

SENATE FINANCE COMMITTEE
April 14, 2011
9:14 a.m.

9:14:30 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:14 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Olson; Conrad Jackson, Chief of Staff, Representative Olson; Bob Pickett, Regulatory Commission, Alaska Chairman; Pat Davidson, Division of Legislative Audit; Representative Mike Hawker; Darwin Peterson, Senate Finance Committee; Ted Leonard, AIDEA; Mark Davis, AIDEA; General Tom Katkus, Commissioner Department of Military and Veterans Affairs.

PRESENT VIA TELECONFERENCE

Kristin Winters, Golden Heart Utilities; Tim Smith, Skagway Borough Manager; Tom Cochran, Mayor of Skagway.

SUMMARY

HB 105 SOUTHEAST STATE FOREST

HB 105 was REPORTED out of Committee with a "do pass" recommendation and with one previously published zero fiscal note.

HB 24 EXTEND REGULATORY COMM. OF ALASKA SUNSET

HB 24 was HEARD and HELD in Committee for further consideration.

HB 126 BOARD EXTENSIONS: NURSE/DENTIST/BARBERS

SCSCSHB 126 was HEARD and HELD in Committee for further consideration.

HB 119 AIDEA: PROCUREMENT; PROJECTS

SCSCSHB 119 was HEARD and HELD in Committee for further consideration.

#hb105

HOUSE BILL NO. 105

"An Act relating to the Southeast State Forest; and providing for an effective date."

[9:15:03 AM](#)

Co-Chair Stedman introduced the second hearing on HB 105.

Co-Chair Hoffman MOVED to report HB 105 out of committee with individual recommendations and the accompanying fiscal note(s).

There being NO OBJECTION, it was so ordered.

HB 105 was REPORTED out of Committee with a "do pass" recommendation and with one previously published zero fiscal note.

#hb24

CS FOR HOUSE BILL NO. 24(FIN)

"An Act extending the termination date of the Regulatory Commission of Alaska; and providing for an effective date."

[9:16:16 AM](#)

Co-Chair Hoffman proposed committee substitute, work draft #27-LS0173/D, Kirsch/Kane, 4/13/11. Co-Chair Stedman OBJECTED for purpose of discussion.

Co-Chair Stedman explained that the CS amended the sunset date to June 30, 2012 and inserted intent language. The Regulatory Commission of Alaska (RCA) provided the legislature with a proposal to reduce the statutory timeline for tariff filings. He stated that he was working with Senator Thomas to correct the problem of excessively long timelines and resolve late case filings. The compromise was devised to provide RCA an opportunity to address the problem internally and report to the committee in January 2012. If the committee remained unsatisfied with the proposal, the issue would be addressed in 2012.

Co-Chair Stedman WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Version D was adopted.

[9:17:49 AM](#)

REPRESENTATIVE KURT OLSON introduced himself and his staff.

CONRAD JACKSON, CHIEF OF STAFF, REPRESENTATIVE OLSON, explained the CS. The bill extends the Regulatory Commission of Alaska sunset. The CS provided a one year extension. He felt that the Regulatory Commission of Alaska continued to serve the public interest. The Regulatory Commission of Alaska provided continuity of utilities balanced with the consumer's ability to pay a reasonable price. He stated that the Regulatory Commission of Alaska's job was to protect the public.

[9:19:58 AM](#)

Co-Chair Stedman mentioned one Senate Finance Committee fiscal note reflecting the cost of \$8,932,100 in program receipts for a one year extension of the Regulatory Commission of Alaska. The funding also existed in the FY12 operating budget.

Senator Thomas understood the problem that had arisen including the opening of documents without addressing the issue. He wished to address the issue with a plan from the Regulatory Commission of Alaska. He acknowledged that much of the issue involved consumer protection. He looked

forward to better understanding and resolution of the problem.

[9:21:05 AM](#)

Senator Ellis expressed confidence in the current chair Mr. Bob Pickett. He noted large improvement over the previous leadership.

Representative Olson expressed concerns about promises made three and four years ago. He wished to correct the problems without eradicating the Regulatory Commission of Alaska. He expressed confidence in Chair Pickett. He hoped to balance past problems with the future Regulatory Commission of Alaska.

[9:22:41 AM](#)

Senator McGuire appreciated the clean sunset bill.

[9:23:15 AM](#)

KRISTIN WINTERS, GOLDEN HEART UTILITIES (via teleconference), testified in support of the legislation. She supported the reduction of the statutory timeline for rate filings. She informed that she was the director of regulatory affairs for Golden Heart Utilities. She explained that Golden Heart Utilities filed rate cases annually beginning in 1999. She pointed out that she continued to have increased operating, infrastructure, and investment costs without a growing customer base. She noted the need to file rate cases annually. The consequences of regulatory lag resulted from excessively long statutory periods to resolve rate case filings. She believed that the reasonable time for the filing of a rate case was 9 months and the process in use expanded to fill the available time. The rate setting process in Alaska was outdated and failed to reflect the changing nature of the utility industry or the rapidly changing economy. She pointed out that 27 states were required to conclude rate cases in 9 months or less. The lag means that the Regulatory Commission of Alaska had not decided disputed issues prior to the utilities filing their next rate case. Thus, subsequent rate filings include the disputed issues, which led to more disputed issues, inefficiencies, and increased cost as the parties continued to debate the undecided issues. The result was high rate case costs. She urged support of the

reduction in the statutory timeline. She advocated for the commission to issue a final order for a tariff filing that changed the utilities revenue requirement or rate design from 450 days to 270 days.

[9:29:09 AM](#)

BOB PICKETT, REGULATORY COMMISSION, ALASKA CHAIRMAN, spoke about the Regulatory Commission of Alaska's recent legislative audit. He stated that the Regulatory Commission of Alaska was at a critical point in its history and confronted with large issues. He explained his work on a procedural schedule offering Alaskan's the ability to participate in solving the Regulatory Commission of Alaska's issues. Part of the responsibility of the Regulatory Commission of Alaska was to work with the Alaska Energy Authority (AEA) on the administration of the Power Cost Equalization program (PCE). The PCE was critical to the health of the rural communities. Some of the rural utilities were struggling. Capable, confident, and committed staff was necessary to ease the struggles. He expressed concern with the one year extension given the fact that the Department of Administration (DOA) classification study from last August resulted in the loss of 100 percent of the tariff staff. Commissioners and staff would interpret a one year extension as a wind down of the commission and would make personal decisions accordingly.

[9:34:52 AM](#)

Co-Chair Stedman stated that he had no intent to move the bill from the committee. He wished to provide adequate time for Mr. Pickett to review the CS and allow for communication.

Co-Chair Hoffman requested further dialog with the chairman regarding water and sewer rates in rural Alaska. He did not view the one year extension as intent to wind down and terminate the commission.

[9:36:34 AM](#)

Co-Chair Stedman concurred that there was no intention of winding down the Regulatory Commission of Alaska.

Senator McGuire echoed the comments of the chairman. She commented on the viability of Regulatory Commission of

Alaska as discussed in years past. She complimented Mr. Pickett on his leadership since 2008. She appreciated his communication with the lawmakers.

Senator McGuire asked about South-central Alaska, where many gas contracts were not approved by the Regulatory Commission of Alaska. She stated that the contracts would have provided a healthy supply of natural gas to the Cook Inlet. The failure to approve the contracts contributed to the situation of "rolling blackouts." She wondered about action taken by Regulatory Commission of Alaska to improve the situation.

[9:38:57 AM](#)

Mr. Pickett answered that five gas supply agreements were approved in the last 26 months. The situation was tenuous and deteriorating during the last 10 years. He admitted difficulty approving capital expenditures and including them into the rate base. He intended to hold a public meeting with the utilities regarding the import of gas into Cook Inlet. The area required a source of natural gas to fuel the gas generation equipment. He stated that he could not speak to the dynamics of past gas supply agreements. He noted that the role of the attorney general and interveners must be thought of in terms of system reliability. He stated that the Regulatory Commission of Alaska was charged to ensure just and reasonable rates for rate payers, along with reliable utility service.

[9:40:40 AM](#)

Senator McGuire asked if the statute must be changed to reflect the necessary balance.

Mr. Pickett responded that changes in the statutes lead to conflicts. He opined that addressing the extension and policy issues separately was a sound method of tackling the problem.

Senator McGuire asked about the issue of renewable energy. She stated the strong approach for adding renewable energy as a portion of the portfolio of available energy supply. She explained that the intention was not to supplant hydrocarbons, but to provide an option. The "incentivization" produced results. She credited Mr. Pickett with excellent communication.

9:43:19 AM

Mr. Pickett stated that the role of the board was to review the power sale agreement between the independent power producer and the regulated utility. He mentioned that the legislature created an exemption for Fire Island from certification requirements. He noted that a power supply agreement for Fire Island would be reviewed.

Senator McGuire asked about a conversation between Commissioner Guiard and Armstrong Oil and Gas.

Mr. Pickett explained that he was not privy to the conversation. He noted the great impact of the conversation. He admitted to reading part of the conversation transcript.

Senator McGuire requested a question and answer process with Commissioner Guiard regarding the conversation. She opined that the conversation provided a deterrent to development in the state. She requested a written response regarding the commissioner's response.

Mr. Pickett agreed. He informed the committee that the commissioners on the panel worked diligently to achieve the operating authority approved and he reported that gas is flowing through the pipeline.

9:47:00 AM

PAT DAVIDSON, DIVISION OF LEGISLATIVE AUDIT, explained that the evaluation of the Regulatory Commission of Alaska identified no new recommendations. The division encouraged the Regulatory Commission of Alaska to continue its implementation of the prior audit recommendation, which was to develop regulations that would enhance the transparency, accountability, and efficiency of the decision making process. She stated that the Regulatory Commission of Alaska partially implemented the recommendation. The portion that remained outstanding, was the work related to developing regulations to establish standards for certain aspects of discovery. The audit made a recommendation to extend the Regulatory Commission of Alaska for eight years. A new audit requirement states that the division of legislative audit must review the accuracy and completeness of Regulatory Commission of Alaska's annual report every

two years. The annual report required compliance with statutory timelines. The audit requirement supplemented the sunset review leading to the eight year recommendation.

Co-Chair Hoffman asked if the one year extension would require an audit review.

Ms. Davidson responded that when a board or commission is extended for one year, she consulted with the chairman of the budget and audit committee to determine the type of audit needed.

Co-Chair Hoffman asked about possible language in the extension that deletes the requirement for an audit.

Ms. Davidson responded yes.

[9:49:46 AM](#)

HB 24 was HEARD and HELD in Committee for further consideration.

#hb126

CS FOR HOUSE BILL NO. 126(FIN)

"An Act extending the termination dates of the Board of Nursing, the Board of Dental Examiners, and the Board of Barbers and Hairdressers; and providing for an effective date."

[9:50:24 AM](#)

Co-Chair Hoffman proposed committee substitute, work draft #27-LS0321/E, Kirsch, 4/12/11. Co-Chair Stedman OBJECTED for purpose of discussion.

Co-Chair Stedman explained that since the bill was termed the omnibus extension bill, the committee added a sunset extension for the alcohol beverage control board in Section 5. He pointed out that a new Section 4 prohibited convicted felons from serving on state boards or commissions.

Co-Chair Stedman WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered.

[9:51:29 AM](#)

REPRESENTATIVE MIKE HAWKER stated that SCSCSHB 126 provided an effort at creating an omnibus bill combining the reauthorization of various boards and commissions. The bill was originally introduced with the Regulatory Commission of Alaska, which is now considered in a separate vehicle. The omnibus bill reauthorizes the board of nursing, dental examiners, barbers and hairdressers, and the alcohol beverage control board. The legislative budget and audit division completed examinations of each board. The extensions included are for nurses, dentists and barbers and the alcohol beverage control boards. He pointed out that the bill's purpose was to create economies of efficiencies of operations with an omnibus bill.

Co-Chair Stedman mentioned one fiscal note from the Department of Commerce, Community and Economic Development showing the cost of extending the board of barbers, nurses, and dental examiners at \$1,431,900 in receipt supported services. Funding was in the FY12 operating budget.

Co-Chair Stedman pointed out one Senate Finance Committee fiscal note for the Department of Public Safety for \$1,505,700 in program receipts and mental health funds to extend the alcohol beverage control board for one year. The funding was in the FY12 operating budget.

SCSCSHB 126 was HEARD and HELD in Committee for further consideration.

#hb119

CS FOR HOUSE BILL NO. 119(EDT)

"An Act relating to the procurement of supplies, services, professional services, and construction for the Alaska Industrial Development and Export Authority; relating to the definition of 'own' for the economic development account; relating to the definitions of 'development project', 'plant', 'facility', and 'project' for the Alaska Industrial Development and Export Authority; relating to the Alaska Industrial Development and Export Authority creating subsidiaries regarding projects financed under AS 44.88.172; and providing for an effective date."

[9:54:12 AM](#)

Co-Chair Hoffman proposed committee substitute, work draft #27-GH1745/E, Kirsch, 4/12/11.

Co-Chair Stedman OBJECTED for purpose of discussion.

DARWIN PETERSON, SENATE FINANCE COMMITTEE, detailed the CS. He noted changes in Section 6 and 7, which were added to allow a regional housing authority eligibility for grants under the municipal harbor grant program. He stated that while most harbors are owned by municipalities, it was not the case in Chenega and Tatitlek where the state transferred ownership of the local harbors to the regional housing authorities. The housing authorities were used as a political subdivision because neither community was incorporated. The communities were thus ineligible for the harbor matching grant program without the statutory change.

Mr. Peterson mentioned new language on Page 4, Lines 17 through 20, which allowed the community to use cruise ship head tax money and harbor transfer payments as matching funds for the municipal harbor grant program. Section 8 added a definition for the regional housing authority in Alaska Statutes 2960, which is the municipal harbor matching grants program. The next change was found in Section 10, where "Alaska Industrial Development and Export Authority (AIDEA)" was removed from the definition of agency, to exempt it from the state procurement code. The conforming amendment was brought to the committee's attention by legislative legal services. The amendment conforms with Section 9 of the bill which adds AIDEA to the list of state entities allowed to adopt their own procurement code. Without the amendment, the authority could have been subject to their procurement regulations and the state procurement code.

Mr. Peterson highlighted changes in Section 16, Page 9, where AIDEA was given legislative approval to bond for up to \$65 million for improvement and expansion at the Skagway Ore Terminal. The expansion was necessary to meet environmental standards and prepare for substantial increases in the use of the terminal by new Yukon mines. He noted that Section 17 makes the addition of harbor transfer payments as eligible matching funds for the municipal harbor grant program retroactive to January 1, 1993.

Co-Chair Stedman WITHDREW his OBJECTION.

There being NO OBJECTION, it was so ordered.

[9:58:48 AM](#)

TED LEONARD, EXECUTIVE DIRECTOR, AIDEA thanked the committee for the opportunity to testify.

MARK DAVIS, AIDEA, stated that the bill allowed AIDEA to advance economic development across a broad spectrum of the economy. He pointed out the proposed amendment to the Alaska Procurement Code, which would allow AIDEA to develop regulations for state procurement. The Department of Transportation and Public Facilities (DOT/PF) and Department of Administration (DOA) supported AIDEA's ability to issue regulations in a method similar to that used by the Alaska Housing Finance Corporation (AHFC).

Mr. Davis spoke to the change allowing AIDEA to own a percentage or all of a development project through a Limited Liability Corporation (LLC) or corporation. Another change allowed AIDEA to create a subsidiary corporation by the board which could issue bonds or undertake debt. The funds would be used to create projects to be sold later. The AIDEA board expressed interested in creating the divestiture to bring assets back into the private sector. The bill also expanded the definition of "development project." Since 1993, the Alaska economy expanded dramatically and the new definition would allow AIDEA to invest in communications and work on community projects and federal facilities. The bill would allow AIDEA to work on prototype or new technology.

[10:03:51 AM](#)

TOM SMITH, SKAGWAY BOROUGH MANAGER (via teleconference), testified in favor of the legislation. He stated that the borough strongly supported the bonding authority for AIDEA to proceed with improvements at the Skagway ore facility. He claimed that the funding would increase capacity and improve environmental standards.

[10:05:46 AM](#)

TOM COCHRAN, MAYOR OF SKAGWAY (via teleconference), echoed the testimony of Tim Smith. He stated that the bonding package for the ore terminal would provide substantial economic development.

[10:06:27 AM](#)

GENERAL TOM KATKUS, COMMISSIONER DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, testified in support of the legislation. He mentioned the portion of the bill allowing the military to have options regarding development of projects or facilities. He pointed out that the military construction process was long and tenuous. The legislation provides another option to support the military by financing and developing lease agreements with the National Guard and the Coast Guard for the development of facilities.

[10:08:12 AM](#)

Co-Chair Stedman mentioned two zero fiscal notes, one from Department of Revenue the other from Department of Commerce, Community and Economic Development.

Mr. Leonard added that the legislation provide AIDEA flexibility and tools to encourage greater investment in Alaska's economy and resource development.

Co-Chair Hoffman asked about the new board.

Mr. Leonard responded that the new board provided better perspective from the private sector and allowed for improved analysis of projects.

[10:09:29 AM](#)

SCSCSHB 119 was HEARD and HELD in Committee for further consideration.

[10:09:53 AM](#)

RECESSED

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ADJOURNMENT

The meeting was adjourned at 5:18 PM.