

HOUSE FINANCE COMMITTEE  
July 27, 2008  
1:13 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:13:07 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Les Gara (Testified via Teleconference)  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Mary Nelson

MEMBERS ABSENT

Representative Harry Crawford  
Representative Bill Thomas Jr.

ALSO PRESENT

Kate Troll, Executive Director, Alaska Conservation Alliance, Juneau; Meer Kohler, President & CEO, Alaska Village Electric Cooperative; Julie Kitka, Alaska Federation of Natives; Representative Andrea Doll; Senator Joe Thomas

PRESENT VIA TELECONFERENCE

Doris Cabana, Homer; Paul Kendall, Anchorage; Del Conrad, CEO, Anchorage; Dr. Vi Gerald, Homer;

HB 4005     An Act amending the power cost equalization program, repealing the exclusion from eligibility for power cost equalization for certain power projects that take their power from hydroelectric facilities, and amending the definition of 'eligible electric utility' as it applies to the power cost equalization program and the grant program for small power projects for utility improvements; and providing for an effective date.

HB 4005 was HEARD & HELD in Committee for further consideration.

HB 4006     An Act authorizing, as a temporary rebate of

state resources to certain state residents, payments to assist in meeting heating costs under the federal and state heating assistance programs; and providing for an effective date.

HB 4006 was HEARD & HELD in Committee for further consideration

#hb4005

#hb4006

HOUSE BILL NO. 4005

An Act amending the power cost equalization program, repealing the exclusion from eligibility for power cost equalization for certain power projects that take their power from hydroelectric facilities, and amending the definition of 'eligible electric utility' as it applies to the power cost equalization program and the grant program for small power projects for utility improvements; and providing for an effective date.

HB 4005 was HEARD & HELD in Committee for further consideration.

HOUSE BILL NO. 4006

An Act authorizing, as a temporary rebate of state resources to certain state residents, payments to assist in meeting heating costs under the federal and state heating assistance programs; and providing for an effective date.

HB 4006 was HEARD & HELD in Committee for further consideration.

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KATE TROLL, EXECUTIVE DIRECTOR, ALASKA CONSERVATION ALLIANCE, JUNEAU, voiced support of funding for power cost equalization (PCE) and LIHEAP to provide energy assistance for the entire state of Alaska. She signified that the economic welfare of the villages and rural communities is being threatened by the high energy costs. Additionally, the Alaska Conservation Alliance wished to convey the message through Ms. Troll, to "make a connection to energy conservation" throughout the state. She noted the handout (Energy Cost Relief and Energy Conservation), which indicates ways to promote energy conservation (copy on file.) She encouraged long term solutions.

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Representative Nelson stated that the average person eligible for power cost equalization uses less than 400 kWh per month. In comparison, the average electric energy use

per person in Anchorage is 750 kWh. She stated that conservation has been taken to heart in the village areas.

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Representative Kelly asked if the Alaska Conservation Alliance would support alternative heating source efforts in both the rural and urban areas.

Ms. Troll replied that the Alaska Conservation Alliance does support any type of technology measure that offers alternatives.

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Representative Kelly commented on the Susitna Hydroelectric project and the Alaska Conservation Alliance's opposition in the past. He asked if the Alliance would now support those projects. Ms. Troll responded that the Alliance is reviewing Susitna in relationship to Railbelt energy needs. She announced that a firm position would be taken, following the current review. The Alliance currently views hydroelectric power as part of the renewable energy mix.

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Representative Gara appreciated the positive proposals submitted by the environmental organization. He asked if the Alaska Conservation Alliance would support additional funds to enhance the ability to meet renewable energy needs in the future. Ms. Troll replied that the Alaska Conservation Alliance absolutely would support the measure.

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Representative Gara commented that Ms. Troll should not be held responsible for the past actions of the Alaska Conservation Alliance. Representative Kelly noted his positive treatment of the current environmental group.

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MEER KOHLER, PRESIDENT CEO, ALASKA VILLAGE ELECTRIC COOPERATIVE, testified in support of HB 4005 and HB 4006. Alaska Village Electric Cooperative (AVEC) is a non-profit, member-owned electric utility serving 53 villages in rural Alaska. She described that "although our villages are small, our combined population is 22,000, about the same as Bethel, Cordova, Dillingham, Kotzebue, Nome and Unalaska rolled together." She provided members with written testimony (copy on file):

AVEC operates 48 power plants and 47 bulk fuel tank

farms. Our costs of operation are extremely high because of the lack of efficiencies of scale. Our per capita electricity consumption is 242 kWh per month, compared with 542 in Bethel and over 1,000 in Anchorage or Fairbanks, reflecting the impact of the higher level of commerce associated with lower cost electricity.

Consumption has always been very low, because the true cost of electricity in the villages has always been high. It is high because we must have one power plant and tank farm per every 400 in population – compare that with one power plant for Bethel's 6,000 population, or three power plants for Fairbanks, or five for Anchorage.

We support expansion of the PCE program to include any community contending with very high costs of electricity because we know how crippling it is to contend with such costs even as other energy costs are catapulting at the same time.

We respectfully protest the implementation of a seasonal kWh limit because, despite its good intentions, it would actually cost all of our current PCE beneficiary's money, rather than increasing their assistance by 23% as suggested in the model. AVEC, Cordova, Inside Passage Electric, Kotzebue, Naknek, Nome and Nushagak Electric in Dillingham have all conducted analyses of the change and all have concluded that this change will be detrimental to consumers.

Instead, we request that this committee consider restoring the eligible PCE cap to 700 kWh per month. This is the level at which PCE operated for the first 15 years – from 1984 to 1999. It represents the average kWh consumed by citizens of Anchorage, Fairbanks and Juneau. When the program was cut back in 1999, eligible residential kWh fell by about 22%.

Since eligible kWh today is almost unchanged from 1999, the most likely impact is that the residential kWh covered would go back up by the 22% that it declined eight years ago. The legislative analysis previously presented by staff projects that the 300/700 seasonal cap would result in additional kWh usage of about 23% over current levels. The financial impact of a change to the flat 700 kWh cap should be identical to the seasonal cap's impact as calculated by staff.

In May of this year, the AVEC board adopted a resolution declaring a fuel cost emergency. That resolution was sent to all legislators and a copy is attached to this testimony. The crisis we declared two

months ago is coming to its predicted peak right now.

We are two thirds of the way into our fuel delivery season and have fuel bills of \$16 million to pay for and will have another \$12 million due within the next six weeks. Our fuel bill last year was \$14 million, and we are only half way through collecting those monies. We have an emergency amendment to our line of credit, raising it to \$15 million. The cost of that borrowing will add another two cents a kWh to our already high electricity rates. There is no state fund available to borrow from to purchase our fuel and the small amount available in the AEA's fuel loan program will not cover five percent of rural Alaska's needs.

AVEC has proposed having the State provide assistance to cap the delivered cost of fuel for generating electricity at \$10 per million btu. Alaska Power Association endorses this approach and also advocates for the State providing no-cost loans to cover this year's fuel purchase. Something needs to happen soon, or rural Alaska is going to enter this winter without adequate fuel on hand to see them through the season. We will then be faced with the even more crippling cost of flying fuel in on an emergency basis.

This is not tenable, especially when our state is bursting at the seams from revenues gleaned from the burgeoning cost of a barrel of Alaskan crude oil.

Please support the changes proposed to PCE, with the exception of restoring the 700 kWh cap. It is a stop gap measure as we continue our quest to build wind systems across our villages and tap emerging technologies to reduce our dependence on diesel fuel.

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Co-Chair Chenault asked if it is crucial that there be one power plant and tank farm for every 400 in population. Ms. Kohler answered that the long term plan is to tie villages together, by building micro grids to connect them. The grids could eventually connect, forming regional grids, which could then be connected to form a statewide grid. This would allow villages to tap into more renewable energy. She stated that this connection would eventually eliminate the need for power plants and tank farms, which unfortunately, would also eliminate crucial jobs.

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Vice-Chair Stoltze asked if some of the proposed mining projects would facilitate the micro grid process.

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Ms. Kohler explained that the mining projects had been considered years ago by Novista Light and Power. She informed that the problem was that 200 mega-watts of power are necessary for heating the villages, which is much more than the projects could provide.

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Representative Kelly asked if transmission lines were available to allow for the connection lines. Ms. Kohler responded that AVEC was working on those developments. She said that they promote about eight or nine potential tie lines for interconnection. She stated that AVEC has pursued in vain, funding from the legislature for the development of the proposed micro projects.

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Representative Hawker asked Ms. Kohler to shed more light on her expressed concern about legislative funding for the revolving bulk fuel acquisition loan. Ms. Kohler responded that they want to be sure that they take advantage of the low cost of fuel early in the season. She pointed out that in years past, some villages placed their orders in August, which was too late to borrow the \$500 thousand [per village] needed to barge the fuel. She stated that her concern is that she did not want to fly fuel in because there were no loan funds available. Representative Hawker asked Ms. Kohler to quantify the deficiency in the revolving loan fund before the end of special session. Ms Kohler opined that \$35 - \$40 million would be necessary, as opposed to the now available five million dollars.

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Representative Hawker stated that the committee would try to set up an additional meeting on the topic of the revolving loan fund with Alaska Energy Authority Director Steve Haagenson.

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Representative Kelly focused on the 52.5 cents cap and asked why the state would consider going that high. Ms. Kohler replied that the Alaska Power Association (APA) supports the PCE cap change to 72.5 cents. That number was determined by looking at the fuel price when the PCE program first began in 1984, which was at \$1.17 a gallon. They then escalated that number with 3% inflation, arriving at an expected price of \$2.30 per gallon. For every 50 cent increase cost in fuel, an increase in kWh of about 4 cents is seen. She

continued to explain the formula used to arrive at 72.5 cents: "\$2.50 divided by 50 gives you five, times four gives you twenty, add to 52.5 gives you 72.5".

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Representative Kelly asked if the number was 72.5 cents. Ms. Kohler replied yes, adding that the proposed 12.5 kWh was significantly higher than what is currently embedded in the PCE statute. The generation efficiency in statute is a very high standard. There is room to incentivize alternative energy. She continued that the use of alternative energy increases the efficiency per gallon of fuel.

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Representative Nelson inquired about raising the cap by \$2. She thought that the prices would never decrease in rural Alaska. Some places are now paying over a \$1 per kWh. She felt the prices were outrageous. There is recognition that the villages with those excessively high rates are in the minority, however they must be accommodated. Ms. Kohler agreed that there are a few villages in that situation. She stated that AVEC promoted that future changes in the cost of fuel be accompanied by a similar adjustment so that if the cost moves higher or lower, then the cap would also float up and down. In the case of these villages paying excessively high prices per kWh, the conflict is with the perception that the cap is somehow encouraging excessive consumption of electricity. There should be extra attention paid to how those costs can be reduced. She thought that with the new generating system that they had in those villages, they should now be seeing lower costs.

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Representative Hawker referenced the cap of the PCE amount and the discrimination in the determining methodology. He commented on the economy of scale because certain providers are serving relatively few households for comparable costs. Ms. Kohler agreed that this is a dilemma. She stated that AVEC serves a couple of villages that have only 20 households. She maintained that because AVEC has brought together 53 communities there are some modest economies of scale. She mentioned individual fuel costs; villages do have options to band together with others to help reduce costs. She encouraged that mechanism.

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Representative Hawker asked if the legislature should encourage more collective organization of power statewide. Ms. Kohler noted that it can work, pointing out that they

are a small village utility. She reiterated that their approach does work.

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Representative Nelson asked if the AVEC board has to okay communities coming into the coop. She commented that "if they are in such dire straits your board has refused membership to certain communities." Ms. Kohler stated that was correct. She cited a recent example of refusal to the village of Tuluksak; the system was in such a poor state of repair that a large infusion of investment was going to be necessary to bring them up to operating standards and AVEC did not believe that their membership should pick up the tab. She stressed that AVEC was willing to do it if the state would bring the system up to a condition where we could bring it into our system. She pointed out that it was the state's decision not to upgrade the system.

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Representative Nelson reiterated that villages can only join can at their (AVEC board's) discretion.

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Representative Hawker asked how many households live in Tuluksak village and what would be the capital construction cost to provide a barrier. Ms. Kohler observed 500 people live in Tuluksak. She remembered that their project had not been well operated. She informed that it was under size in capacity. It was not capable of handling the power needs of the school, nor did it have a tank farm available. AVEC put together a list to bring it up to pare. She thought that estimate was about \$2-\$2.5 million.

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Representative Joule asked how many villages are operating their own electrical utility. Ms. Kohler answered approximately 75.

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Co-Chair Meyer questioned the proposal on the bill to change from 500 kWh per month to a split 700/300 kWh per month. Ms. Kohler answered that the analysis done by the Legislative Finance Division had predicted that with the 700/300 split, eligible residential kWh would go up by 23%. Ms. Kohler disagreed with the prediction and felt that eligibility actually falls by 5 - 10%. She proposed that simply restoring the cap to 700 kWh would be equitable because it would represent the average usage in the compared communities of Anchorage, Fairbanks, and Juneau. She stated

that it would not increase the usage in the summer, but would allow for more coverage in the winter.

Co-Chair Meyer stated that he appreciated the feedback. He questioned if they were to bump up to 700 kWh, would that keep people from conserving. Ms. Kohler responded that she would like to see a program that encouraged the development of renewable and alternative energy in the village/rural areas. She pointed out that AVEC is a firm advocate of the power cost monitor plan discussed by Ms. Troll.

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Co-Chair Meyer asked about computers, assuming they probably use a lot of electricity. Ms. Kohler stated that computers were actually conservative, since they went into sleep or low power mode, when not in use. She explained that using power strips to control electricity usage was also helpful.

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Representative Joule asked about the 700 kWh versus the 700/300 kWh split. He emphasized that what the committee was discussing was residential electric use versus commercial/school use. He asked if there had been a change of consumption in Nelson Island Communities with the use of wind power. Ms. Kohler responded that she had not noticed any change in energy consumption. Representative Joule deduced that the areas hardest hit don't take advantage of some flexibility.

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Representative Kelly asked if the administration was working on increasing the financing cap. Ms. Kohler responded that as a practical matter there is no other source of funds, without an appropriation from the administration. She thought that it would be easy to put money in a revolving loan fund. She expressed that she would like to see a cap on the interest rate charged. Representative Kelly pointed out that the legislature was there to address an emergency and he felt that moving the cap made sense.

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Representative Gara commented that perhaps a tie in would benefit the rural areas, due to the potential for wind power. He asked if AVEC could apply for a renewable energy project, for the purpose of tying in rural communities. Ms. Kohler answered that it was her understanding the renewable energy fund included money for intertie projects; she does know that nothing had happened yet with the \$50 million that was appropriated. Representative Gara asked Ms. Kohler to review the language on the renewable energy fund,

and look for a solution. He also asked if there would be a benefit to raising the amount for the last three years of the renewable energy fund, currently funded at \$50 million a year. Ms. Kohler responded in support of the idea because AVEC had at least three years worth of projects that were ready and in need of this funding.

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Vice-Chair Stoltze said that he wanted the monies given to districts to be equitable. Ms Kohler did not disagree.

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Representative Joule asked if the recommended 72.5 cent fuel cap (versus the proposed 52.5 cent cap) was based on information from small communities or from broader Alaska. Ms. Kohler responded that the number was extrapolated based on the cost of fuel when the PCE was first instituted.

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JULIE KITKA, ALASKA FEDERATION OF NATIVES, responded to earlier testimonies. In regard to the issue of emergency fly-in of fuel, she suggested that the committee ask the state and the emergency response office for a detailed cost of the last three to five years. She also suggested, inviting the head of the Denali Commission's energy program to testify as well as the federal co-chair of the Denali Commission with the purpose of answering specific questions proposed earlier regarding bulk fuel. She thought that the Denali Commission could also give details about cooperative buying agreements and cooperative management agreements among villages. She observed that there was talk of coordinating federal agencies and negotiating a bulk fuel purchase agreement with the Department of Defense in a past Denali Commission meeting.

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Representative Kelly asked about any possible impediment to wood burning from the Division of State Forestry. Ms. Kitka replied that she was not aware of any such reports. She expressed that she was in favor of wood burning and the technology available to enhance the process.

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Ms. Kitka was encouraged with some of the new innovative fuel burning projects. There is a range of new, low cost ideas that could be implemented relatively quickly.

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Representative Kelly requested news of any blocks issued in the future regarding the burning of wood. Ms. Kitka agreed to report any information on this subject.

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DORIS CABANA, HOMER testified via teleconference, in favor of both HB 4005 and HB 4006. She expressed support for all people in the state. She stated that her family does commercial fishing, which has been hit hard with the increased cost in fuel. She urged that the legislation move quickly as the need is critical. She felt that the assistance should not be attached to the Permanent Fund Dividend (PFD). Many seniors and families with small children need to be helped quickly. She worried about those that will "fall through the cracks this winter". She indicated support and appreciation for the legislature and for all of the bills proposed by the governor.

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PAUL KENDALL, ANCHORAGE, testified via teleconference. He opposed previous comments and the cost associated with energy assistance. He thought that all the previous testimony was "fear based". He felt that the problem stems from the leadership. "The source of the problem is people with an interest in the fossil fuel distribution network."

Mr. Kendall recommended a 90-day energy review and energy form, which should occur in Anchorage. He maintained that there are too many parties that need to have accountability and stressed that the focus should be on the whole. He worried that the state will move toward bankruptcy by providing "those people the money". He proposed that each dwelling have an energy allotment and then be encouraged to incentivize. He asserted that the producers and distributors must be accountable. "If they refuse, those producers should be sued."

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DEL CONRAD, CEO RURAL ALASKA FUEL SERVICES, MANAGER BULK FUEL BRIDGE LOAN PROGRAM, ANCHORAGE testified via teleconference. He commented on the amount of money that has been lent on outstanding loans and cash pending loans for the upcoming fuel season. He addressed the loan program's status. Last year, the bulk fuel bridge loan program loaned \$2.3 million dollars. This year there has been an increase in autumn deliveries, meaning that \$2.3 million dollars will not be enough. He asserted that last year's amount will not meet the needs. The bridge loan program is set up so that only borrowers turned down by AEA

become eligible. He stated that in order to meet the needs this year, there will need to be greater funding. He hoped to see an increase in the program of about \$5 million, in order to meet the needs, with the increased cost of fuel deliveries. Currently, there is a loan limit amount of \$500,000 dollars. He requested an increase to \$750,000 in the loan limits.

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Representative Nelson asked if the requested increase to \$5 million was truly adequate. Mr. Conrad thought that \$5 million would be sufficient for this year and noted that it depends on the price of oil. Fuel prices are tracking closely with what is happening with the worldwide price of oil. With oil up over \$150 a barrel, \$5 million dollars will probably be a questionable amount. He thought that \$5 million should be the minimum; and he was more comfortable with \$7.5 million dollars.

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Representative Hawker asked Mr. Conrad about the loan loss history. Mr. Conrad pointed out that they are working with borrower's that are not able to borrow money from AEA. There have been "slow" borrowers. Everyone has ultimately paid back their loans. The program differs in that it goes out to the communities and reviews the cost matrixes to cover all costs. Sometimes the borrowers run out of cash, because the charged prices were too low. Sometimes credit collection policies are developed. The issues are identified and provide better acceptance in addressing the actual costs. Some loans have been delinquent, yet none ever lost.

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DR. VI GERALD, HOMER testified in support of HB 4005 and HB 4006 via teleconference. She added her support for the PCE bills and noted her appreciation of the legislature's work.

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HB 4005 and HB 4006 were HEARD & HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:05 PM