

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY**

March 26, 2009

3:06 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Jay Ramras
Representative Chris Tuck

MEMBERS ABSENT

Representative Pete Petersen

COMMITTEE CALENDAR

HOUSE BILL NO. 182

"An Act establishing the Greater Railbelt Energy and Transmission Corporation and relating to the corporation; relating to transition, financial plan, and reporting requirements regarding planning for the initial business operations of the Greater Railbelt Energy and Transmission Corporation; relating to a report on legislation regarding the Regulatory Commission of Alaska and the Greater Railbelt Energy and Transmission Corporation; authorizing the Alaska Energy Authority to convey the Bradley Lake Hydroelectric Project and the Alaska Intertie to the Greater Railbelt Energy and Transmission Corporation; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 182

SHORT TITLE: RAILBELT ENERGY & TRANSMISSION CORP.

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/12/09	(H)	READ THE FIRST TIME - REFERRALS
03/12/09	(H)	ENE, L&C, FIN
03/26/09	(H)	ENE AT 3:00 PM BARNES 124

WITNESS REGISTER

JOE BALASH, Special Staff Assistant for Energy and Natural
Resource Issues
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Introduced HB 182 on behalf of the
governor.

KEVIN HARPER, Management Director
Enterprise Management Solutions
Black & Veatch
Seattle, Washington

POSITION STATEMENT: Presented a summary of the Alaska Railbelt
Electrical Grid Authority (REGA) Study.

JIM STRANDBERG, Project Manager
Greater Railbelt Energy and Transmission Corporation (GRETC)
Project
Alaska Energy Authority (AEA)
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Presented HB 182 as the agency supporting
the governor.

LORALI CARTER, Manager
Government and Corporate Communications
Matanuska Electric Association (MEA), Inc.
Palmer, Alaska

POSITION STATEMENT: Testified during the hearing on HB 182.

BRAD JANORSCHKE, General Manager
Homer Electric Association (HEA)
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 182.

DAVE GARDNER, Vice President
Marketing and Member Services
Golden Valley Electric Association (GVEA)
Fairbanks, Alaska

POSITION STATEMENT: Testified during the hearing on HB 182.

WILLARD DUNHAM, Vice Mayor
City of Seward
Seward, Alaska

POSITION STATEMENT: Testified during the hearing on HB 182.

REBECCA LOGAN, Chairman
Board of Directors
Chugach Electric Association (CEA), Inc.
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 182.

BRADLEY EVANS, CEO
Chugach Electric Association (CEA), Inc.
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 182.

NORMAN ROKEBERG, Chairman
Advisory Working Group
Alaska Railbelt Electrical Grid Authority (REGA) Study
Alaska Energy Authority (AEA)
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 182.

ACTION NARRATIVE

[3:06:18 PM](#)

CO-CHAIR BRYCE EDGMON called the House Special Committee on Energy meeting to order at 3:06 p.m. Present at the call to order were Representatives Ramras, Johansen, Tuck, Millett, and Edgmon. Representative Dahlstrom arrived as the meeting was in progress.

HB 182-RAILBELT ENERGY & TRANSMISSION CORP.

CO-CHAIR EDGMON announced that the first order of business would be HOUSE BILL NO. 182, "An Act establishing the Greater Railbelt Energy and Transmission Corporation and relating to the corporation; relating to transition, financial plan, and reporting requirements regarding planning for the initial business operations of the Greater Railbelt Energy and Transmission Corporation; relating to a report on legislation regarding the Regulatory Commission of Alaska and the Greater Railbelt Energy and Transmission Corporation; authorizing the Alaska Energy Authority to convey the Bradley Lake Hydroelectric

Project and the Alaska Intertie to the Greater Railbelt Energy and Transmission Corporation; and providing for an effective date."

[3:07:26 PM](#)

JOE BALASH, Special Staff Assistant for Energy and Natural Resource Issues, Office of the Governor, informed the committee HB 182 is a product of the joint efforts of the governor's office, the Alaska Energy Authority (AEA), and the greater Railbelt electric utilities. This product has been years in the making and draws on the prior work of previous administrations and the lessons of the past. Mr. Balash pointed out that 800 megawatts of power are generated and distributed by six different entities along the Railbelt; however, the circumstances of today provide an opportunity to unify the transmission system and begin joint planning and financing of the next wave of power generation for the Railbelt system. In fact, unifying the system and capitalizing on efficiencies of scale would save rate payers and the general economy "tens of millions of dollars on an annual basis." He recalled in 2007, the governor vetoed appropriations to the various utilities from the Railbelt Energy Fund and called on the utilities to begin to plan for unification. The Alaska Energy Authority (AEA), the utilities, and a cross section of interested parties conducted the Alaska Railbelt Electrical Grid Authority (REGA) study. In 2008, four of the six utilities signed a Memorandum of Understanding (MOU) to support and pursue a unified power provider. Mr. Balash opined each utility agrees that they are better off working together; however, there are disagreements on the details of this endeavor. The REGA study was finalized in September, 2008 and in October, the governor, and the AEA met with the board chairs of the utilities to begin work on legislation. There was an additional meeting in November, and in December the utilities provided the administration with a set of characteristics for a company that would unify the system and construct new power assets on a joint basis. From January to February 2009, it became clear that every issue would not be resolved immediately; therefore, the bill was introduced with the commitment to the utilities that their concerns would continue to be addressed. Thus amendments have been prepared on an ongoing basis to increase the utilities' level of comfort with the proposed legislation.

[3:12:21 PM](#)

KEVIN HARPER, Management Director, Enterprise Management Solutions, Black & Veatch, presented a summary of the study that looked at the economic and noneconomic benefits of creating the Railbelt Electrical Grid Authority (REGA). The REGA study was completed under the direction of the AEA and in response to a legislative directive. Mr. Harper said the elements of the proposed legislation are generally consistent with the recommendations of the study and are supported by Black & Veatch. One of the critical issues facing the Railbelt utilities is the uniqueness of the area. For example, even after all six utilities are combined, the Railbelt region is relatively small, but must serve urban and rural customers over an expansive geographic service territory. In addition, the transmission lines do not have significant redundancies and have limited interconnections. The second critical issue is the high cost of electricity and the significant cost differences between the existing six utilities. The third critical area is that the region has historically been dependent on natural gas; however, the source of natural gas is declining and the price is projected to increase. Furthermore, there are infrastructure issues such as the age of the generation facilities, and that the region uses inefficient gas-fired facilities. Finally, there is the question of what resources will be used for power generation in the future. Options for the region include large hydroelectric facilities or coal. Mr. Harper opined the combination of these issues results in a changing environment for power generation in the region and he identified the three primary objectives of the REGA study: Identify the options for how the generation and transmission system for the region can be restructured; analyze each option; produce a final report for the consideration of stakeholders and decision-makers.

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MR. HARPER emphasized that the REGA study was not an integrated resource plan that would identify the best resources for future power generation, but was a study to identify the best organizational structure for the future. A review of definitions relevant to the study began with the "coordinated operation of the transmission grid." This phrase refers to the movement of power by a stable system. The next term was "economic dispatch" that is a centralized dispatching of all of the region's generation facilities to produce energy at the lowest cost. "Regional integrated resource planning" is a term to describe the process of looking at supply-side and demand-side options, and selecting the optimal resources to meet those needs in the future. Finally, "joint project development"

refers to two or more utilities developing projects on a joint basis.

MR. HARPER presented slide 4 that illustrated five different organizational paths: Path 1 - Maintain the status quo; Path 2 - Create an entity to focus on operations of the transmission grid; Path 3 - Create an entity that would be responsible for the independent operation of the grid and regional economic dispatch; Path 4 - Create an entity that would be responsible for the independent operation of the transmission grid, regional economic dispatch, regional resource planning, and joint project development; Path 5 - Create an entity that would decide what to build in the future and form a power pool for the construction of assets.

[3:23:34 PM](#)

MR. HARPER displayed slide 5 that illustrated the following evaluation scenarios: Scenario A - The future resources will be large hydro/renewables/[demand side management (DSM)]/energy efficiency; Scenario B - The future resource will be natural gas; Scenario C - The future resource will be coal; Scenario D - The future resources will be mixed. The REGA study does not indicate which of the scenarios is best, but is meant to identify what organizational structure is best under any of these scenarios. Turning to the subject of stakeholder involvement, Mr. Harper described the process his company utilized to gather information and from whom. Furthermore, prior to the preparation of the final study, public comments were solicited and reflected in the draft report. He concluded that the stakeholder involvement process was an important element of the report and led to more effective final results and recommendations. Mr. Harper then displayed slide 7, "Results - Average Net Savings (\$'000)." Describing the columns, he said they show the net annual average savings for each organizational path under each of the different scenarios. The annual average net savings is a function of the cost of power and the cost of the regional entity. Thus, the net annual savings reflects the combination of the power cost savings and the organizational cost. For example, Path 4 under Scenario A saved \$42.7 million over 30 years. This savings was also presented on a percentage basis and on a typical monthly residential bill. He pointed out Path 4 and Path 5 have the greatest savings; however, the savings under Path 5 are overstated because the cost of employees' salaries are included. Also under Path 5, the utilities can decide on the resources to be developed and if they choose a different resource, there

could be a different result. He stated the study considered Path 5 as a transitional approach and not feasible for a long-term solution; therefore, Path 4 was recommended. As a matter of fact, the set of functional responsibilities [under Path 4] is consistent with what is proposed in the legislation.

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MR. HARPER said the most significant challenge facing the region is how to finance the future. It is anticipated that the total capital investment required over the next 30 years ranges from \$2.5 billion to \$8 billion. In perspective, using debt to finance the future could put the total long-term obligation of the region at up to seven times that amount. He advised dealing with the issues in the region is an expensive, capital intensive process, and emphasized the importance of having a regional entity because the individual utilities will not qualify for the necessary financing. In order to create the recommended organizational structure, Mr. Harper suggested the following steps for the state and the utilities: decide whether to form a regional entity and to finalize its functional responsibilities; decide the legal form of the regional entity; develop a transition team to oversee implementation; adopt the required legislative and regulatory actions; complete the formation of the new entity; and develop the initial regional integrated resource plan and the transmission expansion plan. Mr. Harper concluded his presentation by noting that although the region is faced with many challenges, it also has significant resource options. Secondly, the concept of a regional entity is new to Alaska, but is a well-tested idea in the Lower 48. Thirdly, the economic benefits of the proposed legislation are significant and are not "a leap of faith." Finally, he cautioned against delay because the utilities will continue to make decisions that are not necessarily best for the region, and because with delay, momentum disappears.

3:39:19 PM

JIM STRANDBERG, Project Manager, Greater Railbelt Energy and Transmission Corporation (GRETC) project, AEA, AIDEA, Department of Commerce, Community, & Economic Development (DCCED), presented a description of HB 182 and the approach the administration is suggesting for the formation of the Greater Railbelt Energy and Transmission Corporation (GRETC). Mr. Strandberg informed the committee HB 182 is a product of a joint effort between the Office of the Governor, the Railbelt electric utilities, and the AEA. This is the first year step to create a

durable not-for-profit corporation to assume the responsibility for Railbelt power generators and transmission lines of the future. Efforts by the utilities to restructure in the past, and the REGA study, have sought new and innovative approaches to determine the best organization for the future of power generation in the Railbelt. House Bill 182 is the first step in a phased, two-year legislative process to form the GRETC; in fact, this enabling legislation defines the business type and statute, the board of directors, voting rights, and basic powers and duties. Between year one and year two, the new company must create transition plans, develop financing capabilities, and develop the responsibilities of the Regulatory Commission of Alaska (RCA). The AEA will assist in the financial and regulatory work and will assist, through grants and support labor, the formation of the GRETC board and by-laws. Mr. Strandberg referred to the fiscal note for a description of the funding sources of this support. Year two legislation will propose financing capabilities, define the transition process, and complete the formation of the company. He pointed out the need to begin projects in the Railbelt area such as the completion of the integrated resource plan. In fact, AEA is working on the plan as part of the Susitna hydroelectric power project funding. The plan is necessary to determine when, where, and what kind of generation and transmission plants need to be built. The plan is expected to be completed in November, 2009. Mr. Strandberg advised the committee of projects and upgrading needed to the existing infrastructure in the Railbelt, including the development of near-term fuel supplies. He opined these tasks require a company that is a full-service utility and that has planning, design, and management talent, combined with a solid financial base. The company must also work with the state in financial matters to maintain low rates to ensure the public benefit to the Railbelt.

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MR. STRANDBERG continued to explain that one aspect of HB 182 will place two major assets owned by the AEA into GRETC. Simply, during the period ending July 31, 2010, each Railbelt utility can choose to sign a letter of intent to accept a phased approach to commit human resources and physical assets into GRETC. Included with the letter of intent will be state commitments to begin the process of committing to the GRETC concept. He recalled the high price of oil and the need to have a diversified system throughout the Railbelt by 2020, contributed to the formation of this company. Further, the next ten years will be a transition period during which new major

projects will be developed to restructure the Railbelt physically and contractually. The vision behind the legislation is that by year 10 of the transition period, there will be a diversified power supply portfolio and a robust transmission system. In addition, during the transition period, the state must act to maintain power supplies at reasonable prices to the consumer. For the large scale projects, financing, debt, and equity management will drive how the utilities will need to commit to power sales agreements and bond sales. He concluded that the proposed legislation seeks to create a not-for-profit and robust private corporation, with specific public duties and responsibilities to provide a single system rate of wholesale power to all Railbelt utilities on a nondiscriminatory basis.

[3:49:53 PM](#)

REPRESENTATIVE RAMRAS recalled this idea surfaced during the previous administration and asked how HB 182 differs from what was proposed then. He then asked how the concerns of the GVEA are addressed by the proposed legislation.

[3:50:36 PM](#)

MR. STRANDBERG acknowledged that the legislation enabling the REGA study was passed during the previous administration. The process began then; in fact, many of the basic concepts were laid in that legislation. Responding to Representative Ramras' second question, he said the process is a collaborative process and GVEA has been included. His agency has largely followed the recommendations of the REGA study, however, there are differences. The GVEA board of directors, the AEA, and the governor's office met recently; moreover, GVEA was "at the table" for the entire process. As a matter of fact, the general manager of GVEA was a member of the advisory work group and has participated from the beginning. He declined to state GVEA's position.

[3:53:26 PM](#)

REPRESENTATIVE RAMRAS remarked:

Given that they have some profound concerns, what is the plan over the interim to try and work through those concerns ... to try and mitigate their concerns, and some of the concerns of the other utilities that are allowing Golden Valley to ... articulate some of the objectionable points to the GRETC program?

[3:53:59 PM](#)

MR. STRANDBERG restated that the process involved all of the utilities, of which GVEA is one. The AEA served as a facilitator and sought to develop approaches that were satisfactory to all. He confirmed that the AEA will continue to meet and facilitate discussions between the utilities to attempt to come to a consensus solution; however, he agreed that there is work to be done.

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REPRESENTATIVE TUCK asked whether the AEA is presenting the bill.

[3:55:09 PM](#)

MR. STRANDBERG said HB 182 is the governor's bill and the AEA is the agency supporting the governor's office in this matter.

[3:55:33 PM](#)

REPRESENTATIVE TUCK asked whether the corporation will have bonding capabilities.

[3:55:55 PM](#)

MR. STRANDBERG said yes, and explained that the financing capabilities of the GRETC are not dealt with in the enabling legislation; however, the intent is to develop the capabilities over the next year, so that the company can shoulder long-term debt.

[3:56:24 PM](#)

REPRESENTATIVE TUCK surmised that one of the other identified tasks is to develop transition plans specific to each of the six utilities. He asked for clarification of the task to become properly structured under the RCA, and whether the RCA is going to be the ultimate authority for the corporation.

[3:56:59 PM](#)

MR. STRANDBERG pointed out the corporation will be a regulated public utility, except that it does not have a requirement to secure a Certificate of Public Convenience and Necessity. This

is because the legislature is creating this corporation and requiring a certificate would be a duplication. In addition, there are statutory responsibilities built-in that direct the company's purpose. Referring to the regulatory tasks, he said that one task is to develop the responsibilities for regulation by the RCA. This will be a large company with large assets and RCA's jurisdiction may need to be a "custom approach."

[3:58:36 PM](#)

CO-CHAIR EDGMON observed "this bill doesn't seem to be on the slow track."

[3:59:06 PM](#)

MR. STRANDBERG advised that the schedule responds to the needs of the Railbelt; in fact, the dates were set at the urging of the utilities.

[3:59:34 PM](#)

CO-CHAIR EDGMON expressed his understanding from the utilities that they are interested in the proposed legislation but not overly supportive. He asked how the directives of the proposed legislation will be advanced according to the schedule when the utilities may need more time; in fact, there is no mandate for them to join in the effort.

[4:00:28 PM](#)

MR. STRANDBERG opined the bill takes a collaborative approach underlined by a phased commitment process. This process will give the utilities time, and will develop enough information about financing and regulations, so they can decide to participate. In essence, the proposed corporation will capitalize large scale projects and negotiate long-term power sale contracts with each of the utilities at a single system-wide rate. This does not require the utilities to invest money, but only to commit politically, and be ready to sign the power contracts after the cost of the power is known. Mr. Strandberg said, "The structure of this is that ... we would get smart together over the next year so it could go into operation approximately eighteen months from now."

[4:02:57 PM](#)

CO-CHAIR EDGMON recalled that the energy challenges in rural areas of the state are troubling, at the least. He asked whether this effort is concurrent with the statewide energy plan presented by Mr. Haagensen, Director, AEA, or whether it was on a faster track.

[4:04:19 PM](#)

MR. STRANDBERG deferred the question to Mr. Haagenson. He then noted that the AEA is working to integrate the REGA effort with other statewide regional plans; however, the basic concept is that each region is different and each region needs its own process such as a REGA study or a plan similar to the GRETC. To deal equally with all regions of the state, the processes would have to be linked together.

[4:05:05 PM](#)

CO-CHAIR EDGMON surmised this effort is separate from the [Alaska Energy A first step toward energy independence] document provided to the committee by the AEA in January, 2009.

MR. STRANDBERG said, "It's separate, but it's related."

[4:05:23 PM](#)

REPRESENTATIVE JOHANSEN referred to page 7, line 31, of the bill, and surmised the integrated resource plan would give a picture of "what's out there," and the next step for investment in the future. He asked how the board of directors will agree to take on the debt of the corporation.

[4:06:21 PM](#)

MR. STRANDBERG explained the 13 member board of directors is currently envisioned to operate under a simple majority. The underlying principle is that the board is configured to represent all of rate payers of the Railbelt; therefore, board members "[have] a different hat that is put on by each of these board people when they come into the boardroom." He opined a simple majority, or some variation of that, is the appropriate approach, given the mandate that each board member represents all of the people of the Railbelt.

[4:07:48 PM](#)

REPRESENTATIVE JOHANSEN opined the big questions will be asked when money is spent on projects. He restated his question as to whether a simple majority of the board will incur debt.

[4:08:20 PM](#)

MR. STRANDBERG indicated yes. He reminded the committee that one of the mandates of the company is to provide nondiscriminatory, equal reliability and power at a single system-wide rate; thus the company must function to build the network and to avoid regional voting without further intervention from the legislature.

[4:09:30 PM.](#)

REPRESENTATIVE JOHANSEN requested clarification. "The statute simply says you can borrow money and otherwise contract indebtedness, so this will be in the by-law process?" he asked.

[4:09:54 PM](#)

MR. STRANDBERG said the business processes will be in the by-laws; however, the ability to secure financing will be built-in next year after the financial powers are specified. He clarified that there was nothing in the enabling legislation to allow the corporation to "go borrow money."

[4:10:37 PM](#)

REPRESENTATIVE TUCK asked whether the corporation will have bonding authority.

MR. STRANDBERG answered that it could. However, that aspect has not been dealt with yet.

[4:11:15 PM](#)

LORALI CARTER, Manager, Government and Corporate Communications, Matanuska Electric Association (MEA), Inc., read a statement from a 1962 report commissioned by the [Municipality] of Anchorage, CEA, the cities of Fairbanks and Seward, MEA, HEA, Copper Valley Electric Association, and GVEA. The report listed the advantages and feasibility of a cooperative power generation and transmission system for the Railbelt. Ms. Carter stated that MEA appreciates the attention the governor and the legislature have paid to this issue, and agrees that this is a critical time in the Railbelt. She noted that MEA participated

in the REGA study; however, she opined the proposed legislation is not a product of REGA and HB 182 does not follow a particular path recommended by the REGA study. Aspects of HB 182 that are supported by MEA are the public participation and the "postage stamp rate." Ms. Carter related MEA's reservations about the framework of voluntary participation; in fact, there is no precedence for voluntary cooperation between the six utilities and the transition plan is not likely to happen. Furthermore, MEA believes RCA oversight is critical as the RCA is the appropriate consumer protection agency. If the new corporation is not required to be certificated by the RCA "it essentially guts their enforcement authority." She then pointed out that the Healy Coal plant is not part of the legislation discussing the transfer of state assets, thus MEA is concerned that the plant was negotiated as a "side deal." Ms. Carter assured the committee MEA wants a generation and transmission system that is successful and unified, but this legislation simply creates a framework for voluntary participation. Regarding the timing of the process, she indicated that the utilities are waiting for the outcome of the bill and are moving forward with their own plans for their members.

[4:16:59 PM](#)

CO-CHAIR MILLETT asked about MEA's plans for future power generation.

[4:17:15 PM](#)

MS. CARTER said MEA is planning on building a 180 megawatt natural gas plant at Eklutna. Presently, MEA has an all-requirements contract with CEA that expires in 2014.

[4:17:56 PM](#)

CO-CHAIR MILLETT further asked about MEA's negotiations for gas.

[4:18:12 PM](#)

MS. CARTER said [gas contracts] are preliminary at this stage. She added that the producers do not negotiate gas contracts beyond "three years out."

[4:18:38 PM](#)

REPRESENTATIVE TUCK asked what MEA wants to see in the proposed corporation.

[4:19:10 PM](#)

MS. CARTER explained participation in the corporation should be mandatory, and MEA would like to see the policy makers require the Railbelt utilities to unify power generation and transmission.

[4:19:49 PM](#)

REPRESENTATIVE TUCK assumed the board of directors would have two members from each of the six utilities. He asked whether there are utilities that would not participate in the voluntary program.

[4:20:23 PM](#)

MS. CARTER declined to speak for the other utilities. However, MEA's point of view on majority vote is that there should not be veto power in the boardroom.

[4:20:57 PM](#)

REPRESENTATIVE JOHANSEN expressed his surprise that the utilities would not want to participate after 40 years of discussion about unification. He asked how unification will come about if the utilities continue "in their own direction."

[4:23:13 PM](#)

MS. CARTER encouraged the committee to remember the Railbelt is a region that includes areas such as Fairbanks and Homer, that have very unique circumstances. Although MEA and other organizations have made recommendations over many years, unification has not taken place, thus MEA's concern with the voluntary framework of the legislation.

[4:24:14 PM](#)

REPRESENTATIVE JOHANSEN asked whether MEA is willing to give something up for unification to take place.

[4:24:29 PM](#)

MS. CARTER referred to the transfer of state assets, as well as assets owned by the utilities, in the proposed legislation. There is opportunity afforded in HB 182 to unify the generation

and transmission system where all of the assets go to the corporation, and the utilities continue as distribution companies only.

[4:25:22 PM](#)

REPRESENTATIVE JOHANSEN asked whether MEA was the largest utility of the six in the Railbelt area.

[4:25:33 PM](#)

MS. CARTER said MEA is the second largest cooperative by membership, the third largest by "load," and has the largest service area. She emphasized that neither the MEA board of directors nor its general manager has taken a formal position on this version of the bill. She restated her point that voluntary participation in the unification process has been unsuccessful. In further response to Representative Johansen, she said MEA continues to "sit at the table" and discuss its unique needs and point of view.

[4:26:32 PM](#)

CO-CHAIR EDGMON asked what would have to occur within the corporate structure of MEA to participate.

[4:27:09 PM](#)

MS. CARTER agreed that changes would need to be made. Part of MEA's reservation with the legislation is the transition plan and its timeline.

[4:27:44 PM](#)

CO-CHAIR MILLETT listed the various capabilities of the six utilities. She then asked for the implication of "postage stamp" rates.

[4:28:27 PM](#)

MS. CARTER explained postage stamp rate means that the retail customers will pay the same amount regardless of their location. Anchorage Municipal Light and Power (ML&P) has the lowest rates at this time because they have ownership in a gas field. Looking at an overall policy, postage stamp rates will mean that rates for some customers will go up and some will go down.

[4:29:31 PM](#)

CO-CHAIR MILLETT pointed out ML&P members will not want their rates to go up. She said, "I would imagine it would be a hard sell to those that are enjoying low rates."

[4:30:01 PM](#)

MS. CARTER restated, "We support a postage stamp rate because we want to see fairness along the Railbelt end rate and that would be one ... benefit to a generation and transmission entity...."

[4:30:31 PM](#)

REPRESENTATIVE TUCK stated his understanding that by 2010, the corporation would have contracts with the individual utilities; therefore, the postage stamp rates would be the wholesale prices to each of the six utilities, not postage stamp rates to the retailers. If the latter is true, "It's going to be troublesome for some utilities, because they're not going to be able to offer the same rates because they have different overheads, different infrastructure, operation, maintenance responsibilities ... so, are we talking about postage stamp rates for wholesale or for retail?" he asked.

[4:31:44 PM](#)

MS. CARTER deferred to Mr. Strandberg.

[4:32:13 PM](#)

REPRESENTATIVE TUCK further asked whether MEA is concerned that the Healy Coal plant should be part of the assets distributed by the utilities.

[4:32:35 PM](#)

MS. CARTER said, "That it should be a part of this legislation for the transfer of state assets."

[4:32:38 PM](#)

BRAD JANORSCHKE, General Manager, Homer Electric Association (HEA), read [original punctuation provided]:

As you are aware, Homer Electric Association is one of the 6 Railbelt electric utilities included in the proposed legislation. Over the last 6 months, HEA's members have experienced rates that have increased from about 14.5 cents to 21.5 cents per kWh, a 48% increase driven primarily by escalating fuel costs. Fuel costs are not our only challenge, nor are we alone. In addition to the need to address future fuel needs, the Railbelt utilities are facing many other challenges that will require cooperation, planning, and capital if we are to ensure three fourths of Alaska's population is to continue to receive reliable, cost effective power.

HB 182 does create the opportunity for the utilities to participate in an organization that will be responsible for addressing and creating the synergies needed to solve the previously mentioned challenges. Many details need to be worked out and it is anticipated these details will be addressed in a yet to be developed transition plan. HEA will work in good faith to assist in the development of such plan.

Although we have a concern about board composition outlined in the current bill, we are working with the administration to resolve that concern. As a result, HEA does support the concept of HB 182 and we support the movement of this bill to the next stop.

[4:34:40 PM](#)

CO-CHAIR MILLETT asked how HEA generates power.

[4:34:50 PM](#)

MR. JANORSCHKE explained HEA purchases power from CEA; operates and maintains Bradley Lake [Hydroelectric Project]; and also operates a 40 megawatt "co-gen" unit at the Agrium [fertilizer plant] site.

REPRESENTATIVE TUCK asked whether Bradley Lake Hydroelectric Project (Bradley Lake) is state-owned.

[4:35:36 PM](#)

MR. JANORSCHKE responded that Bradley Lake is a state-owned asset, operated and maintained by HEA on behalf of all of the

Railbelt utilities that participate in the project. In further response to Representative Tuck, he said HEA buys power from the Bradley Lake facility, and has a separate operation and maintenance contract.

[4:35:58 PM](#)

CO-CHAIR EDGMON asked whether HEA has sufficient spare power to power Pebble [Mine].

[4:36:11 PM](#)

MR. JANORSCHKE said no.

[4:36:15 PM](#)

DAVE GARDNER, Vice President, Marketing and Member Services, Golden Valley Electric Association (GVEA), informed the committee the GVEA board is still reviewing HB 182. The board's concerns are based on the unanswered questions in the legislation, such as how an entity created by the legislation would provide the same level of reliability that members currently receive from GVEA. He emphasized that GVEA does not refute the concept of a Railbelt generation transmission organization; however, GVEA wants to first see a Railbelt integrated resource plan that clearly states the purposes of a unified Railbelt utility. Mr. Gardner listed other questions about the unification process. He then explained GVEA needs a low fuel cost supply of power and that issue is not addressed by the bill. Furthermore, unlike some of the other Railbelt utilities, GVEA will not need new generation facilities or transmission lines for more than 20 years. Mr. Gardner opined the proposed legislation does not address the diverse needs of the utilities, but seeks to form an organization to force the utilities under one umbrella "and hopes that everyone's needs will converge and that savings will follow." His association has promoted the concept of a Railbelt organization for more than 30 years; in fact, it joined with other utilities and the state to construct the Bradley Lake Hydroelectric Project. More recently, CEA, ML&P, and GVEA formed a joint action agency to promote combined generation and transmission activities, and joined with HEA to settle the issues surrounding the Healy Clean Coal Project. He concluded that GVEA will continue to work with the administration on this legislation.

[4:41:21 PM](#)

REPRESENTATIVE TUCK asked whether GVEA would accept mandatory or voluntary participation in the corporation.

[4:41:36 PM](#)

MR. GARDNER stated GVEA's number one concern is that "It be fairly applied to all utilities and that the reliability issues be safeguarded."

[4:42:03 PM](#)

REPRESENTATIVE TUCK asked at what voltage is GVEA's point of demarcation between transmission and distribution.

[4:42:28 PM](#)

MR. GARDNER explained its primary voltage is 138,000 volts; however, GVEA owns all of its generation north of "the range." Golden Valley Electric Association purchases power from CEA and from the Bradley Lake facility, thus owns the generation, the transmission, and the distribution.

[4:43:06 PM](#)

REPRESENTATIVE TUCK further asked about distribution at a lower voltage.

[4:43:25 PM](#)

MR. GARDNER noted there are substations located throughout GVEA's system. In further response to Representative Tuck, he said he was unsure about the point of distribution in all instances. He added that GVEA has the second lowest residential rates, following ML&P.

[4:44:46 PM](#)

CO-CHAIR EDGMON asked about the reality of the timeline set in the proposed legislation.

[4:45:14 PM](#)

MR. GARDNER restated GVEA's commitment to work with the committee, the administration, the RCA, and other agencies as needed.

[4:45:34 PM](#)

WILLARD DUNHAM, Vice Mayor, City of Seward, informed the committee the City of Seward Electric System (SES) is a utility system under home rule ownership similar to ML&P. As a small utility it uses about nine to ten megawatts of power that is provided by CEA. The SES includes approximately 40 miles of transmission line, with services provided by both the city and CEA. In addition, SES provides back-up diesel generation and has provided emergency power to the communities of Moose Pass and Cooper Landing. Mr. Dunham stated that the City of Seward feels the GRETC proposal is worth exploring, but asks that the small utilities are protected and given an even voice in voting.

[4:48:51 PM](#)

REBECCA LOGAN, Chairman, Board of Directors, Chugach Electric Association (CEA), Inc., expressed her organization's support of HB 182. She noted that the bill is the result of two years of work and the study authorized by AEA. Following the conclusion of the study, representatives of the Railbelt electric utilities, the AEA, and the administration, worked together to develop the proposed legislation. Further, amendments have been introduced to address concerns about the original bill. Ms. Logan stated CEA believes a single organization charged with providing generation and transmission services for an interconnected Railbelt will be able to provide savings. She reviewed the organization of the GRETC corporation and opined the corporation is needed to provide joint planning, a unified transmission system, the construction of a major hydro plant and transmission system, and to provide a unified voice for energy matters that require state involvement. However, each utility will need a transition plan to ensure that the customers of each utility are treated fairly. This transition period will take a number of years. Ms. Logan concluded that HB 182 would create an organization that can effectively plan, finance, construct, and operate generation and transmission facilities to serve the Railbelt.

[4:53:55 PM](#)

REPRESENTATIVE RAMRAS expressed his appreciation of this opportunity to move Alaska's electrical generation into the 21st Century.

[4:54:29 PM](#)

CO-CHAIR EDGMON asked for clarification of the timeline outlined in the proposed bill.

[4:54:44 PM](#)

BRADLEY EVANS, CEO, Chugach Electric Association (CEA), Inc., opined most of the large scale transition plan matters could be identified during the timeline contemplated in the proposed legislation; in fact, CEA has been studying restructuring with ML&P over the past two years and has been looking at issues such as financing, asset transfers, and the utilities' covenants. Although the amount of transition work may be different for each utility, CEA anticipates its transition can be accomplished in the time period allowed.

[4:56:14 PM](#)

MS. LOGAN added that CEA and ML&P have been working in anticipation of a merger, and have spent hundreds of thousands of dollars laying the groundwork for the corporation.

[4:56:50 PM](#)

REPRESENTATIVE TUCK asked whether the state shared in the groundwork.

[4:57:03 PM](#)

MS. LOGAN said yes.

[4:57:09 PM](#)

CO-CHAIR EDGMON asked whether CEA agrees with the establishment of postage stamp rates.

[4:57:26 PM](#)

MS. LOGAN said, "... eventually ... this will lead to postage stamp rates."

[4:57:52 PM](#)

NORMAN ROKEBERG, Chairman, Advisory Working Group, Alaska Railbelt Electrical Grid Authority (REGA) Study, provided a short background on the REGA Study. He explained that the rationale for the study was the history of conflict between the Railbelt utilities and their inability to solve this complex

issue. Mr. Rokeberg expressed his concern about the ownership of the Railbelt grid that is spread between the six utilities and the state. He opined the state needs a "smart grid" that can accept alternate energy sources and meet the needs of reliability and affordability. Last year, the legislature appropriated funds for the regional resource plan that is underway now. He said he also has concerns about the complex and difficult issue of financing. The authority, even with bonding authority, may not have the ability to enter the market under current federal Internal Revenue Service statutes and regulations. That area, and the regulatory issues, will take a significant amount of time to resolve. He cautioned against "lose(ing) the momentum we have with the REGA study together with the [integrated resource plan], and the work that the utilities have put into this at this juncture...." Mr. Rokeberg strongly recommended that the committee review the legislation and move it forward. He stressed that it is imperative that the legislature provide leadership regarding the participation of the utilities, and to work with the administration. The grid is necessary to deliver power from a variety of sources to the Railbelt population which represents 75 percent of the population of the state.

[5:02:36 PM](#)

[HB 182 was held over for further public testimony.]

[5:02:57 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at [5:02] p.m.