

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 30, 2001

3:20 p.m.

MEMBERS PRESENT

Representative Lisa Murkowski, Chair
Representative Andrew Halcro, Vice Chair
Representative Kevin Meyer
Representative Pete Kott
Representative Norman Rokeberg
Representative Harry Crawford

MEMBERS ABSENT

Representative Joe Hayes

COMMITTEE CALENDAR

HOUSE BILL NO. 175

"An Act making an appropriation to the Alaska Industrial Development and Export Authority for power projects; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 176

"An Act making an appropriation to the Alaska Industrial Development and Export Authority for a power transmission intertie between Kake and Petersburg; and providing for an effective date."

- BILL HEARING POSTPONED

SUBCOMMITTEE REPORT ON AVIATION INSURANCE

- POSTPONED TO 4/2/01

PREVIOUS ACTION

BILL: HB 175

SHORT TITLE: APPROP: POWER PROJECTS

SPONSOR(S): REPRESENTATIVE(S) LANCASTER

Jrn-Date	Jrn-Page		Action
03/12/01	0543	(H)	READ THE FIRST TIME -

03/12/01	0543	(H)	REFERRALS
03/30/01		(H)	L&C, FIN
			L&C AT 3:15 PM CAPITOL 17

WITNESS REGISTER

REPRESENTATIVE KEN LANCASTER
Alaska State Legislature
Capitol Building, Room 421
Juneau, Alaska 99801
POSITION STATEMENT: Sponsor of HB 175.

ERIC YOULD, Executive Director
Alaska Rural Electric Cooperative Association (ARECA)
703 West Tudor Road
Anchorage, Alaska
POSITION STATEMENT: Testified on HB 175; proposed amendment.

ROBERT A. EVANS, Lobbyist
Golden Valley Electric Association;
Purchasing Utilities of the Four Dam Pool
P.O. Box 100384
Anchorage, Alaska 99510
POSITION STATEMENT: Presented information on HB 175.

KEN GATES, Chief Executive Officer and General Manager
Cordova Electric Cooperative
P.O. Box 20
Cordova, Alaska 99574
POSITION STATEMENT: Testified on HB 175.

HAP SYMMONDS, President
Board of Cordova Electric Cooperative;
Plant Manager
Ocean Beauty Seafoods
P.O. Box 548
Cordova, Alaska 99574
POSITION STATEMENT: Testified on HB 175.

ROBERT WILKINSON, Chief Executive Officer
Copper Valley Electric Association
P.O. Box 45
Glennallen, Alaska 99588
POSITION STATEMENT: Testified in support of HB 175.

SANDRA GHORMLEY, Manager
Marketing and Member Relations

Homer Electric Association
280 Airport Way
Kenai, Alaska

POSITION STATEMENT: Testified on HB 175.

STEVE HAAGENSON, Acting President and Chief Executive Officer
Golden Valley Electric Association (GVEA)
P.O. Box 71249
Fairbanks, Alaska 99707-1249

POSITION STATEMENT: Testified on HB 175.

DONALD MAHON
Alaska Power Company
P.O. Box 207
Tok, Alaska 99780

POSITION STATEMENT: Testified on HB 175.

THELMA SCHRANK
HC01 Box 380
Gakona, Alaska 99586

POSITION STATEMENT: Testified on HB 175.

ALAN LeMASTER
P.O. Box 222
Gakona, Alaska 99588

POSITION STATEMENT: Testified on HB 175.

DWIGHT NISSEN, President
Alaska Rural Electric Cooperative Association;
Board Member, Golden Valley Electric Association
P.O. Box 158
Delta Junction, Alaska 99737

POSITION STATEMENT: Testified on HB 175.

MARGY JOHNSON, Mayor
City of Cordova
P.O. Box 150
Cordova, Alaska 99574

POSITION STATEMENT: Testified in support of HB 175.

SYLVIA LANGE, Ratepayer
P.O. Box 135
Cordova, Alaska 99574

POSITION STATEMENT: Testified on HB 175.

DENNIS LEWIS, Electrical Superintendent
City of Petersburg;

Chairman, Four Dam Pool;
Board Member, Alaska Rural Electric Cooperative Association
P.O. Box 327
Petersburg, Alaska
POSITION STATEMENT: Testified on HB 175.

PAUL ANDERSON, President
Thomas Bay Power Authority;
Board Member
Alaska Rural Electric Cooperative Association (ARECA) Board of
Directors;
Council Member, Petersburg City Council
P.O. Box 1454
Petersburg, Alaska
POSITION STATEMENT: Testified on HB 175.

BOB POE, Executive Director
Alaska Industrial Development and Export Authority (AIDEA);
Alaska Energy Authority (AEA)
(No address provided)
POSITION STATEMENT: Testified on HB 175.

JOE RILEY
HC01 Box 540
Slana, Alaska
POSITION STATEMENT: Testified on HB 175.

JAMES KVASNIKOFF
P.O. Box 8006
Nanwalek, Alaska 99603
POSITION STATEMENT: Testified on HB 175.

ACTION NARRATIVE

TAPE 01-43, SIDE A
Number 0001

CHAIR LISA MURKOWSKI called the House Labor and Commerce
Standing Committee meeting to order at 3:20 p.m. Members
present at the call to order included Representatives Murkowski,
Halcro, Meyer, Rokeberg, and Crawford. Representative Kott
arrived while the meeting was in progress.

HB 175-APPROP: POWER PROJECTS

Number 0035

CHAIR MURKOWSKI announced that the committee would hear HOUSE BILL NO. 175, "An Act making an appropriation to the Alaska Industrial Development and Export Authority for power projects; and providing for an effective date."

Number 0123

REPRESENTATIVE HALCRO made a motion to adopt the proposed committee substitute (CS) for HB 175 [22-LS0705, Version C, Cramer, 4/5/01]. [No objection was stated; therefore, Version C was adopted as the work draft.]

REPRESENTATIVE KEN LANCASTER, Alaska State Legislature, sponsor of HB 175, apologized for the late proposed CS, but said the Alaska Industrial Development Export Authority (AIDEA), the Alaska Energy Authority (AEA), and the Office of the Attorney General had some concerns, which were addressed in Version C.

REPRESENTATIVE LANCASTER said he would briefly go over the projects. The first [request] is for a \$12 million grant for Cordova Electric to help with the Power Creek hydroelectric project to keep the kilowatt cost down, and to get a payback "stream" from power cost equalization (PCE); he explained that [Cordova Electric] is the largest user of [PCE], at about \$600,000 annually.

REPRESENTATIVE LANCASTER explained that the second project in the bill is for the Copper Valley Electric Association. He said \$35 million in AIDEA's account was originally dedicated for the Sutton-Glennallen intertie, which never came to fruition - that amount is \$12.5 million. In the interim, "they" have gone with a co-generation formula with "Epistar" in Valdez. He mentioned that some upgrades to the Copper Valley plant are needed.

Number 0249

REPRESENTATIVE LANCASTER stated that another [project] is the Tok to Chistochina [power-transmission intertie] at a cost of \$8.4 million. This will help provide reliable and efficient power for the people along the highway, and hopefully help build a transmission grid that will eventually tie in with the Copper Valley and Glennallen areas. He expressed the need to start building the transmission grid throughout the state.

REPRESENTATIVE LANCASTER, going down the list of projects, stated that the next [request] is for a grant for the south end of the Kenai Peninsula. There is an underground cable that runs

2.5 miles across the bay through the spit to Seldovia. The cable is well past its useful life and is in danger of failing. He said the old Fairbanks "Morris (ph)" generators in Seldovia are not very reliable, and [the community] had some severe power outages and suffered some loss, he remarked.

Number 0285

REPRESENTATIVE LANCASTER said the other [request] is to upgrade the Anchorage-Fairbanks intertie, [allowing for] a larger capacity of power to flow in both directions; this project will cost \$13.2 million.

REPRESENTATIVE MEYER asked how much money is in the Railbelt energy fund, and for what purpose was the fund set up.

REPRESENTATIVE LANCASTER responded that the Railbelt energy fund was originally set up with \$2 million for the Susitna hydroelectric project that never came to fruition. Some of those funds have been used for the Bradley Lake hydroelectric power and the south end of the peninsula, and others are allocated now both to Chugach Electric and to Golden Valley Electric Association for the northern and southern intertie. He said the balance in the account today is about \$71 million, which is the money that "we" plan to use. He explained that some of that money was allocated into the account for the Sutton-Glennallen intertie, which came to \$35 million; it has accrued quite an amount of interest, since it [started] in 1993. Another portion being worked on is the Swan Lake to Tyee Lake intertie project for \$20 million. He noted that this money has also accrued some interest.

Number 0461

REPRESENTATIVE ROKEBERG asked if Representative Lancaster had done any research into the political and economic history of the Raibelt energy fund.

REPRESENTATIVE LANCASTER responded that he has been involved with ARECA for years.

REPRESENTATIVE HALCRO said funds have been set aside for various reasons, only to be used for other purposes later. He said the biggest project on the list is to upgrade the Anchorage-Fairbanks power transmission [line] for \$13.2 million. Out of this \$71 million Railbelt energy fund, how much did the constituents living along the Railbelt actually put into the

fund, he asked. He clarified that the Railbelt energy fund is to be used for projects in the Railbelt. He said one would assume that the people in the Railbelt would have some kind of ownership over this fund.

Number 0606

REPRESENTATIVE LANCASTER replied that of the \$71 million being [discussed here], \$35 million was put in for the Sutton-to-Glennallen intertie, which never came to fruition, and the money has been sitting there since 1993 earning interest. He said the other money was put in for the Swan-[Lake]-to-Tyee-[Lake] transmission project in Ketchikan for \$20 million.

REPRESENTATIVE ROKEBERG said he thought this money was appropriated for the Susitna project.

REPRESENTATIVE LANCASTER responded, "Not these two particular monies that we are talking about now. The fund was actually started and originated ... with the Susitna project - the \$200 million was put in to study Susitna." He said the two allocations are for the two projects he just mentioned.

REPRESENTATIVE ROKEBERG asked, "But weren't those allocations made out of [the] fund and then re-appropriated back into it?"

REPRESENTATIVE LANCASTER said he had a chronological history [of the Railbelt energy fund] that he would make available for the committee.

Number 0687

REPRESENTATIVE ROKEBERG explained that his understanding is somewhat different: The money was there for the establishment of the Susitna project, and then there were substantial allocations of other monies, for example, for the creation of the Four Dam Pool and the establishment of the PCE program in terms of allocation around the state; therefore, his constituents and neighbors claim some ownership.

REPRESENTATIVE LANCASTER replied that this is why he is trying to fix the Fairbanks intertie. He said Eric Yould could speak more to that as well.

REPRESENTATIVE KOTT asked Mr. Lancaster if Cordova or Copper Valley Electric is in the Railbelt.

Number 0757

REPRESENTATIVE LANCASTER replied that Copper Valley is in the Railbelt and there is some ownership. \$35 million of this was actually appropriated for Copper Valley Electric for the Sutton-to-Glennallen intertie. He remarked that Cordova [being in the Railbelt] might be "stretching it."

REPRESENTATIVE KOTT directed the committee to AS 37.05.520, which reads: "The legislature may appropriate money from the fund for programs, projects, and other expenditures to assist in meeting Railbelt energy needs." He said he is not sure if this isn't stretching it to some extent. He wanted to bring this to the committee's attention since there is no other statutory change. It would be cleaner, he said, if there were another statutory change dealing with what the legislature may appropriate [the fund] for.

CHAIR MURKOWSKI asked how "Railbelt" is defined.

REPRESENTATIVE KOTT replied that he is not sure that it is defined.

Number 0829

REPRESENTATIVE LANCASTER stated that going back through the Bradley Lake project, [these project funds] came out of the Railbelt energy fund, although it is not in the Railbelt either. He stated that he thought it had to do with the seven utilities that are in the Railbelt system, (indisc.) down to Homer Electric.

CHAIR MURKOWSKI asked for clarification that Representative Lancaster is talking about the Railbelt [area extending] from Fairbanks down to Homer.

REPRESENTATIVE ROKEBERG agreed because Homer and South Kenai are part of the Railbelt energy grid and could qualify because they are interconnected.

REPRESENTATIVE HALCRO asked if there had been any proposals over the past five to six years to take money out of the Railbelt energy fund to [pay for] projects in the Railbelt.

REPRESENTATIVE LANCASTER explained that \$90 million came out [of the fund] for the northern and southern interties, which Commissioner Pourchot [of the Department of Natural Resources]

just [approved] to start building a valley; the one being studied is on "VIS" on the southern peninsula, he explained.

Number 0904

CHAIR MURKOWSKI said there are appropriations from the fund for such things as the Bradley Lake hydropower project and the McLaughlin Youth Center. She asked how all of these projects came about because it looks like a "laundry list of projects."

REPRESENTATIVE LANCASTER said he couldn't speak for the department, but said AIDEA received monies from this funding source for projects.

Number 1010

ERIC YOULD, Executive Director, Alaska Rural Electric Cooperative Association (ARECA), the trade association for the electric utility industry in Alaska, said he represents most of the utilities throughout the state, both large and small companies. He said [ARECA] is in favor of the bill; however, he wanted to give some historic perspective on the Railbelt energy fund. He commented that he was part of many projects in the 1980s that [were paid] for out of the fund.

MR. YOULD said back in the 1980s when the state had more money, it appropriated funds for the development of the Four Dam Pool for hydropower projects. Power cost equalization (PCE) was also started, which has utilized \$300 million. The Four Dam Pool was roughly \$450 million. During this time, the Railbelt was looking to the Alaska Power Authority to develop the Susitna hydropower project - a 15,000-megawatt project centrally located between Anchorage and Fairbanks that would take care of the central part of the state. The idea was that it would be used to spread the cost of Susitna and other projects throughout the state and enhance communities that only had diesel power, and that these [communities] would get a postage-stamp rate.

Number 1086

MR. YOULD said in the early 1980s the legislature established the Railbelt energy fund; the language said annually the legislature would appropriate funds to the Railbelt energy fund for equity contribution in the Susitna project. The state was looking to put \$2.5 billion into the fund; however, due to the falling price of oil, the Susitna project was shelved. This happened after spending \$134 million on permits and doing

exploration for the project. In the interim, the legislature appropriated \$200 million to the Railbelt energy fund. At that time, the Railbelt had nothing to show for the early 1980s; nevertheless, the legislature also appropriated \$124 million for the development of the Anchorage-to-Fairbanks intertie, which was developed by the Alaska Power Authority. Later, \$200 million was appropriated for the Bradley Lake hydropower project in the Kenai area to partially fund the project, and another \$150 million in revenue bonds were sold and financed by the utilities.

Number 1181

MR. YOULD said there was \$200 million sitting in the Railbelt energy fund. If a person looks at how much was spent on Susitna, the intertie, and the Bradley Lake project, the total was roughly \$450 million for the central part of the state where 70 percent of the population is.

MR. YOULD explained that the Railbelt energy fund remained in place throughout the 1980s, and then in 1993 the legislature took the \$200 million and appropriated it: \$45 million went to the northern transmission intertie between Healy and Fairbanks; \$45 million went for the intertie from Anchorage down to Kenai; \$68 million was appropriated for PCE; \$35 million was for a low-interest loan to Copper Valley Electric for a transmission line between Sutton and Glennallen; and another \$20 million was appropriated for the Southeastern intertie, a low-interest loan for a transmission line between Tye and Swan Lakes.

Number 1253

MR. YOULD said of that \$200 million, \$90 million is going forward for the northern and southern intertie within the Railbelt; with \$68 million for PCE expended, \$35 million was left for the Sutton to Glennallen transmission line, which didn't get developed and probably won't be due to its economic feasibility. He said \$20 million was left sitting in the Southeastern intertie fund. There is \$55 million in the Railbelt energy fund that has not been expended because neither of the two projects went forward.

MR. YOULD explained that in addition to the \$55 million, another \$16 million in interest was earned on the fund, bringing the total balance to \$71 million. That is what is before the committee today, he said, a fund of \$71 million, out of which

this bill would appropriate \$51 million for the [aforementioned] five projects.

Number 1313

REPRESENTATIVE ROKEBERG stated that the Tyee and Sutton monies were appropriated from the fund and have now defaulted back into the fund.

MR. YOULD replied that, in essence, that is correct. Last year when the divestiture legislation took place, the \$20 million from the Southeast intertie was put back into the fund, and the \$35 [million] was still sitting in the fund because it wasn't appropriated.

REPRESENTATIVE ROKEBERG asked whether the \$68 million for PCE was [appropriated] last year or the year before.

Number 1390

MR. YOULD explained that PCE [money] was appropriated in 1993. He said it wasn't an endowment but was appropriated to the PCE fund for distribution. He said it was supposed to last until exhausted, and the legislature desired to continue to fund PCE at a level consistent with the formula through 2014, which couldn't have been handled by the \$68 million in the first place.

Number 1447

REPRESENTATIVE HALCRO asked Mr. Yould about the purpose and politics involved in creating the Railbelt energy fund.

MR. YOULD explained that back in the early 1980s there was a large amount of money going to what is now called the Four Dam Pool, which were just four separate projects at the time. "We" were looking at developing other projects, and the legislature felt that there were other communities that were always going to be on diesel, so that is why PCE was started. Back in the early 1980s, it was called power cost assistance, later changed to [PCE].

MR. YOULD explained the politics at the time. He said knowing that Susitna was going to take several years to be developed, there was the feeling that there had to be a Railbelt energy fund that would ensure that Susitna would get developed and be available. The politics were brutal, he remarked, and there was

the "Susitna blackmail clause," which said - in the event that \$2.5 billion is not appropriated for the Susitna hydropower project - a prior year's appropriation for the Four Dam Pool and other grants at the time would resort to loans. He said that legislation was later repealed because it represented a threat to the communities receiving power from the Four Dam Pool when it came time for them to go out and bond for other community services; that represented a contingent liability.

Number 1549

CHAIR MURKOWSKI asked about the "laundry list" of projects that are not energy-related. She mentioned the statute that indicates that monies from this fund would be allocated for energy-related projects within the Railbelt area.

MR. YOULD remarked that he hadn't seen the "laundry list" but said money was put into [the Railbelt energy fund] for the purpose of investment, and then taken right back out. He said he didn't think Railbelt energy money was used for anything other than energy projects.

CHAIR MURKOWSKI referred to the top of page 2 [of a handout for the committee entitled "History of the Railbelt Energy Fund"], where it indicates various capital appropriations as grants to municipalities and unincorporated communities, and state agencies. She asked if Mr. Yould is suggesting that these grants were made, and that money actually ended up with the projects before the committee now.

MR. YOULD said he'd never seen [the list] and it was new to him; however, he reiterated that he didn't believe that the Railbelt energy fund was used for anything other than energy projects.

REPRESENTATIVE ROKEBERG commented that it looked as if the 1990 legislature was nearing the end of discretionary capital funds and had raided the energy fund.

Number 1635

MR. YOULD, when asked about the "[Susitna]-blackmail clause," explained that some people call it the "Susitna-equity clause." Upon being asked to explain the rationale behind the enactment of the clause, he said there was a feeling that a lot of money was being appropriated for hydropower projects throughout the state; those appropriations happened over a one-or two-year period of time, and would then be up and running. At the same

time, it was realized that appropriations for a \$5 billion Susitna hydropower project would take place over a much longer period of time; the clause was to ensure that those getting projects funded over a two-or three-year period of time would continue to support subsequent appropriations to the Railbelt energy fund for the Susitna hydropower project.

REPRESENTATIVE ROKEBERG clarified that this was to make sure that the Railbelt area received a fair allocation. He asked if that was the rationale for the enactment: to ensure that the money wasn't disbursed all over the state, with certain populations not getting their fair share.

Number 1735

MR. YOULD agreed.

REPRESENTATIVE ROKEBERG asked Mr. Yould, as the executive director of ARECA representing almost all electric utilities in the state, whether an increase in the generating capacity would enhance the ability to attract industry to Alaska and help the economy of the state.

MR. YOULD responded affirmatively and said it would have to be a large block of power at low cost. He said he is thinking in terms of large industry, and certainly that is what happened on the Columbia River system where several thousand blocks of megawatts were in place at six mills per kilowatt-hour. For example, if "we" were to develop the Rampart hydropower project, 6,000 megawatts of power, the cost of electricity out of that project would be very low and might attract industry. He said the Susitna project was more suited to the size of the demands of Alaska, and he questioned whether it would attract industry itself.

MR. YOULD said none of these projects would attract industry if they have to be debt-financed, because, as with any hydropower project, they are very expensive in the beginning as inflation takes place, and become very attractive as time goes by. He said the same is true of hydroelectric power, but the project will be in place for 200 years.

REPRESENTATIVE ROKEBERG mentioned the possibility of having cheap "ANS" [Alaska North Slope] natural gas (indisc.), for example, or developing the (indisc.) into substantial electrical generation capacity. He asked if there is enough low-cost energy to entice major industry into that area.

Number 1786

MR. YOULD said again the answer is yes, but raised the question of how one gets the cost of that electricity down. He explained that if it has to be totally debt-financed, it would be very expensive; however, if it were the state's position to attract industry and put equity into these projects, it could charge whatever price it wanted for that power; if [the state] charges little, it would attract industry.

Number 1875

MR. YOULD stated that there is tremendous energy potential in Cook Inlet alone, where there is the second-highest tidal power project in the world; the only one that is bigger is in the Bay of Fundy in Canada. He said "we" have looked at developing the project on just a straight economic basis and found that it was inferior even to Susitna hydropower. Alaska has one-third of the nation's untapped potential hydropower, but because of the economics of developing and transmitting it, and the environmental consequences, it hasn't happened. He said the same is true of coal; [Alaska] probably has 50 percent of the United States' reserve of coal, but without the infrastructure to bring it to market, it is not economically feasible.

REPRESENTATIVE ROKEBERG said he found it interesting that 50 percent of the United States' energy production is coal-fired. He said [Alaska] almost needs to have it pre-sold to be able to afford to develop it.

MR. YOULD used the example of the aluminum industry and commented that [people in the industry] would probably sign on the dotted line if the money were committed to develop the project.

Number 1933

MR. YOULD, responding to the question of what the Railbelt is, said once the transmission line is in place, "they" are electrically and theoretically part of the Railbelt.

TAPE 01-43, SIDE B
Number 1969

MR. YOULD stated that the submarine cable on the southern end of the Homer system is a small cable but is part of the Railbelt

system. Geographically, these projects are electrically within the confines of the Railbelt system.

Number 1945

REPRESENTATIVE HALCRO said [legislators] need to remember that these are all fairly connected. Certainly, he said, the benefits of affordable power and adequate energy supplies benefit the whole state and not just the area where the project is built.

MR. YOULD agreed. He said that is not to say that there will be transmission lines going through rural Alaska, because he is not sure that it could be done economically anyway.

MR. YOULD stated that within the Railbelt area, where there is the greatest concentration of population, there is no reason why a transmission line infrastructure shouldn't be developed and put in place.

Number 1884

MR. YOULD referred to Version C of HB 175. He suggested a change to the Anchorage-to-Fairbanks transmission line. He referred to the \$13.2 million cost to upgrade the intertie to 230 kilovolts. This is partial funding, he said, and full funding would be \$17.2 million; to fully upgrade the transmission line from Fairbanks to Kenai would [cost] \$24.3 million because of the need to change out substations and transformers.

Number 1840

MR. YOULD stated that "we" are trying to build a 26-mile stretch of transmission line from the southern terminus of the existing Anchorage-to-Fairbanks transmission line to hook up with the Chugach transmission line so that there will be 230 kilovolts from Anchorage down the Kenai [Peninsula]. At the present time there is a 26-mile bottleneck, which is 115 kilovolts, [likened to] a blocked artery. "We" need to build around that transmission line segment with 230 kilovolts so that there is truly a first-class transmission system from Anchorage to Fairbanks.

Number 1809

MR. YOULD explained that because the energy authority is the entity that owns the Anchorage-to-Fairbanks intertie, "we" feel that [it] is the appropriate entity to be building and upgrading this 26-mile stretch. He recommended the following language:

Upgrade the Anchorage-Fairbanks power transmission line, with the new language ... [to] read, "the Alaska Energy Authority extending and upgrading to 230 kilovolts the Anchorage-Fairbanks power transmission intertie, provided that the cost of this extension and upgrade, which are funding by this allocation, shall not be charged to transmitting utilities."

MR. YOULD explained that the previous four appropriations were for grants to individual utilities, but the Anchorage-to-Fairbanks extension and upgrade would be to an existing state authority; therefore, this language is necessary to make it clear that "they" are to develop this stretch and treat it as essentially the same grant.

Number 1731

MR. YOULD explained that the 26-mile stretch is from Douglas to Teeland, up in the Wasilla area on the southern terminus of the existing transmission line. He added that the "blockage" to be made into 230 [kilovolts] is owned by Matanuska Electric Authority (MEA).

REPRESENTATIVE ROKEBERG said he would like to see a bill that establishes an independent grid authority in the state because the organization of the power grid is not appropriate. Currently, each utility within its service area manages its section of the grid. He remarked that if there were an independent authority overseeing the grid, problems like that wouldn't exist.

Number 1662

REPRESENTATIVE HALCRO asked Mr. Yould why MEA wouldn't upgrade its own segment of the line.

MR. YOULD replied that [MEA] has been approached in the past and was reluctant to do so; however, even if [MEA] were willing, it would make more sense to build a parallel line.

REPRESENTATIVE HALCRO asked if there is anyway to recoup the cost if the state finances the upgrade; does the MEA contribute at all, he asked.

MR. YOULD said he didn't think it would have anything to do with MEA per se. He said MEA presently has a "wheeling" agreement with the State of Alaska whereby power goes over its line for that stretch. He said if the state chose to charge a "wheeling rate" in excess of what it took to operate the line, it [would be] within [the legislature's] purview to do so.

REPRESENTATIVE HALCRO asked if he was correct in assuming that MEA "feeds" customers off this 26-mile stretch.

MR. YOULD explained that it is like a highway, from one point to the next.

Number 1556

ROBERT A. EVANS, Lobbyist, Golden Valley Electric Association; Purchasing Utilities of the Four Dam Pool, said he could speak to how some of [Railbelt] money was spent from 1986 to 1990. If another legislature acts in a subsequent year, he explained, by implication it has modified the prior action of the legislature. In 1988 there was an indication that \$50 million was being appropriated, and at that time there was an \$850 million deficit in the budget. In order to close the budget, \$50 million was appropriated out of the Railbelt energy fund. At that time, there was a total of \$289 million [appropriated] to the general fund; subsequently, in 1988, to close the budget gap, there was an appropriation of \$50 million, although it was never drawn on [referring again to the handout entitled "History of the Railbelt Energy Fund"].

MR. EVANS stated that at that time, it was the intent of the legislature to spend the \$50 million to pay for general government out of the Railbelt energy fund.

Number 1464

MR. EVANS explained that any number of other projects, such as the university project and so forth in 1990, were funded from the Railbelt energy fund. The biggest one, at the bottom of the handout on page 2, is \$100 million for the "jobs" bill because the economy was in rough shape; that being the case the governor and the legislature had agreed to appropriate \$100 million to

the general fund, divvying up \$5 million per Senate district for activity that would be happening that spring.

REPRESENTATIVE MEYER asked Mr. Evans how "energy" is being defined, and could [the legislature] use part of this money to help build the gas pipeline if the state wanted to have part ownership.

MR. EVANS replied that this money is general fund money that can be appropriated by the legislature for any purpose deemed appropriate. And regarding the definition for "energy," he replied that there is [a definition] in the context of the statute, but the statute hasn't been followed for appropriation of the fund in the past. He concurred that the McLaughlin Youth Center and the Fairbanks Science Building don't have much to do with energy.

Number 1367

REPRESENTATIVE ROKEBERG said the intention was that this money was reserved for use by those geographically specific legislators. Historically, there were some very strong feelings about that, he explained.

REPRESENTATIVE MEYER asked if using some of this money for the gas pipeline had been discussed. He said he'd heard that the state should be part of the pipeline, so it could [help] speed [the project] along.

REPRESENTATIVE ROKEBERG replied that there is nothing stating that [the legislature] can't [use it for this purpose]; however, he said he didn't think that it would be, looking back at the "blood, sweat, and tears" that went into trying to retain the money and ensure that it ends up where it belongs.

REPRESENTATIVE MEYER commented that the Railbelt would definitely benefit if a gas pipeline were brought down through the middle of the state, with spurs branching off to various communities.

Number 1245

REPRESENTATIVE KOTT asked if any of the projects before the committee had received any "seed" or grant money from the state in the past. He said he is trying to figure out whether money had been appropriated. In many cases, he said, someone will have a capital project and will ask for money, [assuring the

state that his or her entity] will [pay for the rest]. He said he just wants to make sure that [the legislature] is not "doing" the rest.

KEN GATES, Chief Executive Officer and General Manager, Cordova Electric Cooperative, stated that "we" haven't received any money other than a \$1 million loan upfront to help with the licensing process, which is due to be paid back once the project comes "online."

REPRESENTATIVE ROKEBERG asked whether the House of Representatives made an appropriation that didn't pass the Senate, because he thought there had been an appropriation for this project before.

MR. GATES responded that he wasn't aware of [any]. On another subject, he said Cordova is in Southcentral Alaska on Prince William Sound, with a population of approximately 2,500. He urged the committee's support for HB 175, and strongly urged the committee to endorse Version C.

MR. GATES explained that the Parkview (ph) project is an "around-the-river" project for six megawatts that will cost \$24 million. It is the energy future of Cordova and will promote lower rates if fully funded. He stressed that it is critical to the economic survival of the community. In looking at the ten years he had researched, he said the growth in Cordova has been stagnant and electric utility sales have diminished over the years.

Number 1052

MR. GATES explained that the economy has deteriorated significantly and this project will help promote economic development, and retain and employ the people who live there. It will encourage kids to come back, work, and raise families in Cordova; right now, kids are moving out because there is no opportunity.

Number 0984

MR. GATES stated that the project is critical. The fish processing industry is imperative to the economic health of [Cordova], and two large fish processors [have left] within the last ten years. "We've" had many conversations with the processors there now, he said, and "we" are concerned that if

the rates [don't go] down, there is a real possibility that [processors] are going to move and send fish elsewhere.

MR. GATES explained that if one fish processor is lost, it is an immediate 15 percent rate increase, and [the loss of] two results in a 33 percent rate increase, which would bankrupt the utility and probably the community as "we" know it today.

MR. GATES said the need for the full \$12 million is to help retire the debt service because it is currently financed through a banking firm. The current debt service is around \$800,000 a year; should [Cordova Electric Cooperative] receive this money, it will reduce its debt-service expense, and that money can be passed on to the customer by reducing the rates. He added that "we" are all concerned about the environmental impacts of burning diesel fuel, and "we" expect to save a million gallons of diesel fuel a year with this project.

MR. GATES stated that "we've" anticipated that 65 percent of the [power] generation will be from hydroelectric power, but that could be as high as 90 percent, depending on the water in the river in the wintertime. This year, hydroelectric power could have supplied the community's needs all year if it had been available. He emphasized that it is [paramount] to the livelihood and survival of Cordova.

Number 0872

MR. GATES commented that one positive attribute of the bill is that "we" are willing to give up PCE and that money can go where it is needed elsewhere; however, it can't be done unless [the project] is fully funded.

CHAIR MURKOWSKI asked what Cordova receives in PCE.

MR. GATES responded that "we" are the largest recipients of PCE, averaging \$615,000 a year; this year a much higher amount [might] be received because of the high cost of diesel fuel.

MR. GATES explained that it would save a million gallons a year, which equates to between roughly \$1.2 million and \$1.4 million a year in diesel.

REPRESENTATIVE HALCRO asked if it is currently paid for out of the local government operating fund.

Number 0769

MR. GATES responded affirmatively. On the cost of electricity and how it is impacted by diesel in the community, he said Cordova has the highest electric rates in the Southcentral coastal region, with an average at 12.5 cents per kilowatt-hour, not counting any fuel adjustment charges on top of that; currently "we" are charging a fuel adjustment pass-through of about 5 cents a kilowatt-hour, which makes the overall average 24 to 25 cents. The residential ratepayer is paying nearly 30 cents a kilowatt-hour, he said, which is crippling the economy.

MR. GATES reiterated that sales are down [in the community], businesses have closed, and the cost of fuel has gone up 65 percent in the last year. He said since [Cordova] is so dependent on one segment of the business community for survival, the fish processors, it doesn't really have the capability to attract new business. Reasonably priced electric rates, water, transportation, available workforce, and so forth are the criteria for economic development, he said.

Number 0662

MR. GATES explained that [Cordova Electric Cooperative] could contribute its part to that by getting electric rates down. "We" work with the city, the chamber of commerce, and other entities to develop an economic development plan, identifying the kind of business that would be coming. The most critical thing that can be done now is to get those electric rates down because it is the first thing that [prospective businesses] look at.

REPRESENTATIVE KOTT asked when the Power Creek project began.

MR. GATES responded that it was before his time and deferred the question to Hap Symmonds, the president of the board. He stated that it was about eight or nine years ago when the initial planning phase started for the project; the construction has been underway for two years, and he expects it to be "online" this summer.

REPRESENTATIVE KOTT stated that Mr. Gates indicated that the total cost of that project would be around \$24 million, with \$12 million still needing to be paid off. Where does the other money come from, he asked, and is it generated through ratepayers?

Number 0559

MR. GATES replied in the negative. He said "we" have received nearly \$9 million in grants through the Department of Energy, the "Indian Energy Renewable Energies Act." He said "we" are seeking another \$2.5 million, bringing the federal share up to half of the cost of the project; the other half is being sought from the state.

REPRESENTATIVE KOTT asked how the project would be paid off if the grant wasn't received.

MR. GATES responded that it would be financed through the bank and the debt service would be paid, [essentially] passed on to the ratepayers.

REPRESENTATIVE KOTT said consequently there could be a lower electric bill, even in spite of an increase, if the power project was that efficient.

Number 0437

MR. GATES said it wouldn't be lower upfront. If the debt service were paid, the amount of money saved in diesel fuel would probably be on the negative side a little. It would probably stabilize rates and [would] require a rate increase. He added that Cordova Electric Cooperative went through forced reductions, literally scrutinizing every purchase order received to reduce expenses, and still only made \$45,000 last year. He stated that that is how close to the margins [Cordova Electric Cooperative] is.

REPRESENTATIVE KOTT asked what other businesses have closed besides the hardware store.

MR. GATES commented that there is a retail store down in the old Alaska Commercial Building that is going to move out after this summer because they can't afford it, and "we" know there are others. Many businesses in town are on the brink of closure because of the effect of the pass-through and the [price of] diesel fuel.

Number 0337

REPRESENTATIVE ROKEBERG said "we" all think about how much revenue is gained when energy costs and the price of oil go up, but it has an impact on communities, on people transportation, and so forth, so "we" have to pay the cost as well as enjoy

those benefits. He said he was disturbed that it was having such an economic impact on [Cordova]. He asked why Mr. Gates is pursuing bank financing, rather than tax-exempt bonds. He asked if it is because [Mr. Gates] is looking for a potential grant to pay it off, and then would not have any "covenants" that would restrict the early calling of those bonds.

MR. GATES said "we" had a line of credit with the bank to finance this project; there was a desire to go out and seek grant funding, and the possibility was there to get this project funded. At the time, "Co Bank" stepped up and was willing to finance it, he said.

REPRESENTATIVE ROKEBERG stated that depending on what rates are paid, a commercial bank loan would be extraordinarily higher than a tax-exempt bond issue, and the ultimate impact on the [cost per] kilowatt-hour could be lower for the customer. After going "online" this summer, what will the kilowatt-per-hour cost be for the consumer, he asked.

Number 0149

MR. GATES replied that if everything is optimum, it could be down in the 17-cent range, which would mean a reduction of roughly 20 percent. He clarified that "optimum" means getting the full \$12 million grant.

REPRESENTATIVE ROKEBERG commented that money wouldn't be saved right now due to the very high diesel rates.

MR. GATES clarified that \$1.2 million would be saved from fuel savings, but the cost of debt service when it is all in the project is going to be a "push," and could be a difference of \$100,000 or \$200,000, which is why he said there could be a 3 to 5 percent rate increase to pick that up. There is really no way that it can be absorbed because [Cordova Electric Cooperative] is as lean as possible, and more couldn't be done without jeopardizing the liability and safety of employees and the public.

MR. GATES explained that [their] lender is Co Bank out of Denver. He said there are several short-term loans, and the rates are fixed when the project is done. He said "we" pay an average that is just over 7.1 percent.

TAPE 01-44, SIDE A
Number 0062

HAP SYMMONDS, President, Board of Cordova Electric Cooperative; Plant Manager, Ocean Beauty Seafoods, stated that Ocean Beauty is the second-largest non-government employer in Cordova and one of only two canneries left in town. It is vitally important to lower the cost of electricity to maintain the economic viability of the processing industry. Processors in Cordova are currently paying the highest electric rates of any Southcentral coastal community.

Number 0143

MR. SYMMONDS explained that if rates don't come down, it is likely that processors will ship fish to other parts of the state, which would have a tremendous negative impact on an already fragile economy. House Bill 175 is very important for financing the Power Creek hydroelectric project. The seafood industry is the largest private employer in Alaska. The coastal communities are essential to the Railbelt and urban communities. The largest number of limited-entry-permit holders live in Anchorage, and nearly all of the transportation, support, and supply companies are there as well.

MR. SYMMONDS asked the committee to support the bill to help finance the project.

REPRESENTATIVE HALCRO asked if the seafood plants are seasonal or operate year-round.

MR. SYMMONDS replied that of the two major plants in Cordova, one is year-round and the other could be. He added that there are two cold storages and neither is operating due to the high cost of electricity.

REPRESENTATIVE HALCRO stated that not only is the seasonal industry aspect being battled, but also the high-energy costs associated with keeping those businesses running.

Number 0274

MR. SYMMONDS concurred with what Representative Halcro had said and added that the season could possibly be extended by freezing [the fish] and adding value later in the winter.

REPRESENTATIVE CRAWFORD asked for the number of employees [employed] in the two processing plants.

MR. SYMMONDS stated that seasonally there are between 400 and 500 employees between the two large processing plants.

REPRESENTATIVE KOTT asked how long those plants or canneries have been in operation in Cordova.

MR. SYMMONDS responded that [Ocean Beauty Seafoods'] plant was built in 1978, and the North Pacific plant was prior to that time. He said there have been canneries in Cordova since the turn of the century. Responding to an earlier question to Mr. Gates, he said the request for proposals (RFPs) for the Cordova hydroelectric project went out in 1994.

Number 0374

REPRESENTATIVE ROKEBERG asked about the financing package. He asked if there has been a commercial bank or if the board desired to use grant money, and why the choice was made to go to a commercial bank rather than to the bond market.

MR. SYMMONDS replied that the legislature was approached when the project first started. Originally, it was planned to grant-finance 100 percent of the project, half with the state and half with the federal government. "We" looked into bonding and were told that the fees associated with that and the bonding package were too small, and that a commercial bank [would serve the purpose just as well].

Number 0374

REPRESENTATIVE ROKEBERG asked if AIDEA was [consulted] about a package or municipal bond bank.

MR. SYMMONDS answered affirmatively. He believed that this conversation took place in 1997 or 1998.

REPRESENTATIVE ROKEBERG stated that our municipal bond bank is not working because it is supposed to consolidate those types of things. He said he thought the House of Representatives did a \$3 million appropriation that failed in the Alaska Senate.

MR. SYMMONDS replied in the negative. He said it was [former] Representative Kubina's bill, and "we" were looking at walking away with PCE. It went through two committees, failed, and was never reintroduced.

Number 0568

ROBERT WILKINSON, Chief Executive Officer, Copper Valley Electric Association (CVEA), stated that he is in support of HB 175 and more specifically [Copper Valley's] portion of that request. He provided some written testimony for the committee and said he'd spoken to many committee members over the past couple of months.

MR. WILKINSON explained that [CVEA] provides central station electric service to the Copper River Basin and Valdez, an area covering 156 miles of the Richardson Highway and approximately 80 miles of the Glenn Highway. "We" go off the Edgerton Highway halfway to Chitna 17 miles and up the Tok road to the (indisc.) at mile 12. He said in 1993 the 18th Alaska Legislature appropriated a \$35-million, 50-year, zero-interest loan for the transmission line between Sutton and Glennallen.

Number 0666

MR. WILKINSON stated that after more than a million dollars was spent trying to advance that project, it was high-centered, fraught with economic, political, and environmental problems. The board of directors, on his advice, set the project on the back burner. At that time, [CVEA] had pressing power supply needs, and in favor of the intertie, [CVEA] built a combustion-turbine cogeneration project with Petro Star Inc. - a Valdez refinery, and [CVEA's] largest customer.

MR. WILKINSON stated that it is high-tech, "green," has net environmental and omission benefits, and turns crude oil into kilowatt-hours. And it adds five valuable megawatts of capacity to the CVEA system. He said the project was financed through the industry cooperative bank, which does nothing to reduce the high cost of electricity and is one of the major "drivers" behind the 1993 intertie appropriation.

MR. WILKINSON explained that the Copper Valley's residential rates in the Copper Basin last year were 19.5 cents a kilowatt-hour, and 16.5 cents in Valdez. Those rates are approximately seven cents higher per kilowatt-hour than for other small communities on the road system including Delta Junction, Nenana, Healy, Moose Pass, Cooper Landing, and others that are similar in nature to the communities served by CVEA.

Number 0758

MR. WILKINSON stated that [CVEA's] request is for a \$12.5 million grant for four energy projects: The largest is to capitalize the [cogeneration project] of \$7.5 million, allowing [CVEA] to bring down the price of electricity in a region; [CVEA's] prime generation in Glennallen is approaching 30 years of age, and [CVEA] would like to replace those units with units that are more fuel-efficient and less costly to maintain. It is very difficult to find parts for 30-year-old enterprise units, although they are relied upon for prime power.

MR. WILKINSON stated that there is also a project to run a waste-heat loop from the Glennallen plant to the high school to circulate "jacket water" off the diesel unit and plumb it into the school district's heating system, thereby reducing the number of gallons that the school must burn to fire its boiler for space-heating purposes, which reduces consumption by about 50,000 gallons a year.

Number 0846

MR. WILKINSON explained that there is also a \$500,000 request to repay [CVEA] for the intertie-feasibility study conducted in 1993 and 1994. In 1993, the Alaska Energy Authority (AEA) had \$500,000 in its budget to fund a feasibility study for this intertie project. The legislation deleted [it] from AEA's budget, and [CVEA] was instructed to take the money out of the \$35 million loan fund.

MR. WILKINSON added that Copper Valley spent \$1.3 million trying to advance the project. The \$500,000 was specifically for the intertie study required by the legislation. Commenting on some previous statements from Representative Rokeberg, he said his understanding was that the \$35 million in 1993 was appropriated for the project and that the money went to the power-project-loan fund as part of HB 447. That appropriation lapsed back into the Railbelt energy fund without interest. With respect to Representative Kott's comments, he said none of these projects have received any state funding. In the early 1990s, the State of Alaska had a line-extension fund for small distribution projects, and that was the last time Copper Valley received state financial assistance.

REPRESENTATIVE KOTT asked Mr. Wilkinson to indicate what the \$12.5 million would be applied to. He asked if there are new projects or if this is just the retirement of the capital construction debt. He said if it is a new project, then there

isn't a debt to retire, so he wondered if the [bill] language was appropriate based on what Mr. Wilkinson had said.

MR. WILKINSON replied that there are four projects in the request: the \$7.5 million would be to retire existing debt on the [cogeneration] project; the \$4 million would be for yet-to-be constructed generation in the Glennallen diesel plant, so there is no debt to be retired there; the waste-heat loop is also a yet-to-be constructed project; and the intertie feasibility study would be a reimbursement of costs expended.

REPRESENTATIVE KOTT stated that \$7.5 million is to retire the debt.

MR. WILKINSON responded affirmatively.

REPRESENTATIVE ROKEBERG asked what the interest or financing mechanism is on the \$7.5 million.

MR. WILKINSON stated that [CVEA] is a member of the National Rural Utility Cooperative Finance Corporation and had borrowed 100 percent. "We" refinanced our "RUS" debt in 1998, went with "CFC," and are currently paying an interest rate of 7.3 percent. Responding to a question about why the interest rate is so high, he stated that it is tied to the cost of money and is a variable rate. He said "we" didn't move quickly enough and are watching the rates every day.

Number 1049

REPRESENTATIVE KOTT asked if Solomon Gulch is part of the Four Dam Pool, and how much power it generates for the grid.

MR. WILKINSON stated that it is part of the Four Dam Pool and is a 12-megawatt facility. Thirteen megawatts [of power] can be generated out of the project in the summer when the lake is full; this happens to be Copper Valley's system load, he said. It produces reliable energy at a fixed cost but has some problems, the biggest [one] being that the reservoir will only hold 50 million kilowatt-hours [worth of water], no matter how much it rains and snows in Valdez. Solomon carries [CVEA's] entire system load in the months of June through October. When things turn cold and start to freeze, the lake drops, and historically [CVEA] has supplemented that with the Valdez and Glennallen diesel plants. Now, he said, the supplement to Solomon is primarily the [cogeneration project].

MR. WILKINSON explained that Solomon produces about 60 percent of the annual requirement, the [cogeneration project] produces about 30 percent, and the remaining 10 percent comes from the Glennallen plant.

MR. WILKINSON, upon being asked what the Valdez kilowatt-hour was, stated that it was 16.5 [cents per kilowatt-hour]. Responding to a question about what "CEA" Anchorage is paying, surmised that it was 10 to 11 [cents].

[There was an indication from the audience that it was more like 9 to 10 [cents], but that a rate increase had recently taken place.]

MR. WILKINSON stated that of the 16.5 cents, approximately 8 cents was for the fuel and purchase-power components. He said the blended fuel and the purchase power from hydroelectric was 8 of the 16.5 cents.

REPRESENTATIVE KOTT asked if there are other communities in Mr. Wilkinson's service area on PCE.

MR. WILKINSON responded that there aren't, but said there are adjacent communities such as Chitna and Chistochina, and that he understood that [the rail system] is coming to Valdez at some point in time.

Number 1233

REPRESENTATIVE KOTT said Cordova had indicated that it would get off PCE if [the legislature] gave them the grant.

REPRESENTATIVE ROKEBERG commented that if [the legislature] is going to "raid" this fund, [the legislature is] not getting much of a payback offer from these folks, and getting off PCE just doesn't happen. He said, "Maybe we ought to be able [to] reload into the back end of their energy fund."

Number 1312

SANDRA GHORMLEY, Manager, Marketing and Member Relations, Homer Electric Association, spoke in support of HB 175. She said Homer Electric Association is an electric cooperative utility serving about 26,000 meter locations in the Lower Kenai Peninsula. She said although she is speaking for the Seldovia/Port Graham/Nanwalek regional power project, and although [Homer Electric Association's] portion of the

appropriation request is the smallest of the five, all of these energy projects are important, not only to the communities that are directly impacted, but to all Alaskans.

Number 1410

MS. GHORMLEY stated that these funds would be used to improve a section of the existing infrastructure on the southern most end of the Railbelt. In spite of the fact that Homer Electric Association is often thought of as an urban utility, it provides service to several remote areas south of Kachemak Bay. For over 25 years, it has served these communities via an underwater cable that spans 3.8 miles across Kachemak Bay and 60 miles of power line. It has been the key instrument in getting electric service to Nanwalek, Port Graham, Halibut Cove, Tutka Bay, Peterson Bay, and all of the communities in between, about 700 consumers.

MS. GHORMLEY pointed out that she had provided the committee with a map showing where the submarine cable crosses the bay and the distance of the lines that serve those communities. Access to these areas is limited to air or boat [travel], she said, which is dependent on the weather. Without connection to a central source of power, these villages and communities would lose their access to affordable electric service and [might] require some sort of supplement to survive, perhaps PCE or something, she said.

Number 1506

MS. GHORMLEY said economies in these rural communities are fragile, and a rate increase would have a significant impact on the balance. The 3.8 miles of cable across the bay is in disrepair, according to a recent engineer's survey, and failure is eminent. [Homer Electric Association] has four, 52-year-old diesel generators located in Seldovia that serve as a back-up source of power during outages. It is known that those generators couldn't sustain the load for very long if there were a cable failure. Homer Electric Association is seriously committed to serving these communities at a level of service equal to that for the communities on the north side of the bay.

MS. GHORMLEY explained that this summer 25 spans of power lines would be built and upgraded, and poles damaged during winter storms would be replaced this year; this will cost roughly \$300,000. [Homer Electric Association] also has determined that another \$2.8 million is going to be needed to clear the spruce-

bark-beetle killed trees from power corridors from China Poot [Bay] to Tutka Bay, and that is just the beginning, she remarked.

MS. GHORMLEY stated that with the passage of this bill the state is paying for needed infrastructure, specifically an underwater cable and four diesel generators that are the sole supply of electric service to these communities.

Number 1605

MS. GHORMLEY concluded by saying that there has been widespread support for this project and bill. The Kenai Peninsula Borough and the City of Seldovia have offered a resolution of support. On behalf of the Homer Electric Association's board of management, she urged the committee to pass the bill, and also to walk it through the legislative process to ensure the continuation of affordable, reliable electric service south of Kachemak Bay.

MS. GHORMLEY mentioned that the Homer Electric Association supports the appropriation to upgrade the Anchorage-to-Fairbanks transmission intertie to 230 [kilovolts] in the bill. This section of line is essential in moving electricity off Kenai to Fairbanks, she said. Also, it is essential to the future of this state; as the natural gas pipeline becomes a reality, this upgrade is going to become very important to moving electricity northward.

Number 1670

REPRESENTATIVE ROKEBERG asked if the South Kachemak Bay area receives any PCE.

MS. GHORMLEY stated that it doesn't. Responding to a question about whether all of these customers are integrated into [Homer Electric Association's] system, she replied affirmatively, and said there is a slight difference in the rate today, but that it isn't significant. Responding to whether the replacement of the cable or transmission facilities is being amortized, Ms. Ghormley replied that this particular project is viewed as a regional power project, part of the infrastructure, which is why "we've" gone ahead and looked to the state; "we" believe supporting infrastructure is a good use of public funds, she said.

REPRESENTATIVE ROKEBERG said historically the transmission capability of the state has been paid for by capital money; therefore, it isn't amortized and integrated into part of the rate base. There is a failed line and there is no sinking fund to pay for it. Wasn't it amortized, he asked, or at a depreciated cost?

MS. GHORMLEY stated that 25 to 30 years ago the Seldovia community was the same size as the Homer community, and had a thriving fishing industry; there is a very different economic situation [now compared] to 25 years ago. At that time, "we" incurred debt and it was repaid through electric rates, but today that isn't an option for these communities.

REPRESENTATIVE ROKEBERG said Ms. Ghormley's testimony was that the members financed the installation of the submarine cable and the transmission area before, put it in the base, and paid for it that way. He said now that there are some difficulties in the economic situation as well as other contributing factors, [Homer Electric Association] can't afford to replace it and make an adjustment in the tariff. He asked whether that is correct.

MS. GHOMLEY explained that "we" are trying to avoid a rate increase for those communities.

REPRESENTATIVE ROKEBERG asked what Halibut Cove's kilowatts per-hour [rate] is.

MS. GHORMLEY responded that [residents] are paying 9 cents for their energy charge, which doesn't include the wholesale cost of power pass-through. She said the pass-through for the fuel part is about 1 cent. Responding to a statement that the rates are almost comparable to the Anchorage area, she replied affirmatively.

Number 1847

REPRESENTATIVE ROKEBERG asked if this was like Kenai and Soldotna too.

[The question was answered from the audience. An unidentified speaker responded that it would be about 2 cents more on the south side of the bay.]

Number 1883

STEVE HAAGENSON, Acting President and Chief Executive Officer, Golden Valley Electric Association (GVEA), via teleconference, stated that [GVEA] is currently working on quantifying the hard (indisc.) in the following areas by increasing the transmission capacity, which will double the amount of hours that will come to Fairbanks from Anchorage, and the power can flow in either direction on the transmission line. Perhaps by the time the natural gas pipeline is constructed, the transmission capacity increase will allow for delivery of 130 megawatts of North Slope gas-fired power to the Anchorage bowl.

MR. HAAGENSON said reducing transmission line loss and [increasing] reliability are other benefits; the addition of a second circuit [line] will improve the [reliability] between Teeland and Douglas, which currently has one of the highest outage rates in Alaska. There will also be reconstruction benefits; the second line will allow for continued delivery of power to Fairbanks during construction on these lines. He said [GVEA] also supports the grant for the Power Creek hydroelectric project; it would reduce the amount of state participation and PCE by approximately \$200,000 to \$600,000.

Number 1973

REPRESENTATIVE ROKEBERG said he was a little disturbed to hear about the amazing amount of power that is going to be forthcoming out of Fairbanks, because the flow has been from the other direction.

MR. HAAGENSON responded that today it is in the other direction. In anticipation of the gas being delivered to Fairbanks through some of the "Prudhoe" with the gas lines, "we" expect it to switch directions and supply any deficiencies in natural gas down to the Anchorage bowl.

Number 2007

DONALD MAHON, Alaska Power Company, via teleconference, stated that "we" serve all communities in the Tok region with telephone and power [service], with most of those communities being remote. He emphasized that he has been in Tok for ten years, and that the residents along the highway and those from Slana have requested funding continually for central power. This request started back in 1978, and in the last ten years "we" have been working with "them"; "we" submitted the request in 1994 and are now submitting another request to get those people on central power.

MR. MAHON stated that not only will it provide central power for the residents along the highway, reducing costs for Mentasta [Lake] and Chistochina that are now on stand-alone diesel, but it will also put the residential, small commercial [areas] within that 90-mile [stretch] along the highway on Tok power, which is at a reduced cost.

Number 2101

MR. MAHON pointed out that another important aspect of this tie line is that this project is the beginning of an energy tie-line system for eastern Interior Alaska. In the future, this line could connect to the Railbelt grid, either through Glennallen or by the construction of a tie-line from Delta Junction to Tok. Looking to the future, there continues to be extensive exploration in eastern Interior Alaska. Just recently there was a promising precious-metal discovery at North (indisc.), which is along the Alaska Highway. He said two infrastructures are needed for mining to be economical; one is the transportation system, and the other is economical energy. The eastern Interior intertie project would provide economical energy, he explained.

MR. MAHON mentioned letters of support received from Ahtna, Incorporated; Copper River School District; Copper Valley Telephone, Chistochina Tribal Council, Mentasta Traditional Council, and the Department of Transportation and Public Facilities because of the expansion. He said people are being turned away from Denali National Park and Preserve, and some people say that Wrangell-Saint Elias National Park and Preserve will be the next Denali. Looking into the future, this tie line is the start of economic development for eastern Interior Alaska, (indisc.) requires approximately 30 megawatts of energy.

Number 2199

REPRESENTATIVE ROKEBERG referred to the information in the committee's packet that indicates that the average price is 20 cents a kilowatt-hour in the Tok area, whereas the standalone generation in Mentasta and Chistochina is about 35 cents an hour; he asked if that is because [Alaska Power Company's] generators are larger and more efficient; he also asked if "they" are dependent on diesel fuel.

MR. MAHON replied affirmatively and said the Tok and Chistochina-Mataska operations are diesel. He said it is a

matter of economics, and "we" are running about 1.5 megawatts in Tok compared to an average of 70 kilowatts for an average load in Chistochina and Mentasta. He pointed out that the cost of fuel is higher for smaller operations.

REPRESENTATIVE ROKEBERG asked if there is a small distribution system in those areas, and whether individuals in Mentasta, Chistochina, and Slana have their own generators or use a community distribution system.

MR. MAHON said in Mentasta and Chistochina there is a community distribution system, but between those two locations is residential generation.

Number 2267

THELMA SCHRANK, via teleconference, said "we" have been trying for a long time to get central power at a reasonable cost. Most of the people in the area have generating plants; many rely on 2,500 kilowatts gasoline generator and run "basic stuff" off that two to three hours a day.

MS. SCHRANK stated that "we" might get an assisted-[living] facility in the area, and it would be advantageous to have commercial power to cut the cost of taking care of some of the elderly folks in the Chistochina, Slana, and Mentasta areas. She said she had worked with Mr. Mahon from the onset of the project, and [she offered her assistance].

Number 2357

ALAN LeMASTER, via teleconference, said this is an important issue across the Copper Valley. He said oftentimes people talk about the Copper Valley Electric Association and think of Valdez and Glennallen, but 12 to 14 other communities are also served. He said [Copper Valley Electric Association] also "serve ... as 12 or 15 agencies of the federal government and about 20 agencies of the state," and all those agencies and communities are paying one of the highest rates of electricity in Alaska.

MR. LeMASTER stated that the electric association came up with cost efficiencies and its rates declined slightly; however, due to the increase in fuel in the last couple of years, the rate is now back at about 19.5 cents per kilowatt-hour. The prospect of that is very bleak, and "we" are going to see a substantial increase in fuel costs again this summer, he remarked.

MR. LeMASTER explained that anything "we" can do to retire the debt or bring our existing equipment up to speed with more efficient energy generation is going to be good for the community. One of the biggest problems "we" have in developing industry in [the Copper Valley] is that energy and fuel costs are so high.

Number 2437

MR. LeMASTER stated that construction would resume at the end of next month at the Princess Hotel. And the National Park Service is building a new visitor's center in Copper Center. Those two new projects are going to bring focus to the valley as marketing goes out. This will bring a tremendous burden on the people who work there. He said he had to close his business all winter long because he couldn't afford the cost of fuel.

TAPE 01-44, SIDE B

MR. LeMASTER said "our" debt service is holding us up, because the only way to pay high debt service is through high energy costs.

MR. LeMASTER said as a result, "our" board of directors and general manager are moving one step forward and trying to reduce energy costs to try to [bring] business into the community, and to keep the ones that are here open. He said he hopes that what is happening in Cordova isn't going to happen here. He asked the committee to [move] the bill to the House floor.

Number 2401

DWIGHT NISSEN, President, Alaska Rural Electric Cooperative Association (ARECA); Board Member, Golden Valley Electric Association, via teleconference, stated that ARECA is made up of 20 electric cooperatives in six cities in Alaska. More than 556,000 Alaskans get their electricity from these cooperatives and municipalities, he said. "Our" managers and board members have testified in support of HB 175, and he hopes that the committee will support it and help with the electric problem in Alaska.

Number 2346

MARGY JOHNSON, Mayor, City of Cordova, via teleconference, stated that Cordova is the historic and original home of the Railbelt, the original Copper River and Northwestern railroad.

She said the City of [Cordova] supports HB 175; she encouraged the committee to look at it as an investment. The economies of rural Alaska, and Cordova in general, are stumbling. Before "we" fall into that abyss and apply for state aid for unemployed families, "we" urge [the committee] to support this and lower the cost of energy [in Cordova].

MS. JOHNSON explained that the fish processors there are exceedingly important. If they leave Cordova, many won't stay in Alaska, and Canada is courting them [right now]. She encouraged the committee to support HB 175.

Number 2305

SYLVIA LANGE, RatePayer, via teleconference, said she was born and raised in Cordova and is raising three children; she and her husband are small business owners. They own a property that includes several small mom-and-pop businesses, and lease a portion of their property to a fish processor. There also is have a one-million-pound cold storage facility that hasn't truly operated since the herring season closed two years ago because the electric rates are not affordable.

MS. LANGE stressed the importance of reducing electric rates in the community as a whole, and to her family in particular. It will make the difference between her being able to raise her family here, and her children being able to return back to a community that can support them. She asked the committee to pass the legislation and said if "we" can keep this fully funded, "we" might be able to stay on a level playing field with the economy in the rest of Alaska.

Number 2233

DENNIS LEWIS, Electrical Superintendent, City of Petersburg; Chairman, Four Dam Pool; Board Member, Alaska Rural Electric Cooperative Association (ARECA), via teleconference, stated that all of the projects in HB 175 are fully supported by the Four Dam Pool and the City of Petersburg, and that he hoped [the committee] would pass HB 175.

PAUL ANDERSON, President, Thomas Bay Power Authority; Board Member, Alaska Rural Electric Cooperative Association (ARECA) Board of Directors; Council Member, Petersburg City Council, via teleconference, stated that Thomas Bay Power Authority unanimously supports HB 175. This bill provides the means to give citizens affordable, reliable electrical power. In the

early 1990s, under previous legislation, the Four Dam Pool debt retirement of approximately \$10 million a year was subject to a 40-40-20 split: 40 percent to the Southeast intertie, 40 percent to PCE, and 20 percent to state energy projects through AIDEA and AEA.

MR. ANDERSON stated that \$4.5 million of that was PCE money. He said Copper Valley, Kodiak, Petersburg, Wrangell, and Ketchikan were all [receiving] PCE. The ratepayers down here have given the state money through the rates, and by spending money out of the Railbelt energy fund, there is the opportunity to save the state money in PCE costs; "we" support HB 175 and hope for passage.

Number 2122

BOB POE, Executive Director, Alaska Industrial Development and Export Authority (AIDEA) and the Alaska Energy Authority (AEA), via teleconference, spoke in support of the proposed CS and thanked the committee for hearing the bill.

Number 2095

JOE RILEY, via teleconference, offered some comments about the bill. A few people want to keep those outside of the Railbelt literally "in the dark." He asked: If the fund were the Alaska Energy Fund, would there be the same questions about allocation? He said the \$8.4 million for the Tok-to-Chistochina line includes a line for the South Slana settlement area that has the largest concentration of population in the Slana area. If the Tok-to-Chistochina line is built through Mentasta and Chistochina, are PCE funds lost, he asked, and/or does the Slana area become eligible for those funds?

Number 2007

MR. RILEY said it is his understanding that these funds have collected interest, as much as \$17 million. He said the interest alone could twice fund the cost of the Tok-to-Chistochina [project]; he said it was his understanding that there are federal funds available for local power generation and that this is an area that would benefit from wind power type generation. He asked why the research hadn't been done.

MR. RILEY said this is one of the few systems in the entire United States on a major road system that has no commercial power. He said this bill should be passed as soon as possible.

Number 1943

JAMES KVASNIKOFF (ph), via teleconference, stated that he wanted to speak about the importance of the energy provided in Nanwalek, the Lower Cook Inlet area. The Homer Electric Association is putting in a proposal for a \$4.8 million project so power can be supplied to the Lower Cook Inlet. Without it, the village would be in a lot of trouble trying to afford electricity. Right now the rates are at an affordable level for the areas that have high unemployment rates. [On behalf of] Nanwalek, he said, "we" support HB 175.

Number 1943

REPRESENTATIVE HALCRO commented that it is a good bill. He said there are obviously some proprietary concerns as far as the fund being established, but every legislature has the ability to fund programs and use the general fund dollars as they see fit. There are few [people] left in this legislature that were around when the Railbelt energy fund was created; the largest proposal on the project list goes to the Railbelt [area], and regarding some of the others, it could be argued that there is great benefit to those that live in the Railbelt. He said precedent is set every year when funds that are dedicated for specific purposes are used for other things, such as the Alaska Housing Finance Corporation (AHFC) dividend, AIDEA dividend, tobacco settlement money, and so forth.

REPRESENTATIVE HALCRO stated that these projects help the people of Alaska and regardless of the political history behind the fund, these projects are good for Alaska and will benefit the entire state, which is really what the money should be for.

Number 1788

CHAIR MURKOWSKI pointed out that there had been a proposed amendment suggested by Mr. Yould to "bump" up the [appropriation] amount for the 26-mile Anchorage-to-Fairbanks intertie.

REPRESENTATIVE ROKEBERG said [an appropriation for] something else would have to be [lowered] if [the legislature] wanted to do that. He said he is glad that Representative Lancaster brought this bill forward because it exposes some of the needs in the state. He stated that he takes particular interest in the Cordova project; the people of Cordova have been coming to

this building for years looking for assistance, and it has been very limited. The legislature needs to do something there, he said.

REPRESENTATIVE ROKEBERG said he is particularly concerned about paying back Copper Valley for [sinking money] into a project that their money determined might not even be feasible. The concept of a circular grid from Nanwalek up through Fairbanks, down through Delta to Tok, and down to Glennallen and Valdez could be extremely important for the whole state someday because it is technically feasible and will eventually supply cheaper power to a lot of areas of the state that don't receive it now.

REPRESENTATIVE ROKEBERG said all of these things make a lot of good sense, but nevertheless [the legislature] needs to be extremely careful about the spending of this money in its historic perspective.

REPRESENTATIVE ROKEBERG said he thought Representative Meyer made a good point in terms of the great potential that could be derived, particularly revolving around the potential North Slope natural gas [line]; he mentioned providing at least a spur line to the Cook Inlet tidewater, which he said was extremely important for the energy needs of the people in the Cook Inlet area.

REPRESENTATIVE ROKEBERG remarked that he is reluctant to take money set aside for the Railbelt and expend it immediately without having a long-term plan. Every one of these projects has merit and should be funded or at least assisted with funding from the state. He noted that he would have a great deal more comfort if he knew that some of these communities would be able to get off PCE, and might also be able to pay [the state] back. He said there have been several formulas historically, and even the current PCE endowment fund makes assumptions about payback of the Four Dam Pool into the fund to help offset those ongoing costs. He said he is very concerned if \$71 million is taken and expended, but there is no return.

REPRESENTATIVE ROKEBERG commented that it is "seed money" that can be utilized and leveraged, so it needs to be look at from a broader perspective.

Number 1530

REPRESENTATIVE ROKEBERG pointed out that during discussion of the 1990 "jobs bill" when there was a mild recession in the

United States and [the state] was coming off the little [economic] burst from the unfortunate Exxon Valdez spill, the legislature decided to try to make some macroeconomic and fiscal policies in that dire situation. He said he would be very reluctant right now to expend these monies without at least a long-range plan, and it would be a grave mistake for the people of Alaska.

Number 1509

REPRESENTATIVE MEYER pointed out that Representative Rokeberg had commented that the amendment couldn't be made without reducing [spending] elsewhere. He asked if there is just \$50 million [to spend].

CHAIR MURKOWSKI said [the legislature] only used up \$51 of the \$71 [million]; there is [roughly] \$20 million left.

REPRESENTATIVE MEYER said there was no reference in the title.

REPRESENTATIVE HALCRO pointed out that in 1993, \$55 million was appropriated out of this fund for two specific projects that didn't come to fruition, so that money was re-appropriated back into the fund. He asked why, eight years later, there [shouldn't] be the ability to take a look at the energy needs and projects out there that would benefit the people of Alaska. For all intents and purposes, that \$55 million should have been spent, but it lapsed back into the fund, picked up an additional \$16 million in interest for a total of \$71 million, and [now the legislature is] only going to spend \$51 million. These projects make sense and will help economic development.

REPRESENTATIVE HALCRO said it is [time] for [the legislature] to look at the list of needs in the state, whether in the Railbelt or close to the Railbelt, and make those decisions. There will still be \$20 million left in the fund, which could go to do feasibility studies or to design projects. He reiterated that the money was anticipated to be spent.

Number 1309

CHAIR MURKOWSKI said the testimony heard was overwhelmingly in support of these projects.

REPRESENTATIVE ROKEBERG said it is a question of how to allocate the fund, but even further, this legislature started with the scrutinization of the tobacco settlement agreement. [The

legislature] determined that some of this money can be leveraged using creative financing techniques. [The legislature] is able to have money upfront for a future income stream at a relatively modest price. He said he believes there would be a way to take the corpus of the money and look at how it can be used.

Number 1210

REPRESENTATIVE ROKEBERG said this looks like an old-fashioned, "I want the money, and hand me the cash" bill, and at this stage he isn't comfortable with that. He said it would be a mistake for the committee to hand out money without looking at the alternatives.

REPRESENTATIVE ROKEBERG stated that he would be working on legislation to set up a grid authority for the state that would be independent of the utilities, to ensure that the Railbelt grid is working; he doesn't think it is represented in this bill.

REPRESENTATIVE LANCASTER commented that HJR 1 passed out of the House Rules Committee; [that legislation authorized the formation] of a task force to look at the energy needs of the state. The Alaska Rural Electric Cooperative Association [realizes] that a plan is needed. He agreed with Representative Halcro that the money has been around for a long time and has earned good interest. What is [the legislature] waiting for, he asked; is this state ever going to be "grown" and money saved for these people? "We" do have a small payback from Cordova at \$600,000 plus a year on PCE, which they could use to payback the loan, and roll it back into PCE again. He said maybe the "tweaking" [of the bill] could happen in the House Finance Committee.

Number 1057

REPRESENTATIVE ROKEBERG mentioned that the 21st Alaska Legislature had established an alleged endowment for PCE with a \$4-million-a-year short[fall]. That is something that [the legislature] needs to look at because it becomes a problem when the issue has to be revisited each year to make up the [deficit]. At \$71 million, [the legislature] would more than endow the balance of that, to bring it up to full funding; the corpus of this money would be more than enough to cover that gap.

REPRESENTATIVE LANCASTER, referring to PCE, said he is working with AIDEA, AEA, and the Denali Commission on some legislation. He said "we" used about 30 million gallons a year to fund those PCE generators, schools, and so forth. He said he thinks there is a way to deliver that fuel better and to buy it cheaper, and the money saved would roll back into [the fund], and would hopefully be enough to fully endow that PCE.

REPRESENTATIVE HALCRO said "we" have the benefit of the Denali Commission, which is looking at energy problems around the state and alternatives, and certainly [the commission] is going to look at rural Alaska. These programs, in conjunction with what the Denali Commission is doing, will hopefully lift the state up so [everyone] will be able to enjoy affordable energy.

Number 0870

REPRESENTATIVE MEYER asked Representative Lancaster whether he supports the amendment proposed [by Mr. Yould]?

REPRESENTATIVE LANCASTER responded affirmatively and said it is a technical change. Responding to Representative Halcro's comments he said he agrees and that it is a shame that [U.S. Senator Stevens] has to bail the state out of its own industry - to have the Denali Commission come up and "clean up" around us and send more funds so [Alaska] can be better administered. He said he doesn't know what the money would be saved for. The Alaska Industrial Development Export Authority (AIDEA) has an energy plan in rough draft; one was done for the Railbelt, which wasn't well received, and one for rural Alaska, which was somewhat better received. It is a starting place, he said, along with the assessments the Denali Commission and AIDEA have done with all of the rural utilities. He urged [the committee] to support the bill because he said the money couldn't be saved forever.

REPRESENTATIVE KOTT asked Representative Lancaster if AIDEA and AEA [had helped identify] these projects.

REPRESENTATIVE LANCASTER explained that he had spoken to Mr. Poe and to ARECA. He said [the projects] are somewhat prioritized and have some positive effects on the other utilities that aren't immediately or directly touched by them - there will be some savings that will help build the grid. He added that Mr. Poe is fully in support of these projects.

Number 0681

CHAIR MURKOWSKI said one way or another, it is still going to get down to a situation in which these [issues] are weighed in the House Finance Committee. She said she isn't sure she wants to determine the merits [of the projects] versus other energy needs out there. [The committee] had some good testimony, she said, which ought to carry members through.

REPRESENTATIVE KOTT asked that if [the bill is] brought up again, the proposed CS be prepared with the amendment that Mr. Yould provided. He said he would support the \$24.3 million level, increasing it from the \$13.2 [million]. He said he would like to get testimony from Mr. Wilkinson and identify more specifically the projects in his line-item [list]. He said "we" are not retiring a capital debt; there are new projects here that need to be identified.

REPRESENTATIVE KOTT said the other areas of the bill where money has been appropriated or grants identified are pretty specific; however, the \$12.5 million is a little misleading and needs to be cleared up.

[HB 175 was held over]

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 6:00 p.m.

