

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON ENERGY

March 19, 2009

11:09 a.m.

MEMBERS PRESENT

Senator Lesil McGuire, Chair
Senator Lyman Hoffman
Senator Bert Stedman
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Albert Kookesh

COMMITTEE CALENDAR

SENATE BILL NO. 135

"An Act clarifying the purpose of the Alaska Natural Gas Development Authority; and relating to definitions of certain terms in AS 41.41."

SCHEDULED BUT NOT HEARD

SENATE BILL NO. 136

"An Act relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; relating to definitions of "common carrier" and "firm transportation service" in the Pipeline Act."

SCHEDULED BUT NOT HEARD

SENATE BILL NO. 143

"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: SB 143

SHORT TITLE: RAILBELT ENERGY & TRANSMISSION CORP.

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/09/09	(S)	READ THE FIRST TIME - REFERRALS
03/09/09	(S)	ENE, RES, FIN
03/19/09	(S)	ENE AT 11:00 AM BUTROVICH 205

WITNESS REGISTER

JOE BALASH, Special Assistant to the Governor
State Capital
Juneau, AK

POSITION STATEMENT: Presented the Governor's statement on SB 143.

KEVIN HARPER, Director
Enterprise Management Solutions
Black & Veatch

POSITION STATEMENT: Presented their recommendations regarding formation of a unified Railbelt energy authority in SB 143.

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

POSITION STATEMENT: Described the projected two-year process to create the new energy organization in SB 143.

BRIAN BJORKQUIST, Senior Assistant Attorney General
Alaska State Department of Law

POSITION STATEMENT: Answered questions about the legal structure of the proposed organization in SB 143.

LORALI CARTER, Manager
Government and Corporate Communications
Matanuska Electric Association (MEA)

POSITION STATEMENT: Supported SB 143, but does not believe this bill as it is written will accomplish that.

BRAD EVANS, CEO
Chugach Electric Corporation

POSITION STATEMENT: Supported the concept in SB 143 and is willing to work with the legislature and the administration to make the bill workable.

JAMES POSEY, Manager

Anchorage Municipal Light and Power (ML&P)

POSITION STATEMENT: Supported the concept in SB 143 and is willing to work with the legislature and the administration to make the bill workable.

DAVID GARDNER, Vice President

Golden Valley Electric Association

POSITION STATEMENT: Supported the concept in SB 143 and is willing to work with the legislature and the administration to make the bill workable.

JOE GALLAGHER, Member

Homer Electric Association

POSITION STATEMENT: Supported the concept in SB 143 and is willing to work with the legislature and the administration to make the bill workable.

PHILLIP OATES, Manager

City of Seward

POSITION STATEMENT: Supports the concept in SB 143 and is willing to work with the legislature and the administration to make the bill workable.

ACTION NARRATIVE

[11:09:14 AM](#)

CHAIR LESIL MCGUIRE called the Senate Special Committee on Energy meeting to order at 11:09 a.m. Present at the call to order were Senators Wielechowski, Hoffman and McGuire.

CHAIR MCGUIRE advised that the committee is unlikely to hear SB 135 or SB 136 today due to the time that testimony will take for SB 143.

SB 143-RAILBELT ENERGY & TRANSMISSION CORP.

CHAIR MCGUIRE announced consideration of SB 143.

[11:10:34 AM](#)

JOE BALASH, Special Assistant to the Governor, State Capital, Juneau, AK, presented SB 143, which has been in process for years building off of prior work and off of lessons learned

along the way. It is a product of the Governor's Office, the Alaska Energy Authority, and the Railbelt Electric Utilities. Presently the Railbelt system generates and transmits 850 mgW of power. That is spread among six entities. For comparison purposes, in the Lower 48, an 850 mgW load would represent a very modest, if not small, utility. The timing of some power sales agreements and the retirement of certain assets in the near future now present an opportunity to do things in a very different fashion and invest in the next generation of energy infrastructure along the Railbelt. By unifying the system and capitalizing on economies of scale ratepayers and the larger economy will save tens of millions of dollars annually. It is an opportunity that should not be missed.

MR. BALASH stated that in 2007 Governor Palin vetoed appropriations to the various utilities from the Railbelt Energy Fund. In doing so she called on them to come up with a comprehensive energy plan that lays out how those dollars will be spent, how they will be spent efficiently, and how the benefits will be passed on to all of the ratepayers. The Railbelt Electric Grid Authority (REGA) study was then undertaken by the Alaska Energy Authority (AEA), and in 2008 four of the six utility companies signed an MOU indicating they would support and pursue a unified power provider. He thinks it's fair to say that each of the six utilities recognizes that joint planning and financing is the most efficient way to go in the long run, but they will all say the devil is in the details.

The REGA study was completed in September 2008, and beginning in October he sat down with representatives of each of the utility boards, their chairs, and the Alaska Energy Authority to discuss how they would proceed. In November the Governor's office met with the executives of each utility. In December they came back with a list of characteristics that a corporation would need in order to progress jointly. They then developed a white paper and shared it with the utilities, modified it, and used it to begin drafting statute.

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In January they realized they wouldn't have a bill complete by session, but they wanted to have something in front of the legislature before the end of session, so committed to a schedule. He hoped to have a consensus document next week. He assured them that they are not trying to jam anything down utilities throats; all see the opportunity. It's a matter of getting the details worked out.

11:17:09 AM

SENATORS STEDMAN and HOFFMAN joined the meeting.

MR. BALASH said the administration hoped to find consensus and take action this session. Alaska is too big and too disparate to have a one-size-fits-all system to serve the energy needs of each community, but this template can be used in other regions of the state.

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SENATOR HOFFMAN said he is more than anxious in working with the administration on this legislation to make sure the Railbelt gets lower rates, but he is interested in seeing something come from Governor's office regarding what she sees as reductions in energy costs for some of the places in Alaska that continue to have the highest energy costs in the country, not just for electricity but for vehicles and heating fuels.

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MR. BALASH said the Palin Administration set out in 2007 to conduct an inventory and aggregate all of the information on resources that are available in each community. That information was housed at state and federal agencies in a variety of boxes, and one of the first things the Governor asked for was an inventory to be aggregated in one place and to be put into a geographic information system for use by energy planners everywhere. In 2008 Mr. Steven H. Haagenson was brought in to breathe new life into the Alaska Energy Authority, an agency that represents tremendous potential, but has been somewhat neglected over the years. Relying on his team, they assembled the guide book for the energy options in each community around the state, which was released in January. The onus is now on the legislature to identify the needs of each community and help them find their opportunities and assist them in identifying financing mechanisms that are available to really pursue the least cost option.

SENATOR HOFFMAN commented that the legislature has come up with assistance programs in last few years to help not just rural Alaskans, but all Alaskans. The legislature came up with alternative energy in HB 152; the Senate came up with the modification to the power cost equalization (PCE) and the \$360 million plan for energy efficiencies for homes. He still hopes the Governor, who represents all of Alaska, can do something to address the high cost of heating for everyone. He said this bill came up with a solution for the Railbelt, but asked what is

being done to address energy needs in the rest of the state including Southeast.

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MR. BALASH said if they had the answer, he would tell him, but they look forward to working with legislature to identify what can be done next session to address that. They understand that it isn't right or practical to expect that only one region's needs will be addressed, and the Railbelt bill in front of committee sets up a process that will result in a package of consideration to be brought forward next year, but "We'll need a package for everybody."

SENATOR HOFFMAN said he appreciates that, but history in the past year or two has shown that several members of the House and Senate have been trying to address these issues, but did not get the support or the expertise that is on the Third Floor.

MR. BALASH responded that the administration is committed to working with everybody this next Interim.

[11:25:36 AM](#)

SENATOR STEDMAN asked if the administration has done any preliminary work on any other region outside of the Railbelt area. Is anything in draft form?

MR. BALASH replied no. They have old studies for the Southeast intertie, but nothing is updated. The Southeast conference has filed a proposal to the Alaska Energy Authority for renewing an integrated resource plan for Southeast Alaska as a region, but nothing for Southwest. Nanina has undertaken an effort to put together a regional plan, but they don't want local and regional planning efforts to get in the way of local and regional planning efforts already under way to get in the way of a state-wide solution. They hope to achieve a collaborative approach with the individual utilities as this approach does.

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CHAIR MCGUIRE thanked Mr. Balash and called Mr. Harper, Black & Veatch, to testify.

[11:28:06 AM](#)

KEVIN HARPER, Director, Enterprise Management Solutions Group, Black & Veatch, summarized results of their September study identifying the benefits of Railbelt Electrical Grid Authority (REGA). He also wanted to talk about how the proposed

legislation was built upon this study and is consistent with its recommendations in large part.

11:29:18 AM

He wanted to:

1. touch on key issues facing Railbelt utilities
2. talk about what the three primary objectives of the study were
3. talk about the analytical and stakeholder processes
4. provide a summary of the overall results and recommendations and near-term steps that have to take place in order for the Greater Railbelt Energy and Transmission Corporation (GRETC) to be formed.

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SLIDE 1: Summary of significant categories of Railbelt Issues - He said the Railbelt generation, transmission, and distribution system as they know it today did not exist in the 1940s and various efforts in the various parts of the Railbelt region got the four current cooperatives going - Golden Valley Electric Association, Matanuska Electric Association, Chugach Electric Association, and Homer Association as well as the two municipalities: Anchorage Municipal Light and Power and the City of Seward.

Over time they have seen an evolution of the business and operating environment facing the Railbelt utilities that present a whole new set of dynamics within which decisions need to be made. This challenging environment poses challenges for Railbelt utilities and stakeholders. It is not an understatement to say Railbelt is at an historical crossroads not unlike the one that was faced back in the 40s when the Railbelt utilities were formed.

Slide 1 showed categories of issues facing utilities. He touched briefly on the Railbelt region from the unique electric utility perspective that has a combination of a very small load and pretty significant geographic expanse along with a transmission network that has limited connections and very few redundancies. That is very different than what is typically seen in the Lower 48. This means that the Railbelt utilities are very isolated and really have to depend upon what goes on inside the region in order to provide reliable electric service.

The second category is issues associated with costs. Alaska is the eighth highest in nation in terms of average cost of electricity, and there is significant disparity between the six

utilities. The cost in the Railbelt relative to other regions is at the high end.

The next key category is natural gas issues - the fact that the region has had significant dependence on it in the past; it has gas supply contracts that are in the process of expiring, declining developed reserves and deliverability, and recent with expectations of future price increases.

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SENATOR STEDMAN asked him to bring forward the nationwide analysis to see how the state fits in and how the state electric cost is calculated between areas noting a substantial difference between Southeast and Western Alaska, Anchorage and Fairbanks.

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MR. HARPER said that is in REGA study, but they'll provide it under separate cover.

He said a new mine or expanding mine would have significant impacts on the region. So, another key issue is load uncertainties because of the size of the region as a whole. The infrastructure is aging, as well, and the Railbelt region uses inefficient natural gas facilities as base load units, which is a significant part of the higher cost of electricity.

Under future resource options, he said a number of resources are available, but issues are associated with them such as the acceptability of large hydro facilities or coal plants including potential changes in CO₂ regulations and other environmental restrictions.

These issues are what the legislature was considering when it originally directed the AEA to undertake the REGA study and that is how Black & Veatch became involved.

SLIDE 2: Three primary objectives for the study:

1. Identify alternative business structures for the future Railbelt generation and transmission system. This is important because the study was basically a study on organizational options.
2. Do a detailed evaluation of how they compared to each other in terms of dealing the future for each of those alternative organizational structures.
3. Produce a report which was intended to provide a basis from which decision-makers and stakeholders could make proposals going forward.

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SLIDE 3: The first key issue in dealing with the analysis was to identify potential functional responsibilities of a new regional entity, and coming up with definitions was first. These are:

1. Coordinated operation of the transmission grid: this means that the overall operation of the grid from the north to south terminus is operated in a manner that is coordinated so that the maximum amount of energy can flow north and south to the benefit of the whole region.
2. Economic dispatch: this means all of the generation resources in the region are dispatched in a manner that minimizes the cost of electricity to the region as a whole. That is different than having the three generating utilities making decision on their own basis in terms of which of their facilities to operate at a given time.
3. Regional integrated resource planning: this is simply a process whereby electric utilities evaluate the various generation, transmission and conservation programs which are available to meet the need of the future and select the most optimal mix of resources for meeting the needs and reliability going forward.
4. Joint project development: this means coming together as a region in developing project for the benefit of a region as a group of entities as opposed to individual utilities.

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They also decided to look at alternative combinations of those responsibilities and those were called organizational paths.

SLIDE 4: Summary of Five Organizational Paths:

1. The first is essentially the status quo, which is the utilities continuing to do business as they are today with some coordination, some bilateral contracts.
2. A new regional entity would be formed to provide the coordinated operation of the transmission grid. To a large degree this coordination already occurs through the cooperative actions of the utilities. Under this path they simply looked at creating a new entity that would do that as an independent entity.
3. A new regional entity would be formed that would be responsible for the independent operation of the grid and for regional economic dispatch.
4. In addition to those responsibilities the regional entity would have the responsibility for regional resource planning and for joint project development.

5. Forming a power pool. Typically, power pools are created that have operational responsibility for the grid, economic dispatch responsibility and regional resource planning responsibility (similar to path 4), but with the major difference that the individual utilities who are participants in the power pool retain the responsibility for the development of development of future generation and transmission resources.

Clearly the decision about an organizational structure is in part a function of what their view of the future is, he said. So in trying to evaluate the organizational paths against each other they looked at four alternative views of what the future might look like in terms of generation resources, referred to as evaluation scenarios. They tried to determine if one organizational path was superior under any of the alternative paths or whether the choice of the path was a function of the future. They developed prescriptive resource plans for each scenario.

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Scenario A: Over the next 30 years they assumed that the future generation requirements of the region would be met by a combination of large hydro electric facilities, other renewables and energy efficiency programs.

Scenario B: Referred to as the natural gas scenario - assumed all future generation would be natural gas-fired plants, which means that the region will continue to be dependent on natural gas.

Scenario C: The resource plan was built around the addition of coal plants.

Scenario D: The resource plan had a mix of hydro electric, coal, renewables, and so forth.

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MR. HAPRER said they developed these resource plans so they could identify annual power costs under each of the organizational paths.

SLIDE 6: Stakeholder Involvement Process:

Black & Veatch proactively solicited input from stakeholders. The AEA sponsored a two-day technical conference so participants could share views; 120 people attended including the governor and several state legislators. In addition to that, stakeholders

had the opportunity to meet with the Black & Veatch project team; they had 30 meetings with stakeholders in addition to the meetings they had with the utilities themselves. They also sent out surveys to those who attended the first technical conference to provide them the opportunity to respond to some specific questions. They received numerous responses and considered those during the course of the project.

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Towards the end of the project they had a second day-long technical conference to present preliminary results, conclusions and recommendations to the general public. This was before the draft report was prepared so the responses could be used in its production. He thought it was correct to say the involvement of all the various types of stakeholders had a direct positive impact on the quality of their analysis and on the results and recommendations of the study.

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SLIDE 7: Provides the overall results - the top was divided into the various organizational paths. Different evaluation scenarios showed the total average annual net savings for each organizational path under each of the evaluation scenarios. The net average annual savings is a function of two things: first is it's a function of the total power costs for each of the different evaluation scenarios and paths. The power costs include both the generation related costs as well as transmission related costs. The second element of the net annual savings is the cost of the organization, itself - startup costs, annual administrative and general costs associated with salary benefits, and other general costs.

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MR. HARPER continued to explain that they compared power costs and the organizational costs and came up with a total cost for each path under each scenario. And path four shows significant benefits relative to organizational paths two and three. In essence that says that forming a regional entity that has a broad set of functional responsibilities for operation of the grid, planning, resource dispatch and project development is superior to an entity that has only a subset of those responsibilities.

For example, he said the total annual net savings for path four, scenario A, represents \$42.7 million in savings relative to the base case. The second way they show net savings is in percentage of savings. So the \$42.7 million represents approximately 11

percent savings relative to the base case. The third way they try to relate it is to a typical monthly residential bill, which would save \$11.50 a month over a 30-year period.

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SENATOR HOFFMAN asked if natural gas has the least amount of savings and hydro the most, with coal being a close second.

MR. HARPER replied yes, and that is driven by two factors; one is the utilities today know how to build and operate gas facilities and they tend to be smaller. When you start getting into hydro and coal, you are talking about bigger projects and integrating that is more challenging; the benefits of having a regional entity to do that shows up in these numbers.

SENATOR HOFFMAN asked if the \$12 billion includes a bullet line for natural gas.

MR. HARPER answered yes; they assumed gas would flow from Cook Inlet, but would be priced at world market prices.

SENATOR HOFFMAN stated that the capital costs from the North Slope are considerably different than the capital costs from Cook Inlet.

MR. HARPER said that was right, but those costs would be incorporated in the delivered price, and they assume that no matter where it comes from it will be a higher price than it is today to reflect the capital costs.

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Two categories in shaded columns are tax exempt debt and taxable debt, and that refers to whether or not this regional entity is formed in a manner that would allow it to use tax exempt debt for financing future generation and transmission. There are significant benefits between tax exempt and taxable debt.

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Last, he mentioned the differences between paths four and five. Path five actually looks like it is a superior option compared to path four, but there are two issues associated with drawing that conclusion. First is in their analysis they assumed under path four that those currently responsible for power generation and transmission planning in the region would be transferred over into the new entity and those salaries were included into path four. In the case of path five the individual utilities would continue to have responsibility for development of

projects, so those staff would remain presumably with the existing utilities. That wasn't captured in the analysis. So, that says if you look at the region as whole there would be less saving in path five.

The second more important issue with regards to path five is they assumed that the power cost savings in paths four and five are the same. In essence that means that in path five where the individual utilities retain responsibility for future generation transmission projects that they make decisions on an individual basis that would completely align and track with the region resource planning process. There are ways that a power pool could be developed that would induce that behavior, but there is no way to guarantee that that behavior would happen. In their view, the chances are that the PCE would be significantly less under path five. So, they ultimately recommended that a path four organization be created for the Railbelt region.

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SENATOR WIELECHOWSKI asked if they had done any modeling on the impacts of cap and trade legislation on their numbers.

MR. HARPER responded that they assumed some carbon taxes that were consistent with the mid-range of proposed legislation in Washington, D.C. as of 14 or 15 months ago. They just picked a number and didn't do any sensitivity analysis around what that number might be.

SENATOR WIELECHOWSKI asked if that is factored into those numbers.

MR. HARPER answered yes.

[11:54:21 AM](#)

SENATOR HOFFMAN asked if he had a breakdown of the mix under scenario D on path four.

MR. HARPER answered yes; it was a combination of one large hydro plant, one coal plant, limited renewables and some energy efficiency programs.

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MR. HARPER said that Black & Veatch concluded that the formation of a regional entity with the responsibility for the operation of the grid, regional economic dispatch of generation facilities, regional resource planning and joint project development was the optimal organizational structure for the

region to move forward and deal with the issues and challenges facing it, and the proposed legislation is consistent with those recommendations.

MR. HARPER said there is one difference. They proposed that the regional entity be formed as a state power authority rather than a private corporation with statutory powers, which is what the GRETC legislation is proposing. Their recommendation was based on two principal factors; one is the ability of the regional entity to secure financial assistance from the state and the second was the ability of this regional entity to use tax exempt financing to build future generation and transmission facilities.

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SLIDE 8: It is challenging, but regions need to finance the future. The top the graph showed the total capital investment required over the next 30 years for each of the four evaluation scenarios. Basically the region is looking at an investment of anywhere between \$2.5 billion and \$8.1 billion over the next 30 years. The numbers at the bottom put that in context. The total net for an electric plant for all six utilities based upon their 2007 financial reports was \$1.5 billion. The total long term obligations were around \$1.1 billion. So if you were to take the \$8.1 billion under scenario A and finance it completely with debt, essentially they would be looking at a seven-fold increase in the long term obligations of the utilities within the region. Even if it's only \$2.5 billion, it's a significant amount. That brings up the issue of state financing and tax exempt debt.

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MR. HARPER said there were two reasons they decided to go with the state power authority; first there is no doubt that any state financial assistance, whether it's in the form of a loan or a grant, would have significant benefits for the ratepayers in the region. From their perspective it seemed reasonable that the state legislature might be more willing to provide funding to a state power authority rather than to a private business. It is a policy issue.

The second had to do with tax exempt debt, and the second best way to reduce the rate impact associated with this capital investment program is to be able to raise financing through tax exempt debt, which can't be done as a private corporation. It can be done as a state power authority, but even then there would be significant challenges.

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MR. HARPER stated from their perspective the most important decision to be made is whether to form the regional entity. The secondary question is whether it is a state power authority or a private corporation. But regardless of the form, there are significant benefits as they already saw on the previous slide.

12:00:05 PM

SENATOR WIELECHOWSKI asked if the numbers change if they have a state corporation that is voluntary like the one proposed in SB 143 that doesn't require everyone to be a part of it.

MR. HARPER answered yes. When he looked at how the utilities work in the Railbelt region, he was reminded of a circular canoe - you have six people in that canoe each of which are strong and have a paddle, but as they are paddling they are going in a circle. To the extent that the canoe could be restructured, if all six people are paddling in the same direction, you get significant benefits. If you take a couple of rowers out and put them in a different canoe, you get suboptimal results from a regional perspective.

12:01:34 PM

SENATOR WIELECHOWSKI said he questioned some of the hydro numbers in particular. How many megawatts would the hydro project generate in scenario A?

MR. HARPER answered it was 450-500 megawatt facility and the total cost was in the neighborhood of \$4 billion.

SENATOR WIELECHOWSKI remarked that the only Railbelt facility that can generate that much power is Susitna and that is currently estimated to cost \$8 billion.

MR. HARPER said Black & Veatch used standard industry averages to come up with costs; but the problem is that hydro is very site specific, so the costs can vary a lot. When they did their study they didn't have the benefit of the numbers for Susitna.

12:03:20 PM

SLIDE 9: Implement Steps - the state needs to make decisions as to whether a regional entity should be formed, finalize a legal form, establish a transition team with both utilities and the state represented, adopt legislation and regulatory actions, complete formation of an entity, and develop the initial regional integrated resource and transmission expansion plans.

[12:05:05 PM](#)

MR. HARPER said he wanted to leave them with five thoughts.

- Challenges are significant, but Alaska has some advantages, among them the coal and hydro resources.

[12:05:30 PM](#)

SENATOR HUGGINS joined the meeting.

MR. HARPER continued;

- Formation of a regional generation/transmission entity is common in other parts of the country. So while the GRETC concept is new to Alaska, it is a well-tested organizational structure.
- When you look at how such entities have been formed elsewhere, you see net benefits weren't always really clear. A leap of faith took place in the decision to form a particular entity, but that is not the case here where the potential benefits are compelling.
- There is a lot of work to be done, but it's worth it.
- It is critical that the state moves forward now. Delay will make challenges even greater. It will mean that the individual utilities continue to make decisions that are best for the utilities and not necessarily for the region. Also, momentum will be lost if they wait until next session.

[12:09:23 PM](#)

SENATOR HOFFMAN asked if he has prioritized projects among the renewables and established a timeframe for the infrastructure to be put into place.

MR. HARPER replied that will be answered in the development of the integrated resource plan, a process that is just starting and will be completed by early next year.

[12:10:30 PM](#)

MR. HARPER said the region has a few years to do the analysis, make the decisions, and start building the infrastructure before things get critical from a capacity perspective. The gas supply situation is critical now in terms of the expiring gas contract. But that is the motivation behind the integrated resource plan that is currently under development.

[12:11:06 PM](#)

SENATOR HOFFMAN asked if he sees any federal involvement financially in the \$5.8 billion proposal.

MR. HARPER replied that it depends on what resources are chosen. If a hydro facility is built, federal regulations have to be met and you can go to congress and try to get money for a large hydro or coal plant like the state did with Bradley Lake.

[12:12:16 PM](#)

SENATOR HOFFMAN asked if they had contemplated user fees to participate in the construction.

MR. HARPER replied that their analysis didn't look at that, but the legislation has a transition plan and a finance plan. His question would be addressed in the financing plan.

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SENATOR HOFFMAN stated that in any plan, a portion of the savings that are delineated on page 7 should be dedicated to completion of the project.

MR. HARPER agreed, but added that with significant investment, you're talking about rate increases - even with significant savings.

[12:14:06 PM](#)

SENATOR WIELECHOWSKI asked if he recommends a state power authority over a private corporation.

MR. HARPER replied that their study came to that conclusion. They saw financing benefits to forming a state power authority.

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SENATOR WIELECHOWSKI asked if he has a sense of what the cost savings would be with a state power authority.

MR. HARPER replied that it would be a function of two things - one is state financial assistance and the second is tax-exempt versus taxable debt. He directed them to evaluation scenario A under path four and the tax exempt debt savings of \$42.7 million/taxable debt of \$28.2 million. An average would be in the neighborhood of a \$6-7 million/year difference. He said first of all, simply forming a state power authority doesn't give it the ability to use tax exempt debt. The big issue is the state power authority can sell power through the four electric cooperatives and the two "munis," but selling through the cooperatives precludes them from using tax exempt debt because it becomes a private use. The only way one could do that is to set up a structure whereby the state power authority sells

directly to the individual ratepayers. He understands the utilities are concerned about having this entity sell directly to their customers. That's kind of a political decision, but there are savings to do it that way.

State financial assistance is a bigger issue, because the benefits whether in the form of a grant or a low interest loan are greater than the benefits of tax exemption. He said it is a decision for the legislature and the state to make.

[12:18:15 PM](#)

SENATOR WIELECHOWSKI asked how common state power authorities are throughout the country or the western U.S.

MR. HARPER answered that there are 6-10 true state or federal power authorities. The New York Power Authority and Bonneville Power Administration are two, for instance. What is more common is a GNT Cooperative, which is similar to this, but with some important differences. These are entities formed to provide generation and transmission services on a regional basis, and there are 50-70 of those.

[12:19:41 PM](#)

SENATOR HOFFMAN noted that his schedule has \$9.90/month savings for the mix or a little less than \$120/year for a residence. How much is that for the Railbelt in total?

MR. HARPER answered the total dollars saved for the Railbelt region would be \$34.2 million annually.

SENATOR HOFFMAN asked what population figure he used.

MR. HARPER replied the current total population that is served by the six Railbelt utilities. The total savings in the shaded column has some assumptions tied to load growth which is tied to population, but they didn't predict population growth. Numbers on the right are based upon taking the average monthly bill of a Railbelt resident and applying a 9.4 percent savings. (page 7)

[12:21:40 PM](#)

SENATOR HOFFMAN asked for the mix of energy sources.

MR. HARPER replied that he would have to provide that for him.

SENATOR HUGGINS asked what striking the hydro under renewable energy sources does to the numbers.

MR. HARPER responded that the REGA study focused principally on organizational structure; that type of analysis would occur in the integrate resource plan.

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SENATOR HUGGINS asked if the regional entity is subject to the RCA.

MR. HARPER replied that their recommendation was that it not be subject to oversight by the RCA. The proposed GRETC legislation proposes it to be under the RCA, however. The primary reason they concluded not to have the entity under the RCA is tied to the recommendation that it be a state power authority in which case you would have one state agency overseeing another.

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SENATOR HUGGINS asked what the successful traits versus the unsuccessful traits are of 6-10 states with state power authorities.

MR. HARPER answered that there are two characteristics of successful state or federal power authorities: first is the level of competency and professionalism in the management team and board structure is such that it allows them to deal with issues that they are facing. The second is that the entity is allowed to be somewhat insulated from the political cycles.

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Two examples he is familiar with are both municipalities - Seattle and Tacoma. In the case of Seattle, the entity reports directly to the city council. In the case of Tacoma, it reports to an independent board, which just has a link to the city council. Most people in the Northwest would tell you that the Tacoma utility is better managed and run more like a utility because it has that insulation from the day-to-day political issue. Also, a utility board has an ability to attract people who have experience with energy matters as opposed to city council representatives who might have some experience with energy, but have a whole lot of other responsibilities that they have to fulfill. Having a city council run a utility would be challenging.

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SENATOR HUGGINS commented that the local communities in Seattle are probably more homogeneous than communities in the Railbelt. "Let's talk about states, not cities."

MR. HARPER agreed with the diversity within Railbelt communities and with the challenges putting transmission lines over the topography, but in other parts of the country where regional entities have been formed - like the Nebraska Public Power District (GNT cooperative) - the diversity they deal with is not that much different from the Railbelt's. It's a mix of very rural and urban centers.

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JIM STRANDBERG, Manager, Greater Railbelt Energy and Transmission Corporation (GRETC), Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), said SB 143 is a product of a joint effort between the Governor's Office, the Railbelt electric utilities and the Alaska Energy Authority. It is designed as the first-year step to create a robust durable, not-for-profit Alaskan corporation to assume the responsibility for Railbelt power generators and transmission lines of the future. They have learned from earlier efforts that restructuring is needed so that new generators and transmission lines can be financing and constructed. SB 143 is the first step to form the GRETC company in a phased two-year legislative process.

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Using a pickup truck for a metaphor, MR. STRANDBERG said, they would build the frame, drive train, wheels and transmission in the first year and in the second year they would add the body, engine and truck bed to make the pickup pretty and drivable. This two-year process is the fundamental concept here.

In SB 143 they seek enabling legislation that defines the business type in statute, the makeup of the board of directors, voting rights and basic powers and duties of GRETC. Included are identified tasks the new company must accomplish prior to the second year. These tasks include creation of transition plans that are utility specific, development of financing capabilities of the company, and further development of the responsibilities the RCA will have over the operation of GRETC. These will be valuable guides for the creation of the year-two legislation. Between years one and two, the AEA will assist in the bill's financial and regulatory work, and will assist through grants and support labor the formation of the GRETC board and drafting of by laws. AEA's funding is proposed through a separate capital appropriation described in the fiscal note.

In year-two legislation, they propose to add important financing capabilities and further define the transition process to make the company fully functional.

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MR. STRANDBERG said the first segment of time, the transition period, will take about 10 years, and during that period the company's primary operations will be phasing unified operation of generation and transmission in cooperation with the Railbelt utilities, and creating a new simplified commercial business environment that is needed for large-scale power projects for use by all utilities on a non-discriminatory basis. After this period, when commissioning of the large projects is done, the company will need to be an efficient asset manager to maintain and operate the large scale projects under simplified non-profit rates.

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MR. STRANDBERG closed by saying that GRETC is a robust, not-for-profit company with specific public duties and responsibilities, a company with board members that is controlled predominately by the Railbelt utilities with each board member instructed statutorily to act on behalf of all ratepayers and customers at large, a very different hat for these people. This is one of the fundamental important foundations of this new company. It is in some ways very different from the previous efforts. So, SB 143 takes the important first steps of forming the company and charging it and its support agency, AEA, to develop recommendations for the next legislative session.

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SENATOR WIELECHOWSKI said SB 143 requires they have representatives from each of the utilities including the CEO and other people - who have a fiduciary duty to Chugach electric, for example. And putting them into another corporation where they will also have a fiduciary duty to all the ratepayers could present a conflict.

MR. STRANDBERG said they had thought that through, and the approach they've taken is that although it will be difficult emotionally, they believe it can be done - particularly by someone who has the responsibility for providing wholesale power to all of the Railbelt utilities at the same rate.

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SENATOR WIELECHOWSKI commented that the potential issue he sees is that people who have a fiduciary responsibility to get the

lowest rate for their customers might be placed in a situation of asking them for a higher rate because it's good for all rate payers.

CHAIR MCGUIRE asked if they had looked at the TAPS model or other Alaskan models.

MR. STRANDBERG answered that they had employed the service of Brian Bjorkquist who drafted the statute in cooperation with the utilities who may be able to comment.

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BRIAN BJORKQUIST, Senior Assistant Attorney General, Alaska State Department of Law, said the structure of the statutory business model was taken from CFAB because it is a statutory corporation - not a state agency. It is a statutory corporation that is private in nature. This is the model that was recommended by the utilities.

CHAIR MCGUIRE asked if they looked at the TAPS model.

MR. BJORKQUIST replied no.

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CHAIR MCGUIRE called for public testimony.

[12:39:52 PM](#)

LORALI CARTER, Manager, Government and Corporate Communications, Matanuska Electric Association (MEA) said they have about 45,000 members in the Mat-Su area. They agree with Mr. Balash and Mr. Harper that this is a very critical time for the Railbelt and the utilities as their generation is aged and everyone is looking at new generation to provide electricity to their members. They also agree that they don't want to let this opportunity pass them by and that the legislature is receptive now. MEA supports the concept of unifying the generation and transmission functions along the Railbelt and has for a long time. However, she said, MEA does have some reservations about the bill.

Primarily SB 143 establishes a framework for voluntary participation. But in looking at the history of the Railbelt, no utility has voluntarily done this yet. A couple of joint action agencies are out there with a few utility members - but all six of them has never happened, and so she looks at the voluntary aspect of this as the possible deal breaker. It's a little

fearful to realize that a 10-year transition plan means it might not happen at all.

MS. CARTER said MEA believes RCA oversight over this corporation is critical. She was specifically looking at language on page 7, lines 25-30, that basically guts the RCA of their enforcement authority. So, while this corporation might fall under AS 42.05, without being certificated by the RCA, the RCA doesn't have that enforcement authority.

Other sections of the bill talk about the transfer of state assets and so why isn't Healy clean coal a part of this legislation. Why was it negotiated as a side deal? MEA would like to see all of the state assets as a part of this legislation including the coal plant. MEA really wants to see a Railbelt generation and transmission entity to be successful; economies of scale are to be had along with savings to their ratepayers. But this legislation doesn't quite hit the mark, yet.

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If combining the GNT functions along the Railbelt is good public policy, then a decision should be made to actually do that. One way of correcting this bill is to change all the "mays" to "shalls". Otherwise, this bill just creates a voluntary framework that she fears falls short of the goal, she reiterated.

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BRAD EVANS, CEO, Chugach Electric, presented a quick overview of how this came together. Everybody started out in the 40s and 50s with limited transmission and everybody on their own. The 60s saw a little bit more transmission; in the 70s still not interconnected between the Fairbanks region and the Southcentral region, but more hydro came on with more interconnection - dependence on natural gas is increasing. In the 80s, 90s, and 2000s significant changes showed - with the Alaska Intertie interconnecting and Bradley Lake coming on line and several new resources that were developed.

There are multiple transmission system owners now, and SB 143 embodies unifying that them to create one highway system, which makes it commercially easier for people to introduce new resources. Three different load centers connected by weak interties are some of the challenges. This legislation takes the utilities and reconfigures them into one umbrella organization,

but each keeps its own identity. Tension exists between the utilities, but none can solve the problems individually.

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MR. EVANS added that the problems haven't gone away with reduction in energy prices; this is just a temporary reprieve. He showed a vision of what the corporation could start to do right away and he thinks first service for some small entities that have projects could be developed within two years. He doesn't disagree with MEA's testimony, but he thinks this legislation is as close to the middle as they can get.

12:51:39 PM

SENATOR HUGGINS asked why he felt Healy clean coal was omitted.

MR. EVANS replied to the extent that it is already there it was omitted; this is talking about anticipated new projects and how existing facilities get transitioned into this company has not been fully resolved. The entire infrastructure has to be integrated into the GRETC, and there is really no reason Healy can't be included.

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SENATOR HUGGINS asked how important in-state gas is to this project.

MR. EVANS replied that in-state gas is very important to the integrated resource plan, but he couldn't answer all those questions because the commercial issues hadn't been resolved around those projects.

SENATOR HUGGINS asked if he'd give them a 30-second burst on his vision of "storage."

MR. EVANS replied that Cook Inlet has declining production capability and at some point they would need storage to be able to continue to harvest and use that resource. If the deliverability goes underneath the demand, storage is needed, and then it needs to be used when demand exceeds the deliverability capability. There are several different types of storage - in-ground and liquid storage like the LNG plant or other things like methanized propane where air is introduced. This energy corporation would have to start addressing that immediately. It can't be delayed, he emphasized. Readily available new reserves are small, and more need to be found - on federal lands, too. That all has to play out against the various options for bullet or spur lines, but you need a plan to get

from here to there and that involves the Cook Inlet resource management plan.

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JAMES POSEY, Manager, Anchorage Municipal Light and Power (ML&P), said they serve about 30,000 residents and businesses in Anchorage and have the lowest energy rates in the Railbelt. He asked them to understand that they are obliged to be very cautious in moving into new business structures to be certain they do not endanger the unique circumstances not shared with other Railbelt utilities that allow ML&P to effectively serve its ratepayers. He urged them to keep the momentum on SB 143 going, but that it needed minor changes.

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CHAIR MCGUIRE asked him to highlight the changes he'd like to see in the bill in order to support it fully.

MR. POSEY said they are meeting Monday to prepare some recommended changes that everybody can agree on, and he'd rather not present anything now. There is a lot to discuss and this bill is basically the skeleton that everyone needs to get started.

CHAIR MCGUIRE asked if he believes the bill provides RCA oversight and if that regulation is necessary. Also, did he think using the model of a state energy authority would work in Alaska, and if he does think that, why does he think it is superior to having RCA be that day-to-day regulatory authority?

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MR. POSEY responded that the RCA is one of the things that need further fleshing out. He personally believes in regulation, and if it is done correctly, as it is in Alaska, it is more of a benefit than a detriment.

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DAVID GARDNER, Vice President, Golden Valley Electric Association, said their board is still reviewing SB 143, but they have some concerns about the language because it leaves too many questions unanswered. Of primary concern is how such an entity would provide the same level of reliability that the members currently receive from Golden Valley, especially considering the sub-arctic temperatures found in the Interior.

He emphasized that Golden Valley is not saying "no" to the concept of a Railbelt generation and transmission organization;

but first they want to see a Railbelt integration resource plan that clearly states some purpose. The process should address the following:

1. How will reliability issues be safeguarded and applied consistently to all utilities.
2. Will utility membership be voluntary or mandatory?
3. What long-term fuel source will provide the most stable electric rates?
4. When is joint generation and transmission needed?
5. What type of joint generation is best and what fuel source is preferred?
6. Where will joint generation be located?
7. How much will joint generation and transmission cost?
8. Who will finance new generation and transmission?
9. What type of financing will offer the lowest costs?
10. Where will the point of demarcation exist between a unified Railbelt utility entity and each distribution utility?
11. How will existing generation and transmission assets be integrated into a joint organization?
12. Would non-integrated generation and transmission assets be exempt from eminent domain?
13. How will utility generation and transmission assets be valued and how much will utilities be compensated for integrated assets?
14. How would system wide generation and transmission rates affect Railbelt consumers?
15. When would system-wide generation and transmission rates be implemented?

MR. GARDNER stated that this bill does not address lower cost fuel supplies, something all the utilities need, but that the Railbelt integrated resource plan will address it. Another concern is that some Railbelt utilities desperately need new generation while others will soon be replacing worn out generation. Golden Valley, on the other hand, has been very proactive in this area and won't need new generation facilities or transmission lines for more than 20 years. Currently, SB 143 does not address these diverse needs and seeks to form an organization that forces utilities under one umbrella in hopes that everyone's needs will converge and that the savings will follow.

He said that Golden Valley has promoted the concept of a Railbelt generation and transmission organization for more than 30 years. In the 1970s Golden Valley and Copper Valley advocated building generation on the North Slope to electrify Alyeska pump

stations along the TAPS while supplying power to Fairbanks, Glennallen and Valdez. In the 1980s Golden Valley joined other Railbelt utilities to work with the state to construct the Bradley Hydro Electric project. Also, a few years ago the three power producers - Chugach, ML&P, and Golden Valley - formed a joint action agency to promote combined generation and transmission activities, and most recently they joined with Homer Electric Association to settle the issues surrounding the Healy Clean Coal project and cooperatively are working to get that plant running again. In conclusion, he said, that Golden Valley looks forward to working with the Governor's Office and the legislature on this project.

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JOE GALLAGHER, Member, Homer Electric Association, said they participated in the REGA study and currently support the concept of SB 143. However, it is a very complex issue, and working out the details will take time so that no utilities are adversely affected. He looked forward to working with them.

1:08:30 PM

PHILLIP OATES, Manager, City of Seward, said they support the concept of SB 143 and agree it is a very important bill. He said the Seward electric utility is the smallest of the six utilities and services about 5,000 individuals and businesses.

He said 10 years is a very short period of time to accomplish everything that needs to be done, and they would have to move quickly. Their perspective is as a municipality rather than a utility. But as a home rule city that gives them some flexibility to do those things that are not prohibited by the constitution. Their charter requires a three-fifths vote of the people to transfer or sell electric utility assets and they have a five-year limitation on the period for M&O agreements without a vote of the people. No matter how this legislation plays out, some action will be required to obtain the consent of the voters of Seward.

One of the biggest challenges they face is deciding what has to be done now to get the transition started and what gets played out during the transition period. Certainly the issues of state power authority or private corporation are very important along with the impact of that decision on the non-profit status (both state and federal) and how that affects financing (tax-exempt or taxable).

Also, he said that Seward has emergency power generation capability because the power needs to stay on during severe weather. That emergency capability is very important and how that is impacted and how that becomes part of the generation assets will be important to resolve.

MR. OATES stated that being a small voice among the six utilities, he is interested in the future rates and thinks the RCA could play an effective role in making sure all voices are heard. Also, consistent (from administration to administration) state funding during the transition period will be very important. With that, he said he looks forward to working with the committee and the other utilities to get this legislation enacted, because fundamentally it may be the only way they can meet the challenges of upgrading transmission lines and meeting the potential shortage of oil and natural gas, and for financing large and efficient power plants, and finally to keep power affordable and available in Alaska.

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CHAIR MCGUIRE agreed that this is one of the single most important issues the state is facing, and said she hopes to keep the legislature moving forward. SB 143 was held in committee.

Finding no further business to come before the committee, Chair McGuire adjourned the meeting at 1:13 p.m.