

**Alaska Railbelt Electrical Grid Authority (REGA) Advisory Group
February 18, 2008 Meeting Notes**

Advisory Group Attendees:

Sara Fisher-Goad	AEA and AIDEA
James Hemsath	AEA and AIDEA
Jim Strandberg	AEA and AIDEA
Kevin Harper	Black & Veatch
Doland Cheung	Black & Veatch
Steve Denton	Usibelli Coal Mine
Mark Foster	Mark A. Foster & Associates (MAFA)
Nick Goodman	TDX Power Inc.
Tony Izzo	TMI Consulting
Brad Janorschke	Homer Electric Association (HEA)
Marilyn Leland	Alaska Power Association (APA)
Mitch Little (for Les Webber)	Marathon Oil Company
Lois Lester	AARP
Norman Rokeberg	Former State of Alaska Representative
Chris Rose	Renewable Energy Alaska Project (REAP)
Debbie Schnebel	Scott Balice Strategies
Curtis Thayer (for Colleen Starring)	Enstar Natural Gas Co.
Jim Sykes	Alaska Public Interest Research Group (AkPIRG)
Mark Price (for Jan Wilson)	Regulatory Commission of Alaska (RCA)

Telephone Participants:

Myron Rollins	Black & Veatch
Kip Knudson	Tesoro

Public Participants:

Rob Stoller	State Attorney General's Office
Jim Posey	Anchorage Municipal Light & Power (ML&P)
Christine Vecchio	MEA Ratepayers Alliance
Mary Ann Pease	MAP Consulting
Ray Kreig	Chugach Consumers
Lianne Kreig	Individual

Meeting was called to order at 10:08 am.

Greetings and introductory comments were made by Jim Strandberg, Sara Fisher-Goad, and James Hemsath.

Study Overview Discussion

- Kevin Harper provided an overview of the study’s objectives, scope, approach and schedule.
- Kevin Harper also discussed what is not included in the study’s scope (e.g., the study is not a State Energy Plan, it will not include a detailed economic and non-economic evaluation of specific resource options, it does not include the development of a “definitive regional integrated resource plan (IRP),” nor is it an effort to justify a preconceived future).
- Schedule and status
 - The preliminary results, conclusions and recommendations will be discussed with all stakeholders by the end of May and the Draft Report will be delivered in mid-June.
 - **Q: What is the status of utilities’ involvement in the study?**
 - A: The utilities have been meeting and have provided feedback on scope to the AEA. Brad Janorschke will provide an update later in the meeting.
 - **Q: How will independent power producers (IPPs) be integrated into the various scenarios when we don’t know what their plans are?**
 - A: The study includes the evaluation of barriers to the development of all forms of new generation including IPPs.
 - **Q: Will the study address the proper role of the RCA?**
 - A: This will depend on which organizational path is recommended based upon the results of the analysis. For example, if the Status Quo ends up being the recommended scenario, there would be limited comment on the RCA’s role. If, however, the formation of a new G&T entity is the preferred option, we will address the appropriate RCA oversight.
 - **Q: Will the study address the deregulation of retail sales?**
 - A: No. The RCA has concluded through a previous order that Retail deregulation is not appropriate until the Railbelt market gets larger.
 - **Q: Will the study include an examination of transmission projects?**
 - A: We will look at a variety of resource technologies based upon Railbelt-specific examples. For example, an examination of wind locations will have to examine the transmission required to get the wind generation to the Railbelt grid. Likewise, other resources will also often require transmission investments. We

will look at these types of transmission investments as well as investments required to address certain weaknesses within the system. The specifics will be dependent upon the scenarios.

○ **Q: Who or what entity will be recommending a solution?**

- A: If a single organizational structure is shown to be the best alternative under all of the evaluation scenarios, the answer is easy. However, if different structures are shown to be the best under alternative evaluation scenarios, Black & Veatch will make a recommendation to the AEA based on its expertise. The report will be submitted to the Administration and the Legislature and will be available at the AEA website.

○ **Q: How will the results of this study be implemented?**

- A: AEA is an important stakeholder as they own a part of the Railbelt assets. We also have two General Managers here who representing the six utilities which are vital to the success of this project. The General Managers have been meeting and have some ideas, but nothing has been finalized. Their ideas will be coming to the Advisory Group for consideration. AEA has been tasked to perform this study and, ultimately, the Legislature is AEA's customer. But AEA, and the State of Alaska, under present statutes is limited in its ability to force implementation of any solution proposed.

○ **Q: How much work has been done regarding the criteria to used for the comparison of alternative organizational structures?**

- A: We will discuss the evaluation scenarios and related evaluation criteria later today. We will discuss the relative weighting of the criteria at the second Advisory Group meeting.

○ Comments from the public:

- Foreclosure of any specific resource wrecks havoc on the utilities; all options should be considered.
- One individual thanked the Advisory Group for the opportunity to participate.
- Consumers are looking for the maintenance, reliability and safety of the system. But cost is also a factor. The study is principally looking at the generation and transmission aspects of providing electrical service, but the distribution is being ignored and cost savings can be made there. The Navigant study of the proposed Chugach/ML&P merger has identified significant savings in distribution. Another study has shown that there have been excess collections in Chugach associated with distribution.

Discussion on the Role of the Advisory Group

- The Advisory Group will function to assist AEA by reviewing scope of work questions and providing recommendations and input to the AEA Project Manager.
- The Group had a discussion regarding how the Group wants to organize and run itself, including the potential benefits of having a facilitator or Chair for coordination purposes.
 - Comments included:
 - A preference to have the Consultant run the Advisory Group meetings was stated.
 - It was noted that consensus could be an agreement or an agreement not to oppose something that is acceptable to the majority of Advisory Group members.
 - “Isn’t the goal of the Advisory Group to provide advice to the Consultant on the study, so consensus isn’t necessary. What’s important is for the Consultant to hear everybody’s viewpoint.” It was noted that the Advisory Group will provide recommendations to the AEA Project Manager.
 - An attempt to reach consensus would be good if achievable.
 - The Group should have a Chair, so the Consultant can absorb everyone’s input. Otherwise, they will be overwhelmed.
 - A Chair’s purpose would be to build/facilitate consensus and the Consultant is not appropriate for this role. Having a Chair can provide a legitimate voice to this study is appropriate so it doesn’t just sit on the shelf afterwards.
 - AEA has hired Black & Veatch to provide their recommendations based on their professional opinion. So if they disagree with the Advisory Group, they are contractually obligated to provide their opinion. AEA has hired Black & Veatch to understand different stakeholder viewpoints and to provide an unbiased analysis.
 - A motion was made by Lois Lester to select Mr. Rokeberg as Chair of the Advisory Group.
 - Marilyn Leland seconded the motion.
 - No objections were raised and the motion was approved.
 - Mr. Rokeberg accepted the position of Chair.
- Mark Foster made a motion to nominate Chris Rose as the Vice Chair.
 - The motion was seconded by Jim Sykes.
 - No objections were raised and Chris Rose accepted the position of Vice Chair.

Discussion of the Utility General Manager's Review of the Study's Scope of Work

- Brad Janorschke summarized the discussions that have taken place among the General Managers and he discussed proposed scope elements that they shared with AEA. These include:
 - Identify available power supply alternatives (fuel/technology) for a unified Railbelt power supplier such as Bullet Line, Susitna Hydro, Cook Inlet Gas, coal, imported LNG, etc.
 - Quantify each of the power supply alternatives referenced above for:
 - Pros/cons
 - Timing
 - Financing options
 - Examine the alternative governance models for the formation of a single generation and transmission utility for the Railbelt. The examination should identify the characteristics (pros/cons) of each model. Prior to making a preferred recommendation, AEA will hold a meeting of all stakeholders to elaborate on the analysis. At the conclusion of this specific task, the Railbelt participants can select the preferred model that should be used to direct the development of a transition plan.
- Brad also discussed the utilities' proposed Unified Power Provider (UPP) to manage existing and new G&T assets.
- The Utilities have drafted a Memorandum of Understanding (MOU) to get utilities to commit to the process. Almost all of the Utilities are willing to sign it.

Discussion on Healy Clean Coal Project Status

- It was reported that the Alaska Industrial Development and Export Authority (AIDEA) and Golden Valley Electric Association (GVEA) continue their discussions and are making progress.

Discussion on MEA's New Generation Project Status

- It was stated that the MEA Board has approved the construction of a new natural gas generation facility but that its proposed coal plant has been delayed for five years.

Discussion on Cook Inlet Gas Status

- Marathon Oil has been actively drilling in the Inlet since 2000 and they think natural gas will remain a major source in the future and recommendations should support and/or encourage further exploration.
- With overseas oil and natural gas prices so high, non-market based prices can be problematic in terms of encouraging additional exploration. However, over the long term, there looks to be significant additional gas reserves available in the Inlet.
- The blended cost of natural gas is \$6.80 with current downward pressure due to a contract surplus. Up in Fairbanks, they are looking at \$22 where it's 30% colder. There is a lot of additional gas to be discovered, but at what cost. If our goal as a State is to get to x% renewables or identify new generation, we need to get the investor community on-board. Some questions are hard to answer without a State Energy Plan.

Discussion of B&V Work Completed to Date

- Kevin Harper noted that the following tasks have been completed or are underway:
 - A study kick-off meeting between Black & Veatch and AEA was held in November.
 - A two-day Technical Conference was held in November.
 - The utility General Managers reviewed the study's scope and provided comments to AEA in January.
 - Substantive non-utility stakeholder input has been received during December and January.
 - The utilities are currently provided information in response to two Black & Veatch data requests.

Jim Strandberg asked Chair Rokeberg if the Advisory Group would be willing to take comments from the public after each agenda item.

- The Chair suggested that the public can make comments at any time by addressing the Chair.
- No objections were raised.

Discussion Regarding Study Scope

- Kevin Harper noted that the Advisory Group needs to be aware that there is a need to protect some commercially sensitive information that is being provided by the utilities.
- Black & Veatch will work with each individual utility, as necessary, to develop appropriate assumptions to protect commercially sensitive data.
- Discussion regarding the development of a “definitive IRP” versus “illustrative IRPs” for different evaluation scenarios.
 - For a “definitive IRP”:
 - Actual prices need to be used, not regional prices.
 - Accurate costs need to be used for new generation resources.
 - Determining the optimal level of resources (e.g., renewables) needs to be included in a “definitive IRP”.
 - A “definitive IRP” requires the completion of a substantive risk assessment.
 - Discussion of “illustrative IRPs”:
 - Black & Veatch suggests that “illustrative IRPs” for various evaluation scenarios be developed versus a “definitive IRP” because there are a number of other activities underway that could significantly affect the components of a “definitive IRP”, including the Governor’s directive to develop a State Energy Plan, the Governor’s study on climate change issues and the proposed legislation to complete a comprehensive economic evaluation of the Susitna hydroelectric project.
 - **Q: How much of this effort then will be adaptive to the potential outcomes of those studies?**
 - A: Part of the answer is a function of time. For example, if these other studies get completed within the next 12 months, we will have a dataset from this effort that can largely be reused with little modification. However, if these studies require three to four years to complete, new information will be required.
 - The original scope of the study was focused on who will own, operate and maintain the Railbelt’s generation and transmission assets. The idea is to have a comparable dataset to enable us to evaluate which organizational structure is the “best” choice for a given future or scenario.
 - A “definitive IRP” does not answer the question of what is the best organizational structure.

- Discussion of the evaluation criteria to be used.
 - Any of the proposed organizational structures should be evaluated against the Status Quo. However, the same organization may not be the optimum across all scenarios. At that point, you are basically guessing on the future.
 - We will discuss the evaluation criteria and the relative weighting among those criteria during the second Advisory Group meeting.
- The public made comments on what information is going to be released, what models will be released, and the level public access to these models for public comment.
 - AEA will look into what contractually is available in terms of the model.
 - Kevin Harper noted that the input assumptions will be clearly identified in the report, as well as the detailed results of the assessment. However, Black & Veatch will use PROMOD/Strategist to complete the detailed assessment of the costs of producing electricity and related investments. This software model was developed by New Energy Associates and, under the terms of our software license, we are able to provide this model. If someone is interested in running their own scenarios, they would need to secure their own software license.
- The public made comments on why is utility specific information being protected.
 - It was noted that when you are dealing with business contracts, specific contract information is often not publicly available information.
 - For example, the RCA is public entity, but will grant protection of commercially sensitivity information if it can be shown that competitors can use this information to harm the entity requesting protection. The RCA and staff sees this information as they make their decisions, but the public will not. Likewise, Black & Veatch may get access to sensitive information, but they may not be able to release it. We need to put some faith in the decision makers here.
- Jim Strandberg stated that to the extent possible, publicly available utility data would be used.
- **Q: Has B&V been given any data so far that is sensitive?**
- A: Not yet.
- **Q: What types of tax and legal issues will be addressed in the implementation plans?**
- A: For example, if a G&T cooperative is recommended, there will be significant tax and legal issues that also came about in the Navigant study of the proposed Chugach/ML&P merger. We have a similar issue here. Three options exist.

Black & Veatch could simply identify the tax and legal issues and note that legal and tax advisors be hired to address these issues. Second, these issues could be fully addresses in the implementation plans. However, Black & Veatch is an engineering consulting firm and does not have the expertise to deal with these issues. Consequently, to fully address these issues in this study, there will be a need to secure the advice of appropriate legal and tax advisors.

- The Advisory Group recommended that these tax and legal issues be considered further.

- **Q: Are the legal and tax issues different for a “definitive IRP” relative to “illustrative IRPs”?**
- A: No. The issues that we are discussing here relate to the recommended organizational structure and not the specific resources that would be included in a resource plan.

Discussion on Paths and Scenarios Proposed by Black & Veatch

- The current study scope calls for the detailed evaluation of three alternative organizational structures.
- Kevin Harper led a discussion of the various alternative structures that could be evaluated and proposed the following three alternatives:
 - Path 1 - Status Quo (without Chugach/ML&P Merger)
 - Path 2 - Form an Entity (e.g., JAA, G&T or State Agency) that would be responsible for Joint Economic Dispatch
 - Path 3 - Form an Entity (e.g., JAA or G&T) that would be responsible for Joint Economic Dispatch, Regional Resource Planning and Joint Project Development

- **Q: Does the JAA/G&T cover the UPP being proposed?**
- A: The UPP proposal would be similar to Path 3 above, but the idea is so the utilities can retain ownership, not transfer public assets to a private entity and gain access to tax-free financing.

- **Q: Aren't the utilities already accomplishing economic dispatch through their coordinated operation of the Railbelt grid?**
- A: They are coordinating, but they are not doing true regional economic dispatch. Some think there could be some more efficient economic dispatch. However, others disagree because ML&P has assets that if dispatched by other entities to be sold outside of the municipality, it would impose tax consequences on ML&P. You can't have true economic dispatch given the current tax structure and the fact that ML&P is a municipal entity.

- **Q: Did the legislation indicate any specific organizational structures that should be addressed?**
- A: No. However, the original idea of a Unified System Operator (USO) as the term is used in the enabling legislation was not the FERC definition of an RTO/ISO but much more narrow. It was intended to address the independent operation of the Railbelt grid and address the fact that there is no incentive now to reinvest in the transmission system. It was agreed that the concept of a USO, as envisioned in the original legislation, should be added as another organizational path for detailed evaluation.

- **Q: What would we take out of Path 2 for the USO? Is it just economic dispatch?**
- A: Path 2 lite would focus on only joint operation of the Intertie independent of the Utilities.
- The reason why the RTO/ISO option was not included in the three proposed alternatives is that if you look at the FERC defined function of an RTO/ISO, you have certain functions that lead to the operation of an open wholesale/retail market. It wasn't included because of the size and maturity of the market would not lead to achievement of the potential benefits associated with these aspects of an RTO/ISO.
- It was noted that if the market was big enough, IPPs would already be participating in the Railbelt. They don't invest in the Railbelt because of the small market and the nature of regulation by the RCA. However, there are some big institutional investors that might have a long enough time horizon (e.g., 40-50 years) that they might be willing to invest.
- A public comment noted that that the proposed organizational paths are focused on generation and transmission and not on the possible consolidation of the six utilities and privatization as an investor-owned utility (IOU). We need to look at the assets in the Railbelt and strip away the existing organizations and examine how they should be organized. What needs to be analyzed is that the assets need to be analyzed ignoring the existing organizations.

This issue was discussed by the Advisory Group and several members commented that the evaluation of distribution functions was an important issue that needs to be addressed relative to the ultimate restructuring of the Railbelt. Black & Veatch and AEA will discuss this further and report back to the Advisory Group during the next meeting.

- **Q: What would it take to add the evaluation of the potential consolidation of distribution functions, including the formation of an IOU, to the scope?**
- A: Norm Rokeberg noted that this was a policy issue and inertia to political change. Kevin Harper stated that this analysis will require a significant amount of effort as Black & Veatch would need to evaluate distribution-related savings (e.g., reduced staff levels, potentially combining customer billing systems and call centers, etc.).
- The Advisory Group held a discussion regarding whether consolidation of distribution functions should be added to the list of organizational paths to be evaluated as part of this study. Time constraints did not permit the Advisory Group to conclude this discussion. As a result, it will be further discussed during the second Advisory group meeting.
- **Q: In any of these scenarios, will you look at any of the legal/tax issues faced by IPPs and how they would participate in the market?**
- A: It would be part of the scope.
- The public noted that it should not be assumed that tax-free financing is the lowest cost option. For example, tax-exempt financing exposes you to Davis-Bacon construction rates.

Discussion Regarding the Teeland-Douglas Transmission Project

- Jim Strandberg gave a short history of the Teeland-Douglas project, and explained how the project was originally funded. He indicated the ML&P design team was beginning work and they were coordinating with the host utility, Matanuska Electric Association.
- Under the REGA study, this transmission segment will be part of the illustrative IRP for each of the scenarios considered.
- AEA is pursuing with its contractor, ML&P, the construction of a \$20 million, 25-mile transmission line between the Teeland and Douglas substations. AEA would own and operate the line. The question is how robust should we make this line? One of the proposed scope changes is to have Black & Veatch review and assess the transmission needs in this area. This study would review configuration and voltage/capacity/reliability, and include area needs from Knik to Talkeetna. The line is currently designed at 230kV. This is an appropriate question to be asking at this time. The work will relate design discussions to REGS illustrative IRPs.
- Black & Veatch has submitted a proposal to AEA to conduct this high-level assessment. Jim Posey noted that ML&P was in favor of this project and Black & Veatch's proposed high-level assessment.
- The Advisory Group approved without objection the concept of the proposed Black & Veatch scope change for conducting this review. AEA will continue its discussions with ML&P and others related to this project.

The Group concluded that March 24th would be the target date for the next meeting.

The meeting was adjourned at 3:35 p.m.