

Alaska Railbelt Electrical Grid Authority (REGA)
Advisory Working Group
August 27, 2008 Meeting Notes

Advisory Working Group Attendees

Norman Rokeberg, Chairman	Former State of Alaska Representative
Chris Rose, Vice Chairman	Renewable Energy Alaska Project (REAP)
Brad Janorschke	Homer Electric Association
Brian Newton	Golden Valley Electric Association
Debbie Schnebel	Scott Balice Strategies
Jan Wilson, Commissioner	Regulatory Commission of Alaska (RCA)
Lois Lester	AARP
Tony Izzo	TMI Consulting
Jim Sykes	Alaska Public Interest Research Group (AKPIRG)
Jason Sloan	Marathon Oil (in place of Les Webber)
Marilyn Leland	Alaska Power Authority

Public Participants

Tim Barnum	Seward Electric System
Randy Hobbs	Hobbs Industries, Inc.
Brad Evans	Chugach Electric Association
Tony Price, Commissioner	RCA
Bob Pickett, Commissioner	RCA
Lee Thibert	Chugach Electric Association
Christine Vecchio	MEA Ratepayers Alliance, Inc.
Lou Agi	Anchorage Municipal Light & Power (ML&P)
Ron Vecera	Chugach Electric Association
James Walker	Matanuska Electric Association
Mary Ann Pease	MAP Consulting
Von Hutchins	ConocoPhillips
Wayne Nelson	Harbert Power
Jeff Moore	Harbert Power
Paul Kendell	General Public

Alaska Energy Authority

Jim Strandberg	REGA Study Project Manager
Jim Hemsath	Deputy Director

Birch, Horton, Bittner & Cherot

Ken Vassar

REGA Legal and Tax Consultant

Black & Veatch, REGA Study Consultant

Kevin Harper

Black & Veatch REGA Study Project Manager

Doland Cheung

Black & Veatch Team Member

Telephone Participants:

Steve Denton

Usibelli Coal Mine

Henri Dale

Golden Valley Electric Association

Meeting was called to order at 10:09 a.m. (Agenda is provided as Attachment 1)

General Comments by Chairman Rokeberg to the Advisory Working Group

- He offered a thank you to the Advisory Working Group, AEA and Black & Veatch for their efforts and participation.
- Today's meeting will generally close out the first phase of this effort and we will need to decide how to deal with the REGA Study's recommendations going forward.
- My concern is how to make this study useful, and not just another study that sits on a shelf. We only have a finite amount of money and we need to make things happen.
- Financing up to \$8 billion in future investment will be a big challenge.

General Comments by Mr. Strandberg to the Advisory Working Group

- Thanks the group for their participation.
- Propose that the Group remains intact, possibly expanded, to continue the REGA project going forward.
- Thanks the Commission for their participation.
- Hopes to take away from today's meeting about the adequacy of the study, especially on a contractual level.
 - Is it adequate for the purpose, from a contractual perspective?
 - Are there any more public comments?
 - Keep in mind that we asked Black & Veatch to provide their best opinion. AEA will refrain from influencing the opinion of Black & Veatch.

- Other issues
 - What is the make-up of the group going forward?
 - How do we get this to the Legislature?
 - Black & Veatch will be on-board to continue further efforts in explaining the study, if needed.

Introductions

General Review of Draft Report Comments Received (Attachment 2) by Mr. Kevin Harper

- We did not receive comments from ML&P or Chugach, but they will make a public statement during today's meeting, if any.
- The comments received generally fall into three categories:
 - Business structure – Cooperative or State Power Authority?
 - Regulation – RCA oversight, lack thereof or other?
 - Miscellaneous.
- Business structure comments
 - The comments received did not mention that the formation of a joint entity was a bad idea. Also, few comments were received regarding the appropriate functions of the regional entity.
 - As such, business structure-related comments generally revolved around the issue of the assumptions supporting the recommendation of business structure, a G&T Cooperative versus a State Power Authority.
 - This is an important issue since it largely determines the choice between the two structures.
 - An important point is that there are incremental savings associated with the tax savings that can be achieved by a State Power Authority. The differential is the price you pay for local control (G&T Cooperative) versus State control (State Power Authority).
 - A State Power Authority would require an independent Board (no utility majority). Thus, there are several issues associated with the appointment of Board members.
 - Independence from political voting cycles.
 - Knowledgeable of general utility matters.
 - If utilities are not part of the Regional entity, do they have to follow the rules of the entity?
 - What is the role of independent power producers (IPPs) if tax-exempt debt is the goal of a Regional entity?
 - MEA pointed out the lack of a public policy regarding the retail requirements approach.

- MEA also hinted at the appearance of a bias in favor of a State Power Authority, due to project management of the REGA Study by AEA (a State agency).
 - In Black & Veatch's view:
 - AEA staff has been very careful in guiding the development of the REGA Study, and
 - AEA has not provided any input regarding what they think the business structure should be.
- Regulatory comments
 - Several comments indicated disagreement with the recommendation to not have RCA oversight of regional entity decisions as they are made and that RCA oversight would only occur when a specific issue was brought forth to the RCA.
 - Black & Veatch's viewpoint was to recommend no RCA oversight for the following reasons: 1) regional generation and transmission entities are typically not subject to state regulatory oversight, 2) the potential conflict when one state agency oversees another state agency, and 3) we do not believe that the benefits of regulation outweigh the incremental costs.
 - Black & Veatch decided not to speak with Regulatory Affairs & Public Advocacy (RAPA) section of the Attorney's General Office early in the process.
 - RAPA did provide comments in response to a survey instrument that was sent to all stakeholders on AEA's original invitation list for the first Technical Conference last November.
 - AEA spoke RAPA and extended an opportunity to provide input.
 - Their response was that two representatives were at the second Technical Conference in July.
 - RAPA is monitoring the situation.
 - RCA Chairman Pickett also spoke to the Attorney General's (AG) office:
 - The AG didn't feel it was appropriate to provide specific comments at this time.
 - However, at some point in time, they need to be part of the process.
 - Other comments questioned RCA oversight and extended it to regulation by other State agencies (such as environmental regulation).
 - The RCA proposed to have a workshop to address the issue of regulatory oversight, and provide a list of suggested topics of discussion with its comments.

- Miscellaneous comments
 - Regional economic dispatch under current situation – GVEA
 - Non-economic benefits of a regional entity:
 - Additional career options and ability to compete for labor in the marketplace – GVEA.
 - Ability to monitor developments and project status – GVEA.
 - Concentration of staff leading to more sophisticated planning – GVEA.
 - Potential to lower legal costs given that majority of legal challenges have been over power supply issues – GVEA.
 - Would the SPA be more likely to installed transmission lines underground? – GVEA.
 - How will the required level of reliability be determined for the region and each municipality? – GVEA.
 - Should a SPA sell electricity directly to end consumers, how will large industrial customers that are served at transmission voltage be handled? – GVEA.
 - Immediate need for a regional Integrated Resource Plan – Marathon.
 - Ability of the region to handle new potentially large loads – Marathon.
 - Ability of HEA and MEA, in the absence of a regional entity, to proceed on their own once their contracts with CEA expire – Marathon.
 - Impact of ongoing ML&P/CEA discussions on the formation of a regional entity – Marathon.

General Comments from Chugach by Mr. Evans

- Chugach is very supportive of the REGA process. He agrees that it is good for its members and is in general agreement with the Study recommendations. However, there are major issues going forward, such as:
 - Regulatory and governance.
 - Asset transfers.
 - Bilateral agreements.
 - Cost allocation / hold harmless mechanisms.
 - Tax-exempt financing should not be the ultimate goal. Major cost savings can be achieved through reduction in redundancy.
 - Ultimate goal should be to provide the lowest cost electricity to its members.
 - The electric utilities are out of time and need to get moving.
 - Chugach has recommended immediate, near-term and long-term solutions.

- Chugach agrees with the REGA Study and thinks the utilities need to move forward immediately. Things are only going to get worse, affordability-wise, going forward.

General Comments from ML&P by Mr. Agi

- Generally, ML&P has supported the concept of consolidated operations of the Railbelt.
- ML&P is not sure if the mandatory requirements are appropriate for ML&P's needs.
- ML&P is willing to cooperate where they can, but they are concerned about their ability to serve their load.
- ML&P thinks that governance needs to adequately represent all interested parties including the general public.

Discussion of Any Other Comments or Issues

- Mr. Sykes commented that:
 - We need everyone to sign off on the issues before we go to the Legislature.
 - We need to discuss the requirement for energy-only experts on the Board since this is public process.
- Chairman Rokeberg responded by stating that besides discussing any additional issues, we need to focus on finalizing this Study, addressing the need to continue this Group and approaching the Legislature, and how to proceed on future hydropower studies.
- Ms. Pease provided additional commentary on:
 - She took exception to the cooperatives' stated need for local control.
 - Cooperatives have not done a good job in general (e.g., financials, fuel source stability, etc.).
 - Noted that the proposed rate equity and hold harmless clauses need to be implemented.
 - For example, Chugach and ML&P customers don't want to pay GVEA rates.
 - Need to consider the private sector, including the recommended provision for a competitive power procurement process.
 - Competitive bidding.
- Mr. Izzo provided additional commentary on the timeliness of the issues. He is concerned about how do we get to the next step?
- Mr. Strandberg responded by giving a brief overview of what AEA has been doing:
 - AEA has been looking at the next steps and has largely followed the recommendations set forth in the Study.
 - AEA is actively pursuing an engineering and economic feasibility study of the Susitna hydroelectric plant and the development of a regional integrated resource plan (IRP) - \$2.5 million has been appropriated by the Legislature to cover both studies.

- AEA has considered the continued make-up of this group.
- AEA has considered the formation of a new group (with State, utility and public representatives) going forward regarding:
 - Capital expenditures on the existing system,
 - REGA Study actions going forward, and
 - Gas supply contracts.
- Mr. Izzo reiterated that the size and scope of recommendations is daunting. For example, for gas contracts, aggregated procurement may be a solution.
- Mr. Harper responded to Mr. Izzo's concerns by stating:
 - It is very easy to conclude it's a daunting task, but once a decision to move forward has been made and momentum has been established, things will move forward.
 - The most important next step is to secure an agreement between utilities, State and RCA regarding moving forward.
- Mr. Izzo responded that the utilities need to say if there is enough support to gain momentum.
- Mr. Evans responded that:
 - It can not be just one team that can make these decisions. It will just consume them.
 - We need to balance size, representation, etc.
 - We need to break down the issues into manageable portions to effectively drive forward.
 - Would like to leave a sense of urgency with this Group. Transitional meetings can't be held only monthly, meetings need to be weekly.
- Mr. Kendell commented that:
 - He would like to bring the public into this process; insider meetings are useless.
 - The scope of this undertaking is quite large.
 - This meeting should be on camera.
 - We need another AGIA to deal with these issues.
 - Electric vehicles will be here soon, resulting in a major conversion of society.
 - Residential issues need to be addressed separately.
 - Hydrogen vehicles and related infrastructure are coming.
 - This needs to be an interwoven fabric event with all of the other public forums related to energy.
- Mr. Rose reiterated that timing is critical. We need to do something. It's going to boil down to differences and agreements between the utilities. Continued squabbling will only stall the process. He suggests a process to facilitate agreement between the utilities.

- Mr. Izzo wanted to clarify that he supports the Study and the need for regulatory oversight. He just doesn't want to see a duplication of effort. The Group needs to keep in mind that working in a vacuum can be counterproductive. Previous gas agreements never had today's prices in mind, resulting in unintended consequences.
- Ms. Vecchio commented that one thing to keep in mind is why the study happened in the first place.
 - Agreement is critical.
 - Once agreement is achieved, the details can be worked out. Are people on-board towards forming a regional entity?

Discussion by Mr. Strandberg on Where AEA is Today

- AEA sees a need for a multi-billion dollar investment in generation and transmission (G&T) and intends to act.
- AEA doesn't believe that the utilities can raise that amount of money on their own.
- The development of a regional IRP process will involve a rational approach and public process.
- AEA sees a need to create an entity to embark on resolving the capital expenditures (CapEx) issues.
- AEA hope is that the REGA Study can be used as a starting point to negotiate agreement amongst all players to create this entity to deal with these immediate issues.

Discussion About Integrated Resource Plans (IRP)

- Commissioner Wilson commented that she has never been involved with development of an IRP and wanted to know how fast an IRP can be developed.
- Mr. Strandberg replied that he used to think the Governor needed to provide direction before an IRP could be developed. Now, he is of the opinion that the IRP will decide the path. Black & Veatch cannot prepare the IRP (due to procurement rules), but the AEA will bring in a term contractor to do the work.
- Mr. Harper added that if one was starting from scratch, and the resulting IRP had to go through a full blown regulatory proceeding, a six month period would be challenging, but doable. He also mentioned that some things can be done now to get the process going:
 - Prescriptive resource plans are available in the REGA Study,
 - The utility data used in the Study is relatively recent and the database is cleansed,
 - Also, not every detail needs to be hashed out fully in the IRP, and
 - Reasonable assumptions can be made on DSM programs and renewable resources without fully answering the questions.

- Mr. Strandberg commented that we may be able to get some input to the Legislature for their upcoming session, but the IRP will not be completed by then.
 - Mr. Rose wanted to clarify that CapEx requirements won't be done until the IRP is done.
 - Mr. Strandberg answered that is correct.
- Mr. Thibert commented that the Railbelt does have some good recent data with recent IRPs done by Chugach and ML&P, with the GVEA IRP being fairly recent as well. Chugach has done a generation plan and feels that good data exists today for the Legislature. The missing element is the 10-12 years out viewpoint.
 - Mr. Harper added that was the database of utility information that he was referring to. A typical IRP process involves taking the old plan and updating it. A regional plan will be different in that:
 - An existing regional plan doesn't exist, and
 - Getting agreement on the assumptions will be one of the biggest challenges (e.g., getting consensus on the availability and price forecast for natural gas).
 - Mr. Sykes replied to Mr. Harper's point that he thought the ML&P IRP was deficient and shouldn't be used going forward. There will be a need to hold harmless on the regional approach. Everybody is going to be paying more and there will be a rate adjustment, but it would be good to know what that adjustment is going to be. The current Railbelt utility IRP processes are lacking in public involvement. Why isn't it a citizen-led IRP process?
 - Mr. Sykes also commented that regarding MEA's comments about a cooperative versus State structure, why can't we have both? RCA oversight and public input.

Discussion Regarding Consensus

- Mr. Kendell commented that he would choose someone like the Chugach Board to lead the effort.
- Mr. Hobbs agreed that time is of the essence.
- Mr. Janorschke commented that Black & Veatch's job wasn't to get consensus. Their goal was to collect and analyze data. A key is that the Boards of Directors were not present during the process. Mr. Janorschke suggested a Technical Conference be held to present the information to the Boards. The key will be to get consensus amongst the Boards.
- Chairman Rokeberg replied that he appreciates the comments, but only a few Board members chose to be present at the last Technical Conference. He also asked the group if it is appropriate to continue this group, evolve it into another group, form a new group or consider something else.
- Mr. Janorschke suggested having AEA and Black & Veatch organize one or several meetings to address the Boards.

- Mr. Thibert commented that governance is a major issue. He suggested that maybe one action going forward would be to form a sub-committee with members of each Board to discuss governance issues.
- Chairman Rokeberg replied that he is in agreement with the first bullet of the recommendations (i.e., the need to form a regional entity). AEA and this group need to expedite this and that it is very consistent with the recommendations.

Discussion on Financing

- Chairman Rokeberg asked if Mr. Vassar could reiterate the financing issues associated with a State Power Authority versus G&T Cooperative business structure, and how to utilize tax-exempt financing through the Alaska Railroad if the business structure was not a State agency.
 - Mr. Vassar replied that:
 - If it goes through the Railroad, tax-exempt debt could be used, since it has a special exemption.
 - If not, the ability to use tax-exempt debt will be determined by the structure chosen.
 - In general, I am in agreement with my a previous comment that tax-exempt financing should not be the tail wagging the dog. If a State agency is created with tax-exempt financing in mind, the cart may be before the horse.
 - However, if you decide on not using a State agency, you close the door on tax-exempt financing. However, the Railroad may help this.
 - Also, tax-exempt financing may be irrelevant given RUS financing, but the real question is if RUS financing will even be available, quantity-wise. RUS may not have enough dollars available.
 - Timing is important in that you need to make sure you don't go down a particular trail and have to back up part way because that trail is no longer an option.
 - He also sees a need to go down the trail that minimizes litigation. You may not be able to avoid it, but you may be able to minimize it.
- Chairman Rokeberg asked about the possibility of general obligation (GO) bonds to finance a hydropower plant and sell the energy back to a regional entity.
 - Mr. Vassar replied that it may be a viable solution.
 - Ms. Lester commented that in order to get a GO bond, all the utilities need to agree and that is a lot of work. She also stated that she thinks there are a lot of misconceptions on the amount of baggage involved regarding getting the utilities to agree.

- Ms. Schnebel commented that GO bonds would require revenues to pay off the bonds, but that her understanding is that the utilities would not be able to repay the bonds. Also, she commented that the Railroad is not a slam dunk, given the need for an IRS opinion letter and use of funds associated with the Railroad.
- Chairman Rokeberg added that the transportation clause is the key language.
- Mr. Sykes asked about whether the basis point difference between tax-exempt debt and taxable debt is as high as 175 point versus little or no difference as noted by one commenter. He wanted to know if this was really a difference in opinion or actual rates.
 - Mr. Vassar replied that the problem is in finding an apple that matches the apple in hand. Two identical financings on the same day won't look the same. Maturities, security, ratings, variable versus fixed, letter of credit are all factors that can influence rates. 175 basis points is a pretty good guide, but it changes constantly. But in general, tax-exempt financing will be less than taxable.
 - Mr. Vassar also replied that there are other options besides bond financing. There will be a team of underwriters and financial advisors to structure the deal as best as possible. They will make recommendations as to when to go to market, based on market conditions.
 - Mr. Harper replied that the basis point issue was researched by Black & Veatch, including discussions with four different bankers. The 175 basis point difference related to tax-exempt debt versus taxable debt. Another important comparison is tax-exempt debt versus RUS financing. The interest rate differential is much less as RUS rates are typically close to tax-exempt debt rates. One thing to keep in mind is the volume of dollars available through the RUS at any given time varies from year to year. Over the past 30 years, it has averaged about \$2 billion per year (\$6 billion is available this year). RUS has to demonstrate each state gets its fair share over the long-term. Assuming Alaska gets 1/50th, that \$2 billion shrinks to \$40 million. Then, it needs to be spread out across generation/transmission and distribution. Assuming a 50/50 split here, you are not going to be able to finance the magnitude that is required through the RUS.
 - Mr. Harper also replied that RUS right now has a definite preference for renewable projects. That's good for hydro, but not coal or natural gas. Also, you don't need to be a cooperative for RUS financing; a State agency can get RUS financing. However, RUS is focused on rural funding. GVEA, MEA and HEA are defined as rural utilities on a standalone basis, but if they are combined into a regional entity that included Anchorage, then the ratio of rural versus urban customers becomes a factor in that the RUS allocation of funding will be lowered on a proportional basis. In light of these factors, it is our opinion that the region can't meet future needs through RUS financing alone.
- Mr. Kendell commented that this has become an AGIA moment. We need a vision. My interest is in residential. Energy is supposed to be for the home. I don't want to see any financing on residential. Residential needs to be converted to electric and water as soon as possible.

Chairman Rokeberg Called for a Lunch Break at 12:28 p.m. and to Reconvene at 1:00 p.m.

Chairman Rokeberg Reconvened the Meeting at 1:18 p.m.

Discussion Regarding REGA Study Recommendations

- Chairman Rokeberg started off the afternoon session referencing page 138 of the recommendations section in the Draft Report:
 - Would like to discuss bullet number 5 of the recommendations, “Required legislative actions...”
 - Do we continue as a group?
 - If so, do we establish a new group?
 - How do we create the management transition team?
 - Mr. Strandberg added that this group could evolve to include:
 - Utility Board members.
 - Additional public interest people.
 - However, this could be a subject of the next Legislative session and there will be a need for people willing to testify on the REGA process.
 - Mr. Strandberg also stated that AEA is beginning to implement the management transition team and that the utilities have recommended representatives from each of them. The expectations would be to 1) continue to meet at least monthly, and 2) the utilities would play a significant role.
- Commissioner Pickett asked if this study would go to the utilities boards for approval and/or endorsement. He also stated that at the last session, he did not see consensus and that this will need unequivocal support to get through the Legislature.
- Chairman Rokeberg stated that he was in agreement and that we won’t get anywhere politically without agreement.

Discussion Regarding AEA Action Going Forward

- Mr. Strandberg asked if the Group would be open to allow the AEA to propose a structure of the above to address: 1) going forward, 2) resolving current CapEx issues, and 3) developing a regional IRP.
 - Commissioner Pickett responded that timing is an issue. There are short-term issues of getting through the winter, next session, etc. In the mid-term, does an IRP make sense? Ultimately, the utilities are moving forward to address issues in the three to five year period.
 - Mr. Strandberg added that he was envisioning one to seven years of involvement between the State and the utilities to address transition period issues. Also, he saw a need to establish some form of agreement for a large scale project ratified by the IRP.

- Chairman Rokeberg commented that he would be concerned about the packaging of the IRP and large scale capital project. The hurdles of either may kill both projects. Why would this group endorse a particular large scale project?
 - Mr. Strandberg replied that he was thinking more along the lines of an agreement on a process, not an endorsement of a particular project.
- Mr. Walker commented that it needs to be remembered that an IRP reflects a snapshot in time and that what the utilities are doing now impacts the validity of the IRP in the future. The utilities can't stop doing what they are doing now and wait for this process and the Legislature to decide on what to do.
 - Mr. Strandberg asked if he had a recommendation on how to address this.
 - Mr. Walker responded that MEA doesn't agree with the study, especially with regards to regulatory oversight and business structure. Again, MEA can't stop what we are doing. They are in the process of building two mini-hydro plants this winter and once they are built, they will be part of MEA's and the region's resource mix. The same goes for ML&P and their proposed project. The AEA will have to meld the regional IRP with what you see on the ground.
- Mr. Kendell suggested that an energy forum is needed to address these issues. Have the RCA host an energy seminar on camera as opposed to behind closed doors.
- Mr. Sykes commented that Mr. Walker made a good point regarding timing. Also, he believes a wider group may be able to provide additional perspectives or ideas of value to the process.

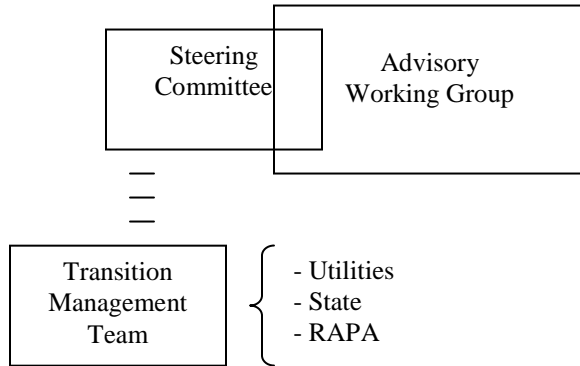
Discussion on the Transitional Management Team

- Mr. Harper discussed the idea behind the transitional management team. Once you determine how the region wants to proceed going forward, this team would include a series of working groups to address the issues to implement the vision. The transitional management team would oversee this effort. The 12-month time frame that we've estimated for the implementation plan is aggressive and involves around 10 full-time equivalents (FTEs).
- Mr. Kendell asked if the State Energy Director should be leading everything.
 - Mr. Strandberg replied that this study is just focused on the Railbelt region. Mr. Haagenson's responsibility is for the entire State. This project will become part of the bigger plan.
- Mr. Rose commented that the description of the transition team made sense to him and that he thinks it will work. But he questions how this going to happen before the next session without a decision by the utilities to move forward.
- Chairman Rokeberg commented that AEA and Black & Veatch are here to help us make that decision, but we still have to make the decision. It is up to the AEA to get us to make the decision and that would be appropriate.

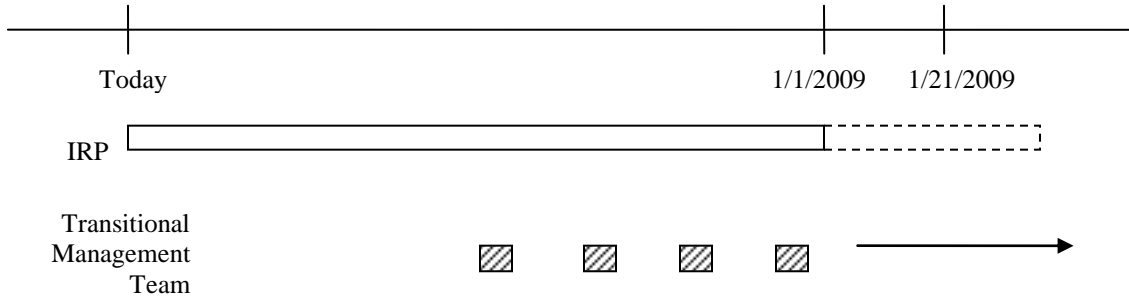
Discussion on Next Steps

- Commissioner Wilson stated that the study recommends the formation of a State Power Authority. I haven't heard anything today regarding the 63-20 corporation, so I assume that is out. But the G&T Cooperative has been discussed; therefore, is AEA looking for a decision on which business structure?
- Mr. Strandberg replied that he thinks the Study is sufficient for the contract and has determined that the Study will be accepted as sufficient. However, we need to decide on which recommendations to implement.
- Commissioner Wilson asked for clarification if "we" is AEA.
- Mr. Strandberg responded that "we" is this Group, including AEA and the utilities.
- Commissioner Wilson asked if the next step is to get the utilities to get together to review the study.
- Mr. Strandberg replied that he would expect it to be a joint decision, with the assistance of technical advisors and that there will be a need for additional work to continue what Black & Veatch has done.
- Commissioner Wilson asked:
 - Will the business structure to be decided on be resolved by the utilities regarding governance?
 - In my mind, governance and regulatory oversight go hand-in-hand. In certain cases, it is just another cost.
- Mr. Strandberg replied that the cost responsibility needs to be balanced by the utilities ability to respond to governance. These concepts need to be considered when we decide on the governance issues.
- Mr. Agi asked if we still have to make a decision on governance and regulatory oversight. The discussion started out that the decision needs to be made by the AEA and the utilities. But the Commission has said that the Advisory Working Group has to make the decision. So who is correct?
- Mr. Strandberg replied that the State agency and the utilities can go a portion of the distance, but the Legislature needs to help with the final steps. It's on the table as to whether a bill is required. The AEA will continue to seek advice from this Group and the process will continue to be public.
- Ms. Pease suggested that an MOA/MOU be developed by the General Managers and utility Board Chairs to find out where we stand.
- Mr. Strandberg reiterated that, in his mind, that's where we are now.
- Chairman Rokeberg reiterated that we're trying to decide that the team would be the AEA, utilities and this group to provide a vision going forward, with RCA involvement as appropriate, given the business structure and governance.

- Mr. Strandberg suggested illustration of the discussion:



- The timeline would look something like this:



- Mr. Walker commented that to the extent there is a concern about the public process, the RCA has a formal public process that could serve as an umbrella for these meetings, if it is appropriate, since these decisions could affect rates for a long time.
- Mr. Sykes commented that if ex parte contact becomes an issue, the RCA workshops could also be a viable solution for a public process.
- Chairman Rokeberg asked if Black & Veatch could participate in the RCA workshops.
 - Mr. Harper replied, yes.
- Commissioner Wilson wanted to confirm that the transmission expansion plan will be part of the IRP.
 - Mr. Strandberg replied, yes, it is.

- Chairman Rokeberg asked that unless there are any more comments, I'd like to read a suggested resolution:

“WHEREAS, the Alaska Railbelt utilities face a set of common problems that may need a common solution,

WHEREAS, the Alaska Railbelt utilities need to explore options on how to best work together for the benefit of Railbelt utility customers,

THEREFORE, be it resolved that the REGA Study Advisory Working Group recommends that the State convene a transitional management team composed of the affected utility managers and respective Board members, and State officials, to find a consensus on the organizational and governance structure, and regulatory framework that can be recommended to the State Legislature by the beginning of the 2009 Legislative session through a Memorandum of Understanding (MOU) signed by the affected utilities, municipalities and the State of Alaska.”

- Chairman Rokeberg asked if there are there any objections to the aforementioned resolution.
- Seeing no objections, Chairman Rokeberg adopted the above resolution.

Additional Comments

- Mr. Barnum stated that not all of our projects should be based on economics and that some need to be based on public necessity, survivability and humanity issues. He also stated that, under the State Power Authority, employees would be under the State's Tier IV program, which is less attractive than the benefits package offered by the cooperatives, and asked if this was considered as part of the study?
 - Mr. Strandberg replied that we know it exists and it could be a deal killer in itself.
 - Mr. Harper replied that Black & Veatch is aware of the issue but didn't analyze it, as it is outside of the scope of this project.
- Chairman Rokeberg asked if there is a difference in the implementation plan costs between the State Power Authority and the G&T cooperative.
 - Mr. Harper replied that the costs are largely the same. We would suggest that the transitional management team go back and review the implementation plan or take our plan and customize it to their specific needs once a vision as to how to move forward is reached.

- Chairman Rokeberg commented that he sees one issue being the transfer of assets.
 - Mr. Harper replied that the study assumed that assets would not be transferred.
 - Mr. Thibert commented that before we go out and create duplicate control centers, we need to analyze utilization of existing assets.
 - Mr. Harper replied that Black & Veatch assumed the existing control centers would be utilized with existing control center employees. Black & Veatch also assumed necessary upgrades to operate on a regional level.

The meeting was adjourned at 2:44 p.m.

ADVISORY WORKING GROUP MEETING

August 27, 2008

Meeting Handouts

Attachment 1 – Meeting Agenda

Railbelt Electrical Grid Authority (REGA) Study Advisory Working Group – Fifth Meeting August 27, 2008

Time	Topic	Responsibility
10:00 – 10:15	Introductory Comments	Steve Haagenon Jim Strandberg Norman Rokeberg
10:15 – 10:25	Approval of Fourth Meeting Summary	Norman Rokeberg
10:25 – 10:40	Summary of Public Comments Received Related to Draft Report	Kevin Harper
10:40 – 11:00	ML&P and CEA Comments on Draft Report	Brad Evans Jim Posey
11:00 – 12:30	General Discussion <ul style="list-style-type: none">• Comments of AWG members on Draft Report• Comments relative to public comments	Norman Rokeberg Jim Strandberg
12:30 – 1:00	Lunch Break	All
1:00 – 2:00	General Discussion (con't) <ul style="list-style-type: none">• Comments of AWG members on Draft Report• Comments relative to public comments	Norman Rokeberg Jim Strandberg
2:00 – 2:45	Discussion Regarding Development of Final Report	Norman Rokeberg Jim Strandberg
2:45 – 3:00	Concluding Comments	Norman Rokeberg

Attachment 2 – Summary of Public Comments

Railbelt Electrical Grid Authority (REGA) Study Summary of Public Comments Received on Draft Report

Form of Regional Entity

- Questionable assumptions supporting formation of a State Power Authority (SPA):
 - Whether the Governor and State Legislature would be more inclined to provide financial assistance to a public entity (e.g., State Power Authority) versus a private business (e.g., G&T Cooperative) - GVEA and MEA
 - Historical interest rate differences between tax-exempt bonds, taxable bonds, and RUS/FFB financing – GVEA and MEA
 - Limits regarding availability of RUS/FFB financing – GVEA and MEA
- Additional savings associated with SPA
 - Are incremental monthly savings sufficient to off-set loss of local control? – GVEA
- Governance
 - Can the Board of Directors for the SPA be sufficiently insulated from State political cycles? - GVEA
 - Need for the Board and management team to include individuals with substantive knowledge and understanding of the electric business - GVEA
 - Can utilities be forced to follow the results of a regional resource planning process if they are not members of the Board? – GVEA
- Role of Independent Power Producers if a primary purpose of a SPA is to obtain tax-exempt financing – GVEA
- Lack of public policy reason for the State to directly become the retail power supplier of consumers and the ability of the State to develop the required customer service infrastructure- MEA
- Appearance of bias in favor of a State agency - MEA

Regulatory Oversight

- Should the new regional entity be exempt from RCA regulation? – MEA
- How will the regional entity's rates and terms of service be set in absence of RCA oversight? - MEA
- Chosen solution needs to result in far less litigation than in the past - RCA
- Recommended regulatory construct is a confusing and potential volatile framework, and could result in extensive litigation; potential overlap of jurisdiction and unclear lines of authority among the SPA, RCA and regulated electric utilities – RCA
- Lack of discussion with Regulatory Affairs and Public Advocacy Section - RCA

Attachment 2 – Summary of Public Comments

- Should the SPA, if formed, also be exempt from Alaska Department Environmental Conservation regulation? – GVEA
- Recommended workshop with RCA commissioners and other interested members of the public to discuss the following issues: - RCA
 - Does RAPA concur with the regulatory construct of the draft report?
 - Are there sufficient protections for ratepayers from unjust or unreasonable rates?
 - Does the RCA's authority over special contracts extend to fuel contracts negotiated between the SPA and the regulated utilities?
 - Can the RCA disallow costs flowing from the SPA to Alaska's ratepayers if those costs are found to be unjust or unreasonable?
 - If the RCA does disallow costs, what effect does the RCA's rejection of costs have on the SPA's bond ratings and its ability to repay debt?
 - What happens to cost overruns on facility construction or in the circumstance when the facilities do not perform as intended, such as was the case with the Healy Clean Coal Plant? Are ratepayers expected to absorb these costs as part of their electric rates or will the SPA absorb any losses?
 - What remedies exist for consumer complaints or complaints from regulated public utilities?
 - Will RAPA be able to investigate concerns on behalf of Alaska's ratepayers? Will RAPA be allowed an evidentiary hearing before an independent panel separate from the board of directors? Will RAPA be allowed discovery and due process in conducting its investigation?
 - Will rates be established based on generally accepted regulatory practices, under a just and reasonable standard? Will facilities be required to be used and useful before ratepayers are required to pay for the costs of those facilities?
 - What are the areas of cross-jurisdiction between the planned SPA and the RCA and what modifications are needed to AS 42.05 to clarify those jurisdictional roles?
 - How could the SPA benefit from economic regulation by the RCA? What are the specific disadvantages of RCA regulation for the SPA?

Other

- Regional economic dispatch under current situation – GVEA
- Non-economic benefits of a regional entity:
 - Additional career options and ability to compete for labor in the marketplace – GVEA
 - Ability to monitor developments and project status – GVEA
 - Concentration of staff leading to more sophisticated planning – GVEA
 - Potential to lower legal costs given that majority of legal challenges have been over power supply issues - GVEA
- Would the SPA be more likely to installed transmission lines underground? - GVEA

Attachment 2 – Summary of Public Comments

- How will the required level of reliability be determined for the region and each municipality? - GVEA
- Should a SPA sell electricity directly to end consumers, how will large industrial customers that are served at transmission voltage be handled? – GVEA
- Immediate need for a regional Integrated Resource Plan – Marathon
- Ability of the region to handle new potentially large loads – Marathon
- Ability of HEA and MEA, in the absence of a regional entity, to proceed on their own once their contracts with CEA expire – Marathon
- Impact of ongoing ML&P/CEA discussions on the formation of a regional entity - Marathon