

SENATE FINANCE COMMITTEE

March 3, 2020

9:01 a.m.

9:01:37 AM

CALL TO ORDER

Co-Chair von Imhof called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator John Coghill, Sponsor; Rena Miller, Staff, Senator Cathy Giessel; Senator Cathy Giessel; Representative Grier Hopkins.

PRESENT VIA TELECONFERENCE

Antony Scott, Commissioner, Regulatory Commission of Alaska; Julie Estey, Director of External Affairs, Matanuska Electric Association, Representative Organizational Development Committee, Palmer; Jeff Warner, Municipal Light and Power, Anchorage; Chris Rose, Renewable Energy Alaska Project, Palmer; Brian Hickey, Chief Operating Officer, Chugach Electric Association, Big Sky, Montana.

SUMMARY

SB 123 ELECTRIC RELIABILITY ORGANIZATIONS

SB 123 was HEARD and HELD in committee for further consideration.

#sb123

SENATE BILL NO. 123

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

[9:03:08 AM](#)

SENATOR JOHN COGHILL, SPONSOR, introduced the legislation.

[9:09:09 AM](#)

RENA MILLER, STAFF, SENATOR CATHY GIESSEL, introduced herself, and stated that she was working with the sponsor on the legislation. She discussed, "SB 123: Electric Reliability Organizations" (copy on file).

Ms. Miller looked at slide 2, "Context for SB 123":

- 2014: Legislature asked RCA to evaluate the Railbelt network
- 2015: RCA delivered findings/recommendations to Legislature
- 2020: RCA delivered progress report to Legislature
- SB 123 / HB 151 - electric reliability organizations (EROs)

Overall goal: Cooperation to improve reliability, security, and efficiencies - resulting in long-term savings to ratepayers

Ms. Miller pointed to slide 3, "SB 123 -Bill components":

- Participation (42.05.760 (a); 42.05.772)
- How an ERO forms (42.05.760 (b-f))
- Framework of an ERO (42.05.762)
 - ERO responsibilities (42.05.765; 42.05.767; 42.05.770; 42.05.775; 42.05.780)
 - How the RCA will process ERO activities
 - Compliance and enforcement
- Project pre-approval (42.05.785)

Ms. Miller discussed slide 4, "Participation in ERO":

- Interconnected networks must have an ERO (some exceptions)
- Public utilities in the network must participate in the ERO
- All users, owners, operators in the network must comply with reliability standards set by the ERO
- Railbelt primary need; legislation has general applicability
- 'Release valves' to accommodate future

[9:15:07 AM](#)

Senator Hoffman queried the reason for the requirement for the RCA to act when a facility wanted to acquire a waiver. He suggested that language be included for an "opt in."

Ms. Miller clarified the question.

Senator Hoffman recalled that a required ERO would allow for the RCA to exempt them from that process. He wondered why there was not an attempt to reverse that effort to allow for a utility to participate in the ERO.

Ms. Miller replied that the RCA felt that it was important when different utilities may have different positions on whether the entities should be working together. She felt that the benefit came from applying network-wide, so everyone has compliance.

Senator Hoffman felt that it should be a public policy decision, so RCA should not be making that policy decision.

Senator Bishop wondered who participated in the ERO.

Ms. Miller replied that within the Railbelt network, those entities would be subject to that standard.

Senator Bishop wondered whether those communities that had their own power or were not connected to the grid would be a part of the standard.

Senator Coghill replied that they would not be a part of it. He explained that the standard applied to the interconnected utilities.

[9:20:13 AM](#)

Senator Wilson surmised that there were six utilities, which could possibly be reduced to five utilities.

Ms. Miller replied that those were the six public utilities on the Railbelt network. She noted that there were other power providers that fed into the network that would be subject to the standards set by the ERO.

Senator Wilson requested a list of those providers.

Ms. Miller agreed to provide that information.

Senator Wilson wondered whether there was a kilowatt per hour minimum.

Ms. Miller replied that there was no minimum kilowatt production standard. She stressed that it was about uniform standard and security of the entire grid.

Senator Wielechowski wondered how this might affect a smaller company to provide renewable energy sources.

Ms. Miller replied that there was support from independent power producers. She stressed that those business would need to comply with the ERO standards.

Senator Wielechowski responded that the more dominant utilities might not be supported of smaller organizations coming online.

Ms. Miller remarked that the bill required that the governing board of an ERO have a very specific make up of members. She stressed that it was designed to be an entity that was not only made up of the specific major six utilities.

Co-Chair von Imhof stressed that there were high costs due to unfettered capital projects built on the Railbelt. She noted that the larger companies had a specific constituency representing specific boundaries. She felt that the bill would create streamlined operations over approximately 500 miles in the event of a natural disaster for backup transmission. She did not believe that it would keep the small alternative energy providers out of the market, rather it would do the opposite, because it would control

the cost of the specific members in the specific boundaries.

Ms. Miller looked at slide 5, "Forming an ERO":

- Interested players form an organization
- Organization applies to the RCA
- RCA evaluates, certifies the organization as the ERO
- One ERO per network
- If no one applies, RCA shall form an ERO

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Ms. Miller highlighted slide 6, "ERO framework":

- Required structure in SB 123:
 - Governed by independent or balanced board, or a combination
 - Open, inclusive processes
 - Balancing interests
 - Abilities to develop standards, integrated resource plans
- Applicant will build on that structure
 - Per RCA regulations for SB 123

Senator Hoffman wondered whether there was a structure for the board representative of the existing utilities.

Ms. Miller looked at page 3 of the bill, which said that the governing board needed to have the ex-officio members, and must be formed as an independent balanced stakeholder, or a combination board.

Senator Hoffman surmised that it would depend on the entity that submitted its ERO plan, and would be ultimately applied by the RCA.

Ms. Miller replied in the affirmative.

Ms. Miller discussed slide 7, "ERO responsibilities":

- RCA delegates certain work to the ERO
- RCA maintains oversight, authority, assigns tasks to ERO
- Bottom-up approach from the network players who know best
- ERO sets and enforces reliability standards

- ERO develops integrated resource plan

Ms. Miller addressed slide 8, "Responsibilities, cont.":

- Reliability standards for the network
 - Subject to RCA approval
 - ERO to enforce standards, RCA back-up
 - ERO or RCA can penalize violations
 - Conflict resolution

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Senator Coghill remarked that the issue was related to a balance of authority. He stressed that there was a question of how much authority would be granted to RCA.

Senator Hoffman requested the requirements and the membership of the current RCA board.

Ms. Miller agreed to provide that information.

Ms. Miller continued to discuss slide 8:

- Integrated resource planning for the network
 - How to meet needs at greatest value, consistent with public interest
 - Subject to RCA approval
 - Items in an approved plan are 'necessary'

Senator Bishop wondered whether the section provided buy-in from the independent power providers.

Ms. Miller replied that it was a provision that was brought by one of the utilities supported by the group, and was heavily endorsed by the independent power providers.

[9:42:01 AM](#)

Ms. Miller pointed to slide 9, "Project pre-approval":

- For large new generation and transmission
- Protects utilities and ratepayers
- Certifies necessity and cost-effectiveness
- Presumption for projects in an integrated resource plan
- Some exemptions

[9:45:46 AM](#)

Ms. Miller noted a Letter of Intent (copy on file). She explained that the letter navigated some challenging terrain.

Senator Hoffman looked at slide 11, which said that there were six utilities and other participants. He wondered whether the six utilities were part of the organization, and the rest contemplated by the legislation ex-officio.

Ms. Miller replied that the legislation did not require participation by any particular entity.

Senator Bishop wondered whether the program had similarities with the North American Energies Reliability Council groups in the Lower 48.

Senator Coghill replied in the affirmative, but it fit into Alaska's needs. He explained that it gave new authority to a reliability organization and to RCA.

[9:51:03 AM](#)

ANTONY SCOTT, COMMISSIONER, REGULATORY COMMISSION OF ALASKA (via teleconference), (RCA) discussed the presentation, "SB 123" (copy on file). He looked at slide 2, "RCA's Purpose":

- Effectively competitive markets produce economically efficient outcomes that generally reflect the "public interest
- Public utilities are "natural monopolies" that are not, and cannot generally be, subject to effective competition (it is a technology issue)
- RCA's statutes are intended to enable us to ensure that prices, quality, and other terms of service reflect the results of a would result if the market were fully, effectively competitive
- Big stakes: Railbelt consumers spent more than \$880 million in 2018

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Commissioner Scott highlighted slide 3, "How We Got Here":

- In 2014 the Legislature directed the RCA to investigate:

“whether creating an independent system operator or similar structure for electrical utilities in the Railbelt area is the best option for effective and efficient electrical transmission”

- In 2015 RCA made Findings and Recommendations to the Legislature

- Just before this session Chairman Pickett updated the Legislature on progress to date towards the RCA’s original recommendations

- o Letter was unanimously endorsed and reflects the views of the Commission

- SB 123 is an outgrowth of learnings and progress to date

- Commission has twice unanimously voted to support SB 123

Commissioner Scott addressed slide 4, "RCA’s 2015 Findings":

- Balkanized Railbelt ownership across six utilities creates inefficiencies

- o Insufficient coordination across utilities results in inconsistent, inadequate, and unenforceable electric reliability standards

- o Insufficient integration between utilities curtails ability to ensure that planning and construction of new generation and transmission assets within one service territory is optimal for the system as a whole

- o Interconnected transmission infrastructure benefits everyone, but there is not a good business model to ensure cost recovery

- o Insufficient coordination and integration across utilities hinders ability to maximize

efficient operation of existing generators to meet load

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Commissioner Scott addressed slide 5, "Regulatory Commission of Alaska 2015 Recommendations":

- Need consistent and enforceable operating and reliability standards
- Need an independent transmission company to own, finance and operate a single transmission tariff (facilitates economic dispatch, ensures adequate and efficient transmission infrastructure)
- Clarify RCA's authority to require integrated resource planning, and large project preapproval ("siting authority"), to ensure major new infrastructure is most efficient for the benefit of all
- Need new institutions to provide for security constrained economic dispatch (most efficient generators run regardless of ownership)
- Allow time for voluntary efforts to succeed

Commissioner Scott addressed slide 6, "Progress to Date":

- Voluntary efforts have laid the groundwork for institutional reform
 - Greater understanding among all the parties of issues, barriers, and potential solutions to the suite of issues the RCA described
 - Railbelt utilities reached consensus in 2018 to form an electric reliability organization that includes non-utility stakeholder members
- Voluntary efforts have not resulted in institutional reform
 - Although the two sets of Railbelt reliability standards were reconciled, enforcement mechanisms are lacking, and areas of concern remain.

- o Efforts to form an independent transmission company have failed

- o Progress on an Anchorage based "tight pool", let alone Railbelt wide security constrained merit order dispatch, have stalled

[10:05:39 AM](#)

Commissioner Scott highlighted slide 7, "SB 123: Cements and ensures progress":

- Utility MOU in 2018 contemplated role for RCA that was not possible

- SB 123 enables the MOU's intent by enhancing RCA jurisdiction, consistent with RCA's 2015 and 2020 recommendations

- Bill substantially modeled on Federal legislation

- Substantively addresses:

- o Consistent and enforceable reliability standards

- o Integrated resources planning to identify optimal new infrastructure needs

- o Requires RCA preapproval for large infrastructure projects

- o Provides a pathway towards solving the 'business model' problem for new transmission, and would improve prospects for economic dispatch

Commissioner Scott pointed to slide 8, "SB 123: Ensures Institutional Reform":

- Defines the ERO as a public utility, subject to RCA regulation

- Provides definitive timetable for the RCA to designate an applicant to be an ERO, which would:

- o Develop reliability standards to be considered by the Commission
- o Enforce reliability standards, subject to appeal to the Commission
- o Draft Integrated Resource Plans to be considered by the Commission
- If an ERO has not applied for designation SB 123 gives the RCA power to form one, consistent with regulations that it will promulgate
 - o Backstop to ensure timely and certain progress

[10:10:33 AM](#)

Commissioner Scott looked at slide 9, "SB 123: Incentives for Collaborative Efforts":

- The RCA would not delegate authority to the ERO for reliability and planning.
- The RCA would instead assign most of this work to the ERO and would generally follow the EROs lead, but:
- RCA could impose remedy in the event of inaction, insufficient progress, disputes, or insufficient attention to the public interest.
- Imposition of project preapproval requirements, with presumption of necessity for projects consistent with an IRP, creates incentives to participate in and take seriously the planning process.

Commissioner Scott looked at slide 10, "SB 123 Builds on and Meshes with Utility Act":

- Reliability standards would be filed as tariffs for approval, which trigger (among other things):
 - o Nondiscrimination requirements
 - o Public notice requirements
 - o Timeline for action requirements

- o A process for the commission to further investigate and adjudicate contentious issues if necessary
- The overwhelming majority of tariff filings made with the commission are summarily approved after public notice and without investigation, 45 days after filing.
- Timelines and processes for IRP and large project preapproval are also clearly defined, consistent with existing commission practice.

Commissioner Scott replied to some questions from the committee members.

10:16:48 AM

Commissioner Scott addressed a question from Senator Wielechowski about independent power producers. He explained that the bill would normalize the grid, and should not affect the independent power producers.

Commissioner Scott replied to a question from Senator Wilson about whether the program would affect individual homeowners who may have rooftop solar. He stated that it would not affect those individuals. He stressed that the ERO would set standards for the market participants on the system.

10:21:57 AM

JULIE ESTEY, DIRECTOR OF EXTERNAL AFFAIRS, MATANUSKA ELECTRIC ASSOCIATION, REPRESENTATIVE ORGANIZATIONAL DEVELOPMENT COMMITTEE, PALMER (via teleconference), discussed, "Railbelt Reliability Council and Enabling Legislation, Senate Finance Committee, March 3, 2020" (copy on file). She addressed slide 2, "Presentation Outline":

- What are we trying to accomplish?
- Progress to date
- The Railbelt Reliability Council (RCC)
- Next steps for the RRC
- Our request of the legislature
- Thoughts on SB123 and HB151

Ms. Estey pointed to slide 3, "What is the Railbelt Electric System?" She stated that the slide showed the map of the electric system, which was an 800 megawatt load. She said it was the largest interconnected system in the state. She shared that it was a series of interconnected grids that had hurdles in implementation. She felt that there were things that could be done to better function as an interconnected system. She stated that there was 4300 miles of line, so decisions were done with respect for the numbers of miles, cost, and electric levels.

[10:26:34 AM](#)

Ms. Estey highlighted slide 4, "What Problems Are We Trying to Solve?"

- Address the June 2015 Letter from the Regulatory Commission of Alaska (RCA) to the Alaska State Legislature.
- Identify and tackle reliability needs of the system, including cybersecurity threats.
- Plan and execute future infrastructure projects that benefit the system.
- Develop a mechanism to equitably allocate costs for improvements that create system benefits.
- Prepare for the changing needs of the utility industry, including integration of new technology and other generators.
- Maintain each individual utility's ability to address specific local needs as appropriate.

[10:30:34 AM](#)

Ms. Estey pointed to slide 5, "Progress - Consistent Railbelt Reliability Standards":

In 2014 the Intertie Management Committee (IMC) adopted open access rules for the Alaska Intertie

In April 2018, the Railbelt electric utilities and Alaska Energy Authority (AEA) filed consensus Railbelt Reliability Standards with the Regulatory Commission of Alaska (RCA)

Compliance with reliability standards is mandated no later than one year after the Electric Reliability

Organization (ERO) is established, until then compliance is voluntary

Ms. Etsey highlighted slide 6, "Progress - Coordinated Cyber Security Rules":

All utilities engaged a nationally recognized cybersecurity consultant and developed cyber security standards that went into effect January 1, 2020, starting a 3-year compliance clock.

Utilities are currently conducting internal cyber security audits to identify gaps between the current practices and the new standards.

The Railbelt Cyber Security Working Group (RCWG), comprising IT subject matter experts from the six Railbelt utilities and Doyon Utilities, meets monthly to execute standards implementation.

Ms. Etsey spoke about reserves and how much power to have on reserve. She replied to a previous question. Accountability was voluntary at present. She mentioned cyber security. The working group was working together to find solutions together.

[10:34:41 AM](#)

Ms. Etsey looked at slide 7, "Progress - Power Pool Development":

A tight power pool is a contractual structure that pools generation resources and loads to facilitate economic dispatch for efficiency and cost savings.

Chugach, ML and P and MEA drafted preliminary dispatch protocols, financial settlement procedures, and other processes. GVEA and HEA have been engaged in this development.

Power pool development process was put on hold due to the Chugach/ML and P acquisition, expected to achieve approximately 75 percent of anticipated pool savings.

Utilities will return to power pool discussions after the Chugach/ML and P acquisition docket has been adjudicated.

Ms. Etsey pointed to slide 8, "Railbelt Reliability Council - ODT Process":

An Organizational Development Team (ODT), comprised of representatives from the six Railbelt utilities, was established to begin building the RRC.

The ODT's focus was to develop consensus among utilities and other stakeholders in forming an Implementation Committee that would develop foundational documents and stand up the RRC.

The ODT representatives met with utility and non-utility stakeholders, including the RCA, AEA, REAP, AkPIRG, IPPs, and others.

On December 18, 2019, six Railbelt utilities signed the MOU for the creation of the RRC.

The signed MOU was filed with the RCA on December 20, 2019.

Ms. Etsey talked about meeting with all of the stakeholders and an MOA was renegotiated and all 60 members signed the agreement. She talked about acting differently by coming to the table with all vulnerabilities and things began to change.

[10:40:07 AM](#)

Co-Chair von Imhof reminded Ms. Etsey of the time limitation of the hearing.

Ms. Etsey discussed slide 9, "Railbelt Reliability Council - Signed MOU":

The RRC will be an applicant for the role of ERO with a balanced utility/non-utility board focused on accomplishing the following tasks:

1. Establish, administer, and enforce reliability standards
2. Develop, adopt, and administer open access rules, system cost allocation procedures, and interconnection protocols

3. Develop and adopt an Integrated Resource Plan (IRP) for the entire Railbelt electric system
4. Perform a definitive cost benefit analysis of Railbelt wide or regional security constrained economic dispatch.

Ms. Etsey highlighted slide 10, "Railbelt Reliability Council Governance":

Initially, the RRC will be governed by a twelve member Board with the CEO providing a tie breaking vote.

- 6 Railbelt utilities
- Alaska Energy Authority
- 2 Independent Power Producers
- 1 organization advocating for consumer interests
- 2 independent, non-affiliated members
- RCA and RAPA will hold non-voting, ex officio seats on the Board
- The RRC will hire a CEO and staff

Ms. Etsey addressed slide 11, "Why is the Railbelt Reliability Council Important?"

Regulatory compact (contractual commitment) with the State of Alaska.

Commitment that the utilities will be bound by the decisions of the RRC.

Commitment of the utilities to support statutory language to provide the RCA authority to regulate the RRC as described in the MOU.

Commitment of the utilities to be inclusive of a variety of perspectives in decisions relating to the Railbelt bulk electric system.

Commitment of the utilities to participate with one another and non-utility stakeholders to achieve benefits for ratepayers across the Railbelt region.

Ms. Etsey reported the next steps on slide 12, "Next Steps for the RRC - Timeline":

January 2 Feb 1 Thirty day public notice for applications to fill the non-utility seats

January 17 Utility, AEA, RCA and RAPA delegates named

February 17 All other non-utility applications due

- March 20 IPP seats selected by Alaska Independent Power Producer Association
- March 25 (est.) Firm retained to conduct review of applications
- May 11 Consumer advocacy seat selected
- May 15 Independent, unaffiliated seats selected
- May 30 Implementation Committee Kick off
- December 2020 Complete foundational documents and stand up the organization

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Ms. Etsey highlighted slide 13, "The Railbelt utilities support SB 123 as enabling legislation":

Establish a statutory framework for the RRC to operate under the RCA's regulatory authority.

Provide a mechanism to enforce consistent reliability, facility and cyber security standards developed by the RRC.

Authorize the RRC to execute a robust, transparent Integrated Resource Planning process and support resulting outcomes.

Provide for RCA pre-approval of projects that are consistent with the Integrated Resource Plan and/or reliability standards.

Allow the RRC time to accomplish its goals but provide discrete timelines.

Ms. Etsey emphasized that the group supported the legislation. She revisited the benefits of the bill as listed on the slide. She provided closing comments and asked the committee to support the passage of the bill. She hoped that the project would stay focused on a positive solution.

[10:46:02 AM](#)

Co-Chair von Imhof OPENED Public Testimony.

[10:46:33 AM](#)

JEFF WARNER, MUNICIPAL LIGHT AND POWER, ANCHORAGE (via teleconference), spoke in support of the bill. The bill would provide liability. He thanked the committee

[10:47:27 AM](#)

CHRIS ROSE, RENEWABLE ENERGY ALASKA PROJECT, PALMER (via teleconference), spoke in support of SB 123. He had submitted written testimony to the committee.

[10:48:02 AM](#)

BRIAN HICKEY, CHIEF OPERATING OFFICER, CHUGACH ELECTRIC ASSOCIATION, BIG SKY, MONTANA (via teleconference), supported the legislation. The cooperative believed the bill would be beneficial. He concluded his testimony.

[10:49:08 AM](#)

Co-Chair von Imhof CLOSED Public Testimony.

Senator Wilson asked about one of the fiscal notes that appeared to be zero, because he thought there would be an associated cost.

Co-Chair von Imhof would take up the issue at a later time. She reviewed the agenda for the following day. She indicated the committee would be taking up amendments for the supplemental bill.

SB 123 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:50:33 AM](#)

The meeting was adjourned at 10:50 a.m.