

# **Interim Report for Governor Frank H. Murkowski**

**ADMINISTRATIVE ORDER #230**

## **Energy Policy and Strategy Recommendations**

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# Table of Contents

Message From The Alaska Energy Policy Advisor	3
Recommended Energy Policy For Alaska	4
Recommended Energy Policy Implementation Strategies	5
Conclusion	9
Administrative Order Number 230	11

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## ***Message from the Alaska Energy Policy Advisor***

On October 18, 2006, Governor Frank H. Murkowski appointed me, 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, is 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 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 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.

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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 that we 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 Intertie, 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 are reliable, affordable, and long-term.

### ***Recommended Energy Policy for Alaska***

The energy policy statements come from the authority granted in our 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**

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- ✓ **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 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.

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✓ **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.

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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 interties 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 interties 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 Intertie 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.

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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, Southcentral, 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, CO<sup>2</sup> 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 LNG 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**

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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, rural communities will not be able to develop economies to generate a tax base to meet their life, health, and public safety needs.

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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.

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## **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.

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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.

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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