

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY & REGIONAL AFFAIRS STANDING COMMITTEE

January 23, 2001

8:05 a.m.

COMMITTEE CALENDAR

OVERVIEW: AK INDUSTRIAL DEV & EXPORT AUTHORITY

TAPES

01-3, SIDES A & B

CALL TO ORDER

REPRESENTATIVE KEVIN MEYER, CO-CHAIR, convened the House Community & Regional Affairs Standing Committee at 8:05 a.m.

PRESENT

Committee members present were Representatives Meyer, Morgan, Halcro, Murkowski, Guess, and Kerttula.

SUMMARY OF INFORMATION

ROBERT G. POE, Executive Director, Alaska Industrial Development and Export Authority (AIDEA) and Alaska Energy Authority (AEA), gave an overview of AIDEA and AEA with an emphasis on AEA programs, specifically bulk fuel consolidation projects and rural power enhancement projects. Handouts were provided. Mr. Poe explained the organizational structure of AEA since the breakup of the Department of Community and Regional Affairs. The Rural Energy Programs include Bulk Fuel Storage Upgrades and Consolidations, Rural Power System Upgrades, Power Cost Equalization. The program has two active loan funds, which are the Bulk Fuel Revolving Loan Fund and the Power Project Fund. There is one inactive loan fund, the Rural Electrification Loan Fund, which still has active loans. Other AEA programs include Alternative Energy Programs, Preventative Maintenance Rural Energy Systems, emergency response to power outages and bulk fuel systems, training of local utility personnel and tank farm operators.

MR. POE said there are 1,000 storage tank farms in rural Alaska and that AEA has been to 167 communities where they are located. Most [storage tank farms] are not in compliance according to the Environmental Protection Agency (EPA) and the United States Coast Guard's (USCG) criteria. He pointed out that [storage tank farms] are prioritized in a database according to maintenance needs and problems with the tanks. The Bulk Fuel Program includes evaluation of existing facilities. Alaska Energy Association repairs, builds, designs, and constructs code compliant facilities. Alaska Industrial Development & Export Authority tries to accomplish consolidation in order to gain economy of scale for containment of possible fuel spills and to build in additional capacity. Mr. Poe reviewed the handouts as well as the funding applied to AEA projects in rural Alaska. He pointed out that, through Senator Stevens and the Denali Commission, a great deal more money has been made available to respond to the problem in Alaska. The challenge for AEA is to effectively use and apply the funds to deal with rural Alaska's problems in a timely manner.

MR. POE said that on January 18, 2001, the Denali Commission awarded AEA \$7 million of additional funds, \$6 million of which will go to bulk fuel storage projects. To date, \$36 million has gone into that effort. He noted that, in the future, \$20 million may be available annually to deal with bulk fuel storage tanks. Therefore, AEA's challenge is to effectively use the money to solve this problem.

MR. POE turned to the Rural Power System Upgrade program. He noted that 90 percent of rural communities in Alaska generate electricity through diesel generation. Projects are expensive and take a long time to amortize and pay off. He remarked that a gallon of diesel fuel is still the most easily handled and best-priced package of energy that can be brought to rural Alaska. Diesel will be around for some time to come. Mr. Poe informed the committee that 90 percent of rural electric utilities in Alaska are generating electricity through diesel. There are very few interties. Of 100 electric utilities, 80 serve a single community and thus there are often not many economies of scale or other efficiencies because communities are far apart. Mr. Poe cited four opportunities for reducing the cost of generation in rural Alaska: evaluation of existing

power plants and distribution systems, design, construction, and repair and replacement of power projects.

MR. POE addressed AEA's response to emergencies relating to the loss of diesel generation. He noted that the defunct Rural Electrification Loan Fund still has loans out and pays for emergency response. This is commonly known as the Circuit Rider program, which also does training. He pointed out that AEA works with the Alaska Vocational Technical Center (AVTEC) in Seward to provide onsite training to run power plants. This training is also provided by the circuit riders. The [Alaska Energy Authority] also works with AVTEC to provide bulk fuel operator training, as well as utility clerk training associated with the Power Cost Equalization Program (PCEP).

MR. POE reviewed the Alternative Energy Program. This program includes wind, fuel cells, batteries, coal, biomass/wood waste, natural gas, hydroelectric, and conservation.

MR. POE addressed Power Cost Equalization (PCE) that provides rate reduction to 193 communities in Alaska. He explained a two-step process, which involves the Regulatory Commission of Alaska (RCA) setting the PCE rates for each community and considering fuel expenses, operating costs, and overhead in order to determine the true cost of a kilowatt hour in a community. After that determination, the Rural Energy Group defines the amount of electricity eligible for PCE. Mr. Poe gave a simple explanation of PCE calculations.

MR. POE explained the two previously mentioned loan funds. The Rural Electric Group has two loan funds: the Power Project Fund and the Bulk Fuel Revolving Loan Fund, (as well as the defunct Rural Electrification Revolving Loan Fund). The Power Project Fund provides funding for electric utilities, primarily bulk fuel storage associated with the electric utilities and potable water. Currently, there is \$3 million available for loans each year. There are 43 active loans, and about \$22.3 million is already "placed," while about \$3.7 million is committed but not "out and placed." He noted that there is \$7.6 million in cash and the delinquency rate is 3.9 percent (\$867,000).

MR. POE explained that the Bulk Fuel Revolving Loan Fund helps communities buy all the fuel they need for a year.

This fund is available to communities with a population of less than 2000. [The communities pay] less than \$100,000 a year, which [the fund] recovers through rate recovery. He specified that there are 52 active loans with an outstanding balance of \$1.4 million and there is \$522,000 in cash. He noted that approximately \$800,000 was used in emergency funds to make bulk fuel loans to salmon disaster communities. Mr. Poe indicated that "they" are looking for a \$5 million federal grant to enhance this loan fund. He informed the committee that there are still Rural Electrification loans being paid off. Eleven loans are being paid off, which amounts to approximately \$2.4 million. He pointed out that there is \$60,000 [in] delinquency.

MR. POE remarked that the challenge is to leverage the funds "they" have. He related his belief that "they" shouldn't hire new employees. Mr. Poe noted the private sector idea of using points, as opposed to a bid process, as a means for the private sector to help deliver services. For example, there might be apprenticeship programs [that do] two or three projects in a region over a few years. The private sector could help with designing, building, training, and career development opportunities. Therefore, a point system [could allow the private sector] to accomplish things that might not otherwise be possible.

REPRESENTATIVE HALCRO recalled, from last year, [that it would take] \$100 million to bring stand alone power systems up to compliance. He asked if "we" are \$90 million away from meeting [that] goal.

MR. POE said we are a long way from getting systems upgraded. He related his view that since money is now available, it is critical to effectively apply it. He turned to the Denali Commission's question as to why the money can't be placed if the need exists and expressed the need for community support.

REPRESENTATIVE HALCRO asked if AEA has come up with a complete list of the needs that exist. He also asked if there is some kind of target schedule to address those needs over the next five to ten years.

MR. POE replied there is a complete list of the rural bulk fuel projects as well as a prioritized list that gets updated periodically. A full listing of power project

conditions in rural Alaska should be completed by next month. He noted that they are six communities short of having visited every rural community (167 exist). He also noted that the Denali Commission may provide some grant funds and thus there could be a combination of grant and loan funds for particular projects.

REPRESENTATIVE MURKOWSKI stated support for community buy-in [programs]. She discussed wind power issues. She asked about loan funds and fish disasters and whether there is a link between the two.

MR. POE explained that loans are reviewed by a committee and each [loan] is considered separately. The loan program is not well known. He noted that the United States Department of Agriculture (USDA) loans will help capitalize the fund.

DAVID E. GERMER, Deputy Director, Business Development and Rural Energy, Alaska Industrial Development and Export Authority (AIDEA), pointed out that AEA does not help communities apply for the Bulk Fuel Revolving Loan Program. However, after the fish disaster [AEA] received \$800,000 from the Department of Military of Veterans in order to make emergency loans. He noted that although a credit analysis is generally done, a normal credit analysis was not done for loans associated with fish disaster and thus the loans were provided quickly. The funds were distributed in about 3.5 weeks.

REPRESENTATIVE MURKOWSKI asked about loan payback.

MR. GERMER replied that payback parallels bulk fuel revolving loan program regulations.

MR. POE commented on wind energy issues in Kotzebue, Wales, and Selawik. He acknowledged that there are other wind opportunities. He also cited four efficiencies to reduce the cost of energy generation in rural Alaska: diesel efficiency and efficiencies in switching gear, waste heat recovery, conservation measures, and alternative energy.

MR. POE replied, in response to Co-Chair Meyer, that the big capital cost would have to be amortized through utility rates. He reviewed other gas [pipeline] potential throughout Alaska.

CO-CHAIR MORGAN asked what technical assistance is offered to communities that have qualified for construction of rural energy projects, but lack the technical expertise to get a higher compliance ranking in the list.

BRUCE TIEDEMAN, Acting Rural Energy Manager, Alaska Industrial Development and Export Authority (AIDEA), replied that AIDEA first meets with communities to find out what their needs are. After 35 percent [of the] design [work] [is done], AIDEA goes back to the communities to discuss what more is needed to get the project constructed, such as resolutions for site selection. Often, AIDEA uses community meetings to explain what the program is, what considerations are needed to develop consolidation, code compliance factors, and economies of scale. Mr. Tiedeman explained that the high turnover of city government officials [in rural areas] can create problems, so there is a need to go back and talk to communities on a regular basis.

CO-CHAIR MORGAN further asked if a community with low ranking needed to go back and work on the whole application, or just areas that caused the low ranking.

MR. TIEDEMAN replied that AIDEA meets with the community and explains the current situation as well as how the community can develop a code complaint facility; they explain potential deficiencies and possible solutions to correct foreseeable problems. Thus, in cooperation with communities, code compliant facilities are developed.

CO-CHAIR MORGAN then asked about the 2000 project development plan that included 16 bulk fuel [facilities] and 12 power [facilities] in various stages of construction and upgrade. He noted that on this list are Upper and Lower Kalskag, which are just now in the design [stage], though two years ago there was enough money to construct them. Stating that one of them had \$1 million and the other had \$900,000, he wondered why this year the projection is still just in the design phase.

MR. POE stated that community agreement is a really important part of a successful project but until they [AIDEA] get agreement between the communities, they can't go in there; that is the situation with Upper and Lower Kalskag. Mr. Poe said they would like to build the

projects, but community agreement is needed first, and he doesn't know how to get these communities to agree.

CO-CHAIR MORGAN asked if the communities had lost the construction dollars.

MR. POE responded that the communities have not lost their place on the list and there are more construction dollars coming, but the [current] dollars were reallocated to projects that were ready. This is due to pressure from the Denali Commission to get the money placed. The Denali Commission is not able to go to DC [Washington] and get more money if there are still unplaced funds. They [Denali Commission] have put pressure on AEA to work with projects that are ready. Mr. Poe requested Representative Morgan's help [in getting community agreement].

MR. TIEDEMAN acknowledged that because of the close proximity of the two communities [Upper and Lower Kalskag] AIDEA felt that consolidation of projects would save costs. This idea was explored but ultimately, the communities decided they didn't want this type of consolidation to happen. This decision was based on issues such as available land, who owned it, and how it was connected to both communities. The current leadership wanted certain sites but these proved problematic; there was also the issue of who was going to participate. The communities found that for every change, there was a cost. Now the conceptual design is done and the costs have proven to be more than what was first allocated. The communities now have a better handle on costs for each individual site.

REPRESENTATIVE GUESS asked how much progress down the list AEA has made.

MR. POE said they are at White Mountain on the list, or about number 50 out of 167.

REPRESENTATIVE GUESS asked if the bulk fuel projects from the school construction major maintenance list were included on the AEA list.

MR. TIEDEMAN said they have been working with schools and school districts to the greatest extent possible.

MR. POE added that consolidation of several facilities is best but agreement in the community is sometimes hard to get.

REPRESENTATIVE KERTTULA asked if AIDEA had looked at the ADEC water management program, with its model of training the people in the communities to run the plants themselves; is AIDEA trying to institute similar training programs?

MR. POE cited a Village Safe Water example of training more than one person at a time. Mr. Tiedeman added that AIDEA was coordinating with the U.S. Department of Housing and Urban Development (HUD) and the Village Safe Water Program (VSWP), and vice versa.

REPRESENTATIVE HALCRO, regarding the HB 40 [merger of the Department of Community and Regional Affairs with the Department of Commerce And Economic Development] transition process, asked Mr. Tiedeman if he felt communities were being kept in the decision-making process on rural energy relationships and were also made to feel they [communities] were involved in these decisions.

MR. TIEDEMAN answered that the transition was difficult but feels it has turned the corner. There is a new building, with services in one facility. They [DCED] have good accounting and loan staff, and this has taken pressure off of them in serving rural communities. The new staff is learning what has been done in the past and utilizing suggestions to maintain a good program. There is more travel to communities and [DCED is] better able to respond to community needs. The transition has really helped and there are no major problems, except spending the money from the Denali Commission.

REPRESENTATIVE HALCRO inquired about outreach programs.

MR. POE said more outreach for bulk fuel would have resulted in AEA not being able to meet the need. The [Alaska Energy Authority] has tried to target communities that don't have any other alternative to get the fuel purchased. The \$5 million grant may allow outreach to make more sense. He cited some outreach efforts they had done.

REPRESENTATIVE HALCRO referred to delinquent loans and asked what, if anything, was being done to recover these loan?

MR. POE responded that with the AIDEA Rural Bulk Fuel Program and the Power Project Fund they try to work with the communities. Usually communities do pay. It's a cooperative effort. With regard to AIDEA loan participations, "they" are a little less cooperative and a lot more like a banker.

REPRESENTATIVE HALCRO asked about PCE funding and the Four Dam Pool endowment. He inquired about the projected shortfall this year.

MR. POE predicted a shortfall of \$7.8 million, although that won't be known until around February 21, 2001, [when the] revised number is submitted.

CO-CHAIR MORGAN asked if the \$7.8 is for FY02 or FY03.

MR. GERMER answered that FY03 is projected at \$2.2-\$2.3 million based on the Four Dam Pool sale, which will occur at the end of this year.

MR. POE said if the sale doesn't happen, then the shortfall will be in the "same ballgame." However, he indicated that he is convinced the transfer will occur by the end of the year.

REPRESENTATIVE HALCRO asked about the Alaska Seafood International Plant.

MR. POE gave an overview of the plant's location, products, and investors.

CO-CHAIR MEYER asked if Federal Express or UPS was expanding and adding people.

MR. POE said he had heard the announcements, but could not confirm their accuracy.

CO-CHAIR MEYER added that he was happy to see the seafood processing in Anchorage since it helps diversify the economy.

REPRESENTATIVE MURKOWSKI asked what is being produced at the plant and if the plant was producing now.

MR. POE replied that it is not producing now and production is [dependent upon] a fourth investor.

MR. POE gave a brief overview of the Ketchikan Shipyard. Built in 1985, it hasn't had much success in terms of operators, but the current operators from Department of Transportation and Public Facilities (DOT/PF) have been very successful in providing good jobs. The department has an average payroll of 110 people and last week it was at 153 people. Revenues are in the neighborhood of \$19 million. He spoke to the need for a second ship-lift. The shipyard is a success story on the economic development side, although not a financially successful story for AIDEA.

REPRESENTATIVE HALCRO asked about the critics of the Ketchikan Shipyard, and, in particular, the higher costs of taking vessels there as opposed to the Pacific Northwest.

MR. POE replied that he has heard the critics and there is no truth to what [the critics] say. He went on to mention that the Ketchikan Shipyard has won competitive bids.

REPRESENTATIVE MURKOWSKI asked if there are plans for expansion of a second ship pullout.

MR. POE said there definitely are plans, but funding is the challenge. He spoke of different ways to accomplish the construction. The operators are looking at these, but funding is the challenge.

ERIC YOULD, Executive Director, Alaska Rural Electric Cooperative Association (ARECA), gave a brief overview of ARECA, the trade association for the electric utility industry in Alaska. He stated he supported AEA's focus on energy sources and noted that diesel remains the most efficient energy source available. He agreed with the concept of alternative energy evaluation. He concurred with AEA's focus on increased efficiency. Mr. Yould commented that Alaska Village Electric Cooperative, Incorporated (AVEC) is a tremendously great success story.

REPRESENTATIVE HALCRO asked, from the viewpoint of the co-ops, if the department merger affected the delivery of energy and working relationships with rural Alaska.

MR. YOULD said that Division of Energy's focus has been on those communities that cannot provide for themselves. Some communities could never have had a viable utility system had not PCE allowed them to get up and operating. Alaska Energy Authority is looking to the more chronic areas of Alaska and are providing a very good service.

[End of tape and second tape would not start recording. Meeting ended approximately five minutes later.]

ANNOUNCEMENTS

No announcements were made.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

CO-CHAIR MEYER adjourned the House Community and Regional Affairs Standing Committee at 9:45 a.m.

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at State Capitol, Room 3, Juneau, Alaska 99801 (mailing address), (907) 465-2214, and after adjournment of the second session of the Twenty-Second Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.