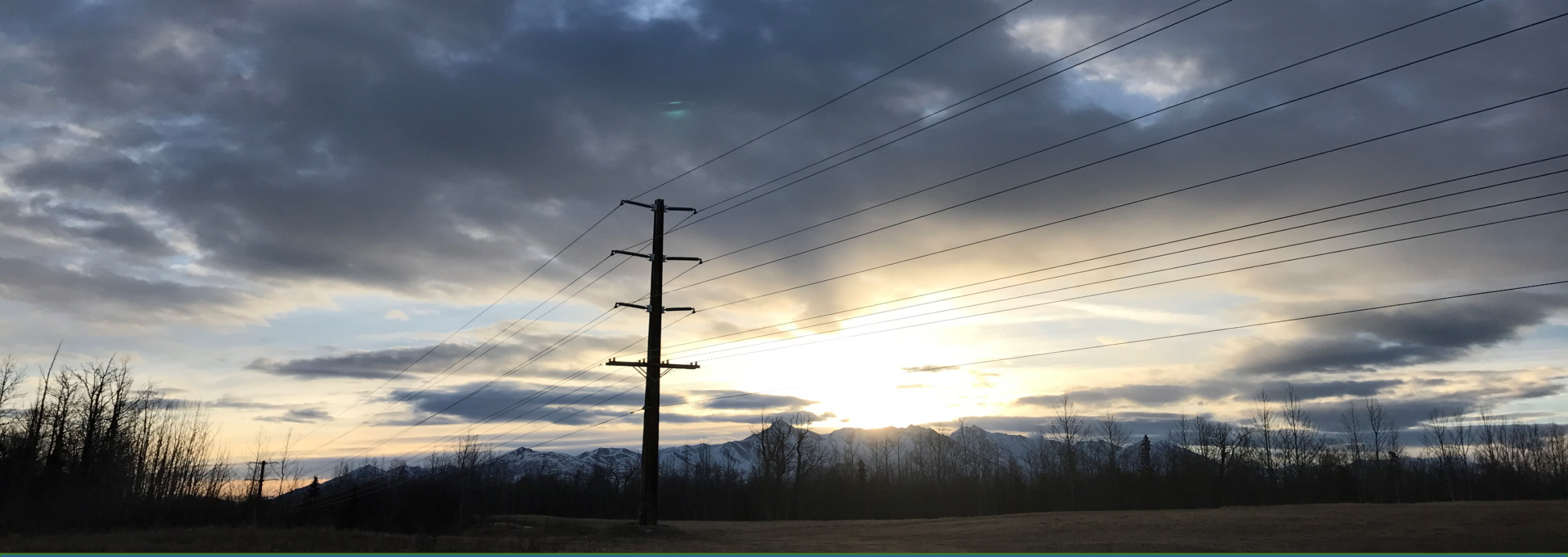


Railbelt Utility Presentation to the Senate Special Committee on the Railbelt Electric System and the House Special Committee on Energy

January 27, 2020

ML&P · CHUGACH · GVEA Golden Valley Electric Association · HEA Homer Electric Association, Inc. A Touchstone Energy® Cooperative · MEA Matanuska Electric Association · City of Seward Alaska

Presentation Outline

- Progress to date
- The Railbelt Reliability Council (RRC)
- Next steps for the RRC
- How the legislature can help
- Thoughts on SB123 and HB151

Progress - Consistent Railbelt Reliability Standards

In 2014 the Intertie Management Committee (IMC) adopted open access rules for the Alaska Intertie

In April 2018 the Railbelt electric utilities and Alaska Energy Authority (AEA) filed consensus Railbelt Reliability Standards with the Regulatory Commission of Alaska (RCA)

Compliance with reliability standards is mandated no later than one year after the Electric Reliability Organization (ERO) is established, until then compliance is voluntary

Progress - Coordinated Cyber Security Rules

All utilities engaged a nationally recognized cybersecurity consultant and developed cyber security standards that went into effect January 1, 2020, starting a 3-year compliance clock.

Utilities are currently conducting internal cyber security audits to identify gaps between the current practices and the new standards.

The Railbelt Cyber Security Working Group (RCWG), comprising IT subject matter experts from the six Railbelt utilities and Doyon Utilities, meets monthly to execute standards implementation.

A tight power pool is a contractual structure that pools generation resources and loads to facilitate economic dispatch for efficiency and cost savings.

Chugach, ML&P and MEA drafted preliminary dispatch protocols, financial settlement procedures, and other processes. GVEA and HEA have been engaged in this development.

Power pool development process was put on hold due to the Chugach/ML&P acquisition, expected to achieve approximately 75% of anticipated pool savings.

Utilities will return to power pool discussions after the Chugach/ML&P acquisition docket has been adjudicated.

Progress - Power Pool Development

Railbelt Reliability Council – Signed MOU

The RRC will be an applicant for the role of ERO with a balanced utility/non-utility board focused on accomplishing the following tasks:

1. Establish, administer and enforce reliability standards
2. Develop, adopt and administer open access rules, system cost allocation procedures, and interconnection protocols
3. Develop and adopt an Integrated Resource Plan (IRP) for the entire Railbelt electric system
4. Perform a definitive cost-benefit analysis of Railbelt-wide or regional security constrained economic dispatch.

Railbelt Reliability Council - ODT Process

An Organizational Development Team (ODT), comprised of representatives from the six Railbelt utilities, was established to begin building the RRC.

The ODT's focus was to develop consensus among utilities and other stakeholders in forming an Implementation Committee that would develop foundational documents and stand up the RRC.

The ODT representatives met with utility and non-utility stakeholders, including the RCA, AEA, REAP, AkPIRG, IPPs, and others.

On December 18, 2019, six Railbelt utilities signed the MOU for the creation of the RRC.

The signed MOU was filed with the RCA on December 20, 2019.

Railbelt Reliability Council - Governance

Initially, the RRC will be governed by a twelve-member Board with the CEO providing a tie-breaking vote.

- 6 Railbelt utilities
- Alaska Energy Authority
- 2 Independent Power Producers
- 1 organization advocating for consumer interests
- 2 independent, non-affiliated members
- RCA and RAPA will hold non-voting, ex-officio seats on the Board
- The RRC will hire a CEO and staff

Why is the Railbelt Reliability Council important?

- Regulatory compact (contractual commitment) with the State of Alaska.
- Commitment that the utilities will be bound by the decisions of the RRC.
- Commitment of the utilities to support statutory language to provide the RCA authority to regulate the RRC as described in the MOU.
- Commitment of the utilities to be inclusive of a variety of perspectives in decisions relating to the Railbelt bulk electric system.
- Commitment of the utilities to participate with one another and non-utility stakeholders to achieve benefits for ratepayers across the Railbelt region.

Next Steps for the RRC - Timeline

- ✓ January 2-Feb 1 – Thirty-day public notice for applications to fill the non-utility seats
- ✓ January 17 – Utility, AEA, RCA and RAPA delegates named
- February 17 – All other non-utility applications due
- March 20 – IPP seats selected by Alaska Independent Power Producer Association
- March 25 (est.) – Firm retained to conduct review of applications
- May 11 – Consumer advocacy seat selected
- May 15 – Independent, unaffiliated seats selected
- May 30 – Implementation Committee Kick off
- December 2020 – Complete foundational documents and stand up the organization

How the legislature can help

- Establish a statutory framework for the RRC to operate under the RCA's regulatory authority.
- Provide a mechanism to enforce consistent reliability, facility and cyber security standards developed by the RRC.
- Authorize the RRC to execute a robust, transparent Integrated Resource Planning process and support resulting outcomes.
- Provide for RCA pre-approval of projects that are consistent with the Integrated Resource Plan and/or reliability standards.
- Allow the RRC time to accomplish its goals but provide discrete timelines.

Suggested Adjustments to SB123 (slide 1 of 2)

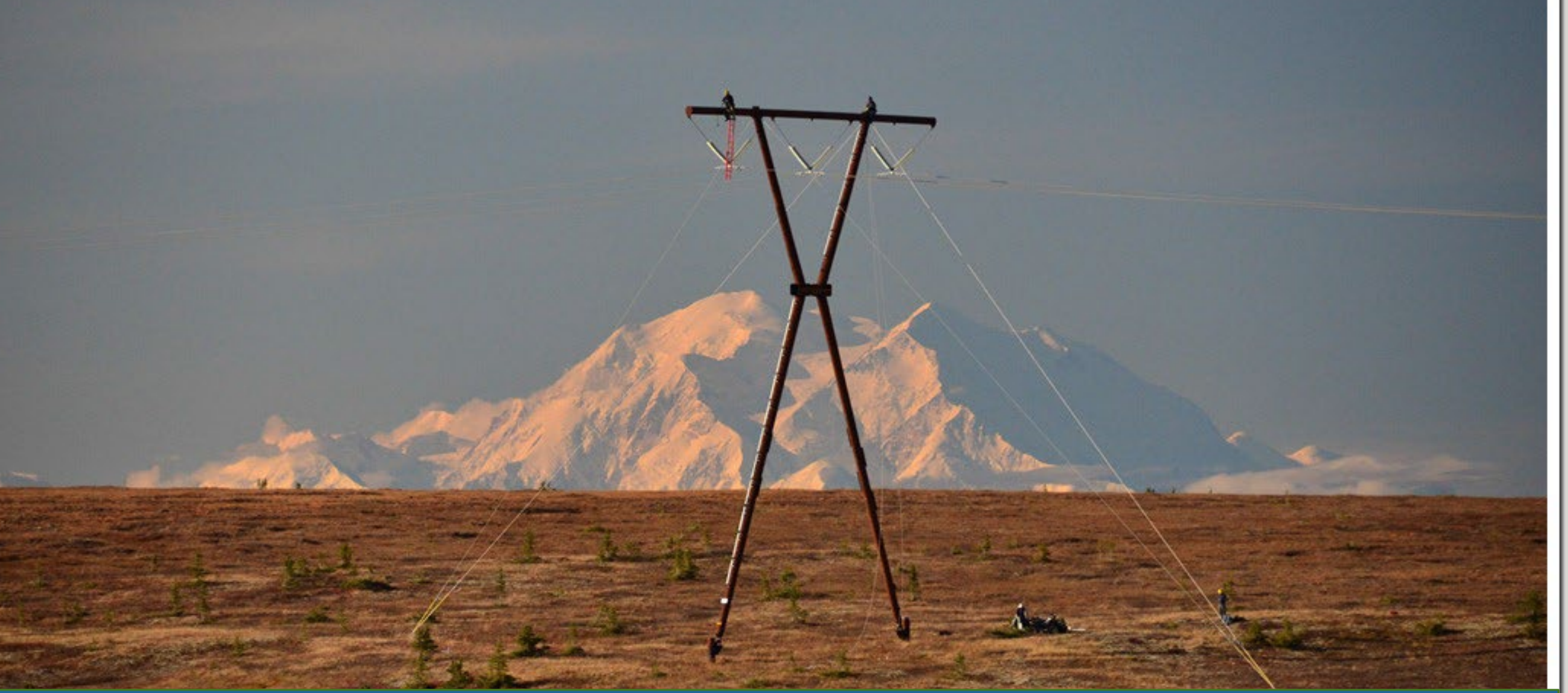
The utilities recommend changes to the draft to accomplish the following:

- Clarify participation criteria to include all power providers that materially affect the Railbelt grid
- Highlight focus on end-user benefits by replacing ‘ratepayer’ for ‘customer’
- Add ‘public participation’ in addition to ‘public comment’
- Clarify that the actions of the RRC and the RCA related to the reliability standards should be regulated as tariffs (AS42.05.361), ensuring reliability standards are developed in a bottom-up design and submitted to the RCA consistent with long-standing regulatory process
- Clarify that the actions of the RRC and the RCA related to the IRP should follow a regulatory process equivalent to that of a tariff (AS42.05.361) with an adjusted timeline, ensuring a bottom-up design for integrated resource planning
- Give due weight to the RRC’s proposed IRP commensurate with the open and transparent nature of the RRC’s process.
- Clarify existing SB123 language to authorize the RRC to ensure that projects are developed to meet reliability standards

Suggested Adjustments to SB123 (slide 2 of 2)

The utilities recommend changes to the draft to accomplish the following:

- Penalties imposed related to infractions involving standards be proportional to the severity of violations and consider efforts to remedy.
- Require development of a system cost allocation methodology.
- Allow the RRC to propose regulations for RRC governance, subject to RCA review, modification and approval
- Support pre-approval of projects with the following clarifications:
  - Recognize local reliability criteria and limit scope of pre-approval to exclude projects currently in development or under construction, reasonably classified as refurbishments and capitalized maintenance.
  - Exclude from RCA jurisdiction, authority over facility location and transmission routing.



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