

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

January 23, 2020

10:17 a.m.

MEMBERS PRESENT

Representative Grier Hopkins, Chair
Representative Ivy Spohnholz, Vice Chair
Representative John Lincoln
Representative Zack Fields
Representative Tiffany Zulkosky
Representative George Rauscher

MEMBERS ABSENT

Representative Lance Pruitt

COMMITTEE CALENDAR

HOUSE BILL NO. 151

"An Act relating to the regulation of electric utilities and electric reliability organizations; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 151

SHORT TITLE: ELECTRIC RELIABILITY ORGANIZATIONS

SPONSOR(s): ENERGY

05/03/19	(H)	READ THE FIRST TIME - REFERRALS
05/03/19	(H)	ENE, RES
05/09/19	(H)	ENE AT 8:30 AM CAPITOL 17
05/09/19	(H)	Heard & Held
05/09/19	(H)	MINUTE (ENE)
01/23/20	(H)	ENE AT 10:15 AM CAPITOL 17

WITNESS REGISTER

JOE G. HARDENBROOK, Staff
Representative Grier Hopkins
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented an overview on the committee substitute for HB 151 on behalf of the bill sponsor, the House Special Committee on Energy.

ROBERT PICKETT, Chair
Regulatory Commission of Alaska (RCA)
Anchorage, Alaska

POSITION STATEMENT: Testified during the presentation of the committee substitute for HB 151.

ACTION NARRATIVE

[10:17:53 AM](#)

CHAIR GRIER HOPKINS called the House Special Committee on Energy meeting to order at 10:17 a.m. Representatives Hopkins, Lincoln, Rauscher, and Zulkosky were present at the call to order. Representatives Fields and Spohnholz arrived as the meeting was in progress.

HB 151-ELECTRIC RELIABILITY ORGANIZATIONS

[10:19:48 AM](#)

CHAIR HOPKINS announced that the only order of business would be HOUSE BILL NO. 151 "An Act relating to the regulation of electric utilities and electric reliability organizations; and providing for an effective date."

[10:20:18 AM](#)

REPRESENTATIVE SPOHNHOLZ moved to adopt the proposed committee substitute (CS) for HB 151, Version 31-LS0870\U, Klein/Fisher, 12/20/19, as the working draft. There being no objection, Version U was before the committee.

[10:20:42 AM](#)

JOE G. HARDENBROOK, Staff, Representative Grier Hopkins, Alaska State Legislature, paraphrased from a prepared statement [original punctuation provided], which read:

Mister Chairman - thank you for the opportunity to do a quick overview on the CS for House Bill 151 and to update the committee on some of the developments that occurred over the interim. We have Commissioner Bob Pickett of the RCA online today to discuss the

commission's continuing efforts and their support for the legislation being crafted by the Senate Special Committee on the Railbelt Electrical System - the companion legislation to the bill before us.

The CS which the committee has adopted moves SB 123 and HB 151 into total alignment, reflecting the most recent draft language vetted by the utilities, stakeholders and advocates and endorsed by the Regulatory Commission. It is our hope that by combining our efforts with the other body we can work constructively together on this complex issue, engage with the utilities, the RCA and consumers to craft the best legislation possible and to work towards increasing efficiencies in the Railbelt and ultimately increasing reliability and reducing cost to Alaska families and businesses.

As Representative Hopkins mentioned earlier, this legislation has come before us due to the efforts of the RCA in addressing a question posed by the legislature in 2014, namely, would electric utility customers from Fairbanks to Homer benefit from increased cooperation between the interconnected utilities of the Railbelt?

Among the RCA's recommendations was formation of a reliability organization, which would write and enforce common standards for safe and reliable operation of the interconnected utilities. The Railbelt electric utilities have made significant progress toward collaboration and cooperation over the interim. Most recently, all six entered into an agreement to work together to establish a reliability organization.

The Memorandum of Understanding establishing this organization is in your packet.

The RCA, in their letter of this month updating the Legislature on the utilities' progress, has recommended statutory changes that would affirm the RCA's authority to regulate a reliability organization; define the basic structure, responsibilities and authorities of a reliability organization; and empower the RCA to require pre-approval of large generation and transmission projects

undertaken by utilities that are part of this interconnected network. HB 151 and SB 123 reflects these recommendations and, if enacted, would support the utilities' voluntary work to develop a reliability organization.

For the information of the committee, we have provided in the bill packet the following items:

- The letter from the RCA to the legislature dated January 15, 2020 detailing progress to date on this issue and updating the legislature on progress towards the five goals listed in the RCA's 2015 letter to the legislature.
- A copy of the 2015 RCA letter to the legislature
- A copy of the MOU establishing the Railbelt Reliability Council signed December 6, 2019
- An article from the Alaska Journal of Commerce dated 12/31/19 which provides a good synopsis of efforts to date and details the significance of the MOU which was signed.

It is the hope of the chairman that these documents will provide the committee with a full picture of how the legislation before the committee has come to be. Commissioner Pickett will go into greater detail on the efforts undertaken by the RCA, and the voluntary efforts, timelines and data collection the commission has requested, directed and overseen from Railbelt utilities.

Mister Chairman, I would like to note and appreciate the efforts of the RCA, Legislative Legal and the leadership of the Senate Special Committee on the Railbelt Electrical System in crafting this legislation.

I anticipate that the committee's review of this legislation in conjunction with the other body will be thorough, and that these entities will continue to play a key role in our understanding of this issue and our actions to bring about a more cost-effective and resource-efficient electrical system in Alaska's Railbelt.

[10:24:44 AM](#)

MR. HARDENBROOK paraphrased the Sectional Analysis to HB 151, version U, which read [original punctuation provided]:

House Bill 151 establishes clear statutory authority for the Regulatory Commission of Alaska (RCA) over an electric reliability organization (ERO). The bill defines participation in a reliability organization as well as the requirements, responsibilities, powers and oversight of a reliability organization.

Section 1 Adds new sections to AS 42.05, *Alaska Public Utilities Regulatory Act*.

New Sec. 42.05.292: Electric reliability organizations

Requires interconnected utilities in a network served by a certificated reliability organization to participate in the reliability organization. Provides standard for RCA approval of a reliability organization. Directs reliability organization governance. If no entity applies as a reliability organization by October 2020, the RCA must form one.

Charges a reliability organization for developing standards for reliable operation of the power system. Standards must be filed with the RCA as a tariff; the RCA may approve standards if they are just, reasonable, not unduly discriminatory, and in the public interest. The RCA retains enforcement powers. Allows the RCA to require certain standards or changes.

Enables the reliability organization to impose penalties as necessary and describes the process for penalties. Establishes a process for the RCA to require compliance with standards and to hear appeals of penalties.

Requires the RCA to write regulations, including for conflict resolution and organization cost recovery. Regulations may be written to require the organization obtain a certificate of public convenience and necessity, and for issuing an open access transmission tariff to a reliability organization.

New Sec. 42.05.293: Integrated resource planning

Charges a reliability organization with creating a plan for reliable, cost-effective operations. The plan must cover generation, transmission, and conservation.

After a hearing, the RCA can approve, reject, or modify a plan, and can allow utilities to recover planning costs in their rates. The cost of resources and other expenditures reflected in the approved plan may also be recovered in utility rates.

New Sec. 42.05.294: Project preapproval

Requires RCA approval for public utilities interconnected with a bulk power system to construct large generation and transmission facilities.

RCA approval would require findings that the facility is a necessary component of the system it would connect with; complies with reliability standards; and is the most cost-effective way to serve connected utilities that would be substantially served by the facility.

A facility included in the most recent RCA-approved integrated resource plan is presumed approved, unless the RCA finds otherwise with clear and convincing evidence.

MR. HARDENBROOK continued his presentation of the Sectional Analysis, which read:

Section 2 Adds new paragraphs to *AS 42.05.990, Alaska Public Utilities Regulatory Act, Definitions.*

Defines bulk power system; cybersecurity incident; electric reliability organization; electric utility; interconnected electric energy transmission network; load-serving entity; and reliable operation.

Section 3 Adds a section to uncodified law requiring the RCA to adopt regulations to implement the bill by July 1, 2020.

Section 4 Sets an immediate effective date for Section 3, enabling the RCA to proceed with regulations to implement the bill.

Section 5 Sets an effective date of July 1, 2020, for all other sections.

Thank you, Mister Chairman. This concludes my presentation.

[10:29:13 AM](#)

ROBERT PICKETT, Chair, Regulatory Commission of Alaska (RCA), offered some background and context to bring the committee up to date, and stated that, at the direction of the Alaska State Legislature in 2014, the Regulatory Commission of Alaska (RCA) was told to take a year-long look at the Railbelt Electric System and then offer recommendations. He reported that there were many contentious relationships among the utilities, which were balkanized and fragmented. He said that even with \$1.5 billion of new Railbelt generation in a short period, there was concern that the system was not being operated as efficiently and effectively as it could. He noted that Alaska was not under the jurisdiction of the North American Energy Reliability Corporation (NAERC) which created some concerns regarding enforceable liability standards. In the June 30, 2015 report to the Alaska State Legislature, he pointed out that there were two competing full liability standards in the Railbelt. He reported that the RCA came up with five findings and five recommendations which were articulated in the 2015 letter. He noted that the letter from the RCA to Senator Giessel and Representative Edgmon, dated January 15, 2020 [Included in members' packets] repeated those recommendations and what progress had been made. He paraphrased those recommendations and the progress on each, which read [original punctuation provided]:

Recommendation No. 1:

An independent transmission company should be created to operate the transmission system reliably and transparently and to plan and execute major maintenance, transmission system upgrades, and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. This independent transmission company should be certificated and regulated as a public utility under AS 42.05. The RCA should be granted siting authority for new generation and transmission, and granted explicit authority to regulate integrated resource planning in the Railbelt electrical system.

Progress on Recommendation No. 1:

Since the submission of the 2015 RCA report to the Alaska Legislature, the Railbelt electric utilities have over the past four years worked toward the creation of a Railbelt transmission company (Transco).

A number of filings have been made with the RCA that describe the voluntary efforts toward creating a Transco. The Alaska Railbelt Transmission, LLC, a proposed new investor owned Transco, filed an application for a certificate of public convenience and necessity (certificate) on February 25, 2019. The RCA received notice from the Alaska Railbelt Transmission, LLC that it would be withdrawing its certificate application on June 20, 2019. The more than four year voluntary efforts to create an independent, certificated Transco in the Rail belt was not successful.

Recommendation No. 2:

System-wide merit order economic dispatch of the Rail belt's electrical generation units will bring the maximum benefit to ratepayers. The RCA should use all the regulatory and statutory authority it currently has to strongly promote economic dispatch and seek new statutory authority as needed to promote this goal. Voluntary efforts by the utilities to utilize loose power pools should be encouraged as an interim step toward a tighter power pooling system. As actual data is generated concerning costs, benefits, and other outcomes of voluntary power pooling strategies, quarterly reports shall be filed with the RCA. These reports will be analyzed and reviewed to assess the organizational and governance structure needed for an independent consolidated system operator. If voluntary efforts fail, the RCA will work with the Legislature and the Administration to develop and implement specific action steps to institutionalize system-wide merit order dispatch.

Progress on Recommendation No. 2:

Some limited progress was made toward the establishment of a tight power pool between Chugach Electric Association, Inc. (Chugach) and the Municipality of Anchorage d/b/a Municipal Light & Power Department (ML&P). This effort was halted in the fall of 2018, pending the outcome of the proposed acquisition of ML&P's assets by Chugach. The opportunity to realize \$10 million in annual natural gas savings from more efficient generation dispatch between the two utilities was suspended. Voluntary

commercial settlement arrangements could not be reached. Additional savings were not realized by incorporating Matanuska Electric Association, Inc. into the tight pool.

Recommendation No. 3:

Though history strongly indicates that the current voluntary transmission restructuring and economic dispatch efforts by the utilities may fail, the RCA believes the utilities must be given the opportunity to succeed. Failure of the voluntary efforts and initiatives will trigger the compulsory steps identified in Recommendation Nos. 1 and 2.

Progress on Recommendation No. 3:

Voluntary efforts by the Railbelt electric utilities have failed to produce sustainable institutional change under Recommendation Nos. 1 and 2. On March 15, 2019, the RCA issued an order seeking input on possible statutory changes: We invite comment on legislative language that would provide express statutory authority for this agency to certificate and regulate an electric reliability organization, and to oversee integrated resource planning and project pre-approval of large electric generation and transmission facilities. After the receipt of public comments on the proposed statutory language by the RCA, several bills were introduced in the Alaska Legislature. On May 3, 2019, the House Committee on Energy introduced HB 151. On May 14, 2019, the Senate Special Committee on the Railbelt Electric System introduced SB 123. Both bills were titled "An Act relating to the regulation of electric utilities and electric reliability organizations; and providing for an effective date. " Both bills are very similar in language and intent. At the Public Meeting of the RCA held December 11, 2019, the RCA voted unanimously to support SB 123.

Recommendation No.4:

Enforceable and consistent Railbelt operating and reliability standards are necessary for consistent, safe, reliable, and efficient operation of the Railbelt electric system. The RCA strongly encourages

the Intertie Management Committee and Homer Electric Association, Inc. to resolve their differences and develop a common Railbelt operating and reliability standard. In January 2016 the RCA will initiate a process to determine if it should adopt regulations concerning Railbelt operating and reliability standards.

Progress on Recommendation No. 4:

The area with the most progress is the adoption of mandatory consensus reliability standards. The RCA's June 2015 recommendation noted that reliability standards were voluntary and not all electric utilities had adopted the same standards.³ Railbelt electric utilities agreed to a single set of mandatory electric reliability standards for the Railbelt, filing consensus reliability standards with the RCA on April 17, 2018, that bridged inconsistencies between the existing reliability standards of the IMC and HEA/RRO. The Rail belt electric utilities proposed that implementation of the consensus standards be delayed until a year after adopted by a reliability organization. The reliability organization proposed by Railbelt electric utilities is the Rail belt Reliability Council (RRC), with functions that include (1) adopting and enforcing standards regarding system reliability, cybersecurity, and physical security; (2) conducting integrated resource planning for the Railbelt; (3) adopting and enforcing system-wide interconnection protocols; and (4) evaluating security-constrained economic dispatch. The Railbelt electric utilities proposed that the RRC be certificated and regulated by the RCA. The RRC is in the formative stages, with the Rail belt electric utilities anticipating filing a certificate application once the RRC business plan and supporting documents are completed.

Recommendation No. 5:

The RCA will be hugely impacted by these proposed Railbelt electric system changes. The initial action steps will need to be implemented within existing RCA resources. The RCA is selfsupporting through RCCs and does not rely upon state undesignated general funds. If the RCA receives the necessary Legislative and

Administration support, the RCA budget will require the necessary RCC funded resources to implement these proposed recommendations.

Progress on Recommendation No. 5:

The passage of SB 83, signed into law on August 29, 2019, with an effective date of November 27, 2019, amended Section 39.25.110 concerning Exempt Service and the RCA Chair's authority under AS 42.04.050 (a). With these statutory changes, the Chair of the RCA was given authority to employ up to five utility master analysts. Highly specialized and technically trained individuals can now be employed to assist in the implementation of these Railbelt electric system changes. The public interest protection of ratepayers can now be better balanced with the needs of the utilities.

[10:35:27 AM](#)

REPRESENTATIVE FIELDS asked whether storage had been addressed in the project pre-approval per AS 42.05.294.

MR. PICKETT offered his belief that this was currently being discussed, and that the intent was for storage to be part of this, past a certain scale. He suggested that it was necessary for the various utilities and parties to figure that line, as the RCA did not want to "get down into the weeds" on smaller projects.

REPRESENTATIVE FIELDS asked whether there was contemplation for having a Railbelt Utility go through RCA approval for a smaller scale storage.

MR. PICKETT explained that it was necessary to separate what had a system wide impact versus just for the utility itself. He pointed out that each utility had the authority to make the decisions for what they needed to run their utility. He noted that Golden Valley Electric once had the largest battery system in the world.

REPRESENTATIVE FIELDS asked for elaboration to the meaning for complying with reliability standards, and if that would ever give RCA the ability to not pre-approve a program for a lack of substantial reliability within the grid.

MR. PICKETT offered his belief that the current standards were just operational standards and did not address physical or cyber security. He stated that participation with the various IPPs and renewable energy wanted to ensure the grid was operated on an open, transparent basis where it was known what needed to be done. He suggested that reliability standards would not preclude this.

REPRESENTATIVE FIELDS asked whether an intermittent power supply would be unreliable.

MR. PICKETT replied that this would depend on the size of a supply and where it was plugging into the grid.

[10:38:29 AM](#)

REPRESENTATIVE RAUSCHER asked why this change was now moving quickly.

MR. PICKETT offered his belief that there were going to be mandatory, enforceable reliability standards in the Railbelt. Whether or not the RCA was initiating a rule making docket, RCA wanted a system in which the operators would first see what was necessary and not have RCA to try to operate the plant as a regulator. He reported that the operators were working to figure out the best cyber security industrial control system approach.

[10:40:11 AM](#)

CHAIR HOPKINS asked whether there was any concern for discrimination against any type of power produced along the Railbelt and should this be covered in legislation.

MR. PICKETT opined that the Railbelt was already adequately covered with new generation over the last five years. He added that, with declining loads, it would be several years before there was substantial new generation, although there could be a level of renewables coming into the system. He noted that wind power would make sense in some areas, and he referenced the solar farm in Willow.

CHAIR HOPKINS asked about the similarities to reliability standards in the Lower 48 and how those worked. He asked about the lack of those reliability standards in interconnection transmission systems in Alaska.

MR. PICKETT opined that the state political leadership through Senator Stevens, Representative Young, and Senator Murkowski were reluctant for the NAERC to expand its jurisdiction to Alaska. He shared that he had studied many of the systems throughout the United States in very large markets, and the NAERC would create too much of an administrative overhead and burden for the relative handful of utilities in Alaska. He reported that there was an attempt to craft something that made sense for Alaska.

CHAIR HOPKINS asked whether there was now a stronger need for this reliability standard.

MR. PICKETT pointed out that the power grid was a target of cyber-security. He noted that both the military and the utilities had concerns, adding that "the grid is an attractive target." He offered his belief that it was a major accomplishment for the utilities to merge the two competing reliability standards. He reiterated that physical security was a concern.

[10:44:21 AM](#)

CHAIR HOPKINS pointed out that the CS had adopted identical language to SB 123, which was unanimously endorsed by the RCA and it was the intent of the committee to hold the bill.

[10:46:09 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 10:46 a.m.