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Governor Mike Dunleavy
STATE OF ALASKA

February 1, 2024

The Honorable Cathy Tilton
Speaker of the House
Alaska State Legislature
Capitol Building, Room 208
Juneau, AK 99801-1182

Dear Speaker Tilton:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill to increase competition and reduce costs for the benefit of electricity ratepayers in Alaska. The bill has two sections. The first eliminates the current use of per-unit wholesale transmission charges, eliminates pancaked rates, and fairly recovers from load-serving entities the actual, reasonable costs to own and operate an integrated transmission system. The second reduces barriers to independent power producers who seek to provide cost-effective power to ratepayers by offering them the same tax treatment that cooperative and municipal electric utilities enjoy. Both measures reduce artificial barriers to new projects that can otherwise deliver benefits to Alaska consumers.

This bill would change the current mechanism of transmission cost recovery in the Railbelt. Transmission "wheeling" rates for the inter-utility movement of electricity would be eliminated. Such per-megawatt hour transmission charges unnecessarily burden efficient wholesale power transactions and can prevent new cost-effective generation projects from happening altogether. Instead, each load-serving entity would periodically pay for a portion of the total integrated transmission system costs on a lump-sum basis, without consideration for the inter-utility movement of power. Load-serving entities would then recover the cost of that payment by allocating it to their native load customers according to their own separate and existing rate designs.

This bill also includes the intent to fully compensate transmission-owning entities for the reasonable costs to own and operate transmission assets, with costs fairly apportioned between the utilities that serve end-use customers. The bill thereby removes any risk of inadequate or overly generous transmission cost recovery.

The new transmission mechanism would also, by its nature, reduce barriers to construction of new and needed transmission assets. Currently, any new transmission asset sparks debate: who should pay how much? This bill would ensure that question is resolved through a pre-existing mechanism, thereby reducing that important hurdle. An integrated resources planning process, already required by law for integrated transmission systems, will help determine the new transmission assets that are most needed.

The bill accomplishes the above by requiring the Regulatory Commission of Alaska (RCA) to develop a cost recovery mechanism that achieves the legislative findings and allocates transmission costs in a manner that recognizes a load-serving entity's local consumption compared with the total consumption on the integrated transmission system as a whole. It also requires the RCA to establish a process to gradually transition from the current to the new transmission cost recovery mechanism. This gradual transition will reduce any sudden impact of the change for all parties.

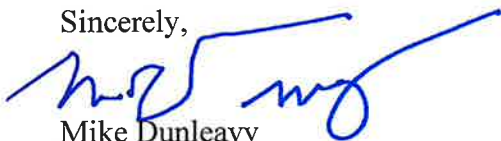
This bill also clarifies which type of electric utility assets are deemed to be "transmission assets" and will be subject to the cost-recovery mechanism. This would include the Alaska Energy Authority's contractual charges for transmission to the Railbelt utilities but exclude any new radial transmission lines that are built to connect independent power producers, who then 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 definition 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 bill would also amend AS 10.25.540(b) to extend its tax relief provisions to independent power producers (IPPs) who sell their power to non-profit electric utilities. Taxes are currently a large portion of the overall cost structure for IPPs. The process of negotiating project-enabling tax relief can and does delay project development, sometimes for years, and can stifle project development altogether.

Extending to IPPs the tax relief that non-profit utilities already enjoy benefits ratepayers by ensuring that taxes are not included in the rates that they pay, regardless of the entity that generates their power. Ratepayers will see lower costs by encouraging competition in who can develop electricity generation projects.

I urge your prompt and favorable action on this measure.

Sincerely,



Mike Dunleavy
Governor

Enclosure