

SENATE FINANCE COMMITTEE
February 3, 2009
9:02 a.m.

9:02:21 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Gene Therriault; Jay Livey, Staff, Senator Hoffman, Sponsor; Kathie Wasserman, Executive Director, Alaska Municipal League; Meera Kohler, President CEO, Alaska Village Electric Cooperative; Mike Harper, Deputy Director, Rural Energy Group, Alaska Energy Authority; Linda MacMillan, Accountant, Alaska Energy Authority; Karen Sawyer, Staff, Senator Charlie Huggins; Kathie Wasserman, Executive Director, Alaska Municipal League.

PRESENT VIA TELECONFERENCE

Denise Michels, Mayor, City of Nome and President, Alaska Municipal League; Richard Gazaway, Hearing Examiner, Regulatory Commission of Alaska; Shirley Perkins, Business Owner, Elfin Cove; Michael Hoffman, Association of Village Council Presidents; Myron P. Naneng Sr., President, Association of Village Council Presidents; Tom Lakosh, Anchorage; Paul D. Kendall, Anchorage.

SUMMARY

SB88 "An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

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

#sb89

SB89 "An Act relating to retirement benefits for members of the Alaska Territorial Guard; and providing for an effective date."

SB 89 was POSTPONED.

#sb90

SB90 "An Act making a special appropriation to the Department of Military and Veterans' Affairs to provide retirement benefits to members of the Alaska Territorial Guard; and providing for an effective date."

SB 90 was POSTPONED.

#

SR4 Relating to the federal stimulus package.

CSSR 4(FIN) was REPORTED OUT of Committee with a "do pass" recommendation and with new fiscal note by the Senate Finance Committee for all departments.

SJR5 Urging the United States Department of Defense to pay veterans benefits retroactively and to continue to provide retirement benefits for members of the Alaska Territorial Guard who served during World War II.

CSSJR 5(FIN) was REPORTED out of Committee with a "do pass" recommendation and with new zero fiscal note by the Senate Finance Committee for all departments.

[9:02:39 AM](#)

Co-Chair Stedman read the agenda and reviewed previous actions. He explained that SR 4 was similar to SR 3; a new resolution was required to correct a drafting error in SR 3.

#SR4

SENATE RESOLUTION NO. 4

Relating to the federal stimulus package.

Co-Chair Hoffman MOVED to ADOPT Work Draft 26-LS0480\E, Bannister, 2/2/09. There being NO OBJECTION, it was so ordered.

[9:05:54 AM](#)

Co-Chair Stedman noted there were three changes in the CS: the Senate Finance Committee is now the prime sponsor, outer continental shelf language was added on page 2, starting on line 7, and a list of recipients to receive copies has been added. There is a zero fiscal note. He stated that public testimony had already been taken for SR 3.

9:06:49 AM AT EASE
9:07:29 AM RECONVENED

Co-Chair Hoffman explained changed language on page 2. The primary reason for the resolution is to make the wishes of the state known, particularly to make sure the stimulus package reached all regions of the state.

Co-Chair Hoffman stated that if the House takes action, there could possibly be a joint resolution, which would carry more weight, but he thought the Senate should move forward.

Co-Chair Stedman agreed that if the House sends a resolution, the Senate would take swift action towards a joint resolution.

9:09:04 AM

Senator Huggins explained that the outer continental shelf provision on page 2, line 5 would give the state 37.5 percent of oil revenue. The provision would put Alaska in equity with the gulf producing states established in the 2006 Energy Security Act.

Senator Olson commented wondered if the outer continental shelf provision was worded strongly enough. He thought the section was the most significant portion of the resolution.

Co-Chair Stedman stated that if the adjustment is made, it would have far reaching impact on the state.

Co-Chair Hoffman MOVED to report CSSR 4(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSR 4(FIN) was REPORTED OUT of Committee with a "do pass" recommendation and with new fiscal note by the Senate Finance Committee for all departments.

#SB88
SENATE BILL NO. 88

"An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an

effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

[9:12:04 AM](#)

JAY LIVEY, STAFF, SENATOR LYMAN HOFFMAN, SPONSOR, explained that the bill is part of the energy package dealing with electricity. The bill would make electricity affordable in rural areas through making permanent changes to previous legislation. During the July special session, the ceiling on Power Cost Equalization (PCE) was raised from 52.5 cents to \$1.00. The change was for one year through June 30, 2009. The bill would make the change to \$1.00 permanent.

Mr. Livey pointed out that PCE makes energy affordable in rural Alaska by subsidizing 500 kilowatt-hours (kWh) per month of power for families. Power Cost Equalization is calculated on the difference between two ranges. The upper range is \$1.00. The bottom range is the average of costs in Fairbanks, Anchorage and Juneau, and hovered around 12.2 and 12.8 cents for the past few years. Power between that range is currently subsidized. He gave examples that amounted to a difference of paying \$60 instead of \$140.

[9:15:59 AM](#)

Mr. Livey added that the provision covers only the first 500 kWh of power, which is only enough for very basic electricity. The bill makes sure people can afford basic electricity.

[9:17:41 AM](#)

Mr. Livey reviewed sections of the bill. The first section repeals the previous provision, so that the upper PCE ceiling does not revert back to 52.5 cents. Section 2 makes SB 88 retroactive to June 30. Section 3 repeats a section of the law that would have made the previous section effective June 30. Section 4 makes the bill effective immediately.

[9:18:17 AM](#)

Co-Chair Hoffman added that when the previous legislation passed the Senate, there was a broader piece of legislation including communities using hydropower above the 12.5 cents or that may have otherwise been excluded. Those communities included Kodiak and Fairbanks. He asked the committee to consider adopting a similar provision through the amendment process.

[9:19:57 AM](#)

Senator Thomas agreed and referred to the broader bill. He stated that the price of oil has negatively impacted the Interior.

Co-Chair Stedman referred to the fiscal note by the Department of Commerce reflecting the \$5.5 million appropriation need to capitalize the fund.

[9:21:21 AM](#)

Co-Chair Stedman OPENED PUBLIC TESTIMONY.

DENISE MICHELS, MAYOR, CITY OF NOME and PRESIDENT, ALASKA MUNICIPAL LEAGUE (testified via teleconference), spoke in support of the legislation.

[9:22:16 AM](#)

Senator Olson queried the cost of a kWh in Nome. Ms. Michels answered 36 cents. Senator Olson asked if that includes wind power put into the grid. Ms. Michels answered no, as it is just getting going.

[9:22:47 AM](#)

RICHARD GAZAWAY, HEARING EXAMINER, REGULATORY COMMISSION OF ALASKA (testified via teleconference), informed the committee that he was available for questions.

SHIRLEY PERKINS, BUSINESS OWNER, ELFIN COVE (testified via teleconference), suggested amending SB 88 so that it would include small businesses. She owns a small business with electric costs of nearly \$2,000 each month in the summertime, even with working to conserve. Diesel fuel cost \$5.70 per gallon in Elfin Cove. Electricity is generated for 60 cents per kWh. The community has applied for funding for hydroelectricity, but it takes time. Currently PCE covers the first 500 kWh in the home; previously it covered the first 750 kWh. She wanted funding back to the higher level.

[9:24:58 AM](#)

KATHIE WASSERMAN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE (AML), testified in support of SB 88. She reported that AML had just finished its legislative conference; their top two priorities are energy and transportation. The league intended to work closely with the legislature on PCE.

Senator Olson asked if AML had statistics about the effect of energy costs on small businesses. Ms. Wasserman said she would get numbers. She added that when businesses close in a small community, everyone is affected.

[9:27:51 AM](#)

MEERA KOHLER, PRESIDENT AND CEO, ALASKA VILLAGE ELECTRIC COOPERATIVE, testified in favor of SB 88. She explained that the cooperative is a non-profit utility that serves 53 villages throughout the state. Alaska Village Electric Cooperative (AVEC) represents the largest single consumer of PCE because their combined villages represent about 45 percent of Alaska's village population.

Ms. Kohler thought it was critical to retain a higher ceiling than the one in place since PCE. The 52 cent ceiling has not changed since it was put in place in 1984. The temporary ceiling will only have been in place for nine months. The cooperative purchased their fuel last year at a cost of \$26 million, almost double the cost of the year before.

Ms. Kohler explained that the Regulatory Commission of Alaska set the rate October 1 to coincide with new PCE levels. The cooperative would be collecting on the higher price through the end of September. The June 30 sunset would cause hardship for AVEC communities, whose rates could triple.

[9:30:54 AM](#)

MIKE HARPER, DEPUTY DIRECTOR, RURAL ENERGY GROUP, ALASKA ENERGY AUTHORITY, testified in support of SB 88, although they would prefer an extension of two to three years rather than a permanent change because of oil price volatility.

Senator Elton queried the connection between the bill and the price of oil. He viewed the bill as a relief bill for communities that need it and thought the question was how much relief would be provided.

[9:33:38 AM](#)

LINDA MACMILLAN, ACCOUNTANT, ALASKA ENERGY AUTHORITY, explained that rates for communities on the road system have been the highest in Southeast Alaska. She acknowledged that there is no clear one-to-one relationship between the cost of diesel and the cost of diesel in a particular community.

Senator Elton thought the issue of SB 88 was not the price of a barrel of oil, but the legislature making a decision about what is sustainable in a village economy. He asked the relationship between the cost of oil and appropriate assistance from the state.

[9:36:04 AM](#)

Mr. Harper gave examples of various prices of crude oil, which affects the price of the rate for residents. Up until

three years ago, the price of diesel was steady. More recently it has been up and down. He thought the extension was a better course of action.

Senator Elton did not think it mattered where the cap was. Mr. Harper replied that the floor of the formula is based on what urban communities pay, ranging from 12.5 cents and 52.5 cents. No one knows what the cost of oil will be.

Co-Chair Stedman said there would be a future presentation with more detail on how the formula would work. He asked that the Alaska Energy Authority (AEA) include information about how their endowment functions, as there are issues about the endowment that need to be corrected.

Co-Chair Hoffman asked if either of the AEA testifiers lived in a community benefiting from PCE. Ms. MacMillan replied that she had lived in such a community in the past but no longer did. Co-Chair Hoffman asked if they wanted long-term assurance that power rates would be as low as possible. Mr. Harper replied in the affirmative.

[9:40:02 AM](#)

Co-Chair Hoffman said that history has shown the price of oil to be steady for a long period of time, though reports say that the price of oil may go up above \$100 per barrel. There are communities paying as high as \$1.17 per kWh. If the measure were temporary, the legislature would have to revisit the issue, which would create work and create anxiety for communities dependent on PCE. He stressed that the state has higher revenue when the price of oil goes up. He thought the testimony of people living in the affected communities would be different.

[9:42:37 AM](#)

Senator Olson suggested taking the position of a small business person in a village who wants to expand but has no stable power source. The increasing costs will result in a migration out of the village. He thought the suggestion of an extension was a conservative and short-sighted outlook.

Mr. Harper discussed historical changes in the program that affected businesses. The program has grown to \$35-40 million for the PCE expenditure. He agreed the situation was difficult for small business owners, and he wanted that addressed. On the other hand, he had concerns about the high price.

[9:45:58 AM](#)

Senator Olson suggested looking at the whole picture. The cost of PCE may be higher, but the state is in a much better position financially.

Co-Chair Stedman reiterated concerns about the AEA endowment. If the agency still wants a one or two year extension after reconsidering its position, he requested that they come forward with a suggestion for a long-term solution. He stated the committee wanted multi-generational solutions to energy challenges.

[9:47:51 AM](#)

MICHAEL HOFFMAN, ASSOCIATION OF VILLAGE COUNCIL PRESIDENTS (AVCP), BETHEL (testified via teleconference), testified on behalf of his own company, Kuskokwim Wilderness Adventures. Customers are canceling due to high prices because of fuel costs. This affects the whole community of Bethel.

MYRON P. NANENG SR., PRESIDENT, ASSOCIATION OF VILLAGE COUNCIL PRESIDENTS (testified via teleconference), testified in support of the legislation. He explained that AVCP is a regional non-profit tribal corporation representing 56 tribal governments on the Yukon-Kuskokwim Delta.

[9:51:07 AM](#)

Mr. Naneng Sr. testified that the tribal leaders in the villages were nervous about the coming winter because they were forced to pay the highest fuel costs on record. The villages off road have to import fuel by barge or air in emergencies and have to sign no-fault contracts with vendors if deliveries are delayed. Some of the villages are unable to make fuel orders in concordance with state programs such as the bulk fuel loan in time to get lower rates.

Mr. Naneng Sr. explained the extremely high cost of living. For example, the people of the Wade Hampton district pay \$0.62 per kWh for electricity, \$7.68 per gallon for heating fuel, and as much as \$11 for heating fuel that had to be flown in. Energy costs are up to 60 percent or more of household costs for many rural Alaskans whose average incomes are \$30,184. People have to do without electricity and heat. These costs combined with severe cold make life unsustainable and a threat to general health.

Mr. Naneng described the remoteness of villages in his region from transportation hubs and commercial centers. There are tremendous logistical problems in addition to high costs for transporting fuel. Diesel fuel is often the only and best solution for fuel. Diesel-electric power plants provide an efficient and effective energy solution in many cases and PCE provides a buffer against high electric costs.

Mr. Naneng stated that he had to pay \$600 for electricity during the month of December. He referred to concerns in the legislature that SB 88 would create an unending entitlement program and described the unusual conditions that brought about the energy crisis: the high price of oil and catastrophic conditions for the commercial fisheries on the Kuskokwim and Yukon rivers. Because of the poor fishing season, the cash usually generated by the commercial fisheries is not there for energy or provisions for hunting and fishing to gather food.

Mr. Naneng pointed out that rural Alaska faces the highest energy and food costs in the nation, as Governor Palin told the U.S. Army when they proposed to reduce payments to Native Elders who had served in the Territorial Guard. Using the emergency funds will protect people. He compared energy and food prices in Anchorage to prices in remote rural villages.

Mr. Naneng told the committee that AVCP had provided low-income energy assistance to 1,846 households. The council supports a permanent fix to PCE regardless of how high the cost of oil rises.

[9:58:33 AM](#)

TOM LAKOSH, ANCHORAGE (testified via teleconference), testified in support of the legislation. He thought the power management system in Alaska needed to be revamped to be more equitable and provide a long-term, sustainable solution to the generation of power in rural communities. He thought the PCE should be based on individual need for subsidy rather than community needs. He did not want the state to subsidize communities without energy conservation. He suggested an amendment calling for a full-scale re-assessment of energy needs and more cost-effective solutions to energy production and consumption, such as a state-wide building code, particularly where energy is being wasted.

[10:02:22 AM](#)

PAUL D. KENDALL, SELF, ANCHORAGE (testified via teleconference), expressed concern about PCE. He opined that PCE should no longer exist. He described problems in the state, all with energy in common. Electricity and water are basic needs. He thought energy should be a priority. He listed different forms of harnessing energy.

[10:05:51 AM](#)

SB 88 was HEARD and HELD in committee for further consideration.

[10:07:42 AM](#)

AT EASE

[10:11:58 AM](#)

RECONVENED

#SJR5

SENATE JOINT RESOLUTION NO. 5

Urging the United States Department of Defense to pay veterans benefits retroactively and to continue to provide retirement benefits for members of the Alaska Territorial Guard who served during World War II.

Senator Huggins MOVED to ADOPT Work Draft 26-LS0468\R, Bailey, 2/2/09. There being NO OBJECTION, it was so ordered.

[10:13:02 AM](#)

KAREN SAWYER, STAFF, SENATOR CHARLIE HUGGINS, explained CSSJR 5 as a resolution urging the Department of Defense to continue to provide retirement benefits for members of the Alaska Territorial Guard who served during World War II. They were denied benefits in January due to a glitch in the law. There was strong response, including from the Alaska delegation, which resulted in the U.S. Army making a decision to use emergency funds to extend the benefits two months. The original language of the resolution has been changed to take out the language about retroactivity; added language supports the Alaska delegation to provide permanent recognition of the members. In addition, the resolution requests that the Department of Defense continue to use funds to provide benefits until Congress passes the bills or the army reverses their January decision.

[10:15:25 AM](#)

Senator Huggins MOVED to ADOPT Amendment #1:

Page 2, line 16, following "S. 342"
Insert: "and H.R. 744"

Co-Chair Stedman OBJECTED for discussion.

Senator Huggins explained the technical amendment changing language.

Co-Chair Stedman removed his OBJECTION. There being NO further OBJECTION, it was so ordered.

[10:16:17 AM](#)

Senator Huggins MOVED to ADOPT Amendment #2:

Page 1, Line 12, Insert:

WHEREAS, in 2000, because of the efforts of Alaska's U.S. Senator, Ted Stevens, the United States

Congress passed legislation that required that service as a member of the Alaska Territorial Guard during World War II of an individual who was honorably discharged be considered active duty for purposes of all laws administered by the United States Secretary of Defense; and

Co-Chair Stedman OBJECTED for discussion.

Senator Huggins explained that the amendment clarifies the chronology of the process. He read the amendment.

Co-Chair Stedman removed his OBJECTION. There being NO further OBJECTION, it was so ordered.

[10:17:51 AM](#)

Senator Elton suggested a language change from "their" to "its" on page 2, lines 14 and 15.

Co-Chair Stedman referred to the zero fiscal note.

Co-Chair Stedman opened public testimony.

KATHIE WASSERMAN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, testified in support of the legislation. She reported that the league had addressed the issue and put forth a resolution to take to the National Association of Counties. Most members felt the change was an appalling message sent from the army to the men who had served.

[10:19:14 AM](#)

SENATOR GENE THERRIAULT, testified that he supported Amendment 2 to the resolution. He spoke to other language he supported. He thought it was important for the legislation to go forward because the fact that Congress has taken action to fund another two months has misled Alaskans to believe the issue was resolved. The long term solution has yet to be achieved, and it was important and appropriate for the government of Alaska to make a statement through the passage of the resolution.

[10:21:20 AM](#)

Co-Chair Hoffman MOVED to report CSSJR 5(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSJR 5(FIN) was REPORTED out of Committee with a "do pass" recommendation and with new zero fiscal note by the Senate Finance Committee for all departments.

10:21:55 AM

#

ADJOURNMENT

The meeting was adjourned at 10:22 AM.