

HJR

45

<target><bill>HJR 45</bill><subject>HJR
45</subject><comm>SFIN26</comm></target>

SENATE FINANCE COMMITTEE REPORT

DATE: 4/15/10

FURTHER:

DATE TURNED
IN TO OFFICE: 4/17/10

Finance Committee considered CS FOR HOUSE JOINT RESOLUTION NO. 45(FIN) am
HJR 45 OPPOSE FEDERAL CAP AND TRADE LEGISLATION

Urging the United States Congress not to enact Cap and Trade legislation.

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____


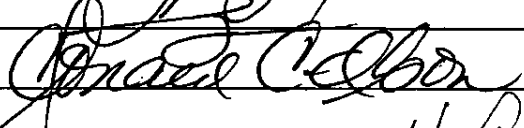
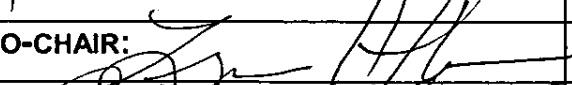

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
leg	3/8/10			✓	2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Huggins Thomas	✓			
	EGAN OLSON			✓	
CO-CHAIR: 		✓			
CO-CHAIR: 		✓			

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHJR 45(FIN)
 (H) Publish Date: 3/15/10

Identifier (file name): CS HJR 45(ENE) Dept. Affected: Legislature
 Title: Urging the United States Congress not to enact RDU: Legislative Council
Cap and Trade legislation. Component: Council and Subcommittees
 Sponsor: "Representatives Stoltze, Millett, Chenault, Dahlstrom..."
 Requester: House Finance Committee Component Number: 783

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

This Legislation has zero fiscal impact on the Legislative Affairs Agency.

Prepared by: Karla Schofield, Deputy Director
 Division: Legislative Affairs Agency
 Approved by: Pamela Vami, Executive Director
Legislative Affairs Agency

Phone: 465-6626
 Date/Time: 3/8/10 1:32 PM
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Governor Sean Parnell
STATE OF ALASKA

November 3, 2009

The Honorable Barbara Boxer
Chairman
Environment and Public Works Committee
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

The Honorable James Inhofe
Ranking Member
Environment and Public Works Committee
United States Senate
453 Russell Senate Office Building
Washington, DC 20510

Re: Clean Energy Jobs and American Power Act (S. 1733)

Dear Chairman Boxer and Ranking Member Inhofe,

The State of Alaska wishes to comment on the Clean Energy Jobs and American Power Act (S. 1733). This legislation, which aims to drastically modify U.S. fossil fuel consumption, stimulate greater use of renewable energy resources, and address the challenges of climate change adaptation, involves some of the most important issues facing the State of Alaska.

Alaska supports the transition to lower-carbon and renewable energy. However, as a major exporter of carbon-based energy, producing approximately 13 percent of the nation's oil supply and receiving more than 80 percent of its unrestricted general fund revenues directly from oil and gas operations, the State cannot ignore the potential economic consequences of a "cap-and-trade" system. We are currently preparing analyses that assess the possible impacts of this legislation on State revenues, the economic viability of our oil refineries, and future construction of an Alaska natural gas pipeline. The State fears this act may disadvantage domestic fossil fuel producers and shift production overseas, resulting in lost revenues and jobs while reducing our nation's energy security.

While climate change legislation could pose economic threats to our state, Alaska is also primed to help lead a clean energy economy. In the Alaska natural gas pipeline, the State of Alaska offers a promising low-carbon energy option, which could provide a vital bridge to other clean energy alternatives. Alaska also holds vast renewable energy potential, from hydropower, to biomass, wind, geothermal, solar, and ocean power.

In the area of adaptation, Alaska is already facing a host of serious developments related to climate change. This includes addressing the impacts to critical infrastructure associated with accelerated coastal erosion, increased storm effects, sea ice retreat, and permafrost melt. Efforts to protect and relocate Alaskan communities are already underway and the State values the partnerships we have formed with many federal agencies and other entities. More resources, however, are needed along with a designated federal agency lead to coordinate the federal efforts.

The Honorable Barbara Boxer and The Honorable James Inhofe
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Coupled with climate change impacts are opportunities, including the potential for increased marine access to Arctic waters and the resources they contain. The United States is slowly waking to the fact it is an Arctic nation and the importance of the Arctic in general. It is imperative that this legislation not foreclose possible opportunities in the Arctic.

Enclosed you will find the State's analysis of provisions in S. 1733. This document identifies key priorities for Alaska and a number of areas for improvement. Some of the items the State advocates for in this bill include:

- **Adequate funding for climate change adaptation:** the State supports sufficient funding to address Alaska's pressing adaptation needs on various fronts, including protecting critical and valuable infrastructure.
- **Measures to preserve domestic refineries:** Alaska calls for provisions aimed to protect Alaska's refineries, which are essential to our economy and cold weather fuel needs, as well as uniquely vulnerable to increased costs posed by cap-and-trade legislation.
- **Fair allocations for Alaska:** the State is concerned that the Environmental Protection Agency (EPA) has underestimated emissions in Alaska, based on estimates provided to Senator Feingold by EPA. This could disadvantage the state as a whole in the distribution of allowances.
- **Avoidance of unfunded mandates:** Alaska opposes burdensome and unrealistic unfunded mandates that may be created through new climate change programs.
- **Respect for states' rights:** the State supports the protection of states' rights and notably recognition of the State of Alaska's role as primary trustee over fish and wildlife.
- **Exclusion of problematic broad policy statements:** Alaska opposes broad policy statements that open the door to stricter enforceable regulations and future litigation.
- **Emphasis on domestic production:** the State supports expanding access and incentives for responsible domestic onshore and offshore oil and gas exploration as part of a strategy for creating a secure energy future.
- **Promotion of the natural gas pipeline:** the State seeks to promote the Alaska natural gas pipeline as a clean and reliable fuel source which would provide significant economic benefits for the nation, consistent with the Alaska Natural Gas Pipeline Act of 2004 (P.L. 108-324, 118 Stat. 1220).
- **Carbon capture and sequestration incentives:** Alaska supports the commercial deployment of carbon capture and sequestration (CCS) technologies, and in particular, sequestration as a result of Enhanced Oil Recovery (EOR) projects.

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- **Program flexibility:** The State believes that effective mitigation and adaptation programs must acknowledge regional differences. Alaska has particular concerns regarding the proposed natural resources adaptation framework.
- **Focus on monitoring and research:** Alaska supports collaborations among federal, State, and other partners in monitoring and research that will lead to better decisions in the management of land and marine resources.
- **Exclusive role of climate change legislation:** We believe climate change legislation should be the sole instrument for addressing climate change mitigation, not the strained use of existing statutes such as the Endangered Species Act or the Clean Air Act.

We appreciate the opportunity to share our views and hope the committee will give them its fullest consideration.

Sincerely,



Sean Parnell
Governor

Enclosure

cc: The Honorable Lisa Murkowski, United States Senate
The Honorable Mark Begich, United States Senate
The Honorable Don Young, United States Congress
The Honorable Thomas Carper, Chairman, Subcommittee on Clean Air and Nuclear Safety
The Honorable David Vitter, Ranking Member, Subcommittee on Clean Air and Nuclear Safety
The Honorable Bernard Sanders, Chairman, Subcommittee on Green Jobs and the Economy
The Honorable Christopher Bond, Ranking Member, Subcommittee on Green Jobs and the Economy
The Honorable Frank Lautenberg, Chairman, Subcommittee on Superfund, Toxics, and Environmental Health
The Honorable Max Baucus, Chairman, Subcommittee on Transportation and Infrastructure
The Honorable George Voinovich, Ranking Member, Subcommittee on Transportation and Infrastructure
The Honorable Benjamin Cardin, Chairman, Subcommittee on Water and Wildlife
The Honorable Mike Crapo, Ranking Member, Subcommittee on Water and Wildlife

State of Alaska Comments on Clean Energy Jobs and American Power Act (S. 1733)

Senator Boxer's Chairman's Mark

INTRODUCTORY NOTES:

This document describes the positions of the State of Alaska on notable elements of Senator Barbara Boxer's Chairman's Mark of the Clean Energy Jobs and American Power Act (S. 1733), which was introduced by Senators John Kerry and Barbara Boxer. The Alaska Departments of Environmental Conservation, Fish and Game, Law, Natural Resources, Revenue, Transportation and Public Facilities, and the Governor's Washington, DC office contributed to the analysis of this bill.

While particular design elements of "cap-and-trade" legislation, like S. 1733 and the American Clean Energy and Security Act of 2009 (H.R. 2454), raise broad concerns about the economic interests of Alaska, this document focuses instead on specific provisions of S. 1733. The State is currently preparing separate analyses of the possible impacts of this legislation on State revenues, the economic viability of Alaska's oil refineries, and future construction of an Alaska natural gas pipeline.

In many ways, Alaska is ground zero for obvious and costly climate change impacts. Alaska is currently experiencing coastal erosion, increased storm effects, sea ice retreat and permafrost melt. The villages of Shishmaref, Kivalina, and Newtok have already begun relocation plans and the U.S. Army Corps of Engineers has identified over 160 additional rural Alaskan communities threatened by erosion.

The effects of climate change are expected to occur most rapidly and be most pronounced at higher latitudes. Thus, no discussion about climate change is complete without recognition of the issues facing the Arctic. Surprisingly, in the 925-page bill, offered as a U.S. response to climate change, the word "Arctic" appears only once.

The State of Alaska strongly encourages that the following key components be incorporated in any climate change legislation:

- Mitigation and adaptation strategies that account for regional differences and avoid a "top-down" approach, likely to produce inflexible and inefficient policy;
- avoidance of broad policy statements that open the door to stricter enforceable regulations and future litigation;
- an effort to spare states from burdensome and unrealistic unfunded mandates;
- emphasis on climate change legislation as the sole instrument for addressing climate change mitigation, rather than the strained use of existing statutes, such as the Endangered Species Act or the Clean Air Act;
- incentives for a diverse spectrum of clean energy alternatives;
- respect for states' rights, and notably recognition of a state's role as primary trustee over fish and wildlife;
- a focus on studying the Arctic climate and environment;
- appropriate funding for adaptation efforts in Alaska where there is a pressing need to respond on numerous fronts, including the protection of critical infrastructure;
- aid for consumers burdened by climate change-related regulations;
- provisions aimed to protect Alaska's refineries, which are essential to our economy and cold weather fuel needs, as well as uniquely vulnerable to increased costs posed by cap-and-trade legislation; and
- promotion of Alaska's natural gas pipeline as a clean, reliable, long-term fuel source.

In the remainder of this document, the State considers how S. 1733 addresses these and other priorities important to Alaska.

STATE POSITIONS AND ANALYSIS OF S. 1733:

Section 1. Short Title; Table of Contents

Findings. (Sec. 2)

- Alaska Natural Gas Pipeline Projects. The State supports the addition of a finding, that the completion of the Alaska Natural Gas Transportation Projects is vital to the country to provide a clean fuel alternative to coal and petroleum as a bridge to power generation that does not involve the combustion of fossil fuels. This finding would be consistent with the Alaska Natural Gas Pipeline Act of 2004 (P.L. 108-324, 118 Stat. 1220).
- Arctic Impacts. The State supports the addition of a finding that the impacts of climate change are expected to occur first and be most severe in the Arctic and in the higher latitudes, creating unique adaptation needs in these areas.

Division A – Authorizations for Pollution Reduction, Transition, and Adaptation

Title I – Greenhouse Gas Reduction Programs

Subtitle A – Clean Transportation

Greenhouse Gas Reductions through Transportation Efficiency; Transportation Greenhouse Gas Emission Reduction Program Grants. (Sec. 112-113)

- Funding. The State fears Section 112 would create a substantial unfunded mandate and shift resources away from Alaska's transportation priorities. S. 1733 would amend Title VIII of the Clean Air Act to require the EPA Administrator, in consultation with the Alaska Department of Transportation and Public Facilities (DOT), to establish national greenhouse gas (GHG) emission reduction goals. States and metropolitan planning organizations (MPOs) would, in turn, be required to develop targets consistent with the national goals. The State would need to perform extensive data gathering and modeling, compute baseline emissions, and develop new strategies and programs to meet their goals. Section 113, which outlines a grant program for transportation GHG reduction, does not clearly provide funding to states for planning. If Alaska is unable to secure sufficient funding, it would be forced to divert resources from other programs, such as transit and road improvements, in order to absorb the new costs. The State supports a funding mechanism that will ensure adequate assistance to states working to comply with this new mandate.
- Adequate Time Frame. The State has concerns about the time requirements for data production and analysis. Adequate time is necessary to produce data on local conditions. Default national data does not accurately reflect Alaska's environmental conditions and emissions. The State believes this legislation should contain provisions ensuring states have sufficient time to collect and incorporate local data.

The State also supports inclusion of a statutory process to extend State target deadlines should federal agencies fail to meet deadlines or should there be legal changes to models or methodologies. New standardized models and methods adopted may differ from those used to establish the 2005 emissions reduction baseline. If this is the case, analysis would be necessary to properly compare new results with the 2005 baseline. If EPA and DOT lag in making this adjustment, it will shorten the timeframe states have to meet their deadlines.

Furthermore, the State fears the timeline for new regulations in this section is not realistic. Regulations must be proposed within 12 months and promulgated within 18 months of enactment. Preparing regulations and completing the public process for adopting the regulations can take months under ideal circumstances. If the regulation process is not completed on schedule, states and MPOs would be left with insufficient time to achieve emission reduction targets.

- Authority. The State also questions whether states possess the requisite authority to carry out their new duties under this section. State transportation programs generally do not operate transit, rail, or intercity bus systems, control land use, or regulate the amount of driving or method of vehicular propulsion. This authority is traditionally reserved for local government planning and zoning departments. Yet it will be impossible to meet ambitious emissions targets without regulating these activities. Furthermore, Section 112 holds MPOs to a lesser standard than states, though MPO emission plans are central to meeting state targets.
- Public Health. The State also has reservations about use of the term "public health," which has certain connotations within the Clean Air Act. A provision may be necessary to ensure the term does not invoke actions related to the Clean Air Act Section 109(b)(1), which directs EPA to set ambient air quality standards to "protect the public health" and allow for an adequate margin of safety. Recent EPA actions have shown an increased propensity for moving beyond the agency's traditional authority.
- Surface Transportation. The State believes the language of this section should be clarified to describe "surface" transportation-related greenhouse gas emissions reduction targets in all cases. Further, the term "surface transportation-related" should be defined to specifically exclude maritime (except ferries), rail, and off-road vehicles.
- Lead Planning/Modeling Agency. The State supports establishing the U.S. Department of Transportation, not the EPA, as the lead agency regarding the development of transportation planning and modeling tools. S. 1733 does this.
- Vehicle Miles Traveled. The State is concerned by provisions creating goals for reduced "vehicle miles traveled." Construction of the natural gas pipeline may create large short-term increases in vehicle miles traveled, but will generate benefits that far outweigh these increases. The State supports an exception for large construction projects promoting clean energy.
- Clean Air Act Incorporation. Section 112 also raises concern because of its incorporation into the Clean Air Act. The provision could subject planning and activities to burdensome Clean Air Act statutes and regulations.

Subtitle F – Energy Efficiency and Renewable Energy

Renewable Energy. (Sec. 161)

- Grants for Renewable Resource Programs. The State supports the nation's transition to increased reliance on renewable energy. Alaska possesses vast renewable energy potential, including hydro, biomass, wind, geothermal, solar, and ocean power. S. 1733 authorizes EPA grants for projects that increase the quantity of energy that a state uses from renewable resources, with priority to applicants in states with a binding Renewable Portfolio Standard. The State approves of the provision's goal.

The State, however, has concerns about the definition of "qualified hydropower," used in Section 102. It appears hydropower can be considered "qualified" in two ways. First, incremental gains or capacity additions to projects in place before 1988 are considered qualified hydropower. Second, energy produced from capacity added after 1988 to a dam that was originally in place for reasons other than power generation qualifies. This narrow definition would exclude large portions of existing hydropower, making it difficult for Alaska to meet a Renewable Portfolio Standard and compete for grants under Section 161, despite having an abundance of hydropower. The definition would also leave out new hydro projects. The State supports the expansion of the definition of "qualified hydropower."

Energy Efficiency in Building Codes. (Sec. 163)

- National Building Codes. The State opposes setting national energy efficiency building codes. S. 1733 would create national codes for residential and commercial buildings, in order to meet national energy efficiency targets. The EPA Administrator would publish an annual report on energy efficiency building code adoption and compliance by states. Though penalties for noncompliance are not defined in S. 1733, Alaska opposes the existence of national standards in this area. A federally mandated, universal energy code is a poor fit for a state with Alaska's vast size and varied conditions.

Subtitle H – Clean Energy and Natural Resources

Clean Energy and Accelerated Emission Reduction Programs. (Sec. 181)

- Clean Energy Incentives. The State supports Section 181, which rewards companies that switch from power sources with higher emissions than the 2007 power sector average to cleaner fuels, including natural gas, and Section 182, which would establish a new federal grant program encouraging investment in advanced natural gas technologies.

Title III – Transition and Adaptation

Part 1 – Domestic Adaptation

Subpart A – National Climate Change Adaptation Program

National Climate Change Adaptation Program. (Sec. 341)

- Existing Programs. The State supports the inclusion of language to clarify that the proposed National Climate Change Adaptation Program (NCCAF) will not replace existing federal programs already providing state and local governments and tribes with funds for projects that will assist in adaptation. The NCCAF should be a supplemental source of funding that prioritizes meeting urgent needs.

Climate Services. (Sec. 342)

- Coordination. The State believes a lack of specificity in the bill's natural resources adaptation strategy could hamper coordination and produce a duplication of efforts. In this section, the Department of Commerce (NOAA) is tasked with developing a National Climate Service. Section 365 creates a Natural Resources Climate Change Adaptation Panel, chaired by the Council for Environmental Quality. Section 367 establishes a National Climate Change and Wildlife Science Center. These provisions leave ambiguity as to how the bodies will interact. At the State level, federal agencies have competed for leadership and funds in the climate change arena. The vagueness in these provisions could produce a similar dynamic.

Subpart B – Public Health and Climate Change

National Strategic Action Plan; Advisory Board. (Sec. 353-354)

- Public Health. The State supports the inclusion of a section dedicated to addressing public health. However, the bill calls for development of a Health Impact Assessment. The requirement that Health Impact Assessments be conducted by the federal government within the National Environmental Policy Act (NEPA) process has produced challenges in Alaska. Additionally, no funding mechanism is provided to develop these assessments or the strategic plan called for by the bill. The section also lacks a mandate for State or Native representation on the Advisory Board.

Subpart C – Climate Change Safeguards for Natural Resources Conservation

Natural Resources Climate Change Adaptation Plan; Natural Resources Climate Change Adaptation Strategy; Natural Resources Adaptation Science and Information. (Sec. 365-367)

- Mission of Panel. The State believes the purpose of the Natural Resources Climate Change Adaptation Panel should be expanded to address other forms of adaptation, such as infrastructure. As introduced, the bill lacks a strategy for coordinating federal policy on climate change effects outside of the natural resources area.

Federal Natural Resource Agency Adaptation Plans; State Natural Resources Adaptation Plans. (Sec. 368-369)

- Flexibility. The State fears the natural resource adaptation framework in S. 1733, like that in H.R. 2454, is too top-down driven for success. The bill calls for each federal agency to develop a natural resource adaptation plan, with which subsequently-formed state plans must be consistent. Climate impacts, however, differ regionally and locally, requiring maximum flexibility. Development of a national plan will hamstring local identification and prioritization of issues and associated strategies to address them, stifle innovation, and prevent the local "buy-in" vital to effective implementation. A national focus also impedes the development of regional strategies.

States should be allowed to negotiate cooperative natural resource agreements with the federal government on a state-by-state basis with maximum flexibility. In the face of significant intrusion by the federal government on a state's authority to regulate fish and game, states may reasonably prefer departing from the national strategy. If a state does so, however, it will be penalized through denial of funding under programs in this subtitle and potentially other federal programs. The scenario is counterproductive and could be alleviated with greater flexibility.

- Competing Interests. The State fears efforts to assist species in adapting to climate change and ocean acidification will require controlling human activities to reduce other stressors on these species. Large new conservation units may be carved out and human activities in migration corridors could be substantially limited. The bill does not state how the adaptation strategy and planning called for is to be reconciled with human population growth, resource development, commercial, and other human activities. With this approach, other competing interests of importance to the people of Alaska will be marginalized.

National Resources Climate Change Adaptation Account. (Sec. 370)

- Other Statutes. The State believes the bill should specifically de-link existing statutes, such as the Endangered Species Act (ESA), from the climate change policy process. The State opposes use of the ESA as a vehicle for carrying out climate change policy. Section 370 provides for an expansion of ESA programs, which, without further guidance, could result in significant increases in listings that provide little benefit to those species. The bill should include language affirming that climate change legislation is the appropriate instrument for responding to climate change and that ESA should retain its traditional role of conserving species most at risk.
- Corps of Engineers. The State also believes this section should be modified to explicitly grant the U.S. Army Corps of Engineers the authority to use Natural Resources Climate Change Adaptation Account funding for coastal erosion reduction projects and infrastructure adaptation.
- Funding Allocation. The State appreciates that, of the funds made available to states in this account, a portion (six percent) is set aside for coastal agencies. Coastal states will have unique adaptation needs. To ensure adequate funding where climate change impacts are most severe, though, the State advocates for a separate allocation for Arctic adaptation efforts.

National Wildlife Habitat and Corridors Information Program. (Sec. 371)

- State's Role. The State fears this section undermines the State's role as primary trustee over fish and wildlife. The proposed National Fish and Wildlife Habitat and Corridors Information Program centers around developing Geographic Information System (GIS) databases and maps to support decision-making in this area. The State approves of this approach. The stated purpose of the effort, however, is to allow the Secretary of the Interior to recommend how the information developed "may be incorporated" into relevant State and federal plans that affect fish and wildlife including land management plans, and the State Comprehensive Wildlife Conservation Strategies. Further, the Secretary is granted authority to "ensure that relevant State and federal plans that affect fish and wildlife (1) prevent unnecessary habitat fragmentation and disruption of corridors; (2) promote the landscape connectivity necessary to allow wildlife to move as necessary to meet biological needs, adjust to shifts in habitat, and adapt to climate change; and (3) minimize the impacts of energy, development, water, transportation, and transmission projects and other activities expected to impact habitat and corridors." The State is leery of this expansion of federal authority. To be successful, adaptation efforts must respect the primary roles and authorities of State fish and wildlife agencies in managing fish and wildlife and be built on this precept.
- Landscape Conservation Planning Programs. The relationship of this program to existing landscape conservation planning programs (such as the Landscape Conservation Cooperatives) should also be clarified.

Subpart D – Additional Climate Change Adaptation Programs

Coastal and Great Lakes State Adaptation Program. (Sec. 384)

- **Funding Formula.** The State approves of this program's focus on coastal states. By factoring in the proportion of shoreline miles, the formula also acknowledges that a state's amount of coastline is an important consideration in assessing adaptation needs. Once again, however, the State feels the formula should account for the unique needs experienced in the Arctic and high latitudes.

Division B – Pollution Reduction and Investment

Title I – Reducing Global Warming Pollution

Subtitle A – Reducing Global Warming Pollution

Reducing Global Warming Pollution. (Sec. 101)

“International Offset Credits.” (Clean Air Act [CAA] Sec. 744)

- **International Offsets.** The State supports the inclusion of international offsets (the ability for companies to reduce emissions outside the U.S. and have it count towards domestic reductions). Like H.R. 2454, S. 1733 allows international offsets, though the portion of overall offsets comprised by international offsets is smaller in S. 1733 than in H.R. 2454.

Definitions. (Sec. 102)

“Definitions.” (CAA Sec. 700)

- **Alaska Refineries.** Alaskans are uniquely dependant on in-state refineries for their fuel needs. Alaska has limited fuel storage and is located thousands of miles from the nearest non-Alaskan refinery. The state's refineries are particularly vulnerable to increased costs because they are relatively simple on the Nelson Complexity Index, meaning they operate at lower levels of economic efficiency than more sophisticated refineries which can extract more refined product from a barrel of crude oil. If Alaska's refineries are disadvantaged to the point of closing, it would likely produce a wide range of negative consequences across the state. These may include higher costs associated with importing fuel by tanker and building storage tanks in addition to increased economic burdens on Alaska's rural communities.

The Chairman's Mark includes provisions granting small business refiners additional time to comply with the Pollution Reduction and Investment program and distributes additional allowances to small business and medium refineries. These provisions could help Alaska's refineries, but may not be sufficient to protect them from substantial costs.

The State would support an exemption for certain domestic refineries to prevent regional market failures and promote the interest of regional energy security. One way of achieving this is through modifications to the definition of “covered entities” in the Clean Air Act. First, the language in S. 1733 could be amended to match the corresponding language in H.R. 2454, requiring that a stationary source producing petroleum products do so in “interstate commerce” to be covered under CAA Section 700(13)(B). Second, CAA Section 700(1)(F) subsection (viii) for “petroleum refining” could be removed. These modifications would exempt refineries, like those in Alaska, that sell virtually all of their saleable product in-state.

- Embedded Emissions, Direct Emissions, and Fossil Fuel Based Carbon Dioxide. The State supports adding definitions for Embedded Emissions, Direct Emissions, and Fossil Fuel Based Carbon Dioxide to clarify that natural gas produced at the wellhead or flowing through a pipeline will not be burdened with the requirement of emission allowances for the carbon dioxide that may one day be produced when the natural gas is burned.
- Natural Gas Liquids. The State seeks clarification on this section, which differs from H.R. 2454 in its definition of natural gas liquids as being "ready for commercial sale or use." This change raises concern given the value natural gas liquids bring in a major gas sale scenario.

Disposition of Allowances for Global Warming Pollution Reduction Program. (Sec. 111)

- Fair Allocation of Allowances. The State is very concerned about the disposition of allowances for Alaska under a cap-and-trade regime. An EPA memo provided to Senator Feingold indicated that the agency drastically underestimated emissions in Alaska. The document gave the false impression that Alaska would be sufficiently accommodated through the provision of free allowances under H.R. 2454. EPA's estimates for capped emissions in 2012 appear to have been based exclusively on Alaska's electric generation, primarily electricity generated for retail electricity sales, leaving out all facilities that generate their own power, such as oil and gas fields and some military bases. As a result, EPA estimated the state's emissions at three million tons per year (MMt/yr). For the same year, the State's models estimated capped emissions at 24.2 MMt/yr. This inaccuracy could substantially disadvantage Alaska in the distribution of allowances.
- Emission Allowances for Alaska Natural Gas Transportation Projects. The State supports specific free emission allowances for the operation of Alaska Natural Gas Transportation Projects. The 1,700 mile Alaska Gas Pipeline will be a source of substantial CO2 emissions, estimated to be between 20-50 percent of total Alaskan capped emissions.

"Electricity Consumers." (CAA Sec. 772)

- Regulatory Commission Approval. This section describes an allocation process for allowances to electric utilities with a requirement that applicants first seek approval from the Regulatory Commission of Alaska. This requirement could create a costly unfunded mandate for the State as regulatory proceedings have become contentious and expensive.
- Hydropower Projects. See discussion for section 161.

"Home Heating Oil and Propane Consumers." (CAA Sec. 774)

- Heating Oil Allocation. CAA Section 774 addresses allocations to states based on domestic oil and propane consumption and, as written, is unfavorable to Alaska. Free allowances for heating oil and propane would be allocated to the states based on each state's relative share of total domestic heating oil and propane consumption. Alaska consumes a significant amount of oil due to heating degree days and the prevalence of heating oil use across the state. Heating oil and propane, however, appear to be weighted equally. Thus, states like California and Texas that may consume more propane for barbecue grills and hot tubs than Alaska consumes heating oil, would receive larger shares. The State believes heating oil and propane should be separated for allocation purposes.

"Exchange of State-Issued Allowances." (CAA Sec. 777)

- State-Issued Emission Allowances. Although Alaska is only an observer of the Western Climate Initiative (WCI), it supports WCI's position that the work of the states should be integrated into a new climate regime, rather than completely preempted. This bill would integrate state efforts by exchanging regional allowances for federal allowances.

"Commercial Deployment of Carbon Capture and Sequestration Technologies." (CAA Sec. 780)

- CCS in High-Cost Locations. The State supports the commercial deployment of carbon capture and sequestration (CCS) technologies, and in particular, sequestration as a result of Enhanced Oil Recovery (EOR) projects. CCS is afforded special treatment through the "bonus allowance value," which is essentially a subsidy when compared to the value of purchased or freely distributed allowances.

The State supports EOR activities in Alaska, especially on the North Slope. This activity produces multiple benefits. Sequestration of CO₂ in a known, well-defined hydrocarbon reservoir and trap is inherently safer than in those that are less defined. Furthermore, increased production due to EOR will lengthen oil field life. Since a gas pipeline from the North Slope is economically dependent on the oil field facilities, increasing oil field life improves the economics of a gas pipeline. Gas, as a fuel source, is more environmentally friendly than other carbon fuel sources.

The costs of CCS on the North Slope may still be prohibitive, however, even with a boost from these allowances and incentives through carbon costs. Costs have been found to be significantly higher for CCS on the North Slope than the averages published for the Lower 48, primarily due to the North Slope's location and weather. The State supports inclusion of provisions that account for greater expenses in high-cost locations in order to make CCS economically feasible in these areas.

Ensuring Real Reductions in Industrial Emissions. (Sec. 141)

"Definitions; Eligible Industrial Sectors." (CAA Sec. 762, 763)

- Foreign Competition for Domestic Refineries. These sections protect certain manufacturing industries from "off-shoring" and foreign competition, but specifically exclude domestic refineries. The State believes domestic refineries should be protected as well.

Title II – Program Allocations

State and Local Investment in Energy Efficiency and Renewable Energy. (Sec. 202)

- Allocation Formula. The allocation method in this section unfairly disadvantages Alaska. While 30 percent of the allowances are granted to states on an equal basis, 30 percent is allocated based on population and another 40 percent is allocated based on state energy consumption as a share of total domestic consumption. By these standards, Alaska would receive fewer allowances than almost any other state. This proposal is unfair to Alaska because the state has more heating degree days and thus Alaskans use more energy on average than residents of other states, costs are highest in rural Alaska where incomes are typically lowest, and switching to other fuel sources is not possible or cost effective in most cases for rural Alaskans. The State would support an increased percentage distributed equally among states, measuring energy consumption per capita rather than as a share of total consumption, or allocating some allowances based on energy costs as a share of per capita income using Census data.

- **Indian Tribes.** In addition, the State supports Section 202, which provides for the distribution of allowances to Indian tribes, which may benefit some rural areas of Alaska.

Additional Issues:

Domestic Production. The State believes S. 1733 should be modified to expand access and incentives for responsible domestic onshore and offshore oil and gas exploration and production. The U.S. Department of Energy's recent forecast for growth in the energy sectors shows demand for fossil energy continuing to increase in the nation, and to remain above 80 percent of the total portfolio of energy supply through 2030 and beyond. Therefore, it is clear that fossil fuels will be needed as a bridging fuel in the coming decades, and access to domestic production, and specifically clean-burning natural gas, is imperative. Increased domestic production, carbon mitigation, expanded development of renewables, and long-term nuclear energy planning is the only viable path to a secure energy future.

OMB Funding Criteria. The State believes the Office of Management and Budget should be tasked with developing common criteria federal agencies can use to prioritize funding to state and local governments and tribes for infrastructure and other projects addressing climate change vulnerabilities. Existing funding criteria may not be appropriate for this purpose. For example, in sparsely populated but more vulnerable areas like western Alaska, federal assistance may be withheld despite great vulnerability if the primary criterion for funding is the number of people or the dollar value of infrastructure at risk.

EPA Limitation Provision. S. 1733 does not include important language related to the Environmental Protection Agency that appeared in H.R. 2454. The House bill contains language preventing the EPA from requiring performance standards on stationary sources under the federal cap. The State feels limitation language like that in the House bill should be included in S. 1733 and that EPA officials should not set climate change policy.

Adaptation Priorities. The State has identified the following as high priorities and areas of need with respect to adaptation:

- **Changing Risks.** The State supports collaboration between the states, federal agencies, and academia to challenge traditional assumptions on weather and climate. This effort should focus on data collection and analysis, forecasting models, hydrology, flood plains and inundation, coastal and riverine erosion, critical infrastructure, and related topics.
- **Community Profile.** The State believes the initial focus and study on adaptation should be on Alaskan coastal and riverine communities. These communities are currently threatened due to climate change and cannot relocate without extreme disruption and costs.
- **Evacuation Routes.** The State seeks federal assistance in identifying, designing, constructing, and maintaining all-weather evacuation routes from endangered communities to safe havens from approaching storms.
- **Safe Havens.** The State seeks federal assistance in selecting and equipping safe havens near the endangered communities, with full consideration of the hydrology, geology, and current and more accurate digital mapping. These safe havens should be outfitted with sufficient housing, water and fuel sources, and communications capabilities.

- Shoreline Protection and Stabilization. The State supports a program of shoreline protection and stabilization and considers such projects as the most effective means of protecting against the sudden onslaught of storms.
- Science, Analysis, and Informed Decisions. The State calls for creating and sustaining a program of coordinated, collaborative scientific examination and study of the Arctic climate and environment.
- Other Key Areas. Alaska's needs will also encompass other key areas such as consequences to natural resources, national security, infrastructure, emergency response capacity, etc., resulting from climate change impacts due to diminishing Arctic sea ice and from ocean acidification.