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SOUTHEASTERN ALASKA INTERTIE SYSTEM

SEPTEMBER 11, 2000.—Ordered to be printed

Mr. MURKOWSKI, from the Committee on Energy and Natural Resources, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 2439]

The Committee on Energy and Natural Resources, to which was referred the bill (S. 2439) to authorize the appropriation of funds for the construction of the Southeastern Alaska Intertie System, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE OF THE MEASURE

The purpose of S. 2439, as ordered reported, is to authorize appropriations to the Secretary of Energy for use in assisting in the construction of an electrical transmission intertie connecting communities throughout southeastern Alaska.

BACKGROUND AND NEED

Southeastern Alaska is made up of a large group of islands stretching over 400 miles in what is known as the Alexander Archipelago. There are few roads, and access between communities is limited in most cases to air and marine transportation. The Forest Service owns 85% of the land in the region. Historically, the region's economy has been resource-based, with timber, commercial fishing and tourism as the major components.

Immediately following World War II, the Federal Government took steps to encourage development and settlement in the region. In 1947, Congress passed the Tongass Timber Act, which was de-

79–010

signed to attract investment by offering a guaranteed quantity of timber to those willing to invest in physical plants capable of processing the timber in southeast Alaska. Also in 1947, the first Federal study on a regional electrical intertie was prepared by the Federal Power Commission (precursor to the Federal Energy Regulatory Commission) and the Forest Service. Entitled "Water Powers of Southeast Alaska", the joint study identified over 200 potential hydro power sites and observed, "In developing a power system many of these projects would logically be connected with high voltage transmission." Numerous subsequent studies, including a 1987 study by the Alaska Power Administration (a Federal agency under the Department of Energy) concluded that the region's economic viability would be enhanced if its communities were electrically interconnected.

While tourism and commercial fishing employment is highly seasonal, the Federal timber processed through two pulp mills (one in Sitka, the other in Ketchikan) attracted to the region as a result of the long-term contracts under the Tongass Timber Act became the chief component of the year-round private sector employment. In 1990, Congress passed the Tongass Timber Reform Act, which substantially altered the terms and conditions under which the pulp mills were to operate on the National Forest, at the same time precluding extractive uses on additional Federal acreage on the Tongass. Since 1990, harvests of timber from the Tongass have fallen from 470 million board feet annually to 120 million board feet, and both pulp mills, as well as a number of mills for sawn wood products, have ceased operation.

The consequences of this change in Federal policy have been substantial.

Since 1995, Ketchikan's population has declined by 800 residents, and total employment and payroll are down 12%. Real payroll is down 16%.

In Wrangell, real payroll is down 29% from 1994, and population has dropped 7%.

Timber receipts (Federal stumpage sharing with local governments for schools and roads) have been reduced from $900 per student in rural southeast Alaska to $180 per student in 1999, an 80% decline.

With these changes under way, consensus began to form among the communities that the region required reliable, clean and reasonably priced electrical power in order to promote diversification of their economies. Historically, the communities of the region had relied primarily upon locally generated electricity, which in many cases meant diesel-fired generation and systems known for their unreliability and high costs. In other areas, hydroelectric power was cheap and abundant.

In 1997, the Southeast Conference—a regional group composed of municipalities, businesses, concerned individuals and government leaders—commissioned a study to obtain technical information in support of an electrical intertie between unconnected southeast Alaskan communities. The study proposed a 25 year plan for utilizing existing and planned power generation sites throughout southeast Alaska in conjunction with an electrical intertie serving communities throughout the region. The intertie itself would be a combination of overland and submarine cables designed to link

communities, provide reliability and enhance the economics of power delivery.

The region now has a system of hydroelectric dams and on-site diesel electric generating facilities. In rural communities, many of which are inhabited predominantly by Alaska Natives and where unemployment and poverty are high, electrical rates are extremely high. For example, in Kake, Alaska, electricity is in excess of 38 cents per kilowatt hour. the Intertie would allow the connection of hydro power dams with communities currently producing electricity independently, and provide a grid for increasing the reliability of load management.

The study estimated that the cost of completing such a system would be in excess of $435 million in 1996 dollars. Under the Intertie proposal described in the study, a phased construction schedule would allow a state-chartered regional authority to gain equity through the orderly construction and capitalization of the system. The report stated "Participants recognize that a combination of State, Federal and Community funding will be required." Under S. 2439, the Secretary of Energy would be authorized to provide such sums as are necessary as Congress would provide in future appropriations to assist in the construction of the system.

The Intertie plan is not site-specific except in general relationship to the communities which would receive service from the proposal. Under S. 2439, each component of the system would be required to adhere to all State and Federal laws and regulations.

LEGISLATIVE HISTORY

S. 2439 was introduced by Senators Murkowski and Stevens April 13, 2000. The full committee held a hearing on the bill May 18, 2000.

At the business meeting on June 7, 2000, the Committee on Energy and Natural Resources ordered S. 2439 favorably reported without amendment.

COMMITTEE RECOMMENDATION AND TABULATION OF VOTES

The Committee on Energy and Natural Resources, in open business session on June 7, 2000 by a voice vote of a quorum present, recommends that the Senate pass S. 2439.

COMMITTEE AMENDMENTS

During the consideration of S. 2439, the Committee adopted no amendments.

SECTION-BY-SECTION ANALYSIS

The legislation is self-explanatory.

COST AND BUDGETARY CONSIDERATIONS

The following estimate of the cost of this measure has been provided by the Congressional Budget Office.

S. 2439—A bill to authorize the appropriation of funds for the construction of the Southeastern Alaska Intertie system, and for other purposes

Summary: S. 2439 would authorize the appropriation of such sums as may be necessary to assist in the construction of the Southeastern Alaska Intertie system. Based on information from a study by the Southeast Conference in Alaska, CBO estimates that construction costs for the entire intertie system would be $500 million or more over a 30-year period. CBO estimates that the federal cost for the first phase of the project would be an additional $20 million over the 2001–2005 period. (The project has already received $20 million in prior appropriation acts.) The bill would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. S. 2439 contains no intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA).

According to the Southeast Conference, the intertie system is planned as a five-stage project, linking Alaskan power plants over more than 400 miles. The first stage of the Southeastern Alaska Intertie system would link the Swan Lake and Lake Tyee hydroelectric plants over 57 miles, and is estimated to cost around $85 million. The state of Alaska has identified about $65 million in funding for this project, including $20 million that was appropriated through the Alaska Power Administration, the Denali Commission, and the Forest Service over fiscal years 1998 through 2000. Under S. 2439, the federal government could fund all of the remaining costs of the complete system, or it could share the costs with the state of Alaska

Estimated cost to the Federal Government: The estimated budgetary impact of S. 2439 over the next five years is shown in the following table. The costs of this legislation fall within budget function 270 (energy).

	By fiscal year, in millions of dollars—				
	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION [1]					
Estimated authorization level	20	0	0	0	0
Estimated outlays	8	8	8	8	8

[1] The table shows estimated incremental funding needed for the federal share of the first stage of the Southeastern Alaska Intertie system and estimated outlays over the next five years. Outlays include balances from previously appropriated funds. CBO estimates that completing the system would cost at least $400 million over a 30-year period. With nearly all of the costs coming after 2005. Some of those costs would be borne by the state and local governments in Alaska

Basis of estimate: The state of Alaska has identified about $65 million in funding for the first stage of the intertie system. Assuming appropriation of $20 million, the remaining amount needed to complete the first stage, CBO estimates that spending on construction could start in 2001. Estimated outlays are based on historical spending patterns for similar activities.

S. 2439 would authorize the federal government to fund all segments of the intertie system. We estimate that the remaining four segments of the project would cost at least $400 million over 30 years. Outlays in later years could be large, depending on future appropriations and the amount funded by the state of Alaska.

Pay-as-you-go considerations: None.

Estimated Impact on State, local, and tribal governments: S. 2439 contains no intergovernmental mandates as defined in UMRA. The state of Alaska and some local governments in that state would benefit from federal funding to assist in constructing the intertie system. Any costs incurred by the state or local governments to construct and manage the intertie system would be voluntary.

Estimated impact on the private sector: This bill contains no new private-sector mandates as defined in UMRA.

Estimate prepared by: Federal costs: Lisa Cash Driskill; impact on State, local, and tribal governments: Victoria Heid Hall; impact on the private sector: Sarah Sitarek.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

REGULATORY IMPACT EVALUATION

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following evaluation of the regulatory impact which would be incurred in carrying out S. 2439. The bill is not a regulatory measure in the sense of imposing Government-established standards or significant economic responsibilities on private individuals and businesses.

No personal information would be collected in administering the program. Therefore, there would be no impact on personal privacy.

Little, if any, additional paperwork would result from the enactment of S. 2439, as ordered reported.

EXECUTIVE COMMUNICATIONS

The Department of Energy submitted testimony concerning S. 2439 as follows:

STATEMENT OF THE U.S. DEPARTMENT OF ENERGY ON S. 2439, SOUTHEASTERN ALASKA INTERTIE

Mr. Chairman, in response to your request the Department of Energy hereby submits written testimony providing our views on S. 2439. This bill would authorize Congress to appropriate to DOE "such sums as may be necessary to assist in the construction of the Southeastern Alaska Intertie system as generally identified in Report #97–01 of the Southeast Conference * * *"

Mr. Chairman, the Department of Energy does not support the enactment of S. 2439. Additional analysis of the proposed intertie and possible alternatives should be undertaken before Congress authorizes the expenditure of a substantial sum of domestic discretionary funds—approximately $450 million.

The Administration recognizes that distribution and transmission infrastructure costs to provide electric service to sparsely populated areas can be higher than the costs of providing service to more densely populated regions. The Rural Utilities Service (RUS) and, its predecessor, the Rural Electrification Administration (REA), have done a tremendous job of helping to electrify rural America by making loans available to rural cooperative utilities.

However, loans are not issued automatically. In some areas the cost of providing service is so prohibitive that loans are not issued because of poor prospects of repayment. That is why S. 1047, the Administration's comprehensive electricity restructuring legislation, proposes that Congress authorize $20 million annually for seven years to fund a rural and remote communities electrification grants program.

The Department of Energy recognizes that certain communities in southeastern Alaska suffer from relatively high energy costs and that it is possible that the RUS loan program may not be able to help this region reduce its electric costs. Moreover, many small communities in the area currently rely extensively on diesel-powered generation for their electricity supply. It is important that the region diversify its source of electricity for both environmental and economic reasons.

The Administration's proposed electricity restructuring bill would help part of the region move in that direction by authorizing $20 million to provide financial assistance to Alaska "to ensure the availability of adequate electrical power to the greater Ketchikan area in southeast Alaska, including the construction of an intertie." The intent of this provision is to authorize funding that could be used to pay for the alternative that is ultimately determined to be the best means of making additional power available to this area. This could include the construction of a subset of the intertie that is being proposed in S. 2349 to make excess hydropower capacity available to certain communities in the area, and could also include alternative mechanisms designed to reduce reliance on diesel generation in the Ketchikan area.

Nevertheless, we believe more analysis is needed before Congress considers S. 2439. While the bill does not include a specific price tag for the proposed southeastern Alaska intertie, DOE understands that approximately $450 million in federal funding would be required. Given the amount that would be needed, it is essential that Congress and the Administration thoroughly examine the proposed intertie and all possible alternatives. For example, great advances have been made in fuel cell technologies. Although natural gas may not be available in the region, it is possible that fuel cells operating on alternative fuels could be used to replace existing diesel generation. In addition, there could be some potential for locally produced hydropower in certain communities in the region. Moreover, it might be less expensive to promote increased energy efficiency initiatives aimed at reducing the region's reliance on dirty and costly diesel generation. These and other possibilities should be thoroughly examined before Congress commits itself to expend $450 million on the proposed intertie.

Thank you for this opportunity to submit our views on this legislation.

MINORITY VIEWS

S. 2439 contains an open-ended authorization of federal funds to construct an electrical intertie in Southeastern Alaska. I am not opposed to providing federal assistance to provide reliable and affordable power to Southeastern Alaska. Regrettably, however, I was forced to oppose S. 2439 for four reasons.

First, the bill broadly authorizes a five-stage project that may cost $500 million or more and take over 30 years to complete. I believe the project should be authorized in phases, rather than commiting the Federal Government to the entire project upfront.

Second, the bill authorizes "such sums as may be necessary," rather than specifying a maximum amount. The Congressional Budget Office estimates that the entire intertie system will cost "$500 million or more over a 30-year period."

Third, the bill does not require any contribution from the State of Alaska or the project beneficiaries. Federal aid to build rural electrical systems has, in the past, taken the form of loans, which must be repaid over time. S. 2439 contains no requirement that the federal contributions be matched or repaid.

Fourth, more analysis is needed before Congress commits itself to the project. The Administration has indicated that Southeastern Alaska's electricity needs may be better met through distributed generation, fuel cells, local hydroelectric projects, and increased energy efficiency. Such alternatives should be examined before Congress commits itself to building the intertie.

In sum, S. 2439 is simply too broadly conceived, too expensive, too open-ended, and too poorly thought out for me to support in its present form.

JEFF BINGAMAN.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee notes that no changes in existing law are made by the bill S. 2439, as ordered reported.

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