

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

February 25, 2010

4:07 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Chair
Representative Mike Hawker, Vice Chair
Senator Lyman Hoffman
Senator Charlie Huggins
Senator Linda Menard
Senator Bert Stedman
Representative Mark Neuman
Representative Bill Stoltze
Representative Bill Thomas
Representative Mike Doogan
Senator Donald Olson (Alternate)
Representative Chris Tuck (Alternate)

MEMBERS ABSENT

Representative Nancy Dahlstrom (Alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
REVISED PROGRAM - LEGISLATIVE (RPLs)
EXECUTIVE SESSION
OTHER COMMITTEE BUSINESS
AEA RENEWABLE ENERGY PROJECT

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAVID TEAL, Legislative Fiscal Analyst
Legislative Finance Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information about the requested RPLs to the Joint Committee on Legislative Budget and Audit.

LAURA BAKER, Director
Division of Administrative Services

Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Answered questions about RPL 25-0-7564.

JOSH APPLEBEE, Staff
to Senator Kevin Meyer
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified about the consulting work done by Dan Dickinson.

STEVEN HAAGENSON, Executive Director
Alaska Energy Authority (AEA)
Anchorage, Alaska

POSITION STATEMENT: Provided an update on the progress of the Renewable Energy Project.

PETER CRIMP, Alternative Energy Program Manager
Alaska Energy Authority (AEA)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the update on the progress of the Renewable Energy Project.

ACTION NARRATIVE

[4:07:09 PM](#)

CHAIR KEVIN MEYER called the Legislative Budget and Audit Committee meeting to order at 4:07 p.m. Representatives Thomas, Doogan, Tuck (Alternate), Hawker, and Senators Meyer, Stedman, Hoffman, Huggins, Menard and Olson (Alternate) were present at the call to order. Representatives Stoltze and Neuman arrived as the meeting was in progress.

APPROVAL OF MINUTES

[4:08:17 PM](#)

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

[4:09:44 PM](#)

REPRESENTATIVE HAWKER made a motion to approve the minutes of January 14, 2010. There being no objection, the minutes from the meeting of January 14, 2010 were approved.

REVISED PROGRAM - LEGISLATIVE (RPLs)

4:10:23 PM

CHAIR MEYER announced that the next order of business would be consideration of RPLs.

4:10:48 PM

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, testified about RPL 25-0-7558 from the Department of Transportation & Public Facilities for \$195,965. He explained that this RPL requested new security cameras and other security devices on the MV Aurora. He noted that this was a federal grant from the American Recovery and Reinvestment Act (ARRA) with no request for general funds, and there were no technical issues.

4:11:34 PM

CHAIR MEYER asked if there were any objections. There being no objection, RPL 25-0-7558 was approved.

4:11:44 PM

MR. TEAL explained that RPL 25-0-7564, also from the Department of Transportation & Public Facilities, was for \$500,000 from ARRA funds. He stated that this RPL was a contingency request as a "catch all authority in case bids on existing projects come in lower than expected." He explained that this would allow the money to be reassigned elsewhere. He noted that it was unclear how much money this would involve or where the money would be transferred. He confirmed that the deadline was early March.

4:12:59 PM

CHAIR MEYER asked if there were any objections.

4:13:07 PM

REPRESENTATIVE NEUMAN objected for discussion.

4:13:16 PM

CHAIR MEYER set RPL 25-0-7564 aside and stated that the committee would come back to it.

4:13:40 PM

MR. TEAL introduced RPL 45-0-1139 from the University of Alaska for \$4,630,790 of funding from ARRA. He explained that more than \$4.6 million was through the Department of Energy for exploration techniques at the Pilgrim Hot Springs. He noted that the remainder of the request was for geological surveys to characterize volcanic deposits from recent Alaska eruptions. He stated that the Legislative Finance Division had no objections on any technical grounds.

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CHAIR MEYER asked if there were any objections. There being no objection, RPL 45-0-1139 was approved.

4:14:45 PM

CHAIR MEYER returned to RPL 25-0-7564 and, in response to Representative Neuman, asked the Department of Transportation & Public Facilities to testify.

4:15:02 PM

LAURA BAKER, Director, Division of Administrative Services, Department of Transportation & Public Facilities (DOT&PF), in response to Representative Neuman, explained that DOT&PF was currently working on a list of road projects to be funded, and that the contingency request was to allow DOT&PF to transfer unspent funds from a project which had cost less than the bid to another project.

4:16:21 PM

REPRESENTATIVE NEUMAN asked to receive a list on projected projects as he was currently reviewing capital projects for his community.

4:16:40 PM

MS. BAKER replied that 100 percent of the ARRA funding was obligated, but that it could shift.

4:16:56 PM

REPRESENTATIVE NEUMAN asked for an explanation to the evaluation process.

[4:17:16 PM](#)

MS. BAKER replied that ARRA funding requirements stated that the project had to "be shovel ready" for construction. She explained that the federal scoring method also factored in low population areas.

[4:17:40 PM](#)

REPRESENTATIVE DOOGAN asked if DOT&PF could spend this extra money without consulting any elected officials.

[4:18:09 PM](#)

MS. BAKER affirmed this, and she explained that the spending had to meet the ARRA grant requirements. She noted that this was for pieces of projects and for a relatively small amount of money.

[4:18:39 PM](#)

REPRESENTATIVE DOOGAN reflected that he could not "remember a time when we just said to an agency, if you got the money, spend it and don't talk to legislators about it."

[4:19:03 PM](#)

MR. TEAL referred to page 2 of the RPL, which cited the federal contingency project allocation. Noting the concerns, he suggested that the committee and DOT&PF discuss using the "catch all provision of the governor's office" in lieu of the federal contingency.

[4:20:14 PM](#)

REPRESENTATIVE DOOGAN, in response to Chair Meyer, requested some examples of the projects.

MS. BAKER reported that DOT&PF was agreeable to the suggestion of contingency through the governor's office.

[4:20:49 PM](#)

REPRESENTATIVE DOOGAN observed that his concern was for letting an agency make the expenditure decision without any consultation. He removed his request for a list of projects.

[4:21:14 PM](#)

MR. TEAL, in response to Chair Meyer, agreed that this request was for a small amount of money and he offered his belief that few bids would have unspent funds. He mentioned that this was the last step in the contingency process, as there were only two weeks remaining, and that this RPL gave DOT&PF the ability to reallocate funds.

[4:22:01 PM](#)

MS. BAKER clarified that without a mechanism for allocation, any unspent funding would be reallocated to other states.

[4:22:26 PM](#)

REPRESENTATIVE NEUMAN removed his objection.

REPRESENTATIVE DOOGAN reflected that he had no objection.

[4:22:43 PM](#)

There being no objection, RPL 25-0-7564 was approved.

[4:22:52 PM](#)

MR. TEAL asked to clarify whether the RPL should be maintained with the federal contingency, or be re-written for the governor's contingency.

[4:23:22 PM](#)

CHAIR MEYER asked if there were any concerns of the committee.

[4:23:29 PM](#)

REPRESENTATIVE HAWKER moved to accept RPL 25-0-7564 as submitted. [There being no objection, it was so ordered.]

EXECUTIVE SESSION

[4:24:13 PM](#)

CHAIR MEYER announced that the next order of business would be that the committee would go into executive session.

REPRESENTATIVE HAWKER made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 4:24 p.m.

[4:46:21 PM](#)

CHAIR MEYER brought the committee back to order at 4:46 p.m.

REPRESENTATIVE HAWKER made a motion for the preliminary audit for the State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2009, to be released to the appropriate agency for response. There being no objection, the audit was released.

OTHER COMMITTEE BUSINESS

[4:46:43 PM](#)

CHAIR MEYER announced that the next order of business would be Other Committee Business.

[4:46:57 PM](#)

CHAIR MEYER reflected on the long hours that the Senate Finance Committee had spent working on the current gas tax structure, and expressed the need for renewal of the contracts for two consultants, Dr. David Wood and Dan Dickinson.

[4:47:30 PM](#)

SENATOR STEDMAN emphasized the need to extend both contracts, noting the complexities of the background, and pointing out that upcoming bills were to be presented in the Senate.

[4:49:03 PM](#)

CHAIR MEYER shared that Mr. Dickinson had been working with other committees.

[4:49:25 PM](#)

JOSH APPLEBEE, Staff to Senator Kevin Meyer, Alaska State Legislature, stated that Dan Dickinson had been engaged to work with both the House Resources Standing Committee and the Senate

Resources Standing Committee on historical research for oil taxation. He pointed out that upcoming legislation was specific to oil.

[4:50:14 PM](#)

REPRESENTATIVE NEUMAN asked for an update on the oil and gas tax modeling.

[4:50:28 PM](#)

MR. APPLEBEE replied that the model was consistently evolving as more data and costs were gathered. He stated that the updates were necessary for accuracy. He announced that the upcoming open season would allow access to an enormous amount of cost data, which would make the model more efficient. He indicated that the contract renewal was necessary to ensure that the data was assimilated into the model.

[4:51:06 PM](#)

REPRESENTATIVE NEUMAN asked if it was now possible to review the model.

[4:51:13 PM](#)

MR. APPLEBEE replied that it was still available, and would be "better, the more work they put into it." In response to Representative Neuman, he said that specific questions could be forwarded and processed through the model.

[4:52:03 PM](#)

SENATOR HUGGINS offered his belief that all questions to the consultants should be submitted through Mr. Applebee. He endorsed Dan Dickinson, "who is Mr. History about how we got here" and David Wood, who "has a worldwide perspective," and declared that the model was invaluable.

[4:53:04 PM](#)

REPRESENTATIVE HAWKER moved to authorize the Chair to amend the contracts with Dan Dickinson and David Wood to reflect an extension to June 30, 2010 and an increase in the "Not to Exceed Amount" of \$100,000 per contract.

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SENATOR STEDMAN objected for comments. He noted that the consultation fees for the administration were "in the millions, so we definitely need help on our side as a double check." He removed his objection.

[4:53:58 PM](#)

There being no objection, the contract extensions were accepted.

AEA RENEWABLE ENERGY PROJECT UPDATE

[4:54:08 PM](#)

CHAIR MEYER announced that the final order of business would be an update on the AEA Renewable Energy Project. He asked Mr. Haagenson to provide an update.

[4:55:02 PM](#)

STEVEN HAAGENSON, Executive Director, Alaska Energy Authority (AEA), reported on Round 1, noting that currently 60 grants were approved, and 13 grants were not approved. He elaborated on the 13 grants, stating that 7 of these grants still needed work on milestones and scope and reminding the committee that these were the control mechanisms to guarantee a defined scope and to ensure a higher likelihood for success. He updated those 6 remaining grant projects working toward approval. He noted that the [Kenai Winds, LLC] Nikiski Wind Farm Construction project and the Eva Creek Wind Farm Feasibility project should be completed for approval within two weeks. He explained that both projects had been working on a cost base rate, which was dependent on the independent power producer (IPP) to ensure there was public benefit for the public money spent on the project. He continued, and explained that the other four projects not yet approved had been transmitted to the applicants for signatures. He discussed the capped projects: Kotzebue Wind Farm Expansion Construction, Nome/Newton Peak Wind Farm Construction, Reynolds Creek Hydroelectric Construction, Delta Junction Wood Chip Heating, and Lake Elva Hydropower Feasibility, Permitting & Final Design. He explained that all of these projects now had an imposed cap as the first round had no limits. He reported the caps to be \$4 million for rural or high cost energy areas, and \$2 million for Railbelt and Southeast projects.

[4:58:21 PM](#)

CHAIR MEYER, in response to Mr. Haagenson's reference to the graph of Progress on Projects, directed attention to page 2 of the Renewable Energy Fund Round 1 projects handout. [Included in the committee packets.] He pointed out that many questions were already answered in the question and answer handout. [Included in the committee packets.]

MR. HAAGENSON referred back to the graph on page 2 of the projects handout, Figure 1, Scheduled Project Completion, and explained the Progress on Projects for each year. He noted that the completed projects for 2009 included two Reconnaissance/Feasibility studies, one Final Design/Permitting, and five Construction projects. Discussing the ensuing years from 2010 - 2015, he cited the cumulative completion through each of these years. Referring to page 3 of the projects handbook, he explained that Figure 2, Estimated Grant Drawdown, was a cumulative graph of the cash drawdown from the grant program. He pointed out that \$19 million had already been spent, and he explained that as the projects entered the construction phase, the expenditure would increase. He directed attention to Figure 3, Estimated Cumulative Annual Fuel Savings, on page 4, which reflected the cumulative gallons of fuel saved with these project investments.

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MR. HAAGENSON extrapolated the savings at an average cost of \$4 gallon, and estimated the payback period for the projects to be two to six years.

[5:02:41 PM](#)

CHAIR MEYER noted that Senator Hoffman and Representative Thomas were on the legislative advisory committee for overseeing these projects.

[5:03:00 PM](#)

MR. HAAGENSON explained that the assumptions which he had used for his analysis were for maintenance costs to remain the same, and that all the benefits from the project were a result of the state investment.

[5:04:02 PM](#)

MR. HAAGENSON referred to the two handouts, [Included in the committee packets.] "Lessons Learned," and the question and answers referenced earlier.

[5:04:54 PM](#)

CHAIR MEYER expressed concern that the small Independent Power Producers (IPPs) could not hook up to the grid.

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MR. HAAGENSON replied that a power sales agreement with the utility was a necessary requirement of the Renewable Energy Fund before any grant money was given.

[5:07:15 PM](#)

REPRESENTATIVE DOOGAN summarized that through two rounds, there had been 103 projects funded. He asked how many projects would be completely funded by the Renewable Energy Fund.

[5:07:44 PM](#)

PETER CRIMP, Alternative Energy Program Manager, Alaska Energy Authority (AEA), in response to Representative Doogan, asked to clarify that all the project costs would be borne by the Renewable Energy Fund. He then stated that quite a few of the projects had some match, but that he would have to provide those exact figures.

MR. HAAGENSON related the earlier conversations which had allowed communities to provide land and other things, instead of hard dollars, as matching amounts to the grant. He offered his belief that many communities, especially in Rural Alaska, had low matching amounts. He reminded that for Round One, there was no cap, so the match amounts did not necessarily correlate to the current grant. He offered to provide a more accurate figure.

[5:09:37 PM](#)

REPRESENTATIVE DOOGAN relayed his understanding that none of the projects were to be solely funded by state funds, and he asked if that was no longer the case.

MR. HAAGENSON opined that land rights would be considered as a measure of match.

REPRESENTATIVE DOOGAN offered an example of one project, and asked if the entire project would then be paid for through the Renewable Energy Fund.

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MR. HAAGENSON explained that the Round 3 recommendations reflected that no grant funds would be available without additional funding sources.

[5:12:01 PM](#)

REPRESENTATIVE DOOGAN asked if any additional funding would be available to the Renewable Energy Fund.

[5:12:15 PM](#)

MR. HAAGENSON, in response to Representative Doogan, explained that the Round 3 recommendations had just been distributed, and he elaborated on the color coding for recommended future funding.

[5:13:08 PM](#)

REPRESENTATIVE DOOGAN stated that he would still like to know which projects are just funded with state funds through the Renewable Energy Fund. He also asked to know if there was a limit to the number of times a project could request additional funding.

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MR. HAAGENSON confirmed that the project funding information would be provided to Representative Doogan. He described the application process for subsequent rounds of funding, and noted that nothing in statute limited applicants to one grant. He explained that Round 1 contained funding caps which applicants had not been notified about. For Round 3, he said that applicants were informed of the maximum award amount and he noted that most applicants had changed project scope and lowered the grant request. For Round 4, he requested advice from the advisory committee as to whether project applications could continue to be submitted. He noted that this would go onto the "Lessons Learned" list.

[5:15:23 PM](#)

CHAIR MEYER asked Mr. Haagenson for his opinion as to the necessity for IPPs to receive a Certificate of Public Convenience and Necessity (CPCN) from the Regulatory Commission of Alaska (RCA) prior to being awarded any grant money. Referring to Round 1, he noted that 41 projects were shovel ready, but only 23 projects were in active construction, and he asked if this delay was due to RCA approval.

[5:16:15 PM](#)

MR. HAAGENSON explained that, under statute, an IPP was clearly regulated and that the Legislative Budget and Audit Committee had requested the CPCNs. After speaking with the RCA, it was decided that the charge of cost base rates was a grant condition. The maximum charged rate for each project was determined, and returned to the applicant for submission to the RCA. The RCA would then determine to either regulate the applicant or grant a waiver. He explained that cost base rates were determined by the grant applicant's equity position, and a standard rate making criteria was used to determine the maximum chargeable rate so there would not be an excessive return of equity. He stressed that it was not the intent of the Alaska State Legislature to allow the program benefit to go into an applicant's pocket. He summarized that the "goal was to make sure that we're being good stewards of this money and being true to the direction we were sent on originally with the legislative intent."

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SENATOR HUGGINS asked if Mr. Haagenson was satisfied with the process, the system, and the timeliness of the power purchasing agreement when viewed across the state.

[5:19:30 PM](#)

MR. HAAGENSON explained that the power purchase agreement was the interface between the utility and the IPP, and it included interconnect, reliability standards, and responsibility for various costs. He stated that he was very comfortable with a good power sales agreement as it defined "who's paying for what and how they will affect reliability, those two sacred things that every utility has."

[5:20:08 PM](#)

REPRESENTATIVE NEUMAN asked how net metering was determined.

[5:21:26 PM](#)

MR. HAAGENSON replied that none of these renewable energy programs were considered net metering projects, as everything produced was transferred to the utility grid through a meter, and was covered by the power sales agreement. He summarized net metering, and an alternative, Sustainable Natural Alternative Power (SNAP).

[5:23:12 PM](#)

REPRESENTATIVE NEUMAN asked why some of the projects were not successful.

MR. HAAGENSON stated that the milestones were carefully selected. He noted that both of the dropped projects had been cancelled by the applicants. He could not determine whether this was a failure or a bad project. He noted that all the rest of the projects had plans for moving forward.

[5:24:20 PM](#)

REPRESENTATIVE HAWKER reiterated the importance for pre-construction benchmarks prior to project funding. He reflected on an applicant's request for intercession to "abandon some of your benchmarking or lower your standards" and he emphasized the need to maintain cost effectiveness and professional standards. He asked for more information on the relative costs to generate the savings.

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MR. HAAGENSON referred to his earlier projection for a two to six year payback, and confirmed that the state money would be paid back by then.

[5:27:06 PM](#)

SENATOR HOFFMAN noted that he and Representative Thomas were the two legislators who could possibly put pressure upon the administration, and he emphatically stated that he had not placed any political pressure "to change the rules, to move projects around, we work through the guidelines of the letter of the law."

REPRESENTATIVE HAWKER established that his comments were based on requests brought to him to intercede on the pre-construction benchmarks, and he stressed that there was "no reflection on any individual at this table." He stated that his request to Mr. Haagenson was to maintain the highest integrity and not to succumb to any pressure.

[5:28:58 PM](#)

MR. HAAGENSON declared his acceptable failure rate to be zero. He acknowledged that Senator Hoffman and Representative Thomas were members of the advisory committee, and he stated that he had never been pressured by any legislative member to change the program methods.

[5:30:06 PM](#)

SENATOR STEDMAN observed that the Senate Finance Committee tried to accept recommendations, but was not required to do so.

[5:30:53 PM](#)

REPRESENTATIVE THOMAS pointed out that the payback and the savings from many of the hydro projects will last for a long time. He gave examples of the savings and the benefits for Gustavus and Cordova.

[5:32:37 PM](#)

MR. HAAGENSON, recounting that the original bill for the Renewable Energy Fund had targeted the energy plan for reference, pointed out that the energy plan was still not available.

[5:33:01 PM](#)

CHAIR MEYER asked about the status of the dump project in Anchorage, [Anchorage Landfill Gas Electricity Construction] which would collect the gas off the landfill.

[5:33:26 PM](#)

MR. CRIMP referred to page 20 of the Renewable Energy Fund Round 1 projects handbook, and reported that the landfill project was limited to \$2 million as it was in the Railbelt. He explained that the project was returned to the Municipality of Anchorage, which took it to the Anchorage Assembly, and it was decided that

there were other possibilities for the landfill gas. He offered that AEA considered it to be an excellent project. He reported that the Municipality had put out a Request for Proposal (RFP) for possible uses of the land fill gas, and if this proposal was consistent with the original project, then final design and construction would proceed.

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CHAIR MEYER agreed that project intervention could also happen at the local level.

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MR. HAAGENSON, in response to Representative Neuman, said that he based his oil price forecast of \$107.54 per barrel on the Department of Energy (DOE) 2009 energy forecast data, which was adjusted for inflation, and averaged it for 20 years. He allowed that there were many other oil price predictors. He continued, and explained that this 20 year average price was used across the project.

[5:38:26 PM](#)

MR. HAAGENSON, in response to Representative Neuman, agreed that a 20 year average was used for the evaluation.

CHAIR MEYER asked about the relationship of Alaska Energy Authority (AEA) with Alaska Industrial Development and Export Authority (AIDEA).

[5:38:58 PM](#)

MR. HAAGENSON replied that the agencies shared the building, and AEA contracted with AIDEA staff. He explained that AIDEA had a banking function.

[5:41:10 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 5:41 p.m.