

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 17, 2014

1:03 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Dan Saddler, Co-Chair  
Representative Peggy Wilson, Vice Chair  
Representative Mike Hawker  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Scott Kawasaki  
Representative Geran Tarr

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE CONCURRENT RESOLUTION NO. 22

Urging the governor to take all action necessary to keep in-state oil refiners in operation and to keep oil refining operations in the state competitive.

- HEARD & HELD

HOUSE BILL NO. 325

"An Act increasing the balance of the oil and hazardous substance release prevention and response fund required to suspend the surcharge levied on oil produced in the state; increasing the amount of the surcharge levied on oil produced in the state that may be appropriated to the oil and hazardous substance release prevention account; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 367

"An Act creating a diesel fuel storage facility tax credit for public utilities; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HCR 22

SHORT TITLE: IN-STATE REFINERIES

SPONSOR(s): REPRESENTATIVE(s) T.WILSON

02/26/14 (H) READ THE FIRST TIME - REFERRALS  
02/26/14 (H) RES  
03/17/14 (H) RES AT 1:00 PM BARNES 124

BILL: HB 325

SHORT TITLE: OIL SPILL PREVENTION FUND

SPONSOR(s): REPRESENTATIVE(s) MUNOZ

02/21/14 (H) READ THE FIRST TIME - REFERRALS  
02/21/14 (H) RES, FIN  
03/17/14 (H) RES AT 1:00 PM BARNES 124

BILL: HB 367

SHORT TITLE: DIESEL FUEL STORAGE TAX CREDIT

SPONSOR(s): REPRESENTATIVE(s) ISAACSON

02/26/14 (H) READ THE FIRST TIME - REFERRALS  
02/26/14 (H) RES, FIN  
03/17/14 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

REPRESENTATIVE TAMMIE WILSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HCR 22 as sponsor.

LYNN KENT, Deputy Commissioner  
Office of the Commissioner  
Department of Environmental Conservation (DEC)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions on HCR 22 and HB 325.

JOHN HUTCHINS, Assistant Attorney General  
Oil, Gas & Mining Section  
Civil Division (Juneau)  
Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding HCR 22.

JOE BALASH, Commissioner Designee  
Office of the Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding HCR 22.

REPRESENTATIVE CATHY MUNOZ  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 325 as sponsor.

ANDY ROGERS, Deputy Director  
Alaska State Chamber of Commerce  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during discussion of HB 325.

CHRISTOPHER CLARK, Chief of Staff  
Representative Cathy Munoz  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding HB 325 on behalf of Representative Munoz, sponsor of the bill.

TOM CHERIAN, Director  
Division of Administrative Services  
Department of Environmental Conservation (DEC)  
Juneau, Alaska

**POSITION STATEMENT:** Testified during discussion of HB 325.

REPRESENTATIVE DOUG ISAACSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 367 as the sponsor of the bill.

MEERA KOHLER, President and CEO  
Alaska Village Electric Cooperative  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 367.

LUKE HOPKINS, Mayor  
Fairbanks North Star Borough  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 367.

COREY BORGESON, President & CEO  
Golden Valley Electric Association (GVEA)

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 367.

LYNN THOMPSON, Vice President for Power Supply  
Golden Valley Electric Association  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified during discussion of HB 367.

ANNA ATCHISON  
Kinross Fort Knox Mine  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 367.

JOMO STEWART, Energy Project Manager  
Fairbanks Economic Development Corporation  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 367.

#### **ACTION NARRATIVE**

[1:03:05 PM](#)

**CO-CHAIR DAN SADDLER** called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Seaton, Kawasaki, Olson, Feige, and Saddler were present at the call to order. Representatives Johnson, Hawker, Tarr, and P. Wilson arrived as the meeting was in progress.

#### **HCR 22-IN-STATE REFINERIES**

[1:03:29 PM](#)

**CO-CHAIR SADDLER** announced that the first order of business is HOUSE CONCURRENT RESOLUTION NO. 22, Urging the governor to take all action necessary to keep in-state oil refiners in operation and to keep oil refining operations in the state competitive.

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**REPRESENTATIVE TAMMIE WILSON**, Alaska State Legislature, as the sponsor, stated that HCR 22 urges the governor to take all action necessary to keep in-state oil refiners in operation and to keep oil refining operations in the state competitive. She referenced the possibility for the closure of the Flint Hills Refinery and its search for a buyer. She reported that the Flint Hills Refinery was supplying clean drinking water to local

residents during the problems with contaminated water, and would continue to do so throughout. She declared that currently it was more affordable to import fuel than for in-state refining. She said that, as this could change with time, the legislature needed to determine the value for maintaining refineries in the Interior and throughout the state. She stated "for right now we aren't competitive globally." She questioned the results should there be a disaster, noting that the State should be as self-sufficient as possible. She emphasized that it was important for the governor to move quickly in negotiating a royalty oil contract with a potential new buyer and to ensure who was responsible for the aforementioned contamination. She expressed that her biggest concern was for closure of the refinery and the necessity of new permits. She declared that the proposed resolution addressed the need for maintenance of self-sufficiency, an ability to refine other imports, and use for its best capacity.

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REPRESENTATIVE SEATON referenced page 1, lines 14-16 of the proposed bill, and inquired how a royalty-in-kind contract would be negotiated that would help the in-state refineries.

REPRESENTATIVE T. WILSON replied that the current contract was \$2.15 over the price of the North Slope, as the law states that we get the most for the value. She explained that Department of Natural Resources (DNR) would account for the import cost which included many pieces, and not just the price. She said that this was all "within the realm of the administration when they're negotiating the contract." She suggested that there was a possibility for contract negotiation to other uses at the plant.

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REPRESENTATIVE KAWASAKI directed attention back to lines 14-16, and referenced a recent royalty oil contract with Flint Hills Resources. He asked if Representative T. Wilson was considering a new contract with another party, and he asked, if there was not another party, how this would be possible.

REPRESENTATIVE T. WILSON offered her understanding there were "some other players at the table." She declared that, as Flint Hills would no longer have this contract as of June 1, 2014, this was not a re-negotiation of the contract for Flint Hills. She stated that Flint Hills had made it quite clear that it

would not be the owner and operator. However, they did want to ensure that this would be more economical for another party. This contract would be for the potential buyer with which Flint Hills was currently negotiating.

REPRESENTATIVE KAWASAKI suggested that, during contract negotiation, "it's good to know who we're negotiating with." He questioned the theory that the state would get a good deal from this negotiation.

REPRESENTATIVE T. WILSON replied that, although there was a lot of concern to get the most money for a resource, there should also be consideration for the other ancillary pieces. She said that the proposed resolution asked for all these points to be taken seriously, and that there should be some possible negotiations.

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REPRESENTATIVE TARR asked whether the proposed resolution was being sent to other individuals in addition to the governor.

REPRESENTATIVE T. WILSON replied that "these kind of negotiations is done by the administration and the governor is the one who is in charge."

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CO-CHAIR SADDLER, acknowledging that the Interior refineries were "a hot topic in the news," asked why the proposed resolution did not include refineries in other areas of Alaska.

REPRESENTATIVE T. WILSON replied that the proposed resolution focused on in-state refineries, as they had different issues and a different mechanism. She pointed out that the Flint Hills plant was being shut down. She acknowledged that it was important to include all the refineries.

CO-CHAIR SADDLER expressed his agreement that there was no attempt to disparage the other refineries in Alaska.

CO-CHAIR SADDLER directed attention to page 1, line 14, and asked if this should be a "Resolved" statement as opposed to a "Whereas" statement.

REPRESENTATIVE T. WILSON expressed her agreement.

CO-CHAIR SADDLER asked if she would accept a conceptual amendment to make this change.

REPRESENTATIVE T. WILSON expressed her agreement.

CO-CHAIR SADDLER moved to adopt Conceptual Amendment 1, which would, on page 1, line 14, delete "Whereas" and insert "Be It Resolved that" with conforming changes.

REPRESENTATIVE JOHNSON asked if this was a motion.

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There being no objection, Conceptual Amendment 1 was adopted.

REPRESENTATIVE KAWASAKI directed attention to page 2, line 1, and asked for the current timeline for the cleanup and how this proposed resolution could impact the decisions made at Department of Environmental Conservation (DEC).

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LYNN KENT, Deputy Commissioner, Office of the Commissioner, Department of Environmental Conservation, explained that state law made owners and operators of a contaminated property jointly and separately liable for the contamination. She stated that although DEC had been working primarily with Flint Hills as the current owner, the Department of Law had recently initiated action to bring both Williams and Flint Hills forward as responsible parties to work out the allocation of cost. She directed attention to the cleanup standards, acknowledging that this standard had to be based on and supported by sound science. She relayed that the level set by the Division of Spill Prevention & Response was being appealed by Flint Hills, and that it was unknown for how long this appeal process could take. She returned attention to the question of liability, and she offered her belief that not having the allocation of cost figure would not have any impediment to sale of the facility, as the state administration had offered to enter into a prospective purchaser agreement with a new buyer, so the new buyer would not have any liability for pre-existing contamination. She offered her belief that neither the final clean up standard or the allocation of costs was necessary to have clarified prior to the purchase and operation of the facility.

REPRESENTATIVE SEATON asked for clarification that reasonable clean-up standards supported by science would not have an impact on the decisions that were currently under appeal.

MS. KENT replied that the clean-up standard was under appeal, although it did not have to hold up the sale of the refinery to a new operator.

REPRESENTATIVE SEATON asked if the language in the proposed resolution to "expeditiously set up a reasonable cleanup standard supported by science" would impact what DEC would look at as the cleanup standard which it suggested.

MS. KENT deferred to the Department of Law, and opined that this language would not influence any appeal.

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JOHN HUTCHINS, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law (DOL), expressed his agreement with the testimony from Ms. Kent.

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JOE BALASH, Commissioner Designee, Department of Natural Resources, in response to Representative Seaton, pointed out that restriction of the terms for a refinery to within the boundaries of the North Star Borough would only include two operations, and would exclude two others on the North Slope and "two south of the range." He noted that further expansion raised questions regarding the legislative intent for the actions by the administration. He observed that there was the ability to transfer the upcoming Flint Hills contract to a prospective buyer, should a buyer be identified, as that contract had already been reviewed and approved by the legislature. He cautioned the committee about using price of a royalty contract as the sole means to make any refinery competitive in Alaska with other imported products. He opined that there were other ways to achieve this, and that the governor had convened a subset of his cabinet, including the commissioners of DEC and DNR, as well as the Attorney General, to consider ways to assist any prospective buyer of the Flint Hills facility. They were also having extensive discussion for the importance of maintaining the existing refineries. He noted that there was a concern for losing other refineries. He acknowledged that offering the royalty for sale at some discount had been considered, although there was concern that discounting

a fraction of the royalty would lead to requests for discounts to the remaining royalty. He noted that pricing of West Texas Intermediate (WTI) versus Alaska North Slope (ANS) would realize a difference of almost \$150 million of royalty to the state. He offered his belief that there were more efficient ways to ensure Alaska based refining, and that the governor was considering other recommendations. He noted that some of this \$150 million value would go to the producers of the royalty, whereas the administration would prefer to find a solution to keep the refineries healthy and keep the benefits to those refineries and the consumers in Alaska.

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REPRESENTATIVE T. WILSON stated that she had not intended to preclude the other refineries, and that there were other issues, as well, that needed to be resolved. She said "all refineries are very important and I don't want to step on any, but I just want it done fast." She requested to have the resolution brought back to the committee in a short time. She stated that she would talk with the committee members to ensure that any other questions were answered.

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CO-CHAIR SADDLER held over HCR 22.

[1:24:30 PM](#)

REPRESENTATIVE HAWKER requested that the sponsor ensure that Flint Hills concurred with the proposed resolution.

REPRESENTATIVE T. WILSON replied that, as she wanted to ensure that no refineries would be closed, she would broaden the proposed resolution, and make sure that Flint Hills and the other refineries were in support.

REPRESENTATIVE HAWKER offered his desire to have formal endorsements to the resolution from the refineries involved.

REPRESENTATIVE T. WILSON expressed her agreement.

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REPRESENTATIVE SEATON requested that the commissioner of DNR report whether a new contract would delay the opening of the Flint Hills refinery, as the legislature would not be available

to approve a royalty in-kind contract which was different than the existing contract.

**HB 325-OIL SPILL PREVENTION FUND**

1:26:00 PM

CO-CHAIR SADDLER announced that the next order of business is HOUSE BILL NO. 325, "An Act increasing the balance of the oil and hazardous substance release prevention and response fund required to suspend the surcharge levied on oil produced in the state; increasing the amount of the surcharge levied on oil produced in the state that may be appropriated to the oil and hazardous substance release prevention account; and providing for an effective date."

1:26:16 PM

REPRESENTATIVE CATHY MUNOZ, Alaska State Legislature, stated that she had chaired the budget subcommittee for the Department of Environmental Conservation (DEC) operating budget for the past two years and that the committee had closely reviewed long term options to maintain the oil and hazardous substance release prevention and response funding. She reported that the fund had originally been established to provide a reliable source of payment to the expenses incurred by DEC in responding to a release or threatened release of oil or hazardous substances. In the wake of the Exxon Valdez oil spill in 1989, the Alaska State Legislature had passed a bill which levied a \$0.05 surcharge on each barrel of crude oil produced in Alaska. In 1994, there was legislation to establish two separate funds, the prevention fund and the response fund. In 2006, as oil production was declining, there was legislation to change the division of the receipts so that \$0.04 would go to the prevention fund to pay for DEC activities for the prevention of oil spills, and \$0.01 would be dedicated to the response fund for major oil spill response. She relayed that the current \$0.04 surcharge for prevention activities raised about \$6.5 million each year with additional interest income of about \$1 million and income from fines and penalties of about \$1.5 million.

REPRESENTATIVE MUNOZ said that current law applied the \$0.01 to the response fund savings account until the fund was valued at \$50 million, and then the \$0.01 would be suspended. Currently, that response fund account was valued at \$49 million. She reported that in Fiscal Year 2016, the prevention account would

operate at a \$6.5 million deficit, which, due to declining oil production, would increase to almost \$8 million by FY 2022. She acknowledged that this did not take into account new production, as it was based on current revenue forecasts. She relayed that the subcommittee had adopted intent language which directed the administration to present viable, long term ideas to the legislature for financing and managing the oil and hazardous substance prevention and response fund. In response to this intent language, DEC suggested the use of general funds to cover the projected deficit. She declared that proposed HB 325 would begin a discussion for a solution to the long term shortfall for activities by the Division of Spill Prevention and Response. She stated that the bill had two components. Sections 1 and 2 would maintain the \$0.01 surcharge in place until the response fund was valued at \$75 million. The second component would increase the \$0.04 surcharge for the prevention activities to \$0.07, an increase of about \$4.5 million in annual revenue. She referenced a letter from the Chamber of Commerce [Included in members' packets] which stated that prevention fund activities reached across industries that were primarily funded by the oil industry. She shared that the budget subcommittee had discussed ways to spread the prevention costs, including a refined products tax. She pointed out that the proposed bill did not fully fund the projected deficits, and that amendments would be considered for a broader application.

REPRESENTATIVE MUNOZ mentioned that the Division of Spill Prevention and Response had operated efficiently, with an annual growth over the past 10 years of 1.5 percent, and the addition of only two full time positions during that time frame. She reported that DEC had cut back considerably on its use of the prevention account, noting that the department had stopped requesting capital appropriations for the clean-up of state owned sites in FY 2011. She said that a loan and grant program for the removal of underground storage tanks was also withdrawn. She declared that the core mission of the prevention account remained to pay for operational costs and readiness activities within the Division of Spill Prevention and Response and to work toward preparedness and prevention of large and small oil and hazardous substance spills. She shared that, with increasing exploration activity, it was important to maintain a robust spill prevention and response capacity.

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REPRESENTATIVE KAWASAKI expressed his agreement for the difficulty to obtain funding, especially with the decline in oil

production and an aging infrastructure. Referencing the letter from the Chamber of Commerce, he asked if there was a better way to do this.

REPRESENTATIVE MUNOZ suggested that amendments to the proposed bill could consider a broader application across industries, although it had not been included in the proposed bill.

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CO-CHAIR FEIGE directed attention to the pages in the pamphlet that referenced the spills and corresponding volume by industry, and asked if there was a directly proportional cost between the size of the spill and the cleanup.

REPRESENTATIVE MUNOZ deferred to DEC.

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LYNN KENT, Deputy Commissioner, Office of the Commissioner, Department of Environmental Conservation, replied that there was no direct proportional increase between the size and the cost of a spill clean-up. She said that variables such as type of material spilled and location of spill greatly influenced the costs.

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CO-CHAIR SADDLER opened public testimony on HB 325.

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ANDY ROGERS, Deputy Director, Alaska State Chamber of Commerce, referenced the aforementioned letter from the Chamber of Commerce, which expressed its concerns for the proposed increase to the per barrel tax and to the cap for the fund. He stated that the business community had ideological opposition to a fee targeted at one specific industry, but used to distribute services to a larger community. He referenced the audit numbers for the fund from 2005 - 2007, which listed administrative costs for contaminated sites of 53 percent, while administrative costs for prevention and emergency response were more than 72 percent. He offered his belief that the projected deficit for the fund could indicate the increase to the administrative costs. He noted the concern of the business community for the targeting of a single industry to fund operations to police a much broader audience. He questioned the necessity of an increase, opining

that the business community would like to have the intent of the fund addressed if a potential increase, or decrease, was proposed to the per barrel tax levied against the producers. He stated that these should be driven by the cost necessary to support the intent of the fund, and not by an assigned percentage increase. He asked about the use of technology for clean-ups, and how legislation had refined the wording for liability borne by spillers. He suggested that the state could mitigate some of its responsibility to have funds on hand to deal with spills. He suggested that there should be a basis beyond "things get more expensive over time as an argument for a potential increase." He again referenced the comments contained in the letter the chamber had submitted. He expressed his desire for more information during the upcoming discussions. He stated that the chamber had significant concerns for immediate percentage increases to the fund and to its cap.

REPRESENTATIVE KAWASAKI asked whether Mr. Rogers had any suggestions for the most appropriate way to manage the fund.

MR. ROGERS replied that he did not know if he was or ever would be qualified to offer a better way to perform spill remediation because he was not in the industry. However, he stated, when the business community reviewed a fund with a specified purpose and a single funding mechanism that did not solely address problems created by the industry, there was concern.

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CO-CHAIR SADDLER asked how other states managed to share these expenses for funding.

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CHRISTOPHER CLARK, Chief of Staff, Representative Cathy Munoz, Alaska State Legislature, explained that, during the presentations on the spill response fund, they had asked what other states were doing. He noted that the history of this fund in Alaska was unique, as it was created prior to the 1989 Exxon Valdez oil spill, and "then significantly tweaked thereafter." He said that he was unsure if there were any similar funds, although there had been discussions for the way other states addressed the means for levying fees on industry.

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REPRESENTATIVE SEATON announced that he had three proposed amendments: one specifically addressing a restriction to the usage of the fund, another for diversifying the funding source, and a third regarding fees for a review of contingency plans.

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CO-CHAIR SADDLER asked if there had been any consultation with the Alaska Oil and Gas Conservation Commission (AOGCC) for its perspective.

MR. CLARK replied that there had not been any discussions.

REPRESENTATIVE SEATON clarified that he was also on the finance subcommittee for DEC.

REPRESENTATIVE P. WILSON shared that she was also on the subcommittee, and that it had been evident that it was necessary to increase the availability of funds, as it was functioning on a deficit.

REPRESENTATIVE HAWKER suggested that another option was to review the use of the money, and whether it was only being used for its designation. He offered his belief that the money was being used for "things that absolutely are unrelated to the purpose for which it's being put in there, a material amount of the money."

REPRESENTATIVE OLSON questioned whether this included the cleaning up for soy bean spills or general training.

REPRESENTATIVE HAWKER expressed his agreement for "that kind of thing as well as the commissioner's office, I believe, administrative costs, it's not hard to track, just look at fund sources in the short form of the budget." He suggested that people would be amazed at where this money was going. He stated that this was taking money from the oil industry "to pay the faults of all the other industries, as well as administrative costs that just really, in my opinion, should not be allocated to this fund."

REPRESENTATIVE JOHNSON requested that DEC report on what percentage of the bills was not recovered. He offered his belief that this was an emergency fund that should be reimbursed, and questioned what portion was not reimbursed by industry. He suggested that a fund that was reimbursed only needed "enough money in the pot to respond."

REPRESENTATIVE P. WILSON reported that there was an ongoing cleanup effort which could not be discussed because of a lawsuit, with the possibility that the state could end up paying "an absolute huge amount."

REPRESENTATIVE JOHNSON clarified that he was not as confident that the state was truly on the hook for expenses as the other parties both had deep pockets.

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REPRESENTATIVE TARR asked for an update on the legacy projects at contaminated sites, and an update on the administrative costs at DEC as the numbers cited by Mr. Rogers differed from those which she remembered from a presentation to the budget subcommittee.

MS. KENT replied she did not know where the Alaska State Chamber of Commerce got its percentages. She said that she did not have them with her, but she would supply them to the committee.

[1:54:25 PM](#)

TOM CHERIAN, Director, Division of Administrative Services, Department of Environmental Conservation, said that he would get back to the committee with an answer.

REPRESENTATIVE TARR asked for more information regarding the legacy sites.

MS. KENT, in response to Representative Tarr, said that a lot of the contaminated sites in which DEC was involved were federal sites, so federal grant funding was used for the clean-up. She said that the funding by the response fund from the prevention account for oversight was used for other privately owned sites and state owned sites. Whenever possible, DEC tried to recover the costs. She said that the state had stopped using prevention account funds for clean-up of state owned or state managed orphan sites, and, instead, requested general fund appropriations through the capital budget. She opined that there could still be open budgets funded from the prevention account, although new money had not been requested from the prevention account for several years

CO-CHAIR SADDLER asked if Representative Tarr was referring to the Bureau of Land Management (BLM) legacy wells.

REPRESENTATIVE TARR asked if there were a number of sites that still needed to be cleaned up, although the projects had finished decades before, versus projects that were currently active but would need a clean-up should there be a spill.

CO-CHAIR FEIGE requested an estimate of the revenues, as well as a range of revenue under various scenarios, that would be raised under the proposed amendments to be offered by Representative Seaton. He directed a question to DEC, and inquired what the different types of contaminants were in each of those earlier spills in order to more equitably spread the costs to the offending industry.

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CO-CHAIR SADDLER held over HB 325 and kept public testimony open.

**HB 367-DIESEL FUEL STORAGE TAX CREDIT**

[1:58:44 PM](#)

CO-CHAIR SADDLER announced that the final order of business is HOUSE BILL NO. 367, "An Act creating a diesel fuel storage facility tax credit for public utilities; and providing for an effective date."

[1:59:01 PM](#)

REPRESENTATIVE DOUG ISAACSON, Alaska State Legislature, offered some of the history to the introduction of the bill, its need, and its broader application. He reported that the closure announcement by Flint Hills Refinery revealed an adverse effect to the consumer as the availability of fuel storage, specifically HAGO (heavy atmospheric gas oil) and LAGO (light atmospheric gas oil), to Golden Valley Power for electricity generation would now be limited. He explained that an agreeable, competitive lease price between Golden Valley Power and Flint Hills would be necessary to forego the necessity of building new tanks for the storage of five to ten days of fuel. He shared that the Alaska Village Electric Cooperative, Incorporated (AVEC) had submitted a letter, dated March 17, 2014, detailing its needs and its support of the proposed bill [Included in members' packets]. He reported that AVEC owned and operated 47 bulk fuel tank farms, about half of which had benefited from the Denali Commission funding for improvements.

He declared that it was necessary to address the "woeful need of upgrades and expansion." He noted that it was not his intention to keep Alaska indentured to diesel fuel, although it was clear that diesel would be around for decades to come as its infrastructure was already in place. He explained that HB 367 would offer a tax credit similar to the previously offered gas storage credits. Although the proposed bill would allow for up to \$15 million in credit, it was more likely to be about \$5 million, or 50 percent of the cost. He declared that the proposed bill was not trying to incentivize other refined products to Alaska, but to offer the lowest delivered cost to the consumer in Alaska. Therefore, the beneficiaries were restricted to Alaska regulated utilities, and he noted that the attached fiscal note [Included in members' packets] revealed there were not a lot of these. He declared that the proposed bill would offer the possibility for substantial relief to the affected communities in the service districts and minimize the economic impact on communities dependent on Flint Hills fuel. He said that encouraging industry and affordable power should be of great importance to the state.

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REPRESENTATIVE P. WILSON noted that these tax credits had originally been intended for small communities throughout Alaska, but this proposed bill would now offer this credit to much larger communities and would set a different precedent.

REPRESENTATIVE ISAACSON, in response, said that AVEC had not been a past recipient and its 55 community members had not received storage credits of this nature. He pointed out that the proposed bill restricted this to Alaska regulated utilities. He said that the Golden Valley Electric Association region would continue to need HAGO and LAGO fuel until an alternative fuel could be found for its antiquated diesel driven turbines in North Pole. He described the maximum usage from the other electric generation in the area. He stated that the proposed bill would allow the opportunity for fuel storage to the Fairbanks and North Pole area in addition to the other small communities.

REPRESENTATIVE P. WILSON pointed out that her community "is in the same boat certain times of the year." She relayed that the community paid extra when it was necessary to use diesel fuel.

REPRESENTATIVE ISAACSON replied that there was currently a fuel surcharge on each monthly bill in his region, and it was always

in excess of the cost to generate power. He declared that there was not a firm supply of hydro power or natural gas in the Fairbanks region.

REPRESENTATIVE P. WILSON said that she still had concerns for the proposed bill.

REPRESENTATIVE ISAACSON explained that there were Golden Valley Electric Association representatives to specifically address any of her concerns.

2:10:53 PM

REPRESENTATIVE ISAACSON, in response to Co-Chair Saddler, explained that HAGO and LAGO were specific cuts in the refining tower, as different products were distilled at different temperatures.

CO-CHAIR SADDLER asked what HAGO stood for.

REPRESENTATIVE ISAACSON said that he would report back to its meaning.

REPRESENTATIVE OLSON offered his understanding that the Healy Coal plant would be coming on line in the near future, and he asked for clarification that this excess capacity would not be sufficient to replace the aforementioned generators.

REPRESENTATIVE ISAACSON replied that this was his understanding, and he deferred to Golden Valley Electric Association for more information.

2:12:30 PM

REPRESENTATIVE SEATON requested a spreadsheet to the breakdown in price per kilowatt from Golden Valley Electric Association versus the remote villages included in the proposed bill.

REPRESENTATIVE ISAACSON offered his belief that AVEC and Golden Valley could each supply this to the committee.

CO-CHAIR FEIGE shared that the power company in his district was Matanuska Electric, a public utility and a non-profit corporation. He questioned whether the public utility paid taxes, and asked what tax liability the public utilities would write this refundable credit against, as most of them were non-profits.

REPRESENTATIVE ISAACSON, in response, directed attention to Section 1, lines 8-9, which covered both scenarios and allowed for a payment in lieu of a tax credit.

CO-CHAIR FEIGE asked for clarification that if there was not a tax liability there would be a payment.

REPRESENTATIVE ISAACSON expressed his agreement.

REPRESENTATIVE SEATON requested an explanation to the uses of the oil and gas tax credit fund mentioned on page 2 of the fiscal note analysis [Included in members' packets] and asked if this could deplete that fund.

REPRESENTATIVE ISAACSON replied that he would get back with an answer.

REPRESENTATIVE TARR said that she would hold her questions regarding the fiscal note until someone from DNR could answer them.

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CO-CHAIR SADDLER opened public testimony.

[2:15:51 PM](#)

MEERA KOHLER, President and CEO, Alaska Village Electric Cooperative, noted that AVEC served 55 villages which were very dependent on diesel fuel for energy. She said that most of the tank farms were a little bigger than 100,000 gallons, with about 22 of the tank farms still in need of upgrades. She said that this opportunity for a tax credit for half of the cost for refurbishing the tank farms was "extremely attractive and very important because otherwise the only opportunity we would have is to take out loans that simply adds costs to very, very high cost of electricity already."

REPRESENTATIVE TARR asked if the 22 tank farms in need of upgrades were each a separate entity to apply for the proposed tax credit.

MS. KOHLER, in response, said that the 22 tank farms all belonged to the Alaska Village Electric Cooperative, although there may be other public utilities that were looking to improve diesel fuel storage facilities. She said that the State of

Alaska was making an updated assessment of tank farms, as it had not been done since the late 1990s, and that this would give an idea of the continuing need. She explained that the local utility in a small village could be run by the local city government or the local tribal corporation, which often did not have a lot of borrowing capacity. She stated that even with this credit, it would still be necessary for them to find outside financing to supplement the remainder of the cost. She questioned the demand from these small villages because of this cost. She reported that utilities similar to AVEC which were funded through loans from the Rural Utility Collaborative or private lenders had the ability to leverage the money from this tax fund. She stated that AVEC did pay a gross receipts tax as a cooperative, which was a modest tax back to the state. She said that the tax break was not a significant component for AVEC.

CO-CHAIR SADDLER asked if there was an estimate to the cost of the upgrade to the aforementioned 22 tank farms.

MS. KOHLER, in response, explained that a small tank farm in a village scenario would cost about \$12-\$13 per gallon for a capacity of about 150,000 to 200,000 gallons; however, in a larger tank farm, 500,000 gallons to a few million gallons, it would cost about \$2-\$2.50 per gallon. She said that a major refurbishment of the existing tank farms, salvaging whatever tanks possible, would cost about \$1 million for a 150,000 gallon tank farm. She estimated a total investment of about \$70-\$75 million to refurbish all 22 tank farms.

REPRESENTATIVE TARR asked if AVEC could apply for the credit from all the projects it was working on.

MS. KOHLER offered her belief that this would be the case, although she opined that the intent of the bill was to support facilities which began work after the effective date of the bill. She said that AVEC did not work on more than 2-3 tank farms each year, which would be an investment of about \$5-\$7 million each year for tank farm upgrades and refurbishments.

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REPRESENTATIVE SEATON, referring to page 2, line 4 of the proposed bill, read that a storage facility would not qualify if it had been in operation as a diesel fuel storage facility before the effective date of the proposed bill. He offered his

belief that the proposed bill was only referencing new tank farms and new tanks, and not refurbishments or upgrades.

MS. KOHLER offered her understanding that the intent was to not include facilities which were completed prior to the effective date, but that an existing tank farm of more than 100,000 gallons would qualify for funding toward a substantial refurbishment.

CO-CHAIR SADDLER offered his belief that the proposed language said that if the facility, and not a specific tank, were used as a diesel facility, it would not qualify.

REPRESENTATIVE ISAACSON replied "that's one of the tweaks we'll bring back to you."

MS. KOHLER, in response to Co-Chair Feige, said that AVEC tank farms were under US Coast Guard and EPA jurisdiction, and were inspected two to three times each year, with minor maintenance performed throughout the year. She reported that EPA requirements would necessitate stricter testing to ensure tank integrity. She acknowledged that it was an ongoing struggle to add extra cost to an already expensive bill to pay for upgrade projects. She said that AVEC spent about \$1 million annually on tank farm operations, and that there was not very much money left. She called it "a hand to mouth existence."

CO-CHAIR FEIGE asked how much money did AVEC set aside for programmed replacement of tanks, or were they simply looking to the State of Alaska for capital money for replacements.

MS. KOHLER replied that AVEC had never looked to the state for funds to replace tank farms, as it had never been available. She said that the funding from the Denali Commission had been the first time that any significant money had been put into major upgrades to the tank farms. She shared that the gross revenue from non-fuel sources was about \$18 million annually, which paid for generation maintenance, overhauls, tank farm operations and maintenance, spill response, and administration, noting that "there has never been a lot available." There had not been a lot of investment since the initial investments in tank farms 40 years prior. She reported that there would be \$100,000 - \$150,000 on an individual tank farm for a major refurbishment on a couple of locations on an annual basis. She pointed out that this only addressed the electric utility and did not address the remaining 75 percent of tank storage in a village which was non-utility.

CO-CHAIR SADDLER asked that she report back to the committee with "a clear idea of the total cost that what it might take to refurbish the tanks that your co-operatives rely on."

REPRESENTATIVE P. WILSON noted that page 2 stated that qualification for the credit in this section required that a diesel fuel storage facility must have a diesel derived fuel volume of at least 100,000 gallons. She pointed out that, as there had been testimony to a need for smaller facilities, this should be adjusted.

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CO-CHAIR SADDLER opened public testimony on HB 367.

[2:32:59 PM](#)

LUKE HOPKINS, Mayor, Fairbanks North Star Borough, said that ensuring that the borough and the surrounding region had enough diesel fuel storage for electrical generation was an important piece for financial relief to the electric cooperative association.

[2:34:19 PM](#)

COREY BORGESON, President and CEO, Golden Valley Electric Association (GVEA), said that the potential closing of the Flint Hills Refinery brought a significant number of issues to GVEA, and that fuel storage was one of them. He acknowledged that Flint Hills had control of a significant amount of storage, on what was considered a very contaminated site. He declared that it was essential for GVEA to have its own storage facilities for HAGO and LAGO from the North Pole refinery. He said that HAGO could not be transported into Alaska, as it needed warmer temperatures for transportation. He remarked that an alternate fuel source, even with the Healy Coal plant and LNG trucking project, would always be needed in the community. He declared that the fuel storage was very important to the utility.

REPRESENTATIVE OLSON asked for the approximate price for power generated by the two generators at Flint Hills versus the price for coal at the Healy plant.

MR. BORGESON explained that these were measured in different ways. In kilowatt hours when dispatching the power, the generators had a cost of \$0.23 per kilowatt hour for HAGO fuel

and \$0.16 per kilowatt hour for naphtha fuel. He reported that the utility spent about \$61 million on naphtha and \$13 million for HAGO.

CO-CHAIR SADDLER asked about the coal cost.

MR. BORGESON replied that the cost was about \$0.65 per kilowatt hour for fuel, although including labor would be about \$0.12 per kilowatt hour.

MR. BORGESON, in response, said that the turbines at Flint Hills generated about 180 megawatts and the coal plant generated an additional 50 megawatts.

REPRESENTATIVE P. WILSON asked for the amount of tank storage at the Flint Hills facility.

[2:42:12 PM](#)

LYNN THOMPSON, Vice President for Power Supply, Golden Valley Electric Association (GVEA), said that GVEA had 50,000 gallon storage tanks each for HAGO and naphtha, and that GVEA relied on the Flint Hills refinery to pipe in product for the turbines when they were being operated.

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ANNA ATCHISON, Kinross Fort Knox Mine, said that the mine was the largest gold producer in Alaska, and that it was the largest customer to GVEA, as it took a lot of power and fuel to produce gold from a low grade ore body. She relayed that the mine used about 24 million kilowatt hours each month, the second largest non-labor cost. She pointed out that the mine was the fifth largest private employer in the borough, and, as its employees also lived in the area, they were also affected by the uncertainty for the future of energy, especially since the announcement for the closure of the Flint Hills Refinery. She declared support for HB 367 and the efforts of GVEA to reduce and stabilize power costs for all rate payers.

MS. ATCHISON, in response to Representative Seaton, offered her belief that the mine paid about \$0.19 per kilowatt hour for electricity to the mine, although she could get back to the committee with an exact number.

[2:45:00 PM](#)

JOMO STEWART, Energy Project Manager, Fairbanks Economic Development Corporation, spoke in support of HB 367, noting that energy was "a big, big deal" when people live in a cold, dark metropolitan area. He said that it was a necessary component of the economy and that its availability, affordability, and reliability impacted all the other aspects of the economy. He directed attention to earlier efforts by the state to recognize this necessity for energy storage. He listed state programs which included participation with the Denali Commission, and various energy and LNG storage tax credits including the Cook Inlet tax incentives and credits. He reiterated support for proposed HB 367.

[2:47:04 PM](#)

CO-CHAIR SADDLER closed public testimony and held over HB 367.

[2:47:34 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:47 p.m.