

Energy Projects**FY2007 Request: \$15,200,000****Reference No: 38950****AP/AL:** Appropriation**Project Type:** Construction**Category:** Development**Location:** Statewide**Contact:** Ron Miller**House District:** Statewide (HD 1-40)**Contact Phone:** (907)269-3000**Estimated Project Dates:** 07/01/2006 - 06/30/2011**Brief Summary and Statement of Need:**

Multiple federally funded energy programs of Bulk Fuel Upgrades, Rural Power Systems Upgrades, Alternative Energy and Energy Efficiency projects. This program contributes to the Department's mission of promoting a healthy economy and strong communities by providing economic growth in the communities it serves.

Funding:	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>Total</u>
Fed Rcpts	\$13,500,000						\$13,500,000
Gen Fund	\$1,200,000						\$1,200,000
I/A Rcpts	\$500,000						\$500,000
Total:	\$15,200,000	\$0	\$0	\$0	\$0	\$0	\$15,200,000

<input checked="" type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input checked="" type="checkbox"/> On-Going
2% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	0
Totals:	0	0

Additional Information / Prior Funding History:

Refer to the funding matrix in the detailed description.

Project Description/Justification:

Continuation of the Alaska Energy Authority's (AEA) long-standing energy related programs of Bulk Fuel Upgrades, Rural Power Systems Upgrades, and Alternative Energy and Energy Efficiency Projects. The funding for these programs has been predominately provided by the federal agencies of Denali Commission, U.S. Department of Agriculture – Rural Utility Services, and the U.S. Department of Energy. With the anticipated decline in federal funds, AEA requests state general funds to match federal dollars and to continue assisting small communities and utilities with energy project upgrades that are included in the Bulk Fuel and RPSU deficiency lists but lack federal funding for construction. This project will also address several funding recommendations by the Rural Energy Action Council. The specifics are:

(1) Bulk Fuel Upgrades: When AEA began upgrading bulk fuel tank farms, there were approximately 1100 above-ground tank farms in 171 remote villages in rural Alaska. Most of these tank farms had serious deficiencies that typically include:

- Inadequate dikes to contain fuel spills
- Inadequate foundations, which could cause gradual tank movement and fuel leakage
- Improper piping systems and joints - the most common source of fuel leaks
- Improper siting near wells, beaches, and buildings, or within a flood plain
- Tanks that are rusted or damaged beyond repair
- Electrical code violations
- Inadequate security

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This program's mission over the last several years has been to replace these tank farms with new or refurbished facilities that meet all applicable safety and environmental codes. \$69 million is the estimated need to complete the bulk fuel upgrades identified on the Bulk Fuel Deficiency list.

This program began in approximately 1997 and has expanded since fiscal year 1999 with federal funding from the Denali Commission. In fiscal year 2007 AEA anticipates \$4 million in federal funds.

(2) Rural Power System Upgrades: The electric utility systems are part of the basic infrastructure of rural communities. The power plant and distribution systems in most rural communities do not meet accepted utility standards for safety, reliability, and environmental protection. Due to high costs and limited economies of scale, most local communities cannot make the capital investments needed to meet the accepted utility standards.

AEA gives priority to electric utility systems that are in the worse condition. AEA has built a detailed database of electric utility conditions and characteristics. Deficiencies of each utility have been scored with respect to generating equipment, distribution systems, powerhouse structures, and other major physical components. Rural systems are then ranked according to the level of these deficiencies. Additional criteria that are applied to the project selection process include:

- Imminent threat to health and safety
- Imminent threat of system failure during winter conditions
- Financial need based on the level of existing rates, average income, availability of other financing, and project cost compared with utility revenue
- The utility's ability to operate and maintain the facility without future state assistance or the community's willingness to join an established qualified regional utility.
- Projects are needed in order to meet efficiency guidelines under the Power Cost Equalization Program.

Once upgraded, the rural utility is required to employ a qualified operator to ensure that the system is properly operated and maintained.

This is a long standing energy program that has expanded since fiscal year 1999 with federal funding from the Denali Commission. In fiscal year 2007 AEA anticipates \$6 million in federal funds.

(1) & (2) Bulk Fuel and Rural Power System Upgrades Funding: When the Denali Commission began providing federal funding in fiscal year 1999 the intent was to use the additional funding to expand the Bulk Fuel and Rural Power Systems Upgrades programs. Accordingly, in fiscal years 2000 through 2003 both the federal funding and approximately \$6.4 million (\$1.6 annually) in general funds were appropriated. In fiscal year 2004 the general fund funding was eliminated and the Denali Commission provided total funding for the programs in fiscal years 2004-2006. This capital request will continue the Denali Commission's funding estimated at \$10 million for fiscal year 2007.

(3) Alternative Energy and Energy Efficiency Programs : The objective is to lower the cost of power and heat to predominantly rural communities while maintaining system safety and reliability. The alternative energy program has received funding for several years from the US Department of Energy (USDOE) and has recently expanded with funding from the Denali Commission. A state match is required from USDOE. In fiscal year 2007 AEA anticipates \$3.5 million in federal funding, \$500,000 in federal funding passed through Alaska Housing Finance Corporation, and an estimated state match requirement of \$1,200,000.

The AEEE program includes the following projects:

- Fuel efficiency improvements, including the Diesel Generation Efficiency Improvements program, the "Waste Heat" Recovery from Diesel Generators program, and the Energy Storage System Development program.
- Hydroelectric and intertie project pass through grants. AEA manages several federal pass through grants for larger power projects. The Southeast Conference has requested that AEA manage an anticipated USDOE grant for the southeast intertie project.
- Rebuild America program provides grants to conduct energy audits to identify conservation measures saving schools and other rural facilities over \$2 million per year. AEA receives the USDOE funds through an RSA with AHFC. This program requires a 1:1 match of federal and state dollars.

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- Wind energy development activities which include wind resource mapping and assessment, AEA's anemometer loan program, project siting and bird habitat impact assessment, conceptual design and technology analysis for hybrid wind-diesel systems, and evaluation of field results from operating systems required for additional federal construction funds.
- Biomass program which tests air emissions and performance of fish oil and diesel blends as fuel, and utilization of sawmill and municipal wastes for energy.
- In FY03 and FY04, using USDOE funds requiring a 25% state cost share, AEA conducted a statewide assessment of geothermal energy resources. The assessment identified several potentially favorable geothermal project locations, including the City of Akutan and a local fish processor which together import 4.3 million gallons of diesel per year into the community. AEA plans to support follow-up work with USDOE and other interested industry and government partners to test suitability of the resource.
- Energy Cost Reduction Initiative began in FY2003, this initiative provides grants to match communities loan funds necessary for the study and/or implementation of energy cost reduction initiatives.

Summary of Anticipated Funding by Federal Agency:

Federal Agency	Federal	General Funds	Interagency	Total
Denali Commission	10,000,000			10,000,000
USDOE	3,500,000	800,000		4,300,000
USDOE (Through AHFC)		400,000	500,000	900,000
Total	13,500,000	1,200,000	500,000	15,200,000

Funding History (includes both State and Federal funding)

Year	Amount	Legislation
FY 1997	1,000,000	SLA 96 Ch 123 Page 45 Line 31
FY 1997	500,000	SLA 96 Ch 123 Page 45 Line 25
FY 1997	1,600,000	SLA 96 Ch 123 Page 45 Line 37
FY 1998	10,000,000	SLA 97 Ch 100 Page 42 Line 20
FY 1998	1,600,000	SLA 97 Ch 100 Page 42 Line 27
FY 1998	600,000	SLA 97 Ch 100 Page 42 Line 21
FY 1999	30,000,000	SLA 98 Ch 139 Page 40 Line 21
FY 1999	1,600,000	SLA 98 Ch 139, Page 40 Line 14
FY 2000	1,600,000	SSLA 99 Ch 2 Page 84 Line 27
FY 2001	30,450,000	SLA 00 Ch 135 Page 3 Line 9
FY 2001	1,600,000	SLA 00 Ch 135 Page 3 Line 6
FY 2002	4,950,000	SLA 01 Ch 61 Page 3 Line 13
FY 2002	10,000,000	SLA 01 Ch 61 Page 3 Line 15
FY 2002	5,487,000	SLA 01 Ch 61 Page 3 Line 17
FY 2003	30,000,000	SSLA 02 Ch 1 Page 3 Line 32
FY 2003	1,600,000	SSLA 02 Ch 1 Page 3 Line 15
FY 2004	100,000	SLA 03 Ch 82 Page 3 Line 10
FY 2004	35,000,000	SLA 03 Ch 82 Page 3 Line 13
FY 2005	35,750,000	SLA 04 Ch159 Page 3 Line 7
FY 2006	23,220,000	FSSLA 05 Ch3 Page 3 Line 26