

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

March 5, 2015
10:21 a.m.

MEMBERS PRESENT

Representative Liz Vazquez, Co-Chair
Representative Benjamin Nageak
Representative David Talerico
Representative Cathy Tilton
Representative Matt Claman
Representative Adam Wool

MEMBERS ABSENT

Representative Jim Colver, Co-Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 78

"An Act bearing the short title of the 'Alaska Competitive Energy Act of 2015'; and relating to the Regulatory Commission of Alaska."

- HEARD & HELD

HOUSE BILL NO. 58

"An Act making an entity that is exempt from federal taxation under 26 U.S.C. 501(c)(3) (Internal Revenue Code) and a federally recognized tribe eligible for a loan from the Alaska energy efficiency revolving loan fund; and relating to loans from the Alaska energy efficiency revolving loan fund."

- MOVED CSHB 58(ENE) OUT OF COMMITTEE

HOUSE BILL NO. 118

"An Act adopting the Municipal Property Assessed Clean Energy Act; authorizing municipalities to establish programs to impose assessments for energy improvements in regions designated by municipalities; imposing fees; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 78

SHORT TITLE: REGULATORY COMMISSION OF ALASKA

SPONSOR(s): REPRESENTATIVE(s) WILSON

01/23/15	(H)	READ THE FIRST TIME - REFERRALS
01/23/15	(H)	ENE, L&C
02/24/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/24/15	(H)	Heard & Held
02/24/15	(H)	MINUTE(ENE)
02/26/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/26/15	(H)	Heard & Held
02/26/15	(H)	MINUTE(ENE)
03/03/15	(H)	ENE AT 10:15 AM CAPITOL 17
03/03/15	(H)	Heard & Held
03/03/15	(H)	MINUTE(ENE)
03/05/15	(H)	ENE AT 10:15 AM CAPITOL 106

BILL: HB 58

SHORT TITLE: ELIGIBILITY FOR AK ENERGY EFFIC LOANS

SPONSOR(s): REPRESENTATIVE(s) KREISS-TOMKINS, MILLETT

01/21/15	(H)	PREFILE RELEASED 1/16/15
01/21/15	(H)	READ THE FIRST TIME - REFERRALS
01/21/15	(H)	ENE, L&C, FIN
02/10/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/10/15	(H)	Heard & Held
02/10/15	(H)	MINUTE(ENE)
02/26/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/26/15	(H)	Heard & Held
02/26/15	(H)	MINUTE(ENE)
03/05/15	(H)	ENE AT 10:15 AM CAPITOL 106

BILL: HB 118

SHORT TITLE: MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/18/15	(H)	READ THE FIRST TIME - REFERRALS
02/18/15	(H)	ENE, CRA, FIN
03/05/15	(H)	ENE AT 10:15 AM CAPITOL 106

WITNESS REGISTER

MIKE WRIGHT, Vice President Transmission and Distribution
Golden Valley Electric Association
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 78.

ROBERT KAHN, Executive Director
Northwest & Intermountain Power Producers Coalition
Mercer Island, Washington

POSITION STATEMENT: Testified in support of HB 78.

BOB PICKETT, Commissioner/Chair
Regulatory Commission of Alaska
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 78 and answered questions.

STUART GOERING, Assistant Attorney General
Commercial and Fair Business Section
Civil Division(Anchorage)
Department of Law
Anchorage, Alaska

POSITION STATEMENT: Answered a question speaking as the attorney assigned to the Regulatory Commission of Alaska.

ETHAN SCHUUT, Senior Vice President of Land and Energy
Development
Cook Inlet Region, Inc.
Anchorage, Alaska

POSITION STATEMENT: Testified in support for HB 78.

DAVID PEASE, In-House Counsel
Matanuska Electric Association
Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 78.

JULIE ESTEY, Director of Public Relations
Matanuska Electric Association
Palmer, Alaska

POSITION STATEMENT: Read from written comments submitted by Joe Griffith, General Manager of Matanuska Electric Association.

TIM MCLEOD, President
Alaska Electric Light and Power
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 48.

REPRESENTATIVE TAMMIE WILSON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Speaking as the sponsor, testified during the hearing on HB 48.

JOSHUA WALTON, Staff
Representative Liz Vazquez
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained the changes in the committee substitute for HB 58, on behalf of Representative Vazquez, co-chair of the House Special Committee on Energy.

REPRESENTATIVE KREISS-TOMKINS
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Speaking as one of the prime sponsors of HB 58, addressed the changes to the bill.

EMILY FORD, Energy Policy and Outreach Manager
Alaska Energy Authority
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Introduced HB 118 on behalf of the sponsor, the House Rules Standing Committee at the request of the governor.

ACTION NARRATIVE

[10:21:37 AM](#)

CO-CHAIR LIZ VAZQUEZ called the House Special Committee on Energy meeting to order at 10:21 a.m. Representatives Claman, Wool, Nageak, Talerico, Tilton, and Vazquez were present at the call to order.

HB 78-REGULATORY COMMISSION OF ALASKA

[10:21:58 AM](#)

CO-CHAIR VAZQUEZ announced that the first order of business would be HOUSE BILL NO. 78, "An Act bearing the short title of the 'Alaska Competitive Energy Act of 2015'; and relating to the Regulatory Commission of Alaska."

[10:22:31 AM](#)

MIKE WRIGHT, Vice President Transmission and Distribution, Golden Valley Electric Association (GVEA), said he would testify and also forward more detailed written comments to the committee. Mr. Wright first sought to clarify terms that were

heard during the 3/3/15 hearing on HB 78. Discussed at the previous hearing was the term "spinning reserve with respect to integration cost," and he explained that spinning reserve is a slice of generation that each Railbelt utility is responsible to maintain online, in case of a failure of one of the larger generators. To maintain this reserve, GVEA uses a battery energy storage system (BESS), or a program that sheds load. Spinning reserve is separate from what a utility may have to do to provide regulation. He further explained that regulation is the integration of a variable generation source such as wind or solar. Therefore, a utility has to have additional generation, in addition to what is required for spinning reserve, to provide integration. On the other hand, "interconnect costs" are costs of providing the infrastructure to interconnect generation from any source. Returning attention to HB 78, Mr. Wright stated that GVEA is opposed to the bill, which has the potential to have negative effects on ratepayers. Generally, GVEA believes that existing statute authorizes the Regulatory Commission of Alaska (RCA) to regulate independent power producers (IPPs), qualifying facilities (QFs), and public utilities. For example, RCA has opened Docket R-13-002, which proposes revisions to provisions that specifically address issues related to cogeneration and small power producers. Also, GVEA believes the state energy policy is "for economic development and to take renewable resources into economic development." Since RCA is not the right state agency to deal with economic development, he suggested a more appropriate agency is the Alaska Energy Authority (AEA) through the Renewable Energy Fund or the Emerging Technology Fund. Mr. Wright stressed that GVEA already has open access to its transmission and generation system; in fact, interconnect specifications are available to any entity for electrical loads from 10 kilowatt to 80 megawatt generation. Fort Wainwright, Fort Greely, Ground Base Missile Defense, Pump Station 9, Pogo Mine, Chena Power, and Delta Wind Farm have all made modifications to interconnect by following these specifications. He pointed out that the facilities that are needed to interconnect are the responsibility of the IPPs, and power purchase agreements must be negotiated, including the cost of integration. In addition, integration costs are higher for solar or wind, because of the variable nature of their generation. Mr. Wright explained that GVEA's tariff wheeling rates or transmission tariffs are approved by RCA, and Fort Wainwright currently uses GVEA's transmission system to wheel power from Fairbanks to Fort Greely and Ground Base Missile Defense. For small scale renewables under two megawatts, GVEA has a streamlined process with no integration costs. Entities are given two options: to receive rate changes quarterly, or to

negotiate a long-term agreement. Mr. Wright restated that GVEA "does have open access and it is available to anybody who would want to interconnect with our system."

10:31:26 AM

REPRESENTATIVE WOOL asked whether the same generation unit is used for both spinning reserve and integration.

MR. WRIGHT responded that the source of generation depends upon the particular circumstances; for example, GVEA may have all of its spinning reserve handled by BESS, and not have to have another generator online, so the generator that is online is providing room for Eva Creek Wind Farm and, elsewhere, customer load can be shed (SILO). If an expensive generator must come online, GVEA would SILO because the chance of an outage is low. Although circumstances could arise when BESS is offline or cannot meet spinning reserve, so dispatch would determine what response is most economical. In further response to Representative Wool, he confirmed that spinning reserve is sometimes met entirely by BESS alone.

REPRESENTATIVE TALERICO asked for the web site which provides interconnection information for IPPs.

MR. WRIGHT said that would be included in his written testimony.

REPRESENTATIVE WOOL inquired as to whether the military bases are selling or buying power at this time.

MR. WRIGHT stated that all of the bases buy almost no power; Eielson Air Force Base buys very little, and Fort Wainwright provides all of its own power. University of Alaska Fairbanks (UAF) is also interconnected and supplies almost all of its own power. He expressed his understanding that military bases are not allowed to sell power because they are not allowed to compete with private or public business sectors.

REPRESENTATIVE CLAMAN also requested the site for the web site with interconnection information.

MR. WRIGHT provided the web site as follows:
www.gvea.com/images/epf/NON_Utility_Producer_Interconnect2013.PDF.

10:39:54 AM

ROBERT KAHN, Executive Director, Northwest & Intermountain Power Producers Coalition (NIPPC), informed the committee NIPPC is a group of IPPs and marketing entities that develop, own, and operate power plants, and sell electricity under PPAs, or wholesale, throughout the West. Members of NIPPC have invested billions of dollars building power plants in Idaho, Washington, and Oregon, including wind farms, biomass facilities, gas-fired power plants and coal generation that collectively exceeds 4,000 megawatt. Mr. Kahn said although Alaska faces unique circumstances and opportunities, it is useful to hear insights from its neighbors in the Lower 48. He said Alaska is at the point to update its energy policy infrastructure, and the focus of the proposed legislation is to allow for competition, which is how Americans get the best product for the least cost. Regulated monopolies are uncomfortable with the bill because it affects the range of services they solely offer, and means they must accommodate competition and IPPs. While a regulated monopoly has an overall responsibility for maintaining system reliability, since 1978 in the Lower 48, utility monopolies have not had sole responsibility or monopoly control of generation. Mr. Kahn opined competition will enable Alaskans to employ ingenuity and attract new capital, as has happened in the Lower 48. For example, in Idaho Power's service territory, about 20 percent of resource space is provided by QFs generating power by many sources including low-head hydroelectric (hydro), biomass and cogeneration at lumber mills, solar projects, and wind projects. Another example in the Northwest is of an investor-owned utility that announced about six years ago that it would build a wind farm, and estimated that the cost of energy would exceed \$100 per megawatt hour. Instead, the utility put out a request for proposal to any wind power developer who could bid at \$65 per megawatt hour or less. A developer was found through the competitive bid process, and the utility is satisfied with the resulting project. Mr. Kahn urged that the legislature enable competition in order to provide Alaskans with the least cost energy and to bring its policy infrastructure up to date.

REPRESENTATIVE WOOL asked how many megawatts are transmitted by the Railbelt system.

MR. KAHN did not know.

[10:48:12 AM](#)

BOB PICKETT, Commissioner/Chair, Regulatory Commission of Alaska, said he has served on RCA since 2008. Mr. Pickett cautioned that his remarks may be limited because RCA has a

number of dockets open that are embedded with transmission elements. However, there are other aspects to the bill, and the sponsor of the bill requested RCA "offer its input." On 2/25/15, RCA held a public meeting and discussed the bill; at this time RCA does not oppose or support HB 78, but has raised questions. As a commissioner, Mr. Pickett's perspective is a concern about intertwining AS 42.05 [Alaska Public Utilities Regulatory Act] with the state energy policy [House Bill 306, passed in the 26th Alaska State Legislature]. This concern has been expressed in many ways, including in RCA's approval of a power purchase agreement between Chugach Electric Association and Fire Island Wind. He explained the basis for his concern is that the state energy policy is an aspirational goal; however, HB 78 raises questions from an administrative and practical standpoint. For example, the bill may contain possible unintended consequences for non-electric utilities and very small electric utilities. Of the 129 electric utilities in the state, 32 are economically regulated by RCA. Further, RCA does not want to negatively impact administration of the Power Cost Equalization (PCE) program. In that regard, RCA will continue to work with Representative Wilson and the Department of Law. He recalled that RCA has been directed by the legislature to issue a report to the legislature, no later than 6/30/15, on the desirability of creating an integrated system operator (ISO) or unified system operator (USO) in the Railbelt; RCA has been working on this report and has requested responses from interested parties on the statutory and regulatory authority currently held by RCA, and what additional action is needed to develop an ISO or USO, if so desired.

[10:52:44 AM](#)

REPRESENTATIVE CLAMAN referred to the two-year timeline RCA typically requires to act, and noted the proposed legislation requires a one-year response. He asked for more background information on the timeline RCA requires for different issues.

MR. PICKETT responded that there are different statutory deadlines; the two-year period referred to in the bill applies to the maximum timeframe allowed for rulemaking dockets. The statutory deadline applies to all industry groups, and he pointed out that completing the rulemaking process earlier would be possible if RCA's workload allowed. Although all of the deadlines have been previously considered by the legislature, he acknowledged the timelines may be frustrating to a project's sponsor. Mr. Pickett described a docket in the past that required an extension; however, when completed, it solved a 20-

year-old problem. The commission receives approximately 700-900 filings per year, of which approximately 150 are suspended, and hearings are a time-consuming and intensive process. He questioned whose due process rights are truncated when timelines are reduced.

REPRESENTATIVE CLAMAN restated his question that the proposed legislation suggests that RCA would make a decision within one year.

MR. PICKETT said the time required depends on the nature of the filing; in fact, RCA opened a recent rulemaking docket related to PCE, and he anticipated that it will be accomplished in less than a two-year period.

REPRESENTATIVE WOOL referred to Mr. Pickett's characterization of the state's [energy] goal as aspirational, and asked whether he meant "aspirational, meaning not realistic in the near future."

MR. PICKETT explained that an aspirational goal is very different than a binding renewable portfolio standard (RPS) goal that many states have. He opined that filings that come to RCA for a binding RPS are different, and an aspirational goal may have a "tipping effect" on decisions such as the Fire Island Wind PPA. He expressed frustration with the "disjointed" state energy policy, and questioned how viable the 50 percent renewable goal can be without [the proposed Watana-Susitna Hydro project].

CO-CHAIR VAZQUEZ inquired as to whether Mr. Pickett seeks a more focused and realistic state policy.

MR. PICKETT stated that he is a regulator, not a legislator. He advised that the state needs to speak clearly and provide a mechanism.

[10:59:31 AM](#)

STUART GOERING, Assistant Attorney General, Commercial and Fair Business Section, Civil Division (Anchorage), Department of Law, in response to Co-Chair Vazquez, said DOL has no position on HB 78 at this time, and he is scheduled to meet with the sponsor of the bill to discuss issues and clarify the bill's intent.

CO-CHAIR VAZQUEZ expressed her interest in the unintended consequences of the bill.

MR. GOERING said her question could be better addressed after his meeting with the sponsor of the bill.

[11:01:43 AM](#)

ETHAN SCHUUT, Senior Vice President of Land and Energy Development, Cook Inlet Region, Inc. (CIRI), noted that he submitted written testimony to the committee on 3/4/15. Mr. Schuut relayed that CIRI is very knowledgeable about the electric utility system in the Railbelt, and thus is concerned that the system is broken and lawless, and that reform is needed to protect the state's economy and the ratepayers. He stated that HB 78 would introduce competition and invite private investment, both of which are cornerstones of the national economy.

[11:03:16 AM](#)

The committee took an at ease from 11:03 a.m. to 11:04 a.m.

[11:04:03 AM](#)

MR. SHUTT continued to explain that the system is broken and lawless as relates to the interaction between IPPs and the regulated electric utilities. He said CIRI believes HB 78 would bring protection for private investment into the system. He acknowledged the Railbelt electrical system is governed by technical rules, but there are no meaningful rules or requirements governing the commercial negotiations between IPPs and the regulated utilities; in fact, he said, "Many of the things that we've seen and directly witnessed in our negotiations and interactions with the Railbelt electric utilities would result in [Federal Energy Regulatory Commission] enforcement investigations if we were an interconnected state with any other state in the Union." Mr. Schuut expressed CIRI's concern with impacts to ratepayers, and said HB 78 is legislation that is long overdue.

[11:05:52 AM](#)

DAVID PEASE, In-House Counsel, Matanuska Electric Association, disclosed that he works for MEA and does not advise them. Mr. Pease returned attention to the subject of incremental cost, noting that IPPs want to pay for power at the incremental avoided cost to the utility, which could be \$.30 per kilowatt hour if generated by diesel; however, that power may not be

available when needed, and instead, the power could be produced from wind or hydro. But IPPs want a long-term contract based upon incremental avoided cost, and then each utility would be required to buy power from an IPP or QF at what could be well in excess of the average avoided cost to the utility, and which would not benefit ratepayers. He referred to previous testimony related to Fire Island Wind, and said MEA determined it is expensive to "follow the wind," and to account for its unreliability and provide "spin" when wind is offline. Mr. Pease cautioned that [proposed section 14] of the bill precludes a public utility from passing on the costs of a judicial proceeding. He advised that MEA has received proposals by IPPs and QFs regarding projects without real substance; one such dispute "went all the way up to FERC and involved hundreds of thousands of dollars of litigation costs." He advised that under this provision, utilities would not be able to recover from rates the costs of legitimate challenges to projects. Presently, MEA is engaged in a dispute that is on its way to the Alaska Supreme Court and which cost the state over \$100,000 to appeal. He described MEA's successful experience with other small IPP hydro projects. The bill also seeks to allow IPPs and QFs exception from an exemption that is before RCA and other courts in a prolonged dispute. The exemption is essential to a Bradley Lake [Hydroelectric Project] construction project, and "tinkering with that exemption throws a wrench into" aspects of power from the Bradley Lake facility. Mr. Pease concluded that IPPs and QFs want to sell what they believe is firm power, but wind is not a firm power, and IPPs and QFs do not have the capacity and backup required to make firm power, therefore, they want a firm power price for non-firm power.

REPRESENTATIVE WOOL asked whether hydropower is firm power.

MR. PEASE answered no; however, it can be firm power depending upon its generating capacity and whether generation occurs regardless of the reservoir level.

[11:13:25 AM](#)

JULIE ESTEY, Director of Public Relations, Matanuska Electric Association, read from written comments submitted by Joe Griffith, General Manager, MEA, as follows:

Due to limited time for public testimony and proceedings at the RCA I have been unable to testify in response to House Bill 78. However, the subject is important to our members, and the entire Railbelt, and

I hope your committee will weigh my written comments in considering how to proceed. MEA remains interested in exploring cost effective ways to diversify the Railbelt energy portfolio. We currently have two independent power producers on our system, along with our shares of Eklutna and Bradley Lake hydro projects, and find immense value in the economic power that they provide. There is a rule for cost effective independent power producers to play in our service area, and the entire Railbelt. However well intentioned, we do not believe House Bill 78 is an effective platform to achieve the results that will ultimately benefit the independent power producers, utilities, our ratepayers or members in the entire Railbelt system. House Bill 78 presents a significant concern to MEA for two primary reasons: First, the proposed legislation will benefit corporate for profit entities at the expense of ratepayers, imposing significant financial and operational constraints on utilities, the majority of which are nonprofit, member-owned power producers. I view this legislation as a mechanism to shift the burden of project economics to the utilities and their members, forcing a nonprofit entity to provide subsidies to a for profit organization to improve their profit margin. With these subsidies, virtually any proposed IPP project can become economic but the burden will be borne by the ratepayers or members. I don't believe that that is good fiscal policy or the role of government. Second, this legislation is unnecessary to ensure IPPs have access they seek to the market. The Regulatory Commission of Alaska has both an R and I docket currently open to address many of the elements of this legislation. The RCA staff has presented recent changes to bring Alaska's regulations implementing the federal Public Utility Regulatory Policy Act or PURPA, to reflect changes made by FERC. These suggested regulation changes are the product of an 18-month process with input from IPPs, utilities and other experts. This process also has the benefit of the time and subject matter expertise of the commissioners and commission staff to work through the various complexities, details, and consequences to find solutions that benefit Alaskan ratepayers. In addition, the commission recently opened an I docket to consider the creation of an independent or unified system operator for the Railbelt which would also

alleviate some of the concerns expressed by the independent power producers who have influenced House Bill 78. To avoid a duplication of effort and potentially conflicting regulations with unintended consequences, I would urge this committee to put House Bill 78 aside, and let the regulatory process proceed through the agency charged with utility oversight, the RCA. Specific considerations regarding House Bill 78 include: incremental avoided cost is flawed because it does not represent the true avoided cost of electric utilities because the calculation is based on peak loads, this shifts the playing field so inefficient reserve machines are the avoided cost definer, not the more efficient newer machines which are actually more likely to be avoided, and operate at a lower cost to utilities. This means in most cases members will be paying more for each kilowatt than they should. This may be a fair standard in the Lower 48 where the robust grid results in less disparity, but it does not take Alaska's unique circumstances into account. There is also a need to account for a distinction between firm and non-firm power. Non-firm power fluctuates and cannot be counted on by the utility at a specific time. This results in considerable expense for utilities to regulate because it is necessary to run back up generation to cover potential power shortfalls in transmission space on our congested system. That must also be reserved. It may also have impacts on take or pay gas contracts all resulting in significant costs to ratepayers. Third, the bill does not address the cost, complexities, and responsibilities of participating in an open access system. MEA has completed considerable studies and corresponding system upgrades to connect our new EGF power plant to the Railbelt. We have spent significant time and expense working closely with our Railbelt colleagues to ensure the capacity and necessary protections are in place to protect the larger system. We did that because it was our responsibility as a user of that larger system. For a true level playing field to exist, this should be consistent for all users who request open access. It also contains no means to protect the utility from an IPP or QF that underprice their estimated price of power just to beat the utility avoided costs. To date, Alaska's small market has attracted primarily local businesses and entrepreneurs, but your body

needs to have a vision for the future, when outside entities with less than scrupulous intentions may use this well-meaning legislation to the detriment of Alaska. The legislation does not address the impact to utilities resulting from the uncertainty of a proposed IPP project. Under this bill, IPPs don't have to guarantee they will ever build a project; if the utility was counting on 50 megawatts in three years from an IPP that never materialized, it could be a significant issue to cover that kind of shortfall, at great expense. In addition, the staff cost and studies associated with such a project for the utility, would be borne by our members. ... If the goal is to bring more independent power producers or qualified facilities into the electrical system in Alaska, we need to be careful of enacting requirements that make buying power from them more expensive and costly to our members. MEA spent considerable time and expense in late 2014 to try and justify the purchase of CIRI Fire Island Wind Phase 2 power. In the end, even their initially attractive price did not pencil out when we added the cost to transport and regulate the non-firm power. I hope we have the opportunity to give this another look if the tax credits are extended. However, this legislation would make that opportunity, and others like it, much more difficult to justify to our membership in the future. We urge you to allow the RCA process with both the R docket and the independent system operator I docket to find conclusions before you pass legislation that will result potentially in unintended consequences and additional costs for Alaskans. And that is the end of my testimony.

[11:21:48 AM](#)

TIM MCLEOD, President, Alaska Electric Light and Power (AEL&P), said AEL&P is the electric utility serving Juneau. Mr. McLeod informed the committee he is not opposed to the independent development of projects, as long as there are no negative impacts to AEL&P customers. [Indisc.] He acknowledged that there are communities in Alaska with very high rates due to their location, although in Juneau, Barrow, Ketchikan, Wrangell, and Petersburg electric rates are below the national average, and rates are slightly above the national average in Sitka and Anchorage; in fact, utilities have done a good job in high population areas - which are generally the areas targeted by

IPPs. Alaska is subject to, and must comply with PURPA regulations, and has regulations that require open access to certain transmission systems. Mr. McLeod returned attention to the differences in transmission systems between Alaska and the Lower 48, and advised that in Juneau the transmission lines were constructed to deliver power from a hydro project to a specific load; however, in the Lower 48, transmission lines are similar to an intertie. When an IPP asks to use AEL&P's transmission lines, permission is given as long as it will not use capacity that AEL&P customers eventually need, and there are many other similar isolated transmission systems throughout Alaska. Mr. McLeod said PURPA regulations provide opportunities for QF projects to come online while protecting ratepayers, but the language of the proposed legislation "goes well beyond PURPA." He opined that currently IPPs and QFs have more than a level playing field because if they can provide energy at the avoided cost, the utility must buy their energy and that is an advantage. He expressed concern about mixing the state energy policy and HB 78, and said RCA should not make any decisions that are inconsistent with state legislation, but in regard to bringing on IPPs, decisions need to be made based on the avoided cost, and it shouldn't do harm to customers to bring an IPP or QF online. If the state energy policy is in conflict with that decision, it should not supersede the avoided cost formula.

[11:28:44 AM](#)

MR. MCLEOD further explained that HB 78 places an additional burden on the utilities to provide information; for example, producing and posting the avoided cost for each unit in a system. In Juneau, AEL&P has 10 individual hydro generators units and nearly 20 backup diesel generators, which are mandated. In response to Representative Wool's earlier question, he said hydro is a firm energy source, although the amount of fuel can be limited at times. The hydro units are managed as an entire system, so the avoided cost of each unit fluctuates and thus cannot be posted independently due to maintenance and changes, and he provided examples. Furthermore, the cost of a hydro project is up-front, and the output cost depends on the flow of energy from the project. Therefore, loads and costs are higher depending upon precipitation levels; in fact, 20 percent of AEL&P's load is interruptible, so the company has tried to "match all of our hydro projects in unison, so that with the variation of inflows and so forth, we can sell every kilowatt hour that we can get out of these hydro projects because that produces the lowest cost overall for our system." Mr. McLeod concluded the true avoided cost should be the cost to

the utility, if not for the IPP's facility. Also, the economy of scale makes it difficult for small projects to compete against large projects.

[11:34:46 AM](#)

REPRESENTATIVE WOOL asked whether AEL&P keeps any spinning reserve.

MR. MCLEOD said no. An example of spinning reserve in a hydro system would be in Kodiak, where the utility had hydro and diesel, and then added wind generators which were controlled by the hydro and diesel. But to eliminate the diesel, a third hydro unit was added at the Terror Lake hydro facility. This is an example of integration cost: the additional unit was not needed for energy, but to control the wind generation with more spinning reserve.

REPRESENTATIVE CLAMAN surmised that an advantage of hydro is that there is no costly storage required, and there is more flexibility in delivering power.

MR. MCLEOD said correct.

REPRESENTATIVE TALERICO stated that in the Interior, Golden Valley Electric Association feeds about 43,000 meters, more than some of the aforementioned communities. That cost has averaged between 22.5 cents and 27 cents per kilowatt hour. He pointed out that that cost is for the hub community, and costs inflate as they reach businesses in villages, which do not qualify for the Power Cost Equalization program.

[11:39:13 AM](#)

HB 78 was held over with public testimony open.

[11:39:39 AM](#)

The committee took an at ease from 11:39 a.m. to 11:44 p.m.

[11:44:29 AM](#)

REPRESENTATIVE TAMMIE WILSON, Alaska State Legislature, said monopolies do not want change; however, she continues to be contacted by independent power producers who have put millions of dollars into projects that monopolies have obstructed. She stressed that today's testimony shows one group up against the

other, without compromise, but HB 78 would create a fair playing field. Representative Wilson noted that the sponsors have provided everything the committee has requested of them, and reviewed the vetting process that will take place in the next committees of referral, the House Labor and Commerce Standing Committee and the House Finance Committee.

CO-CHAIR VAZQUEZ observed that the bill presents an array of issues that have existed for decades; therefore, the committee seeks to be diligent and give the time, energy, and focus that the bill deserves.

REPRESENTATIVE CLAMAN referred to the one-year timeline provision in the bill for RCA decisions, and suggested the committee may support an amendment to extend the timeline to two years.

CO-CHAIR VAZQUEZ said testimony remains open on the bill in order to hear further expert witnesses.

REPRESENTATIVE WILSON offered to provide all that is needed.

HB 58-ELIGIBILITY FOR AK ENERGY EFFIC LOANS

[11:49:06 AM](#)

CO-CHAIR VAZQUEZ announced that the next order of business would be HOUSE BILL NO. 58, "An Act making an entity that is exempt from federal taxation under 26 U.S.C. 501(c)(3) (Internal Revenue Code) and a federally recognized tribe eligible for a loan from the Alaska energy efficiency revolving loan fund; and relating to loans from the Alaska energy efficiency revolving loan fund."

[11:49:30 AM](#)

REPRESENTATIVE TILTON moved to adopt the proposed committee substitute (CS) for HB 58, labeled 29-LS0254\G, Nauman, 3/4/15, as the working document.

[11:50:04 AM](#)

JOSHUA WALTON, Staff, Representative Liz Vazquez, Alaska State Legislature, explained Version G has a title change and two significant changes from Version H. On page 1, lines 1-5 the new title read:

An Act making an entity that is exempt from federal taxation under 26 U.S.C. 501(c)(3), (4), (6), (12), or (19)(Internal Revenue Code) and a federally recognized tribe eligible for a loan from the Alaska energy efficiency revolving loan fund; relating to loans from the Alaska energy efficiency revolving loan fund; and relating to the annual report published by the Alaska Housing Finance Corporation.

MR. WALTON explained the first change specifies which types of tax-exempt entities would be allowed to borrow from the fund. The second change to the title refers to a report further described in section 1. The first change to the language in the bill was new section 1 found on page 1, beginning on line 7 and continuing to page 2, line 11 which read:

Section 1. AS 18.56.200(d) is amended to read:

(d) The corporation shall include in its annual report under (b) of this section

(1) a report of its activities under

(A) AS 18.55.010 - 18.55.290 (Housing Project and Public Building Assistance Act);

(B) AS 18.55.300 - 18.55.470 (programs of moderate income and rental housing);

(C) AS 18.55.480 - 18.55.960 (Slum Clearance and Redevelopment Act); and

(D) AS 18.56.855 (Alaska energy efficiency revolving loan fund);

(2) a summary of its efforts to implement a program to extend the operation of the programs authorized under AS 18.55 and this chapter to rural communities;

(3) an evaluation of the corporation's ability to fulfill the objectives of AS 18.56.010(b) - (e); and

(4) the amount of interest rate, building, and other subsidies for each program of the corporation for which subsidies are given.

MR. WALTON said section 1 amends existing statute to add Alaska energy efficiency revolving loan fund to the list of programs that are included in Alaska Housing Finance Corporation's annual report to the legislature. Sections 2, 3, 4, 5, and 6 were renumbered. The second substantive change is the addition of new section 7 found on page 5, lines 10-16 which read:

Sec. 7. AS 18.56.855 is amended by adding new subsections to read:

(k) In considering applications and making loans from the Alaska energy efficiency revolving loan fund, the corporation shall give priority to energy efficiency improvements to buildings owned by a regional educational attendance area, the University of Alaska, a municipality, or the state over other applications and loans.

(l) Notwithstanding any provision of this section, the recipient of a loan under this section may not be a for-profit business enterprise

MR. WALTON said subsection (k) ensures that state and governmental facilities are given priority over tax-exempt entities and federally recognized tribes, and subsection (l) ensures that the recipient of a loan cannot be a for-profit business enterprise. All of changes are in response to concerns raised by the committee.

[11:54:11 AM](#)

CO-CHAIR VAZQUEZ objected to the motion for discussion purposes.

[11:54:34 AM](#)

REPRESENTATIVE KREISS-TOMKINS, Alaska State Legislature, one of the prime sponsors of HB 58, said the aforementioned changes came from House Special Committee on Energy deliberation during a previous hearing. He stated that the changes have improved the bill and urged that the bill move from committee.

REPRESENTATIVE CLAMAN confirmed that in new subsection [(k)] the described entities are the same and are not a larger class of groups than existed before.

REPRESENTATIVE KREISS-TOMKINS said that is accurate, all of previous public entities that had access to the revolving loan fund now have first priority access.

[11:56:31 AM](#)

CO-CHAIR VAZQUEZ removed her objection.

[There being no further objection, Version G was before the committee.]

[11:57:44 AM](#)

REPRESENTATIVE TILTON moved to report CSHB 58, Version 29-LS0254\G, Nauman, 3/4/15, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHB 58(ENE) was reported out of the House Special Committee on Energy.

[11:58:33 AM](#)

The committee took a brief at ease.

REPRESENTATIVE KREISS-TOMKINS thanked the committee.

[11:59:03 AM](#)

The committee took an at ease from 11:59 a.m. to 12:00 p.m.

HB 118-MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

[12:00:11 PM](#)

CO-CHAIR VAZQUEZ announced that the final order of business would be HOUSE BILL NO. 118, "An Act adopting the Municipal Property Assessed Clean Energy Act; authorizing municipalities to establish programs to impose assessments for energy improvements in regions designated by municipalities; imposing fees; and providing for an effective date."

[12:00:19 PM](#)

EMILY FORD, Energy Policy and Outreach Manager, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), provided a PowerPoint presentation entitled "HB 118 Property Assessed Clean Energy (PACE)," and dated 3/5/15. Ms. Ford informed the committee HB 118 creates a property-assessed clean energy program known as Commercial PACE. The program applies to commercial property, and allows property owners to finance qualifying energy efficiency improvements over time through a voluntary assessment on their property tax bill. The legislation provides: voluntary participation by municipalities and commercial business owners; mortgage holder consent required before applications are approved and assessments are placed; improvements can include energy efficiency upgrades, renewable energy, conversion to natural gas, high-efficiency boilers, and more. The repayment obligation transfers with the sale of the property (slide 2). Energy efficiency upgrades are financed by capital secured by a

primary lien on the property, and lower-interest capital and favorable repayment terms can be raised from the private sector. Ms. Ford said the goal is to lower energy costs, thus PACE would allow for longer repayment periods and for the use of traditional lending sources. In Alaska, PACE provides consistency with state energy goals, including energy efficiency and renewable energy targets (slide 3). Thirty-one states have authorized PACE programs, and state legislatures must provide authority for local governments to expand their taxing authority. Municipalities are to create the program and select financing models, using resources available from the U.S. Department of Energy (slide 4). The bill includes statutory language that provides consistency statewide for municipalities that choose to opt-in to the program, which can be done through municipal bonds, a private sector model, or a hybrid model that would identify all funding sources (slide 5). Further, HB 118 is authorizing legislation for local governments that collect property taxes and choose to create a PACE program and allow commercial property owners to opt-in to the program; there are 24 eligible local communities in Alaska representing a total population of 639,314 (slide 6). Turning to the sectional analysis of the bill, she highlighted the following: section 1 amends AS 29 by a new proposed chapter AS 29.49: Municipal Property Assessed Clean Energy Act, which would allow for property tax assessments to be added for financing of qualified projects on real property, and would require a written contract between the local government and the record owner of the real property (slide 7). Proposed AS 29.49.040: Establishes the program, and directs agreements related to financing, assessments, and other costs (slide 8). Proposed AS 29.49.060: Defines the Procedure to Create the Program, and requires that the governing body of the municipality adopt a resolution containing certain elements (slide 9). Proposed AS 29.49.060 also requires the municipality to hold a public hearing with public comment, adopt a resolution, hire and set compensation for an administrator, and impose fees to offset the costs of administering the program (slide 10).

[12:05:38 PM](#)

MS. FORD further advised proposed AS 29.49.070 details the requirements for a publically available report including a description of qualified projects, sample forms and contracts, a plan to ensure sufficient capital, and guidelines for bonding and repayment (slide 11). The report must also include a description of the application process, a method to ensure that qualified applicants can demonstrate financial ability, the

collection process, lender notice requirements, review requirements, marketing and education services, quality assurance and antifraud measures, collection procedures, and the report must be available to the public online and by hardcopy (slide 12). Proposed AS 29.49.080: Notice to Mortgage Holder Required, requires proper notice, proposed AS 29.49.090: Review Required, requires a third-party baseline energy audit and projected energy savings and that, after completion, the municipality shall obtain third-party verification (slide 13). Proposed AS 29.49.110: Contractual Assessment must be Noticed, requires further notice, and proposed AS 29.49.210: Contractual Assessments and any Interest or Penalties are Primary Liens on the Property, requires liens stay with the land and are not eliminated by foreclosure, penalties and interest may be added to delinquent installments, and municipalities may recover cost and expenses to collect delinquent installments. Proposed AS 29.49.130: Collection of Assessments, allows municipalities to contract with other governing bodies of another taxing unit to perform assessments and collections (slide 14). Proposed AS 24.49.140: Municipalities may Issue Bonds or Notes to Finance Qualified Projects, allows municipalities to issue bonds or notes to finance qualified projects, but they may not be general obligation bonds and must be secured by payments from the contractual assessments, municipal reserves, municipal bond insurance, and any other fund lawfully available for purposes consistent with this chapter (slide 15). Proposed AS 29.49.150: Joint Implementation, allows any combination of municipalities to agree to jointly implement or administer a program or contract with a third party, and further proposed statutes in the bill are related to definitions, the short title, and the effective date.

[12:08:51 PM](#)

HB 118 was held over.

[12:09:55 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 12:09 p.m.