Memorandum 11-038 Natural Gas Distribution Task Force Recommendations

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MEMORANDUM 11-038

TO: Mayor Hornaday and Homer City Council
FROM: Homer Natural Gas Distribution Task Force
DATE: March 14, 2011
SUBJECT: Recommendations to Council

Introduction
The Homer City Council created the Homer Natural Gas Distribution Task Force through the adoption of Resolution 10-75. Resolution 10-75 provided that the scope of work for the Task Force shall include:
• Review the range of distribution system financing options and make recommendations to the Council.
• Review current City Code related to Local Improvement Districts and utility construction practices and permitting and make recommendations regarding necessary code amendments to the Council.
• Function as a “review board” for Enstar’s plans to construct the distribution system.
• Prepare a written plan which addresses the financing, permitting, and construction of a potential gas distribution system within the City limits.
The Task Force convened five regular meetings during which it received staff reports, heard a presentation from Enstar, and received testimony from the public regarding the scope of work items contained in the resolution. The Task Force paid special attention to the legislative intent language contained in the Capital Budget last year, political considerations surrounding legislative approval of Phase II of the main transmission line, political and financial considerations related to public financing of the both the transmission line and the distribution system in town, amendments that might be required to the Homer City Code, potential “build-out scenarios, and potential incentives or financing options for stimulating construction of a distribution network within the City.
At its regular meeting on February 28th, the Task Force considered a draft resolution and a staff memorandum which both contained proposed recommendations for the Council. The draft resolution was originally based upon a set of points presented by the Chair to support his recommendation that the Council ask the voters to approve using a portion of HART funds to finance the distribution system mains (the lines in the street). The memorandum was an attempt to help frame the discussion and provide a roadmap for completing the scope of work. The Task Force amended the resolution and the amended version appears in your packet for consideration. The Task Force also voted yes on all three questions posed in the memorandum and requested that a new memorandum incorporating those items also be forwarded to Council.
At the end of the meeting, the Task Force voted to “stand down” and suspend operations for now. It did so because it concluded that it had completed its assigned tasks to the extent that it could given current conditions circumstances. For example, it will not know what the actual “build-out plans” will be until it is known if the primary transmission line is funded and which institutions and businesses attempt to hook-up first. Although the Task Force discussed possible build-out plans with Enstar, the current uncertainty makes it difficult to “function as a review board for Enstar’s plans to construct the distribution system” in a comprehensive way. Further, it is difficult to perform this function since no actual permits have been applied for. So, instead of disbanding, the Task Force decided it was best to just suspend operations until more information is known or until the Council gives it additional tasks.
Recommendations of the Task Force
Following are the Task Force recommendations that resulted from discussion of the staff memorandum referenced above.
The Primary Transmission Line / Anchor Point to Homer to Kachemak City
RECOMMENDATION: The Task Force recommends that the City Council aggressively pursue state funding for Phase II of the pipeline project to get natural gas into the Homer area.
Discussion: The Task Force recognizes that the Council has already moved the project up on its CIP List and has directed the City lobbyist and staff to work on the project with legislators and the governor’s office. It recognizes further that the staff have been making informational presentations at various civic group functions and distributing

spread sheets illustrating potential energy cost savings.
However, the Task Force concluded that much more can and should be done and that it was important for the Council to make itself heard with an unambiguous and clear voice. The Task Force found that getting natural gas to Homer is potentially one of the biggest economic development projects Homer has seen in many years. The positive impacts on the overall economy are potentially substantial. Natural gas would lower the cost of living, lower the cost of doing business, help to keep taxes down, and put the community on an equal footing with the rest of Southcentral Alaska. When North Slope gas eventually makes its way to this area and/or new gas discoveries are brought on line locally, Homer will be in a position to benefit. Natural gas would also reduce the City's greenhouse gas emissions and help achieve the goals of the adopted Climate Action Plan. The community has been attempting to get natural gas for decades. It is closer now than ever and the Task Force felt that the City should do all it can to make sure this opportunity does not slip away.
The Task Force suggests that the Council authorize the administration to initiate a coordinated and comprehensive strategy to educate the public and our elected officials about the benefits of the project and advocate for its funding. Some of this effort would be performed using information provided by Enstar. The strategy could include things like:
• Draft newspaper articles and Points of View.
• Post information on the City website.
• Disseminate information regarding the overall impacts to the Homer economy.
• Provide information on potential energy costs savings for residential, business, and institutional / public buildings.
• Provide information on the estimated costs to convert and hook-up to natural gas.
• Provide information about potential "build-out" scenarios and their cost.
• Provide information about potential financing options and what that might cost property owners if Council chooses to provide those incentives.
• Organize or assist in organizing a community-wide letter writing / lobbying campaign.
• Organize or help to organize a broad-based regional coalition to meet with the Governor and key legislators.
Planning in Advance
RECOMMENDATION: The Task Force recommends that the City Council authorize the administration to prepare the ordinances needed to amend the municipal code and pave the way for the arrival of natural gas.
Discussion: The Task Force spent a significant amount of time discussing the points contained in the legislative intent language in last year's capital budget. Council will recall that one of the points was that Homer should have a plan in place to prepare for the gas distribution system within the City limits. The Task Force concluded that it was important for the City to be able to show the legislature and the Governor that the City had a plan and that it was actively preparing for arrival of gas. The Task Force agreed that doing this could help to avoid another veto given what the Governor said in his veto message last year.
There are several amendments to the code that would be necessary. The first would be amendments to Title 13 to provide for standard construction practices and permitting to place natural gas lines within City rights-of-way. If the Council chooses to make available natural gas local improvement districts, then amendments would be needed to Title 17. If the Council chooses to utilize any of the other financing options discussed below, additional ordinances and code amendments may be required. The Task Force recommends that the Title 13 code amendments be prepared and approved quickly. Ordinances related to financing options for street mains could follow at a later date after the Council has time for deliberation.
Financing Options
RECOMMENDATION: The Task Force recommends that the City Council work to select the best funding source possible for the natural gas distribution system within the City limits.
Discussion: The question of whether the City should provide financing for the distribution system generated perhaps the most discussion at Task Force meetings. This is the most important decision the Council will have to make. There are many financial, economic, and political considerations that the Council will have to weigh. Most of the discussion centered around whether the City should pay for or finance construction of the main lines in the streets. (The State is being asked to fund the primary transmission line from Anchor Point only). Local property owners would be responsible for getting the service connection to their buildings.
The Task Force concluded that the City should provide financing and incentives because it would accelerate the build-out phase which would benefit the overall economy and make the transition to natural gas more affordable for local residents and business owners. Doing this might also demonstrate to the Legislature and the Governor that support in Homer for this project is so strong that the City Council is willing to provide local matching money and assume some of the risk. The Task Force also felt it would be helpful to make it known that HART funds were potentially available for a local match.
One point should be made clear. The City is not obligated to do anything in this regard. Doing nothing has been referred to by the staff as the "No Action" alternative. This approach has advantages and disadvantages like any other. Enstar already has a procedure for expanding the distribution system that is approved and regulated by the Regulatory Commission of Alaska. Under this program, local property owners pay for extending mains to their

properties and can be reimbursed later when other landowners hook up to the extension. Enstar estimates that under this scenario, build-out will occur naturally throughout Homer in approximately ten years without any City financing or financial assistance.
The Task Force reviewed a list of financing options that were prepared by the staff. The memorandum describing those options is attached. The Memorandum also includes a brief discussion of the relative advantages and disadvantages of each option. In the end, the Task Force decided to recommend a list of preferred options for Council to consider rather than selecting just one. The Task Force determined that was the best approach because there are still too many unknowns and because this is a political decision as much as a financial and economic one.
The preferred options put forward by the Task Force, in no particular order, are:
Local Improvement Districts
Special Service Areas
A General Mil Rate Increase to finance main lines in the streets throughout the City
Asking voters to make HART Funds available.

Related Resolutions**Memorandum - Related Resolutions:** Resolution 11-027(S) Adopting the Recommendations in Memorandum 11-038 by the Natural Gas Distribution Task Force

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