

SENATE FINANCE COMMITTEE

May 7, 2024

9:09 a.m.

[9:09:07 AM](#)

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator David Wilson
Senator Kelly Merrick (via teleconference)

MEMBERS ABSENT

None

ALSO PRESENT

Ken Alper, Staff, Senator Donny Olson; John Crowther, Deputy Commissioner, Department of Natural Resources; Ryan Fitzpatrick, Commercial Analyst, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Randall Zarnke, President, Alaska Trappers Association, Fairbanks.

SUMMARY

CSHB 50 (FIN)

CARBON STORAGE

CSHB 50 (FIN) was HEARD and HELD in committee for further consideration.

CSHB 125 (RES)

TRAPPING CABINS ON STATE LAND

CSHB 125(RES) was REPORTED OUT with four "do pass" recommendations; two "no recommendations", and one previously published fiscal note: FN 2(DNR).

HB 219 REPEAL ASSISTIVE TECHNOLOGY LOAN PROGRAM

HB 219 was REPORTED OUT of committee with four "do pass" recommendations; two "no recommendations", and one previously published zero fiscal note: FN 1(LWF).

#hb219

HOUSE BILL NO. 219

"An Act repealing the assistive technology loan guarantee and interest subsidy program; and providing for an effective date."

[9:10:03 AM](#)

Senator Wilson MOVED to REPORT HB 219 out of committee with individual recommendations and attached fiscal note. There being NO OBJECTION, it was so ordered.

HB 219 was REPORTED OUT of committee with four "do pass" recommendations; two "no recommendations", and one previously published zero fiscal note: FN 1(LWF).

#hb125

CS FOR HOUSE BILL NO. 125(RES)

"An Act relating to trapping cabins on state land; and relating to trapping cabin permit fees."

[9:10:47 AM](#)

KEN ALPER, STAFF, SENATOR DONNY OLSON, explained that the legislation was developed by the Resources Committees in both bodies as well as the Department of Natural Resources and the Trapper's Association. He said that the bill pertained to permitting involving trapping cabins on state land and aligned two existing statutes, one involving cabin construction and the other for the use of the cabins. The bill would allow DNR to issue permits for cabins already in

existence, which had been a gap in the current system that had proved problematic in times of lapse of ownership of a cabin or when a cabin had been abandoned. The bill specified that the cabins could be used for temporary shelter only and not for a permanent residence.

[9:12:04 AM](#)

Senator Bishop reiterated that the bill would resolve conflict in statute and would support the preservation of trapping in Alaska.

[9:12:42 AM](#)

AT EASE

[9:12:44 AM](#)

RECONVENED

Co-Chair Olson OPENED public testimony.

[9:13:09 AM](#)

RANDALL ZARNKE, PRESIDENT, ALASKA TRAPPERS ASSOCIATION, FAIRBANKS (via teleconference), spoke in support of the legislation. He stated that without passage of the bill there would be no system in place to renew permits. He encouraged passage of the legislation.

Co-Chair Olson CLOSED public testimony.

[9:14:01 AM](#)

Senator Bishop MOVED to REPORT CSHB 125(RES) out of committee with individual recommendations and attached fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 125(RES) was REPORTED OUT with four "do pass" recommendations; two "no recommendations", and one previously published fiscal note: FN 2(DNR).

#hb50

CS FOR HOUSE BILL NO. 50(FIN)

"An Act relating to carbon storage on state land; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to carbon storage exploration licenses; relating to carbon

storage leases; relating to carbon storage operator permits; relating to enhanced oil or gas recovery; relating to long-term monitoring and maintenance of storage facilities; relating to carbon oxide sequestration tax credits; relating to the duties of the Department of Natural Resources; relating to carbon dioxide pipelines; and providing for an effective date."

[9:15:54 AM](#)

AT EASE

[9:16:43 AM](#)

RECONVENED

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, recapped Slide 10, "CCUS 45Q Value Chain", which was where the presentation had left off the previous day.

[9:18:09 AM](#)

Senator Kiehl asked whether the person capturing the carbon had to be the lessor of the state pore space.

[9:18:34 AM](#)

Mr. Crowther responded that there were many different project development scenarios and project costs could be paid by many different entities.

[9:19:01 AM](#)

Senator Kiehl asked may the entity that captured the carbon be the lessor of the pore space.

[9:19:04 AM](#)

Mr. Crowther replied in the affirmative.

[9:19:10 AM](#)

Senator Kiehl pondered high transport costs. He queried the competitive environment in which the state would lease the space. He asked whether negotiations would be meaningful if there was only one potential lessor.

[9:19:57 AM](#)

Mr. Crowther replied that different scenarios involving multiple parties would be discussed further in the presentation.

[9:20:45 AM](#)

Senator Kiehl encouraged further discussion on a competitive leasing environment.

[9:21:31 AM](#)

Mr. Crowther pointed to slide 11, "Hypothetical State Revenue Assumptions" of the presentation that began the day prior:

- Not all CO2 emissions are feasibly captured - technology continues to rapidly develop
- Capital expenditures to retrofit existing facilities cannot be met by existing incentives in some cases
- Import of CO2 is dependent on further development of shipping technology and infrastructure
- 45Q tax credits to the capturing entity are only available for projects capturing CO2 in the US
 - \$60 per ton for Enhanced Oil Recovery
 - \$85 per ton for geologic carbon storage
 - \$180 per ton for geologic storage of carbon from Direct Air Capture

[9:22:46 AM](#)

Co-Chair Stedman asked about the frequency of transportation of carbon by sea.

[9:23:03 AM](#)

Mr. Crowther understood that there were some European jurisdictions that were transporting carbon by barge over very short distances. He added that he'd read a Wall Street Journal article that discussed ships under design that would be long-haul oceangoing vessels.

[9:23:28 AM](#)

Co-Chair Stedman commented that ocean transport for carbon was slow to evolve and that the future of ocean transport was unknown.

[9:23:42 AM](#)

Senator Bishop commented that the 45Q credits would expire in 2033. He wondered how long a project built in 2031 would be able to take advantage of the credits.

[9:24:38 AM](#)

Mr. Crowther responded that under current federal provisions if the project met the construction threshold it would be eligible for 12 years of injection but there could be no new entrance after 2033. He noted that the federal government could change provisions at any time.

[9:25:14 AM](#)

Co-Chair Stedman asked whether there was a 5-year reduction in the event of a transfer.

[9:25:23 AM](#)

Mr. Crowther deferred to Ryan Fitzpatrick. He believed that currently the credit was cashable for five years and transferable for an additional period depending on whether the taxpayer was a corporate or non-profit entity.

[9:25:45 AM](#)

RYAN FITZPATRICK, COMMERCIAL ANALYST, DEPARTMENT OF NATURAL RESOURCES, furthered that the credit was cashable for the first five years of a project's injection cycle and transferrable for the remaining seven years of the injection cycle.

[9:26:22 AM](#)

Co-Chair Stedman relayed that cashable credits were not a committee favorite.

[9:26:44 AM](#)

Mr. Crowther appreciated the comments. He noted that the credits were federal credits and that Alaska law incorporated state credit match to the 45Q, with an allocation percentage adjustment down. He said that the bill would eliminate the state incentive and that federal tax credits would be the only remaining incentive.

[9:27:20 AM](#)

Co-Chair Stedman surmised that the current bill eliminated the offset of the state corporate income tax, which had not been in the initial legislation.

[9:27:35 AM](#)

Mr. Crowther replied in the affirmative. He said that the issue had been quickly identified in House Resources Committee and the bill had been amended.

[9:27:47 AM](#)

Co-Chair Stedman said that if the federal tax code were adopted it could result in cashable credits.

[9:28:09 AM](#)

Mr. Crowther agreed. He said that the bill would repeal those credits.

[9:28:29 AM](#)

Co-Chair Stedman understood that the bill had been modified to include several other pieces of legislation. He asked when the bill had been amended to include the federal credit language.

[9:29:15 AM](#)

Mr. Crowther explained that the bill had been amended in the House Resources Committee.

[9:29:24 AM](#)

Mr. Crowther discussed slide 12, "Hypothetical Alaska CCUS Projects Regional Power Facility":

Regional Power Facility

- State revenue: hundreds of thousands of dollars per year
- Size: 250,000 metric tons/year
- Benefits: Investable, regulatorily compliant, and reliable power

Major North Slope Facility

- State revenue: millions of dollars per year
- Size: 2,000,000 metric tons/year
- Benefits: Decarbonizing North Slope energy production makes it highly competitive and potentially priced at a premium, attracts new investors, and mitigates federal regulatory risk to Alaska

CO2 Import and Sequestration Facility

- State revenue: tens of millions of dollars per year
- Size: 10,000,000 metric tons/year
- Benefits: National priority project with major new investment, industrial capacity, and economic activity in Alaska

[9:34:31 AM](#)

Senator Bishop spoke of an earlier example of annual revenue to state treasury for the first hypothetical and wondered whether the same could be done for examples two and three.

[9:34:52 AM](#)

Mr. Crowther replied that extrapolation could be done based on the assumption of project size. He said that the North Slope would bring in \$5 to \$6 million, hypothetically, the carbon was injected and stored.

[9:35:33 AM](#)

Mr. Fitzpatrick interjected that the final example could bring in \$25 million per year, hypothetically, assuming the 10 million tons of injection volume was met.

[9:36:04 AM](#)

Senator Bishop understood that the major North Slope facility would charge \$180 per ton for Direct Air Capture. He queried other activities could include new oil production.

[9:36:33 AM](#)

Mr. Crowther explained that in the hypothetical focus on capturing combusted natural gas emissions and would not necessarily be a Direct Air Capture facility. He furthered that a Direct air Capture facility could be developed on

the North Slope that could bring in revenue. He said that enhanced oil recovery was a possible use for carbon dioxide.

[9:37:02 AM](#)

Senator Bishop thought that "greener" barrels of oil could lead to more exploration and projects.

[9:37:35 AM](#)

Mr. Crowther agreed. He said that investors measure carbon intensity when investing and, in some markets, there was a price premium emerging for carbon mitigated or reduced barrels.

[9:38:04 AM](#)

Co-Chair Stedman asked about the sources of the changes to the bill from the original version. He requested testimony from the major players on the North Slope. He asked what the department expected from the 45Q credits.

[9:38:54 AM](#)

Mr. Crowther replied that one of the changes in the bill had been made in the Senate Resources Committee and pertained to commercial minimums. The change had set the minimum at \$2.50 per ton of carbon, which had been in the original draft then removed in the House Resources Committee and reinstated in the Senate Resources Committee. The numbers set in Senate Resources had been used in the hypotheticals.

[9:39:43 AM](#)

Co-Chair Stedman hoped that at some point the major industry players would testify on the bill.

[9:40:02 AM](#)

Mr. Crowther pointed to slide 13, "Lease Expenditure Amendment.":

Sec. 50 - For the purposes of AS 43.55.165, Lease Expenditures do not include:

(23) costs incurred to become eligible for, or that result in eligibility to claim, the carbon oxide sequestration credit allowed as to federal taxes under 26 U.S.C 45Q (Internal Revenue Code), when costs are expended to construct, acquire, modify, operate, dismantle, or remove a facility for carbon capture, carbon utilization, or carbon storage, including construction and modification of new or existing infrastructure, as well as fees incurred under AS 41.06.160, surcharges incurred under AS 41.06.175, or costs associated with obtaining, operating, or maintaining a license or lease under AS 38.05.7000 - 38.05.795.

Mr. Crowther noted that the last three hypothetical examples discussed were projects focused on the storage of carbon dioxide where the carbon was captured and injected for permanent storage in a new lease allowed for under the legislation. He stated that it was also possible for carbon dioxide to be used for enhanced oil recovery. He said that enhanced oil activities associated with carbon dioxide could result in capital lease expenditures under the state's production tax, which was a concern. He noted that costs of projects had been discussed in previous committees and whether those costs would affect state revenue. He stressed that the bill should focus on protecting the state's revenue from the development of carbon capture projects without impacting opportunities and existing operations. He noted that the text on the slide was the current amendment, which the administration had concerns with.

[9:43:18 AM](#)

Co-Chair Stedman asked how carbon sequestration as a non-normal cost was differentiated when the end-user was demanding a lower carbon footprint by oil and energy producers.

[9:44:36 AM](#)

Mr. Crowther responded that the discussion about what oil suppliers need to do to enable supplies to get to different markets was needed. He said that there was currently no requirement that they do so. He understood the discussion in Senate Resources Committee, and elsewhere, had centered around expensive carbon cost being limited in all situations. He relayed that the administration was

interested in striking a balance that would not inhibit existing activity or operations or new potential expansions.

[9:46:17 AM](#)

Co-Chair Stedman clarified an earlier statement that he had made about Milwaukee. He said that he had meant Minneapolis.

[9:46:21 AM](#)

Mr. Crowther considered the time and suggested he move on to the next slide.

Senator Olson replied that the committee would take a recess and continue the presentation during the scheduled 1:30PM meeting.

[9:46:46 AM](#)

RECESS

[9:48:01 AM](#)

RECONVENED

CSHB 50 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[9:48:12 AM](#)

The meeting was adjourned at 9:48 a.m.