

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

Nome, Alaska
July 20, 2013
9:33 a.m.

MEMBERS PRESENT

Representative Gabrielle LeDoux, Co-Chair
Representative Benjamin Nageak, Co-Chair
Representative Neal Foster
Representative Bob Herron
Representative Lora Reinbold
Representative Harriet Drummond

MEMBERS ABSENT

Representative Kurt Olson

OTHER LEGISLATORS PRESENT

Representative Craig Johnson

COMMITTEE CALENDAR

HOUSE BILL NO. 181

"An Act relating to the accounting for money received by the state from the mining license tax, mining lease payments, and royalties from mining on state tide and submerged land seaward of a municipality, and the availability of that money for appropriation to certain boroughs and municipalities outside of a borough."

- HEARD & HELD

HOUSE BILL NO. 166

"An Act relating to the bulk fuel revolving loan fund."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 181

SHORT TITLE: MINING LICENSE REVENUE; REVENUE SHARING

SPONSOR(S): REPRESENTATIVE(S) FOSTER

03/20/13 (H) READ THE FIRST TIME - REFERRALS

03/20/13 (H) CRA, FIN
04/09/13 (H) CRA AT 8:00 AM BARNES 124
04/09/13 (H) Heard & Held
04/09/13 (H) MINUTE(CRA)
07/20/13 (H) CRA AT 9:30 AM NOME

BILL: HB 166

SHORT TITLE: BULK FUEL REVOLVING LOAN FUND

SPONSOR(s): REPRESENTATIVE(s) FOSTER

03/15/13 (H) READ THE FIRST TIME - REFERRALS
03/15/13 (H) CRA
04/09/13 (H) CRA AT 8:00 AM BARNES 124
04/09/13 (H) Heard & Held
04/09/13 (H) MINUTE(CRA)
07/20/13 (H) CRA AT 9:30 AM NOME

WITNESS REGISTER

PAUL LABOLLE, Staff
Representative Foster
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Foster, sponsor, presented HB 181.

DENISE MICHELS, Mayor
City of Nome
Nome, Alaska

POSITION STATEMENT: Testified in support of HB 181.

JOY BAKER, Harbormaster
City of Nome
Nome, Alaska

POSITION STATEMENT: During the hearing of HB 181 related the impacts of increased mining activity to the harbor.

BILL JEFFRESS
SRK Consulting (U.S.) Inc.
Alaska Miners Association
Anchorage, Alaska

POSITION STATEMENT: Suggested amending HB 181 such that the language would be broadened to encompass other communities impacted by mining.

NANCY MCGUIRE
Nome, Alaska

POSITION STATEMENT: During hearing of HB 181, expressed concerns with the impacts of the increased mining to the City of Nome.

CHUCK WHEELER
Nome, Alaska

POSITION STATEMENT: Provided comments on HB 181.

PAUL LABOLLE, Staff
Representative Foster
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Foster, sponsor, presented HB 166.

JOHN HANDELAND, General Manager
Nome Joint Utility System
City of Nome
Nome, Alaska

POSITION STATEMENT: Testified that there would have to be significant adjustments to HB 166 in order for Nome to participate.

ACTION NARRATIVE

[9:33:15 AM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Community and Regional Affairs Standing Committee meeting to order at 9:33 a.m. Representatives Foster, Herron, Reinbold, Olson, LeDoux, and Nageak were present at the call to order. Also in attendance was Representative Johnson.

HB 181-MINING LICENSE REVENUE; REVENUE SHARING

[9:35:55 AM](#)

CO-CHAIR NAGEAK announced that the first order of business would be HOUSE BILL NO. 181, "An Act relating to the accounting for money received by the state from the mining license tax, mining lease payments, and royalties from mining on state tide and submerged land seaward of a municipality, and the availability of that money for appropriation to certain boroughs and municipalities outside of a borough."

[9:36:18 AM](#)

REPRESENTATIVE FOSTER, speaking as the sponsor of HB 181, thanked the committee for visiting Nome. The visit, he remarked, is an opportunity to see rural Alaska, the Nome port and inner harbor, and the strategic location of Nome as it's the gateway to the Arctic.

[9:37:49 AM](#)

PAUL LABOLLE, Staff, Representative Foster, Alaska State Legislature, speaking on behalf of Representative Foster, sponsor, explained that HB 181 redistributes the minerals mining tax and offshore lease sales on mineral mining. The current version of HB 181 is targeted as it only applies to offshore lease sales located within municipal boundaries. Nome, he highlighted, is somewhat of a special case since the city property corners stretch out approximately 1.2 miles into the sea. The distribution method for the revenue stream from the lease sale and mineral mining tax would be split in half as is currently the case. Therefore, half of the revenue would be deposited into the permanent fund and half into the general fund (GF). Of the half deposited into the GF, half would be split again and separately accounted for such that the funds would still be in the GF but be part of a separate account that could be a revenue stream to share with affected communities upon request of the commissioner.

[9:39:25 AM](#)

REPRESENTATIVE FOSTER noted that the committee packet includes maps depicting the municipal boundaries in the ocean and the lease sale tracts, some of which are overlapping. He noted that state lease sales have resulted in an increase in traffic [in the area].

[9:40:10 AM](#)

CO-CHAIR NAGEAK opened the public hearing for HB 181.

[9:40:25 AM](#)

DENISE MICHELS, Mayor, City of Nome, thanked the committee for visiting Nome as it provides members a better understanding of the situation. She then related that the City of Nome supports HB 181. Mayor Michels then informed the committee that [this year] the City of Nome has faced an increase in staffing that cost about \$60,000 and the growth of the Nome port facilities

has cost approximately \$302,000 to support the gold dredging fleet. She thanked Commissioner Sullivan for providing a part-time seasonal position for the Department of Natural Resources (DNR) in Nome to help with permitting application issues and other issues the dredges might have in the water. The proposed revenue sharing would allow the City of Nome the additional resources necessary to construct the infrastructure to support the dredging industry. More floats, another barge ramp, and transient housing are necessary. Mayor Michels provided the committee with a PowerPoint presentation that includes the data. She then highlighted that Nome city staff has had to deal with oil spills as there is no Department of Environmental Conservation (DEC) staff in the community. In fact, last year the city had to ship out four totes of contaminated absorbent pad as well as other materials used in the burners. Therefore, additional support from DEC, particularly for enforcement, would be greatly appreciated, she relayed.

[9:42:57 AM](#)

MAYOR MICHELS, in response to Co-Chair LeDoux, clarified that there is no DEC staff in Nome to address oil spills. For the summer, a lot of petroleum, hydraulics, and fuel are used to power the dredging industry and sometimes there are spills in the inner harbor. Currently, Nome harbor staff addresses these issues, although last year DEC staff came to Nome twice to perform water quality and turbidity samples.

[9:44:01 AM](#)

JOY BAKER, Harbormaster, City of Nome, informed the committee that there have been numerous reports of offshore spills, which typically are unnoticed because the currents move them down the coast. Therefore, it's difficult to determine the source of such offshore spills. The harbor staff does try to respond to everything that occurs in the harbor and reports are always filed with the National Response Center (NRC), which sends a report immediately to DEC and the U.S. Coast Guard. If the spill is large enough, they come to town otherwise they follow-up, identify the responsible party if possible, and report to that person to work on the problem. Ms. Baker characterized it as an ongoing and growing problem because of the fast growth of the fleet in a short time. She said that a full-time position could be hired to just deal with the aforementioned. In response to Co-Chair Nageak, Ms. Baker confirmed that all the cost is absorbed by the city.

[9:45:28 AM](#)

REPRESENTATIVE REINBOLD, recalling a discussion she had with a dredger, related her understanding that there is "green" hydraulic fluid that's much safer for the environment.

MS. BAKER confirmed that some dredgers are using the "green" hydraulic fluid. Frequently, fuel is spilled.

MAYOR MICHELS then informed the committee that last year 74 permits were approved while this year 204 permits were approved. The growth, she noted, is related to the price of gold.

[9:46:28 AM](#)

REPRESENTATIVE DRUMMOND inquired as to whether the reports filed with NRC are filed by the harbor staff.

MS. BAKER answered that typically that's the case. However, periodically the larger operators will call the U.S. Coast Guard. If the harbor staff discovers that a report has not been filed, it will do so.

[9:47:12 AM](#)

REPRESENTATIVE HERRON inquired as to Commissioner Hartig's response to the need for department staff in Nome.

MS. BAKER answered that for enforcement one has to have the training and the background required for oil spill containment and reporting. Commissioner Hartig is aware of the issue and with his limited staff he has provided DEC staff visits to Nome a couple of times in the summer.

REPRESENTATIVE HERRON suggested the committee write a letter to the DEC Finance subcommittee chair encouraging a reallocation of the resources within the state such that this emerging industry becomes a priority for the state.

[9:49:07 AM](#)

REPRESENTATIVE HERRON asked whether the City of Nome is impacted by other state [mining] leases in the area.

MAYOR MICHELS acknowledged that there is mining activity on land in Nome, but it's regulated differently than ocean leases for

mining. In further response to Representative Herron, Mayor Michels said the [city] wants to support the [mining] industry.

[9:50:43 AM](#)

BILL JEFFRESS, SRK Consulting (U.S.) Inc., Alaska Miners Association, disclosed to the committee that he is chairman of the Alaska Minerals Commission and also represents a number of the offshore and onshore mining companies in Alaska that are doing exploration mining or development work in the Seward Peninsula area. Mr. Jeffress related support for the concept of revenue sharing. The Alaska Minerals Commission report, he highlighted, cited an improved tax climate for mineral investment and resource revenue sharing as the number one item. Although the association supports the mayor's efforts, the effort needs to be much broader, he opined. Nome as well as other communities is impacted by increases in exploration and mining activities. Several of those impacted communities are municipalities that aren't within boroughs and thus there is no mechanism for additional taxation. The plane rentals, lease payments, royalties, and mining license tax could be distributed much like the fisheries tax. The fisheries tax implemented by the Department of Revenue (DOR) provides for an annual sharing of the fish tax collected outside the municipal boundaries to municipalities that can demonstrate they suffer significant effects from fishing industry activities. Mr. Jeffress said the association would be willing to work with the committee to draft additional language that would broaden the legislation so that other communities impacted by mining could share in the revenue that's generated from the mining industry either through the mining license tax or plane rentals and other royalties.

[9:54:00 AM](#)

REPRESENTATIVE HERRON suggested the committee request Legislative Legal Services draft such an amendment for unincorporated areas of the state.

CO-CHAIR NAGEAK agreed to do so.

[9:54:36 AM](#)

CO-CHAIR LEDOUX related her understanding that HB 181 only relates to royalties for mining on tide and submerged lands. Therefore, she inquired as to how the legislation addresses mining not in tide and submerged lands.

MR. JEFFRESS answered that HB 181 doesn't include any provisions for upland mining leases, mill site leases, or any of the mechanisms the state has including annual plane rental fees that would go to municipalities of unincorporated areas. Under the current narrow language of HB 181, Nome is the only city that would qualify.

[9:55:39 AM](#)

CO-CHAIR LEDOUX asked whether there is any provision in statute that would provide a community impacted by mining activities part of the revenue the state receives.

MR. JEFFRESS replied no, other than what the legislature appropriates through general revenue sharing.

REPRESENTATIVE DRUMMOND reminded the committee that the legislature acts on behalf of the unincorporated parts of the state as their city council/municipal assembly. Therefore, she opined it's the legislature's responsibility to step in when communities aren't located within incorporated boroughs or municipalities.

[9:56:40 AM](#)

MR. JEFFRESS added that the Alaska Miners Commission and the mining community feel that [HB 181] is a fair and equitable way to address some of the impacts. He pointed out that there are always issues with local municipalities that don't have additional revenue to implement something along the lines of a severance tax. The Alaska Miners Commission and the mining industry, he related, are concerned that additional taxes kill investment in Alaska. He opined that passing legislation to enable the potential revenue streams is all that's necessary.

[9:57:58 AM](#)

MR. LABOLLE informed the committee that the sponsor is working with Senator Olson's office to try to mirror the fish tax. However, there are some issues that Legislative Legal Service is struggling to make work. With the fish tax there is an automatic distribution of funds, whereas under HB 181 the funds are deposited into the state coffers and are subject to appropriation by the legislature. Ideally, the desire is to have true revenue sharing such that the funds are distributed when initially received. He reminded the committee that the creation of dedicated funds is prohibited. Regarding other

municipal options, Mr. LaBolle said that normally one can look at a severance tax or property tax when the activity is within municipal borders. However, there is no way to collect property tax on [operations] in state waters, although the property corners in this case are at sea.

[9:59:56 AM](#)

CO-CHAIR LEDOUX related that she owned a piece of property in Kodiak that was once land, but became submerged land after the 1964 earthquake. The Kodiak Island Borough still collects property tax on the submerged land.

REPRESENTATIVE DRUMMOND commented that it sounds like an annexation would be necessary, but that would be difficult to do after the fact.

CO-CHAIR NAGEAK interjected that the Local Boundary Commission (LBC) should address that.

MAYOR MICHELS, in response, stated that it's state land.

REPRESENTATIVE DRUMMOND reiterated that the legislature is responsible for the unincorporated communities.

CO-CHAIR LEDOUX surmised then that the problem is there is state land within municipal boundaries; there wouldn't be a problem taxing municipal land within municipal boundaries.

[10:02:08 AM](#)

REPRESENTATIVE HERRON, regarding having something similar to the fisheries tax, suggested implementing an impact tax.

[10:02:53 AM](#)

NANCY MCGUIRE told the committee that as a citizen of Nome she is concerned with the impacts of the [increased mining] to the City of Nome. For instance, there are impacts to the police department and the use of the Kids Don't Float Life Preservers used by dredgers. Therefore, it would be nice for the City of Nome to receive a share of the lease sales, which doesn't total much. Other impacts, she highlighted, include that the food bank is empty at the end of the mining season. Ms. McGuire then remarked that it would've been nice to have more public notice of this meeting so that more of the public could've been present.

[10:05:10 AM](#)

CHUCK WHEELER pointed out that the 2011 lease sale provided \$96 million to the state and provided leaseholders interest in the minerals in the submerged lands. The legislation, HB 181, before the committee is difficult to deal with because the property [submerged lands] can't be taxed and it's designed to address impacts to the port. However, the trend of port activity is that the trawlers will replace the smaller dredgers. Furthermore, more dredgers are moving upland seeking properties to mine for gold. Mr. Wheeler highlighted that most of the money from the dredges doesn't stay in Nome as it goes South with them. He then said it's unfortunate that the dredgers and mining industry aren't present to testify.

[10:08:37 AM](#)

REPRESENTATIVE HERRON asked whether the number of permits should be limited.

MR. WHEELER noted that DNR is likely changing regulations because it hasn't addressed the large-scale offshore dredgers but rather have primarily addressed the recreational dredgers. However, the 2011 leases don't reflect anything related to the recreational dredgers, which are the ones impacting the harbor. He noted that DNR has the statistics which relate that although there were 100 applications, 40-50 are actively dredging.

[10:10:25 AM](#)

REPRESENTATIVE DRUMMOND expressed concern with regard to the lack of public notice of this meeting. She then inquired as to how Mr. Wheeler knew of the meeting.

MR. WHEELER answered that as a retired resident, he follows [legislative] activity. He, too, expressed concern with the lack of notice.

REPRESENTATIVE DRUMMOND agreed that when a legislative committee travels to the City of Nome the public, not just insiders, should know it is present.

[10:11:11 AM](#)

MAYOR MICHELS informed the committee that the meeting was advertised on the radio. She further informed the committee

that the City of Nome asked DNR, with which it has a good working relationship, to limit its acceptance of permits, which resulted in a deadline of May 31st. Still, there is no limit to the number of dredgers one permit can have on the lease.

[10:12:15 AM](#)

REPRESENTATIVE HERRON requested that the co-chairs request from the mayor and the commissioner that staff be present at the fall meeting and that the committee has a hearing on this issue in January 2014.

CO-CHAIR NAGEAK directed staff to do so.

[10:13:11 AM](#)

CO-CHAIR NAGEAK, upon determining no one else wished to testify, closed public testimony.

HB 166-BULK FUEL REVOLVING LOAN FUND

[10:13:21 AM](#)

CO-CHAIR NAGEAK announced that the final order of business would be HOUSE BILL NO. 166, "An Act relating to the bulk fuel revolving loan fund."

[10:13:31 AM](#)

REPRESENTATIVE FOSTER, speaking as the sponsor of HB 166, began by informing the committee that Nome receives its fuel via the barge, which substantially adds to its energy costs. Currently, the bulk fuel revolving loan fund covers communities with a population of 2,000 or less. The legislation recognizes there are hub communities [with a population larger than 2,000] not on the road system that receive their fuel via the barge as well. Therefore, HB 166 proposes to expand the bulk fuel revolving loan fund to serve more communities.

[10:14:56 AM](#)

PAUL LABOLLE, Staff, Representative Foster, Alaska State Legislature, explained that small isolated communities located off the road system that are frozen in most of the year have to order fuel in the fall and have enough on hand for the entire winter. The aforementioned is a large capital outlay for small communities. Therefore, the bulk fuel revolving loan fund

offers reasonable interest and time to pay the cost. He noted that in many cases these small communities are unable to even get a loan of the amount necessary from a bank. Furthermore, it's not uncommon for them to incorrectly estimate how much fuel they will need for the winter. For instance, Teller frequently runs out of fuel and Nome has to provide the fuel. Therefore, the ability for the hub communities to have excess fuel is helpful to the smaller communities. However, the current population limits in statute don't allow hub communities to participate in the bulk fuel revolving loan fund. The legislation before the committee proposes to change that. Although on page 2, line 5, the 2,000 population limit is maintained, language is added such that communities located off the interconnected state road system with a population of 4,000 can qualify for the bulk fuel revolving loan fund. The legislation also changes the top end loan amount from \$750,000 to \$1,500,000 in order to mirror the increased population [of the hub communities]. Echoing his comments at a prior hearing, Mr. LaBolle emphasized that the population threshold of 4,000 was simply a starting point. He then pointed out that the committee packet includes a list of communities, noting the communities that would be included and those that would not. The communities highlighted in green are included because of population, but may not qualify for the bulk fuel revolving loan fund if they are located on the state road system. Furthermore, highlighted green communities such as Cordova would qualify for the fund, but don't have the need for shipping the fuel all at once since they have an open port year-round. Mr. LaBolle pointed out that Barrow doesn't qualify because its population is over 4,000. Bethel isn't on the list at all because the list is of communities with a population under 5,000. He suggested that the committee may want to consider what population and loan amounts to target. Mr. LaBolle then reminded the committee of the department's testimony that since the bulk fuel revolving loan fund is a pre-capitalized fund, it doesn't go through the appropriation process. Therefore, it would be a first come first serve process such that new entrants would be involved in an existing fund and when the fund is all loaned no more entrants are included. The department suggested that the bulk fuel revolving loan fund be capitalized with approximately \$10 million to address the demand HB 166 would create.

[10:20:16 AM](#)

CO-CHAIR LEDOUX asked whether HB 166 would've addressed the situation with the [Russian tanker] Renda.

REPRESENTATIVE FOSTER related his understanding that issue is in litigation. The supplier says it was a force majeure situation in which a storm made [the tanker] unable to deliver, but the local fuel vendor disagrees. Either way, the situation isn't related to what this legislation would address. In further response to Co-Chair LeDoux, Representative Foster confirmed that money had nothing to do with the situation.

[10:21:17 AM](#)

REPRESENTATIVE DRUMMOND related her understanding that the department's presentation is a document entitled "Effects of HB 166 on Bulk Fuel Loan Account." She then related that she learned from Meera Kohler's presentation at the Pacific NorthWest Economic Region (PNWER) this week that the Alaska Village Electric Cooperative (AVEC) ensures that its participating communities have 14 months of fuel available to avoid running out. The AVEC communities, she noted, wouldn't necessarily be able to participate in the bulk fuel revolving loan fund. Representative Drummond agreed with earlier statements regarding the need to ensure all citizens are kept safe in terms of access to fuel, regardless of the population size.

MR. LABOLLE explained that the change to \$1.5 million in the legislation is the result of taking an existing program and scaling up to a larger population. He stressed that it's possible that the numbers aren't where they should be in which case the numbers should be decoupled if the desire is to ensure that communities have 14 months of fuel available.

REPRESENTATIVE DRUMMOND suggested that it's a matter of communication with Ms. Kohler regarding how AVEC came to its number and ensures that 14 months of fuel is in its communities prior to the end of the barge season.

MR. LABOLLE added that currently AVEC doesn't use the existing bulk fuel revolving loan fund program, although it does qualify for it.

[10:24:10 AM](#)

REPRESENTATIVE HERRON commented that AVEC doesn't need the program rather the "mom and pop" communities need the program. He then inquired as to the price of fuel when the current loan threshold of \$750,000 was established. He suggested that the [loan thresholds] should be based on the current price of oil.

MR. LABOLLE informed the committee that the existing \$750,000 loan threshold was established in the oil hike of 2008 and prices are essentially the same now. In 2008 heating fuel was set at \$6.05 per gallon and as of March 2012 it was \$5.83 per gallon. The price of gasoline in 2008 was \$5.36 per gallon and now it's \$6.11 per gallon.

[10:25:23 AM](#)

REPRESENTATIVE FOSTER informed the committee that in Nome today diesel is \$6.39 per gallon.

MR. LABOLLE, in response to Representative Foster, further explained that there have been numerous increases to the cap of this the program. For instance, in 2002 the cap was increased to \$200,000 and in 2003 it was increased to \$300,000 and in 2006 it was increased to \$400,000. In 2008 the program cap was increased twice to \$500,000 during the regular session and then to \$750,000 during the special session in Senate Bill 4002.

[10:26:38 AM](#)

CO-CHAIR LEDOUX suggested that perhaps an automatic adjustable arm tied to the price of fuel should be included in the legislation, which would alleviate the need to have legislation to address it.

MR. LABOLLE explained that the state does that to a certain extent in the operating budget with the fuel trigger for departments. Through the fuel trigger when the price of oil is over a certain amount, funds are automatically released. The aforementioned meets the needs of the departments while maintaining some budgetary control such that funds aren't over-appropriated when they aren't needed. A complicating factor in this situation is that since [the bulk fuel revolving loan fund] is a capitalized fund not an appropriation, there isn't a way in which to ensure there are sufficient funds within the capitalized fund to meet a potential drain in funds if there was a significant spike in price.

[10:28:15 AM](#)

REPRESENTATIVE FOSTER opined that although the increase in loan amount from \$750,000 to \$1.5 million is large, it's a small number in terms of the [cost of the fuel communities use]. For

example, the amount of fuel the small community of Unalakleet uses in a year far exceeds \$1.5 million, he suggested.

10:29:06 AM

CO-CHAIR NAGEAK opened public testimony.

10:29:42 AM

JOHN HANDELAND, General Manager, Nome Joint Utility System, City of Nome, informed the committee that for Nome the price difference in fuel as of June 1 and today is \$.31. For the order of 2.4 million gallons on the way to Nome that amounts to a \$749,520 increase.

10:31:32 AM

MR. HANDELAND, in response to Co-Chair LeDoux, stated that the City of Nome purchases on an annual basis 2.4 million gallons of fuel for the operation of its power utility and the heating of its school district. The Nome City Council directed that the fuel for the school district should be purchased with the annual fuel purchase for the utility as it can result in a more favorable rate. The school district contracts with a local company to have the fuel brought to its facilities. The aforementioned significantly reduces the cost of school operations as well as the contribution the city makes directly, he highlighted. Fuel can arrive in Nome once the port is ice free, which can occur as early as the end of May. This year, however, the port wasn't ice free until June 10. Some years, he noted, fuel has been able to be delivered as late as the middle of October. He lauded the valiant efforts of the U.S. Coast Guard last year in assisting the Renda to Nome for a fuel delivery in January. In response directly to Co-Chair LeDoux regarding the purchase of fuel, Mr. Handeland explained that the City of Nome contracts the purchase of fuel in January for delivery during a delivery window. The contract includes a known component for the transportation, which includes some profit for the vendor. However, the price of the fuel is unknown until delivery. The City of Nome uses a 30-day average for the price of fuel in the month in which it's lifted. The upcoming fuel will be lifted around August 2nd and thus the fuel price will be based upon an average of the price of fuel in August. Presently, the purchase price is estimated to be \$8.5 million, although based on the June 1 price and the price Friday the estimate will increase to about \$9.3 million.

10:36:01 AM

REPRESENTATIVE DRUMMOND inquired as to the definition of "lifted."

MR. HANDELAND answered that "lifted" refers to the date on which the hose is connected to the header [on the barge at the departure point]. Usually, it takes 10 days from the time the fuel is lifted to its arrival in Nome because of other stops along the way. Nome Utilities is part of the Western Alaska Fuel Group, which is a group of communities that band together to receive volume discounts in the purchase of bulk fuel. The Norton Sound Economic Development Corporation (NSEDC) has a program through which it attempts to assist communities with fuel purchases. The assistance from NSEDC isn't limited to a utility or city but rather can include a store, a church, or other entity that has a large volume fuel purchase. Mr. Handeland highlighted that Nome has had a great relationship with Wells Fargo Bank over the last 25 years; money hasn't been the problem, but Nome is looking for ways to cut costs where it can in order to avoid utility rate increases. He informed the committee that Nome pays a rate of 5 percent on its fuel currently. If Nome were able to participate in the [bulk fuel revolving loan] program, it appears Nome could have a rate of 3 percent.

10:39:30 AM

MR. HANDELAND, speaking specifically to HB 166, suggested that there would have to be significant adjustments made to HB 166 in order for Nome to participate. The placeholder numbers in HB 166 are a good start as they would likely address many of the smaller communities, but Nome is considering \$8-\$10 million in purchases. Since the fund only has \$20 million if no one else borrows from it, there wouldn't be room for Nome, he pointed out.

10:40:38 AM

MR. HANDELAND highlighted the city's suggestions to increase the cap and adjust the repayment as mentioned by AVEC, which has a 14-month supply of fuel on hand. Since it's unknown when the ocean will be [free of ice], the desire would be to have more than a year's worth of fuel available. With regard to the reference that loans must be payable in nine equal monthly payments, the City of Nome makes payments on cargo over the course of 12-16 monthly payments, depending upon the quantity.

He explained that they're attempting to match the [city's] revenue stream to the actual fuel cost. Therefore, he suggested that the repayment period language on page 1, line 11, of HB 166 be adjusted.

MR. HANDELAND then turned his comments to energy costs generally. As has been mentioned communities in rural Alaska are locked into a season when they can receive fuel as they don't have the opportunity to avail themselves of the fluctuation in the market. At one point there was discussion of the option of purchasing fuel in advance and storing it at Adak, but that results in double shipping costs and there continue to be storage and financing costs as well as costs related to the oil spill pollution requirement. Therefore, that option includes additional costs. He informed the committee that the City of Nome has considered purchasing futures in order to have the opportunity to hedge market fluctuations. However, that proposal initially ran into a snag with the power cost equalization (PCE) program because with futures sometimes one wins and sometimes one loses. Furthermore, the hedging costs when the futures were higher were considered ineligible. Mr. Handeland suggested addressing this issue on a statewide basis by having economists in the permanent fund determining how to reduce fuel costs such that communities have some certainty in terms of fuel costs.

[10:46:54 AM](#)

REPRESENTATIVE FOSTER characterized Mr. Handeland's suggestion as a great idea. Although Representative Foster acknowledged that the futures market is volatile, he pointed out that over the course of a year it's the same in terms of communities being unable to purchase [when the fuel is cheaper].

[10:47:37 AM](#)

CO-CHAIR NAGEAK suggested opening the rest of Alaska to what the rest of the state enjoys whether it is by a rail system or road system that at least reaches the regional centers. Such action would open markets for rare earth minerals and other things that would drive up the economy of the state, help the communities in those regions, and reduce costs for the communities in the regions.

MR. HANDELAND remarked that the City of Nome appreciates Co-Chair Nageak's efforts.

10:50:49 AM

CO-CHAIR NAGEAK, upon determining no one else wished to testify, closed public testimony.

10:51:27 AM

MR. LABOLLE pointed out that one of the benefits of including larger entrants in the bulk fuel revolving loan program is that they are more reliable. He explained that the more people paying the fund on time, the better off the fund is in general.

10:53:02 AM

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 10:53 a.m.