

**HB**

**187**

<TARGET><BILL>HB 187</BILL><SUBJECT>HB  
187</SUBJECT><COMM>HENE29</COMM></TARGET>

1. [HB187 Docs 2nd Submittal to RCA Railbelt \(22Dec2015\)sk.pdf](#)
2. [HB187\\_1stStatusRpt RCA \(RailbeltMilestone Docket No. I-15-001 Filed30Sept2015\).pdf](#)
3. [HB 187 Issues TRANSCO ISO USO \(Staff Briefing 2Feb2016 Rvn\).pdf](#)
4. [HB187 Scheduling Memo \(for 28Jan2016 Hearing Capitol17 Rvn\).pdf](#)
5. [HB187 Fiscal Note \(22Jan2016\).pdf](#)
6. [HB187 Docs RCA Findings Reccomendatns \(6p 30June2015 \(002\).pdf](#)
7. [HB187 Docs 2nd Submittal to RCA Railbelt \(22Dec2015\).pdf](#)
8. [HB187 - Prepared Remarks of Chugach Electric Association - Presented to ....pdf](#)
9. [HB0187A BASIS referenced Jan2016.pdf](#)
10. [HB 187 ARCTEC 1-28-2016.pdf](#)

December 22, 2015

**RECEIVED**

By the Regulatory Commission of Alaska on Dec 22, 2015

Commissioners  
Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501-3469

RE: Docket No. 1-15-001; Second Status Report on Voluntary Development of Independent Railbelt Electric Transmission Company - RCA Recommendation No. 1

Dear Commissioners:

On behalf of Anchorage Municipal Light and Power (ML&P), Chugach Electric Association, Inc. (Chugach), the City of Seward (Seward), Golden Valley Electric Association, Inc. (GVEA), Homer Electric Association, Inc. (HEA), Matanuska Electric Association, Inc. (MEA) and the American Transmission Company LLC, by its corporate manager, ATC Management Inc. (together ATC), the above parties (Parties), file this joint second report on the progress of voluntary efforts to restructure transmission in the Railbelt and establish an independent Railbelt electric transmission company (Transco).

## **SECOND STATUS REPORT**

In 2014, the Parties established principles for voluntary formation of an Alaska Railbelt Transco (ART) and formed a senior staff working group (the Working Group) charged with developing a business model for a Railbelt Transco. To date, the Working Group has met each month since December 2014 and has engaged subgroups of subject matter experts on specific tasks.

The Railbelt electric utilities and ATC (collectively the Parties) are developing a business model whereby the operation, maintenance, and upgrades of the Railbelt transmission network are accomplished by a Railbelt Transco to ensure the reliable delivery of electric power to Railbelt customers. A draft of this business plan is attached to this letter. The subgroups contributing to the creation of Transco business plan include: Economic Dispatch, Finance, Governance, Human Resources and Organizational Structure, Legacy Agreements, Operations and Maintenance, Real Estate and Permitting, Regulatory, and Standards. The Parties have summarized work to date in the attached draft.

### **A. Decisions Made**

Any decision to proceed with Transco formation will be based on each company's assessment of the total benefits and impact of participation on that party's operation. This process requires extensive consultation between management and the party's governing body (e.g. municipal government, board of directors).

Each party will base a decision to participate in the formation of ART on a number of factors, including:

- 1) the economic impact to local electricity consumers from changes in transmission rates and the overall impact on the cost of energy;
- 2) assurance that Transco formation continues to meet its obligations to reliably serve consumers through clear reliability and planning standards;
- 3) regulatory certainty, including assurance of the recovery of prudently incurred costs, based upon the adopted standards, and the ability to meet long-term financial obligations; and
- 4) a governance structure that assures the Railbelt's transmission network will be operated and maintained economically and effectively and meets the needs of present and future consumers.

Final decisions by individual Parties to proceed with a Transco will be based upon these and other factors and involve both management and governance organizations (boards of directors, municipal leadership, etc.), the bylaws each party operates under, and cannot be made until this analysis is complete.

**B. Prioritized timeline**

As noted in our September filing, there are several items of detailed due diligence underway to support a decision on the possibility and form of an Alaska Railbelt Transco. While each of these items is addressed in terms of progress to date in the attached draft business model, the following table summarizes progress as well as an intended end date.

Key Due Diligence Task	Progress to Date (% Complete)	Estimated Completion Date
Due diligence on subgroup matters (see Appendix A, and specific subgroup reports herein, September Filing)	75%	Q1-Q2 2016
Validation of the benefits of Railbelt-wide economic dispatch;	60%	Q2 2016
Design of a tariff structure that ensures equitable rate recovery for existing and future transmission assets	25%	Q2 2016
Design of a business model for a Railbelt Transco	65%	Q2-Q3 2016
Evaluation by Parties	Ongoing	Q2-Q3 2016
Approval by Governing Bodies & Stakeholders		Q3 2016
CPCN Application for Transco	Above tasks are prerequisite.	Q3 2016
Transco Legal Day 1	Above tasks are prerequisite.	Q2 2017

**C. Use/integration of the current transmission assets into the Transco**

Any transition or change in the operation of the Railbelt's transmission assets must ensure that existing levels of reliable service are maintained, and that future operation is consistent with uniform reliability standards. Integration of existing assets into the Transco will be accomplished with service agreements and/or other contractual arrangements between the existing utilities and the Transco.

**D. Siting authority and integrated resource planning**

The Parties support centralized review and approval of transmission projects according to a coordinated set of standards to ensure that their costs and benefits can be evaluated.

We the undersigned utilities appreciate the opportunity to update our progress toward evaluating how the formation of a Transco can provide overall benefits to the Railbelt. Each party recognizes that this update describes progress to date and the status of ongoing discussions, and cannot be acted upon or implemented without a final decision by the utilities and their respective governing bodies and stakeholders. Should you have any questions regarding this report or our ongoing efforts, please contact Eric Myers ([EMyers@atcllc.com](mailto:EMyers@atcllc.com), 262-422-1831) or Eric Lundberg ([ELundberg@atcllc.com](mailto:ELundberg@atcllc.com), 262-787-8410).



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General Manager  
Alaska Electric and Energy Cooperative, Inc. &  
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Brad Evans  
Chief Executive Officer  
Chugach Electric Association, Inc.



John Foutz  
Utility Manager  
City of Seward



Cory Borgeson  
President and Chief Executive Officer  
Golden Valley Electric Association, Inc.



Evan J. Griffith  
General Manager  
Matanuska Electric Association, Inc.

Second Status Report on Voluntary Development of Independent Railbelt Electric Transmission Company  
RCA Recommendation No. 1  
December 22, 2015



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Mark A. Johnston  
General Manager  
Municipality of Anchorage d/b/a  
Municipal Light and Power



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Mike Rowe  
President and Chief Executive Officer  
American Transmission Company LLC  
By Its Corporate Manager, ATC Management Inc.

**RECEIVED**

By the Regulatory Commission of Alaska on Sep 30, 2015

September 30, 2015

Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501-3469

RE: Docket No. I-15-001: First Status Report on Voluntary Development of Independent Railbelt Electric Transmission Company – Regulatory Commission of Alaska Recommendation No. 1

Dear Commissioners:

On behalf of Anchorage Municipal Light and Power (ML&P), Chugach Electric Association, Inc. (Chugach), the City of Seward (Seward), Golden Valley Electric Association, Inc. (GVEA), Homer Electric Association, Inc. (HEA), Matanuska Electric Association, Inc. (MEA) and the American Transmission Company LLC, by its corporate manager, ATC Management Inc. (together ATC), the above parties (Parties) file this joint report on the progress of voluntary efforts to establish an independent electric transmission company (Transco) in the Railbelt.

On June 30, 2015, then Chairman Robert M. Pickett issued a response to the 2014 Legislative directive requesting the Commission's recommendation on "whether creating an independent system operator or similar structure in the Railbelt area is the best option for effective and efficient electrical transmission." The Commission's resulting Informational Docket includes a variety of assessments of, and suggested improvements to, the Railbelt transmission system leading to the efficient use of generation resources. The June 30, 2015 response letter includes a digest of that record and a number of specific recommendations. In Recommendation No. 1, the Commission endorses the creation of a Transco and requests a status report by September 30, 2015 on the current voluntary efforts amongst the Railbelt electric utilities to create such an entity. This filing provides a status report of those efforts.

***Recommendation No. 1:*** *An independent transmission company should be created to operate the transmission system reliably and transparently and to plan and execute major maintenance, transmission system upgrades, and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. This independent transmission company should be certificated and regulated as a public utility under AS 42.05. The RCA should be granted siting authority for new generation and transmission, and granted explicit authority to regulate integrated resource planning in the Railbelt electrical system. A mandatory report on the status of the current efforts to develop an independent Railbelt electric transmission company shall be filed with the Commission no later than September 30, 2015. A second report on transmission restructuring shall be filed with the Commission no later than December 31, 2015.*

## STATUS REPORT

In 2014, the Parties established and endorsed principles for the voluntary formation of a Railbelt Transco. Following the agreement on these principles, the Chief Executive Officers and General Managers established a senior staff working group (the Working Group<sup>1</sup>) charged with developing and evaluating a business model for a Railbelt Transco. Since December 2014, the Working Group has met monthly and has engaged subgroups of subject matter experts on specific tasks. These efforts are organized around a work plan with the following primary deliverables:

1. Due diligence on subgroup matters described in Appendix A;
2. Validation of the benefits of Railbelt-wide economic dispatch;
3. Design of a tariff structure that ensures equitable rate recovery for existing and future transmission assets; and
4. Design of a business model for a Railbelt Transco.

The Railbelt electric utilities and ATC are continuing to delineate the steps necessary to transition from a transmission network of separately operated assets to a business model whereby the operation, maintenance, and construction are the responsibility of a single Railbelt Transco. In other regions of the country, this model has provided increased efficiencies through economies of scale in transmission operations, leading to increased reliability and economically efficient generation. A preliminary step is to determine whether this model will provide sufficient reliability and efficiency improvements in Alaska to warrant the cost of creating a Transco.

ATC began operations in 2001 in Wisconsin and the Upper Peninsula of Michigan as the result of just such a transition, and its formation and operating experience has been the starting point in this particular Railbelt discussion. The Working Group and specific subgroups from each of the Railbelt utilities and ATC are meeting regularly to scope and complete tasks constructive to a business model for a Railbelt-wide single transmission utility. These subgroups include: Economic Dispatch, Finance, Governance, Human Resources and Organizational Structure, Legacy Agreements, Operations and Maintenance, Real Estate and Permitting, Regulatory, and Standards (see Appendix A).

### Voluntary Efforts

The Railbelt utilities have a history of collaborating on many important energy infrastructure projects. The Parties have engaged the support of outside consultants to assist in the completion of Recommendation No. 1 objectives, including tariff structure, reliability and planning standards, pooled generation and dispatch, and other key functions. Even as this process proceeds with the participation and expertise of American Transmission Company, the Railbelt Utilities are committed to identifying and evaluating business models and other

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<sup>1</sup> MEA declined to sign a joint-development agreement hence has not been a party to all discussions or activities of the working groups.

approaches that may improve the efficiency and reliability of Railbelt transmission infrastructure for the benefit of consumers. Each of the Parties will need to determine for itself whether becoming part of a Transco would be beneficial for its ratepayers and other stakeholders. The Parties recognize that this determination will not be possible until the Transco's business model is clearly defined.

### **Independent Transmission Company**

In general, a Transco owns no generating assets and accomplishes transmission operation, planning and construction consistent with transparent and nondiscriminatory planning and reliability standards. Governance of the Transco must balance the need to effectively operate and invest in the Railbelt's transmission infrastructure with the ongoing obligations each utility has to its members, customers and other stakeholders. The Parties are working on solutions that strike this balance.

### **Reliable Operation**

All transmission assets integrated under the Transco would be operated under a common set of standards for increased generation and transmission reliability, and increased efficiencies in the overall operation of the utility. The Parties are working to reconcile existing reliability, planning and interconnection standards in an effort to establish uniform standards for the Transco. In addition, the Parties are working on draft service agreements by which the Transco could undertake maintenance activities through the existing utilities. This approach maintains existing regional scope and expertise, and may create opportunities for adopting best practices. The Parties are working to clarify both the operating standards and the attendant service agreements between the Transco and the other Railbelt utilities.

### **Transparency**

In all facets of the operation of the Transco, transparency is important. To this end, the Parties are examining how a Transco could operate under an open access transmission tariff which would allow equal access to both load serving entities and independent power producers. Such a tariff would assign the cost of transmission to end use consumers based upon a cost allocation ratio that assigns costs equitably. The Parties are working to define such a cost allocation ratio. Clear stakeholder driven reliability standards and planning protocols can provide consistent direction to capital improvements, as well as a predictable and transparent basis for evaluating requests for new transmission service.

The Transco would be accountable to its owners, the Regulatory Commission of Alaska, and other stakeholders to operate in accordance with tariff requirements pertaining to cost recovery, interconnection, planning, operations and maintenance. If implemented, the Transco would be certificated and regulated by the Commission.<sup>2</sup> Accordingly, the Parties have been

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<sup>2</sup> Alaska Statute 42.05.990(6) defines a public utility to include any entity that furnishes, "by generation, transmission, or distribution, electrical service to the public for compensation." The Commission has previously granted certificates to public utilities that provide only transmission, or transmission and generation, electrical service. Thus, existing statutory authority may be sufficient for the Commission to grant the Transco a certificate of public convenience and necessity.

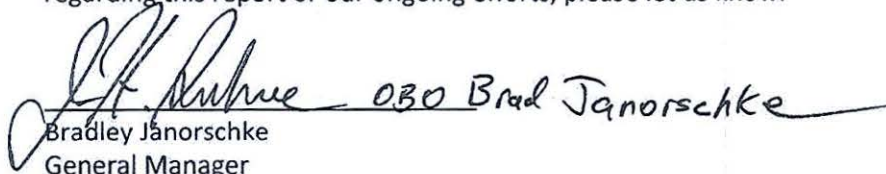
identifying the information that would be needed in the event the Parties agree to file a CPCN application for the Transco to furnish electric transmission service.

**Major Maintenance and Transmission System Upgrades**

Transmission assets are long-lived, and replacement of facilities at the end of useful life or replacement as the result of storm, avalanche, fire, or other episodic damage can result in substantial capital obligations. The Parties are focused on elements of the business model that address the Transco's capacity to accomplish major maintenance. A significant goal of the integrated operation of the Railbelt's transmission assets is to improve operational, financial, and technical capacity to accomplish major transmission upgrades and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. The business model under development specifically addresses the Transco's capacity to accomplish transmission system upgrades.


**Conclusion**

The undersigned utilities appreciate the opportunity to provide an update on our progress toward improving the integrated operation of transmission assets and the economic utilization of the Railbelt's energy resources. We will report again on the status of this work by the Commission's requested deadline of December 31, 2015. Should you have any questions regarding this report or our ongoing efforts, please let us know.

  
Bradley Janorschke  
General Manager

Alaska Electric and Energy Cooperative, Inc. &  
Homer Electric Association, Inc.

  
Brad Evans  
Chief Executive Officer  
Chugach Electric Association, Inc.

  
John Foutz  
Utility Manager  
City of Seward



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Cory Borgeson  
President and Chief Executive Officer  
Golden Valley Electric Association, Inc.



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Matanuska Electric Association, Inc.



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Municipal Light and Power



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Mike Rowe  
President and Chief Executive Officer  
American Transmission Company LLC  
By its Corporate Manager, ATC Management Inc.

## Appendix A

### **Work Plan Structure and Key Tasks**

The Chief Executive Officers and General Managers of the Parties have organized a senior staff working group (the Working Group) charged with developing and evaluating a business model for a Railbelt Transco. The Working Group and supporting Subgroups are executing a work plan that clarifies key elements of Transco formation and facilitates a full evaluation of this approach. The Working Group serves as a steering committee for the work plan, and has been meeting monthly since December 2014, and weekly since August of 2015. Depending on the tasks, subgroups are meeting as often as weekly to advance specific deliverables and collaborate with other experts. While any work plan of this size will be subject to change as the specific tasks and associated needs of the Parties and other stakeholders become better understood, the headings below provide insight into the scope of this exercise.

#### Economic Dispatch

The Economic Dispatch Subgroup is working to validate the current analyses and establish a consensus view on the value of economic dispatch that will be created by the formation of the Transco. It is also supporting the development of a settlement mechanism for pooled dispatch.

##### Key Tasks:

- Consensus View on Economic Benefits
- Support of Pooling/Settlement Mechanism
- Overall Rate Impact

#### Finance

The Financing Subgroup has been considering possible financing structures for the new entity, including its capital structure. Other tasks under its purview include establishing the rules for equity participation by the owners and evaluating cost allocation methodologies.

##### Key Tasks:

- Equity Participation Structure
- Transco Overhead Costs/Benefits
- Cost Allocation Structure
- Overall Rate Impact

#### Governance

The Governance Subgroup has been tasked with creating the Transco's governance and organizational structure, with an emphasis on ensuring clear accountability. It has also begun creating the election process for the Transco's board members and senior management and working on a dispute resolution process.

##### Key Tasks:

- Board Structure and Composition

- Leadership Selection Process
- Bylaws
- Dispute Resolution Process
- Operating Agreement

#### Human Resources & Organizational Structure

The Human Resources & Organizational Structure Subgroup is assessing the Transco's labor and workforce impacts and needs, as well as examining possible policies and practices for utilizing shared resources and recruiting new labor. Key tasks also include the development of initial organizational charts.

##### Key Tasks:

- High-Level Organization Chart
- Recruiting and Seconding Policies
- Key Leadership Selection Process
- Staffing Model

#### Legacy Agreements

The Legacy Agreements Subgroup is examining how existing Railbelt agreements for jointly-owned assets should be addressed in the context of a Railbelt-wide Transco.

##### Key Tasks:

- Assessment of Existing Agreements
- Strategy for Addressing Transmission Restrictions of Existing Agreements

#### Operations and Maintenance

The Operations and Maintenance (O&M) Subgroup is charged with creating the service agreements that will be needed by the Transco. It is also working on formulating current and future O&M plans for the Transco's plant.

##### Key Tasks:

- Services Agreements Between Utilities and Transco
- Transco O&M Plan
- Planning and Reliability Standards

#### Real Estate and Permitting

Real Estate and Permitting Subgroup is evaluating existing transmission-related real estate rights and obligations, including easements. It will also be looking at the implications of future asset transfers.

##### Key Tasks:

- Permit/Right-of-Way Records Assessment
- Public Lands Assessment

### Regulatory

The Parties have agreed that any Transco should be certificated and regulated by the Commission.<sup>3</sup> The Regulatory Subgroup has been working on delineating the information needed if the Parties agree to file an application for the Transco to furnish electric transmission service.<sup>4</sup> As part of that process, the regulatory subgroup also has begun reviewing terms and conditions for an open access transmission tariff to support non-discriminatory, open-access, Railbelt-wide transmission service.

#### Key Tasks:

- Tariff Structure
- Draft CPCN Application
- Rate Impact Analysis
- Interim, Ongoing and Final Reports to RCA

### Standards

The Standards Subgroup's focus is to reconcile existing reliability, planning and interconnection standards in an effort to ensure the Transco has a cohesive set of standards to guide planning, operation, and new construction.

#### Key Tasks:

- Reliability Standards
- Planning Standards
- Interconnection Standards

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<sup>3</sup> Alaska Statute 42.05.990(6) defines a public utility to include any entity that furnishes, "by generation, transmission, or distribution, electrical service to the public for compensation." The Commission has previously granted certificates to public utilities that provide only transmission, or transmission and generation, electrical service. Thus, existing statutory authority may be sufficient for the Commission to grant the Transco a certificate of public convenience and necessity.

<sup>4</sup> Each of the Parties will need to determine for itself whether becoming part of a Transco would be beneficial for its ratepayers and other stakeholders. The Parties recognize that this determination cannot be made until the Transco's business model is clear.

## Summary

### Issues Associated with an Independent System Operator or Unified System Operator in Conjunction with a TRANSCO (Transmission Company) in the Railbelt Area of Alaska

January 27, 2016

Representative Jim Colver, Co-Chair  
House Special Committee on Energy (HENE)

Representative Liz Vazquez, Co-Chair  
House Special Committee on Energy

Author: Comm. Legislative Assistant Steve Konkel, Capitol 424, (907) 465-3502  
[steve.konkel@akleg.gov](mailto:steve.konkel@akleg.gov)

--RSK

#### **RAILBELT ELECTRICAL TRANSMISSION AUTHORITY / INDEPENDENT SYSTEM OPERATOR-LIKE AUTHORITY**

**PURPOSE:** This summarizes current issues associated with electrical transmission and region-wide generation in the Railbelt area of Alaska. This summary will also discuss what was accomplished during the 2014 and 2015 Alaska Legislature sessions and highlight the findings and recommendations of the Regulatory Commission of Alaska to date. The focus is restructuring of transmission in the Railbelt, moving toward an integrated grid with access and appropriate tariffs, and resolution of key issues.

#### **BACKGROUND:**

There are six electric utilities in the Railbelt area, including Golden Valley Electric Association (GVEA), Matanuska Electric Association (MEA), Chugach Electric Association (CEA), Homer Electric Association (HEA), Municipal Light and Power of Anchorage and the City of Seward (four cooperative utilities and two municipal utilities, respectively).

The concept of grid unification through various entities has been discussed for years in numerous studies and reports. Several prior attempts to reform and reorganize the Railbelt electrical system have not been successful. The ability to balance supply and demand of electricity across the entire region, rather in particular utility sub-regions, would be substantially more efficient, and should save millions of dollars for consumers by adopting the principle of economic dispatch throughout a unified grid.

Creating a structure that ensures equitable rate recovery for the six utilities is a key priority, as is ability to allow non-discriminatory open access to the grid by independent power producers (IPPs) which would also likely have substantial benefits to consumers by making additional renewable energy projects feasible and facilitating competition. Regional planning of transmission and generation resources would also benefit consumers. All of these benefits could be derived via the creation of a single regional system operator in the Railbelt region. Such an operator would likely be a non-profit, non-asset owning entity that focuses on economic dispatch for the entire region – always running only the most efficient generating assets at any given time.

Some benefits may also flow from the creation of a distinct, for-profit or non-profit asset owning transmission only utility company, also known as a TRANSCO that would consolidate ownership of regional transmission assets and secure financing and execute projects determined to be necessary by the single regional system operator. A for-profit or non-profit transmission company may earn a regulated rate of return on the transmission assets that it builds and maintains.

## 2014 Alaska Legislature Directs the Regulatory Commission of Alaska (RCA) to Recommend Options

In spring of 2014, the legislature appropriated \$250,000 to the RCA to provide a recommendation on “whether creating an independent system operator or similar structure in the Railbelt area is the best option for effective and efficient electrical transmission.” (RCA June 30, 2015, first paragraph; 6p. Letter addressed to the Hon. Kevin Meyer, President of the Senate, Alaska Legislature and to the Hon. Mike Chenault, Speaker of the House of Representatives, Alaska Legislature).

The RCA study was contracted through the Alaska Center for Energy and Power at UAF, completed in early 2015, and on June 30, 2015, the RCA issued the six-page letter to the Alaska Legislature with key findings and recommendations, including the necessity to form a transmission utility and a single regional system operator for the Railbelt. RCA’s findings and recommendations addressed how to reform and reorganize the Railbelt electrical system, which has fallen short in a number of critical areas that they identified through five major findings and associated recommendations. The letter focuses on policy making and regulatory proceedings and rulemaking with the responsibility to implement grid integration and regional planning, as well as to achieve economic dispatch.

Among their recommendations, the RCA addressed allowing “voluntary” efforts of the six Railbelt utilities to succeed in addressing these matters; it was stated that if they were not forthcoming in development of solutions to the unified grid transmission and economics of generation issues, that RCA planned to work with the Administration and the Alaska Legislature to develop and implement specific legislation and to prioritize actions necessary to create an independent Railbelt electrical transmission company.

### Major Benefits of Grid Integration

In its letter to the Alaska Legislature, the RCA focused on major benefits of grid integration:

- Economic dispatch
- More efficient use of transmission
- Better opportunities for Independent Power Producers (IPPs), and
- Reduced emissions.

A single regional system operator is now being variously called an “independent” system operator (ISO) or a “unified” system operator (USO). The biggest difference between the two types of entities is reflected in its governance structure. An ISO could be made independent by virtue of not having any of the utilities within its jurisdiction on the governing board, whereas a USO would likely include Railbelt utilities on the governing board.

The ISO or USO would:

- be regulated by the RCA
- not own assets – either transmission or generation
- be responsible for planning, management and control of the electric grid
- ensure non-discriminatory access to the grid and;
- promulgate and monitor compliance with statutes, policies and regulatory rulemaking.

## **MECHANISMS:**

Given the short- and long-term goals of improving efficiencies and benefiting customers through a unified grid and economic dispatch, the RCA has directed Railbelt electric utilities to come up with plans for both a TRANSCO like entity and an ISO- or USO-like entity. Exact forms of these mechanisms have not been specified by the RCA, although they have pointed to the need to resolve issues before the Intertie Management Committee (IMC).

## **IMPLICATIONS AND BENEFITS**

### ISO or USO

Governance, as noted above, is perhaps the biggest issue regarding a single regional system operator. Most (if not all) of the Railbelt utilities agree that the Railbelt would benefit from a regional approach to transmission planning and reliability rules, one regional transmission tariff that is the same for all users of the transmission system, non-discriminatory access to the transmission system, and ultimate regulation by the RCA. However, what types of entities have a voice on the ISO or USO governing board is of crucial importance to stakeholders in the Railbelt. If an *ISO* is developed, the Railbelt utilities are concerned that their collective and individual voice and operational experience will be missing. If a *USO* is developed, IPPs, consumers and other stakeholders are concerned that the entity may not pay enough attention to the concerns of those stakeholders as it develops policies related to planning, reliability, tariffs and access.

### TRANSCO

Most stakeholders agree that the biggest benefits of having a TRANSCO the creation of an entity that has an incentive to build transmission assets that no one utility now has an incentive to build. Such assets are those that have region-wide benefits. A TRANSCO would also be responsible for raising the capital necessary to build such transmission infrastructure. In return, the for-profit or non-profit TRANSCO would earn a regulated rate of return on those investments.

### Legislative Direction and Authority

One of the outstanding questions is whether or not the Regulatory Commission of Alaska has the authority that it requires to foster the twin goals of an integrated Railbelt grid and economic dispatch that would benefit electricity consumers in the Railbelt area.

Another question is whether voluntary efforts proposed by the RCA in its 6-p. Letter to the Alaska Legislature (June 30, 2015) are proceeding toward a successful negotiated conclusion among the six electric utilities. This affects the timing and need for passage of the proposed bill.

Should RCA decide to work with the Legislature and the Administration to implement legislation and prioritize a work program to create an independent Railbelt area electric transmission company, there will be implications associated with the fiscal note and means to recover these costs; as funding via the Alaska Unrestricted General Fund (UGF) is not envisioned by bill sponsorship.

**DOCUMENTS IN THE BILL PACKET**

Appendix A: RCA Letter dated June 30, 2015

Appendix B:

HB 187

"An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska."

HB 187-RAILBELT ELECTRICAL TRANSMISSION AUTH. (Short Title)

Appendix C:

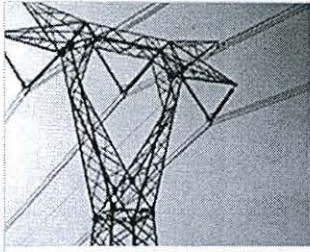
Fiscal Note



# Restructuring Opportunities in the Railbelt

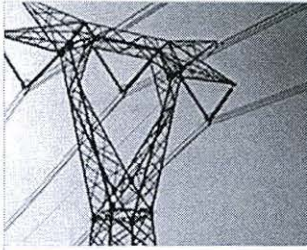
House Energy Subcommittee

January 28, 2016



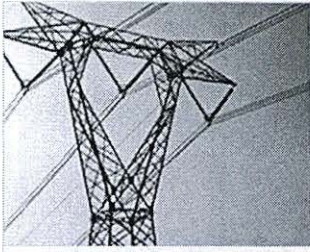
# Current Efforts

- ❑ Establish a regulated transmission only utility with regional authority and rate recovery
  - Planning
  - Financing
  - Operating and maintaining the Railbelt transmission system
- ❑ Establish a non-asset owning, revenue neutral, stakeholder governed, unified system operator under the authority of the RCA, with regional responsibility for:
  - Economic dispatch
  - Cost settlement and benefit allocation
  - Planning and interconnection protocols
  - Reliability standard maintenance and monitoring



# Today's Railbelt grid challenges

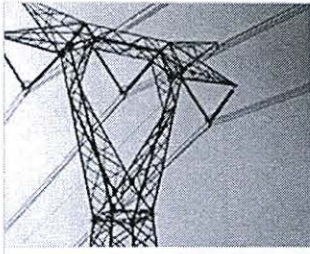
- ❑ No mechanism for making regional decisions
- ❑ Lack of Railbelt-wide economic dispatch
- ❑ Coordination of multiple grid operators
- ❑ Increased transmission congestion
- ❑ Lack of unified transmission tariff impedes independent project developments
- ❑ Difficult to make regional transmission improvements without equitable cost recovery
- ❑ Maintaining universal reliability standards



# USO

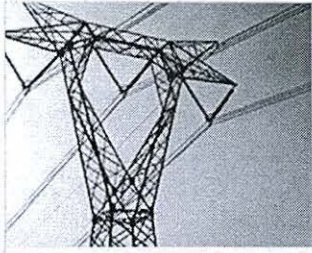
Dave Gillespie  
ARCTEC CEO  
is facilitating  
USO  
governance  
discussions  
related to a  
uniform  
system  
operator

- All six utilities participating
- Non- Utility Stakeholder involvement
- Utility Stakeholder involvement



# RCA Process and Outcome

- ❑ \$250K grant to evaluate ISO applicability
- ❑ Railbelt requires an independent transmission utility-  
RCA requires project conditioning authority
- ❑ Railbelt requires an independent consolidated system operator
- ❑ Railbelt utility driven Transco and USO would be best-  
but mandatory implementation if necessary
- ❑ Unified, mandatory and enforceable reliability standards are necessary
- ❑ RCA requires additional funding to execute this mission

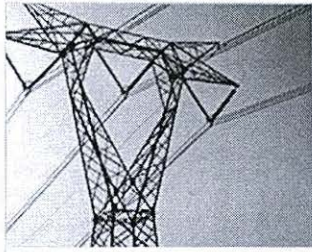


# Transco Joint Development Agreement JDA

Five Utilities Signatory- Six Utilities Participating

Organized as  
Steering  
Committee and  
Nine  
Subcommittees

- Governance
- Operations, Maintenance and Transitional agreements
- Economic Dispatch
- Cost and Benefit Allocations and Settlement
- Reliability Standards
- HR and organizational structure
- Finance
- Communications
- Regulatory



# Work Product & Completion Schedule

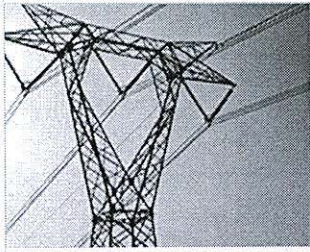
RCA Report  
(provided)  
contains the  
work product  
of the  
subcommittee  
s in the form of  
a Transco  
business plan

Estimated  
completion of  
due diligence  
late second  
quarter – early  
third quarter  
2016

Utility  
governing  
board  
consideration  
third – fourth  
quarter 2016

Restructuring  
first second  
quarter 2017

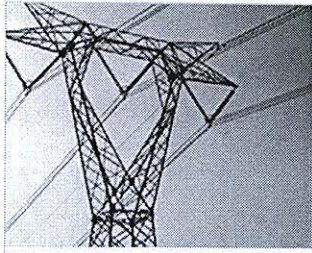
Potential RCA  
authority  
statutory  
change  
request- 2017  
legislation  
session



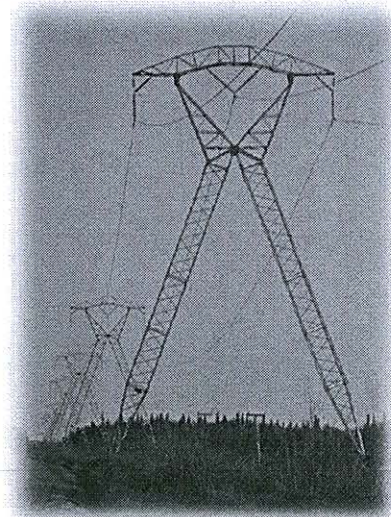
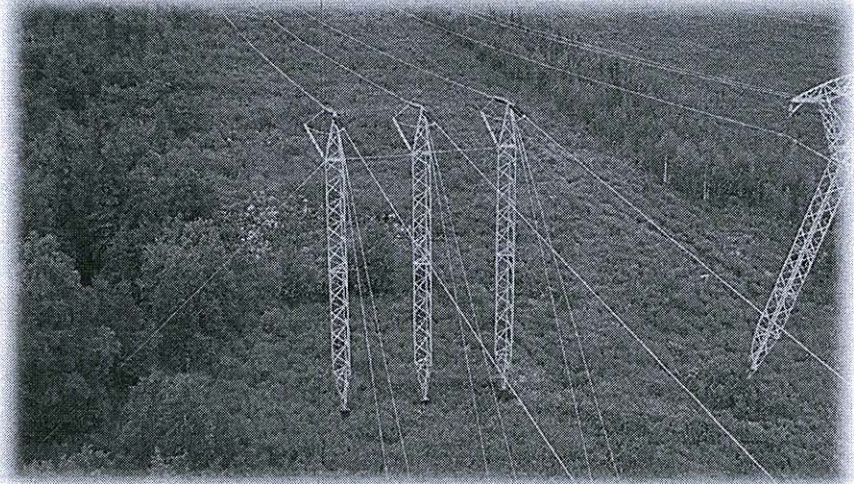
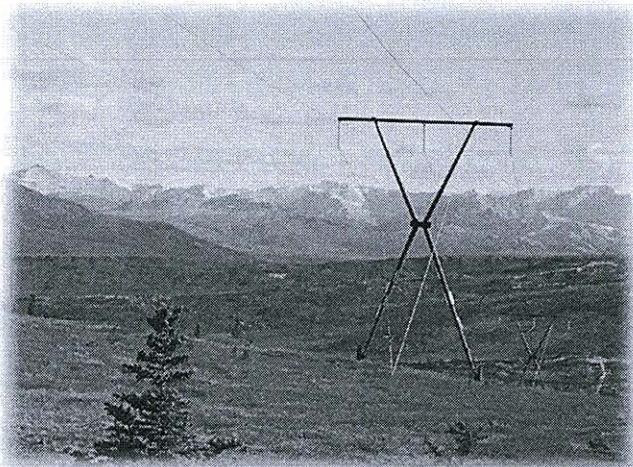
# Take Away

Let the RCA  
driven JDA/USO  
process run its  
course

Prepare for a  
request to  
update RCA  
statutory  
authority in 2017



# Comments - Questions?



**ISSUES ASSOCIATED WITH AN  
INDEPENDENT SYSTEMS OPERATOR  
[OR UNIFIED SYSTEMS OPERATOR]  
GOVERNING ELECTRICAL TRANSMISSION  
IN THE RAILBELT AREA OF ALASKA**

**Moving towards an Integrated  
Grid and Economic Dispatch of  
Electrical Power in the Railbelt**

**House Special Committee on Energy (HENE)**

**Second Hearing 2 February 2016**

**Capitol 17**

## CONTENTS

- ▶ **Electrical Transmission and Region-wide Generation**
- ▶ **Utilities in the Railbelt area**
- ▶ **4 Electrical cooperatives; 2 municipal electrical utilities**
- ▶ **Grid unification- numerous studies & reports**
- ▶ **2014 Alaska Legislature and RCA Report (June 30, 2015)**
- ▶ **Proposed transmission company –TRANSCO**
- ▶ **Independent Systems Operator (ISO)**
- ▶ **Unified Systems Operator (USO) as an Approach**
- ▶ **Benefits and Challenges of the ISO or USO mechanism for pooling & economic dispatch**

## RAILBELT ELECTRICAL UTILITIES

### ▶ 6 ELECTRICAL UTILITIES

#### ▪ COOPERATIVES

- GOLDEN VALLEY ELECTRIC ASSOCIATION (GVEA)
- MATANUSKA ELECTRIC ASSOCIATION (MEA)
- CHUGACH ELECTRIC ASSOCIATION (CEA)
- HOMER ELECTRIC ASSOCIATION (HEA)

#### ▪ MUNICIPALITIES:

- MUNICIPAL LIGHT & POWER (ML&P)
- CITY OF SEWARD

## GRID UNIFICATION

- ▶ **NUMEROUS STUDIES AND REPORTS GOING BACK OVER DECADES**
- ▶ **PROPOSED TRANSMISSION APPROACH – “TRANSCO”**
  - **FOR PROFIT OR NON-PROFIT**
  - **INVESTS IN TRANSMISSION UPGRADES, PLANNING, CONSTRUCTION, AND MAINTENANCE**
  - **FINANCING OF UPGRADES**
  - **RATE OF RETURN BASED ON REGULATION BY THE REGULATORY COMMISSION OF ALASKA**

# HISTORY & OBJECTIVES OF RAILBELT ELECTRICAL GENERATION

- ▶ 2014 Alaska Legislature appropriation
  - ▶ RCA contracted study with the Alaska Center for Energy & Power (ACEP)
- ▶ RCA June 30 Letter to the AK Legislature
  - ▶ 5 key findings and recommendations
- ▶ Major benefits of Grid Integration
- ▶ Transco – Progress with forming a region-wide transmission entity
- ▶ ISO – Does this mechanism have advantages relative to the establishment of a USO?
- ▶ Key Milestones in RCA Regulatory Proceedings with regard to these issues

## RCA TO ALASKA LEGISLATURE (JUNE 30, 2015): CHALLENGES AHEAD

- ▶ Reform and reorganize the Railbelt Electrical System
- ▶ Balkinization is evident; there have been many contested regulatory proceedings
- ▶ Problem with moving power through various service jurisdictions
  - ▶ There are multiple tariffs which result in “pancaking”
- ▶ Institutional structure currently problematic

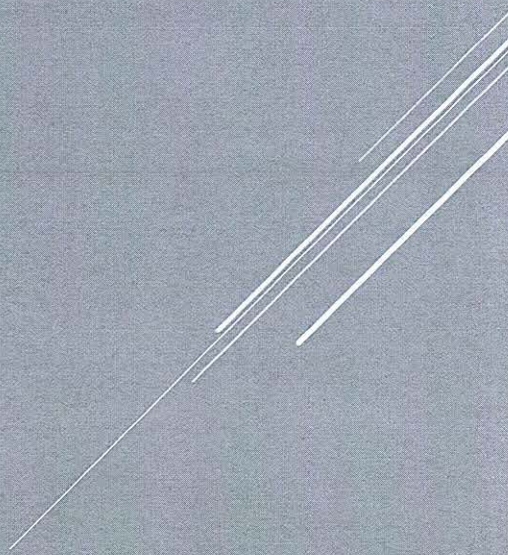
## RCA TO ALASKA LEGISLATURE (JUNE 30, 2015): OPPORTUNITIES AVAILABLE THROUGH “VOLUNTARY” EFFORTS

- ▶ **Benefits from more efficient operation of the regional system**
  - ▶ **Greater than \$50,000,000 annually (could be more)**
- ▶ **A transmission company can provide unified tariffs and non-discriminatory access to the grid, along with investments in needed capacity**
- ▶ **Ratepayers should benefit**

## ACEP REPORT TO RCA

- ▶ **Completed by Anthony Scott, Alaska Center for Energy and Power**
- ▶ **Grid integration and economic dispatch**
- ▶ **Modeling benefits to consumers**

## MAJOR BENEFITS OF GRID UNIFICATION

- **Economic dispatch**
  - **More efficient use of transmission**
  - **Better opportunities for Independent Power Producers (IPPs)**
  - **Reduced emissions**
- 
- A decorative graphic consisting of several parallel white lines of varying lengths, slanted diagonally from the bottom right towards the top right, set against the dark blue background.

## ISO OR USO

- ▶ Regulated by the RCA
- ▶ Non-asset owning
- ▶ Responsible for planning, construction, management and maintenance of the integrated grid
- ▶ Ensure non-discriminatory access to the grid
- ▶ Promulgate and monitor compliance with:
  - ▶ Statutes (Alaska Legislature)
  - ▶ Policies (Executive and Legislative branches)
  - ▶ Regulatory rulemaking (RCA)

## IMPLICATIONS, BENEFITS, AND PROGRESS

- Three submittals as of the JAN. 31, 2016 MILESTONE – received by the RCA
- Progress metrics should be explicitly addressed
- HB187 STATUS: Now in first Committee of Referral
- RCA Engagement/ Dockets / Findings & Recommendations  
June 30, 2015 Letter to AK Senate President Kevin Meyer & Speaker of the House Mike Chenault
- Road map of “progress” to achieve grid integration and economic dispatch

**THANK YOU FOR YOUR ATTENTION!**

A decorative graphic consisting of several parallel white lines of varying lengths, slanted upwards from left to right, located in the bottom right corner of the dark blue background.



# ALASKA LEGISLATURE

## HOUSE SPECIAL COMMITTEE ON ENERGY

**Rep. Jim Colver, Co-Chair**

State Capitol, Room 424  
Juneau, AK 99801  
Phone: (907) 465-4859  
Fax: (907) 465-3799  
rep.jim.colver@akleg.gov

**Rep. Liz Vazquez, Co-Chair**

State Capitol, Room 428  
Juneau, AK 99801  
Phone: (907) 465-3892  
Fax: (907) 465-6595  
rep.liz.vazquez@akleg.gov

**Members:**

Rep. Matt Claman  
Rep. Benjamin Nageak  
Rep. David Talerico  
Rep. Cathy Tilton  
Rep. Adam Wool

## MEMORANDUM

To: Crystaline Jones, Chief Clerk  
HENE (House Special Committee on Energy) Distribution  
From: Co-Chairs Jim Colver and Liz Vazquez  
Subject: House Special Committee on Energy (HENE) HB187 Bill packet  
Date: January 27, 2016

Date	Time	Location
Thursday, January 28, 2016	11:00am (Time Change)	Capitol Room 17

\*, + HB 187 RAILBELT ELECTRICAL TRANSMISSION AUTH. (RETA);  
and relating to the duties of the Regulatory Commission of Alaska

This is the first hearing in the first committee of referral. The hearing is at the beginning of the 2<sup>nd</sup> Session of the 29<sup>th</sup> Alaska Legislature, House of Representatives, HENE.

This is an on-going process focusing on mechanisms for grid integration and achieving benefits for electricity customers in the Railbelt region of Alaska. Among the documents included in the bill packet is the 6-page letter of the RCA sent to Alaska Legislature Senate President Kevin Meyers and Speaker of the House of Representatives Mike Chenault, dated June 30, 2015. There is a January 31, 2016 milestone associated with submittal of a report of progress regarding establishment of an ISO-type entity.

The hearing begins with invited testimony. The following have been confirmed as of 26 January 2016. There will be time allocated for public testimony as well as for discussion provided by the HENE committee members, interested parties, or other Legislators. Invited testimony (in order of presentation) for the Jan. 28<sup>th</sup> hearing is as follows:

- Chris Rose, Renewable Energy Alaska Project (REAP)
- Brian Hickey, Chugach Electric Association
- David Gillespie, Alaska Railbelt Cooperative Transmission & Electric Company (ARCTEC)
- Eric Myers, American Transmission Company
- Cory Borgeson, Golden Valley Electric Corporation (GVEA)

\*First hearing in First Committee of Referral

+ Teleconferenced

For more information, call Steve Konkel (Rep. Colver's Office) at 907-465-3502 or Matt Dean (Rep. Vazquez's Office) at 907-465-6641 for document requests and other inquiries.

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version: HB 187  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB187-DCCED-RCA-01-22-16  
Title: RAILBELT ELECTRICAL TRANSMISSION AUTH.  
Sponsor: ENERGY  
Requester: (H) Energy

Department: Department of Commerce, Community and  
Economic Development  
Appropriation: Regulatory Commission of Alaska  
Allocation: Regulatory Commission of Alaska  
OMB Component Number: 2417

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services	896.6		896.6	896.6	751.6	751.6	751.6	
Travel	29.0		18.0	18.0	18.0	18.0	18.0	
Services	475.0		470.0	470.0	60.0	60.0	60.0	
Commodities	35.0		7.0	7.0	6.0	6.0	6.0	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>1,435.6</b>	<b>0.0</b>	<b>1,391.6</b>	<b>1,391.6</b>	<b>835.6</b>	<b>835.6</b>	<b>835.6</b>	<b>835.6</b>

## Fund Source (Operating Only)

1004 Gen Fund	1,435.6		1,391.6	1,391.6	835.6	835.6	835.6
<b>Total</b>	<b>1,435.6</b>	<b>0.0</b>	<b>1,391.6</b>	<b>1,391.6</b>	<b>835.6</b>	<b>835.6</b>	<b>835.6</b>

## Positions

Full-time	7.0		7.0	7.0	6.0	6.0	6.0
Part-time							
Temporary							

<b>Change in Revenues</b>	<b>1,435.6</b>		<b>1,391.6</b>	<b>1,391.6</b>	<b>835.6</b>	<b>835.6</b>	<b>835.6</b>
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes  
If yes, by what date are the regulations to be adopted, amended or repealed? TBD

## Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	T.W. Patch, Chairman	Phone:	(907)276-6222
Division:	Regulatory Commission of Alaska	Date:	01/22/2016 02:45 PM
Approved By:	Catherine Reardon, Director	Date:	01/22/16
Agency:	Division of Administrative Services, DCCED		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

BILL NO. HB187

### Analysis

HB187 creates the Railbelt Electrical Transmission Authority (RETA) within the Regulatory Commission of Alaska (RCA); defines RETA membership and delegates to the RCA the responsibility to appoint members and staff for the authority; assigns to the RETA the responsibility for the railbelt electric transmission system efficiency and planning; provides guidelines for RETA actions; and limits the ability of the RETA to own assets. Regulations authorized by AS 42.05.920(a)(1) would be considered and adopted after the RETA is appointmented.

As written House Bill 187 generally describes a utility management function rather than a utility regulatory function. It is not clear how staff and board expenses will be funded. The RCA is funded by regulatory cost charges (RCCs) paid by utility customers. It is unclear if it is intended that the railbelt electric utilities, independent power producers, and renewable energy sector groups will support the RETA; that all electric customers of regulated electric utility service providers (including those not interconnected to the Railbelt transmission system) will pay increased RCCs to support the RETA; or that railbelt electric customers will incur a second surcharge to specifically fund the RETA. At this time independent power producers and the renewable energy sector provide no financial support to the RCA yet they would benefit from and participate in the proposed authority. Without additional information, the fiscal note is prepared using general funds.

The RCA does not currently have the expertise on staff to support the RETA. The RCA estimates that to implement this legislation, the RCA would require one Executive Director (range 24); one Special Assistant (range 21); two Technical Advisors (range 26); one Law Office Assistant II (range 13); one Law Office Assistant I (range 11). One Hearing Examiner I (range 24) would be needed for the first three years. In addition, the RCA would require the ability and funds to enter into contracts to access specialized transmission system expertise for the first three years, and travel for two RCA Commissioners to obtain the Federal Energy Regulatory Commission's guidance and build on the experience of establishing regional transmission authorities by learning from other existing independent system operators and regional transmission operators in other areas of the United States.

Travel cost includes \$2.2 per position for travel for training for the Executive Director, Special Assistant, two Technical Advisors, and Hearing Examiner I.

Services Costs include \$10.0 per new position for on-going support services costs; \$1.0 per new position for one-time training costs for the Executive Director, Special Assistant, two Technical Advisors, and Hearing Examiner I; and \$400.0 for on-going contracts to access specialized transmission system expertise.

Supply costs include \$5.0 per new position for one-time start up costs for the first year and on-going costs of \$1.0.



STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT

*Bill Walker, Governor*  
*Chris Hladick, Commissioner*  
*Robert M. Pickett, Chairman*

Regulatory Commission of Alaska

June 30, 2015

The Honorable Kevin Meyer  
President of the Senate  
Alaska State Senate  
716 W. Fourth Avenue, Suite 500  
Anchorage, Alaska 99501

The Honorable Mike Chenault  
Speaker of the House of Representatives  
Alaska House of Representatives  
145 Main Street, Loop, Suite 223  
Kenai, Alaska 99611

Dear Senator Meyer and Mr. Chenault:

Subject: Regulatory Commission of Alaska Recommendation to Legislature

The 2014 Alaska Legislature directed the Regulatory Commission of Alaska (RCA or Commission) to provide a recommendation on "whether creating an independent system operator or similar structure in the Railbelt area is the best option for effective and efficient electrical transmission." Concerns about the fragmented, balkanized and often contentious Railbelt utilities have been raised numerous times over the past 40 years. Several efforts have been made to reform and reorganize the Railbelt electrical system, but none have succeeded.

Significant investment totaling approximately \$1.5 billion has been made in new Railbelt electrical generation over the past five years. This level of capital expenditures by the four cooperative electric utilities, one municipally owned electric utility and one independent power producer is unprecedented. To realize the maximum benefit from this investment, the Railbelt electrical transmission system and generation must be operated in the most effective and efficient manner possible. The key question is does the current institutional structure allow the maximum benefits to be realized? Is there evidence to believe the current system is not optimal? If the electrical system in the Railbelt has opportunity for improvement, what are the options and how do we best get there?

A limited \$250,000 capital appropriation was made available to the RCA for this project in the FY 2015 Capital Budget. In July 2014 the RCA initiated an agreement with the Alaska Center for Energy and Power (ACEP) to secure the advisory services of Dr. Antony Scott and access to economic and power system modeling services. The RCA in its scope of work with ACEP considered the efficient transmission of electrical energy to include both the short-term operation of existing assets (including generation assets), and the efficient planning and construction of new-build assets. One broad task area included modeling that identifies potential consequences of reforming Railbelt grid institutions, identifying the benefits available from more efficient operation of the system as it exists today. Assessing the degree to which new transmission assets

701 W. 8th Avenue, Suite 300, Anchorage, Alaska 99501-3469  
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Website: <http://rca.alaska.gov>

may unlock new efficiencies and value was also included in this first task. The second broad task area analyzed the policy options for Railbelt reform, with a critical assessment of a range of potential mechanisms that might be pursued, including costs and feasibility, in the Railbelt context.

If the Railbelt electrical system were a blank slate today and the current institutional facts on the ground didn't exist, a single utility owning and operating all of the generation, transmission, and distribution assets would probably be the most efficient and effective system. That is not the situation we have today. It is not realistic to believe some form of a public power entity will be created with public dollars to purchase the Railbelt electric utilities' assets. Purchase of all the Railbelt electric utilities' assets by an investor-owned utility is also unlikely given the various governing structures and debt encumbrances. The State of Alaska's serious financial constraints make significant State contributions to the Railbelt's unfolding electric transmission needs a highly improbable scenario. Our recommendation to the Legislature has been shaped by a clear view of our current reality and by a desire to identify a path forward that is actually attainable and that benefits ratepayers in the Railbelt.

A key weakness in the current Railbelt electrical system is the lack of an institutional structure to finance significant transmission assets crossing the service areas of several utilities. In 2014 the Alaska Energy Authority released the Alaska Railbelt Transmission Plan, prepared by Electric Power Systems (EPS) Consulting Engineers. This report included the findings of the Pre-Watana and Post-Watana studies completed to determine the future needs of the Railbelt transmission system. The prioritization of the pre-Watana projects was also included. Priority transmission system projects totaling an estimated \$900 million were identified. Annual projected savings from these projects was estimated to be between \$146 and \$241 million. Funding and financing mechanisms for these transmission priorities were not addressed in the EPS report.

The RCA and ACEP reviewed the modeling and assumptions underlying the EPS report. After critically assessing the EPS modeling work, new model runs were developed to address several key questions:

1. What are the key factors that drive the benefits of economic dispatch?
2. What are the benefits of economic dispatch, as separate from the benefits of relieving transmission constraints in the Railbelt?
3. Who would win and who might stand to lose under a system of economic dispatch?

In contrast to the EPS modeling, the new modeling done for the RCA legislative report developed and incorporated reasonable, indicative postage-stamp rates for transmission (for both the existing system and the new-build transmission). The annual reports of the Railbelt electric utilities were analyzed to determine a reasonable approximation of net book value, operating expenditures (OpEx), and expected remaining life of current transmission assets. A standard rate base rate of return model then incorporated these inputs.

The RCA legislative report needed to answer several key questions:

1. What does an economically efficient electrical system look like?
2. Is there reason to believe that the Railbelt is not a fully efficient system?
3. What can we learn from the previous efforts at reform?
4. What are the ranges of generic policy instruments to move towards greater efficiency in the Railbelt?
5. What are specific examples of Independent System Operator (ISO)/Transco models, and how applicable are they to the Railbelt situation?

A critical component of developing the RCA's recommendation to the Alaska Legislature is the public process used, with input from a wide range of interested parties. A robust record was established, with numerous opportunities provided for presentations, suggestions and criticisms. A preliminary PDF version of the record is attached to the electronic version of this letter. The complete hard copy of the record will be provided upon completion of its preparation.

**At a Special Public Meeting on Monday, June 29, 2015, the Commission made the following findings and recommendations.**

---

**Finding No. 1:** The present Railbelt electrical transmission system requires institutional reform. The balkanized ownership of transmission assets and the system's evolution under legacy power purchase agreements constrain and limit the effective and efficient operation of the Railbelt grid. The Commission believes that no significant state funding will be available for Railbelt transmission replacement and upgrades. No institutional structure currently exists that is capable of providing significant capital for transmission projects that cross the service territories of several Railbelt utilities.

**Recommendation No. 1:** An independent transmission company should be created to operate the transmission system reliably and transparently and to plan and execute major maintenance, transmission system upgrades, and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. This independent transmission company should be certificated and regulated as a public utility under AS 42.05. The RCA should be granted siting authority for new generation and transmission, and granted explicit authority to regulate integrated resource planning in the Railbelt electrical system. A mandatory report on the status of the current efforts to develop an independent Railbelt electric transmission company shall be filed with the Commission no later than September 30, 2015. A second report on transmission restructuring shall be filed with the Commission no later than December 31, 2015. Failure to file these reports will be construed as a failure of the current voluntary efforts to develop an independent Railbelt electric transmission company. If voluntary efforts fail, the Commission will work with the Legislature and the Administration to develop and implement specific legislation and to prioritize actions necessary to create an independent Railbelt electric transmission company.

---

**Finding No. 2:** Although short-term bilateral economy energy transactions occur in the Railbelt electric market, true economic dispatch of generation units on a system-wide basis does not occur. The Railbelt electric system does not deliver the maximum benefit possible to ratepayers, who will be paying for approximately \$1.5 billion for new generation. The various ISOs existing in the lower 48 are appropriate in very large, fully restructured, unbundled markets. This ISO model in the Railbelt electrical system is an overly complex institution for a limited number of generation units and relatively small loads. Other models may be more appropriate for the Railbelt grid. Non-discriminatory access to the grid, open and transparent system-wide transmission pricing, and economic dispatch of generation by an independent entity are key principles that must guide the transformation of the Railbelt electrical system.

**Recommendation No. 2:** System-wide merit order economic dispatch of the Railbelt's electrical generation units will bring the maximum benefit to ratepayers. The Commission should use all the regulatory and statutory authority it currently has to strongly promote economic dispatch, and seek new statutory authority as needed to promote this goal. Voluntary efforts by the utilities to utilize loose power pools should be encouraged as an interim step towards a tighter power pooling system. As actual data is generated concerning costs, benefits and other outcomes of voluntary power pooling strategies, quarterly reports shall be filed with the Commission. These reports will be analyzed and reviewed to assess the organizational and governance structure needed for an independent consolidated system operator. The first report shall be for the fourth quarter of 2015 (October 1, 2015 through December 31, 2015) and shall be filed no later than January 30, 2016. Quarterly reports shall be filed with the Commission throughout 2016, due no later than 30 days after the end of the applicable reporting quarter. Failure to file these quarterly reports will be construed as a failure of voluntary efforts to move towards system-wide merit order economic dispatch. If voluntary efforts fail, the Commission will work with the Legislature and the Administration to develop and implement specific action steps to institutionalize system-wide merit order dispatch.

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**Finding No. 3:** Many past efforts to reform and rationalize the Railbelt electrical system have failed. Substantial time and money has been expended on consulting reports, endless meetings, legislative hearings, and many frustrating hours in the RCA's East Hearing Room. A great deal of skepticism exists about the ability of the electric utilities to voluntarily reform and restructure the Railbelt grid and move towards true merit order economic dispatch. Non-utility independent power producers and larger institutional customers have complained about the current structure, and insist that a level playing field is needed. A lack of trust and continued reliance upon state legislative appropriations for transmission has contributed to this dysfunctional history.

**Recommendation No. 3:** Though history strongly indicates that the current voluntary transmission restructuring and economic dispatch efforts by the utilities may fail, the Commission believes the utilities must be given the opportunity to succeed. The timelines

outlined in Recommendations 1 and 2 allow for this potential success. Failure of the voluntary efforts and initiatives will trigger the compulsory steps identified in Recommendations 1 and 2.

---

**Finding No. 4:** Reliability standards for the Railbelt electrical grid are voluntary and not all electric utilities have adopted the same standards. The Intertie Management Committee (IMC) formally adopted the Railbelt Operating and Reliability Standards at its meeting on November 1, 2013. The IMC includes the Alaska Energy Authority and the Participating Utilities (Chugach Electric Association, Inc.; Golden Valley Electric Association, Inc.; Matanuska Electric Association, Inc.; and the Municipality of Anchorage dba Municipal Light and Power). The IMC voluntarily filed its Reliability standards with the Regulatory Commission of Alaska on January 27, 2014. On December 9, 2014, Homer Electric Association for itself and on behalf of Alaska Electric and Energy Cooperative voluntarily filed with the RCA the Reliability Standards of the Railbelt Reliability Committee as Modified and Adopted by Homer Electric Association.

**Recommendation No. 4:** Enforceable and consistent Railbelt operating and reliability standards are necessary for consistent, safe, reliable, and efficient operation of the Railbelt electric system. The RCA strongly encourages the IMC and Homer Electric to resolve their differences and develop a common Railbelt operating and reliability standard. In January 2016 the RCA will initiate a process to determine if it should adopt regulations concerning Railbelt operating and reliability standards.

---

**Finding No. 5:** The first four RCA recommendations above will be challenging and time consuming. Full implementation of the proposed Railbelt electrical system structural changes will likely take five to ten years. Many obstacles remain to be overcome. The time critical recommendations identified above are a start, but many additional, concrete building blocks must be identified in the months ahead. Many different parties must cooperate or this effort will fail. The Legislature, the Administration, Railbelt utilities, independent power producers, the RCA, Department of Law, Regulatory Affairs & Public Advocacy, and most of all the ratepayers have much at stake. RCA resources will be stretched and stressed as the structural reform of the Railbelt electrical system progresses.

**Recommendation No. 5:** The RCA will be hugely impacted by these proposed Railbelt electric system changes. The initial action steps will need to be implemented within existing RCA resources. The Commission is self-supporting through regulatory cost charges (RCCs), and does not rely upon state undesignated general funds. If the RCA receives the necessary Administration and Legislative support, the FY 2017 RCA budget will require the necessary RCC funded resources to implement these proposed recommendations.

---

The Honorable Kevin Meyer and The Honorable Mike Chenault  
Page 6 of 6  
June 30, 2015

Each of the findings and recommendations were voted upon individually at the June 29, 2015, RCA Special Public Meeting and all were passed unanimously. These recommendations are respectfully submitted to the Legislature for its review and consideration. Upon request, the Regulatory Commission of Alaska will assist the Legislature in developing solutions addressing these critical issues. Thank you for the opportunity to provide this information to you.

Respectfully,

A handwritten signature in black ink that reads "Robert M. Pickett". The signature is written in a cursive style with a large, looped "R" and "P".

Robert M. Pickett  
Chairman

cc: The Honorable Bill Walker, Governor  
Commissioner Chris Hladick, DCCED

By e-mail with preliminary PDF version of the record

January 27, 2016

Representative Liz Vazquez  
Co-Chair of the House Special  
Committee on Energy  
State Capitol Room 432  
Juneau, AK 99801

Representative Jim Colver  
Co-Chair of the House Special  
Committee on Energy  
State Capitol, Room 424  
Juneau, AK 99801

Subject: HB 187 – "An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska."

Dear Representatives Vazquez and Colver:

Thank you for providing me with the opportunity to address HB 187. Unfortunately, due to several commitments here in Anchorage, I will be unable to travel to Juneau and appear in person before your Special Committee on Energy. I do plan on testifying and making myself available by phone from Anchorage. On my behalf, Mr. Brian Hickey, Executive Manager of Grid Development will be attending and testifying further in the hearing in Juneau. Please feel free to ask him any questions you need answered.

Sincerely,



Bradley W. Evans  
Chief Executive Officer

**Prepared Remarks of Chugach Electric Association on the Alaska House of Representatives Bill HB 187: "An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska". Presented to the Alaska House of Representatives Special Committee (Committee) on Energy January 28, 2016.**

My name is Bradley Evans and I am the Chief Executive Officer of Chugach Electric Association (Chugach). Also representing Chugach today is Mr. Brian Hickey, a noted expert in utility power systems and Chugach's Executive Manager of Grid Development. Chugach is a privately held electric cooperative owning significant generation, transmission and distribution assets serving nearly 200,000 people through 83,358 meters in the Southcentral area of Alaska and a seller of wholesale power on the open but limited Railbelt market. Chugach also has the distinction of being the only electric utility that "interconnects" all the other Railbelt utilities via its privately held transmission system. These assets and attributes uniquely qualify Chugach as an interested party in HB 187.

Personally, I have worked in the electric energy industry since 1983. I have been involved in leading the State's largest electric utility, managed numerous infrastructure expansion projects, performed the duties of a system-wide grid operator, chaired system-wide operating committees, chaired the asset management committees governing the safekeeping and operations of State-owned generation and transmission assets, engaged in large-scale utility financing and refinancing, and am a member of a national organization of Generation and Transmission utilities that belong to various Lower 48 unified grid operating organizations. Along with Mr. Hickey, I have spent considerable time studying the formation of Regional Transmission Operators and Independent System Operators in the Lower 48 to gain insight on how to best rationalize the planning, reliability, economic dispatch, access, operations, maintenance and financing of generation and transmission assets in the Railbelt.

To be clear, Chugach supports the concept of an independent/unified system operator (USO) for the following reasons:

- The USO would allow for least-cost economic dispatch of generation so all Railbelt electric customers benefit
- It would provide for the identification and implementation of cost-effective system upgrades
- The USO would provide independent operation of the system including non-discriminatory open transmission access and implementation of uniform reliability standards
- It would condition the interconnection of new facilities and their integration into the grid

In addition, Chugach supports the implementation of a transmission company that:

- Supports the functions of a USO
- Invests private capital as needed for:

- life extension of existing transmission assets
  - making transmission improvements
  - new transmission assets as justified
- Develops and implements a unified transmission tariff applied to all end use customers on an equitable basis
  - Marshalls the maintenance and field operations of the Railbelt transmission assets

We recognize a transitional implementation plan for a unified transmission rate tariff may be required to minimize short-term rate adjustments. We believe this company would be incorporated and function in a similar fashion as existing TRANSCOs in the Lower 48.

To put our efforts in perspective, we started this endeavor in 2013 and have continued to stay on point. Our first outreach in the Railbelt occurred at our 2013 legislative reception held in Anchorage where we introduced the concepts of unified system operations, open access, system-wide economic dispatch, unified transmission tariffs and the potential customer benefits behind rationalizing the Railbelt electric system. We followed this roll out of the concept and benefits with the first workshop held in Alaska on grid restructuring and unified operations. Chugach hosted the event in collaboration with American Transmission Company (ATC). The event was well attended with over 50 participants representing a wide audience of interested entities and stakeholders. From that moment on, a string of public events, utility meetings, legislative committee hearings, public meeting testimony and specific instructions from the Regulatory Commission of Alaska (RCA) ensued.

The most recent regulatory event was in June 2015 when the RCA issued a letter to the legislature in its proceeding I-15-001. In that letter, the Commission directed the six Railbelt utilities to provide quarterly updates on two fronts: establishing an independent transmission company (Transco) and the implementation of economic dispatch and pooling. Since that time, a great deal of work has taken place and following my testimony, Mr. Brian Hickey will provide workgroup updates on their meetings and work products.

Speaking directly to HB 187, and in light of all the recent progress and activities, I recommend the Committee push the pause button on this legislation. I recommend this for the following reasons:

The advance of this legislation would halt the current RCA, utility, private transmission company and stakeholder lead efforts in restructuring, would overturn the current regulatory instructions and would result in budgetary problems as the effort is being managed under lean times and strict adherence to approvals in existing utility budgets.

If the current RCA and utility efforts succeed, there would be no need to form an authority as mandated in HB 187. This is very important to at least two utilities that own nearly half the Railbelt assets, are publicly rated and obtain their capital from the public/private debt market.

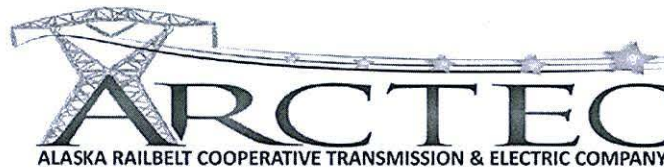
We have communicated the changes contemplated in a collaborative process leading to Railbelt Grid Unification and the formation of a Transco to our rating agencies, Moody's, Fitch and Standard & Poors (S&P) and our lenders through public filings with the Securities and Exchange Commission. These communications were met with no impairment to our ratings in their recent updates. However, the current ratings were based on what we told the agencies was the path to implementation which did not include the mandates of HB 187 and implementation by an Authority.

In essence, the rating agencies were more comfortable under a voluntary and privately led effort working collaboratively toward the development of a regulatory compact and associated tariffs with the RCA. If this legislation were to advance, we would be forced to revisit our situation with the rating agencies and at this time, I can't predict what their precise reactions would be, however, I will say, their comfort level may be tested by seeing such a radical departure from the current efforts.

Lastly, I appreciate the interest this Committee has demonstrated and recommend Committee members stay active in witnessing the progress of the utilities, RCA and stakeholders in achieving real change in the effort to rationalize the Railbelt electric utility infrastructure. If the utilities fail to bring about this change, I encourage the Committee to revisit this legislation and move forward with establishing a record of need leading to its implementation.

Thank you again for your interest on this important issue and for allowing me to speak to you today. I look forward to keeping the Committee apprised of our progress.

At this time I will turn our testimony over to Mr. Brian Hickey. He will provide Chugach's perspective on front-line detailed information regarding the working groups' progress that has been made to date.



**Prepared Remarks of the Alaska Railbelt Cooperative Transmission and Electric Company on Alaska House of Representatives Bill HB 187: *"An Act creating the Railbelt Electrical Transmission Authority; and relating to the duties of the Regulatory Commission of Alaska"*. Presented to the Alaska House of Representatives Special Committee on Energy January 28, 2016.**

Thank you for providing me with the opportunity to address you today. We appreciate the Committee's leadership on this important topic.

My name is David Gillespie and I am the Chief Executive Officer of the Alaska Railbelt Cooperative Transmission & Electric Company, **ARCTEC** for short. ARCTEC is an organization formed initially by four Railbelt utilities to address industry issues of mutual concern. Our members include Golden Valley Electric Association, Matanuska Electric Association, Chugach Electric Association, the City of Seward, Alaska and Copper Valley Electric Association. Each of our members exists only to provide low cost, sustainable and reliable electric service to its resident and cooperative owners.

Personally, I have worked in the energy industry since 1982. I have been involved first-hand in the implementation of restructured energy markets in New England and in California. I worked for ten years in the Independent power business. I also have worked in the renewable energy industry.

I have spoken before this committee in the past on the potential benefits that could be realized by restructuring the way the Railbelt's electric grid is planned and operated. A new business model that facilitates regional coordination has the potential to provide real benefits to Railbelt electric customers. These benefits can include increased use of economic dispatch of the region's generating resources, coordinated development and more efficient use of the transmission system and better opportunities for independent power producers through more transparent rules for interconnection.

Much has transpired since the end of last year's legislative session, and I would like to brief you on the progress that has been, and continues to be made to achieve a consensus-based approach to Railbelt grid restructuring.

In June, the Regulatory Commission of Alaska (RCA) issued a letter to the legislature in its proceeding I-15-001. In that proceeding the Commission directed the six Railbelt utilities to provide quarterly updates on two fronts: establishing an independent transmission company (Transco) and on the

implementation of economic dispatch and pooling. Since June, progress has been made on both fronts.

The Transco working group which includes the six railbelt utilities and the American Transmission System provided responses to the Regulatory commission in October and December. All six utilities participate in these negotiations and signed the communications to the Commission. As can be seen in its December 31, 2015 filing the Transco working group continues to push forward with system modelling and organizational design. The collaboration and information sharing we have seen among the Railbelt utilities during this process has been noteworthy.

All six utilities are now participating in discussions led by ARCTEC that we hope will soon define the structure, scope and governance of a Railbelt Unified System Operator. We plan to file a progress update with the Commission next week.

Since the end of last year's session, the Commission issued its order under Docket R-13-001, the so-called "IPP" docket. The ruling issued by the RCA went a long way toward addressing how IPP's are to be integrated into the electric system. The decision also defined how IPPs are entitled to be paid by the adopting the Federal Energy Regulatory Commission's definition of "avoided cost".

Although discussions among some date back much further, the progress all of the utilities have made in the 6 short months is unprecedented in recent memory of the Railbelt and a positive sign of their commitment to a solution. The focal point of this work has been the development of an economic model based on open and transparent numbers that each utility stands behind. This model will allow all stakeholders involved to determine the benefits and costs of the solutions being considered and finalize a path forward. Until that path is complete, it is a risk to implement a solution that has unknown economic benefits and potential unintended consequences. I am before you today to encourage you to allow the current negotiations that are taking place among the utilities to play out until we have better answers that we can bank on. Railbelt ratepayers will appreciate our due diligence.

Rather than proceed with the subject Bill at this time, ARCTEC recommends the Committee take a "wait and see" approach. Stakeholders continue to work together to negotiate a consensus-based solution. As I have already mentioned, progress is being made. Yet, it is still too early to define for you exactly what the final solution will be. Based on the collaborative progress that has been made up to this point, it may be possible for us to achieve success through a purely self-driven approach, overseen by the RCA, without the need for new legislation.

Enacting HB187 today would likely derail a process that has been gaining momentum, reaching consensus, and building trust among the utilities for the last six months.

Over the next few months, we plan to update you on our progress and the decisions that are being made with the benefit of real economic data and decades of combined expertise in possible solutions for the system. I'm sure you will be as impressed as I have been with the process and genuine commitment to work together towards pragmatic solutions that will garner real results.

In this time of economic uncertainty, rushing the process or making decisions before we have the benefit of hard data will not result in solutions with long-term benefits or staying power. Let's take the time to develop the right path forward for the Railbelt that will result in real gains for Alaskans for the long haul.

Thank you again for your interest on this important issue, and for allowing me to speak to you today. I look forward to keeping the Committee apprised of our progress.