Senate Bill (SB) 217 Talking Points

Instructions for testifying: If you are calling from Anchorage, dial 907-563-9085. If you are calling from Juneau, dial 907-586-9085. If you are calling from anywhere else, dial 844-586-9085. Once you connect, tell the operator, "I want to make a public comment on Senate Bill (SB) 217, which is being heard in the Senate Resources Committee."

Overall Message: SB 217 is an elegant, minimalist approach to removing existing "pancaking" transmission tariffs and improving the economic and competitive conditions for new generation projects in the Railbelt. The bill would also treat independent power producers like electric cooperatives by making them exempt from local property taxes if the power they generate is sold to a cooperative. Thus, SB 217 creates value for ratepayers by resolving two significant problems with the current system.

The first problem Senate Bill 217 addresses is the Railbelt's inefficient mechanism for recovering the costs of owning and operating the integrated transmission system. Currently, each Railbelt electric utility charges a per-unit wholesale transmission charge, or "wheeling rate," for power that is moved through its portion of the integrated transmission system. In practice, multiple wheeling rates are "pancaked" on top of the original generation cost for power that flows through multiple service territories on the way from its source to the end consumer. These duplicative transmission fees degrade the economics of generation projects located in specific areas (e.g., next to large wind, solar, coal, or natural gas resources) with customers in a different utility service area, ultimately stifling price competition and raising electric rates in the Railbelt.

Senate Bill 217 fixes this problem by simply directing the Regulatory Commission of Alaska (RCA) to develop an alternative cost recovery mechanism through which the actual, reasonable costs of owning and operating the integrated Railbelt transmission system are recovered from the load-serving entities (LSEs) in the Railbelt on an annual lump-sum basis that takes into account each utility's proportionate use of the system (as measured by total annual load). This is done by an independent "association" that is nothing more than an accounting mechanism. This mechanism would eliminate the duplicative pancaked wheeling rates that prevent otherwise economic energy projects from being built. Instead the mechanism allocates the total annual transmission system costs proportionately across its users.

The second problem Senate Bill 217 addresses is the inefficient and inequitable way in which Independent Power Producers (IPPs) are taxed. Under existing state statute, municipal and cooperative electric utilities are exempt from state income and local property taxes. This makes sense, as the only way cooperative electric utilities could recover those costs would be by passing them along to their ratepayers. However, IPPs in Alaska must still pay state income and local property taxes, which can constitute a sizeable portion of their cost structure. In order to recover those additional costs, IPPs must incorporate those costs into the power purchase agreements that they negotiate with electric utilities. This degrades the economics of IPP projects, and can preclude otherwise economic energy projects from ever being developed. If projects are developed, the current law increases the cost of energy by passing on the costs of taxes to consumers.

Senate Bill 217 fixes this problem by treating IPPs the same as each electric cooperative utility with regards to taxation if the power the IPP generates is sold to a cooperative.

In summary, SB 217 represents a straightforward solution to two very material problems with the integrated Railbelt transmission system that both currently degrade the economics of new energy projects, unnecessarily raise rates for consumers and prevent price competition.