

SENATE FINANCE COMMITTEE
January 24, 2022
1:02 p.m.

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CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 1:02 p.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Erin Shine, Staff, Senator Click Bishop; SENATOR GARY STEVENS, SPONSOR; Tim Lamkin, Staff, Senator Gary Stevens; Jeremy Woodrow, Alaska Seafood Marketing Institute, Juneau; Chris Barrows, Pacific Seafood Processors Association, Juneau.

PRESENT VIA TELECONFERENCE

Nicole Reynolds, Deputy Tax Director, Department of Revenue; Mark Palmer, CEO Ocean Beauty Seafoods, Inc., Anchorage; Abby Fredrick, Director of Communications, Silver Bay Seafoods, Juneau; Julianne Curry, CEO Ocean Beauty Seafoods, Inc., Kodiak; Haley Paine, Deputy Director, Division of Oil and Gas, Department of Natural Resources; Steve Masterman, Division of Geological and Geophysical Surveys, State Geologist, Fairbanks.

SUMMARY

SB 25 STATE GOV'T FINANCES: WEBSITE

CSSB 25(FIN) was REPORTED out of committee with five "do pass" recommendations and with a new fiscal impact note from the Department of Administration.

SB 33 SEAFOOD PRODUCT DEVELOPMENT TAX CREDIT

SB 33 was HEARD and HELD in committee for further consideration.

SB 104 GEOTHERMAL RESOURCES

SB 104 was HEARD and HELD in committee for further consideration.

#sb25

SENATE BILL NO. 25

"An Act relating to the establishment and maintenance of an Internet website providing information on state government financial transactions and specifying the information to be made available on the website."

1:03:20 PM

SENATOR BILL WIELECHOWSKI, SPONSOR stated that the bill would create an online searchable website of state expenditures. He stated the state was rated forty-ninth out of the fifty states in terms of public access to the state's financial information. He shared that the bill had widespread support and was hopeful that it would quickly move from committee.

Co-Chair Stedman MOVED to ADOPT the committee substitute for SB 25, Work Draft 32-LS0217\W (Marx, 2/20/22).

Co-Chair Bishop OBJECTED for discussion.

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ERIN SHINE, STAFF, SENATOR CLICK BISHOP, explained the proposed committee substitute. discussed the Explanation of Changes (copy on file):

Page 4, line 30 - Page 5, line 9

Rearranges 37.05.215(c)(2) and (3) to clarify the Department of Administration is to be responsible for maintaining the portion of the Alaska Online Checkbook that provides information related to independent contractors and service procurement contracts.

Page 5, line 24-25

Clarifies the definition of expenditure does not include salary and wage payments to state employees and benefit payments to a member or former member of a state retirement system.

Page 5, line 26-27

Adds new language to clarify that PFD payments would not be included in the Online Checkbook.

Page 6, line 6

Changes delayed availability effective date to October 1, 2023

Page 6, line 12

Changes transitional provision effective date to October 1, 2024

Co-Chair Bishop WITHDREW his objection. There being NO OBJECTION, it was so ordered.

Senator Wielechowski explained the new fiscal impact note for \$250,000 of capital cost.

Co-Chair Stedman MOVED to REPORT CSSB 25(FIN) from committee with individual recommendation and attached new fiscal impact note from the Department of Administration. There being NO OBJECTION, it was so ordered.

CSSB 25(FIN) was REPORTED out of committee with five "do pass" recommendations and with a new fiscal impact note from the Department of Administration.

[1:08:12 PM](#)

AT EASE

[1:09:19 PM](#)

RECONVENED

#sb33

SENATE BILL NO. 33

"An Act relating to a seafood product development tax credit; providing for an effective date by repealing secs. 32 and 35, ch. 61, SLA 2014; and providing for an effective date."

[1:10:23 PM](#)

SENATOR GARY STEVENS, SPONSOR, introduced the legislation. He stated that the proposal was a direct economic benefit policy, which had been used in the past for salmon and herring. The bill extended the sunset date, and broadened the scope of the tax credit to include investment incentives for pollack and prawn products. He shared that the bill was a partial reimbursements for investments in hardware, machinery, and infrastructure in the processing industry.

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TIM LAMKIN, STAFF, SENATOR GARY STEVENS, offered background to the legislation.

Co-Chair Bishop requested a Sectional Analysis.

Mr. Lamkin discussed the Sectional Analysis (copy on file):

Sec. 1: AS 43.75.035(b)(1) and (2), relating to tax credits applied to value-added activity for the processing of salmon and herring products, (1) adds the fisheries of pollock and cod as applicable for the tax credit; and (2) extends the sunset of the applicable tax credits through year 2025.

Sec. 2: AS 43.75.035(c), conforming amendment, relating to applying a tax credit for investment equipment used to process salmon or herring, to include equipment used for processing pollock and cod.

Sec. 3: AS 43.75.035(d), conforming amendment, relating to a 3-year carry-forward of unused tax credits for the processing of salmon and herring, adds the same carry-forward of tax credits to be applicable for pollock and cod processing.

Sec. 4: AS 43.75.035(e), relating to the 50 percent of liability cap on applicable tax credits, is legal

drafting statutory clean-up, deleting a duplicative and redundant clause already contained in Section 1 of the bill.

Sec. 5: AS 43.75.035(g)(5), conforming amendment, relating to state claw-back of a carry-forward tax credit, in the event an asset used for the processing of salmon or herring to which a carry-forward applies, if the asset is removed from the state, adds pollock and cod in determining qualified investment of processing within the state.

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Co-Chair Bishop surmised that the section applied to hard assets like processing equipment.

Mr. Lamkin agreed. He continued with the Sectional Analysis:

Sec. 6: AS 43.75.035(j)(3), conforming amendment, relating to the definition of "qualified investment" under this tax credit program, adds investment in assets used for processing pollock and cod products.

Sec. 7: AS 43.75.035(j)(6), conforming amendment, relating to the definition of "value-added" products under this tax credit program, adds processing of pollock and cod byproducts.

Sec. 8-11: Are historical sunset dates and repealers of this tax credit program, consolidating all of the various sunset provisions of the program into a single sunset, occurring now in section 8, and set for Jan. 1, 2026.

Sec. 12: Sets an effective date for the bill of Jan. 1, 2021.

Senator Hoffman wondered why the proposal was only for a three year sunset extension.

Mr. Lamkin replied that the decision was historically a policy call, but relayed that the "norm" was usually a five-year extension with variations. He agreed to provide for detailed information.

Senator Hoffman felt that there should be a minimum of a four or five-year extension. He stressed that there was such effort to put a bill through the process.

Mr. Lamkin stated that most recent extension for the program was in 2014, so the original sunset was eight years.

Senator Olson wondered whether the Coastal Development Quota (CDQ) groups weighed in on the bill.

Senator Stevens replied that he had not heard from processors, but felt that it would be nice to hear from them.

Mr. Lamkin referred to a list of support letters from various fishing organizations.

Co-Chair Bishop requested a definition of where fish would fall in the cod family for tax purposes.

Mr. Lamkin agreed to provide that information.

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JEREMY WOODROW, ALASKA SEAFOOD MARKETING INSTITUTE, JUNEAU, testified in support of the legislation. He remarked that after processing, there was leftover product that could add potential value to Alaska seafood resources. He stated that fish bone and fish oil currently generates hundreds of millions of dollars annually for Alaska's seafood industry. He stressed that there was financial benefit to the discarded items after standard seafood processing.

Senator Wielechowski wondered whether the bill required that the value added occur in Alaska, or whether the addition of value could occur outside of Alaska.

Mr. Woodrow replied that he believed the intention of the bill was for processing within the state.

Senator Wielechowski wondered whether the bill allowed for a tax credit for value added outside of the state.

Mr. Lamkin replied that the bill was intended only for assets valued within the state.

Co-Chair Bishop felt that Section 6 would speak to the question.

Mr. Lamkin stated that DOR was available to answer that question.

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Co-Chair Bishop wondered whether the tax credit was only applicable if the asset was used within the state.

NICOLE REYNOLDS, DEPUTY TAX DIRECTOR, DEPARTMENT OF REVENUE (via teleconference), indicated in the affirmative.

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CHRIS BARROWS, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, JUNEAU, discussed his support of the bill. He pointed to letters of support and research in the members' packets. He shared that the bill would reestablish a longstanding program and expand its list of eligible species. He stressed that the expansion was an important addition to the existing program.

Co-Chair Bishop wondered whether it was possible to have less product discharge after processing with the expansion of eligible items.

Mr. Barrows replied that the expansion of technology could have potential for a decrease in discharge.

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AT EASE

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AT EASE

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MARK PALMER, CEO OCEAN BEAUTY SEAFOODS, INC., ANCHORAGE (via teleconference), testified in support of the legislation. He remarked on the successful track record of infrastructure investment, which was still currently in service. He stressed that his company produced value added seafood products in every area of Alaska.

Co-Chair Stedman asked for opinion on black cod and its place in the past and future of the seafood economy.

Mr. Palmer replied that his company had a smoked black cod product with national distribution through Whole Foods and Costco. He noted that the availability and abundance of black cod created economic opportunities.

Co-Chair Stedman wondered whether black cod should be included in the bill.

Mr. Palmer replied that it was not yet qualified, and explained that he did not know whether black cod was included in the bill.

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ABBY FREDRICK, DIRECTOR OF COMMUNICATIONS, SILVER BAY SEAFOODS, JUNEAU (via teleconference), testified in support of the legislation. She explained that there had been significant investment in processing facilities throughout the state, and operated in several coastal communities. She stated that Silver Bay Seafoods had utilized past versions of the program.

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JULIANNE CURRY, CEO OCEAN BEAUTY SEAFOODS, INC., KODIAK (via teleconference), spoke in support of the bill. She explained that there was also a letter of support included in the members packets. She specifically spoke in support of the inclusion of pollock and cod in the legislation.

Co-Chair Bishop OPENED and CLOSED public testimony.

Senator Wielechowski wondered why there was a distinction in the bill between the words "processed" and "produced."

Ms. Reynolds replied the department interpreted those words were that the equipment or product needed to be in the state of Alaska. She stressed that the product or equipment outside of the state would not be eligible for the program.

Senator Wielechowski surmised that the fish must be from and processed within Alaska.

Ms. Reynolds responded that she could not speak to the location of the harvested fish, but believed that the intent was for the fish to be harvested within the state.

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Mr. Lamkin stated that the intent of the bill was for the credits to cover Alaska resources.

Senator Wielechowski noted that there was a published fiscal note from April 2021, which showed a revenue loss, but the new fiscal note had a significant change.

Ms. Reynolds said that the updated FN had taken the Fall 2021 forecast, which had lower fish values than had been originally addressed in the bill.

Senator Wielechowski asked about the revenue to the state general fund from the credits.

Ms. Reynolds replied that DOR had not been involved in the crafting of the note.

Senator Wielechowski was curious about revenue types and market changes.

Ms. Reynolds agree to provide the information to the committee.

Senator Wielechowski cited page 12 of the report. He then noted the report and read from the report about confidentiality rules.

[2:00:55 PM](#)

Ms. Reynolds stressed that there was an intention for DOR to provide accurate revenue forecasts, and agreed to explore confidentiality rules.

Senator Wielechowski stated that he was referring to a report from the Legislative Finance Division (LFD).

Ms. Reynolds agreed to provide that information related to the question.

Senator Wielechowski queried an opinion on the bill's possible retroactivity.

Ms. Reynolds replied that DOR did not take a position, and would support the legislature.

Senator Wilson wondered whether the bill would apply to vessels that were both fishing and processing vessels, and queried the number of those types of vessels that reside in the state.

Mr. Lamkin replied in the affirmative, and differed to the industry representatives for the information about the number of those types of vessels.

Senator Wilson wondered whether the investment in those vessels would be prorated for the amount used on processing versus fishing.

Mr. Lamkin looked at page 4 of the bill, and stressed that the detailed analysis would be provided by DOR.

Senator Wilson stated that he would follow up with DOR.

Ms. Reynolds agreed to provide that information.

SB 33 was HEARD and HELD in committee for further consideration.

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AT EASE

[2:11:12 PM](#)

RECONVENED

#sb104

SENATE BILL NO. 104

"An Act relating to geothermal resources; relating to the definition of 'geothermal resources'; and providing for an effective date."

[2:11:12 PM](#)

Co-Chair Bishop discussed housekeeping.

HALEY PAINE, DEPUTY DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), discussed a presentation (copy on file). She announced she would begin with slide 18.

Ms. Paine spoke to slide 19, "Purpose of SB 104":

- Modernize Alaska's geothermal exploration program
- Greater potential for providing affordable, renewable energy to rural communities and remote natural resource extraction projects
- Promote clean energy industry job creation
- Align geothermal licensing with the oil and gas exploration license program, thereby increasing feasibility for companies to develop resources
- More time for a company to identify and prove resource to convert to leases
- Conversion to leases based on completion of work commitment and submission of exploration plan instead of proving discovery of commercial resource
- Doubles maximum acreage allowed for exploration
- Reforms definitions for geothermal resources to focus on Commercial Use
- Explicitly excludes domestic, noncommercial, or small-scale industrial use from the need for a geothermal license or lease

Ms. Paine moved to slide 20, which provided a brief history of geothermal leasing and permitting in Alaska:

Present Mount Spurr Currently there are two geothermal exploration prospecting permits in the Mount Spurr area, both issued during 2021.

Augustine Island An application for a prospecting permit is under review for Augustine Island.

2013

Augustine Island 26 tracts were offered. Only one tract was leased to a private individual and no exploration work was conducted as a result of that lease sale.

2008

Mount Spurr 16 tracts leased to Ormat and one private individual. Ormat purchased 15 leases in the 2008 sale and drilled on southern flank of volcano. They didn't find adequate temperatures in wells to pursue the project. The state has the data available on the website.

1986

Mount Spurr On June 24, 1986, DNR offered 2,640 acres in two tracts. Both tracts received bids. The lease for Tract 1 expired in 1996, and the lease for Tract 2 was terminated in 1990.

1983

Mount Spurr DNR held its first geothermal lease sale in the Mount Spurr area on May 17, 1983. 10,240 acres in 16 tracts were offered in Competitive Geothermal Lease Sale 1. One tract received a bid. The lease for that tract was terminated in 1992.

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Ms. Paine spoke to slide 21, "DNR Leasing/Permitting Process":

- Competitive Lease Sale
- If no competing interest, issue prospecting permit with two-year time limit
- This bill would update this, replacing 2-year prospecting permits with 5-year exploration licenses designed after our modern oil and gas exploration license program.
- Only after the stipulations of a permit/license are met can the operator opt to convert to a lease.
- Both processes require Best Interest Finding prior to disposal

Ms. Paine discussed slide 22, "Sectional Summary":

1 (AOGCC)

Removes unnecessary reference to AS 41.06 from AS 31.05.030(m) because of changes made by Section 9.

2 (DNR)

Changes permits to licenses.

Explicit exemption for geothermal resources intended for domestic, noncommercial, or small-scale industrial use (See also Section 9).

Removes preferential rights clause. This provision is not appropriate for commercial development of State resources.

3 (DNR)

Changes permit to license.

Extends term of licenses (formerly permits) from two to five years.

Replaces lease conversion requirement of commercial discovery and development plan with work commitment and exploration plan.

4 (DNR)

Changes permit to license.

5 (DNR)

Changes permits to licenses.

Increases maximum acreage from 51,200 to 100,000.

Adds provision for rental fees to be defined in regulation, rather than statute (easier to update).

6 (DNR)

Adds new subsections to AS 38.05.181 to modernize unitization statute for geothermal leases to match the model we use for oil and gas under AS 38.05.180.

7 (DNR)

Replaces AS 38.05.965(6) definition of geothermal resources(Same as Section 11).

8 (AOGCC)

Amends AS 41.06.020(e), clarifies that AS 41.06 does not limit DNR's authority over geothermal resource management on state land.

9 (AOGCC)

Amends AS 41.06.020(f) to add explicit exemption for geothermal resources intended for domestic, noncommercial, or small-scale industrial use (See also Section 2).

10 (AOGCC)

Amends AS 41.06.060(4) definition of geothermal fluid to remove temperature references and better conform with other changes in this bill.

11 (AOGCC)

Replaces AS 41.06.060(5) definition of geothermal resources(Same as Section 7).

12 (AOGCC)

Repeals AS 41.06.005(b) and AS 41.06.030 since geothermal units are managed by DNR.

13-16

General provisions for applicability and effective dates.

Includes applicability provision for prospecting permits currently being processed.

Ms. Paine skipped to slide 24, "Section 2: Private Use Exemption":

- New language added:

A prospecting license or lease is not required under this section to explore for, develop, or use geothermal resources if the geothermal resource is intended for domestic, noncommercial, or small-scale industrial use.

- This explicitly excludes private geothermal users from a requirement to apply for a license or lease.

Co-Chair Bishop wondered whether there was an example of volume of water per minute in the bill.

Ms. Paine replied that there was not a specific numeric requirement, because there was no desire to set limits that might hinder development.

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Senator Wielechowski queried the definition of "domestic."

Ms. Paine replied that it referred to an individual homeowner.

Ms. Paine looked at slide 25, "Section 2: Preferential Rights":

- Current statute grants preferential rights to a surface owner to apply for a geothermal prospecting permit once notice is received of existing application
 - Potentially discouraging to commercial development
 - Private landowners usually don't have financial resources to develop a commercially viable geothermal resource.

- Surface owner rights are already protected under AS 38.05.130.
 - If conflict arises, DNR ensures private landowners would not be left without heat or power, or otherwise damaged by commercial development.
- If a surface use agreement can't be reached, resolution process is in 11 AAC 86.145.
 - DNR holds a hearing wherein the developer must prove there is no other alternative location for the well or data acquisition.
 - If the Commissioner concurs, developer posts a bond to compensate landowner for any impacts and work progresses.
- Public notice is a part of the license issuance process, and surface owners would be included. Surface owner notification is also part of later surface-use permitting.

Senator Wielechowski wondered whether someone who was not the surface owner could apply to develop a piece of land that was owned by someone else.

Ms. Paine replied in the affirmative.

Senator Wielechowski surmised that a developer could obtain the rights to someone else's land.

Ms. Paine replied that the provision was in place currently, and the bill would not seek to change the mineral estate.

Senator Wielechowski felt that there would be unhappy landowners.

Co-Chair Bishop felt that there could be a conversations about subsurface rights.

Ms. Paine looked at slide 26, "Section 3: Work Commitment":

- Changes prospecting permit to license and increases term from 2 to 5 years
- Creates greater opportunity for success of noncompetitive geothermal program
- Conversion to noncompetitive lease through completion of agreed upon work commitment
- Current process for oil and gas exploration license

- Commitment expressed in dollar figure
- annual reporting and performance objectives

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Senator Wielechowski stressed that most oil in the state was found on either state or federal land. He wondered whether the state had ever forced a private landowner to allow an oil and gas company to develop their land.

Ms. Paine replied that it had not occurred for geothermal exploration. She agreed to provide more information about oil and gas.

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STEVE MASTERMAN, DIVISION OF GEOLOGICAL AND GEOPHYSICAL SURVEYS, STATE GEOLOGIST, FAIRBANKS (via teleconference), looked at the slide 27. He stated that the slide had been revised to be more specific and to remove the temperature restraint.

Senator Wielechowski asked for an example of brines or gases that could be artificially pumped into the ground in the statute.

Mr. Masterman replied that it was less likely that gas or brines would be injected into geothermal fields. He stated that the Chena Hot Springs field received injections for a closed loop environment.

[2:30:24 PM](#)

Senator Wielechowski wondered whether any of the brines or gases could damage water resources, and how to protect against the damage.

Mr. Masterman replied that production of geothermal fluids occurred at considerable depths, and water sources would not be at that level.

Mr. Masterman addressed slide 28, "Sections 7 and 11: New Definition":

"Geothermal resources" means the natural heat of the earth; the energy, in whatever form, below the surface of the earth present in, resulting from, or created

by, or which may be extracted from, such natural heat; and all minerals in solution or other products obtained from naturally heated fluids, brines, associated gases, and steam, in whatever form, found below the surface of the earth; but excluding oil, hydrocarbon gases, or other hydrocarbon substances.

- Modern definition for geothermal resources.
- Not limited by temperature because current technology enables development of cooler geothermal systems.
- Ensures all the State's mineral estate resources are captured in definition.
- Same definition being applied to both DNR and AOGCC statutes.

Co-Chair Bishop queried the source of the definition.

Mr. Masterman agreed to provide that information.

Senator Wielechowski wondered what happened to the helium exclusion in the previous definition.

Mr. Masterman replied that Alaska did not have much helium present, so it was almost not applicable.

[2:35:24 PM](#)

Ms. Paine concluded the presentation.

Senator Wielechowski wondered why there was a removal of the annual rental fee of three dollars an acre.

Ms. Paine replied that the reason was to be more flexible in the future.

Senator Wielechowski looked at Section 6, and asked for the rationale behind the repeal of the unitization provisions. He also queried the legislation's impact on royalties.

Ms. Paine replied that the reason for the repeals was to align with oil and gas exploration. She stated that the bill would not impact the current royalty structure for geothermal energy development.

Senator Wilson wondered whether DNR tracked the number of domestic geothermal insulations in the state.

Ms. Paine replied that the Division of Oil and Gas did not track the number of domestic heat pumps in the state.

Senator Wielechowski looked at Section 6, and whether it gave the commissioner the ability to change the lease requirements with agreement from the lessee.

Ms. Paine replied that the intention of that provision was to align with the current oil and gas provisions.

Co-Chair Bishop wondered whether there was a recent royalty modification.

Ms. Paine replied in the affirmative.

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Senator Wilson queried a definition of "small scale industrial use."

Ms. Paine replied that there was not a statutory definition, and explained that it was based on whether there would be a customer for the product.

Senator Wilson wondered whether Chena Hot Springs would be considered "small scale industrial."

Ms. Paine replied that Chena Hot Springs did not distribute their power outside of the organization, so they were exempt from that definition.

Senator Wilson wondered whether it would include commercial developments for homes or medical facilities.

Ms. Paine replied that they would not go through this specific regulatory process, but felt that there would be other permits from different agencies.

Senator Wilson surmised that a developer could bypass the requirement by working directly with the landowner, as long as there was no distribution of power.

Ms. Paine replied that anyone who was looking for the size and scale of resource to develop would find it more economic to distribute the resource, however there would be other public processes for the development of the resource.

Co-Chair Bishop OPENED and CLOSED public testimony.

Co-Chair Bishop discussed the following day's agenda.

SB 104 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

2:44:04 PM

The meeting was adjourned at 2:44 p.m.