

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 2, 2011

3:35 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Co-Chair
Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Bert Stedman
Senator Lesil McGuire
Senator Hollis French
Senator Gary Stevens

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Fred Dyson
Senator Cathy Giessel

COMMITTEE CALENDAR

PRESENTATION: FOLLOW-UP TO ALASKA SUSTAINABLE ENERGY ACT (SB 220-26TH ALASKA STATE LEGISLATURE) AND REMARKS BY SENATOR MCGUIRE AND SENATOR WIELECHOWSKI.

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

GWEN HOLDMAN, Executive Director
Alaska Center for Energy and Power (ACEP)
University of Alaska
Fairbanks, AK

POSITION STATEMENT: Provided update on ACEP's implementation of SB 220.

MARILYN LELAND, Executive Director
Alaska Power Association (APA)

POSITION STATEMENT: Provided update of APA's implementation of SB 220 for ACEP.

HANNAH GUSTAFSON, Deputy Director
Renewable Energy Alaska Projects (REAP)
Anchorage, AK

POSITION STATEMENT: Provided update of REAP's implementation of SB 220.

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

POSITION STATEMENT: Provided update of AEA's implementation of SB 220.

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

POSITION STATEMENT: Provided an update of the Emergency Energy
Technology Fund (EETF) relative to SB 220.

RON KREHER, Acting Director
Division of Public Assistance
Department of Health and Social Services (DHSS)
Juneau, AK

POSITION STATEMENT: Provided update on the Alaska Portable
Heating Assistance Program relative to SB 220.

JOEL ST. AUBIN, Chief
Statewide Public Facilities
Department of Transportation and Public Facilities (DOTPF)
Juneau, AK

POSITION STATEMENT: Provided update on the DOTPF's
implementation of SB 220.

DIANA ROTKIS, Manager
Statewide Fleet
Department of Transportation and Public Facilities (DOTPF)

POSITION STATEMENT: Provided update on the Division of Public
Facilities' implementation of SB 220.

JERRY BURNETT, Deputy Commissioner

Treasury Division

Department of Revenue (DOR)

POSITION STATEMENT: Provided update on DOR implementation of SB 220.

ACTION NARRATIVE

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CO-CHAIR JOE PASKVAN called the Senate Resources Standing Committee meeting to order at 3:35 p.m. Present at the call to order were Senators French, Stevens, Wielechowski, McGuire, Co-Chair Wagoner, and Co-Chair Paskvan.

Presentation: Follow-up to Alaska Sustainable Energy Act (SB 220, 26th Alaska State Legislature) Remarks by Senator McGuire and Senator Wielechowski

CO-CHAIR JOE PASKVAN said last year the legislature passed SB 220, sponsored by Senators McGuire and Wielechowski, and this is a follow-up on how much progress has been made. Its purpose was to find ways to lower energy costs, increase greater efficiency of energy usage and increase the use of non-renewable resources.

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SENATOR MCGUIRE said she and Senator Wielechowski were asked to give a short overview of this measure, because agency officials were invited to walk through more of the details where they have implemented parts of it. She explained that last year the majority of committee members are the same as this year, and they, along with the help of Senate President Stevens, put in place an energy vision, and with it an Omnibus Energy Act, for the first time in state history, and got it through two bodies. She said many parts to the bill benefit many different parts of Alaska, but the bottom line is that Alaskans want access to affordable energy.

She referenced page 2 of the Governor's letter to the Legislature that said a commercial energy efficiency loan program would be one improvement to SB 220, so she and Senator Wielechowski created the program for public buildings in it. But only one community so far has applied for this loan. She stated that \$250 million worth in loans are available through the Alaska Housing Finance Corporation (AHFC) for energy efficiency upgrades, and it is available municipalities, boroughs, state agencies, or any kind of public facility in the State of Alaska.

A place holder was also created for a loan program for Alaskan businesses which wasn't funded.

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CO-CHAIR WAGONER asked which community applied.

SENATOR MCGUIRE answered Fairbanks.

CO-CHAIR WAGONER added that Kenai applied, too.

CO-CHAIR PASKVAN remarked they are trying to increase the use of *renewable* resources.

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SENATOR WIELECHOWSKI said the energy omnibus bill had many components; one in particular is the Energy Loan Efficiency Program, which he hoped more communities would take advantage of in the future. They had estimated it would create several thousand jobs and save tens of millions of dollars across Alaska. SB 220 also had a provision for an Energy Efficiency Revolving Loan Fund and a provision to expand the state's heating assistance program to provide additional help for Alaskan families when oil prices soar. Another provision required the state to retrofit 25 percent of state buildings over 10,000 sq. ft., which will save the state millions of dollars in the very short term - and again create jobs. They also created an Emerging Energy Technology Fund (EETF) to provide grants to test new energy technologies in Alaska. He said they also co-primed SB 32 that asks the state to capitalize the Alternative Energy Loan Fund to the amount of \$10 million.

GWEN HOLDMAN, Executive Director, Alaska Center for Energy and Power (ACEP), University of Alaska, said as a whole, SB 220 set a very firm statutory foundation for implementing state energy policy. As a University employee, and as the ACEP is housed within the University of Alaska, her role is to provide the legislature with information, so it can make wise policy choices. She commended the committee for taking advantage of them as a resource maybe more than any other committee in the building. In contrast, every single day she is on the front line trying to reduce energy costs. In her case, she is spending a lot of time considering whether small-scale nuclear is a viable option for Alaska, another provision in SB 220. She works very closely with the Alaska Power Association in looking for ways to improve diesel energy efficiency or delivering energy-related curricula to schools through partnerships with Renewable Energy Alaska Projects.

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MS. HOLDMAN encouraged members to pick up on where they left off last session and make sure they are managing a diversified portfolio of energy resources, both renewable and fossil-based, and determine the appropriate mechanisms for funding projects and programs as they move forward.

She said some unanswered questions were left on the table last year in the process of shaping SB 220, and the legislature chose to approach at least some of those by seeking more information, which has come back through reports from various offices and agencies. The legislature specifically tasked the Governor's Office to recommend improvements to the existing structure, and it submitted "The Energy Report to the Legislature." In it the Governor advances the concept of an energy policy coordinator (EPC) to coordinate energy programs and policies between state agencies, the Governor's Office and the legislature. She looks forward to seeing how this EPC role develops and emphasized how important a coordinated approach is to many of the stakeholders.

The next steps are about money, Ms. Holdman said. They need to work to make sure the programs in SB 220 are expanded and do not become unfunded mandates, particularly as related to education, outreach, data collection and reporting - something of special interest to ACEP. SB 220 established a program for commercial energy efficiency retrofits, but that program was not capitalized.

The Emerging Energy Technology Grant Fund was probably the most popular part of SB 220 from a public relations stand point. It received a one-year funding increment of \$2.4 million; the Denali Commission contributed \$3.1 million to the program last year and it has planned an additional \$2.4 million in their budget for this year. But that is contingent on the state both continuing the program and providing matching funds or better.

MS. HOLDMAN said ACEP has worked very closely with the Denali Commission to develop this pilot program that has served as the basis for the Emerging Technology Grant Fund in what is called "round zero" of the program. The Denali Commission funded 11 projects totaling approximately \$8 million and they are all actively and aggressively moving forward. Basically, every single one of them is on-time and on-budget. ACEP is both managing the program and collecting and analyzing the data from individual projects to make recommendations for future applications for these kinds of technologies. She looked forward

to working with the AEA as it develops a program at the state level as outlined in SB 220.

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Other programs that are not explicitly mentioned in SB 220 will require some attention including the Renewable Energy Fund that was originally scheduled to sunset next year. There may be opportunities to work with the AEA to improve this program or add a complimentary loan component moving forward, Ms. Holdman said. Similarly, programs like the AHFC Home Weatherization and Rebate Program have been warmly received and have seen high demand and quick paybacks. They should continue to invest where successful models like this exist.

Another example of people slipping through the cracks on reporting is the Power Cost Equalization Program (PCE), Ms. Holdman said, and many feel this program needs restructuring to more effectively meet its objectives which is levelizing energy costs between rural and urban communities. SB 220 was widely viewed as a first step to implementing state energy policy as laid out in HB 306 [26th legislature]. The policy included well-known goals for achieving 15 percent energy efficiency improvement by 2020 and 50 percent renewable energy for electric power generation by 2020.

MS. HOLDMAN drew their attention to another example of a policy that was mentioned in two separate sections in HB 306, but only partially addressed in SB 220, that says:

It is the intent of the legislature that the state remain a leader in petroleum and natural gas production and become a leader in renewable and alternative energy development. And secondly, the state should invest in applied energy research and development of alternative and emerging technologies including university programs to achieve reductions in state energy costs and stimulate industry investment in the state.

She said this is something the ACEP strongly supports, and speaks to the larger objective of incentivizing economic development, which is ultimately a big part of what they are trying to accomplish. Alaska should become a leader in improving extraction technologies for tight reservoirs and heavy oils that are known to exist on state lands where development could result in significant revenue generation for the state and improve throughput of the TAPS.

Other examples include development of methane hydrates, coal-to-liquids and gas-to-liquids technology, ocean and river energy, underground coal gasification, high-penetration wind and advanced storage technologies. These are all areas where Alaska either has a unique need or a unique opportunity in terms of a world-class resource and where the UAA and ACEP, as part of the university system, are currently conducting research in partnership with the private sector. She said she looked forward to working with the legislature on these efforts.

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MARILYN LELAND, Executive Director, Alaska Power Association (APA), said SB 220 was a bill they actively supported last year, but a number of provisions in it do not directly relate to electric utilities, so she would limit her testimony today to those that do.

In section 1, she was pleased to see language that helps to remove the barriers to the development of nuclear energy as an alternative technology in Alaska. But, she was not aware that any nuclear projects are under way as a result of the new provisions yet.

Section 14 deals with the Emerging Energy Technology Fund and they believe this section to be very important. Ms. Leland said there is no silver bullet that is going to help everyone in Alaska solve their energy problems and she commended the legislature for creating this fund and including an advisory committee populated by experts in the science and engineering fields. APA has a designated seat on that committee which has been filled by Eric Erickson who is an engineer with Alaska Electric Light and Power in Juneau. The committee has had its initial organizational meeting at which a draft request for grant applications was reviewed. That RFA was issued on January 7 with applications due March 2. She explained that once the applications are received the advisory committee would meet again to review them and make recommendations on the grant award.

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One concern, Ms. Leland said, is that the bill does not allow a business or organization represented by a member of the advisory committee to actually receive a grant. She understood the reasoning behind that provision, but thought they should consider removing it, because Alaska has a very small pool of individuals who are qualified for serving on the committee and

who have the technical ability to develop emerging technologies. Rather than simply prohibiting them from receiving the grants she thought it would be better to allow them to apply for the grants, but prohibit them from actually being involved in any deliberations or voting on the recommendations of the grant awards.

Section 42 adds a provision allowing the AHFC to issue bonds in an amount not to exceed \$250 million and to make loans from the Alaska Energy Efficiency Revolving Loan Fund. This is an excellent provision although she didn't know the status of the expended bonding capacity.

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MS. LELAND said she was asked what the legislature needs to focus on now, and APA developed a list of initiatives that should be considered. They don't all relate to SB 220, but she wanted to summarize them.

- First, develop an implementation plan for Alaska's energy policy authorized by HB 306 last year.
- Develop large-scale hydro electricity for the Railbelt and develop renewable energy resources - hydro, geothermal and wind - for other regions of the state. Large hydro electric projects could meet the needs of as much as 75 percent of Alaska's population well into the future, but communities not on the Railbelt can't be forgotten.
- Encourage the development of the Cook Inlet gas management plan for continued gas delivery to South Central. Natural gas is critical to South Central and the economy statewide; demand for natural gas in South Central is expected to exceed supply as early as 2013.
- The legislature and the governor need to take a comprehensive view of the situation; develop policies and ensure coordinated actions.
- Next, fund the Renewable Energy Fund and the Power Project Loan Fund. Both funds are the primary state sources of capital funding for new energy projects, and they have been woefully undercapitalized in recent years in light of the goals set forth in the state energy policy. Fund \$50 million annually for the Renewable Energy Fund as authorized and properly capitalize the Power Project Fund at a level that supports the goals set forth in Alaska's energy policy.
- Next, continue to fund the power cost equalization (PCE) program, as the very survival of many rural Alaskan communities depend on meaningful relief from the crippling

cost of energy. The legislature should continue the PCE benefit at 100 percent for FY11 and fully fund PCE in the administrations FY12 operating budget.

- Last, develop policy and legislation that expands funding for energy efficiency and conservation activities. Continue to support the highly successful programs of the AEA and AHFC for home energy audits, energy improvement rebates and weatherization.

In addition, she encouraged providing commercial energy audits for government, schools, and public institutions that offer energy efficiency and conservation block grants. HB 36 has already been introduced this session to expand the AHFC's energy efficiency program for commercial buildings. She complimented the legislature again on all the hard work that went into the development of SB 220. It was an excellent beginning to what needs to be done to solve Alaska's energy problems.

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HANNAH GUSTAFSON, Deputy Director, Renewable Energy Alaska Projects (REAP), said REAP is a coalition of over 70 Alaska electric utilities, businesses, consumer and conservation groups, Alaska Native organizations and local, state and local entities that all share the goals of increasing the production of renewable energy and promoting energy efficiency in Alaska. The passage of SB 220 along with HB 306 provides a landmark from which Alaska can move forward. She said renewable energy in particular provides a hedge against the inevitable rise in fossil fuel prices in the coming decades. HB 306 set ambitious goals for the state and SB 220 contains the beginning steps to meet these goals.

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She said REAP was a great proponent of the Emerging Energy Technology Fund (EETF) in SB 220. Because the Renewable Energy Grant Fund that passed in 2008 was not designed to fund immature or emerging technologies, REAP and many other entities including the Denali Commission, the Alaska Center for Energy and Power, the National Renewable Energy Laboratory and the Alaska Power Association recognized that Alaska needed a program to take advantage of the many excellent opportunities it has to develop emerging technologies that use Alaska's vast biomass, river current, and tidal and wave resources. Grants from the EETF will help demonstration projects leverage private and federal monies to accelerate the technology innovation in Alaska while at the same time providing ways to sustainably provide energy to the state's communities.

She said the AEA administered EETF as part of SB 220 and issues concerning intellectual property rights and allowable costs are currently being worked out within the advisory committee process. They hope the legislature will consider funding the EETF this year as a piece of federal funding from the Denali Commission would be contingent upon a state match.

MS. GUSTAFSON thanked the legislature for its commitment to energy efficiency measures and programs over the last several years. Since the appropriation of \$360 million for existing home weatherization and rebate programs in 2008, she said this body clearly recognized that efficiency measures result in much quicker paybacks than investment in generation resources.

The legislature added to the state's energy efficiency commitment last year with the passage of SB 220 - in particular the new \$250 million Revolving Loan Fund Program for retrofitting public buildings, which will help the state meet the mandate for retrofitting 25 percent of its buildings by 2020 (in Section 17). REAP is currently working with AHFC to educate public building owners about the program, which is important both because it will bring energy savings to the state and because it's also an innovative way to leverage state funds that the state could potentially use to finance other energy infrastructure projects.

In addition, Sections 20-28 of SB 220 deal with energy efficiency loans for commercial businesses. However no funds have yet been appropriated for this program; it's an important piece that still needs some attention. They must find a way to get commercial lending potentially to become more involved in making these loans, whether it be through education, incentives or both.

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MS. GUSTAFSON said SB 220 has several provisions that call for state agencies to collect and/or provide technical assistance. These include sections 11, which requires the Office of Management and Budget (OMB) to work with various agencies to collect and store energy consumption data; section 16, which asks DOTPF to consider converting its fleet to alternative fuel vehicles; section 43, which requires the Department of Revenue (DOR) to make recommendations on the feasibility of a municipal energy improvement program; and section 40, which requires the Governor's Office to submit a report to the legislature

describing current energy programs and make recommendations on how best to structure and coordinate them.

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MS. GUSTAFSON said she supported the Energy Policy Coordinator (EPC) position suggested in the Governor's report released on Monday. The EPC would be the coordinator and mediator between various agencies and corporations that deal with energy issues, and it appears from the report that the EPC will make further recommendations about administrative structure. While a coordinator is needed, consistency in application the state of Alaska needs over the long term will require that whatever structure is deemed best be institutionalized so that it outlives individual administration. It may be beneficial for this committee to hold informational hearings on administrative approaches that are being successfully applied in other states.

Suggestions:

1. All of these energy programs and initiatives get adequate personnel and funding to succeed.
2. Develop a strategic energy focus for meeting goals and playing to our strengths. For instance programs like the Renewable Energy Grant Fund may benefit from developing a strategic focus for making grants. The advisory committee has considered developing an RFP to develop state-of-the-art projects designed for rural applications, and then asking applicants to compete for grant funds to fill them. Using some of this grant money in this fashion would drive technology innovation.
3. State should develop a production-based tax credit for renewable energy where the more energy a project generates the more the developer is rewarded with a credit on its taxes.
4. The state is going to have to keep investing money on energy efficiency. Already it's paying dividends. If Alaska should become the most energy efficient state in the nation, it will in the process become one of the most attractive places for companies to invest.
5. The state should consider developing a concurrent loan program for renewable energy projects. Indeed, HB 306 names the Power Project Loan Fund as the vehicle to finance projects, but that fund must be further capitalized particularly for large Railbelt utilities that have not seen as much of the renewable energy grant funds. Because of its comparatively lower electricity prices, low cost or zero interest loans for projects would be nearly as valuable as grants. The availability of loans and other financing mechanisms is going to be absolutely

necessary to develop large-scale hydro and other large scale renewable energy projects in the state.

MS. GUSTAFSON said the bonding mechanism that has allowed AHFC to set up \$250 million in the revolving loan fund for energy efficiency retrofits is one example that can be examined for financing other projects. The state needs to continue to fund energy innovation programs like the Emerging Energy Technology Fund. There is literally a race around the world to find more sustainable energy systems and Alaska can use its unique situation to become a leader in such innovation. Nowhere else in the nation has the combination of high energy prices and abundant natural energy resources like Alaska.

She said overall there is a huge demand from communities across the state to diversity their energy portfolios and state assistance is going to play a very valuable role in making this happen. Energy is arguably the most important infrastructure investment to make because without energy, schools and other public infrastructure cannot function.

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SARAH FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community and Economic Development (DCCED), provided the committee a status update of their work on implementing SB 220. Later, Peter Crimp would provide an update of the EETF program, which was the major program that SB 220 provided to AEA to administer.

Revisiting the PCE program, the agency is making sure that the utilities that are eligible for the program use it. They provide training and technical assistance to those utilities to make sure they are able to fill out the necessary paperwork. Their operating budget asked for a small increment in training funds to provide extra assistance for utilities that have a high turnover in clerks. She explained in prior years the Denali Commission had provided funds for that through the Denali Training Fund and that was one program that they hadn't funded for a while, which is why they asked for the increment.

Mention was made of the data collection and education and outreach need. The AEA has been leading an energy efficiency conservation working group and has received a US Department of Energy grant.

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SENATOR STEDMAN joined the committee.

MS. FISHER-GOAD said with respect to the need for capitalization of the Power Project Fund, that there was legislation that authorized the AEA to sell its portfolio to raise money for new loans, and the Alaska Industrial Development and Export Authority (AIDEA) purchased the program and capitalized the fund with additional cash. In addition, the legislature provided a \$10-million appropriation to the Power Project Fund. So, at the moment the program has sufficient funds to meet current demands for the loan program, and it is one area she wants to make sure that utilities and eligible borrowers know about. Since there are less federal funds for grants, they know there will be additional demand.

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With respect to the Governor's report, she reported that some work had been done on the Commercial Energy Efficiency Loan Program. When that passed, AEA had discussed the coordination and implementation of the program with the DCCED, and as the conversations progressed during the Interim, putting this energy program in the AEA was discussed. So, they moved towards developing a way in legislation that would transfer that program to the AEA. It wasn't just a clean transfer. There was a realization that some improvements could be made to the program making more of an emphasis on energy efficiency for the commercial users.

AIDEA has a program for commercial lending, and they have been exploring a guarantee program rather than a traditional loan program. They were expecting at this point to have a better idea of what type of legislation that would be, but some issues are still being worked out.

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MS. FISHER-GOAD reported that their Commercial Energy Audit Program started with \$462,000 in stimulus funds, and was very successful. This funding is expected to provide 125-150 energy audits for the commercial sector. Katie Conway, primary energy efficiency conservation staff, did a phenomenal job in taking in growing this aspect of the AEA.

SENATOR WIELECHOWSKI said he appreciated her perspective on wanting to limit the Alternative Energy Revolving Loan Fund to energy efficiency. However, the legislature made a conscious decision last year to go a little bit beyond that and allow organizations - for commercial businesses that wanted to put in

a wind turbine or underground coil piping to strip out some heat.

MS. FISHER-GOAD responded that she had conversations with legislative staff, who have reminded them of the alternative energy concept of the program, and they do not intend to leave alternative energy out of the program, but they feel the emphasis should be on energy efficiency. That would be a concept as they move towards transferring the loan program to the AEA.

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PETER CRIMP, Deputy Director, Alternative Energy and Energy Efficiency, Alaska Energy Authority, Department of Commerce, Community and Economic Development (DCCED), provided an update of the Emergency Energy Technology Fund (EETF). Last year the fund was created by the legislature and it allows the AEA to make grants to eligible applicants for demonstration projects for technologies that can be developed within a five-year time frame - for testing emerging energy technologies, improving existing energy technologies or deploying a technology that has not been used in Alaska before. There is \$2.4 million in state funds and \$3.1 million in Denali Commission funds with the idea that \$2.4 million of that would go into the overall "kitty" for distribution to projects that are selected by the advisory committee and AEA.

MR. CRIMP said the program has been staffed by Barbara Triplet, a mechanical engineer with 15 years of experience at ConocoPhillips and other oil companies. The first thing AEA did, working with ACEP, was to research other energy technology development programs in the country; the Arctic Energy Technology Development Laboratory and the Denali Commission, which has conducted similar solicitations. The Governor appointed the advisory committee in early November 2010 and those members are: Erik Ericson with AEL&P (utilities), Carl Raisha from AIDEA, Brent Pitrie with Alaska Village Electric Cooperative (renewable energy sector), Joel Niemeyer with the Denali Commission, Steven Trimble with MWH Americas (fossil fuel energy sector), Brent Sheets with the Arctic Energy Office of National Energy Technology Lab (fossil lab), and Bryant Hirsch with National Renewable Energy Laboratory.

They released a solicitation on January 6, and the materials included a request for application, sample grant agreements, scoring guidelines, et cetera. That RFA is due on March 2.

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RON KREHER, Acting Director, Division of Public Assistance, Department of Health and Social Services (DHSS), said he was here to talk about the Alaska Portable Heating Assistance Program. He introduced Susan Marshal, Program Coordinator, Heating Assistance Programs. He said SB 220 was signed into law in June 2010 and by October 1, 2010 Ms. Marshal had managed to get the regulations drafted, made necessary changes to their system that generates heating assistance benefits, made changes to their application as well as getting ready for extensive outreach about the new program. So that on October 1 they were able to start the program. To date they have provided home heating assistance supplements to over 1200 low-income families.

He explained that the Alaska Affordable Heating Assistance Program (AHAP) was designed to very closely mirror the federally funded Low Income Heating and Energy Assistance Program (LIHEAP) with two major differences. One is that the income limits for the Affordable Heating Program are from 151-225 percent of poverty with a provision that the income limit could go up to 250 percent of poverty. But probably the most significant part of it is that the amount of money they pay to households is tied to the average price of a barrel of North Slope crude during the prior fiscal year. The statutes mandate how much they have to pay households based on the price of oil. This year, because the price of oil last year was \$75.20, they are making payments of \$140 for both programs.

Last year they served well over 19,000 households between the state program and the tribal programs. To date, they are about 30 percent over where they were this time last year with the state funded program. They have served 1200-plus families to date. Last year about this time, under what was the Alaska Heating Assistance Program, they had only served 900 families. This is because of Ms. Marshal's excellent outreach efforts and because of interest in the new program. Even with this new program, they are still serving the most needy families in those income brackets. A majority of the folks are between 151-175 percent of poverty. They anticipate it will be very similar to their federally funded program where 60-70 percent of the households served are going to be households with elders over the age of 60, individuals with disabilities and households with children under the age of 5. "So, while the AHAP is a very small part of a very significant bill, it is making a big difference in the lives of many, many Alaskans." They are pleased to say the program is "moving apace - meeting the needs of households in Alaska."

MR. CRIMP said that 7 out of their 11 tribal programs are operating regional affordable heating assistance programs for those areas the state is not providing services for.

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JOEL ST. AUBIN, Chief, Statewide Public Facilities, Department of Transportation and Public Facilities (DOTPF), said that SB 220 required DOTPF to work with other state agencies to retrofit at least 25 percent of state buildings, using a nexus of 10,000 sq. ft., by no later than January 1, 2020. To begin this effort, the department gathered utilities bills from the past two years for all facilities that are over 10,000 sq. ft. Most of the agencies have provided the information and they are generating energy-use indexes in order to prioritize the buildings from the least to the most energy-efficient. This will be an ongoing process and will use the information gathered from the implementation of the standardized methodology for state agencies to collect and store energy consumption and expense data.

He said the department has worked with the AEA to collaborate on this approach to prioritizing the facilities as required by SB 220. Additionally, in implementing this, they anticipate grouping projects together by location that will expedite project completion, reduce project costs and maximize resources. Therefore, it may mean that one group of facilities may include multiple departments and multiple funding sources, and that energy retrofits to facilities may not be complete in the exact order that their energy-use index may indicate. Concurrently, they have issued an RFP for energy performance contracting and are negotiating with three energy service companies to provide services under that agreement. They anticipate the three contracts will be awarded this month and that audits will begin in March and implementation of energy efficiency projects will start this summer.

MR. ST. AUBIN said initial funding for the Energy Efficiency Retrofit Projects will come from a grant through the American Recovery and Reinvestment Act (ARRA). AHFC has received \$40 million from the US Department of Energy, \$10 million of which has been allocated to state buildings. This funding must be expended by March 2012 under the terms of ARRA. Once those funds are committed, the funding of energy retrofit projects will be through the AEERF. It is possible that projects they do this summer will be combined ARRA and loan funding if the projects exceed available ARRA funding for an individual department.

He said prior to SB 220, the department had completed energy retrofit projects under two phases of energy performance contracting; the first phase was completed in 2006 and resulted in energy cost avoidance of \$366,000 in its first year; the second phase completed in 2009 has resulted in \$793,000 of cost avoidance in its first year. In all, 16 facilities (5 for the Department of Administration, 3 for Department of Transportation and Public Facilities, and 8 for the Department of Corrections) have been made more energy efficient through this program - or 10 percent of state facilities that are over 10,000 sq. ft.

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SENATOR WIELECHOWSKI asked how soon the loans will be paid off.

MR. ST. AUBIN replied that the work done to date under performance contracting has different financing terms; the shortest term is 10 years and the longest is 15.

SENATOR WIELECHOWSKI estimated about \$1 million in savings a year on those 16 buildings, and asked how quickly the amount that has been spent will be made up through the savings.

MR. ST. AUBIN answered their savings are exceeding what their loan payments are, so the initial amount should be recouped closer to 8 years for the first projects and closer to 10-12 years for the second group of 15-year contracts.

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DIANA ROTKIS, Statewide Fleet Manager, Department of Transportation and Public Facilities (DOTPF), said SB 220 required the DOTPF State Equipment Fleet to prepare a report on the feasibility of using compressed natural gas to power vehicles in the state and also make a recommendation and proposal for a pilot program if it was found to be feasible. The final report produced by Mercury and Associates was released on January 31. It concluded that compressed natural gas is a feasible fuel for certain Alaskan fleets and expansion of the program would be beneficial toward Alaska's sustainability efforts. The pilot program that is recommended would enhance the existing compressed natural gas fuel infrastructure that is located within the Anchorage Bowl. It would increase the number of vehicles and equipment using compressed natural gas including new state light-duty vehicles, four school buses for the Anchorage School district, four solid waste trucks and two transit buses for the Municipality of Anchorage.

It would also establish a fuel management system for the state's bulk fuel tanks to manage existing fuel use and future program savings and also designate an intergovernmental program coordinator who would be responsible for facilitating finding external financial support such as federal grants to allow the state to move to the next phase. They will work with the Municipality of Anchorage to acquire clean city status, which also opens doors for federal grants and to get significant buy in from the public and private sector for long-term sustainability of the projects.

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SENATOR WIELECHOWSKI asked what policy recommendations she had to implement this program.

MS. ROTKIS answered they just received the report on January 31; the department is going through it and fine-tuning all of the recommendations.

SENATOR MCGUIRE commented that she has a bill that provides a state tax incentive for hybrid, electric, or compressed natural gas vehicles, and she asked her to take into account the hypothetical passage of that bill and what it might do to reduce the numbers for department's purchase of a fleet. She didn't know if the department was exempt from paying state taxes on vehicles.

MS. ROTKIS answered the department is exempt from paying state taxes, and that she had been provided a copy of the bill.

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JERRY BURNETT, Deputy Commissioner, Treasury, Department of Revenue (DOR), said the DOR was tasked with a report to the legislature on the feasibility of a municipal energy improvements financing program. They did such a report that was submitted on January 31, and they should all have a copy. The tax assessed property financing for energy improvements is a new concept that was created in 2008 in California, he explained. It is not dissimilar from the way municipalities finance local improvement districts for water, sewer, sidewalks and paving, but it is a voluntary priority lien against the property. Subsequent to the passage of SB 220, the Federal Housing Financing Agency issued a statement that urged state and local governments to reconsider such programs and called for a pause in such programs so concerns could be addressed. He quoted from the statement: "First liens for such loans represent a key alteration of traditional mortgage lending practice, present

significant risk to lenders and secondary mortgage entities and may alter valuations for mortgage-backed securities and are not essential for successful programs to spur energy conservation."

He said 20 states have such programs and they are working with the Federal Housing Financing Agency to resolve some of those issues.

MR. BURNETT said he had some recommendations specific to Alaska that has 162 local government entities that would have the authority to do property tax assessments, 38 of which currently do them. If they could work with the Federal Housing Finance Agency and establish that this type of program could be constructive and conform with national mortgage underwriting standards, then it would be a practical program. Local governments would have to be allowed to create what they call "PACE districts" or property assessment, clean energy financing districts. Local governments would have ongoing administration for the property tax collection and lien implementation, but there would have to be a statewide issuer of bonds to provide for local government financing need ensuring accessibility to smaller communities and efficiency and uniform statewide standards - like those used by AHFC for the home energy rebate program for determining energy savings at allowable costs under the program.

If creating a PACE program is a priority, he said consideration should be given to providing a capital appropriation for a revolving loan fund eliminating the need to borrow from third-parties in the short term. That loan fund could be used to do the refinance and provide additional capital once a stream of payments was coming from the local government entities.

In writing the report, Mr. Burnett said he looked at the savings generated from the Home Energy Rebate Program at AHFC, and of those that had been paid, so far, with a little over \$10,000 average outlay, there is a little over \$1580 in annual energy savings. So, it would appear those same repairs could have been paid with a loan program of this type over a period of 10 years or less. It's a matter of working with the Federal Housing Finance Authority and getting national standards in place.

CHAIR PASKVAN asked if it's safe to say it's working.

MR. BURNETT replied it's safe to say it's not working anywhere right now; it would work, though. California actually has litigation with the Federal Housing Finance Authority because

they have a number of programs. Twenty states have these programs that work.

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SENATOR MCGUIRE asked him to tell her and Senator Wielechowski what can be done to help him with this endeavor. They don't want to end up in litigation.

[4:52:22 PM](#)

CO-CHAIR PASKVAN said that concludes the presentations on SB 220 and finding no further business to come before the committee, he adjourned the meeting at 4:52 p.m.