

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 6, 2008

1:05 p.m.

MEMBERS PRESENT

Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
Representative Anna Fairclough
Representative Paul Seaton
Representative Bryce Edgmon
Representative David Guttenberg
Representative Scott Kawasaki

MEMBERS ABSENT

Representative Bob Roses
Representative Peggy Wilson

COMMITTEE CALENDAR

HOUSE BILL NO. 267

"An Act relating to authorizing the state to join with other states entering into the Wildlife Violator Compact and authorizing the compact to supersede existing statutes by approving standards, rules, or other action under the terms of the compact; and directing the initiation of civil actions to revoke appropriate licenses in this state based on a resident licensee's violation of or failure to comply with the terms of a wildlife resource citation issued in another state that is a party to the compact."

- MOVED CSHB 267(RES) OUT OF COMMITTEE

HOUSE BILL NO. 336

"An Act directing the Alaska Energy Authority to conduct a study of and to prepare a proposal for an appropriately sized Susitna River hydroelectric power project; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 267

SHORT TITLE: WILDLIFE VIOLATOR COMPACT

SPONSOR(s): REPRESENTATIVE(s) JOHNSON

01/04/08	(H)	PREFILE RELEASED 1/4/08
01/15/08	(H)	READ THE FIRST TIME - REFERRALS
01/15/08	(H)	RES, FIN
01/18/08	(H)	RES AT 1:00 PM BARNES 124
01/18/08	(H)	Heard & Held
01/18/08	(H)	MINUTE(RES)
01/28/08	(H)	RES AT 1:00 PM BARNES 124
01/28/08	(H)	Heard & Held
01/28/08	(H)	MINUTE(RES)
02/06/08	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 336

SHORT TITLE: SUSITNA HYDROELECTRIC PROJECT

SPONSOR(s): REPRESENTATIVE(s) JOHNSON

01/22/08	(H)	READ THE FIRST TIME - REFERRALS
01/22/08	(H)	RES, FIN
01/28/08	(H)	RES AT 1:00 PM BARNES 124
01/28/08	(H)	Heard & Held
01/28/08	(H)	MINUTE(RES)
02/06/08	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

AL CAIN, Criminal Justice Planner
Statewide Law Enforcement Specialist
Division of Sport Fish
Alaska Department of Fish & Game (ADF&G)
Anchorage, Alaska

POSITION STATEMENT: Answered questions regarding HB 267.

BURKE WALDRON, Captain
Central Office
Division of Alaska Wildlife Troopers
Department of Public Safety (DPS)
Anchorage, Alaska

POSITION STATEMENT: Answered questions regarding HB 267.

ELIZABETH VAZQUEZ, Chair
Board of Directors
Chugach Electric Association, Inc.
Anchorage, Alaska

POSITION STATEMENT: Supported HB 336.

BRAD EVANS, Acting Chief Executive Officer

Chugach Electric Association, Inc.
Anchorage, Alaska

POSITION STATEMENT: Provided information and answered questions during hearing on HB 336.

UWE KALENKA, Vice Chair
Chugach Electric Association, Inc.
Anchorage, Alaska

POSITION STATEMENT: Supported HB 336.

RAY KREIG, Chairman
Chugach Consumers
Anchorage, Alaska

POSITION STATEMENT: Supported HB 336.

JAMES HEMSATH, Deputy Director for Development
Alaska Energy Authority (AEA)
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Provided information and answered questions during hearing on HB 336.

CHRIS RUTZ, Procurement Manager
Alaska Energy Authority (AEA)
Alaska Industrial Development & Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during hearing on HB 336.

ACTION NARRATIVE

CO-CHAIR CRAIG JOHNSON called the House Resources Standing Committee meeting to order at [1:05:12 PM](#). Representatives Kawasaki, Fairclough, Seaton, Guttentberg, Gatto, and Johnson were present at the call to order. Representative Edgmon arrived as the meeting was in progress.

HB 267-WILDLIFE VIOLATOR COMPACT

[1:05:29 PM](#)

CO-CHAIR JOHNSON announced that the first order of business would be HOUSE BILL NO. 267, "An Act relating to authorizing the state to join with other states entering into the Wildlife Violator Compact and authorizing the compact to supersede existing statutes by approving standards, rules, or other action

under the terms of the compact; and directing the initiation of civil actions to revoke appropriate licenses in this state based on a resident licensee's violation of or failure to comply with the terms of a wildlife resource citation issued in another state that is a party to the compact."

REPRESENTATIVE FAIRCLOUGH supported the concept of the Wildlife Violator Compact and supported moving HB 267 out of committee. She appreciated the opportunity to work with other states to hold people who abuse resources accountable.

[1:07:22 PM](#)

CO-CHAIR JOHNSON, in response to Co-Chair Gatto, reviewed the changes included in Version 0 of HB 267 [the committee substitute adopted as the working draft on 1/28/08, labeled 25-LS0864\0, Kane, 1/24/08]. He said Version 0 excludes commercial fishing because commercial fishing is not part of the compact; however, there is discussion underway among compact members to include commercial fishing in the future. Another change, he said, is the definition of wildlife that was added on page 5 [subsection (o), lines 21-27].

[1:08:07 PM](#)

REPRESENTATIVE SEATON observed that big game commercial hunting services are also excluded along with commercial fishing (page 1, lines 2-3).

CO-CHAIR JOHNSON understood that a big game commercial hunting service must have a hunting license and would be unable to provide the service if it lost its hunting license. This would also apply to big game guides, he added.

[1:08:40 PM](#)

REPRESENTATIVE SEATON pointed out that additional wording was removed from the title: "authorizing the compact to supersede existing statutes [by approving standards, rules, or other action under the terms of the compact]".

CO-CHAIR JOHNSON said this deletion is in response to the committee's concern that Alaska state law clearly takes precedence over the compact so the state retains its autonomy over its wildlife and resources.

[1:09:17 PM](#)

CO-CHAIR GATTO inquired whether there is anything that should be specifically excluded from the definition of wildlife [page 5, subsection (o), lines 21-27].

CO-CHAIR JOHNSON responded he would be uncomfortable excluding anything because the broader it is, the better. However, he said, he is willing to discuss a specific recommendation.

[1:09:55 PM](#)

CO-CHAIR GATTO asked whether the last sentence [of subsection (o)] is a redundant statement.

CO-CHAIR JOHNSON said he is uncertain, but it was drafted by Legislative Legal and Research Services so it must have been thought necessary.

REPRESENTATIVE FAIRCLOUGH pointed out that this language was included in Version O at the committee's request to ensure that no species were left out. In further response to Co-Chair Gatto, Representative Fairclough clarified that the language added in Version O is on page 5, lines 26-27, as follows: "In this state, 'wildlife' means all species of fish and game as these terms are defined in AS 16.05.940."

REPRESENTATIVE SEATON added that the reference to statute is to make it clear that wildlife means hunted wildlife covered by a hunting license, not dogs or cows or shrews or other animals.

[1:12:10 PM](#)

AL CAIN, Criminal Justice Planner, Statewide Law Enforcement Specialist, Division of Sport Fish, Alaska Department of Fish & Game (ADF&G), stated that the term wildlife is compact language. The last sentence [relating to the state of Alaska] was added by Legislative Legal and Research Services because Alaska's statutes do not define wildlife, they define fish and game. He said Alaska statute defines fish as any species of aquatic finfish, invertebrate, or amphibian in any stage of its life found or introduced in the state; and game is defined as any species of bird, reptile, or mammal, including feral animals introduced and found. These definitions include species covered under sport hunting and sport fishing licenses and do not include domesticated animals like cats and dogs.

CO-CHAIR GATTO inquired whether a domestic reindeer would be defined as [hunnable] wildlife.

MR. CAIN said there is a list of animals that are exempt from hunting.

[1:14:42 PM](#)

CO-CHAIR GATTO asked whether a clause is needed in HB 267 that specifically excludes domesticated animals whether they were originally wild or otherwise.

MR. CAIN responded he did not believe that is necessary because there is extensive definition language in this regard. A domestic reindeer would be defined as private property, the same as would be a domesticated pet. The only exception is that the Alaska Department of Fish & Game would require the owner to have a permit to possess a reindeer, bison, or similar species. He said he will look up the exact citation.

CO-CHAIR GATTO asked whether a pet wolf could be hunted by a neighbor who fears the wolf might attack his or her pet dog.

REPRESENTATIVE FAIRCLOUGH noted that if Alaska is a member of the wildlife compact, the state would determine whether a violation has occurred under existing Alaska statute and an appeal process would also be available prior to the violation going into the compact database for access by the other compact member states. So, the state is covered, she said.

REPRESENTATIVE SEATON pointed out that by adopting Version 0 the compact will not supersede existing state statutes because this provision was removed. He agreed that the state is covered.

CO-CHAIR GATTO responded, "If indeed the state statute did cover those."

CO-CHAIR JOHNSON said he thinks that in the case of a neighbor shooting someone else's pet a number of civil and criminal statutes would apply that are unrelated to protecting the state's natural resources.

[1:18:56 PM](#)

BURKE WALDRON, Captain, Central Office, Division of Alaska Wildlife Troopers, Department of Public Safety (DPS), cited a portion of the compact's definition of wildlife which specifies:

"Species included in the definition of wildlife vary from state to state and a determination of whether a species is wildlife for the purposes of this compact must be based on local law." He noted that game, not wildlife, is hunted under Alaska law and that the definition of game excludes domestic birds and mammals. Thus, domestic animals are excluded in terms of how the state's game or wildlife laws apply.

CO-CHAIR GATTO inquired whether farm raised musk ox are considered domestic animals under Alaska statute.

MR. BURKE related that court rulings for both musk ox and bison have determined that farm reared animals are considered domestic.

[1:20:35 PM](#)

REPRESENTATIVE FAIRCLOUGH moved to report HB 267, Version 25-LS0864\0, Kane, 1/24/08, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHB 267(RES) was reported from the House Resources Standing Committee.

HB 336-SUSITNA HYDROELECTRIC PROJECT

[1:21:30 PM](#)

CO-CHAIR JOHNSON announced that the next order of business would be HOUSE BILL NO. 336, "An Act directing the Alaska Energy Authority to conduct a study of and to prepare a proposal for an appropriately sized Susitna River hydroelectric power project; and providing for an effective date." He noted that public testimony is still open for HB 336.

[1:22:20 PM](#)

ELIZABETH VAZQUEZ, Chair, Board of Directors, Chugach Electric Association, Inc., stated that Chugach Electric Association supports HB 336. She specified:

Chugach is a member-owned electric cooperative headquartered in Anchorage. It is the largest electric utility in Alaska. We provide retail electric services to approximately 80,000 metered locations. Chugach also provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to other utilities.... We directly or

indirectly provide energy to three-quarters of the state's population.

Today about 90 percent of the kilowatt-hours Chugach sells annually are produced by natural gas-fired units. The other 10 percent comes from hydroelectric projects. Currently, all of our natural gas from the Cook Inlet Basin.

Chugach believes fuel diversity is important for customers. As you can see, we are heavily dependent upon Cook Inlet gas as a generation fuel. Natural gas prices have risen dramatically in recent years - doubling between 2003 and 2006. As gas prices have risen, so too have the bills paid by electric utility customers.

We very much value the three hydroelectric projects we currently have in the Railbelt. They provide clean, renewable, relatively flat-priced power. These three projects - Eklutna, Cooper Lake, and Bradley Lake - generally provide the lowest cost generation for the Chugach systems. The only real problem we have with them is their limited capacity. We are extracting all the power we can from these projects today.

We believe the time is right for the state to study generation alternatives, including the idea of a major regional hydroelectric project on the Susitna River. Much work was done studying the concept of a very large Susitna project back in the 1980s. We are not suggesting a rebirth of that project per se, but rather a fresh look at the resource, and a realistic appraisal of a project that is the right size for the Railbelt region.

It would take years to bring a major new hydroelectric project online. Therefore, the right time to begin a process like this is now. Chugach is planning for a new, efficient gas-fired power plant that will provide a bridge to the future. However, around 2020 we foresee the need for the next major generation project. This is a good time to study the potential of a Susitna project and the benefits it could provide for Alaskans throughout the interconnected Railbelt region.

Chugach believes HB 336 makes several good points. We believe this study should be led by the Alaska Energy Authority. We very much agree ... that the effort should be collaborative among the Energy Authority and the Railbelt electric utilities. We believe the emphasis should be on considering a project [appropriately] sized for the Railbelt. At this point it is prudent to review and build on the work that has already been done in prior studies.

In conclusion, we would like to thank Representative Johnson for sponsoring this bill and co-sponsors Speaker Harris and Representatives Ramras and Kelly for their support of this important issue.

[1:26:56 PM](#)

REPRESENTATIVE SEATON inquired whether Ms. Vazquez agreed with previous testimony that the appropriate size for the project would be 100-300 megawatts instead of 1200 megawatts. He further inquired whether there is room for two projects in the 100-300 megawatt size or only room enough for one.

MS. VAZQUEZ understood that generally there is a need for at least two or three hydroelectric projects and that the previously proposed Susitna Hydroelectric Project was considered too big for the Railbelt at 1200-1600 megawatts. She deferred to Mr. Evans for further detail.

BRAD EVANS, Acting Chief Executive Officer, Chugach Electric Association, Inc., said that while a 300 megawatt project would be welcome in the Railbelt, it would not be large enough to dent the fossil fuel problem the region currently faces. The Susitna Hydroelectric Project could be built in either of two ways, he explained. It could be scaled down or it could be built to its full capability of 1200 megawatts with only enough turbines installed to meet current demand. Then, in the future, the project could be scaled up without doing any more dam and civil work - similar to what Chugach did at Bradley Lake.

[1:30:20 PM](#)

REPRESENTATIVE SEATON asked whether it is Chugach's view that the Susitna project should go forward and the proposed Chakachamna project should be kicked out.

MR. EVANS responded no. It was not aimed at Chakachamna or some other similar project, it was to get the best fit for where the load is today and the other resources that are in play today. Everything would be studied and the economics of each one would be looked at to see what the optimal answer would be for the state at this time along with a future capability to grow.

CO-CHAIR JOHNSON added that the appropriate sized project is one of the things the study will look at. It will not be the call of any utility to determine what is or is not appropriate.

1:32:06 PM

MR. EVANS, in response to Co-Chair Gatto, stated that Chugach's peak load is just shy of 500 megawatts, including wholesale power sales and sales to Matanuska Electric Association (MEA). In further response to Co-Chair Gatto, Mr. Evans confirmed that the Susitna project is considerable given that it would replace 300 megawatts of Chugach's current load.

CO-CHAIR GATTO asked whether the [low generation costs for the Eklutna, Cooper Lake, and Bradley Lake hydro projects] include the amortized cost of constructing them.

MR. EVANS replied that there is not one answer because each of those projects is under a different financial model. The newer Bradley Lake does not financially perform like the much older Cooper and Eklutna. Bradley Lake was 50 percent grant and 50 percent debt service. But, even with that 50 percent debt service, Bradley Lake is still one of Chugach's cheapest power sources today.

1:33:35 PM

CO-CHAIR GATTO asked what portion of the current total consumption of Cook Inlet natural gas is consumed by Chugach Electric Association.

MR. EVANS estimated about 40 percent.

CO-CHAIR GATTO observed that displacing 40 percent of current Cook Inlet gas consumption would be the same as finding new gas and would thus extend the break point for when there will not be enough gas to supply existing needs.

MR. EVANS agreed. He said Chugach is 90 percent gas-fired generation, so hydropower would conserve the gas for other uses for a period of time.

CO-CHAIR JOHNSON interjected that hydropower would not necessarily supplant the use of Cook Inlet gas due to the long time frame for dam construction. As a long-term goal it would extend the life of the gas fields, but it will not solve the Cook Inlet gas problem.

1:36:30 PM

REPRESENTATIVE GUTTENBERG inquired what Chugach Electric Association needs to build between now and when Susitna would come online, given the association's aging infrastructure.

MS. VAZQUEZ said Chugach would have hydropower now if she had a magic wand. However, Chugach's only option right now for bridging the gap is gas-fired new generation. The newer generation assets are 30 percent more efficient than the aging assets they will replace, she pointed out. The current equipment is so old that the parts have to be special ordered. Chugach is at a crisis point and there is no luxury of time to pursue one alternative and then another; rather, several alternatives must now be pursued at the same time.

MR. EVANS noted that most of Chugach's generation was built in the 1960s and 1970s and has reached the end of its useful mechanical life. Additionally, it is dated in terms of its efficiency and a 30 percent efficiency gain would put a huge dent in the association's fuel bill. The current business model is old, he said, and Chugach has an intermediate plan to bridge between the Railbelt's current energy problem and the possibility of a larger-scale project that would solve the problem. Chugach is currently working with two other utilities on plans to jointly construct a new gas-fired generation project in Anchorage that is hoped to be online by 2012. If a hydro project came online afterward it would be for those times of maintenance, outages, and intermediate and peaking purposes rather than base load.

1:40:22 PM

CO-CHAIR GATTO asked why Chugach is in a crisis and did not use a business model that plans way ahead.

MR. EVANS said the crisis is that the current business model is under stress. The Cook Inlet gas model is old and will not necessarily meet the growing demands of the Cook Inlet Region, and the fossil fuel model is coming under stress for environmental and global warming reasons. The time is right to find alternative sustainable resources that will flatten out prices and provide diversity to reduce dependence on market-based gas prices. Those market-based gas prices will go right to customer's front doors, he warned. If something is not done it will be a crisis, and that is why Chugach is reaching out and supporting efforts that will be useful to the people and the economy of the state.

[1:42:16 PM](#)

REPRESENTATIVE KAWASAKI inquired whether coal is still part of Chugach Electric Association's equation.

MR. EVANS replied that Chugach studied a coal-fired plant at the Beluga coal field, but coal now has a lot of environmental challenges and its future is uncertain. It seems the legislature would want to pick the best alternative, he said. Chugach is asking for enough information to help pick that best alternative and thinks hydropower has a role to play.

[1:43:15 PM](#)

REPRESENTATIVE KAWASAKI asked whether Mr. Evans thinks there is a lot riding on a Susitna dam.

MR. EVANS responded yes, a lot would be riding on Susitna if it got built. In further response to Representative Kawasaki, Mr. Evans said Susitna would be a big impact to Chugach's generation business model.

[1:43:55 PM](#)

REPRESENTATIVE KAWASAKI noted that \$160 million in federal funds was spent on the Susitna plan and no dirt was turned and no road was built; all that remains is a box of paperwork. He said he supports a carbon neutral source of electricity like the Susitna dam, but it is a big project. He inquired about the short term projects that Chugach has in place right now.

CO-CHAIR JOHNSON said he views Susitna as placing another option on the table, not taking options off. Conversations with other people indicate that having one mega-project to provide all of

the state's power is ill advised, he related. Thus, it will take a lot of these interim smaller projects. If it is the right project, perhaps it would become the cornerstone of a package, but the Susitna dam would not be the only project.

[1:46:12 PM](#)

REPRESENTATIVE KAWASAKI asked why HB 336 would spend \$1 million on one narrowly defined project, the Susitna dam, and not on any other options that have been proposed.

CO-CHAIR JOHNSON answered that the bill spends \$1 million to brush that box off, update it, and answer some questions.

[1:47:07 PM](#)

REPRESENTATIVE EDGMON stated that this issue merits discussion whether or not the idea goes forward. If it is "code orange" for natural gas in Anchorage, then the pleas from his constituents indicate it is "code red" in Bush Alaska. People are leaving the Bush because it has become too expensive to live out there.

CO-CHAIR JOHNSON said he is not looking at this as just a Railbelt solution, rather he hopes it is the cornerstone of a statewide solution and long-range energy policy to start electrifying Alaska.

[1:49:03 PM](#)

MS. VAZQUEZ informed the committee that Chugach Electric Association is not just waiting for a hydro project to solve its problems. It is dealing with these issues in the near term by taking interim conservation measures to conserve energy, such as stressing conservation and providing tips in the association's monthly newsletter. The association has a renewable energy committee that meets once monthly and the board receives a monthly report regarding conservation efforts and efforts with the association's biggest customers. She said Chugach is on overdrive in working with other utilities on immediate future joint-generation that is needed to be more efficient.

[1:50:36 PM](#)

UWE KALENKA, Vice Chair, Chugach Electric Association, Inc., stated it is not wise for an electric utility to have all its eggs in one basket and Chugach has almost all of its eggs in one

basket with 90 percent of its generation from gas and 10 percent from hydropower. There are only two companies in Cook Inlet producing gas, he said. In the 1960s and early 1970s gas was 23 cents per million cubic feet (MCF), now it is over \$4. The Henry Hub natural gas price is between \$6 and \$12. As a resource becomes scarce the price automatically goes up, said Mr. Kalenka, so it can be seen where things are heading with the gas running out in Cook Inlet. Chugach is looking long-range in exploring all alternatives, and the Susitna Hydropower Project is possibly one of them. Susitna needs to be dusted off and looked at to determine whether it is viable, economical, and practical - that is all that Chugach is saying at this point. Wind and geothermal are unable to generate the amount of energy currently required, he related. Time is urgent and the gas is needed for home heating rather than generating electricity.

[1:52:56 PM](#)

RAY KREIG, Chairman,, Chugach Consumers, said Chugach Consumers is an advocacy group for electric utility customers. He noted that he is a professional civil engineer and that he served for six and one-half years on the Chugach Electric Association Board of Directors. He specified:

Chugach Consumers strongly supports HB 336 and we commend Representative Johnson and Chugach Electric's new board for their leadership in stepping up and initiating this overdue review of one of the major alternatives to the present hydrocarbon-based cost rollercoaster that ratepayers are on with gas-fired generation.

The steadily rising cost of energy in the past few years has everyone, especially utility boards, talking about alternatives - wind, coal, small and large hydro, and even nuclear. The utilities have to make decisions on new generation. It will be extremely useful to narrow the alternatives down, if possible, so the most promising can be focused on sooner rather than later.

The blast from the Anchorage Daily News editorial page last week against reviewing Susitna is, in our opinion, misplaced. The state has over \$150 million invested in studies of Susitna hydro and more and more people are thinking about large hydro as a solution. It is irresponsible not to look at this project again

and update the numbers, at least in a general way. If the numbers point to a likely cost of 30 cents per kilowatt hour that was mentioned by the Anchorage Daily News, then it can be put back on the shelf and attention will move to other alternatives.

We would like to suggest that the \$1 million in this appropriation not be put out in one large consultant RFP [Request for Proposals]. This is not likely to get best value for this appropriation. A staged approach, in our opinion, will get better information for the state's money.

We suggest that an engineering conference be first held by the Alaska Energy Authority (AEA). There are many engineers, environmental scientists, and former regulators that worked on Susitna still around that should be hired to participate along with new leaders in the hydroelectric engineering profession. One-hundred-thousand dollars should be sufficient for this first task and at the end of that process all will be better informed of the issues and players. Better decisions can then be made by AEA and the utilities as they go forward with this review and update of the original Susitna project or a reconfigured and appropriately adjusted project for current needs.

[1:57:59 PM](#)

JAMES HEMSATH, Deputy Director for Development, Alaska Energy Authority (AEA), Alaska Industrial Development and Export Authority (AIDEA), discussed the points outlined in his white paper entitled, "Estimate for Susitna Hydro-electric Feasibility Study". The study would use the significant engineering work done in the 1980s to provide a feasibility, or screening-grade, estimate on the project's cost in today's dollars under today's engineering and other concerns, he said. A key objective of the study would be to determine what size facility can be put in because it is not infinitely scalable. The two dams in the original design cannot necessarily be broken up and only one or the other built. For example, in order to have full seasonal load, the 600 megawatt lower Devil's Canyon dam is dependent on flow control from the 1000 megawatt upper river dam. He noted that the \$1 million study will require significant engineering to address the assumptions used in the 1984 estimates versus 2008 in terms of constructability, construction techniques, and the generation capacity for this particular site. The

engineering study will provide a rough estimate of power cost so it can be determined whether this facility or this site is appropriate for Alaska, he related. For instance, if the cost is determined to be in the 30 cent range instead of the current 8-9 cent range, then that would mean this project is inappropriate and other alternatives need to be looked at. The Susitna project is only one of a number of alternatives that need to be addressed by a statewide energy portfolio that looks at industrial demand as well as local demand, he advised.

2:01:21 PM

CO-CHAIR JOHNSON pointed out that the \$1 million will not provide consumption or demand projections for the future. Those will come later.

MR. HEMSATH responded correct, the study will look at what can be generated. He said Susitna is a very involved project and the \$135 million was not wasted in 1984 because there was significant engineering that occurred. The point of this study is to make sure that the numbers are relevant and determine the power cost. Only broad assumptions will be made about demand.

2:02:56 PM

REPRESENTATIVE GUTTENBERG observed that each of the four work tasks outlined in the white paper has a cost. He asked whether the tasks could be done in parallel rather than sequentially.

MR. HEMSATH answered yes and no. A number of these things could be done in parallel if the funds were available. On a large capital project like this, there are typically certain phases on which engineering capital is expended, he explained. Since it is a re-evaluation, not a re-creation, of the 1984 design, the first phase is to determine the power costs. If the power cost is in the 10 cent per kilowatt range, then moving on with further study is warranted. Until it is known that the project makes sense, care must be taken to not expend additional funds unnecessarily because those funds could then be applied to a statewide study.

2:05:04 PM

REPRESENTATIVE GUTTENBERG estimated that the Susitna and other projects could provide an energy savings of up to \$1 billion annually for the Railbelt area. Therefore, he theorized, expending another \$1-2 million to do all of the studies in

parallel instead of sequentially would shave off several years of study time and pay for itself through the energy savings that would start sooner. If the money was available, should it be done this way, he asked.

MR. HEMSATH said \$1 billion is likely an over-estimate. He agreed with the necessity for haste in looking at the state's energy options, but cautioned that the time savings of a few months would not be of great import for a 10-12 year project. "The most important thing is to truly address the engineering and the cost aspects on the current design to understand them as best we can because those are going to drive the decision," he said. "The other parts are refinement."

[2:09:02 PM](#)

REPRESENTATIVE KAWASAKI inquired how AEA would select a qualified contractor given the white paper's recommendation that an RFP process not be used.

MR. HEMSATH said 14 qualified contractors are currently on AEA's term contract list as the result of an RFP from last summer. It was a competitive process with the goal of identifying qualified contractors to undertake AEA and AIDEA tasks. Selecting from this list will gain 4-6 months over using an RFP.

CHRIS RUTZ, Procurement Manager, Alaska Energy Authority (AEA), Alaska Industrial Development & Export Authority (AIDEA), added that all of these contracts are currently in the process of being set up. Term contracts for engineering services have been used for many years because they give management flexibility and allow AEA and AIDEA to react quickly when circumstances and situations arise, he explained. They are solicited using the state procurement code and are established following those rules and guidelines. However, AEA and AIDEA also go through formal competitive processes if the need dictates.

[2:12:15 PM](#)

CO-CHAIR JOHNSON asked what it will take to get the study underway and whether Work Task 1 [identified in AEA's white paper] can be finished by December 2009.

MR. HEMSATH responded that Task 1 is truly a nominal 12 month activity. It takes about a year to do a detailed study like this, even dealing with other information, he said. The scope of work would be developed and term contractors identified by

June 2008. Thus, the study could be completed by June 2009 and most definitely by December 2009.

2:13:54 PM

REPRESENTATIVE SEATON inquired whether other projects in the area will be looked at in addition to the Susitna project.

MR. HEMSATH replied that AEA will not be going too far afield due to the tightness of dollars and scope - attention will be focused on the Susitna project because of its size. However, there are existing feasibility studies for other projects like the Chakachamna Hydropower Project, so very loose comparisons can be done. Comparison would be based on looking at the cost of power and a project would not be viable if the cost is 20-30 cents per kilowatt hour, he said. The bulk of the work will be understanding the river and the dam situation to determine what size facilities can be reasonably developed at what cost based on the information from the 1984 study.

2:16:04 PM

REPRESENTATIVE SEATON suggested that AEA be directed to key in on the Susitna project and not directed to diversify the study to look at other projects such as Eklutna. He cited a sentence under the objectives in AEA's white paper which states: "To aid in decision making cost of power for generic alternative generation sources (coal, gas, wind, geothermal) will be developed, and finance options will [be] considered." Does that mean AEA will develop those financing options and other alternative generation options as well as dusting off the Susitna project, he asked.

MR. HEMSATH answered no. That statement was written in light of a \$2.74 million full-blown study, and would be the second phase, he said. The Susitna project will be in the \$5 billion range and how it is financed will be critical. In this phased approach, what must first be determined is whether the Susitna project would be cost competitive. He cautioned against viewing Susitna as a way to displace enough gas to make Agrium or the Kenai LNG facility operate again. That can only come from increased exploration in the Cook Inlet, he advised. At best the Susitna project displaces enough gas to keep houses warm.

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REPRESENTATIVE SEATON inquired whether AEA will first look at potential "drop dead" features of the Susitna project, such as seismic or economic issues, and stop the study if one is found.

MR. HEMSATH said yes, but with a lot of nuance in the yes. The problem is that even in the \$1 million study, there will be tasks that are running parallel. Whether the study is stopped depends on what the perceived risk is. In addition to cost and size, the study will try to identify any technical risks that are known now that were not known in 1984, such as the recently identified geologic fault. But, he said, it is unlikely this fault can be found in the first month.

REPRESENTATIVE SEATON asked whether HB 336 should include a means for AEA to provide an interim report should something be identified that would preclude the project from moving forward. This way AEA would not be required to go through the full study if something is discovered early on.

MR. HEMSATH responded yes. This would allow AEA to come back for direction on how to proceed.

[2:23:43 PM](#)

CO-CHAIR JOHNSON inquired whether any other useful information will be acquired even if the Susitna Hydropower Project is determined not feasible after spending the \$1 million.

MR. HEMSATH allowed that a large portion of those funds would "go down the river". Most likely there will be some peripheral information about the costs of other projects, but nothing that could be applied to projects like Chakachamna. In further response to Co-Chair Johnson, Mr. Hemsath said the study would provide an updated understanding of why the project does not work as well as an understanding of the construction costs of this kind of facility. The study might also provide some cost information for rough estimates on scaling. The \$1 million addresses current issues, he said, and if Susitna is not a viable alternative to the state's energy needs, the focus can then be directed elsewhere.

[2:26:13 PM](#)

CO-CHAIR JOHNSON requested further explanation of Work Task 2 as outlined in AEA's white paper.

MR. HEMSATH explained that he organizes a project so it goes through a series of gates in order to maximize the value of the capital being expended. This way, the capital can be used elsewhere in case a decision needs to be cut off. If Task 1 determines that the power cost is viable, then Task 2 would be an environmental and socio-economic study to determine those impacts and costs. Additionally, it would determine whether anything has changed in the environment since 1984, such as changes in weather patterns that might affect the ability to collect enough water. The environmental/socio-economic study would also look at some light industrial uses and an intertie beyond the Railbelt. Mr. Hemsath said there are other possible alternatives for power generation and Task 3 would identify those alternatives that are true options. Task 3 concentrates only on a small area, he said, and a larger state plan would help to ensure that the questions and portfolio of energy projects is appropriate. Task 4 is self explanatory regarding finance options for the project, he said.

[2:30:42 PM](#)

REPRESENTATIVE EDGMON inquired whether anyone is tracking all of the projected power needs throughout the state, given there are numerous proposed developments that would create even greater power demands.

MR. HEMSATH said there are a number of people at AEA and AIDEA who are aware of what is happening. However, there is no comprehensive focus with benchmarks and that is something that truly is necessary and it is not an insignificant activity. There is a true need for a comprehensive look at energy assets and energy demand from an industrial perspective, he emphasized. The questions need to be addressed in a format that will allow people to understand how the pieces of the puzzle could fit together and whether each piece of the puzzle is the best thing for the overall state versus a specific project. A comprehensive look would also give some focus as to where additional research can be done to facilitate the development of an energy source for the state's benefit.

[2:32:54 PM](#)

REPRESENTATIVE EDGMON submitted that the state's energy needs are so great it is going to take big picture thinking. He related that the governor is talking about an energy coordinator position and that this person may oversee or be the executive director of AEA. He said he thinks HB 336 fits into the overall

picture of the state's power needs. He asked whether anyone could speak as to how HB 336, the energy coordinator, and the state's big picture would all fit together.

CO-CHAIR JOHNSON agreed that a bigger picture is needed. He asked much closer to the big picture would the full funding of \$2.7 million get the state.

MR. HEMSATH deferred to the governor's office in regard to Representative Edgmon's question about the overall picture. In terms of a full-blown \$2.7 million study, he said it would identify some of the Railbelt-driven options and, to a smaller extent, it would identify where some of the key industrial base loads might be that would help backstop the larger-scale energy projects that are needed for economy of scale. However, he advised, it would not address what the state would look like as a system.

[2:36:12 PM](#)

REPRESENTATIVE EDGMON asked whether the intent is to move the bill today.

CO-CHAIR JOHNSON said he thought more work needed to be done and that while he could support a \$1 million fiscal note at this point, he was unsure about \$2.7 million. Additionally, he said he would like to hear from other utilities.

REPRESENTATIVE EDGMON inquired whether there are any federal funding sources.

CO-CHAIR JOHNSON confirmed that there is federal funding and that he is looking into whether the funds are available for studies as opposed to projects. He said he sees HB 336 as the first step of a statewide plan that would electrify rural Alaska as well as future developments. Even if the Susitna project is a no-go, it will still be money well spent. He said his intention is to go for the full \$2.7 million in a staged plan. He agreed AEA should be allowed to stop the study if needed.

REPRESENTATIVE SEATON said he did not want to see the committee confusing a directed study with spending the money elsewhere if Susitna is a no-go. If a statewide energy plan is wanted then that should be done, it cannot be a subsidiary for if the Susitna dust-off does not work.

CO-CHAIR JOHNSON appreciated the comment, but noted that he is looking for other benefits should the \$1 million not accomplish what was intended.

[2:43:25 PM](#)

REPRESENTATIVE SEATON stated that this is a significant project with significant potential for Alaska. Even a no-go is good information and the information does not need to do something else someplace else. He said he did not want the bill held up because of his conceptual amendment.

[2:44:21 PM](#)

CO-CHAIR JOHNSON requested a sense of the body on whether to report HB 336 from committee today.

REPRESENTATIVE GUTTENBERG said he would like to hear from other utilities.

REPRESENTATIVE FAIRCLOUGH asked whether other utilities had been reached since this is the second time HB 336 has been before the committee.

CO-CHAIR JOHNSON responded that he did and does not think there are any utilities that do not know about the bill.

REPRESENTATIVE FAIRCLOUGH stated she does not favor additional spending beyond the \$1 million.

CO-CHAIR JOHNSON said the \$1 million accomplishes what he set out to do, but he would also like to get as much out of it as he can.

[2:47:16 PM](#)

REPRESENTATIVE GUTTENBERG maintained his objection to reporting the bill. He noted that he would like to talk with Golden Valley Electric Association of Fairbanks. He said further work on the bill would mean less work for the House Finance Committee.

CO-CHAIR JOHNSON, in response to Representative Fairclough, said there is no companion bill in the Senate, but there is a bill that creates a commission and has a fiscal note of \$3 million.

REPRESENTATIVE FAIRCLOUGH said she does not object to holding the bill in committee in order to reach out to utilities. She said she would check with her utility about its position on the bill.

[2:50:04 PM](#)

REPRESENTATIVE SEATON moved that the committee adopt Conceptual Amendment 1 as follows:

Page 1, line 11, after "area.":

Insert "This study will initially look at potential drop dead issues and if any are identified an interim report identifying those issues may be used to terminate the study."

There being no objection, Conceptual Amendment 1 was adopted.

[2:51:19 PM](#)

REPRESENTATIVE GUTTENBERG stated that he would like to hear from someone who was intimately involved in the 1984 study and could review the whole thing.

MR. HEMSATH suggested Eric Yould.

[HB 336 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [2:54:20 PM](#).