

CS FOR SENATE BILL NO. 208(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 3/10/10

Referred: Finance

Sponsor(s): SENATORS WIELECHOWSKI, McGuire, Menard, Ellis, Huggins, French, Dyson

A BILL

FOR AN ACT ENTITLED

1 **"An Act requiring the Department of Natural Resources and the Department of**
2 **Revenue to evaluate current incentives and recommend additional ways to increase gas**
3 **exploration, development, and production in the Cook Inlet sedimentary basin; and**
4 **providing for an effective date."**

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
7 to read:

8 SHORT TITLE. This Act may be known as the Cook Inlet Energy Incentive Act.

9 * **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 LEGISLATIVE FINDINGS. The legislature finds that

12 (1) natural gas produced in the Cook Inlet area is used to generate nearly 90
13 percent of the electricity used in Southcentral Alaska and to heat approximately 130,000
14 homes and businesses; gas from the Cook Inlet area is vital to the economic well-being of

1 Southcentral Alaska and has been the least expensive energy source available to more than
2 half of the state's population for over three decades;

3 (2) for many years, there was far more gas in the Cook Inlet area than could be
4 consumed by Alaskans, providing plentiful low-priced gas; however, in recent years, prices
5 have risen dramatically as reserves in the Cook Inlet area are being depleted;

6 (3) as of January 2010, more than 7.75 trillion cubic feet of natural gas have
7 been produced from the Cook Inlet area; original reserves of more than eight trillion cubic
8 feet have been reduced by production to approximately one trillion cubic feet, with relatively
9 few new proved reserves to replace the natural gas that has been produced in the past;

10 (4) new field exploration is required to augment remaining reserves and
11 replace historic production; without successful discoveries of new natural gas reserves,
12 natural gas reserves in the Cook Inlet area may be depleted within two decades, and yearly in-
13 state demand may exceed supply within one decade;

14 (5) federal geologists estimate that there are approximately 2.5 trillion cubic
15 feet of undiscovered and technically recoverable gas in the Cook Inlet area;

16 (6) additional investment in developing natural gas reserves in existing fields
17 in combination with exploration for new natural gas reserves will be necessary to ensure an
18 adequate future supply of natural gas for Southcentral Alaska;

19 (7) aggressive investment in exploration and development is constrained by
20 the small size of the in-state market, which prevents natural gas producers in the Cook Inlet
21 area from selling the natural gas they discover within a reasonable period of time;

22 (8) the purchase of gas from newly discovered proved reserves for later resale
23 could provide producers with the incentive to invest additional dollars in exploring for and
24 developing new natural gas reserves; and

25 (9) the state currently is paying for at least 45 percent of new exploration and
26 development in the Cook Inlet area through several tax credits.

27 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 STUDY AND REPORT RELATING TO INCENTIVES FOR INCREASING GAS
30 PRODUCTION AND THE EXPLORATION FOR AND MARKETING OF GAS IN THE
31 COOK INLET SEDIMENTARY BASIN BY THE DEPARTMENT OF NATURAL

1 RESOURCES AND THE DEPARTMENT OF REVENUE. (a) The Department of Natural
2 Resources, in consultation with the Department of Revenue, shall

3 (1) evaluate the effectiveness of incentives the state currently offers to
4 increase exploration for, development of, and production of gas in the Cook Inlet sedimentary
5 basin;

6 (2) identify, evaluate, and recommend additional incentives or proposals that
7 may be enacted by the legislature to increase the exploration for, development of, and
8 production of gas in the Cook Inlet sedimentary basin.

9 (b) The Department of Natural Resources and the Department of Revenue shall report
10 the findings, conclusions, and recommendations on the subjects described in (a) of this section
11 to the legislature before December 1, 2010.

12 (c) In this section, "Cook Inlet sedimentary basin" has the meaning given in
13 regulations adopted to implement AS 38.05.180(f)(4).

14 * **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).