

HOUSE FINANCE COMMITTEE
April 8, 2024
1:33 p.m.

1:33:30 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Mike Cronk

ALSO PRESENT

Representative George Rauscher, Sponsor; Craig Valdez, Staff, Representative George Rauscher.

PRESENT VIA TELECONFERENCE

Brandon Spanos, Acting Director, Tax Division, Department of Revenue.

SUMMARY

HB 368 ELECTRICAL ENERGY & ENERGY PORTFOLIO STDS

HB 368 was HEARD and HELD for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb368

HOUSE BILL NO. 368

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

1:34:59 PM

REPRESENTATIVE GEORGE RAUSCHER, SPONSOR, read the sponsor statement (copy on file):

In the wake of a looming gas availability shortage in the Cook Inlet basin, critical for powering Alaska's Railbelt from Homer to Fairbanks, this Committee Bill on Clean Energy Standards and a Clean Energy Transferable Tax Credit serves as a cornerstone for our energy policy. It is an urgent and needed measure, pivotal for steering Alaska towards a sustainable and secure energy future amidst these challenges.

This legislation not only signals a shift to a more diversified and resilient energy mix but also establishes a strategic framework for economic growth and sustainable stewardship. By setting forth clean energy standards we are crafting a blueprint for innovation and transition, guiding our state towards needed energy solutions that will broaden and help diversify energy, and will keep Alaska economically viable.

The introduction of a clean energy transferable tax credit is a key feature of this bill, designed to act as a catalyst for clean energy projects. This initiative is of paramount importance, as it opens avenues for leveraging both federal and private investment in Alaska's energy sector. It creates a fertile environment for public-private partnerships, ensuring that the path to energy independence is both collaborative and multifaceted. Additionally, this bill acknowledges the role of existing low-sulfur coal facilities, incorporating them into the broader framework of clean energy solutions to enhance their contribution to Alaska's energy portfolio.

As a conservative advocate, I highlight this bill's crucial role in stabilizing the market, essential for investors across sectors including Cook Inlet gas, clean energy, manufacturing, and heavy industry. By establishing a consistent policy framework, we mitigate investment risks and ensure ratepayers aren't burdened by costs. This legislation instills confidence among stakeholders, showcasing our dedication to a predictable market that attracts investment, advancing Alaska's energy transition and economic prosperity.

I call upon my colleagues and partners from all sectors to support this vital legislation. Together, we can establish a stable, diversified energy market that benefits all Alaskans, ensuring our state remains a beacon of innovation, economic strength, and sustainable growth for generations to come.

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CRAIG VALDEZ, STAFF, REPRESENTATIVE GEORGE RAUSCHER, went through the sectional analysis (copy on file):

Section 1: Uncodified Law

Adds a new section to the uncodified law of Alaska, which establishes the purpose of this Act, which is to set a clean energy portfolio standard for electric utilities, increasing percentages of their net electricity sales from clean energy sources.

Section 2: AS 42.05.381

Introduces a new subsection (p) under AS 42.05.381, setting a uniform service rate for the transmission of clean energy generated after July 1, 2024. To be developed by the Railbelt Electric Reliability Organization, subject to approval by the RCA.

Section 3: AS 42.05.780

Amends AS 42.05.780(a) to say that an integrated resource plan must now identify the most cost-effective strategies for the energy network to satisfy the clean energy standard.

Section 4: AS 42.05.785

Amends AS 42.05.785(a) by adding subsection (4) stipulating the construction of large energy facilities may not be detrimental to a load-serving entities ability to meet the CES.

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Mr. Valdez continued:

Section 5: AS 42.05 Article 11A. Clean Energy Portfolio Standard.

Sec. 42.05.900 Clean Energy Portfolio Standard

(a) Adds section (a) to AS 42.05, establishing the clean energy portfolio standard and detailing percentages for clean energy sources. with a gradual increase over a specified timeline.

Sec. 42.05.920 Exemptions

(a) Exempts individual load-serving entities from compliance if the overall grid is meeting the Clean Energy Portfolio Standards.

(b) Allows for exemption for a load-serving entity from its first noncompliance period.

Sec. 42.05.925 Net Billing

(a) Sets standards for net billing and export rate credit.

(b) Charges the RCA to establish regulation to set the ERC annually based on seasonal and time variations, and other relevant factors.

Sec. 42.05.930 Additional Energy Resources

Requires the AEA to submit a report at least every 5 years to the legislature to recommend if any new technologies are to be added to the definition of Clean Energy.

Sec. 42.05.935. Definitions

This section lists the definitions of terms used in this bill.

1. "Clean Energy"
2. "Clean Energy Standard"
3. "Compliance Period"
4. "Distributed Energy Systems"
5. "Independent Power Producer"
6. "Interconnected Electric Energy Transmission Network"

7. "Load- Serving Entity"
8. "Railbelt"
9. "Renewable Energy Resource"
10. "Transmission Network Constraint"

Section 6: AS 42.45.110 Costs used to Calculate PCE

This section amends AS 42.45.110(a) to stipulate that revenue from recovered heat is not to be included.

Section 7: AS 43.98 Clean Energy Transferable Tax Credit

Clean Energy Transferable Tax Credit, Article 5

(a) Sets the foundation for the clean energy transferable tax credit, sets transparency standards for those provided the tax credit.

(b) Allows clean energy transferable tax credits to be sold, assigned, exchanged, conveyed, or otherwise transferred in whole or in part.

(c) Allows the credit to be used to offset taxes in AS 10.25 and Title 43.

(d) Instructs the department of revenue to adopt regulations necessary for administering the Tax Credits

(e) Sets the requirement that a clean energy transferable tax credit be used within 5 years.

(f) Restricts a clean energy transferable tax credit from reducing a person's tax liability below zero.

(g) Allows holders of clean energy tax credit certificates to combine or split their credits for transactions like sales or transfers. The Department must issue new certificates for combined or split credits, detailing their amounts and expiration dates. This process doesn't extend the credits' validity period.

Section 8: AS 44.83.940. AEA, Report New Subsection

(b) Section (b) mandates that the authority must submit an annual report to the legislature's first regular session, detailing progress on rural clean energy development.

This report should evaluate current initiatives, identify needed infrastructure, and assess the feasibility and costs of future projects.

Section 9: Effective Date Clause

July 1st, 2024.

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Mr. Valdez introduced the PowerPoint presentation "House Bill 368 Electrical Energy & Energy Portfolio Standards" dated April 3, 2024 (copy on file). He continued to slide 2, "Alaska's Energy Landscape", which provided a map of load regions in the Railbelt. He advanced to slide 3, "Combined Utility annual Demands" and commented that the higher risk uncontracted natural gas demand would increase overtime. He turned to slide 4, which showed a chart illustrating a \$65 million cumulative statewide total of how many CE tax credit dollars would be created through 2051.

Mr. Valdez turned to slide 5, "ENSTAR Presentation, Key Considerations":

None of the Options meet the LNG demands for the 4-year milestone (first gas 4Q2027)

The second worst thing for Alaska is to import LNG. The worst thing is to do nothing.

Mr. Valdez continued to slide 6, "HN 368, a Legislative Response":

HB 368 is a proactive legislative measure aiming to establish a Clean Energy Portfolio Standard & Introduce Clean Energy Tax Credits to leverage private funding and close production gaps.

Diversifying Alaska's energy portfolio with clean energy sources not only extends the life of Cook Inlet's natural gas reserves for critical heating needs but also offers gas producers a definitive roadmap for the future, enhancing their capacity for strategic planning and investment.

Mr. Valdez concluded with slide 7, "Bottom Line: HB 368's Impact on Alaska's Future":

Energy Security: Strengthens Alaska's energy independence by diversifying supply sources, reducing reliance on Cook Inlet gas.

Economic Growth: Stimulates the economy by creating jobs in the clean energy sector and attracting industries seeking sustainable operations.

Legislative Leadership: Showcases Alaska's proactive approach in energy policy, setting a benchmark for sustainable and forward-thinking legislation.

Public-Private Partnerships: Encourages innovative collaborations, driving both clean energy initiatives and broader industrial development.

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Representative Hannan referred to slide 3. She queried the definition of the acronym "IGU".

Mr. Valdez responded that "IGU" meant Interior Gas.

Representative Hannan asked whether Interior Gas was a private company contributing to Golden Valley, or separate entity.

Mr. Valdez responded that IGU was a utility that provided gas.

Representative Hannan asked about the "Uncontracted Available Cook Inlet" bar on the graph. She asked who defined what was "available but uncontracted".

Mr. Valdez responded that it was gas that DNR thought was potentially available in Cook Inlet but was currently uncontracted.

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Representative Ortiz referred to FN3 and asked for a breakdown of the projected \$176.6 in costs in FY27 through FY30.

Mr. Valdez responded that continuing costs would be for personal services going forward. He said that the beginning costs would be the adoption and amending of regulations.

Representative Ortiz stated that the bill talked about tax credits, which typically meant less revenue for someone; he asked which party would experience the revenue loss.

Mr. Valdez responded that passage of the bill would mean less revenue for the state under Title 43. He said that savings would be passed onto the ratepayers.

Representative Ortiz asked whether there was an estimate as to ratepayer savings.

Mr. Valdez responded that the closest modeling would be the predicted \$65 million by 2051.

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Representative Stapp queried the tax figure per kilowatt hour under current statute.

Mr. Valdez responded that the tax under AS 10.25 was quite low, which was the reasoning for morphing it into a transferrable tax credit. He thought that \$1.75 million in taxes was currently paid to the state under the statute.

Representative Stapp thought that if industry was currently paying \$1.75 million per year, the graph was not correct. He asked how industry could receive a \$3 million dollar tax credit for only paying \$1.75 million in taxes per year.

MR. Valdez responded that the credits could be transferred to another entity, which would apply to anything under Title 43.

Representative Stapp asked how it was possible to transfer more tax credits than what was paid in taxes.

Mr. Valdez responded that the entity would receive a tax credit that could be sold or transferred to another entity that paid taxes in the state, like an oil company, who could then use the credits.

Representative Stapp questioned language in the bill that stated that school districts could apply for clean energy transferable tax credits regardless of whether the energy would be sold to an unrelated person and that the school district was entitled to the same amount of credit as a loan serving entity.

Mr. Valdez responded that the language was added as a potential for certain school districts in rural areas that

used their own power and to ease extreme energy costs. He relayed that in some districts a significant part of their budget was for heating and electricity. He related that if a district chose to do so, it could get a contract with an ITP, or build an energy system themselves, and transfer the credits to receive the tax credit.

Representative Stapp felt the bill was unclear about where the school should be located in the state. He saw a reference to PCE and wondered whether the bill would apply to putting solar panels in Lathrop High School in Fairbanks. He asked whether the school could then discount the power or sell the power back to Golden Valley Electric.

Mr. Valdez responded that it was a possibility.

Representative Stapp asked about subsection E and whether schools in the state received PCE.

Mr. Valdez responded that school districts did not receive PCE.

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Representative Stapp understood that schools did not receive PCE, schools would get \$0.03 credit, transferable to \$0.01, and could sell the power and get the discount from rural utility.

Mr. Valdez responded that the subsections b and e were different. He explained that subsection e said that a facility that qualified for the tax credits under B of the section could receive additional 0.01 kilowatt.

Representative Stapp asked why the waiver section was written into the bill.

Mr. Valdez responded that the waiver was a holdover from older legislation that gave participants a way out if planning fell through.

Representative Stapp asked what was being waived.

Mr. Valdez responded that under the waiver there would be no penalty for exiting the program.

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Representative Josephson asked about the Sectional Analysis and Sec 42.05.925. He asked about export credit rate.

Mr. Valdez responded that the export credit rate (ECR) would be the amount received for selling energy back to the grid.

Representative Josephson asked whether "ERC" at the top of page 3 of the sectional was a typo.

Mr. Valdez responded in the affirmative.

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Representative Galvin asked why there was a move from lowering the clean energy standards from the year 2040 to 2051.

Mr. Valdez said that the dates had been chosen because they were realistic goals according to the utilities. He added that the dates were also based on completion of transition lines.

Representative Galvin understood that it was too much money on the rate payers to move the state quickly enough to achieve clean energy standards by 2040.

Mr. Valdez responded that the increased expense to rate payers would be a risk.

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Representative Galvin noted she had an April 5, 2024, letter from Chugach Electric in which the company listed six concerns about the bill. The concerns ranged from the ERO to Bradley Lake, and double taxing and cost recovery.

Mr. Valdez responded that he had not seen the letter.

Representative Galvin agreed to provide a copy.

Mr. Valdez asked whether the letter was from the utility board.

Representative Galvin shared that the letter was from the CEO of Chugach Electric.

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Co-Chair Foster requested that the letter be distributed to the entire committee.

Representative Coulombe asked about the Summary of Changes (copy on file). She spoke to **Change 1**:

This deleted the original subsection (h) on page 4, lines 12-20. This removed the voluntary optout provision from the bill. This was decided to be unneeded by utilities to protect their ratepayers after other portions of the bill were completed.

Representative Coulombe requested further explanation of the change.

Mr. Valdez responded that he had covered it earlier and reiterated that the bill did not include penalties, or have requirements set forth under penalty of law, that would penalize the utilities, which removed the need for an "opt out" option.

Representative Coulombe asked whether there were penalties in the original legislation.

Mr. Valdez responded that there had never been penalties written into the bill.

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Representative Hannan asked the how many utilities currently paid taxes and the total volume of those taxes.

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BRANDON SPANOS, ACTING DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, ANCHORAGE (via teleconference), responded that he did not have the information but would follow up with the committee. He thought that taxpayer could be C Corporation energy companies at paid income taxes. He added that electric co-ops also paid taxes.

Representative Hannan asked what electric co-op taxation currently produced for the state.

Mr. Spanos responded that in FY 23, the tax collected was \$2.4 million and of the total, \$49,000 went to the general fund and 2.4 mil went to the municipalities in which the energy had been generated. He added that there were 18 taxpayers in 2023.

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Representative Rauscher noted that the letter from Chugach Electric mentioned by Representative Galvin had not been written to the legislation under discussion.

Representative Galvin understood the importance of an RPS bill. She wanted to discuss the 2040 to 2051 dates and wondered what was happening in other oil producing states. She thought that 2051 sounded very late in the game to get onboard with renewable energy opportunities.

Representative Rauscher thought that the oil companies not contributing their thoughts on the legislation was a good thing. He suggested oil companies were busy doing other important work. He felt that the problem faced by Alaska was that the amount of gas currently available was in decline. He stressed that the bill would offset and diversity by encouraging other energy projects. He hoped that investors would come into the state and bring with them jobs and projects. He thought that the bill would encourage investment in the state for energy projects including but outside of oil and gas.

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Representative Stapp asked about page 7 line 10, which referenced a waiver to fines.

Mr. Valdez responded that the fine language had been left in by accident and should be deleted from the bill.

Representative Stapp thought that the bill essentially offered a cash credit for renewable projects.

Mr. Valdez responded "effectively, yes."

Representative Stapp hypothesized building a windfarm and selling the power generated, thereby making \$50 million in tax credits over the course of time. He understood he could

sell those credits to another energy company who could then use those tax credits to offset their production tax.

Mr. Valdez responded agreed that that was how the bill worked.

Representative Coulombe noted that DOR said that \$2.4 million in taxes were collected in 2023, \$49,000 went to the General Fund, and the rest went to municipalities. He wondered whether the bill would take from the municipality's shares.

Mr. Valdez responded that the tax credits would only be applicable to the state's share.

Representative Coulombe asked whether that was clearly stipulated in the bill.

Mr. Valdez responded that it was his understanding of how it would work and was the intent of the bill. He added that it was not explicit in the language of the bill.

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Representative Stapp hypothesized about using federal dollars to build a giant windmill in the Mat-Su and then selling the power generated to a utility and discounting all expenses as taxes under the proposed legislation.

Mr. Valdez responded that Alaska did not use enough electricity to offset the amount it would cost to build the windfarm. He said that the hypothesis would be allowable under the legislation.

Representative Josephson thought that the bill invited coal production. He wondered whether the bill was tied to carbon capture legislation.

Mr. Valdez responded that the way the bill was originally written was to encourage energy diversification while maintaining support for non-renewable energy sources. He said that the EPA had not certified a new coal plant since 2013 but might in the future.

Representative Josephson asked whether coal bed methane was a subset of coal. He remembered that in the past the Mat-Su

was gravely alarmed by the controversy surrounding the coal bed in the Mat-Su.

Mr. Valdez responded that he would research the question and get back to the committee.

Representative Josephson mentioned a Governor Palin era reform that proposed going 50 percent renewable energy by 2030. He queried the difference between the dates proposed in the current legislation and the ones proposed by Governor Palin.

Mr. Valdez responded that the bill included incentives and was being introduced at a time when the market was acknowledging the move toward renewables. He considered that technology had changed and was more efficient and cheaper and those factors would create more of a change than the aspirational goals suggested by Governor Palin.

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Co-Chair Edgmon interjected that the Parnell Administration had set forth aspirational energy goals for the state. He commented that in 2010 there was a bill that created an uncodified section that was a guiding force for current energy discussions.

Mr. Valdez added that part of the bill was to create integrated planning, which would look at the system as a whole and he cited Section 3, subsection a.

Representative Hannan understood that the transferable tax credit could be transferred to any taxpayer who was paying any kind of tax to the state.

Mr. Valdez responded it would be applicable to any tax under Title 43 as well as 10.25.

Representative Hannan asked whether if the lack of limits on who could gather the tax credits was part of the problem as to why revenue could not produce a fiscal note.

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Representative Stapp asked about gas that was generated from coal as a byproduct. He spoke of a proposed project in North Pole that would produce synthetic gas from coal.

Mr. Valdez responded that one of the issues Alaska faced was federal regulation. He said that the projects would have to get through the FERC and EPA regulation process.

Representative Stapp said he was wondering if the synthetic gas project would qualify for tax credit under the bill.

Mr. Valdez responded that he would provide the information to the committee.

Representative Galvin mentioned letters from constituents who were concerned about direct electric costs and whether cost would be negatively affected. She thought that cheaper renewable energy would lower costs but said there was concern about costs to the ratepayer.

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Mr. Valdez replied that one of the pieces of information to look at was the Alaska Energy Security Report from 2023. He said that the duty was to supply affordable and reliable energy. He believed that DOR could speak to navigating the transferable tax credit system.

Representative Galvin spoke of energy bill scorings and cited a March 25, 2024, policy analysis by Cassie Andrews. She shared that the analysis had rated the outcome of the bill at a minus 7 for energy bill scoring.

Mr. Valdez replied that he could not speak to a third-party blogger's analysis.

Representative Galvin expressed concern that the bill would increase the workload of the taxation division at DOR. She queried whether one PCN for the Regulatory Commission of Alaska would be enough and noted that no additional PCNs had been requested for DOR.

Mr. Spanos noted that additional PCNs for the department had been discussed. He said that the fiscal note reflected that the department could absorb the additional expense by automating much of the certification and credit claiming process.

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Representative Galvin asserted that the fiscal note seemed complicated. She asked whether setting up the automated system would require additional resources or if the expense could be absorbed by the department.

Mr. Spanos responded that the department already paid a significant amount to Fast Resources, the third-party contractor that currently maintained the system, and small to medium changes were already built into the budget.

Representative Rauscher offered closing remarks and reflected on the work done by the Energy Security Taskforce.

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Co-Chair Foster reviewed the agenda for the following day's meeting.

HB 368 was HEARD and HELD for further consideration.

ADJOURNMENT

[2:49:06 PM](#)

The meeting was adjourned at 2:49 p.m.