March 3, 2015 - 10:15A House Energy – LIO Testimony on HB78 – More testimony on Thursday, March 5, 2015 10:15A

Thank you co-chairs Colver and Vazquez for taking public testimony on this bill; I was not able to testify at my LIO today and will not be available to testify Thursday.

My name is Clay Koplin, a life-long Alaskan, registered professional electrical engineer via UAF, and MBA with 22 years of Alaska electric utility experience as staff engineer, operations manager, and for the past 8 years as CEO of Cordova Electric Cooperative.

I appreciate Representative Wilson bringing this discussion forward; it is an important one that I hope will lead to a better understanding and appreciation of the challenges of producing and distributing energy in Alaska.

I want to make three points regarding this bill:

1) Competition is not always good in closed markets. High rates are not due to a lack of competition and monopoly profiteering. The primary cost driver is economy of scale (and yes, the Alaska rail belt has a tiny scale economy compared to the national grid, multiply this for rural Alaska). The electric utility industry is the most capitally intensive on earth which means high fixed costs. The best way to reduce kilowatt hour rates is to sell more of them against these fixed costs. Unfortunately, each Alaska grid has to carry its own backup capacity that goes largely underutilized creating a necessary over-capacity. Artificially removing the financial and market barriers to adding more generation to Alaska systems generally hurts, rather than helps, this problem. There are presently IPPs connected to utility grids that make financial and operational sense proving that there is workable opportunity in some community markets, and a workable process - no new business venture is without headwinds.

2) Most electric utilities in this state are private businesses, owned, built, and operated by Alaskans; ultimately the rate-payers. Electric utilities are one of the only industries in this state that is actually owned by Alaskans - why are we eager to have them financed, and therefore controlled, with private equity? Private equity moves margins, and often jobs and decision-making outside our communities and our state. Another problem with private equity is that it requires short-term growth and return on investment that is just the kind of short-nearsightedness that often makes for higher costs in the long run. Cordova's consumer-owned utility decided in 1978 to bury all of its overhead power lines though costlier at the time. It took 38 years to complete the project, but now we have exceptionally high reliability in our power system and extremely low operations and maintenance costs. Private capital managed outside of our communities or our state would never have this vision or patience – the short term pain for longer term gain.

3) One of the most frustrating and cost-intensive challenges in our industry is the regulatory tsunami that has been battering the industry for the past 10 years. Forcing administrative overheads on utilities, or business relationships with firms that often, to be frank, have never built or operated electric system infrastructure, particularly in Alaska were the risks and uncertainties are unique and complex, is not a cost-saving solution. There are enough abandoned plants and technologies scattered around the state to prove this. In a true market economy, utilities would be free to select their business partners and opportunities, both internally and externally. Their cost-quality-reliability-environment balanced score cards which consumers now seek required trade-offs to the sole metric of cost. Utilities would be free to decide whether or not IPP projects or vendor credibility warrant a business relationship, and factor the uncertainties and risks into their decision-making. "Reasonable", "fair" and "non-discriminatory" are subjective terms. Non-discrimination implies equality, and not all projects or firms are created equal. Picking winners and losers at the state and federal legislative levels literally turned off the lights in California 15 years ago during "deregulation" - I hope we don't follow a similar path.

In summary, the electric utilities are not the barriers to adding generation to a largely over-built system, the barriers are the barriers; economies of scale, regulatory costs, logistics & environment, risk and uncertainty in future fuel and operating costs, and geographic distribution resulting in very, very low customer density &

revenue per dollar of plant investment. Competition is not as compelling to a local utility as the desire to improve the quality and reduce the energy costs for their neighbors and community *unless* that competition stands between the utility and that goal – that may be one of the reasons there is such a strong industry response to this bill. While this bill has good intentions, it will most likely detract from the very goal it pursues; lower energy costs for Alaskans.

CC: House Special Committee on Energy, Bill Sponsor, and Cordova District Senator Stevens and Representative Stutes