

HOUSE FINANCE COMMITTEE
May 01, 2002
1:55 P.M.

TAPE HFC 02 - 100, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:55 P.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Representative Lisa Murkowski; Heather Brakes, Staff, Senator Gene Therriault; Annette Kreitzer, Staff, Senator Loren Leman; Darwin Peterson, Staff, Senator John Torgerson; Pat Davidson, Director, Division of Legislative Audit; Catherine Reardon, Director, Division of Occupational Licensing, Department of Community and Economic Development; Pat Carter, Manager of Land and Government Affairs, Union Oil Company of California (Unocal) Alaska, Anchorage; Eric Yould, Executive Director, Alaska Rural Electric Cooperative Association (ARECA), Anchorage; John Barnett, Executive Director, State Board of Storage Tank Assistance, Anchorage

PRESENT VIA TELECONFERENCE

Gary Weber, Underground Tank Association, Mat-Su; John Tanigawa, Special Projects Manager, Evergreen Resources Alaska Corporation, Anchorage; Mark Meyer, Director, Division of Oil and Gas, Department of Natural Resources, Anchorage

SUMMARY

SB 115 An Act extending the termination date of the Board of Storage Tank Assistance.

SB 115 was reported out of Committee with a "do pass" recommendation and with fiscal note #2 by the Department of Environmental Conservation.

SB 153 An Act replacing the storage tank assistance fund with the underground storage tank revolving loan fund and relating to that revolving loan fund; repealing the tank cleanup program and the tank upgrading and closure program; and providing for an effective date.

CS SB 153 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #2 by the Department of Environmental Conservation.

SB 243 An Act extending the termination date of the Board of Chiropractic Examiners; and relating to chiropractors.

CS SB 243 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Community & Economic Development.

SB 319 An Act relating to shallow natural gas leasing; and providing for an effective date.

CS SB 319 (FIN) was HEARD and HELD in Committee for further consideration.

HB 225 An Act relating to municipal taxation of alcoholic beverages and increasing the alcoholic beverage tax rates.

HB 225 was HEARD and HELD in Committee for further consideration.

#SB115

SENATE BILL NO. 115

An Act extending the termination date of the Board of Storage Tank Assistance.

HEATHER BRAKES, STAFF, SENATOR GENE THERRIAULT, stated that under AS 46.03.360, the State Board of Storage Tank Assistance plays an integral role in promoting compliance throughout the State of Alaska with State and federal regulations related to installation and operation specifications for underground storage tanks as well as during the cleanup process when leaks and spills occur. By doing so, the Board is instrumental in safeguarding underground drinking water supplies from pollution and therefore protecting the public's health.

Ms. Brakes pointed out that the Board membership is prescribed by statute and seats seven members. The board is charged with:

- Adopting regulations used by the Department of Environmental Conservation in determining which costs are eligible for financial assistance;
- Adopting regulations to be used by the Department to prioritize applications for financial assistance;
- Approving regulations specifying allowable technologies for testing, containment and cleanup, or corrective action prior to being adopted by the department; and
- Reviewing regulations proposed by the Department that set a standard for the level of containment that is allowed to remain in soil or groundwater after cleanup of a release from or associated with an underground storage tank.

Ms. Brakes continued, the board has the authority to settle disputes for financial assistance and may issue decisions that are binding on the owner, operator, and Department of Environmental Conservation. The board is also tasked with mediating disputes between owners, operators and the Department in regard to cleanup plans. In addition, the board may also hear disputes and grievances relating to delays or requirements associated with cleanup decisions

issued by the Department of Environmental Conservation.

Ms. Brakes advised that the State Board of Storage Tank Assistance was set to expire June 30, 2001 under AS 44.66.010(18), Legislative Oversight. If the Legislature does not act to extend the Board, it will have until June 30, 2002 to administratively conclude its affairs. SB 115 extends the Board for two years until June 30, 2003.

JOHN BARNETT, EXECUTIVE DIRECTOR, STATE BOARD OF STORAGE TANK ASSISTANCE, ANCHORAGE, offered to answer questions of the Committee.

GARY WEBER, (TESTIFIED VIA TELECONFERENCE), UNDERGROUND TANK ASSOCIATION, MAT-SU, testified in support of the legislation.

Representative Croft asked if the State was already in a "wind-down" as it would expire June 2001. He asked why it did not expire in 2003 or forward in 2006.

PAT DAVIDSON, DIRECTOR, DIVISION OF LEGISLATIVE BUDGET AND AUDIT, explained that the Division of Legislative Audit recommended a two-year extension because of a change in the financing which could impact how long the board should exist. It looks like the Board will be needed for additional two years.

Representative Foster MOVED to report SB 115 out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 115 was reported out of Committee with a "do pass" recommendation and with fiscal note #2 by the Department of Environmental Conservation.

#SB153

CS FOR SENATE BILL NO. 153 (FIN)

An Act replacing the storage tank assistance fund with the underground storage tank revolving loan fund and relating to that revolving loan fund; repealing the tank cleanup program and the tank upgrading and closure program; and providing for an effective date.

ANNETTE KREITZER, STAFF, SENATOR LOREN LEMAN, testified in support of CS SB 153 (FIN). She noted that the owners of underground storage tanks had until December 22, 1998, to either upgrade or close their underground storage tanks in response to a nationwide concern over possible contamination of drinking water from leaking underground storage tanks.

The Alaska Legislature responded to the federal mandate by offering grants and loans to owners of underground storage tanks to help offset the costs of the new requirements. To date, \$38.9 million dollars has been appropriated for the upgrade, closure and cleanup grants and loans for underground storage tanks. She noted that all the applications for grant assistance under the Upgrade, Closure and Cleanup programs were in. There can be no new applicants. The Department and the Board of Storage Tank Assistance has ranked the applicants according to the changes made by SB 128.

Ms. Kreitzer pointed out that CS SB 153 (FIN) ends the upgrade and closure grant program by June 30, 2002, and the tank cleanup grant program by June 30, 2004, after nearly \$49 million dollars in assistance to the underground storage tank owners. The legislation would retain the cleanup loan program and changes it to a revolving loan program.

Ms. Kreitzer added that the revolving loan program retains the current test of self-insurance, which guarantees assistance to the "mom & pop" companies that the grants and loans were intended to assist, rather than larger companies.

Ms. Kreitzer advised that the balance in the storage tank assistance fund on the effective date of the bill could be transferred to the revolving loan fund. The capitalization, with all repayments of principal and interest on the loans, income earned on money in the fund and money appropriated to the fund, would support the revolving loan fund.

Ms. Kreitzer provided a highlight of the sectional analysis and effective date of each section.

Representative Croft questioned the large drop from \$3 million to \$35 thousand dollars. He inquired if that meant

the State had been providing grants to corporations who should not have been receiving them.

Ms. Kreitzer responded that would have been the case, however, through the regulations, the Department of Environmental Conservation was able to begin the grant giving process only to the "mom and pop" gas station owners.

Representative Croft pointed out that there was a zero fiscal note attached because now the State was changing from a grant and loan program to a low interest zero note.

Ms. Kreitzer interjected that there are two programs. One is a zero interest loan and the other is 4% interest rate for a \$25,000 loan. She recommended that Mr. Barnett clarify the information.

JOHN BARNETT, EXECUTIVE DIRECTOR, STATE BOARD OF STORAGE TANK ASSISTANCE, ANCHORAGE, explained that there are two loan packages within the existing program. One is 10% of the total cost to a maximum of \$25,000 dollars. Those loans are provided at a zero percent interest. The other program is a loan program and is one half point above the discounted rate. Those loans are issued for a maximum of \$250,000 dollars for clean-up.

Mr. Barnett applauded the sponsor for the bill and noted that it was supported fully by the board. He explained what the bill would accomplish:

- It would finalize the grant program and wrap it up.
- It would establish criteria to prevent larger companies from taking advantage of the new revolving loan program by setting some standards that would prevent large-scale, small corporations from obtaining low interest loans. He pointed out that there are about 51 companies looking for loans.
- It would provide an opportunity for a funding source for the board of storage tank assistance to actually come out of the revolving loan fund as opposed to other funding sources.

Ms. Kreitzer addressed the fiscal note. She pointed out that it would pay for the costs from storage tank assistance out of the revolving loan fund. The fiscal

note, which accompanies SB 115, would need to be resolved in Conference Committee, should SB 153 pass.

GARY WEBER, (TESTIFIED VIA TELECONFERENCE), UNDERGROUND TANK ASSOCIATION, MAT-SU, testified in support of the legislation.

Representative Foster MOVED to report CS SB 153 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 153 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #2 by the Department of Environmental Conservation.

#SB243

CS FOR SENATE BILL NO. 243 (FIN)

An Act extending the termination date of the Board of Chiropractic Examiners; and relating to chiropractors.

HEATHER BRAKES, STAFF, SENATOR GENE THERRIALT, explained that under AS 08.20.010, the State Board of Chiropractic Examiners regulates qualified professionals by ensuring that the requirements laid out for licensure are met and adhered to. The Board was established in 1949 and currently regulates 208 chiropractors in the State of Alaska.

Ms. Brakes noted that the Board consists of five members appointed by the Governor. Four members shall be licensed chiropractic physicians who have practiced in Alaska for no less than two years. The fifth member shall be a person with no direct financial interest in the health care industry.

Ms. Brakes added that the regulation and licensing of qualified chiropractors continues to safeguard the public by promoting competence and integrity of those individuals who represent themselves as chiropractors to the public. The Board continues to accomplish that by establishing standards for licensed professionals and monitoring the manner in which they practice.

The State Board of Chiropractic Examiners is set to expire June 30, 2002 under AS 08.03.0 10, "Termination of State

Boards and Commissions". If the Legislature does not act to extend the Board, they will have one year, until June 30, 2003, to administratively conclude those affairs. SB 243 would extend the Board for another four years and restore the Board's statutory authority to license by credentials.

Representative Foster MOVED to report CS SB 243 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 243 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Community & Economic Development.

#SB319

CS FOR SENATE BILL NO. 319 (FIN)

An Act relating to shallow natural gas; and providing for an effective date.

Co-Chair Williams noted it was not his intent to move SB 319 from Committee at this date.

DARWIN PETERSON, STAFF, SEANTOR JOHN TORGERSON, explained that shallow gas leasing was originally proposed as a program that would enable exploration and production of shallow natural gas deposits. One of the features of the program is to encourage a new energy supply to villages, mines, and other rural users. The program is fully operational with over 100 leases processed and nearly 200 more pending. The program has become a vehicle for commercial gas development in Fairbanks, Big Delta, Matsu Valley, and the lower Kenai Peninsula. He stated that SB 319 was intended to advance the program into a more robust and viable commercial program.

Mr. Peterson noted that because the program has become more commercial in nature, increasing revenues from application fees and annual rental fees would be appropriate. The program involves neither competitive bidding nor requires bonus bids. However, application fees for shallow gas leases have been increased from \$500 to \$5,000 dollars and annual rental fees have been increased from \$0.50 to \$1 dollar per acre. The increased fees are designed to increase revenue and pay for the program costs, while at

the same time, not discouraging parties of genuine interest and ability from developing shallow natural gas resources.

Mr. Peterson pointed out that the requirement that Department of Natural Resources annually notify a lessee by certified mail of rental due has been deleted. Rent would automatically be due on the date determined by the lease. Deadlines have proven to be unworkable and do not recognize the work required by the Department to prepare leases in areas that are populated and may have complex land ownership patterns.

The limitation on depth to 3,000 feet has been replaced with the requirement that some portion of the field must be within 3,000 feet of the surface. The total amount of acreage that may be held by shallow natural gas lessees has been increased from 46,080 acres to an aggregate of 100,000 acres. The acreage increase reflects the fact that large acreage may be necessary to a shallow gas program.

Mr. Peterson added that the requirement that the applicant conduct a title search would be removed. The Department routinely conducts a title search for land before leases are issued. Additionally, there are no title companies who will conduct a thorough title search of the subsurface estate and warranty title. The changes will improve reservoir management and increase the value to the lessee and the State.

Mr. Peterson concluded that the new bonding provisions would demonstrate lessees are fiscally responsible and would help protect surface owners. The lessee must secure the bond as a precondition to obtaining the lease. In the event that the surface estate is owned by a private party, an additional bond may be required if the lessee and the private party cannot reach an agreement. Lessees will have from July 1, 2002 through September 30, 2002 to convert leases from the existing program to the new program.

Representative Whitaker asked how many committees did the bill pass through.

Mr. Peterson replied that SB 319 has passed through two committees in the Senate and so far, two in the House. There were changes in Resources Committee. The field aggregate was changed from 100,000 acres to 138,240 acres, the size of six townships. Another change was made to Page

3, section 4, clarifying that if the lease payment is not received by the due date, the director would mail the leasee one written notice before the lease would be terminated.

Representative Whitaker asked if there had been previous opposition voiced to the bill.

Mr. Peterson replied that there has not been any opposition to the bill. The industry and the Administration are in favor of it. He added that the sponsor is opposed to any further amendments.

Co-Chair Mulder asked how many anticipated shallow gas projects would be coming on line and producing benefit throughout the communities.

Mr. Peterson responded that there are none at this time, however, there continues to be interest expressed.

MARK MEYER, (TESTIFIED VIA TELECONFERENCE), DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, ANCHORAGE, noted that the Administration supports the bill. He added that the changes are important to understanding that natural gas has high commercial potential in Alaska. The terms will bring revenue to the State. He added that there are more than a million acres involved either under lease or filed for in the Fairbanks and Mat-valley areas.

Mr. Meyer added that the program has been run in the highly populated areas of the State where there is a significant market for natural gas. The program needs to be run for commercial operators that need a fairly substantial site and scale of operation to become commercially viable. He recommended that there should be a deeper level of federal management.

Mr. Meyer recognized that because the program is being operated in higher density areas, there is more surface conflict. The program is considered an "over the counter filing" and is the only oil and gas program like it in the State. He agreed that the protection of the bonding was a good idea. The larger acreage is needed for the large-scale commercial production of open methane. He added that there have been four test wells drilled in the State and that the operators are still learning how to drill coal beds. The technology is favorable for the program to get

the natural gas to the residential communities throughout Alaska.

Mr. Meyer concluded that the Department strongly supports the bill and that the economic value of increased revenue from the \$5000 dollar filing fee is supportable. It also means that the program could pay for the administrative costs. If the gas were to be used for rural consumption, it would have a lower royalty rate. The program is balanced and allows for professional management of the State's resources. It would bring a revenue position to the State Treasury.

Representative Foster asked about the acreage involved with the fifty leases.

Mr. Meyer explained that the million acres were in the old program. The Department made an assumption that a certain percentage of the leases would be converted from the old program to the new program. That way there would be the \$4500 dollar per lease gained under the new program. The Department did not factor in the rental amount. The primary justification of the number is the \$4500 dollar differential on the conversion of the leases.

JOHN TANIGAWA, (TESTIFIED VIA TELECONFERENCE), SPECIAL PROJECT MANAGER, EVERGREEN RESOURCES ALASKA CORPORATION, ANCHORAGE, stated that currently, his company has 46,080 acres of shallow gas lease applications located near Willow. He testified in support of SB 319.

Mr. Tanigawa commented that SB 319 would remove obstacles to exploring and developing shallow natural gas. These types of activities require at least 100,000 acres or roughly 4 townships to establish the necessary economies of scale for initial development. Due to the challenges of operating in an arctic environment, however, increasing the acreage limitation to 138,240 acres or 6 townships would increase economic viability of shallow natural gas development.

Evergreen Resources strongly supports increasing the depth limitation to one that relies on science and geology for the specific play. He added that the program is the primary reason Evergreen stays in Alaska. The changes proposed in the bill would provide the necessary latitude to operate in an economically sound and environmentally

safe manner.

Mr. Tanigawa acknowledged that the Division of Oil and Gas has collaborated with them and other stakeholders. He added that his business is an excellent example of how the State and the Industry can work together to the benefit government, industry and the public.

PAT CARTER, MANAGER OF LAND AND GOVERNMENT AFFAIRS, UNION OIL COMPANY OF CALIFORNIA (UNOCAL) ALASKA, ANCHORAGE, noted that he was before the Committee representing Unocal on behalf of Kevin A. Tabler.

Mr. Carter noted that Unocal was actively involved in an aggressive gas exploration program in the Cook Inlet area and is supportive of legislation addressing gas exploration. He added that the shallow gas leasing augments the existing area-wide leasing programs and enhances access and development of the State's natural gas resources.

Mr. Carter reiterated that Unocal of Alaska is supportive of the program and other leasing programs throughout the State providing reasonable access to mineral wealth. SB 319 currently provides for better administration, flexibility and clarification of the shallow gas leasing program and that it is in the best interest for the State of Alaska

ERIC YOULD, EXECUTIVE DIRECTOR, ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION (ARECA), ANCHORAGE, voiced support for the proposed changes. He noted ARECA has a serious interest in keeping the costs of electricity low in rural Alaska. When the shallow gas legislation was passed in 1996, ARECA was a strong supporter of HB 394. The focus of that legislation was to provide an alternative energy resource for rural Alaska. He pointed out that the resource is being developed more in the urban areas. He acknowledged that was appropriate and should be, however, voiced concern that some of the measures are making it less economically feasible for development in small communities, for which the program was envisioned.

Mr. Yould suggested that for communities and villages of 5,000 or less, the commercial terms should remain as they are in existing statute. He suggested an amendment that the filing fee be increased from \$500 per applicant to

\$5,000 dollars for those places with over 5,000 residents and for the small communities, the filing fee should remain at \$500 dollars.

Mr. Yould pointed out that the proposal for a lease fee acreage base was to be increased from \$.50 cents per acre to \$1 dollar per acre. He asked that the lease rate of \$.50 cents be maintained for the smaller communities of less than 5,000.

Mr. Yould noted that he not yet testified in any other committees because of other commitments. He apologized to the bill sponsor. He stressed that it is important to maintain the integrity and the economic feasibility of the program. He noted that there had been a suggestion that the permitting time line, before the sponsoring agency, be unrestricted.

Co-Chair Mulder asked how many projects in the rural communities had taken advantage of the proposal.

Mr. Yould replied that at present time, none had taken advantage of it. The reason for that is because of the high costs for hole drilling in rural Alaska, which averages nearly \$1 million dollars per hole. No community has the economic ability to come up with that amount of money. There is an improved technology that is coming, a micro drilling, which hopefully can bring the costs down. Additionally, technology is not currently available to fully utilize the natural gas that already exists, which is a technology in fuel cells.

Co-Chair Mulder suggested that this could open a "big fight" for something that is not yet happening. He noted that the amendment would then only exclude Anchorage, Fairbanks and Juneau.

Mr. Yould understood that the sponsor was concerned about that and that was why he was recommending \$5,000 dollars rather than \$10,000 dollars.

Co-Chair Mulder pointed out that the proposed changes were coming forward late in the process.

Mr. Yould apologized and offered to work with the sponsor.

CS SB 319 (FIN) was HELD in Committee for further consideration.

#HB225

HOUSE BILL NO. 225

An Act relating to municipal taxation of alcoholic beverages and increasing the alcoholic beverage tax rates.

Vice-Chair Bunde MOVED to bring HB 225 back to the table.

Representative Whitaker OBJECTED.

AT-EASE: 2:35 P.M.

RECONVENE: 3:07 P.M.

HB 225 was HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:07 P.M.