

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

January 27, 2014
8:02 a.m.

MEMBERS PRESENT

Representative Doug Isaacson, Co-Chair
Representative Neal Foster
Representative Pete Higgins
Representative Shelley Hughes
Representative Benjamin Nageak
Representative Andy Josephson

MEMBERS ABSENT

Representative Charisse Millett, Co-Chair

COMMITTEE CALENDAR

PRESENTATION(S): INSTITUTE OF THE NORTH

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

NILS ANDREASSEN, Executive Director
Institute of the North
Anchorage, Alaska

POSITION STATEMENT: Presented a review of "2013 Energy Projects" sponsored by Institute of the North.

ACTION NARRATIVE

[8:02:40 AM](#)

CO-CHAIR DOUG ISAACSON called the House Special Committee on Energy meeting to order at 8:02 a.m. Representatives Hughes, Nageak, Josephson, Higgins, and Isaacson were present at the call to order. Representative Foster arrived as the meeting was in progress.

PRESENTATION(S): INSTITUTE OF THE NORTH

8:03:41 AM

CO-CHAIR ISAACSON announced that the only order of business would be a presentation by Nils Andreassen, Executive Director, Institute of the North, entitled, "Review of 2013 Energy Projects." Prior to the presentation, Co-Chair Isaacson provided the committee with a memorandum dated 1/27/14, in which he discussed the focus of the energy committee. Co-Chair Isaacson explained that there are many interesting opportunities related to the subject of energy, and his hope is that the energy committee would focus its attention on the impediments to bringing the lowest delivered [energy] cost to Alaskans in every region, and stressed that energy must be cheap enough to attract private investment, bring new jobs, and stabilize communities. He directed attention to two tables in the memorandum which listed six separate and overlapping functions within consumer energy and thirteen state agencies involved in the energy sector. In addition, hundreds of service providers and organizations are involved in the energy field. Co-Chair Isaacson cautioned that focus requires saying no to a lot of interesting opportunities. He said, "I'm hoping that - as you have expressed it to us - that we concentrate on moving forward the issues that will bring the lowest delivered cost to every region of Alaska, and get our economy going." Finally, he noted that he participated in both the 2013 Arctic Energy Summit held in Iceland and the Alaska Dialogue held in Seward.

8:07:25 AM

NILS ANDREASSEN, Executive Director, Institute of the North (the Institute), informed the committee the Institute is "Alaska's Arctic Think-And-Do Tank" and that he would review two recent events sponsored by the Institute, the Alaska Dialogue and the Arctic Energy Summit. The mission of the Institute is: To inform public policy and cultivate an engaged citizenry, consistent with our focus on the North and belief that commonly-owned resources should be managed and developed for community and individual prosperity. He stressed the importance of Alaska's domestic energy production, generation, transmission, and use. Further, the Institute values the Arctic as a commons with the management of its resources for the benefit of people - which is consistent with the state's constitution - and focuses on responsible energy and infrastructure development in order to facilitate sustainable communities. In fact, the goal of energy and infrastructure development is [to foster] healthy, prosperous, and resilient people, and to elevate the voices of

northern peoples between local communities, state agencies, and national and international entities. The Institute convenes and facilitates civic discourse by bringing people together, and through this engagement and active participation informs public policy through outreach and education. He opined that the work of the Institute results in a meaningful product and tangible recommendations of findings, and sustains a broad network of stakeholders within the state and around the Arctic. The process also gathers research for broader awareness and accessibility. Mr. Andreassen said the theme of the Arctic Energy Summit was richness, responsibility, and resilience. The theme of the Alaska Dialogue was how the state can make effective investment decisions regarding energy development. At the energy summit, participants were encouraged to think of three levels of government - national, indigenous, and sub-national - because in each of the eight Arctic nations, these three levels of government have an integral role in developing energy projects and fostering sustainable communities.

[8:12:06 AM](#)

REPRESENTATIVE HUGHES asked for the source of the Institute's funding.

MR. ANDREASSEN answered that the Institute was founded by former Governor Wally Hickel almost twenty years ago, and is governed by an active board of directors and Chair Drew Pearce. The statewide board of fifteen members meets regularly to set the agenda and goals. Funding sources are diverse, from fees and corporate sponsorships collected for events, to grants, past state support, and federal contracts for projects. Returning to his presentation on the topic of governance, attendees at the energy summit were encouraged to think "beyond stakeholders to rights holders" as local communities, tribes, states, and nations have rights as well as responsibilities when energy resources are developed. Stakeholders may have an interest in an issue affecting energy, but others have specific rights and responsibilities. Also covered at the summit were the three themes of responsibility, richness, and resilience, which act to provide cohesion around the topics addressed that ranged from the project development of tidal, wind, and diesel, to policy discussions about government subsidies influencing infrastructure development. He assured the committee that all eight Arctic nations recognize that energy development is not risk free; however, there is a common commitment to risk mitigation in that northern peoples are concerned, but capable. Much of the risk mitigation is based on having the necessary

response abilities that are provided by having infrastructure in place for response operations. Finally, northern peoples recognize their responsibility to community, culture, and the environment.

8:16:35 AM

REPRESENTATIVE NAGEAK suggested that traditional knowledge should be one of the aspects of risk mitigation. He then inquired as to the indicators under discussion.

MR. ANDREASSEN agreed that risk mitigation should employ Western science and local and traditional knowledge. In fact, everyone is needed to ensure a safe environment. The development of indicators may be a subject for the next summit; indicators are ways healthy communities, strong culture, and a safe and healthy environment can be measured. Nations are working to measure their progress in meeting their responsibilities in those areas. He continued to explain that almost all Arctic nations are endowed with similar rich resources, and attendees at the energy summit looked at richness supplied from three sources, renewables, non-renewables, and efficiency and conservation. At the same time, nations have rich environments and social and cultural structures.

REPRESENTATIVE NAGEAK asked whether conservation and efficiency includes retrofitting existing structures and existing power plants.

8:19:13 AM

MR. ANDREASSEN said yes, along with more efficient public and private buildings, demand management, and reductions in the use of energy through engineering solutions.

8:19:56 AM

CO-CHAIR ISAACSON pointed out the issues were defined at both of the events with a consensus approach by many participants. He noted that the information presented is more of a summary from the events than something [determined by] the Institute.

MR. ANDREASSEN agreed. He described the process in Iceland that involved two hundred people from eight countries and resulted in key issues brought forward by the participants at the end of the session. In fact, one of the topics that emerged from the energy summit was that there is wealth, and that richness plus

responsibility equals resilience. Resilience is the ability to respond and adapt to change, and the capacity of a system to "bounce back." Thus, if a system is responsible in resource development to peoples and communities, all those affected are more able to adapt to change. Resilience is also asset-dependent, but is impacted by the scale and the rate of change, and is time-sensitive, in that waiting to be responsible weakens resilience. Mr. Andreassen stressed that resilient communities depend on resilient energy systems. He described a resilient energy system as one that takes advantage of renewables, non-renewables, and efficiency and conservation methods. In Alaska, there are fundamental challenges facing the state such as declining oil production, decreased state revenue, high energy costs, and significant fiscal hurdles into the next decade. Therefore, looking at systems in Iceland and other northern partners is to search for best practices, and to look at new and innovative policies that have derived maximum benefit from resources for residents. For example, in Norway the nation has taken an equity interest in project development to support its export of non-renewable oil and gas; renewable energy is retained for domestic use. Similarly, Iceland owns the infrastructure needed for the transmission of energy around the country, providing affordable energy to its residents and low-cost power to attract large industry and speed its recovery from an economic "meltdown."

[8:26:15 AM](#)

CO-CHAIR ISAACSON noted that Iceland priced energy for industry at approximately 2-4 cents and at approximately 8-10 cents for residents. He asked Mr. Andreassen to elaborate.

MR. ANDREASSEN opined that Iceland's focus is to attract industry, and its competitive advantage is having low-cost energy. Energy-intensive industries from China, Brazil, and other countries have built manufacturing plants in Iceland based on affordable energy; in fact, it is cost effective to smelt aluminum in Iceland with raw materials barged from Brazil. Because Iceland has attracted these anchor tenants, local regions have reversed unemployment trends and nearby communities have benefited. Utilizing a 10-year plan, local economies are improving region by region.

[8:28:41 AM](#)

CO-CHAIR ISAACSON reiterated two points: 1. this was a decades-long process that garnered broad support; 2. instead of shipping

resources overseas for manufacturing, raw materials were imported for refining and value-added manufacturing. He pointed out that raw materials for processing were shipped to Iceland from the opposite end of the globe; this scenario can be seen as a model for Alaska.

MR. ANDREASSEN acknowledged that Iceland is well-located near the European market, but most important was its ability to deliver low-cost energy. He displayed slide 9 entitled, "Energy Costs Vary" from a PowerPoint presentation entitled "Review of 2013 Energy Projects." The slide showed various electricity prices and heating costs in Alaska. Slide 10 entitled, "High Energy Costs," compared average energy costs in Alaska with those of the Lower 48, and he concluded that Alaska cannot compete. However, Mr. Andreassen suggested that this situation can be turned around by thinking of low-cost energy as a part of Alaska's competitiveness equation, and setting new goals for actually changing things. The challenge is to plan right now because in the next 10 years, Alaska will possibly face a fiscal crisis and will operate in a new era of fiscal constraint; therefore, there will be a decreasing ability to address the huge need for energy infrastructure and development. He turned to outcomes from the Alaska Dialogue event, where the Institute brought seventy-five leaders from around the state to Seward for three days. At the event, attendees looked at challenges facing the state and at successful case studies of policy development in the state and around the world. Challenges were divided by production, generation, distribution, and utilization. Production entailed getting a resource from the ground or air; generation was the power; distribution was bringing the power from generation to the consumer; utilization was the use of the power by the consumer. Production challenges were identified such as access, permitting, market conditions, infrastructure deficits, and regional differences were identified, as were common themes such as balkanized systems, lack of capacity, regulatory uncertainty, and the need for affordable power. Mr. Andreassen acknowledged that insufficient time was spent on solutions, but some solutions offered were more integrated operations and management, micro-grids, and partnering with extractive industries for rural energy solutions. Generation challenges included security of supply, cost of systems that need innovation and regional planning, and economies of scale.

[8:35:42 AM](#)

REPRESENTATIVE NAGEAK referred back to production challenges and asked about the cost of the solutions offered. The problem of

high costs always arises in discussions about [solutions for] some areas of the state. He recalled that oil from existing fields in Prudhoe Bay is refined on a small scale to produce fuel for local vehicles, and it is also sold to local villages and delivered in the winter by Rolligons. Other fields in rural areas have oil and gas, but it is not produced because there is no transportation to other markets. He asked whether other rural fields on Native land can be subsidized to produce oil and [refine] gas as is done in Prudhoe Bay.

[8:38:11 AM](#)

CO-CHAIR ISAACSON said Representative Nageak's question is relevant to the Interior Energy Plan [Senate Bill 23 passed in the First Session of the Twenty-Eighth Legislature] because the Alaska Industrial Development and Export Authority (AIDEA) has approved MWH Americas, Inc. to build a liquefaction plant so that liquefied natural gas (LNG) can be moved off of the North Slope. He opined if LNG can be transported to Fairbanks it can also be made available to Native communities.

[8:38:30 AM](#)

REPRESENTATIVE NAGEAK stressed he was referring to the need in rural Alaska for diesel fuel and automotive gas. He said it is 150 miles to where he lives but by the time oil travels the Trans-Alaska Pipeline System [TAPS], is shipped out, and comes back refined, the cost is very high. He asked, "Why can't we work with those landowners and the people ... to produce [on a small scale]." Representative Nageak suggested commissioning a study to determine the possibility of locally refining fuel for heating and transportation as is done in Prudhoe Bay.

MR. ANDREASSEN said Representative Nageak has presented a good example of anchor tenants who are able to create an economy of scale and leverage a resource on behalf of nearby communities. He encouraged the state - when planning for the future - to evaluate the opportunities for extractive industries where the state's return on investment could mean that industry could support greater economies of scale.

[8:41:17 AM](#)

REPRESENTATIVE HUGHES asked Mr. Andreassen to recommend specific actions the state can take to address the challenges discussed during his presentation.

8:42:16 AM

REPRESENTATIVE HIGGINS commented that most residents know that the state needs to invest and build infrastructure. In fact, many are tired of rhetoric and studies, but desire specific recommendations from the Institute to the governor on where to invest.

8:43:22 AM

CO-CHAIR ISAACSON opined that the intent of the presentation is to reveal the synergy within the state, including the Arctic, on how to prioritize the needed investments.

8:43:29 AM

REPRESENTATIVE NAGEAK added that working with federal and state agencies for permitting is a problem because of duplication. When projects are discussed, permitting always causes frustrating delays, more so in Alaska than in other parts of the nation.

8:44:30 AM

CO-CHAIR ISAACSON agreed and urged the committee to create the prioritization needed this session to guide the legislative process, perhaps with bill action or through a resolution.

MR. ANDREASSEN advised the committee to recognize that the challenges and solutions presented were garnered from "general brainstorming among the group in the room." He agreed with Representative Higgins that many challenges are already known and in some cases, solutions have been offered too. He returned the committee's focus "on how do we do that prioritization." Attendees at the Alaska Dialogue expressed support for regional planning, which is already in motion through the Alaska Energy Authority (AEA), and he urged that continued support for that planning process should be one of the priorities. Turning to the discussion on distribution/transmission, he related this topic has some of the same challenges as generation and production, and the key solution is to establish anchor tenants from the private sector through a public-private business partnership to create economies of scale within regions and communities. On the topic of utilization, he acknowledged that there is work underway in the state for energy efficiency, weatherization, and conservation efforts through AEA and others.

However, much work is left to do which is depending on leadership from the state to provide infrastructure.

[8:47:27 AM](#)

REPRESENTATIVE JOSEPHSON asked Mr. Andreassen to explain the purpose behind the "no renewable land use designation" and the meaning of the "STWD" acronym [both on slide 15].

MR. ANDREASSEN was unsure and will provide that information at a later date.

CO-CHAIR ISAACSON said STWD stands for statewide.

[8:48:25 AM](#)

REPRESENTATIVE NAGEAK expressed his interest in the same question, particularly in regard to land owned by the federal government. He related that some federal land existed "without our knowledge" and residents need to know their rights on federal land. He expressed his frustration that agencies are "usurping the power of the federal government ... and Congress on both sides, on both houses, when ... [agencies] can unilaterally set parameters on what you can and can't do on state or federal lands, when it is the purview of the legislative body to do those things"

[8:50:22 AM](#)

CO-CHAIR ISAACSON encouraged the committee to define the particular issues that the legislature can address in this session. He agreed with "the grand idea of it" but stressed the importance of giving legislators and the administration direction on how to move the process of getting affordable energy to residents.

[8:50:58 AM](#)

REPRESENTATIVE NAGEAK acknowledged that presenters who are experienced in these issues for many years have good ideas under the present system; unfortunately, most of the land [under discussion] is owned by the federal government and it is frustrating for the local residents when agencies - not the legislative bodies - place great restrictions on what can happen within the state. He advised it is [the Alaska State Legislature's] responsibility and within its power to put these agencies on notice through resolutions that problems within the

system of the federal government prevent the state from acting on these lands.

CO-CHAIR ISAACSON reminded the committee the Institute's presentation is a report that will help the committee focus on its task this session.

[8:52:32 AM](#)

REPRESENTATIVE HUGHES restated her interest in the solutions proposed by the presentation, so that the energy committee can increase its understanding and prioritize solutions that are appropriate for the state to advance.

[8:53:40 AM](#)

CO-CHAIR ISAACSON noted that utilization and transmission are topics that will be discussed by the Regulatory Commission of Alaska (RCA) on 1/31/14. He also requested that Mr. Andreassen present at a later date a more thorough view of the solutions suggested by the Institute.

MR. ANDREASSEN, in response to Representative Hughes, explained that the proposed solutions were not developed further at the Alaska Dialogue, but he can come back to the committee with appropriate speakers to advise on "the short list of the solutions that were suggested." Returning attention to the 2010 plan, state policy, and state strategy, he said four points came from the effort to establish a state energy policy. At that time, the state wished to: establish an energy policy; develop strategic goals; adopt a plan to achieve the goals; implement programs and projects consistent with the goals. Mr. Andreassen observed that the Institute and its attendees at the Alaska Dialogue believe only the first point has been accomplished. The current problem statement is: To what extent is Alaska achieving affordability, ensuring projects efficacy and stable funding for projects in the long-term, while practicing fiscal constraint? The state energy policy is AS 44.99.115 Declaration of state energy policy. The policy set very broad goals recognizing the importance of the issue, that outside factors affect the affordability of energy, and that the state is challenged by distance and geography. Another worthy goal set by the policy is obtaining an energy portfolio of 50 percent renewable energy.

[8:57:09 AM](#)

MR. ANDREASSEN opined the challenge ahead is to determine how to reach the goals of the policy. At the Alaska Dialogue, it was suggested that the policy be neither too complex nor too simple. In addition, eight case studies were analyzed for elements of policy, implementation, and programs/projects. On policy, case studies revealed that successful policies ensured certainty, empowered the market, allowed open access, and had clear vision and missions. On implementation, the studies revealed that infrastructure is crucial, building for industry first works, and a micro-grid infrastructure is equally important to deliver benefits to residents. In addition, there was most often a strong consensus about the process among the people affected, as there was in Iceland and in Canada. With this type of broad support, projects were found to move forward in a matter of months. Finally, analyses of successful programs/projects found them to be inclusive, had public and private involvement, were statewide, depended upon the right information, and held technical credibility. As a matter of fact, the projects reviewed were found to be catalysts and foundations for bigger efforts. Thus the Alaska Dialogue articulated seven desired qualities of policy and ten goals that the policy should achieve. Mr. Andreassen concluded that the foregoing strategy is a good direction for the state to pursue. In review, the energy policy should: be driven by vision and strategy; create and support regulatory clarity; have broad stakeholder buy-in; be able to be evaluated against measurable indicators; adapt and evolve based on results of evaluation; establish a loading order or prioritization method; include clear strategy or work plan for implementation. He urged the committee to reflect on the state's current energy policy and its achievements.

[9:02:40 AM](#)

MR. ANDREASSEN then provided a list of what the energy policy should achieve: economic development/growth/sustainability; stability and predictability; equity/fairness; innovation/entrepreneurism; affordability; stewardship; transparency and accountability. He advised the committee that a strategy and implementation plan is the next step to be taken. Further, the Alaska Dialogue attendees developed a short list of indicators for how to measure the impact of the policy, the most important being price, because affordability was a key indicator in Iceland and other places. Slide 27 displayed the equation for energy price: fuel plus capital and operation costs over demand. Demand is one aspect that is not talked about enough because demand is an important factor for anchor tenants and

economies of scale, along with how to structure projects that are consistent with the demand of a region or community.

9:04:43 AM

REPRESENTATIVE HUGHES asked whether the present energy policy is missing some of the desired elements.

MR. ANDREASSEN responded that great work and effort went into establishing the current policy; however, the Institute has heard that it is not effective and is not achieving its purpose. Slide 28 entitled "Key Takeaways," listed criteria met and not met by the current policy. He agreed that the policy is driven by vision and strategy, but further development on strategy and regulatory clarity is needed as evidenced by comments from the Alaska Dialogue. The existing policy has stakeholder buy-in, but is lacking in the ability to measure progress, evaluate success, and prioritize project development. Mr. Andreassen acknowledged that good economic development has come from the existing policy and it strives to achieve stability and predictability. Regarding equity, he said the AEA process has been used to fairly assess communities. There was good work done on the energy policy and instead of reevaluating the policy it is more important to develop a strategy and implementation plan to address the criteria still in question. He concluded that the current policy is aspirational and does not provide sufficient direction, with the exception of AEA, which does have a clear direction on how it should approach projects. In fact, AEA is communicating the work that it and other state agencies are doing. The remaining challenge is that the policy should be affecting every level of decision-making and not just one agency. For example, he questioned whether the state energy policy influences either decisions made by the executive branch, or legislative capital projects and spending. Mr. Andreassen said the existing policy lacks the following: criteria to decide and judge efficacy; a strategy to prioritize how to spend limited money in a way that produces results; a system to manage projects and expenditures to ensure the completion of the state's stated goals. Although there are many great ideas to solve the state's energy problems, there is no way to evaluate and choose from the solutions offered. He recommended adding legislative oversight [on energy issues] and completing an evaluation of assets and liabilities, and then closed by saying, "and I don't know that we need more studies, but we do need some work to determine the strategy and implementation aspect of this."

[9:11:18 AM](#)

CO-CHAIR ISAACSON noted that Mr. Andreassen will be in Juneau all next week.

[9:11:54 AM](#)

MR. ANDREASSEN offered to contact individual legislators to answer questions.

[9:12:21 AM](#)

REPRESENTATIVE FOSTER observed that the Institute is involved in Arctic issues such as the oil and gas reserves located there and future shipping through the Northwest Passage. He expressed his interest in more information on the role the Arctic will have in terms of bringing lower cost energy to Alaska, or how to utilize shipping through the Arctic to bring raw materials to Alaska for refining and for use by value-added industry.

[9:13:25 AM](#)

REPRESENTATIVE HIGGINS said, "... we've touched on a lot of subjects here ... and what can this committee do? And I'd rather like to see us do something, than just do rhetoric this whole session." He further urged for a resolution to get federal lands designated back to state land, in support of the [Roads to Resources Initiative proposed by Governor Parnell in 2011].

[9:14:25 AM](#)

REPRESENTATIVE NAGEAK returned discussion to the creation of industry on corporate land. Most Native corporations and corporate land are near residential areas; for instance, 25 miles from Barrow there is a known finding of oil and gas, but development is not feasible at this time because of the lack of transportation. He urged for the legislature to create an incentive so production can begin on corporate land, such as refining oil on a small scale to supply the villages on the coast of Alaska and along the river systems. Representative Nageak assured the committee this is possible, and within the twelve Native regional corporations there is interest to find a way to develop their resources to take care of the needs of local communities now.

[9:16:49 AM](#)

CO-CHAIR ISAACSON called attention to the [Alaska Royalty Oil and Gas Development Advisory Board, established in AS 38.06.020] and advised that the committee needs to be directive in terms of what this advisory board is supposed to do. He said the board does not meet frequently thus is pressed for time. Further, in order to determine and evaluate priorities, he recommended using the Fairbanks Metropolitan Area Transportation System (FMATS) - which has a technical and an executive side - as a model for a consumer energy commission to help the committee "get through the gridlock." This is a successful model built on a federal Metropolitan Planning Organization (MPO) model and is responsible for moving the gridlock of projects in the Interior.

[9:18:22 AM](#)

REPRESENTATIVE NAGEAK recommended that the energy committee become a standing committee so its actions would carry more weight.

[9:18:57 AM](#)

REPRESENTATIVE HUGHES said "... I'd rather try to do something and fail, than do nothing and succeed."

[9:20:46 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 9:20 a.m.