

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

Anchorage, Alaska

October 7, 2008

9:58 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyda Green
Representative Reggie Joule (alternate)
Representative Kevin Meyer (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
REVISED PROGRAM - LEGISLATIVE (RPLs)

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Presented RPL 08-9-0026 and responded to questions.

PETER CRIMP, Program Manager
Alternative Energy
Energy Efficiency

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

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

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at [9:58:35 AM](#). Representatives Doogan, Chenault (via teleconference), Hawker, and Samuels, and Senators Ellis, Therriault (via teleconference), and Huggins (alternate) were present at the call to order. Representative Kelly (via teleconference), and Senators Hoffman and Stedman (via teleconference) arrived as the meeting was in progress.

APPROVAL OF MINUTES

[9:59:42 AM](#)

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

REPRESENTATIVE HAWKER made a motion to approve the minutes of September 29, 2008. There being no objection, the minutes from the meeting of September 29, 2008, were approved.

REVISED PROGRAM - LEGISLATIVE (RPLs)

[9:59:54 AM](#)

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

CHAIR SAMUELS reminded members that the amount originally requested via RPL 08-9-0026 was \$5,182,571, but that amount has been reduced to [\$4,182,571] because the [\$1 million] requested for the Pillar Mountain Wind project proposed by Kodiak Electric Association, Inc. (KEA), has already been approved. He also noted that the representatives from the AEA have been presented with a series of questions regarding [the remaining] projects that RPL 08-9-0026 pertains to.

[10:01:13 AM](#)

STEVEN HAAGENSON, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), acknowledging receipt of those questions, relayed that he has provided members with all the information about the projects that is currently available. He then referred to the Fishhook hydroelectric project at Hatcher Pass, and noted that construction on that project has not yet started, and that Fishhook Renewable Energy, LLC, requested funding for three different phases - one preconstruction phase and two construction phases - all with a benefit:cost estimate of 3.76. In arriving at that estimate, the AEA calculated the net present value (NPV) for a project's proposed reduction in diesel fuel usage and any proposed decrease/increase in operating and maintenance ("O&M") costs, and divided that NPV by the proposed cost of the project.

CHAIR SAMUELS observed that the accompanying information on Fishhook hydroelectric project says that the benefit:cost estimate was based on avoided natural gas cost.

MR. HAAGENSON concurred; indicated that when he spoke of a reduction in diesel fuel usage, he was speaking in general terms; and explained that when completed, the Fishhook hydroelectric project would be displacing natural gas usage.

CHAIR SAMUELS asked what natural gas was priced at for purposes of that estimate.

[10:03:37 AM](#)

PETER CRIMP, Program Manager, Alternative Energy, Energy Efficiency, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), explained that the AEA had the Institute of Social and Economic Research (ISER) perform a fuel price projection for diesel, natural gas, and other fuels, and the ISER projected a cost of between \$5 per million British thermal units (MMBtu) - the current price - and \$9/MMBtu - the anticipated price in five years assuming that that price will begin to approximate the Henry Hub price.

REPRESENTATIVE HAWKER - noting that one of the caveats for this project is that the Matanuska Electric Association, Inc. (MEA), must obtain permission from the Chugach Electric Association, Inc., to purchase power [from Fishhook Renewable Energy] - asked how that would affect the Chugach Electric Association's consumers.

MR. HAAGENSON offered that the impact would either be minimal or positive because although the project wouldn't be generating that much power, it would be doing it for less cost; this will be of benefit to both utilities, and thus consumers as well, because the MEA could purchase some of its power for less and the Chugach Electric Association wouldn't have to spend the money to produce that power. In response to a comment, he surmised that each of the three entities will be striving to ensure that any forthcoming power-purchase agreement will be of benefit to all - that all three will be winners at the negotiating table. In response to a question, he explained that the project will involve a very small dam with some type of device that would collect the water necessary for power generation.

MR. CRIMP, in response to a comment, concurred that because the power would be generated without the use of natural gas, the resulting decrease in the cost to generate that power would be passed on to the MEA via the aforementioned power-purchase agreement.

[10:08:28 AM](#)

MR. HAAGENSON, in response to questions, explained that utilities value increases in capacity and decreases in demand, and so the Chugach Electric Association could obtain benefit from the project in that regard through the negotiation process. Once the proposed project is completed, the Chugach Electric Association wouldn't have to use its natural gas supply to produce the power that the MEA is currently purchasing.

REPRESENTATIVE HAWKER said he is not familiar with the applicant, Fishhook Renewable Energy, LLC, and is not seeing any information about that company in the committee packet.

MR. HAAGENSON said that information was not requested during the request for application (RFA) process and so the AEA doesn't have that information. Instead, the projects that came forth through that process were evaluated based on the information provided in the applications and with regard to the projects' benefits assuming that the grants to move the projects forward were available. He noted that had the Denali Commission had the funds, it would have awarded funding for all of the projects. With regard to Fishhook Renewable Energy, LLC, Mr. Haagenson indicated that Earle V. Ausman, P.E., has been associated with that company for many years. He added that the applicants were

not viewed as loan applicants thereby requiring evaluation of their repayment capability, but were instead viewed as grantees.

REPRESENTATIVE HAWKER expressed concern that not more is known about the applicants/companies proposing some of these projects.

REPRESENTATIVE DOOGAN explained to Mr. Haagenson that the committee has different criteria that must be satisfied before it will be willing to sign off on some of these projects.

REPRESENTATIVE DOOGAN, noting a possible conflict of interest, relayed that he knows Mr. Ausman and that his son-in-law works for him.

[10:14:57 AM](#)

SENATOR HUGGINS surmised that the issue of sufficient applicant information is going to arise with every project that RPL 08-9-0026 pertains to.

MR. HAAGENSON indicated that under the guidelines set out in HB 152, the AEA was not required to obtain that information; instead, the AEA is supposed to evaluate the projects themselves and then present them to the committee.

SENATOR STEDMAN indicated concurrence with Representative Hawker's concern, and surmised that the committee needs to be extremely careful going forward on these projects.

CHAIR SAMUELS asked where all the projects will be with regard to construction if the committee doesn't approve the requested funding at this time. He too expressed concern about the lack of information regarding the applicants, as well as concern that the Denali Commission has put this list of projects together and then simply expects the legislature to fund them.

MR. HAAGENSON offered his understanding that none of the remaining projects are under construction - all are awaiting something in order to start that phase. He said that a delay in approving the requested funding will cause the loss of a few months of construction. Under HB 152, he remarked, the AEA was advised to move forward as quickly as possible, and so that's what the AEA has done. One provision in HB 152 authorized the AEA to make recommendations, based on an original RFA, to the Legislative Budget and Audit Committee, and that's what the AEA is now doing; a second provision authorized the AEA to put out another RFA for up to \$100 million, and this RFA is now out on

the street and is a due back tomorrow, and projects associated with that RFA will be evaluated and presented to the Legislative Budget and Audit Committee as soon as possible, sometime before the next legislative session; and the "next round" of funding requests would be coming before the full legislature for approval. He surmised that those provisions of HB 152 were intended to allow the legislature, via the Legislative Budget and Audit Committee, to act quickly, since the full body is not in session right now.

SENATOR THERRIAULT said it seems that the AEA is merely following a process that was established by the full body, and that for many of the projects currently being considered by the committee, there is as much or perhaps even more information available than there often is for many items included in the regular capital budget. He cautioned against second guessing certain evaluations simply because of political considerations; that, to a certain degree, he opined, has kept the state from moving forward on alternative energy, and now, with the price of [petroleum products] going up, the state finds itself somewhat flat-footed.

[10:22:24 AM](#)

CHAIR SAMUELS said he wants to know who owns Fishhook Renewable Energy, LLC.

CHAIR SAMUELS then turned the committee's attention to the Crescent Lake hydroelectric project proposed by the Homer Electric Association, Inc. (HEA).

MR. HAAGENSON relayed that in addition to the Crescent Lake hydroelectric project, the HEA is also proposing three other hydroelectric projects: Falls Lake hydroelectric project, Grant Lake hydroelectric project, and Ptarmigan Lake hydroelectric project. The Crescent Lake, Falls Lake, and Grant Lake projects have a benefit:cost estimate of 1.97, [and the Ptarmigan Lake project has a benefit:cost estimate of 1.93]. None of these projects have been started yet.

REPRESENTATIVE HAWKER, noting that these four projects are only in the preliminary assessment phase, expressed dissatisfaction with the amount of data that has been provided to the committee thus far. Nothing presented indicates that these projects have a reasonable probability of success and therefore merit investment of \$200,000 by the State, he opined.

MR. HAAGENSON said these projects were evaluated under Denali Commission criteria, and have garnered an adequate benefit:cost estimate as required by HB 152. Furthermore, HB 152 directed the AEA to present the Legislative Budget and Audit Committee with a complete list of projects that satisfied the aforementioned criteria and rank them - and it has done so - but not to make any recommendation or conduct a detailed engineering analysis of any one project to see if it would be feasible.

REPRESENTATIVE HAWKER questioned, then, who he should rely upon to tell him whether a particular project is feasible.

[10:26:52 AM](#)

MR. HAAGENSON pointed out that with regard to the four projects proposed by the HEA, the feasibility studies have not been conducted, and until they are, no one will know whether the projects are going to be feasible. He indicated that those studies will help the HEA determine whether to proceed with the projects, and the funding requested via the RPL will start that process.

REPRESENTATIVE HAWKER expressed dissatisfaction with that response.

MR. HAAGENSON reiterated that until the feasibility studies are completed, no one can know whether the HEA's projects have merit enough to proceed beyond the assessment phase.

REPRESENTATIVE KELLY observed that the legislature instructed the AEA to do just what it has done, and that the committee is essentially conducting an interim screening of the proffered projects in order to get a jump on using the funding intended for such projects and thereby get some of them started. If the AEA is pushed to make a yes or no recommendation on a particular project, he warned, the AEA could be trapped into making a recommendation that's not based on sound information. He pointed out that one of the protections that's been built into this process is the matching funding requirement, and surmised that members do have the ability to go out and investigate certain issues further, though both the Denali Commission and the AEA have already reviewed these proposed projects.

REPRESENTATIVE KELLY indicated that at this point he is hesitant to either go forward with this funding or to scrap the work that's been done thus far. Returning to the issue of the HEA's projects, he acknowledged that what's being requested is funding

for the initial assessment process. These same issues will be raised when the committee considers the next batch of projects coming forth via the RFA that's due back tomorrow. What's been proposed to the committee is about what he expected to see, he remarked, given that some information just won't be available without further studies being conducted.

REPRESENTATIVE DOOGAN offered his belief that with the HEA's projects, it's not really possible to estimate a benefit:cost ratio like it is with a project that is in the construction phase and already has everything necessary to begin, because those projects are still in the assessment phase and could ultimately prove to be unworthy of pursuit. If the funding is authorized but the assessments indicate that those projects are not viable, then the State would be getting nothing in return for its funding. He expressed disfavor with the concept that all of the projects - both those for which a benefit:cost ratio can be estimated and those for which a benefit:cost ratio, realistically, can't be estimated because nothing is known about them - are being described by the same term; clearly, the term benefit:cost estimate can't mean the same thing when applied to both types of projects. He said he is not sure that attempting to estimate a benefit:cost ratio on "these" highly speculative projects is even a worthwhile activity.

[10:37:53 AM](#)

CHAIR SAMUELS turned the committee's attention to the Reynolds Creek hydroelectric project proposed by the Haida Corporation.

MR. HAAGENSON explained that that project would be located on Prince of Wales Island, and has a lower benefit:cost estimate because that's the case, generally, for hydroelectric projects since they are "capital intensive." This project has not yet been started. He indicated that all of these projects have been evaluated with assumptions being made for installed capital costs and certain load factors. In response to a question, he explained that for both of the two phases of the Reynolds Creek project - the preconstruction phase, which has already received Denali Commission funding, and the construction phase, for which \$1 million is being requested via the RPL - the money will stay in the hands of the AEA until the power-sales agreement is ready to go and all the project's funding is in place to move forward.

REPRESENTATIVE DOOGAN asked how long the AEA will hang on to that money before it decides that the project isn't viable.

MR. HAAGENSON offered his understanding that that timeframe has already been determined, but he doesn't know what it is.

REPRESENTATIVE HAWKER referred to the written information provided and noted that for the Reynolds Creek project, it says in part, "A significant increase in electricity demand is therefore needed for Reynolds Creek construction to make economic sense." Characterizing that sentence as troubling, he questioned whether funding this project for \$1 million is premature.

MR. HAAGENSON said he doesn't believe so, because Southeast Alaska is seeing a significant increase in demand, across the board, in any community with hydroelectric power because [households in] those communities are converting from oil heat to electric heat. Furthermore, utilities don't build projects simply on the hope that they will get power; this project is not speculative, he opined, and he expects all the power that will be generated to be used regardless that the benefit:cost estimate is low. He expressed his belief that there will be a power-sales agreement, and that the Haida Corporation will have to go before the Regulatory Commission of Alaska (RCA) and be regulated because it is a for-profit entity.

[10:41:46 AM](#)

REPRESENTATIVE HAWKER said he wants more analyses of these projects, and expressed distrust in the Haida Corporation's ability to obtain the necessary additional funding.

MR. HAAGENSON explained that the Haida Corporation will use a [forthcoming] power-sales agreement as an instrument to secure that additional funding. Furthermore, Haida Corporation has the ability to obtain money through bonds and the federal government. "They're very effective at acquiring money to build projects like this," he added.

CHAIR SAMUELS turned the committee's attention to the Manley Hot Springs geothermal plant project proposed by TDX Power, Inc.

MR. HAAGENSON offered his understanding that this proposed 1 MW geothermal site will be using an organic rankine cycle system, has a benefit:cost estimate of 1.11, and will require extensive drilling to determine what the water body can produce. In response to questions, he relayed that TDX Power is a subsidiary of TDX Native Corporation, operates power generation facilities

in various locations in Alaska, is a regulated utility, and will be [matching funding] on this project.

REPRESENTATIVE HAWKER asked what would be the effect on the benefit:cost estimate if the analysis were redone using an oil price projection of \$80/barrel.

MR. HAAGENSON said the benefit:cost estimate would be reduced. He added, though, that with this project, TDX Power is currently just looking to generate electricity, but there are also other opportunities available for the company depending on the quality of the water source. In response to comments and other questions, he acknowledged that the population in that location is quite small, and explained that all electric utilities - except perhaps cooperatives - that are for profit will be regulated, though "the heat ones" are not necessarily regulated.

CHAIR SAMUELS turned the committee's attention to the Juneau International Airport ground source heat pump project proposed by the Juneau International Airport.

[10:48:39 AM](#)

MR. HAAGENSON explained that this project is estimated to cost [a little over] \$1 million; that this ground source heat pump technology would take heat out of the ground and heat the airport facility; and that heat pumps increase the efficiency of electrical usage by about 300 percent. This technology is currently being used all over the Lower 48, and can be used in Southeast Alaska because ground temperatures are still high enough. This is a very wise way to use electricity, he opined, because it eliminates the need to add "more generation capacity" in the future. He said that the AEA itself is interested in this technology because it could increase energy efficiency at hydroelectric power facilities. In response to a question, he explained that for the Juneau airport project, this technology would just be used for the main terminal. However, in the Lower 48, ground source heat pumps are being used for residential purposes and are about half the size of a refrigerator.

REPRESENTATIVE HAWKER pointed out an error in the "Schedule" section of the written information provided, and said it is just such errors that cause him to be concerned about the veracity of the technical review of these projects.

MR. CRIMP acknowledged that the date for the "Notice to proceed for construction" should instead read 3/1/09, not 3/1/08.

[10:52:19 AM](#)

CHAIR SAMUELS turned the committee's attention to the Delta area wind turbines project proposed by Alaska Environmental Power, LLC.

MR. HAAGENSON indicated that Alaska Environmental Power is a private company that is currently selling electricity to the Golden Valley Electric Association (GVEA) via one wind turbine, and is proposing to build a wind farm in the Delta area using standard wind turbine technology so as to be able to sell more electricity to the GVEA. In response to a question, he relayed that Alaska Environmental Power is owned by Mike Craft, a land developer from Fairbanks who has already built a small wind farm in the Healy area. In response to another question, Mr. Haagenson indicated that the RCA will be regulating Alaska Environmental Power.

MR. HAAGENSON, in response to a question regarding who would benefit from the requested State funding, explained that because the GVEA has offered to buy power from Alaska Environmental Power at the "tariff avoided cost rate," the GVEA would benefit, as would its customers, and that Alaska Environmental Power would be earning revenue for selling electricity. "It's kind of a 'split the savings' approach," he added. In response to another question, he explained that grants cannot be calculated into the rates set by the RCA.

CHAIR SAMUELS surmised, then, that it's the consumers who will reap the benefits of the requested State funding, and that that's true of all the proposed projects being considered by the committee.

REPRESENTATIVE HAWKER asked whether Delta area residents support this wind farm project.

MR. HAAGENSON indicated that they do. He noted that the GVEA is seeking ways to reduce the cost of energy, and this project would be one small step towards that goal. In response to a question, he relayed that Alaska Environmental Power's existing operation is located in the Fort Greely area, and that [the proposed project] would be located just east of Delta [Junction].

[10:57:36 AM](#)

CHAIR SAMUELS turned the committee's attention to the biomass-fired organic rankine cycle system project proposed by Chena Power, LLC.

MR. HAAGENSON explained that Chena Power, LLC, is owned by Bernie Carl (ph), and this project would involve using municipal waste [to generate heat and power], and any subsequently sequestered CO2 would then be used to re-grow willows on the land the company has leased from the [Fairbanks North Star Borough]. The organic rankine cycle turbine would capture electricity off the heat generated from burning paper waste product. In response to questions, he said that he is not sure whether Mr. Carl has any partners in the LLC, and that in addition to the requested funding, the company would be coming up with approximately \$2.5 million.

MR. HAAGENSON, in response to another question, relayed that with the exception of the proposed sequestration technology, the other technology that would be used in this project is pretty well proven. For this project, the plan is to burn paper waste, taken out of the municipal dump, and willows to make electricity, which would then be sold to the GVEA under a power-sales agreement and thus be regulated, and then take the exhaust stream and "put it back in the willows." He mentioned that he is unfamiliar with the effectiveness of the proposed sequestration technology, however; everyone is looking very hard for ways to reduce the amount of CO2 in the atmosphere - to date somewhat unsuccessfully - so should Chena Power's testing of that portion of the technology prove successful, then it could be applied across the state.

REPRESENTATIVE DOOGAN questioned whether the proposed plant would become a source of pollution.

[11:01:29 AM](#)

MR. HAAGENSON said he would not consider it to be such; any CO2 emissions resulting from burning willows would be considered by some to be carbon neutral as a result of the proposed sequestration process.

REPRESENTATIVE HAWKER asked what the tax consequences will be for the entities receiving State funding.

MR. HAAGENSON offered his belief that there is a tax exemption that would apply for those entities dealing with renewable resources; furthermore, there is a tax exemption that would

apply to grants given to utilities for transmission lines and power facilities.

REPRESENTATIVE HAWKER expressed concern about the potential tax consequences for those receiving funding through this mechanism, and questioned whether there might be a better funding mechanism that would enable entities to avoid any potential adverse tax consequences.

[11:05:47 AM](#)

MR. HAAGENSON said he is not sure how the taxation issue will ultimately work out, but noted again that for purposes of RCA rate-making, grants received from the State cannot be considered in the calculation. In response to another question, he explained that the match requirement, which was laid out in the [original] RFA, is a maximum of \$1 million or 50 percent for construction projects, and a maximum of \$100,000 or 80 percent for preconstruction projects. He noted that the new RFA "that's going out" does not include a match requirement.

SENATOR STEDMAN asked what will ensure that the State's funding will be matched.

MR. HAAGENSON explained that for all of the proposed projects, the State's funding won't be distributed until the applicants have all their funding in place, thus giving the AEA an opportunity to verify that the match requirements are being satisfied. In response to comments and a question, he indicated that for determining what the match requirement should be on any given project, the proposed total cost of the project and the amount that is being requested were considered.

CHAIR SAMUELS, too, asked how long the AEA would withhold funding distribution.

MR. HAAGENSON reiterated that he doesn't know what the timeframe will be, but surmised that it will be "some reasonable time period" in order to allow the applicants sufficient time to acquire all the necessary financing. Furthermore, even if a project is eventually deemed unfeasible, any funding that was authorized for it will remain in the renewable energy grant fund and be redistributed at a "future application date."

CHAIR SAMUELS asked what would constitute a "reasonable time period."

MR. HAAGENSON suggested that that could be one year, perhaps less for small projects. He assured the committee that for each project, the AEA will be keeping an eye on the situation so that State funds don't just sit around indefinitely not doing anything for the State.

CHAIR SAMUELS asked that the AEA report back to the committee in three months, specifically regarding the status of all the projects that RPL 08-9-0026 pertains to.

MR. HAAGENSON agreed to do so, and offered that if an applicant doesn't have everything in order by the time next year's RFA comes in, the AEA should probably reassign the money.

[11:13:04 AM](#)

SENATOR STEDMAN said he would like the committee to take extraordinary cautionary steps when considering whether to fund such private-sector projects, and thoroughly research the principals and financial structures of the applicants. He said he is not comfortable with the fact that this type of information is not known about the projects that RPL 08-9-0026 is proposing to fund.

MR. HAAGENSON relayed that the projects coming forth via the RFA that's due tomorrow will be evaluated with regard to project-benefit:cost, public-benefit:cost, and "percent of match." In response to a question, he reiterated that those projects will be evaluated and presented to the Legislative Budget and Audit Committee as soon as possible, sometime before the next legislative session, perhaps even in just a month-and-a-half.

SENATOR HOFFMAN offered his understanding that the goal of HB 152 was to get the cost of energy down to something more reasonable in those areas of the state which currently have some of the highest costs. He expressed frustration that any criteria intended to be used to accomplish that goal have not been mentioned thus far.

MR. HAAGENSON concurred that that is one of the main goals of HB 152, explained that he'd merely been attempting to summarize information for the committee, and assured the committee that the AEA will be considering many other aspects of all proposed projects, including how any given project might lower the extraordinarily high energy costs now being seen in certain areas of the state.

SENATOR HUGGINS indicated that he is uncomfortable with approving the funding on the aforementioned projects at this time, and suggested that the legislature should modify HB 152 so that it establishes a more thorough process. He expressed concern that the state doesn't have an energy plan in place and yet funds are already being spent on certain energy projects.

11:18:54 AM

REPRESENTATIVE HAWKER offered his understanding that statute specifies that the AEA shall develop a methodology for determining the order of projects, with the most weight being given to projects that serve any area in which the average cost of energy to each resident of the area exceeds the average cost of energy to residents of other areas. In this way, the most expensive energy costs will be addressed first. He expressed favor with the HEA's four hydroelectric assessment projects, and with the Juneau International Airport ground source heat pump project. However, he pointed out, those two communities have some of the least expensive power in the state, and so those projects aren't ones the legislature has stipulated should be a priority for State funding.

MR. HAAGENSON recalled that when the AEA testified before legislative committees regarding HB 152, the AEA explained that it would use Denali Commission ranking. So although [Juneau and Homer] aren't the most expensive areas [in terms of energy costs], the goal of the legislature, he opined, was to move as many projects forward as possible, as rapidly as possible, in order to help Alaskans as soon as possible. During the "Denali Commission phase," many projects were moved forward, including some smaller projects that did affect high cost areas. In the next RFA's evaluation, he assured the committee, the [criteria pertaining to areas with higher energy costs] will be included in the evaluation. Mr. Haagenson said that the AEA is merely attempting to do the best job possible while tying two different processes together.

CHAIR SAMUELS expressed concern with regard to the legislature's lack of opportunity to provide input into the ranking of the Denali Commission's projects even when the Denali Commission desires matching funds from the State. He said that although he would vote to approve the funding on the aforementioned projects, he won't be as willing to do so in the future without more knowledge of the companies seeking State funding; for example, he would like to know the history of the companies seeking the funds as well as who their owners are, the projects'

risks, and the amounts of capital the companies have to come up with.

11:24:00 AM

REPRESENTATIVE KELLY, too, expressed concern regarding whether these requested funds are taxable, since it's not the committee's intention for 30 percent of the State's funds to go to [the Internal Revenue Service (IRS)]. Furthermore, although testimony has indicated that these projects probably will be regulated, he said he's not convinced that that will actually be the case, and he is therefore concerned that some private entity will be making a huge profit as a result of receiving State funding, regardless that in some cases, more private sector competition with regard to providing energy is actually what's needed. He then turned to the issue of matching funds, and questioned whether a company will be required to come up with its matching funding first; if so, then the company's level of seriousness about its project is raised in his eyes. With regard to using "avoided cost" in calculating the benefit:cost estimate, he said he questions whether that's appropriate, because doing so appears to ignore the value of the State's funding in starting a particular project. With regard to the Fishhook hydroelectric project at Hatcher Pass, he acknowledged that perhaps all three entities involved are in support of the project.

REPRESENTATIVE KELLY, on the issue of hydroelectric projects in general, indicated that he is not in favor of those that would "eat up our hydro and ... [then go] back [to] ... burning diesel," though he is in favor of [ground source] heat pump technology being used in appropriate locations because of its ability to increase the efficiency of electrical usage. He questioned whether some of the aforementioned projects would still have been included in RPL 08-9-0026 if they'd had to go through the original approval process. He then relayed his intent to support approval of the RPL, and his trust that the Denali Commission and the AEA have performed the appropriate screening for the requested funding. He warned that the approval process could change as a result of the AEA's needing to provide the committee with sufficient information, and cautioned that in trying to move quickly on these projects, there may be some unintended consequences.

MR. HAAGENSON said that he will be supplying the committee with a list of every project that comes forward [through forthcoming RFAs], and surmised that although some of the aforementioned

projects may move down a list in terms of priority, none will fall off altogether.

CHAIR SAMUELS indicated that the question of whether to approve the funding requested via RPL 08-9-0026 is now before the committee, and [reminded members that the funding requested in that RPL as it pertains to the Pillar Mountain Wind project proposed by Kodiak Electric Association, Inc. (KEA), was approved during the committee's last meeting].

[11:31:20 AM](#)

REPRESENTATIVE HAWKER made a motion to approve RPL 08-9-0026 as it pertains to the [Crescent Lake, Falls Lake, Grant Lake, and Ptarmigan Lake] hydroelectric projects proposed by the Homer Electric Association, Inc. (HEA); and the Juneau International Airport ground source heat pump project proposed by the Juneau International Airport.

A roll call vote was taken. Representatives Doogan, Hawker, Kelly, Samuels, and Chenault, and Senators Hoffman, Stedman, Ellis, and Therriault voted in favor of the motion. Representative Huggins (alternate) voted against it. Therefore, the motion passed by a vote of 9-1.

[11:33:19 AM](#)

REPRESENTATIVE HAWKER made a motion that the committee approve RPL 08-9-0026 as it pertains to the Manley Hot Springs geothermal plant project proposed by TDX Power, Inc.; the Fishhook hydroelectric project at Hatcher Pass, Phases I and II, proposed by Fishhook Renewable Energy, LLC; the Delta area wind turbines project proposed by Alaska Environmental Power, LLC.; the biomass-fired organic rankine cycle system project proposed by Chena Power, LLC.; and the Reynolds Creek hydroelectric project proposed by the Haida Corporation.

CHAIR SAMUELS again noted that the funding requested in RPL 08-9-0026 as it pertains to the Pillar Mountain Wind project proposed by Kodiak Electric Association, Inc. (KEA), was approved during the committee's last meeting.

A roll call vote was taken. Senators Hoffman, Stedman, and Therriault, and Representatives Kelly and Samuels voted in favor of the motion. Senators Ellis and Huggins (alternate), and Representatives Doogan, Chenault, and Hawker voted against it. Therefore, the motion failed by a vote of 5-5.

11:35:09 AM

CHAIR SAMUELS asked whether those projects that the committee failed to approve funding for would be included in the RFA that's due back tomorrow.

MR. HAAGENSON said he'd phoned the applicants last week and advised them to resubmit their applications in the forthcoming RFA, since any projects for which funding is not now approved won't automatically be included in that RFA. In response to a question, he reiterated that that RFA will include applications for projects totaling up to a \$100 million.

REPRESENTATIVE DOOGAN opined that the committee won't have time to properly consider those forthcoming projects, particularly if sufficient information isn't provided - as was the case with the projects currently being considered - and expressed dissatisfaction with the current AEA approval process.

CHAIR SAMUELS suggested to Mr. Haagenson that in the future, he spend a lot more time educating legislators about the AEA's criteria and about the companies that are requesting State funding.

11:39:32 AM

MR. HAAGENSON reminded members that the AEA is currently using an older evaluation process, and that although HB 152 required the formation of an advisory committee by next year, that committee was actually formed this year and had input in the formation of the [forthcoming] RFA. He assured the committee that all those forthcoming applications would be available on the [AEA's web site] as would the criteria used in the evaluation process, and suggested that this will address the concerns expressed by the Legislative Budget and Audit Committee today.

SENATOR HOFFMAN pointed out that under HB 152, the Legislative Budget and Audit Committee is only responsible for this first phase of funding requests.

MR. HAAGENSON, in response to a question, explained that the statute clearly stipulates that this first round of funding requests was to be presented to the Legislative Budget and Audit Committee, and that next year's funding request will come before the full legislature. He again offered his understanding that

this process was intended to provide a rapid response to funding requests.

CHAIR SAMUELS, in response to a question, surmised that if the committee doesn't meet prior to next session, and even if that statute does get changed, funding requests for these types of projects will likely get tied up during the legislature's regular budget deliberations.

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 11:43 a.m.