

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

Anchorage, Alaska  
September 29, 2008  
1:59 p.m.

**MEMBERS PRESENT**

Representative Ralph Samuels, Chair  
Senator Lyman Hoffman, Vice Chair  
Representative Mike Chenault (via teleconference)  
Representative Mike Hawker  
Representative Mike Kelly (via teleconference)  
Representative Mike Doogan  
Senator Johnny Ellis  
Senator Lyda Green  
Senator Gene Therriault (via teleconference)  
Senator Charlie Huggins (alternate)

**MEMBERS ABSENT**

Senator Bert Stedman  
Representative Reggie Joule (alternate)  
Representative Kevin Meyer (alternate)

**OTHER LEGISLATORS PRESENT**

Representative Kyle Johansen

**COMMITTEE CALENDAR**

APPROVAL OF MINUTES  
REVISED PROGRAM - LEGISLATIVE (RPLs)  
EXECUTIVE SESSION  
RELEASE OF AUDITS  
OTHER COMMITTEE BUSINESS

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

JERRY BURNETT, Director  
Administrative Services Division  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Presented RPL 04-9-1014.

JEFF JESSEE, Chief Executive Officer  
Alaska Mental Health Trust Authority (AMHTA)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented RPL 04-9-1027, RPL 06-9-0004, RPL 06-9-0083, and RPL 06-9-0084.

MARK LEWIS, Director, Administrative Services  
Department of Education and Early Development (EED)  
Juneau, Alaska

**POSITION STATEMENT:** Presented RPL 05-9-0588.

ALISON ELGEE, Assistant Commissioner  
Office of the Commissioner  
Department of Health and Social Services (DHSS)  
Juneau, Alaska

**POSITION STATEMENT:** Presented RPL 06-9-0079.

STEVEN HAAGENSON, Executive Director  
Alaska Energy Authority (AEA)  
Department of Commerce, Community, & Economic Development  
(DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented RPL 08-9-0026.

PETER CRIMP, Program Manager  
Alternative Energy  
Energy Efficiency  
Alaska Energy Authority (AEA)  
Department of Commerce, Community, & Economic Development  
(DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Responded to questions during discussion of RPL 08-9-0026.

LAURA LYNK, Budget/Finance Manager  
Division of Administrative Services  
Department of Corrections (DOC)  
Juneau, Alaska

**POSITION STATEMENT:** Presented RPL 20-9-0010.

DARRON SCOTT, President/CEO  
Kodiak Electric Association, Inc. (KEA)  
Kodiak, Alaska

**POSITION STATEMENT:** Responded to questions during discussion of RPL 08-9-0026.

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

**POSITION STATEMENT:** During discussion of other committee business, provided comments regarding the audit services contract.

#### **ACTION NARRATIVE**

**CHAIR RALPH SAMUELS** called the Legislative Budget and Audit Committee meeting to order at [1:59:42 PM](#). Representatives Doogan, Hawker, and Samuels, and Senators Hoffman, Ellis, Therriault (via teleconference), Green, and Huggins (alternate) were present at the call to order. Representatives Chenault (via teleconference) and Kelly (via teleconference) arrived as the meeting was in progress. Representative Johansen was also in attendance.

#### **APPROVAL OF MINUTES**

[2:00:35 PM](#)

CHAIR SAMUELS announced that the first order of business would be the approval of the minutes.

REPRESENTATIVE HAWKER made a motion to approve the minutes of June 17, 2008. There being no objection, the minutes from the meeting of June 17, 2008, were approved.

#### **REVISED PROGRAM - LEGISLATIVE (RPLs)**

[2:00:51 PM](#)

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 04-9-1014, child support services, Child Support Services Division (CSSD), Department of Revenue (DOR).

[2:01:08 PM](#)

JERRY BURNETT, Director, Administrative Services Division, Department of Revenue (DOR), explained that the \$296,225 is a federal incentive receipt resulting from the fact that the performance of the CSSD exceeded federal standards compared to

other states. This amount will be in addition to that which was budgeted, and will not offset any other federal programs but will instead reduce the state's contribution - through Receipt Supported Services (RSS) funding - to the program for which these funds must be used.

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 04-9-1027, Mental Health Trust operations, Alaska Mental Health Trust Authority (AMHTA), Department of Revenue (DOR).

[2:02:58 PM](#)

JEFF JESSEE, Chief Executive Officer, Alaska Mental Health Trust Authority (AMHTA), Department of Revenue (DOR), explained that the \$43,400 would cover cost-of-living salary increases for exempt AMHTA employees. When exempt employees were excluded from the pay increases authorized by HB 417, there was the assumption that they would receive salary increases based upon market analyses. However, that's not the case with exempt AMHTA employees, and so RPL 04-9-1027 will ensure that all AMHTA employees will receive the cost-of-living salary increases authorized by HB 417. In response to a question, he assured the committee that the AMHTA board is supportive of the RPL and has allocated the funding for it.

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 05-9-0588, Alaska State Council of the Arts (ASCA), Department of Education and Early Development (EED).

[2:05:18 PM](#)

MARK LEWIS, Director, Administrative Services, Department of Education and Early Development (EED), explained that the \$42,800 would increase the federal receipt authorization in the ASCA component from \$643,500 to \$686,300. This increase is required in order to allow the component to receive and expend funds granted in the current fiscal year (FY). The National Endowment for the Arts (NEA) has issued the grant award, and the funds are currently available to record and draw [upon] once approval is received. The receipt of this additional funding was not anticipated during the FY 09 budget process, and the funds will be used to support statewide activities for the ASCA.

[2:06:08 PM](#)

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 06-9-0004, Alaska Commission on Aging (ACoA), Department of Health and Social Services (DHSS).

MR. JESSEE explained that funds were granted to the ACoA in FY 08 to do a public information campaign regarding the Healthy Brain Initiative, and it was thought that the ACoA was going to be able to expend all those funds in FY 08, but it didn't, and so approval of the RPL would allow the \$15,147 to be spent in FY 09 instead. In response to a question, he indicated that this is not a new program.

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 06-9-0079, departmental support services, facilities management, Department of Health and Social Services (DHSS).

[2:07:25 PM](#)

ALISON ELGEE, Assistant Commissioner, Office of the Commissioner, Department of Health and Social Services (DHSS), explained that the \$905,400 would allow completion of the Revenue Management and Cost Allocation System. A portion of [the development of] this system was previously funded, but there are component pieces that haven't yet been addressed, and the DHSS has determined that additional federal funding would be available to help cover the cost. In response to questions, she offered her understanding that after one piece of the project was completed, it was determined that additional component pieces were needed as well; that this funding will be sufficient to complete this capital project; and that the general funds (GF) which were previously appropriated are adequate in terms of providing "match."

[2:11:13 PM](#)

CHAIR SAMUELS indicated that the next order of business would be consideration of RPL 06-9-0083, services to the seriously mental ill, Division of Behavioral Health (DBH), Department of Health and Social Services (DHSS).

MR. JESSEE explained that this RPL for \$200,000 was made necessary due to an oversight on the part of AMHTA staff. The project this RPL pertains to pays housing-related costs associated with assisted-living housing for AMHTA beneficiaries coming out of the Department of Corrections' system. For the past three years, this project was included in the budget, but

was inadvertently left out this year, though it was approved by the AMHTA for FY 09. Once this oversight was detected, it was too late to get it corrected through the regular budget process, and so the AMHTA considered administering this project itself but ran into some significant bureaucratic hurdles, and so decided to come before the Legislative Budget and Audit Committee and ask that this funding be put back in the budget so that the project can continue. He noted that the AMHTA has already approved this funding for FY 10 and FY 11. This is not a new project and won't be abandoned by the AMHTA in the near future. Again, this RPL is simply meant to correct an oversight.

REPRESENTATIVE HAWKER offered his understanding that since this amount was not included in the budget this year but had been in past years, this amount should have shown up as a decrement "or else it would have just been left in the base."

MR. JESSEE explained that that's not the case for Mental Health Trust Authority authorized receipts (MHTAAR). He added, "remember, we zero-base budget the MHTAAR, so if it doesn't show up, it's not an MHTAAR decrement."

REPRESENTATIVE HAWKER questioned, then, whether this money was included in the DBH's budget but not in the AMHTA's budget and therefore became a reconciling issue.

MR. JESSEE said that's correct. He assured the committee that although he doesn't know how the error occurred, it wouldn't happen again. In response to a comment, he said that this funding wasn't authorized in the "mental health bill."

[2:16:17 PM](#)

CHAIR SAMUELS indicated that the next order of business would be consideration of RPL 06-9-0084, Alaska Psychiatric Institute (API), Division of Behavioral Health (DBH), Department of Health and Social Services (DHSS).

MR. JESSEE explained that the \$67,600 would increase the ability of the API-TeleBehavioral Health Program to use an emerging best practice that consists of treating depression in primary care clinics with psychiatric consultation via telepsychiatry, thereby reducing the need to have expensive, on-site, psychiatric capacity across the state. The AMHTA had originally authorized this funding for API in the FY 08 budget, but the API

was unable to get the project underway in FY 08, so "this would be a re-appropriation to FY 09."

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 08-9-0026, renewable energy projects, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED).

2:18:02 PM

STEVEN HAAGENSON, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), referring to RPL 08-9-0026 - for the amount of \$5,182,571 - explained that last spring, the Denali Commission and the AEA put in a request for application (RFA) for approximately \$5 million. In that RFA was a statement that if additional funds were available, they would be expended some time in the future. However, adoption and enactment of HB 152 has allowed the AEA to award those projects that were not awarded "the first round."

SENATOR HUGGINS, referring to comments made in the RPL by the fiscal analyst, questioned the establishment of criteria.

MR. HAAGENSON offered that a provision in HB 152 authorized the AEA to make recommendations to the Legislative Budget and Audit Committee, and that's what the AEA is now doing; that the next step was for the AEA to put out an RFA; that the advisory committee was included in the RFA process; that that RFA was approved by the advisory committee, is now out on the street, and has a due date of October 8, 2008; that it's for \$100 million - \$50 million via "the original plan" and \$50 million via legislation passed during the special session; and that the "next round" of funding requests would be coming before the full legislature for approval.

SENATOR HOFFMAN asked whether [the \$5,182,571] would come out of the aforementioned \$100 million.

MR. HAAGENSON said yes.

SENATOR HOFFMAN asked whether, since the projects associated with this RPL were submitted prior to the passage of HB 152, they meet the intent of [that bill].

MR. HAAGENSON said that the AEA had to follow the criteria submitted in the RFA. Those criteria included a funding limit

of \$100,000 for preconstruction projects and \$1 million for construction projects, as well as a requirement that a project have a benefit:cost [estimate] in excess of 1. Because HB 152 was moving through the legislative process, the AEA chose to fund the preconstruction projects listed on the handout labeled in part, "Final Ranking and Grant Allocation", with Denali Commission funds and AEA funds. He added, "The remainder we put down here, so, in the aggregate, these are applications that had promise, ... but they're not all focused on, specifically, areas of high cost; the goal of all these projects is to reduce the cost throughout Alaska."

SENATOR HOFFMAN asked why, if these projects don't meet the requirements of HB 152, they can't simply compete with the other projects that are due in November.

MR. HAAGENSON said that the AEA was simply trying to be as expeditious as possible in order to get the benefits resulting from these projects to Alaskans as fast as possible.

The committee took an at-ease from 2:23 p.m. to 2:25 p.m.

CHAIR SAMUELS noted that during the at-ease, a question was raised regarding what the time requirements are and what the ramifications will be if this RPL is instead considered during the committee's next meeting in November.

[2:26:33 PM](#)

REPRESENTATIVE CHENAULT also asked what the total funding for both groups of projects will be.

MR. HAAGENSON said that if [the RPL] is rejected today, he would contact the applicants and ask them to submit another application prior to the next RFA's deadline of October 8, and that most of the projects chosen are in the Railbelt and have already received Denali Commission funding. He then listed the following projects: Fishhook Hydro project at Hatcher Pass, Phases I and II; Pillar Mountain Wind project in Kodiak; Juneau Airport ground source heat pump project; Delta area wind turbines project; Biomass-fired organic rankine cycle system project [near] Fairbanks; and Reynolds Creek hydro project in Southeast Alaska. The total the AEA is proposing for these projects [and a few others is the \$5,182,571 requested in the RPL].

REPRESENTATIVE HAWKER asked how much due diligence was performed when the benefit:cost estimates were calculated.

MR. HAAGENSON said that when the in-house evaluations occurred, the AEA brought in "outside economists" to help ensure that the numbers were reasonable. He added, "This is not a 100 percent of the project funding; there was a match requirement also."

REPRESENTATIVE HAWKER said he is not sure how comfortable he is having an economist evaluate an engineering analysis.

2:30:04 PM

PETER CRIMP, Program Manager, Alternative Energy, Energy Efficiency, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), explained that the general procedure used in assessing the economics of these projects was to assign each of them to an AEA program manager, three of which are engineers and two of which are specialists "in that area." These program managers worked with an economist with a good reputation in the field of financial engineering, and so the AEA is generally satisfied with the quality of the economic analysis. Perhaps the "shakiest ground," he remarked, revolves around the future price of oil, and the AEA used a price estimate prepared by the Institute of Social and Economic Research (ISER), which assumed an oil price of \$110 per barrel. The AEA felt that this was a reasonable estimate given the fluctuation in the price of oil. He added, "Generally, the price of oil is the highest most important variable when you're looking at life-cycle economics, but we gave it our best shot."

REPRESENTATIVE HAWKER asked whether the AEA then took its capital cost analysis back to the applicants for their concurrence.

MR. CRIMP said that the AEA did do that, when requested by the applicants, for the projects that had a benefit:cost estimate of less than 1.

REPRESENTATIVE HAWKER, referring to the aforementioned handout, offered his understanding that grants to the Homer Electric Association, Inc. (HEA), were approved, and that the HEA estimated the capital cost for the three projects at \$17.5 million apiece but the AEA estimated the capital cost at \$19 million apiece - an increase of \$4.5 million. He questioned whether the HEA would concur with that estimate increase and, if

so, whether the HEA would then still consider the projects economically viable.

MR. CRIMP explained that the AEA assigned a cost of \$5,000 per "installed kilowatt" just to standardize the economic assessments. The benefit:cost estimate for each of those three projects was about 1.97 - well above 1 - and so the AEA felt that any feedback it might get with regard to the installed cost would be relatively small, since the projects were found to be highly economic. He acknowledged that the AEA did not take its economic analysis back to the HEA. He added, "At play was the \$50,000 to \$100,000 of grant funds for feasibility analysis; therefore, the capital cost would be better assessed later on."

MR. CRIMP - in response to questions regarding the handout's apparent discrepancy between the funding that's being requested and the maximum funding a project could receive through this RPL - explained that there is a cap on the grants that the AEA can provide through "this program" - \$100,000 for preconstruction projects, and \$1 million for construction projects; that the AEA received 96 proposals for a total of about \$5 million; and that the AEA provided funds for the feasibility analyses first, knowing that the renewable energy grant fund was forthcoming and so felt that in the future, these projects could apply for construction financing in a competitive manner.

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MR. CRIMP, in response to a comment, said that because the AEA has limited funding, it is only funding preconstruction feasibility projects. Some projects are small to begin with, though, and so the \$1 million capital-cost cap is sufficient to fund the whole project, such as the Manley Hot Springs geothermal plant.

SENATOR HUGGINS asked why the State should be funding these projects before the development of an integrated, cooperative, power-generation effort - a master plan, so to speak.

MR. HAAGENSON said that that master plan, which he called the Alaska Energy Plan, is not quite done yet - it's due December 1, 2008. The AEA recognizes that none of the project proposers had an insight into the forthcoming plan. Referring to the handout, he indicated that the RPL pertains mostly to the construction projects listed in the lower section, [as well as to some projects - both construction and preconstruction - listed in the upper section].

SENATOR HUGGINS questioned why the legislature should be supporting the proposed expenditure before there is a master plan, only to then hope that the projects that are funded will fit into that master plan.

MR. HAAGENSON expressed agreement with that concern, and said he wishes that the master plan had already been completed.

SENATOR HUGGINS shared his concern that some of these projects could ultimately violate the master plan's parameters or not be complementary or just be well outside the spectrum of what the master plan will be proposing. He opined that it would be much more rational to have the master plan first so as to be able to ensure that the projects that are funded fit within it. He offered his belief that the next big, catastrophic challenge that the state will face will revolve around power generation. To start without that master plan in place is ill advised, he remarked, and said he would not be supporting funding these projects today, particularly given that the master plan is due out shortly.

[2:42:13 PM](#)

MR. HAAGENSON said this same situation applies to the RFA that's out on the street right now, because there must be a response to the RFA first in order to complete the evaluation before the legislature is statutorily scheduled to consider it at the end of January. Therefore, the question is what is the goal of all these projects, and given that they all have a benefit:cost ratio of 1 or greater, they will still accomplish the goal of reducing the cost of energy to Alaskans. It might not be the perfect way to proceed, he acknowledged, but it is a step in the right direction.

MR. HAAGENSON, in response to questions, relayed that the RPL before the committee addresses 12 projects - the 7 projects listed in the lower section of the handout, and 5 of the projects listed in the upper section - for a total of \$5,182,571.

REPRESENTATIVE DOOGAN, noting that the AEA's capital cost estimate for all the projects listed in the handout totals more than [\$2.265 billion], asked where all that money will come from.

MR. HAAGENSON said it would come from other sources. He indicated that the funding by the State is actually just seed money to get the projects started, and that the State won't be funding the entirety of any of these projects. Therefore, the projects' proposers will be seeking the necessary additional funding elsewhere. In response to a question, he said that if any of those proposing these projects were to apply for more State funding through the RFA that's on the street, they might receive it, but there is no requirement that the State continue funding any of the projects.

[2:49:49 PM](#)

REPRESENTATIVE HAWKER asked what level of due diligence was performed in assessing the likelihood that any of the projects listed in the lower section of the handout will actually be completed. Did the AEA review the financing plans of any of those projects? Do these projects already have financing commitments? Or will the money being requested in the RPL be used to secure further financing? Have some of the projects obtained more financing commitments than others? Are some of the projects more viable than others? Are some of the projects more speculative than others?

MR. HAAGENSON noted that the aforementioned Pillar Mountain Wind project in Kodiak, for example, is actually under construction already; that project has several different funding sources, and so the amount being requested in the RPL for that project is an additional source of funding.

REPRESENTATIVE HAWKER characterized that project as economically viable, and surmised that granting the funds requested for that project would result in lower costs to consumers. He asked whether the same can be said of the other projects that the RPL would fund.

MR. CRIMP explained that the Fishhook Hydro project at Hatcher Pass is in the engineering phase, that the private partners in that project are working with Matanuska Electric Association (MEA), and that they have secured a preliminary power-purchase agreement. The Juneau International Airport project is "ready to roll," and [once this] funding has been secured, he relayed, bids for the ground-source heat pump will be requested. Alaska Environmental Power, LLC, which is proposing the Delta area wind turbines project, already has a 100-kilowatt turbine installed near [Delta Junction] and is expecting to install three additional turbines.

REPRESENTATIVE HAWKER, referring to the latter project, asked how reasonable that expectation is. Is the funding for those turbines secured yet?

MR. CRIMP explained that for that project, the AEA would enter into a grant agreement, would assign a technical program specialist and a grant specialist, and funding by the State would occur only upon the achievement of certain milestones and not before. The AEA would ensure that the project is proceeding in an orderly fashion.

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MR. CRIMP went on to explain that for the Biomass-fired organic rankine cycle system project [near Fairbanks], AEA staff finds that project to be well designed, well conceived; it would rely on technology that's already in use at Chena Hot Springs. The Reynolds Creek hydro project has obtained licensure by the Federal Energy Regulatory Commission (FERC), but will require "phasing" in order to address vagaries such as achieving a lease, ensuring that the power-purchase agreement is in place, and having the local utility become involved with the project; the AEA already has a professional engineer assigned to that project, assuming that funding comes through, who would work with the project's proposer - Haida Corporation - to set up the necessary milestones. In response to a question, he indicated that payment of the proposed funding for these projects is conditioned upon them obtaining all necessary permits, licensure, and approvals, and demonstrating that the necessary financing can be obtained.

REPRESENTATIVE HAWKER asked whether that contingent criteria are being established via regulation.

MR. CRIMP said that criteria are being established by the AEA largely as an agent of the Denali Commission, similar to what has occurred with regard to the bulk fuel and rural power system upgrade projects. At the same time that the renewable energy grant fund's RFA is being developed and that process is going forward, the AEA is beginning to develop regulations to address those [criteria].

REPRESENTATIVE HAWKER offered his understanding that under HB 152, in this first year, the proposer of any project that's not approved by the legislature merely has to send the legislature a letter within 45 days and then go ahead and spend the funds

being requested; in other words, there is nothing the legislature can do, statutorily, to prohibit the awarding of these funds.

SENATOR GREEN predicted that that wouldn't happen. She suggested that the AEA provide the committee [in writing] with all of details it has about each project it is recommending funding for, so that the committee can see for itself that a particular project has obtained the necessary funding commitments and what the source of any funding is. If provided such information, the committee won't have to worry that it might be on the hook for the aforementioned [\$2.265 billion].

[Discussion of RPL 08-9-0026 continued later in the meeting.]

[3:01:12 PM](#)

CHAIR SAMUELS announced that the next order of business would be consideration of RPL 20-9-0010, Statewide Automated Victim Information and Notification programs, Department of Corrections (DOC).

LAURA LYNK, Budget/Finance Manager, Division of Administrative Services, Department of Corrections (DOC), first explained that this RPL should instead be in the amount of \$122,632 for FY 09, and that second-year funding in the amount \$183,948 would be requested in the 2010 operating budget submission. She went on to explain that the RPL is for new funding that's been made available to the DOC, that it will not supplant existing funds, and that no additional general fund (GF) will be required. Via the RPL, the DOC is requesting the authority to receive and expend funding from the U.S. Department of Justice (DOJ), Office of Justice Programs (OJP), Bureau of Justice Assistance (BJA), Statewide Automated Victim Information and Notification (SAVIN) programs. This SAVIN grant will ensure that victims of crime receive accurate and timely information regarding the status of their offenders and events related to their cases. The DOC will use this SAVIN grant award to enhance Alaska's existing statewide automated Victim Information and Notification Everyday (VINE) system by adding photos which will in turn allow for more positive visual identification and verification of offenders.

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REPRESENTATIVE HAWKER made a motion that the amount in RPL 20-9-0010 be changed to \$122,632 for fiscal year 2009. There being no objection, the motion passed.

3:04:11 PM

CHAIR SAMUELS, turning the committee's attention back to RPL 08-9-0026, recapped what the aforementioned handout illustrates and what concerns have been expressed thus far.

MR. HAAGENSON, in response to questions, reiterated that should the committee not approve the RPL today, he would advise the applicants to submit another application under the RFA that's out on the street right now, and then those applications will be evaluated with the rest of those which result from that RFA; and concurred that any further delay would result in further construction time being lost. Having applicants resubmit their applications would simply provide them with an added measure of security.

REPRESENTATIVE DOOGAN referred to the Pillar Mountain Wind project in Kodiak, and asked for confirmation that the \$1 million being requested in the RPL would not be dispersed until the rest of the capital cost estimate of \$13,230,000 was in place.

MR. HAAGENSON answered that that is correct. He said the applicant currently has the financing in place to cover most of the project already. He added, "Some of it will be debt, but this will buy down the debt." He offered his understanding that the foundations for that project are already installed in the ground, and said he thinks the project will go forward.

REPRESENTATIVE DOOGAN asked if that is true of all the other projects listed in the lower section of the chart.

MR. HAAGENSON answered no. He relayed that most of the other projects listed in that section have not been started yet. He assured the committee that criteria will be set up in the grant agreements such that the applicant can't spend the funds being requested in the RPL until certain things have been accomplished, such as obtaining full project financing.

3:08:58 PM

REPRESENTATIVE HAWKER observed that the Pillar Mountain Wind project in Kodiak is well advanced, has its financing in place, and has a significant benefit:cost estimate. He said he thinks it would be inefficient to make that applicant reapply, but is not sure whether it should be treated separately in the RPL. He

indicated that as long as the aforementioned criteria are established, he is leaning towards approving the RPL.

MR. HAAGENSON, in response to a question, said he thinks the Pillar Mountain Wind project will go forward whether or not the legislature provides funding. He offered his understanding that the rest of the projects have not yet broken ground, and are therefore in a different category.

REPRESENTATIVE DOOGAN surmised that the more speculative projects listed in the aforementioned handout have already been funded by the Denali Commission and AEA, while the projects that the committee is being asked to move forward on are less speculative.

MR. HAAGENSON said he would not describe the projects that have received funding from the AEA and the Denali Commission as more speculative, because they are all real and are moving forward. He explained that the intent in providing that funding was to get more projects moving forward because one of the AEA's goals is to get rapid relief to Alaskans.

REPRESENTATIVE DOOGAN observed that many of the projects listed in the upper section of the handout are categorized as preconstruction projects - and thus still require more work - whereas all of the projects listed in the lower section are categorized as construction projects - and thus are further along.

MR. HAAGENSON concurred.

[3:12:45 PM](#)

REPRESENTATIVE KELLY asked Mr. Haagenson if the board of directors of the AEA has approved the proposed projects, rankings, and priorities.

MR. HAAGENSON offered his belief that the board has not taken any action on this RPL because it is not an actionable item. In response to a question, he indicated that the match requirement for each project was determined at the time the [original] RFA was released - 50 percent for construction projects, and 80 percent for preconstruction projects. In response to questions, he indicated that the board would not have more involvement with regard to approving projects that result from HB 152, and that it is his belief that the statute was worded such that the projects would be brought directly to the legislature.

3:16:54 PM

DARRON SCOTT, President/CEO, Kodiak Electric Association, Inc. (KEA), in response to a question, explained that the Pillar Mountain Wind project has two phases, each involving three wind turbines. Permits are being obtained for all six turbines; however, an assessment to address engineering issues is being required for the second phase of the project. The first phase will allow the KEA to start generating power via wind and thereby mitigate the need for diesel as quickly as possible. He clarified that the second phase cannot begin until the aforementioned engineering study is complete. In response to another question, he confirmed that the first phase of the Pillar Mountain Wind project is what is being addressed by the RPL. He added, "We do have foundations in the ground, our power line is probably two-thirds built, and we're waiting on turbines for next summer."

SENATOR GREEN asked if that first phase can continue independent of the second phase.

MR. HAAGENSON indicated that it could.

REPRESENTATIVE HAWKER asked if the KEA could guarantee it would complete construction if the legislature were to approve funding.

MR. SCOTT answered that the KEA is fully committed to the project. He said that \$12 million is already committed through a clean renewable energy bond (CREB), and that funding should be accessible later on this year. The KEA has also used between \$6 million and \$7 million of its own equity on the project, has already signed the contract for the turbines, and has already completed a lot of the construction this last summer.

REPRESENTATIVE HAWKER offered his understanding that the RPL funding as it relates to the Pillar Mountain Wind project would directly reduce the cost of power for KEA's consumers.

MR. SCOTT concurred. In response to a question, he relayed that the project has the support of the community.

MR. HAAGENSON, in response to a question, referred to the aforementioned handout, and noted that the Pillar Mountain Wind project has a benefit:cost estimate of 3.45; that both phases of the Fishhook Hydro project at Hatcher Pass each have a

benefit:cost estimate of 3.76; and that all the other projects have a lower benefit:cost estimate. In response to another question, he offered his understanding that Fishhook Renewable Energy - which proposed the Fishhook Hydro project at Hatcher Pass - is in the process of obtaining a power sales agreement with the local utilities, though neither Phase I nor Phase II of that project has been started.

The committee took an at-ease from 3:23 p.m. to 3:24 p.m.

3:25:36 PM

REPRESENTATIVE HAWKER made a motion to approve [RPL 04-9-1014; RPL 04-9-1027; RPL 05-9-0588; RPL 06-9-0004; RPL 06-9-0079; RPL 06-9-0083; RPL 06-9-0084; and RPL 20-9-0010, as amended].

REPRESENTATIVE HAWKER noted that the motion does not include RPL 08-9-0026.

A roll call vote was taken. Representatives Doogan, Chenault, Hawker, Kelly, and Samuels, and Senators Ellis, Therriault, Green, and Huggins (alternate) voted in favor of the motion. Therefore, the motion passed by a vote of 9-0.

3:27:17 PM

REPRESENTATIVE HAWKER made a motion to approve RPL 08-9-0026 [but only] as it pertains to the Pillar Mountain Wind project proposed by Kodiak Electric Association, Inc. (KEA).

A roll call vote was taken. Representatives Doogan, Chenault, Hawker, Kelly, and Samuels, and Senators Ellis, Therriault, Green, and Huggins (alternate) voted in favor of the motion. Therefore, the motion passed by a vote of 9-0.

SENATOR THERRIAULT, in response to a question, indicated that he didn't want to unnecessarily delay [the funding for the other projects that RPL 08-9-0026 pertained to]. Senator Therriault asked Mr. Haagenson what his preference would be.

MR. HAAGENSON indicated that he and the AEA would prefer that the committee go ahead with [funding the other projects that RPL 08-9-0026 pertained to], particularly given that the AEA has already analyzed all the details of these projects and supports moving them forward. He again reiterated that if the committee chooses to delay funding for these other projects, he would

advise the applicants to submit another application under the RFA that's out on the street right now.

SENATOR THERRIAULT expressed a willingness to make a motion approving that RPL as it pertained to the other projects.

MR. HAAGENSON, in response to a question, indicated that the funding source for that aforementioned RFA is HB 152 - which established the renewable energy grant fund. If applicants reapply under that RFA, their projects would be evaluated again and the committee would see them again in about another month. In response to questions, he reiterated that that RFA is for \$100 million and is due October 8, 2008. He mentioned that that RFA doesn't have any caps but does have different constraints than the RFA that resulted in the list of projects currently before the committee.

[3:32:36 PM](#)

REPRESENTATIVE HAWKER said he would like to have more information from the AEA about the other projects RPL 08-9-0026 pertains to. He said that if the committee holds another meeting soon to consider these projects again, then he doesn't see why the applicants should have to reapply just because the committee doesn't approve funding for these projects today.

CHAIR SAMUELS surmised that if the committee doesn't approve the funding for these projects today and doesn't do so when it meets to consider them again, and the applicants have not submitted another application through the forthcoming RFA, they will have then missed the opportunity for this funding altogether.

MR. HAAGENSON concurred. He noted that the AEA could add conditions that an applicant cannot spend any of the funds it receives through this process until it has all the project's financing in place and can actually move the project forward. He added that he can also provide the committee with detailed information about each of the projects that the RPL pertains to.

REPRESENTATIVE HAWKER expressed concern that the Reynolds Creek hydro project only has a benefit:cost estimate of 1.12.

REPRESENTATIVE DOOGAN said he too would be more comfortable if he were provided more information. He surmised that future Legislative Budget and Audit Committee members will also need more information than has been provided thus far.

MR. HAAGENSON, in response to a question, indicated that he could have the requested information to the committee before it meets again to consider these projects.

CHAIR SAMUELS relayed that he would schedule that meeting for next week.

REPRESENTATIVE CHENAULT asked that the committee be provided with that same type of detailed information before it meets to consider any projects that result from the RFA that's currently out on the streets.

MR. HAAGENSON indicated that he would provide the committee with that information as soon as possible after that RFA process is completed.

#### **EXECUTIVE SESSION**

[3:38:43 PM](#)

CHAIR SAMUELS announced that the committee would next go into executive session.

REPRESENTATIVE HAWKER made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 3:39 p.m.

CHAIR SAMUELS brought the committee back to order at 4:36 p.m.

#### **RELEASE OF AUDITS**

[4:36:20 PM](#)

REPRESENTATIVE HAWKER made a motion for the following preliminary audits to be released to the appropriate agency for response: Department of Administration - system security, governance structure; Department of Natural Resources - Mat Maid Part 2; Alaska Energy Authority - selected procurement issues; Department of Commerce, Community, & Economic Development - sunset review, Board of Veterinary Examiners; and Department of Commerce, Community, & Economic Development - sunset review, State Board of Registration for Architects, Engineers, & Land Surveyors. There being no objection, the motion passed.

[4:37:47 PM](#)

REPRESENTATIVE HAWKER made a motion for the final audit report for the Department of Health and Social Services - reporting statutory rape - to be released to the public. There being no objection, the motion passed.

#### **OTHER COMMITTEE BUSINESS**

[4:38:00 PM](#)

CHAIR SAMUELS relayed - under other committee business - that he has hired a legislative liaison to the Denali Commission who will report back to the legislature regarding projects undertaken by the Denali Commission. He said he wants to ensure that this liaison does not simply become part of the Denali Commission's staff. The point of having a liaison is to ensure that legislators are informed about what the Denali Commission is considering, particularly if the legislature has to start matching funds.

CHAIR SAMUELS indicated that the final order of business - under other committee business - would be consideration of the audit services contract.

[4:40:19 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, said she is requesting the committee authorize her to solicit and award a contract for audit services in an amount not to exceed \$125,000. This is the same type of work and dollar amount that the division has been contracting for a number of years; it assists the division in completing the statewide single audit in accordance with the federal deadline.

[4:40:49 PM](#)

REPRESENTATIVE HAWKER made a motion that the committee authorize the legislative auditor to solicit and award a contract for audit services in an amount not to exceed \$125,000. There being no objection, the motion passed.

#### **ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:41 p.m.