

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

Anchorage, Alaska

January 14, 2011

2:38 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Chair

Senator Linda Menard (via teleconference)

Representative Mike Hawker, Vice Chair

Representative Mark Neuman (via teleconference)

Representative Bill Stoltze

Representative Bill Thomas (via teleconference)

Representative Mike Doogan (via teleconference)

Representative Chris Tuck (alternate) (via teleconference)

MEMBERS ABSENT

Senator Lyman Hoffman

Senator Charlie Huggins

Senator Bert Stedman

Senator Donald Olson (alternate)

Representative Chenault (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES

AUDIT REQUESTS

SUBCOMMITTEE REPORTS

EXECUTIVE SESSION

RELEASE OF AUDITS

RENEWABLE ENERGY PROJECT UPDATES

OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

REPRESENTATIVE ALAN AUSTERMAN

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Requested an audit of the taxes and assessments related to the fishing industry.

PAT DAVIDSON
Legislative Auditor
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions pertaining to both the audit requests.

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

POSITION STATEMENT: Presented an update and answered questions on the Renewable Energy Fund Program.

SARA FISHER-GOAD
Deputy Director, Operations
Alaska Energy Authority (AEA)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the update of the Renewable Energy Fund Program.

ACTION NARRATIVE

[2:38:02 PM](#)

CHAIR KEVIN MEYER called the Legislative Budget and Audit Committee meeting to order at 2:38 p.m. Representatives Hawker, Neuman (via teleconference), Stoltze, Doogan (via teleconference), and Tuck (via teleconference), and Senators Meyer and Menard (via teleconference) were present at the call to order. Representative Thomas (via teleconference) arrived as the meeting was in progress.

Approval of Minutes

[2:38:44 PM](#)

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

[2:39:23 PM](#)

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

[2:39:54 PM](#)

REPRESENTATIVE STOLTZE noted that the minutes were far "more accurate and reflective of what went on in the committee than the Legislative Council committee ... and more accurately reflected what transpired."

Audit Requests

[2:40:42 PM](#)

CHAIR MEYER announced that the next order of business would be the Audit Requests.

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REPRESENTATIVE ALAN AUSTERMAN, Alaska State Legislature, requested an audit to clarify that the Department of Revenue (DOR) had collected the full value of the raw fish tax, and had not based it solely on the payment at the time of the landing. Based on differing assessments by the entities, he also questioned the revenue distribution by DOR to the Alaska Seafood Marketing Institute (ASMI). He requested an audit of the taxes and assessments related to the fishing industry: the Fishery Business Tax, the Fishery Resource Landing Tax, the Seafood Marketing Assessment, Regional Seafood Development Tax, the Dive Fishery Management Assessment, and the Salmon Enhancement Tax.

[2:43:49 PM](#)

PAT DAVIDSON, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, in response to Representative Hawker, acknowledged that the objectives for this audit request were clearly stated. She pointed out that a study of a five year time period would be sufficient.

[2:44:41 PM](#)

REPRESENTATIVE HAWKER moved to approve the request by Representative Austerman for an audit of the fisheries tax and assessments by DOR.

[2:45:06 PM](#)

CHAIR MEYER asked if there were any questions. There being no objection, the audit request was approved.

[2:45:46 PM](#)

CHAIR MEYER announced that the next audit request was a follow up to an earlier request by Senator Bettye Davis.

[2:45:57 PM](#)

MS. DAVIDSON explained that this audit request, previously submitted by Senator Bettye Davis, was for a Legislative Audit of the Alaska State Human Rights Commission and the State Ombudsman's Office. She pointed out that the Legislative Budget and Audit Committee had earlier approved the audit request for the Alaska State Human Rights Commission, but had taken no action with regard to the audit request of the State Ombudsman's Office. She directed attention to a concern that, as the Office of the Ombudsman and the Legislative Audit Division were both Legislative Agencies, there was not the organizational independence of the two entities necessary for an independent audit. She reflected that both offices had stringent statutory requirements for maintaining confidential information, but that the Legislative Audit Division was the only office to have legal access to the records of the Office of the Ombudsman. She proposed that the Legislative Budget and Audit Committee contract for a management review, which would realize the request objectives of Senator Davis. This review would be subject to the same release procedures as the audit reports, prior to its release to the public.

[2:49:00 PM](#)

CHAIR MEYER agreed that Ms. Davidson's suggestion would resolve the audit request by Senator Davis.

MS. DAVIDSON, in response to Chair Meyer, replied that she had been working toward this resolution with the staff in Senator Davis's office.

REPRESENTATIVE STOLTZE reflected on his past disagreements with the Office of the Ombudsman.

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REPRESENTATIVE HAWKER pointed out that the Ombudsman was a constituent and, in order to avoid any perceived conflict of

interest, any future business with the Office of the Ombudsman would be conducted by the Vice Chair for the Legislative Budget and Audit Committee.

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REPRESENTATIVE HAWKER moved to approve the audit request by Senator Davis as discussed by Ms. Davidson. There being no objection, the audit request was approved.

[2:51:59 PM](#)

Subcommittee Report

[2:52:19 PM](#)

CHAIR MEYER announced that the next order of business was the Audit Review Subcommittee Report on the Alcoholic Beverage Control (ABC) Board. He summarized that the Subcommittee had recommended the transfer of the operation of the ABC Board to the Department of Commerce, Community & Economic Development (DCCED).

[2:53:35 PM](#)

REPRESENTATIVE HAWKER reported that, as incoming Chair of the Legislative Budget and Audit Committee, he would introduce legislation for this transfer. He asked if the suggestions of the Subcommittee were supported by the other committee members.

[2:54:29 PM](#)

CHAIR MEYER surmised that DCCED was a good compromise as it dealt with small businesses.

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REPRESENTATIVE STOLTZE agreed with the change, but he cautioned that there was no intent to diminish enforcement.

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SENATOR MENARD concurred with the final Subcommittee report.

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There being no objection, the Subcommittee Report was accepted.

Executive Session

[2:57:12 PM](#)

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 2:57 p.m.

[3:32:58 PM](#)

CHAIR MEYER brought the committee back to order at 3:32 p.m.

Release of Audits

[3:33:10 PM](#)

REPRESENTATIVE HAWKER made a motion for the final audits of the Sunset Reviews of the Department of Commerce, Community & Economic Development and the Regulatory Commission of Alaska, and the special report on the Department of Natural Resources Alaska Coastal Management Program, Part 1, to be released to the public for response. There being no objection, it was so ordered.

[3:33:36 PM](#)

REPRESENTATIVE HAWKER made a motion for the preliminary audit for the Special Report for the Department of Natural Resources Alaska Coastal Management Program, Part 2, to be released to the appropriate agency for response. There being no objection, it was so ordered.

AEA-Renewable Energy Project Updates

[3:33:57 PM](#)

CHAIR MEYER announced that the last order of business would be an update on the Alaska Energy Authority (AEA) Renewable Energy Projects.

[3:35:20 PM](#)

PETER CRIMP, Alternative Energy Program Manager, Alaska Energy Authority (AEA), stated that he would review the hand-outs [Included in the members' packets], point out the trends, and

answer any questions. He referred to the Renewable Energy Fund Program Update, which reflected that 461 applications had been received, 133 applications had been funded, and that 116 grants were in place. He noted that only 4 grants had been cancelled. He shared that AEA had recommended payment of \$202.6 million of the \$1,094 million requested, with \$44.4 million dispersed to date. He reported that \$4.7-\$10 million from delayed grants was now available for reallocation. He directed attention to the footnotes which further detailed individual projects.

[3:38:23 PM](#)

CHAIR MEYER asked for details on the savings generated from the completed projects. He opined that it was necessary for the rate payers to recognize a savings.

[3:39:05 PM](#)

MR. CRIMP agreed and said that AEA would collect the performance and operational data to answer these questions. He reported that a detailed status update with fuel savings for power and heating projects would be available to the legislature by the end of the month. He projected an anticipated savings of 2.5 million gallons of oil during 2011, with a projected fuel savings of 6.5 million gallons per year from future construction projects. He opined that analysis had shown the project paybacks to be inherently economic.

[3:40:58 PM](#)

CHAIR MEYER offered his belief that the "bottom line savings to the rate payers" was the objective. He asked if an estimate of savings was available prior to project approval.

[3:41:45 PM](#)

MR. CRIMP offered to provide the estimates of savings to date, as well as the methodology.

[3:42:20 PM](#)

REPRESENTATIVE STOLTZE opined that there had not been sustainability criteria at the onset of the projects.

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REPRESENTATIVE THOMAS offered an example of the savings effects for Gustavus.

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SENATOR MENARD related an example for the cost savings generated by the Pillar Mountain Wind Project in Kodiak. She asked for more information regarding the Bethel Wind Project.

[3:44:37 PM](#)

MR. CRIMP explained that the Bethel Wind Project would develop 400 kilowatts of wind power, but that it was still necessary for this project to obtain a power purchase agreement with Bethel Utilities. He revealed that TDX Power was taking over the utilities in Bethel, and that TDX had proposed to install larger turbines. He suggested that this could generate greater savings, and that AEA was working with Bethel Utilities and TDX to study the feasibility of the larger turbines with the possibility that the projects could merge, and qualify for an increased cost allocation.

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CHAIR MEYER pointed out that the Swan-Tyee Intertie electric transmission line project had lowered both rates and diesel use.

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MR. CRIMP, in response to Chair Meyer, offered to provide the requested project information. He directed attention to the "pie chart" handout titled "Round 1-3 Funding by Phase", which depicted the expense allocations, the majority of which were for construction. He reported that 11 construction projects and 11 design and feasibility projects were currently completed, with 21 more construction projects projected for completion by the end of 2011. He called attention to the "Outlook" graph on the same handout, which reflected the projected drawdown of funds through June, 2014, and noted that \$115 million would be drawn down by September, 2012. He pointed out that the discrepancy between the \$150 million project allocation and the \$115 million drawdown reflected the need for more information from a few projects before the drawdown of those funds would be scheduled. He introduced the Renewable Energy Fund Construction Schedule, which reflected the cumulative drawdown schedule.

[3:51:24 PM](#)

CHAIR MEYER asked about plans for the remainder of the Round 1 funding which had not yet been dispersed.

MR. CRIMP, in response, affirmed that some projects had been delayed. He informed the committee that caps had been placed on projects, \$4 million for higher cost areas and \$2 million for lower cost areas, and that these caps had necessitated the grantees to come up with the remaining financing. He pointed out that, prior to funding, all financing and permitting needed to be in place. He summarized the delayed projects, and listed those projects which were now proceeding. He reported that AEA was sending letters to grantees detailing the need for "deliverables by a date certain, otherwise we will need to start the process of bringing the grants back."

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REPRESENTATIVE STOLTZE asked if Governor Parnell had recognized the correct funding for backlogged projects in his capital budget recommendations.

[3:56:02 PM](#)

SARA FISHER-GOAD, Deputy Director, Operations, Alaska Energy Authority (AEA), offered her belief that the \$35 million funding available for Round 4 should be sufficient.

[3:57:55 PM](#)

MR. CRIMP directed attention to the project completion schedule outlined on the Renewable Energy Fund Construction Schedule.

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CHAIR MEYER asked for specifics on the Anchorage Municipal Landfill Gas project.

[3:59:18 PM](#)

MR. CRIMP replied that this project should be completed by 2012. He expressed his pleasure with the project, and explained that the project had ensured that its solicited competitive proposals were consistent with the terms of the grant. The accepted proposal would allow for the gas to be sold and piped to Joint Base Elmendorf-Richardson and Fort Wainwright for power and heat

generation. He affirmed that the proposal provided a good economic solution for the Anchorage municipality.

4:01:05 PM

SENATOR MENARD asked for more information about the Fishhook Creek Hydro project.

4:01:34 PM

MR. CRIMP replied that this was a project proposal from an independent power producer. He relayed that AEA had informed the contractor that, prior to any funding, completion of the pre-construction activities and the power purchase agreement were necessary.

4:02:46 PM

MR. CRIMP, in response to Chair Meyer, explained that the Kvichak River project was being combined with an AEA world power system upgrade program, which was receiving Denali Commission funds. He noted that both projects needed to be constructed simultaneously. He opined that the project cost presented on this construction schedule would be revised after the final design data was submitted.

4:03:53 PM

MR. CRIMP gave a brief explanation of the Kvichak River project and opined that the project could be funded through the emerging energy technology fund.

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REPRESENTATIVE DOOGAN established that his son-in-law was a consultant for the Fishhook Creek Hydro project. He asked for more information about the 12 projects listed with funding of more than \$2 million.

4:06:12 PM

MR. CRIMP explained that the two levels of caps included \$4 million for high cost areas and \$2 million for lower cost areas. He pointed out that in Round 3, after there had been caps in the first two rounds, it was decided to "not cap it by project but we will cap it by round." He explained that in the final Round 4 the projects cumulatively could not go over \$4 million for

high cost areas, and \$2 million for the low cost areas. He asserted that the project developers would need to find other sources of financing, if additional funding were necessary.

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REPRESENTATIVE DOOGAN questioned projects well beyond any cap, specifically the NW Arctic Borough Wind Farm which was projected at almost \$11 million.

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MR. CRIMP, in response, said that this was a project from three communities, with project co-ordination by the NW Arctic Borough. He disclosed that AEA had since changed its guidelines, so that the grantee would now be the project owner and developer.

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SENATOR MENARD asked for more information about the solar projects.

MR. CRIMP replied that photovoltaic solar projects were not economic in Alaska. He explained that solar thermal projects, which captured heat and used it more directly, appeared to be more economic.

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SENATOR MENARD thanked Chair Meyer for his work as Chair of the Legislative Budget and Audit Committee.

REPRESENTATIVE DOOGAN agreed.

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Adjournment

There being no further business before the committee, the Legislative Budget and Audit Committee was adjourned at 4:14 p.m.