

Charging the Army

Doyon Utilities LLC is upgrading service and seeking alternative energy sources for the privatization of utilities on three military bases in Alaska. *by Russ Gager*

Economic pressures to shave Department of Defense budgets provided ample incentive to defer utility upgrades at far-flung military installations in Alaska. As with many short-term solutions, the longer term impacts often got overlooked until reactionary responses were required to provide reliable utility services.

When the effects of such a strategy became apparent, privatization of utility services on three U.S. Army posts in Alaska became an obvious solution. With privatization, private capital combined with consistent utility management practices were able to reverse the impacts of a deteriorating utility system while offering an opportunity

to modernize those systems.

Doyon Utilities LLC was formed to purchase, modernize and operate the utility services at U.S. Army posts Fort Greely near Delta Junction, Fort Wainwright near Fairbanks and Joint Base Elmendorf Richardson (JBER) in the Municipality of Anchorage. Through a competitive solicitation process, Doyon Utilities was awarded 50-year privatization contracts for the utilities of the three Army posts in 2007. Through the privatization process, utility infrastructure was purchased by Doyon Utilities, but the lands remained under ownership of the government.

Many of the facilities date to the Cold War era. "In many instances, this infrastructure is 50 to 60 years old,"

Doyon Utilities LLC President and CEO Dan Gavora points out. "That's when the major investment was made, and little system-wide modernization has taken place since the mid- to late 1950s. In essence, repairs were typically made as systems failed, but little was done to upgrade or modernize the utilities. The lack of attention to utility requirements is what drove a very sig-

Doyon Utilities LLC

www.doyonutilities.com

Headquarters: Fairbanks, Alaska

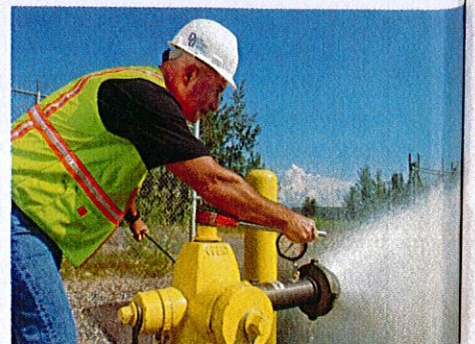
Projected 2012 revenue: \$82 million

Employees: 160

Specialty: Utility systems

Dan Gavora, president and CEO:

"The lifeblood of any community is reliable utility service."



nificant capital improvement program once Doyon Utilities became the owners. Perhaps the most visible and immediate requirement was rebuilding the electrical distribution systems at all three installations.”

Decisions Deferred

Why privatize? “Probably the single greatest advantage is providing more of a utility operations mindset to the operations,” Gavora maintains. “Utilities are not the Army’s primary mission, and that being said, they routinely compete for funding with other Army priorities. Frequently, the utilities get ignored. Since they are buried, the mantra is, ‘Out of sight, out of mind,’ until they fail.

“It is easy to defer decisions until a system fails,” Gavora concedes. “Then an aggressive response is required to restore service. The decision to defer utility investment is easy, but the consequences are often dramatic. Those with a utility background understand the lifeblood of any community is reliable utility service. During the past five or six decades, it is apparent the utility requirements have been underinvested.

One of our mandates during the privatization process is to bring those utilities up to industry standards and ensure reliable utility services for at least the next 50 years. Private investment is the mechanism to accomplish the mandate, and that is a strength our company brings to the equation.”

A significant reason for the slowdown in maintenance and investment by the Army in the utilities was the length of time it took to sell them. “I think there was a kind of pent-up demand associated with the privatization process,” Gavora says. “Once the Army decided to privatize the utility systems and initiated the solicitation, they started deferring any investment. The solicitation process took three to four years. There was a gap in any funding for improvements during that time. The impact of the long procurement process was a significant backlog of work that had to be accomplished immediately after privatization.

Benefits of Privatization

What are the benefits of privatization? According to Gavora, “I believe the benefits are immediate from the stand-

point of system reliability, safety and health of the utilities. When you look at cost savings, the overall costs will go up as the investments are amortized and the investment starts being recovered in rates. That was an expected outcome because the mandate to the utility is to provide consistent and reliable utility services, which were not as consistent during government ownership due to the lack of investment. The second part is that the government was able to – unlike a private entity – delay implementing code changes and potential regulatory requirements. We are fully subject to the code and regulatory requirements and take that responsibility very seriously.”

But the regulation of Doyon Utilities has always been strong, Gavora says. “Once the privatization took place, it was subject to a bit more scrutiny from the various regulatory agencies, making sure we were code-compliant in all aspects of how we operate the utility,” he remembers. “Complying with those regulations required further investment and situational awareness to ensure we are good stewards of the utility and the environment.”



(Left)

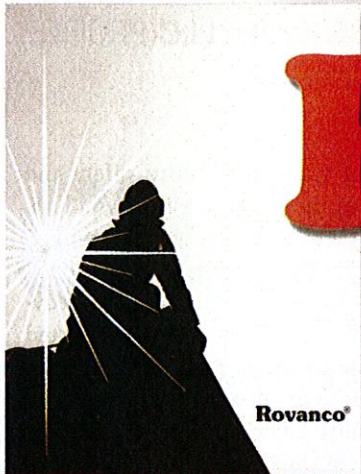
Among the tasks performed by Doyon Utilities is work on this reservoir at Joint Base Elmendorf Richardson; operation and maintenance of electrical generation equipment; and hydrant maintenance at Fort Wainwright.

(Right)

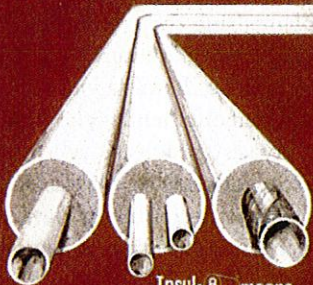
Doyon's activities at Joint Base Elmendorf Richardson include work on the base's electrical distribution that is part of the D Street project.



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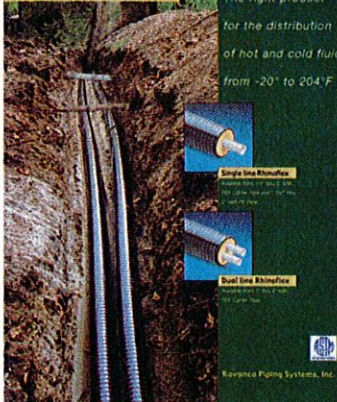
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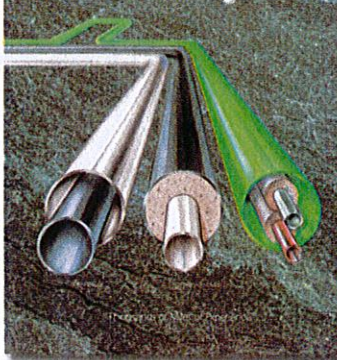
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(PROFILE) Doyon Utilities LLC

There is a significant difference in the way Doyon Utilities operates at the Army bases compared with other utilities. "We own the utilities, but we do not own the commodity," Gavora explains. "The fuel associated with the power plant we operate is procured by the government. We take that fuel, convert it into energy and transmit the energy to the different facilities around the installation. We are metering it for governmental informational purposes only. So that's a big difference from other utilities. Most utilities would sell a commodity to individual customers, but our single customer is the Army."

Measuring improvements in the performance of the utilities since Doyon Utilities became owner is difficult because the U.S. Army did not previously keep metrics based on commercial utility performance indicators. "As far as efficiencies in delivery of the

services, that is something that definitely we believe has improved," Gavora emphasizes.

More Scrutiny

Since Doyon Utilities bought the utilities in 2007, additional funding pressures have been felt at all levels of government. Already, Doyon Utilities is starting to see reduced funding.

"As a regulated utility, our rate that we charge the government is comprised of operating cost plus return on capital," Gavora notes. "So there's forward capital planning we do in conjunction with the Army. I would say we're seeing an increased scrutiny of future capital requirements that we see as needed to operate the systems."

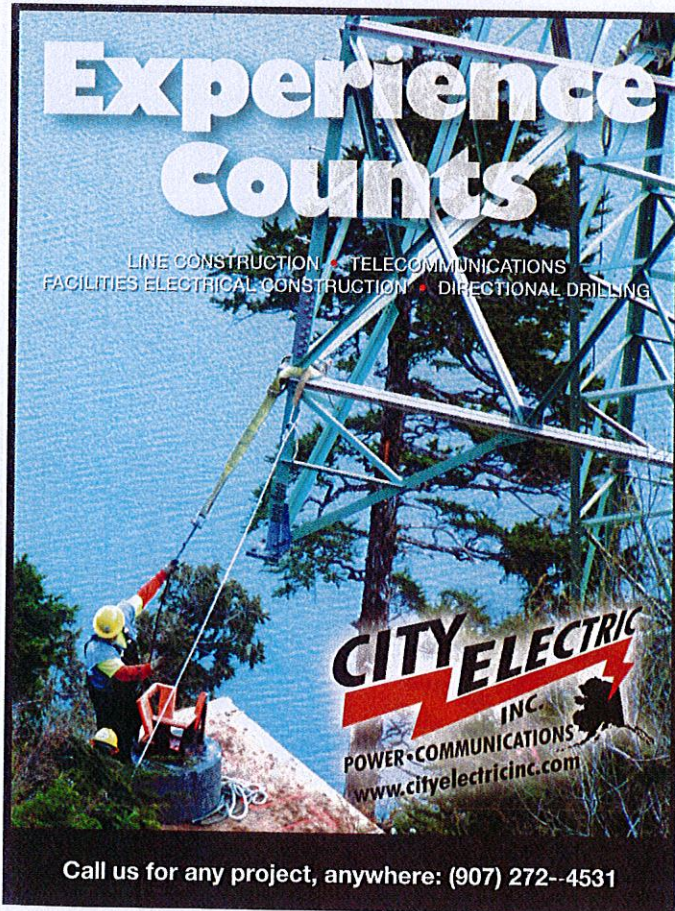
"We will still be making investments in infrastructure – maintaining the reliability and safety of the system – but it's a higher standard to make the

funded list than we experienced before," Gavora points out.

Alternative Sources

Doyon Utilities is investing and implementing alternative sources for electricity generation. Because of the location of the Army posts in Alaska, originally oil and coal were relied upon for energy generation. Doyon Utilities is assisting in the Army's effort to diversify energy production and work toward making one of the sites energy-independent by building a plant to generate electricity from what previously was a waste product.

"The municipality of Anchorage has a landfill adjacent to the JBER where they've been depositing municipal solid waste for the last 30 to 40 years and generating a significant amount of methane, which has been flared into the atmosphere," according to Gavora.



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"We are currently installing 5 to 6 megawatts of electrical generation to turn the flared gas into electricity and save a large amount of energy costs for JBER," he adds.

The Landfill Gas project was an opportunity that cut across too many government agencies to be implemented by any one of them. "As a private investor-owned utility, we were able to enter into the agreement and facilitate the process," Gavora maintains. "That has given the Army some green credits and turned a flared gas to a beneficial use. It is a win-win for all involved."

Doyon Utilities is also investigating a biomass cogeneration project for providing heat at Fort Greely, which is approximately 107 miles southeast of Fairbanks. Fort Greely is currently burning fuel oil for its heating needs on post. "We are looking at the biomass project as another opportunity to provide a diverse energy source to our customer that also provides an economical alternative to burning fossil fuels," Gavora notes. "The project is in the planning phase."

Dependent on Coal

In Fairbanks, which is 350 miles north of Anchorage, energy sources are few. Fort Wainwright, which is located in Fairbanks, relies on coal that is mined outside of Denali National Park, located approximately 125 miles south of Fairbanks. "Fairbanks is interesting," Gavora muses. "Here we are 300 to 400 miles from some of the largest natural gas and oil fields in North America – an incredible amount of gas and energy – however, we don't have natural gas in Fairbanks, and our fuel oil is tied

to the market price of fuel."

Fairbanks is extremely energy-dependent. "We have high energy needs here because of the climate and very expensive fuel oil," Gavora says. "We're burning coal. It's very abundant, very stable and very economical. From a local economic standpoint,

coal is very attractive. So we've made significant improvements to the plant to maximize its output. The coal is challenging – making sure we meet the air permitting requirements of coal, but in this economic environment, we are big fans of coal compared to other energy sources." ○

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