ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY
February 28, 2017
10:16 a.m.

MEMBERS PRESENT

Representative Adam Wool, Chair
Representative Ivy Spohnholz, Vice Chair
Representative Matt Claman
Representative Dean Westlake
Representative DeLena Johnson
Representative Jennifer Johnston
Representative George Rauscher

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: HISTORY & CURRENT STATE OF THE RAILBELT ELECTRIC UTILITIES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ROBERT PICKETT, Chair
Commissioner
Regulatory Commission of Alaska (RCA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska
POSITION STATEMENT: Presented a PowerPoint titled "History & Current State of the Railbelt Electric Utilities."

BERNIE SMITH
Utility Engineering Analyst
Regulatory Commission of Alaska (RCA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska
POSITION STATEMENT: Answered questions during a presentation by the RCA.

ACTION NARRATIVE

10:16:04 AM

CHAIR ADAM WOOL called the House Special Committee on Energy meeting to order at 10:16 a.m. Representatives Wool, Johnson, Rauscher, Spohnholz, Claman, and Johnston were present at the call to order. Representative Westlake arrived as the meeting was in progress.

Overview: History & Current State of the Railbelt Electric Utilities

10:16:31 AM

CHAIR WOOL announced that the only order of business would be a presentation by the Regulatory Commission of Alaska.

10:18:20 AM

ROBERT PICKETT, Chair, Commissioner, Regulatory Commission of Alaska (RCA), Department of Commerce, Community & Economic Development, presented a PowerPoint titled "History & Current State of the Railbelt Electric Utilities." He presented slide 2, "Regulatory Commission of Alaska," and shared some background information on the RCA. He stated that RCA regulated 600 certificated utilities and pipelines, and it covered a very wide range of industry groups, which included small water and water systems, trash removal systems, electric, natural gas, and gas companies. He reported that the charge for the RCA from the Alaska State Legislature was to ensure that that reliable utility and pipeline service was provided with just and reasonable rates. He reported that RCA administered the Power Cost Equalization (PCE) program jointly with the Alaska Energy Authority (AEA), as well as administering the Alaska Universal Service Fund for telecommunications which helped ensure that intrastate long distant calls were available throughout the state. He noted that there were five sections of Alaska statutes which governed the RCA, with the most recent being the In-state Pipeline Contract Carrier, which focused on the in-state large diameter natural gas pipeline.

MR. PICKETT moved on to slide 3, "Railbelt Service Area," pointing out that the primary focus of this presentation was on the Railbelt electrical system, which included the Homer

Electric Association service area, the Matanuska Electric service area, the Golden Valley Electric service area, and the Chugach Electric service area.

REPRESENTATIVE JOHNSON asked, regarding slide 3, if this designated the boundary of the actual service area or of the provided area.

MR. PICKETT, in response, said that although it defined the certificated service area, service may not necessarily be available.

REPRESENTATIVE JOHNSON asked if there was an agreement for the area between Golden Valley and Matanuska Electric.

MR. PICKETT replied [indisc].

REPRESENTATIVE RAUSCHER asked where Copper Valley and Matanuska Electric met.

MR. PICKETT offered his belief that this was in the Eureka area.

MR. PICKETT, in response to Chair Wool, said that this green line designated transmission lines. He described other transmission lines to the Seward area.

REPRESENTATIVE JOHNSON asked if the green transmission lines were controlled by Chugach Electric.

MR. PICKETT replied, "yes."

MR. PICKETT directed attention to slide 4, "Railbelt Installed Generation Capacity (MW) 2016," depicting the size of the Railbelt systems, which he declared to be relatively small compared to total MW generation outside Alaska.

REPRESENTATIVE JOHNSTON asked if the 120 MW power generation from Plant 2A would increase the listed total 458.6 MW for ML&P. She asked if the power generation from Beluga would be dropping.

MR. PICKETT relayed that the chart reflected capacity, and it reflected the Beluga capacity.

REPRESENTATIVE JOHNSTON asked about a bottleneck at Bradley Lake, and how it affected the capacity of power generation into the system.

10:27:44 AM

BERNIE SMITH, Utility Engineering Analyst, Regulatory Commission of Alaska (RCA), Department of Commerce, Community & Economic Development, in response to Representative Johnston, said that approximately 75 MW of power was available from Bradley Lake, and, although it was capable of a bit more power, that was not good for the transmission lines. He expressed agreement that there was a bottleneck for moving power from Bradley Lake to Anchorage and beyond.

REPRESENTATIVE JOHNSTON asked if the distribution of power from Bradley Lake was prorated to the various utilities.

MR. PICKETT relayed that the Bradley Lake agreements were the governing documents, and that the legislature had specifically excluded the RCA from overseeing any aspect of those Bradley Lake agreements. He shared that RCA did work with Chugach Electric on its transmission revenue requirements, which had created some tension and had resulted in as yet unresolved litigation with various utilities.

MR. PICKETT addressed slide 5, "Railbelt Utilities Peak Load 2010 - 2015 (MW/h/yr)," a different metric than the previous slide depicted for capacity. He reported that there had been significant changes in the Railbelt commercial agreements in 2013 and 2014. He said that in 2013, Homer Electric was no longer an all requirements power purchaser from Chugach Electric, even though it had an historic legacy agreement, and became self-generating. In 2014, Matanuska Electric finished its long-term power purchase agreement with Chugach Electric, and also became self-generating. He stated that, overall, the load for the Railbelt had been relatively stable during the previous five years.

REPRESENTATIVE JOHNSTON asked if the generation capacity was daily or monthly.

MR. PICKETT explained that capacity was reflected by the amount of MW generated by all the generators. He said that slide 5 added a time metric for the amount per hour over the course of a year.

MR. PICKETT reported on slide 6, "Matanuska Electric Association (MEA) Service Area," and noted that MEA served 63,000 customers. Regarding slide 7, "MEA's Eklutna Generation Station (EGS)," he reported that the 171 MW natural gas power plant came on line in

2015, after the conclusion of its long-term power purchase agreement with Chugach Electric. He shared that it cost about $324 million.

REPRESENTATIVE JOHNSON asked for the reason that only 40 percent of the engines were on-line.

MR. PICKETT replied that there had been a slight delay, but that all the engines were currently available for generation.

REPRESENTATIVE RAUSCHER asked about any connectivity for electric transfer between MEA and Copper Valley.

MR. PICKETT said there was not any transmission interconnectivity between these two utilities.

REPRESENTATIVE RAUSCHER asked about connectivity with Golden Valley.

MR. PICKETT replied that there was the Alaska Inter-tie, which was state funded, and allowed for transmission of electric energy from the southern part of the Railbelt to Golden Valley.

REPRESENTATIVE CLAMAN asked for the reason MEA elected to use smaller capacity generators.

MR. PICKETT replied that RCA did not have any input for utility management decisions. He opined that, given the location of the generation on the system, it would be an advantage to have the ability to dispatch in 17 MW increments, which offered the most efficient generation, as it could be left running with no dramatic fluctuations.

10:37:09 AM

MR. PICKETT directed attention to slide 8, "Chugach Electric Association (CEA)," stating that CEA had 83,000 metered customers. Referencing slide 9, "Southcentral Power Project (CEA/ML&P)," he reported that this project came in ahead of schedule on January 31, 2013, and under budget, $359 million.

CHAIR WOOL asked how the generation capacity was factored when there was a joint venture.

MR. PICKETT explained that the capacity was prorated for the 30 percent ownership by ML&P and the 70 percent ownership by Chugach Electric.

MR. PICKETT moved on to slide 10, "Beluga Power Plant," which offered an overview of the plant. He said that, historically, the Beluga Power Plant powered the southern part of the Railbelt. He reported that when the Southcentral Power Project (SPP) recently brought on 200 MW of capacity, the Beluga use began to be dialed back. He added that the Beluga gas fields had been the source of fuel for the electric generation. He presented slide 11, "Anchorage Municipality Light & Power (ML&P)," and stated that ML&P covered the core, urban part of Anchorage. He reported that ML&P had Plant 2a, slide 12, which had just come fully on line, and consisted of 120 MW, with a combined cycle, natural-gas powered generation. He relayed that the cost had been over $275 million.

CHAIR WOOL asked if the plant was on-line.

MR. PICKETT replied that although it was on-line, the commissioning process and the final warranty details were still being completed.

MR. PICKETT addressed slide 13, "Homer Electric Association (HEA)," and reported that it served 30,000 customers on the western side of the Kenai Peninsula. He stated that HEA had taken a multi-phased approach to generate its own power after its agreement with Chugach Electric ended in 2013. He listed other HEA generation assets. He presented slides 15 and 16, "Bradley Lake Hydro," and explained that RCA did not have any regulatory jurisdiction over this project. He noted that six utilities shared the power generated.

REPRESENTATIVE JOHNSTON asked if additional transmission lines from Bradley Lake Hydro would include RCA regulations.

MR. PICKETT replied that there would be a request for recovery of costs of the transmission lines.

REPRESENTATIVE JOHNSON asked if there were any power generating facilities not under the RCA oversight.

MR. PICKETT shared that the legislature had specifically exempted the Fire Island project from the RCA cost of service regulation. He stated that this project had entered into a long-term power purchase agreement with Chugach Electric for the financing and the long term guarantees of a power purchaser. He noted that RCA had approved the power purchase agreement between Chugach Electric and Fire Island. He relayed an instance for

the certification of Delta Wind, which had entered into a long-term agreement with Golden Valley. He said that RCA would be looking at any long-term contract with a certificated utility.

CHAIR WOOL asked about the opt-outs from RCA regulations.

MR. PICKETT replied that although some smaller co-ops in Rural Alaska had opted out, Homer was the first major provider to opt out, even though the HEA membership had voted by almost 70 percent to stay in the RCA oversight.

CHAIR WOOL asked whether certain co-ops were allowed to opt out of regulation.

MR. PICKETT replied, "yes."

10:49:42 AM

MR. PICKETT shared slide 17, "Golden Valley Electric Association (GVEA) Service Area," which had 40,000 customers, and slide 18, "North Pole Expansion Power Plant 60 MW," which was completed in March 2007, at a cost of $100 million. He reported that this generator could be fueled by natural gas, if it became available. He addressed slide 19, "GVEA's Eva Creek Wind Farm," in the Healy area, which produced almost 25 MW with 12 wind turbines, each almost 410 feet tall. He said that the project had cost $93 million and had been commissioned on January 7, 2013.

MR. PICKETT brought up slide 20, "Healy Unit 2 Coal Power Plant," which, he reported, had a long history. He relayed that it had started as a demonstration of the U.S. Department of Energy's Clean Coal Technology for Healy Clean Coal, and had been funded by the utilities, the state, and the federal government. Although it began burning coal in 1998, it had failed in 1999, and "went into a bit of hibernation period for a number of years." He reported that, in 2013, Golden Valley Electric paid $44 million to Alaska Industrial Development and Export Authority (AIDEA) for the plant, even as there was more than $300 million in construction costs. He said the total costs for the plant were $447 million. He added that the plant name was changed in 2012, to Healy Unit 2. He relayed that there had been a fire and explosion on March 3, 2016, during the commissioning of the plant, and that the plant was currently expected to resume operation by mid-2017.

REPRESENTATIVE SPOHNHOLZ asked about the failure during the test phase.

MR. PICKETT offered his belief that it had to do with coal dust in the feeding mechanism into the boiler, with a resulting fire and explosion. In response, he said that there had been an explosion in 1999, as well.

REPRESENTATIVE JOHNSON observed that the coal was ground to a fine powder and then ignited.

REPRESENTATIVE CLAMAN asked if the plant had ever been running and generating power.

MR. PICKETT replied, "no."

REPRESENTATIVE CLAMAN suggested that the dormancy phase was still on-going. He asked about the resumption of operation.

MR. PICKETT explained that Golden Valley Electric had done a lot of work on the plant, and this would be a resumption from the incident in 2016.

REPRESENTATIVE CLAMAN asked if any energy had been generated since the 1990s.

MR. PICKETT replied that Healy Unit 1 had consistently been generating 25 MW of coal fired generation. He pointed out that Healy 2, adjacent to Healy Unit 1, had not been generating consistently.

REPRESENTATIVE CLAMAN asked if Unit 2 had generated any energy between the failure in 1999 and today.

MR. PICKETT said that it had not generated any significant energy.

CHAIR WOOL pointed out that the ratio of MW to dollars was consistent until 1989. He asked if this was because clean coal was a new prototype technology.

MR. PICKETT opined that this had initially been influenced by the clean coal technology, although Golden Valley had to enter into a consent decree to increase emission control and bring the plant up to the latest standards.

CHAIR WOOL asked if the new clean coal power plant at the university had technology similar to Healy 2.

MR. PICKETT replied that he did not know about the technology, as it was a university project. He suggested that it would be necessary for the emissions and efficiency to be state of the art, in order for it to "make sense."

CHAIR WOOL asked if the new university power plant would fall under the RCA jurisdiction.

MR. PICKETT replied that it would not. He directed attention to slide 21, "Alaska Environmental Power (AEP) Wind Farm," which had two 900 kW wind turbines and one 100 kW turbine. He reported that the wind farm had sold 2 MW to Golden Valley Electric over the past six years. He noted that the cost had been $8.3 million, paid by a grant from Alaska Industrial Development and Export Authority of $6.3 million and a matching $2 million. He moved on to slide 22, "Fire Island Wind Farm (FIW)," which was visible from the Ted Stevens Anchorage International Airport. He reported that Fire Island Wind LLC owned and operated a 17.6-megawatt wind turbine and began the project in the fall of 2012. He relayed that they had a long-term power purchase agreement with Chugach Electric for providing a flat net price of $97 per megawatt hour. He stated that the RCA had to consider and approve this contract.

CHAIR WOOL asked if all the capacity was being consumed.

MR. PICKETT replied that he was unsure, as there was a challenge with intermittent and variable renewables for timing and for "what else was going on with the system." He offered his belief that it was "by and large being utilized" and "it seems like it's performing as it was expected to perform, largely."

MR. PICKETT reported that there had been more than $1.7 billion in generation investment in the past six years in the Railbelt, which had an impact on payers to incorporate all the capital expenditures into rates. He pointed out that the new generation was more efficient than the old generation in terms of consumption of natural gas, which represented real savings for the region's electric customers. He shared slide 23, "Alaska Electric Light & Power (AELP)," which served 16,300 customers in Juneau and Douglas. He pointed to slide 24, "The Lake Dorothy Project," which was a significant generation increment addition for AEL&P. The slide depicted the connection of this project into the system, utilizing cables from the Snettisham Project.

He commended the utility for its response to the avalanches which had interrupted the power transmission.

REPRESENTATIVE RAUSCHER, referencing slide 22, asked for the total cost so far.

MR. PICKETT opined that the State of Alaska had invested about $25 million into the submarine cable connecting Fire Island to the Chugach system. He offered his recollection that the cost was about $54 million, in addition to the $25 million for the cable, which totaled about $79 million.

MR. PICKETT pointed to slide 25, "Lake Dorothy Hydroelectric," and reported that the project had a capacity of 14.3 megawatts, at a cost of $70 million. He listed some of the technical details of the dam and the lake, adding that the cost of the transmission line to connect to the rest of the system cost about $3.5 million. He stated that it had been an 11-year process from permitting to beginning construction.

MR. PICKETT addressed slide 26, "Alaska Power Company (APC)," which served more than 7,000 customers over a "sprawling service area." He stated that slide 27, "Alaska Power Company," depicted the extent of the service area for the small, rural communities. He reported that, because of this dispersal of communities, APC had established a number of rate centers in order to sensibly aggregate the communities.

11:05:22 AM

MR. PICKETT shared slide 28, "Alaska Village Electric Cooperative, Inc. (AVEC)," and reported that AVEC was a cooperative serving 11,000 customers in 57 villages. He pointed out that RCA did not economically regulate AVEC but did work closely with them on the Power Cost Equalization program and on various smaller electric utility projects.

REPRESENTATIVE JOHNSON, referencing slide 28, asked if these were all small diesel generators.

MR. PICKETT expressed his agreement that these were mostly small diesel generation, as well as small renewables when the financing was available. He allowed that it was a challenge to integrate diesel with an intermittent and variable renewable.

CHAIR WOOL asked if the cooperative was administratively connected.

MR. PICKETT explained that it was necessary for a program to be in place to maintain and replace the assets. He stated that the administrative efficiencies were significant, as utility function and cost could be a huge impact on a small village.

CHAIR WOOL asked if there were other cooperatives.

MR. PICKETT said that there was an electric coop on Kodiak Island, although most coops were focused on a specific community.

REPRESENTATIVE JOHNSON asked if local village governments ran the power generation.

MR. PICKETT replied that there were all different approaches, which included a hybrid, a tribal city government, or an individual or a family doing whatever it could do "to keep electric power flowing."

REPRESENTATIVE WESTLAKE explained that cooperatives often had a circuit rider to maintain standardization, as well as memorandums of agreement with other power associations for a team in the region to help keep the cost under control, a daunting task with 57 villages.

MR. PICKETT stated that it was not possible to underestimate the amount of work by AVEC and its partners to keep the lights on in Rural Alaska. He shared that it was often difficult for very small communities.

MR. PICKETT said that AVEC had been working in Rural Alaska since 1968. It had sold 113 million kilowatt hours in 2015 with revenues of $58 million, and a net margin of $3.9 million, slide 29, "AVEC, continued." He added that 4 percent of its power was from wind turbines.

MR. PICKETT turned to slide 30, "Inside Passage Electric Cooperative (IPEC)," and shared some updates to the information on the slide, namely that IPEC had 1340 members in five rural Southeast Alaska communities, which included Chilkat Valley. He added that Klukwan and Chilkat Valley were almost 100 percent hydro, although the other three communities were primarily diesel. He reported that a hydro project had been completed in Hoonah in 2015, which "carries about 32 percent of Hoonah's load," adding that three potential hydro projects had been identified which could significantly decrease diesel dependence.

MR. PICKETT reported on slides 31 - 33, "Commission's Finding and Recommendations," and offered some background information. He stated that the Alaska State Legislature, since the late 1990s, had been somewhat concerned with the historical development of an intensely fragmented Railbelt electrical system. He pointed out that, during this time, there had been sweeping deregulation in the Lower 48, with a study on the potential restructure of the Alaska electric market place. It was eventually decided that the Alaska market was too small to "effectively go down that path." In 2006, the legislature appropriated about $800,000 to the Alaska Energy Authority for a Railbelt electric grid authority study. The outcome was legislation, which ultimately failed, pushing unification of the grid. In 2014, the legislature directed the commission to again review the grid and the structure of the Railbelt electric system. He referenced the RCA response [Included in members' packets] which listed five findings and the recommendation for each, slides 31 - 33.

MR. PICKETT referred to the first finding, slide 31, with several assumptions which included that the Railbelt system required institutional reform, the legacy purchase power agreements historically limited efficiencies, and an assumption that no significant state funding would be available. He shared the recommendation, which was for the utilities to create an independent transmission company (ITC) to operate the system, and for the ITC to be regulated and certificated as a public utility. He offered his belief that the commission deemed that "the utilities know their business" and how to operate their respective systems within their certificated boundaries. The RCA laid out some mandatory reports which allowed for the opportunity to voluntarily bring about a solution, and, if that effort was perceived to not make progress, then there would be a determination for the use of regulatory authority or statutory change.

11:18:49 AM

CHAIR WOOL pointed to Recommendation 1, which stated that the RCA should be granted citing authority for new generation and transmission.

MR. PICKETT stated that he would address this a bit later.

CHAIR WOOL added that the reports had been filed, as requested.

MR. PICKETT expressed his agreement and pointed out that the RCA was aware of extensive, ongoing negotiations and system modeling. He said that a filing was anticipated this spring, and, if not, there would be an order filed.

CHAIR WOOL asked if this would be from the ITC.

MR. PICKETT replied, "that's correct."

MR. PICKETT returned to Slide 31, and summarized Finding No. 2 and its recommendations. He stated that dispatch did not occur on a system wide basis, as every utility dispatched based on its own generation and load portfolios. He reported that the $1.7 billion of rate payer money invested should allow for movement toward merit order economic dispatch, which allowed for the most efficient generation to be operating first. He said that this had commercial complications for the utilities on settlement, as this was not a fully restructured market. He pointed out that there would not be a maximum benefit for the rate payers from this new efficient generation until the merit order economic dispatch was formed.

REPRESENTATIVE JOHNSON asked if a dispatch system had been identified which would work well for the Railbelt power companies, and what would this system cost.

MR. PICKETT replied that this could take many forms, and he offered examples for utilities working in cooperation. He stated that he was speaking of a higher level of economic dispatching to ensure that not only the lights stayed on and the system remained reliable but to also recognize the maximum economic benefits.

REPRESENTATIVE JOHNSON asked for suggestions of a mechanism with a more sophisticated approach.

MR. PICKETT offered his belief that the pooling agreement which had been filed on an interim informational basis was still working out the "bugs" to get the commercial agreements in place. He reported that the primary metric was fuel savings. He offered examples for the organization of other markets outside Alaska, which he deemed to be too complex for the needs of Alaska.

MR. PICKETT returned to Finding 2 on slide 31 and stated that the key principles included non-discriminatory access to the grid, transparent pricing, and dispatch from an independent

entity. He offered Recommendation 2, which stated that the system-wide merit order economic order dispatch would bring the maximum benefit to the rate payers; while, in the interim, a loose power pool should be encouraged. He recommended voluntary power pooling strategies and the filing of quarterly reports with the commission.

MR. PICKETT returned to slide 32, and addressed "Finding No. 3," sharing that this had the most feedback from the utilities, as they did not like the phrasing. He stated that many past efforts to reform had failed, and that there was a lot of skepticism about the ability of the electric utilities to voluntarily reform the grid. He declared that reliance on state appropriations and a lack of trust had produced a dysfunctional history. He pointed to the recommendations, stating that history indicated that current voluntary transmission restructuring may fail, and that failure of the voluntary efforts and initiatives would trigger compulsory action by the commission. He said that it was not stated what that would be specifically as it would depend on the ultimate extent of the regulatory authority, what statutory changes would be necessary, and what the administration and the legislature would be willing to do.

CHAIR WOOL asked how long this had been a problem.

MR. PICKETT replied that this had been reviewed for more than 20 years.

REPRESENTATIVE JOHNSON asked if there was a bright spot in the midst of this dysfunction, and whether things were moving in the right direction.

MR. PICKETT replied that there was slow progress, acknowledging that the level of complexity and the history could not be discounted. He pointed out that the utilities were trying to absorb a new generation of efficient energy into the rate base and incorporate this into rates. He allowed that this was a tremendous amount of work, and, along with the associated depreciation studies, there are "a lot of things that are happening at the same time." He stated that the commission was willing to continue with the voluntary efforts as the utilities had been working together to move forward.

CHAIR WOOL noted that there had been a lot of new power generation in the past 20 years.

MR. PICKETT reported that citing authority in terms of the generation currently in place would not have an impact. He explained that citing authority would come into play if there were major transmission upgrades with significant projects. He offered his belief that citing authority for utility management was not necessary to make decisions for many things, although it should be considered on major projects worth hundreds of millions of dollars which affected rates.

11:30:13 AM

MR. PICKETT returned attention to slide 32, "Finding No. 4," and stated that there were currently no mandatory electric reliability standards, although there were voluntary standards. He reported that the Intertie Management Committee which included Chugach Electric, Garden Valley, Matanuska Electric, and Municipal Light and Power, as well as Homer Electric, had adopted a modified version of the reliability standards in the Railbelt. He offered his belief that the utilities were trying to work out the differences, although, as these standards were still voluntary, there were not any enforceable and consistent reliability standards. He opined that these standards were necessary, as voluntary standards could easily lose impact. He added that critical infrastructure and cyber security standards needed to be addressed. He questioned what would be the enforcement mechanism.

MR. PICKETT moved on to slide 33, "Finding No. 5," which focused on the impact of the recommendations. He stated that the aforementioned four findings would be challenging and time consuming to implement, and that full implementation of the proposed electrical system structural change would take between five to ten years. He said that it was necessary for many parties from many different areas, including the utilities, the energy authority, the commission, the legislature, and the administration, to cooperate or the effort would fail. He opined that the initial steps would need to be incorporated within the current funding structure, which would allow that this process be kept moving for another two years. He pointed out that any significant changes could necessitate a look at other options.

REPRESENTATIVE JOHNSTON asked about the fixed capital costs which each of the utilities had incurred, the variable cost of power generation dependent on fuel and efficiency, the need to update any transmission lines, and the ability for someone to get "all the wheels on the bus to go in the same direction."

MR. PICKETT emphasized that the management and the boards of the utilities were acting in good faith for moving forward in the right direction. He said that capital expenditures would be incorporated into rates upon appropriate review. He explained that the RCA statutes were structured in such a way that once the utility made an investment, the commission was obligated to separate at a level which made it possible to pay for that investment.

REPRESENTATIVE JOHNSON asked how long the rate review process would take from initiation to determination.

MR. PICKETT replied that there were statutory deadlines which required completion within 15 months, although this could be completed in a shorter time.

CHAIR WOOL asked if a lot of the good faith by the utilities was a result of the findings and recommendations [Included in members' packets].

MR. PICKETT replied that the utilities knew that the RCA was "not going away and they know we're considering to look at it." He stated that neither RCA nor the utilities wanted any unilateral action.

REPRESENTATIVE WESTLAKE, noting the failure of previous efforts to reform as well as some system incompatibility, asked why the RCA was recommending interjecting itself.

MR. PICKETT replied that there was a need for system wide efficiency. He offered his belief that it was the responsibility of the RCA to bring the maximum economic benefit to the rate payers, as they were entitled to reliable electric utility service.

11:40:22 AM

MR. PICKETT addressed slide 34, "USO and Transco," and distinguished the difference between a Unified System Operator (USO) and an Independent System Operator (ISO) and pointed out that there were not hard lines, as there were hybrid structures which incorporated aspects of both.

CHAIR WOOL, in response to Mr. Pickett, suggested that Mr. Pickett answer from a series of nine previously submitted questions. He asked whether the Beluga Power Plant cost the

Railbelt money, and now that there was new natural gas generation, was this the time to stop paying to keep these older gas plants operational.

MR. PICKETT said that the utility managers generally had the right to decide which assets to retire, although the RCA could require actions given the appropriate due process. He said this would require a finding that the utility had engaged in unreasonable management practices which had an adverse effect on the cost or quality of service. He pointed out that there was an assumption that retirement of the asset would save money for the consumers, which may or may not be true. He said that retirement of an asset could increase rates in the short run.

CHAIR WOOL addressed the second question regarding a time line for the formation of a unified system, and at what point would the voluntary efforts for a system wide operator be deemed to have failed.

MR. PICKETT replied that RCA tried to incentivize and facilitate cooperation with the interconnecting utilities in the Railbelt. He said that there were not specific, mandatory criteria for how this was to be accomplished because circumstances do change. He said that there was not a definition for what constituted a failure. He offered his belief that the commission believed that the voluntary, cooperative, collaborative process was not a failure until the parties arrived at an impasse, and activities just stopped. He said that he would bring the reliability standards to the forefront, as it did not appear that there was "the same level of movement with that recommendation."

CHAIR WOOL asked about an RCA report in 2014, with an RCA response in 2015, which resulted in movement by the utilities in 2017.

CHAIR WOOL asked about citing authority for the RCA for new power and transmission construction, and whether earlier citing authority would have resulted in a change in recent construction.

MR. PICKETT said that the attorney general had researched citing authority for RCA and had determined that the precursor organization to RCA had limited citing authority prior to 1970. He reported that the pre-1970 period was not comparable as that commission did not have certificate authority over political subdivisions. He went on to report that citing authority over both generation and transmission could not be exercised through

the [indisc]. He said that a caveat for citing authority would be the need for limitations because utility managers had to be able to make the decisions on investment. He opined that RCA did not want to "get down to a granular level."

CHAIR WOOL reiterated that the use of hundreds of millions of dollars would be an appropriate use of citing authority.

11:49:05 AM

The committee took a brief at ease.

11:49:28 AM

CHAIR WOOL said that more questions would be submitted later.

CHAIR WOOL asked if there was currently a single tariff if an independent power producer (IPP) wanted access to the grid, and, if not, when that would be available.

MR. PICKETT replied that there were tariffs for transmission by each of the respective utilities, and he acknowledged that this was a challenge to a small power producer when using many transmission systems, as these "pancaking rates" led to the consideration for the rationalization of rates on a Railbelt wide basis. He reported that when an IPP wanted to interconnect with a particular utility and provide service in that location, it was necessary to negotiate with that utility. He added that a transmission tariff did not automatically allow for access to the system, as a tariff rate and a longer-term power purchase agreement was often necessary for a funding package. He reported that a qualifying facility (QF) could have the rights for an interconnect if the utilities tariff permitted, however a non-QF did not have the rights to transmit power to the customer unless it had a Certificate of Public Convenience and Necessity or was exempt for this requirement. He emphasized that, under existing law, no utility was obligated to buy from an IPP or even consider power purchases except by contract. He pointed out that this was negotiated between the IPP and the utility.

CHAIR WOOL asked if this would change in a unified system.

MR. PICKETT replied that he could not speculate as to the exact form, although with a unified system or unified transmission everyone would have the same access to the system subject to terms.

CHAIR WOOL asked about an independent system operator (ISO) versus a unified system operator (USO), and whether there was concern for the independence for ISOs versus the possibility of control of the USOs by the utilities.

MR. PICKETT, stating his personal opinion, said that any created entity could take on many forms and aspects. He opined that the key was in governance, and how the entity would be governed and who should be represented. He offered his belief that it was not appropriate for the governing structure to be exclusively utilities, as other voices should be involved. He noted that the assets pledged to the entity or the capital being raised by the entity were going to need assurances that the entities behaved in an economically rational fashion to protect the investments.

REPRESENTATIVE JOHNSON asked if there were any other entities with similar operations to model.

MR. PICKETT said that he had been researching this for the past three years. He declared that Alaska was unique in that there was not any crossing of state boundaries, although Alaska was able to look at what worked in other areas to see what made sense for Alaska. He added that many systems were far too complicated for the needs of Alaska.

CHAIR WOOL asked about Transco versus USO, and for a separate entity to own the transmission structure with a unified system operator to dispatch. He asked if there was a blurring of this line between the company which owned the transmission and the company which dispatched this, or should these be more separate.

MR. PICKETT replied that this could reflect a blurring of the lines, although he was not able to state definitively what the form would take. He said that, ultimately, this would involve the State of Alaska and its transmission assets.

CHAIR WOOL asked about the cost estimate for an upgrade which included a tie in of the Susitna-Watana Hydroelectric Project.

MR. PICKETT explained that the referenced study by the electric power systems had two big pieces, the pre-Watana study for $900 million and the component, the post-Watana, which assumed that when the dam came on line there would be other things to do. He reported that the RCA had not embraced this study and had raised questions for internal assumptions within that study which had somewhat skewed the cost-benefit ratio. He opined that the

study had identified projects to be considered, and that the updated study did not include a dollar figure.

CHAIR WOOL asked who paid for the Bradley Lake project, if the bonds were scheduled to be paid off in the near future, and whether the participating utilities would then have an annual payment into the state Railbelt energy fund.

MR. PICKETT replied that RCA did not have regulatory authority on the Bradley Lake project, and it had been suggested that RCA did not even have the right to read the agreement. He suggested that it would be necessary to speak with AEA and the Bradley Lake management committee. He offered his belief that the bonds were nearing their pay-off, although he was unsure of what would happen next.

CHAIR WOOL asked for the meaning of CPCN.

MR. PICKETT replied that this was the certificate of public convenience and necessity, which he described as the license for the utility to do business.

REPRESENTATIVE JOHNSON, referencing slide 3, asked about the boundaries of the Railbelt, and whether the areas on the western side of Cook Inlet were considered Railbelt.

MR. PICKETT replied that this was the Beluga Power Plant area and was served by Chugach Electric.

12:02:47 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 12:02 p.m.