

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

February 9, 2012
3:08 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Kurt Olson

OTHER LEGISLATORS PRESENT

Representative Cathy Munoz
Representative Bill Thomas, Jr.
Representative Peggy Wilson

COMMITTEE CALENDAR

PRESENTATION: OVERVIEW OF THE SOUTHEAST ALASKA INTEGRATED
RESOURCE PLAN BY THE ALASKA ENERGY AUTHORITY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided a brief history of the Southeast
Integrated Resource Plan (SEIRP).

JIM STRANDBERG, Project Manager
Southeast Integrated Resource Plan (SEIRP)

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

POSITION STATEMENT: Provided introductory comments prior to the presentation of the Southeast Integrated Resource Plan (SEIRP).

KEVIN HARPER, Project Director
Southeast Integrated Resource Plan (SEIRP)
Black & Veatch
Issaquah, Washington

POSITION STATEMENT: As the consultant contracted by the Alaska Energy Authority to complete the Southeast Integrated Resource Plan - SEIRP, provided a PowerPoint presentation entitled, "Building a World of Difference," dated 2/9/12, and answered questions.

BILL LEIGHTY
Juneau, Alaska

POSITION STATEMENT: Expressed his belief in the value of the Southeast Integrated Resource Plan.

BRAD FLUETSCH
Executive Committee Member
Alaska Native Brotherhood (ANB)
Juneau, Alaska

POSITION STATEMENT: Stated his objections to the Southeast Integrated Resource Plan.

BOB GRIMM, Chief Executive Officer
Alaska Power and Telephone (AP&T)
Port Townsend, Washington

POSITION STATEMENT: Stated his objections to the Southeast Integrated Resource Plan.

BOB LOESCHER
Juneau, Alaska

POSITION STATEMENT: Stated his objections to the Southeast Integrated Resource Plan.

ANGEL DROBNICA, Energy Coordinator
Southeast Alaska Conservation Council (SEACC)
Juneau, Alaska

POSITION STATEMENT: As a participant in the Southeast Integrated Resource Plan advisory working group, provided comments.

RICK HARRIS, Executive Vice President

Sealaska Corporation
Juneau, Alaska

POSITION STATEMENT: As the chairman of the Southeast Integrated Resource Plan working group, provided comments.

ROBERT VENABLES, Energy Coordinator
Southeast Conference
Haines, Alaska

POSITION STATEMENT: As a participant in the Southeast Integrated Resource Plan, provided comments.

JAN TRIGG, Manager
Community Relations and Governmental Affairs
Coeur Alaska
Juneau, Alaska

POSITION STATEMENT: Stated her objections to the Southeast Integrated Resource Plan.

FRED PARADY, Executive Director-elect
Alaska Miners Association (AMA)
Anchorage, Alaska

POSITION STATEMENT: Stated his objections to the Southeast Integrated Resource Plan.

DON KUBLEY, Representative
Alaska Independent Power Producers Association
Juneau, Alaska

POSITION STATEMENT: Stated his opposition to the Southeast Integrated Resource Plan.

ALBERT HOWARD, Mayor
City of Angoon
Angoon, Alaska

POSITION STATEMENT: Stated his opposition to the Southeast Integrated Resource Plan.

ACTION NARRATIVE

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CO-CHAIR NEAL FOSTER called the House Special Committee on Energy meeting to order at 3:08 p.m. Representatives Foster, Pruitt, Tuck, Petersen, Saddler, and Lynn were present at the call to order. Representative Olson was excused. Also present were Representatives Munoz, Thomas, and P. Wilson.

PRESENTATION: Overview of the Southeast Alaska Integrated Resource Plan by the Alaska Energy Authority

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CO-CHAIR FOSTER announced that the only order of business would be a presentation on the status of the Southeast Alaska Integrated Resource Plan (SEIRP) by the Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED).

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SARA FISHER-GOAD, Executive Director, Alaska Energy Authority, Department of Commerce, Community & Economic Development, informed the committee SEIRP has been underway for over a year. As part of the project, a working group was formed with Southeast residents, and she recognized the group's efforts to work with AEA and its consultant to produce the plan.

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JIM STRANDBERG, Project Manager, Southeast Integrated Resource Plan (SEIRP), Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), said the presentation would be made by Mr. Harper, the project director from Black & Veatch, which was the consultant firm contracted by AEA. After the presentation, Mr. Harper will report on how SEIRP recommendations are projected to affect energy costs in three Southeast communities. Mr. Strandberg said AEA sought a public "bottoms up" process in Southeast Alaska that included an advisory work group of 22 members which met monthly. Because this was an integrated approach that looked at heating costs and electricity costs, it will be the foundation of an energy plan that will affect many people, and he said he was glad to see the high level of public interest. His staff is reviewing the findings of the plan in depth, and is soliciting public comments through 3/19/12. He extended his personal appreciation to Mr. Venables, the energy coordinator at Southeast Conference, who assisted in organizing meetings over the past 16 months.

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KEVIN HARPER, Project Director, Southeast Integrated Resource Plan, Black & Veatch, stated that his company is an international engineering consulting firm hired by AEA to conduct the study for the resource plan. This overview will

provide the plan's findings and recommendations that are intended to inform those who make the decisions on how to meet the energy needs of the region. He acknowledged the extensive public process was extremely important because completing the plan was very challenging due to the unique nature of Southeast Alaska. Mr. Harper said the role of an integrated resource plan is to "help set a direction," and not to recommend the use of specific equipment in a specific place. He characterized the plan as "a conservative but radical plan," meaning that the analyses was conservative from an analytical perspective, and radical in that the conclusions and recommendations are different from what was preconceived for the region. In fact, the conclusions are "challenging for the region to get their hands around," and the nature of the public comments received so far support this.

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MR. HARPER displayed slide 2, entitled, "Key Findings." He said that one of the key drivers for the Southeast Alaska region is its limited size; for example, its electric load is about one-fifth the size of the Railbelt, and the Railbelt is considered small when compared to the Lower 48 and Canada. Thus the size of the electrical loads in the region was fundamental, and led to much of the plan's results. Also, the challenging economic realities and population trends of the region do not help with the fundamental "scale problem."

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REPRESENTATIVE P. WILSON noted the population trend of the last 10 years was of a loss of population in Southeast, and asked whether the study took into consideration future changes that will grow the population.

MR. HARPER explained the analysis looked at three load forecasts for each of the three communities studied: high, base, and low. The base forecast represents recent trends as reflected in state projections of population growth, and the high forecast represents two-thirds greater growth and load over the next 50 years; therefore, the analysis considered high, base, and low, and the high reflects a growth in population within the region.

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REPRESENTATIVE P. WILSON restated her question.

MR. HARPER said, "When we looked at the high piece, that is ... what happens if the growth of the region goes up, as opposed to ... the trends that are in the most recent state forecast."

REPRESENTATIVE MUNOZ asked whether current and projected mining activity was included in the high load forecast.

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MR. HARPER said the high load forecast assumes growth in load as a result of a growth in population, economic development loads, or electric vehicles. The high load growth represents about two-thirds growth over time, which is a significant difference between the high and the reference [base] case. The plan did not specify the trends that would cause the growth in load or whether it is due to population, economic development, or electric vehicles. He pointed out that if a major mine came into the region it would be outside the high load forecast, however, speculative potential loads - such as a large mine - were not included.

REPRESENTATIVE MUNOZ asked whether the operational Kensington mine is included in the forecast.

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MR. HARPER said the Kensington mine is included with others in the region. He continued to say, "That load could be served and still be within our ... high case load forecast." The Kensington mine has several resources to serve the mine that would not require a regional solution to a localized problem. Returning attention to slide 2, he noted that 60-75 percent of monthly energy bills are related to space heating, and SEIRP is not an electric-only plan, but seeks to address both the high cost of electricity as well as the high cost of space heating.

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MR. HARPER then discussed uncertainties in terms of the size of loads and regarding resources, and advised that uncertainties create the need for multiple options and the development of a diverse portfolio of resources for the future. Slide 4 was a chart that divided the region into eight subregions in order to facilitate the modeling of the potential transmission segments that would have connected the subregions. However, this approach revealed that the large range of electric cost within the region - from 9 cents per kilowatt hour to over 60 cents per

kW hour - led to the conclusion that "there was no silver bullet that would solve all of the problems for the region, and so what we present in the report is really kind of a roadmap for each of the subregions that you see up on the screen." Mr. Harper continued to slide 5 and noted the region has a shortage of storage for hydroelectric (hydro) power; in fact, storage for hydro holds more value for the region than run-of-the-river power generation because the power can be generated upon demand. In addition, space heating conversions from fuel oil to electricity - at the residential and commercial levels - has led to a loss of excess hydro capacity, raising the question of what is the highest-value use of the hydro resource in the region, and, in response, SEIRP's recommendation that people move to biomass for space heating. Mr. Harper turned to the evaluation of hydro projects, pointing out that the plan looked at about 300 different projects and chose 24 for screening; however, most of the projects were not developed sufficiently for the plan to reasonably estimate their cost-of-power. For example, many have capital costs with estimates ranging from plus or minus 30 percent to 50 percent, and output estimates that are plus or minus 50 percent; therefore using these estimates, the plan was unable to complete its analysis of any of the 24 projects. He advised that because the quality of the information is low, SEIRP recommends that the available information on proposed hydro projects is improved so that informed decisions can be made. Due to this limitation, hydro costs and output in various subregions were looked at in a generic way, and two cases were compared to the present status. The first was an optimal hydro/transmission case which was the present status with the addition of the committed resources of near-term hydro and transmission projects, together with future hydro and transmission projects. The second case focused on demand side management and energy efficiency (DSM/EE), and biomass conversions, together with future hydro projects. These two cases were compared to maintaining the status quo.

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MR. HARPER referred to slide 6 and said SEIRP recommends approaching the future in two phases: Phase 1 is the period from 2012-2016, and includes committed resources which are projects currently underway or under development - many have already received state funding or are being considered for additional funding - and are projects that the advisory group felt should go forward. From an analytical view, the plan assumed that these projects will go forward, and slide 7 fully described five hydro projects and two transmission extension

projects located in the region. So, the first part of Phase 1 is to go forward with these committed resources. The second part of Phase 1 is to embark upon a significant energy efficiency program, as well as a program to encourage the conversion of space heating from fuel oil to biomass. Two other parts of Phase 1 are to further study hydro and other renewable energy projects in order that rational decisions are made on whether they should be developed, and to repeat SEIRP with updated information in about four years. As a matter of fact, in four years the region will be in a better position to evaluate hydro projects, will have a better sense of economic development, and will know the feasibility of the biomass conversions called for by SEIRP. He suggested that long-term decisions should be made at that time. Phase 2, the period from 2017 and beyond, is a continuation of the plan and the development of the projects indicated by the plan. Mr. Harper turned to the subject of transmission segments and acknowledged that the concept of the Southeast intertie has been studied for many years. Additional analyses by SEIRP of various revisions of the intertie by SEIRP revealed two key issues about transmission in the region: it is expensive to build transmission systems in Southeast Alaska because of the terrain and distances; and small loads keep costs high. The plan looked at the economic case and the public benefit case for building the intertie. The economic case assumed that the utilities would pay for all of the capital costs, operation and maintenance (O&M), and replacement costs associated with the lines. These transmission costs - not including the cost of power - were compared to the cost of generating electricity with diesel fuel. In the public benefit case, it was assumed that the state would pay for the capital costs and the utilities and their customers would pay for O&M and replacement costs. He stressed that there was not one transmission segment studied that had a lower unit transmission cost less than the existing cost of diesel. Further, even if the state paid all capital costs, the best possible benefit-cost ratio is that for every dollar invested by the state, the region would receive 32 cents benefit. He advised these ratios are attributed to size, as the region is not large enough to reduce the unit cost to an acceptable level. The plan also looked at the Alaska-British Columbia (AK-BC) intertie within import and export scenarios. The analysis of this intertie found that the intertie is not justified based upon current market conditions; however, energy prices are volatile and this may be reconsidered.

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MR. HARPER provided slide 10 entitled, "Capital Investment by Category." Two pie charts indicated the capital investment for the region during the period of 2012-2014 and during the period of 2012-2061 by the type of resource, including committed resources, additional hydro, replacement of existing diesel facilities, energy efficiency, and biomass. Over the next three years, the plan estimated that the recommended projects would require investment in the amount of \$346 million, and a total of \$2.15 billion would be required over the next 50 years. He highlighted that if the five committed resources projects are considered, this is not a "no-hydro plan;" in fact, total recommended hydro projects would produce 70 megawatts (MW) of power out of a total load of less than 200 MW. He characterized the plan as one based on using committed resources, DSM/EE, biomass conversions, and the careful consideration of potential generation: hydro and otherwise. Slide 11 was entitled, "Subregional Equity Considerations," and illustrated the recommended capital investment by subregion during the same periods of time. Slide 12 illustrated the savings from SEIRP recommended projects relative to the status quo, which is the continuation of a reliance on diesel and fuel oil. Looking at the percentages, savings were 41 percent in electric bills, 46 percent in space heating bills, and 45 percent in total savings from the recommended projects versus maintaining the status quo. Savings were 17 percent in electric bills, 46 percent in space heating bills, and 42 percent in total savings on recommended projects versus building hydro and transmission projects. Mr. Harper advised that SEIRP recommended projects provide savings in the 40 percent to 46 percent level for all of the subregions. Further, the electric savings projected from the hydro and transmission option are less than one-half. Mr. Harper concluded that the path recommended by SEIRP "will save somewhere north of 40 percent in people's energy bills on a monthly basis."

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MR. HARPER opined using existing and future hydro resources for residential heating is not the highest value from the resource, but the highest value is power that can be used to "turn motors which create jobs." The analysis suggested that options other than hydro are more cost effective to meet the needs for electricity and space heating. Slide 13 was entitled, "Regional Supporting Studies and Other Actions," and he acknowledged that there are legitimately different views on this complex issue. However, there is a lot of experience to draw from on energy efficiency and conversions to biomass, and he urged that the

public should be educated on these decisions. Mr. Harper cautioned that the regional approach has been proven more successful than if each community or utility plans on its own. Finally, he pointed out that SEIRP includes money for the recommended study of hydro and other renewable projects, and also includes recommendations aimed at making the region conducive to private interests to develop power projects, such as making the transmission system available and using standard power purchase contracts. Mr. Harper reiterated the major points of the overview: the Southeast region load is very small; two-thirds of the monthly bills paid for energy are for space heating; electricity is not the only issue; there is a large disparity in the cost of electricity; hydro projects are not sufficiently developed to evaluate economically; transmission segments do not cost less than diesel; transmission segment benefit-cost ratios are too low; new hydro is part of the plan; and 40 percent savings in energy costs will improve economics for residents and economic development.

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REPRESENTATIVE PETERSEN asked how long of a life span was used to determine the long-range cost of hydro projects.

MR. HARPER said the economic analysis used a 50-year timeframe.

CO-CHAIR PRUITT asked for the current rate of electricity use in the region.

MR. HARPER answered about 170 MW. In further response to Co-Chair Pruitt, he said if the majority of residents convert to electricity for space heating, the load would increase by about two to three times the current load.

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CO-CHAIR PRUITT referred to the cost-benefit ratio of transmission lines and asked whether the "issue" with hydro is generation or just the spread-out features of the area.

MR. HARPER explained that the total megawatts possible from the 24 hydro projects that were studied is about 300 MW, so there would be sufficient hydro generation; however, the question is whether it is cost-effective with the problem of "getting that hydro power to where the loads are." When connecting hydro to a nearby load center the transmission costs can generally be

supported, but building a network to connect all areas of the region does not work economically.

CO-CHAIR PRUITT understood last year that the state would pay for transmission lines, and then the utilities would pay for O&M and replacement costs. Currently, the Regulatory Commission of Alaska (RCA) does not allow a utility to save for replacement costs. He asked whether this was a consideration in the analysis because it would potentially bring down the cost to the customer, if the utilities are not saving for future replacement.

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MR. HARPER said what was considered in the public benefit case was an estimate of the annual costs of general O&M and repair and replacement, with the assumption that those costs would be paid by local utilities and their customers. The analyses did not look at alternative rate structures to deal with these issues, but does include general approaches that can be taken - for example, amortizing the high upfront costs of hydro - thus these issues are addressed in a generic way. Because the near-term implementation plan is focused on DSM, biomass, and committed resources that have already been financed, there was no need to assess financing models. However, financing will be an important part of the long-term decisions in the future.

REPRESENTATIVE MUNOZ asked for the cost of the project so far and the cost of Phase 2.

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MR. STRANDBERG said the current project budget is \$1,000,000, of which over \$900,000 was spent to pay for the consultant contract and the extensive travel and per diem costs of the advisory work group. The cost of Phase 2 is now being formulated.

REPRESENTATIVE MUNOZ asked, "Had we not already supported the projects that you identified - the hydro projects - would you have recommended moving forward independently on those projects?"

MR. HARPER said those were deemed to be projects that should go forward thus a detailed economic analysis of those projects was not done.

REPRESENTATIVE MUNOZ asked for the market price used to evaluate the energy costs on the AK-BC intertie project.

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MR. HARPER responded that to evaluate the exporting of power, the plan looked at different market prices from Canada to California. The most positive metric was in California, which has the nation's most aggressive renewable standard and has contracts in place for renewable power which are significantly above the current market prices. The plan determined that using that price over 20 years, on a base load, was the best possible market price under the scope of the analysis. The plan further assumed firm transmission from here to California, the costs of moving the power, and losses. He said the analyses was "screening-level, based on the information available today." In further response to Representative Munoz, he said he did not remember the market price, but that it is in the plan.

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REPRESENTATIVE SADDLER asked for a description of the elements of the plan in simpler terms.

MR. HARPER explained that in the near-term, the plan recommends the completion of five hydro projects and two transmission projects that have been in progress in the region; to embark upon a substantive energy efficiency program of residential and commercial spaces in order to reduce use and improve the quality of life; to embark upon an aggressive program to convert fuel oil space heating equipment to biomass - largely pellets; and to identify potential hydro and renewable projects for the future.

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REPRESENTATIVE TUCK observed that Kensington mine was not considered part of the integrated plan and thus is supposed to find a solution to its power needs independently. He asked whether other mines fall into that category.

MR. HARPER stated that the report lists about 14 potential mines, some of which have options for a localized solution as there are nearby hydro or other renewable resources, and others that would benefit from an integrated transmission network. The report needed to consider what would happen if the load in the region is significantly higher than it is now, but did not consider what factors would instigate that increase, such as

mines, population growth, or electric vehicles. The high forecast is about 65 percent higher than the base forecast, and that amount reflects a higher load from a mine not using localized power.

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REPRESENTATIVE TUCK asked whether the list of potential mines included those in Canada, because Canada is interested in importing power from Alaska.

MR. HARPER said the mines in the report are Alaska mines. Furthermore, he noted that it is difficult to predict prices in the competitive energy market and also to predict Canada's viewpoint towards imported power. The current Canadian administration is less interested than the previous one, which creates uncertainty.

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REPRESENTATIVE TUCK recalled Canadian interest was expressed last week. Looking at the 50-year plan, he asked whether the mines that are nearby hydro are part of the integrated plan, or if they were excluded.

MR. HARPER said they are outside of the integrated plan. In further response to Representative Tuck, he said the analysis was not specific to individual mines because trying to predict a growth in load could be speculative, as is the use of electric vehicles or population trends. The plan focused on how to meet higher energy needs due to any of the various causal elements.

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REPRESENTATIVE TUCK then asked whether biomass pellets would be manufactured in Southeast and how the cost of burning pellets was determined.

MR. HARPER said the economic analysis assumed the use of imported pellets from Canada or the Lower 48. The cost of the pellets was based on information from Sealaska Corporation and others. This is a radical assumption because if all of the conversions to space heating by biomass were made, the pellets could be economically manufactured locally, which would reduce the cost; using the higher cost of imported pellets was the conservative approach.

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CO-CHAIR PRUITT cautioned that conversions would make a significant change while relying on a source of pellets from a niche market. He asked whether there is confidence that a supply of pellets will be available.

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MR. HARPER acknowledged that each technology has a set of associated risks. The analysis assumed that 80 percent of residential customers will convert to biomass within 10 years; the rational approach is to run pilot programs to test the acceptability of the technology, to follow the supply chain, and to build the infrastructure regionally. In further response to Co-Chair Pruitt, he said burning biomass is not the cleanest option, but it is "a significant improvement over the current situation in terms of emissions, and then economically it's ... very compelling, from our perspective."

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REPRESENTATIVE SADDLER called attention to slide 5 and surmised the plan compared the options of building large hydro plants and sending the power elsewhere, with the use of biomass and other renewables. He asked for an explanation of DSM.

MR. HARPER said DSM stands for demand-side management, which is reducing energy demand to help manage it. For example, using high efficiency dishwashers and adding insulation are common options to reduce energy use and manage demand. In further response to Representative Saddler, he explained that when doing a study, all of the good data is put in the model - the black box - and the result is the most economical solution. However, because the quality of the data on the hydro projects was inferior, the plan used generic hydro data. That meant there could not be an "apples to apples comparison" of all of the resources. Therefore, the plan used two cases: existing resources, including the committed resources, with hydro and transmission; and the conversion of 80 percent of houses to biomass, an energy efficiency program, with hydro and other renewables in the long-term. The conclusion came from a comparison of those two cases over a long period of time.

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CO-CHAIR FOSTER invited public comment.

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BILL LEIGHTY said he was a 40-year Juneau resident and small business owner. He provided a short history of his expertise in alternatives to electricity for transmission. Mr. Leighty said SEIRP is valuable because it broadens the view from the electricity industry to include space heating. In fact in Juneau, electricity accounts for less than one-fourth of its energy use. Eventually, all communities must supply all of their energy from renewable resources. It is in the public's interest to solve the complete energy problem for the region in the long-term by the use of renewables. The problem extends to the region's external supply of fuel, including fuels for airlines, cruise ships, and barges. Secondly, because SEIRP concludes that interties are uneconomic, the region should look beyond electricity transmission; one alternative is to convert a renewable source of electricity to anhydrous ammonia at the site, and ship it as a liquid fuel. This would be a firm supply of renewable-source energy that may be less expensive than electricity. Mr. Leighty advised that there are other affordable ways to store and move energy.

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BRAD FLUETSCH, Executive Committee Member, Alaska Native Brotherhood (ANB), said he was a Chartered Financial Analyst with 25 years of experience. He read the following [original punctuation provided]:

I believe the most significant and fundamental flaw in this document is the stated objective of minimizing future power supply that is the second sentence of the first paragraph of the executive summary. By exploring only the options to minimize future power supply, the document excludes many of the hydro resources in Southeast, and completely ignores wind, geo-thermal, tidal and wave energy generating capacity. I have included maps from AEA and the Renewable Energy Alaska Project that demonstrate all those potential power supplies here in Southeast [Provided in the committee packet]. By not exploring the potential maximum load and generating capacity in Southeast, the conclusions and pathways the consultant recommends are not valid and in fact are biased against growth and prosperity and if implemented will lead to regional deterioration, continued

outmigration, and further redistricting. Ignoring the maximum future energy generation options, the consultant never determines Southeast would be able to achieve the economies of scale that the export of surplus power would allow. Imagine sizing TAPS to the demand of the Railbelt in 1970 and ignoring the benefits exporting oil has brought to the State of Alaska. Affordable energy is a building block of any economy and Southeast is no different. Locally produced energy builds our local economy and tax base. I view this in terms of Gross State Product (GSP) which is comparable to the national Gross Domestic Product (GDP). Creating local jobs and circulating the citizens energy expense in state, as opposed to exporting both to foreign countries - some of which are not our friends; expands GSP substantially, generating wages, taxes and demand for other local business services. Imagine all the jobs secondary processing of natural resources harvested from the waters and land of Southeast Alaska and the wealth that it would create. Imagine all the IBEW jobs a 900 mile grid would create building and maintaining it. After twenty years of economic decline this SEIRP would lock Southeast Alaska into the worst economic period of time for eternity by minimizing its future power supply therefore minimizing its future economic vibrancy and forcing future generations to import their energy at the price whims of the global economy. The SEIRP is fundamentally flawed, biased and because it lacks agreed upon goals and objectives is economically invalid and should not be used to develop any energy policies for Southeast Alaska.

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BOB GRIMM, Chief Executive Officer, Alaska Power and Telephone (AP&T), described his company as a small, investor-owned public utility operating primarily in rural areas of Alaska. Its current and past employees own 80 percent of the company. Alaska Power & Telephone began in 1957 and its employees have reinvested in the region, but there has been a decline in the number of jobs in Southeast Alaska. Mr. Grimm stated that the Department of Labor & Workforce Development is projecting a 30 percent loss in population by 2034 for some communities. He opined that the report is a threat to his company's investment, and said, "We believe that there should be a brighter future than is envisioned in this draft." Alaska Power & Telephone is

like a public servant in that it is responsible for providing safe electric power for many communities. He quoted Skagway Mayor Stan Selmer as follows:

The government of the Yukon Territory is clearly supportive of responsible development. It is an isolated system similar to Southeast Alaska. However, the government there is fully engaged in finding cost effective solutions to meet the huge increase in electrical demands required for those resource developments to be successful. The opposite is true of the Southeast Integrated Resource Plan that has not included or incorporated the large energy requirements associated with the present and future resource development in Southeast Alaska or even other existing diesel-based loads like cruise ships in its plan. The contrast between the planning approach being used by these similar governments is striking. Even more striking is the governor's vocal roads to resources platform, while the state agency in charge of the planning efforts has presented a draft energy plan that leaves the resource industry homeless. While another state agency, AIDEA, is here in Skagway trying to increase the ore-handling facilities in Skagway to handle the increased demand of ore ... headed our way from the Yukon.

Mr. Grimm continued, stating his objections to the use of the low scenario load forecast which has caused the flawed conclusions of the plan. However, this serious mistake can and should be corrected in order to save SEIRP. Although there are strong objections to the assumptions of the plan, it is a start, and \$900,000 was spent to collect data, which can still be used with different input for the model. He also urged for the committee to support the committed resources which are good projects and should be funded in the near-term. Mr. Grimm concluded that waiting four years to update the plan is not an option when trying to attract economic development.

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BOB LOESCHER said he was a 40-year Juneau resident and informed the committee of his professional experience with Tlingit-Haida Central Council, Tlingit-Haida Housing Authority, Tlingit-Haida Electrical Authority, and as CEO of Sealaska Corporation. He provided a Native leadership perspective of this plan, saying that the Native community is suffering economically - in rural

and urban settings - from few jobs and the high cost of energy. In fact, the cost of electricity and fuel for cars and space heating is causing families to choose between heating fuel, food, and medical care. He stressed that this is an emergency situation which needs to be addressed now. Mr. Loescher said the draft of the plan is from the perspective of AEA and the public utilities, and is focused on proposals that will not solve the immediate energy needs of the region. Furthermore, the plan is not tied to the public policy issues that the legislature and the national government have identified; it has no stated public policy goals and objectives. Mr. Loescher noted that the plan is also not tied to regional economic goals and objectives that relate to the region's five industries of fisheries, timber, minerals, tourism, and government. He suggested that energy should be added as an industrial pillar to those of the region, because doing so will add to the economy, create jobs, and provide a product for our needs, and those of the "super region" of British Columbia and the western U.S. He opined that this plan does not consider the benefits of adding energy as an industry, and regional leaders should focus attention on those possibilities. Mr. Loescher said he would counsel Native leaders that this plan needs a lot more work, and he hoped the legislature will not use the plan as a basis for policy, or for the funding of projects that are currently underway in the region.

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ANGEL DROBNICA, Energy Coordinator, Southeast Alaska Conservation Council, disclosed that the Southeast Alaska Conservation Council (SEACC) held a seat on the advisory working group during the creation of the draft plan. She stated that the purpose of SEIRP was to identify actions that could be taken by residents, businesses, and local and state government, in response to energy issues facing the region, including the high cost of energy. Her organization recognizes that the process and the outcome of SEIRP are not without flaws, and more work is needed, but believes that the plan offers a balanced approach to energy issues. Ms. Drobnica stated that SEACC is pleased with the plan's emphasis on efficiency and conservation which will reduce loads in cost effective and achievable ways, and she encouraged the state to design and implement conservation and efficiency programs. In addition, SEACC believes there is potential for savings by biomass heat conversions, but that attention should also be paid to other technologies such as heat pumps. Black & Veatch's analysis found a regional intertie system to be uneconomic, and SEACC urged for solutions to

address critical local needs as soon as possible. She also encouraged the committee's support for renewable and local hydro projects, and for all of the committed projects identified in SEIRP, and cautioned that support for the AK-BC intertie may detract from projects in rural communities; moreover, the first priority of the state is to ensure that all of the needs of Alaskans are met. Her organization supported Black & Veatch's assessment of the AK-BC intertie, and encouraged the legislature to act on the plan's recommendations for using energy wisely and for supporting the use of local renewable projects to address critical needs.

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REPRESENTATIVE THOMAS advised those in the audience to provide public comments on HB 250.

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RICK HARRIS, Executive Vice President, Sealaska Corporation, as chairman of the Southeast Integrated Resource Plan working group, stated that the working group consisted of approximately 21 members, and its first action was to support the committed resources projects and encourage the funding thereof. Mr. Harris opined the plan is a "jaw-dropping change" directional document because of the many developments in the plan that have not been seen before: challenges and questioning to the transmission line and intertie; different kinds of approaches to looking at energy; and staggering public policy. For this reason, the committee did not endorse the plan, but it did want the plan to go before the public for review and comment. As a matter of fact, the committee understood that AEA and the consultants are committed to listening to public comments to ensure that the plan can satisfy residents' concerns. The members of the committee included utilities, the mayors of cities, and Native corporations, and did not endorse the plan, but held the expectation that there would be public comment and the final result will "be a strong plan that will in fact be a good direction plan, and will be one that will be able to lead Southeast to its energy." In response to previous comments, Mr. Harris stressed that the plan does recommend looking at alternative energy of all types including tidal, wave, and biomass.

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ROBERT VENABLES, Energy Coordinator, Southeast Conference, said his organization is the state's regional development organization and the federally recognized economic development district for Southeast. Southeast Conference participated in the public process underway that provided value and regional integration for the benefit of those seeking to implement the project. The board of directors and the membership of Southeast Conference are reviewing the plan and listening carefully to public comments. Mr. Venables acknowledged that many of the findings of the plan are consistent with the Southeast Conference work plan. He commended AEA for its unprecedented effort, which was not a "top-down exercise, you know, from the agency to the communities;" in fact, meetings were held in Juneau, Prince of Wales, Ketchikan, Wrangell, Petersburg, Kake, Sitka, Hoonah, Angoon, Haines, Skagway, and Yakutat, which allowed citizens from all over to participate. Mr. Venables urged the committee to retain focus on the committed units, and on the immediate need for full construction funding in order to build the identified projects now. He also urged support for the space heat recommendations, and for the immediate analysis of the proposed hydro projects. Regarding DSM/EE measures, he said, "Many in the region only have a superficial understanding of what that really means, and what measures should be taken ... and so some sort of awareness campaign would be appropriate." Mr. Venables concluded that SEIRP will provide the technical insights to identify future projects.

UNIDENTIFIED SPEAKER (Indisc.)

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JAN TRIGG, Manager, Community Relations and Governmental Affairs, Coeur Alaska, said she was a 34-year resident of Juneau, and has worked for Coeur Alaska for 15 years. Coeur Alaska owns and operates the Kensington mine located 45 miles northeast of Juneau. It has 250 employees and 100 contractors employed at its project. The mine site is accessible by boat and air, and six generators on-site provide all of its power needs. She said the future energy needs of the mine will be eight to nine MW. Ms. Trigg advised that the basic economics of mining are that lower costs - including energy costs - allow for mining a lower grade, which extends the life of the mine. Like most of its neighboring communities, the mine has high energy costs associated with diesel generation, however, the draft SEIRP fails to define "affordable, low-cost power," and also fails to provide a pathway to lowest-cost power for communities and projects like the Kensington mine. She said lowest-cost

energy provides opportunities for growth and for attracting new industry and jobs. The draft SEIRP fails to plan for growth and discounts the construction of electrical interties on the basis that mineral development in Southeast Alaska is too speculative. The plan should not ignore the electrical demands of existing projects and reasonably foreseeable resource development. Ms. Trigg said Canada is setting an example of proactively planning for the current mining boom in British Columbia and Yukon, and Alaska should be looking at this possible demand for its energy. A Southeast intertie and the AK-BC intertie are long-term solutions which support energy independence and security. Coeur Alaska is concerned about its long-term outlook for energy costs, and encourages plans for alternative energy options for an overall strategy for the region. Ms. Trigg also urged additional analyses of the data by a third-party consultant.

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REPRESENTATIVE MUNOZ recalled that the Kensington mine was excluded from the energy load in the plan because it has other options for energy generation on-site. She asked whether this was true.

MS. TRIGG said the mine has been approached with several proposals, but has not entered into an agreement at this time.

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FRED PARADY, Executive Director-elect, Alaska Miners Association (AMA), described the Alaska Miners Association, saying it was founded in 1939 and has 1,400 members across the state including prospectors, geologists, engineers, vendors, recreational miners, suction dredge operators, small family mines, junior mining companies, and the major mines. Alaska Miners Association supports the construction of interties and the development and implementation of strategies to provide stable, low-cost sources of energy to the region, and to the region's mining interests. Mr. Parady called attention to a brochure included in the committee packet entitled, "The Economic Benefits of Alaska's Mining Industry," dated January 2012, and pointed out that mining supports 4,500 direct mining jobs with an average annual wage of \$100,000 per year, and there are 30 projects that have had exploration expenditures of over \$1,000,000 last year. Mr. Parady described the current activity at the Niblack gold, silver, and zinc property and said, "I don't consider those kind[s] of opportunities speculative, they are in process and in development, and should be accommodated

and accounted for in this kind of long-term regional plan." He further noted that AMA advocates for the funding of infrastructure to provide access to remote areas - especially in Southeast - and its energy interests are parallel to those of the governor in supporting roads to resources and lines to mines. Mr. Parady said a difficult issue all Alaskans face is the desire to lock up the state, and that efforts to provide new access, such as Revised Statute 2477, must be maintained. Finally, existing roads and utility corridors must be protected along with the development of roads and interties to promising mining sites.

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DON KUBLEY, Representative, Alaska Independent Power Producers Association, said he was speaking on behalf of the Alaska Independent Power Producers Association which has members from Prince of Wales Island to Fairbanks who generate power from all kinds of sources including wind, tidal, hydro, and others. His organization is comprised of Alaska's leading independent power producers and developers, including entrepreneurs and private companies working to develop energy infrastructure. Alaska Independent Power Producers Association believes monopolies of any kind need competition, and that free enterprise and market demands will increase the supply of cheap power to residents, industry, businesses, and the region. Alaska has vast energy resources sufficient to drive its economy and to provide energy independence at a reasonable cost for every citizen. He referred to a recent preliminary overview released by the Alaska Center for Energy and Power (ACEP), University of Alaska Fairbanks (UAF), indicating that there is a huge amount of stranded renewable energy resources in Alaska; in fact, Alaska has over 677 MW of known geothermal capacity, the largest amount of class 7 wind - the highest velocity - in the U.S., 90 percent of the tidal potential and 50 percent of the wave energy potential of the U.S., and tremendous hydropower potential, much of which is located in the region. The overview also pointed out that Southeast has great differences in electrical cost as some areas have hydropower and other nearby communities pay between three and six times the cost of electricity because there is no intertie connection. Mr. Kubley said SEIRP does not recognize this fact and is further flawed in that it ignores key points of the state energy policy regarding integrating economic development with energy policy as stated in AS 44.99.115. He read:

(2) to encourage economic development by promoting development of renewable and alternative energy resources including geothermal, wind, solar, hydroelectric, hydrokinetic, tidal, biomass, for use by all Alaskans.

(B) promoting the development, transport, and efficient use of nonrenewable and alternative energy resources, including natural gas, coal, oil, gas hydrates, heavy oil, nuclear energy, for use by Alaskans and for export

(C) working to identify and assist with the development of the most cost-effective, long-term sources of energy for each community statewide;

(D) creating and maintaining a state fiscal regime and permitting the regulatory processes that encourages private sector development of the state's energy and resources;

MR. KUBLEY stated that the fact that the independent power producers and large private energy resource developers were not invited to the SEIRP working group is in conflict with the state's energy policy. In addition, SEIRP focuses on serving the needs of a dying region, rather than planning for opportunities for private enterprise and business, job creation, regional economic growth from resource development as provided for in Article VIII, Section 1 of the Alaska State Constitution. He stressed that the development of renewable energy in Southeast Alaska, especially hydropower, is consistent with the public interest. Furthermore, one-half of the Southeast intertie from Ketchikan to Petersburg is already a proven success. Also, SEIRP ignores that federally sanctioned routes for the Southeast intertie, and up to 80 percent of its funding, are already approved. He said, "Abandoning a proven energy transmission success defies common sense." Completion of the grid would provide power for the region and excess for a new energy export industry just like oil or gas.

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MR. KUBLEY stated that currently businesses in the region are desperate for great amounts of additional electricity that are potentially available. He advised that SEIRP should be "scrapped" and should serve as a warning to other regions that centralized planning by AEA and outside contractors that fails to follow state policy, and does not include the private sector,

is a "nonstarter." Moreover, any future advisory group must include all industries and participants in a transparent and open process. He cautioned that the region is facing a crossroads with a choice to retreat to survive, or meet the challenge, follow the state policy, and allow the free market forces and private enterprise to flourish. He quoted Speaker of the House Chenault and his "clear vision of what is truly needed in the Panhandle," and praised the governor for his support of roads to resources, although high-voltage power lines need to accompany the roads. Mr. Kubley concluded that the region is in a death spiral that can be changed by a new industry providing cheap power locally and to the West Coast.

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ALBERT HOWARD, Mayor of Angoon, said the residents of Angoon live 60 miles from Juneau and pay 67 cents per kilowatt. Angoon is also 32 miles from a line that was built to a mine. Mr. Howard said he has seen a downward spiral for the 466 people he represents who live in Angoon, and he is trying to make a better life for them. He questioned what would have happened if the Trans-Alaska Pipeline System (TAPS) had not been built because people said it cost too much, and said he knew what the return on investment from an intertie would be to the people of Angoon. He pointed out that SEIRP does not reflect the human aspect of the benefits of building an intertie to the people of his community. Mr. Howard said he and 25 percent of his community are veterans who served their country. Angoon's concerns about SEIRP include: the lack of meaningful public process; the lack of real goals and objectives; and AEA's arbitrary and capricious denial of requests. This is the first time the public benefit aspect has been described and he said he looked forward to understanding the assumptions made by the Black & Veatch presentation. Returning to his concern with the public process, he pointed out that there were meetings held in Seattle with select stakeholders who seemed to benefit the most under the draft document, but meetings were not held in communities with tribal governments in Southeast Alaska. He heard that Southeast Conference was included to provide local knowledge, but when asked, Southeast Conference indicated its role was to provide administrative support. He also questioned why comments and concerns were not posted on the AEA website in a timely manner so that the public could follow the SEIRP process. The elected officials of the City of Angoon asked by resolution for the west Admiralty segment of the intertie to be carefully looked at because the intertie would provide access to low cost power and relieve Angoon's struggles, and would also benefit the state by

eliminating the need to provide the community with power cost equalization (PCE) funds. Mr. Howard reminded the committee of the Alaska State Constitution and state policy to encourage settlement of its lands and development of its resources by making available the maximum use consistent with public interest. He said the city council of Angoon best represents its citizens, and a consultant or public official "should not be telling us 35 cents per kilowatt is best for us, when we and our citizens of Angoon deserve 11 and 14 cents, if we can come up with a plan that gets us there." The mayor has yet to receive a response from AEA or the contractor to its inquiry of 10/29/11. The plan ignores Angoon's efforts to achieve its goals and keeps the status quo of separate communities and utilities. He offered proof that SEIRP is a policy-making document: it was used to deny funding for two renewable projects in round 5 of AEA projects because the projects were not consistent with SEIRP findings. The potential projects of Thomas Bay, Ruth Lake, and Scenery Creek storage would provide 70 MW and the preliminary permits are held by the city, yet AEA turned the projects down. Mr. Howard spoke of the quality of life in Angoon and his hope for the future.

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CO-CHAIR FOSTER announced further comments would be taken at a later date.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 5:27 p.m.