

DRAFT MINUTES

JOINT INTERIM COMMITTEE ON ENERGY John Brown University, Simmons Great Hall A 200 W. University Street, Siloam Springs, Arkansas

Thursday, September 10, 2015

The Joint Interim Committee on Energy met at 2:00 p.m. Thursday, September 10, 2015, at John Brown University Simmons Great Hall A, 200 W. University Street, Siloam Springs, Arkansas.

Committee members present: Senators David Burnett, Chair; and Scott Flippo. Representatives Bob Ballinger, Chair; Rick Beck, Vice Chair; Charlotte Vining Douglas, Kim Hendren, Jack Ladyman, Robin Lundstrum, Betty Overbey, James Sorvillo, and Brent Talley

Alternate members present: Representative Ken Bragg.

Also attending: Representatives Jim Dotson, Dan Douglas, Charlene Fite, Grant Hodges, Stephen Meeks, Rebecca Petty, and Sue Scott

Representative Ballinger called the meeting to order.

Dr. Charles Pollard, President, John Brown University, was recognized and stated there are approximately 2,700 students attending the university, which is ranked No. 2 in their region by *US News and World Report*. The university is starting a new Bachelor of Science nursing program with 80 students.

CONSIDERATION TO APPROVE MEETING MINUTES [EXHIBITS C1 AND C2]

Representative Ladyman made a motion to approve the September 24, 2014, and September 25, 2014, meeting minutes. The motion was seconded by Representative Charlotte Douglas, and without objection, the motion carried.

CONSIDERATION OF MOTION TO AUTHORIZE CO-CHAIRS TO APPROVE SPECIAL EXPENSES INCURRED BY THE COMMITTEE [EXHIBIT D]

Senator Burnett made a motion to ratify special expenses incurred in conjunction with the September 10-11, 2015, Joint Energy Committee Meetings in Siloam Springs, Arkansas. The motion was seconded by Representative Ladyman, and without objection, the motion carried.

Representative Beck made a motion to authorize the co-chairs to approve the expenditure of committee funds for special expenses. The motion was seconded by Representative Ladyman, and without objection, the motion carried.

CLEAN POWER PLAN AND ITS IMPACT ON ARKANAS AND UTILITIES

Mr. Ted Thomas, Chairman, Arkansas Public Service Commission (PSC), was recognized and noted the Environmental Protection Agency's (EPA) Final Clean Power Plan Rule is less stringent than the Proposed Draft Rule due to:

- Regional averaging - Arkansas' gain was other states' pain; and
- Allowing the 2013 John W. Turk Jr., Power Plant usage to be used in the 2012 baseline which helps with the state's target.

He noted some reasons for final rule changes:

- Litigation risk.
- Extending timeframes.
- Comments drafted by the Attorney General's office, PSC, and Arkansas Department of Environmental Quality (ADEQ) changed some of the EPA's approach.

The rule consists of approximately 1500 pages with complex subject matter, and the PSC continues to work with stakeholders and agencies through the process.

Mr. John Bethel, Executive Director, PSC, stated the first stakeholder meeting is scheduled October 9, 2015, at ADEQ offices in North Little Rock. They will allow individuals to be informed about alternatives being considered and ultimately components of the state implementation plan. ADEQ has set-up a webpage for information relating to the final rule.

The same stakeholder groups used to evaluate the draft rule will be used for the final rule. These stakeholders include representatives from the utility companies, state chamber, and environmental groups such as the Sierra Club and Audubon Society. This diverse group has worked effectively to discuss alternatives and impacts.

Representative Charlene Fite asked if there was anything the state can do to prevent Clean Line from running transmission lines across the state.

Mr. Bethel recommended staying in contact with the Arkansas Congressional delegation, who are currently engaged in filing legislation regarding the project. The General Assembly passed legislation on the acquisition of right-of-way and the cost of acquiring right-of-way that would make it more expensive for a non-utility.

Ms. Becky Keogh, Director, ADEQ, was recognized and stated ADEQ is committed to working with partners and stakeholders to develop the state's strategy, and will continue to explore strategies that maintain control at the state level.

She noted the state is already seeing a decrease in CO₂ emissions. With the final rule, EPA estimates seeing a 12.8% reduction by 2020. The state has a 36% reduction target by 2030. There are 54 generating units in the state, and 19 are subject to the rule. Some of those facilities are idle or not used except for emergency purposes, therefore, may not be part of the coal budget, but looking at the state's plan all those generating units that are currently operating or potentially operating in the state have to be considered. The final rule extended the compliance date from 2020 to 2022, and Arkansas is allowed to average the emissions from 2022 to 2030 to reach that ultimate goal.

By September 6, 2016, an initial submittal is due or submit a request for time extension. It is important to develop documentation to support a time extension request. The EPA indicates they will provide up to a two-year extension, which is September 6, 2018, to submit a final state plan. If the state has not submitted a final plan by this time, a federal plan will be implemented. The state expects to request an extension, but will have to support that request with stakeholder engagement processes and provide progress reports defining the actual compliance plan approach by September of 2017.

EPA'S FINAL CLEAN POWER PLAN: IMPACT ON ARKANSAS AND THE ELECTRIC COOPERATIVES

Ms. Sandy Byrd, Vice President, Public Affairs and Member Services, Arkansas Electric Cooperative Cooperation (AECC), was recognized and provided a PowerPoint presentation titled, "EPA's Final Clean Power Plan: Off the Cliff, but Challenges Remain."

- AECC is a non-profit member-owned generation and transmission cooperative providing reliable, affordable, responsible power to 17 local distribution cooperatives. They serve 74 of the state's

75 counties covering approximately 60% of the land mass, providing service to approximately 1.2 million citizens.

- Co-own four coal plants – 35% co-ownership with Entergy - White Bluff Steam Electric Station and Independence Steam Electric Station; 70 megawatts of the John W. Turk Jr., Power Plant; 50/50 ownership in Flint Creek Power Plant; own 6 natural gas plants; 3 hydropower plants, and over 400 mega watts of renewable energy, three contracts totaling 309 megawatts of wind power, and a contract with Southwest Power Administration for approximately 100 megawatts of hydro power. This generation diversity results in a 5.2¢ per kilowatt hour wholesale rate. The state has one of the lowest retail electric rates – the fifth lowest in the nation at 10.07¢.

Ms Byrd stated it would take the following for the state to meet the 2030 goal of reducing the carbon dioxide emission by 36%.

- More natural gas
- More energy from renewable sources
- More energy efficiency
- Grid reliability
- Regional Transmission Organizations (RTOs) for enhanced regional planning and facilitate regional trading

AECC's potential future concerns are:

- Greater demand for gas increases price
- Higher percentage of gas equals higher price
- More gas pipeline infrastructure
- May need more transmission to integrate gas
- Will post 2030 reductions decrease gas usage?
- What will the next base load fuel be? Nuclear?
- Putting all base loads into one basket

ENERGY COST IMPACTS ON ARKANSAS FAMILIES

Mr. Robbie Wills, Executive Director, Balanced Energy Arkansas (BEA), noted his [PwrPt Presentation #2] company is a coalition of allied companies and organizations dedicated to keeping energy cheap, stable and reliable.

Mr. Wills provided statistics on family energy expenditures in the state:

- Average annual after-tax income for Arkansas households is \$22,578. These 1.1 million families take home, on average, less than \$1,900 a month, and this is 22% below the national median household income. 38% of Arkansas families earn less than \$30,000, but these families spend 22% of their take home pay on energy. Individuals 65 and older, approximately 25% of the state's households, have a median income of \$31,969, which is 39% below the U.S. median income.
- According to the National Energy Assistance Directors Association, in response to high energy bills, 24% of low income households went without food for at least one day, 35% of low income households went without medical or dental care, and 34% did not fill a prescription or took less than the full dose.

He stated his organization, in conjunction with other organizations, studied the electric industry in the state. This study produced a report by Dr. Richard Ford and Dr. Phillip Taylor titled, "The Electric Industry and Arkansans: An Economic Impact Study," and is available for free on Balanced Energy's website.

OVERVIEW OF SOUTHWEST POWER POOL, ITS FUNCTION AND AREAS OF OPERATION

Mr. Mike Ross, Senior Vice President, Governmental Affairs and Public Relations, Southwest Power Pool (SPP), [Handout #1] [PwrPt Presentation #3] explained this is a Regional Transmission Organization (RTO) that manages the electric grid and enables member companies access to a cost-saving market. There are seven RTOs in America, and they are all non-profit designated by the Federal Energy and Regulatory Commission (FERC). There are five direct current (DC) ties that connect the eastern interconnect to the western interconnect, and they are all operated from SPP's Little Rock office. SPP recently became the Reliability Coordinator for five states and runs the electric grid for all or part of fourteen states. SPP does reliability coordination for American Electric Power (AEP) Southwestern Electric Power Company (SWEPCO) and a number of electric cooperatives. 4% of what SPP does involves the state.

SPP was founded in 1941 after the bombing of Pearl Harbor. The North American Electric Reliability Corporation (NERC) was founded after the Northeast Blackout of 1965. NERC sets the standards for RTOs. The economic damage from the Northeast Blackout of 2003 was estimated between \$4 billion and \$10 billion, and this blackout led to the Energy Policy Act of 2005. This act strengthened the NERC standards of 1965, increasing the fine of up to a \$1 million per violation, per day.

SPP operating region is 370,000 miles of service territory, more than 15 million people, 589 generating plant, 4,229 substations and 48,537 miles of transmission. SPP's major services are reliability coordination, market operation and transmission planning. Service area will increase October 1.

SPP's economic impact consists of \$61 million construction investment; equipment and IT Investment of \$26.6 million, and employing approximately 600 employees with a median salary of \$85,100.

He stated SPP takes cyber security very seriously and they recently hired a former FBI agent as director of security.

SPP has done three studies on EPA's Clean Power Plan based on the draft rule, not the final rule. He stated based on reliability there could be cascading blackouts as early as 2024, and if it had taken affect, the estimated the cost for our region was approximately \$3 million a year. The study also showed that a regional approach was 40% less costly.

OVERVIEW OF SOURCEGAS OPERATION IN ARKANSAS AND BEYOND, PIPELINE SAFETY, AND EXPANSION INTO UNDERSERVED AREAS

Mr. Rich Davis, Manager of Community and Government Affairs, was recognized [PwrPt Presentation #4] and stated SourceGas is a natural gas local distribution utility headquartered in Golden, Colorado. The company and its affiliates serve 425,000 customers and operate 19,000 miles of distribution, gathering and transmission pipeline, as well as storage facilities in Arkansas, Colorado, Nebraska and Wyoming. The company and its affiliates also provide gas transportation, in-home HVAC and appliance service and sales, as well as gas commodity sales services to its natural gas customers. It is privately owned but publically regulated.

Mr. Davis stated SourceGas is important to the state for the following reasons:

- Arkansas accounts for 38% of SourceGas customers.
- Washington, Benton and Madison Counties have over 113,000 customers, and those counties have exceptional growth.
- The Fayetteville Office also includes the Customer Care Center serving all four states and sets industry standards for responsiveness and customer satisfaction.
- 120 jobs created in 2008

SourceGas has encountered the following challenges and opportunities:

Opportunities

- The instability of the price per barrel of crude oil also creates instability of propane prices.
- This instability has created growth opportunities in the poultry industry in the divisions that serve Arkansas.
- Irrigation - - the low cost of natural gas has prompted growers in NE Arkansas to convert irrigation pivots to either pure natural gas or a combined fuel of natural gas and diesel.

Challenges

- Constantly changing policies and rules at the Federal level that dictate upgrading and replacement of unprotected bare steel lines with the burden of the cost being placed on the customers.
- Antiquated laws that limit ability to expand our system into un-served and underserved areas of the state.

Mr. Chuck Harder, Vice President, Regulatory and Government Affairs, [PwrPt Presentation #4, cont.] was recognized and gave an overview of SourceGas's capital investments. He stated the gas utility breaks down its investments into four basis groups;

- Growth capital - money invested in the system to extend service to reach new customers (revenue producing projects).
- Sustaining capital - Capital spent for daily operations.
- Platform capital - It is the capital and the things typically not seen, such as IT, office buildings, etc. (does not produce revenue).
- Integrity management - Identifying immediate needs, such as replacing piping sooner than the expected replacement date.

Mr. Harder stated there is a lot of regulatory oversight in pipeline safety. SourceGas is regulated by the Office of Pipeline Safety and the PSC. It is also affected by federal agencies such as the Department of Transportation and Pipeline and Hazardous Materials Safety Administration.

OTHER BUSINESS [Handout #2]

A draft resolution regarding the exportation of crude oil was distributed for consideration at tomorrow's meeting.

There being no further business, the meeting adjourned at 5:30 p.m.