

HB 280

Cook Inlet Recovery Act (CIRA) - Overview

Prepared by Representative Mike Hawker's Office

CIRA provides a statutory framework and financial incentives for developing large-scale natural gas storage facilities and also makes changes to Cook Inlet exploration tax credits to encourage exploration and development of new gas discoveries.

Gas Storage Facilities

- ◇ Incentives include:
 - ◆ Land lease and fee exemption for 10 years
 - ◆ NEW income tax credit
 - Credit is based on capacity, certified by AOGCC: \$1.50/1,000 cubic feet (cf) of working storage capacity
 - Maximum credit is \$30 million per facility
 - Transferable and can be sold back to the state
 - ◆ Expedited/priority processing of applications by DNR, when reasonably possible
- ◇ Incentives apply to gas storage facility that meets minimum capacity and delivery requirements, certified by AOGCC:
 - ◆ Minimum Working Storage Capacity: 500 million cf
 - ◆ Minimum Daily Delivery Capacity: 10 million cf
- ◇ Incentives are available for gas storage facilities that commence operations between Jan. 1, 2011, and Dec. 31, 2015
- ◇ All financial benefits and the names of those receiving the benefits are public information
- ◇ All financial benefits must be passed on to utilities, which then pass on to consumers
- ◇ All financial benefits stop when a project ceases operation
- ◇ CIRA also mandates RCA regulation of gas storage facilities that hold gas owned by regulated utilities.

Gas Exploration in Cook Inlet

- ◇ Changes to existing credits:
 - ◆ Allows 100% of credits earned by explorers in the Cook Inlet to be used elsewhere in the state; current statute generally limits those credits to be applied only to actual taxes paid on Cook Inlet production
 - ◆ Allows the full amount of the credit to be used in the year issued; current statute allows only half of the credit to be used in one year
 - ◆ Provides a 40% credit for exploration within Cook Inlet; current statute contains a variable (30% or 40%) credit based on the proximity of the exploration to an existing well

HB 280 Overview (cont.)

Definitions

Gas storage facility: A depleted or nearly depleted reservoir, aboveground tank, pipeline or other structure used to store natural gas produced offsite and delivered to the storage facility to hold until needed. The owner of the gas — a utility, for example — would inject gas into the facility and would pay the facility operator for storage service.

Working gas storage capacity: The maximum amount of natural gas the storage facility could safely hold for its storage customers.

Cushion gas (also known as pad gas): The volume of gas that must be maintained in the storage facility to provide adequate pressure for operations. The storage operator, not the storage customers, would own the cushion gas.

Native gas: In the case of a nearly depleted reservoir, native gas is the natural gas that exists in the reservoir at the time it is developed for use as a storage facility. Native gas is used as cushion gas to maintain pressurization. If all of the non-native working gas that was injected for storage is withdrawn and native gas is eventually produced, state tax and royalty would be assessed.

Non-native working gas: Natural gas that is produced from another reservoir and delivered to the storage facility and held until needed. For example, a utility could purchase gas from a Cook Inlet producer and have it delivered to the storage facility for safekeeping until the utility needs the gas to meet customer demand. At that point, the utility would instruct the gas storage operator to deliver the quantity of gas required. The utility, not the storage operator, would own the gas in storage. State tax and royalty would be assessed on the non-native working gas when it is first produced and sold to the utility; no additional taxes or royalties would be due when it is withdrawn from storage for delivery to the utility.

HB 280 Overview (cont.)

FAQs

1. What are the minimum requirements for a gas storage facility (GSF) to qualify for financial incentives in the Cook Inlet Recovery Act? Who determines if a GSF meets these requirements?

In order to qualify for the financial incentives in CIRA, a GSF must have the capacity to store more than 500 million cubic feet of working gas and deliver gas at a rate of at least 10 million cubic feet per day. The Alaska Oil and Gas Conservation Commission (AOGCC) will be required to certify these capacities within six months of receiving an application and provide the certification to the applicant, the Department of Natural Resources and the Department of Revenue.

2. What happens if the GSF stops operating?

A GSF ceases operations if it doesn't inject or withdraw at least 10 million cubic feet of gas in a calendar year. The operator is required to notify the AOGCC by April 1st of the following year. If this happens, the GSF will no longer be eligible for state lease fees exemptions or tax credits.

3. Sections 4 and 11 of the bill state that gas withdrawn from a GSF is considered to be non-native gas and not considered to be produced until all non-native gas has been withdrawn. What does this mean and why do we need this language?

This language requires that state follow last-in, first-out accounting rules for gas in a GSF. "Native gas" is any gas that is already in a storage facility and will be subject to existing royalty and production taxes when it is produced. "Non-native gas" includes all gas that is injected into the facility for temporary storage - royalty and production taxes were assessed when it was produced. By including this language, it is clear that non-native gas extracted from a GSF is not taxed twice and native gas is not subject to royalty and production taxes until all non-native gas is withdrawn.

4. Gas storage companies are receiving lease exemptions and tax breaks under CIRA. Are these savings passed on to the consumer?

Yes. Language in sections 4, 6 and 9 require the owner of a GSF to reflect the savings of any financial benefits enacted in CIRA in their gas storage price.