

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

March 19, 2014

8:04 a.m.

MEMBERS PRESENT

Representative Doug Isaacson, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Neal Foster
Representative Shelley Hughes
Representative Benjamin Nageak
Representative Andy Josephson

MEMBERS ABSENT

Representative Pete Higgins

COMMITTEE CALENDAR

HOUSE BILL NO. 340

"An Act directing the Regulatory Commission of Alaska to provide a report to the legislature relating to electrical transmission in certain areas of the state; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 340

SHORT TITLE: RCA: RAILBELT ELECTRIC UTILITY REPORT

SPONSOR(S): REPRESENTATIVE(S) MILLETT BY REQUEST

02/26/14	(H)	READ THE FIRST TIME - REFERRALS
02/26/14	(H)	ENE, L&C
03/19/14	(H)	ENE AT 8:00 AM BARNES 124

WITNESS REGISTER

BRADLEY EVANS, Chief Executive Officer
Chugach Electric Association, Inc.
Anchorage, Alaska

POSITION STATEMENT: Provided background information and a presentation in support of HB 340.

BRIAN HICKEY, Executive Manager
Grid Development

Chugach Electric Association, Inc.
Anchorage, Alaska

POSITION STATEMENT: Provided background information and testimony in support of HB 340.

GENE THERRIAULT, Deputy Director
Statewide Energy Policy Development
Alaska Energy Authority
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided a presentation and answered questions during the hearing on HB 340.

STUART GOERING, Assistant Attorney General
Commercial and Fair Business Section
Civil Division (Anchorage)
Department of Law
Anchorage, Alaska

POSITION STATEMENT: Representing the Regulatory Commission of Alaska, answered questions during the hearing on HB 304.

JOE GRIFFITH, General Manager
Matanuska Electric Association, Inc.
Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 340.

MARILYN LELAND, Executive Director
Alaska Power Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 340.

ACTION NARRATIVE

[8:04:22 AM](#)

CO-CHAIR CHARISSE MILLETT called the House Special Committee on Energy meeting to order at 8:04 a.m. Representatives Hughes, Nageak, Isaacson, and Millett were present at the call to order. Representatives Josephson and Foster arrived as the meeting was in progress.

HB 340-RCA: RAILBELT ELECTRIC UTILITY REPORT

[8:05:09 AM](#)

CO-CHAIR MILLETT announced that the only order of business would be HOUSE BILL NO. 340, "An Act directing the Regulatory

Commission of Alaska to provide a report to the legislature relating to electrical transmission in certain areas of the state; and providing for an effective date."

8:06:06 AM

BRADLEY EVANS, Chief Executive Officer, Chugach Electric Association, Inc. (Chugach), said HB 340 is visionary and requires changes in the operations, governance, and fiduciary controls of the utilities in the Railbelt. The bill calls for a recommendation and a plan to be developed by the Regulatory Commission of Alaska (RCA) which would require RCA to establish a record with the participation of the utilities. The plan and recommendation would then be brought back before the legislature, and he cautioned that implementing the legislation would not be easy. Mr. Evans directed attention to the PowerPoint presentation entitled, "Railbelt Independent System Operator (ISO)" and said the presentation would include a brief overview of independent system operators (ISOs) and their place in the electric industry, the present Railbelt grid, and how the structure of an ISO would work in the Railbelt. He began with a statement of support for the plan to form an independent entity, saying that support comes from the engineers, mechanics, and the governing board at Chugach. The aforementioned independent authority would meet the following requirements: hold authority over the transmission grid; provide nondiscriminatory open access; adopt, maintain, and enforce reliability standards; plan, coordinate, and condition new facilities; establish a single operator; and establish a universal transmission tariff [slide 2].

8:10:32 AM

REPRESENTATIVE NAGEAK asked whether there has been "buy-in" from the other operators within the Railbelt.

MR. EVANS stated that letters of support from most of the utilities in the Railbelt are in the committee packet. A universal transmission tariff means there would be one rate for the entire system from Fairbanks to Homer. This would lower barriers in contract negotiations because the transmission grid becomes less complex. Although there may be system constraints to address, the universal tariff would be developed by RCA - working with the industry - to service existing debt and perform operations.

REPRESENTATIVE ISAACSON asked how independent utilities fit into the universal transmission tariff and economic dispatch as envisioned.

MR. EVANS explained that the universal transmission tariff comes from a total of all costs divided by kilowatt (kW) hours. The utilities must pay, thus economic development and growth of the electrical demand is helpful to reduce the tariff. For example, providing a reliable power supply to a gold mine creates more kW hours to be divided into the cost of transmission, and lowering the rate for all users.

[8:14:10 AM](#)

REPRESENTATIVE ISAACSON referred to the debt load of existing utilities and posed a scenario in which one utility located far from a user can deliver electricity for less than a utility located nearby. He inquired as to how economic dispatch would function in this case.

MR. EVANS said the user would issue a request for proposal (RFP) for power supply and judge responses on their economics. He stressed that a universal transmission tariff and an ISO would not make an uneconomic project economic, although they may lower some barriers. In further response to Representative Isaacson, he clarified that the situation is the same for the utility - even with the transmission costs out of the equation - the lowest-cost electrical provider will be the most attractive.

CO-CHAIR ISAACSON noted that there has been some negative response to establishing an ISO or a regulated transmission company (TRANSCO) due to the utilities' existing debt service. He asked how a utility would be able to compete if it is carrying a debt load.

MR. EVANS was not sure if the existing debt load is a barrier. The transmission charges could be more or less, but adjustments are made during the transmission period when the benefits of a unified system, such as economic dispatch, reap operating offsets.

[8:18:08 AM](#)

CO-CHAIR MILLETT offered to distribute to the committee research on the Texas regional transmission organization (RTO) that was used as a model. She observed that HB 340 is the first step to complete the ISO, which will take many years.

REPRESENTATIVE HUGHES asked how the bill evolved.

CO-CHAIR MILLETT recalled a RTO for the Railbelt has been discussed for about 15 years. The first time the utilities worked together was on the Greater Railbelt Energy and Transmission Corporation (GRETC) [House Bill 182, introduced in the 26th Alaska State Legislature], which was not passed by the legislature; however, HB 340 is based on a more successful model.

[8:20:11 AM](#)

MR. EVANS returned to Co-Chair Isaacson's question, adding that additional barriers are the fears that the utilities will have to pay more, and that establishing an ISO means there will be a "let-go" moment, because an ISO enters into the governing body of an independent entity. In fact, the utilities will not be alone in a governing position in an ISO. He opined there are two types who will argue against HB 340, those who feel they will lose an economic advantage and those who fear change. Mr. Evans assured the committee that existing costs would continue to be paid under the ISO system after a "slight rebalancing" by RCA. He recalled that Chugach first investigated ISOs 25 years ago when he looked at the history of ISOs in the Midwest. Independent System Operators have proven to be reliable, and after two years of study the best model was chosen. Slide 3 was a map of ISOs in the Lower 48 and Canada; the Texas model was driven by independent utilities and addressed similar issues such as congestion, access, and renewables. The Texas organization was put in place by the Texas state legislative body, although ISOs can be put in place by the Federal Energy Regulatory Commission (FERC) [slide 4]. He explained that a RTO and an ISO are identical. Also, a significant difference between GRETC and HB 340 is that an ISO does not own any assets or require assets to be transferred, as it is very difficult to do so.

[8:26:46 AM](#)

REPRESENTATIVE HUGHES observed that in Texas ISOs were formed by the state legislature, and asked why Alaska utilities have not pursued that path.

MR. EVANS explained that for the past 30 years, Chugach has had large wholesale power contracts and thus controlled 80 percent of the grid; however, this situation is coming to an end.

CO-CHAIR MILLETT added that Texas is similar to Alaska in that the utilities do not cross state or national boundaries, thus there is one legislature and one electrical grid involved.

MR. EVANS added that an organization that crosses state lines becomes more complex - which is a situation Alaska can avoid - and he noted that choosing an existing ISO for a model is a decision that will be made later. He directed attention to slide 4, which illustrated the characteristics of an ISO as follows: ensures nondiscriminatory access; has possession of operational authority for all of the facilities under its control; has a regulatory compact to facilitate RCA's development of one transmission tariff; and looks at project development to coordinate and plan new facilities across the system.

[8:31:38 AM](#)

CO-CHAIR ISAACSON asked about the impact of an ISO on fuel surcharges and non-regulated fees from each utility. He then referred to the ISO's planning of projects, and asked whether transmission and generation projects would be included when the ISO doesn't own assets, but the utilities do.

MR. EVANS answered that the ISO looks at the impact that a new power project would have on the system, and if there is a negative impact RCA will question its approval for the recovery of rates for the project; therefore, the ISO creates a barrier to "doing things wrong" because projects will be part of a public discussion. This type of public review is common within local and state governance, but not in the electric industry. Regarding generation, he said the ISO does not take into account the type of fuel used by a power project, but only looks at the effect the new generation will have on the grid. The economics of the project are left to the developer. Regarding fuel surcharges, Mr. Evans explained that fuel surcharges sometimes have the purchase power component included and depending on how RCA implements the tariff, "all the bills that were being paid for yesterday will be paid for tomorrow, so it'll flow somewhere through your bill." Further, if economic dispatch is achieved, fuel surcharges will go down.

[8:38:00 AM](#)

CO-CHAIR ISAACSON pointed out there is already a charge on the bill for RCA, and inquired as to whether utility customers will pay another charge for the ISO.

MR. EVANS acknowledged there will be a transition plan to consider the costs. Currently, many of the duties of the ISO are being handled by other entities, and are being paid for. He opined the RCA's transition plan will be part of the recommendation mandated by HB 340.

CO-CHAIR MILLETT informed the committee RCA is not available for comments at this time.

MR. EVANS concluded that ISO's are a proven solution for several important reasons, most importantly to maintain the utilities' "A" rating which lowers their borrowing cost for new transmission projects [slide 5]. Additionally, ISOs are common throughout the Lower 48 and are scalable to the Railbelt in Alaska.

[8:42:13 AM](#)

BRIAN HICKEY, Executive Manager, Grid Development, Chugach, directed attention to slide 6, and pointed out key features of the Railbelt interconnection, or grid, that covers the region from Homer to Fairbanks. One key feature is that the three large load centers on the Kenai Peninsula, in the Anchorage and Matanuska-Susitna (Mat-Su) area, and in Fairbanks, are connected by single transmission lines, upon which all of the energy is transmitted. He informed the committee a grid operates as a single machine, for example, the generators at Bradley Lake and at North Pole operate "locked in synchronism" and respond to changes in the demand for power anywhere in the Railbelt. The "thin" transmission lines that connect the large load centers are a cause for concern. In addition, at every moment of the day, electrical generation must equal the demand load because the energy cannot be stored, but must be produced when required. From 1985 to December 2013, there were three vertically integrated utilities: Chugach, Golden Valley Electric Association (GVEA), and two areas of Anchorage Municipal Light & Power (ML&P). During that time, Chugach controlled economic dispatch through a series of wholesale power agreements with Homer Electric Association (HEA), and Matanuska Electric Association, Inc. (MEA), and a non-firm energy agreement with GVEA, except for the area controlled by ML&P. There were reliability "rules of the road" that had been embodied in the

Alaska Intertie Agreement in 1985, and agreed to with voluntary compliance between the three operators. Later on in the '80s and '90s there were other agreements that allowed utilities north of the Kenai Peninsula to access energy from Bradley Lake. This was possible because Chugach provided dispatch for the entire area, and the power did not have to travel the line to Anchorage because Chugach displaced power from Bradley Lake to serve the Kenai load, and generated other power for the utilities located north. Therefore the line did not require upgrading at that point in time, even though the original line was designed for a project one-tenth the capacity of the Bradley Lake project [slide 7].

[8:49:45 AM](#)

MR. HICKEY continued to slide 8, and stated that at the end of 2013 the wholesale contracts broke apart causing major changes. Post 2014, there will be five separate load-balancing authorities: GVEA, Chugach, MEA, two areas for ML&P, and HEA. This new situation requires more coordination of load and generation, and the previously agreed-to reliability rules are no longer effective. The Alaska Intertie Agreement was amended in 2011 to implement open access, and other participants are being invited to use the transmission system. The addition of new generation has put different stresses on the system, such as uneconomic dispatch, reliability problems, and potential blackouts. He noted that the Bradley Lake transmission access congestion comes from the new generation by HEA, MEA, Chugach, and ML&P that now has to travel on the single transmission line and integrated planning is critical; in fact, the output from Bradley Lake must now traverse the line from Kenai to Anchorage and cannot do so under certain conditions which prevents low-cost and efficient power from being used. In addition, independent power producers (IPPs) want access to the system, which requires coordination. Mr. Hickey described the savings in infrastructure possible through reserve sharing, which kept rates lower prior to 2014, but now will have to be recovered. He related his extensive investigation of ISOs in the Lower 48, and advised that an ISO is a good model to follow for the Railbelt because it would eliminate the five load-balancing authorities and provide independent long-range planning [slide 9].

[8:55:51 AM](#)

CO-CHAIR MILLETT asked Mr. Hickey to describe the structure of an ISO.

MR. HICKEY explained that the utilities would remain intact with distribution loads, service territories, and boards of directors, and would still own the transmission facilities in their service territories. The utilities would not decide on interregional planning because each utility would focus on its own service territory, and would cede control of the operation of the transmission system to an overarching entity that has no assets. The new entity would economically dispatch the system, choosing the lowest cost generator.

CO-CHAIR ISAACSON cautioned that in the future the Railbelt transmission area will need to be expanded to Copper Valley and Glennallen in a loop back to Anchorage. He asked if the ISO would facilitate expansion to accomplish greater economic dispatch.

MR. HICKEY provided an example of how a wind farm was integrated in West Texas. After given direction from the legislative body, the Texas ISO studied the problem and undertook the project.

[8:59:30 AM](#)

REPRESENTATIVE HUGHES inquired how IPPs fit into the structure of the ISO.

MR. HICKEY said IPPs and utilities are treated identically under the proposed ISO model; in fact, the ISO studies the system and determines how the IPP would connect, without causing reliability or congestion problems along the grid, following protocols previously established by the stakeholder groups.

REPRESENTATIVE NAGEAK observed the state is considering building a gas pipeline, which would provide a source of fuel and support the formation of an ISO.

MR. EVANS agreed that the construction of a gas pipeline is fortuitous, although decisions have not been made on compression, or whether excess power can be sold to the grid. Alternatively, compression on the gas pipeline could be electrified by power from the grid. The ISO would provide greater flexibility so there would be less angst over the location of interconnections and over tariffs. Another benefit of an ISO structure is that it facilitates economic development, as has been demonstrated in the Lower 48.

[9:04:36 AM](#)

MR. HICKEY explained that pancake rates are layers of costs; for example, as power crosses individual power systems, individual rates are charged each time and the rates pile up like a stack of pancakes. With an ISO structure, there is one single rate: All of the transmission costs in the Railbelt are divided by all of the kilowatt hours, and there is one rate charged to all.

CO-CHAIR ISAACSON asked who will develop the rules for the transmission system.

MR. HICKEY said, under ISO models, all of the stakeholders participate in the development of the protocols to govern the system, which will take one to two years.

CO-CHAIR MILLETT added that following the example of Texas, with the help of RCA, the legislature would appoint a board that includes IPPs and utilities.

REPRESENTATIVE HUGHES asked whether rates are tied to distance or the amount of power transmitted.

[9:08:24 AM](#)

MR. HICKEY advised that currently the rate is based on the number of kilowatt hours moved across the system. There is no distance charge, because the system is "one single machine." He confirmed that this is a "postage stamp rate ... you put a stamp on a letter and it goes wherever it goes." Mr. Hickey returned to the needs of the Railbelt which were illustrated on slide 9, and restated the need for universal reliability standards; an independent authority to enforce the rules; long-term planning which precipitates savings from economic dispatch; and regional operations to support transfers of power from one region to the next. Slide 10 illustrated the following Transmission Challenges: transmission constraints that limit power transfer and economic dispatch; the business model for individual local utilities and cooperatives does not motivate utilities to develop infrastructure beyond their individual service territories thus preventing regional transmission projects or economic dispatch; and multiple transmission tariffs and operating rules make interconnection uncertain. Slide 11 listed studies - beginning in 1998 - that have identified millions of dollars in savings from economic dispatch by an ISO. Mr. Evans cautioned that the eminent fragmentation of the system means costs will continue to increase.

[9:13:24 AM](#)

CO-CHAIR ISAACSON questioned whether there is the danger that HB 340 is just adding another study.

MR. EVANS acknowledged there is a danger; however, many of the issues have been addressed regarding asset transfers, the governance model, the structure, and financing. He expressed his hope that the governing boards of the utilities wake up to the benefits of lowering the cost of power and achieving reliability.

CO-CHAIR ISAACSON affirmed that the previous studies lead in the right direction, but may not offer a plan.

MR. EVANS said the studies go no further than exploring the ISO concept and its effect on economic dispatch. These studies are not working business models upon which to make a business decision or to determine tariffs.

REPRESENTATIVE NAGEAK observed that HB 340 is a plan and a concept.

MR. EVANS agreed that HB 340 calls for an actionable plan - not a study - and tasks RCA to establish a record of need in order to make a recommendation, based on need, which can be implemented.

[9:16:44 AM](#)

REPRESENTATIVE NAGEAK stated his support for HB 340.

MR. EVANS directed attention to slide 12 which illustrated the structure of an ISO and its governing model. The organization is supported by stakeholders such as cooperatives, municipalities, the Alaska Energy Authority (AEA), investor-owned utilities, IPPs, renewables, and others. He provided an example wherein the ISO governing board was established by a formal hiring system because the board members must be very knowledgeable from the outset. Also, new to Alaska, is the role for board members to represent the interests of IPPs and renewables. The board will be self-sustaining and balanced by the regulatory compact.

CO-CHAIR MILLETT stressed that the state's goal of 50 percent renewable energy by 2025, acknowledged by RCA, ensures that the IPPs and renewables have a role.

9:20:30 AM

MR. EVANS shared the following vision of the Railbelt ISO: stakeholder governance; under RCA jurisdiction; caretaker of reliability and interconnection standards; plans and conditions projects; enforces standards; has regulatory compact; ensures nondiscriminatory open access; develops tariff working with RCA; responsible for reliability; and responsible for system economic dispatch [slide 13]. Mr. Evans restated that the legislation and path forward is through HB 340, which asks RCA to recommend a plan to the legislature by 1/1/2015 to establish an independent entity to provide a business structure and meet the stated objectives [slide 14]. Further, part of the recommendation from RCA is to suggest the legislation and statutory changes needed to implement the plan.

CO-CHAIR MILLETT pointed out the legislative change needed in Texas was a subject of lengthy debate.

MR. EVANS opined there will be those who testify against the bill. He closed with the summary illustrated on slide 15.

REPRESENTATIVE JOSEPHSON asked whether RCA has accepted the change from the original report due date to 1/1/2015.

MR. EVANS said the new date is achievable because RCA's task has been clarified and fewer details are needed. He cautioned that to wait [until 7/1/2015] during this time of transition would add complications if gas contracts are executed; however, he deferred to the chair of RCA.

CO-CHAIR MILLETT stated that she made that change after discussions with RCA.

9:25:46 AM

REPRESENTATIVE JOSEPHSON asked whether RCA should give the Regulatory Affairs & Public Advocacy (RAPA), Department of Law, an affirmative role in its action plan, or if consumer needs are protected by existing statutes.

MR. EVANS expressed his understanding that a consumer advocate could be placed on the board or in another position. He deferred to RCA to make a recommendation. He stated that there is a general understanding that consumer advocacy has a place in the new business structure.

9:27:23 AM

CO-CHAIR ISAACSON moved to adopt the proposed committee substitute (CS) for HB 340, labeled 28-LS1408\N, Nauman, 3/12/14, as the working draft.

9:28:05 AM

CO-CHAIR MILLETT objected for the purpose of discussion.

REPRESENTATIVE NAGEAK directed attention to the bill beginning on page 2, line 13 which read:

(7) has the power to
 (A) mandate the use of a nondiscriminatory
 electrical transmission system

REPRESENTATIVE NAGEAK asked for an explanation of the above subparagraph.

MR. HICKEY explained that the ISO is responsible for short-term reliability within the system and if - due to transmission constraints - a generator must be utilized that is not the least expensive, but is needed for reliability, the ISO has the authority to do so, because its order of dispatch is reliability before economics. The cost difference would be determined for the higher cost generator and all the parties would share the cost in order to preserve reliability.

9:29:58 AM

GENE THERRIAULT, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development, directed attention to the PowerPoint presentation entitled, "Alaska Transmission Issues." He said the distance of the Railbelt Transmission System from Homer to Fairbanks is 580 miles, and the system consists of a collection of independently-owned transmission assets that link the Bradley Lake facility to the GVEA distribution system in the Healy area [slide 2]. The Alaska Transmission System is a portion of the Railbelt system that runs 170 miles from Wasilla to Healy that is owned by the state, and is operated in conjunction with the utilities. Yet to be resolved for the Railbelt Transmission System are governance and infrastructure issues [slide 2]. Over the past two years, AEA has expended \$800,000 to complete an economic review of the

current system in order to determine how to increase the capacity of the system and to benefit the consumer. The review looked the infrastructure of the system in three segments, the first of which affects the southern end of the system at Bradley Lake. Unconstraining Bradley Projects are needed to ensure that Bradley Lake power can be transmitted to the utilities at the times it is most needed. The upgrades to the components needed to increase the capacity and the reliability of the system are estimated at [\$402.2] million [slide 3].

[9:34:15 AM](#)

MR. THERRIAULT continued to the second segment, Southcentral Projects, which affect Chugach, MEA, and ML&P in the Anchorage bowl area. In order to ship more power along the system two substations need upgrades, which are estimated to cost [\$20.5] million [slide 4]. The third segment was identified as Northern Projects, which are located north of the Anchorage bowl up to the GVEA system, and the total to increase capacity, ensure generation, and facilitate IPPs in that portion is estimated to cost [\$480.7] million [slide 5]. He noted that AEA believes that improvements to the system will enable the use of economic dispatch and thereby motivate economic development in the Railbelt.

CO-CHAIR ISAACSON asked whether the improvements will grow into a system that connects the Copper River Valley to GVEA in order to provide power to develop the natural resources in the area.

MR. THERRIAULT acknowledged that providing links to the Copper River Valley system have been studied. In fact, the present effort to expand capacity in the Railbelt and to establish a governance system would make future expansion to the Copper Valley easier because issues such the location of the actual connection, reliability standards, structure, and synchronization would be addressed.

CO-CHAIR MILLETT asked whether AEA supports HB 340.

[9:39:08 AM](#)

MR. THERRIAULT said yes, and spoke in support of the changes proposed by the CS. However, the proposed legislation is a low threshold to attain and would not result in a final plan, therefore, additional work by the legislature will still be needed. He returned to the presentation of the cost benefit analysis which assumed all of the proposed work was done by 2015

[slide 6]. The total cost of all the improvements to the three segments of the transmission system is [\$903.4] million [slide 7]. Slide 8 displayed the base assumptions made by the study: capital expenditures (CAPEX) of \$903 million; yearly operating expenditures (OPEX) of the expanded system of \$18.1 million, based on an industry standard of 2 percent; interest rate of 5 percent; 30-year bonds; cost of output is spread over all of the kilowatt hours produced; and an inflation factor of 2.5 percent.

[9:42:00 AM](#)

CO-CHAIR ISAACSON observed that market prices and bonding terms may change, and asked how these changes would affect the cost benefit analysis.

MR. THERRIAULT answered that if costs go up, the potential savings to consumers go down; however, he assured the committee that AEA would be utilizing the backing of the state to secure favorable financing and keep the overall costs down.

REPRESENTATIVE NAGEAK noted that the upgrades will be entirely funded with commercial rates and asked for an explanation.

MR. THERRIAULT said AEA's initial evaluation indicates that the Railbelt consumers will bear the expense, but once the improvements are paid for, the consumers will realize a savings. Although AEA has estimated savings will range from \$146 million to \$241 million, the utilities have estimated savings of \$100 million. The model used by AEA to calculate savings included information from the utilities; in addition, other scenarios that reflected changes in demand load were explored. Even with the potential changes in demand load, annual savings are estimated to be around \$60 million throughout the Railbelt system. Also, the estimated savings are "hard dollar" fuel-cost savings, but other savings are possible; for example, saving on expenses by avoiding blackouts and by sharing spinning reserves.

[9:46:44 AM](#)

MR. THERRIAULT continued to slide 10, which illustrated the net effect on the cost of kilowatt hours after the improvements are paid for. Depending on the type of financing, an average consumer could save from \$0.013 to \$0.033 per kilowatt hour. Slide 11 illustrated the costs of each of the three segments over 35 years, and the annual savings for consumers in nominal and 2013 dollars. He stated that AEA believes the savings justify the expenditures on the infrastructure, and savings will

be realized even if project costs increase. Mr. Therriault closed his presentation, saying that AEA supports funding for a more streamlined system of governance for the entire Railbelt Transmission System, components of which are owned by individual utilities and the state. The existing intertie operates under reliability standards that have been built for the operation of the Alaska Transmission System, and the state has relied on voluntary adherence to those standards by the utilities for the rest of the system. However, the lack of an entity to enforce reliability standards is a problem when considering increasing the capacity of the intertie. The state owns - through AEA - the Bradley Lake system, generation components, and a section of the intertie, thus the legislature must ensure that the consumer receives the optimum benefit from generation on the Kenai, so an improved transmission system is needed. Further, AEA believes the investment in infrastructure and the accompanying governance system will facilitate economic development, such as a large mine, in the Railbelt [slide 12].

[9:51:19 AM](#)

REPRESENTATIVE JOSEPHSON asked whether there are funds in the capital budget for enhancement of the Railbelt interties.

MR. THERRIAULT answered at this time there is no money in the governor's budget for the proposed plan. In 2011, \$56 million was directed to the Railbelt system, and AEA has been working with the utilities to advise on how the allotment has been spent in order to handle specific problems within the system. He pointed out that policymakers may question the method of governance for the system, thus the portion of HB 340 that addresses governance would assure legislators in that regard.

CO-CHAIR ISAACSON inquired as to how much of the \$56 million allotment is still available to be put toward the abovementioned projects.

MR. THERRIAULT answered that all of the \$56 million has been encumbered for projects by the utilities, under the guidance of AEA.

CO-CHAIR ISAACSON surmised the projects are Unconstraining Bradley Projects, Quartz Lake, or in the Kenai area.

[9:53:24 AM](#)

MR. THERRIAULT advised that the suggested expenses in the economic review are "above and beyond the \$56 million that has primarily already been spent."

CO-CHAIR MILLETT recalled that in 2011 the governor vetoed about one-half of the funds requested by the Alaska Railbelt Cooperative Transmission and Electric Company (ARCTEC) for nine projects, but did not veto specific projects. The reduced allocation flowed through AEA, thus AEA made the decisions on which projects to fund. The purpose of HB 340 is to establish a governance body to advise so that agreed-to projects are fully funded through the capital budget, and thus avoid regional battles.

MR. THERRIAULT added that the presentation was on the first part of the economic study; the second portion will look at how to stage the proposed projects over a 10-year build out. An ISO would be able to review advancing technology to save costs and make recommendations year-to-year. He reminded the committee that the contractual arrangements made between the utilities over the years are expiring, and additional delay will necessitate that individual utilities execute contracts between themselves, which will remove the current flexibility. Furthermore, individual utility boards are looking at serving their constituents, but the legislature has a larger responsibility to the entire state. Mr. Therriault stressed that most of the utilities in the Railbelt agree that there must be a change to the structure of the system.

[9:58:24 AM](#)

CO-CHAIR ISAACSON returned attention to the cuts to the 2011 allocation, and asked whether HB 340 would succeed if funds were severely limited.

MR. THERRIAULT said, "it's not ... if we do 10 percent of the investment we'll get 10 percent of the savings, it doesn't work that way." The goal is to create a governance system and a suite of funding tools that can assure progress from year one to year ten. The state's support could vary, but the system would have governance and financing ability tools in place to assure progress.

CO-CHAIR ISAACSON surmised the system of governance would enable efficiencies, and asked what the charge to the consumer would be for the operation of the ISO.

MR. THERRIAULT said he was unsure. Currently, there is some redundancy in the system, which may cover the operation of the ISO.

CO-CHAIR ISAACSON suggested the savings from redundancy will be disproportionate.

MR. THERRIAULT agreed and observed that other areas [as described by the ISO models] have "phased in" the cost structure and savings until all areas benefit. He cautioned that making the investment without changing the governance would not accrue savings for the consumer.

[10:02:36 AM](#)

STUART GOERING, Assistant Attorney General, Commercial and Fair Business Section, Civil Division (Anchorage), Department of Law, representing RCA, offered to answer questions.

CO-CHAIR MILLETT pointed out that the fiscal note [identifier HB340-DCCED-RCA-03-14-14, prepared by RCA] was for \$1 million and asked why it was so high.

MR. GOERING said RCA reviewed the costs of previous studies in order to compare the scope of work required within the timeframe mandated by HB 340. In further response to Co-Chair Millett, he said the \$0.5 million requested in Fiscal Year 2016 (FY 16) was to accommodate the July 15, FY 15 filing date of the report which falls in the following fiscal year. Thus moving the date places the request all in FY 15. Originally, the due date would fall across two fiscal years.

CO-CHAIR MILLETT then asked for RCA's position on HB 340.

[10:05:08 AM](#)

MR. GOERING advised that in order to take a position, RCA must convene an open meeting, discuss the matter, and take a vote of the commissioners. In his experience, RCA has always been responsive to requests from the legislature that contain clear, unambiguous directions and adequate resources. In further response to Co-Chair Millett, he said he could not say what the commissioners' concerns would be with the language in HB 340, but, speaking as an advisor to RCA, his concerns fall into two categories. First, the bill has a narrow scope and it appears that some preliminary decisions have been made about the entity created in the bill. Second, some of the assumptions made in

the bill are inconsistent with existing regulatory concepts and need clarification. If the legislature wishes to change the law so that there is a different approach to an ISO than there is to a general ratemaking proceeding in a regular utility or pipeline matter, the change should be made explicitly.

CO-CHAIR MILLETT expressed her understanding that the authority for RCA to oversee an ISO would be an additional responsibility that is not currently in statute.

MR. GOERING agreed, however, if the assumptions in the bill implicitly change the way an entity is regulated, changes in statute should follow. He offered to assist the drafters - without making major changes in the wording of the bill - to clarify that the bill does not intend to change the status quo.

CO-CHAIR MILLETT requested that Mr. Goering provide his written recommended changes to the co-chairs for consideration.

[10:09:35 AM](#)

JOE GRIFFITH, General Manager, MEA, lauded the efforts of the committee and the presenters. He said HB 340 is a heroic step in the right direction, and urged for the passage of the bill as soon as possible. The pursuit for a change to the Railbelt Transmission System has continued for 25 years. As the Railbelt has changed, the creation of an ISO will not be easy; although at this time MEA and Chugach are working to create a TRANSCO which will limit the number of area crossings needed to move power. Mr. Griffith urged the committee to act now.

[10:11:33 AM](#)

MARILYN LELAND, Executive Director, Alaska Power Association (APA), informed the committee APA is the statewide trade association for the electric utilities which includes cooperatives, municipal, and investor-owned utilities that provide power to over 500,000 Alaskans throughout the state. Ms. Leland agreed that the idea of an ISO has been talked about and studied by the state and the utilities for many years. She stated that in December, 2013, the APA board of directors unanimously passed a resolution asking the Alaska State Legislature to support the efforts by the Railbelt electric utilities to unify the regional transmission system. The members of APA look forward to working with RCA and the legislature to create an ISO.

[HB 340 was held over.]

10:12:55 AM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 10:12 a.m.