

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

January 31, 2012

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. 250

"An Act relating to the renewable energy grant fund and recommendation program; and providing for an effective date."

- MOVED CSHB 250(ENE) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 250

SHORT TITLE: EXTEND RENEWABLE ENERGY GRANT FUND

SPONSOR(S): REPRESENTATIVE(S) THOMAS, P.WILSON, MILLETT

01/17/12	(H)	PREFILE RELEASED 1/6/12
01/17/12	(H)	READ THE FIRST TIME - REFERRALS
01/17/12	(H)	ENE, FIN
01/31/12	(H)	ENE AT 3:00 PM BARNES 124

WITNESS REGISTER

KACI SCHROEDER, Staff
Representative Bill Thomas
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Bill Thomas, co-sponsor, introduced HB 250.

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

POSITION STATEMENT: Testified in support of HB 250 and answered questions.

PETER CRIMP, Deputy Director
Alternative Energy & Energy Efficiency
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 250 and answered questions.

CHRIS ROSE, Executive Director
Renewable Energy Alaska Project (REAP)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 250.

GENE THERRIAULT, Vice President
Resource Development
Golden Valley Electric Association (GVEA)
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 250.

CLAY KOPLIN, Chief Executive Officer
Cordova Electric Cooperative
Cordova, Alaska

POSITION STATEMENT: Testified in support of HB 250.

WALTER ROSE, Regional Energy Specialist
Community Planning and Development Program
Kawerak, Inc.
Nome, Alaska

POSITION STATEMENT: Testified in support of CSHB 250, Version D.

DAVE MESSIER
Energy Department
Yukon River Inter-Tribal Watershed Council
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 250.

LISA HERBERT, Executive Director
Greater Fairbanks Chamber of Commerce
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 250.

ACTION NARRATIVE

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

HB 250-EXTEND RENEWABLE ENERGY GRANT FUND

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CO-CHAIR PRUITT announced that the only order of business would be HOUSE BILL NO. 250, "An Act relating to the renewable energy grant fund and recommendation program; and providing for an effective date."

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REPRESENTATIVE SADDLER moved to adopt the proposed committee substitute (CS) for HB 250, identified as 27-LS1060\D, Nauman, 1/30/12, as the working document.

REPRESENTATIVE FOSTER objected for the purpose of discussion.

CO-CHAIR PRUITT called attention to page 1, line 10, of the proposed CS and said the only change made to the bill is to change the longevity of the fund from ten years to five years.

REPRESENTATIVE FOSTER removed his objection.

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There being no further objection, the proposed CS for HB 250, Version D, was before the committee.

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KACI SCHROEDER, Staff, Representative Bill Thomas, Alaska State Legislature, on behalf of Representative Thomas, joint prime sponsor, introduced the proposed CS for HB 250, saying the bill reauthorizes the renewable energy grant fund for another five years. The fund was established in 2008 and has supported about

200 projects across the state, focusing on areas where the cost of energy is high. At the end of 2011, 21 projects were on-line and it is estimated that by 2013, the fund will be responsible for displacing six million gallons of diesel fuel each year in Alaska. The bill also contains the legislative intent to fund the program at \$50 million per year.

REPRESENTATIVE SADDLER asked about the kinds of projects that remain unfunded.

MS. SCHROEDER deferred to the Alaska Energy Authority (AEA).

REPRESENTATIVE SADDLER then referred to a third-party review by the Vermont Energy Investment Corporation - that is expected in March, 2012 - and asked Ms. Schroeder whether action on the bill could wait for the results of the review.

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MS. SCHROEDER said the sponsor would prefer not to wait.

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PETER CRIMP, Deputy Director, Alternative Energy & Energy Efficiency, AEA, Department of Commerce, Community & Economic Development (DCCED), in response to Representative Saddler's earlier question, said one of AEA's focuses is toward developing heat energy projects that provide thermal energy. He explained that the renewable fund advisory committee directed the agency to emphasize the development of wood-fired boiler systems, particularly in rural areas where they are economically beneficial and fairly easy to "get off the ground." This is an area of a substantial increase in the numbers of proposals and recommendations received in Round 5 [the fifth grant application period]. In general, the program has shied away from new and emerging technologies due to their risk and because the Emerging Energy Technology Fund Grant Program will provide for them.

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REPRESENTATIVE SADDLER asked whether the technical quality of the proposals has improved.

MR. CRIMP said yes. Applicants have adopted a phased approach to the process which is pre-feasibility analysis, full-feasibility and conceptual design, final design, permitting, and construction.

REPRESENTATIVE SADDLER then asked how the program will evolve over the next seven years.

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SARA FISHER-GOAD, Executive Director, AEA, DCCED, said the agency has begun to see larger and more expensive construction projects in Round 5. The cap on the funding recommendations for lower-cost areas has been raised to \$4 million and the cap for higher-cost areas has been raised to \$8 million, so projects are coming in at higher costs and higher levels of difficulty. She cautioned that regional-spreading may be more difficult to maintain as the funding for one project could possibly meet the statutory requirement. Generally, Ms. Fisher-Goad expected to receive the same type of projects, and agreed that applicants are becoming more familiar with the program. The agency has the ability to change the focus, but she did not anticipate a change from the emphasis on heat recovery.

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REPRESENTATIVE FOSTER asked for the total amounts requested and rewarded in the last round.

MS. FISHER-GOAD answered \$132,900,000 was requested and \$43 million was recommended in Round 5. In further response to Representative Foster, she acknowledged the purpose for a third-party contractor, Vermont Energy Investment Corporation, to look at the program is to search for changes and improvements. She opined the agency needs to make sure the public knows about the availability of the program, and also needs to provide technical assistance, especially to rural areas. The program contains sufficient flexibility to make improvements without statutory recommendations. Technical assistance on applications is needed in rural communities; in fact, efforts are being made to coordinate with AEA's Rural Power System Upgrade (RPSU) program and incorporate appropriate alternative or renewable energy projects.

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REPRESENTATIVE FOSTER agreed technical expertise is needed on applications for projects in rural Alaska.

MS. FISHER-GOAD, in response to Representative Petersen, said \$176 million has been appropriated to the program, approximately

\$80 million has been disbursed, and the balance is approximately \$90 million.

REPRESENTATIVE TUCK observed AEA is allowed to take up to \$2 million of the interest holdings. Most recently, the actual cost of administering the energy grant funds was \$1.2 million. He asked why the cost was so high, and how that cost was absorbed.

MS. FISHER-GOAD recalled when the original legislation was passed the intent of the original fiscal note was just to establish the baseline of the program. The actual cost of managing the program had been adjusted by a separate appropriation to use the interest earnings of the fund to manage the actual funded projects, the economic firms, and the support of the University of Alaska Anchorage, Institute of Social and Economic Research (ISER) for the evaluation of projects.

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MR. CRIMP added that AEA's management of projects is "active" in that it establishes milestones, reviews conceptual and final designs, accept designs, controls the due diligence of funds, contacts grantees, issues notifications of non-response, and provides accounting services and oversight.

REPRESENTATIVE TUCK pointed out the cost for FY 12 increases to \$1.6 million and cautioned that \$2 million may not be enough for the next five years.

MS. FISHER-GOAD advised that the total number of projects is peaking and will level off after some are done and closed. She estimated that up to \$2 million is sufficient to pay for the administrative costs of managing the program, and said AEA is comfortable with that appropriation.

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MS. FISHER-GOAD, in further response to Representative Tuck, confirmed that there will always be a need for a bank of economists to evaluate projects. Her agency may also need to provide additional technical assistance, perhaps in the form of application training workshops.

REPRESENTATIVE TUCK then asked for the common reasons projects are not selected.

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MR. CRIMP acknowledged that about two-thirds of the applications are not recommended by AEA. For the most part, AEA recommends against approximately 80 percent of the applications because the projects were not ready to proceed within the timeframe. The agency seeks to best serve the public not by "banking money for projects ... [but] by making the money work within ... the closest timeframe as possible." Other reasons are technical and feasibility problems, and poor economics.

MR. CRIMP assured Representative Tuck that AEA loves hydroelectric projects.

REPRESENTATIVE SADDLER asked for an estimate on how much federal money has been leveraged by the grants so far.

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MS. FISHER-GOAD offered to provide the specific dollar amount to the committee when possible.

MR. CRIMP, in response to Representative Saddler's question on whether the renewable energy grant fund projects will result in a reduction of need for AEA's Power Cost Equalization (PCE) program, said he has performed a quick analysis based on partial energy production in 2011. Although 21 construction projects are "up and running," and AEA is collecting data, the impact on rates is a difficult question because the cost of operation, maintenance, and debt service must be balanced against the cost of diesel fuel. Mr. Crimp offered to provide the committee with the analysis he has. In response to Co-Chair Pruitt, he clarified that there are approved projects slated for urban areas in Southeast, and in the Railbelt, such as the Golden Valley Electric Association (GVEA) Eva Creek Wind project and the Municipality of Anchorage Regional Landfill Gas-to-Energy gas generating plant.

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REPRESENTATIVE FOSTER returned to questions about the PCE program and asked for the formula used to determine the rate.

MS. FISHER-GOAD reminded the committee the PCE rate is based on a weighted-average rate of the residential ratepayers in the communities of Fairbanks, Juneau, and Anchorage. At this time, the "floor for the program" is 13.42 cents per kilowatt hour

(kWh). The PCE program formula is 95 percent of the difference between one dollar and the base rate, unless the utility in the PCE-eligible community is rate-based. There are actually two ways the PCE rate can be evaluated, both with the intent that residents in a PCE community pay their rate less the PCE level, thereby bringing their cost close to the base rate of 13.42 cents per kWh for 500 kWhs per month.

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MR. CRIMP added that his analysis looked at the impact on four power projects which have been in operation for much of one year in PCE communities. In Gustavus, the Falls Creek Hydroelectric Project saved 1.5 cents per kWh for PCE customers, and saved 28 cents per kWh for customers not eligible for PCE, such as commercial facilities. He pointed out that savings to the PCE program in the amount of \$172,000 - because the price of power was brought down and less PCE was required for the community - were put back in the PCE "kitty." Thus savings are "a little bit for the PCE customers, a lot for the non-PCE-eligible customers, and ... a lot for the PCE program itself."

CO-CHAIR PRUITT asked how much was spent in Gustavus to save \$172,000 per year.

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MR. CRIMP said his analysis is based on the formula and "is more representative," and so AEA needs to provide a succinct table with that information.

CO-CHAIR PRUITT then asked whether AEA's focus is to see a project through to the end. He has heard concerns from the management of "different power groups around, associations" that a smaller utility may want to test a water source of energy, and AEA may help them determine whether a certain source of energy is viable, and then move on.

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MS. FISHER-GOAD appreciated talking about the energy pathway and AEA's effort with regional planning to determine what should be done, in different regions and communities, to reduce the cost of energy. The renewable energy grant fund is a very effective tool and has produced beneficial results in some communities, but there are some areas that may not have renewable resources to develop. In that case, other AEA programs such as the RPSU

program - along with state and federal funding from the Denali Commission - may provide benefits to ensure that rural communities have an efficient powerhouse, perhaps with the integration of wind power generation. End-user efficiency and demand side management (DSM) of a powerhouse may be the most effective assistance for some communities. Although the renewable energy grant fund is playing an important role in renewable projects, regional planning indicates that there is not one answer for every community or region.

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CO-CHAIR PRUITT asked whether the fund includes transmission lines.

MS. FISHER-GOAD confirmed that transmission lines from a renewable project are eligible.

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MR. CRIMP gave examples of two projects on Prince of Wales Island, one a hydroelectric power plant requiring transmission lines, and one an extension of an existing grid.

MR. CRIMP, in response to Representative Saddler, said AEA has ten reviewers, two staff at ISER, and ten contractors working on projects during a two and one-half month period. Additional staff is not needed because AEA is getting more efficient.

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CO-CHAIR PRUITT asked for the top reason that a request would be rejected.

MR. CRIMP said it is likely to be because a component of the earlier stage of development, such as the feasibility study, is not completed. In further response to Co-Chair Pruitt, he estimated that a Request for Proposal (RFP) published in late July would be due in mid-September, and funded July 1.

REPRESENTATIVE PETERSEN restated AEA's projection that by 2013, the renewable energy grant fund would have displaced six million gallons of diesel fuel.

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MR. CRIMP said yes. By 2013, the program will be displacing approximately 3.5 million gallons per year. In further response to Representative Petersen, he said he did not want to mischaracterize the amount of the estimated savings as it is a diesel equivalent, which includes a significant amount of natural gas. However, at this time diesel fuel for power costs from \$3.50 to \$5.50 per gallon, and the savings are substantial.

REPRESENTATIVE PETERSEN has heard Alaska is the envy of other western states because of its investment in renewable energy.

REPRESENTATIVE SADDLER quoted from a document titled, "Report to Alaskans," that indicated "AEA estimates by the end of '13, 44 projects will be complete, saving more than 10 million gallons of diesel annually."

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MR. CRIMP explained the discrepancy is that the known diesel equivalent displacement is for the years 2009-2011. This creates a 1-year lag; by the end of 2013, given the projects of Rounds 1-4, we're "expecting over 10 million, beginning in 2014; so, by the end of 2014 [there will be] 10 plus million gallons equivalent displacement."

CO-CHAIR PRUITT requested clarification on whether some projects will be affected by the "doubling of the caps."

MS. FISHER-GOAD reiterated that the grant recommendation program provided \$43 million of recommended projects. The advisory committee discussed lifting the caps, making adjustments to the amounts of the caps, and whether the caps should be cumulative or on a round-by-round basis. She expressed her belief that at this point, no applicant for one particular project can get more than \$8 million cumulatively for that project.

CO-CHAIR PRUITT opened the hearing to public testimony.

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CHRIS ROSE, Executive Director, Renewable Energy Alaska Project (REAP), informed the committee REAP is a statewide, nonprofit coalition of 79 varied organizations that all work together to educate and advocate for the increased production of renewable energy. On behalf of REAP, he expressed his support for HB 250, and disclosed that he is a member of the renewable energy fund advisory committee. The primary goal of REAP is to

increase the production of renewable energy in Alaska, which is important because renewable energy will provide predictably priced energy in an era of volatile diesel fuel prices. He expressed his belief that the renewable energy fund program is running smoothly from its beginning four years ago, and the impact of the program will increase as more projects are completed. In fact, only about one-half of the projects funded so far are construction projects; even so, the cumulative savings have been about \$7 million in fuel. Mr. Rose pointed out that by 2016 there will be diesel equivalent savings of about 11.6 million gallons per year, and in excess of \$20 million in savings. In answer to an earlier question, he said the projects under construction have leveraged over \$100 million. He stressed the importance of extending the sunset date so there is no interruption of the program, and so projects that would be at the construction stage in Round 6 are not "put in limbo." He urged the committee to pass the bill without further amendment and make any necessary changes next session.

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GENE THERRIAULT, Vice President of Resource Development, Golden Valley Electric Association (GVEA), expressed his support of HB 250. Since the beginning of the renewable resource energy grant fund program, GVEA has successfully used grants to assess, develop, and integrate renewable power for projects such as a waste heat recovery system and the construction of the state's largest solar water heating system. In addition, GVEA purchases power from two independent power producers that have also received funds for electric generation plants. The renewable energy funds are important to cover the initial costs of an energy project because the highest risk is taken at the beginning of a project - even a large utility cannot fund feasibility studies. Although GVEA began the evaluation of what will be the largest non-hydro renewable energy source of power at Eva Creek, it used a \$20,000 grant for an integration study. Based on that study, the Eva Creek Wind project is under construction. Final funding for the project will be a mix of 15 percent state funds and 85 percent ratepayer funds. Mr. Therriault also noted that GVEA used grant funds to investigate two other sources of alternative renewable power that were deemed uneconomic; however, the information obtained is still valuable. He urged the passage of HB 250 this year in order to continue the program without interruption.

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CLAY KOPLIN, Chief Executive Officer, Cordova Electric Cooperative, said his company has received renewable energy grant funds and supports the extension of the program. He described how Cordova Electric combined grant funds, Federal Emergency Management Agency (FEMA) assistance, and ratepayer funds to rebuild its Humpback Creek Hydroelectric plant and successfully produce 1,500,000 kWhs of energy, saving 370,000 gallons in diesel fuel per year. He opined the application, review, and reward process is appropriate for small and large utilities, and well-administered by experienced AEA staff. Mr. Koplin concluded that there is no reason not to extend the program for at least another five years.

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CO-CHAIR PRUITT asked what percentage of Cordova Electric's power comes from renewable sources.

MR. KOPLIN said his company budgeted 80 percent hydroelectric generation this year, and Cordova is currently saving \$16 million in diesel fuel. He stressed that the most important beneficiaries are the fish processing plants which have expanded greatly due to a 13 percent reduction in base rates for electricity. Mr. Koplin said, "We actually have a future and I'd really like to see this program extended so that other communities ... can assure their futures; this program is meaningful and I really support seeing it extended."

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CO-CHAIR PRUITT asked for an estimate of the savings to Cordova Electric's customers.

MR. KOPLIN recalled \$8 million was needed for the proper construction of the project - hydroelectric is a very large investment initially - and the life of the project will be 100 years. Cordova is now displacing \$1.2 million of diesel fuel and he estimated customers are seeing an average 13 percent decrease in the cost of electricity for every rate class.

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WALTER ROSE, Regional Energy Specialist, Community Planning and Development Program, Kawerak, Inc. ("Kawerak"), informed the committee Kawerak is a regional nonprofit tribal consortium serving the Bering Strait region of Western Alaska. The remote and isolated, Native villages in this region are almost entirely

dependent on diesel fuel and gasoline, which costs an average of \$6 per gallon for electricity generation, space heating, and transportation. The renewable energy grant fund has made a difference in this region, but there are numerous beneficial projects still to complete. Extending the renewable energy grant fund will enable communities to continue strategic regional energy planning and to move forward with viable projects. Kawerak strongly supports CSHB 250, Version D.

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DAVE MESSIER, Energy Department, Yukon River Inter-Tribal Watershed Council (YRITWC) said his organization represents over 50 small Native villages throughout the Yukon River basin from Eagle to Emmonak. He expressed YRITWC's support for HB 250, noting YRITWC was awarded a grant for a project in Ruby, which turned out to be a great learning experience and a good use of the state's resources. He agreed that diesel is not a sustainable choice for the future, as some communities are paying \$9.50 per gallon for heating fuel.

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LISA HERBERT, Executive Director, Greater Fairbanks Chamber of Commerce ("Chamber"), said the Chamber encourages support from the legislature and the governor for initiatives that will lower the cost of energy in the Interior. The high cost of energy is the Chamber's number one legislative priority and is an overwhelming problem in Fairbanks for businesses and families. Costly energy is halting economic development in this region. The renewable energy grant fund is an initiative that will play a positive role in the future of Fairbanks by reducing the use of diesel and wood burning stoves, and thereby reducing the negative effects on its air quality. Along with other programs, HB 250 is part of the solution to the energy needs of Fairbanks.

CO-CHAIR PRUITT closed public testimony.

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REPRESENTATIVE OLSON moved to report the CS for HB 250, Version 27-LS1060\D, Nauman, 1/30/12, out of committee with individual recommendations and the accompanying fiscal notes.

There being no objection, CSHB 250(ENE) was reported from the House Special Committee on Energy.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 4:19 p.m.