May 3, 2024

Senator Lyman Hoffman, Co-Chair
Senator Donald Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senate Finance Committee
State Capital
120 4th Street
Juneau, AK 99801

RE: Renewable IPP Support for SB 217

Dear Co-Chairs Hoffman, Olson and Stedman,

I am writing to express Renewable IPP's strong support for SB 217. We'd like to recognize all the hard work by the Legislature this session to progress Alaska's energy future across numerous fronts. While no legislation is 100% perfect at its onset, we think SB 217 has been well thought out and taken into account a broad spectrum of input. On the balance, this bill drives our energy future in a positive and much needed direction. We strongly encourage legislation to be passed this session as waiting another year will increase our energy insecurity and compound our exposure to higher energy prices. Thank you in advance for considering our comments.

Renewable IPP, LLC is an Alaska-grown Independent Power Producer (IPP) who develops, constructs and operates utility scale solar farms in Alaska. Our mission is to diversify Alaska's generation mix and suppress energy prices through cost competitive renewable energy projects. Since our founding in 2017, we've successfully completed three solar farm projects; 140kW Willow Pilot (2018), 1.2MW Willow Expansion (2019) and 8.5 MW Houston Solar Farm (2023). As an IPP we wholesale electricity to co-op utilities. Our Willow projects sell electricity at the current cost of generation and our Houston Solar Farm is delivering on our commitment to suppress energy prices and sells electricity for 10-20% below the current cost of generation, proving that utility scale solar can provide cost competitive energy for Alaskans and help conserve Cook Inlet natural gas. Our company has grown incrementally since 2017, working collaboratively with co-op utilities to test and confirm utility scale solar farm grid integration and operations. We are now poised for large, at-scale deployment and can be a significant contributor to help meet future electricity demand.

Below is a summary of key concepts which we support and a request to slightly amend one area related to Section 6, RCA approval of wholesale power agreements between an IPP and Utility, which as written in version U, introduces significant investment risk to Alaska IPP projects.

Support Areas

1) **Tax Parity for IPPs:** We sincerely appreciate SB 217 equalizing the tax treatment for IPP's and think this is critical for delivering the lowest possible cost energy to the Railbelt. IPP generation projects such as a solar farm are large infrastructure projects that are capital intensive. The cost profile is similar to a new road or bridge and given Alaska's generally high property tax rate, this makes Alaska projects less attractive for investment and places a

significant burden on operating costs. For example property taxes account for ~30% of our operating costs. In projects we've evaluated to date, exempting IPP's from property taxes results in a ~5% reduction in our starting Power Purchase Agreement (PPA) price. This may seem like a small percentage difference, but since these are multi-decade contracts with fixed price escalators, this starting price reduction compounds over the project life. While IPP's are for-profit entities, we sell energy to co-op utilities who are regulated by the RCA and sell at wholesale prices rather than retail. For our projects to move forward we must demonstrate that our power is cost competitive with the utility cost of generation. As co-op utilities are exempt from property taxes this creates a disparity between IPPs and co-op utilities and makes IPP projects more challenging to move forward. Equalizing the tax treatment for IPP's who sell energy to co-op utilities creates a level playing field and reduces energy costs to ratepayers. We strongly request that the legislature pass this legislation this session as it affects contract prices we're agreeing on projects this year that will affect rate payers for decades.

While our company is focused on utility scale renewable energy projects in the Railbelt and working with our co-op utilities. We have colleague IPP's who are working to deploy new generation and bring electricity service to Alaskan's outside the Railbelt. We support the language that was included in version S of the bill, that offers tax exemption to new utilities providing service in unserved areas, Sec. 43.98.110. While not a co-op utility, these utilities would be required to acquire a CPCN and be regulated by the RCA, so we think there's proper oversight for fair and reasonable rates to consumers and this tax exemption would help electrify unserved areas and enable economic development.

2) **Railbelt Transmission Organization (RTO):** In order to materially move the needle on energy diversification, the Railbelt needs large scale generation projects. Given their size, these projects will tie into the transmission system. Alaska's transmission system needs to be strategically upgraded to enable generation to move throughout the Railbelt and to give all Railbelt ratepayers fair and equal access to low cost energy. An entity focused on upgrading and managing the transmission system is the best way to ensure progress is made and done in a way that benefits the Railbelt as a whole rather than any one region. Right now the Railbelt transmission system is divided across numerous owners each with different geographic communities they represent. This structure limits decision making to a narrow, regional perspective and misses out on broader opportunities, economies of scale and more holistic solutions. There are significant federal incentives for grid modernization and a dedicated organization targeting these opportunities will significantly improve the amount of federal dollars captured by the Alaska Railbelt. Given the significant federal incentives and subsidies available for renewable energy projects and grid modernization, it's critical that Alaska moves now to capture these once in a lifetime, cost saving, opportunities.

3) **Elimination of Wheeling Rates:** Currently, as the transmission system has multiple owners, each may charge wheeling rates for each section. This creates price disparity based on geographic locations. As wheeling rates are difficult to determine and are not regularly published; this creates project uncertainty which disincentivizes project development and

investment. Elimination of wheeling rates provides financial certainty for project development and enables the lowest cost power to be delivered no matter the project or ratepayer location.

4) **RCA Rate Increase:** Diversifying our energy supply means building many projects across the Railbelt. A key step for any IPP project is to have the project Power Purchase Agreement reviewed and approved by the RCA. Today there are a small number of projects being submitted but this is changing fast. The RCA needs proper funding to staff for the grid modernization effort ahead. If we do not pass increased funding for the RCA, this will create a significant bottleneck and undermine positive efforts by the all the players in the Railbelt (Utilities, IPPs, ERO and RTO).

Respectfully Request Slight Amendments in Section 6, AS 42.05.431(b)

1) **Section 6 AS 42.05.431(b):** We support transparency in demonstrating that state and local tax exemption for for-profit IPP's is passing through to ratepayers and helping lower energy costs. We respectfully request to amend the language to narrow the scope to "state or local tax exemption" and to remove the "government subsidy" language and "violate this subsection" language as they introduce significant risk to PPA certainty which is critical for IPP project investment. Thanks to SB 217, the state and local tax policy will be clearly defined and known at the time an IPP files a PPA with the RCA for approval. Government subsidies are not always known at the time of the PPA filing and given the "violate this subsection" language, based on the final subsidies, these create serious PPA contract uncertainty for investors. We respectfully request to amend the language as follows and provide additional points of context below.

    b. A wholesale power agreement between public utilities, **or between a public utility and an independent power producer,** is subject to advance approval of the commission. **A rate set in accordance with a wholesale power agreement must reflect a state or local tax exemption ~~[or government subsidy]~~ provided to a utility or independent power producer.** After a wholesale power agreement is in effect, the commission may not invalidate any purchase or sale obligation under the agreement. However, if the commission finds that rates set in accordance with the agreement ~~[violate this subsection or]~~ are not just and reasonable, the commission may order the parties to negotiate an amendment to the agreement and if the parties fail to agree, to use the dispute resolution procedures contained in the contract. **In this subsection, "independent power producer" means a person, other than a public utility, that owns or operates a facility for the generation of electricity.**

The language of *"government subsidy"* and the further added language related to revising a PPA, *"violate this subsection"* are problematic for the following reasons:

- **Broad Scope:** the proposed language is written in a way that would include federal renewable tax credits, federal and state grants in addition to the state and local property tax exemption. While the state and local tax policy will be clearly defined for an IPP project at the time of the PPA filing with the RCA, federal and

state subsidies are less certain. Looping in these additional incentives are especially problematic as IRS guidance on renewable energy tax credits are ever evolving and the final tax credit amount is estimated at the time the PPA is submitted to the RCA but not known until the project is fully built. An example of this is the "domestic content bonus credit." The requirements to qualify for this credit are a moving target by year and based on when the PPA is approved by the RCA and how material lead times and the project schedule plays out, the eligibility may change. A project may carry this bonus credit as a "upside case" and will evaluate final procurement details, cost and economics to decide to go for this credit or not. The proposed language risks invalidating the PPA if the tax credit situation changes or at the very least causing project recycle. Finally, the tax-equity investor typically determines what federal tax credit amount they feel comfortable claiming based on how much evidence they have to support qualifiers. This is not known until the project is completely built and years after the PPA is approved.

- **Timing Issue/Project Recycle:** When a PPA is filed with the RCA this is typically at the end of the project development stage. Typically at this time key screening studies are completed and preliminary design is done, but detailed engineering and procurement are not complete. The IPP makes assumptions on project debt terms, tax-equity terms, material and labor costs and federal tax incentives and potential grants. These assumptions are a best-informed estimate given the project maturity and feed the PPA pricing. Once a PPA is approved by the RCA then more substantial project spend ensues and assumptions are borne out. Usually there's negative and sometimes positive surprises. It's the IPP's responsibility to manage this risk and keep the project within economic limits. To accomplish this, the IPP may pursue additional grants to offset downside risks realized during project execution. The current language would require PPA revision/project recycle if grants come into the project after the PPA is approved and threaten the viability of the project if the IPP does not have PPA certainty/ This ultimately impairs the IPP's ability to navigate and manage project risk.
- **Investor Uncertainty:** Renewable energy projects are low risk and low return projects. In order for the projects to be low risk and investible, there can be no PPA contract risk. The proposed language introduces significant uncertainty to the PPA terms (i.e. will they be revised at a future date?). Renewable energy project investors will look to other states with more certain PPA contract approval laws for investment opportunities instead of Alaska.
- **Blending of IPP and Ratepayer Risk:** One of the key benefits IPP's bring to ratepayers is they take on the full project execution risk and ratepayers area isolated from this due to the pre-agreed and RCA approved PPA. The proposed language blurs this line of risk responsibility. On one hand if additional tax incentives are realized by the project the PPA price would be adjusted downward, but if an IPP finds it qualifies for less than the assumed tax incentives then this language would provide a provision to revise the PPA to increase the energy price. This removes the natural incentive (risk responsibility) for the IPP to manage

project costs and complete proper due diligence on incentive assumptions and puts ratepayers at risk.

In closing, we'd like to share a powerful example of our recent Houston Solar Farm project to demonstrate how we realized downsize risk and government subsidies we pursued after the PPA was approved by the RCA to keep the project alive.

We agreed the wholesale contract price ahead of the significant global inflation in 2022. Just as our wholesale contract was being approved by the RCA, a milestone, years in the making, we saw a 20-30% cost increase in project materials. This cost increase drove the project to be uneconomic. Given the time and effort we and the numerous project stakeholders put into the project we felt very acutely that we needed to either find a way to make the project work or we'd lose credibility and the chance to do more projects and grow as a business. Given this significant motivation, we applied for various grants. Fortunately we received a grant from the USDA through their REAP program and through the University of Alaska Fairbanks, the project was a party to a joint research project, analyzing co-locating agriculture and solar at the Houston Solar Farm site, through a DOE FARMS grant. These two levers along with multiple others enabled the project to move forward under the RCA approved contract and today we're delivering power at 10-20% below the current cost of generation. Had the PPA been subject to revision due to the receipt of these grants, the project would at a minimum have been delayed until the PPA was re-affirmed by the RCA and more likely the project would have been shelved given our vulnerable nature to withstand a contract recycle at that late stage in the project.

We hope that our proposed amendments strike a good middle ground, in that IPP's would still be required to show how state and local tax exemption is being passed to ratepayers and removes PPA uncertainty with government subsidies and potential additional openers to revise the PPA. Removing PPA contract uncertainty ensures that Alaksa based IPP projects remain attractive to investors.

Thank you and your staff for all the hard work this session to improve Alaska's energy outlook. We sincerely appreciate your consideration of our comments and look forward to this important legislation being passed this session. Thank you again and please let me know if I can help with any additional information or questions.

Sincerely,

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