

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

January 28, 2016  
11:06 a.m.

**MEMBERS PRESENT**

Representative Jim Colver, Co-Chair  
Representative Liz Vazquez, Co-Chair  
Representative Benjamin Nageak  
Representative David Talerico  
Representative Cathy Tilton  
Representative Matt Claman  
Representative Adam Wool

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 187

"An Act creating the Railbelt Electrical Transmission Authority;  
and relating to the duties of the Regulatory Commission of  
Alaska."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 187

SHORT TITLE: RAILBELT ELECTRICAL TRANSMISSION AUTH.

SPONSOR(S): ENERGY

04/10/15	(H)	READ THE FIRST TIME - REFERRALS
04/10/15	(H)	ENE, L&C
01/28/16	(H)	ENE AT 11:00 AM CAPITOL 17

**WITNESS REGISTER**

CHRIS ROSE, Executive Director  
Renewable Energy Alaska Project  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 187, and  
answered questions.

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

**POSITION STATEMENT:** Testified during the hearing on HB 187 and answered questions.

BRIAN HICKEY, Executive Manager, Grid Development  
Chugach Electric Association  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 187.

KRISTEN COLLINS  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in favor of HB 187.

CORY BORGESON, President and Chief Executive Officer  
Golden Valley Electric Association  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 187 and answered a question.

ERIC MYERS, Manager of Business Development  
American Transmission Co.  
Waukesha, Wisconsin

**POSITION STATEMENT:** Testified during the hearing on HB 187 and answered a question.

DAVID GILLESPIE, Chief Executive Officer  
Alaska Railbelt Cooperative Transmission & Electric Company  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 187 and answered a question.

#### **ACTION NARRATIVE**

[11:06:16 AM](#)

**CO-CHAIR JIM COLVER** called the House Special Committee on Energy meeting to order at 11:06 a.m. Representatives Colver, Talerico, Tilton, Wool, Nageak, and Vazquez were present at the call to order. Representative Claman arrived as the meeting was in progress.

#### **HB 187-RAILBELT ELECTRICAL TRANSMISSION AUTH.**

[11:06:29 AM](#)

CO-CHAIR COLVER announced that the only order of business would be HOUSE BILL NO. 187, "An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska."

CO-CHAIR COLVER stated the committee's intent to hear public testimony on HB 187, and outlined the meeting schedule.

[11:07:28 AM](#)

[The committee treated the hearing on HB 187 as open for public testimony.]

[11:08:34 AM](#)

CHRIS ROSE, Executive Director, Renewable Energy Alaska Project (REAP), informed the committee REAP is a coalition of utilities, both on and off of the Railbelt, independent power producers (IPPs), Native corporations, and non-governmental organizations that are all promoting renewable energy and energy efficiency. His organization has been active for twelve years, has sixty-eight members, and has been working for two years on the issue of a system operator, because renewable power providers are unable to access the Railbelt grid due to access issues and pancake tariffs. He explained the issues of access and pancake tariffs remain because all of the utilities in the Railbelt are allowed to charge a transmission tariff for the use of their service territory. For example, Cook Inlet Region, Inc., attempted to sell wind power from Fire Island Wind to Golden Valley Electric Association (GVEA) and even though buyers and sellers were willing, "the transmission tariffs really killed the deal." In addition, REAP and consumers are interested in economic dispatch and regional planning as well. He said that REAP is happy with the bill and happier that the Regulatory Commission of Alaska (RCA), Department of Commerce, Community & Economic Development (DCCED), is involved; in fact, RCA and the bill have tasked the utilities in the same manner. Mr. Rose also encouraged continued voluntary efforts by the utilities. To reiterate, REAP seeks the following: a universal transmission tariff so that all parties pay equally to access the grid; open and nondiscriminatory access to the grid; an impartial and independent system operator; economic dispatch; and a system operator regulated by RCA. Currently, there are several different balancing areas in the Railbelt, but one balancing area for the Railbelt is needed in order to have economic dispatch and efficiency in the system. Mr. Rose provided a brief history, saying that the fragmentation of the

Railbelt happened over time for a variety of reasons, including how the transmission system was built, which encouraged fragmentation. A lot of money has been spent on studies and efforts to consolidate, and there has been contention and litigation between the utilities; however, new generation has created more urgency for an efficient distribution of energy. Mr. Rose opined RCA must consider the key question: does the current institutional structure allow for maximum benefit to the consumers? In April 2014, the legislature appropriated \$250,000 to RCA for a study, which was completed by the Alaska Center for Energy and Power (ACEP) in 2015, and followed by RCA's report of findings. Findings and recommendations were as follows: the need for reform and for an entity with the responsibility to build transmission for the benefit of the whole; the need for an independent transmission company; RCA authority for transmission and generation; RCA explicit authority for an integrated Railbelt plan; and that the utilities' provide reports in September and December [2015]. Mr. Rose acknowledged that REAP has not been involved in the transmission company (Transco) process, and the amount of transmission needed in the Railbelt is unknown; however, the independent system operator (ISO) needs to be formed first, or simultaneously with the Transco, as it will facilitate regional planning.

[11:15:01 AM](#)

MR. ROSE noted that the American Transmission Company (ATC) is catalyzing the Transco process through models, and REAP encourages like speed in the development of the ISO. The second finding noted that the complexity of the ISOs found in the Lower 48 is not required for Alaska, and REAP agrees. He stressed REAP favors merit-order dispatch which puts the most efficient generators on first in one balancing area. The commission also found that the Railbelt must have a universal transmission tariff, open access, and economic dispatch, beginning with voluntary power pooling. In order to determine the cost of the aforementioned, RCA required quarterly reports, the first of which is due. He said RCA agreed to review the quarterly reports during 2016, and to develop a governance structure and a system operator. The independent governance structure is important to the members of REAP. The third RCA finding said the commission is skeptical that the utilities will accomplish the Railbelt project on a voluntary basis because of their history of unsuccessful attempts, a lack of trust, and a reliance on legislative appropriations. However, RCA recommended giving the utilities a chance to complete a Transco and an ISO within established timelines. The fourth RCA finding

and recommendation was to the lack of reliability rules and standards and recommended that the Intertie Management Committee (IMC) resolve its differences, particularly with the Homer Electric Association (HEA). The fifth RCA finding and recommendation was that the issues are challenging, and the commission needs significant resources to implement its findings and recommendations. Mr. Rose concluded, noting the importance of hearing from all of the parties, and that REAP would like to see alignment within the six utilities. He restated REAP's concern that the Transco process is outpacing the process for developing a system operator. Also outstanding is the question of whether the governance structure will be an independent, or unified, system operator, and Mr. Rose stressed the importance of the distinction between the two structures. He suggested forming a bigger board to dilute the utilities' power on the board, and a transition time of five years to phase out the presence of the utilities. Mr. Rose stressed REAP's desire for an impartial and independent governing board.

[11:21:32 AM](#)

CO-CHAIR COLVER asked for a synopsis of the RCA ruling on grid access for independent power producers (IPPs).

MR. ROSE said RCA Docket R-13-001 was related in part to the definition of avoided cost under the Public Utility Regulatory Policy Act of 1978 (PURPA), which was congressional action to balance competition between fossil and renewable fuels. Public utility commissions in most states have interpreted PURPA to mean that qualified facilities can sell renewable power to a utility if they can beat the avoided cost of the utility. However, in Alaska, how to determine the utilities' avoided costs was disputed until said RCA ruling which directs RCA to consider incremental avoided cost. He concluded that access for IPPs is now more open to the market, but the issue of pancaking tariffs remains unresolved.

REPRESENTATIVE CLAMAN referred to discussion related to the development of a unified system operator versus an independent system operator, and opined the biggest issue is the representation on the board, rather than its label. He asked whether the real priority for REAP is that the utility representation will be in a minority position on the board.

[11:24:10 AM](#)

MR. ROSE advised in a true independent system operator the utilities would not have representation on the board, and the utility expertise would come from paid utility executives out of other jurisdictions. In Alaska, REAP suggested that if the utilities are part of the governance structure, their representation should be balanced by a group of stakeholders representing a vast range of interests who are appointed to the board.

REPRESENTATIVE CLAMAN expressed his belief that it will be necessary to have utilities on the board for their expertise.

MR. ROSE said, "REAP has acknowledged that expertise ... if they are on the board, we'd just like to have some other folks as well."

[11:25:36 AM](#)

REPRESENTATIVE NAGEAK inquired as to who initially paid for facilities and power lines, the power companies or the state.

MR. ROSE stated that most of the generation and some transmission has been funded by individual power companies, the cooperatives, and the municipalities of the Railbelt. The state has also built and owns some transmission, such as the Northern Intertie between Healy and Willow, and the undersea cable to connect Fire Island Wind to the Chugach Electric Association system. In further response to Representative Nageak, he confirmed that the rates differ in each jurisdiction.

[11:26:59 AM](#)

CO-CHAIR VAZQUEZ asked Mr. Rose to explain how the present congestion on the Railbelt grid affects the renewable energy industry.

MR. ROSE explained that for variable resources such as wind and solar, there are issues for integrating those sources into a grid, especially in a small balancing area. Increasing the balancing area to include the entire region would allow variable sources to come into the grid at any time. For example, in Iowa, 35 percent of electricity comes from wind, which can be done without storage because there is a very big balancing area, and wind can be easily integrated whenever it's available.

[11:28:34 AM](#)

REPRESENTATIVE WOOL surmised RCA is skeptical about the neutrality or independence of a system operator, and whether a board that includes the utilities may not be independent enough to satisfy RCA. He asked Mr. Rose to envision the composition of the board.

MR. ROSE said RCA's skepticism was related to the utilities' ability to voluntarily reform the Railbelt system, not how independent the governance board should be. He directed attention to a letter found in the committee packet from RCA to the legislature, dated 6/30/15, which addressed ISOs and their status necessary to make impartial decisions. The commission has indicated it will assess quarterly reports from the utilities over the next year to determine what the governance and organizational structures should be.

11:30:31 AM

BRADLEY EVANS, Chief Executive Officer, Chugach Electric Association, Inc. (CEA), informed the committee CEA is a privately-held electric cooperative owning generation, transmission, and distribution assets serving approximately 200,000 customers through over 82,000 meters in Southcentral, and the seller of wholesale power in the open Railbelt market. In addition, CEA is the only electric utility that interconnects all of the Railbelt utilities via its privately-held transmission system. Mr. Evans provided a brief personal history of his extensive experience in the industry, and said he has studied regional transmission operators and ISOs in the Lower 48 as they are related to planning and integration of the generation and transmission assets in the Railbelt. He stressed that CEA supports the concept of an independent, unified system operator (USO) for the following reasons: a USO allows for the economic dispatch of electric power in the Railbelt which is a crucial economic engine for success; a USO would provide for the identification and implementation of cost-effective systems upgrades; a USO would provide independent nondiscriminatory open access and the implementation of uniform reliability standards; a USO would condition the interconnection of new facilities and integration into the grid. Further, CEA supports the implementation of a Transco that supports the functions of a USO, invests private capital, and develops and implements a unified transmission tariff applied on an equitable basis. Mr. Evans said CEA recognizes that short-term rate adjustments may be necessary. Both a USO and a Transco are necessary, as possible losses to utilities may be recouped by economic dispatch, although projections indicate there will be a

"transition phase." The Transco would be similar to those found in the Lower 48. In 2013, CEA was the first to introduce the concepts of a USO, open access, system-wide economic dispatch, unified transmission tariffs, and the potential customer benefits of a rationalized Railbelt electric system. Further, CEA hosted the first workshop in Alaska on grid restructure and unified operations in collaboration with the American Transmission Co. (ATC), which was attended by over 50 participants, and which inspired many further public events on this topic.

[11:35:38 AM](#)

MR. EVANS continued, noting CEA is responding to instructions from RCA regarding quarterly updates. In light of the aforementioned recent progress and activities, he recommended that the committee hold HB 187 for two reasons: (1) the legislation would halt the current efforts by interested parties to restructure, would overturn the current regulatory instructions, and would result in budgetary problems; (2) the authority proposed by HB 187 may not be needed. The latter is important to utilities that have relayed their restructuring efforts to their rating agencies, because their restructuring efforts did not include the mandates of HB 187. Mr. Evans opined that lenders are more comfortable with voluntary efforts and collaboration, and he is unsure of their reaction to the legislation. He said he appreciated the interest of the committee and its continued attention to the progress of the utilities, RCA, and the stakeholders. He encouraged the committee to revisit HB 187 in the event the utilities fail to bring change to the Railbelt electric utility infrastructure. Mr. Evans said, "I encourage the legislation, I just ask for time."

[11:39:29 AM](#)

REPRESENTATIVE NAGEAK asked whether rating agencies have found discernable differences between the Railbelt utilities.

MR. EVANS said CEA and Anchorage Municipal Light & Power (ML&P) are the only rated utilities in the Railbelt region of Alaska. The other Railbelt utilities obtain financing through federal funds and other sources; utilities are rated in order to access capital through the public and private market.

REPRESENTATIVE WOOL recalled earlier testimony that REAP supports a [USO] board with minimal or no representation by the utilities. He asked for CEA's stance in this regard.

MR. EVANS said CEA envisions an independent USO board whose members have no agenda outside of the operation of the system. In fact, one who represents a specific sector would not likely be placed on the board, but would exert influence on the board through steering committees. The preferred board would consist of current industry experts from the Railbelt and stakeholders, who would be a blending of interests through a transition phase. A future goal may be that the utilities do not have a majority. Furthermore, outside experts are not needed, but the utilities are needed to supply resident expertise so that the regulators know the system. Mr. Evans expressed his belief that the state cannot populate a truly independent board with members who do not have other interests. He acknowledged that CEA and REAP disagree on this point, which is up for public debate; CEA does support a mix of independent, segment stakeholders, and utility members on the board who have been through a rigorous vetting process.

[11:44:55 AM](#)

BRIAN HICKEY, Executive Manager, Grid Development, CEA, directed attention to a document entitled, "Restructuring Opportunities in the Railbelt," dated 1/28/16, found in the committee packet. He provided a short personal background of his experience in the industry. Mr. Hickey said that the progress that has been made over the last three years, and especially during the last six months, is unprecedented, due to the impetus provided by a RCA study which was funded by the legislature; in fact, all six utilities are rationally discussing both a Transco and a USO. The current effort is to establish two entities: a transmission-only utility with regional authority and rate recovery for planning, financing, and operating and maintaining the Railbelt transmission system; and a non-asset owning, revenue neutral, stakeholder governed USO under the authority of RCA, with regional responsibility for economic dispatch, cost settlement and benefit allocation, planning and interconnection protocols, and maintaining reliability standards [slide 2]. Challenges to the Railbelt grid are: no mechanism for making regional decisions; a lack of regional economic dispatch; coordination between multiple grid operators creates difficulties; a lack of a unified transmission tariff impedes independent project developments; difficult to make regional transmission improvements without equitable cost recovery;

difficult to maintain universal reliability standards with no uniform rules of the road [slide 3]. To solve these problems, at the behest of all six Railbelt utility managers, the chief executive officer of the Alaska Railbelt Cooperative Transmission and Electric Company (ARCTEC) is facilitating discussions related to staffing the governing structure of a USO [slide 4].

[11:51:34 AM](#)

MR. HICKEY continued to slide 5, just to add that CEA is seriously responding to the 6/30/15 letter from RCA to the legislature. Five utilities have executed a joint development agreement and formed a steering committee tasked with developing a Transco through the work of nine subcommittees: governance; operations and maintenance, and transitional agreements; economic dispatch based on agreed-upon models; cost and benefit allocations and analysis, including establishing protocols and agreed-upon ratios for reallocation to offset higher costs borne by certain utilities and avoid "rate shock"; conform reliability standards between Homer Electric Association and the Intertie Management Committee; HR and organizational structure, which has completed an organizational chart with staffing and costs; finance, which has created a five-year model of a unified company with all of the Railbelt assets combined; communications, which handles press releases to public; regulatory, which has completed a draft unified tariff for the Railbelt [slide 6]. Mr. Hickey said a report on the subcommittees' work was submitted to RCA on [12/31/15] and is available to the committee. He praised the influence of the American Transmission Co., which has been integral in the work of the subcommittees, and "had the ability to bring all of the utilities together." Finally, he summarized the completion schedule as follows: documents will be presented to governing boards in the late second or early third quarter of 2016; if approved, the restructuring process would begin in early 2017; and the statutory change request from RCA to the legislature would be possible in the 2017 session [slide 7]. Mr. Hickey restated CEA's request to hold HB 187 in committee [slide 8].

[12:00:00 PM](#)

KRISTEN COLLINS, representing herself, said she supports HB 187 because it will save Alaskans money on the cost of electricity and would increase the generation of renewable energy in the Railbelt. She encouraged legislators to keep climate change at the forefront of their concerns and said the bill is necessary

to integrate more renewable energy generation and reduce carbon emissions, and is a step forward.

[12:01:03 PM](#)

CORY BORGESON, President and Chief Executive Officer, Golden Valley Electric Association (GVEA), informed the committee the utilities in the Railbelt are working in a cohesive and positive manner to bring changes to the Railbelt. A different system is important and needed to address the changes in transmission in the region. The Railbelt has always had economic dispatch, but it was simpler when electrical generation was by CEA, ML&P, and GVEA. Currently, more regulation and a systematic approach are needed. Mr. Borgeson stated changes will require the utilities to compromise, and there will be "winners and losers." He expressed his belief that while working with ATC, the utilities will achieve a Transco, and ultimately a USO with an independent board over a period of time. Mr. Borgeson advised that the present system in the Railbelt is extremely reliable and reminded the committee that the utilities are like public power in that they are not owned by investors, therefore, economic dispatch is in their members' best interest. There is a role for ARCTEC related to the USO and a role for ATC related to transmission, the finance aspects of economic dispatch, and the settlement process. He concluded that the utilities are committed to bring forward a new system to increase reliability and reap economic benefits from an efficient and economic system; however, he cautioned that the needed upgrades to the transmission line system in the Railbelt will be expensive and will raise rates because the state will not help build the infrastructure. Finally, he agreed that renewable energy and wind power are good, but renewable power is expensive, and power sourced from independent power producers (IPPs) will not drive down the cost of power.

[12:06:43 PM](#)

REPRESENTATIVE WOOL described the procedures related to economic dispatch. He asked whether the potential savings from economic dispatch are known, and will be sufficient to offset the cost of upgrades to the Railbelt transmission system.

MR. BORGESON assured the committee that GVEA is always searching for the cheapest power; integrating with other utilities in a more complex system will add savings but the amount is unknown, although there have been estimates of \$100 million per year. American Transmission Co. has a model underway that may provide

insight into the amount of potential savings. He confirmed that the savings will be utilized to invest into a more robust and reliable transmission system.

12:09:25 PM

ERIC MYERS, Manager of Business Development, American Transmission Company, informed the committee ATC is a transmission-only electric utility owned by cooperative, municipal, and investor-owned electric utilities. Founded in 2001, ATC was the first multi-state transmission-only utility (Transco) in the U.S. The focus of ATC is to build a transmission system which allows energy producers to transport electric power in a manner similar to the interstate highway system, with high-voltage electricity traveling on the transmission system wire like vehicles on the highway. The goal today is to provide an update on the progress of voluntary efforts by the Railbelt's six utilities to identify and achieve improvement to the region's transmission assets and benefits from more efficient utilization of generation. In 2013, ATC began to work with each of the Railbelt utilities about how ATC's experience in forming a transmission-only utility through the collaborative effort of all of the utilities might work in Alaska. Before the utilities can decide to form a Transco they have to commit to the achievable economic benefits, including both local and regional impacts. In 2014, the Railbelt utilities endorsed a set of guiding principles for forming a Transco, and assigned senior staff to a working group. The task of the working group included validation of the potential benefits of improving economic dispatch by a model, as well as to validate dispatch analysis. In addition, Railbelt utilities have committed to working with ATC to complete a process that informs an ultimate decision on whether to form a Transco. Key objectives of the process are: validate and or verify the potential economic benefits; design an effective transmission-only utility structure to operate, maintain, and improve the infrastructure under a common set of standards and planning criteria; identify a tariff and cost allocation methodology that can provide open access to network transmission service, which is a tariff allocation process; support the development of approaches to settling power transactions under a pooled or unified dispatch of generation, which is the settlement process. Mr. Myers said the Railbelt utilities have committed substantial staff and resources to addressing the above; however, before proceeding all must agree to completing the process, and providing the results to leaders and associated governance organizations. Copies of the progress reports issued in

September and December of 2015 were provided in the committee packet.

[12:14:33 PM](#)

CO-CHAIR VAZQUEZ requested further identification of the aforementioned documents.

MR. MYERS said the reports to RCA were prepared on behalf of all of the utilities and ATC, and were [dated 9/30/15 and 12/22/15].

There followed further clarification of the documents.

[12:16:12 PM](#)

DAVID GILLESPIE, Chief Executive Officer, Alaska Railbelt Cooperative Transmission & Electric Company, informed the committee the members of ARCTEC are: GVEA, Matanuska Electric Association (MEA), CEA, the City of Seward, and Copper Valley Electric Association. Each member exists to provide low cost, sustainable, and reliable energy service to its residents and cooperative owners. Mr. Gillespie noted his complete written testimony is included in the committee packet; he summarized his written statement by emphasizing that he supported the unanimous view that something needs to be done, and there is much in common as to how to do so. He said progress continues to be made, and he urged the committee not to move HB 187, but to wait for updates on further progress.

CO-CHAIR VAZQUEZ asked Mr. Gillespie to clarify his present role.

MR. GILLESPIE provided a short personal background, noting his experience in the electric utility industry working with large and small entities. In further response to Co-Chair Vazquez, he said ARCTEC's primary role is to facilitate USO-based activities, and to implement a USO in the Railbelt. Although not all of the utilities are ARCTEC members, ARCTEC has been able to gain the support and participation of all of the utilities, and hopes to issue a filing with broad support. In response to Co-Chair Colver, he said the aforementioned filing is due 1/31/16 and will be available to the committee shortly thereafter.

[12:20:50 PM](#)

REPRESENTATIVE TILTON expressed her appreciation of the progress that has been made by the utilities, and reviewed some of the work that has been completed. She said she supported holding HB 187 in committee.

CO-CHAIR COLVER expressed his appreciation of the attention garnered by this issue, and of RCA's leadership. The proposed legislation is acting as a vehicle to support the utilities' efforts and to encourage the utilities to work together and resolve this issue.

CO-CHAIR VAZQUEZ recalled that some of the related issues have been a problem for decades. She recognized the work of all of the utilities and that of the RCA, and noted that the Railbelt consists of six utilities - reaching from Seward and Homer to Fairbanks - which provide electricity to about three-fourths of the state's population.

REPRESENTATIVE TALERICO recommended that the participating parties provide any appropriate information to the committee so that the committee can remain active in the progress on this issue. He stated that one of his concerns regarding HB 187 was that the major consumers of power did not have a voice in the bill. In addition, if there is a progression from a unified system operator to an independent system operator, an outline for the progression is necessary. Representative Talerico opined that Alaska has sufficient expertise in this matter.

REPRESENTATIVE CLAMAN cautioned that the biggest issue is how to construct the [board] that makes up either the independent or [unified] system operator, and opined that consumers - large or small - desire that the utilities have a minority role in the number of seats on the board. This would send a message to constituents statewide that the work being done on the electrical grid in the Railbelt is what is best for Alaska.

CO-CHAIR COLVER announced at the meeting of 2/2/16, the committee is scheduled to hear from staff an overview of RCA documents, dockets, filings, and activity to date on this matter.

[12:28:06 PM](#)

HB 187 was held over with public testimony open.

[12:28:54 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 12:28 p.m.