

March 2, 2020

Alaska Senate Finance Committee Members:

I am writing on behalf of Renewable Energy Alaska Project (REAP) to support the passage of SB 123.

Established in 2004, REAP is a statewide, non-profit coalition of over 75 dues-paying energy stakeholders including large and small Alaska electric utilities, clean energy developers and NGOs that share the mission of increasing the development of renewable energy and promoting energy efficiency across the state. REAP works to increase energy literacy in Alaska through over 300 annual classroom visits, public presentations, conferences and workshops.

REAP greatly appreciates the efforts of both Alaska Senate and House of Representatives, the Railbelt electric utilities and other stakeholders for moving this legislation forward.

REAP notes that there have been efforts to reform the Railbelt grid to gain better efficiencies since at least 1986 when the Railbelt Energy Fund was established. Though the Railbelt utilities do a terrific job keeping the lights on, REAP believes that the new electric reliability organization (ERO) for the region contemplated in the legislation will bring new benefits to electric consumers, and help set the stage for more stably priced, local renewable energy.

REAP has been involved in efforts to make the Railbelt more efficient since 2011, when I served as a member of the Citizen Advisory Committee for a failed state effort to develop a Railbelt Integrated Resource Plan. REAP became more involved after the legislature appropriated money for the Regulatory Commission of Alaska (RCA) to study the issue of Railbelt reform and the Commission opened up docket I-15-001 in 2015. In 2015, REAP urged the legislature to introduce HB 187 to create an independent system operator (ISO). That effort was repeated in 2018 with the introduction of HB 382. Both bills were designed to establish an entity governed by an independent board of directors that would operate the region's generation assets in the most cost efficient manner.

Over the last year and a half, REAP has been working with the utilities to develop a memorandum of understanding (MOU) to form an electric reliability organization called the Railbelt Reliability Council (RRC) that would carry out mandatory functions and be governed by a board that includes non-utility stakeholders. All six utilities signed that MOU in December 2019.

REAP believes SB 123 does at least six important things. The legislation:

1. Gives the RCA the authority to oversee the new RRC if it is successfully established voluntarily via the process the utilities have outlined in the MOU;
2. Allows the RCA to establish an ERO on its own, if the voluntary efforts to form the RRC fail;

3. Gives the RCA authority to oversee regional integrated resource planning led by the ERO that would allow a public process to decide the future generation and transmission needs for the Railbelt;
4. Gives the RCA the authority to preapprove all large new generation and transmission projects to protect Railbelt consumers;
5. Requires the new ERO to develop regional, nondiscriminatory interconnection standards and;
6. Requires the new ERO to develop a methodology to recover the costs of the transmission system.

REAP notes that the bill does not require the kind of regional economic dispatch that an independent system operator would perform. However, the MOU that the utilities have executed requires the new RRC, once it is stood up, to study the benefits and costs of economic dispatch. REAP supports that effort.

REAP sees electric grid reform as risk management. Establishing an ERO will help the Railbelt address existing challenges in the region that are associated with fuel price volatility, climate risk, technology innovation, changing customer needs and desires, and grid resiliency and security.

Today, just one producer in Cook Inlet controls approximately 85 percent of the natural gas production the region relies on, creating a virtual monopoly situation. In addition, there is flat demand for electricity and a small market for gas in the Railbelt. The utilities have no leverage. The gas infrastructure is aging and the production costs for the gas are high. Furthermore, even the high prices that Railbelt utilities pay for natural gas relative to Lower 48 utilities have been subsidized by the state. All of these factors are a risk for the region that can better be addressed by a new, regional entity.

The region is also at risk for higher prices that will inevitably occur when the federal government puts a price on carbon emissions. The oil companies themselves have been asking for a price on carbon for five years in order to have more certainty for their business model, and the threat of climate change is likely to eventually result in a carbon tax that will make the region's high dependence on natural gas for electric generation even more expensive. The Railbelt already has some of the highest electricity costs in the nation, and those costs are not attracting investors.

Meanwhile, renewable energy is getting cheaper and cheaper. According to *Lazard's* annual comparison of the *unsubsidized* cost of electric generation, land-based wind and utility solar are already the cheapest ways to generate electricity in the world. *Lazard* reports that over the last decade, wind energy prices have fallen 70 percent, and solar photovoltaic prices have fallen an astounding 89 percent, on average. In 2020, the U.S. Energy Information Administration (EIA) expects that 76 percent of all new additional electric generation capacity in the United States will be wind and solar. These precipitously falling prices, along with technology innovation, are a disruption that the Railbelt can better address through a regional entity like an ERO. When combined with

other disruptive technologies such as battery energy storage and electric vehicles that are advancing rapidly, Railbelt reform cannot happen too soon.

Customer needs and desires are also changing quickly. People in the Railbelt are installing solar on their roofs and demanding cleaner sources of energy. Even more important, more than 60 percent of Fortune 500 companies have set their own climate and clean energy targets which require the purchase of renewable electricity. This means the Railbelt will not be able to attract a company like Apple, Google, Facebook or a host of others unless the region can provide those businesses with 100 percent renewable electricity.

A new ERO will also allow the Railbelt to better address issues of reliability, cyber security and grid resiliency.

Finally, REAP believes that the establishment of a regional electric reliability organization has statewide benefit. As the average cost of electricity in the Railbelt has risen almost 50 percent over the last decade, the floor for Power Cost Equalization (PCE) has also risen. That is, the difference between the average electric prices in Fairbanks, Anchorage and Juneau and the rest of the state has narrowed. More efficient and affordable electricity in the Railbelt means more PCE support for rural communities that still rely primarily on expensive, imported diesel fuel to generate electricity.

REAP respectfully requests the Committee to pass SB 123 in its current form, and greatly appreciates Committee's consideration of this matter. Please do not hesitate to contact me at 907-232-0908 if you have any questions.

Sincerely,



Chris Rose
Executive Director