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MEMORANDUM

From: Steve W. Denton
VP Business Development

Date: October 20, 2003

To: Alaska Energy Policy Task Force

RE: Considerations for an Alaska Energy Policy

It is with great interest that I observe the deliberations of the Energy Policy Task Force (EPTF) both as a member of Alaska's energy industry and as an energy consumer. It is also gratifying to see that coal is being recognized for its potential. Past meetings have provided the opportunity for public comment and this memorandum is respectfully submitted in-lieu of oral comment for your consideration. I would be happy to address any of the issues herein in greater detail at the EPTF's pleasure.

In general, I would agree with statements made by task force members that the task force should probably keep its focus on the big picture, long term issues and avoid becoming involved in the details of individual projects. With that in mind, following are some potential areas of discussion and policy development for your consideration.

Government's Role

Any discussion of energy policy has to be framed within the context of what is an appropriate role for the government and how can the policy be implemented. Well reasoned and good intentioned recommendations, even if they are embraced by the utilities, need to have a mechanism for implementation. Government's two primary means of policy implementation are regulation and appropriation. State financial participation in providing energy to its citizens has been very important in the past, is well understood and will continue to be important.

However, the State's regulatory role is less developed or obvious as to the contribution to energy policy implementation. The typical model for regulatory involvement is that agencies, such as DEC and RCA, react to proposals from the energy industry. Another model might utilize the regulatory process as a policy implementation vehicle. In that model the policies would be used to provide guidance to regulators for approval of proposals addressing the goals of the policy. A word of caution is warranted. This sort of model has been utilized in other States to great benefit or disastrous detriment of its citizens. Use of the regulatory function of Government to steer energy development needs to be carefully crafted to achieve the desired result.

Diversity of Resources

Alaskan citizens are extremely dependent upon oil and natural gas as its primary energy source. Local exceptions exist, such as modest coal capability in the northern Railbelt and significant hydro-electric generation for several communities. Alaska's electricity costs are some of the highest in the nation and are poised to go up dramatically because of our high dependence upon oil and natural gas. Alaska needs long term stability and attractive electricity rates if we are ever to see growth in value added industry. Alaska should chart a course that balances reliability with economy, while allowing for the highest and best use of the State's resources. This will not only provide for a stable, long term affordable energy supply, but will also allow the greatest return to Alaska's citizens on our vast resources.

Infrastructure

It is difficult to go wrong with adding infrastructure, especially transmission infrastructure. Transmission lines, though expensive to build, are relatively low cost to maintain and provide the mechanism for accessing the diversity of energy resources found in Alaska. Projects such as the Glenn/Richardson highway intertie and the Railbelt to Donlin Creek/Bethel link would not only improve cost and reliability for current consumers of electricity, but also open up opportunities for new economic development. The existing Railbelt grid is also in need of upgrade. Despite spending \$100's of millions by the State on the existing transmission grid, it still has bottlenecks which limit transfer capability and full utilization of the infrastructure.

Management of Generating Resources

The age of existing generating resources has been highlighted as cause for concern and suggesting the need for construction of new generation in the next several years. At the same time, references are made to shutdown of military generating resources in the Interior as justification for fast-track construction of new generation. Rather than focusing on premature closure of existing resources, the State and utilities should be looking for ways to more fully utilize all existing resources to stretch out the need for new generation so that longer lead time and more cost effective solutions to providing electricity can be added to the system.

Independent Power Production

Alaska's electricity production is fully regulated and the issue of whether or not it should be deregulated is probably beyond the scope of the EPTF's charge. However, the contribution of independent power production, and especially cogeneration, is a topic which should be considered by the EPTF. Although independent power producers (IPP) are often frowned upon by utilities, they often provide valuable distributed power at competitive cost. Chief among the issues needing attention in this area are access to transmission systems and/or customers and methods for establishing fair prices for the electricity produced by the IPP.

Utility Cooperation

Within Alaska's Railbelt, the entire electricity system would not equal one medium sized utility in the lower 48. There are 7 utilities in the Railbelt. On the other side of the coin, the Railbelt represents a geographic service area the size of many states. For the Railbelt consumers to ever realize the benefits available to them from the interconnected transmission system, the issue of consolidation in the Railbelt must be addressed. Finding an appropriate level of consolidation and the mechanism for that consolidation (pooling, merger, privatization, etc.) are key issues appropriate to a policy making body like the EPTF.