

Presentation to the Railbelt Utility board task force –  
May 12, 2009

Thank you Madame Chair, I am Jim Strandberg, an Alaska Energy Authority representative. I am here to offer remarks for the Greater Railbelt Energy and Transmission Corporation (GRETC) Initiative.

Today, I hope to give you a brief description of the GRETC bill (Senate Bill 143), and the approach we suggest to form the company. My remarks will explain the Vision that has guided the joint state-utility that has brought GRETC to being considered by your group. I will also discuss work that remains to be done on GRETC to make it a fully function company. GRETC is a joint effort between the Office of the Governor, Railbelt Electric Utilities, and the Alaska Energy Authority. GRETC forms, over time with phased voluntary “opt-in”, a robust and durable, not for profit Alaska Corporation controlled by the Railbelt Utilities to assume responsibilities for Railbelt power generators and transmission lines of the future.

I will also deal with the specific transition issues that board members have asked about and tell you what I can about the State’s role and what commitment the State would have in providing financial assistance for G&T infrastructure. This is in specific response to the letter you sent Governor Palin, and in a list of topics I received from Ms. Logan.

First some general comments on GRETC.

There have been a number of utility sponsored efforts in the last decade to “restructure” the Alaska Railbelt, so that new generators and transmission lines can be financed and constructed. We have learned from these earlier efforts.

AEA’s public process and pursuit of the Railbelt Electrical Grid Authority project (REGA) analysis with Black and Veatch has sought new and innovative approaches to determine the best G&T company form to carry us to the future

For a number of reasons, there is an urgent need to act. The Railbelt has a number of projects that must be begun soon, among them:

- Completion of a Regional Integrated Resource Plan. AEA is pursuing this project as a part of the Susitna Hydro Power Project funding, to develop an economic and risk based plan on when and where future generation and transmission projects are to be built. AEA expects to deliver this work product in November of this year.
- Serious consideration of large scale energy projects that are a part of the Regional integrated resource plan, such as the Susitna Hydro power project, and Chackachamna Hydro power project, to name two.
- Completion of near term intertie links for ongoing network operations, and near term generation projects to increase fuel efficiency and replace aging generation.
- Development of near term fuel supplies for Railbelt Generation. This will include consideration of Cook Inlet gas availability, gas

storage, LNG purchases, and the potential for a bullet gas line to Southcentral Alaska.

These major infrastructure tasks require a company that is a full service G & T utility that has the planning, design and management talent, and solid financial base, to handle really big projects. This company must work with the State of Alaska in financial matters, and maintain low cost rates under specialized RCA regulation, to deliver public benefit equally through the Railbelt.

Initial discussions with Railbelt Utilities and Black and Veatch, AEA has arrived at an estimate to bring the company to life and function of 18 months.

#### THE 10 YEAR VISION

It is probably good to describe to you the vision that has guided us to this company formation approach and SB143. After 3 decades of plentiful low cost fuel supplies, concerns have developed on both the adequacy of supply and newly experienced price volatility. And that is for both north of the Alaska Range, and in South-central Alaska.

While we have a number of different energy sources we can tap, and among them are our renewable resources, that could sustain us over the next 50 years, literally all will require major capital investments and will be large and complex projects.

We jointly see the need, over the next 10 years (which we term the transition period), to develop new major projects and to restructure the Railbelt, physically and contractually, and to establish specialized regulatory rules, so that by year 10, we have a diversified power

portfolio, moving power over a robust, redundant transmission system. Our goal is to give all existing Railbelt certificated utilities with service areas, the opportunity, through power sales agreements, to have access to wholesale power at a single system wide rate, with each utility enjoying the same pricing structure and reliability.

Now it will take time to do this, and we set 10 years as a goal, balancing the time it will take to accomplish major energy projects with a reasonable expectation of continued use of current fuels, and the commissioning of other short term generation solutions. We fully expect, that as GRETC does its initial planning this 10 year date could change.

During this transition period, we must act to maintain reliable power supplies with minimum price volatility, while GRETC constructs the power portfolio of the future. This is a tall order. Many of the questions raised specifically deal with how the utilities will traverse this transition period, to keep power rates at affordable levels and to maintain system reliability.

As for the large scale projects to be developed, financing, and debt and equity management will be key. These future project will be at least an order of magnitude larger than any attempted so far in the Railbelt. The projects will be beyond the financial reach of the Railbelt Utilities as they are presently configured.

Financing requirements will likely drive when and how utilities and the State will need to commit with power sales agreements and bond sales. These important dates and approaches are to be developed in the

transition activities proposed under this bill. They will continue beyond next session as well.

We also expect utility sponsored near term generation projects will need to go forward with appropriate arrangements for integration into GRETC.

Before we get to specific questions that have been raised, let me summarize for you what GRETC is:

A robust, not for profit private corporation with specific public duties and responsibilities. A corporation with board membership and control predominately with Railbelt Utilities, with specific duties to over time provide a single system rate wholesale power to all Railbelt Utilities at equal reliability on a non-discriminatory basis. An open transition approach that allows utilities to make reasoned voluntary decisions concerning their existing G&T assets, and to focus on securing reliable affordable wholesale power for the long term.

Specific issues provided by Ms. Logan in her email

**Governance:**

GRETC will have a board populated with Railbelt Utility representatives, and one public member appointed by the Governor. While the Utilities populate and control the board, there are specific statutory requirements for system wide rates and reliability.

**Transferring existing assets:**

Each Railbelt Utility will have unique circumstances that will influence when and if its existing assets should be moved to GRETC. This will be a negotiation between the new GRETC and each utility and will specifically be configured to do no harm.

### **Postage Stamp Rates:**

I suggest we call these system wide rates. The concept is the statutory requirement that each Railbelt utility will have power available at their demarcation point at equal reliability and equal price. This will drive board decisions that must be made for the benefit of all rate payers at large.

### **Responsibility for O&M, Planning, and Fuel Supply**

GRETC will have responsibility for all three, for the assets that are transferred to it and for the assets it builds.

### **Reliability**

Under GRETC, at the end of the transition period, all points in the grid will enjoy equal levels of reliability.

### **New Assets build by Corporation**

GRETC would be equipped with financial tools and capabilities to amass capital and borrow money to build and own infrastructure. Our energy future in one way or another will involve expensive undertakings to build energy projects, whether natural gas based, other fossil fuels, or renewable energy projects.

The reason for configuring GRETC as a statutory private not for profit corporation is to maintain the control of the company with utilities,

while providing certain duties and abilities in law that allow it to build and own very large projects.

### **Contract for participating utilities to sign (all requirements, term?)**

The GRETC process has a flexible transition period to allow new G&T to be built, and to allow for continued operation of existing assets with each utility developing its transition plan for its assets. Early in the transition period, a phased commitment agreement is envisioned that will consist of agreements to participate in Railbelt grid restructuring. Later on, as plans and funding for the new GRETC G&T assets firm up – and a date for a diversified power portfolio becomes more certain, Utilities and GRETC will negotiate power purchase agreements. The date for this process will likely be when Railbelt Utilities and GRETC reach a meeting of the minds that the GRETC projects are viable long term power sources.

### **Existing IRP's for each utility as the basis of the corporation's project plan.**

AEA in cooperation with Railbelt Utilities is conducting a Regional Integrated Resource Plan project. While in the near term each utility might elect to pursue its own projects, when GRETC is formed, utilities and GRETC may jointly decide to build projects which are in current Utility specific IRPs. The regional IRP will wrap around projects that are existing and underway by Railbelt utilities.

### **G&T unable to make retail sales**

The GRETC concept is strictly a Generation and Transmission company selling wholesale power to Railbelt Distribution utilities.

### **Distribution service territories stay fixed**

There is no consideration of changing any service territory boundaries of existing Railbelt Utilities, under the present GRETC bill.

### **No state agency representation on Board of Directors**

There is none. One public member selected by the Governor from a list of three provided by the Railbelt utilities will be the non-utility board representation.

### **RCA Regulation**

This matter is to be developed. Present concepts are for the company to not be certificated, but to be subject to RCA jurisdiction in specific areas for rate making. This matter will require additional discussion over the summer and fall.

### **Public Energy Corporation that mirrors a G&T**

GRETC evolved as a company that mirrors G&T cooperative governance, with statutory instruction on system wide availability of power that benefit Railbelt rate payers as a whole, but with a financial structure that can finance really big projects with the State of Alaska as a partner.

### **Interconnected Railbelt electrical utilities only**

The GRETC will sell only to presently certificated distribution utilities in the Railbelt. If there is a change, a statute change will be required.

Access to low cost revolving loan fund for immediate infrastructure needs

GRETC will have access to capital funds, but the exact approaches have yet to be worked out.

**Corporation as a single source economic dispatch and control of all Railbelt Generation and transmission assets**

This is a goal of GRETC, to economically dispatch generation resources over redundant transmission lines at a system wide rate for G and for T. The Railbelt will need time to evolve from its present operation to the operation of a diversified power portfolio. The goal is to provide plentiful, affordable and reliable power to all Railbelt Utilities with equal access, price and reliability.

**Corporation responsible for pursuing renewable opportunities**

The GRETC will be required to conform to State energy policy, which may specify renewable energy portfolio requirements.

Thank you for your attention. I welcome your questions.