

SB 123

Commissioner Antony Scott
Regulatory Commission of Alaska
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The RCA's Purpose

- Public utilities are “natural monopolies” that are not, and cannot readily be, subject to effective competition because of the inherent economies of scale of the production technology.
- RCA is a quasi-judicial agency that regulates public utilities.
- Our statutory authority is intended to enable us to ensure that prices, quality, and other terms of service reflect what would result if the market were fully, effectively competitive.
- Competitive markets, if not afflicted with other market failures, produce efficient outcomes that generally reflect the “public interest”

High Stakes

- Railbelt consumers spent roughly \$880 million on electricity service in 2018
- Increasing the efficiency of operations through tighter inter-utility coordination is like providing a tax cut: it puts money in consumers' pockets
- Even a 2% increase in efficiency would be been worth over \$17 million per year
- Reliable service can be a matter of life and death, and at the least can involve substantial economic losses

SB 123: How We Got Here

- The Legislature in 2014 directed the RCA to investigate:
“whether creating an independent system operator or similar structure for electrical utilities in the Railbelt area is the best option for effective and efficient electrical transmission”
- RCA made Findings and Recommendations to the Legislature in 2015
- Last week Chairman Pickett updated its the Legislature on progress towards its original recommendations
 - The letter was unanimously endorsed and reflects the views of the Commission as a whole
 - The letter supports SB 123 as the preferred vehicle for institutional reform
- SB 123 is an outgrowth of learnings and progress to date

RCA's 2015 Findings

- Balkanized Railbelt ownership across six utilities can create unintended inefficiencies. Examples:
 - Interconnected transmission infrastructure benefits everyone, but we lack a good business model to ensure cost recovery
 - Lack of integration across utilities curtails ability to ensure that planning and construction of new generation and transmission assets within one service territory is optimal to the system as a whole
 - Lack of coordination and integration across utilities hinders ability to maximize efficient operation of existing generators to meet load
 - Lack of coordination across utilities has resulted in inconsistent, inadequate and unenforceable electric reliability standards

RCA's 2015 Substantive Recommendations

- Need for consistent and enforceable operating and reliability standards
- Need new institutions to provide for security-constrained economic dispatch (most efficient generators run regardless of ownership)
- Need an independent transmission company to own, finance and operate a single transmission tariff (facilitates economic dispatch, ensures adequate and efficient transmission infrastructure)
- Clarify RCA's authority to require integrated resource planning, and large project preapproval ("siting authority"), to ensure major new infrastructure is most efficient for the benefit of all

RCA's Process Recommendations

- Allow time for voluntary efforts
- Come back to legislature if voluntary efforts fail
- Recognize increased need for funding specialized talent at RCA to manage its share of these activities (Legislature addressed this with creation of Utility Master Analysts last session in SB 83)

Progress to Date on 2015 Recommendations

- Voluntary efforts have laid the groundwork for institutional reform
 - The Railbelt utilities have reached consensus to form an electric reliability organization that includes non-utility stakeholder members
 - Greater understanding among all the parties of issues, barriers, and potential solutions
- Voluntary efforts have not resulted in institutional reform
 - Progress on formation of an independent transmission company has failed
 - Progress on an Anchorage-based “tight pool”, let alone Railbelt-wide security constrained merit order dispatch, stalled in fall of 2018
 - Although the twin sets of Railbelt reliability standards were reconciled, there are no enforcement mechanisms; areas of concern remain (these are being worked on). Statutory language needed to clarify RCA jurisdiction over a reliability organization.

SB 123: Captures “low-hanging fruit”

- Significantly modeled on Federal legislation that enabled the Federal Energy Regulatory Commission to designate an Electric Reliability Organization (ERO) to develop and enforce reliability standards
- Enhances RCA jurisdiction, consistent with the Commission’s 2015 and 2020 recommendations to the Legislature
- Substantively addresses:
 - Consistent and enforceable reliability standards
 - Integrated resources planning to identify optimal new infrastructure needs
 - Requires RCA pre-approval for large infrastructure projects
 - A potential (but not mandatory) pathway towards postage stamp or zonal transmission rates, and cost responsibility for new transmission identified as necessary, that would enhance prospects for security constrained economic dispatch

SB 123: Certainty of Institutional Reform

- Defines the ERO as a public utility, subject to RCA regulation
- Creates a definitive timetable for the RCA to designate an applicant to be an ERO, which would:
 - Develop reliability standards to be considered by the Commission
 - Enforce reliability standards, subject to appeal to the Commission
 - Draft Integrated Resource Plans to be considered by the Commission
- If an ERO has not applied for designation SB 123 gives the RCA power to form one, consistent with regulations that it will promulgate
 - Backstop to ensure timely and certain progress

SB 123: Incentives for Collaborative Efforts

- The RCA would not delegate authority to the ERO for reliability and planning.
- As with the Federal model, the RCA would assign most of this work to the ERO and would generally follow the EROs lead, but:
- RCA could impose remedy in the event of inaction, insufficient progress, disputes, or insufficient attention to the public interest.
- Similarly, imposition of project pre-approval requirements, with presumption of necessity for projects consistent with an IRP, creates incentives to participate in and take seriously the planning process.

SB 123 Builds on and Meshes with Utility Act

- Reliability standards would be filed as tariffs for approval, which trigger (among other things):
 - Non-discrimination requirements
 - Public notice requirements
 - Timeline for action requirements
 - A process for the commission to further investigate and adjudicate contentious issues if necessary
- The overwhelming majority of tariff filings made with the commission are summarily approved after public notice and without investigation, 45 days after filing.