

SENATE FINANCE COMMITTEE
July 31, 2008
9:13 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:13:39 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

MEMBERS ABSENT

None

ALSO PRESENT

Miles Baker, Staff, Co-Chair Stedman; Randall Ruaro, Special Assistant, Office of the Governor; Sarah Fisher-Goad, Deputy Director of Operations, Alaska Industrial Development and Export Authority and Alaska Energy Authority, Department of Commerce, Community and Economic Development; Darwin Peterson, Staff, Co-Chair Stedman; Jay Livey, Staff, Senator Hoffman; Senator Gary Stevens; Senator Thomas Wagoner

PRESENT VIA TELECONFERENCE

None

SUMMARY

SB 4002 "An Act establishing the Alaska resource rebate program and relating to the program; and providing for an effective date."

SB 4002 was heard and HELD in Committee for further consideration.

[9:14:16 AM](#)

SENATE BILL NO. 4002

"An Act establishing the Alaska resource rebate program and relating to the program; and providing for an effective date."

Co-Chair Stedman announced that the bill before the committee was CSSB 4002, version M. He provided some history as to the reasoning behind the need for a bill to address expensive energy costs. Version M of the bill addresses resource rebate payments to offset the high cost of heating oil. The program would last for two years instead of one. The goal is to solve the challenges of the bill.

[9:18:11 AM](#)

Co-Chair Hoffman MOVED to ADOPT CSSB 4002, labeled 25-GS4057\M, Cook, 7/30/08, as the working document. There being NO OBJECTION, it was so ordered.

Co-Chair Stedman commented that there is a component in the bill dealing with natural gas that needs to be reworked.

Senator Dyson concurred with Co-Chair Stedman's comments. He suggested including propane in the bill, also.

Co-Chair Stedman hoped all staff would be engaged in the discussion.

[9:19:42 AM](#)

MILES BAKER, STAFF, CO-CHAIR STEDMAN, explained that the CS provides for a resource rebate program and targets actual energy needs. The program is a rebate program to help offset high heating oil costs. It is a temporary two-year program targeting winter costs. Residents will be able to apply for the rebate of the cost of fuel above \$3 per gallon, up to a maximum of 600 gallons, for two 6-month periods.

Mr. Baker explained how the applications would work. One individual would be limited to 600 gallons per winter.

Co-Chair Stedman questioned the length of the program. Mr. Baker corrected that it was for seven months during the winter. He pointed out that commercial and governmental facilities are not eligible, only residential homes, including multi-unit residential dwellings.

[9:24:35 AM](#)

Mr. Baker related that qualified dealers would have to apply under Alaska Energy Authority regulations. There are about 180 dealers around the state. They would complete a registration process to certify that they could deliver the fuel. A form would certify that the fuel was delivered and the state would provide a rebate.

[9:27:27 AM](#)

Mr. Baker referred to page 2, subsection (e), for the description of how dealers would register. Page 3, subsection (f), has a provision that allows aggrieved parties to request an administrative hearing. Subsection (g) deals with the state's ability to recover rebates paid to an individual based on false pretenses. Subsection (h) contains hold harmless provisions. Subsection (m) exempts fuel payments from levy or garnishment, similar to the Governor's rebate program. Subsection (n) deals with the warning if the submission is incomplete or inaccurate. Subsection (o) sets up a class A misdemeanor if the individual commits fraud. Page 5 verifies that "authority" means the Alaska Energy Authority. The bill is uncodified law and would be repealed in 2010.

[9:29:41 AM](#)

Mr. Baker referred to the new fiscal note for \$172,889,000. He pointed out that on page 2 a correction is needed to say seven months instead of six months. He said that it is a new program and it is unknown how many will apply. He discussed the assumptions section of the fiscal note: the average heating oil consumption, the average price per gallon of heating oil, and the total number of households. He detailed program cost projections.

[9:32:29 AM](#)

Mr. Baker pointed out that potential costs for the offsets for the hold harmless provision and AEA administrative costs are not included in the fiscal note.

Senator Elton asked how the program would deal with sales tax. He gave an example of a tax on fuel at \$5.00. He wondered if the rebate program would apply to the tax as well. Mr. Baker replied that as the bill is currently written, the sales tax would be taken off before the rebate. Each municipality has a different tax structure.

Senator Elton suggested including a provision about the sales tax.

Co-Chair Stedman said those details could be worked out.

[9:35:34 AM](#)

Senator Dyson suggested that the paperwork be handled through the distributor, not the homeowner. Mr. Baker replied that he looked at that approach, which he thought had pros and cons. Under the distributor model any fuel the distributor sells would qualify for the rebate. It would require billing the state for every delivery. The program in the bill is optional. If it is required of the

distributor, many more billings would be filed. Mr. Baker pointed out another advantage of the bill's version of paying the rebate, a cash management incentive. Another advantage would have been to fix the amount given to distributors, thus causing competition. That program was not included.

[9:41:16 AM](#)

Mr. Baker thought the bill's version of the program would be more acceptable.

Senator Dyson suggested giving a premium to the dealer for all of the paperwork involved. He voiced concern about non-profits with residential programs. He wished not to exclude those programs.

[9:43:21 AM](#)

Co-Chair Hoffman observed that the thrust of the program was to give energy relief to Alaskans for two years. He recalled the history of working on the issue. One problem was identifying the various types of fuel consumers. He described the process of coming up with a simple program. He pointed out that the paperwork has to be done anyway under LIHEAP. He mentioned the Chevez program in Venezuela. He thought that the program in the bill was workable. He emphasized the need for relief for Alaskans.

[9:46:51 AM](#)

Senator Thomas thought the bill had come a long way in addressing the need for energy relief. He mentioned one method of dealing with refiners. The bill recognizes the problem and targets as many residents as possible in Alaska. He noted the broad concerns considered when designing the bill.

Co-Chair Stedman noted the collaboration on the bill.

Senator Elton voiced appreciation for the work. He turned to page 1, line 9, to question if heating oil needed to run a hot water heater was prohibited. He suggested to "offset the cost of oil used for residences".

[9:50:51 AM](#)

Mr. Baker agreed. He also observed that "60 percent" could be changed to compensate for non-heating uses of the oil. Senator Elton thought there could be a better way to word that section.

Senator Huggins asked if senior housing fell under this umbrella. Mr. Baker said he would find out.

[9:52:45 AM](#)

RANDALL RUARO, SPECIAL ASSISTANT, OFFICE OF THE GOVERNOR, brought up technical issues related to the bill. The title "resource rebate" no longer seems appropriate. He suggested that perhaps, "needs based assistance" would work better.

[9:55:05 AM](#)

Co-Chair Stedman pointed out that the plan was to combine several of the energy bills without causing a taxable event.

Mr. Ruaro pointed out that the scope of eligibility has been narrowed, which is an issue. The scope has also been broadened in that residency requirements are reduced. He thought the application process might be a timing issue. The fiscal impact was reduced compared to the original version of the bill.

[9:57:17 AM](#)

Co-Chair Hoffman asked for suggestions for improvement to version M.

Co-Chair Stedman recognized that the fiscal note is now less than the original one.

[9:59:15 AM](#)

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AND ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, addressed several issues regarding the new CS to SB 4002. The previous version of the bill provided for a rebate to all Alaskans, whereas the new version limits aid to only half of that number. She mentioned problems with AEA administering the bill. She thought a contractual method might be used to implement the program.

[10:01:36 AM](#)

Ms. Fisher-Goad observed that there may be issues with the distributor.

Co-Chair Stedman requested assistance in addressing natural gas and propane aid for the other half of state residents.

Co-Chair Hoffman noted that the concept of abuse by suppliers is a possibility. He gave an example of an individual eligible for 100 gallons of oil each month. The supplier would be watching the price and would be unlikely to raise rates due to this program because they are also

concerned about high energy costs. He suggested that there may be other AEA programs that should be contracted out, as well.

[10:04:55 AM](#)

Senator Olson referred to the fiscal note. He suggested that the main emphasis is relief to residents. He wondered how the fiscal note would include AEA's administrative costs.

Ms. Fisher-Goad replied that she has not has a chance to fully consider the fiscal note changes to include such things as administrative costs. She pointed out a potential area of fraud which would require implementation costs. She offered to provide those answers.

[10:07:40 AM](#)

Co-Chair Hoffman said that one of his constituents suggested helping out those who use generators for heating.

Senator Olson pointed out an issue on the North Slope where communities are currently subsidized. He wondered if some relief could be found for those communities.

AT-EASE: [10:10:48 AM](#)

RECONVENE: [5:31:59 PM](#)

Co-Chair Stedman noted that there was a new version of SB 4002 before the Committee.

[5:32:45 PM](#)

Co-Chair Hoffman MOVED to ADOPT a new CS to SB 4002, version L. There being NO OBJECTION, it was so ordered.

DARWIN PETERSON, STAFF, CO-CHAIR STEDMAN, explained that the new CS has three components. Sections 1-5 deal with power cost equalization (PCE), Section 6 creates the Alaska resource rebate program, which is an umbrella program for Sections 7 and 8. Section 7 is the resource rebate, a payment of \$250 for each Alaskan resident which will be attached to the Permanent Fund Dividend (PFD). Section 8 is the home heating fuel portion of the bill, which was amended based on the Committee's suggestions for improvement.

Mr. Peterson explained that the program is now called the Emergency Energy Relief Program and the Alaska Energy Authority (AEA) will continue to administer it. He said, "They shall provide persons with energy relief payments to offset the cost of fuel used for residences." He

highlighted a change from "individuals" to "persons" in order to satisfy concerns by non-profit organizations.

Mr. Peterson related that another change was from "home heating oil" to "fuel", with the definition of fuel being on page 7, line 29, which now includes propane. The change addresses Senator Dyson's concern. A change on page 4, line 21, says "fuel used for residences" rather than "fuel to heat residences". This addresses Senator Elton's concern.

[5:36:15 PM](#)

Mr. Peterson highlighted page 5, lines 7 and 8, which gives AEA permission to contract administrative duties to a private firm. On page 7, lines 24 and 25, language was deleted for conforming purposes.

Co-Chair Stedman asked for an explanation about the PCE components.

JAY LIVEY, STAFF, SENATOR HOFFMAN, explained the changes to the PCE part of the bill, which is now Section 1. In the previous version of the bill, the amount of money paid to public facilities was based on population. That has been changed to consider the amount of power produced by the utility.

Co-Chair Stedman requested definitions.

Mr. Livey related that the PCE program is for eligible electric utilities and is based on not more than 70 kilowatt hours a month for each resident of the community. That has been amended so that large communities no longer qualify based on a residential consumption level of more than 25,000 megawatt-hours during the previous calendar year.

[5:40:03 PM](#)

Co-Chair Stedman defined PCE as Power Cost Equalization.

Senator Olson asked what affect this version of the bill would have on smaller communities. Mr. Livey said there would be no affect; the new version of the bill mainly excludes Fairbanks. Senator Olson asked if villages on the North Slope would be affected. Mr. Livey said they were not eligible for PCE and would not be affected by these changes. He thought they would be eligible for some power cost reduction.

[5:41:31 PM](#)

Senator Dyson asked what the lower limit has been for a community to qualify for PCE. Mr. Livey reported that the lower limit was 12.8 cents per kilowatt, and the upper limit

was 52.5 cents per kilowatt. Senator Dyson asked how small a community could be in order to qualify under existing law. Mr. Livey explained that current law states that to qualify for PCE a community must be rural, have a certain amount of kilowatt usage, and use oil for the production of electricity. He shared the history of PCE since 1984.

Senator Dyson asked if a community has to have a public utility. Mr. Livey said he thought it had to have a utility registered through the Regulatory Commission of Alaska. Senator Dyson asked how small a 10 megawatt community might be. Mr. Livey said he would have to check on that.

Co-Chair Stedman said that legislative finance would help explain the financial analysis at a later date.

[5:45:51 PM](#)

Mr. Livey turned to Section 2 of the bill to explain the PCE floor and ceiling. Subsection (c)(2)(A) defines a new upper limit of \$1.15, which used to be \$2.00.

Mr. Livey referred to subsection (c)(1), which calculates a new lower limit at 95 percent of the difference between a minimum power cost calculated as five cents less than the weighted average retail residential power rate in Anchorage, Fairbanks, and Juneau. It sets a lower limit than PCE previously had.

[5:48:00 PM](#)

Mr. Livey referred to Section 4, subsection (k) to explain that no utility would have less than five cents a kilowatt-hour reduction in PCE. All utilities will receive some electrical relief.

Senator Huggins requested more information about which communities fall into the various categories. Co-Chair Stedman said that legislative finance would provide that information.

[5:49:39 PM](#)

Senator Dyson referred to page 3, line 9, which defines an eligible electrical utility. He pointed out that it does not say it falls under the Regulatory Commission and it does include an individual. Co-Chair Stedman offered to find out more about the eligible electric utility.

Mr. Livey said the eligible electrical utility describes which utilities can be eligible for PCE, and the amount of PCE will be based on the utility's costs as determined by RCA.

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AND ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained Section 5 on page 3. She defined "public" as ten or more people. She requested that RCA clarify that.

[5:52:34 PM](#)

Mr. Livey reported that the final change was that 500 kilowatt-hours per month is the amount used for eligibility in the current bill.

Co-Chair Hoffman thought the bill was a comprehensive relief package for Alaskans.

[5:54:27 PM](#)

Senator Dyson encouraged the Committee to think about the wisdom of grouping all components together in one bill.

Senator Huggins thought that some sacrifice would be needed in order to meet energy needs. He approved of the package concept and the short term limit, as well as the expectation that programs will be forthcoming to meet energy costs.

[5:56:18 PM](#)

Co-Chair Stedman turned to page 4, line 11, and stressed that the rebate has not been entirely removed. Each component of the energy package is an attempt to help the citizens across the state with energy relief, which would be a two-year program, except for the \$250 rebate.

[5:58:18 PM](#)

Co-Chair Hoffman observed two other areas that would be served by an appropriation bill. One is an alternative energy program with an additional \$40 million added. Another is the energy rebate program with an additional appropriation of \$30 million. They do not appear in this bill; however, the Senate plans to address alternative energy programs, and a general appropriation of a \$250 rebate added to the permanent fund. The result will be a broad spectrum of relief that Alaskans are expecting.

SB 4002 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 6:01 PM.