

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE SPECIAL COMMITTEE ON ENERGY
SENATE SPECIAL COMMITTEE ON ENERGY**

February 10, 2009

3:06 p.m.

MEMBERS PRESENT

HOUSE SPECIAL COMMITTEE ON ENERGY

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Jay Ramras
Representative Pete Petersen
Representative Chris Tuck

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lesil McGuire, Chair
Senator Lyman Hoffman
Senator Albert Kookesh
Senator Bill Wielechowski

MEMBERS ABSENT

HOUSE SPECIAL COMMITTEE ON ENERGY

All members present

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Bert Stedman

COMMITTEE CALENDAR

Work Session: "Pathway to Energy Committees'
Comprehensive Statewide Energy Plan"

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

KATE MARKS, Energy Program Director
National Conference of State Legislatures
Denver, Colorado

POSITION STATEMENT: Gave a presentation titled
Developing an Energy Strategy.

CHRIS ROSE, Executive Director
Renewable Energy Alaska Project (REAP)
Anchorage, Alaska

POSITION STATEMENT: Gave a presentation titled Energy
for Alaskans.

ACTION NARRATIVE

[3:06:32 PM](#)

CHAIR LESIL MCGUIRE called the joint meeting of the House Special Committee on Energy and the Senate Special Committee on Energy to order at 3:06 p.m. Present at the call to order from the House Special Committee on Energy were Representatives Dahlstrom, Johansen, Petersen, Tuck, Millett, and Edgmon. Representative Ramras arrived as the meeting was in progress. Present at the call to order from the Senate Special Committee on Energy were Senators Hoffman, Kookesh, Wielechowski, and McGuire.

Work Session: Pathway to Energy Committees'
Comprehensive Statewide Energy Plan

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CHAIR MCGUIRE announced that the only order of business would be a work session: Pathway to Energy Committees' Comprehensive Statewide Energy Plan. She introduced the presenters, and noted that the presentations today are the first of many opportunities for the energy committees to gather information and develop statewide energy policies. Chair McGuire observed that the energy committees are reflective of the majority of the regions of the state and are uniquely suited to determine what type of energy policy is effective for each region. She assured members that all ideas will be considered by the joint committee.

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KATE MARKS, Energy Program Director, National Conference of State Legislatures, introduced a PowerPoint presentation that was an overview of energy policies developed in other states over the last five years. She informed the committee that the National Conference of State Legislatures (NCSL) is a bi-partisan organization for legislators and staff from all fifty states and the territories, and explained that the presentation covers the process that was followed in each state by the "task force" developing energy policy. The topics addressed by each task force include: petroleum, natural gas, coal, fuel diversity, transportation, economic development, coal bed methane, electricity reliability, security, transmission, net energy balance, imports versus exports, energy efficiency and conservation, wind, biomass, ethanol, solar, oil, and electric utilities. The critical first step is to establish objectives; the objectives should be broad and reflect the reason behind the development of an energy policy. Goals and objectives should also include a "metric" in order to gauge the success as goals are reached.

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MS. MARKS began with the State of Kansas and advised that the Kansas Energy Council was established by the governor in 2004. The council adopted an annual process to develop policy recommendations on topics of high priority. These topics were published each year and are available on-line for review by the public. She further explained that the Kansas Energy Council began with 13 members and was expanded later to 34 members, including representatives from all of the different relevant entities in the state. Four key points in the planning process were: the frequency of meetings; the diversity of the council; short- and long-term goals; and the consideration of all energy issues. The Kansas Energy Council established focus committees for issues such as greenhouse gases, electricity, biomass, and energy efficiency, as well as goals and missions. The council's accomplishments include legislation related to ethanol, efficiency, and electricity transmission, and the development of a transmission authority. In addition, a wind generation study came from the council's direction and Kansas became the seventh state to exceed 1,000 megawatts of electricity generated from wind power. Ms. Marks pointed out that the wind generation working group's three goals were: to make wind generated electricity competitive; to address transmission of power and the federal tax credits thereof; and to look at community development and wind [technology] manufacturing in Kansas. Unfortunately, the governor of Kansas disbanded the council, although members felt their work was successful; in fact, the legislature has formed an energy committee and the wind and renewable resource task force remains active.

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MS. MARKS displayed a quote from Representative Tanya Pullin of Kentucky who said, "We're doing this for the next generation, not the next election." She relayed that after years of inaction, Kentucky's energy

committee created a task force comprised of seven members including the secretaries of finance, education, economic development, natural resources, commerce, and the senate and house energy committees. The task force put public engagement at the forefront of its policy and quickly formed a "guiding policy" that resulted in executive orders and proposed legislation. In 2005, a permanent office of energy policy was established in the commerce department that will oversee the implementation of the comprehensive energy strategy.

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MS. MARKS offered that Oregon and Colorado are potential models for how to establish a state agency to oversee and administer energy-related tasks. She turned to the situation in North Carolina, where an out-dated energy plan was re-worked by a working group comprised of representatives appointed by the governor, four legislators, and five department heads. After nine days of expert sessions, including testimony from over 25 stakeholders and 300 members of the public, the working group drafted a set of recommended policies and programs. The recommendations resulted in 93 measures that became part of the energy plan and required action by the governor, the general assembly, the utilities commission, and other agencies. In addition, North Carolina used its university system as an energy consultancy and its energy office to keep a matrix of accomplishments.

MS. MARKS described the procedures in California and said that Senate Bill 1389 outlines the California Energy Commission's (CEC's) requirement to create an Integrated Energy Policy Report (IEPR) every two years. The report is developed by the CEC with direction from state organizations and is reviewed and approved by the governor and the legislature at set intervals.

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MS. MARKS, in response to Chair McGuire, said that the report is prepared every two years and updated in the year following. She continued her presentation and said that in 2006, Idaho's legislature established by concurrent resolution an interim committee of energy, environment, and technology. The committee's objectives were: to ensure a reliable, low-cost energy supply; to protect the environment; and to promote economic growth. The committee collected testimony from stakeholders and members of the public and developed broad support for its recommendations. Each of the recommended findings and actions held consensus support and recognized the need for increased conservation and diversity, while maintaining access to conventional resources for energy suppliers.

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MS. MARKS stated there are similarities between all of the states' approaches to an energy policy. The first general principle is the development of a non-specific guiding policy that allows flexibility and that uses legislation or executive orders to address specifics. Next, she advised adopting specific goals that the recommendations in the policy will help to achieve. Instituting an entity for analysis is vital to ensure the state has current information on energy-related issues. Furthermore, the policy must include "teeth," such as regulations and permits, and she gave several samples from various states.

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MS. MARKS presented the last slide that listed the general process beginning with an overview of energy statistics and trends; the involvement of state government leadership; consultation with national, state, and local organizations and experts; and the

involvement of the public. She observed that most task forces are bi-partisan and have issued a report with their recommendations. Lastly, she stressed the importance of tracking the progress of the task force and keeping within a time-frame for review and updates. Ms. Marks concluded her presentation with an offer from NCSL to serve as a resource to the committee and to all legislators.

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SENATOR HOFFMAN noted that Alaska is sparsely populated except for a large concentration of residents in Southcentral. For the most part, many utilities have a vast knowledge about what is needed to produce energy. However, different areas of the state rely on different sources of energy. He asked whether other states address a similar diversity and how to coordinate "so that we can get a more uniform and lower cost of energy for Alaska."

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MS. MARKS opined Idaho is a good example for Alaska for three reasons. Idaho developed a policy that garnered public support and included the utilities in the process. Also, the policy considered new resources, but recognized a limit to their cost and required cost benefit analyses.

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SENATOR HOFFMAN further asked whether other energy producing states have utilized their resources to lower costs to residents.

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MS. MARKS offered to research this question.

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CHAIR MCGUIRE asked how many states have an energy policy that is codified in law.

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MS. MARKS estimated that more than one-half of the states have an energy policy due to rising energy costs, the concern about climate change, and the development of new and alternative technology for the extraction of resources. She advised that a long-term, long-standing plan has become a priority for many states. Regarding codification, she was unsure of the percentage, but stated that most policies are in statute and offered to provide further details.

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REPRESENTATIVE EDGMON first observed that developing an energy plan requires participation from an array of resources beyond the legislature or the executive branch. Secondly, the term "energy plan" encompasses the areas of cost, environment, economics, efficiency, tax policy, and more.

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MS. MARKS stated that comprehensive energy policies highlight the importance of this issue. In response to Representative Edgmon, she said that the initial steps to develop an energy policy can come from any level of government. In some states, the legislature has taken the leadership role; in others, direction has come from the governor or state agencies. In any case, it is critical to get approval from each level to ensure that "everyone understands their role in what they need to do, to make ... these recommendations happen."

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CHRIS ROSE, Executive Director, Renewable Energy Alaska Project (REAP), informed the committee that his presentation was a "SWOT" analysis that contained the basic business analysis of the strengths, weaknesses, opportunities, and threats to the development of an energy policy. As introduction, he said that the Renewable Energy Alaska Project (REAP) is a coalition of 61 organizations around the state including utilities, businesses, environmental groups, consumer groups, Alaska Native organizations, and energy agencies. Its goal is to increase the production of renewable energy in Alaska. Mr. Rose listed the strengths for Alaska beginning with its vast renewable energy (RE) resources that are stably priced, clean, local, and inexhaustible; reserves of natural gas; and other fossil fuels. Also, there are economic strengths such as the Alaska Permanent Fund and [the influx of] federal stimulus money. Further strengths are the excellent staff at the Alaska Energy Authority (AEA) and at Alaska Housing Finance Corporation (AHFC); the AEA "Alaska Energy" Report; the Cold Climate Housing and Resource Center (CCHRC) Report; the legislative commitments through the Renewable Energy Grant Fund and Weatherization Rebate Programs; and many motivated people and communities.

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MR. ROSE turned to weaknesses and began with the state's heavy dependence on natural gas and diesel to generate heat and electricity. With this dependence come the risks of increasing prices on the world market and the cost of future penalties for carbon. Other weakness are: energy agencies are decentralized and understaffed; there is limited research and development; there is a lack of coordinated job training for energy related jobs; many renewable and fossil resources are stranded; populations are small; and distances for the transmission of energy are great.

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MR. ROSE continued to explain that further weaknesses are the six small Railbelt utilities that are not mandated to do integrated planning for power generation and transmission.

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CHAIR MCGUIRE asked how other states have addressed the distance issue.

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MR. ROSE responded that, besides Nebraska and Iowa, other states do not have a utilities "co-op" system. Furthermore, Nebraska and Iowa are not as isolated as Alaska. He expressed his understanding that the governor is introducing a bill to consolidate the Railbelt utilities; for now, however, the current situation limits financing capabilities and prevents individual utilities from developing a big [infrastructure] project.

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CHAIR MCGUIRE pointed out an analogy between the aforementioned situation and the lack of integration between the state's energy agencies.

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MR. ROSE presented more weaknesses that have to do with energy efficiency: inefficient housing and building stock; no statewide codes; no baseline data; no public education programs; no statewide efficiency goals; and efficiency is not rewarded through regulation. In addition, there is no consistent funding, no mechanism in place to reach the 50 percent renewable energy goal,

and a weak regulatory commission, the Regulatory Commission of Alaska (RCA).

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REPRESENTATIVE MILLETT asked whether the existing state agencies are sufficient, but are not aligned in a way that supports the AEA with financing and regulatory assistance in rural areas.

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MR. ROSE agreed that there is informal coordination between agencies; however, programs are duplicated and it is very hard for the public to know "who is doing what." He said that he does not get too many questions about regulatory policy, except for PCE. Mr. Rose then discussed opportunities and suggested that the first is to strengthen AEA as it is seriously understaffed. Now is also a good time to do things differently by creating a unified power producer in the Railbelt and to begin regulatory reforms with a focus on energy efficiency.

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REPRESENTATIVE MILLETT suggested AEA suffers from a lack of authority.

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MR. ROSE explained that AEA is not a department but a corporation connected to the Alaska Industrial Development & Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED). He gave some of the history of the agency; in fact, AEA and AIDEA share the same board of directors. Returning to the topic of opportunities, Mr. Rose listed the following ideas: create a funding pool for performance contracting; leverage the Alaska Permanent Fund for

"blended value" investing; expand the power project loan fund; diversify and strengthen the economy by developing and perfecting small scale technology; strengthen the University of Alaska energy curriculum and research and development efforts; expand efficiency programs and improve job training for contractors; retrofit all public buildings over time; and support public energy efficiency and conservation education programs.

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REPRESENTATIVE DAHLSTROM asked whether revision of the Uniform Building Code is necessary prior to the regulation of energy efficiency standards.

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MR. ROSE cautioned that there will be some resistance to new building codes for new residential construction; however, there will be less "push back" for commercial and retrofit buildings. Furthermore, as energy efficiency becomes an important selling feature, builders will be more receptive to regulation.

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MR. ROSE relayed the following additional opportunities: encourage electric transportation, particularly in cities like Sitka and Juneau; encourage electric heat; remain an "energy exporter" in the future by exporting excess electricity through power lines and hydrogen by tanker; increase competitiveness and improve the investment climate by producing renewable energy; and preserve communities and cultures by producing renewable energy.

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MR. ROSE then listed the following threats: delaying action; competing solutions such as the Susitna Hydro Project versus the [AGIA or Denali-The Alaska Gas Pipeline Project] gas pipeline; and uncoordinated efforts.

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REPRESENTATIVE MILLETT observed that competing projects are not a threat, but the way to determine the best and most economical project.

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MR. ROSE clarified that competing projects are a threat when they are analyzed independently in isolation.

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CHAIR MCGUIRE agreed and added that the state needs the ability to follow its policy and balance the projects so all regions benefit. She cautioned against looking at individual projects in an uncoordinated way instead of looking "from 35,000 feet" to determine what makes sense for the state. Chair McGuire understood Representative Millett's concern; however, competing projects must be recognized as fitting together.

MR. ROSE warned that there are not enough engineers in the U.S. to build the gas line and the Susitna Hydro Project at the same time. In response to Chair McGuire, he said that competing hydro electric projects raise technical integration issues such as the balance of resources and the staging or phasing of projects. At this time, the AEA is beginning its integrated resources plan (IRP) to look at the six Railbelt utilities. He is deeply concerned that the utilities may reject the IRP. He stressed that uncoordinated efforts are a big issue and tie into the overall problem of "getting everybody working on the same

page." Mr. Rose returned to the listing of threats that included: entrenchment, meaning all parties have business to protect and may stall the process; an inordinate focus on fossil fuels; declining oil revenues; competition from around the world, especially Iceland and Norway; ignoring heating and transportation with a myopic focus on electricity; the costs of climate change and the future price on carbon; and Alaska's food supply. Regarding Alaska's food supply, Mr. Rose informed the committee that the average food in the Lower 48 moves 1,500 miles to reach the consumer. In Alaska, the average is 5,000 miles to get to the consumer. This situation makes Alaskans super dependent on transportation systems for food and as food is energy, it must be intricately connected to energy policy. For example, how to protect farm land and protect resources to grow food.

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MR. ROSE displayed the next slide titled Why Policy Now? He explained that Alaska needs affordable energy to prosper even though the price of fossil fuel will continue to increase. More importantly, the decision to build a power plant carries economic implications for 20 to 100 years. In the Lower 48, a state can sell its excess energy via power lines to neighboring states; however, Alaska will be stuck with the power plants it builds and it must make careful decisions over the next five to six years. Mr. Rose said that the time is ripe for policy creation and regulatory and structural reform. His last slide projected Iceland's vision of a fully hydrogen-driven economy by 2050. He pointed out that 93 percent of Icelanders support this vision and the nation currently uses nearly 100 percent renewable electricity and heat. He concluded that, in order to meet its goals and objectives, Alaska needs a long-term vision for where it wants to be in 50 years.

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REPRESENTATIVE JOHANSEN reminded the committee that there is a proposal in Southeast to connect its hydro grid with British Columbia, Canada.

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MR. ROSE stated that he was aware of the proposed British Columbia intertie. He questioned whether Alaska's excess hydro or tidal power should be sold out on the national grid, eventually to California, or first used to provide affordable transportation and heat for Southeast residents first. There will be trade-offs between selling the power for a high profit and using it for the needs of local residents. The sale of electricity is unlike the constitutional mandate that forces the sale of oil and gas for the highest price, he opined.

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REPRESENTATIVE JOHANSEN surmised that in 50 years, it will be advantageous for Southeast to run its excess electricity out to the national grid. He asked whether there was a downside to this connection.

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MR. ROSE said he was unsure. He assumed there was no downside if you serve the needs of the Southeast residents first.

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REPRESENTATIVE DAHLSTROM concurred with Mr. Rose's comment about food as energy, and encouraged respect for farmers and the land.

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MR. ROSE acknowledged that soil is a finite resource in Alaska.

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CHAIR MCGUIRE expressed her desire to learn about the "carbon foot printing" of food.

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REPRESENTATIVE EDGMON reflected on Alaska's large-scale industry and its tremendous use of power for extractive resources; in fact, this use of energy may be viewed as a threat in a SWOT analysis. On the other hand, there is also opportunity for public-private sector partnerships and he gave examples of the oil and gas industries' support for its neighbors in Noatak and Kivalina.

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MR. ROSE agreed and added that industry will be in a position to move industrial development north as the Arctic becomes ice-free.

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REPRESENTATIVE RAMRAS told the committee that replacing the transmission line grid in most small rural communities and villages would save more energy than installing new wind towers would generate.

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MR. ROSE agreed. He said that AEA specifically looks at the ability of the transmission grid to integrate power and assigns low technical feasibility scores to old transmission grids.

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REPRESENTATIVE RAMRAS then referred to two basic problems with wind power generation. The first problem is funding and the other is the cost of building the transmission lines. Unless an entity is able to take advantage of federal subsidies, wind generation is not economically feasible. He said that in his personal experience with alternative energy generation in Fairbanks, it is only economic because of the federal tax credits and deductions; in fact, profits from the sale of kilowatts back to the utility will not pay for the capital expenses. He asked whether the renewable energy projects contemplated in the Northwest Arctic region should be constructed by state and municipal governments that would not qualify for federal subsidies and tax credits, or by private entities that would qualify. Representative Ramras remarked:

... it's a \$15,000 million project if it's built by the City of Nome, it's \$7.5 or \$8 million if it's built by the Bering Straits Native Corporation, and that's a fact, because of the nature of the subsidies and the credits that come with it. And yet it creates a really important policy question for us, I think, in which kind of entity are we going to reach out to if we're really trying to maximize energy and we're always sensitive to the kilowatt cost that's going to be paid by the consumer

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MR. ROSE concurred that federal subsidies are helpful for renewable energy development. The federal production tax credit (PTC) was passed by Congress to level the playing field between [RE] and the heavy subsidies for oil and gas, nuclear [energy], and coal. More recently, Congress developed another program available to non-profits called Clean Renewable Energy Bonds (CREBs); in fact, Kodiak Electric Association,

Inc., received \$5 million to \$6 million worth of financing at zero percent interest. This is one way that the federal government is trying to deal with the fact that only entities with a tax burden can benefit from PTC. He also agreed that there are many ways to use partnerships on major projects. For instance, the Fire Island [wind farm] project is a partnership of private businesses. Mr. Rose acknowledged legislators' concern that providing grant money to independent power producers is without a guaranty that there will be an eventual benefit to the consumer. An imperfect solution to this problem would be to have the RCA set the tariffs. Moreover, private companies may not be willing to build new infrastructure in villages, leaving the local tribal government or the state with the responsibility. However, private enterprise and competition can play a bigger role in the Railbelt, similar to what is happening in Canada.

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CHAIR MCGUIRE advised that proposed legislation granting geothermal tax incentives has been expanded to include earned tax credits for co-ops and publicly traded entities. This legislation is supported by many public entities in Alaska.

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REPRESENTATIVE RAMRAS recommended the committees hear from the Golden Valley Electric Association (GVEA) about their involvement in the Sustainable Natural Alternative Power (SNAP) program. He pointed out the SNAP program is applicable to small commercial and residential uses because it creates a pool of money from like-minded contributors that is divided among producers of "green" kilowatts. Representative Ramras strongly advocated for a presentation on this program.

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MR. ROSE affirmed that the SNAP program has been successful for GVEA; furthermore, the Homer Electric Association Inc., and the Matanuska Electric Association Inc., are interested in participating. He said if the Railbelt consolidates its utilities, the region could be like Demark, Germany, Spain, and Ontario, Canada, where tariffs are set at a rate above market for the use of resources that the governments want to incentivize. Individuals can sell power into the grid and the higher rate is spread among all users of the system. This has resulted in the high use of solar power in Germany; in fact, Germany has become a major manufacturer of solar panels. He opined that consolidation of the Railbelt utilities could have the same result in Alaska.

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REPRESENTATIVE PETERSEN asked how much money is available in AEA's Power Project Loan Fund, what the qualifications for a loan are, and whether the fund should be increased.

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MR. ROSE responded that there is about \$10 million in the revolving fund and almost all energy power projects are eligible. In further response to Representative Petersen, he advised that a village utility could get a loan to build a wind farm, except there is not enough money to go around.

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REPRESENTATIVE TUCK recalled his visit to Kotzebue where the residents proved energy efficiency is better than energy production by weatherizing homes. Conserving energy benefits every family and business. Furthermore, he agreed that Alaska should work toward

sustaining itself regarding food and energy; perhaps with hydroponic agriculture and other creative and innovative ideas.

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MR. ROSE encouraged the committee to go to Chena Hot Springs to see tomatoes growing in the cold and dark of February. This is an example of taking advantage of excess energy.

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CHAIR MCGUIRE told the history of Iceland that led to the development of sustainable geothermal energy and hydroponic food production there. She then acknowledged the attendance by telephone of: Steve Haagenon, Executive Director, AEA; Karsten Rodvik, External Affairs Director, AEA; Eric Lidji of Petroleum News; and Gwen Holdman, University of Alaska.

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ADJOURNMENT

There being no further business before the committee, the joint meeting of the House Special Committee on Energy and the Senate Special Committee on Energy meeting was adjourned at 4:49 p.m.