

SENATE FINANCE COMMITTEE  
March 25, 2010  
9:34 a.m.

9:34:05 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:34 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Senator Weiloehowski; Senator Lesil McGuire; Michelle Sydeman, Staff, Bill Wielechowski; Michael Pawlowski, Staff to McGuire; Kirk Hardcastle, Operations Manager, Taku Renewable Resources; Thomas Deerfield, Alaska Power and Telephone;

PRESENT VIA TELECONFERENCE

Walter Rose, Kawerak, Nome; Clay Koplín, Cordova Electric Coop, Cordova; Lisa Hughes, Northern Alaska Environmental Center, Fairbanks; Holly Norwood, Apex Wing Energy, Nikiski; Mark Masteller, Cascadia Green Building Council; Jim Sykes, Coordinator, MatSu Energy of Alaska; Rich Wilson, Alaska Ratepayers, Anchorage; Robert Venables, Southeast Conference; Chris Rose, Renewable Energy Alaska Project; Ross Coen, Tanana Chiefs Conference, Fairbanks; Nick Horras, Yuut Elitnaurviat; Caitlin Higgins, Executive Director, Alaska Conservation Alliance;

SUMMARY

#sb220

SENATE BILL NO. 220

"An Act declaring a state energy policy; relating to energy efficiency and alternative energy; establishing the energy efficiency grant fund, an emerging energy technology fund, a renewable energy production tax credit, and an energy use index; and relating to a fuel purchasing cooperative, to energy codes and efficiency standards, to energy conservation targets in public buildings, to a state agency energy use reduction plan, to the alternative energy revolving loan fund, and to the renewable energy grant fund."

[9:34:11 AM](#)

SENATOR WEILOCHOWSKI stated that the fiscal note attached to HB 220 was about \$1.3 million, and he believed that money could be recouped within a year.

SENATOR LESIL MCGUIRE remarked that the \$1.3 million would be for program execution, relating to energy efficiency and bulk fuel loans. Currently the state spends approximately \$52 million on combined heat and utility costs. With energy retrofiting provisions proposed in SB220, she believed that long term savings would occur. She pointed out that there would be revolving loan funds for the private sector and municipalities.

[9:38:25 AM](#)

Senator McGuire believed the revolving loan fund would be a way to help partner with schools to lower costs of energy. The bill encouraged municipalities and private businesses to reduce energy costs, but it is not a mandate. She pointed out that the bill outlined a production tax credit for renewable energy. She remarked that there were no renewable energy projects that generate income for the state. She explained the Emerging Energy Technology Fund: seed money is used to attract high level companies who are looking at cutting edge technologies. She pointed out the United States Department of Energy has an Emerging Energy Technology Fund, and it was accessed by companies to develop technologies that have reshaped the natural gas market. The Denali Commission utilized the Emerging Energy

Technology Fund idea, and put it into place with \$4 million. Results were felt throughout the state, due to the Denali Commission's program. She believed the program would leverage federal funds and private trust funds.

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Senator Ellis queried the interplay between the existing renewable energy fund, and the emerging technology fund. Senator McGuire replied that the Renewable Energy Fund related to projects that involve proven or demonstrated technologies. The Emerging Energy Technology Fund deals with cutting edge or developing technologies.

[9:47:22 AM](#)

MICHELLE SYDEMAN, STAFF, BILL WIELECHOWSKI, reviewed the PowerPoint presentation: "Alaska Sustainable Energy Act: SB 220." The bill was a product of the Senate Resources Committee and the Senate Special Committee on Energy. Hearings in different communities were held during the interim. Because the hearings were conducted in relation to scheduled events, attendances at the hearings were high.

[9:49:06 AM](#)

Ms. Sydeman stated that research and outreach were conducted with various energy-related organizations (Slide 4): Renewable Energy Alaska Program, Alaska Center for Energy and Power, Alaska Federation of Natives, Cold climate Housing Research Center, Commonwealth North, Alaska Power Association, and the Southeast Conference. Products were developed as a result of the various community hearings (Slide 5): State Energy Policy and Program Recommendations (50+ pages), Budgetary (Letter to Senate Finance Committee) and Statutory (SB 220).

Ms Sydeman remarked that plans and policies in other states were considered when drafted the bill; sub-committees were convened, combining the House and Senate staff; and experts were interviewed-all with the intent of drafting the bill to meet expectations.

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MICHAEL PAWLOWSKI, STAFF TO MCGUIRE, stated that the goals for SB220 were to provide affordable and reliable energy for Alaska families and businesses; to stimulate private

sector investment; to produce long-term savings by maximizing energy efficiency; to have the state government lead by example; and to promote innovation. (Slide 7)

Mr. Pawlowski presented the major bill components (Slide 8): a state energy policy; the Energy Efficiency Revolving Loan Fund; efficiency in government; a renewable energy tax credit; the Emerging Energy Technology Fund; energy loans for businesses; and the Alaska Affordable Heating Program.

Ms. Sydeman discussed the State Energy Policy (Slide 9). The goals of the state energy policy included increasing energy efficiency by 15 percent by 2020 and to generate 50 percent of electricity statewide using renewable energy by 2020.

Ms. Sydeman continued to discuss the goals of the state energy policy (Slide 10): to promote the development of nonrenewable energy resources, including natural gas, heavy oil, nuclear energy, coal, and gas hydrates; to support energy research, education, and workforce development; and to maintain a fiscal regime that encourages private sector development

Ms. Sydeman presented the portion of the bill regarding of Nuclear Energy (Slide 11). There were some areas in current statute that needed revision, to ensure nuclear energy is on a level playing field with other types of energy development. The bill would remove from statute a requirement for governor's approval for projects, and leave in place a requirement of for municipal and Department of Environmental Conservation approval. The bill would enable nuclear projects to apply for funding from the Power Project Fund.

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Mr. Pawlowski stated that the administration brought forward SB223, which created a revolving loan fund under the Alaska Housing Finance Corporation (AHFC), for energy efficiency, retrofits, and projects. That legislation was integrated into SB220. The Energy Efficiency Revolving Loan Fund (Slide 12) leverages \$18 million in federal stimulus funds. The AHFC would give loans to municipalities, school districts, or state entities to perform energy efficiency retrofits. The savings would come back to the state to repay the loan. The savings could be leveraged and secured;

therefore a revolving loan fund would be created, allowing retrofits to occur in perpetuity. Retrofitting would create an estimated 2,500 jobs related to weatherization and home energy upgrades.

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Co-Chair Hoffman wondered if the retrofitting would apply to all Alaska schools, including Regional Educational Attendance Areas (REAs). Mr. Pawlowski replied that extensive language in Section 4 of the bill, allowed for retrofitting for REAs.

Ms. Sydeman discussed Slide 13: "Leading by Examples." The bill states that by 2020, the Department of Transportation and Public Facilities (DOT/PF) shall work with other state agencies to retrofit at least 25 percent of all state buildings. The definition of state buildings refers to the largest, and most energy consuming state facilities. The retrofitting was shown to save about 20 percent a year. The state currently spends roughly \$55 million a year to heat and light its buildings, the savings could translate into \$2.75 million a year.

Ms. Sydeman discussed more pay-offs from retrofitting. The the state recently retrofitted eight state buildings, and the contractor guaranteed savings of at least \$278,000 a year from that retrofit. In year one, savings equaled \$366,000; in year two, savings equaled \$592,000; and the year prior, savings equaled \$571,000. She asserted that savings alone from retrofitting 25 percent of state buildings could cover the fiscal note for SB 220.

[9:59:52 AM](#)

Ms. Sydeman continued to maintain that the state should lead by example (Slide 15). Section 23 of SB220 called on DOT/PF to construct all new state buildings to high efficiency standards; Section 11 required that the state use alternative energy for new public works, if viable and cost-effective; Sections 12 and 22 mandate that the state purchase energy efficient appliances, equipment, and vehicles.

Ms. Sydeman reviewed Section 24 of the bill, related to the energy efficiency campaign (slide 16). Section 24 mandates that the Alaska Energy Authority (AEA) and AHFC collaborate

to educate Alaskans through mass media about low-cost ways to save energy. Money was currently in the budget, and website development was already in place. Experts estimate between eight percent and fifty percent could be saved through efficiency measures alone. Energy efficiency is one of the cheapest ways to meet energy needs.

[10:02:17 AM](#)

Mr. Pawlowski discussed emerging energy technologies (Slides 17 and 18). With high energy costs, Alaska was perfect place to test emerging technologies. The state can demonstrate technologies and reduce costs for local residents. Developing new technologies could potentially allow Alaska to export new technologies. Twenty five percent of world's population lives without access to electricity, which is an incentive to look for new ways to energize. The bill would establish a competitive grant program at AEA to foster innovation. The fund would be matched with federal funds from the Denali Commission, the Department of Energy, and private research dollars. New technologies would create high-tech jobs and would spur investment in Alaska's economy. Alaska would have potential to be a world leader in emerging technologies, given its resources.

Mr. Pawlowski added that language in the bill would allow repayment for project funding that goes into broader application.

[10:05:02 AM](#)

Mr. Pawlowski pointed to different examples of emerging technologies (Slides 20, 21, and 22).

Mr. Pawlowski addressed the renewable energy tax credit (Slide 23). The renewable energy tax credit would encourage investment by the private sector into renewable energy; it would support the goal of generating 50 percent of electricity using renewable energy by 2025; 25 states offer renewable energy corporate tax incentives; five states and the federal government offer production tax credits; credits only accrue one a project in operation; the credits are capped at 10 percent of capital investment; and the credits sunsets January 1 2018.

Mr. Pawlowski continued to address how the credit is calculated, referring to Sections 20 and 21 of SB220 (slide 24). When calculating the tax credit, the state must know: the capital cost; the state/federal grants that the project has received; the cost per kilowatt-hour on the project; and the capacity factor. He noted that there are 8760 hours in a year, one megawatt/hour equals 1000 kilowatt/hours, and \$.01 per kilowatt/hours equals \$10 per megawatt/hour.

Mr. Pawlowski referred to Slides 25 and 26 for renewable energy tax credit examples.

[10:09:51 AM](#)

Co-Chair Stedman asked if the concept of renewable tax credits for wind turbines was used in Kodiak. Mr. Pawlowski responded that the research does not include Kodiak. He remarked that the effective date would be prospective, but agreed to provide information regarding Kodiak wind turbines. Co-Chair Stedman recognized that there would be an issue of post-dating the tax credits.

Mr. Pawlowski furthered that the difference between transferable and refundable tax credits (slide 27). Transferable credits must be approved by the department; they must be marketed and purchased, which require broker fees and demands of the purchaser, which mean less than full credit going to the person receiving the incentive—therefore a transferrable credit is an expensive program to administer. Refundable credits do not require personnel to administer, and 100 percent of the credit goes to the recipient. In looking at streamlining the credit, the tax credit was made refundable rather than transferrable.

Co-Chair Stedman asked what the tax credit would be against. Mr. Pawlowski stated that the tax credit would be against the corporate income tax.

[10:12:28 AM](#)

Ms. Sydeman stated that Sections 26 through 33 of the bill would create a new program of loans to businesses (Slide 28). The loans could be up to \$50,000 for either alternative energy systems, or energy conservation improvements. The loans would be for businesses that are primarily owned by Alaskans. The money could be used for

insulation, thermal windows, furnace replacement or on energy systems which are not dependent on oil or gas.

Mr. Pawlowski noted that Senator Egan's office had worked to develop a commercial loan program.

Ms. Sydeman discussed the Affordable Heating Program (Slide 29). The objectives of the affordable heating program were to make the program more responsive to a family's actual heating costs; increase assistance as oil prices rise and need increases; maintain statewide eligibility; use existing administrative structures.

[10:15:09 AM](#)

Ms. Sydeman explained the Low Income Home Energy Assistance Program (LIHEAP) (Slide 30). Families must apply for LIHEAP annually, and their eligibility is based on their annual income. The benefit levels were calculated by awarding points based on household income; heating degree days in the household location; the type and size of the house; and the presence of children, elderly, or disabled in the home. The points are then multiplied by the dollar amount related to each point available.

Ms. Sydeman stated that SB220 proposed some changes from current practice (Slides 31 and 32): it would link program eligibility to the price of oil.

[10:17:53 AM](#)

Ms. Sydeman highlighted some program details (Slide 33). If there was not sufficient money appropriated to provide funding, the Department of Health and Social Services would pro-rate payments. The payments would go to fuel vendors, and not households. Individuals must apply and qualify for the LIHEAP. The current federal appropriation is \$28 million; the current state appropriation is \$5 million; and 20,191 households currently benefit from LIHEAP.

Ms. Sydeman discussed additional provisions (Slide 34). The state was required to provide technical assistance for municipalities regarding energy codes and efficiency standards. The state agencies would develop a standard methodology for compiling and storing data regarding energy consumption. The bill would expand the purposes of the Southeast Energy Fund. The Alaska Energy Authority (AEA)

would organize and provide technical assistance for a statewide fuel buying cooperative. The bill calls on the governor to develop a plan to coordinate and consolidate energy programs. The bill calls for DOT/PF to embark on a feasibility study of compressed natural gas (CNG) state vehicles.

Ms. Sydeman concluded that that SB220 would be a step towards energy efficiency and sustainability.

[10:24:00 AM](#)

Senator Thomas wondered if the bill provided for leased state buildings. Ms. Sydeman responded that the bill does not include leased buildings.

Senator Huggins queried the payback of the Revolving Loan Fund.

[10:25:42 AM](#)

Mr. Pawlowski responded that the key to the concept of the Revolving Loan Fund was in performance contracting. He noted that the ability to auto retrofit is the guarantee for what is loaned against.

In a response to a question by Senator Egan, Ms. Sydeman stated that oil was the trigger when determining eligibility for the LIHEAP.

In response to a question by Senator Olson, Mr. Pawlowski referred to Page 12, beginning Line 13 of SB 220. He specifically pointed to line 16, which stated the program eligibility would pertain to projects where the average cost of energy exceeds the average cost of residence. Primarily, AEA must look at the cost of energy in a region; AEA must look at geographic balance; and AEA must look at the financial benefit of the program. The cost of energy is a priority, and the program helps to limit an individual's burden of heating costs.

[10:30:05 AM](#)

Co-Chair Stedman mentioned the eight fiscal notes: six zero fiscal notes from the Department of Environmental Conservation (DEC), the Department of Revenue (DOR), the Department of Administration (DOA), the Department of Health and Social Services (DHSS); a fiscal note for

\$788,700 in general funds for statewide project development from Department of Commerce, Community and Economic Development (DCCED) for; another fiscal note for \$326,500 in interagency receipts for aide operations from DCCED; one fiscal note from DOT/PF for \$493,200 in general funds for new staff.

[10:31:17 AM](#)

WALTER ROSE, KAWERAK, NOME (via teleconference), testified in opposition to the proposed changes in the project ranging method in the Renewable Energy Grant Fund. He testified in opposition to the proposed amendment to Alaska Statute 42.45.045D in section 15 of SB220. He felt the statute would divert renewable energy grant funding away from rural communities into regional hubs and urban centers. He recommended the Renewable Energy Grant Fund continue to give preference to projects that serve any area in which the average cost of energy to each resident of the area, exceeds the average costs of each resident of other areas of the state.

CLAY KOPLIN, CORDOVA ELECTRIC COOP, CORDOVA (via teleconference), testified in favor of the legislation. He referred to section 23 AS44.42.067 item A, and recommended moving the date up to 2015 and changing the reduction to 15 percent. He referred to section 29, and recommended a change from 51 percent to 50 percent.

[10:35:15 AM](#)

LISA HUGHES, NORTHERN ALASKA ENVIRONMENTAL CENTER, FAIRBANKS (via teleconference), testified in favor of the legislation. She discussed the investment that is necessary for the future economy for the alternative energy requirement.

HOLLY NORWOOD, APEX WING ENERGY, NIKISKI (via teleconference), testified in favor of the legislation.

MARK MASTELLER, CASCADIA GREEN BUILDING COUNCIL, (via teleconference), testified in favor of the legislation.

[10:41:29 AM](#)

JIM SYKES, COORDINATOR, MATSU ENERGY OF ALASKA (via teleconference), testified in favor of the legislation. He agreed with all aspects of the bill. He shared stories of

citizens who retrofit their homes and are happy with the results.

RICH WILSON, ALASKA RATEPAYERS, ANCHORAGE (via teleconference), spoke in opposition of the legislation. He felt gas-fired industrial production was important in economic development.

ROBERT VENABLES, SOUTHEAST CONFERENCE (via teleconference), spoke in favor of the legislation.

CHRIS ROSE, RENEWABLE ENERGY ALASKA PROJECT (via teleconference), testified in support of the legislation. He noted that various consumer groups strongly support the bill.

[10:49:54 AM](#)

ROSS COEN, TANANA CHIEFS CONFERENCE, FAIRBANKS (via teleconference), testified in support of SB 220. He supported the emerging energy fund. He shared a story about boosting the fuel efficiency by four percent. He addressed the subject of the amendment to Section 15 which will keep the amount of grant funds. Shift from urban areas to rural areas. He encouraged the reconsiderations of the committee.

[10:51:58 AM](#)

NICK HORRAS, YUUT ELITNAURVIAT (via teleconference), testified in support of the legislation.

CAITLIN HIGGINS, EXECUTIVE DIRECTOR, ALASKA CONSERVATION ALLIANCE (via teleconference), testified in favor of the legislation.

[10:56:41 AM](#) RECESSED

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KIRK HARDCASTLE, OPERATIONS MANAGER, TAKU RENEWABLE RESOURCES, testified in support of SB 220. He spoke in support of the renewable energy section of the bill. He noted that the finances allow for sustainable economic strategies.

[1:38:12 PM](#)

THOMAS DEERFIELD, ALASKA POWER AND TELEPHONE, testified in support of SB220. He mentioned the tax credit portion which

could have a significant effect on the funding necessary for a Tok Alaska project.

[1:42:39 PM](#)

SB 220 was HEARD and HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 1:43 PM.