

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY

April 2, 2014
8:06 a.m.

MEMBERS PRESENT

Representative Doug Isaacson, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Pete Higgins
Representative Shelley Hughes
Representative Benjamin Nageak
Representative Andy Josephson

MEMBERS ABSENT

Representative Neal Foster

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
03/19/14	(H)	Heard & Held
03/19/14	(H)	MINUTE(ENE)
04/02/14	(H)	ENE AT 8:00 AM BARNES 124

WITNESS REGISTER

JEFF TURNER, Staff
Representative Charisse Millett
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the changes in the proposed committee substitute for HB 340.

DUFF MITCHELL, Executive Director
Alaska Independent Power Producers Association
Juneau, Alaska

POSITION STATEMENT: Testified 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: On behalf of the Alaska Energy Authority, testified in support of HB 340 and answered questions.

ACTION NARRATIVE

[8:06:04 AM](#)

CO-CHAIR CHARISSE MILLETT called the House Special Committee on Energy meeting to order at 8:06 a.m. Representatives Josephson, Hughes, Isaacson, and Millett were present at the call to order. Representatives Higgins and Nageak arrived as the meeting was in progress.

HB 340-RCA: RAILBELT ELECTRIC UTILITY REPORT

[8:06:29 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."

[8:06:42 AM](#)

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

[8:06:54 AM](#)

CO-CHAIR MILLETT objected for the purpose of discussion.

[8:07:10 AM](#)

JEFF TURNER, Staff, Representative Charisse Millett, Alaska State Legislature, presented the changes in the proposed CS for HB 340 as follows:

- Page 1, line 1, replaced "provide a report" with "recommend"
- Page 1, line 2, after "legislature" inserted "an action plan"
- Page 1, line 8, replaced "July 15, 2015" with "January 1, 2015"
- Page 1, line 8, replaced "provide a report" with "recommend"
- Page 1, line 9, replaced "determining whether creating" with "a plan to establish"
- Page 1, lines 10 and 11, replaced "is the best option to provide" with "in developing the plan, the commission shall consider options"
- Page 1, line 14, replaced "the report" with "order to implement the plan"
- Page 2, line 1, replaced "the report" with "developing a plan"
- Page 2, line 17, replaced "standards" with "standard" and inserted "as modified to meet the needs of the Railbelt area;"
- Page 2, line 27, replaced "economical distribution" with "economic dispatch"
- Page 3, line 6, after "systems" inserted "and ancillary services recognized by the Federal Regulatory Commission used"
- Page 3, line 11, replaced "report" with "plan"
- Page 3, line 12, replaced "report" with "plan"

[8:08:38 AM](#)

CO-CHAIR MILLETT opened public testimony on HB 340.

[8:08:55 AM](#)

DUFF MITCHELL, Executive Director, Alaska Independent Power Producers Association (AIPPA), informed the committee AIPPA represents members all over the state in the non-utility area of power generation. He opined HB 340 is a good framework from which to begin resolving issues statewide; however, AIPPA would like the committee to be aware of its concern that the Regulatory Commission of Alaska (RCA) does not recognize the state's energy policy. In fact, RCA interprets the state's

energy policy as aspirational rather than directive. He stressed that the legislature needs to use the word "shall" as opposed to "may" in its directives to RCA; if not, RCA can exercise its right not to respond. Mr. Mitchell directed attention to the CS beginning on page 2, line 13 which read:

(7) has the power to

MR. MITCHELL advised that this language implies RCA has a choice, and recommended it be replaced by "shall." He said this change would mandate the use of a nondiscriminatory electrical transmission system. Also, he suggested that a mission statement or directive should be added to HB 340 similar to that of the Electric Reliability Council of Texas (ERCOT), and he read the following:

Provide exemplary customer service by managing the reliability and security of the ERCOT Transmission Grid to assure nondiscriminatory transmission access and serve the electrical needs of all retail customers; effectively administering electricity supply choices of all customers through the State of Texas; providing accurate and timely usage and settlement data to market participants to facilitate transactions; and assuring uniform nondiscriminatory access to public market information.

MR. MITCHELL encouraged the use of the federal definition of nondiscriminatory - open - access. Furthermore, access to public information is important and if matters are published and transparent "everyone knows what the rules are." He informed the committee that some AIPPA members support HB 340 and some are concerned. He urged for independent power providers (IPPS), even though they are not in the Railbelt Transmission System, to be listed as one of the stakeholders in the bill.

[8:13:44 AM](#)

CO-CHAIR ISAACSON referred to proposed Senate legislation related to existing statutes and revisions. He asked whether the directives in HB 340 are sufficient to address interconnectivity, and if the contributions and interests of IPPs are included as needed.

MR. MITCHELL responded that the proposed Senate legislation would upgrade the regulations of RCA to bring the regulations current. He expressed his belief that Alaska has "the most

state overreach in retarding or prohibiting private investment in our energy resources," thus the proposed legislation is based on language from the federal Public Utility Regulatory Policies Act (PURPA), which provides directed regulations. He related that the commissioners at RCA agree that directives from the legislature must be specific and provide clear guidance. The proposed bill will lay the foundation prior to substantial investment in the Railbelt Transmission System, and it is necessary to have support from the small and large IPPs and utilities, along with open access and participation by all parties.

[8:17:07 AM](#)

CO-CHAIR ISAACSON inquired as to whether IPPs are satisfied that a model, such as ERCOT, is strong enough to be used to build a transmission system beyond the Railbelt and the highway system, in order to incorporate rural and "disconnected" Alaska.

MR. MITCHELL stated his hope that although not in HB 340, fundamental portions of the model can be used statewide; for example, the Southeast Alaska Power Agency (SEAPA) Swan-Tyee Intertie does not have open access. He was unsure whether HB 340 specifically creates open access, but it may have the framework that could be used on other grids far into the future. Mr. Mitchell cautioned that there will not be private investment [in energy systems] without the certainty provided by open access.

CO-CHAIR ISAACSON observed that HB 340 identifies that a systems operator has operational authority over the electric transmission facilities, and a single control area operator facilitates regional electricity pooling and economic dispatch, bringing the function of an independent systems operator (ISO) and an independent transmission company (TRANSCO) into one entity. He asked whether this type of merger causes concern for the members of AIPPA.

[8:20:18 AM](#)

MR. MITCHELL answered that one concern would be to keep the generation and transmission separated so that an entity that generates power, and owns all of the transmission system, cannot keep other power generators out of the system. Furthermore, those who make decisions on transmission and interconnection should not have leverage to block open access for smaller private entities. He acknowledged that the State of New York

may own its transmission system and act as an ISO; however, there is no clear path. The impact on AIPPA's members is unclear until the plan is released, but it is imperative that IPPs have "as much buy-in as possible."

CO-CHAIR MILLETT asked whether AIPPA continues to advocate for the [Alaska-Canada Electrical Intertie Project].

MR. MITCHELL said no, not directly. The idea "comes and goes" and a line from Skagway to Whitehorse, Yukon, has been proposed. He opined the intertie has potential for the state in the future. Another project that may move power from Alaska onto the British Columbia, Canada, electrical grid is near Hyder.

REPRESENTATIVE HIGGINS asked whether RCA has done its job.

MR. MITCHELL said yes, within the guidance it is given.

[8:23:53 AM](#)

REPRESENTATIVE HIGGINS observed HB 340 directs RCA to create another entity to do what it is tasked to do: protecting consumers' interests and promoting economic development. The choke points in Alaska's transmission lines are not new, but have never been corrected. He suggested RCA should disband if it is not doing its task.

CO-CHAIR MILLETT stated that RCA's mission is to protect the public and the consumer, not to make rates, but to solve disputes.

MR. MITCHELL stated he has come to understand that RCA is directed by the legislature and is willing to do its tasks if there are clear directives from the legislative body. He said he also did not support adding another layer of bureaucracy and more expense to ratepayers, but the intent of HB 340 is to reduce costs.

REPRESENTATIVE HIGGINS paraphrased from the CS beginning at page 1, line [8] as follows:

recommend to the legislature a plan to establish an independent entity that meets the requirements of this section

[8:26:59 AM](#)

MR. MITCHELL explained an ISO must be independent from RCA to administer the interconnection, and cannot be owned by utilities or IPPs. He said he was unsure if RCA could administer the system as it is organized to adjudicate regulatory procedures related to telephone, electricity, and natural gas; on the other hand, an ISO forecasts and sends electrical loads in a technical sense. The present situation is management by a patchwork of multiple utilities that functioned well in 1960.

CO-CHAIR MILLETT stated the bill would be held in committee because at this point two utilities are not in support of an ISO. Further work will be done in the interim by the Alaska Railbelt Cooperative Transmission & Electric Company (ARCTEC). In response to Co-Chair Isaacson, she said ARCTEC - rather than the committee - will be the body to work on the bill because it can come to agreement with the utilities.

8:30:20 AM

REPRESENTATIVE HUGHES asked whether the board of directors - made up of stakeholders - is sufficiently defined in the bill to ensure that IPP's are not left out.

MR. MITCHELL agreed that the stakeholders need to be specifically defined, and IPPs need to be represented to ensure that the nondiscrimination and open access portions of the decision-making process of the bill are upheld.

CO-CHAIR MILLETT, in response to Representative Hughes, said the stakeholders in ARCTEC are the main utilities of the Railbelt, and she was unsure about the Homer Electric Association Inc. (HEA) and the Seward Electric System (SES). When IPPs enter into a utility structure, the IPP project must be economically feasible, and also that the additional cost of transmission does not fall to one utility, but is shared by the IPP. Open access does not mean an entity can use a transmission line for free, but that power generation is offered at an economical cost; in fact, RCA's role will be to adjudicate cases related to IPPs integrating with utilities. Unless the additional generation provides fiscal benefits to consumers, RCA will not agree to the sale. Co-Chair Millett said there is a way to protect consumers and still have IPPs "at the stakeholders' table," providing IPPs understand the goal is to provide the lowest cost energy to the Railbelt. In addition, sources of renewable energy must be economical and cause no damage to the electrical grid. Power generation from IPPs can add cost to transmission and thereby to consumers. She explained that the separate entity created in HB

340 would decide which transmission programs would be built, and would propose projects for approval by RCA and to the state for financing without a "tug-of-war capital budget fight every year ... that's what ... this legislation is a start of, is having utilities come together as a group."

[8:35:25 AM](#)

GENE THERRIAULT, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community & Economic Development, said AEA believes the recommendation created by HB 340 would be beneficial. His agency has spent considerable time and money reviewing the current problems in the Railbelt Transmission System, seeking solutions and cost savings. He urged for continued discussion that would foster legislation that is supported by all of the affected parties. Mr. Therriault agreed that there are models from out-of-state that could be modified and applied in Alaska in order to develop a robust and reliable transmission system. To that end, AEA will make all of the data collected from previous studies available. As an aside, he informed the committee that the state owns the section of the transmission system between Wasilla and Healy - operated through the Intertie Management Committee - which is an example of successful cooperation between the state and the utilities to operate a transmission system. He expressed AEA's support of the content of the legislation and of any changes or additions to statute that may be necessary.

[8:38:41 AM](#)

CO-CHAIR MILLETT restated her preference to hold the legislation until all of the utilities have reached agreement; this is a lesson learned from the failed Greater Railbelt Energy and Transmission Corporation (GRETC) legislation [House Bill 182, introduced in the 26th Alaska State Legislature].

CO-CHAIR ISAACSON remarked:

The RCA, as we've talked about, oversees and regulates the ISOs, the TRANSCO, and the utilities. The ISO would manage the load and economic dispatch. The TRANSCO would own the transmission and currently ... the utilities own the customer, they own generation, they own transmission, and they own debt service. IPP's own generation - but that's a wholesale - and

then the state, as you said, currently owns generation, and owns transmission.

CO-CHAIR ISAACSON recalled that an ISO would manage load and economic dispatch and would recommend the tariff, and would also recommend generation and transmission. He asked whether the state and the utilities would transfer ownership of the transmission system to the TRANSCO.

[8:41:26 AM](#)

MR. THERRIault said that is a possibility because the state owns a component of the transmission, and some generation, in the Railbelt. The bill is focused on the transmission component and there is the potential that a business structure is adopted in which the state-owned asset becomes a part of the overall system, through a long-term lease or a contribution, thus the state must act in the same manner as all of the other parties.

CO-CHAIR ISAACSON has heard that Wall Street is interested in the construction of transmission lines in Alaska. He asked how the state ensures that private enterprise would be allowed to build the system, but avoids adding another layer of bureaucracy.

MR. THERRIault advised that the structure should not preclude private participation in the financing and operation of the transmission system, which is a policy call for the legislature and the administration to make, after the matter has been discussed during interim, and debated during the next session.

[8:45:05 AM](#)

CO-CHAIR MILLETT, after ascertaining no one else wished to testify, closed public testimony.

REPRESENTATIVE HUGHES observed that the bill contains language that mandates tasks but is silent on compliance or enforcement. She questioned how certain activities could be mandated without including a component for enforcement in the bill.

[8:46:10 AM](#)

CO-CHAIR MILLETT recalled the previous proposed legislation that required mandatory compliance failed. The situation of mutual asset-owning and mutual asset-building between utilities is difficult until the utilities decide to do what is best for all.

The transmission system requires most of the investment right now and ARCTEC has advised on its needs and priorities for the transmission lines, but support is lacking from HEA and SES at this time.

REPRESENTATIVE HUGHES asked if after HEA and SES comply, the sponsor does or does not see a need for an enforcement component in the bill.

CO-CHAIR MILLETT expressed her intention that the utilities would enter the binding contract voluntarily, but there may be discussion about including language for an "out" clause.

HB 340 was heard and held.

[8:48:15 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 8:45 a.m.