

SENATE FINANCE COMMITTEE
February 12, 2014
9:05 a.m.

[9:05:15 AM](#)

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Sean Skaling, Deputy Director, Alternative Energy and Energy Efficiency, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

SUMMARY

SB 119 BUDGET: CAPITAL

SB 119 was HEARD and HELD in committee for further consideration.

PRESENTATION by ALASKA ENERGY AUTHORITY: AEA RENEWABLE ENERGY GRANT PROGRAM

#sb119

SENATE BILL NO. 119

"An Act making appropriations, including capital appropriations and other appropriations; making appropriations to capitalize funds."

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^PRESENTATION by ALASKA ENERGY AUTHORITY: AEA RENEWABLE ENERGY GRANT PROGRAM

[9:07:00 AM](#)

SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced herself.

SEAN SKALING, DEPUTY DIRECTOR, ALTERNATIVE ENERGY AND ENERGY EFFICIENCY, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced himself.

Ms. Fisher-Goad remarked that there was a presentation from the previous legislative session, which was an overview of a variety of Alaska Energy Authority (AEA) issues, but did not include the Renewable Energy Fund programs. She explained that the Renewable Energy Fund program recently completed its seventh round. She stated that the Renewable Energy Fund program was a challenging program for AEA to manage, but was a great legislative initiative to provide funding to diversify the energy portfolio. She stated that there was a Renewable Energy Fund program advisory committee that consisted of public members and four legislators. She explained that the makeup of the board had recently changed after the board was extended for another ten years. She stated that the legislator representation on the board increased by two senators.

Senator Hoffman requested a brief synopsis of the funding history for the first seven years of the program. Ms. Fisher-Goad responded that the presentation would include that information. She announced that round 1 was a \$100 million appropriation; round 2 was \$25.013 million; round 3 was \$25 million; round 4 was a \$36.6 million, but included some prior projects, so only \$26 million was used; round 5 was \$25.8 million; and round 6 was \$25 million. She stated that the current governor's request for round 7 was for \$20 million.

Co-Chair Meyer surmised that the total funding for Renewable Energy Fund program was \$237 million. Ms. Fisher-Goad responded in the affirmative.

Co-Chair Meyer wondered if the goal of the fund was to have a total of \$250 million in the fund. Senator Hoffman responded that it was the guideline, but the governor had chosen to not fund it at that level.

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Co-Chair Meyer felt that if there was a reappropriation of the money, then AEA was not able to use the money for its intention. He wondered if that summation was accurate. Ms. Fisher-Goad responded that the first couple of rounds faced circumstances where a grantee may decide that the project should not be pursued. She pointed the committee to a document titled, "Renewable Energy Fund, Status Report and Round VII Recommendations" (copy on file). She stated that the report outlined, by region, the amount of money that was made available for a grant; the amount that was expended; and the amount that remained available.

Co-Chair Meyer wondered if the \$10 million appropriation only occurred once. Ms. Fisher-Goad replied in the affirmative.

Vice-Chair Fairclough looked at page 4, under Grants Unissued to Date, and she wondered if there was a math error. Mr. Skaling replied that he was aware of that error, and stated that the proper number of Grants Issued to Date was \$19 million and not \$29 million.

Mr. Skaling discussed the PowerPoint presentation; "Renewable Energy Fund, Status Report and Recommendations" (copy on file). He felt that the program was achieving its goals and helping Alaskans.

Mr. Skaling looked at slide 2, "Renewable Energy Grant Fund."

Diversifies Alaska's energy portfolio and supports State renewable goals

Displaces volatile-priced fossil fuels

Provides a vetting mechanism for energy projects

Capitalizes on local energy resources

Expands Alaska's renewable energy knowledge base

Provides local employment

Benefits businesses not eligible for PCE

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Mr. Skaling highlighted slide 3, "Grant and Funding Summary as of 02/06/14." He stated that the chart was an assessment of rounds 1 through 6; how many applications were received; how many of those applications were funded and their status; and the dollar amounts. He remarked that there were approximately 250 applications that had been funded. He remarked that the chart could also be found in the status report.

Mr. Skaling discussed slide 4, "Renewable Energy Fund Projects, Rounds I-VI." He explained that the slide displayed a map of all the projects across the state. He pointed out the diversity of the projects. The map represented projects that were both in reconnaissance and feasibility phases; and design and construction. He felt the slide showcased a good statewide balance of projects. He noted that Alaska had great renewable energy resources.

Mr. Skaling highlighted slide 5, "Renewable Energy Fund: Annual Fuel Savings." He explained that the chart referred to the 36 projects that were operational and saving fuel. The chart showed the fuel savings converted into millions of gallons of diesel saved. He remarked that the first few years of the program required work related to feasibility, design, construction, and operation. The chart required a year of data in order to make the determinations. He pointed out that there was a current savings of 12.4 billion gallons of diesel per year. He stressed that it was an exponential increase in savings.

Mr. Skaling discussed slide 6, "Renewable Energy Fund: Project Performance." He stated that the chart could also be found in the status report. The chart outlined the operational projects with the coordinating data project by project: how much heat it generated; how much electricity it generated; the equivalent fuel and diesel; and the

dollars equivalent. He explained that the blue section referred to electric-only projects and the green section was electric and heat projects. Both of those projects were considered "wind projects." The bottom section referred to heat-only projects.

Mr. Skaling displayed slide 7, "Renewable Energy Fund: Value Generated." He explained that the slide looked at the net present value capital costs and benefits of all of those 36 current projects.

For first 36 projects in operation

Fund Investment of \$82 million

Total NPV cost of \$290 million

NPV Benefits: \$840 million

Mr. Skaling looked at slide 8, "Appropriated Renewable Energy Fund Grants Rounds I - VI." He stated that the slide outlines all appropriations split up by region and resource type. He pointed out that hydro and wind take up most of the pie chart.

Mr. Skaling discussed slide 9, "Grant Completion Schedule."

Grants issued in phases to ensure quality projects

This year, completed construction grants will exceed completed feasibility grants

Large increases in completed construction

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Mr. Skaling highlighted slide 10, "Project Highlight: Pelican Hydro."

REF Funding: \$1.95 million

Total Cost: \$5.8 million

948,522 kWh/year

70,000 gallons of diesel saved

\$312,000 savings first year

Mr. Skaling looked at slide 11, "Pelican Hydro, Before, During and After." He explained that the top left photo was of the wood stave and blue tarp penstock before the project. The bottom left photo was an aerial view of the site during construction. The bottom right photo was the AEA project manager with the new surge tank.

Mr. Skaling discussed slide 12, "Community Highlight: Delta Junction."

Delta Junction School Biomass

Completed in September 2011

High-efficiency, low-emissions wood chip biomass heating system

Wood chips come from Dry Creek Saw Mill waste product

Funding \$2 million grant/\$2.8 million total

Simple Pay Back: 13 years for Renewable Energy funds, 19 years on total cost

Successes:

During the first winter, saved \$153,000 and 53,000 gallons in heating

Allowed the school to save 2 teacher positions, reopen music program and remodel the school kitchen

Potential to add additional facilities

Easy maintenance

Vice-Chair Fairclough wondered how much more cost remained for the completion of the projects that were currently in the queue. Mr. Skaling responded that he was not able to answer that question. He furthered that the costs were split up by feasibility and design. He stressed that not every proposed project will advance to actual development and construction. He stressed that it was difficult to

determine the overall cost, without the feasibility studies.

Co-Chair Meyer noted that the renewable energy projects in rural Alaska had reduced their electrical cost. He queried the impact of the renewable energy projects on the Power Cost Equalization (PCE) fund. Mr. Skaling responded that the projects provided significant savings to the PCE fund and the schools. He stressed that the communities and the benefits were also benefitting. He agreed to provide further information.

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Mr. Skaling discussed slide 14, "Renewable Energy Fund: Round VII."

Technical and economic analysis

Priority given to regions with high energy costs

Capital Budget request includes \$20 million

Can fund 26 projects: 17 heating and 9 electric or other projects

Advisory committee recommended partial funding for 2 large hydro projects to fund 5 additional heating projects and 1 regional priority

Requested fully fund hydro if additional funds available

Mr. Skaling highlighted slide 15, "Round VII Heat Applications." He stated that the map depicted the recommended proposed projects that were outlined in the status report.

Mr. Skaling discussed slide 16, "Round VII Standard Applications." He explained that the map pinpointed all of the recommended heat applications. He stated that the dark points with dark numbering were the projects that were in the top \$20 million. The other points were recommended, but were not in the top \$20 million.

Mr. Skaling looked at slide 17, "Renewable Energy Fund Round VII: Recommended Heat Applications." He stated that the graphs referred to the standard electric projects.

Mr. Skaling displayed slide 18, "Renewable Energy Fund Found VII: Electrical Applications Recommended." He stated that the charts displayed the recommended funding by type, which could be seen by top tier versus all other projects.

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Vice-Chair Fairclough looked at slide 17, and noticed that two projects fell below for additional request. She announced that she was the dissenting vote at the Renewable Energy Meeting for not taking the staff's recommendations. She asked for more detail regarding that process. She stressed that it was the first time that the committee did not adopt the staff's recommendation. Mr. Skaling responded that the Renewable Energy Fund Advisory Committee's significant role at that meeting was typically to do the "regional spreading." He explained that the staff typically presented a list of projects, in a ranked order, and identified through the regional spreading formula. Those projects were then for consideration of the committee to possibly advance into the funding level. He stated that the committee also recommended partially funding two hydro projects, which were listed on lines 15 and 16 in order to fund one of the regional funding priorities within the \$20 million; and an additional 5 heat projects.

Vice-Chair Fairclough remarked that the committee reviewed priorities for Alaska. She felt that there was an issue with the difficulty of financing in the current market. She remarked that there was a process to determination of fairness for everyone, and stressed that electrical cost was much different than heating cost. She felt that heat should have a priority over electricity. She wondered how much the state was committing in Round VII. Mr. Skaling replied that the top project always ended in construction. He explained that there was one feasibility study.

[9:36:41 AM](#)

Vice-Chair Fairclough stressed that she wanted to support all the projects, but the issue was whether or not those projects could be finished based on the state's current cash flow. She stated that she had pointed out at the

advisory board meeting that they should examine whether the design of the projects should be currently funded.

Senator Hoffman looked at slide 7, and felt that the slide represented what the state had invested and the net present value benefits. He stressed that Alaska should not be cutting back, but rather focus on the intention of the law. He felt that the funding needed to go beyond the governor's recommendations.

Co-Chair Meyer wondered if the goal was \$50 million or 50 percent of electricity should be renewable energy. Mr. Skaling responded that the goal was 50 percent renewable electricity by 2025.

Co-Chair Meyer felt that the goal was probably going slowly, because of the work on the proposed gas line.

[9:42:28 AM](#)

Senator Olson wondered how often the committee rejected the recommendations of the staff, and how the projects were ranked. Ms. Fisher-Goad responded that there were two separate lists presented for the current year: heating and electricity. She explained that there had been a long discussion with AEA and the committee to focus on heat, and provide technical assistance to applicants. She stated that, in order for staff to fulfill the recommendation for regional spreading, there were recommended projects to promote the regional spreading. She stressed that there was recent difficulty in the recent year, because of the two separate lists. She stated that the committee recommended a bigger heating list, by taking a portion from electric projects.

Senator Olson remarked that the governor had advocated for various accessibility to resources. He noted that the Kosmos Hydroelectric Dam project was not funded. Mr. Skaling replied that there was a technical and economic viability study of the project, and it was not determined to be technically or economically viable.

Senator Olson wondered if the project should not be funded. Mr. Skaling replied that AEA was focused on the projects that could achieve the goal of affordable energy, so that project did not fall into that feasibility goal.

[9:47:08 AM](#)

Senator Bishop wondered if AEA had a plan to analyze the high electric costs in the various communities. Ms. Fisher-Goad replied that the application process was remaining open for all electric and heat projects. She stressed that round 7 separated the projects between heat and electric. She remarked that an electric project could still file the application to be ranked through the vetting projects. She stressed that there was no discounting of electric projects, but it was an opportunity to look at heating through a more isolated ranking process.

Senator Bishop looked at statewide recommendation project funding, and looked at line 22. He surmised that Minto was in the queue for the current year. Mr. Skaling replied in the affirmative.

Senator Bishop announced that the project would be fully funded. Mr. Skaling agreed.

Senator Dunleavy wondered if coal was a viable possibility for state projects. Ms. Fisher-Goad responded that UAF was working to replace its coal-powered combined heat and power plant with another coal plant. She stressed that there was still a use for coal, and the Renewable Energy Fund program did not have an issue with coal. She understood that it was a viable and reliable resource for electricity. She pointed out that the Renewable Energy Fund program was not on the eligible fuel source for the Renewable Energy Fund program.

Senator Dunleavy wondered if AEA had a mechanism for discussions regarding coal use. Ms. Fisher-Goad replied that she would be happy to discuss with a community about the possibility of a coal plant. She remarked that there was a technical analysis that was required.

[9:52:28 AM](#)

Senator Dunleavy wondered if there was a mechanism for a community to discuss with AEA about the possibility of gas exploration. Ms. Fisher-Goad replied that there was a provision in the Renewable Energy Fund that provided small gas to be used in the community.

Co-Chair Meyer queried the status of the Healy Coal Plant. Ms. Fisher-Goad responded that AIDEA and Golden Valley had

completed the sale, but deferred to AIDEA for more information.

Co-Chair Kelly stated that the Healy Coal Plant was currently undergoing testing.

Co-Chair Meyer wondered if hydro was considered "renewable energy." Ms. Fisher-Goad replied in the affirmative.

Co-Chair Meyer asked if hydro was considered renewable at the federal level. Ms. Fisher-Goad replied that the federal Department of Energy did not consider hydro a renewable resource.

Co-Chair Kelly felt that the non-renewable energy was just as important to Alaskans, if not more important, than renewable energy. He did not care what kind of energy was used to provide heat and electricity to the state.

[9:57:37 AM](#)

Senator Hoffman stressed that the people of rural Alaska want affordable energy. He remarked that there was potential in the Kuskokwim for heat through using peat.

Co-Chair Meyer wondered if there was a focus on building a gas line in Donlin Creek. Senator Hoffman replied that the gasline was their primary interest. He remarked that the cost was several billion dollars.

Vice-Chair Fairclough stressed that prioritizing heat was not consistent with policy. She felt that there needed to be a policy change, in order for the Renewable Energy Fund program to prioritize heat.

Senator Dunleavy remarked that there should be a focus on getting the cheapest energy to communities.

[10:03:13 AM](#)

Co-Chair Meyer wondered if there could be a spreadsheet that shows funding with each round. Mr. Skaling agreed to provide that information.

Co-Chair Meyer asked if \$4 million for a project was for each phase of a project. Ms. Fisher-Goad replied that there

were two tiers of maximum amount, which was cumulative per project through the entire phases. She stated that it was originally \$4 million in high cost areas, and \$2 million in low cost areas.

Co-Chair Meyer wondered if there was a possibility to pay \$32 million for a project. Ms. Fisher-Goad replied that the \$8 million as a cumulative cost. Mr. Skaling furthered that it was \$8 million or \$4 million for the design and construction phase; and the reconnaissance or feasibility could be up to 20 percent of the total anticipated project cost.

Ms. Fisher-Goad stressed that the focus of the day's agenda was the Renewable Energy Fund program. She remarked that AEA had various programs that did not relate directly to Renewable Energy Fund program. She stressed that AEA was focused on affordable energy.

Co-Chair Meyer wondered were the Renewable Energy Fund program applications received their matching grants. Ms. Fisher-Goad responded that there was a waiting system, but a match was not necessarily required.

[10:08:34 AM](#)

Senator Bishop wondered if there were assets in AEA to do her job. He also asked what she would do differently, if she were "king for a day."

Co-Chair Meyer wondered if the relationship between AEA and AIDEA was effective. Ms. Fisher-Goad responded that AIDEA and AEA had many shared resources. She felt that the two programs worked very well together.

Co-Chair Meyer asked for an update on Susitna Watana dam project. Ms. Fisher-Goad replied that there is a meeting in the future where she will discuss the progress of that project. She stated that the dam was a significant part of the goal of the Renewable Energy Fund program.

[10:14:30 AM](#)

Senator Olson queried how often a project like the Susitna Watana dam would be proposed. Ms. Fisher-Goad responded that the former Alaska Power Authority had the funding for the project in the 1980s. She stated that the current

project was different than what was outlined in the 1980s. She stated that the current project had a different portfolio, and stressed that it was a project that could have a significant benefit to the population.

Senator Olson shared that some news outlets had expressed that the project will never be completed. He stressed that there were many issues related to land use regarding the development of the project. Ms. Fisher-Goad responded that conversations with the village corporations had been very positive.

Senator Olson shared that some Native Corporations feared that the state would enact eminent domain to obtain the lands and less-than-market value. Ms. Fisher-Goad replied that AEA had participated in conversations with the Native Corporations with respect to the use of the lands. She stressed that she was very anxious to discuss the longer term issues, in order to begin development on the project.

SB 119 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:20:15 AM

The meeting was adjourned at 10:20 a.m.