

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

March 13, 2009

11:05 a.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 132

"An Act relating to the Southeast energy fund."

MOVED SB 132 OUT OF COMMITTEE

SENATE BILL NO. 54

"An Act making sales of and offers to sell certain energy resources by a refiner at prices that are exorbitant or excessive an unlawful act or practice under the Alaska Unfair Trade Practices and Consumer Protection Act."

MOVED CSSB 54(ENE) OUT OF COMMITTEE

SENATE BILL NO. 71

"An Act relating to alternative energy systems for public works."

MOVED SB 71 OUT OF COMMITTEE

SENATE BILL NO. 131

"An Act relating to net energy metering for retail electricity suppliers and customers."

BILL POSTPONED

**PREVIOUS COMMITTEE ACTION**

BILL: SB 132

SHORT TITLE: SOUTHEAST ENERGY FUND

SPONSOR(S): SENATOR(S) STEDMAN

02/27/09           (S)           READ THE FIRST TIME - REFERRALS

02/27/09 (S) ENE, RES, FIN  
03/13/09 (S) ENE AT 11:00 AM BUTROVICH 205

BILL: SB 54

SHORT TITLE: PRICE GOUGING INVOLVING ENERGY RESOURCES  
SPONSOR(S): SENATOR(S) WIELECHOWSKI, ELLIS, FRENCH

01/21/09 (S) PREFILE RELEASED 1/16/09  
01/21/09 (S) READ THE FIRST TIME - REFERRALS  
01/21/09 (S) ENE, RES, JUD  
02/12/09 (S) ENE AT 11:00 AM BUTROVICH 205  
02/12/09 (S) Heard & Held  
02/12/09 (S) MINUTE(ENE)  
03/13/09 (S) ENE AT 11:00 AM BUTROVICH 205

BILL: SB 71

SHORT TITLE: ALTERNATIVE ENERGY FOR PUBLIC WORKS  
SPONSOR(S): SENATOR(S) THERRIAULT

01/21/09 (S) READ THE FIRST TIME - REFERRALS  
01/21/09 (S) ENE, RES, FIN  
03/13/09 (S) ENE AT 11:00 AM BUTROVICH 205

**WITNESS REGISTER**

SENATOR STEDMAN  
Alaska State Legislature  
Juneau, AK  
**POSITION STATEMENT:** Sponsor of SB 132.

DARWIN PETERSON  
Staff to Senator Stedman  
Alaska State Legislature  
Juneau, AK  
**POSITION STATEMENT:** Commented on SB 132.

ROBERT VENABLES, Energy Coordinator  
Southeast Conference (SEC)  
**POSITION STATEMENT:** Supported SB 132.

GORDON WROBEL  
Elfin Cove Nonprofit Corporation  
Elfin Cove, AK  
**POSITION STATEMENT:** Supported SB 132.

ANDREW THOMAS, Executive Director  
Sitka Conservation Society

**POSITION STATEMENT:** Supported SB 132.

ED SNIFFEN, Assistant Attorney General  
Department of Law

**POSITION STATEMENT:** Answered questions about SB 54.

DANA OLSON, representing herself

**POSITION STATEMENT:** Commented on SB 54 and SB 71.

JEFF COOK, Director  
External Affairs  
Flint Hills Resources Alaska

**POSITION STATEMENT:** Opposed SB 54.

KIP KNUTSEN, Manager  
External Affairs  
Tesoro Alaska

**POSITION STATEMENT:** Opposed SB 54.

DAVE STANCLIFF  
Staff to Senator Gene Therriault  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Presented SB 71 for the sponsor.

CHRISTOPHER HODGIN, Project Manager  
Department of Transportation and Public Facilities (DOTPF)

**POSITION STATEMENT:** Explained how SB 71 would affect the department's design activities.

JEFF HERMANS, Tok area Forester  
Division of Forestry  
Department of Natural Resources (DNR)

**POSITION STATEMENT:** Supported SB 71.

SENATOR GENE THERRIAULT  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Sponsor of SB 71.

**ACTION NARRATIVE**

[11:05:28 AM](#)

**CHAIR LESIL MCGUIRE** called the Senate Special Committee on Energy meeting to order at 11:05 a.m. Senators Wielechowski, Stedman, and McGuire were present at the call to order.

## SB 132-SOUTHEAST ENERGY FUND

[11:06:30 AM](#)

CHAIR MCGUIRE announced the consideration of SB 132.

SENATOR STEDMAN, sponsor of SB 132, said this issue is partially left over from back when the state created the Railbelt Energy Fund. During that era there was a lot of need to expand energy systems throughout the state, and the state is in that arena again a couple of decades later. So, he went back in and "dusted off some old language" and found what the state has to help communities move forward with alternative energies, particularly Southeast hydro. A lot of focus has been on getting gas to Alaskans, but Southeast is a little detached from the main corridor of the gas line; so this would be our bullet line.

CHAIR MCGUIRE agreed that the legislature has spent a lot of time talking about a gasline for rural and western Alaska, but not as much on Southeast.

DARWIN PETERSON, staff to Senator Stedman, said SB 132 provides a funding mechanism for construction of power generation projects in Southeast and for completion of the regional electric grid. The state's goal should be to provide low-cost, renewable energy to all Alaskans, and natural gas doesn't satisfy the energy needs of every region of the state.

The communities in Southeast have a long history of working towards the long-term goal of energy independence by collaborating on power generation and transmission. However, most communities in the region still are not on hydro power and the majority still burn oil to generate electricity and heat. In addition, many of the hydroelectric assets in Southeast are at or near capacity which severely limits regional economic growth opportunities, and while hydroelectric projects provide low-cost, renewable power over the long-term, they are extremely capital intensive - as high as \$1.5 billion for completing the electric grid. The state has a critical role to play in capitalizing these projects on the front end, and SB 132 broadens the authority of the existing Southeast Energy Fund to provide that mechanism. The list of critical hydroelectric projects that may be funded through the Southeast Energy Fund include:

- Ketchikan-Whitman Lake Hydroelectric Project
- Petersburg-Ruth Lake Hydroelectric Project
- Sitka-Takatz Lake Hydroelectric Project

- Metlakatla Intertie to Ketchikan Sitka-Blue Lake Hydroelectric Project
- Prince of Wales Island Intertie Reynolds Creek Hydroelectric Project
- Falls Creek Hydroelectric Project
- Kake-Petersburg Intertie Metlakatla-Triangle Lake Hydroelectric Project

[11:10:07 AM](#)

SENATOR STEDMAN said a map in their packets indicates current and future electrical intertie projects. The black line connecting some blue dots from Ketchikan to Wrangell is totally constructed or it will be energized this summer. The portion between Tyee Lake and Swan Lake, which basically hooks Ketchikan to Petersburg and Wrangell should be energized sometime this summer. The subcomponent of the Southeast intertie is to balance the draw on those two dams.

The grey line going to Kake is in the proposed stage and is an access road and power line. Kake runs totally on diesel fuel and has a fishing fleet, a cold storage and fish processing within the community as well as home heating and commercial business needs. It has a population of about 600 people. That is the next community they are trying to hook up along with Metlakatla on the southern end. Metlakatla has excess power and they are in the process of hooking it up to Ketchikan with a little less than a mile of submarine cable. These connections are being done in an incremental methodical order so when the highly capital intensive hydros gets built, all the juice can be drawn out of them almost immediately to offset the high capital cost.

[11:13:46 AM](#)

SENATOR STEDMAN said Ruth Lake, a little north of Petersburg, is under consideration for a new hydro sight; Takatz, a 28 mgW dam is north and east of Baranof Island. Thayer Lake would feed Angoon, but getting that on line will be a multi-decade process. Juneau has Lake Dorothy and Snettisham, but has no power source coming out of the north end. So the intertie will have some redundancy, particularly for Juneau, either through Greens Creek out of Takatz or from Haines/Skagway down. So, if the power lines are lost like what has happened in the last two winters in Juneau, it can still run on hydro. Multiple meetings are happening within the region to get all the communities working together, not much unlike what they are trying to do with the Railbelt energy utilities; so they are moving forward.

SENATOR STEDMAN reminded them of the misconception that Southeast is all on hydro and therefore they have very inexpensive energy sources, but most of the homes in the communities on hydro, Juneau and Sitka are examples, heat with diesel fuel and the hydro is at or near capacity. Sitka is looking at extending the height of Blue Lake Dam and increasing its generation capacity to hold the community over till Takatz gets built. Lake Dorothy is another one that is going to be put in, in phases. The projects are very expensive capital-wise and cheap to operate. But they want to make sure in solving the energy needs of Anchorage, Fairbanks, and the Kenai Peninsula that they also look south and west to the Alaskans that live along the coast and come up with a statewide energy solution.

SENATOR STEDMAN said Alaska may be the wealthiest state in the nation, but he wants to make sure the state can take care of its energy needs and can develop and expand its employment and educational opportunities. The need to expand hydro capacity in Southeast is directly tied to the area's employment and economic stagnation. "If we don't find some way to create competitively priced energy, then we're going to continue to have stagnation problems in Southeast." This bill puts the Southeast Energy Fund in front of the legislature to consider as a tool as it moves forward to solve the energy needs of all Alaskans.

SENATORS KOOKESH and HOFFMAN joined the committee a while ago.

11:18:08 AM

SENATOR KOOKESH said the sponsor statement mentions \$1.5 billion for the fund, and he wanted people to understand that this just establishes the fund, but the money would go into it over time.

SENATOR STEDMAN said that is correct. A FERC process is under way at Ruth Lake, and Takatz probably wouldn't be ready for construction in six or seven years at the earliest. There is also interest in coming up with a more formal regional plan so everyone including the state agrees on the order in which projects will be constructed. So they can take steps precisely - because the projects will most likely it will be done with heavy debt loads and some equity help from the state and communities.

11:20:05 AM

CHAIR MCGUIRE asked about what kind of jobs will come out of these projects.

SENATOR STEDMAN said Mahoney Lake in Ketchikan is 9.6 mgW, Takatz is possibly 28 mgW or larger and may cost \$250 million.

If they could get to the point of having an orderly and fairly quick build out over a period of 15 years, tunnel crews could be kept busy, but that is probably optimistic. Most of the tunnel crews and special crews are brought in. A lot of operating engineers, laborers, and truck drivers will be needed - roads will have to be built. It would help employ a lot of construction forces and give communities' members an opportunity to have some high-paying Davis Bacon jobs through that process. The whole town of Sitka boomed for a couple of years when it built Green Lake in the mid-80s. Juneau still feels the economic stimulus from the construction of Lake Dorothy.

[11:21:57 AM](#)

CHAIR MCGUIRE said there may be some opportunities for hydro specialties in education at the University of Alaska Southeast, which is a unique place for hydro - and folks may want to be experts.

MR. PETERSON said the Southeast Energy Fund already exists in statute, but is just being amended. The original Southeast Energy Fund was project-specific to deal with Swan Lake and Tye Lake hydro projects. SB 132 just amends that existing fund to look at a broader scope of energy projects, not just hydro.

CHAIR MCGUIRE asked Senator Stedman if any other energy projects are out there.

SENATOR STEDMAN said there is interest in tidal. Not shown on the map is a connection up the Bradfield Valley into the Canadian grid, which would allow them to import or sell power. That is part of the Southeast long range plan. Some geothermal possibilities are located near Ketchikan, Baranof Island and the north end of Hoonah Sound.

[11:24:29 AM](#)

ROBERT VENABLES, Energy Coordinator, Southeast Conference (SEC), supported SB 132. He said the SEC is a private membership organization that is one of the state's many ARDORS (regional development organizations) it is also the federally recognized economic development district representative. The Railbelt Energy Fund, mentioned earlier, was established in 1986 and between 1986 and 2005 a total of \$486 million was appropriated to it; \$437 million of that was appropriated for various energy projects in that region including the Susitna Bradley Lake, the Alaska northern and southern interties as well as the Healy Co-generation project. In 1993 lawmakers amended that fund's enabling legislation to include a broader authorization for

programs and projects and other expenditures to assist in meeting the Railbelt's energy needs much like SB 132 will amend the Southeast Energy Fund.

In 1997, the Southeast Conference formed an energy committee, originally called the Intertie Committee, committed to working on the development of the regional electrical grid system in Southeast. This is not a new idea. Plans go back as far as the 1920s. The Alaska Energy Authority (AEA) put together what they said would be a 20-year plan to put together the Southeast electrical intertie system in the 1980s. Had it been funded, communities would already be plugged into it. But unfortunately, when the price of oil goes up, everyone panics, then when it goes down again, they say we can't afford it. So when prices spike again we are unprepared - although he has heard that this time it is different.

[11:27:32 AM](#)

MR. VENABLES said progress is being made and the best example is the 57-mile Swan/Tyee intertie that connects those communities and allows the next logical legs to Metlakatla and Kake to be interconnected to that grid system. In 1997 when the Southeast Conference formed the committee, it commissioned Hatch Acres to put together a study that was called "The Southeast Alaska Electrical Intertie System Plan," and that has been their blueprint for all of their efforts to date. As Senator Stedman mentioned, that plan needs to be updated with a new integrated resource plan. It is the report that the U.S. Congress in February 2001 authorized and cited in public law (Pub.L.) 106-511 and authorized \$384 million to develop this intertie along with a 20 percent match from private and state sources. So, if the state does put money aside, the authorization and plan are in place. Since the 1997 Acres report and the 2001 Congressional authorization, the SEC has continued to work with its member communities and funding partners such as USDA Rural Development, the Denali Commission, and the State Legislature to further develop the regional electrical intertie system.

While progress is being made, there are many energy needs in the region that are costly to build without any funding mechanism available. Today the intertie system needs they are focusing on are two-fold - the obvious need for the physical links that connect the transmission lines community to community, and funding for the HB 152 grants that AEA has forwarded for the legislature's approval that have allowed many of these projects to move forward.

11:30:07 AM

MR. VENABLES said that the estimated cost for developing such an intertie system is now approaching \$500 million. Obviously it can't be done all at once, but a plan is needed and this will help fund it in an orderly fashion.

The second system need is to develop capacity along the line to meet the ever-increasing growth of electrical use. The spike in oil prices last year brought that to the fore. Also, it is needed to quicken the pace towards conversion from diesel generated space heat to electrical, which is already consuming the excess capacity in many of the communities that are having to supplement their hydro with diesel or they can see the date that diesel will have to be run on a regular basis.

He said that many projects in Southeast can meet these growing needs and the map is just a snapshot. Southeast Alaska has been called the Saudi Arabia of hydro. The intertie allows resources to be developed that aren't just within a community. Some communities will be forced to do biomass or geothermal and that can be fed into the grid system and can become economic engines and opportunities for all the communities. Often technology is not quite ready like with tidal and wind, but as they become more cost effective, it can all be integrated.

11:32:26 AM

MR. VENABLES said the Southeast communities have worked together to forge a vision to develop its vast renewable resources into a regional electrical intertie system, but a funding mechanism to construct such a system still alludes them. SB 132 can be the needed mechanism.

CHAIR MCGUIRE asked if the federal stimulus package has any monies that might be coming to municipalities to assist in development in this area.

MR. VENABLES replied that even if they were shovel ready, which they are not, the stimulus package is designed to ignore hydro development. He has heard of some discussions within the legislature on writing a resolution urging a new definition for renewable resources because of that. The other point is that the shovel-ready status, because they have not been able to commit resources to design and get projects ready, they would not be ready to do very many projects within the 90-day time frame many are talking about.

11:34:12 AM

CHAIR MCGUIRE said the potential for exporting energy to Canadian neighbors and attracting manufacturing and jobs in terms of low cost energy is another potential opportunity. SB 31 that Senator Stedman has been helping her with has a production tax credit for renewable energy, and hydro has been specifically included in that definition. She is hoping that will give some moral authority to his conversation. Oregon has allowed hydro to remain a part of its definition of renewable energy, but Washington State has chosen not to.

[11:35:20 AM](#)

GORDON WROBEL, Elfin Cove Nonprofit Corporation, said Elfin Cove is 85 miles due west of Juneau on Chichagof Island. It sits on top of one of the most prolific fisheries in all of Alaska. He supported SB 132 because it provides support for small communities like his that are interested in eliminating their dependence on fossil fuel generation. Currently they are paying about 50 cents per kilowatt; at that rate virtually all economic development that is energy dependent is not possible for them to be competitive.

[11:36:40 AM](#)

ANDREW THOMAS, Executive Director, Sitka Conservation Society, supported SB 132 saying Sitka is very excited about increasing the potential for developing renewable energy resources there. A lot of different entities in the community have been looking at how to develop their renewable energy in Sitka and how to take action on climate change. In addition to all the economic benefits this bill will create in terms of community resiliency and sustainability, and long-term economic development, it will help them get away from using oil. Sitka has two hydro electric facilities that were installed in 1950 and in 1980. The one in the 1980s was built in response to the 1970 oil crisis. Currently their total energy budget is 80 percent oil and 20 hydroelectric. This bill will provide an opportunity for Sitka to really develop its renewable energy resources and it is a priority for the community to take action on climate change. This bill will help them continue to do that.

[11:38:24 AM](#)

SENATOR STEDMAN moved to report SB 132 from committee with individual recommendations and attached zero fiscal note(s). There being no objection, the motion carried.

**SB 54-PRICE GOUGING INVOLVING ENERGY RESOURCES**

[11:39:17 AM](#)

CHAIR MCGUIRE announced the consideration of SB 54.

SENATOR WIELECHOWSKI, sponsor of SB 54, moved to adopt the committee substitute (CS) to SB 54, labeled LS0209\S. There being no objection, the motion carried.

SENATOR WIELECHOWSKI introduced his staff, George Ascott, who presented this bill at the last hearing. Based on the testimony then, the bill was modified slightly. A provision was deleted that created an objective defined standard for "excessive" and "exorbitant" to be 10 percent above the price that it was sold for by Seattle refineries. This concern was raised by the refiners; and the CS still keeps the bill strong and accomplishes the objective.

ED SNIFFEN, Assistant Attorney General, Department of Law, said his duties include enforcement of Alaska's Consumer Protection Act, and SB 54 would make excessive or exorbitant prices by a refiner a violation of the act that would fall within his authority to enforce.

He explained that making an act a violation of the Consumer Protection Act creates an opportunity for private individuals to also bring an action to stop the conduct. That may be something that hasn't been considered. Otherwise he has no comments and was available to answer questions.

[11:42:17 AM](#)

SENATOR STEDMAN asked how "exorbitant or excessive" is defined on page 1, line 10.

MR. SNIFFIN replied that it is a fairly broad description and there is no current case law that addresses exorbitant or excessive prices in a consumer context. This language tracks language that is used in price gouging laws from some East Coast states that prohibit exorbitant or excess prices. He is hopeful that those laws would give some guidance on exactly what that means, but the standard is fairly broad and they would have to work with it as best they can.

[11:43:44 AM](#)

SENATOR WIELECHOWSKI said he was simply trying to accommodate testimony from the refiners, and he would be happy to go back to the original language. Otherwise excessive and exorbitant will ultimately be defined by the courts.

CHAIR MCGUIRE said most states have a price gouging statute on the books, and asked if in Mr. Sniffen's analysis of those if he found that they used "excessive and exorbitant."

11:45:15 AM

MR. SNIFFEN answered that the statutes he looked at used a variety of descriptions for conduct that should be stopped. For example, when Hurricane Katrina hit, Louisiana's price gouging statute went into effect. Their statute says during the state of a natural disaster or a declared state of emergency, if you charge prices in excess of a certain percentage above the price that was charged 30 days before the disaster that is considered to be exorbitant or excessive. A lot of the price gouging statutes are keyed around prices that were in effect prior to a state of emergency and they say a price above a certain percentage can't be charged over that preexisting price. Alaska is not trying to key this provision to a declared state of emergency. Without a definition, they would have to see what the courts would say about it as it works through the enforcement process.

CHAIR MCGUIRE said this is his area of expertise, and asked what the trends are for other departments of law in interpreting these terms.

11:47:25 AM

MR. SNIFFEN explained that 90 percent of the states that have price gouging laws only have them triggered in the event of some declared state of emergency. A few states on the East Coast have price gouging laws that are triggered in the face of "market emergencies" that don't require a natural disaster - but rather a financial disaster of some kind. Once the laws are triggered, most states have laws that say the price cannot be increased more than a certain amount over what was charged before the disaster. They try to prevent retailers from taking advantage of consumers during their most dire times of need. Some states say that means what other people are charging for the same goods and services in areas where a market emergency doesn't exist. In these states, "excessive and exorbitant" hasn't ever been invoked.

11:49:23 AM

SENATOR HOFFMAN said this legislation seems to be geared for the refineries, but why doesn't it include other businesses in the state that don't have refiners.

SENATOR WIELECHOWSKI answered that he considered that, and he is open to addressing that. But the Attorney General's report indicated that the gap appeared to exist with the refiners.

SENATOR HOFFMAN said he thought the question to Mr. Sniffen was regarding gasoline, and his investigation was in that regard. He didn't think Mr. Sniffen looked at what was happening in western Alaska and other parts of the state.

[11:51:07 AM](#)

MR. SNIFFEN responded that is correct for the most part. But as part of the investigation he became aware of some of the practices related to heating fuel and other products sold by the refineries. He explained that there are only two gasoline refiners in Alaska - one of them produces a majority of the gasoline. But there are a number of retailers and distributors, so the competition among the sellers of petroleum products becomes better the farther away one gets from the refinery. That is different in different parts of the state. The Railbelt area has fairly decent retail competition, but in rural areas there is no competition.

SENATOR HOFFMAN remarked that is thrust of his concern. Other areas of the state such as the YK Delta, Bristol Bay, and Norton Sound have primarily one distributor and the potential for price gouging exists there as well.

[11:52:49 AM](#)

SENATOR WIELECHOWSKI said he would be happy to modify the language to include that issue.

SENATOR HOFFMAN thanked him, and said he wasn't asking to hold it up at this stage, but he would like to work with his office to broaden it to areas of the state that have very little if any competition.

SENATOR STEDMAN said Southeast Alaska imports most of its fuel oil from Seattle. His constituents' concern is that some of the larger fuel buyers can purchase fuel at \$1.20 per gallon, and the pump price is \$3.00. The issue is broader than a refinery issue. Prices in Southeast have come down into its' "normal spread" over Seattle, but it "was awful inelastic on the downside." He understands that had to do with some "hedging business practices." But it is a great concern because a lot of communities in Southeast have virtually one supplier. He asked the sponsor also to take a look at broadening the applicability as the bill moves along.

[11:54:53 AM](#)

SENATOR WIELECHOWSKI said he would be happy to do that. He mentioned that he did get some e-mails from people in Southeast, Ketchikan in particular. He figured Senator Kookesh would be interested in Angoon prices as well.

SENATOR STEDMAN asked Mr. Sniffen to respond to the Southeast portion of his report.

MR. SNIFFEN said the Southeast portion of his report was limited. He gathered information about energy suppliers of fuel into Juneau and other points in Southeast Alaska to determine if there was an economic basis for the prices they charge or if those prices were the result of some kind of collusion or an anti-trust activity. There seemed to be economic justification for the prices that they charged.

One of the concerns he keeps hearing from Southeast consumers, in Ketchikan in particular, is that they know how much gas costs in Seattle and that it can't possibly cost that much to transport it up here. So why is it so much more?

MR. SNIFFEN'S answer is that the amount of profit a business wants to tack on to their landed price of fuel can't be controlled through statute. Looking at the component of what it costs to get fuel to an area is not the way to look at what prices should be. The prices are what the market will allow. When there aren't many competitors monopolistic pricing practices go on, and that is not illegal, which is why this bill would at least allow him to look at that kind of conduct - to see if while there is no an illegal anti-trust pricing scheme going on, that the prices are exorbitant and "they shouldn't be allowed to charge them."

His conclusion for Southeast market is that there was no collusion that could be identified from the evidence - and they looked at quite a bit and interviewed a number of people. It seems like the prices were the result of big fluctuations and a lot of "hedging activity."

[11:58:47 AM](#)

SENATOR STEDMAN said he understands the hedging mechanisms, and when you hedge on the wrong side of a bet you can have substantial losses, and when you have no competition, it makes it very easy to embed those into your price to recoup. That is a concern, but from a historical standpoint, Sitka once had two

vendors, and then one purchased the other which created a little bit of interest. A lot of people in the community expected an increase in prices with one supplier, but they hoped it would be backed up with service and the quality of the installation. But as time went on, more constituents got concerned that what in fact happened is that they ended up with a monopoly - to their detriment in general. Although that hasn't been publicly expressed, it has been expressed privately.

If they were to be able to back up the clock, there would be a lot of interest in the community to object to mergers like that, because it puts them in a position of one supplier. A small operation came in with one fuel pump for a little bit, but when you try to site a bulk facility in a community it is difficult and expensive. He cautioned other communities around the state to not hesitate to speak up if there is consolidation going on. Petersburg was also consolidated into one bulk plant.

12:01:26 PM

CHAIR MCGUIRE said when the bill first came before the committee, the concern was trying to define the dollar amount relative to Seattle pricing. There might be legitimate reasons for the price disparity, but having this tool is appropriate, as is any tool to keep the pressure on fair prices for the benefit of Alaskans is healthy.

12:02:42 PM

DANA OLSON, representing herself, said this issue belongs in the Attorney General's Office. She has heard a major problem with inconsistencies regarding 42 USDA Section 2000(d) where a refinery cannot get a grant and have no grievance procedure.

12:04:44 PM

JEFF COOK, Director, External Affairs, Flint Hills Resources Alaska, said his previous testimony from February 12 stands, but with some additional comments on the CS. He was concerned that removing the 10 percent cap could arguably make it worse for the refinery. They wouldn't have any idea of what to price to avoid the ruinous penalties. The world economy and markets have continued to change for the worse since his February testimony. His refinery is losing money again and the outlook is uncertain. International cargo flights are down at the Anchorage International Airport by 30-40 percent and jet fuel for the airport is Flint Hills' primary product. He just read in the paper that Fed Ex has transferred 68 pilots out of the Anchorage area. This legislation threatens the long term viability of the refinery.

[12:06:36 PM](#)

SENATOR STEDMAN asked if the refinery is running at full capacity or if they are having shut down issues. The Finance Committee had testimony from the Department of Transportation and Public Facilities (DOTPF) concerning the Anchorage airport and he asked the department for an update on the volumes of freight and fuel there.

MR. COOK responded that last Saturday they shut down Crude Unit 3, an unprecedented move, because the demand for jet fuel was down so significantly. They had no further storage capacity and couldn't market it. He hoped the shutdown was for only three to four weeks. One year ago they were shipping 80 railcars per day from Fairbanks to Anchorage, now they are down to 40.

[12:08:13 PM](#)

SENATOR STEDMAN asked him to put that shutdown into some scale so people could understand.

MR. COOK replied that they have three units. Crude Unit 1, the original one, came on line with construction of the TAPS in 1977; it produces diesel and jet fuels. Crude Unit 2, built in 1984/85, produces gasoline and asphalt as well as diesel and jet fuels. Crude Unit 3 was built in 1998 and its primary purpose was to take care of the increased jet fuel demand at the Anchorage Airport. That would account for one-third of their production.

SENATOR STEDMAN invited him to join in the presentation to the Finance Committee with DOTPF as a separate presenter to have input about the impacts to the refinery. He said he would also invite the Alaska Railroad.

[12:09:39 PM](#)

KIP KNUITSEN, Manager, External Affairs, Tesoro Alaska, said this CS is a dramatic change since it is now a gouging bill instead of a price cap bill. He wanted to reserve comment at this time. He noted that his company would have to spend significant limited resources to define these terms of excessive and exorbitant.

SENATOR STEDMAN extended the same invitation to him to attend the Finance Committee since it is a large issue for the community of Anchorage.

[12:11:40 PM](#)

SENATOR WIELECHOWSKI moved to report CS for SB 54, version S, from committee with individual recommendations and attached fiscal note(s). There being no objection, CSSB 54(ENE) moved from committee.

**SB 71-ALTERNATIVE ENERGY FOR PUBLIC WORKS**

[12:12:17 PM](#)

CHAIR MCGUIRE announced the consideration of SB 71.

DAVE STANCLIFF, Staff to Senator Gene Therriault, sponsor of SB 71, said this bill is simply a piece of legislation to prepare Alaska for the alternative energy resources that are happening everywhere around the state. Everyone is familiar with the Alaska Energy Authority (AEA) report, and Senator Therriault has several communities in his district that are looking at something other than fossil fuels to provide energy and heat for buildings.

The state has a tremendous number of public facilities and DOTPF involves itself in the designing process of building them. SB 71 suggests that DOTPF, as they consider the design of these public facilities, look at what may be coming on line and if they think those resources could play a part in solving some of the energy problems they could incorporate accommodations for those facilities in their designs. A good example of that would be biomass as people from Southeast and Interior Alaska are working on producing wood biomass to heat public facilities - something that is occurring in the Lower 48 as well.

MR. STANCLIFF reasoned if a facility is designed with only one small boiler room and one boiler and it happens to be fossil fuel, and along comes a biomass source of energy, a retrofit will be costly and time consuming. Whereas if they had just increased the size to allow for a secondary fuel source such as biomass to be used, there will be tremendous savings to the state. This does not require DOTPF to make those decisions, but simply requires them to do an assessment and to make a determination, hopefully in concert with AEA and other folks, as to what may be coming down the line in terms of energy.

In closing he said Senator Therriault has had him working on alternative energies issues. The Tok school was about to put in the first biomass heating system that is estimated to save \$80,000 to \$100,000 per year with fuel prices at \$3/gal - and they were \$5/gal last year. When folks came out to look at their utility room, the comment from the AEA engineer is if this

building were just six feet wider and four feet longer they wouldn't have to add on to accommodate the new facility.

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CHRISTOPHER HODGIN, Project Manager, Department of Transportation and Public Facilities (DOTPF), explained that when they implement a retrofit for any viable alternative energy systems, they would be able to prepare for the costs to implement them. They won't be able to totally eliminate retrofit costs, but this bill will help minimize them. When determining a viable energy alternative system, they would also like to be able to consider maintenance costs so that the entire life cycle costs of that alternative can be evaluated overall with the building when it's constructed.

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JEFF HERMANS, Forester, Tok area, Division of Forestry, Department of Natural Resources (DNR), said he was involved in the Tok school project that was just funded by AEA. That project provides four full time jobs in Tok, a special benefit to the community and the state.

He said that right now diesel is \$3.80 per gallon in Tok, its unemployment is 40 percent and in the outside villages it's 70-80 percent. Tok has the school, DOTPF, low income housing, senior citizens, Head Start building, DNR Forestry, Troopers and the Courthouse - all state buildings - and they use 100,000 gallons of fuel oil per year. In ten years that's \$2 million that leaves Tok and goes to the oil companies!

A local contractor already makes pellets, and if those facilities used renewable resources such as pellet furnaces, they could have a bulk fuel pellet contract with them. For a small business to have a contract for \$200,000 of their product every year would be a substantial benefit. The State of Alaska says they want to do renewable energy, and the best way to promote the use of it is to practice it themselves. The amount of fuel oil being burned by public facilities across the state is overwhelming.

MR. HERMANS suggested that if the state did start doing this that it look at public facilities per region instead of "shotgun effect" over the entire state, because they have to get to an economy of scale.

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DANA OLSON, representing herself, said she faxed testimony on SB 71. She just became aware of an Alaska Energy Authority book through the Legislative Information Office, and there are a lot of bills passing. Maybe they should reconsider some of those bills because they are on documents that are not publicly available.

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MR. STANCLIFF reminded people that the AEA report is available on the Governor's website.

SENATOR THERRIAULT, sponsor of SB 71, said with the passage of the alternative funding mechanism last year, the state is helping with the supply side of alternative energy sources. If the state builds into the state's facilities the ability to be a consumer, then it can help on the demand side, too. In communities like Tok or Glennallen, if there is a garage or a trooper facility that has the capability of providing heat for the facility, that provides a base demand in the community which allows the fixed cost for the pellets to be spread over a larger demand and lowers the cost for all the private consumers, too.

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SENATOR WIELECHOWSKI moved to report SB 71 from committee with individual recommendations and attached fiscal note(s). There being no objection, the motion carried.

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There being no further business to come before the committee, Chair McGuire adjourned the meeting at 12:25 p.m.