



## SECTIONAL ANALYSIS

SB 217: Integrated Transmission Systems

*Version A*

**Section 1** - Updates the uncodified law of the State of Alaska by setting forth the purpose of the legislation: to eliminate pancaked rates and increase efficiency of integrated transmission systems of the state.

**Section 2** - The bill amends AS 10.25.540—related to the taxation of electric cooperatives—to include independent power producers. Under the bill, independent power producers would pay a “sales” tax on the kilowatt hours of electricity in lieu of any state or local ad valorem, income, or excise tax. The bill defines an independent power producer as a utility that only sells wholesale power to cooperative or municipal utilities.

**Section 3** - The bill creates a new article in AS 42.05 relating to integrated transmission system cost recovery (AS 42.05.900 - 42.05.915).

Proposed AS 42.05.900 states the legislative findings for increasing the efficiency of providing electricity service to consumers.

Proposed AS 42.05.905 requires the Regulatory Commission of Alaska (“RCA”) to establish a transmission cost recovery mechanism and to provide a process where the electric utilities will transition from recovering transmission costs in utility rates to a transmission cost recovery mechanism. More specifically, this section requires the RCA to develop a cost recovery mechanism that achieves the legislative findings and allocates transmission costs in a way that recognizes a load-serving entity's local consumption compared with the total consumption on the system as a whole. The section further requires the RCA to establish a process whereby the transmission owning utilities will gradually transition from the current cost recovery mechanism, in which transmission costs are recovered in base rates and wheeling charges, to the new transmission cost recovery mechanism.

Proposed AS 42.05.910 provides that the RCA will require all transmission-owning utilities to form an association whose only purpose is to have a tariff setting out how the transmission cost recovery mechanism is collected and disbursed, and to collect and disburse the transmission costs through the new recovery mechanism. The association will be regulated as a public utility.

Proposed AS 42.05.915 provides definitions for the new article. The section clarifies what sort of electric utility assets are deemed to be “transmission assets,” subject to the cost-recovery mechanism of the new article. These include AEA's contractual charges for transmission to the Railbelt utilities, but would exclude radial transmission lines that are built to connect independent power producers who sell their power to utilities under wholesale contracts. The cost of such radial lines will instead continue to be recovered in the cost of power provided, as is customary. This ensures that a load-serving entity that is not buying power from the independent power producer is not forced to shoulder the cost of connecting that power to the grid. The section also provides definitions for the terms “electric reliability organization” and “load-serving entity.”