

Small independent energy producers trying to elbow in on big Alaska utilities

Suzanna Caldwell; September 11, 2013

It's been 31 years since the Regulatory Commission of Alaska has taken a hard look at the rules of engagement when small, independent power producers try to sell energy to large electric utilities.

One man is hoping to change that and in the process not only encourage development of independent power producers -- many of which focus on clean, renewable electricity -- but also help Alaskans deal with the soaring cost of energy.

Mike Craft, managing partner of Alaska Environmental Power, LLC and co-owner of the Delta Wind Farm, filed an informal complaint with the regulatory body last month in an effort to force the commission to reconsider its rules governing how utilities negotiate with smaller power producers wanting to connect to the grid.

Craft, a self-described "bulldog," has tried to work with Golden Valley Electric Association for years to incorporate his operation into the electric grid. He and other small power producers contend the utilities hold all the power when negotiating how much they'll pay for electricity from independent producers. With no safeguards in place, he argues, small businesses are at the mercy of the utilities. Craft says the goal is to offer a level playing field for independent power producers while diversifying Alaska's energy sources.

The Regulatory Commission examined Craft's informal request Wednesday, with the five-member commission voting unanimously to put the issue on the "R docket" -- or rule docket. That sets the request up for public comment, with the commission planning to take it up again at the beginning of 2014. At that time, the commission will take a harder, more in-depth look at whether it has the authority to change regulations governing how utilities negotiate with small energy producers.

According to Craft, it's the first time someone other than the utilities has had a rule change considered by the commission.

Despite the sluggishness of the proceedings, both Craft and Golden Valley agree the issue should be considered. Even the regulatory body seemed poised to take it on.

"It doesn't seem unreasonable after a period of 31 years to look at what our predecessors did and see if it needs to be reshaped," commissioner Paul F. Lisanke said at the hearing. "I think (the possible rule change) is an appropriate request."

No simple solutions

Energy in Alaska is complex, with per-kilowatt hour costs varying dramatically across a state twice the size of Texas. In Southeast Alaska, where hydropower is abundant, residents pay about 10 cents per kilowatt hour. Residents in remote rural Alaska who depend on diesel for electrical generation can pay up to \$1.50 for the same amount of energy, according to a 2011 report from the Alaska Energy Authority.

Interior Alaska wrestles with some of the highest energy costs in the state, and that's the electrical grid the Delta Wind Farm would tie into.

Most electrical generation in the region depends on coal and diesel fuel. Not only are those sources expensive, they contribute to Fairbanks' air pollution, which during the winter can be some of the worst in the nation, if not the world.

Craft, who worked as a land developer before making forays into wind power, said the rhetoric surrounding renewable energy got him interested in investing. During the 26th Alaska Legislature (in 2009-10), lawmakers announced a state goal that 50 percent of Alaska's energy come from renewables by 2025. That goal, plus reducing the region's reliance on fossil fuels, spurred him to look into starting his Delta Wind Farm in 2007.

Since then, he's invested thousands of dollars into 10 turbines that currently produce 2 megawatts of power. He hopes to add more – enough to generate up to 25 megawatts of power – but hasn't been able to get approval for a larger project from GVEA, a reluctance he considers arbitrary.

“We never wanted to build a 2 megawatt wind farm,” he said. “It's like opening a coffee stand with lots traffic, but you can only sell 5 cups a day.”

Complicated issues

The cap issue is just one of a handful of other issues Craft, through Alaska Environmental Power, is looking to address. None are simple to understand. In essence, it all comes down to how electric utilities go about purchasing power.

Other issues Alaska Environmental Power asked the regulatory commission to consider:

- Revising the definition of avoided costs from an average to an incremental rate, in order to be more in line with the federal definition and a better way to promote fair pricing for small producers.
- Define the costs of integrating power into systems.
- Develop an open bidding process for proposed renewable energy projects.

They argue that if the regulations change, all utilities and independent power producers will be better set up reach an agreed-upon rate, which would benefit not only utilities but consumers.

But with no real rules of engagement under the current set up, there's not much independent power producers can do, according to Duff Mitchell, executive director of the Alaska Independent Power Producers Association.

“All we're asking for is a level playing field,” he said from Juneau Tuesday. “The deck is so stacked (toward the utilities). This is like playing poker, and as soon as you win a hand they pick up your chips and make a new rule.”

But Golden Valley President and CEO Cory Borgeson contends the rules are already fair.

“We looked at all the different projects, and if something was a good deal, Golden Valley would have been more than happy to do it,” he said Wednesday. “It isn't about a level playing field, it's about the best opportunity for our members.”

The RCA will now put the proposed change up for a 45-day public comment period, followed by 45 days for response. It's likely they will take the issue on again in January.