

**ALASKA STATE LEGISLATURE  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

February 4, 2009

6:15 p.m.

**MEMBERS PRESENT**

Senator Kevin Meyer, Chair  
Senator Lyman Hoffman  
Senator Charlie Huggins  
Senator Linda Menard  
Senator Bert Stedman  
Senator Donald Olson (alternate)

Representative Nancy Dahlstrom, Vice Chair  
Representative Mike Hawker  
Representative Mark Neuman  
Representative Bill Thomas  
Representative Mike Doogan  
Representative Bill Stoltze (alternate)  
Representative Chris Tuck (alternate)

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

APPROVAL OF MINUTES  
REVISED PROGRAM - LEGISLATIVE (RPLs)  
EXECUTIVE SESSION  
DISCUSSION OF ALASKA RENEWABLE ENERGY FUND

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

PAT DAVIDSON  
Legislative Auditor  
Legislative Audit Division  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided information on the audit division.

DAVID TEAL, Legislative Fiscal Analyst  
Legislative Finance Division  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided information to the Joint Committee on Legislative Budget and Audit.

BILL ROLFZEN, Municipal Assistance, National Forest Receipts,  
Fish Tax, PILT  
Juneau Office  
Division of Community and Regional Affairs  
Department of Commerce, Community, & Economic Development  
(DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Testified about the National Forest Receipts Program.

CHRIS ROSE, Executive Director  
Renewable Energy Alaska Project  
Palmer, Alaska

**POSITION STATEMENT:** Presented testimony from the Alaska Renewable Energy Fund Advisory Committee.

STEVE HAAGENSON, Executive Director  
Alaska Energy Authority (AEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified regarding the proposed grant allocation for the Alaska Renewable Energy Fund.

PETER CRIMP, Alternative Energy Program Manager  
Alaska Energy Authority (AEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented a Power Point and testified regarding the proposed grant allocation for the Alaska Renewable Energy Fund.

PAT DAVIDSON, Legislative Auditor  
Legislative Audit Division  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on Alaska Renewable Energy Fund.

#### **ACTION NARRATIVE**

6:15:03 PM

**CHAIR KEVIN MEYER** called the Legislative Budget and Audit Committee meeting to order at 6:15 p.m. Senators Meyer, Stedman, Hoffman, Huggins, Menard, and Olson (alternate) and Representatives Doogan, and Tuck (alternate) were present at the call to order. Representatives Hawker, Thomas, Neuman, Dahlstrom, and Stoltze (alternate) arrived as the meeting was in progress.

6:16:27 PM

SENATOR HOFFMAN made a motion that Senator Meyer be appointed Chair of the Legislative Budget and Audit Committee. There being no objection, it was so ordered.

CHAIR MEYER made a motion that Representative Dahlstrom be appointed as Vice Chair of the Legislative Budget and Audit Committee. There being no objection, it was so ordered.

#### **APPROVAL OF MINUTES**

6:16:45 PM

CHAIR MEYER announced that the first order of business would be to approve the minutes of the January 12, 2009 meeting.

6:16:58 PM

SENATOR HOFFMAN made a motion to approve the minutes of January 12, 2009. There being no objection, the minutes from the meeting of January 12, 2009 were approved.

6:18:05 PM

PAT DAVIDSON, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, explained that the reports from the Legislative Audit Division were released through the Legislative Budget and Audit Committee. She described the three types of audits: financial compliance audits, sunset reviews, and approved audit requests from legislative members. [Included in the members packets was a Legislative Budget and Audit Committee handbook] She highlighted the two step audit process. She related that the confidential preliminary audit would have a red cover and would be accompanied by a motion to release the report to an agency with a request for response within 20 days. She continued and said that the completed audit report would have a blue cover, and would be accompanied by a motion to release the

report to the public. She noted that audit discussions would be in executive session.

6:21:18 PM

MS. DAVIDSON noted that the Legislative Audit Division was the fiscal agent and analyst for the Legislative Budget and Audit Committee.

6:22:24 PM

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, summarized that most of its work with the Legislative Budget and Audit Committee was Revised Program - Legislative (RPL). He defined an RPL as an executive branch request to spend unexpected funds and that it was not confidential.

**REVISED PROGRAM - LEGISLATIVE (RPLs)**

RPL 08-09-0134

6:24:04 PM

SENATOR MEYER announced that the next order of business would be consideration of RPLs.

6:24:51 PM

SENATOR HOFFMAN made a motion to approve RPL 08-09-0134 regarding the National Forest Receipts Program.

6:25:10 PM

SENATOR MEYER objected for the purpose of discussion.

6:25:20 PM

BILL ROLFZEN, Municipal Assistance, National Forest Receipts, Fish Tax, PILT, Juneau Office, Division of Community and Regional Affairs, Department of Commerce, Community, & Economic Development (DCCED), explained that since the first presentation of this RPL for \$17 million, the RPL had now increased to \$21 million. He pointed out that these funds would be distributed to the communities and school districts within the Tongass and Chugach National Forests.

6:26:20 PM

SENATOR STEDMAN noted that this process had been expedited.

6:27:22 PM

CHAIR MEYER removed his objection. There being no further objection, RPL 08-09-0134 was approved.

### **EXECUTIVE SESSION**

6:29:46 PM

SENATOR HOFFMAN made a motion to move to executive session for the purpose of discussing confidential Legislative Budget and Audit Committee staff pay under AS 24.20.301. There being no objection, the committee went into executive session at 6:29 p.m.

7:01:50 PM

CHAIR MEYER brought the Legislative Budget and Audit Committee back to order at 7:01 p.m. Upon returning from the executive session, Senators Meyer, Stedman, Hoffman, Menard, and Olson (alternate) and Representatives Hawker, Thomas, Neuman, Doogan, Dahlstrom, Stoltze (alternate) and Tuck (alternate) were present.

REPRESENTATIVE DAHLSTROM moved and asked for unanimous consent that the Legislative Budget and Audit Committee set the pay range for the Legislative Finance and Audit Directors at a Range 28, effective January 1, 2008, with no change of merit, anniversary date, or step placement. There being no objection, the motion passed.

### **DISCUSSION OF ALASKA RENEWABLE ENERGY FUND**

7:03:03 PM

CHAIR MEYER announced that the next order of business would be a discussion of the Alaska Renewable Energy Fund.

7:03:42 PM

CHAIR MEYER said that the advisory committee would make its presentation.

7:04:01 PM

CHRIS ROSE, Executive Director, Renewable Energy Alaska Project, established that he was one of seven members of the advisory committee appointed to work with Alaska Energy Authority (AEA) to review the applications for the renewable energy fund. He noted that the advisory committee first convened on August 23.

7:06:52 PM

MR. ROSE reported that the request for proposal (RFP) was released on September 3, 2008, and that the committee convened for an AEA staff update on October 23. He explained that the first stage of the three stage process was to ensure the applications were complete, responsive to the questions, and eligible under the statute. He noted that, initially, there were 114 applications, which was cut to 99 applications. He explained that the second stage, technical and economic feasibility, was handled by AEA and outside experts.

7:08:58 PM

MR. ROSE acknowledged that Mr. Haagenson had also reviewed each project at the end of the technical feasibility study. He noted that AEA collaborated with the Department of Natural Resources (DNR) for assurance that no permitting issues would forestall the project, and with outside economists for an economic analysis. He indicated that the October 23 meeting was an opportunity for the advisory committee to assess the issues, and approve the AEA process. He reported that the advisory committee also reviewed unanticipated issues, which included the determination of a definition for independent power producer, the capacity of individual applicants, and the operation and maintenance plans for the applicants.

7:10:56 PM

MR. ROSE described the stage 3 analysis as a determination of points from a series of criteria guidelines, which included the statutory criteria for cost of energy, matching money, project readiness, sustainability, and local support.

7:13:01 PM

MR. ROSE reported that the next meeting, December 18, 2008, was an AEA update on the process, which confirmed the completion of the economic and technical feasibility analysis, and allowed the

advisory committee the opportunity to comment on the questions facing the AEA. He noted that some of these questions reflected the eligibility of certain types of projects, including bio fuels and statewide hydro kinetic. He mentioned federal funding and regional distribution as two other issues which the advisory committee and AEA discussed.

7:15:30 PM

MR. ROSE stated that the last meeting between the advisory committee and AEA occurred after Christmas. He recounted that this meeting was a review of the final recommendations from AEA, upon completion of both stages 2 and 3, and it focused on the regional distribution for project funding. He remarked that the advisory committee analyzed the project requests for \$144 million with the project budget of \$100 million, and suggested different project cap levels for high cost and low cost energy areas. He mentioned that the committee also evaluated competing projects within the same community, and recommended not to implement the same cap when projects combined for economy of scale. He stated that this culminated the advisory committee involvement. He offered his belief that AEA worked very hard and had balanced the required matching money very effectively to future federal funding.

7:21:52 PM

REPRESENTATIVE THOMAS pointed out that the process required a formula that was not political. He emphasized that the advisory committee did not recommend any specific projects, and worked to include more projects.

7:26:09 PM

STEVE HAAGENSON, Executive Director, Alaska Energy Authority (AEA), explained that the renewable energy fund bill, House Bill 152, provided the direction for AEA. He established that the most important directive from House Bill 152 was to give primary consideration to the high cost energy areas. He presented that AEA brought in the advisory committee early in the process, and that its advice was invaluable. He shared that the goals throughout the process were to have projects with high levels of success, ensure that there was public benefit, and create partnerships through matching funds. He said that all the information was available to the public on the AEA website.

7:28:42 PM

MR. HAAGENSON explained that the successful projects would be good templates for Alaskans preparing future applications. He applauded the permit process support from Department of Natural Resources (DNR) and the advice, clarification, and collaborative support from the advisory committee.

7:30:35 PM

PETER CRIMP, Alternative Energy Program Manager, Alaska Energy Authority (AEA), presented a Power Point entitled "Renewable Energy Fund" [Included in the members' packets.] and offered to discuss the process of evaluation for the final ranking and recommendations for the renewable energy fund.

7:32:25 PM

MR. CRIMP read from slide 3, "Overall Approach," and emphasized the need to rapidly develop a program that met the requirements of House Bill 152.

7:33:08 PM

MR. CRIMP referenced the dates listed on slide 4, "Timeline: Round 1 (fy09)," which detailed the meetings and deadlines for the AEA and the advisory committee.

7:34:11 PM

MR. CRIMP pointed out that slide 5, "Renewable Energy Fund Advisory Committee," listed the advisory committee members.

7:34:48 PM

MR. CRIMP addressed slide 6, "Project Phases," which listed the 4 phases of the project: reconnaissance; feasibility and resource assessment; final design and permitting; and construction and commissioning. He noted that applicants needed to demonstrate completion of each phase before any additional funds were allocated.

7:35:42 PM

MR. CRIMP indicated slide 7, "Review Process, Phase 1-," and spoke about the project roles of the AEA staff for the final proposal determination. He noted that 12 proposals did not pass.



7:36:40 PM

MR. CRIMP presented slide 8, "Review Process, Phase 2-," and listed the technical review staff.

7:38:43 PM

MR. CRIMP assessed slide 9 "Review Process, Phase 2-," and listed the economic review staff. He added that the University of Alaska Institute of Social and Economic Research (ISER) presented a quality assurance of the economic reviews. He stated that this economic review also resulted in a benefit/cost ratio assessment for the projects.

7:39:47 PM

MR. CRIMP noted that slide 10, "Review Process, Phase 3-Final Evaluation and Ranking," reflected the language in House Bill 152. He listed the 7 points for ranking of the final evaluation, which included cost of energy, matching funds, and economic and technical feasibility, and noted their percentages of importance. He mentioned that the projects were scored and then sorted by region.

7:41:17 PM

MR. CRIMP referred to slide 11, "Energy Regions," a map of Alaska with each region outlined.

7:41:58 PM

MR. CRIMP pointed out that slide 12, "Advisory Committee Mtg 1/8," reflected a key meeting to ensure that projects were spread among regions. He specified that the meeting included a determination for the maximum caps with a recognition that these caps were on communities, and not for projects.

7:45:04 PM

MR. CRIMP detailed slides 13, 14, and 15, "Database Example: Stage 2 Scoring," which were examples of the web based database for the review of each project. He called attention to the score total which appeared for each project.

7:48:38 PM

MR. CRIMP commented on slide 16, "Work Products of Review," which detailed the contents of the CD: Renewable Energy Fund grant information [Included in members' packets.].

7:50:03 PM

MR. CRIMP described slide 17, "Issue:," which stated that the "public receives proper benefit from grants for projects to be developed by Independent Power Producers (IPPs)." He explained that AEA did not want to award a grant to allow a private company to enrich themselves. He offered some recommendations which included a requirement that an IPP obtain a Regulatory Commission of Alaska (RCA) Certificate of Public Convenience and Necessity, with RCA establishing a cost based tariff for each project.

7:53:25 PM

MR. CRIMP referred to Project 87, Fishhook Hydro Construction, on the CD, as a detailed example of the AEA recommendations.

7:55:43 PM

CHAIR MEYER asked if the listed cost of energy reflected the current cost or the completed cost.

7:55:54 PM

MR. CRIMP replied that this was the current cost, which was a criterion for scoring. He explained that the benefit to cost assessment looked at the inherent economics of the project.

7:57:09 PM

MR. CRIMP turned attention to slide 18, "Issue: AEA recommendations-Multi-phase funding," which reviewed the multiple phases of the grant applications. He reported that AEA recommended to fund all the phases only if the project would be constructed in the near term, was well-defined, relatively inexpensive, and judged to have low risk. He pointed to Project 49, the Tok Wood Heating project, as an example and he displayed the in depth analysis on the CD. He compared this with Project 94, the Nikolaevsk Wind Farm, which the AEA recommended to fund for the feasibility phase, with subsequent application for funding of each following phase.

8:00:55 PM

MR. CRIMP turned to slide 19, "Issue: AEA recommendations-Competing/Interacting projects." He summarized that AEA would recommend more analysis and public input before committing substantial funding to projects which interact or compete, and he offered some examples.

8:02:58 PM

MR. CRIMP directed attention to slide 20 "Issue: AEA Recommendations- Partial funding levels." He noted that AEA had only recommended \$149 million, although the project applicants had requested \$450 million. He said that if AEA believed a project could be built for less, then AEA would recommend lower funding. He pointed out that only funding for capital costs, not operating expenses, would be recommended.

8:04:10 PM

MR. CRIMP spoke to the final issue, slide 21, "Issue: crude price has dropped by \$100/bbl." He explained that AEA used \$110/bbl fuel cost in the economic analysis. He shared that AEA had requested for ISER to analyze the long term crude oil prices assumption for the impact on benefit to cost ratio. He pointed out that the benefit to cost ratio increased with the price of oil. He reported that the long term U.S. Department of Energy projections were for oil prices to rise over the 20 to 50 year horizon.

8:07:23 PM

MR. CRIMP referred to slide 22, "Independent Power Producer," and noted that the 12 IPP's were being asked for additional financial information.

8:08:15 PM

REPRESENTATIVE DOOGAN asked if the proposals being put forth by Mr. Haagenson are, in each case, the best for the purpose of meeting the energy demands in the areas for which they are intended.

8:08:41 PM

MR. HAAGENSON responded that the proposals are not perfect; he expressed a wish that the energy plan could have been completed in order to know what the best options are. Notwithstanding

that, he said, "We winnowed out all the failure points." He relayed that he would rather have a project that may not be the best but is passionately supported, than find the best project for which no one expresses an interest.

8:09:54 PM

REPRESENTATIVE DOOGAN said he finds it problematic that none of these projects fit into any greater [energy] plan.

8:11:55 PM

MR. HAAGENSON concurred with Representative Doogan by reiterating that he wishes there was an energy plan. He said although the process followed a different path, the plans are close to the mark. He stated, "I don't want to wait for 'perfect' - I think it's time to take the step, go to Alaskans, and ... start building some entrepreneurial spirit in Alaska again, and give them some help, but not do this for them."

8:13:23 PM

REPRESENTATIVE DOOGAN said the available information does not help him decide whether or not the plans are good, nor does it instill confidence that this is good public policy. He said the result may be lower cost energy for some Alaskans for some time, but that is not the same as an entire energy policy.

8:14:48 PM

MR. HAAGENSON responded that one choice would be to wait for perfection, while another would be to take a first step forward. He said this plan represents the latter. The intent, he explained, is for the public to benefit from public money spent.

8:16:15 PM

REPRESENTATIVE THOMAS said if Gustavus receives this grant, the community will see a huge drop in its energy costs. He expressed confidence in the difference it will make to the projects with which he is familiar. He said Alaska Village Electric Cooperative (AVEC) already uses windmills and is asking for more money. He noted that that AVEC has already dropped 40 percent in the amount it spends for diesel fuel. He talked about the great cost in running diesel generators, and said outside of the Anchorage area, the costs are so high that reducing them allows people to buy the necessities of life.

Representative Thomas said his communities are "rapidly moving to Juneau" because they cannot afford to live in more remote areas. Regardless of attrition, he noted, the cost of running a generator remains the same. He said he thinks Alaska is headed in the right direction. He stated that he does not want to see money "thrown out the door," and he feels comfortable with "this" [plan].

8:21:28 PM

CHAIR MEYER said he thinks it is the job of the committee to evaluate projects. He expressed his hope that the House Energy Standing Committee would be devising an energy policy, because he said it is difficult for the Legislative Budget and Audit Committee to evaluate projects without knowing how they fit in the overall scheme or goal. He mentioned a Legislative Budget and Audit Committee meeting which took place in October 2008, during which hard questions were tackled regarding distribution of grant monies, and he told committee members they should be prepared for those tough questions again.

8:22:50 PM

CHAIR MEYER expressed concern that if the committee grants "them" with the requested money, "they" may come back with requests for more money for the ongoing maintenance costs of the projects. He remarked that in all but about 10 or 11 projects, even if the amount is given that is requested, those involved will still not have all the necessary funding. He questioned whether it might be better to fund those that would receive 100 percent funding with the state grant and wait for the others to get additional money before granting them the state money requested.

8:23:47 PM

MR. HAAGENSEN responded that none of the money will go to maintenance - it is all used for capital projects. There is a requirement for operational reporting, so that AEA can learn what actual costs are. In response to Senator Olson, he said AEA considered both business plans and the "ongoing sustainability of the process." Regarding partial funding, he explained that AEA's reasoning for it was to enable "regional spread." He noted that Kotzebue had asked for \$17 million, but "they hit the cap of [\$4 million]," and the person in charge of the project indicated, "If I do the difference of this, that's more debt than I've put on this utility in 35 years." He said

he does not know whether or not that project will move forward, but that Kotzebue gets to make that choice. If the community can find extra funds or extra grants, perhaps it can move forward with the project. He mentioned Pillar Mountain - another project that was approved. He said that is under construction and is using a variety of bonds and funding.

MR. HAAGENSON said AEA will not allow an entity to take the money until it has a financing plan in place. He said, "We're being very stingy with the money." He pointed out that the money is being allotted as reimbursement money, not "seed money to go out and play with."

8:27:24 PM

MR. HAAGENSON responded to questions from Senator Olson. First he mentioned the new Banner Wind project in Nome, which is 18 integrity units, 55 kilowatts a piece, and is currently running and interconnected with the utilities. He explained that there was a competing project, but AEA chose the project with the higher points. The ranking for the projects considered was based on the criteria set out in the RFP, which included whether the project had community support and technical feasibility, what the cost of power was, and whether the project would be sustainable. Regarding the Pilgrim Hot Springs geothermal project, he said no proposal was submitted in "round one" - the FY 09 projects; however, in "round two" - for FY 10 projects - he offered his understanding that there was a submission of an application to do a reconnaissance of Pilgrim Hot Springs.

8:28:47 PM

REPRESENTATIVE HAWKER expressed his concern that the projects are successful. He paraphrased the president of the University of Alaska as having warned against littering Alaska's landscape with failed projects as a result of choosing those projects before a plan is in place. Representative Hawker said he is still disappointed regarding the level of due diligence. He stated, "I don't have the personal confidence, based on my experience with the first \$6 million, that we have in fact something in place that accomplishes the goal we want it to accomplish." One concern, he noted, is regarding the relevancy of a \$110 a barrel hurdle rate. He explained that AEA's letter, dated October 2, 2008, shows that AEA used the \$110 a barrel rate, as determined by an analysis from the Institute of Social and Economic Research (ISER). However, a letter from ISER

states that AEA requested that ISER use the \$100 a barrel rate. He said he has a problem with that.

8:32:37 PM

REPRESENTATIVE HAWKER said AEA has improved upon the engineering due diligence, but he is still not certain there is an underwriters' due diligence approach. He pointed out that for the Fishhook project, local support rates a zero, which raises questions. He said he knows representatives from AEA will provide answers, but he would like to get to a point where he has confidence in the process as it is developed. He suggested having a legislative auditor pass judgment as to whether or not there has been an adequate due diligence regarding the 77 projects - to look out for the state's interest. He asked if this would be possible.

8:36:13 PM

CHAIR MEYER offered his understanding that Pat Davidson, the state's auditor, was willing to conduct an analysis on randomly selected projects. He noted that several consultants are available to the committee to assist in any additional evaluation desired.

8:36:54 PM

PAT DAVIDSON, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, indicated that she would like a two-week time frame, and she emphasized the importance of clearly being told what the committee's questions are. She said the division would make that a priority request at the will of the committee. Ms. Davidson concluded, "Any time we go in without a full audit request from the [Legislative Budget and Audit Committee], our ability to do that job is going to rest with the full cooperation of the agency."

8:37:51 PM

MR. HAAGENSEN said Ms. Davidson would have AEA's full cooperation.

8:38:20 PM

REPRESENTATIVE HAWKER said three to five projects chosen for the auditor would provide the committee with "a pretty good sampling."

8:38:32 PM

MR. HAAGENSON, regarding the aforementioned \$110 per barrel total, said that was his fault, and he offered an explanation. Regarding the concern that Alaska may become a littered landscape, he noted that Alaska has been used as a test bed for many technologies. Furthermore, he said he has no desire to end his long career in engineering, design, and projects construction, with any failed projects. He said the screening process he has used in his career is thorough, and he said he would "expand that to the energy plan." He indicated that failure can still occur, but he said the state has control of its money; it does not give the project money before seeing that there is a plan. Mr. Haagenson, regarding due diligence, said, "This is not 100 percent of the money; this is not a bank loan. ... The state's helping them move forward." He suggested that there is "a little bit of protection with a match."

8:41:41 PM

MR. HAAGENSON explained that local support is ranked so that "if nobody said anything you got zero." He said perhaps a zero mark meant no one knew about the project. He added that he does not think there were any citizens actively fighting Fishhook, for instance.

8:42:01 PM

REPRESENTATIVE HAWKER told Mr. Haagenson that representatives from Fishhook Renewable Energy, LLC, have been contacting his office persistently regarding a mandatory RCA regulation to an Independent Power Producer (IPP), which is being proposed by AEA, and which they say will completely change the dynamics of their project and "potentially throw it into a taxable status." Representative Hawker said he would like that issue reviewed as AEA's due diligence is reviewed. He added that he is not qualified to judge what is right or wrong regarding that issue.

8:42:58 PM

MR. HAAGENSON responded, "I respect that, and I actually agree with you." Regarding the IPP, he stated the following:

If they're not regulated - and most electric utilities are and almost all for-profit regulated utilities are - and they were applying for a waiver, but they're not



regulated, they could take the grant, put it in their pocket, and put it in the rate base and double dip on you. And I don't think anybody wants to see that happen. So, we said, "How can we protect the public, to make sure that the benefit goes to the public?" So, I think that's a very, very smart thing to do for the state, to enforce that. The RCA's set up, and they've already said, "We're not going to be ... fully regulated." And we're just going to make sure that they're fit, willing, and able. And we're going to have a tariff-based rate, [so] that they can come back and show us they're not taking advantage of this grant.

MR. HAAGENSON said another issue is, for example, what to do about a fuel company that is not regulated. He continued:

We talked about that. We said, "Well, we're going to require, as a condition of the grant, ... a yearly report to show us where the money's going for the operation of that project."

REPRESENTATIVE HAWKER opined that AEA is making the right decisions in this regard. Now, he said, it is just a matter of auditing the process to ensure it is functioning as intended.

8:44:40 PM

REPRESENTATIVE NEUMAN named the following types of energy projects: hydro, wind, geothermal, solar, and biomass. He suggested it may be more prudent to test run a sampling of the projects before deciding which projects get funded.

MR. HAAGENSON responded that House Bill 152 instructed the AEA to provide the legislature with a list, which it has done. He said as AEA considered how much money should go into testing and feasibility, it remembered the guidelines of House Bill 152, and it asked the committee how much should go into design and feasibility studies. He recollected that the number was about 20 percent, which left 80 percent for construction. He concluded, "There's a lot of people out there who need to have the construction to get their cost of energy down, which I think was the most important section of the instructions of [House Bill] 152, and to be less than that, I think, may not hit the mark."

MR. HAAGENSON, in response to Representative Neuman, emphasized that the technologies being used are proven, thus they do not need testing.

8:48:07 PM

REPRESENTATIVE THOMAS commented on the number of hydro projects in Southeast Alaska, and said that proven technology is helping people. He said he is disturbed that one individual asked for an audit, and he suggested doing so is "going down a bad ... path." He expressed concern that if two of the five projects randomly selected for audit are marginally bad, then every one of the projects will be shot down. He talked about the challenge of convincing everyone paying 9 cents a kilowatt that the people paying 83 cents a kilowatt need help. He said he is emotionally tied to this issue and, thus, is frustrated when "people don't believe in the same people that we hired to do the job for us."

8:52:50 PM

CHAIR MEYER said he understands Representative Thomas' frustration, but reminded him that the goal is to get the rest of the committee members up to speed on the issue so that everyone has the same comfort level. He said, "I do look at this not as \$100 million, but more like \$300 million or maybe even more, if we put more money into the renewable energy fund. So, we want to make sure it's done right as we start this process."

8:53:28 PM

REPRESENTATIVE THOMAS noted:

I pull up some information: \$1.4 billion has been spent on urban area renewal projects - "hydros." To date, zero [for] rural communities, other than a little capital money that I've been putting out there and Senator Kookesh in our districts. And, you know, they work. I've just named you all the dams there are in Alaska...

8:53:56 PM

CHAIR MEYER noted that one of the projects in which he has been involved was Swan-Tyee [Intertie], and that was about to come on

line. He stated his intent for the committee to move some of these projects, if not all, during its next hearing.

8:55:00 PM

**ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 8:55 p.m.