



# Homer Electric Association, Inc.

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**Corporate Office**  
3977 Lake Street  
Homer, Alaska 99603-7680  
Phone (907) 235-8551  
FAX (907) 235-3313

**Central Peninsula Service Center**  
280 Airport Way  
Kenai, Alaska 99611-5280  
Phone (907) 283-5831  
FAX (907) 283-2353

April 29, 2024

The Honorable Donny Olson  
The Honorable Neal Foster  
Members of the Senate Finance Committee  
Members of the House Finance Committee  
State Capitol Room 508  
Juneau, AK 99801

***RE: Proposed Railbelt Transmission Bills***

Dear Messrs. Olson and Foster:

Homer Electric Association, Inc. (HEA) offers the following general comments about Senate Bills 257 and 217 and House Bill 307 and submits these comments as a collective response to these bills and committee substitutes pertaining to the formation of a transmission organization for the Railbelt (collectively the “TSO Bill”). Given the number of bills and committee substitutes that are currently under consideration, HEA will keep its comments on these proposals broadly based.

HEA supports the goals<sup>1</sup> stated by the bill sponsors such as the ability to transfer energy across the grid without physical, contractual, or other artificial constraints that exist today. However, these bills do not accomplish those goals, solve the fuel supply issue or lower energy costs on the Railbelt. HEA understands that those proposing the various transmission bills have good intentions and a desire to create an open energy market in Alaska but creating a transmission organization and tariff prior to removing the physical constraints does not resolve the issues that are preventing an open energy market, it merely socializes the existing costs and shifts those costs to others.

There is no law or piece of paper that can fix the physical constraints to provide equal access to the physically constrained grid prior to the removal of the physical constraints. Given the existing physical constraints that cannot be resolved prior to building a second transmission line and the unique impacts that those constraints have on the Kenai Peninsula, we respectfully request an exemption from the transmission and open access tariff provisions until the physical constraints have been removed providing equal access and to ensure the principles of cost-causer-cost-payer remain status quo until the system constraints are resolved.

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<sup>1</sup> For example, HEA has previously: (1) advocated for the creation of a transmission organization on the Railbelt; (2) advocated for the elimination of wheeling and assessment of transmission costs through a uniform postage stamp rate; (3) created a robust net-metering program for its members (created and established financing behind the meter generation for members engaged in net-metering); and, (4) explored the creation of a community energy program within our service territory.

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Elected officials highlight the need to reduce energy costs to promote economic development necessary for Alaskan families to flourish and we agree. HEA shares those goals and will continue to advocate for policies that result in the lowest cost energy, regardless of fuel source or generation location, being dispatched freely throughout the grid without physical or artificial constraints. We urge legislators to carefully consider the unintended consequences, that could occur from adopting legislation of this magnitude without considering how the proposals will impact different users prior to removal of the physical constraints and fully exploring the costs to the state as purchasing these assets may prove more costly to the state than anticipated.

Sincerely,



Keriann C. Baker  
Chief Strategy Officer

Enclosure: Exhibit A

cc:     The Honorable Gary Stevens, Senate President  
          The Honorable Cathy Tilton, Speaker of the House  
          The Honorable Jesse Bjorkman, Alaska State Senator  
          The Honorable Ben Carpenter, Alaska State Representative  
          The Honorable Justin Ruffridge, Alaska State Representative  
          The Honorable Sarah Vance, Alaska State Representative

## **Exhibit A: Questions Asked to HEA By Legislators**

### **1. Is a TSO Necessary for the Alaska Energy Authority (AEA) to Receive Federal Funds Through GRIP?**

No, a transmission entity is not required for AEA to receive federal funds awarded to it through the DOE's GRIP award. AEA already has receipt authority to receive those funds. This provides an opportunity for a careful and methodical approach to considering these proposals providing a meaningful chance for both the House and the Senate to fully vet legislation of this magnitude including the potential costs to the state that could occur if the state purchases all backbone transmission assets. HEA commends the hard work and dedicated focus on energy issues by AEA.

### **2. Does a TSO Reduce Costs?**

No, creating a transmission organization and adopting a transmission tariff prior to removing the constraints merely reallocates the already existing transmission costs without ensuring that an equal value exists for the reallocated costs, to all users, likely leading to some users subsidizing others<sup>1</sup>. For those reasons, until the physical constraints are removed, HEA cannot support imposing transmission costs as a line item on their members' utility bills divorced from the use of the transmission lines for interregional energy transfers especially in the form of a surcharge that cannot be avoided<sup>2</sup>. This approach would ignore cost-causer-cost-payer principles and could force subsidization of the overall Railbelt transmission system by residents residing on the Kenai Peninsula that cannot equally utilize the grid because of the existing physical constraints and agreements prioritizing other uses ahead of much of the Kenai Peninsula.

### **3. Will the TSO Streamline Utility Operations? Is a TSO the Best Model?**

Maybe, a transmission organization is one of several models that could yield positive benefits for Railbelt utilities, their members, and also, Independent Power Producers (IPP) in Alaska. There are also a number of other models that utilities and legislators may want to consider such as a G&T model or a hybrid model that may be more suitable for Alaska's population base and existing grid. The impacts both intended and unintended should be considered and vetted to avoid creating another organization that would add additional layers of complexity and bureaucracy.

#### **a. Will a TSO Mandated to Collaborate with Existing Entities Streamline Energy Issues on the Railbelt?**

At least one TSO Bill mandated collaboration between the 5 Railbelt utilities, AEA, the RRC and regulation by the RCA. Creating additional layers of bureaucracy for the utilities to navigate, requiring coordination of decisions through two competing organizations and two state entities -

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<sup>1</sup> This is especially true as future projects considered may have a higher buy in than projects that can be sourced locally. The economics of each project must be reviewed.

<sup>2</sup> At least one TSO Bill mandated the adoption of Texas law (the ERCOT model) which was designed for a much larger system than the Railbelt and does not have provisions for allocating costs for an islanded system existing within an already islanded system or physical constraints similar to the Railbelt. Adoption of this model would create a transmission surcharge for transmission costs which could not be avoided.

all of which are saddled with new and overlapping responsibilities – will not reduce energy costs. We fail to see how creating additional complexity and adding another organizational layer to the mix streamlines decisions or reduces costs on the Railbelt and believe the overlapping and competing priorities are likely to result in grid lock. A hybrid approach based on the Bradley Project Management model that is also overseen under a regulated entity framework is not recommended. HEA recommends that legislators adopt either the Bradley Project Management model or the framework for regulated entities.

#### **b. Does the RRC have too many Responsibilities?**

HEA is concerned with the governance structure of the RRC and the costs of operating the RRC under the existing governance structure which has resulted in significant costs that may not be commensurate with the value being paid. Currently, HEA is paying \$20,210 a month for its share of the monthly RRC costs. HEA was recently informed that a new budget<sup>3</sup> is being proposed, and if adopted, that effective August 1, 2024, HEA's monthly costs for the RRC will more than double to \$43,700 which is a 116% increase. The total 2024 RRC budget proposed increases from \$2,402,894 to \$3,566,611. This is in addition to the funds that remain in the RRC's balancing account at the end of fiscal year 2023 of \$1,384,593. Accordingly, the RRC's true spend for 2024 is \$4,951,204. This may be what was intended by the legislature when it created the ERO, but those costs have made us reluctant to agree to a transmission surcharge that cannot be avoided without fully vetting how those costs will be passed on to our members.

#### **4. Does a TSO Solve Fuel Availability Issues or Fuel Diversification?**

The single biggest energy issue impacting Alaska today is fuel availability and fuel diversification. The answer to fuel diversity and lower cost energy for Alaska will not be found through the creation of bureaucratic layering of additional organizations with new and competing duties. This approach increases regulatory and administrative burdens that drive up costs. Legislation that increases the cost of fuel or results in the inefficient use of fuel is problematic in the current environment.

Moreover, we are concerned with statements that predict the Railbelt can transition to primarily intermittent energy sources without an impact to reliability or costs. When a generation asset only produces power intermittently, the utility must backstop that energy with more dependable generation sources like natural gas, coal, geothermal, or hydro. This necessary backup generation comes with a significant financial impact to the utility and, ultimately, end-use consumers. We support energy diversification and the incorporation of intermittent generation but it, alone, is not a solution to current gas availability. HEA, like other utilities, is pursuing projects to diversify its generation portfolio and will continue to pursue projects that result in the lowest cost energy for its members regardless of fuel source or location. However, we are concerned with statements that minimize the risk to reliability that is likely to occur from energy policies that mandate intermittent energy at the expense of baseload power. Less than a year ago, the North American Electric Reliability Corporation (NERC) identified energy policies as one of the five significant risks to

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<sup>3</sup> ERO information as filed in TE5-9001. HEA currently pays \$20,210 per month remaining in effect through July 7, 2024 (7 months for a total of \$141,468) but under the new surcharge proposed in TE5-9001 effective August 1, 2024, HEA's costs increase to \$43,700 per month (5 months for a total of \$218,498).

reliability<sup>4</sup>. We urge the legislature to avoid adopting energy policies that contribute negatively to reliability.

#### **5. Will a TSO Remove the Physical Constraints from the Railbelt**

No, the physical constraints will remain until a second line is completed that provides enough capacity for all users, both utilities and IPPs, to freely transmit energy between load balancing areas. Sufficient capacity is necessary within each load balancing area to provide continuous firm power transactions and enter firm power contracts without artificial or physical constraint for all users of the grid otherwise those residing on the Kenai Peninsula will be prevented from fully participating in the market.

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<sup>4</sup> 2023 ERO Reliability Risk Priorities Report, Accepted August 17, 2023.