

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY

February 22, 2011

3:06 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Lance Pruitt, Co-Chair
Representative Bob Lynn
Representative Kurt Olson
Representative Dan Saddler
Representative Pete Petersen
Representative Chris Tuck

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 103

"An Act relating to the procurement of supplies, services, professional services, and construction for the Alaska Energy Authority; establishing the Alaska Railbelt energy fund and relating to the fund; relating to and repealing the Railbelt energy fund; relating to the quorum of the board of the Alaska Energy Authority; relating to the powers of the Alaska Energy Authority regarding employees and the transfer of certain employees of the Alaska Industrial Development Export Authority to the Alaska Energy Authority; relating to acquiring or constructing certain projects by the Alaska Energy Authority; relating to the definition of 'feasibility study' in the Alaska Energy Authority Act; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 103

SHORT TITLE: POWER PROJECT; ALASKA ENERGY AUTHORITY

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/11	(H)	READ THE FIRST TIME - REFERRALS
01/18/11	(H)	ENE, FIN
02/15/11	(H)	ENE AT 3:00 PM BARNES 124
02/15/11	(H)	Heard & Held

02/15/11 (H) MINUTE(ENE)
02/17/11 (H) ENE AT 3:00 PM BARNES 124
02/17/11 (H) Heard & Held
02/17/11 (H) MINUTE(ENE)
02/22/11 (H) ENE AT 3:00 PM BARNES 124

WITNESS REGISTER

SARA FISHER-GOAD, Executive Director
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 103.

BRYAN CAREY, Project Manager
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 103.

CHRIS RUTZ, Procurement Officer
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 103.

BRIAN BJORKQUIST, Senior Assistant Attorney General
Labor and State Affairs Section
Civil Division (Anchorage)
Department of Law (DOL)
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 103.

ACTION NARRATIVE

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CO-CHAIR NEAL FOSTER called the House Special Committee on Energy meeting to order at 3:06 p.m. Representatives Foster, Petersen, Tuck, Saddler and Pruitt were present at the call to order. Representatives Lynn and Olson arrived as the meeting was in progress.

HB 103-POWER PROJECT; ALASKA ENERGY AUTHORITY

[3:07:04 PM](#)

CO-CHAIR FOSTER announced that the only order of business would be HOUSE BILL NO. 103, "An Act relating to the procurement of supplies, services, professional services, and construction for the Alaska Energy Authority; establishing the Alaska Railbelt energy fund and relating to the fund; relating to and repealing the Railbelt energy fund; relating to the quorum of the board of the Alaska Energy Authority; relating to the powers of the Alaska Energy Authority regarding employees and the transfer of certain employees of the Alaska Industrial Development Export Authority to the Alaska Energy Authority; relating to acquiring or constructing certain projects by the Alaska Energy Authority; relating to the definition of 'feasibility study' in the Alaska Energy Authority Act; and providing for an effective date." He recalled that at the last meeting questions were raised about the 3/16/09 study on the proposed project prepared for the Alaska Energy Authority (AEA) by HDR Alaska, Inc., HDR/DTA, and Northern Economics, and said a copy of that study was included in the committee packet.

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SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), stated Mr. Carey, Project Manager, would address the cost estimates from the aforementioned 2009 study.

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BRYAN CAREY, Project Manager, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), referred to the 3/16/09 report and said it was an interim memorandum = not the final report - on the project. The memorandum estimated the construction cost of \$8.3-\$8.4 million for the "full-size" Watana dam built to a height of 885 feet. The project now presented is the "low" Watana project - construction of a dam to a height of 700 feet - for which the interim memorandum estimated a cost of \$6.9 million. There are errors in the cost numbers, such as in the size of, and improvements to, the construction camp, and costs for the construction camp are also lower now due to the efficiency of present-day equipment. He estimated this reduction made a difference of about \$400-\$500 million. Also included in the memorandum were almost \$600 million for access via a road and a large suspension bridge over Devil Canyon; however, the project now proposes only the road. Furthermore, Mr. Carey advised that in 1982, the transmission system around Anchorage and in the Mat-Su Valley was much less developed, thus the older estimate

included more transmission lines and submarine cable than are necessary now. In fact, the transmission lines from Gold Creek were removed from the estimate and there have been changes to the transmission substations that affect costs throughout the project. In addition, because the contingency allowance is a percentage of 20 percent, any major changes reduce that cost also. Similarly, engineering and environmental construction management were estimated at 11 percent, and since a substantial amount of that work has been performed, that number was reduced to reflect the studies that have already occurred. Because the basics of the dam have not changed much, even though construction costs increase with a larger dam, costs based on percentages, such as design, engineering and environmental construction management, do not increase as much. He concluded that these changes account for the large drop in costs.

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REPRESENTATIVE SADDLER asked for the amount of savings in the categories of earth moving, camp housing, access, and transmission lines.

MR. CAREY explained that the reduction in cost for the construction camp is \$429 million, and the interim estimate was \$612 million.

MS. FISHER-GOAD suggested that AEA provide a spreadsheet of the differences in figures "from now to then."

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REPRESENTATIVE TUCK asked that the spreadsheet include the difference in costs for the transmission line from Gold Creek.

MR. CAREY, in response to Ms. Fisher-Goad, restated he will prepare a spreadsheet that shows the change in numbers that has occurred from "March to November, and as part of the spreadsheet also it has the Gold Creek to other points type of costs."

REPRESENTATIVE PETERSEN asked whether the estimates should include upgrading to a smart grid.

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MR. CAREY advised a cost estimate pertaining to a smart grid would take several months to generate unless it is already available in the Regional Integrated Resource Plan (RIRP).

CO-CHAIR PRUITT encouraged the committee to discuss the kilowatt per hour (kWh) cost to consumers. In addition, he requested "an estimate of what we expect if the state kicked in at different levels, what it might be to the consumer so we have an idea of what ... to expect, and then compare that to the cost of what it is now and to other sources of generation."

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REPRESENTATIVE TUCK referred to page 4 of the interim memorandum, pointing out that the project spent \$145 million during Fiscal Year 1979 (FY79) to FY86, and in FY09, AEA was authorized to reevaluate the project. He asked if these studies were the engineering and environmental work that was already done.

MR. CAREY advised that most of the work was done in the early '80s, observing that it is hard to get time and resources spent by federal agencies without a preliminary permit. Thus the funds authorized for AEA in FY09 were not spent on a substantial amount of environmental work, but mostly on engineering and conceptual studies of embankment and roller-compacted concrete dam construction. Cost estimates of environmental work are still required to reflect changes in regulations and the resources affected.

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REPRESENTATIVE TUCK emphasized the need to compare similar costs. He then asked how the time necessary for Federal Energy Regulatory Commission (FERC) licensing was reduced from eight to five years.

MR. CAREY said the amount of time needed to receive the FERC license is subject to different opinions. The agency was advised by a former FERC employee that a five-year time period is possible with an aggressive schedule. In further response to Representative Tuck, he said he would attempt to address the timeline, although this is difficult to forecast.

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CO-CHAIR FOSTER referred to the Table 1 Summary on page 3 of the interim memorandum, pointing out that the estimated cost per kWh during the first 50 years of operation of the proposed low

Watana project is \$0.20, and asked how that cost compares with other hydroelectric (hydro) projects.

MR. CAREY explained that \$0.20 per kWh is a higher cost than other current hydro projects in and out of the state. However, this estimate is based on construction costs of \$6.9 million funded by private equity financing. Generally, hydro power in the Pacific Northwest costs less than \$0.05 per kWh.

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REPRESENTATIVE PETERSEN surmised that if the state invested 50 percent of the cost of construction, after a 50-year payback, the cost of power would be about \$0.10.

MR. CAREY gave the example of the Bradley Lake Hydroelectric Project (Bradley Lake Hydro), and said after 35 years the bonds will be paid back and then the payback to the state for its contribution begins. He then said, "Depending on the length of the time that the state is to be receiving funds back on it, when the state no longer wishes to be, receive funds back for the project, then the cost of generation at that time will be likely less than a penny per kilowatt."

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CO-CHAIR PRUITT asked who owns the land that will be impacted.

MS. FISHER-GOAD stated the major landholders are the federal government, Tyonek Native Corporation, Cook Inlet Region Inc. (CIRI), the state, and others who are not indentified at this time.

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CO-CHAIR PRUITT asked whether the landowners are supportive of the project.

MR. CAREY advised that Tyonek Native Corporation will provide a letter of support, and discussions with CIRI are ongoing.

CO-CHAIR FOSTER referred to section 1 of the bill and asked how the changes regarding procurement will help advance the dam.

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MS. FISHER-GOAD explained the procurement section of HB 103 is not focused on the project, but addresses AEA's internal processes as a state corporation. The purpose of the section is to give AEA authority - similar to the Alaska Housing Finance Corporation (AHFC) - to establish one set of procurement rules for all of the procurement processes with which AEA is involved. Currently AEA operates under AS 36.30, and it also handles the procurement of services for its work with communities through grants. The intent is to allow AEA to operate under one set of rules and adopt regulations through a public process. She noted that often specific procurement plans are established for a large project such as this.

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CHRIS RUTZ, Procurement Officer, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), informed the committee he sought advice from Montgomery Watson Alaska (MW Alaska), Anchorage, Alaska, which is an engineering firm assisting with the project. Regarding procurement plans on big projects, MW Alaska recommended a "qualifications-based selection process," not a standard low-bid process. Other models discussed were "partnering" and "owner-supplied materials," in which arrangements are made in advance for key components. Mr. Rutz opined this project would be a very complex procurement involving analyzing risk, determining the best methods, and selecting competent contractors. Furthermore, the legislature will probably be interested in securing jobs for Alaskans through contracts that encourage the use of local labor. Regardless of whether AEA is operating under AS 36.30 or its own rules, there will be many discussions with the industry on the best procurement process for this project.

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REPRESENTATIVE TUCK asked what procurement code was used for the construction of the Bradley Lake Hydroelectric Project.

MR. RUTZ was unsure, but added that the Bradley Lake project was built before the procurement code was established in 1988.

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The committee took an at-ease from 3:40 p.m. to 3:42 p.m.

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The committee took a brief at-ease.

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REPRESENTATIVE PETERSEN has heard concerns from legislators and constituents that there are more salmon and other fish in the area than indicated by the interim memorandum. He suggested there may be "push back from fish ... environmental-type groups."

MS. FISHER-GOAD stated her department has received a request from the commissioner of the Alaska Department of Fish & Game (ADFG) and from legislators asking for further information on fish impacts, and she reminded the committee that the preliminary permit application begins the analysis process. Federal licensing agencies and resource agencies will determine what needs to be studied and what additional habitat, fish, and game issues are to be addressed.

BRIAN BJORKQUIST, Senior Assistant Attorney General, Labor and State Affairs Section, Civil Division (Anchorage), Department of Law (DOL), added that FERC is required to work with resource agencies and incorporate fish and wildlife protections into the conditions of the license.

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CO-CHAIR PRUITT asked whether a business plan for the project is in place.

MS. FISHER-GOAD advised that the project will progress through several stages of analyses beginning with the application for the FERC license, a financing plan addressing the utilities and power sales agreements (PSAs), and the discussion of the state's role regarding its capital contributions and issuing debt. She said, "There's a variety of places that there'd be decision points."

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CO-CHAIR PRUITT clarified that he wants to ensure that a proper plan is in place to get to the end result, beyond just knowing the total cost.

MS. FISHER-GOAD relayed that the capital project request included an estimated schedule for the steps that will be taken

during expenditure of the \$65 million allocation. She opined the FERC licensing process and PSAs will be completed in about five years. In the '80s, the project was set aside for a variety of reasons; the process was started again in 2008 because of the state's new goal of 50 percent renewable power for electricity.

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MR. BJORKQUIST pointed out that the time for a business plan is after the issuance of the FERC license, and when the utilities are prepared to execute PSAs, the Regulatory Commission of Alaska (RCA) is prepared to approve the PSAs, and the legislature is willing to appropriate funds. Further components that must be complete prior to the aforementioned are the finalization of PSAs, operating and maintenance agreements, and plans for the transmission of power. Presently, only preliminary information can be provided.

REPRESENTATIVE SADDLER asked whether hydro energy is considered renewable under a federal definition.

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MR. BJORKQUIST expressed his understanding that for certain federal programs hydro power is not considered renewable. He explained that in the Lower 48 energy is available from many suppliers; however, in Alaska, the only option may be between hydro and diesel, and that calls for "a completely different ... frame of reference." In further response to Representative Saddler, he said, "I couldn't tell you the specifics."

CO-CHAIR FOSTER noted the Alaska Power Association is urging a change in the federal definition. He then asked whether copies of legislators' letters to AEA regarding fish issues are available for the committee.

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MS. FISHER-GOAD indicated yes.

CO-CHAIR FOSTER asked Ms. Fisher-Goad to elaborate on the concerns about HB 103 regarding the expansion of the scope of AEA's power.

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MS. FISHER-GOAD acknowledged that the bill provides general authority for AEA to construct and own new projects. This specific project would be funded by a capital appropriation in a separate bill. Although money to capitalize the Alaska Railbelt Energy Fund would require a legislative appropriation, existing law allows AEA to issue grants and perform certain tasks without further legislative appropriation. Thus the concern is about what authority the legislature wants agencies to have regarding expending funds. For example, the legislature has a variety of procedures for funding, such as the Emerging Energy Technology Fund from which AEA can issue grants without further authority, and the Renewable Energy Grant Recommendation Program that requires AEA to submit a list of projects to the legislature for funding. The proposed language in HB 103 is similar to the procedure of the Emerging Energy Technology Fund, whereas AEA has "a certain amount of latitude to spend the funds, without further legislative appropriation." Ms. Fisher-Goad pointed out that there is no money in the fund at this time.

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CO-CHAIR PRUITT called attention to section 8 of the bill, and suggested there is a misconception that creating a subsidiary may result in the subsidiary having additional powers.

MR. BJORKQUIST assured the committee that AEA can only grant to the subsidiary powers that it holds; therefore, the boundaries of the subsidiary are the same as the statutory authority of AEA. Moreover, AEA can choose to grant the subsidiary less power than it holds.

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CO-CHAIR PRUITT observed that AEA currently handles other funds, and asked for clarification that the proposals in the bill address not only the low Watana project, but all AEA funds in the state. Additionally, he asked for an opinion on the pros and cons of limiting the legislation to the low Watana project.

MS. FISHER-GOAD confirmed that HB 103 provides AEA the ability to own and construct new projects; in fact, it is important for AEA to return to its pre-1993 status in order to pursue future opportunities. However, her agency should establish criteria to distinguish between projects that require different levels of ownership by the state, such as those in smaller communities. She expressed her intent to discuss with AEA board members how to implement the proposed expansion of powers. Ms. Fisher-Goad

reminded the committee that AEA does not have funds waiting be invested into new projects. She cautioned that AEA is unable to act on opportunities that arise during interim, and opined this is a tool to reestablish AEA's programs and responsibilities.

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CO-CHAIR PRUITT asked how this affects the Alaska Industrial Development & Export Authority (AIDEA), and whether AEA will have the bonding ability to establish projects without legislative approval.

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MS. FISHER-GOAD explained that AIDEA and AEA are separate and distinct corporations, except for some staffing issues, and that the board members are the same people, although it is not a joint board. She stressed that AEA is recognized as an independent corporation and retains the ability to issue bonds. The idea of whether AEA would issue bonds and own projects begs the question of what would service the debt.

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CO-CHAIR FOSTER announced HB 103 was held over for public testimony.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 4:09 p.m.