

HB 280
“Cook Inlet Recovery Act”
Sectional Analysis (version S)
Prepared by Representative Mike Hawker's Office

- Section 1:** Sets out a short title for the legislation: Cook Inlet Recovery Act (CIRA).
- Section 2:** Establishes an application process, criteria and timeline for the Alaska Oil and Gas Conservation Commission (AOGCC) to certify that a gas storage facility (GSF) meets the minimum working gas storage capacity and daily delivery rate requirements to be eligible for the financial incentives provided in this bill.
- Requires the owner of a GSF to notify the AOGCC if the storage facility ceases operation.
- Provides definitions for terms used in CIRA.
- Section 3:** Requires the Director of the Division of Mining, Land and Water to give priority to and expedite “when reasonably possible” any applications, permits and lease assignments needed for development and operation of a GSF.
- Section 4:** Directs the Department of Natural Resources (DNR) to waive any state land lease fees or rents for the first 10 years of a GSF’s operation. The waiver would stop if the storage facility ceases commercial operations.
- States that any waivers of lease fees or rents would be public record.
- Requires that the GSF pass on the financial benefits of any lease exemption to utilities that use its service.
- Clarifies that any gas withdrawn from a GSF is considered to be non-native gas and is not subject to royalty until all non-native gas is withdrawn.
- Section 5:** Directs the Regulatory Commission of Alaska (RCA), when considering the approval of a gas supply contract, to consider the impact on consumers if the commission rejects a utility’s gas supply contract, and to recognize the value of a utility holding a diversified portfolio of gas supply contracts with different pricing mechanisms in order to protect consumers from inadequate gas supplies and the risk of a single pricing mechanism.
- Section 6:** Requires that a utility’s cost of gas storage reflect the financial benefits of any tax credits and state lease exemptions provided in this legislation.
- Section 7:** Specifies that the Regulatory Commission of Alaska has jurisdiction over natural gas storage services provided for gas that is owned by a regulated utility.
- Section 8:** Clarifies that the names of taxpayers, the amount of credits issued for gas storage facilities under this legislation, and how much, if any, of the credit was sold to the state is public information. Requires the Department of Revenue (DOR) to furnish the information to the RCA.

- Section 9:** Establishes a credit against corporate income taxes of \$1.50 per thousand cubic feet of new gas storage capacity opened in Alaska during 2011-2015. The credit is limited to \$30 million per GSF. This section sets out minimum capacity and deliverability requirements to qualify for the credit, including that the GSF must be available for use by regulated utilities and, if utilizing state land, must have a DNR storage lease. The credit can be transferred or sold to another taxpayer, or sold to the state at full value if the owner does not have enough taxable income to fully utilize the credit.
- Section 10:** Sunsets on Jan. 1, 2011, the rule that limits how certain tax credits arising from activity in Cook Inlet or from producing gas for in-state use are used. This would allow a Cook Inlet explorer or producer to explore or produce elsewhere in the state and have full access to the credits it earned from its Cook Inlet activities.
- Section 11:** Clarifies that any native gas in a gas storage facility shall be deemed not to be produced for production tax purposes until all of the non-native gas injected into the storage facility has been withdrawn.
- Section 12:** Allows explorers in Cook Inlet to receive their full production tax credit in the first year, rather than over two years (as in current statute).
- Section 13:** Makes additional statutory changes to allow explorers in Cook Inlet to receive their full production tax credit in the first year, rather than over two years (as in current statute).
- Section 14:** Adds the new one-year Cook Inlet-related well tax credits to the section in statute dealing with audits of transferred tax credits.
- Section 15:** Provides a 40% credit for exploration expenses in Cook Inlet against production taxes, rather than the two-tiered 30% / 40% credit in existing statute. Non-capital well-related lease expenditures in Cook Inlet also qualify for the credit.
- Section 16:** Allows the state to use funds from the oil and gas tax credit fund to purchase tax credits issued to a GSF.
- Section 17:** Makes additional changes to make it easier to purchase Cook Inlet exploration credits. Current law requires that before a company can sell credits back to the state it must prove it has spent an amount equal to the credit in Alaska. HB 280 would eliminate that requirement for Cook Inlet exploration credits.
- Section 18:** Authorizes the Department of Revenue to write regulations implementing certain aspects of Section 17.
- Section 19:** Directs the Office of Public Advocacy for regulatory affairs at the Department of Law, when considering whether to participate in a utility rate case regarding a gas supply contract before the RCA, to consider the impact to consumers if the commission rejects a utility's gas supply contract, and to recognize the value of a utility holding a diversified portfolio of gas supply contracts with different pricing

mechanisms in order to protect consumers from inadequate gas supplies and the risk of a single pricing mechanism.

Section 20: Immediate effective date clause.