



# **RCA Role in Regulating Existing and New Sources of Energy in Alaska**

**House Special Committee on Energy  
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**Regulatory Commission of Alaska**

**Robert M. Pickett, Chairman**



## RCA Statutory Authority

- The Alaska Legislature created the Regulatory Commission of Alaska in 1999, giving it broad authority to regulate public utilities and pipeline carriers throughout the State.
- AS 42.05.141(a) The Regulatory Commission of Alaska may do all things necessary or proper to...regulate every public utility engaged or proposing to in a utility business inside the state, ....



## Definition of Public Utility

- AS 42.05.990(4) “public utility” or “utility” includes every corporation whether public cooperative, or otherwise, company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, manages, or controls any plant, pipeline or system for
  - (A) furnishing, by generation, transmission, or distribution, electrical service to the public for compensation;

....



## Definition of Public Utility (continued)

- (C) furnishing water, steam, or sewer service to the public for compensation;
- (D) furnishing by transmission or distribution of natural or manufactures gas to the public for compensation;
- (E) furnishing for distribution or by distribution petroleum or petroleum products to the public for compensation when the consumer has no alternative in the choice of a comparable product at an equal or lesser price;



## Definition of Public or General Public

- AS 42.05.990(3) “public” or “general public” means
  - (A) a group of 10 or more customers that purchase the service or commodity furnished by a public utility;
  - (B) one or more customers that purchase electrical service for use within an area that is certificated to and presently or formerly served by an electric utility if the total annual compensation that the electrical utility receives for sales of electricity exceeds \$50,000; and



## Definition of Public or General Public

(C) a utility purchasing the product or service or paying for the transmission of electrical energy, natural or manufactured gas, or petroleum products that are re-sold to a person or group included in (A) or (B) of this paragraph or that are used to produce the service or commodity sold to the public by the utility;



# Certificate of Public Convenience and Necessity (CPCN)

- Alaska Statutes 42.05 (Public Utilities) and 42.06 (Pipeline Act) authorize the RCA to regulate public utilities and pipeline carriers by certifying qualified providers of public utility and pipeline services.
- A certificate may not be issued unless the RCA finds that the applicant is fit, willing, and able to provide the utility services applied for and that the services are required for the convenience and necessity of the public.



# Statutory Exemptions - Electric

- Exemptions from Certification
  - Any utility making less than \$50,000 unless their customer(s) petition for regulation (*AS 42.05.711(e)*)
  - Any Joint Action Agency established by AS 42.45.310 (*AS 42.05.711(o)*)
  - Possibly utilities that receiving a Qualifying Facility (QF) designation from FERC (*Federal Regulation: 18 C.F.R 292.602(c)*)
- Exemptions from Economic Regulation
  - Utilities owned by a political subdivision, with exception of a utility competing with a regulated utility (*AS 42.05.711(b)*)
  - Utilities making between \$50,000 and \$500,000 that have a deregulation election (*AS 42.05.711(f)*)
  - Cooperatives that have a deregulation election (*AS 42.05.711(h)*)
  - Utilities that receive a QF designation from FERC (*Federal Regulation: 18 C.F.R 292.602(c)*)





# RCA Regulates:

## ○ Utilities

- Natural gas distribution
- Natural gas pipelines
- Electric power generation, transmission, and distribution
- Water and sewer
- Telephone
- Solid waste

## ○ Pipelines

- Crude oil pipelines
- Petroleum product pipelines
- Natural gas pipelines



# RCA's Role in Current Energy Supply Issues

- Three areas of existing energy issues the RCA is currently involved with will be discussed in the slides that follow. These areas include:
  - (A) Cook Inlet natural gas supplies;
  - (B) Electric utilities current infrastructure needs;
  - (C) Power Cost Equalization (PCE) program.



## **RCA Role in Cook Inlet Gas**

- RCA does not regulate the producers of natural gas in Cook Inlet.
- RCA does evaluate Gas Sale Agreements (GSA) between the utilities and the producers.
- RCA standard of review considers whether the utility acted in a prudent manner, whether the terms of the GSA are reasonable, and whether the GSA ensures reliable and reasonably priced-utility service.



## RCA Standard of Review

- The RCA is guided by AS 42.05.431(a).
- Under this subsection, the RCA is required to determine whether a Gas Sale Agreement, or particular terms within such an agreement, are unjust, unreasonable, unduly discriminatory, or preferential.
- This determination must be viewed in the context of the Cook Inlet which is unique among regional natural gas markets in the United States.



## Cook Inlet Gas Market

- Reserves-to-production ratio for Cook Inlet is approximately 10:1. This is in the same range as is typical for Lower 48 production areas.
- Cook Inlet is unique as the home of the only plant in the United States that liquefies natural gas and ships it out of the immediate area as LNG.
- The RCA has found that Cook Inlet is a natural gas production basin.



## Cook Inlet Market Power

- ConocoPhillips, Marathon, and Union Oil of California, a division of Chevron (Union), control the vast majority of natural gas supplied in Cook Inlet.
- Of these three, ConocoPhillips and Marathon are the two largest.
- ConocoPhillips and Marathon own the Kenai LNG export facility.
- The Cook Inlet market is vertically integrated with the two largest producers being their own best customers through the medium of sales to the LNG export facility.



## Pricing Cook Inlet Gas

- Cook Inlet is not an open and transparent natural gas market.
- No commonly accepted natural gas pricing mechanism exists in Cook Inlet.
- Since the 2001 RCA “Henry Hub” order, a variety of pricing proxies have been considered by the utilities, producers, the AG, and the RCA.
- None of these pricing proxies have resulted in an RCA approved GSA that currently delivers gas to utility customers.

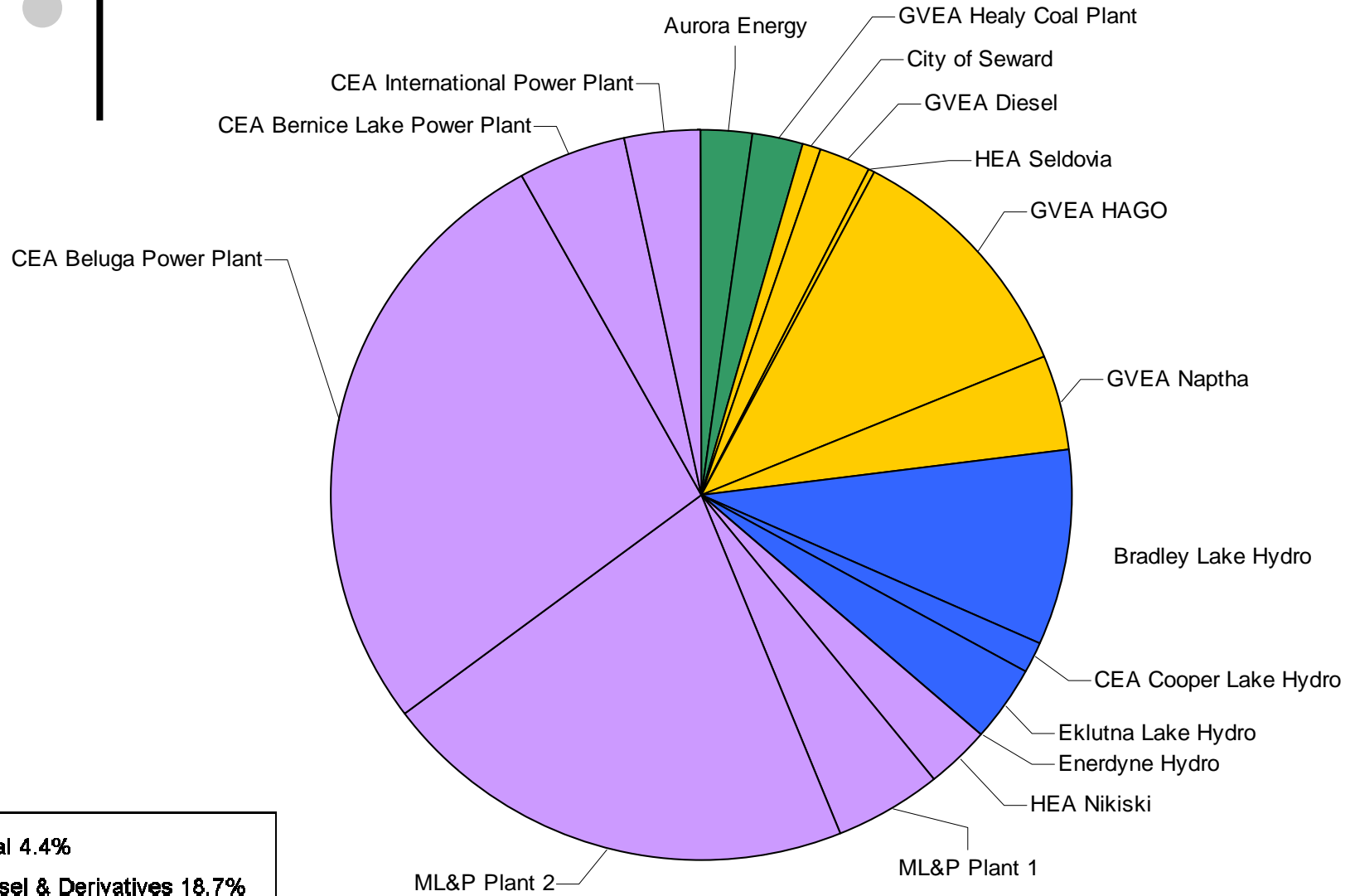


## Electric Utilities Infrastructure Needs

- The Alaska Railbelt Electrical Grid Authority (REGA) Study issued September 2008 estimated cumulative capital investment requirements ranging from \$2.5 to \$8.1 billion over the next 30 years.
- These investments are for generation and transmission expansion and replacement needs of the railbelt utilities.

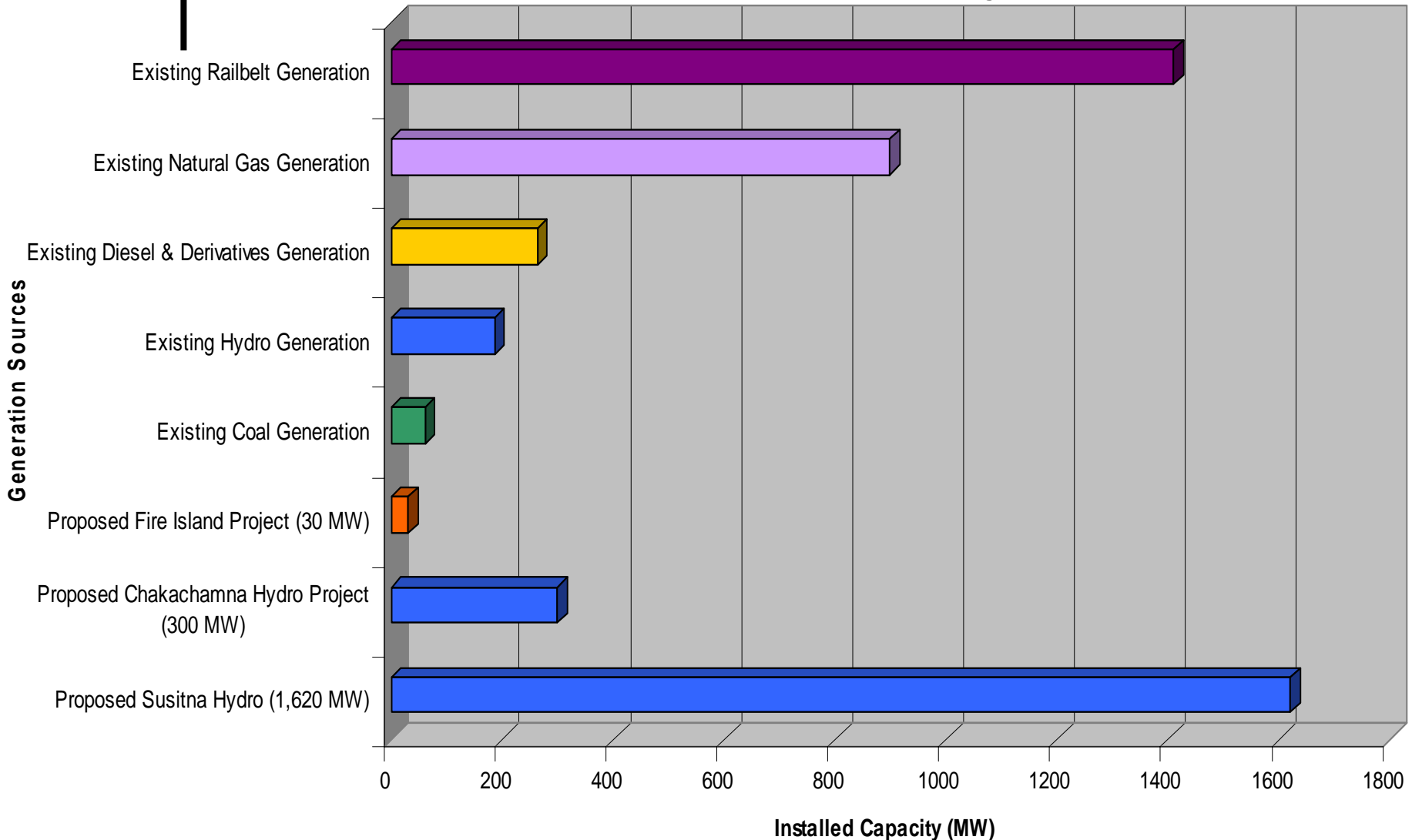


# Installed Railbelt Generation



Coal	4.4%
Diesel & Derivatives	18.7%
Hydro	13.2%
Natural Gas	63.7%

# Existing Railbelt Generation & Proposed Projects





# Regulatory Issues

## ○ Firm vs. Non-Firm Power Supplies

- Firm power – a predictable source of power that can be scheduled by a utility and that offsets both fuel and generation capacity expenses (i.e., some hydro, co-generation, geothermal)
- Non-firm power – an unpredictable source of power that cannot be scheduled by a utility. The provision of non-firm power only offsets the use of fuel by the utility. Generation capacity must be maintained to provide power when the non-firm power is unavailable. (i.e., wind, solar, some hydro, tidal)



## Power Cost Equalization (PCE) Program

- Under the Power Cost Equalization Program, the State of Alaska pays a portion of the electric bills for consumers served by utilities participating in the program.
- The RCA establishes the PCE rate (cents/KWh) applicable to each utility participant's billings, regardless if the utility is otherwise subject to RCA's economic regulation.
- More than 150 communities participate in the PCE program.



## PCE Program

- AS 42.45.110(c)(2) provides that the Commission will, during each fiscal year, adjust the power costs for which PCE may be paid to an electric utility based on the weighted average retail residential rate in Anchorage, Fairbanks, and Juneau, and subject to the statutory ceiling.
- The PCE program is administered by the Alaska Energy Authority (AEA).



# RCA Role in Renewable and Alternative Energy

- The RCA opened dockets (R-09-1 and R-09-2) to consider net metering and interconnection standards.
- The RCA goal in R-09-1 (Net Metering) is to create an Alaskan rule that will encourage the development of distributed small-scale renewable generation, while maintaining system integrity and fairly apportioning costs among consumers and consumer/producers.



## RCA Role (continued)

- The RCA goal in R-09-2 is to create an interconnection standard that recognizes Alaskan conditions, provides uniformity in the interconnection requirements of Alaskan electric utilities, and simplifies the interconnection process for small distributed resources.
- The AEA is requiring that all Independent Power Producers receiving renewable energy grants obtain a Certificate of Public Convenience and Necessity (CPCN) from the Regulatory Commission of Alaska.