

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 1, 2005  
1:05 p.m.

**MEMBERS PRESENT**

Representative Jay Ramras, Co-Chair  
Representative Ralph Samuels, Co-Chair  
Representative Jim Elkins  
Representative Carl Gatto  
Representative Gabrielle LeDoux  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Harry Crawford

**MEMBERS ABSENT**

Representative Mary Kapsner

**COMMITTEE CALENDAR**

HOUSE JOINT RESOLUTION NO. 16

Opposing the designation of any area in the state as a world heritage site, biosphere reserve, or any other type of international designation without the consent of the Alaska State Legislature.

- MOVED CSHJR 16 (RES) OUT OF COMMITTEE

HOUSE BILL NO. 174

"An Act relating to commercial fishing permit and vessel license fees; and providing for an effective date."

- MOVED CSHB 174 (RES) OUT OF COMMITTEE

HOUSE BILL NO. 142

"An Act relating to regulation of underground injection under the federal Safe Drinking Water Act; and providing for an effective date."

- MOVED HB 142 OUT OF COMMITTEE

HOUSE BILL NO. 71

"An Act relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas

produced from a lease or property in the state; relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 16

SHORT TITLE: OPPOSE UN LAND DESIGNATIONS IN ALASKA

SPONSOR(s): REPRESENTATIVE(s) ELKINS

|          |     |                                   |
|----------|-----|-----------------------------------|
| 03/14/05 | (H) | READ THE FIRST TIME - REFERRALS   |
| 03/14/05 | (H) | RES                               |
| 03/30/05 | (H) | RES AT 1:00 PM SENATE FINANCE 532 |
| 03/30/05 | (H) | Heard & Held                      |
| 03/30/05 | (H) | MINUTE(RES)                       |
| 04/01/05 | (H) | RES AT 1:00 PM CAPITOL 124        |

BILL: HB 174

SHORT TITLE: FISHING PERMIT AND VESSEL LICENSE FEES

SPONSOR(s): REPRESENTATIVE(s) SAMUELS

|          |     |                                      |
|----------|-----|--------------------------------------|
| 02/24/05 | (H) | READ THE FIRST TIME - REFERRALS      |
| 02/24/05 | (H) | FSH, RES, FIN                        |
| 03/23/05 | (H) | FSH AT 8:30 AM CAPITOL 124           |
| 03/23/05 | (H) | Moved CSHB 174(FSH) Out of Committee |
| 03/23/05 | (H) | MINUTE(FSH)                          |
| 03/29/05 | (H) | FSH RPT CS(FSH) 3DP 3NR              |
| 03/29/05 | (H) | DP: ELKINS, LEDOUX, THOMAS;          |
| 03/29/05 | (H) | NR: WILSON, KAPSNER, SALMON          |
| 03/30/05 | (H) | RES AT 1:00 PM SENATE FINANCE 532    |
| 03/30/05 | (H) | Scheduled But Not Heard              |
| 04/01/05 | (H) | RES AT 1:00 PM CAPITOL 124           |

BILL: HB 142

SHORT TITLE: OIL & GAS: REG. OF UNDERGROUND INJECTION

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

|          |     |                                 |
|----------|-----|---------------------------------|
| 02/14/05 | (H) | READ THE FIRST TIME - REFERRALS |
| 02/14/05 | (H) | O&G, RES, FIN                   |
| 03/15/05 | (H) | O&G AT 5:00 PM CAPITOL 124      |
| 03/15/05 | (H) | Moved Out of Committee          |
| 03/15/05 | (H) | MINUTE(O&G)                     |

03/16/05 (H) O&G RPT 3DP 3NR  
03/16/05 (H) DP: GARDNER, ROKEBERG, KOHRING;  
03/16/05 (H) NR: SAMUELS, KERTTULA, DAHLSTROM  
04/01/05 (H) RES AT 1:00 PM CAPITOL 124

#### **WITNESS REGISTER**

JIM VAN HORN, Staff  
to Representative Jim Elkins  
Alaska State Legislature  
Juneau, Alaska  
POSITION STATEMENT: Presented HJR 16 on behalf of Representative Elkins, sponsor.

HENRY WEBB, Staff  
to Representative Ralph Samuels  
Alaska State Legislature  
Juneau, Alaska  
POSITION STATEMENT: Presented HB 174 on behalf of Representative Samuels, sponsor.

FRANK HOMAN, Commissioner  
Commercial Fisheries Entry Commission (CFEC)  
Alaska Department of Fish & Game  
Juneau, Alaska  
POSITION STATEMENT: Answered questions regarding HB 174.

DAN SEAMOUNT, Commissioner,  
Alaska Oil and Gas Conservation Commission (AOGCC)  
Anchorage, Alaska  
POSITION STATEMENT: Testified in support of HB 142.

#### **ACTION NARRATIVE**

**CO-CHAIR JAY RAMRAS** called the House Resources Standing Committee meeting to order at [1:05:07 PM](#). Representatives Ramras, Elkins, LeDoux, Crawford, Samuels, Seaton, and Olson were present at the call to order. Representative Gatto arrived while the meeting was in progress.  
HJR 16-OPPOSE UN LAND DESIGNATIONS IN ALASKA

CO-CHAIR RAMRAS announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 16, Opposing the designation of any area in the state as a world heritage site, biosphere reserve, or any other type of international designation without the consent of the Alaska State Legislature.

CO-CHAIR SAMUELS moved to adopt the committee substitute (CS) HJR 16, labeled 24-LS0748\G, as a work draft. There being no objection, it was so ordered.

[1:05:50 PM](#)

JIM VAN HORN, Staff to Representative Jim Elkins, Alaska State Legislature, said that the committee substitute (CS) for HJR 16 added language to request that local governments also give consent prior to the designation of a world heritage site by the United Nations.

[1:07:34 PM](#)

REPRESENTATIVE ELKINS moved to report HJR 16 as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHJR 16(RES) was reported out of the House Resources Standing Committee.

HB 174-FISHING PERMIT AND VESSEL LICENSE FEES

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CO-CHAIR SAMUELS announced that the next order of business would be HOUSE BILL NO. 174 "An Act relating to commercial fishing permit and vessel license fees; and providing for an effective date."

REPRESENTATIVE OLSON moved to adopt CSHB 174(RES), labeled 24-LS0676\F, Utermohle, 3/29/05, as a work draft.

The committee took an at-ease from 1:09 p.m. to 1:10 p.m.

[1:10:19 PM](#)

CO-CHAIR SAMUELS said the state was involved in litigation, the Carlson case, which forbade it from charging nonresident fishermen three times the fee charged to residents. Under current law, four tenths of one percent of the value of the fishery is divided up and charged to the permit holder, he said. It is now capped at \$300, and the Commercial Fisheries Entry Commission (CFEC) is not getting adequately funded. He explained that the original bill had no cap, but in the current committee substitute (CS) there is a \$3,000 cap. The CS also slightly increases the license fee on a vessel, dependent on length, he said.

HENRY WEBB, Staff to Representative Ralph Samuels, Alaska State Legislature, said the CS changes the original bill in two ways. It creates a cap of \$3,000 for an entry permit. The vessel fees in the original bill had a compounding \$15 increase, but in the CS, the fees go up 20 percent across the board for all classes of vessels.

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MR. WEBB said the vessel fees have been in place for ten years, so annually it is a two percent increase per year.

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FRANK HOMAN, Commissioner, Commercial Fisheries Entry Commission (CFEC), said the Carlson case, the consolidation of fisheries, and reduced permit values have created a trend of decreasing revenues to the CFEC. There are no general funds in the CFEC, and it has obligations to the fishermen's fund and the Division of Commercial Fisheries in the Alaska Department of Fish & Game. The CFEC predicts staff layoffs or general fund requests, he said. He added that this is a good opportunity to increase revenue, but there will still likely be a downward trend. He predicted HB 174 will cover costs for another seven years.

MR. HOMAN said the current \$300 cap is artificial, and the CS would raise it to \$3,000. He said high-value fisheries will be paying their proportional share of the fees. The statute says that the fee should reflect the economic return of the fishery, he added. He also noted that there is a number plate required for vessels, and the CFEC charges \$2, but it costs \$7 to make the plate. There is a spreadsheet in the committee packet showing the revenue generated by the legislation, he said.

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REPRESENTATIVE SEATON expressed concern about equity, because the cap only affects the highest value fisheries who will be paying proportionally less than the smaller inshore fisheries.

MR. HOMAN said the original bill had no cap, and "there was some concern expressed about a no-cap that the commissions would be able to charge the maximum ... where it would actually fall. I think there were some concerns by some of the fisheries that that could be unlimited." The cap at \$3,000 only affects the highest value fisheries, but all those below it will be paying their proportional share.

REPRESENTATIVE SEATON said it is not truly proportional because of the cap, because a "very wealthy fishery" won't pay its proportion and the burden will be shifted to the less-profitable fisheries. He noted the growing trend and possibility of consolidation of fisheries, which means fewer vessels. So the cap could extremely depress the amount of revenue, he said.

MR. HOMAN said that is a correct assessment, and that is why he considers the downward trend will continued.

CO-CHAIR SAMUELS said he had a balancing act, and he could argue either way for or against the cap. The cap won't cause a big loss in revenue because there will be higher fees from boat length. He said he wants to make the process go forward, and nobody wants the legislation killed.

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CO-CHAIR SAMUELS said Representative Thomas was comfortable. "We have done our juggling," he added.

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REPRESENTATIVE LEDOUX asked how many boats will be over the new cap.

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MR. HOMAN said out of 21,000 vessels, 265 will be affected by the cap.

REPRESENTATIVE LEDOUX asked what the additional revenue would be without the cap.

MR. HOMAN guessed approximately \$200,000.

CO-CHAIR SAMUELS noted that they will also pay more in the vessel licensure.

MR. HOMAN said the original fiscal note was \$2.3 million, and now it is about \$1.9 million.

REPRESENTATIVE LEDOUX asked if Mr. Homan was still working with boats that may be in a "higher end fishery, but in a different location, for example, boats that fish around Kodiak aren't charged the same as boats that fish out at the Bering Sea."

MR. HOMAN said the bill will simply lift the cap, but by regulation the CFEC will establish a new fee structure. It will be a public process, he said. With a \$300 cap, many vessels were in the same category, and now larger vessels will pay more.

REPRESENTATIVE LEDOUX asked if there is justification for eliminating the cap for the small percentage of very, very affluent vessels.

MR. HOMAN said the \$3,000 cap was put on after discussion and "a lot of give and take." It was a balance, he said.

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REPRESENTATIVE SEATON said the larger vessels are going from \$750 to \$900, so it doesn't seem like a good balance to try to recoup the money lost by the cap for only a \$150 vessel fee. He said he is glad that the commission is looking at the vessel sizes. He suggested a per foot rate instead of broad categories. A 76-foot vessel will pay the same as a 149-foot vessel, even though there is "hugely different fishing power."

MR. HOMAN said there could be different ways to do it, and said the CFEC does not have any ability to change it; the vessel fees are in statute. He said the CFEC did not come up with the vessel lengths. The lengths went into statute "some years ago." It would take time to make the statutory change, he added.

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REPRESENTATIVE SEATON said, "We are making a statutory change, and it seems like we've got this inequity," of 76-foot vessels in the same category as 150-foot vessels. It would be more equitable and consistent to tax by size, for example, \$20/foot.

MR. HOMAN said the vessel license fee is the smaller part of the bill and the permit fee is where the money will come in relation to the economic return of the fishery. He said the original license fee was to just make sure any vessel operating in Alaska was licensed. It hasn't been the major contributor of the revenue, he added.

REPRESENTATIVE SEATON said it may not be a major contributor to the revenue, but it is a "major grouse among fishermen." He repeated that it might be more appropriate to tax vessels on a per foot length.

CO-CHAIR SAMUELS said not today.

REPRESENTATIVE SEATON said he understands but he wants the bill drafters to consider it.

MR. HOMAN said, "We could look at that."

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REPRESENTATIVE ELKINS moved to report CSHB 174(RES) out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE SEATON objected for discussion. He said he has a problem with the cap when the industry is becoming more consolidated. He stated that the "scallop fishery is now all being taken by three vessels--it may all be taken by one vessel because the person doesn't have to be on board." Restructuring now makes it legal to do an entire fishery with one boat, and the total recovery will only be \$3,000, he noted. With the cap, "we are setting ourselves up" to repeat this restructuring, so why not do it now, he said. He then removed his objection.

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There being no objection, CSHB 174(RES) moved out of the House Resources Standing Committee.

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HB 142-OIL & GAS: REG. OF UNDERGROUND INJECTION

CO-CHAIR SAMUELS announced that the next order of business would be HOUSE BILL NO. 142 "An Act relating to regulation of underground injection under the federal Safe Drinking Water Act; and providing for an effective date."

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DAN SEAMOUNT, Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), said HB 142 gives the state the authority over a very small number of waste disposal wells from the Environmental Protection Agency (EPA), which will probably save money and time for the state, federal government, and industry.

MR. SEAMOUNT said there is redundancy and confusion between the industry and agencies. There are two agencies regulating the same kind of wells, he said. Much time is spent deciding what kind of waste goes down which wells. "The AOGCC regulates what goes on underneath the ground," he said, and the most important mandate is protecting underground fresh water. The state currently oversees the Class 2 program. There are five classes he said, "but basically the best place to put oil field waste is deep underground near where it has been produced."

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MR. SEAMOUNT said injection wells enhance oil recovery and generates billions of dollars to the state. Alaska's statute gives the state authority over Class 2 wells. The bill gives the state control over Class 1 wells.

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MR. SEAMOUNT said two agencies are now protecting a non-existent resource--underground fresh water. The North Slope has no underground fresh water, he said. After the bill passes, the AOGCC would like to do away with Class 1 wells. He added that EPA supports this effort and is trying to come up with an ingenious way to give partial primacy to the state.

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MR. SEAMOUNT said there are five classes of wells created under the federal Safe Drinking Water Act. Wastes are injected below freshwater aquifers for Class 1 wells, the state has primacy for Class 2 wells, there are no Class 3 wells in Alaska, Class 4 wells are outlawed, and Class 5 wells are the most numerous in Alaska, and they take any waste that doesn't fit in the other classes of wells, and most are septic systems. He said there are 1,150 Class 2 wells and only seven Class 1 wells in Alaska.

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MR. SEAMOUNT noted that over 98 percent of injected materials go into Class 2 wells. The biggest problem is the confusion by operators of what is allowed in the wells, and they deal with two agencies, which is a waste of time. Mr. Seamount said they should all be Class 2 wells, but EPA does not agree with that.

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MR. SEAMOUNT said there would not be any waste for Class 1 wells were it not for the North Slope infrastructure, and AOGCC believes that means they all qualify for Class 2 wells. He said often the same type of fluids go down different wells. Sometimes the wells are right next to each other, and the fluids end up in the same zone, he added.

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MR. SEAMOUNT said the current system protects a non-existent resource and is inefficient. He stated that the AOGCC is faster than EPA because EPA staff have to be sent from Seattle.

CO-CHAIR SAMUELS asked about EPA's position.

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MR. SEAMOUNT said EPA is supportive. He explained that Class 1 and 2 wells are the same construction, but Class 2 wells are deeper so they are better for the environment. "There really isn't much difference at all between them," he said. He noted that it costs \$1 more per barrel to operate a Class 1 well.

MR. SEAMOUNT pointed out the options: "We can conduct business as usual, which means that we don't have to put any more effort into this initiative, but we're going to continue with the same confusion, same cost to taxpayer and industry, two agencies are going to be doing the same work." He said he doesn't think it is anybody's preference to continue that same way.

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MR. SEAMOUNT said HB 142 would allow AOGCC to try to obtain primacy of Class 1 and 2 wells. In the long run, AOGCC sees only one class of wells on the North Slope--Class 2 wells overseen by the state--but not until this bill is passed and there is a favorable ruling by EPA.

REPRESENTATIVE LEDOUX asked about the EPA ruling.

MR. SEAMOUNT said there is a four-person task force with EPA to figure out how to make the change.

REPRESENTATIVE LEDOUX asked if the task force is already in place, why is there a need for the legislation.

MR. SEAMOUNT said the state would need language in statute to legally take over the program.

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MR. SEAMOUNT said if EPA does not agree, the bill will not be needed.

REPRESENTATIVE LEDOUX asked about waiting for the EPA to approve the change, and then ask for legislative approval.

MR. SEAMOUNT answered that the AOGCC is trying to be prepared.

REPRESENTATIVE OLSON asked the view of the North Slope Borough.

MR. SEAMOUNT said he didn't know.

REPRESENTATIVE GATTO asked where the North Slope gets drinking water.

MR. SEAMOUNT said from surface water.

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REPRESENTATIVE GATTO asked about surface contamination on top of permafrost.

MR. SEAMOUNT said he thinks there is minimal surface contamination through disposal operations.

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REPRESENTATIVE ELKINS moved to report HB 142 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 142 was passed out of the House Resources Standing Committee.

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 1:58 p.m.

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