

The main provisions of SB 153 are:

1. The quantitative description for working gas storage eligible for state assistance is modified in AS 31.05.032 and AS 43.20.046 to include a 1,000,000 gallon threshold for above ground LNG tankage.

**Rationale** – As HB 280 was debated and passed in 2010, strong statements were made that the bill was designed to assist the creation of natural gas storage statewide, although Cook Inlet and Interior Alaska were mentioned specifically.

As the legislation progressed, similar statements were made supporting the future need for storage in Fairbanks including comments from agency personnel.

Marsha Davis – *“Well Senator Wielechowski, I am sensitive to the comment that Representative Hawker made that we obviously don’t want to harm the interests in Fairbanks. But obviously if you’ve got gas, I guess the question would be would you ever store gas on the North Slope and then move it to **Fairbanks** or would the storage facilities physically be located someplace around **Fairbanks** for use by the utilities around **Fairbanks**, so you know we would be open to discussion as to how to work that issue with Representative Hawker.”* (transcribed from the audio record at 04:24:00 pm of the Senate Resources Audio links for 4/5/2010)

Although the legislation described a Gas Storage Facility as a “tank or a depleted or nearly depleted reservoir or pool in the state that is available for storage of gas” the quantitative description was written with only geologic storage in mind. As a result, the existing 500,000,000 cubic feet capacity requirement is far bigger than what a reasonable tank needs to be to support a LNG trucking operation to serve the Interior. In order to qualify for the credit under the existing law, GVEA would have to overbuild the LNG storage tank at considerable expense. Under Alaska regulatory law this added expense would be passed on to utility customers who already suffer from extremely high energy costs. Such an outcome would be counter to the intent of HB 280 which was to mitigate the cost of adding storage to the energy supply chain and assure that benefit flows through to Alaska consumers.

2. The ten year lease payment waiver provision of AS 38.05.180(u) is duplicated with the intent that it will also apply to state land leased for a natural gas storage operation under AS 38.35.120.

**Rationale** – At the time HB 280 was debated, the yearly lease cost for natural gas storage, built on state land, was a cost legislators felt they could reduce to relieve the financial burden of storage on consumers. At the time, legislators were not aware that a LNG trucking operation on the North Slope could secure land under AS 38.35. GVEA has since been advised by the State Pipeline Coordinator’s Office that AS 38.35 is available for this purpose and may assist with the timely construction of Interior related gas infrastructure by offering a preferable permitting process. Making the lease payment waiver provision applicable to AS 38.35 honors the intent of HB 280 by lowering the cost of storage resulting in savings that will be passed on to Interior residents.

3. The existing refundable tax credit applicable to eligible gas storage is modified to allow a “payment” to offset the cost of developing storage by an owner that is tax exempt.

**Rationale** – HB 280 established a tax credit to offset the cost of gas storage development that would be applied against the state income tax owed by the gas storage owner. Unfortunately the existing language is cumbersome for not-for-profit utilities that develop the gas storage themselves since they are exempt from state income tax. However, the legislative record indicates that utility ownership of storage was expected. Testimony was given to clarify that the following three storage scenarios were anticipated with the first two qualifying for the credit program and the third receiving no state benefit.

- a. A regulated public utility owns and operates storage.
- b. Open-access third-party storage is offered for a price.
- c. An investor builds storage for their own benefit which is not available on a third-party basis.

To fulfill this legislative intent it may be possible for a utility owned storage facility to qualify under existing Alaska law which states:

AS 43.20.046(d) A person entitled to a tax credit under this section that is greater than the person’s tax liability under this chapter may request a refund in the amount of the unused portion of the tax credit.

However, the Legislative Division of Legal and Research Services suggested modifications to the tax credit provision that clarify any ambiguity on this issue.

4. Senator Thomas and Representative Thompson intend to propose a change to the bill that would limit the potential state storage credit or payment to \$15,000,000 or 50% of the infrastructure cost; whichever is less.