

January 27, 2016

Representative Liz Vazquez
Co-Chair of the House Special
Committee on Energy
State Capitol Room 432
Juneau, AK 99801

Representative Jim Colver
Co-Chair of the House Special
Committee on Energy
State Capitol, Room 424
Juneau, AK 99801

Subject: HB 187 – "An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska."

Dear Representatives Vazquez and Colver:

Thank you for providing me with the opportunity to address HB 187. Unfortunately, due to several commitments here in Anchorage, I will be unable to travel to Juneau and appear in person before your Special Committee on Energy. I do plan on testifying and making myself available by phone from Anchorage. On my behalf, Mr. Brian Hickey, Executive Manager of Grid Development will be attending and testifying further in the hearing in Juneau. Please feel free to ask him any questions you need answered.

Sincerely,



Bradley W. Evans
Chief Executive Officer

Prepared Remarks of Chugach Electric Association on the Alaska House of Representatives Bill HB 187: *"An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska"*. Presented to the Alaska House of Representatives Special Committee (Committee) on Energy January 28, 2016.

My name is Bradley Evans and I am the Chief Executive Officer of Chugach Electric Association (Chugach). Also representing Chugach today is Mr. Brian Hickey, a noted expert in utility power systems and Chugach's Executive Manager of Grid Development. Chugach is a privately held electric cooperative owning significant generation, transmission and distribution assets serving nearly 200,000 people through 83,358 meters in the Southcentral area of Alaska and a seller of wholesale power on the open but limited Railbelt market. Chugach also has the distinction of being the only electric utility that "interconnects" all the other Railbelt utilities via its privately held transmission system. These assets and attributes uniquely qualify Chugach as an interested party in HB 187.

Personally, I have worked in the electric energy industry since 1983. I have been involved in leading the State's largest electric utility, managed numerous infrastructure expansion projects, performed the duties of a system-wide grid operator, chaired system-wide operating committees, chaired the asset management committees governing the safekeeping and operations of State-owned generation and transmission assets, engaged in large-scale utility financing and refinancing, and am a member of a national organization of Generation and Transmission utilities that belong to various Lower 48 unified grid operating organizations. Along with Mr. Hickey, I have spent considerable time studying the formation of Regional Transmission Operators and Independent System Operators in the Lower 48 to gain insight on how to best rationalize the planning, reliability, economic dispatch, access, operations, maintenance and financing of generation and transmission assets in the Railbelt.

To be clear, Chugach supports the concept of an independent/unified system operator (USO) for the following reasons:

- The USO would allow for least-cost economic dispatch of generation so all Railbelt electric customers benefit
- It would provide for the identification and implementation of cost-effective system upgrades
- The USO would provide independent operation of the system including non-discriminatory open transmission access and implementation of uniform reliability standards
- It would condition the interconnection of new facilities and their integration into the grid

In addition, Chugach supports the implementation of a transmission company that:

- Supports the functions of a USO
- Invests private capital as needed for:

- life extension of existing transmission assets
 - making transmission improvements
 - new transmission assets as justified
- Develops and implements a unified transmission tariff applied to all end use customers on an equitable basis
 - Marshalls the maintenance and field operations of the Railbelt transmission assets

We recognize a transitional implementation plan for a unified transmission rate tariff may be required to minimize short-term rate adjustments. We believe this company would be incorporated and function in a similar fashion as existing TRANSCOs in the Lower 48.

To put our efforts in perspective, we started this endeavor in 2013 and have continued to stay on point. Our first outreach in the Railbelt occurred at our 2013 legislative reception held in Anchorage where we introduced the concepts of unified system operations, open access, system-wide economic dispatch, unified transmission tariffs and the potential customer benefits behind rationalizing the Railbelt electric system. We followed this roll out of the concept and benefits with the first workshop held in Alaska on grid restructuring and unified operations. Chugach hosted the event in collaboration with American Transmission Company (ATC). The event was well attended with over 50 participants representing a wide audience of interested entities and stakeholders. From that moment on, a string of public events, utility meetings, legislative committee hearings, public meeting testimony and specific instructions from the Regulatory Commission of Alaska (RCA) ensued.

The most recent regulatory event was in June 2015 when the RCA issued a letter to the legislature in its proceeding I-15-001. In that letter, the Commission directed the six Railbelt utilities to provide quarterly updates on two fronts: establishing an independent transmission company (Transco) and the implementation of economic dispatch and pooling. Since that time, a great deal of work has taken place and following my testimony, Mr. Brian Hickey will provide workgroup updates on their meetings and work products.

Speaking directly to HB 187, and in light of all the recent progress and activities, I recommend the Committee push the pause button on this legislation. I recommend this for the following reasons:

The advance of this legislation would halt the current RCA, utility, private transmission company and stakeholder lead efforts in restructuring, would overturn the current regulatory instructions and would result in budgetary problems as the effort is being managed under lean times and strict adherence to approvals in existing utility budgets.

If the current RCA and utility efforts succeed, there would be no need to form an authority as mandated in HB 187. This is very important to at least two utilities that own nearly half the Railbelt assets, are publicly rated and obtain their capital from the public/private debt market.

We have communicated the changes contemplated in a collaborative process leading to Railbelt Grid Unification and the formation of a Transco to our rating agencies, Moody's, Fitch and Standard & Poors (S&P) and our lenders through public filings with the Securities and Exchange Commission. These communications were met with no impairment to our ratings in their recent updates. However, the current ratings were based on what we told the agencies was the path to implementation which did not include the mandates of HB 187 and implementation by an Authority.

In essence, the rating agencies were more comfortable under a voluntary and privately led effort working collaboratively toward the development of a regulatory compact and associated tariffs with the RCA. If this legislation were to advance, we would be forced to revisit our situation with the rating agencies and at this time, I can't predict what their precise reactions would be, however, I will say, their comfort level may be tested by seeing such a radical departure from the current efforts.

Lastly, I appreciate the interest this Committee has demonstrated and recommend Committee members stay active in witnessing the progress of the utilities, RCA and stakeholders in achieving real change in the effort to rationalize the Railbelt electric utility infrastructure. If the utilities fail to bring about this change, I encourage the Committee to revisit this legislation and move forward with establishing a record of need leading to its implementation.

Thank you again for your interest on this important issue and for allowing me to speak to you today. I look forward to keeping the Committee apprised of our progress.

At this time I will turn our testimony over to Mr. Brian Hickey. He will provide Chugach's perspective on front-line detailed information regarding the working groups' progress that has been made to date.