

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

March 18, 2010

3:11 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**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 & 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
03/26/09	(H)	Heard & Held
03/26/09	(H)	MINUTE(ENE)

04/09/09 (H) ENE AT 3:00 PM BARNES 124  
04/09/09 (H) Heard & Held  
04/09/09 (H) MINUTE(ENE)  
03/18/10 (H) ENE AT 3:00 PM BARNES 124

#### **WITNESS REGISTER**

JIM STRANDBERG, Project Manager  
Alaska Energy Authority (AEA)  
Department of Commerce, Community, & Economic Development  
(DCCEC)  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation titled, "Greater Railbelt Energy and Transmission Corporation - GRETC" during the hearing on HB 182.

#### **ACTION NARRATIVE**

[3:11:08 PM](#)

**CO-CHAIR CHARISSE MILLETT** called the House Special Committee on Energy meeting to order at 3:11 p.m. Present at the call to order were Representatives Millett, Edgmon, Petersen, Tuck, Dahlstrom, and Ramras. Representative Johansen arrived as the meeting was in progress.

[3:11:20 PM](#)

#### **HB 182-RAILBELT ENERGY & TRANSMISSION CORP.**

[3:11:21 PM](#)

CO-CHAIR MILLETT announced 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."

[3:12:26 PM](#)

CO-CHAIR MILLETT moved to adopt CSHB 182, 26-GH1041\E, Bailey, 3/18/10, as the working document.

3:12:34 PM

REPRESENTATIVE RAMRAS objected for the purpose of discussion.

3:12:43 PM

JIM STRANDBERG, Project Manager, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), began an overview of the Committee Substitute (CS) for HB 182. He said he would present slides and with them a short discussion on what the new Greater Railbelt Energy and Transmission Corporation (GRETC) is about; for example, its business purpose, its powers, external controls on its operation, and its tasks.

3:15:02 PM

CO-CHAIR MILLETT advised teleconference participants that opinions from the legal service are on-line.

3:15:27 PM

MR. STRANDBERG presented slide 2 which was a schematic of the process that led to GRETC. He recalled that the bill presented last year was very different than the CS now before the committee. The original bill was held in committee to give all six of the Railbelt utilities time to form a taskforce to review the bill. AEA, the governor's office, and the Department of Law (DOL), worked with the taskforce as it developed the proposed CS. Mr. Strandberg referred to the Railbelt Electrical Grid Authority (REGA) study that was completed by AEA in March, 2009. The study was to understand the economics of regional generation and transmission (G&T); in fact, the study found that by forming a unifying organization such as GRETC, ratepayers could save a significant amount of money. Also, AEA recently completed the Regional Integrated Resource Plan (RIRP), to identify future power generation and transmission projects. He explained that the RIRP defined projects of a critical need for the Railbelt, such as fuel supply and near-term transmission lines, in addition to the need for a unifying entity. Mr. Strandberg opined there is relevant information available in the REGA and RIRP documents; whereas the REGA study looked at a range of business models from loose, voluntary organizations to tightly

integrated organizations, the RIRP report identified a list of economic projects, all of which are beyond the utilities' ability to fund. Slide 3 illustrated the shortfall between the utilities' ability to raise money and the capital cost required for the projects recommended in the RIRP. He pointed out that GRETC would have the ability to save money through unified operations, and as a strong financial vehicle, could address the capital shortfall. The potential gap is up to \$5 billion, depending on the projects that are ultimately built in the Railbelt, and he stressed that GRETC, with state financial backing, is the best approach to address the capital shortfall.

[3:21:11 PM](#)

CO-CHAIR MILLETT noted GRETC and a joint action authority (JAA) are basically the same mechanism. She asked whether there is a need for GRETC, when the utilities are already authorized in statute to form this type of union.

[3:22:08 PM](#)

MR. STRANDBERG responded that the JAA is a project-by-project organization; however, GRETC has significant additional powers and is configured as a conduit where state funds for the Railbelt would flow into the corporation. The JAA is a totally voluntary organization; for example, two utilities could join to build a project, with the assumption that they are interconnected on a temporary basis. GRETC is a better framework to unify the Railbelt.

[3:23:20 PM](#)

REPRESENTATIVE JOHANSEN asked for the statutory reference for a JAA.

[3:23:39 PM](#)

MR. STRANDBERG said AS 42.45.300, 42.45.310, and 42.45.320. He displayed slide 4 which listed topics for discussion to understand how the new legislation is different from last year: governance; powers of the corporation; external controls for corporate activities; initial tasks for GRETC. The governance of the corporation is for a private, not for profit entity that is not a state corporation. Also, each of the six Railbelt utilities would have two board members and two votes, to enable the smaller utilities to have a strong voting capability. GRETC has up to six public utility members and twelve board members,

with one public member appointed by the governor from candidates nominated by the public utility members. Although public utility members do not have terms of service, the public member has a four-year term. He clarified that the public utility members are Railbelt utilities with distribution service areas and retail customers. Other entities that do not have service areas under jurisdiction by the Alaska Regulatory Commission (RCA) would not be allowed to vote.

[3:27:17 PM](#)

CO-CHAIR MILLETT asked whether a for-profit utility such as Doyon Utilities, Llc., would be allowed to be a part of GRETC.

[3:27:47 PM](#)

MR. STRANDBERG responded that it can be a member.

[3:27:53 PM](#)

REPRESENTATIVE TUCK asked whether it would be a voting member.

[3:27:59 PM](#)

MR. STRANDBERG said no. He presented slide 7 and said the primary purpose of GRETC is to provide wholesale electric power to Railbelt customers. To do this the corporation must procure fuel supplies, develop operating standards for its service area, and develop generation and transmission projects.

[3:29:23 PM](#)

CO-CHAIR MILLETT recessed the meeting to a call of the chair.

[4:34:04 PM](#)

CO-CHAIR MILLETT called the meeting back to order at 4:34 p.m. Present at the call back to order were Representatives Millett, Edgmon, Dahlstrom, and Tuck. Representatives Petersen, Ramras, and Johansen arrived as the meeting was in progress.

[4:34:38 PM](#)

MR. STRANDBERG continued to explain that the primary business purpose of GRETC is to provide wholesale power. To do this, the corporation may do many things such as procuring fuel supplies and developing operating standards for the service territory of

the corporation. The service territory is an aggregate of the service areas of the public utility members that have joined the corporation. He stressed that this is an important power, and distinguishes GRETC from a JAA. Furthermore, a major difference between the previous bill and the proposed CS is the "elective power;" for example, the use of the word "may" instead of "shall" throughout the proposed statute. Operating standards are in statute presently in relation to intertie agreements and the "basic rules of the road" for the interconnection of power service.

[4:36:55 PM](#)

CO-CHAIR MILLETT asked for the purpose of a corporation, that is not an oil and gas company, to bid on state lands for oil and gas leases.

MR. STRANDBERG advised that the governor supports all aspects of the bill with the exception of that clause. He questioned whether this issue is appropriate for GRETC.

[4:38:09 PM](#)

CO-CHAIR MILLETT then asked whether GRETC would be a oil and gas producer.

MR. STRANDBERG said the intent is for GRETC to be a generation and transmission company that seeks to develop reliable, long-run fuel supplies.

CO-CHAIR MILLETT assumed the governor is not supportive of proposed Sec. 42.50.170 (a) and (b).

[4:39:14 PM](#)

MR. STRANDBERG said correct. He then displayed slide 8 which listed the major differences between the 2009 proposed legislation and the CS. GRETC is now a voluntary organization, and has the flexibility to emerge economically as the major G&T provider in the Railbelt; however, subgroups of utilities can develop G&T projects outside of GRETC and retain membership. GRETC remains the primary recipient of state financial aid into the Railbelt. After further changes to the original bill, GRETC is no longer directed to become an all-requirements provider of wholesale power for the Railbelt thus has the flexibility to allow utilities to act independently. Mr. Strandberg advised

that similar re-structuring elsewhere in the country has evolved in "a multi-step fashion."

[4:43:18 PM](#)

CO-CHAIR MILLETT pointed out that sec. 7, the section related to consumer protection by the Regulatory Affairs & Public Advocacy (RAPA) office of the DOL, was repealed. She asked whether consumer protection was replaced by RCA regulation and oversight.

MR. STRANDBERG said yes. In further response to Co-Chair Millett, he explained that RAPA represents the public interest, and once the corporation is placed under RCA jurisdiction, RAPA may still participate in any RCA process.

CO-CHAIR MILLETT observed RAPA and the RCA serve two different purposes. She noted the governor's concern about consumer protection and repeated her question as to why sec. 7 was repealed.

[4:46:00 PM](#)

MR. STRANDBERG expressed his understanding that neither the CS, nor the original bill, included a provision concerning RAPA.

CO-CHAIR MILLETT clarified that sec. 7, proposed AS 42.05.431, referred to the RAPA office, and sec. 7 was repealed in the CS.

MR. STRANDBERG said the CS has a one-step process toward a full economic regulatory approach. He acknowledged there may have been interim versions of the bill.

[4:48:56 PM](#)

REPRESENTATIVE TUCK asked whether there was the potential for GRETC and a public utility to be in competition for a project.

MR. STRANDBERG stated the chance is possible, but unlikely, given the structure of the corporation.

REPRESENTATIVE TUCK gave the example of Doyon Utilities, which has a huge consumer group on military bases, but would not be a voting member, and may have to compete for fuel supplies.

[4:50:21 PM](#)

MR. STRANDBERG observed there is a relatively complex regulatory environment applicable in this case. The RCA does not have jurisdiction over federal establishments such as military bases, and there is a current contract between Doyon Utilities and the federal government. Under the current regulatory environment, there can be flows of power from regulated utilities onto military bases; in fact, competitive situations could develop. He said, "I believe they would be relatively unlikely."

CO-CHAIR MILLETT asked whether industry, commercial, and residential users would pay the same rate for electrical power.

[4:52:31 PM](#)

MR. STRANDBERG referred to page 10, line 14, under general powers of the corporation. He read:

[GRETC may] generate, manufacture, purchase, acquire, accumulate, transmit, meter, and dispatch retail electric power and ancillary services to an industrial customer, and sell at retail, supply, and dispose of electric power to an industrial customer.

MR. STRANDBERG advised that this issue attracted significant attention from the taskforce. In general, GRETC has the ability to serve a large load, but must consult with the public utility whose service area is nearby. This public utility has the first right of refusal to serve that load at its own retail tariff. He pointed out that any regulated utility has a number of tariffs; in fact, a public utility could negotiate a wholesale power rate at a different rate for residential and industrial consumers.

MR. STRANDBERG continued to slide 9 which listed the external controls as follows: areas of oversight such as consumer protection, financial oversight, and the effectiveness of the corporation; protections such as RCA economic regulation for a five-year period and "top-to-bottom" management audits at three-year intervals for ten years. He cautioned that further actions may need to be taken after ten years.

[4:58:52 PM](#)

REPRESENTATIVE TUCK surmised that after ten years, GRETC would be an unregulated corporation.

MR. STRANDBERG spoke to corporation protections beyond RCA jurisdiction such as the requirement that processes be public, a dispute resolution process, a rate appeals process, and consumers' protest hearings. These oversights and public processes are built-in to the basic structure of the corporation.

[5:00:11 PM](#)

REPRESENTATIVE JOHANSEN assumed there would be an infusion of capital funds from the state and decisions to build would come from the RIRP.

MR. STRANDBERG agreed that the RIRP would be provided to GRETC for consideration and use; however, which projects get funded, and the loan and grant conditions thereof, would need to be developed in order to protect the public interest.

REPRESENTATIVE JOHANSEN stressed that he would need to understand the process before approving funding that then moves "out of my hands." He then referred to page 10, line 26, under powers of the corporation, and asked for the meaning of "owning and operating facilities to find and extract fuel deposits."

MR. STRANDBERG deferred this question to the administration.

[5:04:01 PM](#)

REPRESENTATIVE JOHANSEN further asked whether associated concepts are in question by the governor.

MR. STRANDBERG said correct.

REPRESENTATIVE JOHANSEN then referred to page 12, lines 5-6, and surmised that if the proposed legislation passed, GRETC could go outside the state and look for oil and gas.

[5:05:40 PM](#)

MR. STRANDBERG expressed his belief that the service area defined for the operations of the corporation are the service areas of the public utilities. The language applies to the need to do business inside and outside of the state to acquire equipment, for example.

REPRESENTATIVE JOHANSEN questioned the language. His final concern was that the governor does not support all of the sections of the bill, although the governor is the sponsor.

[5:08:26 PM](#)

CO-CHAIR MILLETT referred to sec. 6 of the original bill, and asked why the open and transparent public process to review GRETC's books and records was left out of the CS.

[5:09:56 PM](#)

MR. STRANDBERG called attention to page 18, line 10, for the new location of Sec. 42.50.210, right to examine books and records. He recalled a provision to allow members, companies that take services from GRETC, or ratepayers, access to books and records.

CO-CHAIR MILLETT concluded there was no provision in the current CS for the general public to examine the corporation, and asked why.

MR. STRANDBERG explained that the utilities wanted this approach. Although, there are significant audit processes that are public and delivered to the legislature, an examination of the innards of the corporation is only accessible to members and ratepayers.

CO-CHAIR MILLETT asked whether there has been an examination by DOR to look at the financial health of each of the six utilities involved before the state extends general funds, a line of credit, and bonding capacity to the corporation.

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MR. STRANDBERG said that AEA, with Seattle Northwest Securities, looked at the public records of the six utilities in order to determine their borrowing power. However, there were no audits conducted by the administration.

CO-CHAIR MILLETT questioned whether the legislature can ask for an audit of the utilities before the state invests. She expressed her concern about the state having to "save" utilities that are not financially healthy.

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MR. STRANDBERG offered to provide the work papers from Seattle Northwest Securities. He added that the new corporation would have a board of directors of 13 people. This board would have a goal of "least-cost power," and he opined it unlikely that the process would be possible with a properly functioning board.

CO-CHAIR MILLETT confirmed her desire for DOL, DOR, or legislative audit to look at the financial health of all of the utilities prior to a decision on the bill, for the benefit of consumers. She suggested taking a financial health inventory of the corporations.

[5:17:13 PM](#)

REPRESENTATIVE JOHANSEN also expressed concern about state funds passing to groups with unknown financial situations. He acknowledged that most in the utility industry are very experienced and knowledgeable.

CO-CHAIR MILLETT announced the committee's intent to return to the bill next meeting.

HB 182 was held.

[5:19:10 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 5:19 p.m.