

**1/30/12
BUDGET
OVERVIEW:
DEPARTMENT OF
COMMERCE,
COMMUNITY AND
ECONOMIC
DEVELOPMENT**

<TARGET><BILL></BILL><SUBJECT>1-30-12 BUDGET OVERVIEW
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC
DEVELOPMENT</SUBJECT><COMM>HFIN27</COMM></TARGET>



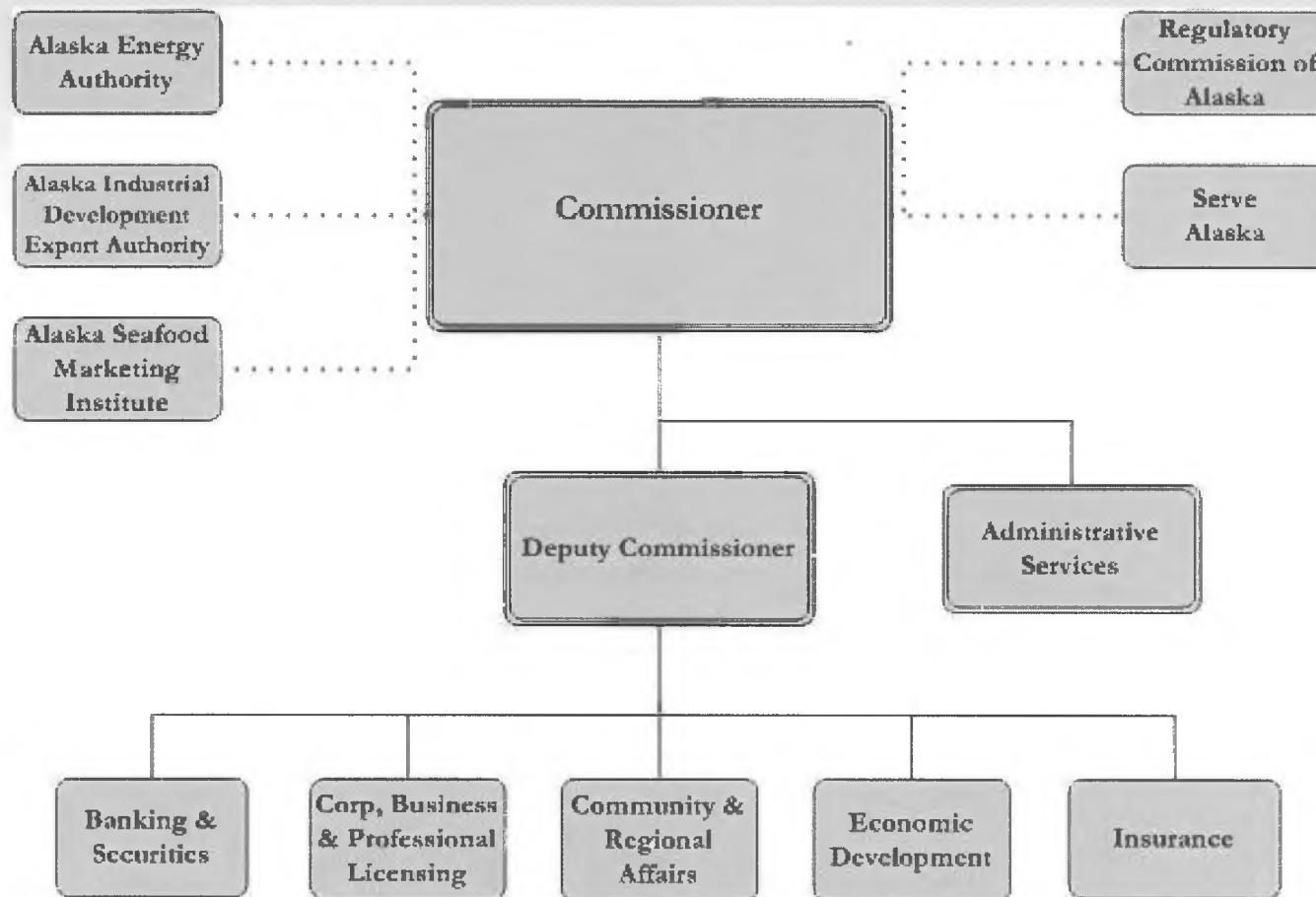
House Finance Committee Alaska State Legislature

January 30, 2012

ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT

Budget Overview FY2013

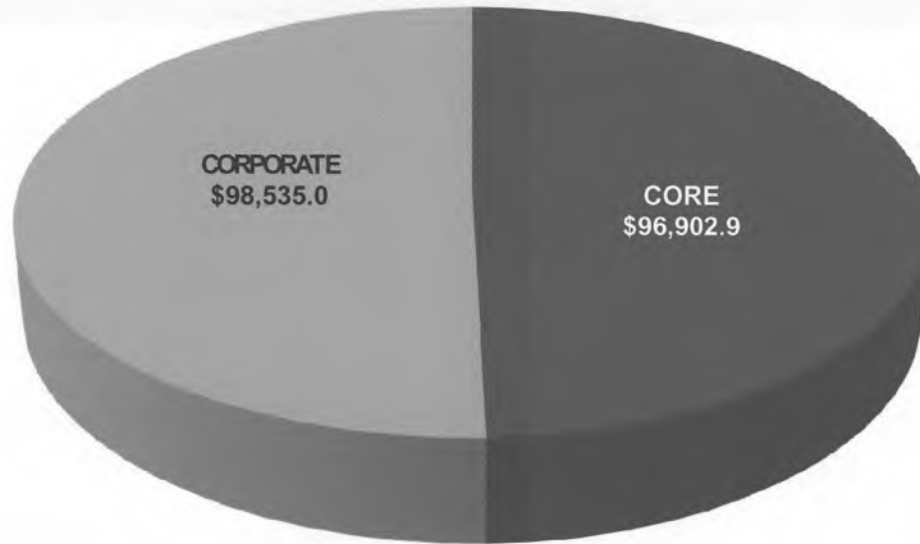
Mission: Promote a healthy economy, strong communities, and protect consumers in Alaska



Budget Overview FY2013

Budget by Agency Type

FY2013 Department Budget Request
\$195,437.9



Budget Overview FY2013

Priority Programs

- **Economic Growth**

- Division of Economic Development, AIDEA and ASMI
- Net increase of \$15 million
- Tourism marketing, AIDEA development projects

- **Sustainable Energy**

- Alaska Energy Authority
- Net increase of \$4 million
- Power Cost Equalization, Renewable Energy Fund grant management, Susitna-Watana Hydroelectric Project positions, emergency generators

Budget Overview FY2013

Priority Programs

- **Strong Communities**

- Community and Regional Affairs, Serve Alaska
- \$18.3 million decrease
- Decrement for one-time community revenue sharing

- **Consumer Protection**

- Banking and Securities; Insurance; Corporations, Business, and Professional Licensing; Regulatory Commission of Alaska
- Net increase \$1.5 million
- Emerging utility and pipeline issues, CBPL indirect costs and professional board travel

Budget Overview FY2013

Overall Challenges

- High cost of energy impacts communities and economic development efforts
- Gaps in critical infrastructure such as roads, ports, communications, and processing facilities
- Higher cost of goods and services in rural areas
- Federal regulatory permitting delays and denials
- Uncertainty hampering private investment and federal funding for rural programs
- Limited awareness in national and international markets about Alaska products and services
- State and regional economic activities are spread across many entities (DCCED, AIDEA, International Trade, Natural Resources, Education, and Regional Economic Associations)
- Historical practices and unaddressed audit issues related to professional and business licensing
- Upward pressure on the utility rate base and increase in complex filings with critical deadlines
- Growth of new financial programs that increase fraud and misinformation for consumers
- Recruitment and retention of specialized staff

Budget Overview FY2013

Economic Growth

- **Division of Economic Development**

- 313 loans totalling \$30 million
- \$4.8 million Salmon Enhancement Tax to aquaculture
- AVSP VI: visitor volume, spending, profiles, marketing data
- Marketing: tourism, minerals, film
- Development of underutilized seafood species/aquatic plants
- Forest product opportunities, supply needs, barriers
- Pre-qualified 33 productions, 17 productions completed, referrals
- Awarded \$330,000 STEP grant, increase small business skills to export to China

Budget Overview FY2013

Economic Development Programs (cont)

- **Alaska Industrial Development and Export Authority**
 - Increased asset value to over \$1 billion
 - FY11 37 loan participations, \$105 million
 - 4 Recovery Zone Facility bonds, \$27 million
 - Ketchikan shipyard, Skagway ore terminal expansions
 - Cook Inlet jack-up rig
 - Providence Hospital conduit revenue bond

Budget Overview FY2013

Economic Development Programs (cont)

▪ **Alaska Seafood Marketing Institute**

- Continued retail, foodservice, university, culinary school programs
- Traditional media exposure through national and international publicity in newspapers, magazines, radio, TV, and internet
- Expanding market reach through fish taco contest, mobile apps, social media
- Market analysis and education supporting recent industry announcement to shift to sustainability certification by United Nation's Food and Agriculture Organization
- Expanded collaboration with tourism marketing, new opportunities featuring Alaska Grown, Alaska Railroad, other agencies

Budget Overview FY2013

Sustainable Energy

▪ **Alaska Energy Authority**

- Preliminary Application Document filed with FERC for the Susitna-Watana Hydroelectric Project
- \$176.6 million in grants for 207 renewable energy projects
- Disbursed \$31.8 million in PCE payments
- 3 bulk fuel upgrades (71 of 107 completed to date)
- 4 rural power system upgrades (51 of 110 completed to date)
- Issued 52 bulk fuel revolving loans
- Trained 47 rural residents
- Launched Alaska Commercial Energy Audit Program

Budget Overview FY2013

Strong Communities

- **Community and Regional Affairs**

- RUBA assisted 208 communities, 82 communities met sustainability indicators (5 more than prior year), trained 147 utility managers
- \$1.4 billion distributed through 1,800 state/federal grants
- \$29 million distributed: PILT, NFR, fisheries business tax, fisheries landing tax
- \$80 million Community Revenue Sharing
- \$1.5 million to 1,200 SE fishermen
- Finalized ANCSA re-conveyance for Minto, completed 14 land transactions in 8 communities, completed Ninilchik survey and title conveyance
- 15 Bulk Fuel Bridge Loans (6 less than prior year)

Budget Overview FY2013

Strong Communities (cont)

- **Community and Regional Affairs (cont)**

- 801 fuel watch calls to community 341 entities
- Finalized digital orthophoto maps in 19 communities
- Emergency response, National Flood Insurance Program support
- Launched new E-grant program, community database, lien watch
- State assessor, Local Boundary Commission support

- **Serve Alaska**

- 286,195 hours of volunteer service, over \$6 million value
- Meeting critical needs in education, health and environment

Budget Overview FY2013

Consumer Protection

▪ **Banking and Securities**

- 58 exams of depository institutions
- 4,700 mutual fund and investment trust filings
- 1,289 broker-dealers registered/renewed
- 329 security filings/notice filings
- Finalized multi-state security settlements, \$1.6 million in fines and millions refunded to Alaskans
- New licensing programs: mortgage lenders and money services
- Updated ANCSA proxy regulations, expedited complaint process

Budget Overview FY2013

Consumer Protection (cont)

- **Corporations, Business and Professional Licensing**
 - Management restructure, comprehensive review of financial foundation, procedural upgrades, board engagement
 - Issued 119,256 commercial and professional licenses
 - 1,155 complaints, resulting in 330 new cases
 - Increased online renewals
 - Big Game Commercial Services board investigation
 - Corrective actions to historical practices

Budget Overview FY2013

Consumer Protection (cont)

▪ Insurance

- More than 39,000 licenses issued
- Opened 77 criminal investigations, closed 56
- Registered 21 purchasing groups, admitted 20 new companies, 8 surplus lines insurers, 2 risk retention groups
- Investigated 294 consumer complaints, closed 259 complaints, consumers received \$356,000

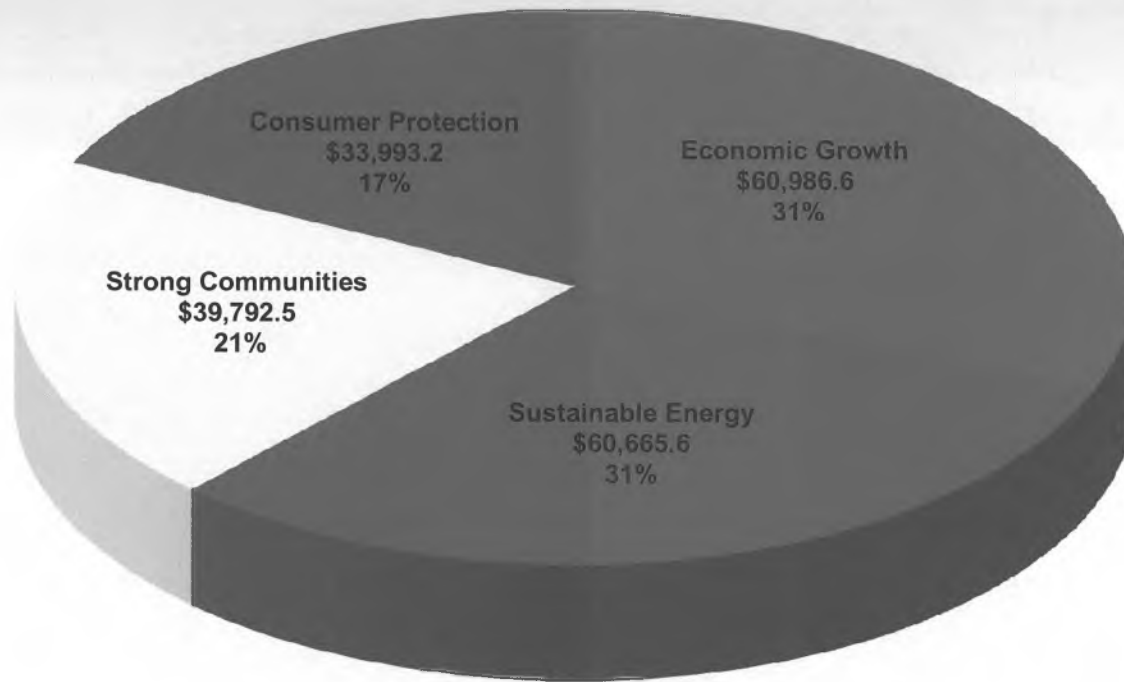
▪ Regulatory Commission of Alaska

- Approved the first certificate of public convenience and necessity for Cook Inlet natural gas storage
- Decided over 20 rate proceedings and 475 tariff proceedings
- Concurrent TAPS rate revision hearings with FERC
- Provided assurance that \$197 million electrical plant investment could be recovered in future rates

Budget Overview FY2013

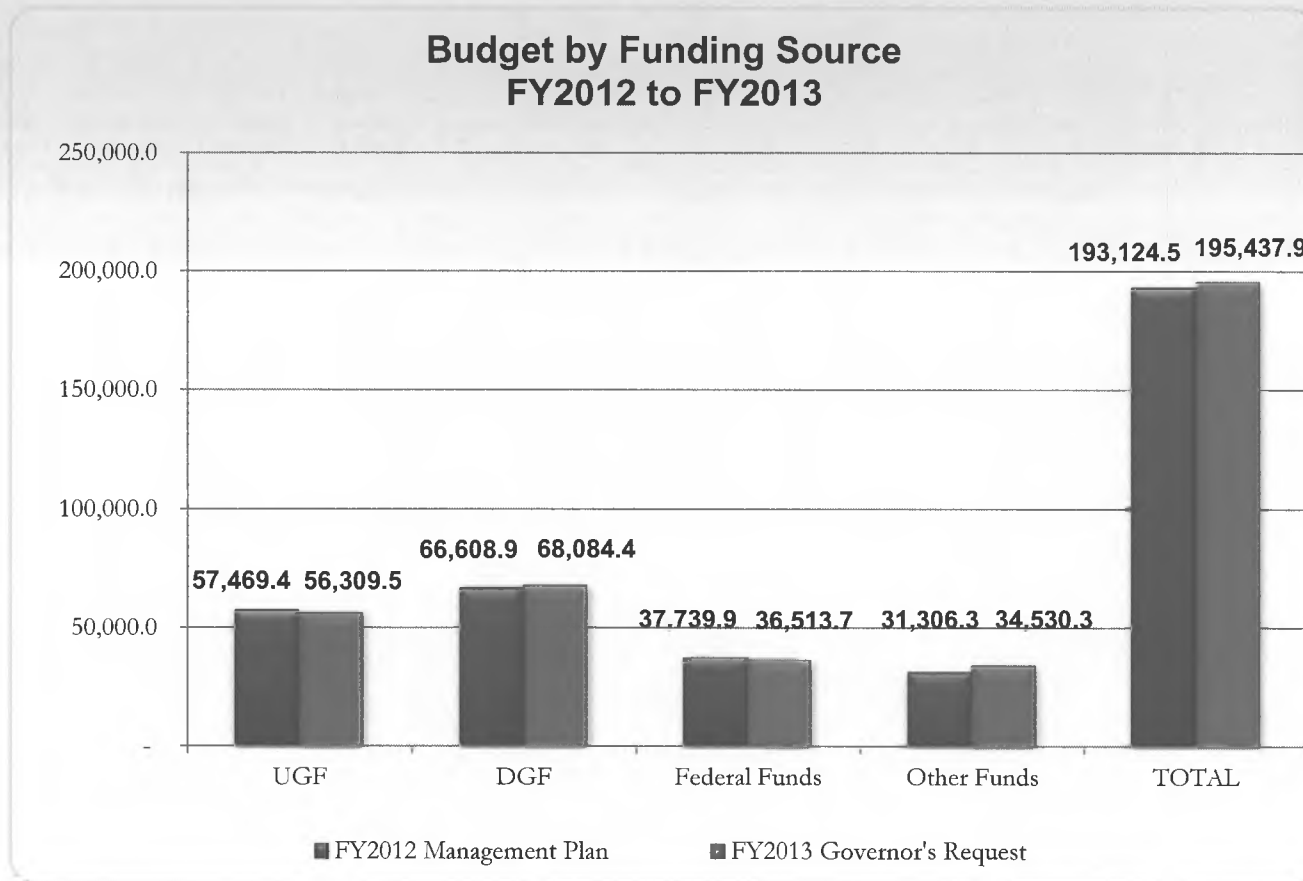
Budget by Priority Program

Budget Request: \$195,437.9



Budget Overview FY2013

Budget by Fund Source





Comments and Questions



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sean Parnell, Governor
Susan Bell, Commissioner

House Finance Committee on DCCED
Follow-up Responses to Committee Member Questions
January 30, 2012 Meeting

1. The FY13 Tourism request is \$4 million more than the current year - what will this provide for?

DCCED is currently working with our contractors, reviewing research findings, and engaging industry leaders as we develop the FY13 plan. While we are in the planning stage, a significant portion of the additional \$4 million will likely be used to increase Alaska's television presence. Increasing our television presence keeps Alaska on the top of people's mind as a vacation destination, but is typically implemented only after the "base program" is funded.

The "base marketing program" utilizes a combination of direct mail, media relations, advertising, and tour operator and travel agent education to drive potential visitors to trip planning tools like the Official State Vacation Planner and TravelAlaska.com website. Complementing the base program with an increased television presence has proven successful in prior years.

2. What progress is occurring towards a 50/50 tourism funding plan?

It is important to recognize that the funding for the FY12 tourism marketing was directed to DCCED for implementation. The qualified trade association budget component, which requires a match, was not funded. Secondly, while the travel industry has consistently raised about \$2.7 million in recent years from ad sales and other cooperative marketing programs, the taxes and fees from the visitor industry have grown considerably in the past decade and exceed \$100 million annually.

3. What is the state doing to promote that Alaska currently has great snow for skiing at a time when the lower 48 does not?

The state's tourism public relations contractor sent out a press release on January 12 and also included the story as the lead item in the monthly e-newsletter sent to travel related media. Over 650 qualified journalists were on the distribution list that received the snow press release and e-newsletter. The press release is attached

4. Are renewable energy projects, such as wind, generating the predicted capacity and do we know which projects are "winners"?

AEA has contracted with a third party, the Vermont Energy Investment Corporation, for a program evaluation. A preliminary assessment of project performance, by AEA, is attached.

Many of these projects are in early stages of operation and the alternative energy options vary widely between communities based on available resources and climate, making it difficult to declare one approach the winner. We do know that wind-diesel systems in smaller communities will continue to require our attention, whereas the larger wind systems are performing well.

5. What coordination is occurring to train locals for the renewable projects?

Alaska State Energy Sector Partnership is the governing body for operator and technician training, including renewable. This effort includes AEA, Alaska Works Partnership and AVTEC and an update on the trainings is attached.

AEA's current training program funding provides for one Hydroelectric Power Plant Operator course and two Power Plant Operator courses that have a wind integration component.

AVTEC hired a wind technology instructor and has scheduled a wind technician class for June 2012. Additional classes will be scheduled as need increases. AEA also provides training in Bulk Fuel Tank Farm Operation and has two courses in Advanced Power Plant Operator. While these courses are not in the renewable area there is a strong emphasis on generation efficiency.

Attachments:

Tourism Public Relations News Release January 12, 2012

Preliminary Assessment of Project Performance February 4, 2012

Alaska State Energy Sector Partnership Update December 31, 2012

Alaska Renewable Energy Fund Grant Recommendation Program

Preliminary Assessment of Project Performance

February 4, 2012

Background

Alaska Energy Authority (AEA) has at least one year of operational data for 14 of the 21 Renewable Energy Fund (REF) projects that were producing energy at the end of 2011. The following assessment is based on the technical and economic performance of these 14 projects summarized in table 1.

This assessment is preliminary. It

- Reports on only a portion of the 73 construction projects that have been funded by the REF since inception. Status of all projects funded by the REF is available in the 2012 REF Program Status Report at http://www.akenergyauthority.org/RE_Fund_Applications-V.html.
- Is based on one year of production (2011). As is common to most energy projects, some of the projects—particularly biomass and small wind systems—require additional time for operators to debug and integrate the equipment into the existing fossil system.
- Does not address non-fuel operation and maintenance (O&M) cost increases or savings. For the purposes of this assessment, the costs of O&M for diesel-fired power and heat generation is assumed to be equal to that of renewable energy generation.
- Does not address positive or negative impacts on overall system efficiency. For example, higher penetration of wind energy into a diesel power system may decrease diesel generation efficiency. More detailed study is required to assess such an impact in a particular location.
- Does not address impacts on the cost of electricity, the Power Cost Equalization program, air quality, greenhouse gas emissions, fuel spills, economic development, community stability, or other more complex environmental and socioeconomic issues.

Despite these limitations, however, AEA believes it is appropriate to focus, at least initially, on quantity and value of fuel displacement as a program metric given the overwhelming impact that fossil fuel usage has on energy cost.

AEA maintains an ongoing program to monitor energy production, operation and maintenance issues, and economic performance of construction projects funded by the REF and other programs. As more data becomes available AEA will expand the analysis of project performance to include additional projects, assess cost of electricity impacts on ratepayers, and analyze distribution of benefits to the public. AEA will continue to coordinate this work with the University of Alaska and make results publicly available.

As part of the REF program evaluation that is in progress, AEA contractor Vermont Energy Investment Corporation is conducting an assessment of program impact versus cost that will address project cost versus savings, jobs, development of infrastructure, and other public benefits. A draft report will be available in March, while the final report is due in June.

Overall Results

Table 1 indicates that the 14 projects displaced 1.46 million gallons of diesel in 2011—approximately 84% of the amount of fuel that was expected by AEA, UAA Institute of Social and Economic Research (ISER), and private economists that reviewed REF applications. (This expected amount of fuel is termed “Goal” in the table.)

The value of the fuel displaced in 2011 was \$4.87 million. Dividing the total unsubsidized cost of all projects (\$55.6 million) by the \$4.87 million in savings 2011 indicates a simple payback of 11 years for projects that AEA expects have a 20-year useful life (except for the hydro project that is assumed to have a 50-year life). Dividing the total REF grant for these projects (\$20.65 million) by the \$4.87 million in savings indicates a payback on the grant portion of the projects of 4 years.

2011 fuel prices may be rather low in the long run. Based on the USDOE Energy Information Administration’s mid-case projection of the cost of crude and other (see Alaska Fuel Price Projections 2011-2035 ftp://ftp.aidea.org/ReFund-5/4_Program_Update/Fuel_price_projection_2011-2035_final.pdf), ISER estimates that the average price of fuel in rural areas will increase by 42% during the next 20 years over 2011 levels.

The following sections provide more detailed information on project performance. Information is organized by renewable energy resource.

Biomass

The Tok School Biomass system reported fuel displacement for 2011 at 48% of the estimated displacement from their application. The Tok boiler only operated from January to May in 2011, when it was shut down to be retrofitted for steam, and a steam turbine-generator was added to the system. The heating system was not restarted until January 2012. Therefore thermal production was substantially less than expected. During 2013 the wood-fired system is expected to produce both heat and power during the year. The Alaska Gateway School District has used fuelwood harvested in wildfire mitigation efforts to date. Thus biomass fuel cost has been limited to handling and processing.

The Native Village of Eyak processed 75 cords of local logs in 2011. Although this is only 13% of the original goal, payback time of the REF investment appears short.

The Gulkana Central Wood Heating system displaced fuel at 40% of the goal. This is a basic biomass system with minimal instrumentation, so the estimates for displaced fuel are derived from quantity of harvested wood. This system’s lower-than-expected performance may be caused by less than 100% utilization of the system. AEA will monitor the system with the Native Village of Gulkana. Despite this apparent underperformance, the project saved the Village approximately \$24,000 in fuel cost. Similar to Tok, the project is firing the boiler with wood stored from earlier harvest operations.

Geothermal

The City and Borough of Juneau's ground source heat pump is performing at 126% of its fuel displacement goals using figures from a recent preliminary report prepared by the CBJ for AEA. Simple payback is 8 years for total cost and 4 years for REF funding. The CBJ report assesses economics more fully and includes costs of increased power consumption and benefits of reduced snow removal costs.

Heat Recovery

Golden Valley Electric Association's (GVEA's) heat recovery facility at its North Pole power plant is performing well, if somewhat below the original goal. Having saved \$172,000 in naphtha fuel during 2011, the \$1 million project promises to be highly economic.

McGrath Heat Recovery System reported fuel displacement for 2011 at 72% of goal. In late 2011, the new McGrath Clinic was connected to the district heating system and will increase the fuel displaced by approximately 5,400 gallons. The system is operating well and saved the community \$157,000 in fuel during 2011.

Hydroelectric

The City and Borough of Wrangell's electric boilers are operating as planned and displaced \$230,000 of fuel in 2011.

Gustavus Electric Company's Falls Creek hydro project produced 117% of its energy goal. The 50-year, \$8.4 million project offset fuel worth \$583,000 in 2011. It should be noted that hydropower is subject to yearly weather, and annual energy may vary by +/- 20% of the predictions based upon a "normal" water year.

Solar

GVEA's McKinley Village solar thermal project offset less than a third of the amount of fuel expected during 2011. GVEA staff and contractors established a data collection system for the \$193,000 demonstration project, however, and are working on understanding and improving performance.

Wind

The AEA wind program publishes a quarterly report card of all utility-scale wind projects in the state. The first report card was released in late September 2011, while the second report was completed in early January 2012.

Wind energy varies seasonally with greater wind turbine output in the winter and less in the summer. Therefore a 12-month average is needed to accurately assess wind project performance.

Kodiak Electric's Pillar Mountain Wind Farm continues to meet or exceed energy goals. In 2011 it displaced over 870,000 gallons of diesel fuel, saving \$2.9 million. With a total installed cost of \$21.4 million, payback by fuel savings is 7 years.

Alaska Environmental Power's Delta wind project resolved some key equipment issues last summer and produced 82% of its energy goal. The project, which displaced 95,900 gallons of naphtha worth \$256,000 in 2011, appears to be on track to reach its energy goal in 2012.

Alaska Village Electric Cooperative installed a third Northwind 100 turbine with funding from the REF in Toksook Bay. Based on prorated generation figures the project generated at 77% of goal and saved \$43,000 in fuel.

The privately owned Banner Peak Wind project experienced equipment issues and produced at only 28% of its capacity in 2011. No state funds were used for the wind farm. The REF-funded intertie, however, performs as expected and will provide additional benefit when Nome Joint Utility System installs larger wind turbines if REF round 5 funding is received.

Unalakleet Valley Electric Company's project produced near its expected energy goal. However system cost payback remains high. UVEC and AEA staff is working to improve system performance and turbine downtime. The project saved \$211,000 in fuel during 2011.

Figure 1. 2011 Energy production and diesel cost savings vs goals from RE Fund projects with at least 12 months of operation.

Resource	Grantee	Project Name	Energy Performance					Economic Performance					
			2011 Energy Production		Diesel Displaced (gal x 1000)		Actual / Goal	Project Cost (\$ x 1000)		2011 Fuel Savings (\$ x1000)	Simple Payback (Years) on:		Project Life
			Electrical (MWh)	Thermal (mmBtu)	2011 Actual	Goal		Total Cost	REF Funding		Total Cost	REF Funding	
Biomass	Alaska Gateway School District	Tok Wood Heating	-	3.2	24.4	50.4	48%	3,260	3,245	92	35	35	20
	Native Village of Eyak	Cordova Wood Processor	-	1.5	11.4	88.7	13%	78	75	42	2	2	20
	Gulkana Village Council	Gulkana Central Wood Heating	-	0.8	5.9	14.6	40%	500	500	24	21	21	20
Geothermal	City and Borough of Juneau	Juneau Airport GS Heat Pump	-	5.1	37.1	29.5	126%	1,026	513	131	8	4	20
Heat Recovery	Golden Valley Electric Assoc	North Pole Heat Recovery	-	5.2	61.5	89.6	69%	1,022	817	172	6	5	20
	McGrath Light & Power Co	McGrath Heat Recovery	-	2.9	23.0	32.0	72%	1,179	712	157	8	5	20
Hydro	City and Borough of Wrangell	Wrangell Hydro Electric Boilers	-	6.9	66.0	69.6	95%	2,082	2,000	230	9	9	20
	Gustavus Electric Co	Falls Creek Hydroelectric	1,933	-	138.1	118.3	117%	8,400	750	483	17	2	50
Solar	Golden Valley Electric Assoc	McKinley Village Solar Thermal	-	0.1	1.8	5.7	31%	194	193	7	27	27	20
Wind	Kodiak Electric Association	Pillar Mountain Wind	12,448	-	870.7	852.0	102%	21,400	4,000	2,873	7	1	20
	Alaska Env Power	Delta Area Wind	1,425	-	95.9	117.0	82%	2,802	2,000	256	11	8	20
	Alaska Village Electric Coop	Toksook Wind Farm	187	-	12.6	16.3	77%	1,253	1,038	43	29	24	20
	Nome Joint Utility Systems	Banner Pk Wind Transmission	955	-	53.9	191.3	28%	6,390	801	152	42	5	20
	Unalakleet Valley Electric Co	Unalakleet Wind Farm	958	-	58.2	61.9	94%	6,000	4,000	211	28	19	20
TOTAL			17,907	25.8	1,460.4	1,736.8	84%	55,585	20,645	4,872	11	4	

Notes:

1. Includes projects in operation for at least 12 months
2. Assumes that operation and maintenance costs of new and existing projects are the same.
3. Assumes no impact on existing oil-fired system efficiency.

Tourism Public Relations News Release

FOR IMMEDIATE RELEASE

January 12, 2012

Come on up, the snow's fine!

ANCHORAGE, Alaska – Alaska's unusually snowy winter – attributable to a strong La Nina cycle that has spurned many North American ski resorts this winter – has been making national news all week. The silver lining? All that snow means winter recreation opportunities of historic proportions.

At Alyeska Resort, 40 miles south of Anchorage, 462 inches has fallen since October 1, 2011, and the seasonal average snowfall (November to February) is 134 percent above average. Alyeska is Alaska's only full-service resort, and boasts 1,500 skiable acres and the longest double-black-diamond run in North America.

"Alyeska Resort is 120 percent above average total snowfall for this time of year," said Di Hiibner, general manager of the ski resort. "The powder days are starting to blur and we have 100 percent of the mountain open, one of the earliest all-mountain openings on record." Throughout the Southcentral region, communities are on track to record the heaviest snow load in years – perhaps ever. That's good news for outdoor recreation of all kinds, from snowmobiling to snowshoeing and cross-country skiing. And with Alaska's peak winter travel season just ahead, there's plenty of time to plan a trip to ski, snowboard, take in the start of the legendary Iditarod Trail Sled Dog Race in Anchorage (March 3) or experience the magic of the World Ice Art Championships in Fairbanks (Feb. 18-March 25).

By the spring equinox, March 20, Alaska will be enjoying more daylight than anywhere else in North America. This fact, along with all the snow, contributes to an unusually long season at Alyeska Resort, which usually doesn't close until mid- to late-April.

As of January 27, nearby Anchorage had received 91 inches of snow, which is already above the 74.5-inch average total snowfall for the season. The snowiest winter on record was in 1954-55, when 132.8 inches were tallied for the season.

The resort is offering a \$699 "Epic Alaska" package that includes four nights at the full-service Hotel Alyeska, three days' lift tickets and a day of guided snowcat skiing with Chugach Powder Guides, a local snowcat and heli-skiing operator in the Chugach Mountains (based on double occupancy).

To plan your Alaska winter adventure, visit www.travelalaska.com.

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