filed with the Commission no later than December 31, 2015.*

STATUS REPORT

In 2014, the Parties established and endorsed principles for the voluntary formation of a Railbelt Transco. Following the agreement on these principles, the Chief Executive Officers and General Managers established a senior staff working group (the Working Group¹) charged with developing and evaluating a business model for a Railbelt Transco. Since December 2014, the Working Group has met monthly and has engaged subgroups of subject matter experts on specific tasks. These efforts are organized around a work plan with the following primary deliverables:

1. Due diligence on subgroup matters described in Appendix A;
2. Validation of the benefits of Railbelt-wide economic dispatch;
3. Design of a tariff structure that ensures equitable rate recovery for existing and future transmission assets; and
4. Design of a business model for a Railbelt Transco.

The Railbelt electric utilities and ATC are continuing to delineate the steps necessary to transition from a transmission network of separately operated assets to a business model whereby the operation, maintenance, and construction are the responsibility of a single Railbelt Transco. In other regions of the country, this model has provided increased efficiencies through economies of scale in transmission operations, leading to increased reliability and economically efficient generation. A preliminary step is to determine whether this model will provide sufficient reliability and efficiency improvements in Alaska to warrant the cost of creating a Transco.

ATC began operations in 2001 in Wisconsin and the Upper Peninsula of Michigan as the result of just such a transition, and its formation and operating experience has been the starting point in this particular Railbelt discussion. The Working Group and specific subgroups from each of the Railbelt utilities and ATC are meeting regularly to scope and complete tasks constructive to a business model for a Railbelt-wide single transmission utility. These subgroups include: Economic Dispatch, Finance, Governance, Human Resources and Organizational Structure, Legacy Agreements, Operations and Maintenance, Real Estate and Permitting, Regulatory, and Standards (see Appendix A).

Voluntary Efforts

The Railbelt utilities have a history of collaborating on many important energy infrastructure projects. The Parties have engaged the support of outside consultants to assist in the completion of Recommendation No. 1 objectives, including tariff structure, reliability and planning standards, pooled generation and dispatch, and other key functions. Even as this process proceeds with the participation and expertise of American Transmission Company, the Railbelt Utilities are committed to identifying and evaluating business models and other

¹ MEA declined to sign a joint-development agreement hence has not been a party to all discussions or activities of the working groups.

approaches that may improve the efficiency and reliability of Railbelt transmission infrastructure for the benefit of consumers. Each of the Parties will need to determine for itself whether becoming part of a Transco would be beneficial for its ratepayers and other stakeholders. The Parties recognize that this determination will not be possible until the Transco's business model is clearly defined.

Independent Transmission Company

In general, a Transco owns no generating assets and accomplishes transmission operation, planning and construction consistent with transparent and nondiscriminatory planning and reliability standards. Governance of the Transco must balance the need to effectively operate and invest in the Railbelt's transmission infrastructure with the ongoing obligations each utility has to its members, customers and other stakeholders. The Parties are working on solutions that strike this balance.

Reliable Operation

All transmission assets integrated under the Transco would be operated under a common set of standards for increased generation and transmission reliability, and increased efficiencies in the overall operation of the utility. The Parties are working to reconcile existing reliability, planning and interconnection standards in an effort to establish uniform standards for the Transco. In addition, the Parties are working on draft service agreements by which the Transco could undertake maintenance activities through the existing utilities. This approach maintains existing regional scope and expertise, and may create opportunities for adopting best practices. The Parties are working to clarify both the operating standards and the attendant service agreements between the Transco and the other Railbelt utilities.

Transparency

In all facets of the operation of the Transco, transparency is important. To this end, the Parties are examining how a Transco could operate under an open access transmission tariff which would allow equal access to both load serving entities and independent power producers. Such a tariff would assign the cost of transmission to end use consumers based upon a cost allocation ratio that assigns costs equitably. The Parties are working to define such a cost allocation ratio. Clear stakeholder driven reliability standards and planning protocols can provide consistent direction to capital improvements, as well as a predictable and transparent basis for evaluating requests for new transmission service.

The Transco would be accountable to its owners, the Regulatory Commission of Alaska, and other stakeholders to operate in accordance with tariff requirements pertaining to cost recovery, interconnection, planning, operations and maintenance. If implemented, the Transco would be certificated and regulated by the Commission.² Accordingly, the Parties have been

² Alaska Statute 42.05.990(6) defines a public utility to include any entity that furnishes, "by generation, transmission, or distribution, electrical service to the public for compensation." The Commission has previously granted certificates to public utilities that provide only transmission, or transmission and generation, electrical service. Thus, existing statutory authority may be sufficient for the Commission to grant the Transco a certificate of public convenience and necessity.

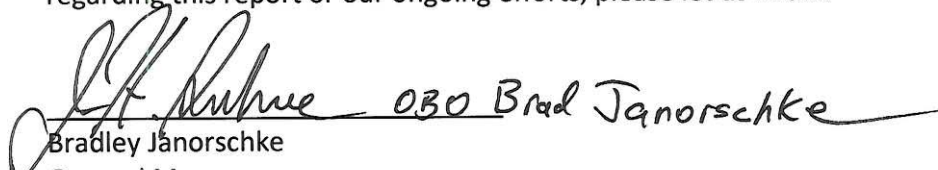
identifying the information that would be needed in the event the Parties agree to file a CPCN application for the Transco to furnish electric transmission service.

Major Maintenance and Transmission System Upgrades

Transmission assets are long-lived, and replacement of facilities at the end of useful life or replacement as the result of storm, avalanche, fire, or other episodic damage can result in substantial capital obligations. The Parties are focused on elements of the business model that address the Transco's capacity to accomplish major maintenance. A significant goal of the integrated operation of the Railbelt's transmission assets is to improve operational, financial, and technical capacity to accomplish major transmission upgrades and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. The business model under development specifically addresses the Transco's capacity to accomplish transmission system upgrades.

Conclusion

The undersigned utilities appreciate the opportunity to provide an update on our progress toward improving the integrated operation of transmission assets and the economic utilization of the Railbelt's energy resources. We will report again on the status of this work by the Commission's requested deadline of December 31, 2015. Should you have any questions regarding this report or our ongoing efforts, please let us know.



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Mike Rowe
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By its Corporate Manager, ATC Management Inc.

Appendix A

Work Plan Structure and Key Tasks

The Chief Executive Officers and General Managers of the Parties have organized a senior staff working group (the Working Group) charged with developing and evaluating a business model for a Railbelt Transco. The Working Group and supporting Subgroups are executing a work plan that clarifies key elements of Transco formation and facilitates a full evaluation of this approach. The Working Group serves as a steering committee for the work plan, and has been meeting monthly since December 2014, and weekly since August of 2015. Depending on the tasks, subgroups are meeting as often as weekly to advance specific deliverables and collaborate with other experts. While any work plan of this size will be subject to change as the specific tasks and associated needs of the Parties and other stakeholders become better understood, the headings below provide insight into the scope of this exercise.

Economic Dispatch

The Economic Dispatch Subgroup is working to validate the current analyses and establish a consensus view on the value of economic dispatch that will be created by the formation of the Transco. It is also supporting the development of a settlement mechanism for pooled dispatch.

Key Tasks:

- Consensus View on Economic Benefits
- Support of Pooling/Settlement Mechanism
- Overall Rate Impact

Finance

The Financing Subgroup has been considering possible financing structures for the new entity, including its capital structure. Other tasks under its purview include establishing the rules for equity participation by the owners and evaluating cost allocation methodologies.

Key Tasks:

- Equity Participation Structure
- Transco Overhead Costs/Benefits
- Cost Allocation Structure
- Overall Rate Impact

Governance

The Governance Subgroup has been tasked with creating the Transco's governance and organizational structure, with an emphasis on ensuring clear accountability. It has also begun creating the election process for the Transco's board members and senior management and working on a dispute resolution process.

Key Tasks:

- Board Structure and Composition

- Leadership Selection Process
- Bylaws
- Dispute Resolution Process
- Operating Agreement

Human Resources & Organizational Structure

The Human Resources & Organizational Structure Subgroup is assessing the Transco's labor and workforce impacts and needs, as well as examining possible policies and practices for utilizing shared resources and recruiting new labor. Key tasks also include the development of initial organizational charts.

Key Tasks:

- High-Level Organization Chart
- Recruiting and Seconding Policies
- Key Leadership Selection Process
- Staffing Model

Legacy Agreements

The Legacy Agreements Subgroup is examining how existing Railbelt agreements for jointly-owned assets should be addressed in the context of a Railbelt-wide Transco.

Key Tasks:

- Assessment of Existing Agreements
- Strategy for Addressing Transmission Restrictions of Existing Agreements

Operations and Maintenance

The Operations and Maintenance (O&M) Subgroup is charged with creating the service agreements that will be needed by the Transco. It is also working on formulating current and future O&M plans for the Transco's plant.

Key Tasks:

- Services Agreements Between Utilities and Transco
- Transco O&M Plan
- Planning and Reliability Standards

Real Estate and Permitting

Real Estate and Permitting Subgroup is evaluating existing transmission-related real estate rights and obligations, including easements. It will also be looking at the implications of future asset transfers.

Key Tasks:

- Permit/Right-of-Way Records Assessment
- Public Lands Assessment

Regulatory

The Parties have agreed that any Transco should be certificated and regulated by the Commission.³ The Regulatory Subgroup has been working on delineating the information needed if the Parties agree to file an application for the Transco to furnish electric transmission service.⁴ As part of that process, the regulatory subgroup also has begun reviewing terms and conditions for an open access transmission tariff to support non-discriminatory, open-access, Railbelt-wide transmission service.

Key Tasks:

- Tariff Structure
- Draft CPCN Application
- Rate Impact Analysis
- Interim, Ongoing and Final Reports to RCA

Standards

The Standards Subgroup's focus is to reconcile existing reliability, planning and interconnection standards in an effort to ensure the Transco has a cohesive set of standards to guide planning, operation, and new construction.

Key Tasks:

- Reliability Standards
- Planning Standards
- Interconnection Standards

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⁴ Each of the Parties will need to determine for itself whether becoming part of a Transco would be beneficial for its ratepayers and other stakeholders. The Parties recognize that this determination cannot be made until the Transco's business model is clear.