



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Mike Dunleavy, Governor
Julie Anderson, Commissioner
Robert M. Pickett, Chairman

Regulatory Commission of Alaska

January 15, 2020

Cathy Giessel, Senate President
State Capitol Room 111
Juneau, AK 99801

Bryce Edgmon, Speaker of the House
State Capitol Room 208
Juneau, AK 99801

Dear Senator Giessel and Representative Edgmon:

In 2014, the 28th Alaska Legislature directed the Regulatory Commission of Alaska (RCA) to determine "whether creating an independent system operator or similar structure for electrical utilities in the Railbelt area is the best option for effective and efficient electrical transmission."¹ The RCA submitted recommendations on June 30, 2015, that focused on the need for greater collaboration and consistent operating standards among Railbelt electric utilities², promoting:

- Creation of an RCA-certificated and regulated independent transmission company.
- Security constrained merit order economic dispatch of generation units on a system-wide basis.
- Enforceable and consistent Railbelt operating and reliability standards.
- The RCA also recommended allowing the Railbelt electric utilities the opportunity to implement an independent transmission company and achieve system-wide merit order economic dispatch before determining if state government involvement was necessary. The RCA raised the possibility that it would need to work with the Legislature and the Administration to achieve these goals but recommended the Railbelt electric utilities be allowed time to voluntarily act before determining if government involvement was necessary.
- The RCA also indicated it would consider requesting additional regulatory cost charge (RCC) funding if necessary to implement the proposed recommendations. RCCs are the funding mechanism for the RCA, typically recovered from the customers of regulated utilities through a percentage assessment on the bill amount.

Railbelt electric utilities pursued progress on these recommendations, updating the RCA on their progress through filings at RCA Public Meetings.

¹Chapter 18 SLA 14, Section 31(b) (2014).

²Letter from B. Pickett (RCA Chair) to K. Meyer (Senate President) and M. Chenault (House Speaker), dated June 30, 2015 (RCA Legislative Letter), attached as Appendix A.



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This letter discusses the Railbelt electric utilities' progress on these matters and this agency's view of the appropriate next steps.

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.

Progress on Recommendation No. 1:

Since the submission of the 2015 RCA report to the Alaska Legislature, the Railbelt electric utilities have over the past four years worked toward the creation of a Railbelt transmission company (Transco). A number of filings have been made with the RCA that describe the voluntary efforts toward creating a Transco.

The Alaska Railbelt Transmission, LLC, a proposed new investor owned Transco, filed an application for a certificate of public convenience and necessity (certificate) on February 25, 2019. The RCA received notice from the Alaska Railbelt Transmission, LLC that it would be withdrawing its certificate application on June 20, 2019. The more than four year voluntary efforts to create an independent, certificated Transco in the Railbelt was not successful.

Appendix A details these voluntary efforts from July 1, 2015 through 2019. Appendix A will be submitted on January 22, 2020.

Recommendation No. 2:

System-wide merit order economic dispatch of the Railbelt's electrical generation units will bring the maximum benefit to ratepayers. The RCA should use all the regulatory and statutory authority it currently has to strongly promote economic dispatch and seek new statutory authority as needed to promote this goal. Voluntary efforts by the utilities to utilize loose power pools should be encouraged as an interim step toward a tighter power pooling system. As actual data is generated concerning costs, benefits, and other outcomes of voluntary power pooling strategies, quarterly reports shall be filed with the RCA. These reports will be analyzed and reviewed to assess the organizational and governance structure needed for an independent consolidated system operator. If voluntary efforts fail, the RCA will work with the Legislature and the Administration to develop and implement specific action steps to institutionalize system-wide merit order dispatch.

Progress on Recommendation No. 2:

Some limited progress was made toward the establishment of a tight power pool between Chugach Electric Association, Inc. (Chugach) and the Municipality of Anchorage d/b/a Municipal Light & Power Department (ML&P). This effort was halted in the fall of 2018, pending the outcome of the proposed acquisition of ML&P's assets by Chugach. The opportunity to realize \$10 million in annual natural gas savings from more efficient generation dispatch between the two utilities was suspended. Voluntary commercial settlement arrangements could not be reached. Additional savings were not realized by incorporating Matanuska Electric Association, Inc. into the tight pool.

It is not clear if voluntary tight pooling agreements between Chugach and ML&P are possible if the two utilities remain separate entities. The proposed acquisition of ML&P's assets by Chugach has delayed progress toward system-wide security constrained merit order dispatch of the Railbelt's electrical generation units.

Appendix B details all efforts made during the past four years to achieve security constrained merit order economic dispatch. Appendix B will be submitted on January 22, 2020.

Recommendation No. 3:

Though history strongly indicates that the current voluntary transmission restructuring and economic dispatch efforts by the utilities may fail, the RCA believes the utilities must be given the opportunity to succeed. Failure of the voluntary efforts and initiatives will trigger the compulsory steps identified in Recommendation Nos. 1 and 2.

Progress on Recommendation No. 3:

Voluntary efforts by the Railbelt electric utilities have failed to produce sustainable institutional change under Recommendation Nos. 1 and 2. On March 15, 2019, the RCA issued an order seeking input on possible statutory changes:

We invite comment on legislative language that would provide express statutory authority for this agency to certificate and regulate an electric reliability organization, and to oversee integrated resource planning and project pre-approval of large electric generation and transmission facilities.

After the receipt of public comments on the proposed statutory language by the RCA, several bills were introduced in the Alaska Legislature. On May 3, 2019, the House Committee on Energy introduced HB 151. On May 14, 2019, the Senate Special Committee on the Railbelt Electric System introduced SB 123. Both bills were titled “An Act relating to the regulation of electric utilities and electric reliability organizations; and providing for an effective date.” Both bills are very similar in language and intent. At the Public Meeting of the RCA held December 11, 2019, the RCA voted unanimously to support SB 123.

Appendix C details representations made to the RCA and actual results, the statutory language the RCA put out for public comments, and the comments received. Appendix C will be submitted on January 22, 2020.

Recommendation No.4:

Enforceable and consistent Railbelt operating and reliability standards are necessary for consistent, safe, reliable, and efficient operation of the Railbelt electric system. The RCA strongly encourages the Intertie Management Committee and Homer Electric Association, Inc. to resolve their differences and develop a common Railbelt operating and reliability standard. In January 2016 the RCA will initiate a process to determine if it should adopt regulations concerning Railbelt operating and reliability standards.

Progress on Recommendation No. 4:

The area with the most progress is the adoption of mandatory consensus reliability standards. The RCA's June 2015 recommendation noted that reliability standards were voluntary and not all electric utilities had adopted the same standards.³ Railbelt electric utilities agreed to a single set of mandatory electric reliability standards for the Railbelt, filing consensus reliability standards with the RCA on April 17, 2018, that bridged inconsistencies between the existing reliability standards of the IMC and HEA/RRO. The Railbelt electric utilities proposed that implementation of the consensus standards be delayed until a year after adopted by a reliability organization.⁴ The reliability organization proposed by Railbelt electric utilities is the Railbelt Reliability Council (RRC), with functions that include (1) adopting and enforcing standards regarding system reliability, cybersecurity, and physical security; (2) conducting integrated resource planning for the Railbelt; (3) adopting and enforcing system-wide interconnection protocols; and (4) evaluating security-constrained economic dispatch. The Railbelt electric utilities proposed that the RRC be certificated and regulated by the RCA. The RRC is in the formative stages, with the Railbelt electric utilities anticipating filing a certificate application once the RRC business plan and supporting documents are completed.

On December 20, 2019, an informational filing was made with the RCA from the six Railbelt utilities:

The Organizational Development Team (ODT), is both pleased and proud to provide the Commission with a copy of the Railbelt Reliability Council Memorandum of Understanding (MOU), as signed by the respective general managers and chief executive officers of all six Railbelt Utilities. The MOU reflects the unanimous agreement of the six Railbelt Utilities and is the culmination of years of effort among the utilities; and, numerous meetings between the ODT and various stakeholders during this past year. The Railbelt Reliability Council (RRC), as envisioned in the MOU, meets the requirements established in the 2015 letter from the Commission to the

³Before the filing of the consensus reliability standards, Railbelt electric utilities operated under two sets of standards. The Intertie Management Committee (IMC), a committee comprised of all Railbelt electric utilities except the City of Seward (Seward) and Homer Electric Association, Inc. (HEA) operated under one set of standards (Seward was also covered as an all-requirements customer of Chugach, while HEA formed a single member Railbelt Reliability Organization (RRO) and operated under different standards).

⁴See Docket I-16-002, letter from L. Thibert, filed April 17, 2018.

Alaska Legislature indicating the need for reform on the Railbelt and requesting voluntary solutions from the utilities.

Many organizational issues remain to be resolved with the RRC. Many areas are yet to be addressed in the voluntary reliability standards. The RCA strongly believes that the statutory changes addressed in SB 123 must be enacted.

Appendix D identifies the most current state of the proposed mandatory reliability standards and unresolved issues. Appendix D will be submitted on January 22, 2020.

Recommendation No. 5:

The RCA will be hugely impacted by these proposed Railbelt electric system changes. The initial action steps will need to be implemented within existing RCA resources. The RCA is self-supporting through RCCs and does not rely upon state undesignated general funds. If the RCA receives the necessary Legislative and Administration support, the RCA budget will require the necessary RCC funded resources to implement these proposed recommendations.

Progress on Recommendation No. 5:

The passage of SB 83, signed into law on August 29, 2019, with an effective date of November 27, 2019, amended Section 39.25.110 concerning Exempt Service and the RCA Chair's authority under AS 42.04.050 (a). With these statutory changes, the Chair of the RCA was given authority to employ up to five utility master analysts. Highly specialized and technically trained individuals can now be employed to assist in the implementation of these Railbelt electric system changes. The public interest protection of ratepayers can now be better balanced with the needs of the utilities.

Next Steps--Summary

While the RCA's ability to regulate a regional transmission company seems clear based on existing statutory authority,⁵ one question raised is whether the agency has the requisite statutory authority over an electric reliability organization such as the RRC.⁶ Enabling statutes addressing RCA jurisdiction over electric utilities focus on the provision of service to the public, whether directly or through a resale arrangement.⁷ An electric reliability organization would adopt and enforce system reliability standards - the core function of the RRC, which would also establish interconnection protocols, conduct regional integrated resource planning, and evaluate security-constrained economic dispatch. None of these activities have the direct nexus of electric service to the public and thus create a certain level of doubt regarding the RCA's regulatory authority over the RRC or any other electric reliability organization.

Due to the concern regarding the RCA's statutory authority over an electric reliability organization, the RCA issued proposed legislative language that would clarify the RCA's statutory authority over an electric reliability organization. Appendix C details the draft legislative language, modified in response to comments received.

The RCA's previous legislative recommendations also committed to initiate a process to determine if regulations governing Railbelt operations and reliability standards should be adopted.⁸ The RCA has commenced efforts in that regard, directing agency staff to prepare regulations for comment that would incorporate the April 17, 2018, consensus reliability standards and provide guidance on processes for modifying or adopting new standards, garnering RCA approval of modified or new standards, and monitoring and enforcing adopted reliability standards. These regulations would be issued for comment once enabling statutes clarify the RCA's statutory authority over an electric reliability organization.

⁵Enabling statutes defines a "public utility" to include an entity that "furnishes, by generation, transmission, or distribution, electrical service to the public for compensation", with the definition of "public" including an entity that produces the service sold to the public by a utility. See AS 42.05.990(5), (6). In the case of a regional transmission company, transmission project expenses would be recovered from electric utilities who would in turn recover those expenses through rates charged to the public.

⁶See June 27, 2018, Public Meeting Transcripts at 30-31 (Commissioner Scott questioning how the RRC would be regulated by the RCA as it does not provide service to the public for compensation).

⁷See note 10 discussion of the definitions of "public utility" and "public" in AS 42.05.990(5) and (6).

⁸RCA Legislative Letter at 5. RCA findings noted that reliability standards were not voluntary and not all electric utilities had adopted the same standards.

The RCA's 2015 legislative recommendations also indicated the agency should be granted siting authority for new generation and transmission in the Railbelt, authorities that are not expressly delegated to the RCA by enabling statutes. The proposed legislative language in Appendix C also specifies the RCA's authority to oversee integrated resource planning and project pre-approval of large electric generation and transmission facilities.

Respectfully.



Robert M. Pickett
Chairman, Regulatory Commission of Alaska

Cc: The Honorable Mike Dunleavy, Governor
Commissioner Julie Anderson, DCCED