

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

March 18, 2010

3:34 p.m.

**MEMBERS PRESENT**

Senator Lesil McGuire, Co-Chair  
Senator Bill Wielechowski, Co-Chair  
Senator Charlie Huggins, Vice Chair  
Senator Hollis French  
Senator Bert Stedman  
Senator Gary Stevens  
Senator Thomas Wagoner

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Millett  
Representative Dahlstrom  
Representative Tuck  
Representative Ramras  
Representative Edgmon  
Representative Olson

**COMMITTEE CALENDAR**

SENATE BILL NO. 287

"An Act amending the powers and duties of the Alaska Railroad Corporation and the Alaska Housing Finance Corporation related to the exercise of authority to purchase, transport, and sell natural gas produced on the North Slope for in-state use, and transferring exclusive and primary responsibility for the initiation and development of that project from the Office of the Governor and the Department of Natural Resources to those corporations; and providing for an effective date."

- HEARD AND HELD

SENATE BILL NO. 228

"An Act providing for an industrial incentive investment tax credit and including a gas- to-liquids facility as an eligible investment; and providing for a production tax limit on gas used

as a raw material for producing liquids or petrochemicals from gas in the state."

- HEARD AND HELD

SENATE BILL NO. 242

"An Act providing income tax credits for geothermal resource exploration and development."

- MOVED CSSB 242(RES) OUT OF COMMITTEE

SENATE BILL NO. 243

"An Act removing the royalty obligation for geothermal resources."

- MOVED CSSB 243(RES) OUT OF COMMITTEE

SENATE BILL NO. 294

"An Act repealing the termination date of the licensing of sport fishing operators and sport fishing guides; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 287

SHORT TITLE: IN-STATE GAS PIPELINE

SPONSOR(s): SENATOR(s) MCGUIRE

02/22/10	(S)	READ THE FIRST TIME - REFERRALS
02/22/10	(S)	RES, FIN
03/18/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 228

SHORT TITLE: TAX INCENTIVES FOR GAS-TO-LIQUID

SPONSOR(s): SENATOR(s) MCGUIRE

01/19/10	(S)	READ THE FIRST TIME - REFERRALS
01/19/10	(S)	RES, FIN
02/08/10	(S)	RES AT 3:30 PM BUTROVICH 205
02/08/10	(S)	Heard & Held
02/08/10	(S)	MINUTE(RES)
03/18/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 242

SHORT TITLE: GEOTHERMAL RESOURCE TAX CREDITS

SPONSOR(s): SENATOR(s) MCGUIRE

01/27/10 (S) READ THE FIRST TIME - REFERRALS  
01/27/10 (S) RES, FIN  
02/10/10 (S) RES AT 3:30 PM BUTROVICH 205  
02/10/10 (S) Heard & Held  
02/10/10 (S) MINUTE(RES)  
03/11/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/11/10 (S) Heard & Held  
03/11/10 (S) MINUTE(RES)

BILL: SB 243

SHORT TITLE: NO ROYALTY ON GEOTHERMAL RESOURCE

SPONSOR(s): SENATOR(s) MCGUIRE

01/27/10 (S) READ THE FIRST TIME - REFERRALS  
01/27/10 (S) RES, FIN  
02/10/10 (S) RES AT 3:30 PM BUTROVICH 205  
02/10/10 (S) Heard & Held  
02/10/10 (S) MINUTE(RES)  
03/11/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/11/10 (S) Heard & Held  
03/11/10 (S) MINUTE(RES)

**WITNESS REGISTER**

U.S. SENATOR TED STEVENS  
[U.S. Senator formerly representing Alaska]  
Washington D.C.

**POSITION STATEMENT:** Commented on issues pertaining to an in-state gas line and SB 287.

BILL SHEFFIELD  
[former governor of Alaska]  
No address provided.

**POSITION STATEMENT:** Commented on issues pertaining to an in-state gas line and SB 287.

GENERAL PAT GAMBLE, president and CEO  
Alaska Railroad Corporation  
Anchorage, AK

**POSITION STATEMENT:** Commented on issues pertaining to an in-state gas line and SB 287.

FRANK MURKOWSKI  
[former governor of Alaska]  
No address provided

**POSITION STATEMENT:** Commented on issues pertaining to an in-state gas line and SB 287.

MICHAEL PAWLOWSKI  
Aide to Senator McGuire  
Alaska State Legislature

**POSITION STATEMENT:** Provided information on SB 287, SB 243, SB 242 and SB 228.

BILL WALKER, general counsel and project manager  
Alaska Gas Line Port Authority  
Fairbanks, AK

**POSITION STATEMENT:** Testified in support of SB 287.

BERNIE KARL, owner  
Chena Hot Springs Resort  
Fairbanks, AK

**POSITION STATEMENT:** Testified in support of SB 287.

PAUL METZ, Director  
Mineral Industry Research Laboratory  
University of Alaska Fairbanks  
Fairbanks, AK

**POSITION STATEMENT:** Scheduled to present information pertaining to SB 228.

#### **ACTION NARRATIVE**

[3:34:20 PM](#)

**CO-CHAIR LESIL MCGUIRE** called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators Wielechowski, Huggins, Stevens, Wagoner, Stedman, French and McGuire.

#### **SB 287-IN-STATE GAS PIPELINE**

[3:35:04 PM](#)

**CO-CHAIR MCGUIRE** said the committee would be talking about the issue of in-state gas and the dire need to get gas to Alaskans for residential and commercial use. She introduced U.S. Senator Ted Stevens.

**U.S. SENATOR TED STEVENS** said countries such as India, Korea, China and Japan will have an increasing gas shortage. Alaska could compete in the LNG market if the gas can be moved. Once a transportation mechanism is in place to take the gas to market, he believes more gas will be discovered. The state has to put up

the money and demonstrate that it will help finance an in-state line. The key is to get gas to the Kenai to keep the LNG plant going.

[3:38:24 PM](#)

Acute shortages will happen by 2013 or 2014. He urged the Legislature to make an offer on behalf of the state to invest in an in-state line and not to wait for an open season or bureaucratic analysis. The state should finance the line, not build it. Substantial revenue will come to the state through royalties and severance taxes.

The future for Alaska's gas lies in the conversion process. Marketing Alaska's gas to the Pacific Rim could provide the money to finance the development of coal or gas conversion to liquids. The state should show the gas industry that it wants gas moved now; he producers will come forward and cooperate. He envisions two LNG ports in Alaska: one is already at Kenai and the other will be at Valdez.

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U.S. SENATOR TED STEVENS said Alaska's economy will go downhill rapidly if something is not started this year. The oil pipeline used to carry 2.1 million barrels a day and now carries about 600,000 barrels a day. Alaska cannot survive on a one-third full pipeline; gas must start moving. As people drill for more gas, they will also find more oil and the oil pipeline could come back to its former production levels.

CO-CHAIR MCGUIRE thanked him and said all members have a copy of the presentation he made to Commonwealth North. She asked about his concerns about the Alaska Gasline Inducement Act (AGIA) with respect to shale discoveries.

U.S. SENATOR TED STEVENS replied that AGIA does not need to be abandoned, but put aside. Canada and the Lower 48 will bid on gas going to the Alberta hub but no one will rush to put gas in that line with the prices that exist for the Alberta hub now. LNG in the Pacific Rim is sold at \$2 to \$4 more per million cubic feet (Mcf) than in the U.S. The delay on the Canadian line has put Alaska at a standstill.

[3:44:41 PM](#)

SENATOR HUGGINS asked U.S. Senator Ted Steven's for his thoughts on gas to liquids.

U.S. SENATOR TED STEVENS replied that an additional source of jet fuel is needed to retain the air bases in Alaska. Coal to liquids or gas to liquids is part of the future of Alaska. The process is expensive and development will not progress without substantial public funding which could come from the sale of LNG to the Pacific Rim.

CO-CHAIR WIELECHOWSKI asked for U.S. Senator Ted Steven's thoughts on the ability to get an export license to ship gas overseas.

U.S. SENATOR TED STEVENS replied that the prohibition against export was for oil brought about by Senator Mondale's feeling that oil, in short supply at the time, should not be exported. Exporting Alaska's gas is not prohibited; it was always contemplated that if the LNG got to Valdez, it could be put into the world market. He urged the committee to study LNG marketing in India, Korea, China and Japan. Korea is almost exclusively dependent on LNG for its gas. They would welcome Alaska's gas if they can get it.

CO-CHAIR WIELECHOWSKI under AGIA, TransCanada was specifically requested to do an open season down to Valdez to test and see what the market was for a gas pipeline from the North Slope to Valdez. Do you think going through with that open season is sufficient or do you think we should be doing something other than that.

U.S. SENATOR TED STEVENS replied that an open season is another delay is not needed to find out if those four nations want to buy gas. They are already competing with each other to get LNG. He reiterated that private funding is needed to get the gas lines built; producers want to see some money come forward.

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The Pacific Rim is a competitive but high price market. Taxes are not needed if the gas is selling at \$2 to \$4 above U.S. prices. Alaska can invest in a gas line and be co-owner, getting money from severance taxes, royalties and profits.

CO-CHAIR MCGUIRE said she appreciated his knowledge and remarks.

U.S. SENATOR TED STEVENS said his comments are not for or against any bill, nor is he representing anyone or being paid.

[3:51:00 PM](#)

BILL SHEFFIELD [Former Alaska Governor] said that besides exporting, a gas line to Southcentral Alaska through Fairbanks would get gas to 500,000 people and provide a lower the cost of living. Alaska can either build a gas line for \$4 or \$5 billion and not get money back or buy in at 49 percent and provide the form for a contractor who might want to build and own the line. This would create jobs, a lower cost of living, enterprises and new businesses.

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If the legislature and governor would commit the money, a line could be ready in two or three years that would pay for itself through revenue.

CO-CHAIR MCGUIRE said she put the gas team with the Alaska Railroad, in part, because the Railroad is quasi public but deals with building things with the private sector. She asked what Mr. Sheffield thinks about the bonding ability and the interplay between public and private at the Railroad.

MR. SHEFFIELD replied that the Alaska Railroad has an extraordinary ability to bond. The Railroad would have to hire people for pipeline construction as a separate operation.

CO-CHAIR MCGUIRE asked General Pat Gamble how he envisions the Railroad's role - its bonding ability and interplay with the private sector.

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GENERAL PAT GAMBLE, president and CEO, Alaska Railroad Corporation, said Alaska Railroad's purpose is transportation but it is also a tool for economic development. A gas pipeline would create a lower cost of living in Alaska that would create an attractive economic climate for businesses that need to see affordable energy and potential for economic development. Investment in coal to gas would also help environmental improvements, such as air quality.

He said the state is spending a million here and there to fix something that is not quite right instead of spending several or tens of millions on a large project that will return investments for years to come. From the Railroad's point of view as an economic developer, the recommendations from the previous two speakers about the gas line could be what is best for all Alaskans and turn the state around quickly. He said the railroad does have the bonding capability, is available with a great engineering team and knows permitting and licensing.

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CO-CHAIR WIELECHOWSKI said he has heard tariff estimates ranging from \$6 to \$7 for an in-state gas line without an anchor tenant, potentially doubling the cost of gas for consumers in Southcentral. He asked General Gamble if the state should build the gas line and industries will develop or wait for industry to say there is demand and the line can be built with a lower tariff.

GENERAL GAMBLE replied that at least one major anchor customer is needed. He recalled Governor Frank Murkowski going to Korea about seven years ago for meetings with potential energy customers who said "as soon as you all get serious about actually producing the gas, come see us because we are very, very interested". A major state marketing effort is needed to show the state's commitment and start getting buyer's commitment for the product.

SENATOR HUGGINS noted that a recent letter from the Governor shows his commitment to an in-state gas project. He asked General Gamble if an in-state gas project would help the Alaska Railroad's business plan.

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GENERAL GAMBLE replied that the Railroad, attached to many parts of the economy, is cost cutting, making a tight budget and keeping lines of service open while preserving capital until the future can be determined. The Railroad is in a position to fit with operations or the financial side [of a gas line project]. All earnings go back into capital which goes back in to making the Railroad more efficient and safe and working with communities. That means jobs, contracts and all good things for the state.

CO-CHAIR MCGUIRE asked General Gamble about the two bonding cycles he has gone through and what that unique bonding authority brings to the table.

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GENERAL GAMBLE said the Railroad's experience in medium-sized sale comprised \$165 million worth of bonds that the Railroad sold to accelerate the rebuild of a track between Anchorage and Fairbanks. The first time in the market, the bonds sold out in the first or second day of the first and second rounds.

CO-CHAIR MCGUIRE said the Governor has given his support to a gas line project and will lend cabinet members to work on right-of-way and other issues.

SENATOR FRENCH asked General Gamble how the state balances its desire to get started right now, with or without the cooperation of the producers.

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GENERAL GAMBLE replied that as a business person, trying to develop a business case, he is not as risk adverse as [the state or Legislature] might be. In order to do a risk assessment, he would start making contact with customers and get early indications that his actions will get the right kind of reactions and even early commitments. That reduces risk to the business case and gives the confidence to go forward.

MR. FRANK MURKOWSKI [former governor of Alaska] said the need for an instate gas project must be based on sound economics. He mentioned his belief that any liability the state may have for damages with TransCanada should not be a deciding factor in the gas line debate.

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He said he is in favor of an aggressive policy to achieve a bullet line project by mid-decade when shortages will be far more severe. The gas is needed by residential and commercial consumers in Alaska. Bullet line construction will provide jobs, bring about secondary development projects and spur new capital investment on the North Slope. A gas line could also offset the revenue decline associated with the decline in the flow of oil.

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MR. MURKOWSKI said that in 2006, Exxon, BP and Conoco Phillips initialed a proposal to proceed with the gas line project to the Lower 48, subject to legislative approval, which never came. The state was going to take a 20-percent equity in the project and have a seat at the table. He mentioned a few other details related to this former proposal. The Palin Administration abandoned these efforts and proceeded with a proposal to have a non-producer owned pipeline. TransCanada placed one bid and the Palin Administration worked with TransCanada to urge an agreement with the producers. TransCanada still does not have a gas supply. The market dimension has changed. An abundance of shale gas is close to market without a pipeline cost and more gas is being discovered all the time.

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Alaska has to change with the economics that will drive the project. In the meantime, the bullet line is important. He has asked producers if they would make gas available to the state on a long-term contract and the response was yes. The question is if the project is economically viable. A detailed business plan should be finished covering the market potential, the cost pricing of the gas, debt reduction and the value of a long-term sustainable supply for Alaska's Railbelt. He sees a huge potential return to the state and does not see an inconsistency between the bullet line and a gas line to the Lower 48. The bullet line could provide first gas by 2016 to 2018 as opposed to at least ten years before a bigger line is operational.

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Constructing a bullet line would provide emphasis for gas exploration that could supply both projects. The bullet line should be scheduled with a series of milestones. If the main gas line appears ready to go at any milestone, the bullet line would be halted. However, he said he thinks enough gas exists for both lines. The legislation should be set up with the opportunity to achieve the ideal business model for the bullet line project: to be privately financed, constructed and owned. Bullet line legislation could include provisions designating right-of-way, streamlining permitting and providing for a strong project manager whose main objective is to maximize demand by obtaining commercial letters of intent to buy gas, thus reducing the cost of gas to gas users.

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The state could then put the project out to competitive bids. If the project is not economical, the project manager will let the governor and Legislature know and terminate the project.

[4:35:02 PM](#)

SENATOR WAGONER asked about marketing the state's gas overseas. He asked if the gas users in the Orient already know about Alaska's gas reserves.

MR. MURKOWSKI replied yes but until infrastructure is put in place to move the gas to tidewater, the discussion is hypothetical.

SENATOR WAGONER said he thinks interested gas users in the Orient can take capacity in the TransCanada line; then a spur line would come off that. He sees that as the best opportunity

but is unsure if people are willing to take capacity and negotiate with the producers for the gas.

MR. MURKOWSKI replied that the economics change at any given time and the problem with trying to get commitments on volumes of gas for LNG is that nobody is compiling a detailed cost analysis for delivering gas to Valdez or Kenai for export. He said he doesn't expect anything dramatic at open season because major companies have gas all over the world and are moving gas that is most profitable and closest to market, such as shale gas. In the meantime, a bullet line is a worthwhile consideration because the Railbelt is not a huge market but it is a known and expanding market. Conoco Philips will probably continue to export out of Kenai if they can get a sustained or expanding supply.

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SENATOR FRENCH asked what level of state investment Mr. Murkowski would advocate for in building the bullet line.

MR. MURKOWSKI suggested something similar to the previous proposal that producers had agreed upon: the state taking 20 percent equity and having a seat at the table. When the oil pipeline was in the planning stages, Governor Egan proposed that the state take an equity interest but the Legislature was reluctant to do so, feeling that the state should not be in the business. Time and legal bills have proven it would have been best for the state to have an interest in the oil line and that the royalties would have been significant returns on the investment. It makes sense to take a proportional risk and have a seat at the table.

4:44:10 PM

SENATOR STEVENS moved to adopt the proposed committee substitute (CS) for SB 287, labeled 26-LS1467\R, as the working document. There being no objection, version R was before the committee.

MICHAEL PAWLOWSKI, Staff to Senator McGuire, said references to Alaska Housing Financing Corporation (AHFC) have been removed from SB 287. Section 1, beginning on page 1, acknowledges the role that the Alaska Natural Gas Development Authority (ANGDA) has had in the in-state gas picture. Minor changes were made in language and a new subsection was added clarifying that the purpose of the SB 287 is in the best interest of Alaska. On page 3, Section 3 of SB 287, [amending AS 42.40.560] new language gives broader authorization for Alaska Railroad to move beyond financing into construction if needed. On page 5, Section 5

[amending the uncodified law] says that in the event of an agreement on the AGIA project, the governor and the Legislature together could decide to stop work on this project.

[4:46:49 PM](#)

CO-CHAIR MCGUIRE said she would offer two amendments. She moved to adopt conceptual amendment 1.

SENATOR STEVENS objected for the purpose of discussion.

CO-CHAIR MCGUIRE explained that conceptual Amendment 1 changes the immediate effective date on page 7, line 2, to July 1, 2010. This would allow for a smooth transition and for the governor and his gas team to complete their work as targeted.

SENATOR STEVENS removed his objection.

CO-CHAIR MCGUIRE announced that with no further objection, Amendment 1 was adopted.

CO-CHAIR MCGUIRE moved to adopt conceptual Amendment 2.

SENATOR STEVENS objected for purpose of discussion.

CO-CHAIR MCGUIRE said conceptual Amendment 2 addresses page 1, lines 4-5 and removes the language about removing the authority "from the Office of the Governor and the Department of Natural Resources" (DNR) and placing it in the Railroad. The Office of the Governor has authority over the Railroad and she clearly envisions a role for the governor who has come on board in the form of a letter.

[4:49:42 PM](#)

SENATOR STEVENS asked if conceptual Amendment 2 removes placing [an in-state gas project] in the Railroad.

CO-CHAIR MCGUIRE replied no, the amendment still allows [an in-state gas project] to be placed in the Railroad but deletes the specific reference to removing the project from the Office of Governor and DNR and says simply, in the positive, that we are placing [an in-state natural gas project] in the Railroad. She explained that her intent was to place [an in-state gas project] in a new entity but she was concerned that the current language would unintentionally prevent the Office of the Governor from having any role.

SENATOR FRENCH said attention is still drawn to the word "exclusive" [page 1, line 3]. He asked if using the word "exclusive" creates friction about who is in charge.

CO-CHAIR MCGUIRE replied that she does envision other parties' participation but would hesitate to remove "exclusive" and end up with multiple gas teams without any clear authority over the initiation and development of the project. The initiation and development of the project is at the Alaska Railroad Corporation.

SENATOR FRENCH asked if the administration has a position on it.

CO-CHAIR MCGUIRE she said the administration is aware of the conceptual amendment and is working with her office.

SENATOR WAGONER asked how long it will be before the Alaska Railroad can take on exclusive and primary responsibility for initiation and development of the project. He does not feel that the Railroad is ready to go on this project.

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CO-CHAIR MCGUIRE said the in-state gas caucus spent a lot of time thinking about the appropriate place to house the project. She envisions the work that Harry Noah [former project manager for the in-state gas line project] has done already, his engineers, the project permitting, data collection, etc. to transfer with the authority and continue. Where to house the gas team is an ongoing question but it must have a chance of survival and an opportunity to consider bonding. AHFC is the only other place with bonding authority and they don't build things. People at the Railroad are confident they can bring a team on. SB 287 has milestones and if the Railroad cannot meet those milestones, they would communicate with the Legislature.

SENATOR WAGONER asked if Mr. Noah is still heading up the in-state gas project.

CO-CHAIR MCGUIRE replied no, he has resigned, but his work is still there and Bob Swenson has continued some of it. A team needs to come in and take up the work.

[4:56:49 PM](#)

CO-CHAIR MCGUIRE said the Legislature cannot leave this session without putting this project where it can be evaluated in the event that AGIA goes sideways. Alaska needs to have control over its own destiny with respect to an in-state line.

CO-CHAIR MCGUIRE announced that with no further objection, Amendment 2 was adopted.

SENATOR FRENCH said Amendment 3, labeled 26-LS1467\R.1, would be taken up Monday.

[4:59:09 PM](#)

CO-CHAIR MCGUIRE opened public testimony.

BILL WALKER, project manager and general counsel, Alaska Gasline Port Authority, thanked the committee for taking action and for acknowledging the decline in oil. He said the world market opportunity will make a difference to Alaska. He favors a large volume pipeline as opposed to a low volume pipeline. He encouraged the committee not to start over but to walk through the Yukon Pacific Corporation's permits and data. He liked the language in SB 287 allowing the acquisition of permits and said the Port Authority had permits at one time which are still available. He asked the committee to look at the difference between a state subsidy on a low volume pipeline versus state investment on a high volume pipeline: the state would put in roughly the same amount of money but would get a 12 percent return on a larger line.

CO-CHAIR WIELECHOWSKI asked if Mr. Walker agreed with putting this project into the Railroad's jurisdiction or if he thinks there is a better place.

MR. WALKER replied he does not have a strong opinion on that. The Railroad has incredible bonding opportunities tied in with a loan guarantee. He said ANGDA is another option and he sees ANGDA is blended into SB 287.

SENATOR WAGONER asked if any people, companies or corporations in the Orient are looking for an LNG project to Valdez and looking at the open season.

MR. WALKER replied that there have been previously. Mitsubishi was a partner with the Port Authority. He has met with Tokyo Gas, Tokyo Electric and Korean Gas. There is a strong interest in the Orient but they need to see that Alaska is serious about moving a project forward.

[5:05:56 PM](#)

[Audio stopped due to technical difficulties from 5:05 p.m. to 5:09 p.m. CO-CHAIR MCGUIRE called an at ease during this time.]

[5:09:38 PM](#)

CO-CHAIR MCGUIRE called the meeting back to order and said the LIO would be dialing back in. SB 287 would be brought back up on Monday with further testimony.

MR. WALKER said the new chairman of Federal Energy Regulatory Commission (FERC) has said he can't imagine FERC standing in the way of exporting gas.

CO-CHAIR MCGUIRE said the chairman of FERC has said that to her in person.

[SB 287 was held in committee.]

**SB 243-NO ROYALTY ON GEOTHERMAL RESOURCE**

[5:11:00 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to be SB 243.

CO-CHAIR WIELECHOWSKI moved to adopt the proposed committee substitute (CS) for SB 243, labeled 26-LS1346\E, as the working document of the committee. There being no objection, version E was before the committee.

MR. PAWLOWSKI reminded committee members that SB 243 adopted the federal royalty rates for geothermal leases within Alaska. The committee substitute includes a change to the applicability section [Section 2, page 1, line 13, amending uncodified law] which states that the commissioner of natural resources offers new rates to existing leases.

CO-CHAIR WIELECHOWSKI moved to report CS for SB 243 from committee with individual recommendations and accompanying fiscal notes. There being no objection, CSSB 243(RES) moved from the Senate Resources Standing Committee.

**SB 242-GEOTHERMAL RESOURCE TAX CREDITS**

[5:12:30 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to come before the committee was SB 242.

CO-CHAIR MCGUIRE moved to adopt conceptual Amendment 1.

CO-CHAIR WIELECHOWSKI objected for the purpose of discussion.

MR. PAWLOWSKI said the first change in conceptual Amendment 1 is based on input from the Department of Revenue and is in the exploration tax credit section on page 1, line 14 and page 2, line 1. The new language in the amendment says [the exploration credit] cannot be carried forward until following the year the exploration expenditure was incurred. He said this clarifies a mistake in the drafting.

The second change offered in conceptual amendment 1 is on page 3, line 8 in the definition of qualified exploration expenditure. The definition reads "to explore a previously unknown geothermal resource" but because the state leased the area for a geothermal resource, "previously unknown" does not make sense. The amendment deletes those words.

CO-CHAIR WIELECHOWSKI removed his objection and conceptual Amendment 1 was adopted.

CO-CHAIR WIELECHOWSKI moved to adopt Amendment 2, labeled 26-LS1347\R.1.

#### AMENDMENT 2

OFFERED IN THE SENATE                      BY SENATOR WIELECHOWSKI  
TO: SB 242

Page 2, following line 19:

    Insert a new subsection to read:

        "(e)A person that receives a credit under  
(b) or (c) of this section,

                (1)shall reduce a cost related to the  
geothermal resource that would otherwise be included  
in a proceeding for determining a just and reasonable  
rate under AS 42.05.381 by the amount of the credit;  
and

                (2)may not elect to be exempt from the  
provisions of AS 42.05."

Reletter the following subsection accordingly.

CO-CHAIR MCGUIRE objected for purposes of discussion.

CO-CHAIR WIELECHOWSKI explained that amendment 2 [labeled 26-LS1347\R.1] says any production tax credits that are received shall pass through to the consumer. The second part of the

amendment, line 7, says that anyone who receives this credit is required to be regulated by the RCA. This is an attempt to protect the consumers by making sure these fairly significant benefits and credits pass through to the consumer.

CO-CHAIR MCGUIRE removed her objection and seeing no further objection, Amendment 2 was adopted.

SENATOR WIELECHOWSKI moved to report CS for SB 242, LS1347\R as amended, from committee with individual recommendations and accompanying fiscal notes. There being no objection, CSSB 242(RES) moved from the Senate Resources Standing Committee.

### **SB 228-TAX INCENTIVES FOR GAS-TO-LIQUID**

[5:16:44 PM](#)

CO-CHAIR MCGUIRE announced the next matter to come before the committee was SB 228.

SENATOR FRENCH moved to adopt the proposed committee substitute to SB 228, labeled 26-LS1324\P, as the working document of the committee. There being no objection, version P was before the committee.

MR. PAWLOWSKI explained changes were made to Section 1 of SB 228 [amending AS 43.20] after working with the Department of Revenue. On page 1, line 6 changes the name of the tax credit to clarify that this is a special investment incentive tax credit, specifically for gas, coal or biomass to liquids.

Page 2, line 3 explicitly lists that the allowable credit for any one facility is \$475 million. There was some concern in the first hearing that multiple investors could invest and accrue multiple credits. Given the size of the state's tax interest on these facilities, a single facility credit of \$475 million seemed appropriate.

On page 2, lines 13-14 state the incentive provided by SB 228 can never amount to more than 60 percent of a tax payer's tax bill; SB 228 only foregoes revenue rather than offering refundable tax credits.

The applicability of the tax credit to the mining tax was completely eliminated from SB 228.

On page two, Section 2 [amending AS 43.55.900(24)] and 3 [amending AS 43.500.900] of SB 228 were changed to move away

from gas to liquids and towards a definition of manufacturing which does not include things like liquefaction, fractionation. SB 228 is intended to relate to manufacturing, not just changing the gas for transport.

[5:19:33 PM](#)

SENATOR WAGONER asked if SB 228 precludes people like Tesoro and the North Pole refinery from an exemption for the gas they use in the manufacturing process.

MR. PAWLOWSKI replied gas used as heat or fuel in relation to a manufacturing process qualifies. Fractionation is related to petroleum being refined in other products.

SENATOR WAGONER said the North Pole refinery does not have gas but Tesoro does. He asked why we are allowing them that credit; it is part of the state's revenue stream.

CO-CHAIR MCGUIRE said she could get more data on that. SB 228 is intended to get at gas to liquid facilities and to incentivize the manufacturing process that goes into gas to liquids. She needs to think further about whether or not the incentives are justified.

SENATOR WAGONER suggested that Co-chair McGuire find out how many cubic feet of gas Tesoro uses in a year and see what the credit would amount to.

CO-CHAIR MCGUIRE said the committee can decide to tailor SB 228 to gas to liquids alone.

MR. PAWLOWSKI added that fractionation was put in so that the exemption would not apply to simple refining but requires an actual chemical transformation. His understanding is that gas used as heat or fuel to power that transformation might also apply but he would like the Department of Revenue to answer.

CO-CHAIR MCGUIRE set SB 228 aside saying she would bring the Department of Revenue back to testify.

### **SB 287-IN-STATE GAS PIPELINE**

[5:23:32 PM](#)

CO-CHAIR MCGUIRE returned to SB 287 to allow further testimony.

BERNIE KARL, owner, Chena Hot Springs Resort, Fairbanks, supported SB 287. He has worked with the Alaska Railroad as a

customer for 26 years and said it is a good place for a gas line project. The state should finance the line without looking for a return at the start but building it in later. If the pipeline is built and we have cheap energy, hearings will be held to see what businesses and people are wanted to work here in Alaska. Alaska has the best record of any state or country for shipping LNG. Having the largest fertilizer plant in the world sitting idle does not make sense; it would start up with reasonable gas. He said the oil companies will sell gas; they sell gas on the North Slope now and sell gas to themselves. They have already set a good rate. He said SB 287 takes Alaska into the next centuries with cheap, clean energy for everyone. "The state should bite the bullet and build the bullet."

[SB 287 was held in committee.]

### **SB 228-TAX INCENTIVES FOR GAS-TO-LIQUID**

[5:27:42 PM](#)

CO-CHAIR MCGUIRE returned to SB 228 and asked Mr. Metz to begin his presentation.

PAUL METZ, Director, Mineral Industry Research Laboratory, University of Alaska Fairbanks, said he will extract a lot from the presentation as it is longer than 30 minutes.

[5:28:37 PM](#)

SENATOR WAGONER said Mr. Metz' presentation is important.

[5:28:59 PM](#)

CO-CHAIR MCGUIRE called an at ease from 5:28 p.m. until 5:30 p.m.

[5:30:16 PM](#)

CO-CHAIR MCGUIRE called the meeting back to order and said the committee has agreed to recess to the call of the chair to allow Mr. Metz to give his presentation tomorrow.

[5:31:16 PM](#)

CO-CHAIR MCGUIRE recessed the meeting to a call of the chair.