

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 19, 2006

1:14 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Gabrielle LeDoux

**COMMITTEE CALENDAR**

HOUSE BILL NO. 501

"An Act relating to the possession of horns or antlers of big game animals."

- HEARD AND HELD

HOUSE BILL NO. 378

"An Act designating a representative of Chilkat Snowburners, Inc. as an ex officio member of the Alaska Chilkat Bald Eagle Preserve Advisory Council and removing the mayor of the City of Haines as an ex officio member of the council."

- MOVED CSHB 378(RES) OUT OF COMMITTEE

HOUSE BILL NO. 498

"An Act authorizing tax credits against the production tax on oil and gas for qualified expenditures for challenged or nonconventional oil or gas and for qualified expenditures for nonconventional or renewable energy resources; giving the Act contingent effect; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 306

"An Act making certain land available for selection by the Matanuska-Susitna Borough."

- MOVED CSHB 306(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 501

SHORT TITLE: POSSESSION OF BIG GAME HORNS OR ANTLERS

SPONSOR(s): RESOURCES

04/12/06 (H) READ THE FIRST TIME - REFERRALS  
04/12/06 (H) RES  
04/19/06 (H) RES AT 1:00 PM CAPITOL 124

BILL: HB 378

SHORT TITLE: CHILKAT BALD EAGLE PRESERVE ADV COUNCIL

SPONSOR(s): REPRESENTATIVE(s) THOMAS

01/18/06 (H) READ THE FIRST TIME - REFERRALS  
01/18/06 (H) CRA, RES  
02/09/06 (H) CRA AT 8:00 AM CAPITOL 124  
02/09/06 (H) Moved CSHB 378(CRA) Out of Committee  
02/09/06 (H) MINUTE(CRA)  
02/10/06 (H) CRA RPT CS(CRA) NT 2DP 4NR 1AM  
02/10/06 (H) DP: NEUMAN, THOMAS;  
02/10/06 (H) NR: CISSNA, KOTT, SALMON, OLSON;  
02/10/06 (H) AM: LEDOUX  
04/19/06 (H) RES AT 1:00 PM CAPITOL 124

BILL: HB 498

SHORT TITLE: TAX CREDITS NONCONVENTIONAL OIL/GAS

SPONSOR(s): RULES

04/03/06 (H) READ THE FIRST TIME - REFERRALS  
04/03/06 (H) O&G, RES, FIN  
04/11/06 (H) O&G AT 8:00 AM CAPITOL 120  
04/11/06 (H) Moved Out of Committee  
04/11/06 (H) MINUTE(O&G)  
04/12/06 (H) O&G RPT 2DP 1NR 3AM  
04/12/06 (H) DP: ROKEBERG, KOHRING;  
04/12/06 (H) NR: SAMUELS  
04/12/06 (H) AM: GUTTENBERG, DAHLSTROM, MCGUIRE  
04/12/06 (H) LETTER OF INTENT WITH O&G REPORT  
(FORTHCOMING)  
04/19/06 (H) RES AT 1:00 PM CAPITOL 124

BILL: HB 306

SHORT TITLE: CONVEY HATCHER PASS TO MAT-SU BOROUGH

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

05/07/05 (H) READ THE FIRST TIME - REFERRALS  
05/07/05 (H) RES, FIN  
04/19/06 (H) RES AT 1:00 PM CAPITOL 124

**WITNESS REGISTER**

ROD ARNO

Alaska Outdoor Council

Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 501 and HB 306.

KACI SCHROEDER-HOTCH, Staff

to Representative Bill Thomas

Alaska State Legislature

POSITION STATEMENT: Presented HB 378 on behalf of Representative Thomas, sponsor.

JERRY LEWANSKI, Director

Division of Parks & Outdoor Recreation

Department of Natural Resources

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 378.

REPRESENTATIVE NORMAN ROKEBERG

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 498 as sponsor.

BRIAN WENZEL, Vice President

for Finance and Administration

ConocoPhillips Alaska, Inc. (Conoco)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 498.

JEFF SPENCER, Supervisor,

Heavy Oil Development

ConocoPhillips Alaska, Inc.

POSITION STATEMENT: Testified in support of HB 498.

REPRESENTATIVE BILL STOLTZE

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented HB 306 as sponsor.

RON SWANSON, Director  
Community Development

Matanuska-Susitna Borough

POSITION STATEMENT: Testified in support of HB 306.

JOHN DUFFY, Manager

Matanuska-Susitna Borough

Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 306.

DAVID GERMER, Project Manager

Hatcher Pass Project

JL Properties

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 306.

RICK THOMPSON, Acting Deputy Director

Division of Mining, Land, and Water

Department of Natural Resources

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 306.

ROBYNN WILSON, Director

Tax Division

Department of Revenue

Anchorage, Alaska

POSITION STATEMENT: Answered questions regarding HB 498.

#### **ACTION NARRATIVE**

**CO-CHAIR RALPH SAMUELS** called the House Resources Standing Committee meeting to order at [1:14:54 PM](#). Representatives Samuels, Ramras, Elkins, Olson, Kapsner, Gatto, and Crawford were present at the call to order. Representative Seaton arrived as the meeting was in progress.

#### HB 501-POSSESSION OF BIG GAME HORNS OR ANTLERS

CO-CHAIR SAMUELS announced that the first order of business would be HOUSE BILL NO. 501, "An Act relating to the possession of horns or antlers of big game animals."

CO-CHAIR SAMUELS said HB 501 is the exact bill passed out of committee "within that last couple of weeks," and it is now a House Resources Standing Committee bill.

ROD ARNO, Alaska Outdoor Council, said his board has voted to oppose the bill. "We're concerned of lowering the bar on the amount of meat harvested at any time." He said current statute is the "way to go" if it is enforced.

CO-CHAIR SAMUELS asked what he meant by lowering the bar.

MR. ARNO said, "That is exactly what it does because under wanton waste of big game animals, now, it's the entire weight of the meat; there is no ability for the Board of Game to come up with a lowering of the amount of the salvageable meat that would be necessary."

[1:16:36 PM](#)

[HB 501 was heard and held.]

HB 378-CHILKAT BALD EAGLE PRESERVE ADV COUNCIL

CO-CHAIR SAMUELS announced that the next order of business would be HOUSE BILL NO. 378, "An Act designating a representative of Chilkat Snowburners, Inc. as an ex officio member of the Alaska Chilkat Bald Eagle Preserve Advisory Council and removing the mayor of the City of Haines as an ex officio member of the council."

KACI SCHROEDER-HOTCH, Staff to Representative Bill Thomas, Alaska State Legislature, presented HB 378 on behalf of Representative Thomas, sponsor. She relayed that the Alaska Chilkat Bald Eagle Preserve, located along the Haines Highway, was created in 1982 to protect the world's largest concentration of bald eagles. The preserve is also home to several species of salmon and other wildlife. She said in order to protect the preserve, a 12-seat advisory council was created, one of the seats being designated to the mayor of the City of Haines. However the Borough of Haines and the City of Haines have consolidated, and there is no longer a mayor, thus the seat is vacant. The proposed legislation would designate that seat to a member of the [Haines] Borough Assembly selected by the assembly. She said she is referring to Version S of the bill.

The committee took an at-ease from [1:18:31 PM](#) to [1:20:56 PM](#).

CO-CHAIR RAMRAS moved to adopt the proposed committee substitute (CS) for HB 378, Version 24-LS1486\S, Kane, 4/19/06, as a

working document. There being no objection, Version S was before the committee.

JERRY LEWANSKI, Director, Division of Parks and Outdoor Recreation, Department of Natural Resources, stated his support of HB 378. He said he considers the legislation a housekeeping bill to keep management of that [council] "intact and whole."

[1:22:20 PM](#)

REPRESENTATIVE KAPSNER moved to report CSHB 378, Version 24-LS1486\S, Kane, 4/19/06, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, [CSHB 378(RES)] was reported out of the House Resources Standing Committee.

HB 498-TAX CREDITS NONCONVENTIONAL OIL/GAS

CO-CHAIR SAMUELS announced that the next order of business would be HOUSE BILL NO. 498, "An Act authorizing tax credits against the production tax on oil and gas for qualified expenditures for challenged or nonconventional oil or gas and for qualified expenditures for nonconventional or renewable energy resources; giving the Act contingent effect; and providing for an effective date."

CO-CHAIR RAMRAS moved to adopt committee substitute (CS) HB 498, labeled 24-LS1817\I, Chenoweth, 4/18/06, as a working document. Hearing no objections Version I was before the committee.

REPRESENTATIVE NORMAN ROKEBERG, Alaska State Legislature, presented HB 498 as sponsor. He said heavy oil will receive a 15 percent tax credit on top of the 20 percent credit given to the industry in the proposed HB 488. He said HB 498 also gives the Alaska oil industry a 25 percent tax credit for the development of alternate energy. He has worked on [heavy oil] issues for over a decade. Alaska has over 20 billion barrels of heavy oil, and the potential for maintaining production on the North Slope is dependent on the industry's ability to develop it. He said the motive for the bill is to offset the oil production tax rate contemplated by the legislature.

[1:26:34 PM](#)

REPRESENTATIVE ROKEBERG said there are policy issues in the legislation. He drew the committee's attention to page 3 regarding research of challenged oil and if it should be called

a qualified capital expenditure. If the research was underdone in Houston, but it related to Alaska's oil, the question is whether that cost should be allowed.

[1:28:33 PM](#)

REPRESENTATIVE ROKEBERG said the definition of heavy oil in the bill is 25 API gravity for areas to the north. The viscous oil is shallow and thicker, he stated, but there is debate as to an appropriate measure. He asked the drafter to go below the standard to 18 API or less in some areas of the state. He suggested the bill either maintains that gravity standard or just identifies the formations that would get the credit.

CO-CHAIR SAMUELS said ConocoPhillips Alaska, Inc. and BP are present and can discuss the techniques and definitions.

REPRESENTATIVE ROKEBERG pointed out that page 5 indicates the Ugnu formation or West Sac formations—or a formation that is similar. There has been a discussion between the industry and the Division of Oil and Gas that naming the formations instead of naming the gravity standard is "another way to go." He said enhanced recovery methodologies were in the original bill, and it may be redundant, and it might be able to be deleted from his bill. His opinion is that anything that is related to the development of heavy oil should be a qualified capital expense.

[1:32:09 PM](#)

REPRESENTATIVE CRAWFORD asked what Representative Rokeberg's reasoning was for the section about renewable [energy].

REPRESENTATIVE ROKEBERG said there has been a dearth of funding "to move out in this area." He said he made a judgment call to get funding from the private sector to jumpstart some of these projects, because that's been the biggest problem. The funding for these projects should be limited to petroleum producers. He said the producers are trying to look kinder and "greener," so "they could put up and shut up and move forward on it."

[1:34:35 PM](#)

CO-CHAIR SAMUELS noted that only the oil producers would be eligible for alternative energy money.

REPRESENTATIVE ROKEBERG said yes; it is not meant for general application.

[1:35:22 PM](#)

BRIAN WENZEL, Vice President, Finance and Administration, ConocoPhillips Alaska, Inc., thanked the committee for helping with this and for looking at it this late in the session. It will only work, however, with the right fiscal structure.

JEFF SPENCER, Supervisor, Heavy Oil Development, ConocoPhillips Alaska, Inc., said the North Slope has large heavy-oil resources sitting above the light oil reservoirs of Prudhoe Bay and Kuparuk. The five fields where viscous oil is predominantly found are West Sac, Kuparuk, Schrader Bluff at Milne Point, Orion, and Polaris. He estimates that there are 23 to 24 billion barrels of heavy oil on the North Slope split between the West Sac Schrader Bluff formation and the Ugnu formation. He said there are approximately 16 billion barrels of oil in Conoco's Kuparuk River Unit.

[1:39:15 PM](#)

CO-CHAIR SAMUELS asked if it is true that certain areas are only heavy oil. "If we give you a credit for drilling to 5,000 feet, do you use the same drill rig and the same costs...to go down further, but now we're giving you a higher credit on something you've got," or is West Sac all heavy oil?

MR. SPENCER said West Sac oil is heavy.

CO-CHAIR SAMUELS asked him to consider giving a credit based on the weight of the oil versus basing it on the geography and the methods of development.

MR. SPENCER said heavy oil is below the permafrost in shallow reservoirs with low reservoir temperature. The low temperatures result in high viscosity. The oil must go through small pores in the rocks, giving low rates of recovery. He showed a net pay map that extends north into the BP-operated Milne Point area and east into Prudhoe Bay satellites. The West Sak reservoir was a pilot project in the early 1980s and development started in the 1990s. Vertical wells were used first and by 2004, long multilateral wells were used to access heavy oil. There are about 80 wells making 16,000 barrels a day in West Sac, he said.

[1:43:05 PM](#)

MR. SPENCER said the company has to operate under North Slope conditions, the reservoirs are geologically complex, and the oil is viscous. He said the company tries to protect the environment. Because the viscous oil is at shallow depths and under permafrost, they are unconsolidated and have low temperatures. It is difficult to produce and harder to separate once it gets to the surface.

CO-CHAIR SAMUELS asked how much more it costs.

MR. SPENCER said it ranges from two to six times higher, depending on the reservoir, for direct lease operating costs.

REPRESENTATIVE SEATON asked the production costs at Kuparuk.

MR. SPENCER said he doesn't know the lift operating costs, so he can't comment on the exact value.

REPRESENTATIVE SEATON wants a range. "Are we talking about ten bucks?" He surmised it won't be a multiple.

The committee took an at-ease from 1:46 p.m. to [1:47:40 PM](#).

MR. SPENCER said he doesn't know.

MR. WENZEL said he will try to see what he can disclose.

[1:48:20 PM](#)

MR. SPENCER said many heavy oil fields would be idle if not for the rapid advances in horizontal drilling and multilateral technology in the last several years. He noted that a well estimated to cost \$8 million actually cost Conoco \$12 million.

REPRESENTATIVE GATTO asked about oil that is too heavy to flow. "That stuff on top of Prudhoe."

MR. SPENCER said that would have to be mined, like tar sands.

REPRESENTATIVE ROKEBERG said the bill is structured to include tar sands and tar mats. He said there is a distinction based on depth and gravity in the bill now. He spoke about oil in Alberta where a dump truck picks it up.

REPRESENTATIVE GATTO said he knew that but wondered "if we went beyond that." The stuff on top of Prudhoe Bay is not technologically available at this time, he surmised.

[1:51:56 PM](#)

MR. SPENCER asked what reservoir he is speaking of.

REPRESENTATIVE GATTO he said, "There's Prudhoe Bay and then higher, there's" oil in a solid form that doesn't flow.

MR. SPENCER said he doesn't know what formation he is talking about. He said the Ugnu oils can be in the range of 8 to 12 degrees API. Less than 10 is considered to be bitumen. He showed a slide of the le and j developments. He said limits were pushed on the lj development, and noted there are longer wells in the world, but not multilateral wells. A 90 degree turn increases the complexity, he said.

CO-CHAIR SAMUELS asked if that technology is used for light oil.

[1:54:32 PM](#)

MR. SPENCER said the company uses the same type of directional drilling at Alpine; the rock is more competent and deeper and easier to drill. He added that longer-reach wells used around the world are drilled with large rigs, but to reduce its footprint on the North Slope, Conoco doesn't use them.

REPRESENTATIVE SEATON said shallow natural gas uses directional drilling, and he asked if it is the same technology.

[1:55:49 PM](#)

MR. SPENCER said the oil industry is global, and technologies developed in one area are used elsewhere.

REPRESENTATIVE ROKEBERG asked what the production was from the pads where spider drilling is used.

MR. SPENCER said Conoco's average well is 400 barrels per day, and some trilateral wells produce 1,500 to 2,000 barrels a day. He showed the Alaska extended-reach drilling envelop, which "is not only the length out from the surface location that creates that difficulty in drilling a well, it's also how deep it is." He said the aspect ratio is the horizontal displacement divided by the vertical depth. A well 12,000 feet out at a depth of 4,000 feet would have a 3:1 ratio, and as that ratio increases there are more frictional forces. Prior to 1990, there were no wells in Alaska with over a 2:1 aspect.

[1:58:32 PM](#)

REPRESENTATIVE GATTO asked the aspect with big rigs outside of Alaska.

MR. SPENCER said he thinks it may be a 7:1 ratio but without 90 degree turns.

REPRESENTATIVE GATTO said technology changes, and he surmised that in ten years, the aspect may be higher in Alaska.

MR. SPENCER said, "We currently are at the limit." He said the industry will try to push the limit, but physics will prevail. A trilateral producer is three horizontal wells drilled into three different sands. "In a-sands we sometime undulate between the two sands, if there's enough sand there that we think is profitable to dip into, and it saves us from having to drill a quad-lateral," he said. From 1998 to 2004, everything in well-design and development plans changed, including going to multilateral wells, increasing the reach, recovery mechanisms, sand control, well-spacing, and production [indeciph.] programs.

CO-CHAIR SAMUELS asked if Conoco has been successful in decreasing costs by implementing those changes.

MR. SPENCER said, "The jury is still out" for some changes.

[2:02:16 PM](#)

CO-CHAIR SAMUELS asked if Conoco has changed the methods for the recovery of oil other than heavy oil.

MR. SPENCER said the trend is for horizontal wells, whether for heavy oil or not. He said Alpine is the first field in the world that was drilled completely with horizontal wells.

CO-CHAIR RAMRAS asked where else in the world is Conoco doing heavy oil extraction.

MR. SPENCER answered, "Venezuela, Canada, China, Russia."

CO-CHAIR RAMRAS said a constituent asked why not leave the oil alone and wait until it is less expensive to extract it.

MR. SPENCER said the more oil that is produced, the cheaper it will be to the consumer. "If you leave more oil in the ground,

that's reducing the supply, so then, therefore, the price would go up." He said there is infrastructure on the North Slope at a fixed cost, but production is declining. He noted that the Trans-Alaska Pipeline System was built for 2 million barrels of oil a day, and it is down to 1 million barrels.

[2:05:24 PM](#)

CO-CHAIR RAMRAS said the question is more specific to the cost of extraction.

MR. WENZEL said it is a policy call of the legislature to decide on extracting oil. If Alaska doesn't need to stem production decline, that would be an option; but "we would not recommend it." He said there are charts showing a dramatic decline in production and Alaska's revenues have only been saved because of the high price of oil. The high prices are the only reason Alaska has sufficient oil-related tax revenues.

MR. SPENCER said, "There's also no guarantee it will get cheaper in the future with new technology."

REPRESENTATIVE SEATON said if it is the same technology and production of heavy oil is up to 2,000 barrels a day, where is this cost that requires the additional 15 percent credit? He asked if it is the gas lift-back, which is being done on light oil fields. He asked for the difference in the economics.

[2:08:54 PM](#)

MR. SPENCER said there is lower recovery from a heavy oil field, for example Prudhoe Bay and Alpine are getting 50 percent recovery and West Sac may be providing a 15 to 20 percent recovery. He said Ugnu, "if we develop it at all," will be more like 5 to 8 percent recovery. So it is less efficient, he said.

[2:09:52 PM](#)

REPRESENTATIVE SEATON noted it would be dependent on field size. A large field of heavy oil at 20 percent recovery may produce more oil than a small field with a 50 percent recovery.

MR. SPENCER said that could be the case. A company might have to drill more wells to get the same amount of heavy oil out. He showed a slide of horizontal displacement, which is technologically complex. Once the well is drilled and brought to the surface, there are difficulties. He said the water from

"cpfl" contains more oil and requires more heat and chemicals to separate. But if that is not bad enough, viscous crude plucks out solids and brings them to the surface and must be separated out, he stated.

CO-CHAIR SAMUELS asked if that had to be done for light oil.

MR. SPENCER said the frequency is higher for heavy oil. The equipment has been installed just since West Sak was produced, he stated. It increases wear on the equipment, he added.

[2:13:29 PM](#)

MR. SPENCER said Conoco has to operate under geologically complex arctic conditions with viscous oil and a lower product price. The West Sak development has been confined to the core "sweet spot," which encompasses sites 1b, 1c, 1d, 1e, and 1j.

CO-CHAIR SAMUELS asked if seismic information provides the viscosity level of the oil before the well is drilled.

[2:14:47 PM](#)

MR. SPENCER said the company has an idea based on offset wells and depths of the reservoirs, but it will not know until it "gets the bits to it."

CO-CHAIR SAMUELS asked if DNR can access the information. How will the state know if it is not heavy oil once Conoco drills?

MR. SPENCER said he doesn't know if the state has access to that information, but heavy oil cannot be determined from seismic data.

CO-CHAIR SAMUELS asked if heavy oil needs a different type of well. He asked if Conoco will use different equipment if heavy oil is suspected.

[2:17:19 PM](#)

MR. SPENCER said the same drilling rig is used, but there is a tool called the "NDT" that works for light oil but "not so good" for heavy oil. An additional step is needed to get the same data that could be gotten in a light oil reservoir, he added.

MR. SPENCER said the well is planned, but it may be modified depending on if it is heavy or light oil. An exploratory well

has an extensive data gathering log to try to determine the various formations, he told the committee.

REPRESENTATIVE SEATON surmised that an exploratory well has data no matter what kind of oil is being targeted.

MR. SPENCER said he doesn't understand the question. He said the company did appraisal wells for the West Sac reservoir, and it got cores, logs, and fluid samples to evaluate the potential. It can be variable between fault blocks, he noted, and the oil within a fault can be different or it could be water. Information is needed before developing it. Conoco would like to continue developing the eastern West Sac area, and the strategy is to develop the easy oil first. With a stable fiscal environment and improved technology, Conoco would like to move forward with developments on the northeastern West Sac area, a series of projects that could be more than \$1 billion and could be developed in the next five to seven years. Conoco would also like to develop the shallow Ugnu if it ever becomes economic.

[2:21:41 PM](#)

MR. SPENCER said he hopes Conoco can move forward in these projects because the size of the prize is so large. "Even if we're successful in pushing the limits on technology to develop the "news" area, which at this point we envision essentially just expanding current technology even beyond what it's currently capable of doing. It still leaves a substantial target for the future. The western West Sac and Ugnu resources will certainly take new technology development and modifications to existing technology to allow development...in our unique operating conditions on the slope."

REPRESENTATIVE GATTO said he has read that it is uneconomical to operate less than 300,000 barrels per day through the pipeline at which point the industry would quit producing, "but that's Prudhoe Bay oil, which we call light oil." He asked if heavy oil would require more than 300,000 barrels. "What is going to be the motivation for pushing for heavy, if indeed, we don't have enough to push through the pipeline?"

[2:23:43 PM](#)

MR. SPENCER said he doesn't know what the threshold is for TAPS being economic for heavy oil, but it will become uneconomic sooner without the heavy oil, he stated.

REPRESENTATIVE GATTO said if that is the only oil [on the North Slope], it may not be worth it. Perhaps the mix of heavy and light oil will move better through the pipeline, he surmised.

MR. SPENCER said heavy oil development would be good for everyone. He summarized his presentation.

[2:26:37 PM](#)

The committee took an at-ease from 2:27 p.m. to [2:27:45 PM](#).

CO-CHAIR SAMUELS said [credit for] research and development concerns him. He asked if Conoco has patents on techniques. "If we're going to pay for something that's used around the world, I want to know who else is paying for it." It will be difficult to audit research and development credits, he stated.

MR. WENZEL said his company is open with sharing technology with competitors, "so I don't know that there's a lot of patent activity going on." He said he understands the concern of the state on how much to fund Conoco's research, but this research will get done somewhere by someone, and it will get shared. He said, "Alaska should be on the leading edge of that." He said the language in HB 498 is broader than just research and development, it is also feasibility studies and development of heavy oil projects to the point of commercialization. Conoco has a research center in the lower 48, "where a lot of our blue sky R&D is done." He said, "In recent years we actually started allocating those costs out to upstream and downstream just at a very high level, even though it's blue sky." It gets allocated out to force the regions to recognize the value of the research.

[2:30:40 PM](#)

MR. WENZEL said the DOR can see what projects should be included and how they relate to the North Slope. He said:

We do have the ability, if we identify a project up here, we don't want to develop what we think is going to be new technology. We need some real help. We can go to our technology services group, commission a project, there will be a scope, it will get approved, it'll have a finite scope, as I say, that can then be checked against what we actually expend. And so, yes, there could be costs in that sense coming out of the lower 48, which would be very definitely related to a project here in Alaska, which I know, as this is

drafted right now, it's out of state it would be covered, but I guess my point is that I think you can overcome maybe some of your fears about R&D expenditures by focusing on ... approved projects. Again recognize that a lot of this resource is a known resource, it's in an area that's already covered by joint ventures, where we're going to have partners who have to approve this, it's not going to be just ConocoPhillips coming up with a bunch of expenditures on R&D that we're going to sneak in here and get credits for through Alaska, rather it's going to be approved by our partners, who again, are going to provide a very high level of scrutiny and diligence to that process.

[2:32:09 PM](#)

[HB 498 was taken up later in this meeting.]

HB 306-CONVEY HATCHER PASS TO MAT-SU BOROUGH

CO-CHAIR RAMRAS announced that the next order of business would be HOUSE BILL NO. 306, "An Act making certain land available for selection by the Matanuska-Susitna Borough."

CO-CHAIR SAMUELS moved to adopt the committee substitute (CS) HB 306, labeled 24-LS0907/F, Bullock, as a working document. Hearing no objection, Version F was before the committee.

[2:35:23 PM](#)

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, said he introduced HB 306 at the request of the Matanuska-Susitna Borough regarding "the ski and resort development project that the borough has been advancing for a number of years." It is not without criticism, including his own, he stated. The area became a public-use area in the 1970s with broad community support. He noted that he wanted to make changes to the bill to include setbacks from the river and to require a public vote. He said he is the facilitator, and the advocates for the borough and the developers will speak with more passion than he has. The project has been talked about "for a number of years."

[2:38:22 PM](#)

RON SWANSON, Director, Community Development, Matanuska-Susitna Borough, said the bill would make 200 acres available under the

municipal land entitlement, which has not been fulfilled from the promise made by the legislature back in 1979. This 200-acre piece is important to economic development, he opined. The land transfer is consistent with the Municipal Land Act, but it is a public-use area, so it takes action by the legislature. The public-use area is 5,200 acres and was established for recreation, fish and wildlife, and water quality protection. The area follows the Susitna River from the Hatcher Pass area to its headwaters. The Matanuska Moose Range is to the east.

[2:41:06 PM](#)

MR. SWANSON said the Hatcher Pass Management Plan was amended in 1989 to provide for a ski area and residential and commercial development. A lease was issued to a Japanese firm and it included the land in HB 306. The state turned over the development to the borough, which has assumed complete management and ownership for the lease. He said he wants to make sure Hatcher Pass is developed in a way to protect the environment and the public-use area "even if it is excluded from the area." He said the borough is in the final stages of adopting a special land use district, which will include setbacks of at least 200 feet from the [Little] Susitna River—a goal of Representative Stoltze. He said the borough has been doing water monitoring to establish baseline information. The special use area was developed by a wide variety of citizens, and full public participation will continue. A master plan will be developed by the developer and then be approved by several entities, he explained. There are strict development guidelines including densities. Open areas and greenbelts are included, he noted. The legislation states that the transfer of the land will be subject to the Hatcher Pass Management Plan. All current protections, other than the development, will continue, he said. The alpine ski area will be located in the northern portion of the Hatcher Pass area. The housing development has been moved away from the river to the Nordic ski area, which will be a world-class facility, he stated.

[2:45:16 PM](#)

MR. SWANSON said, "This piece is very key to the development in that...it will be actually the gateway to the southern portion of Hatcher Pass." Other access points don't provide the same visual impact, and billboards "will never happen." The bill will consolidate management to just the borough. He said the borough will continue to manage the Hatcher Pass area with the

Department of Natural Resources, but for development, it is difficult to work with a variety of entities.

REPRESENTATIVE SEATON asked about the land remaining under the Hatcher Pass designation, which he doesn't see in the bill.

[2:47:42 PM](#)

MR. SWANSON said the conveyance of the land would require it to be consistent with the Hatcher Pass Management Plan throughout. He said he supports that, and it goes farther with more restrictive zoning in certain ways.

REPRESENTATIVE GATTO asked about the southern boundary.

MR. SWANSON referred him to a map showing the Nordic and residences in the southern portion and the alpine area to the north without residences but with an Alyeska-type operation.

[2:50:10 PM](#)

JOHN DUFFY, Manager, Matanuska-Susitna Borough, said the borough supports HB 306, as written, because it provides lands for development and a Hatcher Pass ski area. The project fulfills municipal entitlement for economic development, diversification of the tax base, and recreational opportunities. Electrical power has been installed, and the project will provide a return on those investments, he stated. He said the borough has completed an economic analysis showing 360 jobs provided by the ski area and 1,350 jobs for the south-side development. There will be a special-use district with a setback from the Little Susitna River. He opposed a proposed amendment on a public vote because "it might send a chill in other economic development projects in the borough. For instance, we have the Lucky Shock Mine that is currently being reviewed and proposed for development." He spoke of a port at Pt. McKenzie that the public would not have voted for. He is against that requirement because there has been "more than enough public participation."

[2:53:47 PM](#)

REPRESENTATIVE GATTO asked if the land transfer is essential for the project.

MR. DUFFY said that is correct; the private developer said that the land is needed for access and development.

REPRESENTATIVE GATTO asked about the setback to the river.

MR. DUFFY said the borough has a 75-foot water body setback, and the Hatcher Pass Management Plan already has a 200-foot setback.

[2:55:14 PM](#)

REPRESENTATIVE CRAWFORD asked if the 200 acres will be transferred to the borough which will then transfer it to JL Properties for residential home building.

MR. DUFFY said that is correct, in part. He added that some of the areas would be used for access, and there are hopes for the development of picnic areas near the river.

REPRESENTATIVE CRAWFORD asked if the property will be sold or given to JL Properties.

MR. DUFFY said it is a little bit of both. Some of the property will be retained in borough ownership, and the residential development property would be transferred to JL Properties.

[2:57:08 PM](#)

REPRESENTATIVE SEATON asked if the land within the setbacks can be transferred.

MR. DUFFY said it could be transferred but not developed.

REPRESENTATIVE GATTO asked how much land will JL properties get.

MR. DUFFY said he doesn't know exactly, but it will be about 20-25 percent of the transferred land.

REPRESENTATIVE GATTO asked if the current access to the area will be affected.

MR. DUFFY said no.

[2:58:49 PM](#)

JEAN WOODS said she worked on setting up the special use area many years ago. She said JL properties can "do their development without this 200 acres." She was told they only wanted about 25 acres of this parcel for the commercial development, "and I told them if they would leave the 200 acres alone, that I would drop all opposition to this project." She

sees this as taking land from the public to convey to a private developer. She said the project can be done without this land. She said if the developers get it, she wants a 600-foot setback so their village center would not be visible from the road.

REPRESENTATIVE GATTO asked if she meant the road or the creek.

MS. WOODS said if there is a 600-foot setback from the creek, the development could not be seen from the road.

[3:01:41 PM](#)

ROB WELLS, Executive Director, Matanuska-Susitna Resource Conservation and Development Organization, said his organization supports this project. The economic spin-off and recreation opportunities are the driving reasons for the support. The special planning effort is making the development standards stricter than the plan. Allowing an alternate access will minimize the impact in the nearby neighborhood, he opined. The ski area project will affect a few thousand acres, and there are still over 200,000 acres of public use land to the north. To the east is the moose range that is 150,000 acres, he stated.

[3:03:49 PM](#)

DAVID GERMER, Project Manager, Hatcher Pass Project, JL Properties, said his company was solicited to create a ski area, so JL Properties developed a preliminary plan composed of three pieces: alpine area, residential/recreational area, and a Nordic area. The three need to be integrated for each piece to succeed, he opined. The additional 200 acres is necessary for financial viability. He said, "JL will actually be developing very specific CR&Rs for development within this area...to insure integration of the new buildings, the infrastructure, the landscaping into their natural settings." He said the next step is to initiate due diligence, and he would like to start that work this summer to begin construction by the spring of 2008.

[3:06:52 PM](#)

RICK THOMPSON, Acting Deputy Director, Division of Mining, Land, and Water, Department of Natural Resources, said he has been involved "over the years," and DNR supports the legislation.

CO-CHAIR SAMUELS asked about an amendment for a 1000-foot setback on the [Little Susitna River].

MR. THOMPSON said he doesn't have a problem with setbacks, per se, but he has not seen the amendment.

[3:08:33 PM](#)

ROD ARNO, Alaska Outdoor Council, said the council opposes the bill because urban sprawl in nearby areas makes Hatcher Pass "extremely important to us." He said the state land should remain as state land. Public access has been better with the state rather than the borough and its lakes management plan.

REPRESENTATIVE GATTO asked if the borough and the state have had different positions on lake access.

MR. ARNO said lakes management plans are incorporated into the borough's coastal management plan. In the past, people who own property on a lake can vote to make the lake non-motorized. He was told that the state couldn't assert its authority without suing the borough.

REPRESENTATIVE GATTO asked if the land would have grandfathered rights for access.

[3:12:38 PM](#)

MR. ARNO said that is a major concern, and the access rights to the Knik River public use area are cumbersome. He doesn't know if traditional access will be protected or not.

REPRESENTATIVE GATTO said Ms. Woods testified that the developers don't need 200 acres.

MR. ARNO said he doesn't want to give up an inch of state public use areas close to urban areas.

REPRESENTATIVE STOLTZE asked about his proposed amendments requiring the set back and a public vote.

MR. ARNO said he supports the set backs and the public vote.

The committee took an at-ease from [3:15:58 PM](#) to [3:19:20 PM](#).

CO-CHAIR SAMUELS offered Amendment 1, written by the sponsor as follows [original punctuation provided]:

Page 2, following line 22, following:  
Insert a new subsection to read:

"(d) That portion of the land selected under (b) of this section that lies within 1,000 feet of the line of ordinary high water of the Little Susitna may not be developed or improved."

REPRESENTATIVE SEATON objected and offered a conceptual amendment to Amendment 1 to change the 1,000-foot setback requirement to 600 feet. He said, "And on line 5, after 'may not be improved' inserts 'except for trails and may not be transferred from public ownership'." Hearing no objections, the amendment to Amendment 1 was adopted.

[3:20:25 PM](#)

REPRESENTATIVE SEATON withdrew his objection, and a roll call vote was taken on Amendment 1. Representatives Gatto, Crawford, Olson, Ramras, and Samuels voted in favor of the amendment. Amendment 1, as amended, was adopted by a vote of 5 to 0.

CO-CHAIR SAMUELS offered Amendment 2, as follows [original punctuation provided]:

Page 2, line 7, following "(b)":

Delete "The"

Insert "Subject to authorization by a majority of the qualified voters in the borough voting on the question at a general or special election, the"

REPRESENTATIVE CRAWFORD asked if a vote will delay the project.

REPRESENTATIVE STOLTZE said a borough election and primary election are coming up; it could be put on a number of local or state elections. He added that it is a multi-tier process of significant scope. It is exciting project, but not without some controversy so it merits local discussion, including the financial involvement of the local government and other issues.

[3:24:51 PM](#)

CO-CHAIR SAMUELS asked if the vote could occur at another point in the process rather than during a simple land transfer from the state to the borough. The vote would really be about the ski area, he explained.

REPRESENTATIVE STOLTZE said not that he has any control over.

REPRESENTATIVE GATTO said the bill refers to a general or special election.

REPRESENTATIVE STOLTZE said his legal advisors said that general election covers all elections.

[3:27:27 PM](#)

Hearing no further objections, Amendment 2 carried.

REPRESENTATIVE GATTO moved to report HB 306, labeled 24-LS0907/F, Bullock, 2/1/06, as amended, out of committee with individual recommendations and the accompanying fiscal notes. Hearing no objections, CSHB 306 (RES) passed out of the House Resources Standing Committee.

[3:28:53 PM](#)

HB 498-TAX CREDITS NONCONVENTIONAL OIL/GAS

CO-CHAIR SAMUELS announced that the committee would again take up HOUSE BILL NO. 498, "An Act authorizing tax credits against the production tax on oil and gas for qualified expenditures for challenged or nonconventional oil or gas and for qualified expenditures for nonconventional or renewable energy resources; giving the Act contingent effect; and providing for an effective date."

The committee took an at-ease from 3:29 p.m. to [3:30:22 PM](#).

ROBYNN WILSON, Director, Tax Division, Department of Revenue, said HB 498 allows qualified expenditures for credit with the intention to piggyback the allowable credits with HB 488. She noted that her advice to change the title of HB 498 to be consistent has been done. There have been two definitions added for qualified capital expenditures, which are different from each other and from what is in HB 488, she pointed out.

The committee took an at-ease from 3:32 p.m. to [3:32:58 PM](#).

REPRESENTATIVE ROKEBERG said there is a definition for challenged oil and a different definition for [indecipherable] energy. He said the sections are fundamentally different.

[3:34:32 PM](#)

MS. WILSON said they can be made consistent, but they are different from the definition in the PPT, so she suggested using different terms. "One could call it a qualified renewable energy expenditure for the one that is in 028, and for the one in 026, qualified challenging oil expenditure." She said Representative Rokeberg should have a different name for a different expenditure. The bill is not clear on the reason for differentiating challenged oil with non-conventional oil, she said.

The committee took an at-ease from 3:35 p. m. to [3:36:46 PM](#).

MS. WILSON said she sees overlap in the terms challenged oil and non-conventional oil, and she does not see a purpose for the differentiation. Subsection (f) has a lot of overlap, including the carbonate section. She tried to do a flowchart to figure out what would be subject to the credit in this bill, and it was difficult. She suggested that the first cut be the API [Alaska Petroleum Institute] gravity. She reorganized the provisions, she said. She noted that oil with API gravity less than 18 is given a credit no matter where it is. With gravity between 18 and 25, it appears it has to be on the North Slope and at a certain depth. It appears that oil less than 5,500 feet deep qualifies for a credit under HB 498, she said. If any oil is taken up by "EOR" techniques, it doesn't add any understanding, she noted. Once the API is greater than 25, then the bill refers to different sources, including tar sands, she surmised.

[3:40:12 PM](#)

CO-CHAIR SAMUELS asked about a credit on a formation instead of basing the allowance on the gravity of the oil.

MS. WILSON said she just doesn't like overlap. She said she would need access to the data in order to audit that system.

CO-CHAIR SAMUELS asked if there is an allocation problem when the state must test the weight of the oil. The entire idea should take care of the added costs, "if it costs more, you have more costs recovery before you start paying a tax anyway."

MS. WILSON said the PPT already recognizes the costly heavy oils because the tax is on net-profits, and that was the governor's approach. That was the purpose of taxing on net, she said. "We believe that HB 488 is a complete package and adequately recognizes [the higher cost of developing heavy oil]."

[3:43:47 PM](#)

REPRESENTATIVE ROKEBERG said he wants to give the industry additional incentives. The application could be narrowed down to new technology, to clarify the status of that investment. The measurement of gravity versus formation is a technical issue that may have merit, and he spoke of DNR certifying the standards. A pool could have different API levels, he said, "so you have to take the average API to make sure it would qualify," which demands testing. The question is if 25 is the right API, he stated. There have been some discussions of not going with the API tests but identifying formations.

[3:46:21 PM](#)

MS. WILSON said Page 2, lines 18-28, has similar language to Page 6, and both deal with the 90 percent safe harbor in the PPT. She said this language includes consideration of budgeted expenses that are inconsistent with the PPT. Budget expenses are a really difficult audit target, and she suggests deleting those subparagraphs on pages 2 and 6.

REPRESENTATIVE ROKEBERG said, "I think we could just delete it."

MS. WILSON said both sections have the problems.

REPRESENTATIVE GATTO asked about conflicting language and if the taxpayer gets to pick the one to use.

[3:50:46 PM](#)

MS. WILSON said she is not qualified to answer that question.

REPRESENTATIVE ROKEBERG said the PPT has to pass for this bill to be enacted. The intention is to conform to it, he stated.

MS. WILSON said page 3, line 19, allows credits for research in the state, but the phrase "in the state" does not modify it. It is fine if the committee wants to credit activities done out of the state, but the bill needs to reflect it.

CO-CHAIR SAMUELS asked if she knows of any credits for research and development and how the state would audit such a credit. These expenditures could be enormous, he stated.

[3:53:38 PM](#)

MS. WILSON said she knows of no credits for research and development, and she doesn't know if there is a federal credit.

REPRESENTATIVE ROKEBERG spoke of a U.S. tax code provision that made elections of capital versus deductible expenses.

MS. WILSON said in terms of a specific credit for research, she has no recollection of such. In the same paragraph, the term of art is "research and development", and she asked why the word "or" was in there. On line 21, the language of existing technology is not clear, and the phrase containing it does not make grammatical sense. Page 5, line 4, deals with average gravity, and it is not clear how to calculate that.

[3:57:33 PM](#)

MS. WILSON said that section is confusing where it says "except as provided," and she provided a suggestion.

[3:58:34 PM](#)

MS. WILSON said she is not sure what page 3, line 12 means.

REPRESENTATIVE ROKEBERG said he was trying to avoid double dipping, but the whole concept of the PPT is double or triple dipping. He asked if any tax credit qualified as a deduction and as a credit.

MS. WILSON said yes; a single expenditure can qualify for a deduction and a credit.

REPRESENTATIVE ROKEBERG said he was trying to avoid double crediting.

MS. WILSON said a taxpayer can pick credits under 025 or 024 for the same expenditure, but it can't get both.

[4:01:04 PM](#)

MS. WILSON said the same language is on page 7, line 8.

REPRESENTATIVE ROKEBERG asked about correcting it.

MS. WILSON said, "For a particular expenditure, we know it would get a deduction under the PPT, would get a credit under the PPT, and, if the intention then is to add this 15 percent credit on

top, then, I believe that what we need to do is simply delete the 'more than once'."

CO-CHAIR SAMUELS said there would be only one deduction, but it would be bigger.

REPRESENTATIVE ROKEBERG said drilling at Ugnu, for example, would provide the oil company with a 35 percent credit.

MS. WILSON said, "If the producer incurred exploration expenses and they qualified for 025, the 40 percent, then potentially you're adding 15 percent on top of 40."

REPRESENTATIVE ROKEBERG said most formations would not qualify for those credits.

[4:03:44 PM](#)

MS. WILSON said on Page 3, it says exploration expenditure and it doesn't say anything about heavy oil. In fact, it says it is made for exploration expenditures under AS 43.55.025, she said. "So this bill provides potentially a 15 percent credit for exploration that qualifies for a 40 percent credit."

CO-CHAIR SAMUELS said, "But there's nothing with heavy oil, just on top of a 40 percent credit. If the producer then chose to go that way, because of the distance from Prudhoe and Kuparuk."

MS. WILSON said, "025 has specific distance requirements for the 40 percent, but this 15 percent credit does not make that contingent on exploring in heavy oil areas or anything like that."

CO-CHAIR SAMUELS said that gets back to being able to access information from the industry on what they find.

REPRESENTATIVE ROKEBERG said, "We're getting wrapped around an axle about something that won't even happen, I don't think, because of the location of the viscous." He said he will check on it.

[4:05:57 PM](#)

MS. WILSON said she is unclear on language for the credit under 025. Page 5, lines 17-19, allows a credit for oil that is non-conventional as certified by the department, but the department

is given no criteria on judging what non-conventional is. She told Representative Rokeberg to describe it.

REPRESENTATIVE ROKEBERG said he is not sure he can do that because it's nonconventional.

MS. WILSON said the transfer of the credit "to an affiliate" calls established regulation into question. She suggests making the credits fully transferable or not.

[4:08:57 PM](#)

REPRESENTATIVE ROKEBERG said the known deposits of viscous oil would only be extracted by the three big producers who would hold the credits for themselves. He suggested making the credits non-transferable.

CO-CHAIR SAMUELS asked about Anadarko Petroleum Corporation.

REPRESENTATIVE ROKEBERG said Anadarko would just have to keep the credit if it qualified.

MS. WILSON said page 2, lines 5-8, was added because of the lack of clarity of the order of the credits taken. The first part establishes that this credit would be taken last, but the next part changes the ordering. She said it is less of a problem if the transferability is gone, and she will check into it further.

[4:12:18 PM](#)

MS. WILSON said page 2 says the credit can be applied against any and all taxes, but it adds a conservation surcharge. It sets up the question if that is different from "all taxes due". She suggested deleting that language to make it consistent.

CO-CHAIR SAMUELS asked about property and income tax.

MS. WILSON said line 13 is where the problem is. She said, "We have a focus on exploration, research or development, but then the description of "challenged oil" talks about "produced [oil]". She said, "I'm not sure we should be offering a credit for oil that's already been produced." She asked what the intention is. The bill allows for exploration costs on any oil, not just challenged oil, she pointed out. On page 5, line 24, the bill allows the credit for "development" or "use" in the state, and "that looks pretty big to us."

[4:16:33 PM](#)

REPRESENTATIVE SEATON asked about a sunset date or if the bill would be rolled into the gas contract.

REPRESENTATIVE ROKEBERG said there is a ten-year sunset. He said the "EOR" provisions can be deleted because it would be redundant. He said the policy call is using a gravity test or just identifying the formation for the credit.

CO-CHAIR SAMUELS said Version I is before the committee. He warned that research and development is difficult to audit.

REPRESENTATIVE ROKEBERG said the bill would be limited substantially and the industry benefit would be substantially reduced if that happened. He said, "The other way to go is you allow it for all heavy oil, but then you restrict the amount of R&D."

CO-CHAIR SAMUELS said Mr. Wenzel asked for project-specific credit. He suggested getting input from the industry.

[4:21:11 PM](#)

REPRESENTATIVE ROKEBERG said DNR drafted regulations but 60 percent of the applications have not been acted on. He said the bureaucracy is stiff-arming applications for [SB 185].

REPRESENTATIVE SEATON asked if it goes against constitutional laws of general application to give tax credits by fields.

REPRESENTATIVE ROKEBERG said he doesn't think that will be a problem because there will be a qualifying determination.

[HB 498 was held over.]

[4:23:33 PM](#)

The House Resources Standing Committee was recessed to the call of the Chair.