



Matanuska-Susitna Borough
350 E. Dahlia Avenue
Palmer, AK 99645
(907)745-4801



Municipality of Anchorage
632 W. 6th Avenue
Anchorage, AK 99501
(907)343-7100



Kenai Peninsula Borough
144 N. Binkley
Soldotna, AK 99669
(907)714-2335

Tri-Borough Commission

February 7, 2008

The Honorable Sarah Palin
Governor of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Palin:

We write to inform you of an initiative by the Tri-Borough Commission of Southcentral mayors to develop an energy policy, and to invite your participation.

As you know, much of Alaska is facing a potential energy crisis, with rising costs, declining production and transportation challenges. We mayors of the Matanuska-Susitna and Kenai Peninsula Boroughs and the Municipality of Anchorage have been especially concerned about the impact of dwindling natural gas production in Cook Inlet, which serves as the backbone for the economy of 60 percent of our state's population.

As a result of our concerns, we embarked on an initiative to develop a proposed energy policy for Southcentral Alaska. Late last year, each mayor appointed a handful of experts from our communities to a task force to write such an energy policy. With staff assistance from Bill Popp, president and CEO of Anchorage Economic Development Corporation and a Southcentral energy expert, we have produced what we believe is a specific, comprehensive policy from which a strategic energy plan can be developed.


We believe this proposed policy compliments the efforts of your administration to develop an energy policy for the entire state. We commend your initiative, as announced in your State of the State address last month, to appoint an Energy Coordinator to work on a statewide energy plan. We believe our proposal can provide the foundation for a statewide policy.

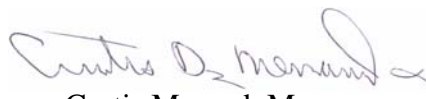
The Honorable Sarah Palin
February 6, 2008
Page 2


We would like to announce our policy in a news conference as soon as possible and invite you to participate in such an announcement. We propose to deliver the policy to you at a media event and are certainly willing to do so in Juneau or in Southcentral, at your convenience. Attached is a copy of the proposed policy and list of the task force members.

We look forward to working with you on this important initiative.

Sincerely,


Mark Begich, Mayor
Municipality of Anchorage


Curtis Menard, Mayor
Mat-Su Borough


John Williams, Mayor
Kenai Peninsula Borough

Attachments



Matanuska-Susitna Borough
350 E. Dahlia Avenue
Palmer, AK 99645
(907)745-4801



Municipality of Anchorage
632 W. 6th Avenue
Anchorage, AK 99501
(907)343-7100



Kenai Peninsula Borough
144 N. Binkley
Soldotna, AK 99669
(907)714-2335

Tri-Borough Commission

Tri-Borough Commission Proposed Energy Policy For the Southcentral Region of Railbelt Alaska

The mayors of Anchorage and the Matanuska-Susitna and Kenai Peninsula Boroughs have formed the Tri-Borough Commission to coordinate common action, leverage resources, and aggressively pursue solutions to common problems on a regional level. Together, this region has a combined population of more than 400,000 residents, in excess of 60 percent of the state's entire population. These local governments encompass the vast majority of Alaska's roads and other public infrastructure and serve as the state's commercial headquarters.

The availability of adequate, reliable, affordable, and sustainable energy resources that are vital to the current and future economic health of the Southcentral region and Alaska has reached a critical juncture. The current uncertainty created by shrinking energy supplies and rising costs in the Southcentral region and Alaska must be addressed immediately. If not addressed now, these energy issues risk the future economic health of the Southcentral region and Alaska.

For the last decade, the State of Alaska has lacked a comprehensive energy policy and has had no strategic plan or direction for securing Alaska's energy future. This leaves the many divisions of state government operating without a clear and unified direction, resulting in current critical state of energy affairs.

The current condition of Alaska's energy supply

Alaska's energy situation is changing rapidly. In the last decade, several regional and global forces have begun to affect both energy supply and demand in Alaska. These forces include:

- Rising global demand for energy with a corresponding increase in the cost of key energy sources such as natural gas, diesel and electricity.
- A growing concern for the security and reliability of energy supplies.

- The growing influence of market forces on the supply and cost of energy.
- Increased global competition in world energy markets affecting energy producer investment decisions.
- A growing awareness of the global environmental impact of fossil fuels and the increasing likelihood that public policies will put a price on carbon emissions.

When combined with these regional and global forces, the following factors underline the need for a comprehensive energy policy for the State of Alaska:

- Alaska is now a net importer of key energy resources including jet fuel (31% of demand), distillate fuels (54% of demand), propane (50% of demand), and foreign crude oil for in-state refineries (16% of demand).
- Several major energy related projects are being proposed for development at various levels of state and local government without an energy policy and corresponding strategic energy plan in place to evaluate and prioritize those projects to best serve Alaska's future energy needs.
- The Railbelt electricity generation infrastructure needs significant new investment to replace aging equipment and meet future demand.
- Electricity and natural gas markets in Alaska are isolated. If not properly managed, this situation could inhibit critical private investment in infrastructure and new supplies.
- Rising costs for Cook Inlet natural gas and declining Alaska oil production have caused significant declines in industrial energy demand and erosion of Alaska's vital hydrocarbon processing industries.
- State regulatory policy affecting in-state energy use has not been updated significantly in decades and may be inadvertently stifling innovation and development of new energy supplies.

In comparison to other U.S. states with similar economies, environmental conditions, populations and energy profiles, Alaska lags in several key areas including the cost of key energy sources such as electricity and gasoline. Alaska also lags in energy related activity such as active rotary drill rigs, growth in producing oil & gas wells, and increased use of renewable energy and improved energy efficiency.

Montana, Utah and Wyoming are states that Alaska can be compared to, given the current state of their economies, populations and environmental conditions. When examining those states on several key indicators, several key facts become apparent. While Alaska still enjoys the benefit of less expensive natural gas for residential heating, all of these states enjoy significantly less expensive rates for gasoline and more so for electricity.

All of these states have strategic plans based on adopted state policies that guide the efforts of state government to promote and develop both non-renewable and renewable energy sources and infrastructure. Utah in particular has taken a strong position on the issue of energy with the adoption of a state energy policy in 2006.

State to State Comparisons of Key Statistics

	Alaska	Wyoming	Utah	Montana	Date
Population (rounded)	700,000	500,000	2,600,000	1,000,000	2007
Per Capita Income	\$37,271	\$40,676	\$29,108	\$30,688	2006
Gross Domestic Product	\$41.4 billion	\$29.6 billion	\$97.7 billion	\$32.3 billion	2006
1 st purchase Crude Price	\$82.55/bbl	\$76.23/bbl	\$83.21/bbl	\$83.81/bbl	11/07
Regular Gasoline/ Gallon	\$2.79	\$2.60	\$2.50	\$2.61	11/07
Residential Natural Gas	\$8.62 mcf	\$8.38 mcf	\$8.98 mcf	\$9.15 mcf	11/07
Residential Electric	\$0.158 Kwh	\$0.0822KWh	\$0.0795 KWh	\$0.0909 KWh	10/07
Total Electric Generation	553,000 MWh	3,894,000MWh	3,830,000 MWh	2,171,000 MWh	10/07
-Petroleum Generation	89,000 MWh	5,000 MWh	6,000 MWh	1,000 MWh	10/07
-Nat. Gas Generation	343,000 MWh	40,000 MWh	496,000 MWh	8,000 MWh	10/07
-Coal Generation	46,000 MWh	3,724,000 MWh	3,269,000 MWh	1,601,000 MWh	10/07
-Hydro Generation	73,000 MWh	26,000 MWh	40,000 MWh	470,000 MWh	10/07
-Renewable Generation	1,000 MWh	68,000 MWh	19,000 MWh	55,000 MWh	10/07
Annual Nat. Gas Prod.	444.7 Bcf	1,816.2 Bcf	348.0 Bcf	112.8 Bcf	2006
Annual Crude Oil Prod.	266.3 million bbl	53.4 million bbl	20.1 million bbl	32.5 million bbl	2007
Annual Coal Production	1.43 million short tons	446.7 million short tons	26.0 million short tons	41.8 million short tons	2006
Operational Rotary Rigs	8	99	40	22	2006
Producing Oil Wells	2,766	10,205	2,401	4,078	2006
Producing Gas Wells	231	25,052	4,506	6,578	2006

(Source: U.S. Department of Energy, Energy Information Administration, State Profiles, www.eia.doe.gov)

The need for a comprehensive energy policy

The Tri-Borough Commission believes that the State of Alaska must first adopt a comprehensive energy policy and corresponding set of strategic goals. This policy and these goals should then be used to guide and direct all divisions of state government in immediately developing and executing a coordinated comprehensive energy plan that will secure affordable and plentiful energy resources for the Southcentral region in the future.

In light of this firm belief, the Tri-Borough Commission established a task force in September, 2007 to develop an energy policy and strategic goals document. This task force was comprised of 11 representatives appointed from the three municipalities by each mayor. This highly respected group of individuals brought significant expertise in the areas of utilities, energy production and supplies, renewable energy, energy efficiency, energy policy, industrial demand and municipal interests.

The task force members included:

Steve Colt, Interim Director, Institute for Social and Economic Research (ISER)
Rick Eckert, Mgr. Business Development & Regulatory Affairs, Homer Electric Assoc.
Tony Izzo, Energy Consultant
Rolf Manzek, Operations Manager, Tesoro Alaska Company
Donald Page, Commercial Manager, Chevron/Union Oil Company of California
Jim Palin, Former General Manager, Matanuska Electric Association
Chris Rose, Executive Director, Renewable Energy Alaska Project
Rick Ross, City Council Member, City of Kenai
Jim Senn, Business Support Manager, Agrium U.S. Inc.
Eric Yould, Principal, Wood Canyon Group, Inc.
Bill Popp, President & CEO, Anchorage Economic Development Corporation

The task force met repeatedly September through January of 2008 to develop through a consensus process a proposed State energy policy and 16 strategic goals that have been endorsed by the mayors of the Tri-Borough Commission. This balanced policy and corresponding goals, focused on both non-renewable and renewable energy sources, offers a clear and concise structure to guide all divisions of state government in the development and implementation of a strategic energy plan for Southcentral Alaska.

This over-arching energy policy will guide all levels of state and local government in the formation of consistent legislation, regulation and initiatives that directly impact the exploration, development and delivery of necessary energy sources to serve residents, businesses and industries into the future. A state energy policy will also provide clarity and stability to energy development companies and energy dependent industries and businesses, thereby promoting healthy economic growth for Alaska.

The Tri-Borough Commission offers this proposed energy policy and goals as a component of a broader energy policy that should be developed for the entire State of Alaska. The energy issues currently afflicting other regions of Alaska, especially in rural Alaska, are too complex and unique to be addressed by the Tri-Borough Commission. Rather, the Commission believes that the proposed policies contained in this document could be applicable to other regions of Alaska, but should be carefully considered through a collaborative regional process first before being adopted for those regions.

State of Alaska Energy Policy

(As Proposed by the Tri-Borough Commission)

It is the policy of the State of Alaska to reach the goal of an adequate, reliable, affordable, and sustainable supply of energy as a foundation of well-being and long-run prosperity.

- The State of Alaska will actively promote the development of:
 - i. nonrenewable energy resources, including natural gas, coal, oil, gas hydrates, heavy oil and nuclear; and
 - ii. renewable energy resources, including tidal, wave, hydropower, geothermal, solar, wind, and biomass;
- The State of Alaska will pursue, promote and reward energy efficiency.
- The State of Alaska will promote the rational development of resources and infrastructure sufficient to meet the state's growing energy demand, while contributing to the national energy supply, thus reducing dependence on international energy sources.
- The State of Alaska will promote energy security for its economy.
- The State of Alaska will seek solutions that address global climate change.
- The State of Alaska will seek to develop flat priced, zero fuel cost energy resources as part of a diversified supply portfolio.
- The State of Alaska will allow market forces to drive prudent development and use of energy resources, although incentives and other methods can and should be used appropriately to ensure the optimal long-term development and use of energy resources for the benefit of current and future generations of Alaskans.
- The State of Alaska regulatory processes should be thoroughly reviewed and streamlined to balance economic costs with the level of review necessary to ensure protection of the state's various interests;
- When necessary, The State of Alaska will encourage expedited federal action and will collaborate with federal agencies to expedite review; and
- The State of Alaska will create and maintain an environment that provides for reasonable and stable consumer and industrial prices while providing producers and suppliers a fair return on investment, recognizing that:
 - i. Economic prosperity is linked to the availability, reliability, and affordability of consumer and industrial energy supplies; and
 - ii. Investment in new supplies will occur only when adequate financial returns can be realized.

State of Alaska

Strategic Energy Policy Goals

(As proposed by the Tri-Borough Commission)

- 1. The State of Alaska should immediately adopt the State Energy Policy.**
 - a. Before any strategic planning can be developed and executed, there must be a guiding policy to link all divisions of State government to work in concert towards the successful implementation of any broad based energy plan for Southcentral Alaska.

- 2. The State of Alaska should perform a complete review of all regulations in all divisions of State government and identify and implement any necessary statutory changes to assure compliance with the State Energy Policy.**
 - a. All divisions and agencies of State government must conform their regulations, rules, and practices to conform with the adopted energy policies of the State of Alaska if that policy is to ultimately be successful.

- 3. Immediately reform utility regulatory processes to support efficiency and conservation, including efficiency-based pricing and demand side management practices, rather than inefficient and outdated volume-based pricing in Railbelt Alaska.**
 - a. The State should develop guidance for rate-makers (RCA) to change volume-based utility rate structures and implement conservation/efficiency based rate designs.

- 4. Reform regulatory processes to provide a more efficient and reliable permitting system to better support investment and expedited exploration and development of non-renewable energy supplies in the Railbelt region.**
 - a. The Southcentral region still has significant potential for the discovery and development of non-renewable energy reserves in the form of natural gas and crude oil. Given the long history of oil and natural gas exploration and production in Cook Inlet, and the corresponding development of best practices for safely extracting those resources, the State of Alaska should develop streamlined permitting systems and Regulatory Commission processes that recognize and favor accepted best practices for on and offshore oil and gas activities in an effort to expedite needed permitting for oil and gas exploration and production.

- 5. Provide encouragement and incentives to promote additional Cook Inlet natural gas and crude oil drilling and infrastructure improvements.**

- a. Cook Inlet natural gas will provide the bulk of the Railbelt region's energy needs, especially heating, for many years to come. And there are still significant potential crude oil reserves that should be developed to stem the rising levels of foreign crude oil that is currently being imported to meet in-state refinery demands. In addition, Cook Inlet's natural gas and crude oil pipeline infrastructure will likely need significant upgrades and expansion as new reserves are developed in the coming years. The State of Alaska should continue to encourage, support and provide incentives as necessary to promote continued exploration, development, production and delivery of Cook Inlet natural gas and crude oil.

6. Develop a coordinated plan for natural gas storage that will most efficiently address peak demands in the Railbelt area to eliminate or reduce the possibility of supply interruption.

- a. Given the aging natural gas fields of the Cook Inlet region, deliverability of natural gas during peak demand periods in winter has become one of the most pressing issues that must be addressed immediately. The State of Alaska should seek immediate and long-term solutions in partnership with producers and utilities to provide adequate stored natural gas reserves for meeting winter power generation and heating utility needs in the short and long term.
- b. Develop a coordinated program with producers and utilities to address peak demands for the Southcentral region. This could alleviate Cook Inlet shortages, increase reliability, and reduce the probability of major service interruptions.

7. To better serve Railbelt customers, utilities must coordinate planning of generation sources and energy infrastructure in the Railbelt region.

- a. Coordinated planning of large energy infrastructure should include a best-interest finding for all Southcentral consumers. Long-term low cost and reliable energy solutions will require coordination and resource sharing among utilities and fuel suppliers.

8. Require full life cycle costs, in particular life cycle energy cost analysis be included and considered as part of the design engineering of publicly financed building projects.

- a. Over 50% of a building's lifetime costs are energy related, while initial construction costs are typically less than 15%. Therefore, for publicly financed building projects over a designated threshold life cycle energy costs should be evaluated as part of the design engineering and pre-bid conferences. Such a process would encourage the incorporation of state of

the art windows, insulation, lighting and appliances, and would save the public millions of dollars over the lifetime of the building.

9. Perform a comparative energy use impact analysis of publicly funded transportation projects and include the analysis as part of existing planning and approval processes.

- a. The state currently relies heavily on federal transportation dollars to subsidize the cost of building roads across the state. The building of such roads presupposes that using motor vehicles is always the most efficient way to move people and goods around the state. As gasoline prices move higher (at \$3 per gallon prices are still well less than half of what Europeans are currently paying) alternative public transportation projects make more and more economic sense. If the state is going to use precious government funds to build transportation infrastructure it makes good economic sense to analyze the energy impacts of publicly funded transportation projects when deciding which projects to move forward with.

10. The State of Alaska and Railbelt utilities shall initiate a collaborative effort to achieve 30% of electricity supply from zero-fuel renewable energy resources by 2018.

- a. The Railbelt currently generates about 10% of its electricity from zero fuel renewable energy resources, while the state generates about 24% of its electricity from non-fuel resources. Nearly all of this non-fuel generated electricity comes from hydroelectric projects. A 30% goal for the Railbelt by 2018 could be achieved, especially if plans for several currently proposed projects are moved ahead aggressively. Topping the list of projects that could help the Railbelt meet this goal are large hydro projects either at Lake Chackachamna or on the Susitna River, a large (50-100 MW) geothermal project near Mount Spurr, and large wind projects on Fire Island and near Healy (between 50 and 100 MW each). There are also current proposals to generate electricity from tidal power in Knik Arm.

The Railbelt currently uses about 5 billion kilowatt hours (kWhs) of electricity per year. A 330 MW hydro project at Chackachamna with a 45% capacity factor could produce approximately 1.3 billion kWhs of non-fuel electricity per year. A 50 MW geothermal project with a 95% capacity factor could produce approximately 416,000,000 kWhs of non-fuel electricity per year. Two 75 MW wind projects, each with 33% capacity factors, could produce approximately 433,000,000 kWhs of non-fuel electricity per year. And, a 50 MW tidal project with a 30% capacity factor could produce approximately 131,000,000 kWhs of non-fuel electricity per year. The hydro projects have a lead time of approximately

10 years. The geothermal project would take approximately eight years to complete. The wind projects could be producing power in three years from the time the decision is made to build them, and a tidal project of the size described would probably not be possible for ten years. However, it can be seen that if all the projects were pursued and completed by 2018 that an additional 2.28 billion kWhs of non-fuel electricity (almost half of current demand) could be generated.

11. Reduce Railbelt per capita residential consumption of electricity 10% by 2020 and natural gas for heating 10% by 2015 through regulatory reforms and state energy efficiency programs and incentives.

- a. Through a combination of carefully considered measures this goal can be met in 12 years. Heating appliances, electrical appliances and lighting all exist that are far more efficient than those most popularly in use today. The key to meeting this goal will be the adoption of utility, local government, and state incentives and programs to rapidly convert to the more efficient appliances, and to encourage reduced energy usage during peak demand periods. A range of such policies exist in other jurisdictions that Alaskans can examine, tailor and adopt.

12. Develop regulations, initiatives & incentives to promote, encourage and establish economically viable CO₂ underground sequestration infrastructure & industries in Cook Inlet by 2020, including processing facilities, pipelines, Enhanced Oil Recovery (EOR).

- a. The federal government has estimated that, through the use of CO₂ enhanced oil recovery (EOR) techniques, Cook Inlet could produce an additional 300 million barrels of oil from up to 13 existing, aging oil fields in the region. Any likely expansion of the industrial base in the Southcentral region that takes advantage of North Slope natural gas liquids or Alaska coal resources will generate significant volumes CO₂ as a byproduct of the manufacturing processes. This green house gas will need to be sequestered in some form if any future ANS natural gas or Southcentral coal-based industrial expansion in the region is to take place. CO₂ EOR offers tremendous potential to cost effectively capture and sequester CO₂ waste streams from these industrial processes. CO₂ EOR in Cook Inlet also would have the added benefit of generating significant new volumes of oil production, while generate a net gain in total sequestration of CO₂ waste streams generated by the use of ANS natural gas liquids, Alaska coal and any crude oil generated by the CO₂ EOR processes. The State of Alaska should take a leading role in promoting the development of economically viable CO₂ EOR usage in the Cook Inlet region.

13. The State of Alaska should support and invest in upgrades and extension of the existing Railbelt transmission grid system to prepare for and promote future economic growth in the region.

- a. The Railbelt region of Alaska hosts over 60% of the population of Alaska and will likely see significant economic growth in the coming decades. Infrastructure, and especially electrical transmission systems, will be vital to encouraging and promoting that growth. The 23rd Alaska State Legislature established the Energy Policy Task Force to develop a long term energy plan enhancing Alaska's economic future, evaluate our long term energy needs, consider how to use State owned electrical assets in the most efficient manner and determine policy that addresses the State's long term energy needs. Those recommendations remain applicable today and should be addressed as part of a long-range energy plan.

14. Seek through market processes to connect Southcentral Alaska to North Slope natural gas reserves by 2020 and engage in the recruitment of industrial users of North Slope natural gas and liquids to promote project economics.

- a. The future energy security and economic growth of the Southcentral region of Alaska is vital to economic future of Alaska. North Slope natural gas and natural gas liquids (NGL's) offer tremendous potential to secure that future. The State of Alaska and the communities of the South Central Alaska should seek to promote and support an economically viable pipeline connection to North Slope natural gas reserves. To maximize economies of scale, the State of Alaska and communities of the Southcentral region should also seek to engage and recruit industrial users for North Slope natural gas and NGL's to establish a long-term industrial base in the Southcentral region.

15. Encourage distributed generation of renewable electricity at the customer level through a comprehensive "net metering" program established by the State of Alaska.

- a. Distributed generation allows individual utility customer to generate all or a portion of their own power, generally by way of renewable energy resources such as wind and solar, thereby offsetting power that they would receive from the utility system. During periods when the customer's self-generation exceeds their use the excess power is fed back into the grid system and the customer receives credit that may be used to offset future energy used from the system. "Net metering" rules have been adopted by most states and are an effective means for establishing uniform policies for allowing individual customers to participate in distributed generation. The program allows individual customers to make local and global contributions to the environment and economy.

16. A School Of Energy should be established within the University of Alaska to promote energy research, education and workforce training focused on supporting the energy goals of the State of Alaska.

- a. Recognizing the need for applied energy research and testing to achieve many of the recommendations set forward in this report, an interdisciplinary energy program should be established at the University of Alaska and organized as a statewide program. The school could be modeled on existing programs at other institutions, such as the Energy and Environment Research Center at the University of North Dakota or the Wyoming School of Energy; however Alaska has a unique set of challenges and assets which must be addressed. These include renewable energy resources as well as new approaches to fossil fuel extraction, and opportunities for developing stranded energy resources. Existing programs such as ISER (Institute of Social and Economic Research), INE (Institute of Northern Engineering), the Geophysical Institute, the International Arctic Research Center and the Agriculture and Forestry Experiment Station are all important potential participants within the UA system.