

HOUSE FINANCE COMMITTEE  
March 16, 2023  
1:31 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Andy Josephson  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Bryce Edgmon, Co-Chair

ALSO PRESENT

Randy Ruaro, Executive Director, Alaska Industrial Development and Export Authority.

PRESENT VIA TELECONFERENCE

Bryan Butcher, Chief Executive Officer and Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Geoffrey Johns, Chief Investment Officer, Alaska Industrial Development and Export Authority; Curtis Thayer, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

SUMMARY

PRESENTATION: ALASKA HOUSING FINANCE CORPORATION DIVIDEND PROGRAM

PRESENTATION: ALASKA INDUSTRIAL DEVELOPMENT AND Export Authority/ALASKA ENERGY AUTHORITY DIVIDEND and POWER COST EQUALIZATION PROGRAMS

Co-Chair Johnson reviewed the meeting agenda.

^PRESENTATION: ALASKA HOUSING FINANCE CORPORATION DIVIDEND PROGRAM

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BRYAN BUTCHER, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE (via teleconference), provided a PowerPoint presentation titled "Alaska Housing Finance Corporation Presentation" dated March 16, 2023 (copy on file). He began with information about Alaska Housing Finance Corporation (AHFC). The corporation ran all of the public housing in Alaska as well as vouchers. The corporation also operated a number of other federal and state programs. He detailed that two-thirds of AHFC's budget was comprised of federal funds for the public housing component and one-third was made up of corporate receipts earned by the corporation. The AHFC dividend was determined by funds earned on the mortgage side. The corporation provided mortgage programs for the benefit of Alaskans.

Mr. Butcher explained that every state had a housing finance agency due to a federal law passed 50 to 60 years ago allowing state housing finance agencies to sell tax exempt debt to fund purchases of mortgages. He detailed that it meant AHFC borrowed money by selling bonds on Wall Street and used the funds to buy mortgages for Alaskans. The tax exempt aspect lowered the interest rates because investors purchasing tax exempt bonds did not have to pay federal taxes on earnings off the bonds. He stated it gave housing finance agencies a unique niche. He elaborated that tax exempt bonds could only be sold to fund first time homebuyer loans. He noted that loans specific to first time homebuyers were the "meat and potatoes" of AHFC's work. There were five states that could sell tax exempt debt for veterans' loans including Alaska, Oregon, Wisconsin, Texas, and California.

Mr. Butcher relayed the loans were originated by AHFC's partners including banks, credit unions, and mortgage

companies. He expounded that homebuyers went to one of the aforementioned entities to ask about mortgage rates and may see an AHFC interest rate as most attractive depending on their circumstances. He explained that the banks, credit unions, and mortgage companies sold the mortgages to the secondary market where AHFC operated. The agency's competition in the secondary market was Fannie May and Freddie Mac, government sponsored enterprises (GSEs) in Washington D.C. He explained that a mortgage going to AHFC benefitted Alaska by keeping the dollars in the state and benefitted Alaskans by providing an interest rate that was frequently lower. He elaborated that AHFC was focused on working with Alaskans to keep them in their homes rather than what may be seen from Fannie May and Freddie Mac.

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Mr. Butcher moved to slide 3 titled "AHFC Transfer Plan Dividend." He discussed that in the late 1980s/early 1990s the price of oil dropped to \$10 per barrel, there had been massive shortfalls in state government, and there had been substantial stresses to the housing market. He relayed that AHFC had been well capitalized and in a position to help the state out with dividends. The corporation began paying out a dividend to the state comprised of AHFC's entire net income as negotiated between the governor, policy makers, and corporation. He relayed that after a couple of years, the dollar amount being taken in the dividend exceeded AHFC's net income. As a result, the credit rating agencies (Standard and Poor, Fitch, and Moody's) gave AHFC a warning that it was at risk of a downgrade because the action was eating into the equity of the corporation. The whole business model and opportunity to sell bonds depended on a high credit rating. He expounded that if the credit rating dropped, the interest the corporation had to pay on bonds would increase, meaning the interest rates charged to Alaskans would increase, which would take AHFC out of the game. Consequently, there had been great concern by the legislature, governor, and AHFC about the potential risk to the corporation.

Mr. Butcher relayed that House Bill 256 had passed in 2003 to put a sustainable dividend in statute. The first year, 95 percent of the corporation's net income went to the dividend, the second year 85 percent went to the dividend, and the third year 75 percent went to the dividend. The dividend remained at 75 percent going forward. Upon passage

of the bill, the corporation received immediate rating upgrades from all three credit rating agencies. The bond rating had increased, which reduced the corporation's cost of capital and benefited Alaskans. He explained that at the time of the rating increase, all three rating agencies communicated their concern was whether the 75 percent dividend would be honored over time. The statute had been honored by the governor and legislature in the 20 years since the bill's passage. Since the late 1980s, AHFC had transferred more than \$2.1 billion in dividends to the state and AHFC's financial strength had remained strong.

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Mr. Butcher provided a 10-year historical snapshot of the agency's dividend on slide 4. The dividend had been \$7.4 million when he had started the job in FY 13. Over the years the corporation had effectively increased the dividend, which had helped Alaskans increase mortgages, in addition to benefiting the state and AHFC. The dividend steadily increased from FY 14 to FY 19 and dipped a little in FY 20 before dropping considerably in FY 21 and FY 22 as a result of the pandemic and borderline recession where interest rates had been very low. The situation meant AHFC had been able to offer very low interest rates to Alaskans. Additionally, Fannie May and Freddie Mac had artificially low interest rates to help prop up the economy; therefore, much of AHFC's mortgage portfolio had refinanced out. He added that the situation also meant that AHFC's short-term investment rates had made very little. He remarked that although the dividend rate was very healthy compared to ten years ago, the decline in recent years, although inevitable, was not an exciting report to give to the legislature. He relayed that AHFC expected the dividend to recover and increase as soon as the coming year.

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Representative Tomaszewski looked at slide 4 and asked for the slide to be reconciled with slide 3. He highlighted the \$2.1 billion in dividends shown on slide 3 and pointed out that slide 4 showed about \$290 million in dividends for the past 10 years. He asked if the \$1.8 billion discrepancy was transferred prior to 2013.

Mr. Butcher agreed. He explained the agency had been paying a dividend since the late 1980s/early 1990s and he offered

to provide the committee with the entire history of the dividends. Slide 4 was intended to provide a more recent 10-year snapshot.

Mr. Butcher reviewed the agency's capital budget request on slide 5. He explained that numerous programs had been added to AHFC's list of responsibilities over the years ranging from programs AHFC managed like state match to federal dollars coming for public housing to the Rural Professional Housing Loan Program (teacher, healthcare, and public safety professional housing). In October of every year, the AHFC board determined the dividend based on 75 percent of the agency's net income and what the dividend to the state would be. The agency subtracted debt service sold on behalf of the state. He pointed to the top of the slide and highlighted that AHFC had sold debt for the University of Alaska Anchorage (UAA) student housing for dorms in FY 99 and had done a number of bond deals for state capital projects totaling \$100 million to \$200 million over the years. The agreement added in statute was that the dividend would pay for the debt service on the bonds into the future until paid off (in FY 24 for UAA and FY 34 for state capital project bonds). The debt service was subtracted from the available dividend of \$23.445 million for appropriation.

Mr. Butcher continued to discuss the capital budget summary. He explained that the AHFC board submitted a request of the corporation's capital needs at the same time it announced the dividend each year. As lower dividends had occurred, the board historically tended to not ask for more money than the agency was providing in the dividend. He elaborated that in big years of \$45 million to \$50 million, about half the funds tended to be used for AHFC's capital projects and about half for anything the legislature chose to appropriate in the capital budget. As things tightened, the funds were primarily used for AHFC's capital budget requests. There was no magic to using the dividend to specifically fund an AHFC project rather than any other project in the budget. Although, it was easier for AHFC to spend its money on its projects and for the state to spend its general funds on state projects rather than using the dividend to fund a Department of Transportation and Public Facilities project for example.

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Representative Josephson asked how much of the \$23 million request was in the governor's capital budget.

Mr. Butcher answered that the entire amount was included. He pointed to slide 5 and explained that the total capital budget dividend request matched the total AHFC dividend available for FY 24.

Representative Josephson asked if the agency had historically needed any special appropriations from the state to pay its bills and to advance a specific agenda. He clarified he was referring to requests outside of capital projects.

Mr. Butcher answered that the agency had never needed any state funds for its operating budget. There had been occurrences when AHFC needed state funds for its capital budget. For example, when the dividend had been only \$7 million in FY 13, it had not been nearly enough for the funding of AHFC's capital project programs. He explained that AHFC had requested the funds through the Office of Management and Budget and ultimately through the legislature. He noted it was unfortunate that AHFC had been in the situation, but fortunately it had only been a couple of years. The corporation had also had requests for taking on a much bigger size program than it could normally fund through its dividend. For example, in 2008 and 2009 when the state had been flush with money and the price of oil had exceeded \$100 per barrel, energy dividends had been sent out [to individual Alaskans] and there had been discussions about what would be a way to help Alaskans with the difficulty of paying their energy costs. He detailed that the finance committees had asked the agency to ramp up its low income weatherization program and a home energy rebate program for individuals making over 100 percent of median income. The corporation had received \$300 million in state general funds that year and \$700 million over the course of ten years for the program. He shared that the programs had been highly effective with an average energy reduction of 30 percent per home. The agency was always happy to entertain situations where a program was needed that did not fit into the size of the dividend.

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Representative Ortiz referenced AHFC's \$2 million capital budget request for energy home weatherization. He asked if

the increment in the budget was standard in recent years. He asked if it was sufficient in terms of demand for the program.

Mr. Butcher answered the requested increment was "more or less" what was typical. He detailed that the federal piece had grown from \$1 million (20 years earlier) to \$3 million. He elaborated that there were very low per house caps the federal government required of about \$8,000 per home; therefore, the federal dollars were primarily used in urban Alaska. He explained that \$8,000 per house in rural areas was not sufficient due to the cost of shipping, materials, and labor. The dividend funds were necessary to broaden the program to rural areas.

Representative Ortiz asked if the demand was much higher than AHFC could meet with federal and state dollars.

Mr. Butcher replied affirmatively. The need in rural and urban Alaska was great. The need was greatest in rural Alaska based on the condition of the housing stock. Another aspect of the work pertained to life, health, and safety issues. He elaborated the program was not only about making a home more energy efficient, it was also about looking at the furnace and some of the things that could potentially be catastrophic to a family if the work was not done right. He confirmed that the need was far greater than the dollars available.

Representative Ortiz relayed that the legislature had been hearing loudly about workforce issues around the state including problems with childcare and lack of affordable housing. He asked if there was anything more AHFC could do to help the state address the issue of housing.

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Mr. Butcher confirmed that the topic was within AHFC's purview. He explained that nationally about 20 years ago there was substantial workforce housing and high end housing provided by the private sector. Additionally, there had been affordable housing and senior housing for individuals with limited budgets who needed help through low income housing tax credits through the IRS and administered by AHFC and other current programs. In the past five years workforce housing and housing for the average Alaskan was unattainable (for purchase and for

construction) due to increasing costs. The corporation had been increasingly focused on the issue. He had a meeting earlier in the day about what AHFC could possibly do. The corporation had spoken with the state's congressional delegation, and he understood that Congress was looking at what could be done to help spur workforce housing. Additionally, AHFC had conversations with the governor in recent months. He explained that it got to a point where the issue was not only about Alaskans being unable to afford housing, it was also stifling economic development. There were companies all across the state that could expand but were unable to do so due to a lack of housing. It was a relatively new focus for AHFC, but it was absolutely trying to figure out a way to improve the situation.

Representative Hannan referenced the mental health bill request for beneficiary and special needs housing. She asked how long it had been since the increment had been increased.

Mr. Butcher responded that the numbers for the two programs were higher in total. He clarified the budget summary on slide 5 only included the portion coming from AHFC's dividend request and did not include federal and other funds. He stated that in the past the number had been fairly steady at \$3.75 million, but there had been years where it had decreased and increased. The special needs housing program also worked in concert with the Homeless Assistance Program. There had been years where one program had increased and the other had decreased, but the total of the two had remained about the same. The corporation would provide details showing the funding for the two programs over the past ten years.

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Representative Hannan asked if the demand was much higher than the funding available. She asked if there would still be a need if there was twice as much money allocated to beneficiary and special needs housing and homeless assistance. She wondered if they were anywhere close to meeting the current need.

Mr. Butcher replied that funding for the two programs was not adequate to meet the current need related to homelessness. The corporation did the best it could with the available funding split out between its programs.

Co-Chair Johnson asked Mr. Butcher to review the mental health homeless program and special needs housing. She asked how it interrelated with the caregivers and homes they may have.

Mr. Butcher replied that the primary purpose of the homeless assistance program was to keep homeless shelters open. He stated the amount was substantial and in rural areas the majority of the budget came from the program. The program funds accounted for a substantial piece of the operating cost (but not all) for larger communities. There was a bit more flexibility around how to spend the funding for beneficiary and special needs housing. Much of the new construction, such as the Housing First program and projects in Fairbanks, Anchorage, Nome, and Mat-Su came from the program. In general, the Homeless Assistance Program was operational dollars for shelters to remain open and the beneficiary and special needs was focused on the capital side such as housing units for those in need.

Mr. Butcher thanked the committee for the opportunity to discuss the program.

Co-Chair Johnson thanked Mr. Butcher.

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^PRESENTATION: ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY/ALASKA ENERGY AUTHORITY DIVIDEND AND POWER COST EQUALIZATION PROGRAMS

[2:03:14 PM](#)

RANDY RUARO, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, provided a PowerPoint presentation titled "Alaska Industrial Development and Export Authority Overview," dated March 16, 2023 (copy on file). He discussed Alaska Industrial Development and Export Authority's (AIDEA) statutory mission to fight poverty and advance jobs and economic development. The mission was based on the legislative findings in AS 44.88.010(a)(1) and (a)(2), in which the legislature found

there were areas of the state where seasonal and nonseasonal unemployment exist and that the unemployment was a serious menace to the health, safety, and general welfare of the people throughout the state. He relayed that jobs and economic development were the agency's key focus in the fight against poverty. He detailed that AIDEA was a financially sustaining public corporation of the state. He explained the agency was a political subdivision and it did not receive any general fund support by statute; the agency was self-supporting and independent.

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Mr. Ruaro advanced to the Loan Participation Program on slide 5. The program was AIDEA's most significant financial program with \$422 million of program loans outstanding. The loan program had increased 34 percent over the past five years. There was a zero percent delinquency rate on the program, which had been extremely successful and well run over the decades.

Mr. Ruaro discussed Alaska's Ship Home-Porting for Improvements Program (AK SHIP) on slide 6. The program was designed to bring maritime industry work back to Alaska. The program was fairly new, and he would be working with CDQ groups and others to try to bring significant amounts of maritime work - currently going to Seattle and Portland - back to Alaska.

Mr. Ruaro turned to the Conduit Revenue Bond Program on slide 7. The program had done over 300 projects and had close to \$1.5 billion in bond issuances. There had been no delinquencies and the program had been successful over the years. The agency was working with communities and others on possible additional issuances. He highlighted recent work with the Tanana Chiefs to expand their healthcare facilities at a cost of \$126 million.

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Mr. Ruaro moved to project financing on slides 8 and 9. He highlighted the Red Dog Mine as AIDEA's most successful project. He relayed that in 1985, the legislature passed SB 297 and SB 298 that created the Economic Development Fund and approved bonding for \$175 million. Without the funds, there would not have been a Red Dog Mine. He explained that at the time the company Cominco did not have the fiscal

ability to start the mine without the funds provided by AIDEA. The funds had been used to build the road and port. He relayed that the mine ran into trouble in 1990 with low commodity prices. He elaborated that AIDEA stepped up to save the mine with \$85 million in bonding for expansion. The expansion enabled high enough volume levels to allow the mine to remain in business. The mine was located on NANA land and involved a partnership between AIDEA, Nana, and Teck-Cominco. There were significant amounts spent operating the mine and the average salary at the mine was close to \$100,000. He believed the mine had 65 percent shareholder hire. Additionally, the mine contributed 7(i) payments (a provision of the Alaska Native Claims Settlement Act (ANCSA) requiring regional corporations to share their profits from resource development with other ANCSA corporations). The 7(i) payment spread across the state and circulated into the economy.

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Representative Ortiz stated his understanding that the state had been involved in financing the Red Dog Mine and the road to the mine. Additionally, he believed AIDEA's consultant Stanford Research Institute had suggested AIDEA needed to look at starting to charge fees for the use of the road in order to recoup some of the state's investment in the road project. He asked if Mr. Ruaro had a comment on the topic.

Mr. Ruaro replied that the state received a 6.5 percent return on the bonding for the project. The state was receiving net revenue from the road and the port.

Representative Ortiz asked if it had always been the case. He wondered why the Stanford Research Institute would not have addressed the particular issue.

Mr. Ruaro replied that the state had always received fees from the port and road as written in the bill passed in 1985. He did not know why the institute had stated otherwise.

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Mr. Ruaro highlighted the FedEx hangar at the Anchorage airport as another AIDEA project on slide 10. The project had been very successful in anchoring a tenant at the

airport. He relayed that AIDEA was preparing to make some improvements that would be rolled into the lease payments. The agency was also looking to work with FedEx on any expansion opportunities. He turned to the Ambler access project on slide 11. The project was in the permitting and development stage. He detailed that in the 1980 Alaska National Interest Lands Conservation Act (ANILCA) bill, Congress had granted Alaska an easement for the project as recognition of the significant mineral deposits in the Ambler mining district. The project was a 211-mile road east off the Dalton Highway into the Ambler mining district through the Gates of the Arctic National Park and Preserve. He explained there was current litigation [in opposition to] the project. The state was trying to work through the situation to result in a decision to move forward. The agency anticipated a decision in the next 90 days that could enable the project to move forward with a more significant fieldwork plan. Currently the fieldwork plan was at \$24 million, and Ambler Metals paid for half. There were over 3,000 mining claims in the area along the base of the Brooks Range offering significant opportunities.

Representative Josephson asked for verification that Mr. Ruaro had stated Ambler Mining [Metals] would pay half of the cost of the fieldwork.

Mr. Ruaro agreed. He detailed that AIDEA had an MOU [memorandum of understanding] with Ambler Metals outlining the company would pay half of the cost.

Representative Josephson asked if the state would pay for the other half through AIDEA.

Mr. Ruaro agreed.

Representative Josephson asked if AIDEA could do so without the approval of the legislature.

Mr. Ruaro believed the legislature appropriated a significant amount of funds for the Ambler project. He would have to follow up to see if there were additional funds remaining. He noted there were some appropriations when former Governor Sean Parnell was in office.

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Representative Hannan stated her understanding that when the Red Dog Mine was built, the economic viability of the mine was already known. She remarked that the Ambler Mine was still in the exploration stages. She observed that 3,000 mining claims did not guarantee there would be 3,000 mines or that any of the claims would go into production. She asked what would happen if a road was built and there was never a mine that could pay back any of the investment costs.

Mr. Ruaro replied that AIDEA would take steps to not build the road until it was certain the costs would be covered. He stated it was the approach taken on the Red Dog Mine and had been written into the bill that authorized the bonding. The bill specified that the mining companies would be responsible for the cost of the road to go forward before it would proceed.

Representative Hannan asked if the \$24 million referenced by Mr. Ruaro was associated with the engineering of putting in the road.

Mr. Ruaro agreed.

Representative Stapp remarked that at the beginning of the presentation Mr. Ruaro had described AIDEA as a self-supporting entity. He thought he had heard Mr. Ruaro state that the legislature was appropriating funds to enable AIDEA to issue bonds.

Mr. Ruaro responded that at times the legislature had provided funding to AIDEA for projects.

Representative Josephson asked for verification that the Susitna Watana Dam was an AIDEA and Alaska Energy Authority (AEA) project.

Mr. Ruaro replied that the project was much more on the AEA side.

Representative Josephson thought the state spent \$190 million on the project in 2013 and 2014. He asked for verification that the dam had not been built.

Mr. Ruaro confirmed the dam had not been constructed.

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Mr. Ruaro turned to AIDEA's West Susitna Access Project on slide 12. The project was for a road of approximately 100 miles with significant recreation and mineral values. The project was in fairly early development and AIDEA was working with the Army Corps of Engineers on a permit and EIS [environmental impact statement]. There had been no litigation on the project to date; however, moving forward it was possible.

Co-Chair Johnson asked members to hold their questions to the end of the section on page 14.

Mr. Ruaro moved to slide 13 titled "Future Project Development - ANWR 1002 Leases." He shared that AIDEA held several leases in the 1002 federal area pursuant to congressional action in the 2017 Tax Cut and Jobs Act that required the Department of Interior to offer at least two lease sales. He elaborated that AIDEA had bid on some of the leases to preserve the opportunity for development in Alaska National Wildlife Refuge (ANWR). The potential mean estimate of barrels of recoverable oil on federal lands was 7.7 billion. There was an estimated 3 billion additional barrels of recoverable oil in the adjacent state waters to ANWR and on Kaktovik Corporation lands inside ANWR. He detailed that the potential return to the state treasury ran in the tens of billions of dollars if developed.

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Representative Hannan asked about the West Susitna Access Project [slide 12]. She stated that there was an economic matrix for other projects to gauge their economic viability. She highlighted Mr. Ruaro's statement that the particular road was a recreation opportunity. She asked how that particular characteristic was valued and evaluated in the construct of economic development. She asked if it implied the road would go forward for its recreational opportunities exclusively even if there were no mineral developments or alternative energy projects.

Mr. Ruaro replied that the economics of recreation were valued as well as mining. There was a possibility there would be value in opening recreational opportunities and moving forward with a road even without the mines. He noted the road would likely be much shorter.

Representative Hannan asked if AIDEA had ever participated in a project purely for recreational opportunities.

Mr. Ruaro answered that AIDEA had invested in hotels for tourism. He noted that nothing came to mind in terms of recreational activities. He would follow up on the question.

Co-Chair Johnson referenced the [Wasilla] Extreme Fun Center and did not know whether it was an AIDEA investment.

Representative Josephson referenced the West Susitna Access Project and relayed he had been told it was unclear that the mineral deposit was viable. He asked if they were putting the cart before the horse. He wondered if they were building a road that may not serve mining because of a lack of true economic feasibility.

Mr. Ruaro answered that AIDEA would track all of the exploration activity and filing of reports required. The agency would be talking with the companies and would make an informed decision before moving forward on any road construction. He stated that AIDEA would take into account if the mines were not moving forward. He noted there were several years before the permitting process was complete. The agency would not make any rash decisions.

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Mr. Ruaro provided financial highlights on slide 15. In 2022, AIDEA's net income was \$35.8 million with over 28 consecutive years of positive annual net income. He detailed it was a 45 percent increase over the previous five-year average and a 26 percent increase in the previous ten-year average. The annual dividend was \$17.9 million in 2022. The agency had declared \$463 million in dividends since 1996, reflecting a 67 percent increase in the previous five-year average and a 47 percent increase in the previous 10-year average.

Co-Chair Johnson asked members to hold their questions through slide 18.

Mr. Ruaro moved to slide 16 titled "Where Does AIDEA Get its Money?" The agency received its money through the loan participation program, successful project investments, and externally managed AIDEA-owned funds. He moved to a FY 22

financial summary on slide 17 showing AIDEA's end of year net position of \$1.4 billion. He described AIDEA's FY 24 operating budget as fairly benign (on slide 18). There was some increase largely due to the significant amount of federal funds AEA would receive under the Infrastructure Investment and Jobs Act (IIJA) and in competitive grants. He believed the amounts were potentially in the hundreds of millions of dollars. He explained that AEA would need some additional staff to manage the funds.

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Representative Josephson looked at securities and cash of \$611 million and assets of \$1.4 billion on slide 17. He noted that Mr. Butcher had told the committee that the state received 75 percent of AHFC's net income. He asked what percentage of AIDEA's net income was received by the state.

Mr. Ruaro answered that AIDEA's dividend was set in statute as an amount between 25 and 50 percent of its annual net income. He elaborated that AIDEA's board of directors decided on the amount within the aforementioned range.

Representative Galvin looked at the 1002 leases on slide 13. She thought AIDEA had been the only bidder. She asked how AIDEA had decided it would not be risky [to bid on the leases]. She asked if the intention was to do some development. She noted that the slide indicated a USGS estimate that ANWR had 7.7 billion barrels of oil. She asked if AIDEA had bid on the leases because it had the data to prove the viability of the area.

Mr. Ruaro replied that the USGS had made a number of assessments over the years. The 2005 estimate was relied on by the Congressional Research Service and others. He believed it represented a fair estimate of recoverable oil in ANWR.

Representative Galvin asked if the agency still felt that way even though no other companies had submitted a bid.

Mr. Ruaro replied, "Absolutely."

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Representative Hannan asked if AIDEA could evaluate what the carbon sequestration value would be on the leases if a carbon sequestration program was created in Alaska.

Mr. Ruaro responded the analysis had not been performed. He would be surprised if it would come anywhere close to the value of billions of barrels of oil. He relayed that AIDEA had run some preliminary numbers and the value would run in the tens of millions of dollars and possibly more.

Representative Ortiz asked how much it cost the state to keep leases viable moving forward on an annual basis.

Mr. Ruaro answered that currently the federal government was currently refusing the state's annual lease payments because it had had put the leases in suspension.

Representative Ortiz asked for details.

Mr. Ruaro responded that shortly after President Biden took office he had issued a directive to suspend the leases while the Department of Interior reviewed the leases and the process to see if additional analysis was needed prior to moving forward with the oil and gas program.

Representative Cronk looked at the West Susitna Access Project on slide 12. He thought it would open up thousands of acres of agriculture land.

Mr. Ruaro recalled that the estimated state acreage was over 200,000 acres of state land.

Representative Cronk remarked that there were also 700,000 acres of forest timber and possible fire suppression acres in the area.

Mr. Ruaro answered there were a lot of positive uses for the area including fire suppression, timber, minerals, and recreation. He noted it was a significant area of the state.

Mr. Ruaro turned to slides 20 and 21 related to AIDEA's annual dividend. He relayed that revenue generated by AIDEA was issued as dividends and reinvested in AIDEA projects and programs. Slide 21 showed an overview of the annual dividend payments. He believed AIDEA had declared a positive dividend for 28 consecutive years. On average, the

dividend declared by the board was 47 percent of the net income, which was 3 percent short of the maximum.

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Mr. Ruaro moved to slide 22 and relayed that the 2022 declared AIDEA dividend was unique because it included a value for the Mustang Road. The dividend broke down to roughly \$4 million in cash and \$13.9 million in value attributable to the Mustang Road. The budget amendment had been delivered to the legislature by the governor's office and the Office of Management and Budget (OMB).

Representative Josephson remarked that Mr. Butcher had talked about spending half of the AHFC dividend on capital projects in many years and the state was free to do what it wanted with the other half, which was often \$20 million. He asked for verification that AIDEA's proposal was to invest most of its dividend in the Mustang Road and give the state \$3 million or \$4 million.

Mr. Ruaro clarified that the proposal was not to invest \$13.9 million into the Mustang Road, it was to take into account the value of the Mustang Road at \$13.9 million as the asset was transferred back to the state. The proposal was asking for the approval of a credit to the dividend in the amount of \$13.9 million associated with the road.

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GEOFFREY JOHNS, CHIEF INVESTMENT OFFICER, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (via teleconference), discussed the Mustang Project on slides 25 through 31. Slide 25 showed a map of the North Slope including the Southern Miluveach Unit (SMU) circled in red (approximately 55 road miles to the west of Dead Horse). He noted there was year-round access to infrastructure through the Prudhoe Bay Unit, Kuparuk River Unit, and the SMU area as well. He highlighted that AIDEA had involvement with the former working interest owner/operator Brooks Range Petroleum since 2009. Slide 26 showed a satellite image of the Mustang Road shown in blue. The image showed a faint curved line indicating the ~4.5 mile Mustang Road, terminating at the Mustang pad on the left of the image.

Mr. Johns discussed the Mustang Road timeline on slide 27. In calendar year 2012, the AIDEA board approved a \$20

million investment (through resolution G12-08) to construct the Mustang Road and pad. He relayed that at the time, the total cost of construction had been estimated at \$25 million and the Brooks Range Petroleum Corporation was to fund the residual \$5 million and any cost overruns. The road had come in near budget at \$26 million. In 2013, efforts related to the road and pad had been completed. Later in 2013 AIDEA had approved a cost reimbursement agreement with Brooks Range Petroleum related to the development of SMU (specifically, the Mustang Project located on the unit). He noted that the Department of Natural Resources (DNR) also granted Brooks Range Petroleum a five-year early entry authorization related to the development.

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Mr. Johns continued to address the Mustang Road timeline on slide 28. He relayed that in 2015 and 2016 the project had suffered from the precipitous decline in commodity prices and was ultimately placed into a standby status. In 2017, the assignment of the Mustang Road easement to AIDEA was an effort to reorganize the ownership structure of the project and ultimately taking efforts to get it into production. The AIDEA board approved acquisition of Mustang Road LLC (MR LLC), a minor working interest owner in the development. In an effort to recover capital, Brooks Range Petroleum and the AIDEA owned MR LLC entered into a road and pad use agreement where usage on the road ultimately accrued back to MR LLC. In 2018, Brooks Range and Oil Search Alaska (and the Pikka development) entered into a month-to-month SMU infrastructure agreement. He explained that the Mustang Road was the only source of year round access into the Pikka unit to the west of SMU.

Mr. Johns continued to review the Mustang Road timeline on slide 29. In 2019, Brooks Range Petroleum was granted a 20-year private non-exclusive easement for the 4.5 mile Mustang Road. Shortly after the granting of the easement, Oil Search Alaska applied for an easement covering the entire length of the Mustang Road and 14 miles of the road constructed from the terminus of the Mustang Road out to the west related to the Pikka development. In the third quarter of 2019, Brooks Range Petroleum provided a letter to DNR stating that the easement application overlying the 4.5-mile portion of the Mustang Road was in conflict with the previously granted easement to Brooks Range Petroleum.

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Mr. Johns turned to slide 30 and continued to discuss the Mustang Road timeline. In 2020, DNR granted Oil Search Alaska a five-year entry authorization based on its determination that the overriding easement presented long-term economic benefit to the state and access to resources. Subsequently, Brooks Range Petroleum filed an appeal based on the argument that the granting of the overriding easement took private property (the Mustang Road) without consideration, consent, or cooperation to the owner/operator of the road. He explained that the appeal automatically stayed the easement decision; however, the DNR commissioner removed the stay causing the appeal to remain in adjudication status. In the second quarter of 2020, AIDEA and Oil Search Alaska entered into an MOU and cost reimbursement agreement to develop a financing plan for surface infrastructure including access roads and pads for the development of the Pikka Unit.

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Mr. Johns advanced to slide 31 and continued to review the Mustang Road timeline. In 2021, following the September 23, 2020 nonjudicial foreclosure in which the AIDEA owned entity Mustang Holding LLC became the 90.1 percent working interest owner of SMU. The entity also became the operator and party of record on the Mustang Road easement and easement appeal. He explained that Mustang Holding LLC was granted the opportunity to provide a supplement to the appeal and Oil Search Alaska (now Santos) was granted a rebuttal to the supplement. More recently, Santos applied to DNR for an export pipeline right of way parallel to the Santos portion of the road system in addition to the 4.5-mile Mustang Road. Subsequently, DNR granted a right of way to Santos. Pursuant to AIDEA board resolution G22-15, AIDEA declared a \$17.9 million dividend for FY 24, of which, \$13.9 million reflected the value of the Mustang Road.

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Representative Josephson referenced Mr. Ruaro's testimony that AIDEA would not move forward with a road until the economic benefit was confirmed. He thought it was entanglement in complication after complication.

Mr. Ruaro asked for clarification on the question.

Representative Josephson highlighted the information shown on the slides indicated that the issue was repeatedly in court or administrative hearings with DNR.

Mr. Ruaro confirmed that the issue was before DNR in an administrative hearing.

Representative Josephson remarked that the investment the state had made over the last 40 years was \$300 million of public funds to support economic development through AIDEA. He estimated it was more than \$50 million per year. He noted that the Department of Environmental Conservation's budget was \$23 million. He referenced a report from MB Barker/LLC Erickson & Associates suggesting that if the state had put the money in the Permanent Fund instead, it would be worth \$11 billion. He assumed AIDEA took issue with the analysis.

Mr. Ruaro confirmed that he took issue with the analysis and many other points in the report. He relayed that AIDEA was preparing a rebuttal that would be made public and shared with the House Finance Committee when complete.

Representative Ortiz referenced the 2022 AIDEA dividend and components including \$4 million in cash and the assets of \$13.9 million for the Mustang Road. He asked if assets had ever been used as part of the dividend payment in the past.

Mr. Ruaro answered it was the first time he that was aware of.

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Representative Stapp remarked that there had been discussion during the meeting about AIDEA's successes but not about its failures. He referenced the study mentioned by Representative Josephson that concluded 50 percent of AIDEA's investments had been failures and had not produced any economic value to the state despite initial capital of \$300 million. He asked how to make AIDEA better. He highlighted a couple of good projects and noted there had been plenty of bad ones.

Mr. Ruaro replied that AIDEA had a bond level limit and exceeding that limit required legislative approval. When

legislative approval was required, it enabled the legislature to get involved in the process. In the case of the Red Dog Mine, there had been conditions placed on the bonding authority by the legislature. He explained that requiring legislative approval was a check and balance opportunity for the legislature before projects could move forward. He welcomed legislative involvement in the larger projects. He noted in the past the bond limit had been \$25 million. He believed a robust review by the legislature before a project could move forward was helpful. He remarked it had been helpful in the Red Dog case and should likely continue to be in place.

Representative Stapp relayed that the Interior Gas Utility (IGU) in Fairbanks recently signed a contract with Hilcorp to get gas trucked from the North Slope. He stated that in the past there had been a gravel pad that IGU had looked at assuming. There had been some issues several years back relative to DNR and some federal entities. He believed AIDEA had ended up taking over the pad. He believed it would be used to truck the gas to Fairbanks. He stated that somehow AIDEA was going to end up charging Fairbanks to ship gas from a pad it used to own. He asked Mr. Ruaro to elaborate.

Mr. Ruaro responded that he was not familiar with the details. He knew the pad existed and was in use. He believed AIDEA had been supportive of IGU over the years. He would follow up with details.

Representative Cronk asked where the legislature would go to get funding for the projects if AIDEA did not exist. He thought AIDEA had been created to avoid digging into the Permanent Fund.

Mr. Ruaro agreed. He believed there had been a conscious decision made by the legislature that "these sorts of projects" for economic development and jobs would be managed by AIDEA as opposed to being funded by the Permanent Fund. He believed it had been consciously decided by the legislature to place the risks on AIDEA.

Representative Cronk thought the legacy projects were more valuable. He remarked that community-based projects were pulling people out of poverty. He asked for details.

Mr. Ruaro replied that Red Dog was the best example. He detailed that shareholder hire in a very rural area was 65 percent or higher and average wages were \$100,000 per year, which enabled employees to support a family. He believed a health impact assessment had been done, which found that the income made it possible for individuals to live a subsistence lifestyle. The project had health and economic benefits. The number was closer to \$2 billion now and revenue spread out across the state from the project.

Representative Cronk stated there had been a road built in Sitka for recreation that would likely cost over \$60 million. He stated the road under discussion for possible recreation was located in an area with 100,000 residents and providing access to another 200,000. He remarked that the road would benefit at least half the state's population. He thought it was a good road to build.

Mr. Ruaro agreed. He believed there was a good reason to build the road. He added that AIDEA would still monitor the development of the mines prior to moving forward with a mining road. He noted there was significant value in the area.

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Representative Cronk stated the Permanent Fund was not pulling people out of poverty. He underscored that resource development was pulling people out of poverty. He stressed that without resource development there was not sufficient money to fund the state. He thanked AIDEA for being part of the larger vision for Alaska. He noted there was a legacy project in his district and when it was complete there would be senior housing for the future. He noted it may not bring instant money back to the state, but it brought immediate value to local communities. He remarked that commercial fishing was the same. The state only received a finite amount of the revenue, but the industry provided substantial benefit to communities.

Mr. Ruaro responded that he had grown up in Ketchikan and the timber industry had provided resource development jobs for the community. There had been thousands of jobs in the timber industry. He noted there had been large and small businesses and property tax revenue. He stated it had anchored the southern Southeast region. He explained that

Ketchikan had been a different type of town after the businesses were lost.

Representative Josephson corrected his earlier statement regarding the total state investment to AIDEA. He estimated that if the total state investment was \$300 million over 40 years, the annual amount would be much lower than he had indicated earlier. However, he observed there was a \$200 million request for Ambler Road.

Co-Chair Johnson thanked the presenters for the presentation.

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RECONVENED

CURTIS THAYER, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (via teleconference), provided a PowerPoint presentation titled "AEA Overview Presentation," dated March 16, 2023 (copy on file). He shared that the Alaska Energy Authority (AEA) had been created in 1976 by the legislature as a public corporation similar to AHFC and AIDEA. The agency was governed by a board of directors. The agency's mission was to reduce the cost of energy in Alaska, but it was growing into resilience and redundancy on the power systems in Alaska.

Mr. Thayer moved slide 3 titled "What We Do." He highlighted AEA programs including Railbelt energy, Power Cost Equalization (PCE), rural energy, renewable energy and energy efficiency, grants and loans, and energy planning. Slide 4 included a map of Alaska reflecting all of AEA's active projects including things like renewables, PCE, rural training, and storage and transmission lines. He relayed that AEA touched over 197 rural communities, the complete Railbelt, and Southeast.

Mr. Thayer moved to slide 5 and discussed urban energy and the Bradley Lake Hydroelectric Project northeast of Homer. The project had been energized in 1991 and was Alaska's largest renewable energy project. The project was paid off (there was debt associated with upgrades to the project, but not on the project itself). The project provided low

cost energy to over 500,000 Alaskans and 10 percent of the Railbelt energy at 4.5 cents, which was the cheapest on the Railbelt. The project electrified about 54,000 homes, saving the Railbelt approximately \$20 million per year. He highlighted the Dixon Diversion Project currently in AEA's capital budget. The project was located five miles from Bradley Lake. He explained it was a similar glacier/lake/river and AEA was looking at diverting the water towards Bradley to electrify more than 28,000 homes. The project would increase the capacity of Bradley by about 50 percent.

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Mr. Thayer turned to slide 7 and continued to discuss the Bradley Lake project. The project was managed by the Bradley Lake Project Management Committee. He detailed that AEA owned Bradley and partnered with the five utilities on the Railbelt. The slide indicated the percentage of water or power the utilities received from the project. He highlighted that Golden Valley Electric Association (GVEA) received almost 17 percent of the power from Bradley Lake even though it was close to 600 miles away. The partners worked together to determine how the project should be managed and what type of upgrades were needed.

Mr. Thayer turned to slide 8 and highlighted the need for transmission upgrades and battery storage. He explained that the 40-year-old line from Bradley to Anchorage was at capacity. He detailed that if AEA looked at introducing renewable energy - whether to expand Bradley or add wind, solar, or tidal - the state did not have the power line to move the power. He underscored the need to focus on resilience and upgrade transmission lines. The agency and its utility partners had identified four different areas of work including transmission upgrades between Bradley Lake to Soldotna, Soldotna to Sterling, and Sterling and Quartz Creek and battery energy storage systems for grid stabilization. He relayed that AEA had bonded \$166 million in December 2022 to start the upgrades. He estimated the cost would likely be closer to \$500 million to \$600 million with inflation. When the \$166 million bonds were paid off, there was a provision in the power sales agreement that allowed AEA to use any remaining funding on required project work. The project work listed on slide 8 was identified as required project work by the Department of Law (DOL) with independent analysis by an outside

engineering firm. Currently, 35 percent of the \$166 million would be dedicated to battery energy storage and 65 percent would be used to begin the upgrades.

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Mr. Thayer turned to a map showing Railbelt upgrades on slide 9. He detailed that Bradley was shown in yellow (located outside of Homer), the Chugach was shown in purple, the Matanuska Electric Association was shown in orange, and GVEA was shown in blue. The numbers shown on the map signified areas of the upgrades and the battery storage systems were labeled "3."

Mr. Thayer highlighted the AEA owned Alaska Intertie on slide 10. The intertie was 170 miles long from Willow to Healy and brought power from Southcentral Alaska to Fairbanks. The benefit was \$37 million in cost savings to GVEA customers in Fairbanks because they were able to buy power at a cheaper rate and ship it north at a lower cost. He noted the area also received power from Bradley. He asked members to keep the \$37 million [in savings] in mind moving forward in the presentation.

Mr. Thayer moved to rural energy beginning with PCE on slide 12. He relayed that the PCE program had been established in the mid-1980s and in the past 10 to 15 years it had been aggressively funded in an endowment to help subsidize rural Alaska. He explained that the Regulatory Commission of Alaska (RCA) looked at the cost of energy in Fairbanks, Anchorage, and Juneau and established a floor. The floor was approximately 19.9 cents in the current year. There was a statutory ceiling of 75 cents. He elaborated that rural Alaska would basically have Railbelt prices because the state subsidized the 19.9 cents up to 75 cents. He noted it had previously applied to the first 500 kilowatts and the legislature had raised the amount to the first 750 kilowatts in 2022. The program included 91 utilities and 82,000 Alaskans. In FY 22, AEA distributed \$27.4 million with the program. He relayed that AEA anticipated the amount to increase and had raised the kilowatt by 50 percent. The agency did not necessarily think the cost would increase by 50 percent, but it was the first year of the 750 kilowatts. He highlighted that the Fairbanks economy saved \$37 million because the state invested in infrastructure and in rural Alaska, earnings on the endowment helped subsidize and provide the balance in

rural Alaska. He added that public facilities in rural communities were also eligible for PCE.

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Representative Stapp referenced the 19 cents per kilowatt as the floor. He believed he was paying 25 or 26 cents per kilowatt. He asked for an explanation.

Mr. Thayer answered that the statutory formula was the weighted average cost between Fairbanks, Juneau, and Anchorage. Fairbanks was the outlier with the higher cost and Juneau was closer to 9 to 10 cents per kilowatt. The amount was adjusted annually by the RCA.

Representative Stapp stated that he wished Mr. Thayer had not told him how much Juneau paid for electricity.

Mr. Thayer answered that Juneau had hydro, which was cheaper. The older the hydro was, the cheaper it became. He highlighted that Bradley was 4.5 cents, which was the cheapest on the Railbelt.

Mr. Thayer turned to slide 13 titled "Who is Eligible to Participate in PCE?" He relayed that PCE eligibility was determined by the RCA in accordance with Alaska statutes. The program applied to residential and community facilities including water, sewer, public lighting, etcetera. State and federal facilities and commercial customers were ineligible for the program.

Co-Chair Johnson looked at the Dixon Diversion Project on slide 6 and asked how much it would cost to build.

Mr. Thayer answered AEA was in the beginning stages of analyzing the cost. The agency had done some initial work and shared it with utilities. The agency felt confident enough to request \$5 million in capital funds to continue the studies. The agency estimated the project came in around 6 cents per kilowatt. He noted that Bradley was 4 cents per kilowatt and natural gas was around 8 to 9 cents per kilowatt. He explained that AEA was requesting funding to perform the geotechnical and LiDAR [light detection and ranging] work and the engineering. The agency's utility partners on the Railbelt believed the project was economically viable, but it had not yet been proved out. He noted the project was located five miles from Bradley and

AEA would divert water from the project into Bradley. He relayed it was an amendment to the Federal Energy Regulatory Commission (FERC) license. He added that AEA would not necessarily need to be involved in a lot of the studies and issues because it would be diverted to Bradley to the power plant.

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Representative Tomaszewski believed GVEA bought into the Bradley Lake project. He thought the GVEA members had paid for 17 percent of the power production. Separately, he remarked that some utilities were not able to call hydro renewable energy. He asked why.

Mr. Thayer replied that Bradley was a state-owned project. He clarified that the utilities agreed to bond at \$12.8 million per year for 30 years. The state had put additional capital appropriations exceeding \$100 million into the project. He explained that GVEA had paid for roughly 17 percent of the bonds. He elaborated that GVEA and the other utilities continued to buy 4 cent power, which enabled the bonding to occur. He noted the bonding payments went to excess payments of \$12.8 million. He relayed that AEA had also done the Battle Creek diversion a couple of years ago. Four of the utilities had participated in the project, which had added about 5 percent more power to Bradley. He relayed that GVEA had not participated in the project. Only in the last year had there been a buy-in provision enabling GVEA to buy in on Battle Creek to receive a bit of additional water. He clarified that all five utilities had participated in the original construction of Bradley. He explained that GVEA had not initially bought into the Battle Creek diversion, but the utility subsequently bought in and is receiving power from the project. He detailed that the Dixon Diversion was similar to Battle Creek and was diverting more water into Bradley to produce more power.

Mr. Thayer addressed the second portion of Representative Tomaszewski's question. He stated that some circles in the federal government did not recognize hydro as renewable. He noted that had not been the state's position. He stated that in the past two to three years the idea that hydro was not renewable was starting to be dismissed by the Department of Energy. He highlighted that as California had experienced issues, hydro and pumped hydro had stepped in

to help save California and other states from being in the dark. He believed the idea that hydro was not a renewable energy was a bureaucracy terminology thing. He thought everyone else recognized that hydro was renewable energy.

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Co-Chair Foster thanked Mr. Thayer for pointing out the balance between rural and urban regarding PCE and how it came about. He remarked that sometimes people asked why rural Alaska received a subsidy for electricity and sometimes there was a push or movement by members of the legislature to raid the \$1 billion in the PCE Fund. He referred to the grand bargain in the past when Bradley Lake and the Intertie system had been constructed. He stated that when it was all added together, along with the tax credits in Cook Inlet, it amounted to around \$2 billion. He remarked that sometimes people saw the \$1 billion in the PCE program as a "freebie" for rural communities; however, PCE was the state's effort to try to provide energy assistance to rural or urban Alaskans. Unfortunately, the PCE program was more susceptible because it was money sitting in an endowment, whereas it was not possible to take down a hydroelectric program, take back tax credits, or disassemble an intertie. He remarked that he was sensitive about the issue.

Representative Cronk echoed the sentiments of Co-Chair Foster. He considered the cost associated with providing relatively cheap energy in some urban areas. He wanted to ensure people understood PCE was not giving free money to rural areas. He had more communities on PCE than any other district in rural Alaska. He underscored the importance of PCE for rural Alaska. He thanked Mr. Thayer.

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Representative Coulombe asked about the fund source of the \$5 million for the Dixon Diversion project.

Mr. Thayer answered the increment was in the governor's proposed budget under undesignated general funds (UGF).

Representative Coulombe asked if it was possible to pay for the item with PCE funds.

Mr. Thayer responded that the Dixon Diversion project was an urban power project to benefit the Railbelt. He clarified that the \$1 billion in the PCE fund was for the 197 rural communities. He relayed that a couple of years ago the legislature had implemented a waterfall mechanism where the first earnings went to PCE and the second portion went to community assistance primarily in rural Alaska. He explained that if the earnings reached a certain point, up to \$25 million could be used for the Renewable Energy Program, powerhouses in rural Alaska, and the Revolving Loan Program. The PCE endowment by statute was aimed at benefitting rural Alaska. He confirmed that Co-Chair Foster was correct that the tax credits in Cook Inlet to benefit the Railbelt were \$1.3 billion. He highlighted the additional cost of building the transmission lines and Bradley Lake. He pointed out that when Fire Island came online, the state put \$25 million into a transmission line. When AEA's budget request had been made, it was to make sure the funds were UGF as it pertained to a certain segment of Alaska.

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Mr. Thayer returned to the map on slide 13 showing who was eligible for PCE. He moved to rural power system upgrades on slide 14. He highlighted that of the 197 communities, the state had more of a moral obligation to help upgrade powerhouses in the smaller rural communities. He elaborated that the powerhouses were basically built and were 14 feet by 46 feet, most with three generators. The agency had a \$7.5 million capital request, which leveraged up to \$25 million in federal funds primarily through the Denali Commission to help with maintenance, improvement, and emissions reduction. He relayed that the deferred maintenance in powerhouses in rural Alaska was over \$300 million. The slide showed two images of before and after upgrades.

Mr. Thayer discussed bulk fuel upgrades on slide 15. There were over 400 rural bulk fuel upgrades with an associated capital request of \$5.5 million, which would leverage \$7.5 million in federal funds. The goal was code compliant fuel storage facilities and prevention of spills. There were currently eight active projects and 18 maintenance projects over the next two years. The agency had only received funding the past three years for the program and the funds leveraged Coast Guard regulatory efforts to capture

assessments to prioritize projects. He explained that the tank farms were located on the coast and rivers and the state could not afford a failure where thousands of gallons of diesel were dumped into the waterway. The deferred maintenance on the program was \$800 million. The capital request was the same as the prior year.

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Representative Cronk looked at slide 14 related to rural power system upgrades. He asked if AEA tracked whether the upgraded power systems were maintained and how long they lasted. He remarked that if the state was investing substantial money, it was important for communities to ensure the systems were being maintained.

Mr. Thayer replied affirmatively. The agency had done an assessment and inventory of all 193 communities with the upgrades. He noted that AEA also provided training. He elaborated that AEA had 3D modeling on every power plant; therefore, if there was an issue at a power plant, AEA could work with the operator to help identify the issue and concern. Some of the power plants were associated with rural utilities and about 45 or 50 were on their own; when their power went out, AEA was the emergency responder. He stated that maintenance was key on the projects. He remarked that the training component was one of the largest issues because once someone was trained in a small community and they had an opportunity to go to a larger community to make more money, it resulted in a revolving door. The agency used the Alaska Vocational Technical Center (AVTEC) training center in Seward as one of its primary training areas on a regular basis.

Representative Cronk looked at slide 15 related to bulk fuel. He asked if AEA only upgraded bulk fuel for power plants. Alternatively, he wondered whether AEA also replaced tanks for regular gas as well.

Mr. Thayer answered that the upgrades were primarily for the power plants, but AEA would do others depending on the circumstances. There were 197 rural communities with powerplants and over 400 rural bulk fuel facilities. He noted that schools could have their own bulk fuel facilities in rural Alaska; therefore, there may be two or three facilities in a community.

Co-Chair Johnson had heard that in villages typically the big consumers of fuel oil set the price. For example, if a barge company selling fuel oil named a price to a school or other large public consumer, it set the fuel price for the entire community. She noted it meant the price could be high because there were no other places to purchase the fuel. She wondered how the fuel purchase in a community had an impact on home fuel cost.

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Mr. Thayer replied that the topic was outside of AEA's wheelhouse. When new bulk fuel facilities were constructed, AEA aimed to ensure they were appropriately sized for the community. Typically, if a community bought fuel in bulk, the price was lower. There were at least three distributors of fuel oil or diesel in rural Alaska. He explained that the distributors had negotiated rates that AEA was not part of. He explained that AEA wanted to avoid situations where a bulk fuel facility was not sized appropriately and communities had to fly in fuel at an extremely expensive cost. The Division of Community and Regional Affairs [under the Department of Commerce, Community and Economic Development] had a bulk loan program and may have better statistics.

Co-Chair Johnson wanted to ensure the state was not inadvertently causing a higher price for individuals.

Representative Stapp observed that the deferred maintenance shown on slides 14 and 15 totaled \$1.1 billion. He believed the figure was on top of the state's other deferred maintenance obligations. He asked if there was a long-term strategy to deal with the obligations. He assumed the cost reflected the liability of the local power utilities (i.e., Nushagak Electric and Telephone Cooperative in Dillingham).

Mr. Thayer answered it was a policy call by the legislature in terms of funding powerhouses and bulk fuel in rural Alaska. He detailed that in the past several years, the current administration had been aggressive in making certain there was funding available for both items; however, when the state had been lean with funding, there had been no money for rural Alaska in the two areas. The agency prioritized a list of communities for powerhouses and bulk fuel by statute, which fluctuated. The agency had identified the most critical facilities for either

replacement or maintenance and improvement. He highlighted that the construction on a powerhouse typically took about 18 months; however, the timeline was being stretched out due to current supply chain logistics.

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Mr. Thayer discussed the Power Project Fund (PPF) loan program on slide 17. The program provided loans to communities, independent power producers, and others for power projects. The program currently had \$6.7 million available in lending and offered a competitive lending rate currently set in statute at 4.86 cents. The program offered low cost financing tailored to the project and borrower. He highlighted success stories beginning on slide 18 with the Hiilangaay hydroelectric project located on Prince of Wales Island. The community received a power project loan of \$19 million from AEA and a Renewable Energy Fund grant of \$4 million. As a result, Prince of Wales Island was about 95 percent renewable in the past three years.

Mr. Thayer turned to slide 19 and highlighted the South Fork Hydroelectric Project located in Eagle River. He detailed the project was a "mom and pop" operation on an old homestead. The project had an original loan of \$2 million; the total project cost was \$4 million and AEA had loaned approximately half of the total. The project produced power for MEA and electrified 800 homes at 7 cents per kilowatt. He relayed that AEA had recently refinanced the loan and the operation hoped to increase capacity to 1.76 megawatt, an increase of 47 percent.

Mr. Thayer moved to the Willow Solar Farm expansion project on slide 20. He detailed that AEA had loaned \$800,000, which represented about half of the total project cost. The borrower was Alaska Renewable Energy Partners/Renewable IPP. He informed the committee that the project was so successful, there was a second project under construction in Houston, Alaska that was 10 times the size; AEA had provided financing for close to \$5 million. The second project was producing at slightly less than 8 cents per kilowatt, which was referred to as the avoided cost as it reflected less than what the utilities paid for energy on average.

Mr. Thayer discussed the Renewable Energy Fund Grant Program on slide 21. He noted the legislature had recently

passed a bill related to the Renewable Energy Fund. The fund was a grant program that helped AEA develop competitive projects in rural Alaska. The agency looked at the feasibility and early design and construction stages of the projects. He noted that two of the last three projects started in the Renewable Energy Fund. Thus far, AEA awarded 271 grants totaling \$300 million. There were over 100 projects in operation with 44 currently in development. He relayed that round 15 had just been completed with 31 applicants. He detailed that the applications went through a public review process including four legislators and five members of the public with AEA acting as staff providing recommendations to the legislature. The request for round 15 would be \$30 million for 31 applicants. The program had saved over 30 million gallons of diesel in rural Alaska to date. He noted the number was out of date and AEA had contracted with a third-party economist to update the figures. The program had been heavily funded by the legislature in 2013 and 2014, but with the dip in oil prices there had been no funding provided for the following five years. In the past two years, the governor and legislature had funded \$20 million for 38 projects. He underscored the success of the program. He highlighted that over 90 percent of the funding went to rural Alaska and the cost of energy to the community was part of the weighted average. He remarked that in the past couple of rounds, GVEA had secured a \$1 million grant to study wind on Ester Dome [in Fairbanks]. Additionally, Homer Electric received funding to help look at wind and Chugach Electric was looking at additional hydroelectric opportunities.

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Mr. Thayer highlighted other successful projects on slides 22 through 24 including the Banner Peak Wind Farm expansion in Nome, Whitman Lake Hydroelectric Project in Ketchikan, and the Terror Lake Hydroelectric expansion project on Kodiak that had helped Kodiak go to 98 percent renewable energy.

Mr. Thayer moved to the federal Infrastructure Investment and Jobs Act (IIJA) on slide 26. He detailed that AEA qualified for \$60 million in federal receipt authority from the statewide grid resilience and reliability IIJA formula grant program. He turned to slide 27 and relayed that AEA and the Department of Transportation and Public Facilities (DOT) partnered together on the Alaska Electric Vehicle

(EV) plan to receive \$52 million. Slide 28 showed an alternative fuel corridor from Anchorage to Fairbanks, Fairbanks to Tok, and Homer and Seward. He noted the Alaska Marine Highway System (AMHS) also qualified. There would be work over the coming five years to install EV charging stations across the state along the highway corridor.

Mr. Thayer looked at slide 29 showing AEA's IIJA related requests in the FY 24 capital budget. Requests included \$12.1 million (\$50 million over five years) for statewide grid resilience, \$3.8 million for an Energy Efficiency Revolving Loan Fund, \$2.9 million for a state energy program, \$1.67 million for rural electric vehicles, \$318,000 for auditor training, \$37.2 million for the Alaska High Efficiency Home Rebate Program (in partnership with AHFC), \$37.4 million for the Inflation Reduction Act Alaska Hope for Homes program (in partnership with AHFC), and \$12.8 million (in partnership with GVEA) for a Department of Defense Community Infrastructure Pilot Program to take the Black Rapids Military Training Site from diesel to electric. The agency's total capital budget request was \$175 million, of which \$140 million was federal funding. He stated it was likely the largest amount of money AEA had received at one time on top of \$166 million in bonding and \$202 million in actively managed projects statewide.

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Mr. Thayer spoke to a grid resilience and innovation partnership (GRIP). The agency had done four applications including three with urban utilities and one with rural Alaska. He stressed that the grants were highly competitive. He stated the grants had potential to bring over \$600 million to the state; however, Alaska was competing for the federal funding with the 49 other states. He noted that AEA was not requesting federal receipt authority until the applications had been approved.

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Mr. Thayer showed staffing needs on slide 31. The agency's operating budget was flat with the exception of five new positions needed to help with IIJA funding and a PCE position to help with salary adjustments and rural assistance.

Co-Chair Foster thanked Mr. Thayer and AEA on a job well done.

Representative Cronk asked how much it would cost to complete the Road Belt from Delta, Tok, Glennallen to Palmer.

Mr. Thayer answered that the Road Belt was approximately \$1.5 million per mile for a total of about \$600 million. He explained that the first part of the upgrades was related to resilience including upgrading existing transmission lines between Anchorage, Homer, and Fairbanks. It was also necessary to look at the redundancy, including a secondary line to move power more freely, especially with renewables. He elaborated that AEA was looking at redundancy on the peninsula and outside of Wasilla diverting to Glennallen, Delta, Tok, and Fairbanks as a secondary route. He stated it was part of the plan.

Representative Cronk stated that it was necessary to pay cash for some of the projects instead of bonding. He reasoned that if the goal was to reduce the rate to 8 cents per kilowatt, it would not happen if the state was constantly borrowing money. He wondered how to break it down into phases to realize savings.

Mr. Thayer replied that AEA had started out the bonding because it had a window to do so under the power sales agreement. The agency was applying for substantial IIJA funding, some of which would require state match. The utilities had proposed approximately \$25 million per year in upgrades for a minimum of five years and \$125 million going forward after that. He noted that the receipt of federal or state dollars would lower the cost that consumers would see. He relayed that lowering the cost in the Railbelt would benefit rural Alaska because there would be more money available for PCE in the program. He stated it was a needed conversation in terms of how to pay for the work and what made the most economic sense. He pointed out that the Bradley line could have been upgraded 30 years earlier, but the work had not been done. He elaborated that a line serving Homer had been used to reverse power north; the line was not capable of transmitting all of Bradley's power.

Representative Cronk asked how the baseline for the PCE worked. He provided a scenario where substantial money was

invested in hydro, the Road Belt was completed, and PCE was down to 12 cents per kilowatt in Tok. He asked how it would impact the rest of rural Alaska.

Mr. Thayer replied that currently under statute, the PCE program formula used the mean cost of energy between Juneau, Anchorage, and Fairbanks. The current cost was 19.9 cents. He explained that lowering the cost of energy on the Railbelt would lower the floor, meaning more money would be available. He believed if substantial infrastructure upgrades were considered for urban Alaska, it was also necessary to see what was needed to help bring down the \$1.1 billion in deferred maintenance for rural Alaska. The agency would continue to invest a lot in renewable energy in rural Alaska to reduce cost. He added that the wind did not blow, and the sun did not shine in some locations. He relayed that the most successful hydro projects were located in coastal communities.

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Representative Tomaszewski asked for the kilowatt per hour on the Banner Peak Wind Farm expansion.

Mr. Thayer answered he would follow up.

Representative Stapp shared that most of his constituents in Fairbanks were being bled dry due to the cost of energy and the cost of living increases, especially related to the cost of power. He remarked there was an opportunity in the IIJA funding. He stated that infrastructure meant cheap power to him. He asked for the long-term vision and strategy to drive down utility and energy cost for the state to ensure individuals had the ability to feed their families and invest in communities. He asked how to get more Bradley Lakes.

Mr. Thayer replied that the governor was forming an energy taskforce (through an administrative order) that AEA would be part of. The taskforce would look at the costs. He noted that the Susitna-Watana project had been on the books since the 1950s and the state was \$100 million away from receiving a Federal Energy Regulatory Commission (FERC) license. The project could make the Railbelt 56 percent renewable at 6 cent power. He noted the figures had been calculated in 2014 and needed to be updated. He stated it was a doable project by engineering standards and the

project had run out of money to complete the study in 2015. There were some opportunities for renewables and AEA was looking at diversions. He stated it was not big, but it could increase the Bradley Lake output by 50 percent. There was also a project outside of Seward that needed review. The agency was also working to analyze where the best solar and wind could be as well. He added that the efficiency rate for renewables was not great. He elaborated that a 90 megawatt solar farm was needed to get 30 megawatts of power out of it on a regular basis. He highlighted it was also necessary to look at natural gas. He noted there were dwindling supplies in Cook Inlet, and he considered whether a bullet line off of the North Slope was an answer to helping bridge to renewables. The agency was actively working with all of the utilities on the questions.

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Representative Cronk considered how effective micronuclear would be, how much cheaper it would be than the Susitna-Watana project, and how much would be needed to produce the needed amount of electricity.

Mr. Thayer answered that micronuclear was a conversation. He shared that he had visited the Idaho National Laboratory with members of the Senate. He stated that looking at the option could be looked at for Nome, Kotzebue, and Dillingham in larger hub communities; however, the specific technology was likely 20 years away from being commercially viable. He added that once it was available, Alaska would want to wait a few years to see how it produced. He noted that an energy plan could look at the five-year, 15-year, and 20 to 25-year horizon. He stated that small nuclear energy fit in the 20 to 25-year horizon. He shared that AEA was working with the university and national labs to see what it would look like and how it could change the energy picture.

Mr. Thayer thanked the committee for its time. He planned to meet with individual members of the committee in Juneau in the near future.

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AT EASE

[3:59:28 PM](#)

RECONVENED

Co-Chair Foster reviewed the schedule for the following day.

#  
ADJOURNMENT

4:00:37 PM

The meeting was adjourned at 4:00 p.m.