

# ALASKA STATE LEGISLATURE

## Senate Resources Committee

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#### Senate Resources

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January 21, 2010

Senator Bert Stedman  
Co-Chair Senate Finance Committee  
State Capitol Room 516  
Juneau AK, 99801

Senator Lyman Hoffman  
Co-Chair Senate Finance Committee  
State Capitol Room 518  
Juneau AK, 99801

Dear Senator Stedman and Senator Hoffman,

When oil hit \$147 a barrel in 2008, the State's coffers overflowed but individual Alaskans suffered the highest energy costs in the nation. These staggering costs did not drop along with the price of oil in 2009. Alaskans still pay 50% more for electricity than the average American and at least double the average price for heating fuel. As recently as this summer, the mean price for gasoline in 99 Alaska communities was \$5.37 per gallon, with some communities paying up to \$10/gallon. To make matters worse, these costs are growing relative to Alaskans' paychecks. In 2000, low-income households in remote, rural communities spent 16% of their income on energy. By 2008, this had grown to 47%. With all of our tremendous resources, Alaskans face natural gas shortages in Southcentral Alaska; businesses are closing their doors and laying off workers because of the price of energy; and some rural Alaskans are leaving their communities because they can't afford to heat their homes and keep their lights on.

Members of the Senate Resources and Energy Committees spent the interim hearing this story firsthand. In communities across the State, we listened to the urgent requests of Alaskans for help, and worked with them to identify solutions to the energy challenges that have plagued Alaska for years. The input we received was incorporated into a broad *Draft State Energy Policy and Program Recommendations*, document which was first released to the public in October of 2009. The public then weighed in again and offered additional comments on the draft proposal. After reviewing these comments we drafted SB 220, the Alaska Sustainable Energy Act, that offers long-term solutions to some of the energy challenges Alaskan face.

But legislation alone will not solve all of the pressing energy problems Alaskans face. Progress requires a commitment of funds to help Alaskan households, businesses and communities cut costs, use energy more efficiently, and develop new, renewable sources of energy. The legislature has committed substantial resources to energy issues over the past few years and we heard from Alaskans directly about the impact these expenditures have had on their lives. Below are a series of budget recommendations that builds on the legislature's previous work and which we believe will help provide Alaskans with more affordable and reliable energy over the long term. We ask that you give these recommendations serious consideration as the process of developing a budget for fiscal year 2011 proceeds.

- **\$25 million for weatherization to reduce home energy costs**

Weatherization is a proven way to reduce energy costs over the long-term. Annual household savings from weatherization average \$526/year or \$7,565 over the life of improvements. Nationally, the Department of Energy reports that weatherization saves the equivalent of 3 barrels of oil per dwelling per year or 60 barrels over 20 years. DOE reports that \$1.83 is saved for every dollar spent on weatherization. The \$200 million the state appropriated in 2008 for weatherization is likely to be fully encumbered by the end of FY'10. According to an AHFC report, more than 27,000 houses in Alaska still need to be weatherized; 1 in 5 rural homes and nearly 8,000 homes in Anchorage cannot maintain a comfortable room temperature; and more than 115,000 homes are "drafty."

- **\$175,000 to help Alaskans learn how to lower their energy costs through a statewide public education campaign on energy efficiency**

Alaskans stand to save millions by making their homes and businesses more energy efficient. An educational campaign can teach Alaskans simple ways to save energy and money, boosting family, community and state budgets. Local utilities can forecast anticipated energy savings and downsize infrastructure accordingly, and the state can minimize its investments in new and upgraded infrastructure. Energy efficiency and conservation is typically 50-75% cheaper than building new power plants or buying energy on the open market.

- **\$100,000 to provide technical assistance to businesses to help them reduce their energy-related expenditures and improve profitability**

This funding will enable the Alaska Energy Authority to help businesses reduce their energy consumption and improve their bottom lines. AEA plans to use federal stimulus funds to initiate a technical assistance program this fiscal year. This appropriation would enable their efforts to continue, assisting more businesses around the state.

- **\$250,000 for energy-related job training**

Using grant funds, the Alaska Vocational Technical Center currently trains power plant managers and bulk fuel operators to maintain reliable and efficient power plants, reducing operating costs in many communities across Alaska. AVTEC has purchased high efficiency generators and switchgear on which plant operators can be trained. However, with weakening federal support for the Denali Commission, funding is dwindling and these programs will need state support to continue.

- **\$2 million to help Alaskans save money with energy efficient appliances**

Several states provide rebates to homeowners who replace older energy-inefficient appliances (e.g., furnaces, refrigerators, and water heaters) with appliances that are substantially more efficient than federal standards. The Department of Energy reports that last year savings from Energy Star appliances were enough to power 10 million homes and avoid greenhouse gas emissions from 12 million cars. Consumers also saved an estimated \$6 billion.

- **\$25 million for the Renewable Energy Fund (above the Governor's proposed \$25 million)**

In 2008, the Legislature pledged \$300 million in funding over a 5-year period to in-state renewable energy projects. The Renewable Energy Fund provides grants of up to \$4 million dollars to eligible renewable energy projects for feasibility and reconnaissance studies, energy resource monitoring, and construction. Continuing to support the Renewable Energy Fund through FY2012 will allow the Legislature to fulfill its five-year pledge to help communities develop their renewable energy resources and transition off of traditional fossil fuels sources.

- **\$8 million for rural power system upgrades (above the Governor's proposed \$2 million) to reduce electrical costs in rural Alaska**

In the last decade, the Alaska Energy Authority has upgraded about 35 rural power systems, resulting in an average increase in efficiency of 26%. These upgrades have saved these communities more than \$1 million a year in fuel costs. About 25-30 community power systems still need to be upgraded. Since 2000, funding for these upgrades has come predominantly from the Denali Commission. However, the Commission's budget is in sharp decline and the state will have to step in if it wishes to assist the 25-30 communities still in severe need of upgrades.

- **\$200,000 to provide technical assistance to operators of rural power systems to lower costs through improved system reliability and efficiency**

The Alaska Energy Authority currently provides assistance to power system operators in more than 120 villages. The goal of this program is to enable local operators to become self-sufficient in running remote systems in an efficient and cost-effective manner.

- **\$4 million to upgrade bulk fuel storage facilities (above the Governor’s proposed \$1 million) to lower fuel costs for families and businesses in rural Alaska and meet federal environmental codes**

In the early 1990s, many rural communities faced the threat that they would no longer be allowed to take delivery of fuel in bulk quantities because of the condition of their bulk fuel storage tank farms. The Bulk Fuel Upgrade Program, which has been largely supported by the Denali Commission, provides funding for repairs to enable affected communities to continue to receive fuel. Sixty-four projects have been completed so far, 7 are underway, and 33 remain. Unfortunately funding from the Denali Commission is declining dramatically and the state will have to step in if this effort is to be completed.

- **\$3 million in state matching funds to enable communities to qualify for roughly \$9 million in federal public transportation funds**

Community transportation systems help many Alaskans get to work, school, medical facilities, and other critical destinations. Alaska currently has 11 road-based community transit systems, and is 1 of only 3 states that do not invest any general funds in public transit operations. Local governments (e.g., the Mat-Su Borough and Kenai Peninsula Borough) are struggling to raise sufficient matching funds to secure federal funds and have had to leave federal funds on the table, undermining this energy-efficient form of transportation.

- **\$3 million to replenish the Power Project Loan Fund (above the Governor’s proposed \$7 million)**

The Power Project Fund provides loans to utilities, local governments and independent power producers for the development or upgrade of electric power facilities, including conservation, bulk fuel storage, and waste energy conservation. The loan term is related to the productive life of the project, but cannot exceed 50 years. Interest rates vary between tax-exempt rates at the high end and zero on the low end. Forty-seven loans for a total of \$26 million are currently out, with only one past due. The Fund balance is running low and more funding is necessary to support legitimate, cost-saving requests from applicants.

- **\$200 million for Long-Term Railbelt Energy Projects**

A Regional Integrated Resource Plan was recently completed for the Railbelt to guide development of the region’s power systems over the next 50 years. This report assesses the cost and feasibility of numerous power production alternatives and identifies huge expenditures that will be needed to maintain reliable and affordable energy for the region. Re-building the Railbelt Energy Fund incrementally will help prepare communities and the state for needed investments and enable near-term projects to proceed.

- **\$10 million for Susitna, Chakachamna and Glacier Fork Hydro Projects**

The Railbelt Integrated Resource Plan identified large hydro projects as a preferred energy source for the region. These funds would enable the AEA to carry out 1) needed geotechnical work, permitting, and initial conceptual design for the Susitna Hydro Project (\$6 million), 2) feasibility and field studies related to the proposed Lake Chakachamna Hydro Project (\$3 million) and 3) conceptual design and preliminary permitting for other hydroelectric projects (\$1 million). This work will help the Administration and Legislature determine whether additional investment in and ultimate construction of each of these projects is advisable.

- **\$3 million for the Emerging Energy Technology Fund**

Currently there is little or no state funding available for research and development of new energy technologies. Although the state supports renewable energy development through the REF, projects are limited to proven “off the shelf” technologies. The proposed Emerging Energy Technology Fund would encourage innovation and exploration of new sources of renewable energy and match funds provided by the Denali Commission.

- **\$10 million for the Southeast Energy Fund**

An expanded and capitalized Southeast Energy Fund can assist in the construction of power generation projects in Southeast and completion of a regional electrical grid. Most communities in the region are not on hydro power and the majority still burn oil to generate electricity and heat. In addition, many of the hydroelectric facilities in Southeast are at or near capacity, severely limiting regional economic growth opportunities.

- **Support for Southeast Energy Planning** (in Governor’s budget)

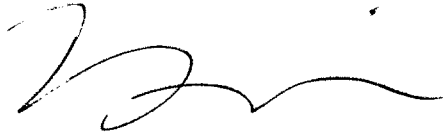
A Regional Integrated Resource Plan (RIRP) for Southeast Alaska will help comprehensively assess regional needs, power production alternatives and their costs. The RIRP will build on the current Southeast Alaska Electrical Intertie system plan and create a rational approach to prioritizing state and local investment.

- **Fully fund the Power Cost Equalization Program**

The Power Cost Equalization program is a critical foundation of Alaska’s energy policy. Fully funding the PCE program will continue to provide desperately needed relief in communities suffering under the highest energy costs in the nation.

We fully appreciate the challenges you face on the Senate Finance Committee and diverse funding needs facing our State. We ask you to consider these items as you craft the operating, capital and supplemental budgets for fiscal year 2011 and plan ahead for fiscal year 2012.

Sincerely,



Senator Bill Wielechowski



Senator Lesil McGuire

CC: Senator Bill Egan  
Senator Johnny Ellis  
Senator Charlie Huggins  
Senator Donny Olson  
Senator Joe Thomas  
Senator Gary Stevens  
Governor Sean Parnell