

Alaska Energy Authority
Railbelt Electrical Grid Authority (REGA)
REGA Study Technical Conference – Summary Notes
July 10, 2008

Black and Veatch presented the preliminary results, conclusions and recommendations of the REGA study. The study recommendation is to form a State authority to be responsible for planning, generation and transmission of electricity to the railbelt.

Comments were given by members of the public including: railbelt utility general managers, members of the regulatory commission of Alaska, environmental organizations, ratepayer advocates, state government managers, business leaders and others. The meeting was the third opportunity for input into the project.

Primary drivers in effort to establish regional entity

- Providing reliable and sustainable energy to the railbelt into future will require large projects. Alone, none of the utilities has the governing or financial capacity to accomplish them.
- The Governor has asked for an integrated energy plan, if the utilities do not work together to establish a plan the State will not fund new projects.
- The cost of energy is rising with no decrease in cost in the foreseeable future.
- The infrastructure of energy generation along the railbelt is aging and will need to be replaced.
- There is currently no integrated resource planning for the railbelt.
- The natural gas future is unclear in the Cook Inlet; energy generation may rely on a different resource in the future.
- Localized planning had a purpose but the time has come to move to regional planning. State participation is required to some degree. If things remain the same we will not be able to afford our future.

Overarching comments about the concepts presented in the draft report

- The best structure is the one that brings the lowest cost to consumers.
- Residential costs cannot increase without negatively impacting customers, even a \$10 increase could hurt some seniors and the AARP is concerned about that.
- The study does not address uncertainty surrounding the energy source but focuses on the best business structure to provide generation and integrated resource planning.
- Models used to develop output including all assumptions should be made publicly available.

What is the best business structure for a regional energy authority for the railbelt?

State authority

- A State authority would likely be able to finance with the lowest rate, decreasing debt by many millions of dollars on large projects.
- There is some concern about oversight if the State authority model is implemented and the Regulatory Commission of Alaska (RCA) is no longer an appropriate entity to oversee utility business. Citizenship involvement is important in developing any model and in the ongoing planning for energy development.
- Independent power producers can be an important source of revenue for local economies, opportunities for these producers must continue to exist.

G & T co-operative

- G & T co-operatives are common in the lower 48, if all utilities commit to operating as part of the co-operative rather than in their local silos then this model could work.
- Multiple small entities make financing and developing big projects difficult.
- RCA would continue to provide regulatory oversight of a co-operative.

Business as usual

- Utilities are operating in a more cooperative way with one another than they have historically but are still not able to deliver regional integrated resource planning and do not enjoy the economies of scale that a larger entity would.
- There is real risk if the planning does not get done. What will be the next resource and next generation opportunity for the region? What will happen if we don't plan?
- There is general agreement that the utilities cannot continue to operate as they have historically.

Tax exempt financing

- Tax exempt financing will save millions in debt service on the types of large capital projects that will be necessary to provide reliable and sustainable energy for the railbelt into the future.
- Ability to get tax exempt financing is just one variable that determines what rate an entity will pay. Other variables include: market volatility, underlying credit of the project, manner in which the state participates, and "it is always better to be lucky than smart" in getting a good rating.
- Regulatory oversight will always be a negative in getting a good rating.
- Having a positive track record and getting familiar with underwriters will increase chances of getting good rating.
- Decide on a structure for the entity and then begin the process of getting to know the people who control the financing.

- Native corporations have access to financing at rates that are more attractive than traditional businesses, closer to tax exempt rates. Native corporations might be interested in being partners in a new entity if it 1) provides services to their region and 2) makes a profit.

Where do the railbelt utilities stand?

- MEA: not ready to take a position, board needs to assess report.
- GVEA: has a prediction that it will take a stronger incentive than is currently present to force regionalization. Gas going north could stall the effort since there will be less of an immediate need. Optimistic something will come of the process, some sort of IRP, but not sure exactly what it will look like.
- ML&P: board of directors has not vetted the report recommendations. Personal opinion is that the utilities are recognizing that they are in this together and need to look long-term.
- Chugach: made statements in favor of a regional authority
- Seward: the report will be discussed at the next board meeting next week. Personal opinion is that maybe the time has come for a regional authority of some kind.

What next?

- There is a nearly perfect storm forcing cooperation to create a solution to; utilities are being held up by old fears of losing something.
- The next steps are a cooperative effort with the utilities, the public, the environmental community and the State to address the needs of the network. AEA will assess the recommendations and public comments and immediately begin consulting with utilities to seriously look at forming a new regional entity.
- There is value in this collaborative process but some action is needed to demonstrate that regional resource planning is occurring. The state is flush with cash right now; it is a good time to approach the legislature with a plan.
- Stakeholders can communicate directly with Kevin Harper at Black & Veatch HarperKM@bv.com

Note: This summary is intended to capture the primary points raised during the meeting. Statements in the summary may not represent the views of the majority of participants. There were no votes taken on recommendations and virtually all utility participants expressed a need to view the details of the Black & Veatch report and discuss results with their Board of Directors.