

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM

April 5, 2005

5:10 p.m.

MEMBERS PRESENT

Representative Nancy Dahlstrom, Chair
Representative John Coghill
Representative Bob Lynn
Representative Mark Neuman
Representative Jay Ramras
Representative Harry Crawford

MEMBERS ABSENT

Representative Beth Kerttula

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 52(L&C)

"An Act relating to certain functions of the division of banking, securities, and corporations and the division of occupational licensing in the Department of Commerce, Community, and Economic Development; relating to program receipts and record search fees of the Department of Commerce, Community, and Economic Development related to banking, securities, and corporations; and providing for an effective date."

- MOVED CSSB 52 (L&C) OUT OF COMMITTEE

HOUSE BILL NO. 164

"An Act making a special appropriation for a grant to Chugach Electric Association to construct a wind farm on Fire Island and transmission lines to connect the wind farm to existing electrical infrastructure in Anchorage; and providing for an effective date."

- WAIVED OUT OF COMMITTEE

HOUSE BILL NO. 163

"An Act directing the sale of certain power projects acquired or constructed by the Alaska Industrial Development and Export Authority and the Alaska Energy Authority by the State of Alaska to a joint action agency composed of three or more Railbelt electric utilities; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 52

SHORT TITLE: OCCUPATIONS/CORPORATIONS/BANKS/SECURITIES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/12/05	(S)	READ THE FIRST TIME - REFERRALS			
01/12/05	(S)	L&C			
02/01/05	(S)	L&C AT 1:30 PM BELTZ 211			
02/01/05	(S)	-- Meeting Rescheduled to 02/08/05 --			
02/08/05	(S)	L&C AT 1:30 PM BELTZ 211			
02/08/05	(S)	Moved CSSB 52(L&C) Out of Committee			
02/08/05	(S)	MINUTE(L&C)			
02/15/05	(S)	L&C AT 1:30 PM BELTZ 211			
02/15/05	(S)	Moved CSSB 52(L&C) Out of Committee			
02/15/05	(S)	MINUTE(L&C)			
02/16/05	(S)	L&C RPT CS	2DP	1NR	
		NEW TITLE			
02/16/05	(S)	DP: BUNDE, SEEKINS			
02/16/05	(S)	NR: ELLIS			
03/03/05	(S)	TRANSMITTED TO (H)			
03/03/05	(S)	VERSION: CSSB 52(L&C)			
03/04/05	(H)	READ THE FIRST TIME - REFERRALS			
03/04/05	(H)	EDT, L&C			
03/22/05	(H)	EDT AT 5:00 PM CAPITOL 124			
03/22/05	(H)	-- Meeting Canceled --			
04/05/05	(H)	EDT AT 5:00 PM CAPITOL 124			

BILL: HB 164

SHORT TITLE: APPROP: WIND FARM ON FIRE ISLAND

SPONSOR(S): REPRESENTATIVE(S) CRAWFORD

02/18/05	(H)	READ THE FIRST TIME - REFERRALS			
02/18/05	(H)	EDT, L&C, FIN			
03/22/05	(H)	EDT AT 5:00 PM CAPITOL 124			
03/22/05	(H)	-- Meeting Canceled --			
04/05/05	(H)	EDT AT 5:00 PM CAPITOL 124			

BILL: HB 163

SHORT TITLE: RAILBELT POWER PROJECTS

SPONSOR(S): REPRESENTATIVE(S) KELLY

02/18/05	(H)	READ THE FIRST TIME - REFERRALS			
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02/18/05 (H) EDT, L&C, FIN
03/22/05 (H) EDT AT 5:00 PM CAPITOL 124
03/22/05 (H) -- Meeting Canceled --
04/05/05 (H) EDT AT 5:00 PM CAPITOL 124

WITNESS REGISTER

RICK URION, Director
Division of Occupational Licensing
Department of Commerce, Community, and Economic Development
Juneau, Alaska
POSITION STATEMENT: Testified in support of SB 52.

REPRESENTATIVE MIKE KELLY
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented HB 163 as sponsor.

LEE JORDAN, President
Matanuska Electric Association (MEA)
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 163.

STEVE HAAGENSON, President and Chief Executive Officer
Golden Valley Electric Association (GVEA)
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 163.

ERIC YOULD, Executive Director
Alaska Power Association
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 163.

SAM CASON, Director
Chugach Electric Association
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 163.

JOE GRIFFITH, Chief Executive Officer
Chugach Electric Association
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 163.

ROBERT WILKINSON, Chief Executive Officer
Copper Valley Electric Association (GVEA)
Glennallen, Alaska
POSITION STATEMENT: Testified in support of HB 163.

RON MILLER, Executive Director
Alaska Energy Authority (AEA)
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 163.

RICK ECKERT, Manager of Finance and Business Development
Homer Electric Association
Homer, Alaska
POSITION STATEMENT: Testified in opposition to HB 163.

JIM POSEY, General Manager
Anchorage Municipal Light And Power
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 163

TUCKERMAN BABCOCK, Director
Human Resources and Corporate Affairs
Matanuska Electric Association (MEA)
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 163.

ACTION NARRATIVE

CHAIR NANCY DAHLSTROM called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at [5:10:41PM](#). Representatives Dahlstrom, Ramras, Crawford, Coghill, and Neuman were present at the call to order. Representative Lynn joined while the meeting was in progress.

SB 52-OCCUPATIONS/CORPORATIONS/BANKS/SECURITIES

CHAIR DAHLSTROM announced that the first order of business would be CS FOR SENATE BILL NO. 52(L&C) "An Act relating to certain functions of the division of banking, securities, and corporations and the division of occupational licensing in the Department of Commerce, Community, and Economic Development; relating to program receipts and record search fees of the Department of Commerce, Community, and Economic Development related to banking, securities, and corporations; and providing for an effective date."

RICK URION, Director, Division of Occupational Licensing, Department of Commerce, Community, and Economic Development, said HB 52 is merely a housekeeping measure and makes no substantive changes in the law. In 2004, the governor issued an

administrative order to move corporations to the Division of Occupational Licensing, he explained. The bill fixes statutory references to the division, and will allow it to be renamed.

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REPRESENTATIVE CRAWFORD said he is fine with the bill.

REPRESENTATIVE COGHILL moved to report CSSB 52(L&C), labeled 24-GS1053\F out of committee with individual recommendations and the accompanying fiscal notes.

There being no objection, CSSB 52(L&C) was passed out of committee.

HB 164-APPROP: WIND FARM ON FIRE ISLAND

CHAIR DAHLSTROM announced that the next order of business would be HOUSE BILL NO. 164 "An Act making a special appropriation for a grant to Chugach Electric Association to construct a wind farm on Fire Island and transmission lines to connect the wind farm to existing electrical infrastructure in Anchorage; and providing for an effective date."

CHAIR DAHLSTROM said HB 164 will be officially waived and go straight to finance. She said, "We have all the signatures of the members that are here."

HB 163-RAILBELT POWER PROJECTS

CHAIR DAHLSTROM announced that the final order of business would be HOUSE BILL NO. 163 "An Act directing the sale of certain power projects acquired or constructed by the Alaska Industrial Development and Export Authority and the Alaska Energy Authority by the State of Alaska to a joint action agency composed of three or more Railbelt electric utilities; and providing for an effective date."

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, sponsor, read the following statement [original punctuation provided]:

The recent Railbelt Energy Study reported that over five billion dollars of investment and O&M expenses would be required over the next 25 years to insure adequate stable power production for the Railbelt. HB 163 is an important step in providing a mechanism for Railbelt electric utilities to efficiently assume

ownership and to continue to operate existing shared facilities, and provides a mechanism for better coordinating planning and operation of future resources.

The Railbelt area has six utilities that are interconnected and utilize the state-owned Alaska Intertie and Bradley Lake Hydroelectric Project.

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During the 1980's and '90's the Alaska Energy Authority took the lead on planning and developing a number of generation and transmission projects. AEA, and the Governor, have now made clear that the era of state planned and financed energy projects is over and that the state wants to turn over that role to a single entity acting on behalf of the Railbelt utilities.

In 2001, the Alaska Legislature authorized the formation of Joint Action Agencies (JAA) as the vehicle for multi-utility purchase of State-owned power projects and development of additional resources (AS 42.45.300-310). The Four Dam Pool Power Agency was formed under these statutes in 2002, and purchased and now operates four previously state-owned hydroelectric projects: Among other things, the statute provides that public utilities that purchase power from a power project owned by the Alaska Energy Authority may form a joint action agency and purchase the power project from the Alaska Energy Authority.

A JAA is an important tool for meeting the growing needs of Alaska's citizens for reliable, low-cost power. The JAA will be a separate legal entity, governed by its own Board of Directors and bound by its own Joint Action Agency Agreement and Bylaws. A JAA will allow utilities to come together to work more cost effectively, and to attract the lowest-cost financing available, a key component of the overall cost of infrastructure improvement. Membership in the Railbelt Joint Action Agency (JAA) would be available to all of the interconnected Railbelt utilities, and Associate memberships to non-Railbelt utilities.

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Purchases of power, operation and maintenance of facilities and other activities related to the Intertie and the Bradley Lake project are currently governed by various agreements to which the Railbelt utilities and the State (Alaska Energy Authority) are parties. The rights of the utilities under those agreements would be unaffected by the transfer of ownership.

HB 163 would direct AEA, as the owner of Bradley Lake and the Intertie, and AIDEA, as the owner of the Healy Clean Coal Project (HCCP) to negotiate the transfer of those projects to the Railbelt JAA.

Both Bradley Lake and the Intertie were constructed for the purpose of benefiting Railbelt residents. In order to avoid any increased cost to such residents of the transfer, terms of the transfer call for the JAA to assume the existing debt on Bradley Lake, and to take ownership of the Intertie in exchange for the commitment to make necessary repairs of that facility.

Because HCCP is not currently operating, nor under contract to any utility, the JAA would commit to assume ownership and work to make the plant operational, and any compensation to AIDEA for the transfer would be determined and funded by the Legislature.

Transfer of these projects to the JAA will result in increased utility coordination, facilitate necessary investments in the Intertie and HCCP, and relieve the State of obligations and risks associated with each project.

[5:20:09 PM](#)

REPRESENTATIVE NEUMAN asked Representative Kelly about the Joint Action Agency (JAA) taking ownership of the Healy clean coal project with the state continuing to invest in it.

REPRESENTATIVE KELLY said, "No, the utilities would be responsible for any action required to get that plant operating ... The bill states that if there were any charge for the project--to buy the project--then that would be determined by the legislature." It is the utilities' hope that this project could be made commercially operable, he said, and giving it away

will save money for the state, which is currently paying the debt and the costs for mothballing it.

REPRESENTATIVE NEUMAN asked the value of the four facilities.

REPRESENTATIVE KELLY said the utilities are all under agreement to pay off the debt and the operating costs of the Bradley Lake hydro project. The intertie, he said, is operated similarly, but it is 100 percent owned by the state without debt, so the utilities will pay the cost of operations "with no markup to the citizens." The Healy clean coal project was built to deliver a fully functional commercial power plant, but that did not happen, he noted. The utilities will be able to make the plant run, but the costs are significant. He said its value is near zero, but if the state feels it has value, the legislature should determine that.

[5:24:52 PM](#)

REPRESENTATIVE KELLY said the utilities don't want extra charges above what they are already paying on Bradley Lake and the intertie because it will raise the cost of power to consumers.

REPRESENTATIVE NEUMAN said there is equity in these facilities, and HB 163 proposes to just give them away.

REPRESENTATIVE KELLY answered that if the utilities were required to pay, they would not want them.

REPRESENTATIVE NEUMAN asked what Alaskans would save under HB 163.

[5:26:17 PM](#)

REPRESENTATIVE KELLY said the most obvious savings would be in joint planning, efficient dispatch, and financing opportunities. It would give a huge advantage to the utilities and ratepayers, he said, because they are all publicly owned.

REPRESENTATIVE NEUMAN asked if it would cut electric bills.

REPRESENTATIVE KELLY said, "You bet," but he didn't know by how much. He added that it would reduce the overhead costs. "The efficiencies alone would be tremendous," he said. The legislature has shown it wants this. The effort is how to bring the players to the table, he noted.

[5:28:18 PM](#)

REPRESENTATIVE NEUMAN said Matanuska Electric Association (MEA) purchases a majority of their power from Chugach Power, so he asked if MEA rates would decrease.

REPRESENTATIVE KELLY said MEA would be invited to the table. He said he has had a good relationship with MEA. He hopes MEA will find a way to be full players because its contract with Chugach [Power] lasts until 2014. He said he understands the differences and challenges.

[5:29:37 PM](#)

REPRESENTATIVE RAMRAS said he supports HB 163, and he intends to offer an amendment to sell the Healy coal plant to the JAA for \$10. He said he wants Representative Kelly to give a brief history of the Healy plant. He said it is a tremendous embarrassment to the state and AIDEA--a \$300 million boondoggle, and AIDEA is an obstinate party in resolving it.

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REPRESENTATIVE KELLY said he can provide his white paper on it, but it differs from AIDEA's outlook. Healy clean coal was a 50,000-kilowatt project in the late 1980s. The national clean coal technology program to reduce acid rain promoted cleaner burning power plants, he said. Usibelli Coal Mine, Inc. got \$25 million from the legislature, and AIDEA became the banker/owner for this new project in Healy. AIDEA asked Golden Valley Electric Association (GVEA) to buy the power, and he said that GVEA was hesitant to try a new technology on a single line system.

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REPRESENTATIVE KELLY said Anchorage did not want the power either, so AIDEA came back to GVEA, who said that they would accept the power under certain conditions.

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REPRESENTATIVE KELLY said Usibelli Coal Mine, Inc. went forward with the project. The costs grew and GVEA and Usibelli Coal Mine, Inc. put more money in, he said. In 1998, GVEA could see it would not work. He said GVEA pleaded with AIDEA to remove the technology. They seemed to support that idea, but then

AIDEA decided to finish the plant and get GVEA to take it "no matter what." After various lawsuits, the plant was shut down.

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REPRESENTATIVE KELLY said GVEA decided to walk away from it. The technology is not exportable, "there isn't another one anywhere, and there's not going to be," he concluded.

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REPRESENTATIVE CRAWFORD asked how much debt there is for Bradley Lake and Healy. Is it a good deal to buy the Healy plant, because if GVEA didn't want it before, is it a good deal today?

[5:39:28 PM](#)

REPRESENTATIVE KELLY said it wouldn't be if GVEA or JAA had to pay off the debt.

REPRESENTATIVE CRAWFORD asked what would happen to the debt.

REPRESENTATIVE KELLY said Bradley Lake would transfer with the debt, and the JAA would take on that obligation.

[5:41:03 PM](#)

REPRESENTATIVE RAMRAS said if the Healy plant sits and rusts, it will grow as a liability to the state.

[5:42:09 PM](#)

LEE JORDAN, President, Matanuska Electric Association (MEA), Anchorage, said MEA is a non-profit, member-owned cooperative, and the second largest electric utility by the number of customers. It has 3,600 miles of energized lines. He said MEA is anxious to see a unified system operator to benefit all the customers of the Alaska railbelt. He said MEA proposed power pooling years ago, and is in favor of the concept of HB 163 but not the details. The bill doesn't advance the interests of all customers. The Alaska Energy Policy Task Force, made up of members appointed by the governor, recommended a grid operated by a single entity, he stated.

[5:45:56 PM](#)

MR. JORDAN said, in theory, MEA supports that, but the structure defined in HB 163 will exacerbate tensions. The shortcomings are seen in the title, he said. There are not three utilities; there are six. If the state is going to divest ownership, it should benefit all consumers, not just some. The utilities must be transferred to all six utilities to create a JAA that is structured in a truly unified fashion.

[5:47:53 PM](#)

MR. JORDAN said some of the items should be spelled out, including legal title and ownership. A truly unified system would use only the most efficient power, and any future generation projects should benefit everyone. A larger pool of ratepayers is beneficial, and with a uniform rate, all consumers would benefit equally from any grants received, he added. He said HB 163 is far removed from this vision of a unified system. "We don't know who will belong to this JAA; we don't know how it will be governed; we don't know what type of state oversight, if any, will be provided to protect the interests of electric power consumers," he noted. Independent producers add a competitive element, which benefits consumers, and Mr. Jordan is concerned that they won't be allowed in.

[5:51:02 PM](#)

MR. JORDAN said it is not guaranteed that the utilities would even choose to operate the state-owned facilities transferred to the JAA. He said HB 163 does not require a true unified operation. He concluded that there are so many deficiencies that the bill needs to be significantly modified.

[5:51:56 PM](#)

REPRESENTATIVE CRAWFORD said he is not sure why MEA and the other railbelt utilities aren't able to agree on what it takes to get a unified system operating.

[5:52:51 PM](#)

MR. JORDAN said he wished he knew. He has not been able to sell the idea of cooperating. Maybe it is because MEA doesn't have generating capabilities, he said.

REPRESENTATIVE COGHILL said Mr. Jordan brings up a good point, and he asked what assets and hardware MEA has.

[5:54:25 PM](#)

MR. JORDAN said MEA has a significant distribution asset.

REPRESENTATIVE COGHILL said the statute says that two or more utilities can form a JAA, and asked what MEA could bring to the table.

[5:55:14 PM](#)

MR. JORDAN said he is not sure what the problem is. MEA has an agreement to buy all of its power from Chugach, so it is not involved with generation.

[5:55:47 PM](#)

STEVE HAAGENSON, President and Chief Executive Officer, Golden Valley Electric Association, Fairbanks, said economic development requires affordable power, and HB 163 is part of a bigger picture for Alaska energy. He said the energy policy task force issued a report recommending taking utility ownership away from the state and creating a unified system by power pooling, organizing a JAA, or developing a generation and transmission cooperative. He said each model has benefits, but two have fatal flaws.

[5:58:27 PM](#)

MR. HAAGENSON said four of the six railbelt utilities support the JAA model. The contention is not big versus little, because the city of Seward supports it. The railbelt energy study is the first time that the utilities came together. Historically each utility has done their own planning, which impedes regional thinking and the economies of scale, he posited. The study did not look at the effects of the gas line or other load increases, and it found excess generation on the Kenai and a deficiency in Anchorage. Most generation in the railbelt is 30 years old, he noted, and 1000 megawatts will need to be replaced within ten years at a cost of \$1-2 billion. "How do you finance that?" he asked. He said it can't be financed with a power pool or a [generation and transmission cooperative]. There will be a train wreck within ten years, he said, and "we need to get our act together."

[6:02:31 PM](#)

MR. HAAGENSON said the JAA allows the utilities to create regional plants and finance them. He said he is looking into tax exempt bonding, which is not available to a power pool or a cooperative, and it may not be available to the JAA either. He said AIDEA wants out of the energy business to the maximum extent feasible, but it first wants a unified system operator that is open to all utilities. He said everyone can join the JAA and everyone will have the same deal. The Alaska Intertie and Bradley Lake are owned by the Alaska Energy Authority, he said, and the utilities pay the operating costs of Bradley Lake. He said there will be no change in the bonds. The Alaska Intertie has no debt. The Healy coal plant has a long history. He urged the committee to support HB 163.

[6:06:35 PM](#)

REPRESENTATIVE COGHILL asked the difference in the structure of a JAA and a transmission cooperative. Alaska statutes show it could go either way, so what are there barriers?

[6:07:31 PM](#)

MR. HAAGENSON said the barrier is that municipalities are not allowed to take debt out under a generation and transmission cooperative. It's a fatal flaw because of Seward and Anchorage.

REPRESENTATIVE COGHILL noted the tension of four utilities getting together and two or three being outside, and asked if there could be two competing JAAs.

MR. HAAGENSON said it is possible under the statute, but the three generating utilities are in agreement. He said the ones having generating power should have preference.

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REPRESENTATIVE COGHILL asked what kind of autonomy is allowed under a JAA. He noted that he belongs to a cooperative.

MR. HAAGENSON said if one needs power, the JAA finances and builds the power plant in an arm's length transaction. If a utility can do it cheaper than the JAA, it should be able to try it, he said. The JAA mandate is to get the best for members.

MR. HAAGENSON said the bylaws for the JAA makes sure there are no extra privileges based on size. One member gets one vote.

[6:12:21 PM](#)

ERIC YOULD, Executive Director, Alaska Power Association (APA), Anchorage, said APA is a trade association for electric utilities and its members generate about 90 percent of the electricity in Alaska. This is a railbelt issue, he said, and he listed the railbelt members of APA. MEA is not one and he wished it was. His board supports the policies of the energy task force, which recommended the unified system operator as a JAA. He said his board has not looked at the details of HB 163, but it endorses it because without a JAA the state cannot divest itself of its assets. The JAA would have to agree to uphold the contracts of the three projects, which means that any benefit would be allocated to all six utilities, he added.

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MR. YOULD noted that four years ago the legislature agreed to the divestiture of the four dam pool, and there were many questions at that time. Today the utilities, communities, and AIDEA will likely say it has been a resounding success. This bill will benefit all six utilities, he said.

[6:17:56 PM](#)

REPRESENTATIVE COGHILL asked if the benefit accrues to all six utilities if only three or four join the JAA.

MR. YOULD said, "I think administratively they will have to assume the terms and conditions that are presently in place between AIDEA and the six communities, contractually." AIDEA will require, within their sales agreement, that the benefits and risks are shared by all. If one of the utilities says it is not getting its full benefit, it will have recourse through the regulatory commission, he presumes, or through the court system.

[6:19:38 PM](#)

REPRESENTATIVE COGHILL asked what is the obligation that the JAA members have above the ones that are not members.

MR. YOULD said, "To operate those three projects, or at least two of those three projects, in the same cost-effective manner that they are presently being operated under the tutorship of AIDEA." He said, for instance, out of Bradley Lake the benefits would be paid to all utilities in proportion to their ownership.

6:20:54 PM

SAM CASON, Director, Chugach Electric Association, Anchorage, said he is a board member and takes an eagle-eye view of things rather than the minutia. The board supports HB 163 because of future benefits. JAA is a vehicle for future projects, and it can prevent the train wreck. MEA testified that the JAA will exacerbate problems, but Mr. Cason said he hopes the utilities can get together to fix problems. The state will benefit by divesting itself of facilities that need maintenance, he opined. Chugach sees that as is a risk work taking, to assume the liability for maintenance and repayment with all JAA participants, he said. "We already have that obligation," he noted. All that changes for Bradley Lake is the title moving over to JAA, he said.

6:24:26 PM

MR. CASON said the Healy clean coal plant is a terrible problem that needs to be fixed, and no proposals he has seen are cheap.

6:25:03 PM

JOE GRIFFITH, Chief Executive Officer, Chugach Electric Association, Anchorage, said this is an important bill; a JAA is the future of the railbelt. It is a milestone already that the three generating utilities are speaking the same language, he added. "The JAA is clearly a unified system operator. We operate the system in a unified way today." He said there will likely be a centralized dispatch in the near future. "It is made up of the generating utilities, and that's a distinction that you must take care to note." The JAA members are already responsible so they are the best ones to take over the facilities, and it is important to get government out of the loop.

6:28:25 PM

MR. GRIFFITH said the JAA members are the best to figure out what to do with the Healy plant. He said the four dam pool is a good model. He said the legislature should make sure the state's assets fall into the right hands. "We have the example of the three major utilities already exercising centralized dispatch and most economic dispatch," he said. There will be no change in the existing agreements. The obligation of the JAA is to ensure low-cost power and reliability.

[6:30:01 PM](#)

REPRESENTATIVE CRAWFORD asked if the Healy plant is a good deal.

MR. GRIFFITH said it has a \$73 million debt. "Is it worth that amount of debt? You can hear stories on both sides," he said. It would take \$60 million to convert to a conventional plant, so the net value would be about zero. He said he believes there are ways to "do a work around." If a JAA were handed the plant, there would be a long negotiation with AIDEA to ensure that it was duly compensated. He said that might mean restructuring the debt or having premiums on power sales produced by the plant.

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REPRESENTATIVE CRAWFORD asked about the plant's power output.

MR. GRIFFITH said a converted plant probably would have power in the range of \$55 to \$60 per mega hour (5-6 cents per kilowatt hour), which could be competitive. After making the conversion, which might need help from the coal producers, "in all likelihood you could market the output of the plant," he said.

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REPRESENTATIVE COGHILL said it looks like Healy would take \$120 million to make it a viable plant. He asked if a JAA will restructure the debt in a combined effort of the utilities.

MR. GRIFFITH said the only way to get there would be a sales arrangement with a customer who would take the output, and with financing help from state--hopefully tax exempt. But he said he has no firm idea of how it would work.

[6:35:12 PM](#)

REPRESENTATIVE RAMRAS said he is under the impression that the JAA, once formed, won't want the debt or to pay for the plant, so sooner or later someone will have to pay the piper for this colossal waste of money. There is an overt effort by AIDEA and AEA to force the JAA to take over the debt, and sweep under the rug, "the single greatest black eye that the state of Alaska carries," he exclaimed. AIDEA is trying to force it on the utilities, and "everyday that goes by this empty facility is allowed to depreciate and rust a little bit more and becomes a greater liability for the state of Alaska, and the best thing the state can do is for AIDEA to eat its debt, sell the utility

for \$10 and let the JAA get on with making something good out of something horrible," he added. "People should have gone to jail over what has transpired over the last five years."

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MR. GRIFFITH said there will be lengthy negotiations to get out from under the Healy "tar baby." "What we need is a vehicle to sit down and to discuss it rationally," he stated.

[6:39:03 PM](#)

CHAIR DAHLSTROM said this is a critical issue, and AIDEA is on line to clarify where it stands.

[6:39:46 PM](#)

ROBERT WILKINSON, Chief Executive Officer, Copper Valley Electric Association, Glennallen, said he was on the energy task force, and HB 163 is a good model but "the devil is in the details." He said his rural utility serves the greater Valdez area and some say it is not part of this discussion. He noted that he has made his career trying to expand the railbelt system to the "roadbelt." He said the JAA model was successful in the four dam pool. The divestiture process began with the intertie bill, and he gave some history of the process. He said local ownership was the dream that was realized.

[6:44:57 PM](#)

MR. WILKINSON listed the benefits of the JAA including the ability to coordinate and attract lower-cost financing. He said the model had a few short comings. Today it is a small but efficient organization taking opportunities that were not available under state ownership. One opportunity was to cut the annual debt service by over \$1 million a year, because of refinancing, which can reduce the four dam pool customer costs.

[6:47:47 PM](#)

MR. WILKINSON said, "The risk of owning the four dam pool for the state was what drove the divestiture process." "It was not a very good economic transaction for the state," he said. "Our economic analysis identified an unfunded liability for the state as a result of the 1985 power sales agreement of several hundred million dollars. That liability today for the state is zero."

The utilities have a plan and have funded reserves. The JAA is a proven model, he concluded.

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RON MILLER, Executive Director, Alaska Energy Authority (AEA) and Alaska Industrial Development and Export Authority (AIDEA), Anchorage, said he supports the recommendations of the task force for a unified operator. He said AIDEA and AEA have been approached by various utilities with proposals to acquire the railbelt energy assets, and AIDEA said the group of utilities should engage in direct discussions with AIDEA, and if there is an agreement, the groups will present that divestiture plan to the legislature for approval.

MR. MILLER said participation in the unified system should be open to all railbelt utilities. The divestiture plan in HB 163 is premature, he said. The process should follow the four dam pool model and develop a plan for acquisition before calling on the legislature to act. HB 163 directs rather than authorizes, he noted, and there is no compensation to the state. Mr. Miller warned that HB 163 may violate the separation of powers with the legislature usurping the executive branch by dictating the disposal of public property rather than authorizing it.

MR. MILLER said the bill directs AEA to negotiate the transfer of the Healy plant, which is owned by AIDEA, a separate corporation. He said AEA has no authority over the Healy plant. He added that the purchasers of the Healy plant will provide no compensation to AIDEA, and the compensation is limited to whatever the legislature appropriates to AIDEA. No companion appropriation bill has been offered, he stated. Under HB 163 the purchasers of Bradley Lake would receive a future revenue stream, but it restricts the compensation provided by the utilities to the existing debt service that the utilities are already obligated to pay.

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MR. MILLER said Alaska statute limits the formation of a joint action agency, including a restriction on acquiring AEA assets only after the purchase and sale of the assets are approved by law. HB 163 is premature, he concluded.

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REPRESENTATIVE CRAWFORD asked about a time frame.

MR. MILLER said he is willing to meet any time the utilities are ready, and AIDEA made that proposal last April.

RICK ECKERT, Manager of Finance and Business Development, Homer Electric Association (HEA), said he supports the unified idea in order to economize. He stated that HEA is a generating facility providing power for Chugach Electric, and it also operates and maintains the Bradley lake project. He said HEA is not clear how the bill will create a unified system operator. The bill's purpose is to encourage the voluntary creation of unified generation and transmission for the railbelt, but the utilities are free to accept the state's assets with no consequences if unified generation and transmission does not occur.

MR. ECKERT said it is unclear how divestiture of the state assets improves the process since the railbelt utilities currently operate them. He noted that only three will be needed, giving an advantage to owners at the expense of non-owners. He said the difference between a JAA and the four dam pool model is that the best priced projects can remain in one area, with more expensive projects residing with the JAA. Contention would continue, he said, and fair pricing is not guaranteed. There is a risk that transferring the assets will not be in the best interest of all utilities, he concluded.

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JIM POSEY, General Manager, Anchorage Municipal Light And Power, Anchorage, said his board, comprised of Chugach, Golden Valley and the commission for municipal light and power, met last year and basically "supports the efforts of the Joint Action Agency as described in HB 163." He added that without all the utilities working together, there will be insurmountable problems meeting future electric needs. He noted that Bradley Lake repairs cannot be done without financing through AIDEA. Major repairs can't be financed by the individual utilities because they don't own the facilities, he concluded.

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TUCKERMAN BABCOCK, Director, Human Resources and Corporate Affairs, Matanuska Electric Association (MEA), contradicted testimony that declared that all contracts stay in place after the transfer of assets. He said it is not true for the Alaska Intertie; the existing contract can be canceled upon 48 months notice by AIDEA. He said there is no contract protecting any

utility, except possibly Golden Valley, regarding the output from the Healy Clean Coal Project. The testimony that all six utilities will have access to the facilities is not accurate. There is no guarantee in HB 163 that the consumer will be protected, he noted. It is an open question whether the members of the JAA can vote to deregulate and then charge anything it wishes, he cautioned.

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MR. BABCOCK said the committee is "in the dark" regarding the ability of municipalities to join a generation and transmission cooperative. He said MEA has researched it, and it may be possible for municipalities to join a cooperative. It could be a JAA, he said, but HB 163 will not change the ways things are done in the railbelt because it will not become truly unified. A JAA could provide good service and economies, but the bill does not guarantee it, he noted, and the JAA is not even required to retain the assets once the state hands them over.

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MR. BABCOCK said a good example of the bill's problems is the task force's recommendation that Copper Valley be connected to the railbelt. He said it will not happen under the proposed JAA. He said the six utilities need to come together with a plan to change the way they do business. The recommendations from the six utilities have changed dramatically every year. "The legislature should not have confidence that these six utilities have prudently thought through what it is that's really in the best interest of public policy," he stated.

MR. BABCOCK said the criticism of the Healy coal project is "emotional railing." He said the only market for the power is Golden Valley, and it has the potential to get the plant for nothing, he advised. He mentioned an editorial by Michael Kelly, General Manager of GVEA, "who declared how wonderful the Healy Clean Coal Project was, how it would come in at \$200 million," and the editorial castigated people who criticized the project. He said the utilities have not formed a unified system for several reasons. He said MEA is a distribution utility with a focus on the consumer, and it plans on generating in the future. Chugach Electric has a debt load that is very different from the other utilities, he said, giving it a different perspective. Golden Valley has been incredibly successful at getting federal and state grants and subsidies, and now the JAA would like the coal plant without paying for it.

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MR. BABCOCK said it is a daunting task for the utilities to put all of their self interests aside and come to an agreement. He does not recommend the legislature take on the task of determining the structure of the system. There are many transmission and generation cooperatives elsewhere, he noted. The regulatory commission of Alaska could be charged by the legislature to form a unified system operator, with the requirement that the legislature gives final approval. That is just one idea, he said, but this proposal should not go forward.

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REPRESENTATIVE RAMRAS told Mr. Babcock he is an extraordinary speaker, and asked what value he attaches to the Healy plant.

MR. BABCOCK suggested putting it up for bid to find out. He added that MEA made an offer to buy the Alaska Intertie. There's no need to give it away, he said.

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REPRESENTATIVE RAMRAS asked how much MEA offered for the intertie, and why it would want it.

MR. BABCOCK said it runs through the MEA service territory, and MEA is the fastest growing utility and in need of access points. It would allow for transmission lines for a power plant MEA might put in the Matanuska-Susitna area, he said. The offer was \$70 million.

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CHAIR DAHLSTROM asked if the offer is still on the table.

MR. BABCOCK said it is still on the table, but there has been no formal response from the State of Alaska.

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CHAIR DAHLSTROM offered the following questions to the various stakeholders:

1. Will the JAA cause a reduction in electric rates?
2. Who will determine the value of the Healy coal plant?
3. How does Healy clean coal feel about the sale?

4. If Healy clean coal was transferred or sold to the JAA, what would happen to it if the JAA chose to opt out?
5. What is the tax exempt status for the four dam pool? What is the tax exempt potential for the JAA?
6. What is the position of the Alaska Power Association after studying the complete bill?
7. Can Mr. Jordan and Mr. Cason come together and report back to Chair Dahlstrom? She said she would like to see the two boards come together.
8. Mr. Griffith said the government wants out of the loop on the intertie, and Chair Dahlstrom assumed he was talking about Senate Bill 106, and could he get back to her on that?

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9. Can AIDEA provide additional documentation on the four dam pool model, and find out if the HB 163 violates the separations of power?
10. Can Mr. Babcock document that the Alaska Intertie contract can be cancelled with a 48-month notice?
11. Can the attorney general Brian Bjorkquist verify that the Regulatory Commission of Alaska (RCA) has the authority to put a proposal together, and if it is good public policy for the RCA to do it?
12. Can the MEA let the committee know if the offer on the intertie is still on the table, and how MEA came up with the value?

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CHAIR DAHLSTROM said HB 163 is an important issue that affects many. She offered to facilitate a meeting with the six utilities. She asked them all to consider it.

[HB 163 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 7:26 p.m.