



August 27, 2009

The Honorable Robert M. Pickett, Chairman
Regulatory Commission of Alaska
701 W. 8th Avenue, Suite 300
Anchorage, Alaska 99501

RE: Renewable Energy Fund

Dear Chairman Pickett:

The Alaska Energy Authority (AEA) was charged with the responsibility to develop a program to administer the Renewable Energy Fund. Part of the legislative direction was to include independent power producers in this program. This is the first time that independent power producers were included in energy grant programs in Alaska, so extra effort was made to ensure public benefits were obtained for grant funds.

All grant agreements include the following grant condition regarding cost-based rates and requests for a certificate of public convenience and necessity (CPCN) by IPP's.

From Appendix B-1 of the grant agreement:

"Tariffs & Rates for Use of Grant-Funded Assets

Rates for power provided as a result of generation or transmission facilities built with grant funds may be subject to review and approval by the Regulatory Commission of Alaska (RCA), or if the rates are not subject to RCA review and approval, they may be subject to review and approval by the Authority to ensure reasonable and appropriate public benefit from the ownership and operation of the Project."

The Authority has developed a simple procedure that allows statutory compliance as well as meeting the grant conditions.

To facilitate this provision, AEA proposes to hire an independent economist to develop a cost-based rate for electric sales with an appropriate rate of return on equity that will be accepted by the applicant as a grant condition. The allowable cost-based rate represents the highest rate, which the IPP will be allowed to charge. As the cost-based rates are a grant condition, avoided cost rates or PURPA rates will not apply for projects which obtain REF grant funding.

When complete, the rate analysis will be provided to the applicant and be included with filings at the RCA. Application of a CPCN is also a grant condition, RCA action must be completed prior to the issuance of any construction grant funding.

As this REF is a developing program, the IPP REF projects will be used to form a template for setting of future REF cost-based rates.

I appreciated the opportunity to work with the RCA commissioners and staff as we identified concerns and solutions. I have directed the AEA staff to continue to work with the RCA to develop the detailed procedure for REF IPP's as they relate to the RCA.

Sincerely,

ALASKA ENERGY AUTHORITY

A handwritten signature in black ink, appearing to read 'S. Haagenson', with a long horizontal flourish extending to the right.

Steven Haagenson
Executive Director