

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2502 SCOMM 109: JNT. COMM. ELEC. UTILITY RESTRUCTURING, 1998

Policy Maker's guide to Listening
Toward Simplicity

To help you listen through the noise, we offer the following suggested questions to apply to what you hear.

- Is this really a high level policy issue or is it something best left to regulators and technical people once the legislature has clearly articulated a policy favoring competition in retail electric sales?
- If people with the right expertise had a genuine desire to solve the problem and got together to solve it would it really be a problem?
- Is there a solution to this problem/question that does not require a long delay?
- Keep a tally of the number of times opponents of customer choice use words like "complex."

Are there any places in the United States where two electric utilities serve one service territory? How about Cleveland, Ohio, Columbus Ohio, Lubbock Texas, Paris Kentucky, Bushnell, Illinois.

Conclusion

When I reflect on this situation, I think of the old joke that asks **how many therapists does it take to change a light bulb?** Answer: **Only 1, but the light bulb has to want to change.**

We have a whole industry that definitely does not want to change. And we have heard from them for years now and you will hear more in a minute -- all the different reasons why we have to go slow, why its scary and what won't work.

The problem is, we've got a lot of bright lights in these utilities but not a one of them wants to change. They are all using their considerable talents to prevent and slow competition.

Wouldn't it be great if they began to use those considerable talents to figure out ways to make it happen instead of ways to stop it or slow it down?

With the very simple broad policy announcement in favor of competition, you can change the focus of the industry in Anchorage from **why we can't do it** to **HOW WE CAN DO IT**. **All these smart hard working people can redirect their considerable talents from slowing it down to making it happen.**

We think Anchorage customers should be able to choose their electric service providers. More importantly, they don't think they need the government to choose for them.

I urge you to clearly re-establish that it is the policy of this state that competition is the rule and only authorizations to monopolize require specific authorization of the APUC.

By the way MEA's General Manager made the quote "One thing is certain and that is that the customer can't lose as a result of competition" in an interview with the Alaska Star newspaper.

I'd like to end with one last quote. "ML&P is not opposed to competition, but if it is to come, it must be carefully orchestrated by regulators and the legislature and must be crafted so no electric customers are harmed in the process."

Chugach believes that unless the regulators and legislators have the genius of Mozart in orchestrating a sheet of music for a perfect symphony, it is better to start practicing competition now.

Thank you for the opportunity to present our views.

CONCERN NO. 1

Stranded Investment

POINT ONE

There may or may not be stranded investments. We won't know until we examine it. Chugach might even have some.

POINT TWO

Let the Commission sort it out. The Commission has indicated it does not need any additional authority. If a competitor has a problem, they can bring it to the PUC for resolution. FERC in Order 888 outlined a method of recovering stranded costs.

POINT THREE

We are very lucky in Alaska. Not only is our system simple but:

- No nukes

- No huge over built coal plants

- No hyper expensive regulatory mandated contracts

- In Anchorage we have no regulatory mandated systems for subsidies

We simply don't have the problems of a state like California.

POINT FOUR

Types of stranded investments include generating plants, long-term fuel or purchased power contracts and "Regulatory Assets."

POINT FIVE

Chugach has carefully protected itself from some of its stranded investment exposure through contracts with its largest customers. We hear ML&P has been doing this as well. It is a smart move. Chugach entered into agreements in which we promised to make the investment in the system to meet their electric power needs. In return our WC promised to get specified amounts of power from us. They promised to be there and not strand our investments. Unless we negotiate a different contract (which we have repeatedly suggested we are willing to discuss) we expect them to live up to their promise just as we have lived up to ours.

Many of us have heard the stories of business people returning from China, Russia or Eastern Europe — especially a few years back. They shake their heads about how they don't understand the importance of contracts. In the bad old days, contracts did not mean much because the government might simply change the rules. Fortunately, here in the U.S. and Alaska, we have constitutions, which protect contracts property rights, which cannot be taken without due process, and this is the key underpinning of our commercial success.

CONCERN NO. 2

Reliability

This is a red herring. The bottom line is that nothing will change which has any real potential to affect reliability. It is a measure of the desperation or opponents of competition that they raise this issue as if it were serious.

For the foreseeable future, the same generators run by the same people will produce the power.

For the foreseeable future, the same people will operate the transmission and distribution systems and will have every incentive they currently have to operate and maintain the system in good repair.

The competition between ML&P and Chugach for sales to Fairbanks has not affected reliability. The GVEA annual reports state the service is there 99.999% of the time.

CONCERN NO. 3

Universal Service

We think the supplier of last resort obligation should reside with the Distribution Service Provider. We have said so. We have never heard anyone object to that. It is not a problem as far as we are aware.

CONCERN NO. 4

Level Playing Field

- Perhaps the most important point to make is that we believe that as a matter of law there are no restrictions on retail competition unless after competition has begun, the Commission holds a hearing and decides it must be restricted. This means that ML&P is free to compete anywhere it wants. Now the Commission has said that the legislature has put it in charge of establishing policy in this area and that no competition is allowed unless they decide it's o.k. The point is that in our view (with which the Commission disagrees) there already is a very level playing field on which anyone can play.
- Contracts with wholesale customers were arrived at in a competitive environment. No one made them buy power from us. They did have the realistic option and the actual ability to build their own supply sources. The governing bodies, the APUC and REA approved the contracts. You repeatedly hear the desire that the AEG&T/MEA/Chugach contract should be set aside because MEA has no option to its power supply. On the contrary, the contract clearly allows MEA to change to net requirements or partial requirements. There are notice provisions and financial settlements, which apparently MEA wants the APUC to change.
- Contracts protect Chugach from stranded investment – each in its own way.
- We will not consent to setting them aside but we have repeatedly advised our wholesale customers that we are willing to negotiate changes or early termination. There is no free lunch. They promised to pay costs on the system we built to serve them and we expect them to honor that promise.
- It would not do any good to void those contracts. For one thing, it would not withstand legal challenge. But more importantly, it would simply mean that Chugach would be entitled to stranded investment payments. It would solve nothing.
- If our wholesale customers want competition in their service territories, it is not for us to force that on them. They can speak for themselves. If they want it, they can so indicate and we are willing to work with them toward a mutually beneficial transition – with or without contract changes.
- Aurora presents an interesting question. They are not regulated but they propose to compete with regulated utilities. We are not convinced the retail business will need to be regulated in the future so we are reticent to suggest that power marketers need to become regulated. We have reservations about Aurora's pilot program on this basis. It's too small. It's too restrictive and, of course, Aurora need not follow it if it does not choose to because it is not regulated. We think a better pilot would be to simply allow anyone to compete in the Chugach and ML&P distribution service territories.

CONCERN NO. 5

Cherry picking will occur and rates will go up for the little guy.

Think about it. If a utility loses some large customers are they really going to think?

I don't need to cut costs.

I don't need to reduce margins.

I don't need to learn to operate more efficiently.

I'll just raise my prices for all my other customers.

I think you should be suspicious of people who come to you and tell you that is their marketing strategy.
That is not believable.

If they really did decide that raising prices is the best way to defend market share then they need to go out of business - the sooner the better.

We feel it is far more likely that it will happen as is described in the Brookings Institution study. Customers will benefit - not just large customers. **The KEY is, all customers must be free to choose.**

CONCERN NO. 6

ENRON pulled out of California

There are several interesting things to note:

Competition for retail customers are lukewarm because of the elaborate mandated 10% discount and stranded investment recovery mechanism that the legislature set up. The result is that if someone comes in with a lower price, that price gets boosted up to the cap so that it is no different than the incumbent utility price. It's great for the incumbent utility and o.k. for the residential customer in the short run but it clearly stunts competition of the residential customers.

We've spoken with one of the competitors there, which is holding back and waiting for the legislature's transition period to pass so they can compete.

Note the last observation in the Brookings Study executive summary: Legislators should resist the temptation to elaborately plan and structure competition. To the extent we want to learn from past experience, the simpler, the better.

There is no need to make it complicated and in fact there are very good reasons to keep it simple.

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>>From WASHINGTON POST Tuesday July 28 Business Section
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>Interesting story on electric power situation on July 25-26
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>UTILITIES LICK WOUNDS AFTER ENCOUNTER WITH SHARP-TOOTHED POWER TRADERS
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>By Allan Sloan
>WASHINGTON POST
>Tuesday, July 28, 1998; Page E03
>

>Watching electric companies deal with one another used to be about as
>exciting as watching cows graze. The herd members were ultra-polite. They
>traded power back and forth, but no one gouged, because the guy you gouged
>today might be in a position to gouge you tomorrow. But since deregulation
>began in the electric biz a few years ago, a whole
>new bestiary has emerged. Bye, bye, cows. Hello, independent electricity
>traders: sharp-toothed velociraptors willing to bite, slash and maim
>to make a buck. Scattered among them are utilities trying to cash in by
>playing the same game: bovines acting like beasts of prey.
>

>All this jostling and churning helps explain what happened in the Midwest
>recently when the wholesale price of power—the prices that companies
>and traders charge one another—surged a thousand-fold during a
>shortage. Utilities serving Ohio and Illinois lost millions by paying \$5
>for power they were selling to residential customers for a dime or so.
>Then, on July 9, the California Independent System Operator, which
>provides electricity to most Californians as part of the state's
>deregulation program, got bagged. It had to pay \$9 million for a day's
>backup power, about 300 times the normal cost.
>

>"This is exactly the kind of gouging we will see in the future if we go
>to fully deregulated utilities," argues John Cameron of Citizen Action,
>a public interest organization. Counters Mark Palmer of Enron Capital;
>Trade Resources, the nation's biggest electricity trader: "What happened
>in the Midwest was a stinging indictment of the monopoly system. It
>shows a need for further competition all the way down to the end users."
>

>Who's right? As usual, life comes in shades of gray. Both the regulated
>utilities and the free market messed up big time in the Midwest on June
>24, 25 and 26, when the crisis—and the prices—both peaked. Utilities
>first. Commonwealth Edison of Chicago, Illinova of Decatur, Ill., and
>FirstEnergy of Akron, Ohio, all paid obscene prices for power to keep
>from having to pull the plug on their service areas. The utilities argue
>that they were unfairly gouged because they have to pay unregulated
>prices for power, but regulators won't let them charge customers for
>those costs and force them to keep power flowing regardless of how
>much it costs.
>

>That's true. But there's something people don't know but that the
>utilities all readily admitted when Newsweek asked them. To wit: that
>part of their problem is that earlier this year, when supplies seemed
>ample, they sold power to outsiders to make a few extra bucks. Were it
>not for those outside commitments, ComEd, Illinova and FirstEnergy might
>have been able to escape uncouged.

>
>But the free market wins no prize, either. Under the Wild West rules
>that prevail, almost anyone can become an electricity marketer, without

>assets, a reputation or a credit check. And unlike organized exchanges,
>in this market no one guarantees delivery if a player defaults. If you
>fail to deliver, whatever the reason, you have to pay the difference
>between what you promised to sell the power for and what the other guy
>had to pay for it.

>
>One of the dirty little secrets of electricity trading is that the same
>50,000 kilowatts can change hands a dozen times at the same price, as
>traders build up volume to look respectable. This daisy chain caused
>trouble when things got tight in the Midwest.

>
>As power prices started spiking in the Midwest, a company called Federal
>Energy Sales said it would default on its obligation to provide promised
>power to the municipal utility of Springfield, Ill., and to Power
>Company of America of Greenwich, Conn., a trader. That led to defaults
>by Springfield and Power Company, both of which had resold the power.
>Suddenly, a zillion people up and down the line were scrambling for the
>same megawatts.

>Supplies were tight to start with because of a heat wave, and grew
>tighter when storms knocked out transmission lines. Lightning strikes
>knocked two plants off line and a tornado struck near a big nuclear
>plant, knocking down the lines that tied it to the power grid. All
>that was missing were locusts.

>
>Desperate utilities and traders offered to pay anything for power-
>and happy sellers obliged them. "It was a classic squeeze," says John
>O'Brien, president of Wheeled Power Electric Co. of Uniondale, N.Y.
>"The utilities didn't know how to trade, and they got clobbered."

>
>Is this the precursor of more turmoil? Who knows? Wholesale prices in
>the Midwest are back down to normal levels, at least for now. The
>city of Springfield, which made \$61,000 trading Federal Energy power
>but is being sued for millions, has vowed to stop speculating. You can
>bet the utilities will be a lot more careful. The moral: Cows aren't
>exciting or efficient. But unlike velociraptors, they won't scare
>you to death.

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>Sloan is Newsweek's Wall Street editor.
>His e-mail address is sloan@panix.com.

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*Draft of July 16, 1998
For Discussion, Only*

*FROM ERIC YOUNG
6 AUG 1998*

ALASKA LEGISLATURE

**SOLICITATION AND REQUEST FOR PROPOSALS
RFP 98-1**

**FOR THE PROVISION OF PROFESSIONAL CONSULTING SERVICES REGARDING
ELECTRIC INDUSTRY RESTRUCTURING ISSUES**

**[Address]
[Phone Numbers]**

SYNOPSIS

THE ALASKA LEGISLATURE represents all classes of electric consumers in the State of Alaska. Alaska consumer-owned electric utilities provide electric service to most of the state's nearly 600,000 residents. Although the electric system in Alaska is physically isolated from those of the lower-48 states, the social, economic, and political considerations underlying electric industry restructuring initiatives in other states have begun to manifest themselves in Alaska, as well. The primary state regulatory agency, the Alaska Public Utilities Commission (APUC) and the State Legislature have undertaken initiatives to examine the present condition of and possible future alternatives for the electric industry in this state. In particular, APUC proceedings in Docket U-97-140 have lead to the production of a preliminary study by the consulting firm of Black & Veatch International (the B&V Study) directed to power pooling and central dispatch planning for the integrated portion of Alaska's electric network (the "railbelt" area).

THE ALASKA LEGISLATURE seeks to retain the services of a qualified professional consultant or consulting firm to assist it in evaluating the risks, potential benefits, and impacts associated with restructuring the electric utility industry in Alaska, and more broadly, to analyze and evaluate options for responding to the initiatives of the APUC and the State Legislature. Familiarity with current industry structures, practices, and technology and with ongoing developments in electric restructuring at the state and federal level is essential. Deliverables include written analyses, publishable reports, and ancillary materials. Because of the rigid timeframe established by the Legislature, time is of the essence with respect to milestones and deliverables.

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1. Background

The electric utility industry is undergoing significant, evolutionary changes in the lower-48 states. Spurred on, in part, by the Energy Policy Act of 1992 and Order No. 888 of the Federal Energy Regulatory Commission (FERC) in derivative proceedings, the industry has begun to move away from a vertically integrated monopoly regulated paradigm. At the federal level, new requirements for "comparable" transmission access and non-discriminatory availability of real-time network information are promoting competition in generation. Concomitantly, approximately half of the states have adopted or are considering changes in the way consumers receive electric service, including the introduction or examination of retail competition and consumer choice.

Whether such restructuring efforts will produce sustained, sustainable consumer benefits is an unresolved issue. The form, scope, and substance of the individual state programs varies widely from state to state, as does the relative degree of enthusiasm for large scale reformation of the industry. To the extent states have adopted programs, those programs are for the most part in an inception stage. Inadequate time has elapsed to provide an empirically sound basis for assessing the long run public interest benefits available from any particular program. Moreover, in some cases, the programs themselves are limited to trials or demonstration projects, underscoring the uncertainties facing policy makers and industry participants.

Against this backdrop, issues concerning competition and deregulation have come to Alaska. Though not physically interconnected to the lower-48 grid, Alaska is not insulated from the social and political forces driving review and revision elsewhere in the country. These forces have begun to move policy makers in the State to at least review and consider the present condition of the electric industry in Alaska, the possibilities of change in the industry structure here, and the likelihood of public interest benefits flowing from whatever course might be chosen. This movement is reflected primarily in the current activities of the Alaska Public Utilities Commission and the State Legislature. However, in making an informed decision on restructuring, it is imperative that the Alaska utility structure is properly evaluated in comparison to the more cohesive infrastructure, technology options, and generation providers available to the lower-48. In short, if beneficial to Alaska in all or in part, it is important to establish a restructuring template for Alaska that will insure economic benefits to its citizens while insuring against harm to consumers that don't have the market strength to protect their financial interests.

The Alaska Public Utilities Commission (APUC) which has formal jurisdictional oversight over all electric utilities and utility services in the state¹, has been engaged for several years in various adjudications which, to some degree, have implicated electric industry and market restructuring issues². More recently and specifically, the APUC inaugurated dockets focused upon (a) power pooling and dispatch planning among the railbelt electric utilities (Docket U-97-140), and (b) a more general rulemaking inquiry into electric restructuring issues (Docket R-97-

¹ See AS 42.05. Significant jurisdictional issues may arise in connection with any future modifications to the industry structure (e.g., oversight of power marketers or brokers who may not technically fall under existing statutory definitions.)

² E.G., *In the Matter of the Formal Complaint Filed by the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER Against CHUGACH ELECTRIC ASSOCIATION, INC.*, APUC Docket U-97-201.

10). Both dockets raise a wide range of issues with broad potential impacts upon the public as well as industry participants. APUC activity is now paralleled by legislative action. Pursuant to House Concurrent Resolution 34, The Alaska Legislature has impaneled a "blue ribbon" Legislative committee to examine various restructuring and competitive issues. This task force intends to complete its review and to submit a report (and possible recommendations) to the Legislature for consideration during the 1999 session.

In order to establish a utility position on restructuring, the Board of Directors of THE ALASKA LEGISLATURE established a General Managers Subcommittee on Restructuring (GMSR). The Subcommittee is composed of the General Managers of the Railbelt utilities, and General Managers from four rural utilities: Kotzebue, AVEC, Kodiak, and Copper Valley. The GMSR through the umbrella of THE ALASKA LEGISLATURE is seeking an objective assessment of the potential risks, benefits, and impacts from restructuring in Alaska. The GMSR will serve to guide THE ALASKA LEGISLATURE in its negotiations and input to the Legislature and to the APUC docket on restructuring.

II. Objectives

The level and import of this governmental activity requires a concomitant increase in the efforts of the state's electric utilities, who will be directly involved in and impacted by the results of APUC and legislative activities. Hence, the involvement of THE ALASKA LEGISLATURE.

THE ALASKA LEGISLATURE – the Alaska Rural Electric Cooperative Association Inc. is a non-profit, non-governmental entity which provides to its members representation, insurance, safety and training, information, and education services. THE ALASKA LEGISLATURE is a statewide trade association representing electric cooperative corporations, municipally-owned electric utilities, and regional electric authorities. Its constituency enables THE ALASKA LEGISLATURE to aggregate resources and provide beneficial input to the above-described agency and legislative processes.

To maximize the efficacy of its contribution, THE ALASKA LEGISLATURE has determined to seek the aid of an outside consultant or consulting firm (Consultant). The role of the Consultant would be to conduct an economic assessment of the risks, benefits and impacts of utility restructuring in Alaska and to formulate positions on issues relevant to electric industry matters in Alaska. The initial role of the Consultant would be upon contrasting the differences between Alaska and the lower-48 states from an electric utility perspective and then evaluating which benefits and risks that might accrue should various restructuring scenarios evolve from either the Legislative or Regulatory efforts. The initial focus of the Consultant's effort would be upon information transpiring from the APUC Docket L-97-140, and specifically the "Power Pooling/Central Dispatch Planning Study" being developed in that docket by the firm of Black & Veatch International (the B&V Study). The use or enhancement of materials developed in this docket by the Consultant in other proceedings or processes may be considered and authorized by THE ALASKA LEGISLATURE as subsequent events warrant. In addition, it is imperative that the Consultant become familiar with the sensitive economic balance that prevails in each of the isolated satellite utility systems throughout rural Alaska. In addition to the almost third tier

template that would be needed for rural Alaska, the Consultant must assess the impact and benefits that may accrue as a result of the elimination, or diminution of the State subsidy manifested under the Power Cost Equalization program. Finally, the Consultant must be prepared to assess the State's exposure on the four-dam pool, and other power generation and transmission line, and the contractual obligation that the State has to preserve the present economic setting under which these projects operate.

The Alaska Legislature's primary objectives with respect to participation in these processes (occasioning the need for a Consultant) would include the following:

- A. **Obtain a third party perspective:** THE ALASKA LEGISLATURE wants the skills and input of an informed, experienced, but unbiased Consultant to ensure that the positions ultimately taken in any proceedings reflect consideration of the interests of all potential stakeholders,
- B. **Identify options:** The positions considered and adopted by THE ALASKA LEGISLATURE should result from a broad ranging review and analysis, conducted for the express purpose of identifying all plausible, relevant issues, as well as options for addressing those issues,
- C. **Produce a risk/reward analysis:** Working with the specific options identified, THE ALASKA LEGISLATURE seeks to evaluate the risks and benefits of each approach in terms of consumer interest, current and potential industry participants, and overall economic, environmental, and social effects on the state.
- D. **Quantify impacts:** To the extent practicable, THE ALASKA LEGISLATURE seeks quantification of the economic costs and benefits of each identified approach, to the end that a common basis for evaluation of each option can be established.
- E. **Rank alternatives:** As a result of the foregoing analysis and evaluation, THE ALASKA LEGISLATURE desires a comparative evaluation of the options, resulting in an ordering of those options (potentially under more than one set of criteria).
- F. **Select and pursue an optimal course:** If found to have merit for Alaska, THE ALASKA LEGISLATURE anticipates adopting suitable approaches to the issues and incorporating them into a comprehensive regulatory and legislative program on electric restructuring.

The methodologies employed by and the deliverables obtained from the selected Consultant must reflect and/or prove consistent with these objectives.

III. Scope of Services

The Contractor will perform all work necessary to:

- A. Familiarize himself or herself with the engineering, operational, financial and regulatory conditions attending the current electric industry structure in Alaska;
- B. Critically and comprehensively analyze the B&V Study above-referenced, including subsequent iterations thereof and render a written analysis thereon;
- C. Independently examine relevant conditions, issues, and factors impacting current and potential electric industry structures in Alaska;

- D. Identify and analyze alternatives for addressing the conditions, issues, and factors examined above, from multiple perspectives including but not limited to current and anticipated industry engineering and operational parameters, first and continuing/operating costs, consumer welfare and impact, public interest benefits, public "goods," potential regulatory issues (state and federal; electric and other), and other matters relating to electric industry restructuring. In accomplishing the foregoing, Consultant will be expected to draw upon the restructuring experiences of other, non-Alaskan jurisdictions and integrate such experiences on a comparative basis for further reference and evaluation;
- E. Engage in economic and other relevant quantification of the identified alternatives, including the production of statistical analysis sufficient to support such quantification. All methodologies employed in such quantification will be described and justified;
- F. Propose a preliminary ranking of the alternatives as quantified, inducing therein a written discussion of the basis and support for such ranking;
- G. As directed by THE ALASKA LEGISLATURE, produce a final and comprehensive written report reflecting the processes of items A through F.
- H. Following completion of the written report in item G, above, prepare and sponsor, as required, summaries or descriptions of the written report, position or "white" papers testimony, and other documentation in support of the written report together with representation at and participation in private and public meetings concerning the written report and THE ALASKA LEGISLATURE's positions on industry matters,
- I. [Other?]

In carrying out the foregoing, the Consultant will be expected to make available resources sufficient (as measured in terms of quantity, quality, and timeliness) to effectively address the scope of work identified above.

IV, Consultant Capabilities

In evaluating responses to its solicitation, THE ALASKA LEGISLATURE will consider demonstrated capabilities and skills in the following areas, among other matters:

- A. **Analysis:** The Consultant must have sufficient resources (personnel, software, and hardware) to effectively process, analyze, and evaluate significant amounts of raw data. Multiple sources of data may be offered and disparate forms, protocols, etc., can be anticipated. Some data may be proprietary, confidential or otherwise privileged in source or character, requiring the ability to handle such data in a conforming manner and to effectively control and limit the exposure or dissemination of such data.
- B. **Experience:** THE ALASKA LEGISLATURE seeks a Consultant with experience in electric industry matters, generally, and with respect to the current condition of restructuring

elsewhere in the country. Prior experience in Alaska is helpful but not mandatory. The Consultant must be familiar with all aspects of policy formulation, from data gathering, to data analysis, to evaluation, to policy development and exposition.

- C. **Presentation/Support:** A written, publishable report will be a required deliverable product of the engagement, in sufficient quantities and forms necessary to achieve the objectives. Additionally, support of the published report in terms of public or private presentation, explanation, or testimony before the GMSR and THE ALASKA LEGISLATURE Subcommittee on Electric Utility Restructuring will also be required.
- D. **Availability:** The Consultant must be readily available to THE ALASKA LEGISLATURE during the course of the project for discussion and advice. This will include informal as well as formal meetings and may involve consultation with the GMSR or other executive group as THE ALASKA LEGISLATURE may constitute from time to time. The Consultant may be required to interact with individual THE ALASKA LEGISLATURE members, but will under no circumstances be required to engage in individual members projects or other matters outside the scope of this engagement. The Consultant must be free on conflicts of interest at inception of work on this project and must remain so at all times until after termination of the project.
- E. **Timeliness:** The anticipated magnitude of the work effort and the limited, defined time period available to respond to the identified agency and legislative initiatives places a premium on responsiveness to schedule. Time is of the essence. The Consultant will be expected to meet all deadlines and milestones established without sacrificing the accuracy, completeness, and quality of the work product.
- F. **Subject Matter Expertise:** The Consultant must be familiar, generally, with the technical aspects of the engineering, operational, and financial aspects of the electric utility industry, including without limitation generation, transmission, distribution, and energy/ancillary services. Additionally, familiarity with emerging technical, operational, and financial issues (e.g., ISO functionality, securitization, power marketing, etc.) will be required.
- G. **[Other?]**

VI. Other Matters

Responses to this request for proposals should be made in writing and directed to the following:

(INSERT)

Responses may be made at any time, as there is no formal deadline for such. Consistent with the matters discussed above, however, THE ALASKA LEGISLATURE intends to move rapidly in evaluating alternative providers of consulting services. Accordingly, early and complete submissions of interest would be appropriate. Such responses should address the matters set out above, and particularly those items detailed in Sections II, III, and IV, Five (5) copies of the response to this request for proposals should be submitted to the above THE ALASKA LEGISLATURE designee, for review and evaluation. Any response, to be considered, must be signed by a duly authorized representative of the Consultant and must be valid for a period of thirty (30) days following transmission to THE ALASKA LEGISLATURE. Responses received from parties not ultimately selected will be destroyed.

Interviews or negotiations, if any, will only be conducted with a potential Consultant or Consultant representative legally authorized to represent and to bind the Consultant.

[Other matters, as desired]



Money

FRIDAY, JULY 10, 1998

Business Travel Today

By David Field

Sale: Southwest offers fares of \$99 or less each way between any of its 52 cities. Buy by July 23; fly Aug. 18-Dec. 6. Sample: Phoenix to Las Vegas, \$39 each way.

React: America West began a sale with the same deadlines and \$99 one-way limit as Southwest's. Sample: Phoenix to Seattle, \$99 each way.

Open Jameson Inns opened



a hotel in Eden, N.C., its 71st.

Class: Denver-based Frontier Airlines will stay all-coach

instead of adding a premium class, which it had studied.

Still time: Northwest again extended the deadline for its fare sale. Buy before July 24 for travel Aug. 19-Dec. 6.

Adding: Delta Express starts daily nonstop round-trip flights Oct. 1 between Orlando, Fla., and four New York cities: Albany, Buffalo, Rochester and Syracuse. It will then have 22 routes from Orlando.

Got a travel tip?
E-mail money@usatoday.com

Deregulation puts electricity reliability in question

By Beth Bellon
USA TODAY

Deregulation could make the threat of random emergency electricity cutoffs increasingly common, experts warn.

Federal and state regulators have been asked to investigate a harrowing situation late last month in the Midwest.

Rolling blackouts were barely avoided after four days of blistering heat that surprised electricity providers early in the summer.

The crisis, made worse by understorms and tornadoes

that knocked out power generators from Minnesota to Ohio, was averted only after utilities jumped into the wholesale market and bought electricity for \$7,000 a megawatt. Normal price: \$30 to \$50 a megawatt.

No one is predicting widespread outages in the world's most reliable electricity system. But uncertainty about how a deregulated industry can maintain reliability is creating widespread anxiety.

"It's like running the rapids every day," says Don Kirchhoffner, a spokesman at Commonwealth Edison, an investor-owned Chicago utility.

CommonEd's losses — more than \$30 million — won't be passed on to consumers. But its shareholders and other investors in utility stocks will feel a bite out of quarterly earnings.

A dozen utilities have asked the Federal Energy Regulatory Commission to look into what happened.

But allowing competition among utilities, which previously enjoyed monopolies, will benefit consumers, experts say. Competition will translate into lower rates. But in the short term, the threat of rolling

blackouts could disrupt businesses and consumers.

The process will last two to three years, says Peter Christensen at Services Resources in Atlanta. Fewer than 10 states have launched deregulation and all but two have deregulation legislation pending.

"It's a classic case of growing pains," Christensen says.

Meanwhile, excess generating capacity is shrinking in some regions. Existing utilities are reluctant to build plants because they can no longer pay for new plants by increasing customer rates.

New companies in the market are lagging on plans to invest in plants until the pricing landscape of a deregulated industry becomes clearer.

Regional reliability councils rather than government regulators monitor the situation and make crucial decisions about when and where power should be transmitted.

But "there are no mandatory rules of the road for reliability," says Dan Adamson, a Department of Energy official. President Clinton has proposed mandatory rules. The legislation is pending in Congress.

A mountain of moguls | Caution flag

x



Municipality of Anchorage Municipal Light & Power

"Basic Perspectives on the Electric Power Industry"

August 7, 1998

Presented by:

Marilynn Semro, Senior Project Manager

EES Consulting, Inc.

**A registered professional engineering corporation with
offices in the Seattle and Portland metropolitan areas and
an affiliate office in Calgary**

Telephone (425) 452-9200 Facsimile (425) 452-9299



Agenda

- Overview of Seminar
- Basic Electric Utility Operations
- Origins of Industry Restructuring
- ML&P Position on Restructuring
- Questions and Answers





Overview of Seminar

- Introductions
- Definitions and Terminology
 - Control Area. Part of a power system, or a combination of systems to which a common generation control scheme is applied
 - Kilowatt (kW). Power (work done per unit of time); when referring to generating plants power is called capacity or capability; when referring to customer usage power is called demand
 - Kilowatt-hour (kWh). Energy (force times the distance through which it acts); 1000 watt hours equals 1 kilowatt-hour; unit of measure in a customer's bill
 - Megawatt-hour (MWh). 1,000,000 watt hours; unit of measure for generation system
 - Watt. Basic unit of capacity; a 100 watt bulb burning constantly for one hour uses 100 watt-hours of electricity



Basic Electric Utility Operations

■ Electric Industry Characteristics

● Power Supply

✓ Generation

- Coal
- Oil
- Natural Gas
- Hydroelectric
- Geothermal
- Wood Waste
- Wind

✓ Power Purchases

- Bilateral Contracts
- Spot Market

Basic Electric Utility Operations

■ Electric Industry Characteristics (cont'd)

- Transmission. Transportation of power from the point of origin (generating plant or delivery point from other utility) to load center; facilities consist of substations and high voltage power lines

- ✓ 500 kV (none in Alaska)

- ✓ 230 kV

- ✓ 138 kV

- ✓ 115 kV

- ✓ 34.5

- Distribution. Connects the customer to the transmission grid; facilities include substations, primary (4 kV and up) and secondary conductors (< 4 kV), poles and line transformers, services, meters and installations

- ✓ 115 kV

- ✓ 34 kV

- ✓ 12 kV

- ✓ 4 kV



Basic Electric Utility Operations (cont'd)

■ Customer Classes

- Residential
- Commercial
- Industrial
- Wholesale

■ Customer Service and Facilities Function

- Meter and Service Drop
- Meter Reading, Billing and Collection
- Customer Information and Services
- Public Purposes (Demand Side Management, Low Income, Renewable Resources)



Basic Electric Utility Operations (cont'd)

■ Customer Service and Load Characteristics

- Size of Load
- Shape of Load
 - ✓ Annual
 - ✓ Seasonal
 - ✓ Daily
 - ✓ Hourly
- Voltage Level
 - ✓ High Voltage
 - ✓ Primary Voltage
 - ✓ Secondary Voltage



Basic Electric Utility Operations (cont'd)

■ System Operations

● Instantaneous Load Following/Regulation (AGC)

- ✓ Instantaneous (second-by-second) regulation of the power supply to maintain a continuous balance between loads and generation
- ✓ Automatic generation control (AGC) - the regulation of the power output of electric generators within a control area in response to changes in system frequency, time error, and tie-line loading, so as to maintain the scheduled system frequency and the established interchanges with other areas

● Load Shaping/Balancing

- ✓ The arrangement and operation of generating resources to meet a given load, or
- ✓ The arrangement of load to meet a given resource over specified periods of time.
- ✓ Load shaping on a hydro system usually involves the adjustment of storage releases so that generation and load are continuously in balance

Basic Electric Utility Operations (cont'd)

■ **System Operations (cont'd)**

● **Scheduling, System Control and Dispatch**

- ✓ **Scheduling.** The planned dispatch of resources to meet forecast loads on an hourly basis and notification.
- ✓ **System Control.** Monitoring, control and operation of the power system
- ✓ **Dispatch.** Operation of the AGC equipment to regulate the loading of the generators to help maintain scheduled system frequency and scheduled power interchange with other utilities

● **Reserves/Standby**

- ✓ **Generation reserves:**
 - Extra generating capacity available to meet unanticipated demands for power or
 - To generate power in the event of loss of generation resulting from scheduled or unscheduled outages of regularly used generating capacity.
- ✓ **Spinning reserve.** A reserve generating capacity connected to an output bus and ready to take immediate load.



Basic Electric Utility Operations (cont'd)

■ System Operations (cont'd)

● Reactive Power/Voltage Control

- ✓ The out of phase component of the total volt-amperes in an electric circuit.
- ✓ Reactive power has two components:
 - Reactive demand (expressed in kilovars or kVAr)
 - Reactive energy (expressed in kilovarhours or kVArh)
- ✓ Voltage control. Equipment that controls the output of reactive power resources based on local system voltage or loads



Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications

● Cost Recovery

- ✓ Revenue Requirement
- ✓ Cost of Service Analysis
- ✓ Rate Design

● Revenue Requirement

- ✓ Power Supply
- ✓ Transmission
- ✓ Distribution
- ✓ Customer
- ✓ Administrative and General
- ✓ Taxes
- ✓ Depreciation
- ✓ Return on Investment



Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications (cont'd)

● Cost of Service

✓ What is cost of service?

- A study that allocates costs (including joint costs) to those who cause the cost to be incurred
- Based on generally accepted rate setting techniques

✓ Why do a cost of service study?

- To design rates
 - Generally accepted as fair and equitable
 - Avoids interclass subsidies
 - Revenues track costs
 - Provides accurate price signal



Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications (cont'd)

✓ How is a cost of service study done?

- Functionalization. Revenue requirement is functionalized to power supply, transmission, distribution and customer functions
- Classification. Functionalized costs are classified to demand, energy and customer components
- Allocation. Functionalized and classified costs are allocated to customer classes based on their demand and energy usage characteristics



Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications (cont'd)

● Rate Design

✓ Principles of Rate Design

- Recover utility costs
- Cost-based
- Fair and equitable
- Easy to understand and administer
- Conform to generally accepted rate setting techniques
- Provide revenue stability to the utility and rate stability to the customer

Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications (cont'd)

● Rate Design (cont'd)

✓ Traditional

- Flat
- Block
 - Declining
 - Inverted
- Time of Use
 - Time of Day
 - Seasonal
 - Real-time
- Index
- Marginal
- Non-firm or interruptible
- Economic development



Basic Electric Utility Operations (cont'd)

■ Cost and Pricing Implications (cont'd)

● Rate Design (cont'd)

✓ Unbundled

- Power supply
- Ancillary services
- Wires
- Meters
- Meter reading and billing
- Customer service
- Taxes
- Universal systems benefits

Basic Electric Utility Operations (cont'd)

■ Specific Alaska Railbelt Issues

● Existing System Attributes

- ✓ 3 utilities that own generation
- ✓ 3 utilities that have essentially no generation and purchase from generating utilities
- ✓ 3 load control areas
- ✓ limited transmission between load control areas
- ✓ about 700 MW of load (WSCC about 110,000 MW load)
- ✓ about 1200 MW of generation (WSCC about 150,000 MW of generation)
- ✓ insignificant non-utility generation
- ✓ no competitive wholesale market

WSCC = Western Systems Coordinating Council

Origins of Industry Restructuring

- Historical Utility Structure
 - Vertically Integrated
 - Cost-Based, Regulated Pricing
 - Internal Planning Process



Origins of Industry Restructuring (cont'd)

■ Changing Utility Environment

● Wholesale Competition

- ✓ EPACT 1992, FERC Orders 888 and 889 (FERC Orders 888 and 889 do not apply in Alaska)
- ✓ Wholesale markets growing and changing in lower 48
- ✓ Marketers/brokers propagating (and throwing in the towel)
- ✓ East and west coast "juice" market well developed
- ✓ Financial information systems working well (DJ cash prices, COB, Four C's, Mid C, Palo Verdes, NYMEX, etc.)
- ✓ Transmission information systems (OASIS) need work
- ✓ Wholesale competition fierce
- ✓ Growing pains (market volatility)

EPACT = Energy Policy Act of 1992

PURPA = Public Utilities Regulatory Policy Act of 1978 (federal driving force)

Origins of Industry Restructuring (cont'd)

■ Changing Utility Environment

● Retail Access

✓ California started April 1, 1998

- Penetration rate for access
- Customer savings
- Customer reaction
- Marketers
- Cost

✓ Montana started on July 1, 1998

✓ Washington, 1999(??)

✓ Oregon 2000(??)

✓ Alberta

✓ Ontario

✓ Federal legislation in 2000



Origins of Industry Restructuring (cont'd)

■ Changing Utility Environment (cont'd)

- Significant Issues to be Resolved Under Restructuring
 - ✓ Market power
 - ✓ Stranded costs
 - ✓ ISO control and pricing
 - ✓ Control of metering/billing
 - ✓ Technical power supply accounting/settlement problems
 - ✓ Customer churn
 - ✓ Price volatility



Origins of Industry Restructuring (cont'd)

■ Changing Utility Environment (cont'd)

● Trends

- ✓ Market power deadly
- ✓ Independence imperative
- ✓ Prices unpredictable
- ✓ Technical issues significant
- ✓ Customer confused or oblivious



ML&P Position on Restructuring

- April Strategic Planning Process
- Competition/Customer Choice Good Concepts That Have Been Cornerstone of Public Power for Decades
- Any Change Must Make Customer Better Off
- Guiding Principles
 - No loser
 - ✓ Customer bills
 - ✓ System reliability
 - ✓ ML&P financial integrity
 - ✓ Environment
 - Level playing field
 - Must be Alaska-specific
 - ✓ Size/market power
 - ✓ Geography
 - ✓ Isolated vis-à-vis lower 48



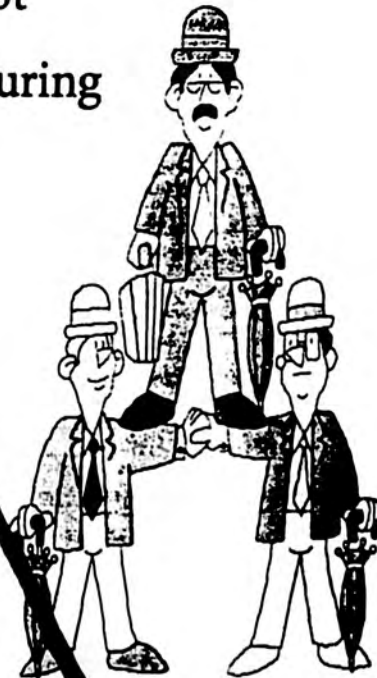
ML&P Position on Restructuring (cont'd)

■ Sequential Based on Cost-Effectiveness

- Pool
- Wholesale
- Retail

■ Recent Developments Locally

- PUC docket on wholesale Railbelt pool
- Legislative task force
- Aurora petition for retail pilot
- PUC rulemaking on restructuring
- 1999 legislative session



Questions and Answers



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Millennium

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"Constructive Notice"

(ex facie) Scientific and legal fact

Geocentric construction and mathematical logic equation with
multiple applications through applied science, including the
manufacture of digital software

M.O.A.

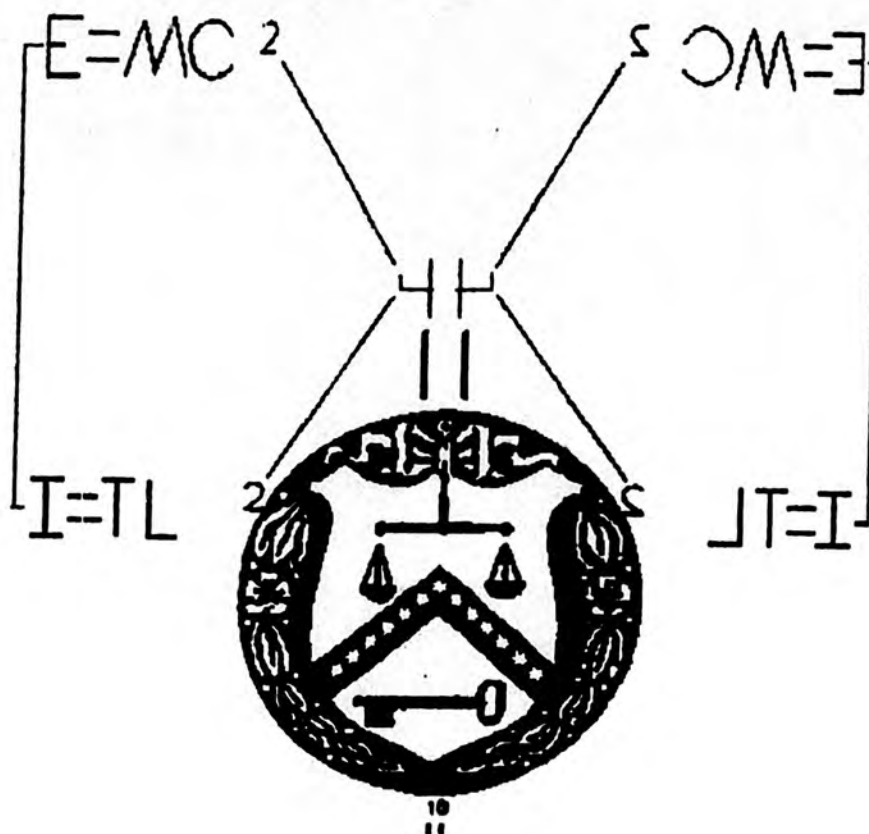
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I=Inspired

T=Thought

L=Light

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Title of Origin

Charles Edison McKee

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Anchorage, AK 99524

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SCOMM

109:3

FILE CONTENTS PAGE:

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- August 18, 1998 testimony from Robert A. Wilkinson, Copper Valley Electric
- August 1998 letter to Mike Notar, IBEW, and from Mike Notar, IBEW
- August 17, 1998 letter from Henry P. Lang, Lang Consulting
- August 18, 1998 e-mail from Stu Kinglsey, Indelible Ink
- August 17, 1998 e-mail from Donald Cassas, Visual Information Systems
- August 17, 1998 letter from Pierce Cartwright, Pierce Cartwright Co., Inc.
- August 14, 1998 letter from Richard Henningsen
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- August 12, 1998 letter from Steven M. Lows, Anchorage Sand & Gravel
- August 12, 1998 letter to editor from Chugach Electric Association
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- August 17, 1998 letter from William Westbrook, P.E., Westbrook Associates
- August 18, 1998 letter from Jerry Prevo, Anchorage Baptist Temple
- August 18, 1998 testimony from Bruce Vergason, Signature Flight Support
- August 17, 1998 letter to editor, as published in Anchorage Daily News, from
Chugach Electric Association
- August 18, 1998 news article "Consumers can weigh in on state's electric system"
- August 17, 1998 memorandum from Bob Lohr, Executive Director, APUC, to
Sam Cotton, Chairman, APUC, re Procurement Schedule for Possible
Major Contract
- July 2, 1998 article, "Competitive Electricity Prices: An Update" by J. Alan Beamon
- July 13, 1998 letter from Black & Veatch to APUC
- August 18, 1998 statement of Dr. Peter Fox-Penner
- August 18, 1998 "Alaska Electric Utility Restructuring" by Donn T. Wonnell,
Counsel for Municipal Light & Power
- August 18, 1998 "Electric Utility Industry Restructuring in Alaska", Discussion
Paper #1 by Alaska Rural Electric Cooperative Association

ALASKA STATE LEGISLATURE

Joint Committee on Electric Utility Restructuring

Senate Members:

Sentor Bert Sharp, Co-Chairman

Senator Loren Leman

Senator Robin Taylor

Senator Al Adams

Address: 119 N. Cushman, #201

Fairbanks, AK 99701-2879

Telephone: (907) 452-7885

FAX: (907) 456-4221



House Members:

Rep. Norman Rokeberg, Co-Chairman

Rep. Alan Austerman

Rep. Fred Dyson

Rep. John Davies

Address: 716 W. 4th Avenue, #640

Anchorage, AK 99501-2133

Telephone: (907) 258-8191

FAX: (907) 258-2916

AGENDA

August 18, 1998

Noon:

Opening Remarks from Co-Chairmen

**Dr. Peter Fox-Penner, author: Electric Utility Restructuring:
A Guide to the Competitive Era**

**Commissioner Sam Cotten, Chairman
Alaska Public Utilities Commission**

Public Testimony

Announcements



CHUGACH ELECTRIC ASSOCIATION, INC.

EUGENE N. BJORNSTAD, P.E.
General Manager

August 18, 1998

Rep. Norman Rokeberg, Co-Chairman
Joint Committee on Electric Utility Restructuring
Alaska State Legislature
716 West Fourth Avenue, #640
Anchorage, Alaska 99501-2133

Dear Rep. Rokeberg:

You asked for our view on legislative building blocks for retail electric competition. We believe they should be as follows:

- **Clear legislative policy favoring retail competition in the electric industry.**
- **Pilot Program for large densely populated distribution service territories.** This could involve, for example, requiring access to the transmission and distribution facilities of a certificated electric utility for the provision of retail electric service if the electric utility has annual electric power sales over 200 million kWh and more than thirty customers per mile of distribution lines.
- **Broad outline of stranded investment recovery guidelines.** These should include protections for the consumers against inclusion of costs not truly stranded as result of competition. Any utility being paid for stranded generation capacity should make the capacity available for use by those paying these costs.
- **Consumer protection.** This can include a provision establishing consumer protection bonding requirements for unregulated power marketers and a directive that the APUC ensure universal service. Any additional consumer protections can be provided under existing APUC authority.

Since I am out of town attending a conference this week, please feel free to call Don Edwards if you require any additional information.

Sincerely,


Eugene N. Bjornstad
General Manager

Testimony before Joint Committee on Electric Utility Industry Restructuring
August 18, 1998

Robert A. Wilkinson, General Manager
Copper Valley Electric Association, Inc.

I was here on August 6 on behalf of 4DP, now I am here on behalf of CVEA
About CVEA

- 480 miles of transmission, distribution, 2 diesel plants, Solomon Gulch
- area the size of West Virginia, 23000 square miles
- 25 feet of snow/year in Valdez, 60 below in Copper Basin
- reliability is a big concern for our 3300 customers
- very high rates

Most important issue ever to face the industry

Proposing to change the rules of the game

The 50 year promise of doing business as a regulated monopoly may be withdrawn

Important to distinguish between coops and investor owned utilities

- Coop purpose is to maximize the wealth of our member-owners not our shareholders
- Why are we concerned?

- Stranded investment for rural Alaska utilities is huge
 - 50% of our energy sales are to commercial customers, every one is a target
 - Recent attempts by APS reveal the serious competitive threat of cherry picking
 - APUC has not dealt effectively with the issue
 - Conduct by ASTF in awarding grants and ignoring the industries concerns has been shameful
 - Chugach has repeatedly contacted our largest industrial customer-25% of energy sales with offers to serve leaving CVEA and our other customers out of the deal
- Limitations of AS 10.25 on the powers of electric and telephone cooperatives
- Concern that in a competitive environment utilities will not be able to
 - Invest in infrastructure projects with potential future economics
 - Who can invest \$70 million in an intertie for 3300 customers
 - Who can build a \$2 million 16 mile line extension to Lake Louise with the threat of dispersed generation to cherry pick those lodge customers
 - Who can invest \$700,000 in a substation in Thompson pass to support winter tourism with the threat of losing customers
 - Will not be able to invest in community as we have done in the past
 - Every transaction and investment will rise and fall on the question of can we afford, for competitive reasons, to do this?
 - The bottom line is good bye ball caps, key fobs, annual meeting prizes, sponsorship of community events and activities because in a competitive environment we will no longer be able to afford it. For Copper Valley that will include the Prince William Sound Community College theatre conference, the World Extreme Skiing Championships and support of our 2 local ARDORS just to name a few

Is competition good?

Maybe if you can afford to shop at the company store but the majority of customers cannot

Who is pushing competition? Those that plan to profit from it

- Chugach-if my variable cost to produce a kwh was 17 mills I'd be pushing it too
- Aurora Energy-plans for shareholders and managers to profit at others expense
- The bottom line is that this is a zero sum game and when the big dog eats the rest may go hungry
- Be careful what you ask for or you may wind up with a real monopoly which I think you don't want

Is the threat of competition good? I think it has been so far

What is CVEA doing to prepare to be competitive in the face of industry change?

- We are trying to inject the profit motive into our not for profit electric cooperative. Profits will be returned to members in the form of lower power rates
- Strategic plan November 1996, tabled the intertie as not cost justified, in the face of the changing industry it gets further away every day, pursuing least cost options
- Remote control generation project January 1998
- Reduced rates April 1998 by 11% for residential and 13% for small commercials
- Waste heat project for Copper River Glennallen schools studied, funding obtained
- Combustion turbine cogeneration project with Petro Star probable development in 1999
- Divestiture of Solomon Gulch and 4DP
- Surveyed membership on diversification opportunities, preparing business plans

In closing

- What rural Alaska needs a lot more than competition in the electric utility industry is some support from Juneau to help us with building some infrastructure which will lead to economic development thus promoting a supporting healthy economies
- What we need is an understanding about the uniqueness of the problems of rural Alaska and some effort put in to developing creative solutions for those problems
- What we don't need is a rush to find a solution on industry restructuring before we adequately define and study the problem if in fact there is one
- On behalf of ratepayers from Sheep Mountain to Glennallen (mp 109-189) on the Glenn highway, from Alyeska pump station 12 to Hogan's Hill (mp 62-156) on the Richardson highway, from Valdez to Thompson Pass (mp 0-10) on the Richardson highway, from mile 0-12 on the Tok cutoff and from mp 0-17 on the Edgerton highway toward Chitina, I ask you to
 - Proceed deliberately
 - Study the issues, define the problems
 - Observe what others in America are doing with the issue
 - Consider that Alaska is indeed different
 - Develop a solution that is in the best interest of all Alaskans

Thank you for allowing me the opportunity to testify

Sent to: --

Senator Loren Leman

Senator Robin Taylor

Senator Al Adams

Address: 119 N. Cushman, #201

Fairbanks, AK 99701-2879

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FAX: (907) 456-4221



Rep. John Davies

Rep. John Davies

Address: 716 W. 4th Avenue, #640

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FAX: (907) 258-2916

August 21, 1998

Mike Notar

Assistant Business Manager

IBEW Local 1547

124 Front Street

Juneau, AK 99801

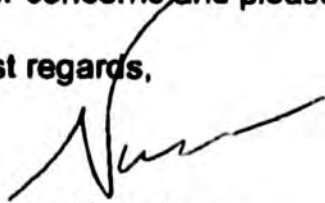
Dear Mike:

Thank you for submitting your written testimony regarding electric utility restructuring. It will, of course, be made a part of the Joint Committee's record.

The Joint Committee will hold its next public meeting on September 16th at the Fairbanks Legislative Information Office ("LIO"), beginning at 10:00 a.m. The meeting will be teleconferenced to the Juneau, Anchorage, Kenai, Kodiak, and Mat-Su LIOs.

The questions posed in your letter are among those being considered by me as well as the other members of the Joint Committee. Please keep me advised of your concerns and please feel free to offer your suggestions.

Best regards,


Norman Rokeberg
State Representative
House District 11

Mike Notar
Assistant Business Manager
IBEW Local 1547
124 Front St. Juneau, AK 99801
Tel. (907) 586-3050
Fax (907) 586-9614

AUG 17 1998

Co-Chairmen Representative Rokeberg, Senator Sharp, and Committee Members,

As we all know State and federal efforts are taking place to restructure the power industry with the so-called intent of gaining more efficiency and lowering consumer costs. Political pressure mostly from larger users, predatory utilities, and power marketers combined with the shallow notion that market forces have the ability to solve the problems of this industry, could well result in changes that hurt our system rather than making it better. Now it appears that we in Alaska are looking in that direction also.

Competition and deregulation are buzzwords that are supposed to conjure up the vision of great benefit to all. I offer you just a few of the questions that pop into my mind when I think about this complicated potential endeavor. Will everyone be afforded a chance at access to affordable power or will those large customers in more densely populated areas of our state just enjoy this? Will local governments maintain their tax revenues if local power facilities fail because they are deemed to be non-competitive? What will the results of deregulation be if there is excessive cost cutting and downsizing by electric utilities for their employees, their employees' safety and the public safety in this new competitive market structure? Will utilities face bankruptcy due to their inability to pay off their existing debt on their power plants and other facilities should competitors strip off their larger customers? Will the distribution and generation of power be as dependable as it was before restructuring?

As Senator Frank Murkowski, Chairman of the Senate Energy and Natural Resources Committee observed quoting the Deputy Secretary of Energy, "This is not an industry in crisis - unless we make it so." I would urge this Committee and the State of Alaska to continue to please make a thorough examination of the known effects of restructuring and the potential effects to all consumers and affected workers across our State before accelerating changes to the Alaskan electric market structure, that for all practical purposes serves the public well.

Thank you.

LANG CONSULTING
Electric Power
211 7 Belair Dr.
Anchorage, Alaska 99517
Tel/fax 907-274-7448

AUG 18 1998

8/17/98

Letters
Anchorage Daily News
P.O. Box 149001
Fax 258-2157

Dear Ms. Pembleton

BEWARE ON YOUR SAY ON ELECTRICITY

Choosing an electric company is not that simple. You are already connected to a supplier. Yesterdays ML&P power outage and the major CEA power outage in Aug. 95 is only the tip of the iceberg on power faults. When electric utilities cut operating expenses to remain competitive, public safety and reliability are sacrificed.

The Alaska Public Utility Commission is our regulatory agency that keeps the Utilities on track. It may be wiser to augment their staff to check the Utility practices closer. Also any competing electric Utility must employ an adequately trained and maintained staff from IBEW linemen, professional engineers, dispatchers and managers. Cost cutting here to be competitive will jeopardize consumer service. Consolidation of electric utilities especially in the railbelt area is more apt to bring about the desired consumer benefits.

Henry P. Lang, Electric Utility Engineer
Private Practice

Post-It [®] brand fax transmittal memo 7571		# of pages = 1	
To: Norman Beckeborg	From: H.P. Lang		
Co: Alaska Legislature	Co: Lang Corbett		
Dept: House Member	Phone: -		
Fax: 907 258-2916	Fax: -		

Joint Committee on Elect. Util. Restruct.

Author: Representative Norman Rokeberg at LAA_TRANS
Date: 8/18/98 7:21 AM
Priority: Normal
TO: Janet Seitz
Subject: Electric utility regulation

August 14, 1998

To the Joint Committee on Electric Utility Restructuring, Rep. Norm Rokeberg, Co-chair:

I am writing to urge your committee to favor legislation allowing customers to choose their own electricity suppliers.

As a homeowner in Anchorage, a small business owner in Alaska for over 15 years, and as one who works with many other small businesses, I firmly believe that government should control or limit services as a last resort only. In every case in my memory, increased competition has

resulted in improved value for the customers (and usually for the service providers, as well).

Nationally, internationally, and here in Alaska, the concepts of privatization and deregulation are opening doors to more business, better service, new ideas and better lives. It will happen with electric service, too.

It will happen. Your committee has the opportunity to make it happen sooner rather than later. That will be a real service to homeowners, businesses, and legislative constituents who need the service and pay the bills.

Sincerely,

Stu Kingsley
Indelible Ink
Anchorage, AK
ndlbl@alaska.net

--

Stu Kingsley
Indelible Ink
825 West Eighth Ave. #202
Anchorage, Alaska 99501-3410
Ph 907/277-9715 Fx 907/277-2799
Pager 907/275-3252
ndlbl@alaska.net

AUG 18 1998
AUG 18 1998

Author: DonCassas@compuserve.com (Don Cassas) at CC2MHS1
Date: 8/17/98 11:23 AM
Priority: Normal
BCC: Representative Norman Rokeberg at LAA_TRANS
TO: Blind.Copy.Receiver@compuserve.com at CC2MHS1
Subject: Support Electric Utility Competition
Representative_Norman Rokeberg@legis.state.ak.us

August 14, 1998

Joint Committee on Electric Utility Restructuring
Representative Norman Rokeberg, Co-Chair
716 W. Fourth Avenue, Suite 640
Anchorage, AK 99501

Dear Representative Rokeberg:

I am writing to urge your committee to support electric utility competition in its upcoming recommendations to the legislature. As sole proprietor of a small business and a homeowner in Anchorage, I want to choose my electrical provider the way I choose the other companies I do business with: those that provide the best services and prices for my needs. Open competition is the basis of the market economy in the United States, and it has been demonstrated time after time that competition results in better prices and more services for the consumer. Competition helps companies perform better, become more efficient and provide choices that benefit consumers who make the ultimate decision on which companies serve them best. An example is the dramatic change that has occurred in Alaska as a result of telecommunications deregulation. Not only do we have more providers and services, but the rates are lower than ever before. As a consumer, I think I have the right to choose which company provides the service I am paying for, including the one that provides electricity.

I am in support of legislation to be passed during the upcoming session that allows electric utilities to compete for my business, as well as that of other Alaskans, so that we can enjoy the benefits of competition in yet another industry.

Sincerely,

Donald B. Cassas
Visual Information Systems
70372.3315@compuserve.com

AUG 17 1998



PIERCE CARTWRIGHT CO. INC

8/17/98

To: Joint Committee on Electric Utility Restructuring
Norm Rokeberg Co-Chairman

Regarding the above subject it is our opinion that it definitely would be a good decision for customers and potential customers to be able to choose the power supplier that they would prefer, rather than not having a voice in the matter.

We appreciate this opportunity to be able to give you our opinion.

Thank you.

Pierce Cartwright
Chairman

AUG 17 1998



FOOD AND MERCHANDISE BROKERS
1205 E INTERNATIONAL AIRPORT RD., SUITE 204 • ANCHORAGE, ALASKA 99518
TELEPHONE 907-563-3032 • FAX 907-562-3473

August 14, 1998

AUG 17 1998

Rep. Norm Rokeberg
716 West 4th Ave., Suite 640
Anchorage, AK 99501-2133

Dear Rep. Rokeberg:

I am writing to ask for your support in allowing me to choose the electric company that supplies power to my home. The ideal of a competitive marketplace is the cornerstone of the American economic system. Two or more companies, offering a similar product or service, give the consumer a choice. The nature of this system requires the individual companies to compete by improving service, price, and availability of their product. Currently, as you know, we lack this freedom of choice in what entity supplies our electric power.

Electricity in this state is a necessity and the current system forces me to use one supplier, giving them a virtual monopoly in their service area. Years ago we experienced this same monopoly in long distance telephone service. We had one long distance carrier and paid them for all our long distance calls. Long distance competition caused the cost of those calls to drop dramatically and the level of service improved. Recently competition for local phone service began and we are seeing lower rates and improved service as a result. I believe that we will see the same reduction in rates and improvement in service if the electric utilities compete with each other.

When election season comes you have no guarantee that everyone in your district will vote for you. This fact assures that you work hard to provide the highest level of professionalism and assistance to your constituency. You prove yourself every day to your district. The utilities on the other hand know that everyone in their "district" must vote for them (with a monthly bill). Lets make the utilities prove themselves the same way you do.

Open up the power lines and tell the utilities that they must compete with each other. Tell them that they are no longer guaranteed a base of customers regardless of their level of service. Make them prove to the consumer that they are offering a fair deal. By allowing consumers to choose their electric utility you will force the utilities to improve their level of service and their rates. You will also be endorsing the ideals of free choice for all consumers.

Sincerely,



Richard S. Henningsen

2521 Melvin Ave.
Anchorage, AK 99577

Author: pprmnt@alaska.net (mary p bogan) at CC2MHS1

Date: 8/17/98 6:27 AM

Priority: Normal

TO: Representative Norman Rokeberg at LAA_TRANS

Subject: customer choice

I've been following the discussion regarding customers and choice for the electric industry. I feel electric customers are capable of making smart, practical choices for themselves and should be allowed to choose their electric provider, rather than having it chosen for them.

I urge you to support legislation allowing competition in Alaska because I believe the result will be more services and better prices.

Mary Bogan

P.O. Box 220103

Anchorage, AK 99522-0103

AUG 17 1998



a subsidiary of Alaska Basic Industries

ANCHORAGE SAND and GRAVEL CO., INC.

1040 O'Malley Road • Anchorage, Alaska 99515 • Phone (907) 349-3333 • FAX (907) 344-2844

August 12, 1998

Representative Norman Rokeberg
Co-Chair Joint Committee on Electric Utility Restructuring
716 West 4th Avenue
Anchorage, AK 99501-2133

Regarding: Support for Electric Deregulation

AUG 14 1998

Dear Representative Rokeberg:

I am writing you to support Electric Deregulation now. I am submitting this letter as written testimony. Anchorage Sand & Gravel (AS&G) is currently enjoying reduced cost due to the deregulation of the natural gas industry and fully expects to be able to reduce costs on electricity once we are allowed to shop for the best rate. Reduced electrical rates due to competition will allow AS&G and other Alaskan businesses to manufacture and produce materials and products currently shipped in from the lower 48 states and other parts of the world.

This country is based on the free market system, allowing competitive markets to keep goods and services competitively priced and in proportion to their cost. Currently AS&G has the ability to choose suppliers on virtually any other item used in our manufacturing process. Electricity should be no different.

We need the opportunity to compete with firms from the lower 48 states. By deregulating electricity not only will the cost of electricity most likely drop but more services will be given to customers like ourselves who are willing to shop for the best service and rates.

Electric deregulation should mean new opportunities for AS&G to reduce our electric cost, gain better service and produce products here in Alaska that we can not otherwise afford to produce. AS&G requests that this committee move forward quickly, to fully deregulate the electric industry in our area.

Anchorage Sand & Gravel
Steven M. Lova
Vice President/General Manager



CHUGACH ELECTRIC ASSOCIATION, INC.

Letter to the editor

August 12, 1998

Speak up for customer choice

If you believe you should have the right to choose your electric company, now is the time to speak up.

A special joint committee appointed by the Legislature will hold a public hearing on this issue. The hearing starts at noon, Tuesday, Aug. 18, at the Anchorage Legislative Information Office at 716 W. 4th Ave. Members of the public will have 3-5 minutes apiece to address the committee.

If you'd rather send written comments, address them to Rep. Norm Rokeberg, 716 W. 4th Ave. Suite 640, Anchorage, AK 99501-2133 (send e-mail to Representative_Norman_Rokeberg@legis.state.ak.us).

In a survey of 1,400 Anchorage residents earlier this year, 91 percent said they felt customers should have the right to choose which company they buy their electric power from. Chugach supports customer choice in the electric utility industry. It is our opinion that empowering customers with the right to choose their power provider will lead to better services and lower prices – just as it has in other deregulated industries.

If you agree, now is the time to share your opinion with the committee. Legislators will hear from plenty of industry representatives. It's important for them to hear from customers as well.

Sincerely,

A handwritten signature in dark ink, reading "Eugene N. Bjornstad". The signature is written in a cursive, flowing style.

Eugene N. Bjornstad, General Manager
Chugach Electric Association

AUG 07 1998



**Best Western
Barratt Inn**

4616 Spenard Road
Anchorage, Alaska 99517-3211
Phone: (907) 243-3131
Fax: (907) 249-4917
For Reservations, Call
1-800-221-7550

August 5, 1998

Representative Norman Rokeberg
Co-chair, Joint Committee on Electric Utility Restructuring
716 West 4th Avenue
Anchorage, Alaska 99501-2133

Dear Representative Rokeberg:

My written testimony is submitted in lieu of personal testimony at the public hearing of the special Legislative Joint Committee on Electric Utility Restructuring scheduled for August 18.

I would encourage your committee to recommend immediate restructuring of the electricity industry in the Anchorage Bowl.

Please consider the following points:

1. Alaska businesses are not able to achieve savings in electricity costs because we are not allowed to exercise our right to choose our electric power provider.
2. Alaska businesses, large and small, make every effort to hold down overhead costs while still providing the best products and services.
3. As a business organization in one of the most competitive areas of the economy, I know that competition helps keep prices down.
4. We have a choice on every product and service we buy, EXCEPT electricity.
5. Government should not be in a position to tell the private sector business community who they can or cannot buy electricity from.
6. I would like the opportunity to choose my electricity provider.
7. Gas costs have been cut because of the competitive market on the large commercial gas level.

CORRECTION

**THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION**



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska



CHUGACH ELECTRIC ASSOCIATION, INC.

Letter to the editor

August 12, 1998

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Eugene N. Bjornstad, General Manager
Chugach Electric Association

**Alaska State Legislature
Joint Committee on Electric Utility Restructuring**

Committee Members

	Phone	Fax
Sen. Bert Sharp (Co-chair)	452-7885	456-4221
Sen. Al Adams	465-3707	465-4821
Sen. Loren Leman	258-8189	258-3768
Sen. Robin Taylor	874-2318	874-3470
 Rep. Norm Rokeberg (Co-chair)	 258-8191	 258-2916
Rep. Alan Austerman	486-8872	486-5264
Rep. John Davies	456-8172	451-9293
Rep. Fred Dyson	694-6683	694-1015

Send written comments to:

Rep. Norm Rokeberg
716 W. 4th Ave., Suite 640
Anchorage, AK 99501-2133

Fax: 258-2916

E-mail: Representative_Norman_Rokeberg@legis.state.ak.us

For more information:

Legislative Information Office
716 W. 4th Ave., Suite 200
Anchorage, AK 99501-2133
258-8111
258-1261 (fax)

Chugach Electric Association
762-4709
choice@chugachelectric.com

AUG 07 1998



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Barratt Inn**

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August 5, 1998

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Co-chair, Joint Committee on Electric Utility Restructuring
716 West 4th Avenue
Anchorage, Alaska 99501-2133

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6. I would like the opportunity to choose my electricity provider.
7. Gas costs have been cut because of the competitive market on the large commercial gas level.

Representative Norman Rokeberg

Page 2

August 5, 1998

8. In a deregulated environment, the lowest cost provider could serve my business.
9. Restructuring will insist that service levels rise and product availability will be increased.

Thank you for your consideration about a product/service that affects all of us in almost every facet of our lives every single day.

Sincerely,

BEST WESTERN BARRATT INN



John J. Payne
General Manager

JJP/kk

/

August 17, 1998

State of Alaska Legislature
Joint Committee on Electric Utility Restructuring
Representative Norm Rokeberg
716 W. 4th Ave., Suite 640
Anchorage, Ak 99501-2133

Dear Mr. Rokeberg,

I am writing this letter to express my support for having a choice in who provides residential consumers with electricity. I support legislature to open competition in Alaska because of the benefits to the consumer. The major advantage will be greater competitive pricing. It is my understanding that just the "threat" of competition has already caused utilities to cut costs. Consumers are well informed enough to make these utility decisions themselves.

Other deregulated industries already include; natural gas, telecommunications, airlines, trucking, and railroads. It was not too long ago that a quick roundtrip flight to Seattle was \$1200, and consumers were paying three or four times more for long distance calling.

Thank you for your time and allowing me the opportunity to express my support to open utility competition in Alaska.

Sincerely,



Will L. Fancher
PO Box 92090
Anchorage, AK 99509
(907) 762-0311

WAI **WESTBROOK ASSOCIATES**
Consulting Engineers
Anchorage, Alaska

August 17, 1998

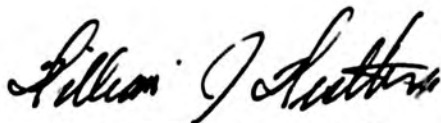
State of Alaska Legislature
Joint Committee on Electric Utility Restructuring
Rep. Norm Rokeberg
716 W. 4th Ave., Suite 640
Anchorage, AK 99501-2133

Dear Rep. Rokeberg:

As a residential and a small business owner in Anchorage, I strongly support legislation that would allow me to personally choose the electric company from which I purchase my electrical power.

Over the years many other industries have deregulated, allowing the consumer to benefit from lower prices and increased services. I believe competition will benefit electric consumers as well.

Sincerely,



William J. Westbrook, P.E.
Westbrook Associates

The Family Church
ANCHORAGE BAPTIST TEMPLE

August 18, 1998

Alaska State Legislature
Joint Committee on Electric Utility Restructuring

Dear Committee Members:

The Anchorage Baptist Temple supports deregulation among electric power producers. Deregulation would provide users with a choice of electrical providers and services.

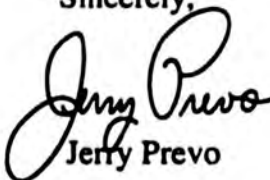
As a nonprofit organization, we are always seeking opportunities to reduce our operating budget. Keeping cost of overhead to a minimum provides savings that can be used to meet the needs of people our ministry touches.

We enjoy a similar savings with the cost of our natural gas because of deregulation. Changing the structure of electric regulations would provide users with additional savings on utility costs.

We also realize that protections for rural electric providers and users must be addressed. These concerns, however, should not hinder the process to provide urban consumers the right to choose their electric producer.

Your decision on this issue will have a financial impact on our ministry. We hope you are able to see the wisdom in providing deregulation of electrical zones within urban areas.

Sincerely,



Jerry Prevo

My name is Bruce Vergason, I am employed as a plant manager with Signature Flight Support here in Anchorage. Our company provides the refueling services for a majority of the flights at Anchorage international airport, moving an average of 1.8 million gallons of jet fuel per day.

In managing the costs related to all the aspects of our business I have a tremendous concern about electricity costs and our inability to seek competitive pricing in the market place under the current PUC directives. Although, and correct me if I'm wrong, I don't see anything outside their own directives that preclude them from allowing limited competition from occurring. Many states across the country have chosen to deregulate their electric utilities and in most cases it resulted in significant savings to the consumers.

Deregulation or re-regulation is an important step in contributing to long term economic stability. By providing low cost electricity through a competitive environment we will not only assist existing businesses by reducing operating costs but also attract new businesses to our area.

Obviously, There are a few fundamental issues to consider in the decision to re-regulate, first would be the exclusion of all non-rail belt utilities and possibly even limit de regulation to the Anchorage area. Rural Alaska's situation will require long term efforts even to solve its existing problems. Second would be to ensure all the utilities involved are properly and fairly unbundled. This would be needed to ensure fair and reasonable access charges for competitors.

These and others are some fairly complexed issues to deal with in the process of de regulation however, lets not reinvent the wheel, there are many other states that are deregulated or in the process of deregulating. My suggestion is to step the process and to look at the their programs and learn from their experience. A necessary first step is to develop a pilot program limited to the Anchorage bowl. The charter for this program must include the flexibility to deal with the various problems that will arise. It should have a term of one to three years, And it will also need a structured oversight committee made up of the following individuals:

- APUC commissioner,
- Legislator
- Representatives from the major utilities
- Balanced by an equal number of consumer group representatives from
- Large commercial
- Small commercial
- residential

These individuals would then regularly report to this committee on their findings and the impact of the program. The important thing is to get started down the road towards deregulation and start taking the necessary steps.

Have your say on electricity

If you believe you should have the right to choose your electric company, now is the time to speak up.

A special joint committee appointed by the Legislature will hold a public hearing on this issue. The hearing starts at noon on Tuesday at the Anchorage Legislative Information Office at 716 W. Fourth Ave. Members of the public will have three to five minutes apiece to address the committee.

If you'd rather send written comments, address them to Norm Rokeberg, 716 W. Fourth

Ave., Suite 640, Anchorage, 99501-2133. Send e-mail to Representative_Norman_Rokeberg@legis.state.ak.us.

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If you agree, now is the time to share your opinion with the committee. Legislators will hear from plenty of industry representatives. It's important for them to hear from customers as well.

— Eugene N. Bjornstad, general manager
Chugach Electric Association

ADN

17 Aug 1998 p. 8-7

Consumers can weigh in on state's electric system

By HELEN JUNG
Daily News reporter

Turning on the lights in a home in Noatak in Northwest Alaska costs nearly six times more than flicking the same switch in Anchorage. There are more electric utilities in Alaska than five Pacific Northwest states combined.

In other words, Alaska's electric power industry is complex, with hugely different customer groups, said Eric Yould, executive director of the Alaska Rural

Electric Cooperative Association. Changing the rules that govern how these utilities do business could devastate some areas while granting windfalls to others, he contended.

Yould and others from the electric power industry testified this month at the first hearing of a state legislative committee considering whether and how to foster competition among power providers in Alaska. The second hearing, which seeks testimony

from consumers, businesses and other members of the public, is scheduled from noon to 5 p.m. today at the Anchorage Legislative Information Office at 716 W. Fourth Ave.

But others, including the state's largest electricity provider, Chugach Electric Association, said consumers would benefit if the state embraced a broad policy of allowing competition.

"Competition is a cornerstone of American business," said Gene

Blornstad, general manager of Chugach. "Competition makes for new ideas, better customer service, innovation, efficiency, reduction in costly regulatory oversight and added value to customers and shareholders."

The Legislature doesn't need to get involved with the details — that's the job of the utility regulators, he said. But it does need to state that "competition is the

Please see Page F-4, POWER

ADN

18 AUG 1998 P F-1

POWER: Panel discusses competition

Continued from Page F-1

norm, rather than the exception," he said.

Several states in the Lower 48 have adopted measures to lift restrictions from power providers and encourage the kind of competitive scrambling taking place in the telecommunications industry.

But, speakers said, Alaska is different. Some utilities fear that power providers may try to pick up some of the largest customers in a village — like the school — but leave behind the residential customers. That would mean those households could see higher rates to cover the costs of providing electricity, they said.

Noatak, for example, at about 55 cents per kilowatt hour is one of the rural communities with the highest

electric costs. Although some rural areas pay less, overall the region pays more than 40 cents per kilowatt hour compared with Anchorage's 9.5 to 9.8 cents a kilowatt hour, according to ARECA.

And Yould of the rural cooperative group urged the committee to consider, if it goes ahead with restructuring the industry, protecting all customers; leaving rural Alaska out of any restructuring plans; and conducting a third-party study on the pluses and minuses of restructuring the industry in Alaska.

Others endorsed the idea of a third-party review, including city-owned Municipal Light & Power, a main competitor to Chugach in Anchorage.

"ML&P is in favor of competition," said Donn Wonnell of ML&P. "What we're not in favor of is shooting into a

dark alley."

The committee, chaired by Sen. Bert Sharp, R-Fairbanks, and Rep. Norman Rokeberg, R-Anchorage, is to develop recommendations for the Legislature to consider next year on potential restructuring of the electric utility industry. The committee will have a third meeting in Fairbanks in mid-September, and a fourth in November at an undecided location.

Also on the committee are Sen. Robin Taylor, R-Wrangell; Sen. Al Adams, D-Kotzebue; Sen. Loren Leman, R-Anchorage; Rep. Alan Austerman, R-Kodiak; Rep. Fred Dyson, R-Eagle River; and Rep. John Davies, D-Fairbanks.

□ Reporter Helen Jung can be reached at hjung@adn.com.

MEMORANDUM

DATE: August 17, 1998
TO: Sam Cotten, Chairman
FROM: Bob Lohr, ^{BL}Executive Director
SUBJECT: Procurement Schedule for Possible Major Contract

You have asked what the procurement process would look like for a major procurement contract related to electric re-structuring. A formal Request for Proposals (RFP) would be required, as would advertising in the media and the Alaska Administrative Journal. Competing proposals that meet the minimum qualifications would be evaluated by a Proposal Evaluation Committee and the highest scoring proposal would be eligible for a contract to do the work.

From the time a professional services RFP drafted and ready to be distributed¹ until a signed contract would be in place, with the contractor ready to begin work, would require approximately 70 days. If a disappointed bidder elected to protest the bid process, that would add to the timetable. A typical procurement schedule is attached.

A contract could be put in place more quickly if the procurement was either exempt from the Procurement Act (expert witness in a litigated proceeding or government-to-government contract) or if it qualified as an emergency or sole source contract. This type of project would not qualify for any exception or exemption to the Procurement Act, to the best of my knowledge.

Please let me know if you have other questions.

¹ Normally the drafting of the RFP would occur after a public meeting in which the Commission would approve the obligation of the required funds.

**ESTIMATED TIMELINE FOR
COURT REPORTING RFP
AS OF 9/22/95**

<u>STEP</u>	<u>DAY</u>
Advertise in Alaska Administrative Journal	1
Advertise in Anchorage Daily News	1
Letters of Interest Mailed	1
RFP Available	8
Pre-Proposal Conference (if applicable)	16
Mail Out Question Responses	21
Deadline for Submitting Proposals	31
Opening of Proposals (21 days after beg. of ad) *	32
Evaluation Process	32-45
Notice of Intent to Award	48
Grievance Period	49-59
Contract Negotiation	60-66
Execute Contract	67-69
Approval of Contract by Contractor	70-73
Approval of Contract by Department	65-70
Contract Start Date	1/1/98

Competitive Electricity Prices: An Update¹

by
J. Alan Beamon

Throughout the country, States are moving to make their electricity generation markets more competitive. Although the timing will surely vary, most States plan to implement significant changes in the pricing of electricity between now and the first few years of the 21st century. By estimating competitive generation prices based on marginal costs, this paper illustrates that the range of generation prices across the regions of the country can be expected to narrow with competition. However, it also shows that substantial differences in total electricity prices among regions will remain, because of differences in resource availability, the costs of nongeneration (transmission and distribution) services, climate, and taxes.

Background

Historically, electricity prices in the United States have not been set by market forces. Consumers' electricity supply choices have been limited to the utilities franchised to serve their areas. Similarly, electricity suppliers have not been free to pursue customers outside their designated service territories. Utilities have built generation, transmission, and distribution capacity only to serve the needs of the customers in their service territories, and the price of electricity has been set administratively, based on the average cost of producing and delivering power to customers.

The regulatory structure of the U.S. electric power industry evolved from the belief that the supply of electricity was a natural monopoly, and that one supplier could provide services at the lowest cost. For a variety of reasons, both economic and technological, that view has changed. Today, the relationship between consumers and suppliers of electricity is poised for change.² Most States plan to implement significant changes in the procurement and pricing of electricity between now and the first few years of the 21st century. Thus, in the near future, some of the services currently provided by local utilities will be available from other suppliers.

The electricity business is made up of three major functional service components or sectors: generation, transmission, and distribution. The generation sector is the production arm of the business—the power plants where electricity is produced. The transmission sector can be thought of as the interstate highway system of the

business—the large, high-voltage power lines that deliver electricity from power plants to local areas. The distribution sector can be thought of as the local delivery system—the relatively low-voltage power lines that bring power to homes and businesses. While it is expected that most consumers will continue to purchase distribution services from their local utilities and buy transmission services from a centralized pool, generation services are expected to be available from many sources.

For the most part, the prices for transmission and distribution services are expected to continue to be set administratively on the basis of the average cost of service. Some alternative approaches for pricing transmission services are being considered. In contrast, competitive market forces will set generation prices. Buyers and sellers of power will work together, through power pools or one-on-one negotiations, to set the price of electricity. As in all competitive markets, the supplier in the market³ who has the highest costs will determine the price at any level of demand. During most time periods, the generation price of electricity will be set by the operating costs of the most expensive (in terms of operating costs) generating unit needed to meet demand, or what in economics is referred to as the "marginal cost" of production. When consumers' demand for electricity rises (for example, on a hot summer day), the generation price will rise as units with higher operating costs are brought on line. Conversely, on cool spring weekends when air conditioning is not needed and many businesses are closed, prices will be relatively low.

¹This paper updates the work prepared in *Electricity Prices in a Competitive Environment: Marginal Cost Pricing of Generation Services and Financial Status of Electric Utilities*, DOE/EIA-0614 (Washington, DC, August 1997). This paper is based on work prepared for the *Annual Energy Outlook 1998*, DOE/EIA-0383(98) (Washington, DC, December 1997).

²For a discussion of the changing structure of the electricity industry, see L.S. Hyman, *America's Electric Utilities: Past, Present and Future* (Arlington, VA: Public Utilities Reports, Inc., 1994), and Energy Information Administration, *The Changing Structure of the Electric Power Industry: An Update*, DOE/EIA-0562(96) (Washington, DC, December 1996).

³A supplier who is in the market is one who is able to find customers at the prices it is offering. During a low demand period there could be many suppliers who are unable to sell any output and, therefore, will have no impact on the price.

The movement toward competitive pricing of generation has several implications. Generation prices are likely to become more volatile, changing as consumers' needs move up and down across seasons and from hour to hour during the day. For example, as the temperature rises on a hot summer day, the use of air conditioning will increase, and the price of electricity will rise as plants with higher operating costs are used to meet demand. Competitive prices based on marginal costs will also be more sensitive to any factors that affect the operating costs of the marginal generators. For example, if the cost of fuel to marginal generators rises unexpectedly, the impact on prices will be readily apparent. With traditional cost-of-service pricing, these impacts are muted, because the costs for all plants are averaged together.

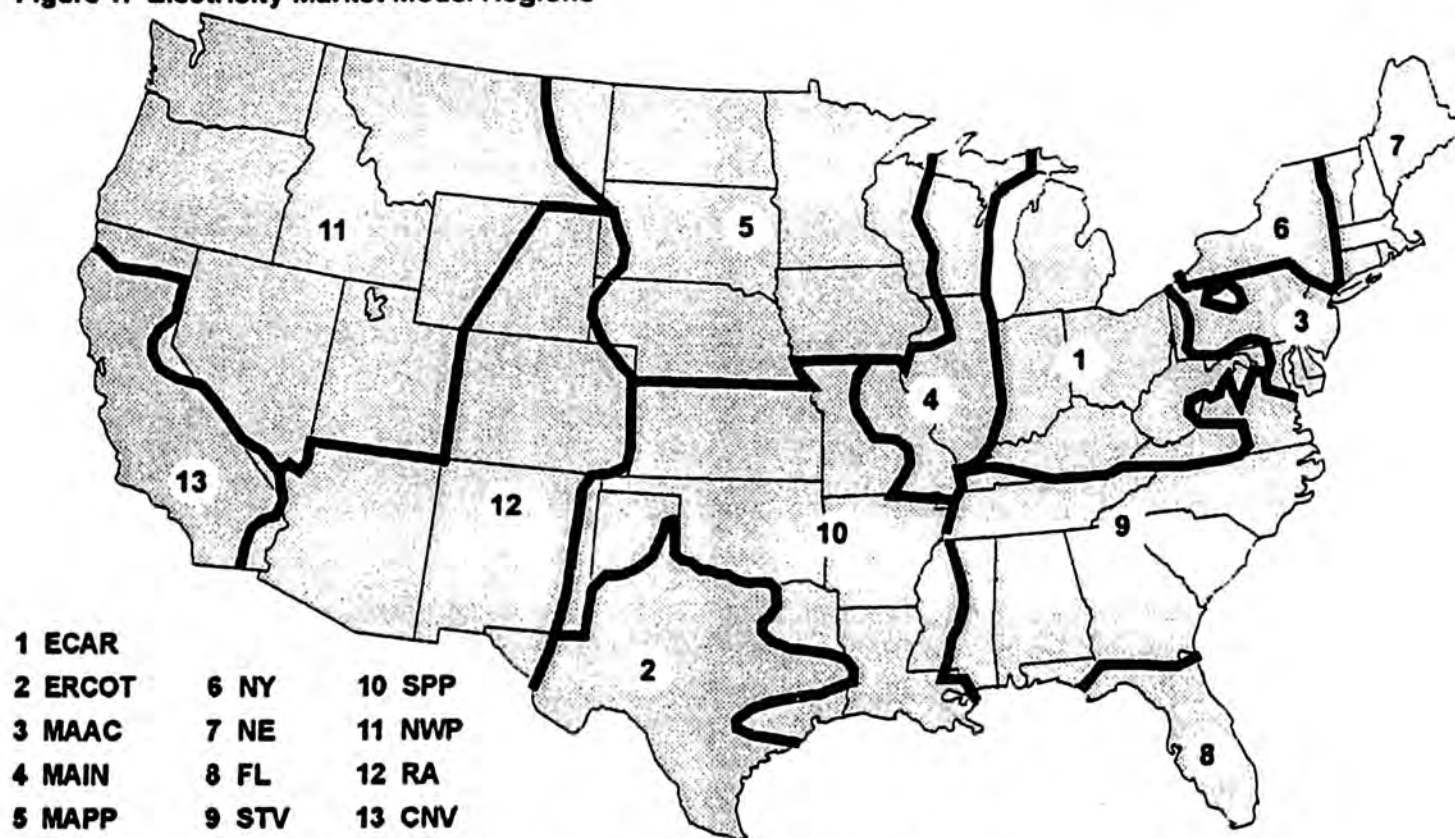
Both of the above characteristics of competitive prices were illustrated by national-level model results in the *Annual Energy Outlook 1998 (AEO98)*.⁴ This report illustrates a third impact of the move to competitive generation pricing—the narrowing of the range of prices across regions of the country. Concentrating on the period 2005 to 2020 (after competition has been phased in), electricity prices are presented regionally for the generation component, the combined transmission and distribution component, and generation sector taxes.

Methodology

To simulate the transition to competitive electricity generation prices, prices based on average costs (cost-of-service pricing) and on marginal costs (competitive pricing) were calculated for each of 13 U.S. electricity supply regions (Figure 1) for the period 1998 through 2008.⁵ An average price for each of the transition years was estimated using a weighted average of the two prices. Initially, in 1998, a 0.90 weight was given to the cost-of-service price, and a 0.10 weight was given to the competitive price. The weights were shifted over time, so that by 2008 the competitive price received a 1.0 weight and the cost-of-service price was no longer used. Transmission and distribution system prices were calculated from average costs throughout the projection period.

The gradual shift toward the competitive generation price was meant to reflect the path being taken by the States. Some States, such as California, are allowing consumers to choose their electricity suppliers (generators) as early as 1998. However, they are also allowing utilities to recover the costs of investments that were made to serve these customers over a certain number of years. Thus, the impacts of unfettered competition in the generation market will not be seen for a few years. In addition, even if consumers are free to choose their suppliers

Figure 1. Electricity Market Model Regions



Source: Energy Information Administration, Office of Integrated Analysis and Forecasting.

⁴See Energy Information Administration, *Annual Energy Outlook 1998*, DOE/EIA-0383(98) (Washington, DC, December 1997), "Electricity Pricing in a Competitive Environment," pp. 20-23.

⁵The Electricity Market Model (EMM) submodule of the National Energy Modeling System (NEMS) represents the supply and demand for electricity in 13 regions based on the regions and selected subregions of the North American Electric Reliability Council (NERC).

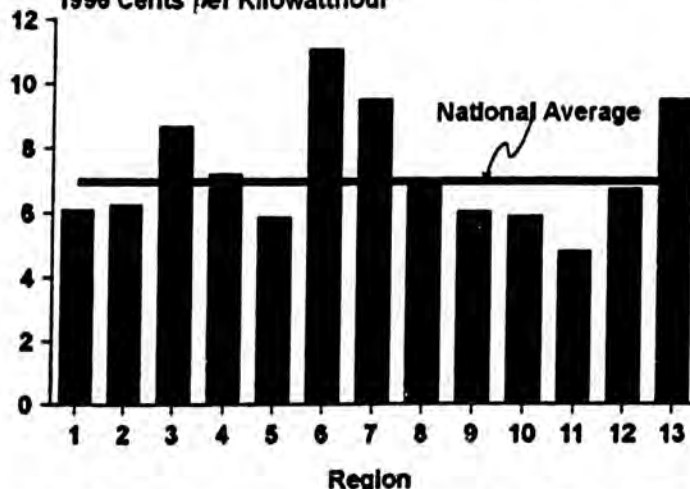
in the next few years, it could take several more years for the new market institutions needed to support competition to evolve fully.

Regional Competitive Electricity Prices

In today's market, average electricity prices vary substantially among different regions of the country (Figure 2). Prices in the highest cost region are nearly 2.3 times (230 percent) the prices in the lowest cost region. Many factors—such as differences in regional fuel availability and prices, labor and construction costs, climate, taxes, and customer mix (residential, commercial, and industrial)—contribute to the differences. For example, access to economical hydroelectric power is a major factor in the relatively low electricity prices seen in the Northwest. Conversely, the lack of low-cost hydroelectric or coal-fired power plants in the New York and New England regions is one factor in their relatively high prices. Still, the range in regional electricity prices is considerably larger than that seen for other energy products. For example, excluding Alaska and Hawaii, average gasoline prices in November 1997 differed by only 39 percent across the States. Similarly, fuel oil prices (excluding taxes) differed by only 29 percent across the States in November 1997.⁶ Even when taxes are added, gasoline prices across the continental United States differ by only 54 percent.

In competitive markets, large regional price differences for a product would be expected to attract the attention of both suppliers and consumers. With the opportunity to make greater profits, low-cost suppliers would want to enter high-price markets. Similarly, consumers—especially those who use large quantities of the product—would move into regions with low prices and out

Figure 2. Regional Electricity Prices, 1996
1996 Cents per Kilowatthour



Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

⁶Energy Information Administration, *Petroleum Marketing Monthly*, DOE/EIA-0380(98/02) (Washington, DC, February 1998).

of regions with high prices. Over time, these forces would tend to narrow the price differences between regions. Absent large transportation and local market costs, which in this analysis are assumed not to be affected by competitive pressure, the "price gap" should be quite narrow in the long run.

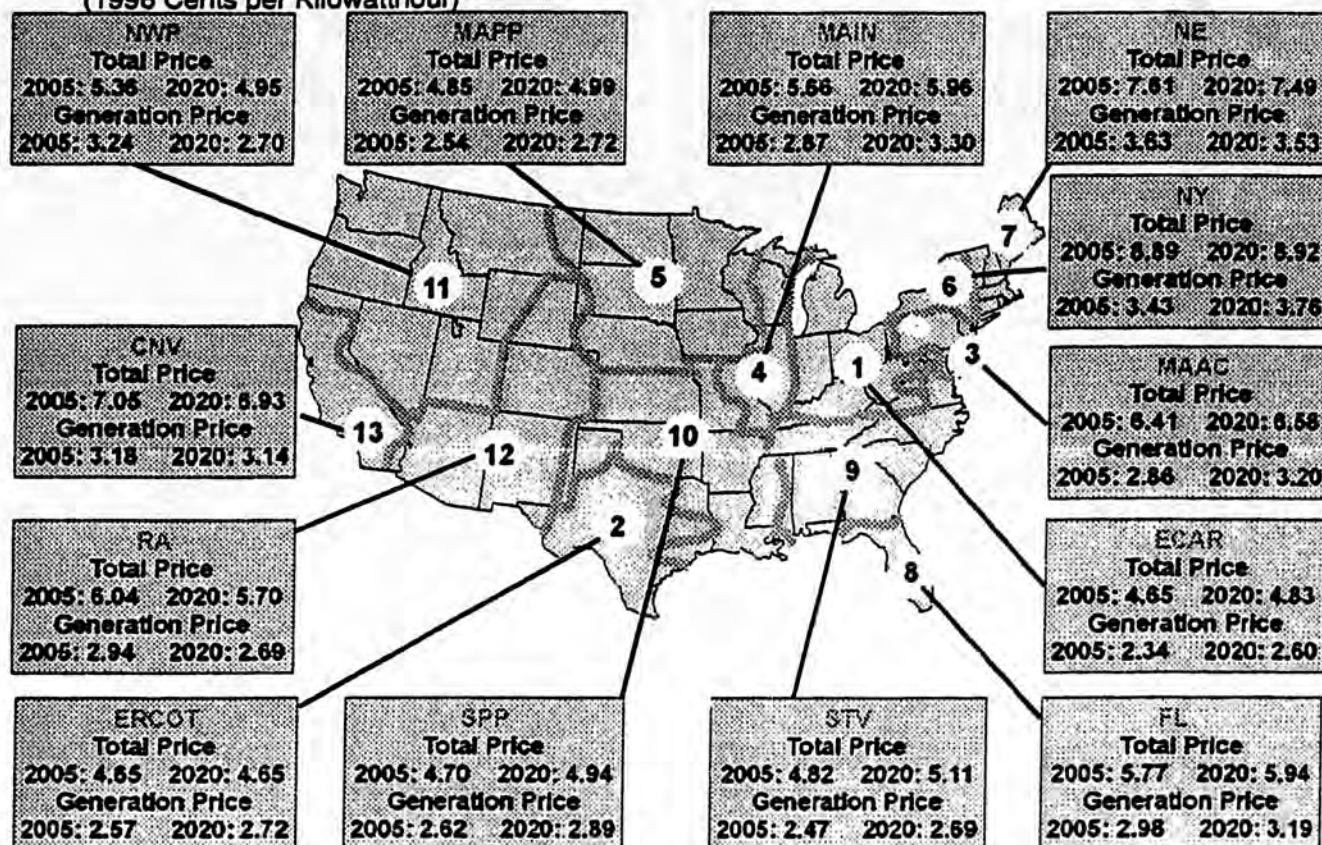
The market forces described above are expected to affect regional electricity prices, especially those for generation services, as competition takes hold. By 2005, the range in the total price of electricity across regions is expected to fall to 4.2 cents, much lower than the 6.3-cent range seen in 1996 (Figure 3). Excluding the New York and New England regions, which have very high non-generation sector prices, the range is much narrower, at just over 2 cents per kilowatthour by 2020. The nearly 100-percent regional price gap is still much larger than that seen for gasoline and fuel oil. However, as mentioned for New York and New England, the competitive generation sector is not the source of most of the remaining gap.

In 2005, the range in generation sector prices across the regions is expected to be less than 1.3 cents (Figure 3). By 2020, the range narrows even further to just over 1.1 cents. The variation in generation prices, especially in the early years, is due primarily to the different mix of plants in the regions. The plant types setting the marginal price, in descending order of operating costs, include: high operating cost oil/gas turbines (although many of these plants can burn either oil or natural gas, most use gas) designed to run infrequently; older, inefficient oil/gas steam plants; newer, more efficient oil/gas combined-cycle plants; and coal-fired plants with low fuel costs. As a result, the regions with the lowest generation prices are those dominated by low operating cost existing coal or hydroelectric plants.

In region 1 (ECAR), more than 85 percent of the total existing capacity is coal or nuclear powered. In regions like this, coal-fired plants will set the marginal price during many hours of the year, especially in the early years of the projections, before a large number of new plants are built (Figure 4). Conversely, regions that rely more heavily on older, less efficient oil and gas steam plants will tend to have the highest competitive generation prices. This is true in regions 6 and 7. New York and New England, both of which have large amounts of oil and gas steam capacity. It is possible that these plants may be retired soon after competition takes hold and, thus, that their impact on prices will be lessened.

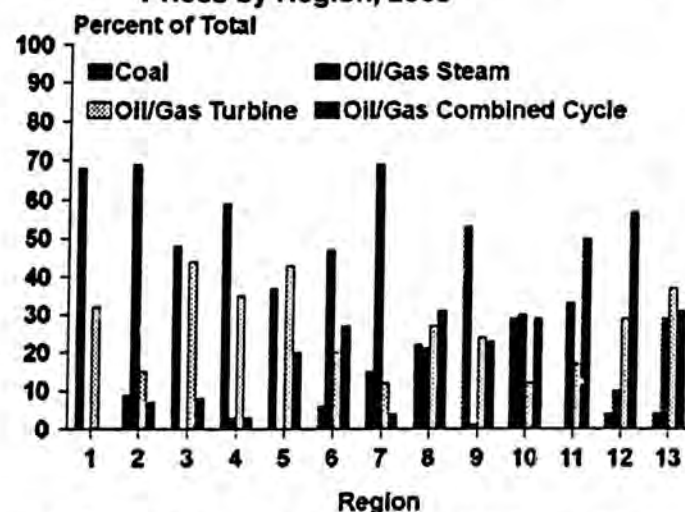
Over time, new gas-fired combustion turbine and combined-cycle plants are expected to dominate new power plant additions in all regions. Such relatively low-cost plants are expected to bring down generation costs in almost all regions, especially where they are relatively high today. As a result, existing plants will not play as

Figure 3. Total Electricity Prices and Generation Prices by Region, 2005 and 2020
(1996 Cents per Kilowatthour)



Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

Figure 4. Plant Types Setting Marginal Electricity Prices by Region, 2005

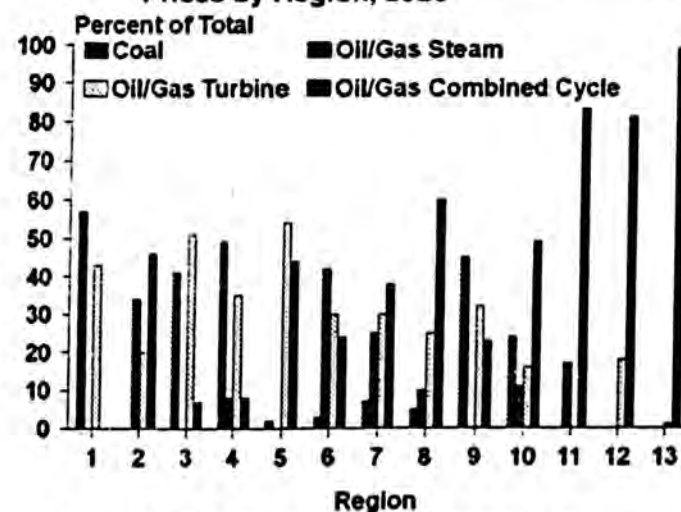


Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

important a role in setting the marginal price in 2020, and the range in generation sector prices across the regions will narrow further (Figure 5).

As discussed at the national level in AEO98, the competitive generation price will be sensitive to any factors that raise the operating costs of the generators setting the marginal price. For example, if natural gas prices turn

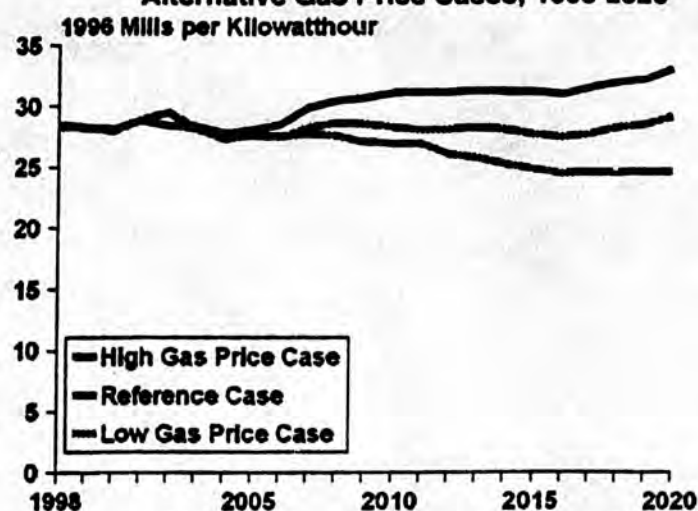
Figure 5. Plant Types Setting Marginal Electricity Prices by Region, 2020



Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

out to be higher or lower than expected, competitive generation prices will be directly affected. Figure 6 illustrates this point at the national level. When the price of gas delivered to generators is assumed to be 18 percent higher, the competitive generation price is projected to be 13 percent higher in 2020 than in the reference competitive case. Similarly, when the price of gas delivered to generators is 18 percent lower, the competitive

Figure 6. National Average Generation Prices in Alternative Gas Price Cases, 1998-2020



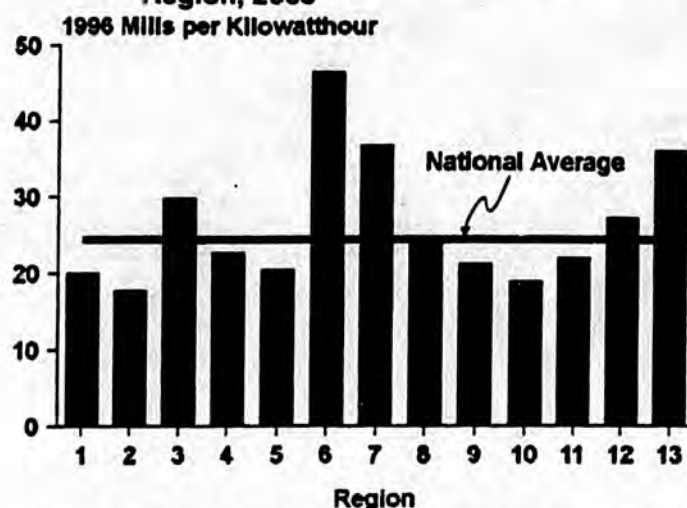
Source: AEO98 National Energy Modeling System, runs BASECOMP.D101797A, LOGCOMP.D101697A, and HOGCOMP.D101697A (October 1997).

generation price is 15 percent lower in 2020 than in the reference competitive case.

Generation sector prices account for 1.3 cents of the 4.2-cent range in regional prices remaining in 2005. Prices for transmission and distribution services (the vast majority of which are for distribution) account for a much larger share. Across the regions, the projected transmission and distribution prices in 2005 range from less than 2 cents per kilowatt-hour in the Texas (ERCOT) and SPP regions (regions 2 and 10), to nearly 5 cents per kilowatt-hour in the New York region (region 6) (Figure 7).

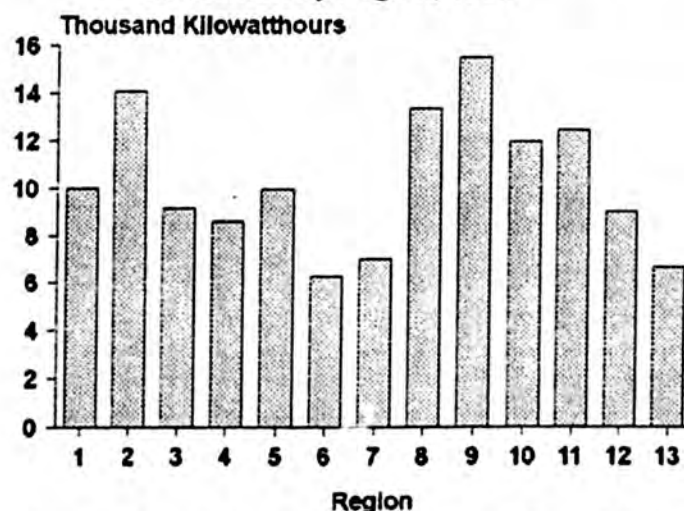
Many factors contribute to the range in transmission and distribution pricing, including regional construction and labor cost differences. One of the most important is the variance in average customer consumption across the regions (Figure 8). Because transmission and distribution system costs consist mainly of the capital costs for wire, poles, substations, and transformers, the per-kilowatt-hour cost is lower where the level of consumption per customer is higher. In other words, in the Southeast, where climate conditions cause customers to use a relatively large amount of electricity for air conditioning, the capital costs of the distribution system can be spread out over the high consumption base. In contrast, in New York, New England, and California, where cooling needs are less pronounced and alternative fuels are available for heating, average customer consumption is relatively low and per-kilowatt-hour transmission and distribution costs are higher, because they are recovered over a much smaller sales base.

Figure 7. Transmission and Distribution Costs by Region, 2005



Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

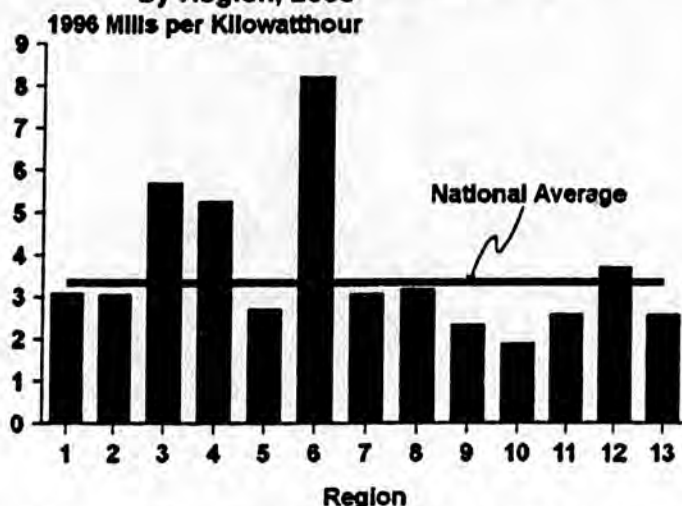
Figure 8. Average Electricity Sales to Residential Customers by Region, 1996



Source: Energy Information Administration, Form EIA-861, "Annual Electric Utility Report" (1996).

Another factor contributing to the remaining price gap among the regions after generation sector competition is phased in are different regional tax levels. As is the case for gasoline, all the States tax their electric utilities differently. In the generation sector, taxes typically add a few mills (tenths of a cent) per kilowatt-hour to the price. Across the regions, however, the level varies from 2 to 8 mills per kilowatt-hour (Figure 9).

Figure 9. Taxes on Electricity Generation by Region, 2005



Source: AEO98 National Energy Modeling System, run BASECOMP.D101797A (October 1997).

Comparisons with Earlier Results

The projected competitive electricity prices in this report are on average 0.5 cents per kilowatthour lower in 2005 and beyond than those presented in the August 1997 report.⁷ The reasons include assumptions of lower construction costs and lower operations and maintenance (O&M) costs, as well as improved historical calibration of general and administrative (G&A) expenses. These updates were made during the preparation for AEO98, upon which this analysis is based. The earlier report was based on the *Annual Energy Outlook 1997* (AEO97). With respect to the magnitude of the impacts, the adjustments to G&A expenses had the greatest impact.

Power plant construction costs were significantly lower in AEO98 than those assumed in AEO97. For example, in AEO97 new pulverized coal plants were expected to cost \$1,458 per kilowatt (1996 dollars) or approximately \$583 million for a typical 400-megawatt plant. In AEO98, the same plant was expected to cost only \$432 million, or 26 percent less. Similarly, a new 400-megawatt advanced combined-cycle plant was assumed to cost only \$229 million (\$572 per kilowatt) in AEO98, versus \$253 million in AEO97. The lower cost assumptions reflect the continuing efforts by designers and constructors to develop more economical standardized power plants so that they can remain competitive.

Plant O&M costs can be broken into nonfuel and fuel components. Nonfuel O&M costs include the labor and other services (lubricants, coolants, limestone, rents, etc.) needed to run a plant. Over the past 10 to 15 years, nonfuel O&M costs have declined significantly. Between 1981 and 1995, the nonfuel O&M costs per kilo-

watthour of generation at coal-fired plants have declined by 22 percent, or approximately 2 percent annually. Over the same period, the number of employees per megawatt of capacity has fallen by 20 percent. Although further declines are far from certain, analysis of recent data shows that, from plant to plant, the costs still vary significantly, and growing competition is expected to increase the pressure to reduce them. As a result, for both AEO97 and AEO98 it was assumed that nonfuel O&M costs would continue to decline, falling by an additional 25 percent over the next 10 years. The impact of this assumption was greater in AEO98, however, because nonfuel O&M costs were represented for specific plants rather than by plant type as in AEO97.

With respect to fuel costs, the projected average fossil fuel prices to power generators are 5 percent lower in 2005 in AEO98 than they were in AEO97. Lower prices for coal, which accounts for over half of the power generated in the United States, is the major reason. As shown in Figures 4 and 5, in some regions of the country, coal-fired plants are often the marginal plants running, especially in the early years of the projections. At the national level, coal prices to power generators in 2005 were assumed to be 11 percent lower in AEO98 than in AEO97. This difference is maintained throughout the projections. Between 1970 and 1996, average minemouth coal prices in real 1996 dollars declined by \$4.32 per ton, and they are expected to decline by an additional \$5.23 between 1996 and 2020. In AEO98 the assumed decline is more rapid, as the result of a reassessment of coal mining labor productivity and greater penetration of production from Western surface mines that are less expensive to operate. With respect to natural gas, the story is the opposite: projected prices are higher in AEO98 than in AEO97. Throughout the projection period, natural gas prices to power plants are between 10 and 20 percent higher in AEO98.

In the uniform system of accounts used by electric utilities, G&A expenses cover a wide array of cost categories, including employee pensions and benefits, administrative and general salaries, office supplies and expenses, outside services employed, miscellaneous general expenses, and various insurance categories. The majority of these costs are labor related, associated with employee salaries, pensions and benefits. In 1996, investor-owned utilities spent \$13.5 billion on G&A, or 12 percent of their total operating costs. G&A expenses are not reported at the plant level, however, and as a result it is not possible to determine the degree to which they reflect plant operating costs.

In competitive markets, a product supplier will be willing to sell the next unit of output at a price equal to the immediate cost of producing it—what in economics is referred to as the short-run marginal cost. Costs that do

⁷Energy Information Administration, *Electricity Prices in a Competitive Environment: Marginal Cost Pricing of Generation Services and Financial Status of Electric Utilities*, DOE/EIA-0614 (Washington, DC, August 1997).

not vary with output are not included in short-run marginal costs. For example, for fossil power plants the key component of short-run marginal costs is fuel costs. To get one more kilowatt-hour of electricity out, a certain amount of coal, gas, or oil has to be put in.

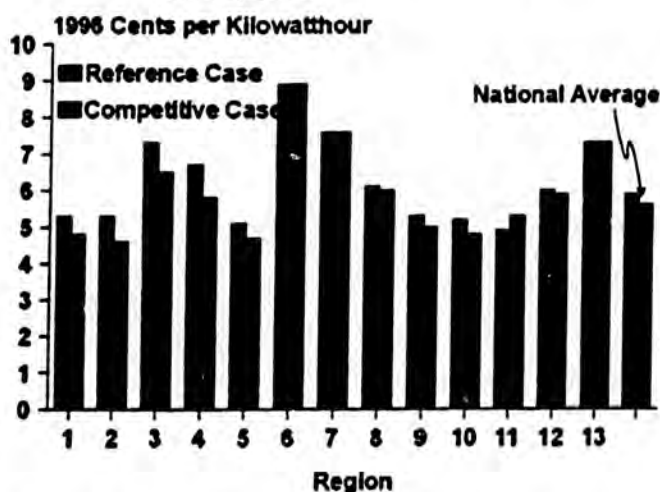
Labor costs for staff working at a plant whether or not it is running at full capacity are not included in short-run marginal costs, because they do not vary with output. However, to the extent that labor costs increase with output (for example, when staffing levels are increased to run a plant at a higher capacity factor), those costs are included in the cost of producing the next kilowatt-hour.

Unfortunately, because the historical data are not uniformly reported at the plant level, and because regulated operation may not be indicative of how a plant is operated in a competitive market, it is not possible to determine what portion of the G&A costs should be included as part of a supplier's bid price (the same is true for non-fuel O&M costs discussed previously). Modeling experiments were carried out with different portions included in competitive electricity prices. From the experiments it was determined that, unless the majority of the G&A costs were included, competitive generation prices would not be high enough to support the construction of new power plants that would be needed as demand grows. In the previous report, model runs were prepared assuming various levels of inclusion of these costs. In this report, as in the moderate response case of the previous report, all the G&A costs were included in marginal generation costs; however, more recent data were used here, and overall G&A costs were reduced significantly. Including these costs added about 0.2 to 0.3 cents per kilowatt-hour to the competitive price.

As in the previous report, competitive markets are expected to lead to lower prices relative to cost-of-service regulated prices in nearly all regions through 2010 (Figure 10). Only in the Northwest, where regulated prices are very low, are competitive prices expected to be higher by a small amount. The differences seen in Figure 10 should not be viewed as the total impact of competition. The reference case in this report is not a "no competition" case but includes the impacts of wholesale market competition that has been occurring for many years. The difference between the two cases shown in the figure should be seen as the impact of moving to competitive, marginal cost pricing of generation services to retail consumers. Also, regions 6, 7, and 13 were treated as fully competitive in the reference case, and they show only minute differences between the cases.

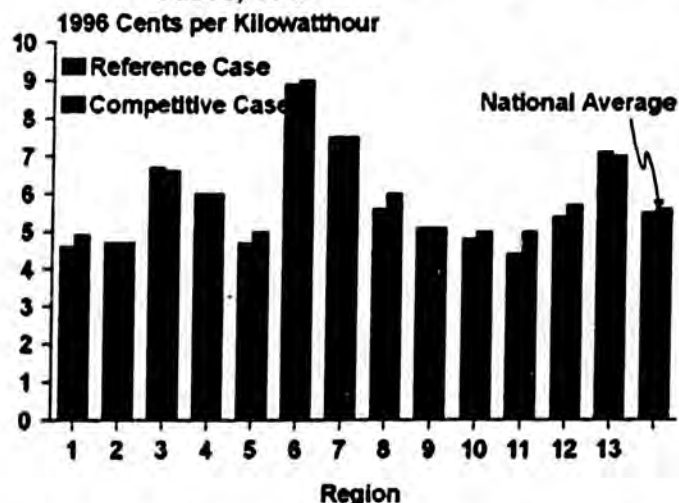
After 2010, the projected competitive prices begin to rise slowly, although in most regions they remain nearly equal to or below reference case prices through 2015. By 2020, several regions have competitive prices slightly above reference case levels (Figure 11). The key to these results is the expected future price of natural gas. These expectations are important because the majority of capacity built to meet growing demand over the next 20 years is expected to be fueled with natural gas. As a result, the impact of natural gas prices on competitive generation prices will grow over time. If natural gas prices turn out to be lower than expected in the AEO98 reference case, competitive generation prices could be lower than or equal to the projected regulated prices in all regions. However, the opposite is also true.

Figure 10. Total Electricity Prices by Region in the Reference and Competitive Generation Cases, 2010



Source: AEO98 National Energy Modeling System, runs BASECOMP.D101797A and AEO98B.D100197A (October 1997).

Figure 11. Total Electricity Prices by Region in the Reference and Competitive Generation Cases, 2020



Source: AEO98 National Energy Modeling System, runs BASECOMP.D101797A and AEO98B.D100197A (October 1997).

Other factors could also change these results. For example, fully competitive retail generation pricing could lead to greater efficiency improvements than were assumed for this analysis. Also, in the Northwest, some analysts expect that the costs associated with mitigating the impact of large hydroelectric facilities on fish populations will grow in the future. Such potential costs were not included in this analysis; if they were, they could narrow or eliminate the gap between regulated and competitive prices.

As another example, a large proportion of the power produced in the Northwest is produced at federally owned facilities. For this report it was assumed that those facilities would sell their power at competitive market-based rates, even if they were higher than regulated rates. On the other hand, regulators in the Northwest together with Federal authorities may choose an alternative approach, such as returning all or a portion of any windfall profits earned by low-cost public utilities to ratepayers.

Finally, this analysis did not assume any improvement in transmission and distribution service costs, which were assumed to be determined by a regulated cost-of-service methodology. Some State deregulation proposals do include alternatives to the cost-of-service pricing approach used historically for transmission and distribution pricing. Where such proposals are adopted,

utilities will have increased incentive to reduce transmission and distribution costs as well as generation costs.

Conclusion

Over the next 10 to 20 years, competitive pressures are expected to narrow the range in electricity prices currently seen across the country, especially prices for generation services. With competitive pricing in the generation sector, by 2005 the range of total electricity prices across regions is expected to decline from the 6.3-cent level seen in 1996 to 4.2 cents. Most of the remaining difference is expected to come from nongeneration sector (primarily transmission and distribution) costs.

Several factors could alter these results. Some cost factors may rise. For example, more resources may be needed to manage the network with a potentially much larger group of suppliers. It is also possible that competitive pressures will lead to greater cost reductions than expected. For example, new technologies may allow suppliers to produce—and customers to consume—electricity more efficiently. The results presented here rest on the assumptions used in preparing the AEO98 model projections. Further refinements and improvements can be expected as additional data become available from newly emerging competitive electricity markets.

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PM



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Alaska Public Utilities Commission
Power Pooling / Central Dispatch Planning Study
Docket U-97-140

463-5415

B&V Project 31799
B&V File 14.0000
July 13, 1998

Alaska Public Utilities Commission
1016 W. 6th Avenue, Suite 400
Anchorage, Alaska 99501

Subject: Comments & Responses to the Interim Report

Dear: Mr. Paul Morrison

Enclosed are Black & Veatch's responses to utility comments regarding the Alaska Power Pooling / Central Dispatch Planning Study Interim Report of June 1998. The document reproduces the comments made by each utility followed by Black & Veatch's responses to each.

Black & Veatch would like to schedule a conference call after the utilities have had a chance to review our responses. We feel a conference call at this point would help finalize any remaining questions or issues regarding the Interim Report and modeling procedures.

Black & Veatch proposes to conduct the conference call on Monday, July 20th. Please give either Myron Rollins at 913-458-7432 or Theresa Jurotich at 913-458-2788 a call to let us know if this date is feasible.

Sincerely yours,

Theresa M. Jurotich

for Myron Rollins
Project Manager

Enclosure

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