

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY**

April 4, 2009
10:19 a.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Chris Tuck
Representative Jay Ramras (via teleconference)

MEMBERS ABSENT

Representative Pete Petersen

OTHER MEMBERS PRESENT

Representative Kurt Olson

COMMITTEE CALENDAR

Roundtable Discussion on Energy Governance in Alaska

-HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BRYAN BUTCHER, Director
Governmental Affairs & Public Relations
Alaska Housing Finance Corporation (AHFC)
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Participated in the roundtable discussion.

JOHN DAVIES, Research Director
Cold Climate Housing Research Center (CCHRC)
Fairbanks, Alaska

POSITION STATEMENT: Participated in the roundtable discussion.

MEERA KOHLER, President & CEO

Alaska Village Electric Cooperative, Inc., (AVEC)
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

GEORGE CANNELOS, Chair
The Denali Commission
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

STEVE HAAGENSON, Executive Director
Alaska Energy Authority (AEA)
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

MARILYN LELAND, Executive Director
Alaska Power Association (APA)
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

BOB PICKETT, Chairman
Regulatory Commission of Alaska (RCA)
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

CHRIS ROSE, Executive Director
Renewable Energy Alaska Project (REAP)
Anchorage, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

GWEN HOLDMANN, Organization Director
Alaska Center for Energy and Power (ACEP)
University of Alaska Fairbanks (UAF)
University of Alaska
Fairbanks, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

REPRESENTATIVE DAVID GUTTENBERG
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Participated in the roundtable discussion.

REPRESENTATIVE CRAIG JOHNSON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Participated in the roundtable discussion.

REPRESENTATIVE ROBERT "BOB" BUCH
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Participated in the roundtable discussion.

ACTION NARRATIVE

[10:18:32 AM](#)

CO-CHAIR BRYCE EDGMON called the House Special Committee on Energy meeting to order [at 10:18 a.m.] Representatives Dahlstrom, Tuck, Johansen, Millett, and Edgmon were present at the call to order. Representative Ramras arrived as the meeting was in progress, participating by teleconference. Representatives Guttenberg, Buch, Olson, and Johnson were also in attendance.

ROUNDTABLE DISCUSSION ON ENERGY GOVERNANCE IN ALASKA

[10:21:20 AM](#)

CO-CHAIR EDGMON announced that the only order of business would be roundtable discussions by representatives of many energy groups in Alaska to have an exchange of ideas that will help the committee pursue an energy plan for Alaska. There will also be a discussion of the present and future energy governance structure in Alaska. Co-Chair Edgmon noted that testimony is by invitation only, and public testimony will be heard at a later date. He recalled the committee has held numerous hearings in Juneau and throughout the state on a variety of energy issues. The purpose of this meeting is to bring various groups together to try to set the stage for the energy committee to continue its work on an energy plan for the state.

[10:23:29 AM](#)

CO-CHAIR MILLETT described the energy committee's work plan for the interim. Policy summits have been scheduled to discuss the energy plans that have already been developed for regions of the state. In fact, the committee will travel to nine communities during the interim to hold summits with a focus on each region.

Prior to next session, the committee will develop the framework of a statewide energy policy leading to an energy plan.

[10:29:13 AM](#)

BRYAN BUTCHER, Director, Governmental Affairs & Public Relations, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), stated the AHFC is the energy agency for the state that distributes U.S. Department of Energy funds to the Alaska Energy Authority (AEA). Also, the AHFC serves as the residential energy expert for the state and represents the "demand side" in terms of residential energy efficiency. The AHFC has implemented a very large energy efficiency program that allocated \$200 million for a weatherization program for Alaskans earning less than 100 percent of median income and \$160 million for a home energy rebate program utilized by Alaskans earning over 100 percent of median income. At this time, the weatherization program has disbursed \$30 million and about 50 percent of the Home Energy rebate funds have been obligated.

[10:31:30 AM](#)

JOHN DAVIES, Director, Research, Cold Climate Housing Research Center (CCHRC), informed the committee the CCHRC, with support from the AEA and AHFC, has produced a report on energy efficiency policy recommendations for the state. The CCHRC was established to improve the sustainability of residential housing throughout the state; in fact, it has projects in progress from Southeast to the North Slope and Western Alaska. He opined the center is gathering a lot of experience and research data in construction techniques.

[10:32:29 AM](#)

MEERA KOHLER, President & CEO, Alaska Village Electric Cooperative, Inc., (AVEC), said AVEC is a nonprofit, member-owned electrical utility serving fifty-three villages in rural Alaska. The population served by AVEC is about 45 percent of Alaska's village residents. Most of the communities have diesel-fired power generation; however, AVEC has pioneered the development of wind power generation in seven villages with four more wind projects underway. Although AVEC only deals with the electrical side of the issue, its costs at this time are "astronomically high." Ms. Kohler expressed her keen interest in contributing to the dialog at the meeting.

[10:33:35 AM](#)

GEORGE CANNELOS, Chair, the Denali Commission, stated the Denali Commission has been at work for ten years upgrading the basic community infrastructure of rural Alaska. Energy issues are a legacy project and working with AEA and AVEC, the commission has been replacing bulk fuel storage tanks, upgrading power plants, and leading the way to renewable energy projects such as wind and diesel hybrids. The commission uses training dollars to train local residents to operate and maintain power systems. He commended the Alaska Rural Energy Conference that took place recently in Galena.

[10:34:28 AM](#)

STEVE HAAGENSON, Executive Director, Alaska Energy Authority (AEA), Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), pointed out the AEA works closely with every organization participating in the roundtable discussion. The AEA authored the first step of the Alaska Energy Plan that is a high level look at energy and energy solutions in Alaska. Furthermore, the AEA operates about fifteen different programs such as the bulk fuel loan program, power project funding, and the Power Cost Equalization (PCE) program as part of its widespread organization.

[10:35:30 AM](#)

CO-CHAIR EDGMON recognized the presence of Joe Balash, Special Staff Assistant for Energy and Natural Resource Issues, Office of the Governor.

[10:35:58 AM](#)

MARILYN LELAND, Executive Director, Alaska Power Association (APA), noted the APA is the trade association for electric utilities around the state; in fact, members of APA provide power to over 500,000 Alaskan residents.

[10:36:33 AM](#)

BOB PICKETT, Chairman, Regulatory Commission of Alaska (RCA), Department of Commerce, Community, & Economic Development (DCCED), stated the RCA has been given broad authority by the legislature to regulate public utilities, telecommunications common carriers, and pipeline carriers. Furthermore, it oversees over 650 Certificates of Public Convenience and

Necessity (CPCNs) that are licenses for doing business in the state. Annually, the RCA is involved in approximately \$1 billion of regulated activity, all of which is deeply impacted by the conditions of the energy market, the regulatory framework, and changes thereof.

[10:37:43 AM](#)

CHRIS ROSE, Executive Director, Renewable Energy Alaska Project (REAP), informed the committee REAP is a coalition of 65 organizations around the state, including utilities, consumer groups, environmental groups, Native organizations, and businesses that all share the goal of increasing the production of renewable energy and promoting energy efficiency across the state. He noted that many of the organizations participating in the roundtable are members of REAP and opined the committee's questions "frame the issues that we need to deal with."

[10:39:14 AM](#)

GWEN HOLDMANN, Organization Director, Alaska Center for Energy and Power (ACEP), University of Alaska Fairbanks, University of Alaska, said the ACEP is an applied research program at the University of Alaska (UA) that coordinates energy research throughout the UA system. This is a new program that also includes applied research in product testing at the UA Fairbanks campus. Additionally, the center explores hydrokinetics, wind/diesel, geothermal, and biomass technologies together with energy storage, battery systems, transmission, and distribution control.

[10:40:10 AM](#)

CO-CHAIR EDGMON presented question one: Describe your views on whether Alaska needs an energy plan and if so, the components involved in such a plan.

[10:40:57 AM](#)

MR. DAVIES answered that Alaska desperately needs an energy plan and its present oil and gas wealth should be used to create a sustainable Alaska that is not dependent upon fossil fuels or the importation of labor, manufactured goods, and food supplies. Furthermore, the following four fundamental strategies are needed within that plan: conservation, efficiency, and the reduction of the demand for energy; a focus on developing both local and regional renewable energy resources; a focus on

combined heat and power and the co-location of greenhouses to prevent energy waste; and a focus on local manufacturing and agriculture, not just in urban areas, but to reach sustainability in all of Alaska's communities.

[10:45:00 AM](#)

MR. BUTCHER opined the legislature and the governor have taken a first step to address Alaska's demand for energy with the two aforementioned programs. Alaska Housing Finance Corporation estimates that by the time it disperses all of its available funds, energy efficiency will have been improved in 10-20 percent of the homes in Alaska by an average of 20-30 percent per home. He stressed energy savings in residential construction is a good place to start; however, there are schools, public buildings, and commercial buildings that need to be weatherized as well. Mr. Butcher related the Obama Administration has asked for information on AHFC's programs in order to use them to serve as an example for the rest of the nation.

[10:48:02 AM](#)

MS. KOHLER prefaced her comments by saying that AVEC's involvement is with the rural electricity side of the energy framework. She stressed that Alaska's vast geography and small population generally preclude an energy plan like those for other states. In the Lower 48, there are regional, statewide, and national grids to move power between communities and this is a fundamental difference from the situation in Alaska. She offered her energy vision for Alaska: To provide every Alaskan with reliable, safe, and affordable electricity that, to the greatest extent possible, is environmentally benign. Ms. Kohler opined the flaw in the current approach is searching for local solutions that may not exist due to Alaska's isolated populations; therefore, for the best solutions Alaska must build projects that produce the maximum benefit for population centers, and then share those benefits with rural areas by another mechanism.

[10:49:58 AM](#)

MR. CANNELOS stated his agreement with the other speakers, and added two additional points. Firstly, the energy plan must include a mechanism "for making hard choices ... and at the other end of this there will be some decisions and outcomes." Secondly, there must be a serious discussion about connecting

communities by interties. This decision should be made not by looking at power lines only from a cost-benefit analysis, but a process of incremental connections that would reap benefits and opportunities in 10-30 years, as has happened in the Pacific Northwest.

[10:51:45 AM](#)

MR. HAAGENSON stressed the importance of a successful plan that engages Alaskans in the solution. This includes educating residents on efficiency, electricity, heat, transportation, and how each region can participate. At some point the state must look at integrated resource plans that could fund large projects in each region such as the Railbelt, Southeast, and rural Alaska. Innovative systems that connect regions together make sense in the long-term and can be developed with creative thinking specific to the needs of Alaskans. Furthermore, Mr. Haagenson pointed out that energy costs are part of the economic development picture.

[10:55:50 AM](#)

MS. LELAND agreed that everyone in the state would say Alaska should have an energy plan. In fact, APA requested the governor create an energy department at the cabinet level. In addition, APA members feel private business organizations do not have the resources or expertise to develop all phases of an energy plan, but can contribute expertise in their fields. She further agreed that the energy plan needs to include all sectors brought together and looking at the state as a whole. Speaking from personal experience, Ms. Leland stressed the importance of consumer education as she was very surprised at how much energy is saved by replacing appliances that are not "Energy Star" rated.

[11:00:27 AM](#)

MR. PICKETT strongly stated his and the RCA's support for the development of an energy plan. His experience with federal and state planning processes is that some processes are, in essence, academic exercises that gather information but do not result in any changes. Planning processes with a mandate tied to funding can be good; in fact, plans need to have a mechanism to identify what is important and how funding will be applied. For example, grant awards have evaluation criteria to establish the basis on which decisions are made and mechanisms for feedback, performance measures, and annual reporting. He agreed with Mr.

Haagenson that success takes people, organizations, and adequate resources. Furthermore, organizational capacity in Alaska is very uneven leaving some communities and regions without as many opportunities as others.

[11:04:36 AM](#)

MR. ROSE opined that Alaska's energy plan needs to be a 50-year vision that can be revisited as the world demand for energy changes. As much of the world is still dependent on fossil fuels, the price of oil and gas will keep going up. In order to attract future investment and residents, Alaska needs to have "flat-priced power". He agreed with the need for regional plans because each region is disparate and unconnected, and that the bottom line must be efficiency in order to get the best investment in the long run. Alaska is rich with renewable resources such as geothermal and wind; however, the resources are often "stranded" by distance. Mr. Rose then turned to the subject of agriculture and advised that 98 percent of Alaska's food comes from out-of-state, averaging a shipping distance of 5,000 miles. He pointed out that food is energy for humans, and as part of the energy chain, the supply can be cut off. Furthermore, Mr. Rose recommended that energy efficiency policies and a regulatory structure, in addition to plans and visions, are required to incentivize renewable energy and energy efficiency. Finally, the inclusion of components such as workforce development, technical assistance, demonstration projects, and research and development are necessary to develop a plan unique to Alaska.

[11:09:28 AM](#)

MS. HOLDMANN expressed her belief in the need for a state energy plan. However, much of the discussion is focused only on reducing the cost of energy; however, her view is that energy is a tool that can be used to create wealth for the state and its residents. A long term goal should include Alaska's future role in the world when it may not be the remote outpost it is today, but a strategic shipping location for the exportation of value-added products. She would like to address the following issues: the disparity between rural and urban energy costs; encouraging private sector investment with long-term planning; and incentivizing preferred technology. Ms. Holdmann added that the development of large scale regional projects around the state requires a state energy plan.

[11:13:35 AM](#)

CO-CHAIR EDGMON opened the discussion to include committee members.

[11:14:05 AM](#)

CO-CHAIR MILLETT noted that the role of energy conservation was part of almost every speaker's comments. She asked for further information about AHFC's weatherization programs.

[11:14:45 AM](#)

MR. BUTCHER informed the committee that there was concern that funding for both of these programs would be "sucked up by the urban areas." To prevent this, allocations were established for different areas of the state in order to reserve funds for the later applications expected from rural areas. In addition, allocations were judged not only on population, but also on heating degree days and the price of fuel. Funds for the weatherization program initially allowed for improvements to about 600 homes. This year 1,800 homes were weatherized, and during the 2009 construction season 3,000 homes will be improved. The Energy Rebate Program has received 8,500 applications with the pre-rating by a home energy rater completed. After the recommended work is done, if the energy rating of the home is improved by one step, the home qualifies for a one-time rebate from AHFC of \$4,000. Additional improvements can qualify a home for a rebate up to \$10,000. Anchorage and Fairbanks currently have an excess of raters, and AHFC established a "roving rater" position to complete ratings in rural areas, in addition to the rural rater training programs. Mr. Butcher noted that the drop in oil prices has slowed the rate of applications, but AHFC will continue to encourage residents to have an energy rating and make their homes more energy efficient regardless of the price of oil.

[11:20:23 AM](#)

CO-CHAIR EDGMON asked whether conservation is playing a role in energy planning in Alaska at this time.

[11:21:37 AM](#)

MR. DAVIES stated his belief that through the AHFC programs, conservation is playing an active role as the energy savings rate in Alaska is between 20-30 percent and the national average for weatherization programs is 22 percent. However, he

expressed his concern that Alaska needs to think more about how to use those resources more effectively and raise the goal to 50 percent savings. In addition, it is time to establish energy standards for public and commercial buildings.

[11:23:16 AM](#)

MS. LELAND agreed with the aforementioned goal. However, she said, "but I think on the electric usage, I think that we still have a long ways to go." In Anchorage, Chugach Electric and Anchorage Municipal Light & Power (AML&P) are promoting the use of compact fluorescent light (CFL) bulbs by teaching consumers how to use them to save electricity. She stressed the need for more consumer education on electric usage.

[11:24:57 AM](#)

MS. KOHLER stated that conservation in the household is already very evident in the communities served by AVEC. In fact, in the last few years, the average residential monthly usage of electricity has been reduced from 397 kilowatt hours per month (kWh/m) to 390 kWh/m. The consumers are squeezing everything out of their electrical energy dollars and their heating fuel dollars also, although she questioned what the cost effectiveness of that investment is going to be. Even when energy use is reduced, the cost per unit is still extremely expensive. Regarding consumer education, she described an information booklet that will be distributed to AVEC's members. Furthermore, AVEC is installing new meters that will allow consumers to see their energy consumption. Ms. Kohler encouraged the use of state money to support programs such as metering improvements and consumer education.

[11:27:56 AM](#)

MR. DAVIES agreed that improved metering systems are "one of the most cost-effective things you can do."

[11:28:17 AM](#)

MR. CANNELOS strongly encouraged the adoption of basic design standards for public facilities, such as schools.

[11:28:50 AM](#)

MS. KOHLER pointed out the electrical bills for the two or three new schools built in the AVEC service area "throws their entire [school] budget out of kilter. I do wonder who designs these facilities and who is estimating what the energy load is going to be?"

[11:29:40 AM](#)

MR. HAAGENSON agreed with Ms. Kohler and suggested the use of "life cycle cost analysis (and) throw operating cost in the mix, and not just ignore (operating cost). Once a building is built the community must absorb the cost, and designers do not recognize the burden that is placed on the community. He encouraged "more thinking like Cold Climate (Housing Research Center) is doing for Alaska today."

[11:31:49 AM](#)

MR. ROSE pointed out that transportation consumes a huge amount of energy statewide in the form of diesel and gasoline. He stressed the value of public transportation and the use of electric vehicles in areas such as Sitka and Juneau.

[11:33:03 AM](#)

MS. HOLDMANN stated that there is also room for improvement in energy efficiency on the production side by improvements to generators and generating systems, and by capturing waste heat to use for beneficial purposes.

[11:33:34 AM](#)

REPRESENTATIVE JOHANSEN observed that the funds appropriated to AHFC got the weatherization program underway within one year; however, weatherization programs to conserve every kilowatt of electricity and gallon of fuel should also be part of the long term, big picture plan. He then asked when the energy aspect of AHFC's policies was implemented as energy efficiency is not found in the findings and purpose statutes or the general powers and limitations of the corporation except for the energy conservation added with the integration of the State Housing Authority in 1992.

[11:36:31 AM](#)

MR. BUTCHER explained that in the late 1980s and early 1990s there was an economic downturn and AHFC foreclosed on thousands

of abandoned homes. Many of these houses were poorly constructed and could not be resold without improvements. This resulted in the passage of the bill for building energy efficiency standards (BEES) and any house constructed afterward must be 4-Energy Star rated or above in order for AHFC to buy the mortgage. He opined this legislation played a significant role in improving energy efficiency for new construction throughout the state.

[11:38:41 AM](#)

REPRESENTATIVE JOHANSEN surmised that AHFC's involvement with energy efficiency began through its home loan program.

MR. BUTCHER agreed. Furthermore, in terms of being "the energy agency, that's just been something that was decided, probably in the governor's office years ago ... for whatever reason it was decided to be AHFC and ... the [U.S. Department of Energy] money just gets passed through us."

[11:39:29 AM](#)

CO-CHAIR MILLETT asked whether Alaska should make changes to its energy government structure. She noted that Alaska's federal energy stimulus money was distributed through AFHC, which is a housing authority, and then to AEA.

[11:40:16 AM](#)

MR. BUTCHER observed that much of the stimulus money belongs with AHFC for the weatherization program. However, there definitely needs to be a focus on a plan. Although AHFC is familiar with the residential energy code, AEA has the expertise with commercial and public buildings.

[11:41:34 AM](#)

MR. HAAGENSON explained that AEA and AIDEA are now separate entities. In response to Co-Chair Millett, he said AEA and AIDEA are governed by separate boards made up of the same people.

[11:42:46 AM](#)

CO-CHAIR MILLETT clarified that AEA and AIDEA share the same board that serves two missions.

[11:43:17 AM](#)

MR. PICKETT recalled that he was responsible for the management of 7,000 foreclosures outside of Anchorage and noted that the quality of construction of residential housing in Alaska has substantially improved. Regarding the responsibilities of AHFC, he recalled that the legislature "weighed in" when AHFC was merged with housing programs within the former Department of Community and Regional Affairs, and with the former Alaska State Housing Authority.

[11:45:14 AM](#)

REPRESENTATIVE TUCK described his experience with a six-year long-term plan while serving on a school board. He suggested that the state energy plan may set goals for 25 or 50 years with reviews scheduled every 3 or 6 years to allow for any needed modifications.

[11:47:08 AM](#)

REPRESENTATIVE BUCH asked Mr. Rose for details on flat priced power.

[11:47:39 AM](#)

MR. ROSE explained that flat priced power means that because there are no fuel costs associated with renewable energy, the up-front costs of the capital are known, and the operating and maintenance costs are predictable, so the cost of the power can be predicted and will not rise with increases in fuel cost.

[11:48:06 AM](#)

REPRESENTATIVE GUTTENBERG described the difficulty in developing a plan that turns into policy and is then implemented with each of the components such as, in-state gas use, building the Susitna dam, renewable energy, or transportation costs. He expressed his belief that the public is waiting for the government to act and questioned how to implement what the legislature and governor need to do to join the components and

"get something done." Representative Guttenberg agreed with Ms. Holdmann that "energy is the tool to create wealth."

[11:49:56 AM](#)

REPRESENTATIVE JOHANSEN directed attention to a handout from Percy Frisby, Tribal Energy Director, Tlingit & Haida Central Council in Juneau. He noted that the handout is the perspective of the Tlingit & Haida Central Council and not the energy plan for Southeast Alaska developed by Southeast Conference.

[11:52:40 AM](#)

The committee took an at-ease from 11:53 a.m. to 12:04 p.m.

[12:04:24 PM](#)

CO-CHAIR EDGMON presented question two: Discuss the state of energy governance in Alaska and ways you would suggest to improve it.

[12:05:28 PM](#)

MR. PICKETT observed that energy governance in Alaska is very disjointed at the state level. For example, when basic resource questions are involved, several state agencies with "rather narrow [eyeglasses]" look at the issue. Energy governance processes also draw in more public sector participants than private sector participants, and he encouraged more participation from the private sector viewpoint.

[12:07:02 PM](#)

MS. LELAND agreed with Mr. Pickett that energy governance is disjointed at the state level. On the governance level of the over 100 individual electric utilities, she stated that the majority of consumers in Alaska buy their power from members of the APA and APA provides a forum to work together and share information. However, there needs to be more coordination between utilities.

[12:08:18 PM](#)

MR. HAAGENSON described his experience with cooperative utilities. He observed that local control must be balanced with the "bigger picture". In the Lower 48, utilities include

generation and transmission for economy of scale and better financing; however, in Alaska, utilities remain single, silo-type utilities in order to maintain local control.

[12:10:01 PM](#)

MR. CANNELOS urged the adoption of an overarching policy that acknowledges that much of Alaska lives with third world conditions and that will end disparities through energy, workforce development, and improvements to transportation. He said he was encouraged by the recent government forum bringing the state commissioners and most federal agencies together twice per year to discuss mutual issues.

[12:11:17 PM](#)

MS. LELAND interjected that utilities in Alaska are 91.9 percent public power, thereby giving consumers an opportunity to be part of the governance process. She said she was pleased to announce that the first joint meeting of the Railbelt utilities is scheduled for April, 2009.

[12:12:07 PM](#)

MS. KOHLER pointed out that Alaska has about 150 utilities serving a population of 680,000 residents. Five large utilities serve 75 percent of the total population, leaving an average of 1,200 residents owning and operating a generation plant at each of the remaining utilities. She expressed her belief that the state is doing its citizens a great disservice by failing to ensure that reliable electricity is available to each citizen at a reasonable cost. No community of a few hundred people should be required to maintain its own generation plant. Ms. Kohler said:

The G&T should absorb all of the utility generating assets in Alaska. The electricity should then be sold back to the utilities which would then become distributing utilities like they are in the Lower 48. And then they would sell it to their customers. All utilities should be able to buy the generated power at the same cost ... and then they add their own distribution and administration costs on top of that to send it around the state...

Ms. Kohler continued to explain that the regional generation of power creates the politics of separation that force small regions to fight for the small amount of money available.

[12:14:56 PM](#)

MR. BUTCHER clarified that by his previous comments he did not mean to imply that the legislation proposed by Representative Gara is "confused." He related his previous experience working on the state budget and noted that there is often competition between utilities for state funds. Mr. Butcher expressed his appreciation for legislative committees that provide a forum for all of the parties to "get together to solve a problem."

[12:17:29 PM](#)

MR. DAVIES agreed that governance for energy issues is clearly too fragmented at the highest of levels, with each state agency acting as a "silo", not to mention how that fragmentation affects the function of each of the cooperative and municipal utilities. He proposed two possible answers: create a new state agency that has this responsibility throughout the state, or create a cabinet level task force structured to include broad input from the relevant agencies, the legislature, the utilities, the municipalities, and the private sector, to ensure that the task force can come to a policy fruition. He said he did not advocate for the first answer. However, he does support a task force with a mandate from the governor and participation from the legislature. Mr. Davies stressed that directives from a task force "at the top" can create the highest level policy statement that can then be passed on to the agencies and affected parties. He concluded that this was "the only way that we can have the coordination that we need, is to have that cabinet level task force that involves ... the appropriate agencies from the executive side but also active participation from the legislative side so that we can put together something that everybody can agree on and move forward with."

[12:20:35 PM](#)

MR. ROSE stated his personal opinion that the discussion is about two things: governance on the state level and governance on the utility level. The situation on the state level is fragmented because different agencies are responsible for similar tasks; in fact, it is difficult for a business in an energy related field, and especially for the average person, to

figure out "who's doing what at the state level." Even more difficult is the issue of the utility governance. For example, utilities are located in different regions; many utilities are managed by lay persons elected for a short term; and smaller utilities suffer from economies of scale. He recommended looking for solutions by studying actions taken by other states.

[12:24:36 PM](#)

REPRESENTATIVE JOHANSEN stated his agreement with Mr. Davies. He then asked whether Alaska could avoid completing regionally for state and federal resources. For example, Southeast will benefit most from the development of hydroelectricity (hydro), whereas hydro is not the best solution for other regions.

[12:26:50 PM](#)

MS. KOHLER agreed that as long as there is the regional approach there will be competition for state dollars; however, if all of the generating assets of the state were owned at the state level by a single organization, all of the energy dollars would be focused on the project that delivers the most benefit into the system as a whole. At that point the benefit would be transmitted throughout the state, instead of \$40 million spent on one community of 800 residents.

[12:28:10 PM](#)

MR. HAAGENSON pointed out that transmission lines over long distances are extremely expensive. He stated his support for [power] operation as individual communities with a regional workforce performing maintenance.

[12:29:05 PM](#)

MR. DAVIES stressed that regional competition was one of the reasons the governance must be at a high level within state government. It is also necessary to have a mechanism within the energy policy to make hard and transparent decisions about the allocation of resources since there will always be competition.

[12:30:16 PM](#)

REPRESENTATIVE JOHANSEN observed that without institutional back-up behind requests for funding, legislative allocations are

sometimes decided by "who is sitting in the finance [committee] chair."

MR. DAVIES agreed.

[12:31:26 PM](#)

REPRESENTATIVE DAHLSTROM warned against the creation of a single entity that would take away a consumer's choice for power, water, or cable service. She recalled the "phone wars" and competition between Chugach Electric and MEA.

[12:32:49 PM](#)

REPRESENTATIVE JOHNSON expressed his understanding that the discussion was not about creating three or four separate regional entities, but an entity similar to the Department of Transportation & Public Facilities [DOT&PF], with one commissioner that manages regions within one department.

[12:35:00 PM](#)

CO-CHAIR EDGMON agreed with the comparison. He then commented that regional competitions, like urban versus rural and majority versus minority, are but one of the disputes dealt with by the legislature. He requested further comments from panel members.

[12:35:59 PM](#)

MR. PICKETT informed the committee that the RCA economically regulates only 32 of the 150 electric utilities in the state; however, the RCA does issue the Certificate of Public Convenience and Necessity [CON] regarding the utilities' fitness and ability to provide. The RCA is then in the position of regulating a utility without authority over the utility's operation until there is a problem. Furthermore, over \$2 billion in state and federal monies has been invested in rural power systems, based on a supply of electric power that some villages struggle to generate. He warned of the severe risk, even though villages receive some support from AEA and the Department of Commerce, Community, & Economic Development (DCC&ED). Mr. Pickett explained that there are about 15 villages struggling to maintain their power generation, and some are not receiving Power Cost Equalization [PCE] money simply due to the failure to properly apply. He described the situation in Adak, where the community was left with the responsibility to manage the power plant after the naval base was closed.

[12:39:18 PM](#)

MS. KOHLER responded to Representative Dahlstrom and pointed out that many communities do not have a choice for their power supply now. A single entity generating electricity would supply power to each community, and then the local plant would distribute the electricity. She restated her belief that the best long-term solution is one self-sustaining entity, delivering the best value, and passing along its benefit throughout the state.

[12:40:40 PM](#)

CO-CHAIR MILLETT, regarding the task force suggested by Mr. Davies, opined that the legislature has formed many task forces, and although some make solid recommendations, they do not have the authority to act. At this time, there is not "a one-stop shop for energy" information from any state agency and rural residents are unsure where to go for assistance. For a problem of this scale, she asked about re-aligning government with the authority and policy to administer.

[12:42:53 PM](#)

MR. DAVIES acknowledged that both solutions have strengths. However, he opined that a lot of energy would be spent re-arranging and creating a new department that could be better spent solving the problem. Moreover, the development of an energy plan and the creation of a vision and the policies that follow are short-term enterprises; a taskforce with a mandate from the governor is the best and quickest way to get the problem solved.

[12:44:24 PM](#)

MR. BUTCHER emphasized the governor's action to put AEA at cabinet level and said it was a step in the right direction. However, due to the number of decisions to be made, and the separate pieces of legislation to be dealt with, a taskforce may be more capable than AEA.

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MS. KOHLER expressed her desire to be part of the solution.

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MR. CANNELOS opined that AEA is under-resourced for the task it already has.

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MR. HAAGENSON said:

Governance is a tricky thing ... How do you tell somebody through a paragraph what you want to have come out of the other end of the chute? It's hard to write policy, it's hard to give that direction, it may make more sense to actually have a person who says, "Here's where we're going." ... I think what you are wrestling with is how do you tell somebody to go on a specific mission with a broad direction?... That's the challenge of the legislature all the way down to every board of every utility in the state.

MR. HAAGENSON further explained that Administrative Order No. 249 directed state governmental agencies to work together better regarding economic development, of which "energy is a piece of the economic development puzzle."

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MS. LELAND re-stated that APA is on record recommending a cabinet level energy department. She pointed out that the present system wherein all of the utilities come to the legislature to request funding, whether for simple improvements, or for very dire needs, forces competition. An energy department can set the highest priorities and that is something that is not being done now.

[12:49:04 PM](#)

MR. PICKETT expressed his belief that the AEA should be the cabinet level department and the focal point for energy planning and for managing energy programs. He concurred that AEA is understaffed and would need more resources to accomplish its mission. Furthermore, Alaska should develop a set of guiding principles to evaluate energy activities, including performance measures for accountability purposes. Mr. Pickett turned to the greater Railbelt energy and transmission legislation and opined that it is probably the most important legislation this legislature will deal with and time is of the essence.

[12:50:23 PM](#)

MR. ROSE agreed that there are two choices: consolidation within the governor's office or consolidation within a state agency. He observed that consolidation within the governor's office is a short-term solution; however, his personal opinion is that the long-term solution is for a cabinet level energy department with expert staffing.

[12:51:55 PM](#)

REPRESENTATIVE JOHNSON expressed his hope that those present today will have the resolve to advance the ideas presented, no matter what the price of oil. He said, "Then when we look back, our grandkids can say, 'Those guys did what they should have done, under adverse circumstances'.... That we don't look back on it in a year or two years and say, 'Whatever happened to that meeting that Saturday that was so good?'" He concluded by saying, "Let's have the courage to finish."

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REPRESENTATIVE JOHANSEN re-stated his point that a taskforce is a reactionary solution that can be dissolved by an executive decision at any time. These are a long-term issues - FERC permitting for a dam takes 15 years - that require long-term, daily attention beyond the scope of a taskforce.

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CO-CHAIR EDGMON advised that today the core elements of government services such as health, transportation, or education, also include the critical need for energy. This is the time to recognize providing energy will take a lot of effort and money on the part of the state. Bush residents report that their communities will not survive another winter like last year. Co-Chair Edgmon then presented question three: Discuss the strengths and weaknesses in the regulatory framework that governs energy in Alaska.

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MR. PICKETT described some of the challenges of regulation such as balancing the interests of disparate parties and "gaps" in the Alaska statutes governing the regulatory system. The rate-making model for economically regulating utilities is time-

consuming, very expensive, and can be frustrating. Relating these regulations to the larger electric utilities has been highly contentious, and prone to litigation and hard feelings. He expressed his hope that the [Greater Railbelt Energy and Transmission Corporation] legislation will be a benefit to the utilities and the state. Mr. Pickett spoke about misconceptions regarding the responsibilities of the RCA, particularly with issuance of CONs, and clarified that some utilities are exempt from cost regulation by statute or by FERC. In fact, in 2002-2003, the Village Safe Water Program [VSP] was concerned about the capacity of smaller water and sewer utilities. As the utilities were technically exempted, the funding source only required that utilities apply for provisional certification. During the past five years, the certifications were not completed, and now the RCA must decide on the certifications for ten communities. The question as to whether there is protection for those communities is quite debatable. Furthermore, additional work needs to be done on the regulations for entities producing power, as the present model does not make sense and does not work.

[1:04:05 PM](#)

MS. LELAND informed the committee that she has been involved with the RCA on the net metering issue. She commended the RCA for holding workshops for all of the interested parties and surmised the workshops are leading to an agreement on the issue. Unfortunately, the amount of processing time the RCA needs to do its work is a weakness. Regarding her interaction with the Department of Transportation & Public Facilities (DOT&PF), she related her suggestion for using a negotiated rulemaking process or workshops for public comment was rejected by the department.

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MR. HAAGENSON understood the RCA is trying to balance the health of the utilities with low cost to the consumer. It is a controversial position, and a "terrible position for them to be in, but they do it very well." As Commissioner Pickett mentioned, regulations addressing independent power producers (IPPs) guarantee that when there is state grant money going into a power project, the project will result in a public benefit. Recalling his experience with cooperatives, Mr. Haagenson noted that cooperatives are not regulated in the Lower 48. He concluded that the RCA has strengths and weaknesses.

[1:09:43 PM](#)

MS. KOHLER noted that AVEC is not economically regulated by the RCA. However, from her previous work experience, she said the RCA must sit in judgment in rate cases and "utility wars". Her perspective from rural Alaska is that the RCA bends over backward for non regulated utilities and makes an effort to bring non compliant utilities into compliancy. On the other hand, the commission "is spread too thin" and loses its experienced staff to the utilities.

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MR. BUTCHER expressed his belief that the state is lucky to have Mr. Pickett as commissioner of the RCA.

1:12:13 PM

MR. DAVIES agreed that the statutes governing the RCA work reasonably well. However, with respect to the issues of the energy plan and energy efficiency, the utilities do well with the supply side but not with conservation. If the utilities and the RCA become involved in permitting or requiring system benefit charges, that will require policy guidance from the state. He expressed further concern, not about the framework of the regulations, but about the lack of policy guidance regarding energy efficiency.

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MR. ROSE stated that REAP does not have direct involvement with the RCA. Assuming there will be [a new state energy policy], it will be important for the regulatory framework to fit the new vision to put energy efficiency first. In addition, it is important for the RCA to have sufficient tools to put externalized cost on some fuels until there is federal regulation on carbon. It is inevitable that these fuels will have a higher price. Lastly, the RCA must have the resources to forecast fuel prices for new projects.

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REPRESENTATIVE TUCK stated the importance of regulations that set the foundations to bring energy costs down, provide services, and make it so families can survive and businesses can flourish. There must be a centralized structure to provide water and the transmission of power for the benefit of all.

Historically, the United States became a superpower largely because of its investment in a system of railroads envisioned by President Lincoln. In a similar manner, Alaska's economy will benefit from its investment in an energy system. Furthermore, Alaska can lead the nation by stimulating its economy through weatherization and more efficient sources of power. He pointed out that from 1991 to 2007 there was a 30 percent increase in the demand and supply of electricity. However, due to deregulation, there was an increase in transmission [lines] of only 10 percent. Representative Tuck stressed that all sources of energy, including renewable energy, must be transmitted, and limited transmission systems result in blackouts. Alaska needs regulatory certainty to get new sources of power to its population. He concluded that the success of this vision will rely heavily on the RCA.

[1:20:20 PM](#)

REPRESENTATIVE EDGMON presented question 4: Discuss how the state should address the challenge of providing affordable energy in both urban and rural Alaska.

[1:21:09 PM](#)

MR. DAVIES advised the state must develop a coherent energy plan for all of Alaska that has a clear cabinet level presence, either as an agency or a taskforce, and that has policy guidance from the legislature. Secondly, he recommended using a process equivalent to an integrated design process. He explained that an integrated design process in construction brings all of the parties, including subcontractors and suppliers, along with the owner, architect, builder, and users, together at the outset for collaboration before construction decisions are made. He described this as a circular, rather than linear, process and suggested this "holistic" view can be applied to the energy needs of a building, a neighborhood, or a community. Regarding rural Alaska, Mr. Davies urged the state to provide tools to assist villages with their energy plans beyond providing information about the resources available. For example, providing assistance with grant applications, and evaluating unproven systems through applied research and development prior to their installation in the Alaska environment. Next, the state must provide capital for infrastructure improvements to energy systems. Lastly, state programs must foster local manufacture and agriculture, emphasizing the use of local materials and labor, in order to strive for sustainability.

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MR. BUTCHER observed that the size of the state inhibits residents from sharing goals. While serving on the governor's gas line team he realized that residents in Sitka and Ketchikan did not see how the gas line would benefit them, since it would not reduce energy costs or provide jobs in Southeast. On the other hand, the increased cost of energy has raised the level of urban areas understanding of rural energy problems. The result is that Alaskans are beginning to relate to one another better. The other issue is the difference between short- and long-term goals; energy efficiency can begin immediately whereas decisions also need to be made now for projects ten or fifteen years away.

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MS. KOHLER informed the committee she is currently paying 14.2 cents per kWh, Marilyn [Leland] pays a little over 10 cents, Fairbanks residents pay 23 cents, Sitka residents pay 8.5 cents, Juneau residents pay 10 cents, Barrow residents pay 8 cents, and in Ambler, a business pays almost 80 cents. This incredible disparity is unique to Alaska. The rural percentage of consumption is so small, its voice is not heard. She re-stated that her concept of all generation sold at the same cost across the state would result in a very small increase for urban areas. Regarding heating fuel, she stated a village homeowner pays 10 times the cost of a Btu in Anchorage. There is a need to look at the large picture of energy consumption across the state to make a more equitable solution. Some areas of the state have alternative sources for fuel but the rural areas do not. Ms. Kohler concluded that electricity is a basic human necessity and should be provided at a reasonable cost.

1:33:09 PM

MR. CANNELOS gave examples of state and federal capital projects. In Ft. Yukon, the Denali Commission recently opened a clinic and other [state] agencies are improving water and sewer systems, roads, the airport, and housing. However, now the village does not have sufficient electricity generating capacity. He urged government communication through some mechanism to avoid "these train wrecks." In Stevens Village, a water and sewer system that was too expensive for residents to pay for was cancelled when the agency and the tribe looked at the situation honestly. Mr. Canelos stressed that state agencies must fund projects with payback, such as simple moorage systems in the Yukon, Kuskokwim, and Koyukuk rivers that will

enable fuel barges to tie up and prevent damage to land and fish. Lastly, he noted that Alaska must be ready for "good surprises" and "game changers" such as high voltage direct current.

[1:36:31 PM](#)

REPRESENTATIVE JOHANSEN related his experience with the Swan-Tyee Intertie. Costs were greatly reduced when the project coordinated with existing DOT&PF road projects. He concluded that the citizen/consumer ultimately benefits when agencies team up and save money.

[1:38:15 PM](#)

MR. HAAGENSON presented two viewpoints: the pipeline is great for Alaska, but not for Alaskans; the bullet line is good for Alaskans, but not for Alaska. He asked whether the state can share the wealth without increasing the "passiveness" of its residents. Today's economic model must change. He urged Alaskans to begin looking at the long-term supplies of fuel and to anticipate increased costs and shortages; in fact, Anchorage has only five more years of a cheap supply of natural gas. He supported directing state funds toward building infrastructure, with the operating costs after construction paid by local users. Mr. Haagenson read from Administrative Order 249, "Alaska needs to learn how to retain wealth." He then gave the example of federal money that came into the state for a project but was immediately used to purchase hardware from Vermont. Mr. Haagenson turned to the subject of reducing imports of energy, food, technology, labor, and leadership. He opined that reducing imports is the way to grow Alaska's economy. At the same time the state needs to export value-added products instead of raw materials. He concluded that all of these ideas need the participation of "an actively involved Alaskan, not a passive Alaskan."

[1:42:28 PM](#)

MS. LELAND expressed her belief that the state needs an energy department at the cabinet level; this department needs to be charged with creating a successful energy plan, educating Alaskans on energy conservation, coordinating state agencies, prioritizing energy needs statewide, and coordinating the research and development of energy products. She also mentioned that the Alaska Natural Gas Development Authority (ANGDA) is creating a gas supply cooperative for the Railbelt utilities.

She advised that this needs to be done for the entire state so in times of high prices "fuel hedging" would be possible.

[1:45:21 PM](#)

MR. PICKETT added that the reliability of energy should be considered in addition to affordability. Alaska's geography is different compared to the Lower 48 in that the state is isolated from the Lower 48, and isolated within itself. He doubted whether the state is prepared to respond to a loss of the supply of any product that can become a matter of life and death. Furthermore, he stressed that the state's commitment to this issue should survive from one administration to the next; otherwise, the issue returns year after year "like it never happened." Given the aging of the state's infrastructure, delay is not an option. Mr. Pickett stressed that the Railbelt legislation must be addressed as the utilities must make decisions now, or the RCA will require them to make decisions on capital plans as individual entities. He concluded that this is an historical opportunity that must not be missed.

[1:48:09 PM](#)

MR. ROSE urged the committee to consider that energy is the most important issue in the state; in fact, without energy Alaska cannot have a vibrant economy and some villages will have no economy at all. He suggested starting with restructuring the governance, looking at regional planning, and developing a vision; these are things that can be done now along with energy efficiency measures. In the long-term, renewable energy will be an important factor as it will stabilize the rate for electricity. As far as heat and transportation issues, there are new possibilities being developed such as bio mass, solar thermal, tidal and wave, and hydroelectric. Mr. Rose stressed the importance of diversity and warned that even with a pipeline bringing a new supply of natural gas, there is no way to know what the world price of gas will be. Problems unique to Alaska include: diversification; transmission systems; limited dollars; economies of scale; and long distances. A vision and long-term policies will stabilize the atmosphere for oil companies and business investors. In order to expand the renewable energy grant program more loans and technical assistance are needed. He supported research and development and pointed out that systems must be specific to Alaska, especially in rural areas. Mr. Rose re-stated his support for workforce development, increased manufacturing and agriculture, blended value investing, and in-state investment of the Alaska Permanent Fund.

He concluded that with the right vision, Alaska has the resources and the money to be a world leader.

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CHAIR EDGMON commended the panel on their participation. He asked for final comments from committee members.

[1:55:05 PM](#)

REPRESENTATIVE MILLETT expressed her appreciation to the panel members and to others who have contributed. The energy committee has the direction it needs to continue its work during the interim.

[1:57:02 PM](#)

CHAIR EDGMON encouraged participants and others to submit comments in writing.

[1:57:19 PM](#)

REPRESENTATIVE TUCK also appreciated the deep passion participants have for the future of Alaska. He re-stated the need for a vision, quick action, retaining wealth, creating wealth, and low cost energy. He noted the increased potential for manufacturing in Alaska such as the shipyards in Southeast, and developments by the University of Alaska in science and technology.

[2:00:10 PM](#)

REPRESENTATIVE JOHANSEN asked for more information on the economic development committee.

MR. HAAGENSON responded that the legacy team organized by the governor is working on an overview of economic development.

[2:01:11 PM](#)

REPRESENTATIVE JOHANSEN expressed his appreciation for the work of the panel and of the energy committee co-chairs.

[2:02:01 PM](#)

REPRESENTATIVE DAHLSTROM agreed with the comments by the other committee members.

2:02:21 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 2:02 p.m.