

HOUSE FINANCE COMMITTEE
April 10, 2009
1:40 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:40 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas, Jr., Vice-Chair
Representative Allan Austerman
Representative Harry Crawford
Representative Anna Fairclough
Representative Richard Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Erin Harrington, Staff, Representative Alan Austerman, Sponsor; Jay Livey, Staff, Senator Hoffman, Sponsor

PRESENT VIA TELECONFERENCE

Mike Harper, Deputy Director, Rural Energy Group, Alaska Energy Authority; Meera Kohler, President - CEO, Alaska Village Electric Cooperative (AVEC); Bob Charles, Association of Village Council Presidents (AVCP); Paul Kendall, Anchorage; Michael Smith, Fairbanks, Tanana Chiefs Council

SUMMARY

HB 150 "An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

HB 150 was heard and HELD in Committee for further consideration.

SB 88 "An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

SB 88 was heard and HELD in Committee for further consideration.

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Co-Chair Stoltze brought the meeting to order and immediately called an at-ease.

AT-EASE: [1:41:57 PM](#)

RECONVENE: [1:42:21 PM](#)

#hb150

HOUSE BILL NO. 150

"An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

#sb88

SENATE BILL NO. 88

"An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

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ERIN HARRINGTON, STAFF, REPRESENTATIVE ALAN AUSTERMAN, SPONSOR, explained the history of Power Cost Equalization (PCE), which was established in 1984 at a time when the state was making significant investments in low-cost power generation. Specific projects included hydro plants such as the Four Dam Pool, Bradley Lake Hydro Facility, and the Northern Intertie, which links Fairbanks to the production capacity in the Anchorage area.

Ms. Harrington related that PCE was set up in 1984 to include all of the communities that generated at least 75 percent of their power with diesel. Under the current

program, 135 communities are covered. They are represented by 85 utilities, the largest of which is the Alaska Village Electric Cooperative (AVEC), which consists of 50 communities where the average cost of power production is about 62 cents per kilowatt hour. Other utilities involved include the Alaska Power and Telephone, the Inlet Cooperative, the Middle Kuskokwim Cooperative, and many single villages.

Ms. Harrington discussed the PCE endowment which has been funded by various mechanisms and covers a portion of the program's costs.

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Ms. Harrington related that currently in rural Alaska some communities are still paying more than \$7 per gallon for heating fuel. Rural Alaska has not seen any recent reductions in costs that other parts of the state have experienced.

Ms. Harrington outlined how the program works. The price floor is set at an average of Anchorage, Fairbanks, and Juneau's power production cost. Currently, that is about 12.8 cents. The ceiling was at 52.5 cents and was raised to \$1 last year during the special session. That ceiling had not been changed since 1984. The bill before the Committee extends the sunset date which would allow the \$1 ceiling to continue.

Ms. Harrington noted that the program only covers the first 500 kilowatts that are used in a household, which is less than typically used. The program covers one meter per residence. Businesses are not eligible for the program, but some community buildings are.

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Ms. Harrington related that the purpose of HB 150 is to remove the sunset date and to continue the \$1 ceiling. At times of low fuel prices, there will be no impact to the program. The program allows for a response when prices go up.

Ms. Harrington pointed out that HB 150 is identical to SB 88.

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JAY LIVEY, STAFF, SENATOR HOFFMAN, SPONSOR, emphasized a couple of points. The PCE program is not designed to equalize costs between urban and rural Alaska. The PCE program only applies to the first 500 kilowatts of power used, which would not finance a normal household's total

fuel costs. Even with PCE, a rural resident would still pay more than urban residents. The intent of the bill is not to equalize power costs, but to subsidize the first 500 kilowatts of rural usage.

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Representative Crawford wondered if PCE would deter efforts toward finding alternative fuels. Ms. Harrington did not believe it would because the program does not cover all energy costs.

Representative Crawford knew there were incentives for consumers to take cost-savings methods. He wondered if the legislation would de-incentivize the utilities from seeking renewable energy sources.

Mr. Lively stated that the bill gives the utility an incentive to make power cheaper. Only 30 percent of power produced by a local utility goes to residential customers. Other consumers could use an incentive for cheaper power.

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Representative Gara spoke in support of moving the sunset date. He inquired what the annual cost of PCE was. Mr. Lively replied that if the bill were not to pass, it would cost \$32 million. If the bill were to pass, it would add \$5.5 million to the program.

Representative Gara looked at the fiscal note and requested more information. Ms. Harrington related that when the program was amended last year, the cost rose from about \$28 million to \$38 million. The expected impact in the coming year is \$5.5 million.

Representative Gara understood that part of the cost was funded by endowment funds and part by general funds. He asked if the \$5.5 million was additional funding. Ms. Harrington said that was correct.

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Representative Gara wondered how much comes from each source.

Representative Austerman thought that the total cost as a result of passing HB 150, would be \$37.6 million and would include the \$5.5 million.

Co-Chair Stoltze noted that a full analysis of the fiscal note would be forthcoming.

Representative Gara asked if \$38 million included both endowment and the general funds. Representative Austerman replied that it does.

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MIKE HARPER, DEPUTY DIRECTOR, RURAL ENERGY GROUP, ALASKA ENERGY AUTHORITY, testified via teleconference. He offered to answer questions.

MEERA KOHLER, PRESIDENT - CEO, ALASKA VILLAGE ELECTRIC COOPERATIVE (AVEC), via teleconference, reported that her organization accounts for about a third of PCE users. She observed that the PCE legislation regarding the ceiling was drafted last year in response to a need. She detailed what would happen if the sunset date was not extended.

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Representative Joule asked about AVEC's efforts toward renewable energy.

Ms. Kohler reported that AVEC has a wind generation program in 10 communities. She maintained that PCE does not pose a disincentive for alternative energy programs. She gave as an example, Cordova's change to hydropower.

Representative Joule asked what the savings has been in communities that have converted to wind power. Ms. Kohler reported that more than 100,000 gallons of fuel were saved.

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Representative Salmon wanted to know the total amount of PCE funding, the total endowment amount, and how the investment did.

Mr. Harper reported that it would take \$37.6 million to fully fund the program, of which about \$21 million is from the endowment, and the balance is from general funds. The endowment has taken a severe beating. He deferred to the Department of Revenue for those figures.

Ms. Harrington pointed out that the invested assets, as of December 31, 2008, were \$288,816,014.52.

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Representative Gara voiced appreciation for Ms. Kohler's work with AVEC. He wondered what the cost of adding school districts to PCE would be.

Ms. Kohler thought about 1/3 of AVEC's energy sales go to their school districts. If all schools were made eligible, it would about double the cost of the PCE program.

Representative Gara requested information about the endowment losses.

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Ms. Kohler addressed the endowment fund, which was originally started with \$100 million from the Constitutional Budget Reserve (CBR). She reported that \$85 million was added when the Four Dam Pool project was sold back to the communities. Another \$182.7 million was added three years ago by Governor Murkowski. A total of about \$367 million has been put into the endowment fund. The fund reached its peak at \$404 million and has since been drawn upon to fund programs. As of the end of last year, the fund was at \$288 million. A few weeks ago, it was at \$258 million, but it has since gone up slightly.

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BOB CHARLES, ASSOCIATION OF VILLAGE COUNCIL PRESIDENTS (AVCP), via teleconference, thanked the legislature for addressing the energy needs of rural Alaska and for the increase in the PCE ceiling last year. He reported that it helped the villages and he emphasized that the PCE program is a priority. He requested continued funding for PCE and the elimination of the sunset date, as contained in the bill. He discussed what would happen if the funding does not continue. He described the problems related to high fuel costs in the villages. He spoke of efforts to equalize rural/urban fuel costs.

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PAUL KENDALL, ANCHORAGE, via teleconference, disagreed with the legislation. He spoke of individual freedom. He suggested looking at fossil fuel issues. He thought there should be a leadership conference. He suggested using hydroelectric projects.

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Representative Fairclough noted that a public committee on energy is being formed.

MICHAEL SMITH, FAIRBANKS, TANANA CHIEFS COUNCIL, via teleconference, testified in support of SB 88 as a manner of economic equity in rural areas. The cost of energy in rural areas is the worst in the nation. The Tanana Chiefs Council is concerned with conservation principals. They are looking at how to use the energy stimulus package. He pointed out

that PCA addresses only a portion of the energy crisis. He thought the subsidy should be extended in order to help rural areas with economic development.

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Representative Joule spoke of a previous reference to the cost of fuel decreasing. He wondered if the cost of transporting the fuel was decreasing and if there were other vessels that were cheaper. Co-Chair Stoltze wondered about the cost of fuel storage.

Mr. Livey reported that AVEC has had contracts with fuel distributors and could answer that question.

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Ms. Kohler addressed the issue of fuel transportation costs. She related that ten years ago the delivery cost of fuel was, on average, about \$1.29 a gallon. That price covered transportation and fuel costs. The transportation element of that cost averaged about 40 cents per gallon. This year the average transportation cost doubled over the last year to about \$1.10 per gallon. The fuel transportation charge was at the end of a 5-year contract based on Anchorage's CPI. The transportation element now is over \$1.00 per gallon, with small village orders averaging \$1.50 or more a gallon.

Representative Joule emphasized that those other costs justify the need for PCE.

Representative Austerman agreed with Representative Joule's point. He pointed out that the cost of soon-to-be-required double-hulled barges and the fact that the Coast Guard has banned floating fuel lines are hidden expenses.

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Representative Foster noted that taxes and insurance also contribute to high fuel costs in villages.

Vice-Chair Thomas stated support for the bill. He reported that he researched adding municipalities, schools, and businesses to the bill, but it would have cost \$65,580,000 million more. He listed areas in his district that are experiencing problems related to high fuel costs. He mentioned Hoonah Cold Storage's fuel expenses. Haines hydro from IPEC has a high fuel cost. Yakutat has high fuel costs for their cold storage. Cordova is on PCE and saved \$9 million by going from diesel to hydro, which saves PCE money. Gustavus will also be using less PCE money when it goes to hydro. He stressed the importance of subsidizing high fuel costs and stated support for the bill. He spoke

of a proposed amendment which he would not put forth due to the additional cost.

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Representative Foster spoke in favor of the bill.

Representative Salmon highlighted some of the problems in his district. Some of the villages do not receive barge services, but receive their fuel by plane. Storage costs are high and there is not adequate storage.

Representative Austerman discussed why someone from Kodiak would introduce legislation on PCE. He emphasized that PCE affects all Alaskans. There are 13 communities in his district that are not connected to hydro and need economic assistance. The cost factors are quite different and should be equalized.

Representative Joule suggested not losing sight of exploration for alternative, renewable energy such as natural gas and wind energy. The state has lands that also hold promise for alternative energy sources.

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Representative Kelly stated that between 2009 and 2010 there will be a deficit of \$2 billion. He recalled that last year when he had a concern about raising the PCE ceiling to \$1, he was assured that it was a one-time, one-year issue. Currently, he did not feel that it was time to add onto this program in light of the fact that fuel costs are dropping and the price of oil remains somewhat stable. He testified against the legislation. He recalled that "Susitna did not get built". He agreed with Representative Joule about the need to "look ahead". He suggested building a road and a power line to the villages.

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Representative Gara thought the Committee should not lose sight of the benefits of PCE. He maintained that the bill costs \$20 million less than what was budgeted last year. He agreed with Representative Joule's suggestions about alternative energy. He highlighted the higher costs of power in rural areas. He noted that urban areas receive a great deal of federal money for power. He suggested cleaning up diesel fuel plants.

Representative Kelly drew attention to the per capita distribution of the budget, which he opined addresses rural Alaskan needs.

HB 150 was heard and HELD in Committee for further consideration.

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#

ADJOURNMENT

The meeting was adjourned at 2:54 PM.