

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

March 25, 2010

3:37 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Senator Bert Stedman

**COMMITTEE CALENDAR**

PRESENTATION: COOK INLET NATURAL GAS: THE WAY FORWARD

- HEARD

SENATE BILL NO. 275

"An Act relating to aquatic farming and to payment made to the Department of Fish and Game for the removal of wild stock of a shellfish species that exceeds an insignificant amount; and providing for an effective date."

- HEARD AND HELD

SENATE RESOLUTION NO. 10

Supporting expansion of the use of domestic natural gas and alternative energies and urging agencies to use vehicles that run on compressed natural gas.

- MOVED SR 10 OUT OF COMMITTEE

SENATE BILL NO. 143

"An Act establishing the Greater Railbelt Energy and Transmission Corporation and relating to the corporation; relating to transition, financial plan, and reporting requirements regarding planning for the initial business operations of the Greater Railbelt Energy and Transmission Corporation; relating to a report on legislation regarding the

Regulatory Commission of Alaska and the Greater Railbelt Energy and Transmission Corporation; authorizing the Alaska Energy Authority to convey the Bradley Lake Hydroelectric Project and the Alaska Intertie to the Greater Railbelt Energy and Transmission Corporation; and providing for an effective date."

- HEARD AND HELD

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."

- MOVED SB 294 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 275

SHORT TITLE: AQUATIC FARMING

SPONSOR(s): SENATOR(s) MCGUIRE

02/10/10	(S)	READ THE FIRST TIME - REFERRALS
02/10/10	(S)	RES, FIN
03/24/10	(S)	RES AT 3:30 PM BUTROVICH 205
03/24/10	(S)	Scheduled But Not Heard
03/25/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SR 10

SHORT TITLE: DOMESTIC NATURAL GAS & ALT. ENERGY

SPONSOR(s): SENATOR(s) WAGONER

02/22/10	(S)	READ THE FIRST TIME - REFERRALS
02/22/10	(S)	RES
03/22/10	(S)	RES AT 3:30 PM BUTROVICH 205
03/22/10	(S)	Scheduled But Not Heard
03/25/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 143

SHORT TITLE: RAILBELT ENERGY & TRANSMISSION CORP.

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/09/09	(S)	READ THE FIRST TIME - REFERRALS
03/09/09	(S)	ENE, RES, FIN
03/19/09	(S)	ENE AT 11:00 AM BUTROVICH 205
03/19/09	(S)	Heard & Held
03/19/09	(S)	MINUTE(ENE)

04/06/09 (S) ENE AT 5:00 PM BUTROVICH 205  
04/06/09 (S) OPPOSE UN DESIGNATION OF ARCTIC OCEAN  
04/09/09 (S) ENE AT 2:30 PM BUTROVICH 205  
04/09/09 (S) Heard & Held  
04/09/09 (S) MINUTE(ENE)  
03/17/10 (S) ENE AT 3:30 PM BUTROVICH 205  
03/17/10 (S) Heard & Held  
03/17/10 (S) MINUTE(ENE)  
03/22/10 (S) ENE REFERRAL WAIVED  
03/24/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/24/10 (S) Heard & Held  
03/24/10 (S) MINUTE(RES)  
03/25/10 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 294

SHORT TITLE: SPORT FISH GUIDE LICENSES

SPONSOR(s): MCGUIRE

02/24/10 (S) READ THE FIRST TIME - REFERRALS  
02/24/10 (S) RES, FIN  
03/18/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/18/10 (S) Scheduled But Not Heard  
03/22/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/22/10 (S) Scheduled But Not Heard  
03/24/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/24/10 (S) Heard & Held  
03/24/10 (S) MINUTE(RES)  
03/25/10 (S) RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

COLLEEN STARRING, president

ENSTAR Natural Gas Co

Anchorage, AK

**POSITION STATEMENT:** Presenter on Cook Inlet Gas.

TOM WALSH

Petrotechnical Resources Alaska (PRA)

Anchorage, AK

**POSITION STATEMENT:** Presenter on Cook Inlet Gas.

MICHAEL PAWLOWSKI

Aide to Senator McGuire

Alaska State Legislature

Juneau, AK

**POSITION STATEMENT:** Presented SB 294 for the sponsor.

JENNIFER YUHAS, legislative liaison  
Alaska Department of Fish and Game (ADF&G)  
Juneau, AK

**POSITION STATEMENT:** Provided information for SB 294.

ESTHER CHA  
Aide to Senator McGuire  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Presented SB 275 for the sponsor.

PAUL FUHS  
Sea Farms Alaska

**POSITION STATEMENT:** Testified in support of SB 275.

RODGER PAINTER, president  
Alaskan Shellfish Growers Association (ASGA)  
Juneau, AK

**POSITION STATEMENT:** Testified in support of SB 275.

MARK VINCEL, executive director  
United Fisherman of Alaska (UFA)  
Juneau, AK

**POSITION STATEMENT:** Testified in opposition to SB 275.

AMY SEITZ  
Aide to Senator Wagoner  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Presented SR 10 for the sponsor.

REBECCA LOGAN  
Chairman of board, Chugach Electric  
Chairman, Railbelt Utility Task Force  
Anchorage, AK

**POSITION STATEMENT:** Testified in support of SB 143.

MARK JOHNSON, general counsel  
Chugach Electric  
Anchorage, AK

**POSITION STATEMENT:** Testified in support of SB 143.

PHILLIP OATES, city manager  
City of Seward  
Seward, AK

**POSITION STATEMENT:** Testified in support of SB 143.

BRAD JANORSCHKE, general manager  
Homer Electric Association  
Homer, AK

**POSITION STATEMENT:** Testified in support of SB 143; requested that authority for oil and gas leases remain in the legislation.

PETER BRUSHELL, director  
Matanuska Electric Association (MEA)  
Palmer, AK

**POSITION STATEMENT:** Testified in support of SB 143.

CAITLYN HIGGENS, executive director  
Alaska Conservation Alliance (ACA)  
Anchorage, AK

**POSITION STATEMENT:** To support SB 143, ACA encourages financial and regulatory oversight, public input and energy efficiency.

RICK SHIKORA, treasurer  
Golden Valley Electric Association  
Fairbanks, AK

**POSITION STATEMENT:** Testified in support of SB 143.

RICH WILSON  
Alaska Rate Payers

**POSITION STATEMENT:** Testified in support of SB 143.

TOM LAKOSH  
Representing himself  
Anchorage, AK

**POSITION STATEMENT:** Expressed concerns related to SB 143.

#### **ACTION NARRATIVE**

[3:37:50 PM](#)

**CO-CHAIR LESIL MCGUIRE** called the Senate Resources Standing Committee meeting to order at 3:37 p.m. Present at the call to order were Senators Stevens, French, Wagoner, Wielechowski and McGuire.

#### **Cook Inlet Natural Gas: The Way Forward**

[3:39:04 PM](#)

CO-CHAIR MCGUIRE announced the first order of business to come before the committee to be a presentation on Cook Inlet Natural Gas.

COLLEEN STARRING, president, ENSTAR Natural Gas Co, Anchorage, said Tom Walsh, consultant, Petrotechnical Resources Alaska (PRA) conducted a study at Chugach Electric, Anchorage Municipal Light and Power (ML&P) and ENSTAR's request. He was asked to take the Department of Natural Resources' (DNR) recent study a step further and consider what activity is needed to be able to produce gas from the reserves.

TOM WALSH, Petrotechnical Resources Alaska (PRA), Anchorage, said that contracts drive natural gas activity in Cook Inlet. ENSTAR has 100 percent of their need met through 2010 but has a shortage coming. Chugach is good through 2011 and ML&P is set with their investment in Beluga through 2015. Beginning in 2011, a significant gap in contract versus demand for Cook Inlet gas develops. The lack of contracts going forward acts as a demotivator for drilling new wells.

He explained that PRA's study aimed to review the DNR reserves analysis and the deliverability of Cook Inlet gas wells drilled in the past ten years and to forecast what can be expected from future drilling activity. The study also considered when natural gas will have to be imported into Cook Inlet. The PRA and DNR studies both show a significant decline in future production. Between 2001 and 2009, 128 wells were drilled which had an initial average production rate of 3.6 million cubic feet (mcf) per day. Between 2007 and 2009 this lowered to 3.1 mcf per day.

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MR. WALSH showed a slide to illustrate the downward trend in the reserves found per well drilled from 2001-2009. The PRA and DNR studies both conclude, from decline curve analysis, that supply will not meet demand by 2013 if drilling does not continue. The PRA study further examined the commercial activity required to provide the supply needed to meet demand. He showed another slide and explained that the demand curve includes the LNG export through 2011, but assumes LNG export is then curtailed when the export license is terminated.

SENATOR WIELECHOWSKI asked how confident Mr. Walsh is that Conoco Philips is not going to apply for a renewal of their export license.

MR. WALSH replied that he is not certain at all. However, he does not know where the gas would come from. A slide illustrated the crossover of the supply and demand curves in 2012 or 2013 when supply begins to be greater than demand.

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MR. WALSH continued and explained that if drilling continues at the current pace of the last 2 years, 13 to 14 wells per year, supply will meet demand until 2018.

SENATOR WAGONER referred to a graph in the presentation and said he does not understand how the "reduction line" keeps going down so quickly. If [Conoco Philips ceased LNG production] approximately 100 mcf per day, additional, will be put into the marketplace.

MR. WALSH responded that without a tremendous amount of activity, the utility demand will not be met, let alone the LNG demand. LNG is represented in the graph as the drop in demand between 2010 and 2011 from approximately 125 bcf to about 90 bcf.

SENATOR WAGONER said Mr. Walsh is assuming that LNG goes away in 2011.

MR. WALSH agreed.

SENATOR WAGONER said if the wells continue to produce the gas that goes to the plant, but [Conoco Philips LNG production] stops, 90-100 mcf of gas is no longer used by the LNG plant.

MR. WALSH said that in 2009, 36 bcf was represented as LNG export. Without that, the number goes from 126 to 90 bcf in 2009. He noted that the LNG plant is capable of exporting a much larger number but there has not been the gas to export. It was down to 36 bcf in 2009 and the assumption is it goes to zero in 2011.

SENATOR WAGONER said he does not think that is going to happen.

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CO-CHAIR MCGUIRE said Conoco Philips will be present on Friday to look at the issue of the export license.

MR. WALSH said if Conoco Philip's export does not cease in 2011, the gap between supply and demand would occur earlier in 2010 or 2011. He reiterated that both PRA's and DNR's studies conclude that supply will not meet demand starting in 2013. He noted that at a rate of 13.6 wells per year, there will be 136 wells in 2019.

SENATOR FRENCH clarified that supply is ok until 2018 if wells keep getting drilled. A graph that depicted supply dropping significantly beneath demand assumes no future drilling.

MR. WALSH agreed.

SENATOR FRENCH asked if there is any reason why a significant amount of drilling would not take place between now and 2018.

MR. WALSH replied that economics do not support future drilling. At the current gas prices, there is no motivation for producers to be drilling wells.

SENATOR FRENCH asked what the cost of drilling a well in Cook Inlet is.

MR. WALSH answered that the average cost is \$15 million.

SENATOR FRENCH asked what the cost of an mcf of gas produced in Cook Inlet is.

MR. WALSH replied that with a cost of about \$15 million per well and about 4 bcf reserves found in a well, the cost is somewhere between \$4.75 and \$5.50 capitol plus operating costs, with no rate of return and no time value of money. He added that these wells will produce for 30 years; some return will not be received for 30 years.

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SENATOR WIELECHOWSKI asked if Mr. Walsh was saying that the state should not support an export license.

MR. WALSH replied that he is not here to talk about that but said that the export license has been helping the local market. Considering just the utilities and fuel gas, etc., the Cook Inlet basin is a 90 bcf per year market. That is a small market for any producer and provides little incentive to drill wells. No gas is available for export, but the export license and LNG plant are significant motivators for exploration and drilling.

SENATOR WIELECHOWSKI asked if Mr. Walsh could envision a scenario that will support the export license.

MR. WALSH replied that discovery of more gas would support the export license and growth in supply.

CO-CHAIR MCGUIRE said, "or a bullet line".

SENATOR HUGGINS said an anchor tenant is hugely valuable and the state should make sure it is maintained.

CO-CHAIR MCGUIRE said an industrial anchor is needed.

SENATOR WIELECHOWSKI said he agrees with Senator Huggins that a bullet anchor tenant is needed in the future. However, considering the cost of \$4.75 per mcf, it is hard to justify export without finding a significant amount of gas.

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MR. WALSH said the study did determine that the anchor tenant is important for both Cook Inlet local gas and the bullet line.

MR. WALSH continued and said meeting demand until 2020 would require drilling 185 new wells; an average of 18.5 wells per year. In 2012, drilling would need to be ramped up and would increase up to 30 wells per year in 2020. This scenario is possible but challenging. The cost for 128 wells from 2001 - 2009 was approximately \$1 to \$1.2 billion. To get up to 185 wells, the estimated cost for drilling and development in the coming decade is \$1.9 to \$2.8 billion. That is a huge investment for the Cook Inlet basin. The basin is mature and the cost per mcf to develop the reserves will go up. Higher production costs will lead to higher energy prices; the days of cheap gas in Cook Inlet are over.

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To meet demand with supply, drilling must continue at the rate of the last two years for the next ten years - and be successful. Immediate and long-term activity and investment is needed but will be challenging in a market that is only 90 bcf per year. If near-term drilling does not keep up with demand, LNG imports will be required until an instate solution is available. Contracts clearly drove the 13.6 new wells, per year, for each of the last two years and will be needed going forward. He noted that gas storage is important and would even out peak demand and seasonal issues.

SENATOR HUGGINS asked what storage capacity Mr. Walsh foresees.

MR. WALSH replied a multi-year capacity would be ideal.

SENATOR HUGGINS asked for a practical estimate, to meet the customer base with some margin.

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MS. STARRING replied that at least a bcf of storage is needed in the early years with draw capabilities of about 70 mcf per day, at peak. Storage design should meet not only ENSTAR's annual volume needs and peak day requirement needs but also Chugach and ML&P. She noted that the study assumed perfect storage.

MR. WALSH continued speaking about immediate actions. Land management processes must be streamlined. Access to land for exploration, development, facilities and pipelines will be a challenge. The study has made it clear that importing LNG into Cook Inlet is the only short term solution, barring very successful and motivated drilling in the next ten years. Often, smaller independents eventually come in if the market is not big enough for big corporations. Challenges exist for [small] companies too, such as abandonment of facilities. The state must motivate development activity in the short term and exploration and development in the long term.

[4:05:02 PM](#)

SENATOR FRENCH asked what the cost is of a load of LNG delivered to the upper Cook Inlet.

MS. STARRING replied that she cannot supply the exact numbers but bringing in LNG in 2013 is about \$12 to \$13 and then going out, \$15 to \$17.

CO-CHAIR MCGUIRE asked what the terms of those contracts usually look like.

MS. STARRING said contracts would probably be short-term to bring gas in during peak times. The development and implementation of storage could even out deliveries and gain a better price. In the early years, the range would be \$15 to \$17.

CO-CHAIR MCGUIRE said the incentives in place in Cook Inlet have largely been unsuccessful. She asked if companies are still talking to Ms. Starring. She asked if a 20 year contract with one of these companies would incentivize them to explore and develop at the rates Ms. Starring is talking about.

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MS. STARRING replied that both ENSTAR and Chugach are in negotiations. ENSTAR is talking about short-term contracts, not 20 year deals. The Legislature has done all it can in terms of favorable tax rates and incentives. If the contracts that the utilities bring forward in the next year are not approved

quickly, we go to the LNG option very fast. Quick approval would send some signals to the producers and maybe 13, 15 or 20 wells will begin. She is not sure of the motivation for a Chevron or a Conoco to just serve three small utilities.

CO-CHAIR MCGUIRE said we have to build that base.

SENATOR FRENCH said if LNG delivered to Upper Cook Inlet (UCI) is \$12 to \$13 and the cost of producing gas from a new well is \$4.75 to \$5, some room is there for healthy profits for producers. He wondered if things are not as bleak as they seem.

CO-CHAIR MCGUIRE said the committee must learn more about pricing on LNG and the LNG market in Asia, which is still linked to crude. A price of \$4.75 to bring out an mcf is expensive but the export permit just becomes all that more valuable. A long-term contract at a higher Asian LNG rate serving as an anchor and offsetting the tariff could be a good proposition. She noted that she is nervous about importing LNG as doing so could permanently shift the market and opportunities will dwindle.

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SENATOR WAGONER asked if Cook Inlet is underexplored.

MR. WALSH replied that Cook Inlet has more opportunities, particularly off shore. He agrees with DNR's statement that plenty of opportunity exists for gas in Cook Inlet. The question is, "at what cost?"

He clarified that the cost of \$4.75 to \$5.50 includes no risk on exploration or development, no time value money and no rate of return. It is a raw number from the cost per well and the expected bcf discovered by well.

CO-CHAIR MCGUIRE called an at ease from 4:13 p.m. to 4:17 p.m.

#### **SB 294-SPORT FISH GUIDE LICENSES-SUNSET**

[4:17:51 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to come before the committee was SB 294.

MICHAEL PAWLOWSKI, aide to Senator McGuire, said that if the program sunsets, professional standards and minimum levels of liability coverage for sport fish operators and the guides themselves will be eliminated. For example, the current requirements that a sport fish operator have a small general

liability policy and a guide must be CPR certified would go away. Given that sport fishing is a visitor industry, a minimum level of professional standards garnered a lot of support when this legislation was first debated [HB 452].

CO-CHAIR MCGUIRE said that while some people do not want regulations, looking after the resource and people who come to Alaska expecting a safe and knowledgeable guide is important. A network has built up with this licensing system and regulations: groups meet for training and discussing new policies. She noted that the committee did not resolve the issue of possibly setting a different fee for an out-of-state guide license. However, ADF&G said it has that ability.

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JENNIFER YUHAS, legislative liaison, Alaska Department of Fish and Game (ADF&G) said the department has that ability as the fees are not set in statute.

SENATOR STEVENS asked if the committee can be assured that ADF&G will look at it the issue of a differential fee.

MS. YUHAS said ADF&G is already looking into the issue. Seventy-three percent of the guides are in-state guides and the remainder could have a differential fee. The Carlson case can serve as a road map.

SENATOR STEVENS asked about a letter of intent.

CO-CHAIR MCGUIRE replied that one will circulate through the committee to Senator Stevens.

SENATOR WAGONER moved to report SB 294 from committee with individual recommendations and attached fiscal note(s). There being no objection, the motion carried.

### **SB 275-AQUATIC FARMING**

[4:22:54 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to come before the committee was SB 275.

ESTHER CHA, aide to Senator McGuire, said SB 275 addresses the issue of reasonable compensation for the removal of wild stocks of geoducks, exceeding an insignificant amount, from an aquatic farm site. Reasonable compensation is required because shellfish

are a public trust resource committed to the common use of the public. Previous legislation defined insignificant populations of geoducks as less than 2000 lbs per acre but did not set a compensation rate.

SB 275 proposes compensation to the state in the amount of 50 percent of the net profits from harvesting surplus wild geoducks from farm sites. SB 275 sets the tax rate for live geoducks at 10 percent of the exvessel value. This figure was determined by using the ADF&G's formula of providing the state with 50 percent of the net profits of the sales. The 10 percent compensation to ADF&G is on top of the 3.5 percent fisheries business tax that farmers have to pay. As the price for processed geoducks is much lower than for live geoducks, SB 275 also sets a tax rate of 3 percent of the exvessel value on processed geoducks. The 3 percent rate was suggested by geoduck farmers during the public comment period on proposed regulations as a good faith offer to provide some compensation to the state even though they would lose money if they had to sell processed geoducks.

CO-CHAIR MCGUIRE said when the legislature passed the Aquatic Farm Act in 1984, finfish farming was explicitly excluded. But the feeling was that an aquaculture economy in Alaska could be good for small communities and a healthy shell fish mari-culture industry has been a dream of some legislators. The state constitution requires sharing resources and developing them for the maximum benefit of Alaskans.

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CO-CHAIR MCGUIRE called an at ease from 4:26 p.m. to 4:27 p.m. due to technical difficulties.

[4:27:35 PM](#)

CO-CHAIR MCGUIRE continued and said the idea of SB 275 is to get the industry moving by fixing reasonable challenges. In 2004, the Supreme Court made it clear that these sites could not have significant stock on them. The legislature defined significant stock at more than 2,000 pounds. For sites with more than an insignificant stock, the question is, what is the value. She commented that she is in conversation with the governor and ADF&G to see if this can be handled by regulation.

PAUL FUHS, Sea Farms Alaska, said when the Supreme Court made its ruling, the Legislature had 3 weeks left in the session. Without enough time to go through the numbers, a hurried statute was passed saying reasonable compensation would be provided. Coming up with what is reasonable has been difficult for ADF&G

without any guidance from the Legislature who usually sets tax rates for resources. SB 275 is an attempt to do that. On page 4 of SB 275, "reasonable compensation" is defined. He referred to a calculations worksheet and said \$3.50 per pound was a figure provided by ADF&G.

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Referring to the calculations worksheet, he explained that the exvessel value is a public, published number representing the value of all fish caught divided by the number of pounds each year. ADF&G provided the figure of \$3.50 per pound as the average exvessel price. He summarized the farmer costs for harvesting and replacing wild geoducks: A diver is paid \$2.00 per pound. Every geoduck taken must be replaced at a rate of 5 to 1. A geoduck from the hatchery costs about 57 cents. PSP testing is about 12 cents per pound and involves flying samples to the Department of Environmental Conservation (DEC). The state raw fish tax is about 11 cents per pound. That leaves about 70 cents per pound [profit]. A 50 percent net profits tax is 35 cents per pound which is 10 percent of the exvessel price. He noted that processed geoducks get a much lower price and do not make any profit. He also noted that the standard raw fish tax is also paid at 3.5 percent.

MR. FUHS said he has committed to the governor and commits to the committee that if this issue is resolved reasonably, all outstanding lawsuits will be dismissed.

He also said he was surprised by the United Fisherman of Alaska (UFA) letter. He has talked regularly to geoduck dive fisherman and they did not take a position. He said the UFA letter debates what is "reasonable" and not the legislation itself.

SENATOR HUGGINS asked if the economic structure and taxing of geoducks and clams are different.

MR. FUHS replied that normally a 3.5 percent raw fish tax is paid and will be paid for farmed fish product too. Use of the state waters is paid for in addition to an annual lease fee to the Department of Natural Resources (DNR). This is a public resource that is owned by everybody and geoduck farmers should pay more for exclusive use of those geoducks.

[4:35:12 PM](#)

RODGER PAINTER, president, Alaskan Shellfish Growers Association (ASGA) said SB 275 has limited applicability. Before the Supreme Court decision, this tax may have been applied to seven sites.

Afterwards, ADF&G adopted very strict pre-leasing survey requirements to ensure that no new farm sites would have more than an insignificant amount [of geoducks]. A tax rate equal to the highest tax rate the state has for any resource meets the definition of reasonable compensation. Resolving this issue would allow the industry to move forward and contribute to the economy of rural Alaska.

SENATOR STEVENS asked Mr. Painter to speak to the UFA letter.

MR. PAINTER replied that one point in the UFA letter is that the Supreme Court said farm sites with significant amount of stock cannot be issued. Following the Supreme Court decision, provisions were written into law, knowing that some sites with significant stock may exist and that is why the tax was developed. The UFA letter also refers to an agreement between ASGA and divers made right after the Supreme Court decision. The UFA letter refers to a provision that was not implemented. The Legislature at the time decided it should be reasonable compensation rather than 100 percent as shown in the agreement.

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MARK VINCEL, executive director, United Fisherman of Alaska (UFA), said the matter of SB 275 was brought to a recent board meeting by representatives of Southeast Alaska Regional Dive Fisheries Association (SARDFA). The UFA board unanimously approved SARDFA's motion to oppose SB 275 on the grounds that it is against the intent of the Supreme Court decision that they do not have rights to large amounts of standing stock that belong to the public. It is against the agreement that SARDFA made with the divers at the time and the subsequent regulations that were promulgated through the public process of proposed regulation and public comment. ADF&G codified the tax at 21 cents per pound on the standing stock to be sold live. The amount of geoducks that can be sold live, which is more lucrative, has increased dramatically due to the state's investment in a testing facility and changes in the testing protocols. The production of shellfish should be increased, not just reallocated. Rather than a high tax on standing stock in places with a lot of geoducks, choosing locations to grow geoducks should be incentivized. This will increase production.

[4:42:42 PM](#)

CO-CHAIR MCGUIRE pointed out that SB 275 is just trying to wrap up the issue of the few sites that were in place prior to the Supreme Court ruling and asked if this lessened Mr. Vincel's concerns. She pointed out that SB 275 is not a mechanism to go

back on a Supreme Court decision and say any site is available, even ones with significant stock.

MR. VINCEL responded yes, he understands that the sites being discussed have already been established - existing sites where someone wanted a lease on something with a large amount of geoducks because that can be very profitable.

CO-CHAIR MCGUIRE said she will continue to read the UFA letter but the policy decision has been made by the Supreme Court and SB 275 is trying to comply with that decision and deal with the question of value. She said Section 2 of UFA's letter deals with value and will be a part of the record.

CO-CHAIR MCGUIRE closed public testimony and set SB 275 aside.

**SR 10-DOMESTIC NATURAL GAS & ALT. ENERGY**

[4:45:38 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to come before the committee was SR 10.

AMY SEITZ, aide to Senator Wagoner, said SR 10 sends a message to Washington DC that the Alaska state senate realizes the importance of producing domestic natural gas to lessen our dependence on foreign oil. SR 10 also sends the message that the senate recognizes the importance of developing alternative energy sometime in the future. The third point of the resolution is the senate's request to have state and federal agencies start transferring vehicles over to those that can eventually be used with compressed natural gas.

SENATOR WAGONER added that any natural gas use that Alaska can encourage creates more room for Alaska gas.

CO-CHAIR MCGUIRE said SR 10 is right on the money. Previous use of compressed natural gas would have reduced our dependence on foreign oil.

SENATOR WAGONER wanted to say on the record that he "stole about half of this from a previous resolution written by Senator Dyson".

CO-CHAIR MCGUIRE said we should have the best compressed natural gas vehicles in the world.

SENATOR HUGGINS said Senator Wagoner understated the impact if we really followed through with SR 10 operationally. He thanked Senator Wagoner for bringing SR 10 forward.

CO-CHAIR MCGUIRE noted that our state Department of Transportation has been asked, in the energy omnibus, to look at this issue and lead by example.

[4:49:04 PM](#)

SENATOR WIELECHOWSKI moved to report SR 10 from committee with individual recommendations and no attached fiscal note(s). There being no objection, the motion carried.

[4:50:03 PM](#)

CO-CHAIR MCGUIRE called a brief at ease.

**SB 143-RAILBELT ENERGY & TRANSMISSION CORP.**

[4:50:43 PM](#)

CO-CHAIR MCGUIRE announced the next order of business to come before the committee was SB 143.

REBECCA LOGAN, chairman of board, Chugach Electric and chairman, Railbelt Utility Task Force, said she is here to support SB 143 and will let the other utilities speak.

CO-CHAIR MCGUIRE said every governor in years past, regardless of party, has failed to bring the utilities together. Ms. Logan's bringing groups together to communicate is impressive.

SENATOR WIELECHOWSKI said rate regulation is a concern, particularly no regulation after five years. He is trying to be open to the idea and would like to hear how it is going to protect consumers.

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MS. LOGAN said an in-depth discussion should take place at a different time about the pros and cons of regulation. One of the Utility Task Force's "must-haves" was no regulation of Greater Railbelt Energy and Transmission Corporation (GRETC). A compromise was reached with the governor's office three weeks ago: five year regulation with a sunset.

MARK JOHNSON, general counsel, Chugach Electric, said rate regulation is clearly a central issue. He would like to make a presentation and allow for dialogue; understanding rate regulation pertaining to GRETC is essential to SB 143.

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CO-CHAIR MCGUIRE told Mr. Johnson she wants to know what options will be available if lack of regulation led to a colossal failure and the consumer is not protected.

SENATOR WIELECHOWSKI said he is concerned about the provision about not being able to preclude Independent Power Producers (IPP's) from getting into a system. He wonders how that works without regulation.

MR. JOHNSON said more discussions and a firm answer will come.

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PHILLIP OATES, city manager, Seward, said he is present to offer Electric Utility's support to SB 143. All of the utilities together have better financing due to more resources, rate payers, revenue stream and partnership with the state. GRETC will help manage the transmission system across all utilities, will accomplish regional economic dispatch and comprehensive long-range, regional planning. Bringing together the particular circumstances of 4 co-ops and 2 municipalities, of which Seward is one, is complex. Seward supports the adequate reliable, safe and stable delivery of energy and wholesale electric power transmission. Seward will have full membership in this not-for-profit corporation along with other utilities and individuals appointed by the governor.

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Brad Janorschke, general manager, Homer Electric Association (HEA) said that a common misconception is that the Railbelt utilities can't get along and work together. The Bradley Lake Hydro-Electric project is a big success story with six utilities working together with a state agency to build and finance a project that generates some of the lowest cost power in the state. The Railbelt utilities have accomplished much in price and reliability and can choose to think big and develop opportunities, particularly in renewables. GRETC is an omnibus document supported by all utilities and developed by electric utility professionals.

The intent of the letter distributed by HEA was to encourage minimal change to the originally agreed upon legislation. He reiterated HEA's support of GRETC, in its original form, which provides the best opportunity to diversify energy sources.

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SENATOR FRENCH asked if Mr. Janorschke does not support the current committee substitute before the committee.

MR. JANORSCHKE replied that the letter states HEA's support of GRETC and is trying to encourage minimal changes to it.

SENATOR FRENCH said he agrees with Mr. Janorschke but the 2nd paragraph of HEA's letter says "recent amendments and changes being proposed will significantly alter the GRETC legislation". And then it says, "the HEA board cannot support these amendments without a thorough review and consideration of the effect they will have". Senator French said that it looks like HEA does not support the committee substitute.

MR. JANORSCHKE replied that HEA did agree to one change from the original GRETC legislation pertaining to RCA regulation. He knows further changes have been requested to AS 42.50.170, regarding the authority for oil and gas leases. One of the key components of SB 143 that the Task Force agreed to was allowing GRETC to pursue that. He hopes the clause will remain in SB 143.

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CO-CHAIR MCGUIRE asked Mr. Janorschke what he opposes in Version S that is before the committee.

MR. JANORSCHKE replied that HEA's request is that the authority for oil and gas leases remain in the GRETC legislation.

CO-CHAIR MCGUIRE confirmed that this is Mr. Janorschke's only "hang up".

MR. JANORSCHKE replied, "affirmative".

CO-CHAIR MCGUIRE asked Mr. Janorschke for a letter to that effect.

MR. JANORSCHKE replied that he will provide such a letter.

PETER BRUSHELL, director, Matanuska Electric Association (MEA), said Bradley Lake is a success story and is operated effectively without RCA. The Joint Utility Task Force argued and things got heated but the Task Force also realized and admitted not much could be accomplished without working together.

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The state's support and leadership is also needed. Over the past year, the Task Force has built compromise, examination and

cooperation with the state. The document presented to the Legislature includes the best ideas and intentions for meeting a crisis. He noted that he has never heard what the cost will be to MEA commercial and residential consumers if a bullet line or a main line with a spur is built.

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CAITLIN HIGGINS, executive director, of the Alaska Conservation Alliance (ACA), encouraged statutory language requiring GRETC to evaluate and enact cost-effective conservation in the development of its Integrated Resource Plan (IRP). Renewable energy with a stable long-term price is the region's best long-term economic interest. The ACA supports the committee's goal that Alaska should generate at least 50 percent of its power from renewables. GRETC's statutory language could support the goal as part of the new utilities IRP. ACA supports ongoing regulatory and financial oversight of GRETC, with no sunset, as it ensures that individual rate payers, business and industry have access to reliable, safe utility services. Rate payers' voices are an essential aspect of utility governance; the board of directors of the new utility should include a significant portion of citizen representatives or a separate citizen utility board should overseeing utilities activities. Public representation and oversight should be a meaningful part of GRETC. So that ACA may support SB 143, ACA encourages the committee to consider language to address financial and regulatory oversight, public input and energy efficiency.

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RICK SCHIKORA, treasurer, Golden Valley Electric Association, said Golden Valley represents 43,000 members in the Interior and has participated in the GRETC task force since April 2009. SB 143 would allow at least 4 of the 6 Railbelt utilities to form a company to provide wholesale power to Railbelt utilities. Participation would be voluntary and rates for power out of those projects would be on a non-discriminatory basis between those participants. GRETC is designed to be a wholesale electric company providing electricity and other services to Railbelt utilities, all of whom, except the city of Seward, are regulated by the RCA. Due to the rate payer protections built in the GRETC legislation, GRETC should not be subjected to RCA regulation. A compromise of five years of regulation has been reached with the governor. The board members of GRETC are either elected by the ratepayers of member utilities or appointed by those who are. All six Railbelt utilities worked on SB 143 and all provisions were agreed to by representatives of the governor's office and

Alaska Energy Authority (AEA). SB 143 works and allows GRETC to make electricity by people who know how to do it.

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RICH WILSON, Alaska Ratepayers, said his group is made up of grassroots ratepayers from Fairbanks down through Southcentral with the goal of pursuing affordable and predictable rates. SB 143 is a way to achieve regional cooperation in an organization that can get the job done. Ratepayers should be given a right to participate in the process. Long-term benefits to ratepayers must include projects that are too big for any one utility in the Railbelt. The financial cost and size of solutions such as Susitna or Chakachamna hydro-facility require a regional solution.

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TOM LAKOSH, representing himself, said utilities cooperation is needed, not only to plan and purchase generation and transmission, but to have a regional distribution utility. The language allows certain assets to be withheld from the group and does not ensure proper control of the grid to incorporate intermittent renewables. To get to the renewable standard set out in policy, a single dispatch utility for wholesale power from Fairbanks to Homer is needed. The ability to put certain assets into the GRETC coffer seems suspicious in that aging facilities with outstanding debt are most likely to be paid off by GRETC where the most efficient and valuable to the individual utility will be withheld possibly even from distribution and dispatch. Policies for conservation and renewables need to be clearly stated for GRETC. A unified utility should not only buy new generation but effectively conserve throughout the Railbelt and plan for proper dispatch for intermittent renewables.

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CO-CHAIR MCGUIRE closed public testimony and thanked all utilities that testified. She said she would try to get SB 143 out as soon as possible. A meeting will be scheduled to talk about the issue of regulation.

[5:28:57 PM](#)

CO-CHAIR MCGUIRE, seeing no further business to come before the committee, adjourned the meeting at 5:28 p.m.