

September 25, 2009

The Honorable Senator Kevin Meyer, Chairman
Legislative Budget and Audit Committee
716 W. Fourth Avenue, Suite 410
Anchorage AK, 99501-2133

RE: Renewable Energy Fund Projects

Dear Chairman,

Thank you for the questions regarding status of Renewable Energy Fund projects approved by LB&A earlier this year. Here is our response to Josh Applebee's September 21, 2009 email message.

1. *Please calculate the savings per kilowatt hour the completed projects have created, if any. What is of concern here is – are these projects resulting in a reduction in the cost of energy “to the consumer” in these outlying areas?*

Two projects were substantially completed this summer, Pillar Mountain Wind (Kodiak) and Falls Creek Hydro (Gustavus). AEA will require operation and performance reporting from all of construction project grantees. Since the projects have not been in place very long, we asked the utilities to estimate savings based on their preliminary experience. Following is their response:

- a) Pillar Mountain Wind Project, Kodiak Electric Association (KEA). KEA estimates savings of 5.8 cents per kWh of power generated by wind, assuming the current displaced fuel price of \$2.10 per gallon. They estimate savings of 12.7 cents per kWh of power generated by wind if the fuel price rises to \$3.00 per gallon. The estimated annual wind production is 12.2 million kWh, giving a community savings of approximately \$708,000 per year at \$2.10 per gallon fuel and \$1,549,000 per year at \$3.00 per gallon fuel. Savings are translated to a lower cost of power adjustment (fuel adjustment) on the consumers' bills.
- b) Falls Creek Hydro, Gustavus Electric Company (GEC). GEC estimates savings of 29.3 cents per kWh of hydropower assuming a displaced fuel price of \$3.00 per gallon. The hydro plant is expected to generate almost all of the community's electric energy. Given

sales of 1,572,316 kWh in FY08, this translates to total savings of over \$460,000 per year (before PCE). Savings will increase as fuel costs increase.

2. *For each project please present – a percentage of completeness, amount funded to date – including any fronted monies*

Please see the column “State Funds Expended to 9/22/09” and “% State Budgeted Funds Expended” on the attached project list.

3. *Any change in scopes that have occurred since the projects were approved by LB&A – the concern here is that for those projects that were approved with a match are now being scaled back to be done solely with State monies and the promised matching dollars are not materializing. Any project that has been reduced in scope since its approval would fall under this request.*

Scopes have been changed after LB&A approval only for projects that were capped (at \$2 million or \$4 million) in order to achieve geographic spreading. In a number of these cases, the level of match funds has increased, since some grantees have used other financing to proceed with the project (e.g. #103 Pillar Mountain Wind and #21 Humpback Creek Hydro). In the cases of #85 Kotzebue Wind Farm Expansion, #52 Nome Newton Peak Wind Farm, #68 Anchorage Landfill Gas, and #104 Reynolds Creek Hydro prospective grantees are assessing options for additional financing or revising scope.

The following projects have grants that are either in place or soon will be in place, have a reduced scope, and have less match than originally offered.

Project	Original Proposal		Grant		Notes
	State Funds	Match	State Funds	Match	
Lake Elva Hydropower Construction	\$10,000,000	\$12,000,000	\$300,000 \$3,706,500	\$0 TBD	Grant only written to fund feasibility work (\$300,000 obligated). Grant balance of \$3,706,000 unallocated at this time, but if construction is to be funded, a match will be required.
Unalakleet Wind Farm Construction	\$8,774,080	\$222,752	\$4,000,000	\$164,340	Project match is less because project scope reduced. However, additional unreported match in excess of \$6,000,000 has been provided by other sources for this project. (Not included as there is no way to include this type of match when reporting.)

- 4.) *Please state the next expected milestone for each project – it would be helpful to know where each project is on their timeline and what their next goal is and when it is expected to be reached*

Please see the column "Project Manager Notes" on the the attached project list.

- 5.) *Please identify the specific RCA issues for each project as relevant. There was a bit of discussion about the RCA and their hold up in the process, we would like to have an analysis of which projects suffer from this situation and what AEA's expectations are for resolving this issue.*

There are four construction projects that are being developed by an Independent Power Producer (IPP). #53 Biomass-fired Organic Rankine Cycle System, # 57 South Fork Hydro, #84 Ruby Hydrokinetic, and #102 Delta Area Wind Turbines. Except for the Ruby project, AEA is requesting that each of these IPPs establish a cost-based rate for the utility to purchase their power. (The Ruby project is excluded from this requirement due to its very small size.) Attached is a letter from AEA to the RCA that describes how we plan to implement this requirement. In order to help grantees address the cost-based rate requirement, AEA is currently soliciting proposals for a consultant who can work with the IPP, purchasing utilities, RCA, and AEA to propose reasonable cost-based rates for inclusion into power purchase agreements.

6. *What projects are close to being identified as 'undoable' and when will that determination be made?*

Interior Regional Housing Authority has notified AEA that they cannot accept a grant for project #54 Galena Wood Heating Construction. Unless circumstances change, AEA will recommend reallocating funding of \$382,779 in January.

AEA continues to work with utilities to advance a number of projects that were subject to funding caps and have yet to identify a reduced scope or other funding sources.

We plan to post grant progress, operational data, and other project information on our website in the future. In the meantime, please let me know if we can be of further assistance.

Sincerely,

ALASKA ENERGY AUTHORITY



Steven Haagenson
Executive Director