

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

February 16, 2011

3:31 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

**MEMBERS ABSENT**

Senator Gary Stevens

**COMMITTEE CALENDAR**

SENATE BILL NO. 42

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

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 42

SHORT TITLE: POWER PROJECT; ALASKA ENERGY AUTHORITY

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/11	(S)	READ THE FIRST TIME - REFERRALS
01/19/11	(S)	RES, FIN
02/09/11	(S)	RES AT 3:30 PM BUTROVICH 205
02/09/11	(S)	Heard & Held
02/09/11	(S)	MINUTE(RES)

02/11/11 (S) RES AT 3:30 PM BUTROVICH 205  
02/11/11 (S) Heard & Held  
02/11/11 (S) MINUTE(RES)

#### **WITNESS REGISTER**

SARA FISHER-GOAD, Executive Director  
Alaska Energy Authority (AEA)  
**POSITION STATEMENT:** Supported SB 42.

JOE GRIFFITH, President  
Alaska Railbelt Cooperative Electric Transmission Company  
(ARCTEC)  
**POSITION STATEMENT:** Supported SB 42.

MARILYN LELAND, Executive Director  
Alaska Power Association (APA)  
**POSITION STATEMENT:** Supported SB 42.

WILLARD DUNHAM, Mayor  
City of Seward  
**POSITION STATEMENT:** Supported SB 42.

#### **ACTION NARRATIVE**

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**CO-CHAIR THOMAS PASKVAN** called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators McGuire, French, Wielechowski, Paskvan, and Wagoner.

#### **SB 42-POWER PROJECT; ALASKA ENERGY AUTHORITY**

[3:33:17 PM](#)

**CO-CHAIR PASKVAN** announced the consideration of SB 42 relating to power projects and the Alaska Energy Authority (AEA), saying the committee hoped to hear more from the sponsor about concerns that have been raised. To start, the bill makes major changes to the authority and mission of AEA. He said the legislation seeks to thrust AEA into a more central role such that it may become this state's de facto department of energy. The implications and motives of this should be clearly understood.

**CO-CHAIR PASKVAN** said he had several basic questions for the bill sponsor. First, does AEA seek to become the state's de facto department of energy, and if so what is the motive and broader vision of AEA beyond the Susitna project. Second, is it

the intent of the bill to distance the legislature from decision-making about energy projects so as to have a more clearly-defined process by which to proceed with a variety of energy priorities? It appears that this legislation authorizes AEA to create a fund to hold large sums of money and the committee would like to know how that fund would be utilized.

CO-CHAIR PASKVAN said the committee is also interested in knowing if the powers and duties set forth for AEA are modeled after a parallel organization in another state. Finally, he said Governor Parnell's January 31, 2011 Energy Report to the legislature, which arose from passage of SB 220 last session, offered strong support for SB 42, but there was no mention of that report in either of the two previous hearings on the bill; so the committee would like an explanation of why the governor's energy report has not been referred to in the testimony as support for this legislation. He asked if the sponsor is aware of any other reports or studies in support of SB 42 that have not been included in the bill packet, and that public testimony would resume after the he has had the opportunity to address these and other questions from the committee.

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SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), said the legislature stripped some of AEA's significant powers and duties in 1993 including owning new projects and also the ability to hire employees. That is when AIDEA employees, including the executive director, became the managers of AEA programs, which at that point were: the Four Dam Pool projects, Larson Bay, the Alaska Intertie, and the Bradley Lake Hydro Electric projects.

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SENATOR STEDMAN joined the committee.

MS. FISHER-GOAD said in 1993 a lot of the AEA programs were moved under the Division of Energy in the Department of Commerce, Community and Economic Development (DCCED). So AEA, a distinct corporation, had a board of directors and executive director that were the same for AIDEA, and a relatively small group of people worked on AEA issues. In 1999 when the legislature removed the Department of Community and Regional Affairs, some programs went to the Department of Labor and Workforce Development (DOLWD) and some to the DCCED. At that time, the Division of Energy wasn't moved to the DCCED; the Division of Energy programs were returned to the authority of the AEA. In fact, under AS 44.83 a reference was put into AEA's

powers and duties section changing them to "carry out the powers and duties assigned to it under AS 42. 45 [the Division of Energy programs]."

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So, the idea that AEA seeks to become the state de facto Department of Energy is juxtaposed with actions of the legislature that started a path of reinstituting AEA as a corporation with very broad powers, not just owning projects and not creating a Department of Energy. So, the grant programs, the Power Cost Equalization program, the loan programs, and at the time a very small alternative energy program was moved into the powers and duties of AEA. What they didn't change at that time was the structure of AEA. The folks that ran those programs as the Division of Energy then became AIDEA employees; so they kept with the same model of AIDEA employees providing the management of AEA programs, but they broadened the AEA programs.

Most of the seven to eight years up to about 2008, AEA programs became concentrated on rural energy programs and the construction of a lot of projects with Denali Commission funds. She explained that in 2008 there was need and increasing pressure to focus on AEA as the energy authority; the question also came up about it being run by the bankers through AIDEA (AIDEA is known as a financing agency with a strong tie to banking). So, at the time the legislature created the ability for AEA to hire a separate executive director from the AIDEA executive director.

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MS. FISHER-GOAD said AEA is not the state de facto Division of Energy. When the issue came up about whether the state needed one came up last year, most of the energy programs were in the AEA. Instead of creating a Division of Energy, the administration decided to require an analysis of what makes sense for the powers and duties of AEA and the relationship with AIDEA. The governor's report mentions the introduction of HB 103 and SB 42, and of course the Susitna project is a very large project that everyone is interested in, and AEA has for years been looking at reports that were prepared in the 1980s and forward on it. The analysis found that some of AEA's powers should be restored, and SB 42 reflects the analysis of the governor on what AEA should look like moving forward. The legislature has recognized that AEA has expertise in their programs, and has given them more responsibility through the years with the Renewable Energy Fund Program and most recently the Emerging Energy Technology Fund, in addition to some

significant capital appropriations to fulfill the projects that they want them to be involved in. In addition, they have also been financed to do some significant regional planning. So, AEA has a statewide presence and has had one from 1990 when the Division of Energy was incorporated back into it.

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So, the motive for AEA to have employees and the ability to own, operate, and construct new projects, in her opinion, is more of a natural progression of AEA having a bit more focus on energy and truly operating as a state corporation.

MS. FISHER-GOAD said deliberating on whether the legislature should be distanced from decision-making about energy projects is appropriate and leads to determining how the legislature wants to interact with this process. She said the legislature has chosen for AEA programs to be treated differently depending on the program. The Renewable Energy Fund has tremendous strings attached with the legislature approving projects after AEA has evaluated them, and becomes a grant recommendation program in the capital budget. The Emerging Energy Technology Fund is a capitalized fund that after they are done evaluating the projects and determining which projects should be funded, they can issue grants without further legislative appropriation.

MS. FISHER-GOAD explained that the funds in AEA need to be capitalized and that's where it's appropriate to consider legislative approval for any project they fund out of it or establishing regulations to determine which project makes the most sense.

She did not think the intent of the bill is to distance the legislature from decision making about energy projects, but she thought they needed to discuss where the legislature wanted control - at establishment of the fund, of the money coming out of the fund, or should there be no fund and it should just be based on a year-to-year capital project basis, which has been used.

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On the issue of powers and duties of AEA being modeled after a successful parallel organization in another state, she offered to follow up after she had done some research. She mentioned they had a specific hearing on the Sustainable Energy Act report before the legislation was heard in the committee. If it hasn't been mentioned enough, she apologized. The Susitna project has caused a lot of focus on the legislation, but it has a broader

scope and purpose. The discussions today are about what AEA should look like in the future to address the energy needs of the state.

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Of the over 70 positions in AIDEA the 42 that deal with AEA programs identify themselves as AEA staff, she explained. There wouldn't be much difference for them. This is more of a truth in budgeting measure, because now about \$5 million of AEA appropriations are transferred to AIDEA to pay for staff. This is shown on the [AIDEA] side as an interagency receipt fund, but on the AEA side it is shown as an expense. This is a way to be more accurate that a significant amount of AEA funds pay for staff.

MS. FISHER-GOAD thanked the committee for the questions and said she looks forward to having continued conversations with them.

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SENATOR WIELECHOWSKI thanked the co-chairs for the committee substitute (CS) as he had a lot of concerns about the original bill. He thought the bill's original purpose was to help a Susitna Hydro project get started, but it has become more far-reaching than anticipated. Some of the changes might be worth discussing, but he wasn't sure SB 42 was the proper vehicle for that. His goal is to get started on the Susitna Hydro project, and he had expressed concerns about the procurement issues, which small contractors came to him with. He noted that the audit 2.5 years ago said that the AEA procurement policies and procedures not only did not comply with federal and state procurement procedures, but they were not consistent with good procurement practices. He didn't think exempting AEA from state law was prudent at this point based on those findings.

Another concern he had was taking away legislative oversight over billions of dollars and essentially all power projects in the Railbelt and allowing AEA to hire and fire based on purely political reasons if they chose making all their employees exempt, particularly in looking at past history. His other concern was the seeking of removal from regulatory oversight.

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CO-CHAIR PASKVAN corrected that the committee didn't have a CS but rather a rough draft of concepts, and he believed the concept of the Susitna/Watana with a transmission line was something they are interested in making sure got started in terms of making the appropriate applications to FERC.

SENATOR FRENCH said language on page 3, lines 4-6, gives the AEA the power to make grants for power projects and electric transmission lines, but what happens if Mt. Spurr asks the Authority for an electric transmission line and a road? Suddenly a bill he thought would authorize Watana is directed to an electrical transmission line to Mt. Spurr. Is that possible under this bill?

MS. FISHER-GOAD answered no; it's about creation of the fund but it wouldn't be capitalized.

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SENATOR FRENCH said he wanted to know what oversight the legislature would have over the appropriations mentioned on page 3, lines 4-6. Could AEA spend a million dollars before coming back to the legislature?

MS. FISHER-GOAD replied that the Southeast Energy Fund was created in AEA statutes, and a proposed appropriation puts \$10 million into that fund. AEA doesn't need any further legislative authority to issue grants under it. However, they go through a public process for the Renewable Energy Fund and they have draft regulations for the Emerging Energy Technology Fund. For a grant program they would go through some type of competitive process unless a grant recipient is mentioned as a line item in the capital budget. For the federal Denali Commission funds, AEA established a deficiency list for both bulk fuel and RPSU projects.

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SENATOR MCGUIRE asked her to describe what led up to the bill, and to talk about the broader goals and how it morphed from the Susitna Hydro bill into a broader focus. She added that this committee might be most comfortable backing a project-specific bill. She has heard that the capital projects aren't being prioritized through a central process.

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MS. FISHER-GOAD responded that the bill is simpler than being a broad policy change. For many years there has been discussion about whether AEA has the ability to own and construct new projects and if there is a need for it to have its own staff. As a fully functioning authority and since they feel this project is important, it seemed the appropriate time to pursue a general authority for AEA to construct and own new projects. The biggest limiting factor is that AIDEA has a profit perspective that AEA

doesn't have. AEA owns and manages projects and manages programs for the benefit of the residents of the State of Alaska and its mission is to reduce the cost of energy. These are extremely different missions.

With respect to addressing the needs for the Railbelt and other regions of the state, through legislative appropriations and direction from the legislature she said they have undertaken studies to determine what makes the most sense in an integrated plan. Some think SB 42 has broad sweeping changes, she didn't agree. A change in statute will allow AEA to move forward on a significant project, but other issues have been percolating for a while with respect to whether it makes sense for them to have employees and to own and operate new projects. Without appropriations AEA can't pursue anything further. The bill is a next step for AEA to be more independent of AIDEA; it's a tool for AEA to use to address energy needs for the state.

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SENATOR MCGUIRE said this bill was developed because a lot of departments are doing different things related to energy, and allocating money to a fund that the legislature would have no authority over would be a departure from what is done now. Basically, energy-related capital items are assembled at the Finance table and a budget is put together. People need to understand the broader conversation as the state moves forward into the building of infrastructure in Alaska.

SENATOR STEDMAN said he got a little concerned when he saw money going into the Southeast Energy Fund, but the legislature losing control over the resulting outcome. He was even more concerned about migrating some legislative power over to the executive branch where a rogue department head with oversight over these appropriations could have "acquisitions and mergers and all kinds of stuff going on" that would be out of control of the legislature. They need to make sure that the end result is to move forward on the Susitna project and not create other problems.

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JOE GRIFFITH, President, Alaska Railbelt Cooperative Electric Transmission Company (ARCTEC), said ARCTEC supports SB 42 as written. It came from "the mistake of 1993" that eliminated AEA and left the state without an energy policy or an energy agency that was doing the work needed for energy infrastructure. AEA must be able to construct and own - the major change in the

bill. The people are doing the work today, but it is under the guise of AIDEA rather than under AEA.

He related that prior to 1993, AEA was the state's energy policy and they have some substantial successes: Bradley Lake, the intertie from Willow to Healy, and to some extent the Golden Valley intertie from Healy to Fairbanks (that was built from Railbelt energy funds). But since 1993 nothing has been done except having "spats" with each other over trying to "dip into the pot and get a few dollars for infrastructure." Too many issues face the state to continue that way. Further he said "This electricity that we provide is the grease that makes our economy work." The electric utilities could do this eventually but they are a bunch of little co-ops and don't have the financial strength.

MR. GRIFFITH noted he has a list of the ARCTEC capital budgets. He advised starting AEA with small projects and by the time they get to Susitna, people would have the expertise to handle it. Susitna could be done by AIDEA, but it's a bank and "you don't want your bank running your projects." He assured them that the utilities would cooperate with AEA.

He related that the Project Management Committee started when Bradley Lake was built and still manages that project. The model works and projects need to be done irrespective of how they get there; they have tremendous transmission shortfalls. Bradley Lake didn't need RCA regulation and it has worked well for 25 years. The RCA doesn't do projects; they look at everyone's rate for every power sales agreement and every rate filing that goes before them. That is where their control is.

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SENATOR STEDMAN pointed out that Susitna is a 400 megawatt power plant, but most of the other needed projects are substantially smaller, about 5-20 megawatts.

SENATOR WIELECHOWSKI asked if the state has a certain amount of money to spend (and they are about to authorize AEA to bond for \$5 billion), is it better off putting that money towards a gas line. He mentioned the people in Fairbanks are paying \$1000-2000/mo for gas and \$100-300 for their electric bills. Susitna Hydro won't help them with their heating issues and it keeps their electrical rates pretty much where they are. The same in Southcentral. Whereas if a gas pipeline is built, maybe both those problems will be solved.

MR. GRIFFITH replied that was a good question that they should all ask themselves. Planning for future projects is taking that very issue into consideration. The problem is a little gas line isn't economic. The big gas line is needed in addition to Susitna; a tap can always be put off of the big line. Gas will always be needed to back up the turbines on the lake. You just don't operate systems with only one source of power that is 125 miles north. "Yes, do them both."

CO-CHAIR PASKVAN asked what the utilities think about the operation of Watana.

MR. GRIFFITH replied he imagined it would operate similar to Bradley Lake, probably through something like ARCTEC that manages the intertie and Bradley Lake "and it has been swimmingly effective in both cases."

CO-CHAIR PASKVAN asked what would need to be constructed in terms of an intertie from the Watana project.

MR. GRIFFITH replied that was another good question because it's a big ticket item. You would come north out of the reservoir up to the Denali Highway area and then down the road to the existing intertie. If the assets and the resources could be found to do it, they would continue on to Healy with a parallel intertie and on down to Willow. Two loops are needed for that he said. If you had two, then you'd have more faith in your ability to keep the lights on. You do not want to let the lights go out because with that big of a unit on the line the Railbelt would go off if it dropped off for any reason.

CO-CHAIR PASKVAN asked about any comprehensive numbers as far as any component of the interties would cost.

MR. GRIFFITH guessed it would cost another \$200-300 million to build to Healy and come all the way to Willow, and it would be done in stages. The power would come from the plant to the existing intertie. This was the plan with Bradley Lake 25 years ago, but in 1993 just after they got it "schooled up" AEA died, and nothing happened after that other than Golden Valley building the interties from Healy up to Fairbanks.

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SENATOR WIELECHOWSKI said he gets asked fairly regularly why the state doesn't build a huge electrical generation plant on the North Slope and then run a big intertie down to Fairbanks and Southcentral. Is that doable?

MR. GRIFFITH replied it could be done but it would cost a great deal (400 miles of intertie would cost \$2 billion) and would still be one power source. But it would be wonderful to have it.

SENATOR WIELECHOWSKI asked how many megawatts could be shipped down on a DC line.

MR. GRIFFITH replied those lines are huge - 750 megawatts.

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MARILYN LELAND, Executive Director, Alaska Power Association (APA), said the members of the association are the electric utilities from all around the state, both urban and rural. Her members provide power to roughly a half million Alaskans. Much discussion is centered on the idea of large-scale hydro power for the Railbelt, but here members believe that is not the only answer to their problem. It is really a rural and a Railbelt issue. She said her members believe it's going to take a very strong partnership between the electric utilities and the state in order to solve these problems. This morning the association had a board meeting at which they unanimously approved a resolution in support of expanding the statutory powers of AEA.

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CO-CHAIR PASKVAN said copies of the resolution would be distributed to the members.

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WILLARD DUNHAM, Mayor, City of Seward, testified in support of SB 42. He noted that the City Council passed a resolution unanimously in support of it. He said as the state moves forward on its quest in the usage of renewables, both on state and federal levels, the community of Seward feels that additional AEA uses would be very helpful in the overall implementation of the energy programs that are vital to the whole state, especially for them to be able to do feasibility studies and design.

MR. DUNHAM said he was surprised the ARCTEC was able to come together the way it did and Seward is a very active participant in it. Melding of the utilities couldn't have been done without AEA. You can tweak the bill but don't destroy the intent, he concluded.

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At ease from 4:40 p.m. to 4:41 p.m.

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CO-CHAIR PASKVAN reconvened the meeting and closed public testimony on SB 42, but said it may be opened in the future. He asked Ms. Fisher-Goad if she had any final comments.

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MS. FISHER-GOAD thanked the committee and the people who testified in support of the bill, and summarized that what they are saying is that AEA has a statewide perspective in solving energy issues of the state, and they have a lot of programs and folks that are dedicated to doing that.

CO-CHAIR PASKVAN held SB 42 in committee.

CO-CHAIR WAGONER announced that last year Senator McGuire and he worked on the Cook Inlet Stampede. He read a release from Buccaneer Energy that said it would spend up to \$30 million to bring a jack up a rig to Cook Inlet. AIDEA would have to commit \$30 million. Buccaneer would drill up to four wells and then the rig would be available to other projects. This is good news for Southcentral and the state.

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There being no further business to come before the committee, Co-Chair Paskvan adjourned the meeting at 4:46 p.m.