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FISCAL NOTE

No. 2

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Bill Version: CS SB 54(RLS)

(S) Publish Date: 1/30/96

Revision Date 1/25/96
 Title: Exclusive Service Territories for Certificated
Electric Utilities
 Sponsor: Senate Labor and Commerce Committee
 Requestor: Senate Rules

Department: Commerce and Economic Development
 BRU: Alaska Public Utilities Commission
 Component: Alaska Public Utilities Commission
 COMPONENT SERIAL NO. 364

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0.0

POSITIONS	
FULL-TIME	
PART-TIME	
TEMPORARY	

ANALYSIS: (Attach a separate page if necessary)

See attached analysis.

Prepared by: Don Schrage, Chairman Phone: 276-6222
 Division: Alaska Public Utilities Commission Date: January 25, 1996
 Approved by Commissioner: William L. Hensley *(Signature)* Date: 1/25/96
 Agency: Commerce and Economic Development



CHUGACH ELECTRIC ASSOCIATION, INC.

EUGENE N. BJORNSTAD, P.E.
General Manager

February 7, 1996

Representative Mark Hanley
Room 507 State Capitol
Juneau, AK 99801-1182

FAX: 465-2418

Dear Representative Hanley:

Chugach has been following the legislative progress of Senate Bill 54 and with its recent passage in the Senate we feel that the public should know our concerns and position.

The Chugach Board of Directors on February 1, 1996, unanimously passed a motion opposing passage of this bill unless there is some "sunset" provision attached. Our view is based on the concept that competition in the electric utility industry is inevitable and will result in benefits for the consumer. We believe that all electrical utilities must prepare for competitive forces sooner rather than later. If SB54 is passed as currently drafted and exclusive service areas are established, we think opportunities for competition will be significantly decreased. Adoption of SB54 sets Alaska on a policy course that is opposite to what we think is a nationwide deregulation trend. Significantly, the airline industry, the natural gas industry, the banking industry, and most recently the telecommunications industry, have headed down the deregulation road. Alaska needs to look to the future for economic development opportunities with the realization that our business products and services also have to face and compete against other places with different costs and procedures. We can do that voluntarily now or wait for the competitors from outside to get the advantage.

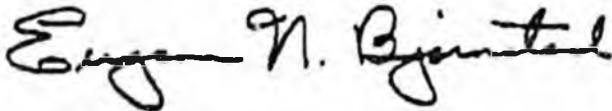
Chugach is also cognizant of other views which suggest that there is danger if exclusive service areas are not strengthened. There are potentials for increased costs and stranded investments which could result from customers having the ability to make a choice on their electrical service provider. We believe Chugach, as an organization with its employees, can meet these challenges. Our recent benchmarking efforts indicated areas where cost-savings are possible. Implementing changes which could achieve these savings will make Chugach more competitive, provide better values to our customers, and enhance prospects for economic development.

We also believe Chugach can work cooperatively with other utilities in transitioning to a competitive environment. A dialogue among Alaskan utilities, before the Alaska Public Utilities Commission will be needed to bring the benefits of competition to Alaskan electric consumers.

February 7, 1996

In order to help us achieve these benefits for our consumers, we would ask that SB54 be passed with a modification to include a "sunset" provision so that in the year 2000, an opportunity will exist for re-evaluation by the people of Alaska and their legislative representatives.

Sincerely,

A handwritten signature in cursive script that reads "Eugene N. Bjornstad". The signature is written in dark ink and is positioned above the typed name.

Eugene N. Bjornstad
General Manager

AL, FYI
from Sam Cotton

POSITION OF THE ALASKA PUBLIC UTILITIES COMMISSION
ON SENATE BILL 54

The Commission does not support adoption of sections 1, 4 and 5 of Senate bill 54; the sections that make all existing certificated electric utility service areas exclusive.

The Alaska Supreme Court concluded that certificates issued under the current statute do not confer an exclusive right to serve customers within the defined area. Chugach Electric Association v. City of Anchorage, 426 P.2d 1001 (Alaska 1967). This bill is an attempt to change that precedent.

Since the Chugach case was decided, the Commission has not authorized direct competition between electric utilities. Each time the question has been presented to the Commission, the Commission has evaluated the potential impact of allowing competition on rates and service and decided to not allow competition. If the legislature adopts this bill, the Commission would lose the ability to analyze each case presented to it on an individual basis.

Adoption of this legislation would set Alaska on a policy course that is directly opposed to the nationwide trend. Alaska is unique, and the adoption of nationwide trends here should be done only after thoughtful analysis; but the reasons for the change elsewhere in the country are equally applicable here. A

recent survey by the National Association of Regulatory Utility Commissioners indicates that in more than half of the states, competition between electric utilities is either already allowed or is under consideration. As technology changes, the traditional reasons for allowing utility service to be provided by monopolies may no longer apply. Other states have found that consumers reap the benefit of reduced electric rates and improved service when competition is introduced into the market structure and utilities must make investment decisions to increase customer satisfaction and make their operations more cost efficient.

In Alaska, the Power Cost Equalization program subsidizes the cost of power for residents of rural Alaska where the cost of generating power is much higher than in urban areas. Any legislation that is more likely to increase the amount of that subsidy in the future by creating a disincentive to the more efficient generation of power should be rejected by the legislature.

Conferring the exclusive right on electric utilities to serve customers in their certificated areas also creates new issues for the Commission to address. What impact will this legislation have on a utility's obligation to extend service to all customers within their certificated areas? If customers who live far from an existing line are left without the option of collaborating with a group of neighbors to produce their own power, will the utility be required to pay more of the cost of line extensions to remote areas?

In summary, the Commission is opposed to this bill because it eliminates the opportunity for the Commission to analyze the potential benefits of competition and eliminates a potential for choice of service options by consumers.

Section 2 of SB 54 adds "two commission special assistants" to the list of partially exempt positions at the Commission. The Commission supports the addition of special assistants to this statute, but opposes the inclusion of "two." Defining the number of special assistants is inconsistent with the treatment of the other positions named in this section (hearing officers, administrative law judges). The Commission's needs may change over a period of years, and its budget, as approved by the legislature, is the appropriate place to determine the number of positions necessary to meet the current need.

The Commission supports the adoption of section 6 because it would eliminate the issues created by "lane duck" appointments to the Commission.

The Commission attached a zero fiscal note to this bill. The adoption of this legislation may create more work for the Commission, but the Commission cannot now adequately define that impact. If this legislation passes, there are likely to be more proceedings to modify service areas boundaries, and proceedings where utilities are required to show cause why their service areas boundaries should not be modified because they have failed to offer service. The Commission may also receive more consumer

complaints. The impact of these potential filings on the Commissions existing workload is too speculative to define in a fiscal note. Because the bill contains no deadlines, the additional work would be absorbed but might result in an overall slowdown of the Commission's ability to serve utilities and the public that is too speculative to define in a fiscal note.

ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION
703 West Tudor, Suite 200

March 20, 1995

Senator Tim Kelly, Chairman
Senate Labor & Commerce Committee
Juneau, AK
Dear Senator Sharp:

Thank you for introducing and scheduling SB 54 for hearing in the Labor and Commerce Committee.

The purpose for this legislation is to give direction to the Alaska Public Utilities Commission to maintain the historic regulatory system for electric utilities. This historic practice has been for each electric utility to be assigned to a separate service area, and for rates to be set by the commission in lieu of competition, except in those instances in which the customers of the utility have opted not to have the rates set by the commission. This has been an efficient and orderly system which has served the public well.

This practice has been based on AS 42.05.221 which presumes that the commission will provide for separate service areas. This section was enacted at the time the commission came into existence in its present form, and it was the policy that this section embodies that accounted largely for the creation of the commission. The factual situation at that time was that electric utilities were engaged in fierce and wasteful competition. In an attempt to maximize their market shares, electric utilities located in the same community built lines adjacent to each other throughout much of the area. This was a horrible misallocation of resources. Section 221 directed the commission to separate the utility service areas.

At this time, the task of consolidating the electric utilities into separate service areas has essentially been completed. Now that the factual situation has changed, it would be appropriate for the legislature to recognize this change by amending Section 221 to clearly direct the commission to keep electric service areas separate. That clear directive is contained in Section 2 of CS SB 54(STA).

We think this policy statement by the Legislature is particularly important at this time because of the national debate that is underway regarding "retail wheeling." There has been a lot of talk, but very little action, on this subject around the country. But the idea behind it is that the larger consumers want to be able to make their own deals for electricity from a power supplier other than the utility certificated to serve the area where the large consumer is located. This necessarily places the smaller consumers with less bargaining power at a disadvantage. This approach contrasts sharply with the historic regulatory system in Alaska in which periodic cost of service studies are required so that each customer class pays its own fair share of the cost of serving the area.

"Retail wheeling" may or may not be workable in some jurisdictions, but it breaks down entirely in the Alaska setting. The distinctive and unique characteristic of Alaska electric utilities is that most of them are physically isolated from any neighboring utility. Because they are electrically isolated, they have had to invest in their own generation facilities rather than buying power from someone else. Because they are small, it is a constant struggle for them to achieve economies of scale sufficient to permit them to offer rates comparable to those taken for granted anywhere else. If independent power producers are permitted to come into the area being served by an electric utility and serve only the largest customers, it may be able to offer lower rates to those most desirable customers, but all the other customers will have to pay higher rates. In some cases, feasibility for the very existence of the electric utility may be destroyed.

Section 3 of this bill removes some language that has been interpreted as permitting independent power producers the opening to do the very things we are most concerned about. The language being repealed was inserted several years ago as a "compromise" in a hot fight between a gas company and an electric company on the North Slope. That dispute no longer exists, and this section needs to be amended to be consistent with Section 2 of the bill.

Section 1 is an intent section added in the State Affairs Committee at the request of GCI.

We understand the commission has proposed a fiscal note of nearly \$100,000 to accompany this bill. The whole purpose of this bill is conservative, in the sense of keeping things the way they are, so any increase in expenditures to administer this bill are unfounded. We recommend the committee adopt a zero fiscal note.

Sincerely,



David Hutchens
Executive Director

WHY WE NEED SB 54

(Draft Commentary by David Hutchens for ARECA Newsletter)

Back in the "bad old days" in Alaska, electric utilities openly competed any way they could. A neighboring utility would build "spite lines" down the same street already served by its competitor. This practice resulted in a waste of resources, rates were higher than they could have been, and service area maps looked like overlapping plates of spaghetti.

The legislature decided that this should be ended, and created the Alaska Public Utilities Commission to oversee the mission of separating a utility's service area from that of its neighbors. The APUC statute gave instructions to the commission as to how to separate service areas. That task essentially has now been completed.

It seems that those who don't remember the past are doomed to repeat it. Some at the commission are infatuated with the latest "hula hoop" they hear everybody talking about when they go to NARUC meetings -- "retail wheeling." The theory is that this would be a new kind of retail competition which would be regulated by state commissions. Instead of each utility building its own duplicate distribution facilities, a utility could be ordered to deliver electricity to a customer in its service area who chooses to buy electricity from someone else. This would prevent the re-emergence of "spite lines" and the problems they entail.

Several states are talking about entering that brave new world, and a very few are experimenting with it on a limited basis. In the national debate that is raging on this subject, "stranded investment" is the primary concern of those who urge caution. The idea is that electric utilities have made investments necessary to serve their existing and anticipated customers, and if that utility is deprived of the revenue from some of those customers because another utility is making the sale, the host utility then has "stranded investment." The result is higher rates per KWH for everyone else in that utility's service area because the utility has to spread the same fixed costs over fewer KWH sales.

The problem of "stranded investment" certainly applies in Alaska, but the overall problem is different and much more serious here. By national standards, all the utilities in Alaska are very small. For the interconnected systems in the Railbelt, the greatest opportunities for economies come from cooperative planning and economic dispatch at the wholesale level. If each of those utilities is a potential predator looking for sales in the service areas of its neighbors, the willingness to enter into cooperative arrangements effectively disappears. Costs, and therefore rates, as a whole will go up. Those increased costs will be spread unevenly. Large retail customers with the greatest bargaining power may see their rates go down while everyone else has their rates go up enough to pick up all the increased costs as well as the portion of existing costs being avoided by the big customers.

The problem is even more severe in the small isolated systems scattered across the Alaska subcontinent. In those cases, the potential competitor would likely be an independent power producer rather than a neighboring utility since there is none. If an IPP were able to come into a small community and serve the school and all the other larger customers, the stranded investment

problem could become so severe that the utility could lose its feasibility to provide central station electric service. The ability of the utility to serve the rest of the community could be jeopardized.

Unfortunately, when the legislature told the commission to separate electric service areas many years ago, it did not include a clear directive to keep them separate. The legislature undoubtedly thought that was unnecessary, but that oversight arguably now leaves the door open for the commission to tinker with some sort of retail competition in which the commission itself--rather than the marketplace-- would determine who makes which sale. That is extremely dangerous, and must be prevented.

SB54 would preserve the current pattern of separate service areas for retail sales by each electric utility. To the extent that it isn't restrained by existing contracts, we now have wholesale competition in Alaska which would not be affected by this bill. We need to let places like Wisconsin, Michigan and California do their experimenting with "retail wheeling" while we watch carefully. My prediction is that retail competition will emerge in some form, but it is likely to be quite different from what is now being proposed. As that process unfolds, there may be some developments which we can use in Alaska, but this is one "cutting edge" we should not try to ride. Above all else, Alaska's consumers need reliability. Our developing utility network is too fragile at this time to withstand that kind of assault.

FINANCIAL FORECAST-RATIOS			
KODIAK ELECTRIC ASSOCIATION, INC.			

SCHEDULE A	1994	1995	1996
1. EQUITY RATIO WITH ADDITIONAL REVENUE	32.52%	34.00%	35.98%
2. DEBT SERVICE COVERAGE		2.14	2.05
3. TIMES INTEREST EARNED RATIO	1.77	2.31	2.20
4. AVERAGE REVENUE PER KWH SOLD (CENTS)	0.1484	0.1500	0.1727
5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)		1.06%	15.14%
6. UTILITY PLANT PER KWH SOLD (CENTS)	0.51	0.50	0.68
7. NET GENERAL FUNDS TO UTILITY PLANT (%)	5.34%	10.11%	10.49%
8. ACCUM PROV. FOR DEPREC TO TOTAL PLANT (%)	28.83%	30.18%	31.25%
9. OPERATIONS AND MAINT. COST PER CONSUMER (\$)	242.12	242.74	243.46
10. ADMINT & GEN. PER CONSUMER (\$)	317.79	269.06	269.86
11. PLANT REVENUE RATIO	3.47	3.35	3.92
12. RATE OF RETURN ON RATE BASE W. ADD REV. (%)			
13. RATE BASE = 104% OF NET UTILITY PLANT			
14. PERCENTAGE INCREASE OVER PRESENT RATES REQUIRED		0.00%	14.57%
15. MODIFIED DEBT SERVICE COVERAGE			
16. MODIFIED TIER (NET OF G&T & OTHER)			
1996 PROJECTION IS BASED ON 1995 ACTUAL			
WITH ALL PROCESSORS GONE			

Testimony on SB 54, March 7, 1996

My name is Robert Martin, Jr. I am the General Manager of THREA which serves six rural communities in SE Alaska: Hoonah, Angoon, Kake, Klawock, Kasaan and Chilkat Valley, with headquarters in Auke Bay.

There seems to be a national trend toward more competition in the generation and transmission part of the utility business, and as a result, strong efforts to open up access to transmission lines. In other states, these efforts would allow generation sources access to new markets, and allow small utilities--or those surrounded by larger utilities--to gain access to competitive sources of energy.

However, it is important to remember that the ENTIRE CONTINENT, including Canada and Mexico, are joined together in a massive, interconnected grid of transmission and distribution lines.
EXCEPT FOR ALASKA !

Wholesale producers literally can enter the continental grid anywhere and either feed or draw energy from the grid, assuming of course that all regulatory, operating and administrative requirements are met.

In Alaska, only one community in the entire state is connected to the continental grid: Hyder, which is actually served by Stewart, B.C.

In fact, outside of the Railbelt, the predominant situations are small, isolated distribution systems, each with central generation. This is massive duplication of effort, and it is very expensive. Even Juneau, which has the second largest system in Alaska--the Railbelt grid being the largest--is a very small isolated system. The system I manage consists of six separate generation systems, six distribution systems, five tank farms and six sets of power house operators.

Now, there is no doubt that certain types of electrical loads are less expensive to serve, no matter where they are located. Large, steady loads use lots of energy received from a single service and through a single meter. The difference between low and high demand is small and generators can be sized to serve the load more efficiently. Administrative costs are the same as for a residential load. By themselves, those large loads, such as businesses, industry and government facilities add economies-of-scale to any system, large or small.

In the "new world" of competition, it is those large, steady loads that will be fought over by neighboring utilities and also by new, independent power producers (IPP). No one will fight for small, individual residential or commercial consumers.

The established utility, saddled by statutory requirements to serve all consumers in the area, especially residential consumers which are the most expensive to serve, will have great difficulty to compete.

The successful entity will enjoy the benefits of the large load.
The large load customer may enjoy slightly lower rates.

This process is known in the utility industry as "cherry picking."

On the down side, the unsuccessful utility will lose an important load.

Their investment in generation, transmission and distribution necessary to serve the load will be stranded.

Their generation units will lose their base load, will then be too large, will then have to meet larger fluctuations, will then have increased maintenance costs and lower efficiency (measured in kWh/gallon).

AND, the real losers in this cherry-picking process will be the residential and small commercial consumers, who will have no options, and whose rates will necessarily rise.

In the rural areas, like those areas which are served by THREA, the results will be devastating, because in many cases, there are only one or two large loads in the community: the school and the village store. Some communities have large fish processing plants. Were a neighboring utility, or an IPP to come in and arrange to serve ONLY the large loads, they could do so easily as a result of the benefits I described. Even with diesel generation, they could sell energy at a rate we could not match because the IPP would have all of the advantages of economies of scale and carry none of the disadvantages! Disadvantages which include:

generators which are too large and left to operate in an inefficient range.

The remaining load will have:

increased fluctuations in demand;
increased operating and maintenance expenses.

The losing utility will have:

stranded investments;
stranded administrative costs.

THEN, what would happen is:

all rates would necessarily rise to meet existing fixed costs. Remaining consumers will necessarily use less.

Lower consumption would lead to another rate increase.

And so on: in the industry this is a process known as the death spiral.

We support passage of SB 54 because it would protect rural utilities from unfair competition. Utilities which are natural monopolies and thus are:

- heavily regulated by many agencies;
- have a statutory responsibility to serve;
- at least in Alaska, utilities are predominantly PUBLIC utilities which are answerable to their consumers.

In our region, THREA has taken several steps to increase economies of scale and to lower operating costs. Steps which could be emulated by others.

1. We are working hard to add new communities to our system. We have added Chilkat Valley recently, and have served Yakutat on a contract basis.

We have talked to Klukwan, Thorne Bay, Tenakee Springs and Gustavus about joining our system.

We have studied adding two additional communities now without service: Port Alexander and Port Protection.

We have studied or supported studies to extend lines to the ferry terminal and Killisnoo Island in Angoon, a transmission line from Chilkat Valley to Haines, a transmission line from Juneau to Hoonah, a transmission line from Petersburg to Kake, a transmission line from Thorne Bay to Kasaan, a transmission line from Klawock to Thorne Bay, a private hydroelectric plant in Angoon and a resulting transmission line to Greens Creek, and even a transmission line from Ketchikan to Prince of Wales Island.

2. We have reduced rates to the absolute minimum on very large loads in our system because:

- lowest rates help industry and businesses to compete, and help schools to survive with reduced revenues;

- large loads consume many kWh and thus reduce fixed costs per kWh--a reversal of the death spiral;

- large loads provide jobs to our other consumers;

- large loads are economic development.

3. We are encouraging other small utilities to form regional utilities, or to join established regionals. Likewise, we have encouraged the state to promote regional utilities and transmission lines, the two most effective ways to reduce energy costs in rural Alaska. The current Alaska Division of Energy has been most responsive in this regard.

4. At the same time, the utility industry has been disturbed by the Alaska Public Utilities Commission (APUC) when it stated that the Certificate of Convenience and Public Necessity, which the APUC has statutory authority to issue, does not imply exclusive authority to serve the area defined by the certificate.

THREA has been forced to spend tens of thousands of dollars to defend itself and its service territory from actions by the APUC and a neighboring utility, because more than 30 years ago, the APUC mistakenly awarded a service area to the neighbor which overlaps our own service area. The area was not in the certificate application, or could it have been, given that the neighbor did not meet any of the requirements. Yet today, the APUC, apparently anxious to begin "regulated competition" in Alaska, has fought diligently to give our service area to the neighbor. An action which would severely damage the remaining five communities which we serve.

5. It is important to remember that experience with deregulation in other industries has lead to decreased service and higher costs in rural areas. The prime example is the airline industry. Rural areas went from jets to props -- for more money.

It is not easy to run a rural Alaskan utility.

It is expensive

It is thankless

We are over-regulated with "one-size-fits-all" regulations which accomplish nothing more than the expenditure of scarce dollars.

Our options are few

It is not getting easier.

We do not need, nor can we afford, regulated competition in Alaska.

We do not have a grid system outside the Railbelt.

Residential and small commercial consumers do not have options.

On behalf of all of our consumers, we urge your favorable consideration of Senate Bill 54.

Thank you for the opportunity to testify today. I would be glad to answer some questions.



**Matanuska Electric
Association, Inc.**

P. O. Box 2929
Palmer, Alaska 99645
Telephone: (907) 745-3231
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March 7, 1996

Testimony to the House Community and Regional Affairs Committee from Bruce D. Scott, CREC, Director of Member and Public Relations for Matanuska Electric Association, Inc.

Ladies and gentlemen, I thank you for this opportunity to say a few words about Senate Bill 54 to the House Community and Regional Affairs Committee. My name is Bruce Scott and I'm director of member and public relations for Matanuska Electric Association, Inc., called MEA by its members.

Incorporated in 1941, MEA is a nonprofit electric cooperative that serves about 29,000 members in Southcentral Alaska. Our service area is 3,360 square miles, nearly the same size as the 2.2-million-acre Yellowstone National Park, twice the size of Delaware and three-fifths the size of Connecticut.

We have nearly 33,000 active accounts and more than 2,716 miles of line. Last year, we built 73 miles of new line and 1,154 new services, or hookups, and look forward to continued growth in 1996.

MEA's revenue from the sale of electricity totaled \$42.6 million in 1995. Because we are a member-owned cooperative, our rates are designed so that each customer pays his or her "fair share" of our total costs -- no more, no less.

Each customer's fair share of costs includes four general types of costs:

1. The cost of running the system (i.e. operations, maintenance, general and administrative expenses);
2. The fixed costs of the physical plant in service (interest on debt and depreciation);
3. The wholesale cost -- what we pay to our supplier -- of the electricity a customer purchases; and
4. A contribution to our margin, or bottom line, which is a function of our interest expense on debt.

If we lose a customer, only one of these four types of costs -- the wholesale cost of energy -- goes down. Our remaining costs, including our margin requirement, stay the same. This means that these remaining costs must now be recovered through fewer units of sales, fewer kilowatt-hours, which translates into higher rates for our remaining customers.

Testimony by Bruce Scott, CREC
for Matanuska Electric Association, Inc.

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March 7, 1996

MEA is a rural electric cooperative with urban sectors. This means that although we serve three population centers -- Eagle River, Palmer and Wasilla -- we also serve customers in areas where there is comparatively very little population, areas such as Eklutna, Sutton, Sheep Mountain, Chickaloon, Butte, Willow, Talkeetna, Trapper Creek and some areas too small to claim a name. Consequently, the few large commercial customers that we do provide service to are very important to MEA and its members.

Our largest customer represents almost 3% of our total sales.

If MEA were to lose this one customer, its largest, the electric rates that our remaining customers pay would have to be increased by about 1.4% to cover the share of remaining expenses this large customer would no longer be paying.

Our six largest customers -- six customers out of nearly 33,000 -- represent 10% of our total sales.

If MEA were to lose its six largest customers, our remaining customers' bills would have to be increased by almost 5% to cover remaining expenses.

All of our members have invested money over the years to build the infrastructure which serves these large customers. They also have built the infrastructure to serve new customers which might be attracted to MEA's service area. If there is some future commercial development in, for example, Hatcher Pass or Point MacKenzie, then all MEA members will benefit because the large commercial customers will pick up a share of the fixed costs of providing electrical service.

If another company were to be able to "pick up" the large customers in MEA's service area, either the new ones or existing customers, the co-op's other members would be damaged in the form of higher rates.

We call this selective competition "cherry picking" and those who would engage in it "raiders" or, less politely, "predators." There has been a little talk, but no specifics, about maybe protecting cooperatives from this practice by establishing some sort of "wheeling" rate -- a fee the cherry-picker would pay the utility for transporting electricity over the utility's transmission and/or distribution lines. However, there is no way this rate could be high enough to make the original utility's members "whole" and still allow the predator to offer lower rates to the customer it is raiding.

The practice of "cherry picking" prime accounts at the retail level -- whether through predatory pricing by the major producers or other means -- serves no one's best interests. It means that revenues just get shuffled between utilities, to the huge detriment of the losing utilities and the minor benefit of the winners.

Testimony by Bruce Scott, CREC
for Matanuska Electric Association, Inc.
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The most likely predators for MEA's customers are the two large Anchorage utilities with generation facilities.

We are a "captive" market for one of them -- Chugach Electric Association, our wholesale supplier.

Imagine that the "Anchorage Daily News" did not own its own printing presses. Imagine, instead, that the printing presses were owned by its largest competitor. This is in fact the situation that existed in the early Eighties before McClatchy Newspapers Group purchased a majority interest in the "Daily News" from Ms. Kay Fanning. The "Anchorage Times" controlled when the presses ran, what the press operators were paid, bartered for newsprint and ink, and passed on the costs with a markup to the "Daily News." Under this arrangement, the "Daily News" had a difficult time existing, let alone competing with the "Times." Now, of course, the News has its own press and computers, its own advertising staff, and a lot of Outside capital from McClatchy-- and the "Times" is a half-page memory on the "Daily News" editorial page.

The situations are not strictly analogous. At MEA, we're in a more restrictive production environment than the "Daily News" of the early Eighties. Chugach Electric Association owns and/or controls several generating units and has flexibility in determining which units to use and when. MEA owns none. Some of these generating units are more efficient than others; some are less efficient and more costly. Chugach makes the call on which to use and whether to build more or repair aging ones -- and passes a substantial portion of the cost on to us, along with a markup.

Our wholesale supply contract requires us to purchase all of our power needs from Chugach through the year 2014. If this and the other wholesale power supply contracts were to be set aside, if Matanuska Electric Association and the other distribution cooperatives were free to negotiate for wholesale power in a competitive market, if there were also investor-owned utilities to compete for a share of the power supply market -- a situation that exists in all 49 of the other states, but not Southcentral Alaska -- the playing field would be closer to being a level one. Open competition at the retail level might then make sense. But without competition at the generation and transmission level, non-power-generating utilities would be at a distinct disadvantage in competing for retail customers.

The other Anchorage utility with production resources is owned by the Municipality of Anchorage and is supported by the strength of the Anchorage Municipality.

It would be unfair and illogical to allow our supplier and/or a government-backed utility to compete head-to-head with us. The playing field is not level. This is not how we view the public interest.

Testimony by Bruce Scott, CREC
for Matanuska Electric Association, Inc.

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March 7, 1996

How do we view the public interest? The Alaska Public Utilities Commission (APUC) is currently investigating whether it should become involved in forcing joint planning and operation of the production and transmission resources controlled by the various utilities.¹ This is where the real money is to be saved.

Southcentral Alaska currently has a huge surplus of generation capacity, which is about to get even worse when the Healy Clean Coal Project in the Interior comes on line.

In written comments submitted last month to the Alaska Public Utilities Commission², Don Edward's, corporate counsel for Chugach Electric Association, stated that the peak electricity demand in the Railbelt in 1995 was projected to be 641 Megawatts (MW). Mr. Edward's said the installed electrical capacity in the Railbelt after the Healy Clean Coal Project is completed will be approximately 1,330 Megawatts. This means there will be 689 MW more than is needed -- 689 million "extra" Watts of installed capacity. Even if you take the Healy project out of the equation -- just pretend for the moment that it is not being built -- the Railbelt today would still have nearly 100% more capacity than the 1995 peak demand.

Why do the utilities have this excess capacity? Because each of the suppliers is pursuing its own interests, with little if any coordination between them. As a result, the costs of this excess generation capacity are built into the rates for electricity that everyone pays.

In summation, Matanuska Electric Association requests that the Community and Regional Affairs Committee pass Senate Bill 54 [CSSB 54 (RLS) AM]. Allow the utilities to preserve their retail loads and avoid counterproductive and unfair cherry picking.

Further, we encourage the Legislature to focus on the real opportunity for savings -- coordinated planning and operation of generation facilities. We ask that you encourage the APUC to vigorously pursue the investigation it has opened in Docket R-96-1, to start work on reducing the excess of generation capacity. This is where the public interest lies. It is a relatively painless opportunity for everyone to realize significant savings.

Thank you for this opportunity to speak.

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¹ APUC Docket R-96-1.

² APUC Docket R-96-1, Feb. 13, 1996, "In the Matter of the Consideration of Standards To Address a Coordinated Energy Resource Conservation and Efficiency Program for Regulated Electric Public Utilities".



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February 16, 1996

STEPHEN T. LEWIS
Chairman / C.E.O.

The Honorable Ivan Ivan, Co-Chair
House Community & Regional Affairs
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Re: SB No. 54 (Granting Exclusive Service Areas to Certificated Public Utilities)

Dear Representative Ivan:

We are very concerned about Senate Bill No. 54, which would grant exclusive service areas to public utilities that provide service under certificates of public convenience and necessity issued pursuant to AS 42.05.¹

Since under AS 42.05.221(a), all public utilities must be certificated in order to be compensated, granting exclusive rights to all certificate holders will preclude competition in the public utility industry in the State of Alaska. We believe this is contrary to public policy.

We have three concerns about this bill. First, we strongly believe that competition -- or the threat of competition -- can be a major factor in holding down electric rates. At present, rates are regulated by the Alaska Public Utilities Commission ("APUC") and by law must be just and reasonable, but, *in addition*, if a utility keeps its rates too high, and someone is able to offer lower rates, rates will tend to come down. If the bill passes, the APUC will be the only restraint against high rates, and an "entrenched" utility will not have to worry about competition. We believe that competition should be the primary safeguard against excessive electric rates in Alaska, and that it should be encouraged, not forbidden. As discussed below, the APUC already has ample power to control competition where it harms the public interest; SB 54 would eliminate all

¹SB 54, which passed out of the Senate by a 14 - 6 votes, would add the following new section "g" to the "public convenience and necessity" provisions of the Alaska Public Utilities Act:

(g) A certificate issued under this section to a public utility providing electric service that includes the direct retail sale of electric service establishes an exclusive service area for the public utility for the provision of that electric service.

[New] AS 42.05.221.

competition and create total monopolies out of our existing utilities to the detriment of rate payers.

Second, given the very broad definition of public (under both the existing statute and the proposed amendment), the exclusive rights that the SB 54 would give to certificated utilities could prevent an industrial concern from obtaining power privately *simply because it is in the "certificated" service area* belonging to the local utility. In Alaska, there are many situations in which private power sales make economic, logistical, or environmental sense; SB 54 could raise insurmountable hurdles to such sales taking place in the future.

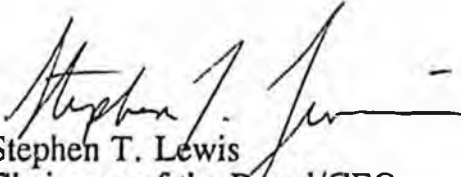
Finally, "if it ain't broke, don't fix it." The APUC already has full power to deal with situations where competition actually harms the public interest; AS 42.05.221(d) gives the APUC broad remedial powers if it determines that "two or more public utilities are competing to furnish identical utility service and that this competition is not in the public interest."

The national trend in the power industry is to favor increased competition as a means of obtaining increased efficiency and lower prices. In Alaska, competition is even more important than it is outside. Under current statutes, free market competition is the normal state of affairs, and the APUC can step in and fix those rare situations where competition is harmful. SB 54 would turn things on their head: *no* competition would be the new "normal" state of affairs, and the *only* protection against the abuse of monopoly privileges would be the APUC, which could be strongly influenced by lack of any alternative competitor.

For all the foregoing reasons, I respectfully urge you to oppose SB 54 when it comes up for consideration in the House.

Thank you for your attention. Please give either me or Richard Curtin (in this office) a call if you have any comments or questions.

Sincerely,


Stephen T. Lewis
Chairman of the Board/CEO
Petro Star Inc.

Monopoly move

State Senate protects special interest

Alaska's state Senate has passed one of the more odious pieces of special-interest legislation to hit the Capitol this session. In a 14-to-4 vote, senators blessed a bill protecting the state's electricity utilities from competition in the retail end of their business.

Being able to choose between competing electricity companies may seem fanciful and far-off, but it isn't. Under federal law, utilities no longer enjoy a monopoly over generating electricity. Federal regulators are about to deregulate the transmission of electricity at the wholesale level (where current is carried long distances over high-voltage lines), according to Bob Lohr, executive director of the Alaska Public Utilities Commission.

Competition at the retail level isn't far behind, thanks to an arrangement known as "retail wheeling." With "wheeling," various power firms will compete for the right to provide retail service. But rather than build their own costly and redundant power lines to each customer, the competing firms will pay a fee for using the wires the existing power company has already installed.

More than half the states either allow retail competition or are moving in that direction, according to Mr. Lohr. That helps explain why the commission strongly opposes the ban on competition.

Surprisingly, the state's largest electricity utility also opposes the bill. Gene Bjornstad, general manager of Chugach Electric Association, says the firm considers competition inevitable and wants to gear up to meet it. At most, Chugach would support a moratorium on competition, Mr. Bjornstad says.

Backing the controversial no-competition bill is Dave Hutchens, a well-connected Juneau insider who directs the trade group representing nonprofit rural electric utility cooperatives. Mr. Hutchens says the bill is intended to prevent "cherry-picking," in which competitors enter small communities, pick off the most profitable customers (like schools or other larger users), and drive up costs for homes and other users stuck with the existing utility.

Mr. Hutchens raises a legitimate concern, but as Mr. Lohr of the utilities commission says, "Legislation to prevent cherry-picking would look very different from this."

It will take careful state oversight to capture benefits of competition without jeopardizing universal electricity service. That oversight properly rests with the state public utilities commission. But the commission won't be able to do its job if the legislature heeds the pleas of special interests that want to be shielded from the rigors of competition.

ANCHORAGE DAILY NEWS 2-6-96