

SB

1888

Alaska State Legislature



Out of Session:
PO Box 531
Golovin, Alaska 99732
(907) 443-5599

In Session:
State Capitol, Suite 510
Juneau, Alaska 99801-1182
(800) 597-3707
(907) 465-3707
(907) 465-4821 Fax

SENATOR DONALD C. OLSON

DISTRICT T

SPONSOR STATEMENT

SB 188, Bulk Fuel Loan Fund Cap

Alakanuk
Ambler
Anaktuvuk Pass
Atkasuk
Barrow
Brevig Mission
Browerville
Buckland
Chevak
Deering
Diomede
Elim
Emmonak
Gambell
Golovin
Hooper Bay
Kaktovik
Kiana
Kivalina
Kobuk
Kotlik
Kotzebue
Koyuk
Mountain Village
Noatak
Nome
Noorvik
Nuiqsut
Nunam Iqua
Pilot Station
Pitka's Point
Point Hope
Point Lay
Savoonga
Scammon Bay
Selawik
Shaktolik
Shishmaref
Shungnak
St. Mary's
St. Michael
Stebbins
Teller
Unalakleet
Wainwright
Wales
White Mountain

I introduced SB 188 at the urging of members of the Governor's Rural Energy Action Council. The council's April 15 report has many recommendations to help rural communities contend with rapidly escalating energy costs.

SB 188 is one of their recommendations that, if enacted this session, will allow communities to offset rising fuel costs with large purchase economies achieved through the bulk fuel loan program. This is particularly of concern for those communities that are ice bound during the winter and depend on just one or two large shipments to supply their fuel needs for the entire year.

Currently, the bulk fuel loan program has a maximum loan of \$300,000 that any one borrower may take in a fiscal year. The effect of this cap during times of high fuel prices is to reduce the maximum amount of fuel that may be purchased. The bill will counteract this effect by increasing the cap to \$650,000 for cooperative organizations that are purchasing bulk fuel for more than one community. The larger purchase for multiple communities should result in a lower per unit price for all users.

The enactment of SB 188 will directly affect this fall's bulk fuel purchase for most of rural Alaska. The bill is timely and needed.

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April 25, 2005

MEMORANDUM

To: Sen. G. Stevens, Chair
Senate Community and Regional Affairs
Committee

From: Sen. Olson 

Re: Schedule hearing for SB 188, Bulk Fuel Loan Program Adjustments

I would appreciate a C A hearing on SB 188 at your earliest convenience. I know it is late in the session, but this bill is most timely for rural energy cost concerns. Attached is my sponsor statement and other back-up information.

Thank you for your attention to this request.

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CS SB 188 (version F) Changes

The version F draft of SB 188 affects two changes to the original bill that are recommended by the managers of the bulk fuel revolving loan program in the Department of Commerce, Community, and Economic Development.

The first change would include electric utility cooperatives as a cooperative corporation that may use the loan fund for multiple community fuel purchases.

The second change would provide a more flexible loan cap increase for a multiple community fuel purchase of \$600,000, \$900,000 and \$1,000,000 depending on the number of communities served.

CS FOR SENATE BILL NO. 188()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION**

BY

**Offered:
Referred:**

Sponsor(s): SENATOR OLSON

*Good credit
copy Bill*

A BILL

FOR AN ACT ENTITLED

1 **"An Act increasing the maximum amount of loans from the bulk fuel revolving loan**
2 **fund to one borrower."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 *** Section 1. AS 42.45.250(e) is amended to read:**

5 (e) Loans made from the bulk fuel revolving loan fund to one borrower in any
6 fiscal year

7 (1) may not exceed \$300,000, or, if the borrower is a cooperative
8 corporation organized under AS 10.15 or an electric cooperative organized under
9 AS 10.25 and uses the loan to purchase bulk fuel on behalf of more than one
10 community, may not exceed \$300,000 multiplied by the number of communities
11 on whose behalf the bulk fuel is to be purchased, or \$1,000,000, whichever is
12 greater;

13 (2) shall be repaid in one year or less; and

14 (3) may not exceed 90 percent of the wholesale price of the fuel

1

purchased.

Findings and *Action* Recommendations for Governor Frank Murkowski

April 15, 2005

Prepared for:

Rural Energy Action Council (REAC)
Created by Governor Frank H. Murkowski
February 7, 2005

Prepared by:

AIDEA / Alaska Energy Authority
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Toll free in Alaska (888) 300-8534

For an online version of this publication, go to
www.aidea.org/RuralEnergyActionCouncil.htm

Al Clough : 2 PM Gov Conference Room

Issue: High Cost of Bulk Fuel in Rural Alaska

Recommendation #6: Under Alaska Energy Authority's (AEA) Bulk Fuel Revolving Loan Fund (AS 42.45.250), allow the maximum amount borrowed by cooperatives formed under AS 10.15 to be based on the number of eligible communities that belong to the cooperative, and increase the loan limit above \$300,000.

Rationale: Increased bulk fuel storage capacity and rising fuel costs has resulted in communities needing more financial resources to purchase bulk fuel; the formation of cooperatives may allow volume discounts for bulk fuel purchases.

Action: Amend AS 42.45.250 (e) to allow the maximum loan amount to cooperatives formed under AS 10.15 to be based on the number of eligible communities belonging to the cooperative. Amend AS 42.45.250 (e) (1) to increase the maximum loan amount above \$300,000.

Funding Required: Amending AS 42.45.250 (e) will not have a fiscal impact on the Bulk Fuel Revolving Loan Fund. Amending AS 42.45.250 (e)(1) may have a fiscal impact and require additional capitalization of the Bulk Fuel Revolving Loan Fund, but to determine the fiscal impact will require additional information that is not available at this time.

Background: Rising costs of bulk fuel for delivery to rural communities combined with increased bulk fuel storage capacity in some communities, has created a situation where the ability to pay for bulk fuel deliveries is becoming increasingly difficult, especially the decrease in revenues being experienced by rural communities (See Appendix D for Sample of the Price of Fuel and Appendix E for AEA Energy Fuel Survey). One potential method to lower the cost of bulk fuel is the formation of cooperatives that are comprised of multiple communities. Consolidation of bulk fuel purchases and the resulting increase in the volume of fuel purchased may lead to a lower delivered cost.

In addition, the increase in fuel costs, even with a volume discount, coupled with increased storage capacity in some communities has lead to the bulk fuel "invoice" amount being an amount such that the current maximum loan amount under AS 42.45.250 (e)(1) requires the borrower to have a larger down payment when cash resources are more scarce.

AEA's Bulk Fuel Revolving Loan Fund currently provides communities with a population of 2,000 or less the opportunity to finance bulk fuel purchases in accordance with AS 42.45.250 and 3 AAC 106.300 – 106.365. Under AS 42.45.250 (e)(1), a borrower is currently limited to a maximum loan of \$300,000.

The maximum loan amount of \$300,000 to a single borrower precludes a cooperative that may for example be comprised of ten (10) eligible communities, each with a need to purchase \$300,000 in fuel, from obtaining a bulk fuel loan of

sufficient size to cover the cost of the bulk fuel purchase. Increasing the loan maximum amount to \$650,000 for each applicant under the current eligibility criteria will help alleviate some of the financial challenges faced by the applicants. A higher loan amount means communities needing reduced cash resources to consummate a bulk fuel purchase.

With regard to the increased loan amount of \$650,000, AEA expressed reservations as to whether this is the appropriate loan amount and the impact any increased loan amount would have on the Bulk Fuel Revolving Loan Fund without further capitalization of the Fund.

See Appendix F for Financing Bulk Fuel, which provides a list of known existing loan programs for fuel in Alaska.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 188
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Bulk Fuel Revolving Loan Fund Cap RDU Alaska Energy Authority (453)
 Component AEA - Rdral Energy Operations
 Sponsor Olson Component No. 2600
 Requester Senate Community & Regional Affairs

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill increases the amount of funds certain borrowers may borrow from the Bulk Fuel Revolving Loan Fund.

This bill has no impact on AEA operations.

Prepared by: Sara Fisher-Goad, Financial Analyst Phone 907-269-4623
 Division Alaska Energy Authority Date/Time 4/26/05 9:20 AM
 Approved by: Edgar Blatchford, Commissioner Date 4/26/2005
 Agency Commerce, Community, and Economic Development