

State of Alaska Energy Policy and Strategy Recommendations

Final Report provided to Governor Sarah Palin
pursuant to ADMINISTRATIVE ORDER #230

February 15, 2007

Report prepared by:
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State of Alaska Energy Policy and Strategy Recommendations

February 6, 2007 Update provided to Governor Sarah Palin pursuant to ADMINISTRATIVE ORDER #230

Update prepared by Nels Anderson, Jr., Energy Policy Advisor to the Governor
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February 6, 2007

Governor Sarah Palin
State of Alaska
Juneau, Alaska 99811

Re: Energy as a priority

Dear Governor Palin:

I am in the process of preparing my final Energy Report to you under Administrative Order #230. It will be done prior to my last day, February 15, 2007. The report will compile my previous reports and hopefully be of use to you as you chart a course for solving Alaska's energy issues. I heard via our local radio station, KDLG, that you will task the Alaska Industrial and Economic Development Authority and the Alaska Housing Finance Corporation with the mission of lowering the cost of energy in Alaska.

It is impossible for me to imagine the pressures of your new job as Governor of our state. I note that education groups are asking you to make education the number one priority of the state. I am sure that others are making similar demands. I am asking you to make lowering the cost of energy your highest priority for the following reasons.

The energy issues have reached crises proportions in our villages and communities across the state. Anchorage is rapidly approaching a crisis if no plans are developed to bridge the gap between now and a gas pipeline that can deliver gas to South-central Alaska. Southeast Alaska needs assistance in developing an inter-tie to provide low cost energy from their hydro resources.

To adequately address the energy crises in our state, I divide the state in three energy regimes.

The three energy regimes are:

1) Rural Alaska;

2) South-central Alaska; and

3) Southeast Alaska.

Each area requires different strategies to overcome their critical energy needs.

1) Rural Alaska:

Many of our villages are barely hanging on. Many of these small villages were encouraged by the state to become municipalities. As funding for municipal revenue sharing dwindled to nothing, many of these villages, with no tax base, have had to shut their doors. High energy costs have contributed to the need for our communities to shut down essential services.

I can't give you exact numbers of our people moving from our villages. I do know that this is happening because gasoline is over \$6 a gallon in many of our villages. Heating fuel is over \$5 a gallon. Electricity costs are over 50 cents a KWH. Food prices are rising to pay the increased cost of freight due to higher fuel costs. Schools are closing because people who are moving are taking their children and bringing the school population below the ten children needed to keep each school open.

Much of the school foundation formula dollars are spent keeping our schools heated and lighted. As a result, classroom needs are not being met appropriately. As people migrate into hub communities, those communities have difficulty meeting new population pressures. Schools, life, health, and public safety issues begin to emerge that strain the budgets in place.

Proposed Near Term Rural Energy Solutions:

1) Develop a separate line item for electricity and fuel costs for our school districts so that school foundation formula funds are used exclusively for the classroom.

2) Craft an energy sales tax waiver program that would allow communities with a sales tax to waive their taxes on energy and be reimbursed by the state for the sales taxes they don't collect. This would have an immediate impact and help people who are purchasing heating fuel, Subsistence trapping and hunting fuel, paying electric bills, diesel, and propane. This tax could have a five (5) year sunset clause and be extended if needed.

3) Work on a Fuel Subsidy Program that is similar to the PCE program. The cost of fuel in our villages is very expensive and is draining all available disposable income for just keeping homes lighted and heated. The program would be for ALL Alaskans and the fuel would come from the Royalty Oil that belongs to all of us. The Royalty oil would be refined at Flint Hills or another refinery; people across the state would pay for the refining costs, distribution, and the freight to get our Royalty Oil Fuel to all of our communities. All of that Royalty oil is owned in common by ALL Alaskans and should be available at cost, plus refining, and distribution to our people in Alaska.

Although we welcomed the heating fuel from Citgo, a state fuel subsidy program would not be a giveaway, but be a program that uses our crude oil for the good of ALL Alaskans.

These near term solutions must run parallel to transition strategies that get us from where we are today to long term solutions.

Hopefully, efforts to create an alternative energy grant fund will be approved by the legislature. In addition, PCE funding must be monitored to make sure that PCE is 100% funded to help people pay for their electricity bills.

We have wind, tidal, biomass, geothermal, hydro, gas caps, and coal resources that we can study to see which of these alternatives will meet our long term needs to eventually displace diesel generators.

2) South-central Alaska:

South-central Alaska is beginning to experience a very serious energy problem. Cook Inlet gas is declining rapidly with no known replacement gas on the horizon. 36% of the gas is being exported and the remainder is being used for providing energy needs in Cook Inlet. Experts tell us that Cook Inlet gas, under current conditions, will not be able to supply domestic needs by 2009. We are also told that a gas pipeline from the North Slope with a spur to South-central may be done by 2013. We obviously need options to bridge the emerging energy gap and allow Cook Inlet to transition to another long-term source of energy.

Conoco Phillips and Marathon are renewing their applications to continue to export Cook Inlet gas. They say that it is in the best interests of Cook Inlet users to keep that gas flowing outside of Alaska because it would encourage more gas exploration efforts.

South-central Alaska needs a strategic plan to come up with options on how to address this pressing problem. Over half of Alaska's population resides in South-central Alaska. Their need for low cost energy solutions is critical to domestic energy needs, economic security, public life, health, and safety.

Proposed South-central solutions:

1) Convene a strategic planning session with all parties having an interest in this situation. This means the municipalities, state, feds, gas producers, gas distributors, and all users of the natural gas from Cook

Inlet. The task of this group would be to outline a strategic plan that would meet the domestic needs of South-central Alaskans, industry, and the producers.

Someone is going to have to address the FERC gas application extension from Conoco Phillips and Marathon. The producers are going to have to be asked to phase down the exportation of gas as the reserves in Cook Inlet decline to continue to meet the domestic and economic needs of South-central Alaska. Some sort of proposal has to be presented that keeps the producers in the game and at the same time guarantees the basic needs of the residents of South-central Alaska and the Alaska based industries that are dependent on Cook Inlet gas.

2) Push the planning and construction of the proposed Fire Island Wind Farm aggressively. The wind farm will displace a large amount of gas that is used to produce electricity and make more available for domestic needs.

3) Begin an aggressive research program to develop geothermal energy across the Inlet from Anchorage. Geothermal energy is abundant and can be exploited for electrical generation needs of South-central Alaska.

4) Start a feasibility study on using Beluga Coal Fields for a mine mouth electrical generator, gasifying the coal to replace Cook Inlet gas, and/or liquefying the coal for diesel generation. This effort should move ahead very quickly.

3) Southeast Alaska:

Southeast Alaska communities would be well served with a common grid system that would allow Southeast Hydro projects to provide low-cost, reliable, and long-term energy for their communities and to export excess energy to BC Hydro. Thomas Bay/Swan Lake-Tyee are believed to be able to provide energy for all of Southeast's needs as well as export excess energy. Income from state-owned transmission lines would provide the funds necessary to build the Southeast Inter-tie to connect all of Southeast's communities by 2030.

Proposed Southeast Inter-tie Solution:

Continue efforts to provide the funds needed to complete this project. A funding mechanism needs to be developed to complete Southeast Hydro projects and create a grid system that will connect all of the communities and export excess Hydro energy to BC Hydro.

In conclusion, people across the state are struggling to heat and light their homes. Many are having to decide between heat and light plus how to pay for food. It is a very stressful time in one's life when one cannot feed his/her family because gasoline is too expensive to go out hunting. Our state is rich in resources and we need to distribute that bounty equally to all Alaskans regardless of where they live. Those resources are owned in common and each Alaskan should benefit equally when those resources are developed and exploited.

I realize that all of these proposed projects will take funds that are in short supply. We should take windfall revenue from high crude oil prices and invest in our energy future. Low cost energy will guarantee new economic development, job creation, and stimulate the growth of tax bases across the state so that the different regions of our state will be able to support their education, medical, life, health, and public safety needs well into and beyond the 21st century.

Finally, I respectfully request that a Cabinet level person is tasked with ensuring that all of the above is carried out. We cannot let all of the competing demands on state funds for education, building the gas pipeline, PERS-TERS funding, ethics reform, etc. detract from the mission of solving our energy crisis in Alaska. IF we are to get on a path of energy self-sufficiency by 2010 and be energy self-sufficient by 2025, there has to be a person designated with the responsibility, authority and accountability to carry out that mission.

Governor Palin, your leadership is needed to ensure that ALL Alaskans have low cost energy so that they can live, not merely survive.

Thank you for your consideration.

My best regards,

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cc: Lt. Governor Parnell
Chief of Staff Tibbles
Commissioner Notti-DCCED
Commissioner Rutherford-DNR
President of the Senate, Senator Lyda Green
Speaker of the House, Representative John Harris
Senator Lyman Hoffman
Representative Bryce Edgmon

State of Alaska Energy Policy and Strategy Recommendations

January 17, 2007 PCE Briefing Paper for Governor Sarah Palin
pursuant to ADMINISTRATIVE ORDER #230

Briefing prepared by Nels Anderson, Jr., Energy Policy Advisor to the Governor
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January 17, 2007

To: Governor Sarah Palin
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Re: January 16, 2007 Administrative Order #230 Report

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Contents of this Briefing Paper:

- I.) PCE Beginnings
- II.) Things needed to be done on energy initiatives
- III.) Consequences of high cost energy in Alaska

I. How the PCE Program Began:

In January 1980, a report entitled "*A Concept for Power Production Assistance to Electric Utilities*" prepared for Representative Nels A. Anderson, Jr. was delivered by Arthur Young & Company. This report contained a concept to bring down the cost of electricity for Rural Alaska.

The Executive Summary stated, " A concept is presented in this report to provide financial assistance to electric utilities experiencing high power productions costs due to the high cost of fuel, the geographic remoteness of the utilities, the number and classes of consumers they serve, and the relatively small size of the utilities electric load. The power production cost reduction received by the utility would be passed on to its consumers through lower electric rates.

In order to evaluate alternative methods to provide financial assistance to electric utilities, the following nine criteria are established:

- 1) The program must provide immediate assistance for the severely impacted rural electric consumers. (*Twenty six years later, the PCE program still provides immediate assistance, especially since the program was fully funded last year.*)
- 2) The program must reduce the current disparity between rural and urban electric rates. (*The disparity between rural and urban rates has been reduced by this program. However, electricity rates in urban Alaska are up to four times lower than electric rates in Rural Alaska. In some cases, the rate disparity is greater than that.*)

- 3) The program must promote the efficient use of generating facilities. *(This part of the PCE program has been successful in getting as much energy out of a gallon of diesel as possible using the latest technology. More efficient generators, waste heat programs, better maintenance, and training for utility operators have all contributed to more efficient operation of utilities across Alaska. Inter-ties were encouraged but very few inter-ties were developed.)*
- 4) The program must promote the development and utilization of new and more economical generating facilities. *(Again, older generators have been replaced with newer, more efficient gensets, thus increasing efficiency.)*
- 5) The program must promote conversion to renewable energy resources. *(The PCE program has NOT promoted conversion to renewable energy resources effectively. This occurred because diesel fuel costs dropped low enough to make it unfeasible to transition to alternatives. However, fuel prices have risen drastically in the last five years, and moving from diesel generated energy to other alternatives is more feasible. Some villages are already adopting diesel/wind hybrids and other villages are looking at hydro, nuclear, tidal, wind, biomass, and geothermal sources of alternative energy.)*
- 6) The program must ultimately become economically self-sustaining. *(The program became self-sustaining by creating a PCE Endowment Fund in 2006. Annual appropriations by the legislature paid for the PCE costs with no provision for additional funds to make the program self-sustaining. Appropriation cuts to the PCE program caused public buildings and businesses to be removed from the program.)*
- 7) The program must be relatively simple to develop and administer. *(This program was difficult to implement at the start of the program. As time went by, the regulations took many of the kinks out of the system and have been working well for a long period of time.)*
- 8) The program must be operationally consistent with the intent of existing energy-related legislation. *(This stipulation would keep the PCE program consistent with general goals and objectives of electrical power programs in the State of Alaska. If new legislation was developed that would affect power generation as a general law, the PCE program would not be immune from new law.)*
- 9) The program must conform to the cost-of-service rate making philosophy as approved by the Alaska Public Utilities Commission (now RCA). *(The PCE program is required to adopt the cost-of-service concept and not distort it under the relief provisions of the program. In order to maintain efficient development and use of electric energy within the State of Alaska, any distortion should be kept to a minimum.)*

The PCE program is cutting recipients electricity bills by about half. If oil prices don't climb too much higher, the PCE Endowment Fund should be able to fully capitalize the PCE program for FY 2008.

Conclusion: Not much has been done to truly equalize electricity costs across the state. In a state so rich in renewable and non-renewable resources such as gas, coal, and oil, there is still too much disparity in energy costs.

Much more work must be done to lower the cost of energy. We must transition from diesel and transition ourselves from diesel and gas to reliable, affordable, and long-term alternatives. If we are to diversify and grow economies throughout Alaska, we must have low-cost energy to energize economic activity.

Strategies that lead us in that direction need to be debated. If we are to find a path to energy self-sufficiency by 2025, we must become aggressive in our search for alternatives. The Administrative Order #230 Interim Report of December 1, 2006, outlined a series of energy policies that will help set the stage for energy self-sufficiency.

II. Things to do implement the Energy Policies suggested in the AO #230 follow:

1. The state needs to develop a plan that will have the greatest short-term impact to lower the cost of energy across the state as soon as possible.
2. The state needs to fund a feasibility study to energize the entire state of Alaska under one comprehensive energy plan.
- 3) The state needs to find the extent of the socio/economic consequences of the effects of high cost energy across Alaska.
- 4) The state needs to attack the high cost of energy as our nation did when we developed the atomic bomb.
- 5) The state needs to fund a feasibility study to determine the cost of connecting all Alaskan communities to a common energy grid.
- 6) The state needs to develop energy research centers in all of our Rural Campuses.

III. CONSEQUENCES OF HIGH COST ENERGY:

Finally, as oil prices rise, continuing the use of diesel as our primary source of electricity will become unbearable and we can predict the following:

- VILLAGES CLOSE THEIR MUNICIPAL DOORS
- OUR PEOPLE LEAVE THEIR VILLAGES
- SUBSISTENCE ACTIVITIES BECOME MORE DIFFICULT

- SCHOOLS CLOSE
- NO ECONOMIC ACTIVITY CAN OCCUR
- NO JOBS CAN BE CREATED
- NO TAX BASE CAN GENERATE FUNDS FOR SCHOOLS, AND LIFE, HEALTH, & PUBLIC SAFETY
- PRESSURE PLACED ON HUB COMMUNITIES THAT ARE NOT PREPARED FOR MORE PEOPLE
- STATE INVESTMENT IN VILLAGE INFRASTRUCTURE DETERIORATES

These are some of the visible impacts of high cost energy in our villages.

cc: Chief of Staff Tibbles

Emil Notti, Commissioner-Department Community and Economic Development

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Administrative Order No. 230 was set up to establish an Alaska Energy Policy Advisor to direct state agencies to coordinate energy policy and plans for in-state use of gas from the gas transmission pipeline.

On October 19, 2006, Governor Murkowski issued Administrative Order No. 230 (A.O. No. 230) that established a new position of Alaska Energy Policy Advisor and directed state agencies to facilitate energy policy with the goal of increasing energy in the state and preparing for in-state use of gas from a gas transmission pipeline.

This Report from the Energy Policy Advisor hopes that Governor Palin will utilize this report in addressing the energy challenges of Rural Alaska, South Central, and Southeast Alaska.

A.O. No. 230 clearly called for a continuation of energy policy efforts already begun by the previous administration through efforts such as creation of the Alaska Energy Policy Task Force in 2003, and the creation of the Rural Energy Action Council in 2005. In addition to previous recommendations of the rural Energy Action Council, A.O. No. 230, called for efforts to seek solutions to the growing energy crisis of South Central Gas reserves which are being depleted and continuing efforts on the Southeast Energy Inter-tie. This report is intended to address the spirit and intent A.O. No. 230. The initial phase of this report will be devoted to rural Alaska energy challenges and opportunities.

A.O. No. 230 provided specific direction in several operational and policy areas seeking answers and recommended solutions to the growing energy dilemma. The extreme high cost of energy serves not only to stifle economic opportunity and job growth but it also creates hardships for many Alaskans. On April 15, 2005, Governor Murkowski was presented with the Rural Energy Action Council (REAC) report with recommendations as he had requested. The REAC report said that in passing on the report and the recommendations, "the administration is to pursue the recommendations and implement them as resources become available."

Since the REAC report was issued, several positive steps have occurred, namely the full funding of Power Cost Equalization (PCE) and funding for the PCE Endowment. However, since then little progress has occurred on other named recommendations. The following represents progress made on the REAC recommendations and also speaks to similar priorities established in the A.O. No. 230.

The REAC report was used in pursuit of full funding for the annual budget year and also additional funding for the Power Cost Endowment. The administration sought full funding for the PCE program and the Legislature approved full funding through the normal budget process, plus a supplementary budget for a total of \$25 million. In addition to this, the administration introduced legislation to pass a Petroleum Profit Tax (PPT) gained approval from the 2006 legislature which included a provision to fund the PCE endowment in the amount of \$183 million, raising the endowment to \$363 million.

The other recommendations by REAC and A.O. No. 230 were developed to seek solutions to the high cost of energy which included the following:

1. Creation of a state funded Bulk Fuel Operator Technical Assistance program. The Alaska Energy Authority (AEA) is seeking an appropriation of \$300,000 for this technical assistance in the new FY08 budget request.

2. Provide a new program that would include community small residential tanks and pipes for upgrading as large community tanks were improved. The agency will need to review AEA statutes for possible change to allow pursuit of this goal.

3. Fund highly efficient power plant generators, switchgear and heat recovery systems with state funds and funds from the Denali Commission. The agency continues to make progress through funding with the Denali Commission. AEA is seeking state funds with a FY 08 budget request.

4. Support for energy conservation measures with state agencies such as Alaska Housing Finance corporation (AHFC) for residential and AEA for commercial structures to include schools and community facilities. Actions taken for conservation measures:

- AEA is now supporting lighting and other cost effective upgrades in 55 schools and community building in 17 communities. Typical payback on investment is less than five years. AEA supports Alaska Department of Transportation and Public Facilities buildings through energy saving measures with projected savings of \$3.4 million over 10 years.
- AEA's energy efficiency and technology Assistance Program funded audits and power system efficiency assessments in 14 communities in FY 2006.
- Recommendation #8 of REAC - AEA is taking aggressive action supporting Alternate Energy projects; an example of progress in this area was the geothermal project at Chena Hot Springs, which won a National Award nomination.
- Geothermal:
In the summer of 2006, Alaska's first geothermal power plant was commissioned at Chena Hot Springs Resort. The 400 kw project was financed by the US Dept of Energy (USDOE), Energy Cost Reduction grants and an AEA Power Project loan. The resort is projected to save approximately \$1,000/day by displacing diesel for power generation.

AEA established a statewide Geothermal Working Group in 2006 to coordinate statewide training, workshops and resource assessments. With the Renewable Energy Alaska Project, in August 2006, AEA published the Renewable Energy Atlas of Alaska, a guide to biomass, geothermal, hydroelectric, ocean, solar, and wind energy resource with an overview of existing energy infrastructure and potential policies.

5. Provide for state support to supplement the Low Income Heating Assistance Program (LIHEAP) funding and to provide training and public education for the program benefits. Governor Murkowski requested more State Funds in FY 07 for LIHEAP; however additional federal funds were approved for the fiscal year.
6. Recommend calling for a change to the Bulk Fuel Loan Limit was acted upon by the Legislature, approving an increase of the Loan Limit to \$400 thousand per loan (CSSB 188). While the increase is a valuable and a positive event, increased activity in the program necessitates an increase in the actual loan fund itself. Such a capital increase is being prepared by AEA.
7. Recommend that the two areas of the REAC report, dealing with Energy Funding for schools, and establishing Rural Energy Centers will require further conversation before meaningful results can happen.
8. Recommend the need of a feasibility study of linking rural Alaska to the rail belt energy infrastructure, as echoed earlier by A.O. No. 230 and the REAC report. This is largely driven by resource hungry companies such as those developers of the Pebble mining prospect and Donlin Creek gold mining prospect. Preliminary studies have been underway that would bring power to these potential world class mining districts, and with such expansion of major sources of power this represents an excellent opportunity to electrify surrounding small communities. Pebble developers have had discussions with Homer electric, reportedly to investigate the feasibility of improving rail belt power through a series of underwater cable and overland transmission lines to the Lake Iliamna Pebble prospect. Likewise, the developers of Dunlin Creek gold mining have sought preliminary Request of Proposals that might lead to critical power for the Middle Kuskokwim site.
9. Recommend a study should be done to determine the economic impact caused by the net population migration from rural Alaska to urban centers due to high fuel cost as suggested by the A.O. No. 230. To our knowledge there is no such study existing today nor is there such a study under consideration. However, AEA has a working relationship with the University of Alaska system which has done Rural Energy studies, Rural Education studies, Rural Fuel Price Comparison studies and other similar work. First Alaskans Institutes (FAI) mission involves education. FAI has been working in the energy area as well and it makes sense that such an effort called for by this recommendation can be advocated by AEA.
10. Recommend additional fuel price reporting systems for non-PCE communities. This will require discussion with the Regulatory Commission of Alaska (RCA), and the Federal Department of Energy, Office of Energy Information, prior to and before any general comments can be made.
11. Recommend the following statement be acted upon: "Assisting as needed in the divestiture of state-owned rural energy infrastructure" which has not been acted upon.

12. Recommend improvements to rural fuel transportation and delivery systems which has had limited progress. AEA has started to meet with fuel vendors and select utilities in an effort to educate the agency to the issues.

13. Recommend a study to investigate the feasibility of establishing regional energy centers at all of the University Rural Campuses. AEA has had meetings with the University of Alaska in preliminary steps to investigate the feasibility of establishing regional energy centers. As a first step, AEA, Alaska Housing Finance Corporation, has been meeting with the University's Cooperative Extension Service regarding establishing a web site for Energy information.

Recommendations of Governor's REAC: Follow up and Implementation

On April 15, 2005, the Rural Energy Action Council (REAC) presented the Findings and Recommendations as requested. Please see the attached table of REAC Recommendations f complete with actions taken since the report was issued.

<u>Recommendation</u>	<u>Amount Needed in 1,000's</u>	<u>Action Needed</u>	<u>Who</u>	<u>Timeframe</u>
1. Fully fund PCE		Done		
2. Front load PCE Endowment		Done		
3. Create State funded bulk fuel Operator Technical Assistance	300.0	AEA to expand Technical Assistance (formerly Circuit Rider) Program	Legislature	FY 08 Budg
4. Include downstream tanks and pipes in upgrade	1,000.0	Could be included in AEA's energy projects capital request	Legislature	FY 08 Budg
5. Create Bulk Fuel Co-ops	400.0	DCCED to issue grants to assist in formation of co-ops	Legislature	FY 08 Budg
6. Change Bulk Fuel Loan limits	Indeterminate	Pass CS SB 188 (CRA) by Senator Olson	Legislature	Passed 200
7. Fund efficient generators, switchgear & heat recovery	2,800.0-11,250.0	Could be included in AEA's energy projects capital request	Denali Comm. & Legislature	FY 08 Budg
8. Take aggressive action to support Alternative Energy (AEA portions only)	Included	Included in current AEA capital request, needs legislative support	Legislature	FY 08
9. Take aggressive action to Support Energy Conservation	Included	Included in current AEA capital request, could be included in AEA's Energy Projects capital request	Denali Comm. and Legislature	FY 08
10. LIHEAP-Publish Guide	150.0-250.0	AEA meet with LIHEAP to begin Scope, Seek funds	LIHEAP, AEA	FY 08
11. Energy funding for schools	Indeterminate	DEED and OMB (need buy-in from DEED and school districts)	DEED/OMB	FY 08
12. Establish Rural Energy Centers	Indeterminate	Initiate discussions with UAF	AEA,UAF	Underway

Current Energy Issues:

Many of our villages are in a crisis as a result of high energy costs. Many REAA school districts are one or two students away from closing their schools. Schools have to close when the school population of a community falls below 10 students.

People in our villages are struggling and are having to decide what bill they should pay first: The electricity bill; The oil bill; or pay for food. People should not be living in those kinds of conditions when we have a large permanent fund, a budget surplus, abundant renewable and non-renewable resources, and oil and gas being shipped out of Alaska daily.

As a result of the high cost of energy, many villagers are migrating to hub communities and the Railbelt. Village populations are declining. Many villages are shutting down their municipal offices because they cannot afford to keep the buildings lighted and heated. Consequently, basic life, health, and safety services are in serious decline. We have no exact numbers on the effects of out-migration but it is believed to be very serious. We need to assess the migration patterns as they relate to high cost energy. We need a study to be commissioned very soon to determine the extent of the migration patterns and find ways to keep people from moving out of the ancestral homes.

Near Term Suggestions:

State Sales Tax Waiver Program-

1) Legislation needs to be developed to allow communities with a sales tax to waive that tax on electricity, heating oil, gasoline, diesel, and propane. The state would reimburse the communities that do not collect for those energy sales. This needs to be done ASAP and placed on a fast track for early consideration in the upcoming legislative session in January, 2007.

2) Energy Subsidy-

Legislation needs to be drafted to give residents a subsidy for their use of heating oil, gasoline, diesel, and propane. The average price of these petroleum products paid by Railbelt communities would be the same price all communities pay across the state. The oil and gas we have on the North Slope is owned, in common, with all Alaskans but all Alaskans are not benefiting equally. This subsidy program would reimburse communities outside of the Railbelt the difference between the average cost of heating oil, gasoline, diesel, and propane of Railbelt communities and what is paid by citizens outside of the Railbelt.

3) Continue to monitor the PCE program and implement the Rural Energy Action Council's recommendations of April 15, 2005.

Work Plan:

1) Prepare legislative drafts for a Sales Tax Waiver Program and Energy Subsidy Program.

2) Work on budgets to implement the Rural Energy Action Council's recommendations.

- 3) Work on budgets to implement the strategies found in the December 1, 2006 Interim Report to the Governor.
- 4) Plan for a public workshop to learn from Alaskans about new ideas for expanding energy development to meet our energy needs. This workshop will be in conjunction with the Alaska Energy Authority's Rural Energy Conference to be held in April 2007.
- 5) Continue work on strategies for planning and preparing for the in-state use of gas from a gas pipeline due on April 30, 2007.
- 6) Encourage all regions of the state to develop comprehensive energy plans that the state and federal government can use to assist in providing affordable , reliable , long-term energy needs for all Alaskans.
- 7) Continue to support efforts for funding geothermal, wind, hydro, nuclear, gasifying coal, Southeast Inter-tie, planning in-state use of gas from the North Slope, and biomass projects.

Respectfully Submitted by,
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cc: Alaska State Legislature

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A Message from the Alaska Energy Policy Advisor

On October 19, 2006, Governor Frank H. Murkowski appointed Nels Anderson, Jr. of Dillingham, to the position of Alaska Energy Policy Advisor. The duties of the Energy Advisor, with the assistance of certain executive branch agencies, are to "facilitate coordination of an energy policy for the state with the goal of increasing energy availability in the state and preparing for in-state use of gas from a gas transmission pipeline."

Many studies done over the past ten years address these energy issues. Many suggestions have been made that could be the answers we need to our diverse energy challenges across the state.

One of the studies suggested that we consider an Alaska State Energy Grid where all of our communities would be connected. Another suggests we move toward geothermal sources because of the proximity to many of our communities to active volcanoes. Others think that wind is the answer. Hydro, peat, possible new gas fields on Bristol Bay's Alaska Peninsula, new gas fields in Nenana, coal at Beluga and other sites across the state all present possible solutions for our energy needs.

High energy prices are driving efforts to define an energy policy that will provide energy equality for all of the citizens of Alaska. The challenge is to find a way to deliver reliable, low-cost, and long-term energy to all of Alaska presents interesting opportunities for innovative strategies that will get Alaska on the path of energy self-sufficiency by 2010.

It is necessary to devise strategies that will bring the most benefits in the shortest time frame possible. Since many of our communities are located close to hydro, geothermal, wind, tidal, coal-bed-methane, and bio-mass sources, it may be possible to move many of Alaska's communities away from diesel toward renewable energy in the near term.

These options can be hybrids of diesel and wind, diesel and hydro, diesel and tidal, or some other combination. This is happening in Kotzebue, St. Paul, and several other small communities across the state. The Alaska Village Electric Cooperative is working on a number of projects that will make many of those communities less dependent on diesel. Promising geothermal projects include Chena Hot Springs and Naknek.

As we move toward Southeast Alaska, we find a different set of problems for finding reliable, affordable, and long-term answers. Solutions may be more of a challenge although Southeast Alaska has many of the same high cost problems found in rural and remote Alaska. Fairbanks is beginning to feel the high cost of heating oil during the winter months along with our schools, university, and other public facilities throughout Alaska.

Gas fields in Cook Inlet are declining and placing a strain on the economy and pocketbooks of the people in the Cook Inlet basin. Agrium has had to cut back on its operations to allow for the use of gas for heating and production of electricity. Liquid

natural gas exports are continuing as Cook Inlet begins to experience severe gas supply strains.

Meetings with Enstar, Chevron, and state officials, tell me that it is critical to establish a policy that will ensure that the people of the Railbelt have a source of affordable energy as gas fields in Cook Inlet continue to decline. We must support the Southeast Inter-tie, and find ways to alleviate the high cost of energy to rural and remote Alaska.

An energy policy should a) increase supplies; b) encourage conservation; c) search diligently for alternatives; and d) have the will to achieve energy self-sufficiency by 2025. The energy policy should make sure that the next generation of our energy sources is reliable, affordable, and long-term.

Recommended Energy Policy for Alaska

The energy policy statements come from the authority granted in the Alaska State Constitution. The language found in our Constitution is broad and clear regarding how our natural resources should provide "for the maximum benefit of its people." Specifically:

"Article 8, Section 2. General Authority -

The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

Energy Policy Statements:

- ✓ **Alaska must provide energy equality for all the citizens of Alaska**
- ✓ **Energy must be affordable, reliable, and long-term**
- ✓ **Energy conservation must be encouraged for all Alaskans**
- ✓ **Alaska must work toward a common state-wide energy grid**
- ✓ **Energy alternative research and development must be encouraged and supported**
- ✓ **Non-renewable oil and gas set-asides need to be adopted to allow for in-state use**
- ✓ **Energy providers and producers must plan collectively for energy infrastructure development**
- ✓ **Alaska must be on a path of energy self-sufficiency by 2010 and energy self-sufficient by 2025**

Recommended Energy Policy Implementation Strategies

✓ **Alaska must provide energy equality for all the citizens of Alaska**

Strategies must be adopted that will have the effect of equalizing the cost of electricity, gasoline, heating fuel, diesel, and propane for all Alaskans. Royalty oil and gas can be purchased, refined, compressed, and distributed to Alaskans at cost plus transportation to Alaskans. New programs may be needed in the near term to lower the cost of energy to the most expensive locations in Alaska. Studies must be done that will provide the plans needed.

Legislation should be proposed that would give a sales tax waiver for communities that impose such a tax and have the state reimburse communities to replace that revenue.

Legislation should be proposed that would lower the cost of gasoline, heating fuel, diesel, and propane for communities that pay more than the average cost found in Railbelt communities.

Strategies and plans must be made that will allow the use of North Slope gas from four off take points. Special consideration should be given to a site at the Yukon River where gas taken from a gas pipeline can be used by communities up and down the Yukon/Kuskokwim Rivers, and West Coast of Alaska. Immediate studies must be commissioned to determine if propane from the existing pipeline can be used by communities across Alaska.

If Alaska is going to realize meaningful long-term benefits from development of our oil, gas, coal, and renewable resources, we must demand more than training and jobs. We must insist on being prepared to maintain and operate the industries that are exploiting our resources. Our schools, university, and private industry associated with our oil, gas, coal, and renewable resource development must bring Alaskans into the decision making process, exploration, development, production, marketing, and distribution of our resources. Finally, we must be able to gain access to the energy resources that are discovered and developed. Only then will Alaskans realize the true benefit of the exploitation of our natural resources.

✓ **Energy must be affordable, reliable, and long-term**

Incentives must be developed that will provide long-term, affordable, and reliable sources of energy by promoting energy projects that will use our abundant resources such as geothermal, wind, tidal, hydro, coal, and biomass creatively. Gas and diesel are rapidly increasing in cost; displacing those resources must be encouraged whenever possible.

The state needs to form strategic alliances with energy providers, the University of Alaska, the federal government, the Denali Commission, and the private sector to find

the most feasible ways and means to provide long-term, reliable, and affordable energy to all Alaskans.

A comprehensive Alaska Energy Plan must be worked on and adopted as soon as practicable.

✓ **Energy conservation must be encouraged for all Alaskans**

The creation of public benefits programs within energy utilities that incent reductions in energy consumption must be encouraged. Pre-paid meters should be adopted by energy users so that Alaskans can monitor their energy use and conserve where possible.

All of the conservation proposals found in the Alaska Energy Policy Task Force Report of 2003 and the Rural Energy Action Council Report should be supported and implemented as part of a balanced Alaska energy policy.

✓ **Alaska must work toward a common state-wide energy grid**

In order for Alaska to have a balanced energy program, it must have a common energy grid that will tie our communities together. Economic development cannot occur without a grid that businesses can tie into when economic development opportunities arise across Alaska. Remote regions of our state cannot function properly with high cost electrical energy. Donlin Creek and Pebble mines cannot operate without a low-cost energy source.

Value-added economic development activity utilizing our fishery, timber, and mining resources cannot occur without access to low-cost energy. A state-wide energy grid will ensure that economic activity will create new jobs, provide new tax bases, and stabilize the smaller communities across Alaska.

Studies must be done that will investigate the best way to move electricity across Alaska in the most cost efficient manner utilizing the latest technology available.

A phased program is needed. The first phase would get as many villagers as possible to begin regional planning to build inter-ties between villages and decide which village(s) will be the central energy provider. The second phase would be to develop a plan to connect the regional inter-ties to a central state-wide energy grid. A feasibility study is needed to assist in planning and funding the program to connect as many of our villages as possible to a common state-wide energy grid.

Studies need to be funded to find the most cost-efficient means of transmitting power between villages and connecting to a state-wide energy grid. Studies such as the proposal by ProConsult of Anchorage should be considered very seriously.

✓ **Energy alternatives research and development must be encouraged and supported**

Wind projects such as Pilot Point, St. Paul, Kotzebue, and other locations across the state should be funded to help those and other communities displace high cost diesel. Wind monitoring should continue and all communities should have the necessary wind data to know if they should proceed with a wind program or find another alternative.

Geothermal projects like those found at Chena Hot Springs, Naknek, and Unalaska should be supported and encouraged to provide an alternative to high cost diesel. Alaska should be at the forefront of our state and nation's efforts to harness our huge volcanic geothermal resources that are located so close to many of our communities in Alaska.

The Southeast Alaska Inter-tie project needs further support to make sure that low cost energy can be produced for the Southeast Region's communities and also be able to export surplus production to British Columbia and the lower 48. Governor Murkowski's vision is to complete Southeast hydro projects, tying communities together by 2030, exporting surplus power to Canada and the lower 48 through the Bradfield Canal corridor, and make low cost energy a major draw for the lower 48 and international timber and mining companies to come to Southeast Alaska.

Statewide exploration for coal-bed-methane should be encouraged to see if any of our communities are in close proximity to gas that could be used to displace high cost diesel.

Biomass programs should be funded and encouraged for communities that may not have suitable alternatives. Also, it may be difficult to connect some of Alaska's communities to a state-wide energy grid. In those cases, biomass energy could be found feasible to displace diesel.

Hydro power assessments need to continue and be accelerated. This must be done to determine if this alternative source of energy may be the most feasible for many of our communities in close proximity to promising hydro sites.

An Energy Fund must be established that will provide a reliable source of money to fund energy development programs that will benefit all Alaskans.

Energy fund legislation should be proposed by the governor or support legislation that achieves the purpose of providing a steady source of funds to implement a balanced energy policy for Alaska.

Coal is in great abundance all across Alaska. Agrium is looking at gasifying coal to provide the energy they need to operate. Homer Electric is attempting to activate the Healy coal generator. Coal is found in the Northwest, Southwest, South-central, and many other parts of Alaska. As we look at alternatives to diesel and gas, we must not

discount the need for using coal as a low-cost alternative that could serve Alaska well into the future. We must conduct an inventory on our coal deposits in Alaska, continue to seek clean coal technology solutions, CO² sequestration, gasifying coal, and turning coal into liquids.

✓ **Non-renewable oil and gas set-asides need to be adopted to allow for in-state use**

Declining gas reserves in Cook Inlet is causing concern among users of that gas. Home heating, Agrium, and liquid natural gas exports are competing for a resource that is not being replaced by new gas fields. As a result, Agrium has suspended their winter operations in order to make sure that home users and electricity producers have sufficient gas.

LNG exports continue as Cook Inlet faces these challenges. It is important to establish and maintain sufficient reserves for domestic use for our citizens. Oil and gas set-asides would help accomplish that goal.

Our domestic and economic security are tied to having sufficient access to oil and gas to warm our homes, cook our food, power our cars, and keep our economy moving ahead.

It is recommended that future licensing and lease sales have a covenant included that would ensure that our state's citizens needs are secure. Set-asides could be the answer to making sure that Alaskans have the oil and gas they need to live and work in Alaska.

✓ **Energy providers and producers must plan collectively for energy infrastructure development**

Public and private partnerships should be established to create regional integrated energy plans. This would require leadership from the governor to draw major economic interests into discussion forums on energy infrastructure needs and support legislative action required to allow collective planning and procurement of new generation and transmission assets. The governor should clearly coordinate efforts with the Alaska Energy Authority and the Regulatory Commission of Alaska.

Alaska Energy Authority—through its ownership of key generation and transmission assets—should develop a unified system operation concept and implementation plan to provide the vehicle for collective planning and organized procurement of new generation. This would include establishing the framework for a regional integrated resource plan, the business structure required for the procurement and ownership of future generation, and the retirement of debt for generation and transmission assets.

Regulatory Commission of Alaska—should serve as the rate making and tariff approval body to ensure that rate elements for the operation of jointly held generation and

transmission assets are just and reasonable; provide for an orderly process to grant certificates of public convenience and necessity.

- ✓ **Alaska must be on a path of energy self-sufficiency by 2010 and energy self-sufficient by 2025**

Unless we set goals to achieve energy self-sufficiency, we will not establish the plans that will get us there. Many of these policy recommendations will take many years to accomplish. Therefore, it is imperative that Alaska stays on course and does not deviate from its very important goal of creating low cost energy for all Alaskans.

Conclusion

The Governor's Administrative Order #230 signed on October 19, 2006, asked for energy policies and strategies for consideration. This Interim Report to the Governor is a compilation of proposed policies and strategies found in a number of studies done in the last ten years.

The recommended policies and strategies are designed to reach Governor Murkowski's goal of having the State of Alaska on a path of energy self-sufficiency by 2010 and energy self-sufficient by 2025.

Many of these recommended policies and strategies can be accomplished in a very short time. Some will take years to accomplish. The timeframe of needed action is required to keep policymakers focused on the need to provide long-term, affordable, and reliable energy for Alaskans. Without low-cost energy, our economy will not grow, new jobs will not be created, and rural communities will not be able to develop economies to generate a tax base to meet their life, health, and public safety needs.

The Administrative Order calls for a public workshop to learn about new ideas for expanding energy development to meet our energy needs. This has been planned for April 2007. It will take place at the same time as the Alaska Energy Authority holds an Energy Forum. Many people from across Alaska attend this meeting; it would be good to address new ideas for energy development at that time.

Specific strategies to accomplish the policy goals outlined in this report will require more work. These recommendations may require statutory changes, regulatory revisions, and new administrative initiatives.

These recommendations are given to help Alaskans across the state acquire energy that is affordable, reliable, and long-term. I hope that is the final result.

Appendix — Administrative Order No. 230

I, Frank H. Murkowski, Governor of the State of Alaska, under the authority of art. III, secs. 1 and 24, of the Alaska Constitution, establish the position of Alaska Energy Policy Advisor in the Department of Commerce, Community, and Economic Development, and direct certain executive branch agencies to work with the advisor to facilitate coordination of energy policy for the state, with the goal of increasing energy availability in the state and preparing for in-state use of gas from a gas transmission pipeline.

BACKGROUND, FINDINGS, AND PURPOSE

In May 2003, shortly after I took office, the Legislature created the Alaska Energy Policy Task Force to develop a long-term energy plan to efficiently enhance Alaska's economic future, review and analyze the state's current and long-term energy needs, and address elements of Alaska's long-term energy needs that can be solved through action on the part of industry or government, or through actions by both. The task force's April 15, 2004, report on non-Railbelt energy needs listed several excellent current and long-term energy recommendations, but these were mostly policy initiatives as opposed to immediate action items.

In April 2004, a report was prepared for the Alaska Energy Authority (AEA) as part of an assessment of opportunities to improve the efficient, reliable delivery of rural Alaska energy services. The Alaska Rural Energy Plan stated that significant energy savings in rural Alaska electrical and heating were possible by coordinating community planning, improving market incentives, expanding consumer education efforts, encouraging management best practices, extending metering and telemetry to enable more effective management of electric utilities, and leveraging cost-effective capital equipment investment for utilities and end users.

While both reports are excellent, neither addresses the unforeseen rural energy crisis that resulted from the recent skyrocketing oil prices. In October 2004, I exercised my authority as governor to pursue a new energy assistance program for small villages in need. In my January 2005 State of the State address, I reiterated my commitment to rural energy needs by proposing to fully fund the Power Cost Equalization (PCE) program and commit \$6.5 million to offset high energy costs in small communities. In February 2005, I created the Rural Energy Action Council (REAC) and charged it with building on the 2003 and 2004 reports. The operative word in creating the REAC was "action."

The REAC delivered its report to me on April 15, 2005. It contained eleven recommendations for short-term rural energy success. I took action based on the REAC report to include full funding for the PCE program in my FY2006 and FY2007 budgets, I created the Bridge Loan program for bulk fuel purchases, I created the Small Municipal Energy Assistance Program, I included state funding for the low income heating energy assistance program (LIHEAP) in my FY2007 budget, I directed the AEA to work with the Legislature to raise the loan limit for loans from the bulk fuel revolving loan fund, and I supported the AEA's alternative energy and energy efficiency programs.

Recent high energy prices have dramatically impacted all Alaskans. The delivery of affordable energy to consumers throughout the state is anticipated to remain a significant policy concern. It is in the best interests of the people of Alaska that a high policy-level position be established to foster coordination of energy policy for the state, not only in rural areas but in its south central region and large population centers. There are still severe energy cost problems in rural Alaska. The south central region of Alaska has been growing and its energy needs are rapidly increasing with that population expansion. The cost to consumers of energy statewide is rising. Consumers of electricity pay different rates in south central depending on which utility serves them. The developed natural gas resources of the area are declining and the future consumption by current large-volume industrial users of natural gas is uncertain. Possible use of Alaska coal resources would benefit from further assessment and study. Evaluation of our energy needs and potential energy development is critical to identifying and developing new sources of energy deliverable to consumers at a reasonable cost.

When the Gas Pipeline Project is approved, it will provide for in-state use of gas, the specifics of which will require substantial planning and evaluation. Such planning and evaluation, including preparing for an open season on the mainline and any spur lines, will benefit from substantial executive branch involvement and assistance. State

government must play a major role in developing the in-state use of gas from the gas pipeline and ensuring that the energy needs of Alaskans are addressed, especially the needs in our largest population centers. Currently, there are several state agencies that have statutorily assigned functions relating to energy needs, development, and conservation. Maximization of those state agencies' efforts can be increased through coordination of energy policy development.

ESTABLISHMENT OF POSITION AND DUTIES

To address our energy needs expeditiously I establish the position of Alaska Energy Policy Advisor in the Department of Commerce, Community, and Economic Development. The advisor shall:

1. foster agreement of executive branch policy on state energy needs, development, costs, and conservation, especially in the rural areas of the state and in the south central region and other large populated areas of Alaska;
2. continue efforts to implement the recommendations offered by the Rural Energy Action Council, namely:
 - advocate for the Power Cost Equalization program
 - explore expansion of rural energy operator technical assistance programs
 - assist in the creation of regional bulk fuel cooperatives
 - examine the Bulk Fuel Revolving Loan program for recommended changes
 - advocate for power plant operational efficiencies
 - evaluate alternative energy systems, such as coal, in-stream, wind, and gas projects
 - advocate for expansion of renewable energy programs and energy conservation measures
 - make recommendations for programs such as LIHEAP that provide energy assistance directly to the individual consumer
 - evaluate how to address energy costs for school districts
 - study the economic impact caused by the net population migration from rural Alaska to urban centers due to high fuel costs
 - work with the University of Alaska to establish regional energy centers
 - study the feasibility of linking rural Alaska to the Railbelt energy grid
 - establish a fuel price reporting system for "non-PCE" communities
 - assist as needed in the divestiture of state-owned rural energy infrastructure
 - recommend improvements to rural fuel transportation and delivery systems;
3. organize a statewide public workshop to learn from Alaskans about new ideas for expanding energy development to meet energy needs;
4. consistent with existing legal authorities, develop, by December 1, 2006, a strategy for energy development, with particular emphasis on the rapidly emerging issues for consumers in south central Alaska, for consideration by the governor and the Legislature;
5. consistent with existing legal authorities, develop, by April 30, 2007, a strategy for planning and preparing for the use in Alaska of gas from a gas transmission pipeline that would transport gas from the Alaska North Slope on a route generally along the TAPS pipeline and the Alaska Canada Highway, for consideration by the governor and the Legislature;
6. report monthly to the governor, the Legislature, and the public regarding accomplishments made under this Order; the reports may be provided on the state's home page on the Internet.

To address our energy needs expeditiously I establish the position of Alaska Energy Policy Advisor in the Department of Commerce, Community, and Economic Development. The advisor shall:

- Regulatory Commission of Alaska
- Alaska Energy Authority
- Alaska Industrial Development and Export Authority
- Alaska Oil and Gas Conservation Commission

- Department of Natural Resources
- Department of Commerce, Community, and Economic Development
- Department of Revenue
- Alaska Natural Gas Development Authority

DIRECTIVES FOR CERTAIN STATE AGENCIES

Each state agency involved with energy needs assessment, energy development, or energy conservation shall be:

1. consistent with legal obligations, cooperate with the advisor to evaluate options and present new ideas for a strategy to expand energy development in Alaska, especially to serve rural Alaska and the south central region and other large population centers;
2. consistent with legal obligations, cooperate with the advisor to assist utilities and other entities interested in obtaining gas for in-state use, including planning and preparing for an open season for the gas transmission pipeline and any spur line from the mainline; and,
3. send at least one representative of the agency to the statewide energy development workshop described above, to discuss current practices and evaluate proposals.

GENERAL PROVISIONS

Nothing in this Order diminishes the responsibilities of state agencies as established by law, alters the functions of the Alaska Energy Authority as the state's energy office, or reassigns statutory duties to the Alaska Energy Policy Advisor.

This Order takes effect immediately.

DATED at Juneau, Alaska, this 19th day of October, 2006

/s/Frank H. Murkowski
Governor

State of Alaska Energy Policy and Strategy Recommendations

November 16, 2006 Update pursuant to ADMINISTRATIVE ORDER #230

Update prepared by Nels Anderson, Jr., Energy Policy Advisor to the Governor
Office of the Alaska Energy Policy Advisor
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November 16, 2006

Governor Frank H. Murkowski
State of Alaska
Juneau, Alaska 99811

Dear Governor Murkowski:

Herewith is my 30 day report on activities as required by your Administrative Order # 230.

On October 18, 2006, Governor Murkowski appointed Nels Anderson, Jr. of Dillingham to the position of Alaska Energy Policy Advisor. The duties of the Energy Advisor, with the assistance of certain executive branch agencies, are to "facilitate coordination of an energy policy for the state with the goal of increasing energy availability in the state and preparing for in-state use of gas from a gas transmission pipeline."

My activities since October 18, 2006, have been centered on familiarizing myself with the various energy challenges that we need to address regarding the Southeast Energy Grid, Rural and Remote Alaska, and the Railbelt. We have had many studies done over the past four years that address these issues. Many suggestions have been made that could be the answers we need to our diverse energy challenges across the state.

One of the studies suggested that we consider an Alaska State Energy Grid where all of our communities would be connected. Another suggests we move toward geothermal sources because of the proximity to many of our communities to active volcanoes. Others think that wind is the answer. Hydro, peat, possible new gas fields on Bristol Bay's Alaska Peninsula, new gas fields in Nenana, coal at Beluga and other sites across the state all present possible solutions for our energy needs.

High energy prices are driving efforts to define an energy policy that will provide energy equality for all of the citizens of Alaska. The challenge of finding a way to deliver reliable, low-cost, and long-term energy to all of Alaska presents interesting opportunities for innovative strategies that will get Alaska on the path of energy self-sufficiency by 2010.

Because the state of Alaska is so diverse and many communities so far from where energy is located, it is necessary to devise strategies that will bring the most benefits in the shortest time frame possible. Since many of our communities are located close to hydro, geothermal, wind, tidal, coal-bed-methane, and bio-mass sources, it may be possible to move many of the communities of Alaska away from diesel toward renewable energy in the near term.

These options can be hybrids of diesel and wind, diesel and hydro, diesel and tidal, or some other combination. This is happening in Kotzebue, St. Paul, and several other small communities across the state. The Alaska Village Electric Coop is working on a number of projects that will make many of those communities less dependent on diesel. A very interesting geothermal project is developing at Chena Hot Springs.

As we move toward Southeast Alaska, we find a different set of problems for finding reliable, affordable, and long-term answers. Solutions may be more of a challenge although Southeast Alaska has many of the same high cost problems found in Rural and Remote Alaska. Fairbanks is beginning to feel the high cost of heating oil during the winter months along with our schools, university, and other public facilities through out Alaska.

Gas fields in Cook Inlet are declining and placing a strain on the economy and pocketbooks of the people in the Cook Inlet basin. Agrium has had to cut back on its operations to allow for the use of gas for heating and production of electricity. LNG exports are continuing as Cook Inlet begins to experience severe gas supply strains.

Meetings with Enstar, Chevron, and state officials, tell me that it is critical that we establish a policy that will ensure that the people of the Railbelt are not left without a source of energy as gas fields in Cook Inlet continue to decline. We must support the Southeast Inter-tie, and find ways to alleviate the high cost of energy to Rural and Remote Alaska.

An energy policy should a) Increase supplies; b) Encourage conservation; c) Search diligently for alternatives; and d) Have the will to do a, b, and c.

The energy policy should make sure that the next generation of our energy sources is reliable, affordable, and long-term.

Specifically, by December 1, 2006, I am required to present to the Governor, Legislature, and public, "strategies for energy development, with particular emphasis on the rapidly emerging issues for consumers in south central Alaska." I will also present strategies for Rural and Remote Alaska and those needed to complete the Southeast Alaska Energy Grid that will ultimately connect with British Columbia.

I expect to complete the tasks found in Executive Order #230 by December 1, 2006. I am being ably assisted, as needed, by officials of the Alaska Energy Authority, Alaska Industrial Development and Export Authority, Alaska Oil and Gas Conservation Commission, Department of Natural Resources, Department of Commerce, Community, and Economic Development, Department of Revenue, and the Alaska Natural Gas Development Authority. I give all my thanks for their assistance as we move toward an energy policy that will guarantee all Alaskans affordable, reliable, and long-term energy.

This covers my activities from my appointment through November 16, 2006.

Respectfully submitted by,

Nels Anderson, Jr.
Alaska Energy Policy Advisor to the Governor
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cc: Alaska State Legislature

Appendix:
Recent studies, work groups and announcements related to the costs of energy in Alaska

Rural Energy Action Council

<http://www.akenergyauthority.org/REAC/Rural%20Energy%20Action%20Council.htm>

"Current Community Conditions: Fuel Prices Across Alaska, Fall-Winter 2006 Update" by the Division of Community Advocacy's Research and Analysis Section

http://commerce.state.ak.us/dca/pub/CFR_WINTER_06.pdf

"Community Fuel Report Supplemental" by the Division of Community Advocacy – September 2006

<http://www.dced.state.ak.us/dca/>

"Current Community conditions: Fuel Prices across Alaska, 2005" by Division of Community Advocacy download at

<http://www.commerce.state.ak.us/dca/pub/CommunityFuelReport2005.pdf>

Municipal Energy Assistance Program Emergency Regulations

<http://www.dced.state.ak.us/dca/>

Power Cost Equalization Program and reports

<http://www.aidea.org/aea/programspce.html>

Alternative Energy and Energy Efficiency Publications

<http://www.aidea.org/aea/publicationsaeep.html>

Alaska Energy Authority's Alternative Energy Update *and* 2006 Energy Atlas

<http://www.aidea.org/aea/index.html>

Alaska Energy Plans

www.aidea.org/aea/publicationsenergytaskforce.html

Various energy and utility studies by the Institute of Social and Economic Research

www.iser.uaa.alaska.edu/Home/ResearchAreas/RuralUtilities.htm

Summary of the 2006 South-central Energy Forum

<http://www.iser.uaa.alaska.edu/Publications/researchsumm/energyforum.pdf>

Effects of Rising utility Costs on Alaska Households

<http://www.iser.uaa.alaska.edu/Publications/formal/rsummary/RS67.pdf>

Renewable Energy Alaska Project

www.alaskarenewableenergy.org/