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Members of the Alaska State Legislature,

The purpose of this letter is to express Ketchikan Electric Company's strong support of House Bill 78, an act bearing the short title of the Alaska Competitive Energy Act of 2015 (ACEA).

About Ketchikan Electric Company

Ketchikan Electric Company (KEC) is an independent power producer (IPP) jointly owned by Alaska Power & Telephone and Cape Fox Corporation, the Alaska Native Claims Settlement Act (ANCSA) village Corporation for the community of Saxman. KEC was established for the development, ownership, and operation of the Mahoney Lake hydropower project, a 9.6MW alpine lake tap project located on Cape Fox Corporation's ANCSA lands. The Mahoney Lake project has been designed to provide affordable energy to the community of Ketchikan, now interconnected to Wrangell and Petersburg via the Swan-Tyee intertie owned and operated by the Southeast Alaska Power Agency (SEAPA).

Our company has been actively working to develop the Mahoney Lake hydropower project for over 20 years. Through investment of \$4,000,000 of private capital, KEC has completed roads to the project's powerhouse, and received a Federal Energy Regulatory Commission license (FERC No. P-11393). This license, issued in the mid-1990s, has been stayed by an act of US Congress – an unprecedented occurrence – due to KEC's lack of success in achieving incumbent utilities' approvals to compete on an equitable basis to provide ratepayers of the region with affordably priced energy. Investors have been ready, willing, and able to provide the private capital necessary to complete the Mahoney Lake project for many years. A third party due diligence report commissioned in 2008 by Ketchikan Public Utilities (KPU) – an incumbent utility and proposed offtaker of Mahoney Lake's output – determined that our project would be

able to provide \$0.098 / kwh power (\$2008) to the region with conventional financing (30 years at 5%), and provided a favorable development recommendation to KPU.¹

Despite all of these favorable characteristics, KEC has been unsuccessful in its efforts to complete the Mahoney Lake project for the benefit of the region's ratepayers. This has not been due to Mahoney Lake's lack of virtue as a hydropower project, but rather, due to the fact that KEC has been unable to gain a reasonable opportunity to compete against incumbent utilities' self-build projects on a level playing field, and non-discriminatory basis. Instead, we have watched three of our proposed off-takers' self-build projects – the Swan-Tyee Intertie, the Whitman Lake hydropower project, and most recently SEAPA's Swan Lake Dam expansion – be advanced in favor of our own, without our Mahoney Lake project being afforded equitable consideration. Meanwhile, State of Alaska grant funds are used to subsidize these self-build projects' development costs. This subsidization places our own Mahoney Lake project at a significant disadvantage, and serves to leave our \$4,000,000 in private investment effectively stranded, and at strong risk of total loss. It appears based upon incumbent utilities' present activities that they will continue to identify and prioritize new self-build projects, without offering private sector developers any sort of reasonable opportunity for participation and competition on an equitable and non-discriminatory basis.

These conditions have unfortunately limited the ability of Cape Fox Corporation to utilize its ANCSA lands to support regional and state renewable energy goals, and realize the economic promises of ANCSA. They have also limited AP&T's ability to apply our hydropower development expertise, mobilize private capital, and undertake project development risks and costs so that we might compete to meet ratepayer's energy needs more affordably. These conditions have also had the consequence of encumbering ratepayers with energy generation projects selected based upon non-economic, non-competitive factors.

KEC does not seek special treatment or favoritism for the Mahoney Lake hydropower project. Rather, we seek an equal, non-discriminatory opportunity to compete within the energy generation sector – along with incumbent utilities, and every other prospective developer -- so that we might have a fair chance to provide ratepayers with the most affordable and competitively priced increments of energy possible.

Moreover, we seek an investment environment in Alaska where State tax dollars and other public monies are not used to advantage one developer over another. We are particularly concerned about situations in which tax dollars are used to compete against a tax-paying business. If these conditions are allowed to persist, private investment will never occur at meaningful levels, and Alaska will continue to maintain the dubious distinction of having the lowest levels of private investment and competition in the energy sector in the US (4% in Alaska, versus 37.4% in the US, versus 6% in communist China).²

¹ Source: 2008 Mahoney Lake Due Diligence Report provided to KEC by Ketchikan Public Utilities, and available from this letter's author upon request.

² Source: US EIA.

Whether IPP or Incumbent Utility, the Ratepayers' Best Interests Come First, and are Supported and Protected via ACEA

KEC believes that the electrical utility sector's core function is to serve the best interests of the public through provision of the most affordable energy possible. This is true of both IPPs, and incumbent utilities. KEC supports ACEA, because we believe it assures the public best interest is being met through free market competition, on a non-discriminatory basis, in a manner consistent with the investment environment currently benefitting the lower 48 States, where energy is far less costly. ACEA provides the framework which IPPs and utilities both need to compete and collaborate in a reasonable manner, in support of ratepayers' best interests.

Utilities Already Meeting the Public's Best Interest Have Nothing to Fear from ACEA

Utilities which are already meeting the public's best interest, treating IPPs in a non-discriminatory manner, and utilizing market forces and fair procurement processes to ratepayers' benefit have no reason to oppose ACEA, or fear RCA oversight.

It is only the utilities which might be failing to meet the public's best interest through fair and non-discriminatory business practices which have cause to fear ACEA's reforms. When an entity expresses fear or resistance to competition, transparency, competitive procurement, and third party oversight, it is usually a sure signal that there are problems present, and that change is needed.

It is important to note that the changes proposed within ACEA are neither new nor revolutionary concepts – they are changes which have already been found to be in ratepayers' best interest, and have been adopted and applied in the lower 48 for decades, to great success.

Despite its Enormous Renewable Energy Potential, Alaska is Failing to Attract Private Investment, and Failing to Provide Low-Cost Energy to Alaskans

Alaska has incredible undeveloped renewable energy potential, including 40% of total US river hydropower, 90% of total US tidal energy potential, the largest terrestrial Class 7 wind potential in America, and the largest offshore wind potential in the US.³ And yet, communities across the State pay some of the highest energy costs in America, and Alaska has a lower level of private investment than any other State in the US (4% in Alaska, versus 37.4% US-wide).⁴

This unsettling juxtaposition of statistics is in no small part due to the fact that Alaska's regressive utility laws, policy, and regulation fail to encourage a competitive electrical industry, and do not attract or support private investment with the same success as the rest of the US. Key failings of Alaska's legal and regulatory environment include: lack of open access to transmission; lack of an equal playing field for IPPs and utilities; lack of standards governing fair interactions between IPPs and utilities; inconsistency between the State and federal definitions of "avoided cost" (state "average" versus the federal "incremental" requirement); inadequate

³ Sources: UAF Alaska Center for Energy and Power, and the Wind Energy Atlas of the US.

⁴ US EIA

oversight of public utilities including Joint Action Agencies; and the fact that Alaska's energy policies are "aspirational" rather than directive of the RCA.

ACEA is Necessary to Unify IPPs and Utilities in Efforts to Provide Ratepayers with Competitively-Priced Energy

While every relationship and interaction is unique, there is a common and overwhelming theme of prospective IPPs and incumbent utilities across Alaska failing to compete and collaborate to provide more affordable energy to ratepayers. This lack of unity is troubling, as what Alaska needs is a collaborative approach which leverages the best qualities of all parties, and mobilizes all available assets responsibly in support of economic growth and prosperity.

The State of Alaska has thus far failed to provide an environment where this type of collaboration and competition can occur. This failure is seen in Alaska's 4% total private sector participation in electrical energy generation, versus 38% across the US. ACEA provides the framework which IPPs and utilities both need to compete and collaborate in a reasonable manner, in support of the best interest of the ratepayers.

Please Support the Alaska Competitive Energy Act

KEC believes that resource planning and procurement should be based entirely on objective factors such as risk, reliability, and price, and agnostic in regard to ownership, politics, ideology, emotions, or subjective judgments. Our company does not seek special treatment – simply equal opportunity. Competitive procurement on a level playing field, grounded in non-discriminatory, objective factors is in the best interest of utilities, ratepayers, and the State of Alaska.

Thank you for your consideration. KEC hopes you will agree that adoption of ACEA supports the best interests of the State of Alaska, ratepayers, incumbent utilities, and independent power producers alike.

Please vote "yes" on HB 78.

Sincerely,



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