

**ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS
STANDING COMMITTEE**

April 22, 2004
8:00 a.m.

MEMBERS PRESENT

Representative Carl Morgan, Chair
Representative Kelly Wolf, Vice Chair
Representative Ralph Samuels
Representative Sharon Cissna

MEMBERS ABSENT

Representative Pete Kott
Representative Tom Anderson
Representative Albert Kookesh

COMMITTEE CALENDAR

OVERVIEW: AK ENERGY POLICY TASK FORCE NONRAILBELT REPORT:
FINDINGS AND RECOMMENDATIONS

TAPES

04-13, SIDE(S) A & B

CHAIR CARL MORGAN convened the meeting of the House Community and Regional Affairs Standing Committee at 8:00 a.m.

SUMMARY OF INFORMATION

TOMAS BOUTIN, Deputy Commissioner, Department of Revenue; Member, Alaska Energy Policy Task Force, explained that he was the designee on the Alaska Energy Policy Task Force (Task Force) for the Department of Revenue. The NonRailbelt Report completes the work of the Task Force, which won't meet again. Mr. Boutin emphasized that "economies come with a regional consolidation and that's on point for this NonRailbelt Report." He related the need for the state and the Denali Commission to coordinate long-term planning in order to avoid misdirecting resources. Pending the resolution of the broader fiscal issues, the long-term sustainability of the power cost equalization (PCE) continues to be a question.

ROBERT WILKINSON, CEO, Copper Valley Electric Association; Member, Alaska Energy Policy Task Force, characterized his experience on the Task Force as an educational process in which he educated the Task Force in regard to an energy community in the state that doesn't receive a lot of discussion. The aforementioned energy community was labeled the Southcentral Coastal Region, which includes communities served by Cordova Electric Cooperative, Copper Valley Electric Association, and the Kodiak Electric Association. The aforementioned [electrical entities] generate, transmit, and distribute electrical energy from power plants to end consumers. This region isn't interconnected electrically to any other [entity]. With the exception of Copper Valley Electric Association, the [other entities] are only accessible by air or water. With the exception of Kodiak, the areas aren't islands. Furthermore, the only area in the region that does participate in the state's PCE program is Cordova. None of the [electrical entities] are partners with the Denali Commission or AEA in the delivery of energy services to the communities. Mr. Wilkinson highlighted that although the [electrical entities for this region] are smaller than the Railbelt counterparts, compliance with all of the same regulations that Chugach Electric Association, one of the nation's largest electrical cooperatives, has to follow is required. Mr. Wilkinson related some of the achievements of the Southcentral Coastal Region, including building over 780 miles of distribution line.

MR. WILKINSON highlighted the words the report used to describe the path in developing energy policy for the NonRailbelt energy communities in Alaska, such as "daunting tasks, immense area, small population, and limited resources." The report addresses those challenges. Mr. Wilkinson urged the committee to thoroughly read and study the report.

DAVE CARLSON, Intertie Coordinator, Southeast Conference; Member, Alaska Energy Policy Task Force, focused his comments on the geographic region of Southeast Alaska. In Southeast Alaska there is a mix of investor-owned and municipal utilities as well as a cooperative and a joint action agency (JAA). He highlighted the fact that Southeast Alaska has a unique climate and topography that lends itself to hydroelectric generation. He discussed the Four Dam Pool Power Agency that now owns four projects in the state, two of which are located in Southeast Alaska. Mr. Carlson noted that Southeast Alaska suffers as does the entire state due to the lack of infrastructure. He then discussed the Southeast Intertie projects. Although it will take decades to complete the projects, it's a plan for the

future of Southeast Alaska. He noted that all of the new transmission lines will include fiber optics in order to provide telecommunications as well. Mr. Carlson related that the Southeast Conference and its member utilities and communities recently voted to create a generation and transmission cooperative, which will be the owning and operating entity for these new segments of the [Southeast Intertie projects] as they are added, with the exception of the Swan Lake to Lake Tye that will be owned by the Four Dam Pool. The formation process will begin in the next couple of weeks, he related. Mr. Carlson expressed concern with the difficult permitting process for hydroelectric projects. "Alaska's energy needs are immense and complex with no easy answer, but affordable energy certainly is the underpinning of economic development in the state," he stated. Mr. Carlson answered questions relating to the ill impact of hydroelectric power on Cooper Creek.

MEERA KOHLER, President/CEO, Alaska Village Electric Cooperative; Member, Alaska Energy Policy Task Force, related that the Task Force received testimony from numerous individuals regarding the challenges of rural Alaskan communities, the almost nonexistent availability of viable commercially robust alternative technology, and the continued justification of the PCE program. She highlighted the definition of the PCE communities and the history of the PCE program, which is included in the report. Ms. Kohler explained that the PCE program is available on the first 500 kilowatt hours used by households and on up to 70 kilowatt hours per resident for certain public facilities. The PCE communities are usually small, remote, and accessible by air or seasonal barge service, which make alternative technologies cost prohibitive and impractical. Even after the application for PCE, the average cost of electricity for most rural communities is still more than \$.20 per kilowatt-hour, she related. Ms. Kohler noted that she is the only member of the Task Force who has resided for 21 years in PCE communities and who has worked for a PCE utility.

MS. KOHLER related the Task Force's findings in relation to the PCE program. Although small hydroelectric projects have been built in rural Alaska, most rural communities still rely exclusively on isolated diesel power plants since the prevailing characteristics of rural Alaska render most alternatives to diesel power infeasible. Therefore, the PCE program was initiated for rural Alaska. She noted that while diesel has proven to be the most cost effective in most parts of Alaska and the economic potential for wind-driven energy is improving, there may be site specific opportunities that may economically

justify other sources of power generation. Ms. Kohler related that the full program demand for fiscal year 2003 was approximately \$18.4 million if funded at 100 percent. She noted that if the program is insufficiently funded, PCE benefits are reduced to a prorated amount for the year. In fact, for the last four months of fiscal year 2004, PCE benefits will be paid at the 75 percent level. "Ironically, as the high world price of oil contributes to filling the state's coffers and narrowing the state's fiscal gap, it also contributes directly to widening the budget deficit of the poorest Alaskans in their small communities as an ever increasing portion of their limited cash income must be used to pay for the most essential of needs: gasoline for their ATVs and snow machines, heating oil for their homes, electricity for their modest lighting and power needs," she said. Mr. Kohler reviewed the Task Force's PCE-related recommendations, which are the following: to encourage the formation of new owning entities and support existing regional operators; encourage regional planning among utilities in order to lower the cost of installation, administration, operations, and maintenance; when funds are available the state should fully fund the PCE endowment in order to make the program sustainable and self-funding at the level the legislature deems appropriate; maximize federal appropriations for Alaska by appropriately providing state matching funds for energy projects.

MS. KOHLER, in response to questions, reviewed the wind project in Kotzebue and addressed what it would take to fully fund the PCE endowment.

MR. BOUTIN provided the committee with the Alaska Energy Authority's prioritized ranking of rural power projects.

BECKY GAY, Project Manager, Alaska Industrial Development & Export Authority and Alaska Energy Authority, Department of Community & Economic Development, in response to Chair Morgan, addressed alternative energy sources. She related that a diesel-wind combination looks to be the best alternative in terms of economics. She noted that there is also fuel cell technology. However, at this time none of the alternatives seem to be as good as the diesel standard and hydro.

MS. KOHLER related that the University of Alaska - Fairbanks has a five-kilowatt fuel cell, from which there has been very good results over the last year as there has been almost 6,000 uninterrupted hours of operation. However, this five-kilowatt fuel cell costs about \$383,000, which is \$76,000 per kilowatt. The aforementioned is 10 times the cost of wind and 100 times

the cost of diesel generation. Therefore, until the technology can compete with other technologies in terms of installation and the cost of operation, it isn't viable. She suggested that fuel cells wouldn't become viable for five to ten years because the fuel source for fuel cells is nonrenewable fuel.

ANNOUNCEMENTS

There were no announcements.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

The committee recessed to the call of the chair.
[This meeting did not reconvene.]

NOTE: The meeting was recorded. A copy of the tape(s) 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-Third Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.