

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 24, 2011

8:05 a.m.

MEMBERS PRESENT

Representative Cathy Engstrom Munoz, Chair
Representative Neal Foster, Vice Chair
Representative Alan Austerman
Representative Alan Dick
Representative Dan Saddler
Representative Berta Gardner

MEMBERS ABSENT

Representative Sharon Cissna

COMMITTEE CALENDAR

OVERVIEW: REGULATORY COMMISSION OF ALASKA (RCA)

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ROBERT PICKETT, Chairman/Commissioner
Regulatory Commission of Alaska (RCA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the RCA.

ACTION NARRATIVE

[8:05:13 AM](#)

CHAIR CATHY ENGSTROM MUNOZ called the House Community and Regional Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Foster, Austerman, Dick, Saddler, Gardner, and Munoz were present at the call to order.

Overview: Regulatory Commission of Alaska (RCA)

8:05:28 AM

CHAIR MUNOZ announced that the only order of business would be an overview of the RCA.

8:05:44 AM

ROBERT PICKETT, Chairman/Commissioner, Regulatory Commission of Alaska (RCA), Department of Commerce, Community & Economic Development (DCCED), began by informing the committee that the RCA is a five-member board with a staff of 50 professionals in Anchorage. Each commissioner is appointed for a six-year term by the governor and confirmed by the legislature. Mr. Pickett opined that the RCA's work is not fully understood by the public. In AS 42.05, the utility statute, and AS 42.06, the pipeline act, the legislature has charged the commission with a number of activities to strike the right balance between the people who pay for a monopoly pipeline for utility services and the actual provider of those services. He pointed out that the most effective form of true regulation is competition. In a competitive market place, there is no need for regulation, save some very broad guidelines. Without that competition, there needs to be some counter veiling force to achieve the appropriate balance. Mr. Pickett opined that it's a misconception to interpret the RCA's mission to push for the absolute lowest rates in all circumstances. There are those in the public who sometimes believe that the RCA is a rubberstamp for those [utilities] that want to obtain more money by increasing their rates. However, the truth is more complicated and is somewhere in the middle. Frequently, the RCA finds itself antagonizing both the public and the utilities, but it's being done based on very formalized proceedings and the development of sound records that can be defended in court. Above all, it's a fair, open, transparent, and understandable process, he said.

8:09:58 AM

MR. PICKETT, turning to his presentation, directed attention to slide 2, which outlines where the RCA receives its statutory authority. The RCA, created in 1999, is the successor agency to the Alaska Public Utilities Commission (APUC). He then highlighted the definition of a public utility, which is fairly broad, as evidenced in AS 42.05.990(4) on slide 3. The definition of a public utility describes the type of activities public utilities perform and when they are covered by AS 42.05

as well as specifying the size. Mr. Pickett explained that the RCA issues certificates of public convenience and necessity (CPCN), of which there are about 600 in the state. The CPCN is a license to do business for that type of activity and without it an entity has no legal authority to collect anything in rates from anyone.

[8:11:03 AM](#)

REPRESENTATIVE AUSTERMAN asked if some utilities are able to exempt themselves from RCA's regulation.

MR. PICKETT replied yes, adding that later slides will describe specifically what those exemptions are and when they are in effect.

[8:11:32 AM](#)

MR. PICKETT pointed out that one of the triggers is on slide 6, which continues the definition a public utility. He highlighted the following language: "electrical service for use within an area that is certificated ... sales of electricity exceeds \$50,000". The definition continues on slide 7. Slide 8 discusses the CPCN for both AS 42.05, public utilities, and AS 42.06, pipeline act. The key for a CPCN is that the RCA has to find that the applicant is fit, willing, and able. The aforementioned applies to all applicants, whether it's an economically regulated entity or otherwise. Slide 9 relates some statutory exemptions that address electric utilities. For those electric utilities that make less than \$50,000, statute makes a provision for a joint action agency (JAA). Furthermore, the Federal Energy Regulatory Commission (FERC) has a qualifying facility designation that exempts [JAAs] from the state's jurisdiction. Slide 10 relates the statutory exemptions for electric [utilities] from economic regulation. The exemptions are as follows: a utility owned by a political subdivision, except a utility competing with a regulated utility; utilities making between \$50,000 and \$500,000 that have a deregulation election; cooperatives that have a deregulation election; and utilities that receive a qualifying facility designation from FERC.

[8:13:37 AM](#)

REPRESENTATIVE SADDLER inquired as to whether many utilities avail themselves of the aforementioned exemptions.

MR. PICKETT replied yes. For example, there are about 150 communities served by 127 electric utilities in the state. The RCA economically regulates about 37 of those. The electric utilities that the RCA regulates tend to be the larger entities. He noted that the RCA doesn't regulate most municipally owned utilities, although they still have a CPCN. The RCA becomes involved if there is a service problem, dispute, or the utility collapses. Once the RCA is involved there is a show of cause hearing regarding whether the certificate should be revoked.

REPRESENTATIVE AUSTERMAN related his understanding that Kodiak is a cooperative and elected to deregulate itself, and therefore isn't regulated by the RCA.

MR. PICKETT remarked that it's a fairly low threshold for a cooperative. He further remarked that there are reasons why an entity would choose not to be deregulated. Mr. Pickett opined that it's fair to say that the RCA strikes a balance. The RCA is entering into difficult times as the pressure on ratepayers is intense, while simultaneously utilities and pipeline companies face aging infrastructure and huge needs for massive capital investments. Ultimately, the ratepayers are asked to be responsible for the repayment of debt, building of capital, increased operating expenses, etcetera. As mentioned earlier, the role of the RCA is to strike the appropriate balance.

[8:16:16 AM](#)

MR. PICKETT moved on to slide 11, which provides a general overview of general issues that are of great concern. The top concern is the Cook Inlet natural gas supplies. Although it's a regional issue, it impacts a large part of the state. This has been developing over a 10-year period, and therefore it shouldn't be a surprise. Recently, there was an announcement that the ConocoPhillips and Marathon liquefied natural gas (LNG) export facility would be closing. Some view [the aforementioned] as a benefit to the gas situation in South Central Alaska. However, he opined that such a view isn't taking into consideration the entire system as it's a very small market. The incentives are fairly tenuous. He highlighted that one still needs a place to sell the gas and the utility market is limited in size. The RCA, he pointed out, doesn't have anything to do with LNG. The RCA is involved with the gas supply agreements with utilities. However, the RCA impacts the market place because one must have all the pieces working well together. Therefore, there may be a point at which utilities come forward with proposals to import LNG for the short-term.

The responsibility of the RCA is to ensure that the utilities can continue to provide the service they are certificated to do. Therefore, he predicted some very challenging times.

[8:18:43 AM](#)

REPRESENTATIVE AUSTERMAN asked if the RCA regulates what consumers in Anchorage pay for natural gas.

MR. PICKETT clarified that the RCA doesn't regulate the producers, but it does approve gas supply agreements that the utilities negotiate with the producers. He informed the committee that House Bill 280 included a provision that as the RCA evaluates gas supply agreements, it must consider the alternatives if it rejects those agreements the utility negotiated with the gas supplier. There are only a handful of players in the Cook Inlet gas market, at this point.

REPRESENTATIVE AUSTERMAN asked if a natural gas supplier that wants to increase its rates would approach the RCA.

MR. PICKETT replied yes, adding that there are different factors that propel rate increases. In the case of natural gas and a local gas distributor, such as Enstar, about 80 percent of the customer's bill is the actual cost of the gas and the 20 percent remaining is the company's overhead and investment in the system. With flow through, rural utilities, and PCE and fuel charges for which the fuel charge can be documented, the RCA has provisions that allow it to flow through with the tariff filing. He opined that it doesn't make sense to have expensive litigation in rate cases for things that can merely be reviewed to ensure they're supported and the utility used diligence.

[8:21:18 AM](#)

CHAIR MUNOZ asked if the RCA has the ability to review a specific rate of return on a capital investment when reviewing rate increases.

MR. PICKETT replied yes. In further response to Chair Munoz, Mr. Pickett hesitated to specify a standard rate of return for a for-profit utility on a large capital investment as it's dependent upon many factors. He pointed out that the RCA reviews the return on equity, overall capital, debt structure, and the overall return for the utility as a whole.

[8:22:15 AM](#)

MR. PICKETT, continuing his presentation, emphasized that the dollar figures for the large infrastructure needs of electric utilities are staggering. He recalled that the RCA did an approval for the recovery of costs for a gas plant in Anchorage with Chugach Electric last summer. Between Chugach Electric's share, about \$200 million, and Municipal Light & Power it amounts to about a \$300 million project. The various energy studies relate staggering amounts of money. For example, the entire depreciated rate base of the electric utilities in the Railbelt is about \$1.6 billion. There are proposals that could double the aforementioned. The ratepayers will likely be a large part of paying for it or folks will seek assistance from the legislature. He then turned to the PCE program, which the RCA administers cooperatively with the Alaska Energy Authority (AEA). For the PCE program, the RCA is charged with calculating the rates, even for the noneconomically regulated utilities. The PCE subsidy is calculated by the RCA reviewing a cost structure for PCE as if it were a regulated entity in order to determine the cost per kilowatt hour (kWh) with a baseline of Anchorage, Fairbanks, and Juneau. The PCE program is very important to rural Alaska and was significantly expanded in 2008 when energy prices skyrocketed and communities were struggling.

MR. PICKETT mentioned that he will be meeting with Senator Hoffman's staff on the following matters. The renewable energy grants have created a high level of expectations regarding who will actually benefit, and thus he anticipated collision of expectations as the projects come on line. He highlighted that renewable projects that offset high priced diesel will lessen the impact to the PCE program, which is good. However, he reminded the committee that the PCE program only covers the first 500 kWh and doesn't help businesses. When state funded renewable energy projects are put in place and a customer can't trace through to a positive impact on his/her bill, it will likely elicit questions about the program.

[8:25:51 AM](#)

REPRESENTATIVE SADDLER inquired as to the regional factors utilized in PCE.

MR. PICKETT, noting that these aren't total swag numbers, stated that it's not uncommon to perform the PCE calculations as if it was an economically regulated utility and the cost of producing the power is 54 cents per kWh. The RCA then reviews the annual cost [of that energy] in Anchorage, Fairbanks, and Juneau, which

will likely be close to 12.5 cents per kWh. The PCE subsidy is based on the difference for the first 500 kWh. Some communities charge much more than the actual cost, which causes consternation, he noted. Those communities aren't economically regulated by the RCA and it doesn't have the statutory authority to address that. However, the community is accountable to its residents, he pointed out.

[8:27:21 AM](#)

REPRESENTATIVE AUSTERMAN noted that his district contains about 14 communities that are considered rural. One of the complaints he hears most often is that one community will be diligent in maintaining its equipment and keeping its cost down, while another community doesn't and the energy cost is higher. The more efficient community loses PCE funds, whereas the more irresponsible community is given more PCE funds.

MR. PICKETT explained that the RCA engineering staff utilize various calculations, such as line loss calculations, to encourage efficiency. He acknowledged that Representative Austerman had hit on a very good point. However, he pointed out that the responsible community is benefiting the community as a whole because there are many businesses and individuals who utilize more than 500 kWh. He explained that the PCE filings are paper filings and the annual in-depth reports provide a more thorough analysis that reaches the non fuel costs. Still, the RCA doesn't perform any field audits. Although AEA does have circuit riders to ensure the systems are working, AEA doesn't have much staff to do so. Within DCCED there is a rural utility business assistance program, which is an important program. Mr. Pickett expressed concern with regard to the state of many rural utilities. Between the state and the federal government, there's likely been in excess of \$3 billion invested in various types of infrastructure over the last couple of years. The infrastructure depends upon a well functioning, reasonably affordable electric utility.

[8:30:18 AM](#)

REPRESENTATIVE AUSTERMAN surmised that the issue isn't being addressed within the rate structure of PCE.

MR. PICKETT said, "Not as well as it should be." One of the main problems is that 15-20 communities have difficulty filling out a two-page form to be eligible for PCE. Personally, Mr. Pickett remarked that a community's inability to fill out a two-

page form calls into question how well a community is maintaining the generation and transmission systems. Unfortunately, the RCA doesn't know until there is a problem at a certain level, which is a poor manner in which to create public policy.

8:32:19 AM

REPRESENTATIVE DICK pointed out that along the Kuskokwim River villages are sold electricity from utilities and there is also delivery of fuel via the river. He asked if what's being discussed applies to the delivery of fuel as well.

MR. PICKETT answered that it could conceivably. He told the committee that a couple of years ago in Adak, the city owned the electric utility. After the city manager advised the residents to leave the island because the utility wasn't going to function that winter, the RCA held a show cause hearing regarding possible revocation of the certificate. Although it wasn't an entirely clear cut desirable response, there is an argument that delivery of fuel could be covered. However, to date the RCA hasn't entered into such.

REPRESENTATIVE DICK clarified that he's referring to the delivery of petroleum products on the Kuskokwim River and asked if that's what Mr. Pickett is speaking about. He expressed his desire for those utilities receiving the petroleum products to have input regarding the delivery of petroleum products.

MR. PICKETT informed the committee that similar arguments have been made with petroleum distributors on the road system, although these are isolated communities. He offered to provide the committee information from the Adak proceeding, which may provide insight into the matter.

8:36:10 AM

REPRESENTATIVE GARDNER asked if it would be appropriate to refer or require someone from the Department of Environmental Conservation (DEC) or the Rural Alaska Fuel Services (RAFS) to review the local system, when the RCA receives a poorly completed report or application or other sign that the local community isn't maintaining its energy systems.

MR. PICKETT related that the RCA works closely with the circuit riders of AEA, which does what it can with its staff as is also the case with the Rural Utility Business Analyst (RUBA). He

opined that it's a matter of people, just as it is with the RCA, which has faced tremendous staffing challenges. In fact, about four years ago there was a joint legislative and executive branch task force regarding the RCA's [staff level], but nothing came of it. Therefore, the RCA is confronted with fairly significant staff turnover in certain areas and "pancaking [the Trans-Alaska Pipeline System] TAPS rate cases and strategic reconfiguration." Simply put, Mr. Pickett said he has to make decisions regarding where the staff resources are allocated. At this point, TAPS is quite important.

REPRESENTATIVE GARDNER surmised then that mechanisms such as what she described are in place, but staffing is a problem. Therefore, there is a lack of efficiency and thoroughness and money could be saved and the PCE program could have a greater impact if these communities knew how to maintain their equipment and follow through.

MR. PICKETT opined that AEA does a good job, but it doesn't have unlimited staff and resources. At some point, he opined that it would behoove the legislature to take a broader look as there are many interrelated issues. When the RCA regulates a utility, it reviews the entire picture. The RCA has various regulatory structures, such as depreciation expense, in order to ensure the utility is operating on a sustainable basis per the law and that it plans and performs maintenance and plans future replacements. Mr. Pickett emphasized that although there has been a significant amount of investment [in utility infrastructure] and it's still fairly new and better engineered than in the past, there still will be a day when the aforementioned rural utility issues will come to the forefront.

8:39:35 AM

REPRESENTATIVE GARDNER recalled mention of the potential debt level and increased costs for Enstar and Chugach Electric and that their consumers might face very high rate increases. She further recalled mention of the possibility that the aforementioned might result in a request for state assistance. If PCE is calculated as a ratio of the urban areas, then a dramatic increase in rates in the urban areas would cause PCE values to drop, she surmised.

MR. PICKETT cautioned the committee because it could potentially set in stone inefficiencies with no mechanisms to encourage efficiency. The aforementioned is the problem with subsidies.

[8:41:02 AM](#)

REPRESENTATIVE SADDLER asked if there's a requirement for a regulated entity to have a proactive set aside for future capital needs.

MR. PICKETT clarified that he wouldn't characterize it as a set aside. He explained that when there is a rate case, the [utility] has to prove up a revenue requirement. A component of the revenue requirement is a determination of the rate base for the utility. The rate base calculations consider the physical assets the utility has and there is also a depreciation study, in terms of how the assets are declining. Mr. Pickett said that the RCA reacts to the filings and doesn't demand utilities do specific things. However, if there are patterns/concerns, the RCA has the ability to investigate on its own motion. In further response to Representative Saddler, Mr. Pickett confirmed that a set aside for future capital needs is a factor not a mandate. He added that well-managed utilities do so as it's part of how business is done.

[8:42:44 AM](#)

REPRESENTATIVE FOSTER asked if the earlier testimony regarding the renewable energy fund was meant to relate that as grants are made, the benefits aren't always passed on to the consumer.

MR. PICKETT said that there are a few different scenarios and it's dependent upon the recipient of the funds. The independent power producers are one of the allowable recipients for the funds. He explained that the independent power producers have to enter a power sale agreement with a utility. When the RCA calculates the PCE for a particular community, the [independent power producer] is treated as any other factor. If the result of the power sale agreement is to decrease the cost of a certain block of kW, it will cause the PCE subsidy to that community to decrease. There will be a benefit to the non PCE [entities], the entities using over 500 kWh and businesses. Mr. Pickett opined that this information hasn't been clearly presented to communities.

[8:44:20 AM](#)

MR. PICKETT, continuing his presentation, reviewed slide 12 entitled "RCA Role in Cook Inlet Gas." He highlighted that although the RCA doesn't regulate the producers of natural gas in the Cook Inlet, it does evaluate the Gas Sale Agreements

(GSA) between the utilities and the producers. Mr. Pickett clarified that the RCA reviews whether utilities behaved prudently. However, he clarified that the RCA isn't trying to set a price per unit of gas. House Bill 280 provided direction for the RCA, he noted. Moving on to slide 13, which relates the electric utilities infrastructure needs, he highlighted that the Alaska Railbelt Electrical Grid Authority (REGA) Study of 2008 estimates [cumulative capital] investment requirements ranging from \$2.5 to \$8.1 billion over the next 30 years. Much of that investment is frontloaded over the next 10-15 years. Slide 14 relates the assumptions of the Railbelt Integrated Resource Plan. The pie chart on slide 15 illustrates the existing installed Railbelt generation, which is mainly natural gas. The chart on slide 16 relates the existing generation versus proposed generation in the Railbelt. He noted that some of the natural gas generation at the Beluga Field will be retired in 2014.

MR. PICKETT remarked that the state has set an aggressive goal for renewable energy. However, the aforementioned causes some issues from a regulatory perspective in terms of firm versus non-firm power supplies, the definition of which is related on slide 17. Firm power, base load power, is power that a utility can dispatch 24/7 365 days a year and it has a particular value. Non-firm power is unpredictable and has a different value because the capital investment for base load power can't be displaced with non-firm power; the [base load power] generation has to remain in place. With adequate storage, hydro can be included in the firm power portfolio because the reservoir would be considered the battery. Therefore, hydro has a higher value than a series of windmills that provide power only 30 percent of the time. In certain locations, the two can be complimentary. Mr. Pickett moved on to slide 18 entitled "Greater Railbelt Energy & Transmission Company (GRETC)" and informed the committee that although the legislature declined to do anything with GRETC last year, the factors motivating and propelling it remain. In fact, five of the utilities in the Railbelt formed a generation and transmission cooperative that is authorized under current statute. The RCA will review various projects in the future. He opined that [GRETC] can limit redundancies, achieve economies of scale, and be a useful long-term planning and execution vehicle. Slide 20 reiterates continuing Railbelt energy issues. Slides 21-22 provide a brief overview of the PCE program, which the committee has already discussed.

[8:50:04 AM](#)

MR. PICKETT, referring to slide 23, informed the committee that the RCA has a number of federal mandates, such as the Energy Policy Act of 2005. The aforementioned act required state regulatory authorities to consider adoption of five new standards. The basic motivation of the aforementioned act was to encourage the development of small and alternative energy sources. The standards the RCA addressed are listed on slide 24 and include net metering, fuel sources, fossil fuel generation efficiency, demand response and time-based metering, and interconnection standards. After the RCA opened a rule-making docket on the aforementioned, the RCA declined to adopt any of the federal standards as they stood because they didn't fit Alaska well.

[8:51:04 AM](#)

REPRESENTATIVE GARDNER requested an explanation of demand response and time-based metering.

MR. PICKETT mentioned the smart grid and smart meter and related that the idea is to get technology and the system to a point at which it's more feasible to have more dynamic pricing. Therefore, it may be based on the time of day when the generation resources are available but underutilized, such as in the middle of the night, and a price signal is provided to consumers to make decisions. In response to Representative Austerman, Mr. Pickett pointed out that forthcoming slides will discuss net metering in Alaska.

[8:52:40 AM](#)

MR. PICKETT reiterated that the RCA declined to adopt any of the federal standards. However, based on the proceedings over a two-year period it was obvious that there was a high level of interest in net metering and interconnection standards. Therefore, the RCA opened rule-making dockets for those two standards. In response to Representative Foster, Mr. Pickett stated that in the 2005 federal act there are no ramifications for the RCA not adopting the standards.

[8:53:40 AM](#)

MR. PICKETT, continuing his presentation, directed attention to slide 26, which references the two dockets the RCA opened to consider net metering and interconnection standards. With docket R-09-1, net metering, the RCA tried to create an Alaska rule that would encourage [the development of distributed small-

scale renewable generation, while maintaining system integrity and fairly apportioning costs among consumers and consumer/producers]. He opined that although the RCA's goals in these dockets are essentially the same as those of the federal standards, the federal standards are too restrictive for the conditions in Alaska. The RCA approved the net metering regulations and the effective date on those regulations was June 16, 2010. The regulations apply to economically regulated utilities with total retail sales of 5 million kWh or more and the affected utilities are required to interconnect with eligible customer generation systems. The aforementioned regulations applied to about eight or so utilities throughout the state.

[8:54:32 AM](#)

CHAIR MUNOZ asked if the aforementioned regulations mean that Representative Olson's legislation is unnecessary.

MR. PICKETT related his understanding that Representative Olson's legislation is similar to the RCA's regulations, but he wasn't sure of the sponsor's intent. Because the regulations have been in effect less than nine months and the utilities are still filing their tariffs, it might be appropriate to let the regulations go forward, especially since regulations are easier to change than statute. In further response to Chair Munoz, Mr. Pickett reminded the committee that the regulations have a size limitation. Referring to slide 28, Mr. Pickett opined that this net metering regulation is tightly contained. The problem is that if there's a small utility and a sufficient surge of energy at a point in the system, it could cause stability issues with the system. Rather than try to foresee all the possible problems, it's better for a utility to determine the problems and review the work the RCA performed and adopt parts of it. The larger utilities are better positioned to make [net metering] work. He noted that with the net metering docket there was vigorous participation from an array of entities for about a year.

[8:57:04 AM](#)

CHAIR MUNOZ surmised then that the regulations are in place for the larger utilities and individual consumers can participate.

MR. PICKETT confirmed that to be the case, and added that many of the larger utilities have already filed their tariff provisions to implement these [regulations] with the RCA.

[8:57:24 AM](#)

MR. PICKETT, in response to Representative Dick, explained net metering as follows. Many renewable energy producers produce an amount of energy in excess of their needs, and therefore they wanted the ability to sell that excess power back to the utility and would either receive a credit on their bill or a check. [The RCA] created a form of credit on the bills.

[8:58:45 AM](#)

REPRESENTATIVE AUSTERMAN returned to the portion of the regulations that apply to economically regulated utilities with total retail sales of 5 million kWh or more and inquired as to Kodiak's position.

MR. PICKETT answered that since Kodiak isn't economically regulated, it's not mandated to participate [in net metering].

[8:59:21 AM](#)

REPRESENTATIVE FOSTER recalled Mr. Pickett's comments regarding Representative Olson's net metering legislation and asked if Representative Olson's office has worked with the RCA.

MR. PICKETT replied yes.

[9:00:02 AM](#)

REPRESENTATIVE AUSTERMAN surmised then that since Kodiak is a non regulated community, it would be up to the members of the cooperative to decide.

MR. PICKETT agreed with Representative Austerman's understanding, but added that the cooperative could review the RCA's regulations and use them as a model.

[9:00:36 AM](#)

REPRESENTATIVE DICK opined that in his small village feeding energy back into the power system wouldn't provide a savings to anyone. He posed an example of a 25 kWh generator that burns 10 gallons at full load, whereas at a half load it burns 9.5 gallons. Therefore, pumping energy back into the system doesn't help because the pistons still have to turn and everyone's electric bill would increase. Therefore, the benefit of feeding

energy back into the system would depend upon whether the large utility has the ability to save fuel as a [consumer] returns energy to the system. If there's no fuel savings, it seems to just be an illusion of savings, he remarked.

MR. PICKETT acknowledged that there are elements of truth in Representative Dick's comments. Directing attention to slide 28, he pointed out that the net metering cap is very restrictive cap as it's capped at 1.5 percent of the average retail demand for the entire system of that utility. Furthermore, 25 kW was the maximum size for any generation unit. Mr. Pickett opined that [net metering] isn't going to have a significant impact on the operations of the six to seven largest utilities in the state.

REPRESENTATIVE DICK surmised that whether there is actual savings or the illusion of savings is dependent upon the generating system of the main utility. The savings is dependent upon whether that energy returned to the system causes the fuel the utility uses to provide energy decreases.

MR. PICKETT agreed that there is truth in that, and added that savings would be related to the efficiency of the utility. The University of Alaska's Center for the Study of Power has received U.S. Department of Agriculture (USDA) funds to study wind-diesel hybrid systems in the Bush. The aforementioned is appropriate because thus far mainly anecdotal information is available. If the state is going to continue to give renewable energy funds, the aforementioned is the type of baseline information that's necessary.

[9:03:50 AM](#)

MR. PICKETT, returning to his presentation, directed the committee's attention to slide 29 entitled "R-09-2 Interconnection Standards". With these new distributed renewable sources, interconnection is critical and greatly concerns the utilities, he opined. Referring to slide 30, Mr. Pickett informed the committee that the RCA will soon consider draft interconnection regulations. He then turned attention to slides 31-33 regarding the Energy Independence and Security Act of 2007 (EISA). The new Public Utility Regulatory Policies Act of 1978 (PURPA) standards in EISA include integrated resource planning, rate design modification to promote energy efficiency investments, consideration of smart grid investment, and smart grid information. The RCA opened a docket on the aforementioned and took comments through December and the docket will be taken

up at a public meeting in the near future. Referring to slide 34 entitled "Challenges Ahead for the RCA", Mr. Pickett pointed out the challenge of telecommunications. The RCA is involved with the incumbent local carriers that are economically regulated as well as the Federal Universal Service Fund (USF) and provide certifications to the Federal Communications Commission (FCC) annually. Most people don't realize the significance of USF to the State of Alaska. However, he highlighted that it's a subsidy approaching \$200 million per year to support the state's telecommunications system. He noted that the national broadband plan may have a significant impact on the telecommunications income stream if there is no recognition as to Alaska's unique nature. He also mentioned the challenge of major capital investments by utilities and the struggling rural utilities. He related his concern for the struggling rural utilities, which he opined needs to be addressed rather than waiting to address broken [utility equipment and systems].

[9:06:17 AM](#)

REPRESENTATIVE SADDLER recalled Mr. Pickett's testimony regarding the major capital investments by utilities in the amount of \$8.5 billion over the next 15 years or so. He asked if there is anticipation of other large investments in infrastructure for energy generation. He also asked whether it's necessary to choose a direction in terms of the type of new capacity generation there will be and whether that will drive the major capital investments by utilities or are they fungible whatever the source.

MR. PICKETT pointed out that the capital investment amount to which Representative Saddler referred was from the AEA study. Mr. Pickett then highlighted that utilities have to make decisions in real-time because there are real needs now. To date, the state's energy plan or goals are more aspirational in nature rather than a plan of executable specific action steps with timelines and dollar figures attached. If the state does become involved in a major energy project and invests its own resources in it, the more timely such a decision is made the better in order to avoid potential utilities making investments in the next few years that would've potentially made different decisions had other tracts been moving faster.

REPRESENTATIVE SADDLER surmised then that the sooner the decisions are made, the better. However, the RCA has to make

decisions based on the current situation or the reasonably foreseeable future.

9:08:10 AM

MR. PICKETT, returning to his presentation, characterized the state's renewable energy goal as very aggressive and aspirational. The state's goal of producing 50 percent of the state's energy from renewable sources by 2025 could only be achieved with a significant commitment to large scale hydro, he said. The Cook Inlet gas situation will remain a challenge. With regard to the TAPS cases he mentioned earlier, the RCA has joint hearings with the FERC in October to address reconfiguration issues on TAPS and setting the tariff. Another challenge is the continuing RCA staffing issues.

9:09:07 AM

REPRESENTATIVE AUSTERMAN, referring to the pie chart on slide 15, directed attention to the Bradley Lake Hydro project and the percentage of energy it supplies to the Railbelt. He then suggested that the members consider the Susitna Hydro project and the potential energy it would've supplied versus the Bradley Lake Hydro project. Representative Austerman related that [the pie chart] illustrates why one must think 20-30 years in the future. Still, he noted his appreciation for the Bradley Lake Hydro project as it forced the Four Dam Pool hydro projects.

MR. PICKETT related that the Bradley Lake Hydro project is the cheapest power in the portfolio of the utilities that invested in it.

9:10:51 AM

REPRESENTATIVE SADDLER inquired as to the questions members should ask the FERC commissioners regarding the TAPS strategic reconfiguration.

MR. PICKETT clarified that the FERC structure is very different than that of the RCA as the FERC delegates a lot of authority to the administrative law judges. At this point in the proceedings, the FERC likely won't have a whole lot of specific information and have restrictions regarding what they can discuss in terms of an open docket.

9:11:58 AM

CHAIR MUNOZ thanked Mr. Pickett for his help with a couple of issues in Juneau. She then sought comment from Mr. Pickett regarding the upcoming Alaska Electric Light & Power (AEL&P) rate increase proposal.

MR. PICKETT clarified that he can't speak to any particular facts or merits of the case. However, he related that the RCA decided to have the hearing in Juneau [the week of May 9th] and is currently trying to find a suitable venue. Once the details are available, those in Juneau will be informed.

[9:13:07 AM](#)

CHAIR MUNOZ mentioned the need for pay phones at some points of entry, such as ferry terminals and airports. She related her understanding that the RCA has opened a docket on that issue.

MR. PICKETT said that the RCA opened a docket about a year ago when the Alaska Communication Services (ACS) began removing pay phones. A similar situation is occurring in Anchorage with the removal of private pay phones that are owned by the telecom company. After thorough research, it has been determined that the RCA's authority is very limited by the FCC regarding what it can do. The RCA will address this matter next week and make a determination going forward. He explained that public pay phones are subsidized pay phones that are funded through some public funding mechanism. As Chair Munoz mentioned, there may be good reason to consider whether there should be a certain number of public subsidized pay phones in certain locations. Although the docket hasn't yet been opened, it will be considered next week.

[9:15:03 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:15 a.m.