

HOUSE FINANCE COMMITTEE
July 31, 2008
4:12 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [4:12:50 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

Representative Andrea Doll; Representative Sharon Cissna; Representative Bryce Edgmon; Representative Kurt Olsen; Senator Charlie Huggins; Karen Rehfeld, Director, Office of Management and Budget; Pat Galvin, Commissioner, Department of Revenue; Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Suzanne Armstrong, Staff, Representative Kevin Meyer; David Teal, Director, Legislative Finance Division; Ron Kreher, Division of Public Assistance, Department of Health and Social Services; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Sarah Fisher-Goad, Deputy Director of Operations, Alaska Energy Authority, Department of Commerce, Community and Economic Development, Randall Randall Ruaro, Special Assistant, Office of the Governor.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 4001 An Act making supplemental appropriations, capital appropriations, reappropriations, and other appropriations; making appropriations to

capitalize a fund; and providing for an effective date.

HB 4001 was HEARD and HELD in Committee for further consideration.

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 and HELD in Committee for further consideration.

#HB4001
HOUSE BILL NO. 4001

An Act making supplemental appropriations, capital appropriations, reappropriations, and other appropriations; making appropriations to capitalize a fund; and providing for an effective date.

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, explained that HB4001 totals over \$700 million and will provide resources necessary for the Alaska Gas Inducement Act (AGIA) license before the legislature. Included are implementation costs, the reimbursement fund, job training for Alaskans, instate gas use, and infrastructure for gas pipeline construction. She relayed that the major component of the bill was the \$500 million request to capitalize the AGIA reimbursement fund. The request was for reappropriation of \$300 million from the Alaska Housing Finance Corporation (AHFC) plus \$36 million of interest combined with \$164 million of general funds, which would fully capitalize the reimbursement fund at the \$500 million.

Ms. Rehfeld added that another component of the bill requests \$15 million for gas pipeline implementation. Components within that request include contractual expertise that would be needed on an ongoing basis for the gas pipeline implementation, and she stated that \$42.7 million was needed for workforce development through the Departments of Labor, Education, and the University of Alaska. She continued that there was approximately \$130 million for the Department of Transportation and Public Facilities (DOT/PF) for infrastructure projects in the state and \$25 million

proposed for the Alaska Natural Gas Development Authority (ANGDA) instate gas use project.

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Ms. Rehfeld provided an analysis of section one which includes appropriations for capital projects and grants from the general fund or other funds as set out in section two or this act by funding sources to the agencies named for the purposes expressed. These appropriations are for the Department of Education workforce scholarship program and for recent high school or GED graduates preparing for careers in AGIA related occupations. This would be operated through the post secondary education commission. Also included is an appropriation to the Department of Labor & Workforce Development including \$34.8 million dollars. Components of this request include a pipeline administrator, \$26.5 million for a competitive grant program for a technical training plan for the gas line, \$2 million for a pipeline training center, \$1.5 million for the Alaska vocational technical center in Seward, \$2.5 million for GED program and adult basic education, and a \$750 thousand request for skills upgrade and training, and a job awareness program. \$23.5 million for the Haines highway reconstruction, realignment and Chilkat River bridge replacement. \$1 million would be for the University of Alaska for equipment purchases. Finally, the reappropriation request of the earnings within the AHFC where the \$300 million has been residing, and a request of \$164 million to capitalize the AGIA reimbursement fund, complete section one.

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Co-Chair Chenault asked if the \$500 million for TransCanada should be appropriated out of total general funds. Ms. Rehfeld responded that the legislature could determine if the funds from (AHFC) could be used. She claimed that it was proposed because there had been discussion that the \$300 million had been set aside for the purpose of creating a gas pipeline. She stated that she was not opposed to a different method of appropriation rather than taking the \$300 million from AHFC.

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Representative Gara requested more information on the funding of \$500 million dollars for AGIA and how the \$300 million dollars got into the AHFC account. He asked if they were dividend dollars. Ms. Rehfeld replied that the \$300 million was appropriated to the AHFC account in FY 2006.

Representative Gara thought that the dividends should be used for low income housing purposes unless the \$300 million

were appropriated as savings. Co-Chair Chenault added that the \$300 million were appropriated to AHFC as a savings account.

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Co-Chair Chenault clarified that the intent of the meeting was to give an overview of the discussed components of the projects. He stated that the bill will come back to Committee for public testimony. Representative Gara wanted the opportunity to ask questions of the department heads at a future date.

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Representative Gara questioned the appropriation to (ANGDA) for spur line permits. He understood that AGIA provides for five points within the state. He expressed interest in the spur line that provides instate gas rather than the immediate spur line for the export of gas. He wanted to know more about the spur line money.

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PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, explained that the spur line discussed in the ANGDA appropriation would serve the Southcentral Anchorage area.

Representative Gara asked why the first permit being funded was for the spur line. Commissioner Galvin recommended that ANGDA discuss that. He discussed the need to bring gas into populated parts of the state. The line would go through the Fairbanks area and continue along the highway out of the state. He noted the value of having a line connecting the main line into the Anchorage area. The spur line would connect Anchorage or the Cook Inlet to the rest of the distribution system. As gas development takes place, supply will dictate where the line runs. Ultimately, the gas distribution system must connect Southcentral area to the main line. He stated that ANGDA has identified the project sequencing. The funding would put the state in a position to take maximum advantage of the development of the mainline.

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Representative Gara expressed concern about unnecessary spending. He noted the other possibility of a bullet line from the North Slope to Anchorage. Commissioner Galvin responded that the need for the spur line exists regardless of the options. The spur line is on the same route as the bullet line. He stated that the work should be done now for the ultimate connection of the line, and that each option requires this particular segment.

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Representative Gara understood that a spur line from Fairbanks to Anchorage was needed for either the spur or bullet line. Commissioner Galvin acknowledged that the affected segments are between Anchorage, Glennallen, Delta, and Fairbanks.

Representative Gara did not want to spend money on a line that would never be used. Commissioner Galvin clarified that the state's interest has always been the Richardson Highway route. He believed that it was in the state's best interest to begin the work, so that the preliminary project is finished when the discussed options become available.

Representative Gara felt it was premature to start spending money on a line from Glennallen to Anchorage until the decision was made. Commissioner Galvin emphasized getting gas to Alaskans who don't currently have access.

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Co-Chair Chenault noted the projected total of \$1.2 billion dollars for repairs to gas pipeline associated roads. He asked why the state of Alaska should use general funds to pay for the road repairs, when the possibility exists that they could be rolled into the tariff rates. Commissioner Galvin stated that the Dalton Highway was an asset greater than facilitating the construction of a gas line. Development on the North Slope is intended for oil exploration and an emerging gas exploration.

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Co-Chair Chenault asked if the state was not building a gas line, highway work would be needed. He thought that the expense should be tied into the tariffs of the pipeline itself.

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Representative Thomas expressed concern about future capital budgets. Ms. Rehfeld understood his concern. Representative Thomas wanted his district to have local employment opportunities in addition to those provided by the pipeline.

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Representative Crawford queried the prohibition of the use of federal funds for regular road maintenance.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC

FACILITIES, stated that the challenge with the Federal Highway Funds is the Federal Highway Trust Fund is facing a significant reduction in the amount of revenue flowing into it due to the high cost of gasoline and the resulting reduced amount of miles driven. The fund is seeing fewer increases and a reduction of federal funds is anticipated. The challenge is taking the funds received and achieving the projects currently in the Statewide Transportation Improvement Program (STIP), with the mentioned budget constraints. He explained that the goal of using general fund dollars was to enable a reliever on the STIP in future years, allowing STIP dollars to be spent on other priority projects.

Representative Crawford questioned if the department's goal was to lock the state in if the funds were not available from the federal government. Mr. Richards provided an example of three Dalton projects using federal dollars. The constraints of the STIP dollars, has resulted in fewer projects and have delayed some projects.

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Representative Crawford asked about the time frame for the construction projects. Mr. Richards stated that the three projects would be bid in the fall and begin in the summer of 2009, depending on the contractor's time frame. The emphasis of other allocations is to start the design work for the next construction season, creating the infrastructure and minimizing competition from other projects.

Representative Crawford thought that the area needed a large amount of maintenance each year because of the weather, the trucks, and the use of the Dalton Highway. Mr. Richards agreed; however foundation issues create a challenge. The goal is to upgrade the embankment anywhere there is melting permafrost, which will take a number of construction seasons.

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Representative Kelly asked if federal dollars would be lost if the project was initiated now. Mr. Richardson replied that he did not know if federal money would be missed for this road or if those federal dollars would instead be spent on competing projects.

Representative Kelly reiterated the query regarding the use of federal dollars. He pointed out that the state does not know what the next authorization of the federal highway bill will be, but possibly the majority of federal funds will go to large communities for mass transit to reduce the amount of green house gas emissions. He wondered if rural population states would receive less money.

Mr. Richards stated that the federal program comes with federal requirements of timelines and processes on a program of this size. The use of the general fund could shave millions of dollars off of the program and will maximize the use of federal dollars providing the state with more flexibility.

Representative Kelly understood that future appropriations are difficult to determine. His interest was in the prevention of forgoing any match. He claimed understanding that the placement of the dollars will provide positive benefits and net gains.

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Representative Gara noted that if the state spends money on roads, it would free up \$129 million for other STIP projects. He did not know if the state could afford a capital budget with this allocation of road money. He proposed that the legislature move the projects up the federal list in order to qualify for the federal funding and queried the timeline of that scenario. Mr. Richards explained that the department has a STIP application process that is scored. He stated that "the STIP gets played and becomes a political hot potato." The proposed highways are part of a national highway system. The amount currently received is about \$75 million per year. Any of the other projects would be postponed. The amount of money is limited, yet the need is large.

Representative Gara asked when the roads would be constructed if federal money was used. Mr. Richards referenced the PowerPoint presentation showing the individual projects. Several projects programmed have not made it onto the STIP because it is a three year planning document. He offered to provide information as to where future projects fit in.

Representative Gara thought that the projects did not need to be built this year and that it would be many years before pipe is transported on the roads. He wanted to see as many roads as possible built with federal dollars. Mr. Richards clarified that one of the challenges was the time constraint of the preliminary environmental and design work. The goal is a gas pipeline by 2018. There are six construction seasons left for the necessary preliminary highway work, if the pipeline construction begins in 2015. Postponing the highway construction could increase the cost of the pipeline construction.

Representative Gara expressed confusion about pushing the project through by 2018, when some delay might enable the use of federal dollars. Mr. Richards stated that the 2018

date is TransCanada's projection. The projects could go forward with federal dollars if they were unlimited. He spoke to the benefit of using the general fund.

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HB 4001 was HEARD and HELD in Committee for further consideration.

#HB4005

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.

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Vice-Chair Stoltze MOVED to ADOPT work draft #25-LS17557\E, Kane, 7/31/08, as the version of the bill before the Committee. There being NO OBJECTION, it was so ordered.

SUZANNE ARMSTRONG, STAFF, REPRESENTATIVE KEVIN MEYER, explained the work draft, sectional analysis:

- Section one pertains to the Power Cost Equalization (PCE) program containing the formula as it appeared in the original version of HB 4005 with a few modifications. Modifications including the lowering of the ceiling rate from two dollars to 75 cents a kWh.
- Section two is a new addition to the bill proposing to repeal the new PCE formula on June 30, 2011 and return to the formula currently in statute.
- Section three is a work in progress, the premise being, under HB4005 there are no new entrants to the PCE program. The non PCE eligible utilities will instead receive five cents per kWh for the first 500 kWh a month sold to each of the residential consumers.

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Representative Joule asked about the impact on utilities. Ms. Armstrong explained that all utilities would be impacted. The bill is meant to be a two and two third year sunset, with the five cents per kWh also repealed on June 30, 2011.

Co-Chair Meyer clarified that the initial intention was for a two year sunset, but he wanted to make sure the decision to continue or discontinue the program was not influenced by an election year.

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Representative Nelson asked if Anchorage would pay six cents per kWh if the cost of electricity was lowered by five cents for non PCE users. Co-Chair Meyer responded that would depend on which utility company is used. Representative Nelson asked if there had been a "human cry" for rates to decrease. Co-Chair Meyer stated that the electrical costs have gone up in both urban and rural areas.

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Representative Nelson wanted a perspective of costs. She referenced Stephen's Village, which pays over a dollar per kWh and would be covered up to 72.5 cents, whereas Juneau would be paying six cents per kWh. Ms. Armstrong replied that was correct; the ceiling in the committee substitute was seventy five cents per kWh. Co-Chair Meyer recognized the need to go above the seventy five cents, but he advocated a starting point. He asked that the entire package be addressed.

Representative Kelly asked if the non PCE five cent approach would sunset at the same time. Ms. Armstrong replied yes, the entire PCE legislation would be addressed in the future.

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Representative Crawford thought the bill might take the state in the opposite direction and that it would be a disincentive to Anchorage to conserve. Co-Chair Meyer explained that according to Chugiak, the average usage in Anchorage is 750 kWh per month and the bill is capped at 500 kWh per month, with the incentive to keep use under 500 kWh. The average monthly cost for electricity in Anchorage is \$100 dollars. Representative Crawford did not think it would provide incentive to conserve.

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Representative Thomas asked if the reduction would be for residential use only. Ms. Armstrong answered yes. Representative Thomas pointed out that he had not heard a "cry" for an electricity break; he noted that he had communities that pay 85 cents per kWh showing concern. Co-Chair Meyer asked what electricity would cost under PCE, at 50 cents per kWh.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, referenced the chart "Comparing Monthly Electric Bills at Various Costs and Usage." (Copy on File).

Co-Chair Meyer clarified that if the rate was 50 cents per kWh then it would cost 15 cents with PCE, as long as the use was less than 500 kWh each month.

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Representative Gara discussed Anchorage qualifications; he asked the number of those that would qualify. Ms. Armstrong replied that the two utilities in Anchorage would not qualify, because the bill proposes to add no new entrants to the PCE program. Under the proposed legislation, the non PCE utilities would qualify for the five cents per kWh for the first 500 kWh in a month.

Representative Nelson asked for information on how much urban Alaskans spend on their utility bill. Mr. Teal referenced page five of the packet.

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Ms. Armstrong continued with the overview:

- Section four repeals the five cents per kWh on June 30, 2011.
- Section five, repeals two sections that appeared in HB 152, which made the Alaska Heating Assistance Program retroactive to November 1st 2007.

Co-Chair Meyer stated that "with the additional \$10 million recently added to the existing federal \$10 million Low Income Heating and Energy Assistance (LIHEAP) qualifying is now at 225 percent of the poverty level." He added that this bill simply increases the amount lower income people can get.

Ms. Armstrong continued with section six which, applies to the state implementation of the Federal Low Income Heating and Energy Assistance Program (LIHEAP) and it provides for the period beginning October 1st 2008 through June 30, 2011. The per dollar value of a community heating cost point, which is calculated under regulation may increase to an amount of 170 dollars. Each point is calculated on a per dollar basis allowing the department to increase this to an amount not to exceed 170 dollars.

Representative Nelson requested further explanation.

Ms. Armstrong requested that Department of Health and Social Services (DHSS) address how the benefits are determined for the low income heating program. Her understanding was that the system established the criteria, and the application assigned points for status. The total number points were for heating cost point value. The value is \$85 dollars per point not to exceed \$170 per point.

Representative Nelson asked if this meant \$85 dollars per month. Ms. Armstrong replied that an individual may apply to DHSS for the period beginning October 1st to April. The full benefit is calculated by the department; it is not a per month allocation, but a set amount.

Co-Chair Meyer continued that anyone who qualified for the LIHEAP program previously will receive double the amount of assistance than from the old program. The new program will provide more money to those that need it.

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Ms. Armstrong continued the overview:

- Section six pertains to the Federal Low Income Heating Assistance and how the heating cost point will be adjusted.
- Section seven pertains to the Alaska Heating Assistance Program and how the community heating cost point will be increased.
- Section eight pertains to the Alaska Resource Rebate Section, changing the amount from \$1200 to \$1000, including a statement notifying recipients that the rebate is a one time payment to qualified Alaskans.
- Section nine pertains to suspension of the motor fuel tax.
- Remaining are effective date sections.

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Co-Chair Meyer pointed out that all the sections sunset on June 30, 2001, with the exception of the Alaska Resource Rebate which is a one time payment.

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Vice-Chair Stoltze commented on the conversation regarding the legislation privileging Anchorage. He did not think the issue was regional.

Co-Chair Meyer pointed out that the intent of the bill is to help with four major statewide utility concerns. He admitted that the bill needs work.

Co-Chair Chenault referenced page 4, line 25, stating "The Department of Revenue may assess a penalty of up to \$5000 against any person that fails to provide the supporting invoices as required by this subsection." Ms. Armstrong responded that the link was included in HB 4004.

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Representative Nelson asked the fiscal impact for each section. Ms. Armstrong stated that fiscal notes are currently being evaluated.

Representative Nelson referenced Section two, specifically the five cent reduction in urban use versus the changes to PCE. She questioned the impact of the LIHEAP program to households. Mr. Teal stated that the graph exemplifies payments under the heating assistance. He estimated that a household could receive roughly \$3000 from LIHEAP. Once a household is assigned a point value, it is adjusted for household size and income level. He referenced the chart "Heating Assistance Benefits at Various Income Levels." (Copy on File).

Mr. Teal stated that people in rural Alaska could receive up to 35 points and anywhere between \$1500 and \$3000 depending on their income and the area in which they reside. The state LIHEAP program is assigned \$10 million dollars. To double benefits, the maximum benefit increased to six thousand dollars. He concluded that without any applications received this year, the cost was yet unknown.

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Representative Nelson understood the concept of pro rating; however, she wanted to understand the precise cash benefit per month to a struggling person. Ms. Armstrong responded that there was a packet of information from DHSS indicating scenarios of various areas in the state. When the department worked on the passage of state heating assistance program, they gave the estimate that 3800 additional households would become eligible.

Representative Nelson stressed that her question remained unanswered.

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RON KREHER, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES explained the difficulty of determining the actual benefit because of the nature of the

point system. A household living in a community with a harsh climate, heating with diesel fuel, with an elder or child under the age of five could receive the maximum number of points, given this piece of legislation. That could mean \$6000 per household. Depending on the heating cost needs, the purpose is to off-set costs. He explained that there is a lot of variability depending on the household income and living situation.

Representative Nelson referenced page 2 and the average payment of two separate Alaskan communities. She asked if the payment was made each month. Mr. Kreher replied that one payment was made per heating season, with one heating season per year.

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Representative Gara commented on providing state money to everyone in a utility below 15 cents a kWh. He wanted to see the state spend resources for those in the greatest crisis. He did not agree with giving state money to everyone in a utility below 15 cents per kWh.

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Ms. Armstrong referenced the cost analysis handout. She requested further explanation of the handout by Mr. Teal.

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Mr. Teal noted the cost model in column one, which is the existing program with the floor at 12.83 cents and the ceiling at 52.5 cents, with a cost of \$32 million. This would all go to currently qualified utilities, without any new entrants. He explained that column one exemplifies the program as it currently exists. The program is currently funded at \$28 million. Column two shows what will happen if fuel and electric prices increase, and the legislature provides supplemental funding. The program costs will go up to approximately \$42 million. Then PCE reimbursements would be pro-rated. It was necessary to raise the ceiling to two dollars, because currently, nobody has an electric cost of two dollars. With no ceiling, the program would cost about 58 million dollars. The floor becomes a critical factor when the large urban utilities are included. The only ones that qualify with this floor are Golden Valley, Kodiak, Homer, Copper Valley, and Kake with \$15 million allocated to these newly qualified utilities and \$58 million going to the existing utilities. Because there were new entrants and it was important to keep the costs the same as the existing program, the floor was raised. These were policy calls aimed at keeping costs contained. These are not policy recommendations, but merely an attempt to keep costs even. If the program is extended to all urban utilities, with a

slightly reduced ceiling of 75 cents, there is a reduction in payments to currently qualified utilities and an increase in payments to the newly qualified.

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Representative Gara asked for clarification on the increase to the cost of the program to \$65 million, through giving utilities five cents per kWh if they are under 15 cents per kWh.

Mr. Teal responded that the urban utilities are many times larger, which explains the increased cost. Representative Gara reiterated his question. Mr. Teal responded that every new utility that qualifies receives five cents per kWh.

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Representative Gara asked about the expense for each of the utilities that charge less than 15 cents. Mr. Teal explained the method for adding up the cost.

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Co-Chair Meyer clarified the question as "what is the state spending on those who pay less than 15 cents per kWh."

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Representative Thomas noted that Kake Tribal Corporation is mistakenly misrepresented in the provided handout in regards to cost per kWh in Kake. Mr. Teal explained that this information was provided by the Regulatory Commission of Alaska (RCA) and is not completely accurate. It needs to be cleaned up.

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Representative Joule pointed out that there is an anomaly, as the North Borough would not be able to take advantage of the subsidy because they do not pass along the costs to their customers. He would like to find a way to make sure that they can be reimbursed like the other utilities.

Co-Chair Meyer agreed that the incentive to conserve and efficiency should always be at the forefront.

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Representative Hawker referenced conflicting testimony over the weekend between the Alaska Village Electric Cooperative (AVEC) and Alaska Energy Authority (AEA) regarding revolving loan funding. He wanted representatives from those organizations to come in to clarify. It would be very

helpful if the fiscal notes included per capita estimated benefits of the programs, especially from an objective source such as the departments.

Vice-Chair Stoltze asked for clarification.

Co-Chair Meyer noted that the revolving loan fund was never resolved and he was not sure that the PCE fund had been resolved either. He asked if the new portion included in the bill would come from the discussed PCE fund or from the general fund.

Ms. Armstrong thought that would be up to the committee. She described that there is an appropriation in HB4003 for additional funds to PCE.

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Representative Crawford asked about the motor fuel tax suspension, noting the amount of paperwork created. At eight cents per gallon, there is minimal benefit for the amount of paperwork required to get reimbursements. He thought that making a direct payment may be an easier way to arrive at the same goal.

Co-Chair Meyer asked for clarification.

Representative Crawford explained. The other point he wanted to make concerning diesel and aviation fuel. He wondered if a direct payment might make more sense.

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JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, explained the various tax rates on different kinds of fuel. Marine fuel is taxed at 5 cents per gallon, aviation gasoline is 4.7 cents per gallon, and jet fuel is 3.2 cents per gallon. The federal government funds the department for the cost of tracking these taxes. The positions for tracking and collecting of motor fuel tax are funded by the federal government through their tax collections, so there is not a general fund cost to do this.

Representative Thomas asked if the marine fuel tax at five cents per gallon was shared with the municipalities.

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Mr. Burnett answered that there is not a tax sharing with anything except for the aviation fuel portion sold at municipal airports.

Representative Thomas asked if the state would be subsidizing the non-resident fishermen by suspending the motor fuel tax.

Representative Gara commented on a gasoline study showing that refiners set their price based on what they know Alaskans would have to pay if importing gas from the lower 48 state. He asked whether the refiners or the dealers pay the motor fuel tax to the state. Mr. Burnett replied that the motor fuel tax is collected at the distributor level when it is sold to retailers.

Representative Gara stated that refiners base their charge, not on what it costs them to refine fuel, but what they know they can charge given the alternative of shipping gas up from the lower 48. He maintained that once the eight cents is suspended, the refiners will just add it back on. Mr. Burnett could not speak to what refiners or distributors would charge for their fuel. He asserted that, in other states where motor fuel tax has been removed, gas prices have fallen as a result.

Representative Gara pointed out that other states are not 1,000 miles away from the nearest refinery source. He requested information to dispute the finding that gas refiners charge what they know they can, based on how much it would cost to import gas from the lower 48. Mr. Burnett did not have any information to dispute that.

Representative Gara stated that he did not want to give money to the refiners. Mr. Burnett responded that there is some competition on the market. Not all fuel is sold by one refiner or distributor, so he believed that with the motor fuel suspension, there would be a price effect.

Representative Gara asked for the administration's analysis before the suspension was implemented. He felt there was no credible information that the savings will make it to the consumers. Mr. Burnett was not familiar with the study and therefore did not have a response.

Co-Chair Meyer pointed out that Anchorage is a competitive market so that if one distributor removed the eight cents, the others would have to as well. Representative Gara asked who pays the tax. Mr. Burnett replied that the tax is collected at the distributor level when the retailer purchases it from the distributor. The wholesaler is adding the tax to the price when the retailer buys it from the wholesaler.

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Co-Chair Meyer requested that members attempt to achieve a balance between urban versus rural, and low income versus

middle income. He encouraged awareness regarding the five cent credit per kWh portion of the PCE enabling a \$25 dollars per month savings in Anchorage, and \$300 dollars per month benefit in some rural areas. He recommended a new draft based on comments. He recommended that amendments be taken.

Representative Nelson requested follow up on Representative Hawker's suggestion regarding the bulk fuel revolving loan fund. Ms. Armstrong offered to speak with Ms. Sarah Fisher-Goad at the Department of Commerce, Community and Economic Development, and attempt to get in touch with Ms. Meer Kohler of AVEC for input.

Representative Gara wanted the administration to testify on behalf of a plan to bring the savings from the gas tax to the consumer. He wanted to see an analysis by the administration. Co-Chair Meyer agreed that an analysis would be important, because if the tax were suspended, the consumer would expect to see an eight cent savings.

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Representative Thomas commented on the Railbelt energy area where 63 percent of the people live, and only 27 percent live in the rural area. He stated that one-third of the 27 percent don't drive. Co-Chair Meyer responded that aviation and marine fuel are also included in the tax suspension.

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Representative Gara suggested the committee find out how much the state would pay by suspending the gas tax, and then put it into another program that would benefit Alaskans.

Co-Chair Chenault commented that gas tax raises about \$40 million dollars. Mr. Burnett agreed.

Co-Chair Chenault asked where the eight cents goes.

[6:19:04 PM](#)

RANDALL RUARO, SPECIAL ASSISTANT, OFFICE OF THE GOVERNOR believed that consumers will see most of the savings. One reason he cited was the competitive market. If a retailer was not lowering their price then they would sell less gas. The proposed suspension will benefit particularly the urban areas. He referred to a study of a gas suspension in the year 2000 in Indiana and Illinois, which determined that 60 to 80 percent of the savings were being passed on to the consumers. He pointed out that they had worked on an amendment to insure that the savings pass through.

[6:20:58 PM](#)

Representative Gara understood that other states administer the tax in a way that the cost actually goes back to the consumer. Refiners are charging by what it would cost to bring gas up from the lower 48 states. Refiners that pay the gas tax probably will not reduce the gas price. Instead, they will say "go get it from the Lower 48." The retailers are not paying the gas tax. He questioned if refiners are basing the charge on the cost to bring gas from the Lower 48, how the money will be passed to consumer.

Mr. Ruaro added that the distributors have a line item for the eight cent a gallon tax. The line items would be on their invoices so the retailers will be paying less, allowing them to pass the savings on. Representative Gara projected that the company selling the gas to the retailer will raise their price by eight cents prior to selling it. Mr. Ruaro thought that the language of the amendment would insure that the savings are passed on.

Representative Gara suggested that retailers pay the gas tax so the savings gets back to the consumer. Mr. Ruaro disagreed and thought that the saving would be passed on, to the consumer with the help of an amendment. Representative Gara wanted to know that the disagreement was based on a study. Mr. Ruaro stated that the amendment would be sufficient, but it would not be perfect. The only guarantee in the bill is that if we do not suspend the tax, then Alaskans will continue paying it.

[6:24:27 PM](#)

Vice-Chair Stoltze spoke to the surcharge and questioned the effect on businesses that did not want to raise prices. He had spoken with some business owners in favor of the gas suspension because even if it did not result in a savings, the business owner might not have to increase the price or add a surcharge.

[6:26:27 PM](#)

Co-Chair Chenault wondered if the provision on page 4, line 25 is new or in existing law. Mr. Ruaro observed that the provision is new and is intended to ensure the savings is passed on to the consumer.

Co-Chair Chenault noted that the Tesoro refinery in his district does not benefit from the high price of oil. Most Kenai gas stations buy gas from Tesoro.

[6:28:50 PM](#)

Representative Crawford observed that competitive market forces do not exist in Alaska outside of Anchorage. He did

not think an eight cent tax cut would be passed to consumers.

[6:30:39 PM](#)

Representative Hawker stressed that the overriding objective is efficient, equitable, and effective legislation and that benefits the consumer. He expressed concern about moving the bill out too quickly.

[6:33:30 PM](#)

Representative Thomas questioned if the cap on PCE would be raised.

Co-Chair Meyer agreed that the next CS would exhibit a higher PCE cap.

Representative Nelson observed that Ms. Meer Kohler, President of (AVEC) had communicated earlier today that she supported raising the cap to \$1.15.

Co-Chair Meyer pointed out that the provision has a sunset and can be fine tuned in future years.

[6:35:54 PM](#)

Representative Gara observed that Alaska is paying the highest gas prices in the nation, even though refinery costs are not the highest in the nation, given the cost they are paying for oil. He offered to present the study at a later date, which he had been referring to throughout the committee meeting (analysis by Professor Burman at the University of Alaska in Anchorage).

Co-Chair Chenault expressed concerns with the gas tax. He would like to see the high price of gas be addressed in this bill as well. Many Alaskans have to commute to work, and he said that it does cost a "small fortune" to fill up some vehicles.

[6:38:23 PM](#)

Representative Kelly requested that page two, line 25, be changed to "an electric utility whose customers receive a power cost subsidy under this section." He suggested this to eliminate confusion that "we are somehow in the PCE program."

Ms. Armstrong stressed that the mentioned section is a work in progress. She is working with her legal drafting team to clear it up. Representative Kelly suggested a floor or a date to prevent driving the kWh cost below what it has been for years.

Representative Kelly noted concern that in the future, the Legislature will be considered less beneficial and promote less self reliance than it appears. He worried specifically about the LIHEAP increase and how that will be handled in the future, and he worried about the total amount that eventually might be taken away and the pain this might cause some Alaskans. He encouraged legislators to seriously consider programs that will be carried into the future.

[6:43:12 PM](#)

Representative Gara asked about the amendment process moving so quickly. Co-Chair Chenault did not know if it would happen in one day. Representative Gara requested an extra day. Co-Chair Chenault could not make that commitment.

Representative Crawford asked if the Committee would be required to submit amendments tonight. Co-Chair Chenault offered to take amendments.

[6:45:11 PM](#)

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, understood that there were questions regarding AVEC's need for a loan for fuel purchases vs. the bulk fuel revolving loan fund.

Representative Hawker noted that he had raised that question. He hoped for a round table discussion with AVEC and Ms. Goad, with the goal of sorting the issue out.

Co-Chair Meyer asked that there be teleconference discussion between Ms. Fisher-Goad and AVEC.

Ms. Fisher-Goad understood that AVEC had a loan requirement. The question was whether the requirement was for an amendment for the bulk fuel revolving loan fund or not. Because of the loan amount needed, it will be a \$20 million dollar loan vs. our \$500 thousand cap for a bulk fuel revolving loan fund. The fund has come in to existence for smaller communities where typically a borrower wouldn't have the ability to ask a private bank for a one year loan. She offered to work with the staff to add the issue outside of the bulk fuel program. Representative Hawker wanted that question answered and to have AVEC testify.

[6:49:55 PM](#)

Representative Gara referenced the handout from AHFC regarding the question of how to maintain the rebate program, which AHFC had estimated at \$60 million dollars.

6:51:35 PM

Co-Chair Meyer requested that amendments be drafted for the next meeting. He requested that all the players be present to answer the questions.

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

#

ADJOURNMENT

The meeting was adjourned at 6:51 P.M.