

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 15, 2010

3:34 p.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Hollis French
Senator Bert Stedman
Senator Thomas Wagoner

MEMBERS ABSENT

Senator Lesil McGuire, Co-Chair
Senator Gary Stevens

COMMITTEE CALENDAR

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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 220

SHORT TITLE: ENERGY EFFICIENCY/ ALTERNATIVE ENERGY

SPONSOR(S): RESOURCES

01/19/10	(S)	READ THE FIRST TIME - REFERRALS
01/19/10	(S)	RES, FIN
01/20/10	(S)	RES AT 3:30 PM BUTROVICH 205
01/20/10	(S)	Heard & Held
01/20/10	(S)	MINUTE(RES)
01/21/10	(S)	RES AT 3:30 PM BUTROVICH 205
01/21/10	(S)	Bills Previously Heard/Scheduled
01/25/10	(S)	RES AT 3:30 PM BUTROVICH 205

01/25/10	(S)	Heard & Held
01/25/10	(S)	MINUTE(RES)
01/27/10	(S)	RES AT 3:30 PM BUTROVICH 205
01/27/10	(S)	Heard & Held
01/27/10	(S)	MINUTE(RES)
02/03/10	(S)	RES AT 3:30 PM BUTROVICH 205
02/03/10	(S)	<Bill Hearing Postponed>
02/11/10	(S)	RES AT 3:30 PM BUTROVICH 205
02/11/10	(S)	<Bill Hearing Postponed to 2/15/10>

WITNESS REGISTER

MICHELLE SYDEMAN

Aide to Senator Wielechowski
 Alaska State Legislature
 Juneau, AK

POSITION STATEMENT: Explained the committee substitute (CS) for SB 220.

MIKE PAWLOWSKI

Aide to Senator McGuire
 Alaska State Legislature
 Juneau, AK

POSITION STATEMENT: Explained the committee substitute (CS) for SB 220.

BRIAN BUTCHER, Director

Governmental Relations and Public Affairs
 Alaska Housing Finance Corporation (AHFC)

POSITION STATEMENT: Commented on SB 220 and CSSB 220(RES).

JOEL ST. AUBIN, Engineer

Statewide Facilities

Department of Transportation and Public Facilities (DOTPF)

POSITION STATEMENT: Answered questions on CSSB 220(RES).

VERN JONES, Chief Procurement Officer

Department of Administration (DOA)

POSITION STATEMENT: Answered questions on CSSB 220(RES).

SARAH FISHER-GOAD, Deputy Director

Operations

Alaska Energy Authority (AEA)

Department of Commerce, Community and Economic Development
 (DCCED)

POSITION STATEMENT: Answered questions on CSSB 220(RES).

ROBYNN WILSON, Manager
Corporate Income Tax Division
Department of Revenue

POSITION STATEMENT: Answered questions on CSSB 220(RES).

MARY SIROKY, Special Assistant to the Commissioner
Department of Transportation and Public Facilities (DOTPF)

POSITION STATEMENT: Answered questions on CSSB 220(RES).

GRED WINEGAR, Director
Division of Investments
Department of Commerce, Community and Economic Development
(DCCED)

POSITION STATEMENT: Answered questions on CSSB 220(RES).

BRIAN KANE, Legislative Counsel
Legislative Affairs
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Answered questions on CSSB 220(RES).

ACTION NARRATIVE

[3:34:28 PM](#)

CO-CHAIR WIELECHOWSKI called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators Huggins, Wagoner, French, Stedman and Wielechowski. Senator McGuire was excused.

SB 220-ENERGY EFFICIENCY/ ALTERNATIVE ENERGY

[3:35:29 PM](#)

CO-CHAIR WIELECHOWSKI announced SB 220 [version 26-LS1197\C was before the committee] to be up for consideration. He said the committee substitute (CS) was a product of many discussions with the administration on implementing the provisions. He thanked the members of the administration for their willingness to work so intensively with staff.

SENATOR FRENCH moved to adopt CSSB 220(RES) [version 26-LS1197\K]. There were no objections and it was so ordered.

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MICHELLE SYDEMAN, aide to Co-chair Wielechowski, said that she and Mike Pawlowski, aide to Co-chair McGuire, would explain the committee substitute (CS) to SB 220. To begin she said Section

1 is simply the short title and it has no change - it remains the Alaska Sustainable Energy Act. Section 2 had the first change and was initially a policy statement suggested by a stakeholder group representing diverse interests pulled together by the House Energy Committee. The statement used to be towards the middle or the end of the bill and it was going to be in statute. In a meeting facilitated by the Governor's legislative director, several representatives from the Department of Law cautioned them against putting the policy in statute because many of the goals were "aspirational" and might not be easily met. The DOL representatives said the state could be held to some of those goals and could be sued if for some reason those goals weren't met. So, that section was pulled into the beginning of the bill as uncodified law and intent language.

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MIKE PAWLOWSKI, aide to Senator McGuire, said the previous two section items on page 2, lines 5-6, and page 2, line 21, were the step goals for energy efficiency of 10 percent and 15 percent (on lines 5-6). The goal of 50 percent renewable energy was on line 21. They were originally included as distinct items that have now been rolled into the policy section of the bill.

SENATOR STEDMAN said he was concerned that they didn't just pick numbers out of the sky.

MS. SYDEMAN responded that many states had set goals and some were set many years ago, so they looked at what other states were able to achieve. They also would reference later a pilot project just carried out by the Anchorage School District in which they achieved significant reductions in gas and electric use. Both the House and Senate staff felt these goals were achievable during this timeframe.

SENATOR STEDMAN said he was still concerned that the goals were solid because he thought as the state goes forward energy consumption would increase along with the efficiencies.

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CO-CHAIR WIELECHOWSKI asked for documentation by the next meeting on why that figure was used.

MR. PAWLOWSKI responded that similar concerns were expressed by the Department of Transportation and Public Facilities (DOTPF) and other agencies, so on page 2, line 6, the year 2010 was established as a zero baseline to measure from.

MS. SYDEMAN clarified that they did refer to the fact that they would need to account for growth in population and economic development in the energy efficiency goal on page 2, lines 6-7.

SENATOR HUGGINS asked if federal renewable energy policy didn't include hydro.

MS. SYDEMAN responded that was the current state of affairs.

SENATOR HUGGINS asked why they wouldn't include nuclear, so at a future date it wouldn't be precluded and someone would have to change it.

CO-CHAIR WIELECHOWSKI said this body did pass a resolution urging Congress to include hydro as a renewable resource and the Legislature and state have been having discussions on nuclear energy and will continue those.

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SENATOR STEDMAN asked what language on page 2, line 29 [(D) creating and maintaining a state fiscal regime that encourages private sector development of the state's energy resources;], meant.

MS. SYDEMAN replied that language came from the stakeholder group, but they could get clarification.

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She said Sections 3 and 4 had no substantive changes.

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BRIAN BUTCHER, Director, Governmental Relations and Public Affairs, Alaska Housing Finance Corporation (AHFC), commented on Section 4 that of the \$28 million in stimulus funds they received last summer, \$4 million was earmarked for the Corporation to develop software to do ratings for residential homes to expand it to commercial as well as work to begin educating various communities on the issues of energy efficiency and with the expansion to commercial. The U.S. Department of Energy (USDOE) just approved the state plan a couple of weeks ago.

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CO-CHAIR WIELECHOWSKI asked if he thought working with municipalities and corporations would help make public buildings more energy efficient.

MR. BUTHCER replied yes. He reminded them that the Legislature appropriated \$360 million for residential weatherization and the Home Energy Rebate Program. At the time they were all aware that increasing the energy efficiency of residential homes in all areas of the state is a positive thing, but when you have schools, other government buildings and commercial buildings still using a tremendous amount of energy, particularly in Rural Alaska where it's at the crisis level, it is something that they are excited about moving forward with.

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MR. PAWLOWSKI said Section 5, the energy efficiency grant funds section, was deleted and the new Section 5 is what the old Section 6, the alternative energy for public works provision, was in the C version. Changes were made to this section working with the DOTPF particularly - the idea being that the department had to predict which energy sources *will* become available. That has been removed and it is now limited to considering alternative energy sources in the design phase of a building. Further, a definition of "construction" was added on page 4, lines 12 and 13, so that when a capital project - a retrofit reconstruction alteration of a building, for instance - that the requirement envisioned by this section isn't automatically triggered by this section.

CO-CHAIR WIELECHOWSKI asked the DOTPF representative his thoughts on Section 5.

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JOEL ST. AUBIN, Engineer, Statewide Facilities, Department of Transportation and Public Facilities (DOTPF) DOTPF, said their concerns on Section 5 were addressed and he didn't have any comments.

SENATOR FRENCH asked if he was comfortable with "shall consider" language. He wanted to know how meaningful it was to use it. Was it a passing consideration, a day's worth or what?

MR. ST. AUBIN answered that they would take what non-fossil fuel designs that were in the marketplace into consideration when designing a facility. It would be more than a passing consideration especially if it's adopted into statute.

SENATOR FRENCH asked when the final decision point is reached on that issue.

MR. AUBIN replied that the things they are to consider were well-outlined on page 4, lines 3-6, that says when the cost is not more than a fossil-fuel fired system over the lifecycle of the equipment to purchase, install, maintain and operate.

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SENATOR HUGGINS said when putting elements (A) and (B) [page 4, lines 3-6] together a person would almost use nothing other than fossil fuel, because the other systems cost more.

MR. AUBIN replied that he had no comment on that.

SENATOR HUGGINS asked again if they could do anything else if those two elements are in place, because generally speaking, systems that have been around for a long time like fossil fuel systems are relatively inexpensive relative to their counterparts, which are new. The measurable adverse piece is that it is hard to put a new system into affect.

MR. AUBIN replied that it was difficult to answer his question, but 100 percent of the systems they put in now are fossil-fuel fired. He didn't have a lot of firsthand knowledge about non-fossil fuel systems. They have a less measurable adverse affect on the environment and that is the overall goal of the non-fossil fuel fired systems.

MR. PAWLOWSKI said he felt it was important to clarify that the issue was that they consider the entire life-cycle cost of the investment in deciding which systems to go with.

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MS. SYDEMAN went to Section 6 that started out by requiring DOTPF to establish through regulation a purchasing preference for energy efficient appliances, equipment and vehicles. That language has been pulled back somewhat to require that when the DOA enters into contracts to purchase equipment that use energy, it shall give substantial consideration to the energy efficiency of the equipment. The original language referred to energy star appliances that are used primarily in households rather than in commercial and business settings, such as State of Alaska offices. Another issue raised is that much of the information that is available about appliances is not credible; a lot of it is promotional material provided by the makers of those appliances. They wanted some caveat to use credible and objective information, not just advertising. A third issue was that there are approximately 7-9 purchasing preferences

currently in state statute and the DOA was opposed to including a new preference because purchasing is very complicated already.

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VERN JONES, Chief Procurement Officer, Department of Administration (DOA), said he also oversees the Division of General Services, DOA, and that Ms. Sydeman was correct about the issues they had with the previous version. They understand what is being attempted in the current version, but he had one issue with adding the word "substantial" to consideration of energy efficiency when they consider purchasing equipment and when credible objective information is at hand. He thought that including "substantial" makes this section more unclear and suggested adding "compared to cost or estimated life span or functionality. But he suggested that deleting "substantial" would alleviate that concern.

MS. SYDEMAN said staff would defer on that issue to the will of the committee and to Mr. Jones' 20 years of experience in purchasing with the state.

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MR. PAWLOWSKI said Section 7 used to be Section 8 in version C and regards the renewable energy grant fund. The CS deletes the idea that the Alaska Energy Authority (AEA) should verify matching funds. The ability to verify matching funds provided some problems for the AEA, but the sponsors felt it was important to stick with the principle of the section of having projects that have a financial benefit to the state greater than the amount of the grant funds received to go forward.

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SARAH FISHER-GOAD, Deputy Director, Operations, Alaska Energy Authority (AEA), said she appreciated the change. Their concern is with verifying the match at the time of application, because sometimes federal grant funds are pending state or other funds. She stated that the match requirements are verified at the time of the grant.

SENATOR STEDMAN went to page 4, lines 20-31, and said the "average cost of energy for each resident" should maybe have a specific btu-equivalency, because it is hard to compare the cost of natural gas in Anchorage to hydro in Southeast or oil out West. He also hoped the projects using renewable energy grants would show a greater benefit than the cost of the grant.

MS. GOAD said she could get some additional information with respect to determination of the high cost areas. With respect to the addition on lines 29-31, she said the AEA already has a benefit cost review that is significant for their evaluation process. She pointed out that they were not always talking about construction projects where a benefit/cost analysis could clearly be done. A study may have a public benefit, not necessarily a financial benefit and they evaluate other benefits for a proposed project and application.

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SENATOR STEDMAN said it appears from the numbers of current hydro projects moving forward in Southeast that the cost per Kwh may be 21-23 cents, which is substantially higher than hydros that were built several years ago, but that is not too different than what Fairbanks is faced with now at 23 cents Kwh.

MS. GOAD agreed that having these evaluation criteria is very difficult for hydro projects. AEA's statutory guidance is to give most weight to high-cost areas without defining "significant" for regional spreading, for match requirements and also now for the benefit/cost evaluation. So they have established regulations that provide a systematic method to evaluate projects even though there are a lot of moving parts.

CO-CHAIR WIELECHOWSKI said this is tough to resolve because of residents in rural Alaska paying outrageous rates while at the same time urban residents have low cost energy.

SENATOR STEDMAN said the further they move off of hydro and wind into "it might work at one particular spot on the planet" the more uncomfortable he becomes. The state can't afford to have "upside-down projects."

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CO-CHAIR WIELECHOWSKI noted that the bill has separate sections for different funds.

SENATOR STEDMAN repeated the more they deviate from proven technology the more uncomfortable he becomes and stated, "There's enough good projects; we don't have to go out and roll the dice."

SENATOR FRENCH asked what language is pointing them away from proven technologies. This language says "projects that are likely to have a financial benefit that exceeds the amounts of grant funds received."

SENATOR STEDMAN said he is fine with the language, but he is concerned about a movement by some groups away from it. He just wanted them to be cautious.

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MS. GOAD said the regulations that were adopted that further guide the renewable energy fund recommendation program require a project to have reasonable environmental and technical risk and the proposed energy system can reliably produce and deliver the energy as planned or proposed in an application. She said they would be providing information to the Legislature regarding their round three grant recommendations at the beginning of next week.

SENATOR FRENCH asked for a list of projects that had been approved under this section, so he could get a grip on what they had spent money on so far.

SENATOR WAGONER said he agreed with Senator Stedman that they have to be very careful about how far they go. "We've got too many rabbit trails to run down," he said.

CO-CHAIR WIELECHOWSKI said any guidance members have on adjusting the language to get to where they are all headed would be much appreciated.

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MR. PAWLOWSKI said Section 8 is complimentary language to Section 7. The change from the previous Section 9 in the C version is the deletion of the specific reference to the word "economist". It relates to the independent, economic and financial analysis of the renewable energy fund grant projects - to fulfill the intent in Section 7.

CO-CHAIR WIELECHOWSKI asked if Section 8 was designed to fix the problem they were just talking about.

MR. PAWLOWSKI answered yes.

SENATOR HUGGINS said it made him a little nervous to designate two organizations that the Authority can contract with on page 6, lines 16-17, even though they may be the perfect organizations, because it would be limiting what they could do.

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MS. SYDEMAN said the new Section 9 is the same as the old Section 10 with a few changes. She explained this section has to do with a requirement that AEA work with communities around the state to establish a statewide fuel buying cooperative. The objective is to enable communities to buy fuel at a lower price than what they are currently buying it at when they are all buying separately - even different entities within each community buy fuel separately. They don't achieve economies of scale. The new language clarifies that they are asking the AEA to facilitate the organization of such a cooperative, not to run it or to even be a part of it. This is one of the things they heard when the committee traveled to communities around the state. Entities are listed that they thought might be interested in joining such a co-op: local governments, utilities, school districts, tribal governments, state agencies, housing authorities and other interested non-profit entities.

She said they might want to further look at whether a village store or other for-profit entity could participate in the co-op. Her understanding was that Article 9, Section 6, of the Constitution might place some limits if credit is being extended by to a public authority like a local government. It might make it impossible for for-profit entities to participate in a fuel buying co-op. The main intention here, though, is to ask AEA to contact interested parties to provide technical assistance to them and help in the organization of such a cooperative.

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SENATOR STEDMAN said he thought "other interested non-profits" language on page 5, line 19, was too broad, although he said he was comfortable targeting local governments, utilities and schools, the tribal government and state agencies. He thought those words should be deleted and the sentence should maybe end with "housing authorities."

SENATOR FRENCH asked for specific non-profits that might fall in this category that they might delete.

MS. SYDEMAN said she put that language in and she was thinking of public health or community health clinics.

CO-CHAIR WIELECHOWSKI said they could work on some appropriate language. He wondered why they wouldn't want to open it up and be more expansive rather than less expansive.

MS. GOAD responded that the Authority is interested in providing the technical assistance that would be necessary to help

communities and entities form a fuel co-op, but their efforts might not result in a statewide fuel co-op. Right now there is no barrier for groups of organizations to get together to become a fuel co-op. Several years ago they changed their bulk fuel revolving loan fund statutes to allow a fuel co-op to borrow funds from the Bulk Fuel Revolving Loan Fund for such a purpose, but except for utility cooperatives that serve several communities, there hasn't been any type of fuel co-op that took advantage of that change to their statutes.

She said they would be more than willing to put an effort forward on advertising and providing technical assistance. She wasn't even sure that it would help find economies of scale that would reduce the price in rural communities. Her understanding is that the cost of the fuel is really the transportation. So a community further up a river would pay more than one not as far up. Even some larger utility cooperatives haven't had necessarily good luck on buying fuel in bulk and delivering it to several sites.

SENATOR FRENCH asked how the fuel co-op is envisioned to work and how they actually work in real life. It seems like you buy in bulk - sort of the Wal-Mart approach to life - if you put up a big enough contract you get a break on the price.

MS. GOAD answered that when they had looked at changes to the Bulk Fuel Revolving Loan Fund, she didn't know who approached them - maybe someone in Northwest Alaska. She didn't think they developed a cooperative. If they did, they didn't borrow from the Bulk Fuel Revolving Loan Fund.

She said five communities are interested in combining to purchase fuel in bulk. But the one that has the least expensive transportation cost will all of a sudden have higher cost if they are getting a levelized fuel price. One community may be subsidizing another community if they are trying to mitigate that transportation cost. Maybe a cluster of communities would make sense.

SENATOR STEDMAN asked if this could be done already.

MS. GOAD answered yes; entities can already come together and form a cooperative.

SENATOR STEDMAN said with that being the case, he would want to move to delete Section 9 [page 5, lines 15-19].

MS. SYDEMAN added one of the documents they looked at when writing this section was a report by the Department of Community and Regional Affairs a number of years ago called "Cooperative Purchasing: A Way to Save When Buying Fuel for Rural Communities." She noted again that the purpose of this section is to ask AEA to reach out to communities and assess interest in this. While communities can do this on their own right now, staff had received calls from them saying they need help doing it - Ousinkie, for instance.

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CO-CHAIR WIELECHOWSKI said he didn't want to advance something that wasn't needed. If it wasn't needed they would certainly take it out.

MR. PAWLOWSKI went to Section 10, the Emerging Energy Technology Fund, and said substantive changes made to this section from the C version was the transference from the group that Senator Huggins identified on page 6, lines 16. The Alaska Center for Energy and Power was the original administrator of the proposed fund, but in the current version it is the Alaska Energy Authority. The AEA is authorized to enter into contracts with the Center and the Institute for Social and Economic Research to do the socio-economic and technical review of the projects they will be deciding with the Advisory Committee to fund or not.

The Advisory Committee has been expanded to seven members on page 6, line 25, through page 7, line 2. The inclusion on page 6, lines 30 and 31, of the National Renewable Energy Laboratory and Arctic Energy Office of the National Energy Technology Laboratory is because they are seen as being helpful because they provide buy-in from the federal level and offer expertise not necessarily available in the state. But choosing federal agencies to be appointed by the governor presented some problems, so page 7, lines 6-12, were added to provide in the case of need for a contingency since the state cannot compel federal service employees to serve on boards or commissions. If these members were not available it provided a measure for the governor to make those appointments.

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SENATOR WAGONER had a problem with requiring degrees in science or engineering to be a member of the committee, because he could think of a lot of people who have had a lot of experience in power generation, alternative energy sources - geothermal and wind energy, and they would miss a lot of good qualified experienced Alaskans with that requirement. He suggested after

"have a degree in science or engineering" inserting "also or the equivalent of experience in a related field of energy" so the governor could "be a little creative in his selection."

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MR. PAWLOWSKI said Section 11 is a redraft of the transferable tax credit section that was in version C. In looking at the original program working with Robynn Wilson, Department of Revenue (DOR), the idea of a transferable credit posed some problems. He explained that a transferable credit by its nature has to go through several entities. You have a broker, an end purchaser; and since the universe of companies paying corporate income taxes is moderately small in this state, they were worried the dollar being transferred is the same dollar to the state either direction. So, if the policy goal was to deliver and incentivize private spending in renewable energy, keeping that directly to the end person building the project made a lot more sense than having them go out on market and shop these small credits around the state where brokers and purchasers would take percentages off of that value. So, section 12 was redrafted as a simple refundable tax credit.

He said another major departure from the original version was that while the credit was available at 15 percent of the Kwh charged, there was a floor and a ceiling price put on of 2.1 cents and 5 cents. Given the varying degree of the price of electricity around the state, this really didn't make much sense. So, instead of sticking with this floor and ceiling approach they relied on page 8, lines 29-31, where the limit is put on the capital expenditure - the important caveat to that 10-percent capital expenditure being on line 31 going to page 9, line 1. It says a person may not receive a credit for any state or federal grants they receive for the capital investment - making the refundable credit available only for private dollars. However, since not every member of the public is a taxpaying member, they inserted on page 8, lines 22-28, a procedure for the department to get a refundable credit to someone who might not be required to file an income tax report. This is the reason the bill was modified in the first place to be a transferable tax credit - as a policy goal. Making it a refundable tax credit is easier for the department to administer and delivers the maximum benefit of any subsidy to the people doing the investments.

He pointed out on page 13, lines 21-22, Section 23 sunsets this credit section.

SENATOR STEDMAN said it seems abstract because they don't have any projects in front of them. A lot of hydros can be \$100 million or \$350 million. What kind of impact would that credit for these projects make on the treasury and would this type of tax credit incentivize construction that would not otherwise be incentivized. "Show me that it's not a give-away - that it's a behavioral inducement to change the direction of somebody."

MR. PAWLOWSKI said that was a very appropriate question, and he said they would work to bring numbers back to the committee on it. In this section they were interested in making sure that the mechanics work. The actual financial impact they were leaving for higher level decisions.

SENATOR STEDMAN asked how much they are talking about in dollars.

MR. PAWLOWSKI responded that the 15-percent rate is the mechanic that determines the refundable credit in any given tax year. However, the overall aggregated credits a person can claim under this section is limited to 10 percent of their capital investment - the sponsor's intent being that incentivizing private dollars as opposed to grant funds is important in encouraging investment in renewable energy infrastructure in the state.

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The goal of this section was to attract the private dollars. So the fundamental cap is 10 percent of whatever private contributions are made to renewable energy projects.

SENATOR STEDMAN asked if that includes leveraged or just the equity position.

MR. PAWLOWSKI replied that his understanding is that it would include leveraged positions.

ROBYNN WILSON, Manager, Corporate Income Tax Division, Department of Revenue, added that her reading of this language is that when her division is measuring the 10 percent capital investment, that it would be excluding any state or federal grants. She wasn't familiar with the state grant program that would be relevant, but if she audited this she would try to ascertain whether a particular contribution was a grant from the state or not.

SENATOR STEDMAN asked, for example, if they build a \$300-million hydro and he goes out and borrows \$200 million and puts up \$100 million, would he get 10 percent of \$300 million or 10 percent of \$100 million.

MS. WILSON replied that she wasn't certain about the intent behind the word "grant." She could see money from a grant program, but she didn't know the intent for subsidized interest.

SENATOR STEDMAN said he meant that they wouldn't use any financing conduit from the state - just that the four of them would put up \$25 million a piece and then go out and borrow \$200 million more. "Would the credit be \$30 million or \$10 million?"

MS. WILSON replied that she couldn't speak to intent, but her reading would be that he would be responsible for that debt, so he would get the benefit of the full amount. The phrase about "ex-state or federal grant" would be specifically a grant program.

SENATOR STEDMAN said a lot of energy generation try to get grants and federal help; but a lot of them are financed directly - for instance, the last hydro expansion in Juneau.

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SENATOR FRENCH questioned the dates on page 8, lines 13-16, of July 1, 2009 because this probably wouldn't go into effect until July 1, 2010.

MR. PAWLOWSKI explained that these dates were left in this version because the committee actually took action at the time to move the dates back to July 1, 2009 and the staff didn't feel like they should change it. The sponsor's intent was to bring those dates back up for committee reconsideration.

SENATOR STEDMAN assured them that when the bill pops out of its final version the dates would be in the future not in the past.

MR. PAWLOWSKI added that Senator Stedman's point was very appropriate and something that he would return to the language about to exclude debt and leverage from the calculation of any tax benefit. The sponsor's intent is that it should be on equity.

CO-CHAIR WIELECHOWSKI remarked that Senator Stedman raised the point that has been consistently raised in all the tax credit bills - that is how to know this is really going to incentivize.

He asked him to find research or data that could sort of show them that it works.

[4:39:48 PM](#)

MS. SYDEMAN went to Section 13 [page 9, lines 19-22] which she said is new and directs the DOA to work towards developing a standardized method of collecting and storing energy consumption and cost data so progress on reducing energy consumption can be measured to meet the goal of 15 percent by 2020. The idea was that state government would play a role in that effort and would lead by example. Including this goal would be meaningless without a way to measure progress. She said the departments have reported that there isn't an easy way to measure statewide fuel consumption. So they asked the DOA to take six months to develop a unified approach across state agencies of collecting and storing this data.

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VERN JONES, Chief Procurement Officer, Department of Administration (DOA), commented that the DOA is probably not the appropriate agency to do this. He explained that DOA manages a total of 15 facilities; DOTPF probably manages in excess of 1000; it is also the agency that manages the energy performance contracts that they enjoy savings from. Other candidates like AEA whose core business is energy related or the Office of Management and Budget would be a better choice to coordinate and collect that data. They have the same issue with Section 24 that seems to go along with Section 13.

MS. SYDEMAN clarified that the reason they selected the DOA for this role is that they really thought how agencies keep track of their energy expenditures was an accounting issue; it's not related completely to management of public facilities, but really to any energy expenditure.

[4:42:56 PM](#)

MR. JONES said he hesitated to speak for the Division of Finance which controls their accounting system, but his limited knowledge tells him that many of these agencies don't use the state accounting system and would probably have difficulty in capturing the data and reporting out on it. So he maintained the DOA is still not the appropriate agency to do something like this.

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SENATOR STEDMAN said getting the data is a good intent, but he has trouble even finding how many state employees the state has

or how many automobiles are on the Alaska Marine Highway that are nonrevenue. They have trouble getting basic information and getting this information was beyond that. His expectations of the department being able to do something like this weren't very high without a considerable expense for setting it up and running it.

CO-CHAIR WIELECHOWSKI directed staff to work with DOA, AEA, DOTPF, and OMB to see who is best appropriate to do this task.

MS. SYDEMAN went to Section 14 that directs the DOTPF to consider energy efficiency when purchasing new vehicles for the state fleet. She believed they were already doing this, but this bill requires it in statute.

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MARY SIROKY, Special Assistant to the Commissioner, Department of Transportation and Public Facilities (DOTPF), said the department had no problems with that language, and considers the phrase "where practicable" gives them the necessary flexibility to be able to do this.

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MS. SYDEMAN said Section 15 makes substantial changes to the old Section 16 in version C which required DOTPF to retrofit all public facilities if retrofitting them would result in net energy savings to the state within 15 years. The department said it was too ambitious of a goal and that made sense. So, this version requires DOTPF to retrofit 25 percent of all public buildings by 2020 starting with those that are least energy efficient and this requirement is subject to funding being available. This version also requires DOTPF to develop a systematic process for determining which buildings should be upgraded to reduce long-term energy costs and it requires DOTPF to submit a report to the Legislature after consulting with the DOA detailing the department's progress in meeting this mandate.

They also have put a less-expansive definition of "public facility" in at the department's request. They are only looking at facilities that are larger than 10,000 sq. ft. which certainly narrows the universe of public facilities. They have also excluded facilities that belong to the Legislature or Court System because there was concern about the executive branch being able to corral other branches of government. They have also explicitly excluded facilities that are leased to the state over which they have no control and in which they would not invest state funds.

SENATOR WAGONER said it doesn't matter which department or which branch of government owns the building, it's still owned by the state. If the DOTPF was going to do this work, he wanted a report from them as to what their administrative overhead charge would be to see if it wouldn't be better to go out to private engineering companies.

MR. ST. AUBIN responded that he would have to work on a fiscal note for this, but DOTPF's public facilities' overhead, in general, runs lower than the highway section's.

CO-CHAIR WIELECHOWSKI said that would be helpful.

SENATOR FRENCH asked how many public facilities owned and controlled by the state would fall under this definition of 10,000 sq. ft.

MR. ST. AUBIN replied that a quick look came up with 190 buildings.

SENATOR STEDMAN asked him to elaborate on the age and location of these buildings. He emphasized that this is broader than just DOTPF and he was not excited about DOTPF creating a bureaucracy to do this versus sourcing it out. He wanted DOTPF to concentrate on building new roads and maintaining the state's infrastructure.

MR. ST. AUBIN said the locations of the buildings are from Ketchikan to Kotzebue and age will vary from built last year to being over 50 years old.

SENATOR STEDMAN said he wanted a spreadsheet on that data.

MR. ST. AUBIN said he could do that.

MS. SYDEMAN said she didn't know if everyone was making the same assumption they made in this section, but much of this work would likely be done through performance contracting, not by the department. She also noted that the Governor has a bill creating a fund that would take about \$18 million in federal stimulus funds and use that to leverage up to \$250 million that he is requesting permission to issue as bonds. Sixty percent of that money would be available for retrofitting public facilities. So they wouldn't include a section like this unless they thought there was a good possibility of funding being available for it. The two are very closely linked.

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MS. SYDEMAN said Section 16 simply tasks the AEA and AHFC with working together to annually plan and conduct a public education campaign to promote energy efficiency and conservation. AEA has already begun a public education effort; so this requirement is consistent with their intent. They were told by the legal drafters, however, that they don't have explicit statutory authority for that right now. This language provides that authority. She noted that other jurisdictions that have implemented campaigns to reduce energy consumption have seen significant benefits. The Anchorage School District recently completed a pilot program to reduce energy costs in nine Anchorage schools and documented a substantial reduction in use of both natural gas and electricity.

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MR. PAWLOWSKI said Sections 17-20 together resurrect the old alternative energy revolving loan fund in the Department of Commerce. It's a reauthorization and there were no changes from the C version.

[4:54:08 PM](#)

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community and Economic Development (DCCED), explained that this fund was created in 1987 and operated for nine years; it made close to 3000 loans and was funded with \$18 million. The Legislature started taking money out of it in 1987 and passed language which basically said as funds came in from loans those funds reverted back to the general fund. This piece of legislation would remove that language and allow this fund to operate if a funding source were discovered for it.

MR. PAWLOWSKI said they asked the department to run three scenarios based on different funding levels and this program theoretically was a net positive to the state over its lifetime.

SENATOR WAGONER asked on page 12, line 23, if the "8 percent and may not be less than 5 percent a year" interest rate was reasonable at this time.

MR. PAWLOWSKI deferred that answer to Mr. Winegar.

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MR. WINEGAR responded that that was a good question. Essentially when this program operated in the 80s the interest rate was 5 percent for the first \$15,000 borrowed and 15 percent for

anything borrowed in the \$15,000-\$30,000 range. The program did operate successfully; it was funded with \$18 million and most of the loans went out at 5 percent. The average loan was around \$8-9000. About \$24 million came out of the fund over that nine-year period. It actually cash flowed at a 5-percent interest rate. The idea here was to provide as low a rate as possible, but at the same time have it be a successful program over time. That is where the 5-8 percent range came in, but that could be adjusted.

SENATOR WAGONER asked if higher risk projects would have the higher interest rate.

MR. WINEGAR answered that essentially their decision is not based on risk, but on what rates do in the market which would be prime-plus 1 with a floor of 5 percent.

SENATOR FRENCH said it sounds like they were encouraging small loans so that they could limit the state's risk in any given investment in what was then alternative energy.

MR. WINEGAR replied that he thought that was the thinking in the 80s.

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MR. PAWLOWSKI said he didn't have his notes on Sections 21 and 22, but Section 23 is the renewable energy refundable tax credit.

CO-CHAIR WIELECHOWSKI asked what Sections 21 and 22 repealed.

[4:59:04 PM](#)

BRIAN KANE, Legislative Counsel, Legislative Affairs, said he thought they were related to repealing the Alternative Energy Loan Program so that new language would make sense.

MR. PAWLOWSKI said Section 15 was the retrofits energy efficiency and energy reports section to conform with the purposes in Section 1.

CO-CHAIR WIELECHOWSKI said Section 23 was the renewable energy sunset.

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MS. SYDEMAN said Section 25 is new and adds to uncodified law the requirement for DOTPF to develop a systematic process of prioritizing the retrofitting of state facilities. That would be part of the mandate to retrofit. Section 26 is also new and

directs the Governor to submit a report to the Legislature by November 1, 2010, with recommendations about how to structure state energy program and offices to increase coordination and operating efficiencies. She thought members were aware of the fact the House has a bill to restructure energy programs within the state and they are simply asking the Governor to provide recommendations by next year to have the benefit of thinking of the executive branch.

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CO-CHAIR WIELECHOWSKI thanked staff and the administration for all of their work and input; he said they would continue to work on SB 220 and adjourned the meeting at 5:01 p.m.