

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON ENERGY**

March 7, 2024

10:15 a.m.

**MEMBERS PRESENT**

Representative George Rauscher, Chair  
Representative Stanley Wright  
Representative Mike Prax  
Representative Calvin Schrage  
Representative Jennie Armstrong

**MEMBERS ABSENT**

Representative Tom McKay  
Representative Thomas Baker

**COMMITTEE CALENDAR**

HOUSE BILL NO. 368

"An Act relating to clean energy standards and a clean energy transferable tax credit; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 368

SHORT TITLE: ELECTRICAL ENERGY & ENERGY PORTFOLIO STDS

SPONSOR(S): ENERGY

02/20/24	(H)	READ THE FIRST TIME - REFERRALS
02/20/24	(H)	ENE, FIN
02/22/24	(H)	ENE AT 11:00 AM BARNES 124
02/22/24	(H)	-- MEETING CANCELED --
02/27/24	(H)	ENE AT 11:00 AM BARNES 124
02/27/24	(H)	Heard & Held
02/27/24	(H)	MINUTE(ENE)
02/29/24	(H)	ENE AT 10:15 AM BARNES 124
02/29/24	(H)	Heard & Held
02/29/24	(H)	MINUTE(ENE)
03/05/24	(H)	ENE AT 10:15 AM BARNES 124
03/05/24	(H)	Scheduled but Not Heard
03/07/24	(H)	ENE AT 10:15 AM BARNES 124

**WITNESS REGISTER**

BRANDON SPANOS, Acting Director  
Tax Division  
Department of Revenue  
Anchorage, Alaska

**POSITION STATEMENT:** Provided invited testimony on the department's fiscal note for HB 368.

DANIEL HECKMAN, Regulatory Manager  
Golden Valley Electric Association  
Fairbanks, Alaska

**POSITION STATEMENT:** Provided invited testimony on HB 368.

KERIANN BAKER, Chief Strategy Officer  
Homer Electric Association  
Homer, Alaska

**POSITION STATEMENT:** Provided invited testimony on HB 368.

JULIE ESTEY, Chief Strategy Officer  
Matanuska Electric Association (MEA)  
Palmer, Alaska

**POSITION STATEMENT:** Provided invited testimony on HB 368.

#### **ACTION NARRATIVE**

[10:15:32 AM](#)

CHAIR RAUSCHER called the House Special Committee on Energy meeting to order at 10:15 a.m. Representatives Armstrong, Schrage, and Rauscher were present at the call to order. Representatives Prax and Wright arrived as the meeting was in progress.

#### **HB 368-ELECTRICAL ENERGY & ENERGY PORTFOLIO STDS**

[10:16:33 AM](#)

CHAIR RAUSCHER announced that the only order of business would be HOUSE BILL NO. 368, "An Act relating to clean energy standards and a clean energy transferable tax credit; and providing for an effective date."

[10:18:04 AM](#)

BRANDON SPANOS, Acting Director, Tax Division, Department of Revenue (DOR), provided invited testimony on DOR's fiscal note

for HB 368. He stated that the fiscal note is indeterminant for costs and revenue.

[10:18:35 AM](#)

The committee took a brief at-ease.

[10:18:49 AM](#)

MR. SPANOS continued his invited testimony. He stated that the clean energy transferable tax credit proposed by HB 368 would be administered by the Tax Division. He explained that the credit could be taken against the tax for electric and telephone cooperative taxes or any of the other 20-plus tax types administered by DOR. The department would be required to issue a clean energy transferrable tax credit certificate to a load servicing entity as defined under AS 42.05.790 for qualifying clean energy production that is produced under AS 42.05.910, and DOR would publish the name and contact information for each person provided a certificate. The tax credit certificate could be sold, assigned, exchanged, conveyed, or otherwise transferred in whole or in part to a tax paying entity to use against the entity's tax obligations. Any portion not used by the taxpayer could be used in a later tax period or further transferred to another taxpayer. A clean energy transferable tax credit would need to be used within five years of being issued by DOR and DOR would be required to split the certificate or the value of multiple certificates into specific denominations at the request of the holder of the certificate so that the holder could utilize or transfer the various amounts. The department would be required to combine multiple certificates into one certificate at the request of the holder of the certificate, an example being a taxpayer that buys multiple certificates from different entities and wanting to utilize them in one tax return. The department would need to track the expiration dates of the original certificates and include those dates and amounts in the certificates that are split or combined. Splitting or combining the certificates would not change or extend the period in which each credit that is included in that combined certificate must be used. As well, HB 368 would grant DOR the authority to draft regulations to administer the transferable credit program.

[10:21:28 AM](#)

MR. SPANOS addressed the bill's revenue impact. He related that when he wrote the first fiscal note, the revenue impacts

couldn't be determined due to the short timeframe to create the fiscal note and the lack of knowledge about how much clean energy would be produced resulting in clean energy transferable tax credits. Further, he advised, it's impossible to know which tax programs those credits would be claimed against and reduced, or whether it would be general fund or designated fund. The bill would have indeterminate negative impact on overall tax revenue.

MR. SPANOS explained that the main challenge in creating a precise fiscal estimate is figuring out how much new energy might be eligible for the credit because it depends on specific projects, ownership, implementation dates, capacity, how much of a project's capacity then translates into energy provided, and timing in claiming, transferring, and applying a credit against a tax return. Compiling a statewide list and modeling would therefore be a significant undertaking and is not in DOR's area of expertise. He said the department's next fiscal note will be updated with a simple example and the assumption that 1 percent of the state's total energy production would be converted to qualifying projects each year. The fiscal impact would be \$130,000 in credits the first year and \$1.3 million in credits the tenth year. These are credits generated with a lag in the timing of reducing the taxes because they would be applied against taxes in later years.

MR. SPANOS stated that DOR's implementation cost and impacts of the bill couldn't be determined at the time he first drafted the fiscal note. The main administrative burden, he related, is transferring credits and being like a broker for those that would be purchasing the credits, which he thinks could be done with existing resources under the aforementioned numbers. However, he advised, if those numbers were to climb, the Tax Division would need to determine if it would be cost efficient to automate some of those processes, such as utilizing electronic certificates rather than paper certificates because that would be simpler to track and do the splitting, combining, and reissuing. The Tax Division would also explore utilizing the web interface for certificates to be applied for, transferred, combined, and split because that would lighten the administrative burden. The Tax Division would need more time to research the cost of that interface and there would likely be a cost to buildout that interface and a module, but likely the division wouldn't need additional personnel to administer.

[10:25:32 AM](#)

CHAIR RAUSCHER asked whether the new fiscal note would be large if a transmission line must be built, and a commission is needed to track the electrons running through the line and how they correspond with the utility companies.

MR. SPANOS requested clarification as to whether there would be additional credits because of how it is transmitted or whether specific credit would be applied in addition to the utilities generating a new source of energy.

CHAIR RAUSCHER said he is asking whether DOR would need to put in another fiscal note for tracking the happenings of that and the money going back and forth.

MR. SPANOS replied he can't comment because he needs to understand it better. He said it would cost more for DOR to administer if the credits were much larger because there would be a lot more buying, selling, splitting, and merging of credits, and an additional person might be required to oversee that. Also, there is more of an administrative burden when the credits being claimed are used against multiple tax programs. However, he continued, putting this credit program into the division's system and building out a web interface would be a one-time cost, and the program could grow as large as it needs to and not cost any more to do that administrative piece, it would just be if more person hours are needed.

[10:28:01 AM](#)

REPRESENTATIVE PRAX pointed out that tax credits mean that money thought to be available for something else won't be available if a credit is issued. He submitted that there was some buyer's remorse with the oil and gas tax credits. He asked if DOR would soon come up with an order of magnitude impact.

MR. SPANOS answered that DOR intends to include in its updated fiscal note an example of 1 percent of current electric power generation being converted to a tax credit. Under that general example which doesn't look at specific projects, the credit would be \$130,000 in year one and \$1.3 million in year 10.

[10:29:44 AM](#)

CHAIR RAUSCHER stated that there are no plans to put oil and gas into HB 368.

REPRESENTATIVE PRAX replied he understands that but asserted it's the same thing - a tax credit. One percent at \$130,000 isn't a big deal, he allowed, but this will likely be much more than 1 percent, which is a big deal that the legislature won't be able to talk about 5-10 years from now. It needs to enter the conversation, he maintained, because a decision is being made that will affect revenue in the same way that the oil and gas tax credits affected the income stream of the state.

CHAIR RASCHER said he appreciates the comment, but tax credits encourage investment and development that bring people, businesses, and jobs, and therefore they pay for themselves in the long run.

CHAIR RAUSCHER thanked Mr. Spanos for his testimony and invited the next witness to testify.

[10:31:37 AM](#)

DANIEL HECKMAN, Regulatory Manager, Golden Valley Electric Association (GVEA), provided invited testimony on HB 368. He stated he is representing GVEA from an operational and regulatory perspective because GVEA's board of directors hasn't yet taken a position on HB 368 for a clean energy standard. He said HB 368 has improvements from the bill for a renewable portfolio standard which has mandates that would affect GVEA's ability to recover costs of penalties that could be imposed for not meeting specific and prescriptive goals. Those improvements include not being prescriptive as to a certain type of energy source, utilizing an incentive-based mechanism in the form of renewable tax credits to achieve the legislation's goals rather than harmful penalties, setting dates that are more achievable and realistic, and specifically recognizing that the buildout of an adequate transmission system is required and entities should not be subject to the clean energy standard before the transmission lines are upgraded to the minimum standard required to ensure seamless end-to-end electrical energy transmission.

MR. HECKMAN urged that the legislature provide the state matching funds required to receive the \$206.5 million grant awarded by the [US] Department of Energy to the Alaska Energy Authority (AEA) to reduce the transmission constraints between the Kenai and Anchorage areas. This funding, he said, is a first piece for helping to build out adequate transmission to allow the Railbelt electric utilities to share site specific renewable resources. He expressed GVEA's support for the Senate's recent bill for a Railbelt transmission organization to

oversee and govern the Railbelt electric system. He urged that any provisions pertaining to net metering and net billing be addressed in stand-alone legislation due to the regulatory considerations involved.

MR. HECKMAN stated that under its strategic generation plan, GVEA is actively continuing its efforts to de-carbonize its power generation regardless of any statewide mandate. He said GVEA needs flexibility to pursue all options and alternatives that are in the best interests of its members, and state policy and legislation should be the same.

[10:38:00 AM](#)

CHAIR RAUSCHER requested elaboration on GVEA's net metering and net billing position.

MR. HECKMAN responded that the GVEA board believes broader regulatory and operational aspects need to be considered and so a stand-alone approach should be taken.

CHAIR RAUSCHER thanked Mr. Heckman for his testimony and invited the next witness to testify.

[10:40:19 AM](#)

KERIANN BAKER, Chief Strategy Officer, Homer Electric Association (HEA), provided invited testimony on HB 368. She said the bill is a step in the right direction and has a lot to like, such as the lack of penalties - a cost that would be passed on to HEA members. She advised that even nominal costs are not trivial to those HEA members who are least able to afford it.

MS. BAKER related that HEA is currently about 80 percent reliant on Cook Inlet gas with about 15 percent provided by other sources such as hydropower and solar. While the percentages fluctuate, she continued, HEA's predominant reliance on Cook Inlet gas means the board cannot tell its members it got the best deal, rather the board got its members the only deal there was. The market is pushing all utilities to diversify and because technology is changing so quickly the HEA board has decided to be technology agnostic and has adopted a policy that requires HEA to become fuel and energy diverse.

[10:44:20 AM](#)

MS. BAKER addressed transmission. Currently only one line extends from South Kachemak all the way to Fairbanks, she pointed out, and this lack of redundancy is imprudent. The Railbelt comprises 80 percent of Alaska's population of 750,000 and spreading the cost of transmission over this small population base is painful. Being able to freely transfer electrons throughout the organization, regardless of where the electrons are produced, would provide economies of scale so power could be bought at the lowest cost.

MS. BAKER urged that HB 368 not come into effect until the transmission is de-constrained. Without the ability to freely transfer electrons, the utilities will do independent generation and meet the standard, she explained, but not necessarily at the cost that legislators are thinking. She said HEA would not support any quota type system and wants an energy policy to be adopted that focuses on energy security and diversity and is technology agnostic. A free and open market without physical and other constraints would allow HEA to get the lowest cost.

[10:48:51 AM](#)

REPRESENTATIVE PRAX opined that in relation to subsidies and incentives the legislature must decide between funding schools and funding energy. He asked whether the HEA board is trying to keep the cost apparent to its customers rather than chasing after a subsidy.

MS. BAKER surmised Representative Prax is asking whether HEA is in favor of the subsidies in HB 368 and, if so, whether HEA would speak about that to its members.

REPRESENTATIVE PRAX replied yes. For example, he continued, the legislature must decide between providing a matching grant of about \$200 million for the [power] line between Homer and Beluga or funding roof repairs for schools since only one or the other can be done with that amount of money. He asked whether the HEA board is discussing that with HEA members.

MS. BAKER responded that she hasn't discussed the school budget with HEA's members and doesn't think [the HEA board] would. She offered her appreciation for the challenge faced by the legislature when weighing priorities. She shared that HEA recently made the agonizing decision to raise its base rate by 3.5 percent because HEA's inflation rate went up 19 percent over the several years since its rates were last raised.

10:53:46 AM

REPRESENTATIVE SCHRAGE recognized the difficulty involved in having to raise rates but opined that rate increases are coming no matter what is done because of Alaska's natural gas situation. He further opined that had utilities raised rates and invested in renewables awhile back they would have been less vulnerable to natural gas prices now. He said he is aware, however, that the RCA would have denied a utility from doing that because it was cheaper at current natural gas prices to continue with the status quo instead of investing in renewables and diversification. He asked whether HEA has had any internal discussions in this regard.

MS. BAKER confirmed that HEA would have been prevented from diversifying fuel sources for generation if those were higher than natural gas. However, she said, industry is changing quickly, and HEA is excited about the competitive numbers it has been seeing for all sources. She urged the committee to consider setting a time limit for how long someone can hold on to a state land lease without producing the project that was proposed for the lease.

10:59:12 AM

REPRESENTATIVE SCHRAGE noted that tax incentives provide a carrot instead of a stick, but that the money comes after a utility has made those investments. He asked whether HEA needs the money up front to make the necessary investments in renewables.

MS. BAKER replied that each utility would give a different answer. She said HEA is cash positive, but its margins are thinner than it would like because of investing in a battery energy storage system. She allowed HEA doesn't have the money to do everything it wants but said it has enough to pursue projects as a group with other utilizes or with independent power producers.

CHAIR RAUSCHER thanked Ms. Baker for her testimony and invited the next witness to testify.

11:02:08 AM

JULIE ESTEY, Chief Strategy Officer, Matanuska Electric Association (MEA), provided invited testimony on HB 368. She said Alaska is at a critical point with scarcity in gas making

the old ways of producing power expensive, new innovative power options that are either here or on the horizon, and renewables that are now competitive. Federal funding is available that cuts MEA's costs in half and MEA is making significant generation changing impacts to its grid. Sixty to seventy percent of MEA members say they want MEA to produce more of its power with renewables, but not if it is going to cost more.

MS. ESTEY stated that governor and legislature are motivated to making changes to the energy pathway to allow Alaska to grow. It takes a team to find solutions, so MEA is working with other utilities and stakeholders. Tony Izzo, MEA's chief executive officer, served as the Railbelt utility representative on the governor's Energy Security Task Force and was co-chair of the Railbelt Subcommittee. After dozens of meetings, presentations, discussions, and public process, the group came together around three main strategies for cost competitiveness and energy security - transmission unification, growing load, and diversifying power generation. Transmission unification, she explained, is the most important step for [Alaska's] energy future regardless of what electron is favored. Growing load spreads the same fixed costs over more kilowatt hours, reducing the costs for all, but the cost of upgrading infrastructure for growth shouldn't be overlooked. Diversifying generation provides energy security, resilience, and ability to remain cost competitive. The first action for diversification, ratified by the task force, was to develop a clean energy standard with incentives, which HB 368 does. Ms. Estey related that the MEA board has established its own goal of 50 percent clean energy by 2050.

[11:10:09 AM](#)

MS. ESTEY expressed MEA's appreciation for certain components of HB 368: attainable yet aspirational goals and a clean energy standard with incentives; acknowledgement of the key role that transmission plays; provisions to count progress and waive requirements if progress is being made but the goal has not yet been reached; allowing a calculation for net metering energy; allowing for energy efficiency and fuel conservation on both the supply side and demand side; reinforcing collaboration to achieve the goals; incentivizing change through tax credits, and the net billing concept. Speaking to Representative Prax's question, Ms. Estey said the tax credits are modest and may not change the economics or be a deal maker, but they would benefit MEA's members through the cost of power. The net billing concept would provide a mechanism for the RCA to vary the rates

paid back to members based on how helpful that power is to the system and to the rest of the members at any time. She advised that MEA's diversification goals aren't helped by motivating members to push lots of power on a sunny summer day when that power isn't needed in the system; instead, MEA would rather incentivize them to invest in say, a battery system, and then the power can come back to the system when it is more helpful and that decreases cost for the entire membership.

[11:16:50 AM](#)

MS. ESTEY discussed the provisions in HB 368 for which MEA suggests a second look. She said the opt out provision may be unnecessary because the provisions for waivers are adequate and because the bill is incentive based with no penalties. If kept in the bill, she continued, MEA proposes allowing for those long-term effects to include reliability as well as rates. She said another look should be taken at the transmission description since two bills currently in the Senate focus on the transmission backbone. She offered MEA's support for language that would align the bill's transmission backbone language to that of SB 257. She suggested elimination of the reference to the Railbelt transmission system as it may not be necessary in this legislation. Regarding whether coal needs to be in HB 368, she related that MEA is looking at its options to fill the gap, especially on April 1 when MEA's gas contracts go away. She posited that coal likely has a lower environmental footprint than importing liquified natural gas (LNG), likely has a lower cost and lower risk, and coal would keep money in the Alaskan economy. She expressed MEA's appreciation for the bill acknowledging that all options need to be on the table and that if MEA's board decided to use coal in its diversification plan MEA believes it could adequately account for it in the non-designated percentage of generation not covered by the clean energy standard.

MS. ESTEY, regarding whether HB 368 is necessary, stated that it is up to the legislature as to what role it thinks the government should play in the energy transition. She said MEA received its wakeup call a year ago from Hilcorp, its primary gas supplier, at which time scarcity and price sensitivity entered MEA's thoughts. She related MEA's belief that economics and the free market will naturally drive a more diverse energy portfolio. She said MEA understands that there is benefit in setting a standard to give clear direction, certainty, and market signals to the broader market, which could provide clear direction to the RCA and to the co-op boards to make bold moves

towards a common vision. With a few adjustments, HB 368 is the best option on the table for a commonsense energy standard and can act as a catalyst for energy transmission, diversification, and stabilized costs. She concluded by offering MEA's appreciation for being brought to the table to be part of the solution.

[11:22:20 AM](#)

CHAIR RAUSCHER invited the testifiers to suggest changes or corrections to the bill. He said the committee would like to make improvements but wants to be expedient in completing the bill this year.

REPRESENTATIVE PRAX agreed about deciding this year and urged that people focus on what to do with HB 368.

CHAIR RAUSCHER gave credit to the governor's task force, the governor, the Alaska Power Association (APA), and everyone who contributed to the making of HB 368.

[11:25:30 AM](#)

REPRESENTATIVE SCHRAGE noted that Alaska is only in the first phase of its grant applications for improving transmission in the state and that some proposals have been to fund the grid at low levels, such as \$30-\$40 million, as opposed to the full \$200 million in matching funds to fully realize the federal funds on the front end. He requested Ms. Estey's thoughts on whether that is adequate and whether a failure to invest in these projects hinders MEA's ability to best serve its customers.

MS. ESTEY replied that transmission is MEA's number one priority. She said MEA has exactly the transmission system that it can afford right now, and the federal funding represents a unique and "once in a generation opportunity" opportunity to gain a transmission system that can provide significant cost savings, energy security, and energy diversity that would drive economic development in the state and solve problems. Making sure that Alaska shows it is equally as invested in the success of the state as is the federal government is going to be critical. Ms. Estey said she doesn't think she can tell legislators that this must be prioritized over all else, but she can say that lowering costs of electricity allows for state dollars to stretch farther throughout the state.

[11:29:39 AM](#)

REPRESENTATIVE SCHRAGE opined that priorities are a decision for legislators as they look at the budget and policies this year. Being able to leverage this once-in-a-lifetime grant of federal dollars would be a boon to energy security and reliability and a boon to promoting business development.

CHAIR RAUSCHER thanked the witnesses for their testimony.

[HB 368 was held over.]

[11:31:19 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 11:31 a.m.