

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 13, 2009

1:05 p.m.

MEMBERS PRESENT

Representative Craig Johnson, Co-Chair
Representative Mark Neuman, Co-Chair
Representative Bryce Edgmon
Representative Kurt Olson
Representative Paul Seaton
Representative David Guttenberg
Representative Scott Kawasaki
Representative Chris Tuck

MEMBERS ABSENT

Representative Peggy Wilson

COMMITTEE CALENDAR

HOUSE BILL NO. 163

"An Act clarifying the purpose of the Alaska Natural Gas Development Authority; and relating to definitions of certain terms in AS 41.41."

- MOVED CSHB 163(RES) OUT OF COMMITTEE

HOUSE BILL NO. 217

"An Act relating to the tax applicable to the production of natural gas used in the state as fuel or feedstock in producing a manufactured end product."

- HEARD AND HELD

CS FOR SENATE JOINT RESOLUTION NO. 16(RES)

Expressing support for responsible development of the oil and gas resources in federal waters offshore of Alaska's coast as a means to ensure energy independence, security for the nation, and jobs for Alaskans; and urging the United States Congress to provide a means for consistently sharing with all coastal energy-producing states, on an ongoing basis, revenue generated from oil and gas development on the outer continental shelf, to ensure that those states develop, support, and maintain necessary infrastructure and preserve environmental integrity.

- MOVED CSSJR 16(RES) OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 33

Urging immediate action by the governor, the Alaska Congressional delegation, and state and federal agencies to assist in the restart of oil production in Cook Inlet that was affected by the eruption of Mt. Redoubt.

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 163

SHORT TITLE: ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/02/09	(H)	READ THE FIRST TIME - REFERRALS
03/02/09	(H)	ENE, RES, FIN
03/28/09	(H)	ENE AT 10:00 AM BARNES 124
03/28/09	(H)	Heard & Held
03/28/09	(H)	MINUTE(ENE)
04/09/09	(H)	ENE AT 3:00 PM BARNES 124
04/09/09	(H)	Moved Out of Committee
04/09/09	(H)	MINUTE(ENE)
04/10/09	(H)	ENE RPT 3DNP 3NR
04/10/09	(H)	DNP: RAMRAS, PETERSEN, EDGMON
04/10/09	(H)	NR: DAHLSTROM, JOHANSEN, TUCK
04/11/09	(H)	RES AT 12:00 AM BARNES 124
04/11/09	(H)	Heard & Held
04/11/09	(H)	MINUTE(RES)
04/13/09	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 217

SHORT TITLE: TAX ON GAS FOR IN STATE MANUFACTURING

SPONSOR(S): REPRESENTATIVE(S) NEUMAN

04/06/09	(H)	READ THE FIRST TIME - REFERRALS
04/06/09	(H)	RES, FIN
04/13/09	(H)	RES AT 1:00 PM BARNES 124

BILL: SJR 16

SHORT TITLE: OFFSHORE OIL & GAS REVENUE

SPONSOR(S): SENATOR(S) WIELECHOWSKI

03/20/09	(S)	READ THE FIRST TIME - REFERRALS
03/20/09	(S)	RES
03/25/09	(S)	RES AT 3:30 PM BUTROVICH 205

03/25/09 (S) Heard & Held
 03/25/09 (S) MINUTE(RES)
 03/27/09 (S) RES AT 3:30 PM BUTROVICH 205
 03/27/09 (S) Moved CSSJR 16(RES) Out of Committee
 03/27/09 (S) MINUTE(RES)
 03/30/09 (S) RES RPT CS 4DP 1NR NEW TITLE
 03/30/09 (S) DP: MCGUIRE, WIELECHOWSKI, FRENCH,
 STEVENS
 03/30/09 (S) NR: HUGGINS
 04/03/09 (S) TRANSMITTED TO (H)
 04/03/09 (S) VERSION: CSSJR 16(RES)
 04/06/09 (H) READ THE FIRST TIME - REFERRALS
 04/06/09 (H) RES
 04/13/09 (H) RES AT 1:00 PM BARNES 124

BILL: HJR 33

SHORT TITLE: RESTART COOK INLET PRODUCTION

SPONSOR(S): REPRESENTATIVE(S) OLSON

04/13/09 (H) READ THE FIRST TIME - REFERRALS
 04/13/09 (H) RES
 04/13/09 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

DONALD BULLOCK JR., Legislative Counsel
 Legislative Legal and Research Services
 Legislative Affairs Agency
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 163, answered questions.

DONALD BULLOCK JR., Legislative Counsel
 Legislative Legal and Research Services
 Legislative Affairs Agency
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 217, answered questions.

KEVIN BANKS, Director
 Division of Oil & Gas
 Department of Natural Resources
 Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 217, answered questions.

LENNIE DEES, Audit Master
Tax-Production Audit Group
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 217, answered questions.

MICHELLE SYDEMAN, Staff,
Senator Bill Wielechowski
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SJR 16 on behalf of the Senate Resources Standing Committee, sponsor, which Senator Wielechowski co-chairs.

JENNIFER SENETTE, Staff,
Representative Kurt Olson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HJR 33 on behalf of Representative Olson, sponsor.

KEVIN BANKS, Director
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HJR 33, answered questions and suggested an amendment.

JACK WILES
Kachemak Bay Conservation Society
Homer, Alaska

POSITION STATEMENT: During the hearing on HJR 33, urged a more thorough analysis of the Drift River Oil Terminal situation.

ROBERT ARCHIBALD
Kachemak Bay Conservation Society
Homer, Alaska

POSITION STATEMENT: During the hearing on HJR 33, urged a new facility be designed that is not in the floodplain of a volcanic river.

ELISE WOLF
Homer, Alaska

POSITION STATEMENT: During the hearing on HJR 33, urged the Drift River Oil Terminal not be restarted and encouraged that a pipeline be constructed instead.

WHITNEY LOWE
Homer, Alaska

POSITION STATEMENT: During the hearing on HJR 33, stated it would be inappropriate to re-open the Drift River Oil Terminal at this time.

ACTION NARRATIVE

[1:05:57 PM](#)

CO-CHAIR MARK NEUMAN called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Edgmon, Olson, Seaton, Johnson, and Neuman were present at the call to order. Representatives Guttenberg, Kawasaki, and Tuck arrived as the meeting was in progress.

HB 163-ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

[1:06:23 PM](#)

CO-CHAIR NEUMAN announced that the first order of business is HOUSE BILL NO. 163, "An Act clarifying the purpose of the Alaska Natural Gas Development Authority; and relating to definitions of certain terms in AS 41.41."

CO-CHAIR JOHNSON moved that the committee adopt version 26-GH1057\R, Bullock, 4/13/09 (Version R), as the working document. There being no objection, Version R was before the committee.

CO-CHAIR NEUMAN referred members to the April 13, 2009, legal explanation received from Mr. Bullock in regard to the conceptual amendments incorporated into Version R.

[1:07:15 PM](#)

CO-CHAIR JOHNSON asked whether Representative Seaton had reviewed the legal opinion as to the incorporation of his amendment regarding the [Alaska] outer continental shelf (OCS) [Conceptual Amendment 1 passed on April 11, 2009].

REPRESENTATIVE SEATON explained that his intent with the amendment was to take input of gas into a pipeline, not build a

pipeline offshore to an OCS supply. Therefore, he continued, the wording in Version R accomplishes the goal of the amendment.

1:08:36 PM

CO-CHAIR JOHNSON noted that Version R may not have incorporated Representative Guttenberg's amendment [Conceptual Amendment 2 passed on April 11, 2009].

REPRESENTATIVE GUTTENBERG replied that Version R does not.

CO-CHAIR JOHNSON said he thinks Mr. Bullock has amendments that will do what Representative Guttenberg wants to do.

REPRESENTATIVE GUTTENBERG moved Amendment 1, labeled 26-G1057\A.2, Bullock, 4/13/09, as follows:

Page 2, line 2:

Delete "the pipeline system project"

Insert "[THE] pipeline system **projects** [PROJECT]"

Page 2, line 11:

Delete "**markets**"

Insert "**a market**"

Page 2, line 12, following "or":

Insert "**to a market in the state and**"

CO-CHAIR JOHNSON objected for purposes of discussion.

REPRESENTATIVE GUTTENBERG said his intent is to ensure that every time a market or project is described it includes a market in the state.

1:10:25 PM

DONALD BULLOCK JR., Legislative Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, Alaska State Legislature, understood the intent of the amendment is to ensure that no matter the project, it include delivery to a market in the state. Therefore, he continued, Amendment 1 says that it be to a market in the state or to a market in the state and to alternative tidewater points, Cook Inlet and Prince William Sound.

REPRESENTATIVE SEATON asked whether Amendment 1 would mean that an export market could not be built unless there is also some other delivery in the state.

MR. BULLOCK responded that it avoids the issue of a pipeline that would bypass all the in-state markets by going just to tidewater and being exported. He understood the amendment's intent is to ensure that there is gas delivered from the project to a market in the state; whether or not some of the other gas is exported would not be affected.

[1:12:15 PM](#)

REPRESENTATIVE GUTTENBERG, in response to Co-Chair Neuman, agreed [Amendment 1 was to the original version of HB 163, not Version R]. He said he believes that in Version R the amendment would apply to page 2, line 12, after the last "or". In further response, he said page 2, [lines 12-13], of Version R would therefore read:

North Slope of Alaska or other regions of the state to market in the state or to a market in the state and to tidewater at a point on Prince William Sound

[1:13:37 PM](#)

CO-CHAIR NEUMAN inquired whether Representative Guttenberg's intent is to ensure that gas coming down an in-state pipeline can only be sold to markets in the state.

REPRESENTATIVE GUTTENBERG answered no. He explained that any gasline in the state under the Alaska Natural Gas Development Authority (ANGDA) has to have an in-state use component. If gas must be exported in order to make the project economical, some component of the project's gas will also be used in-state; a project could not be built just for export. It does not matter what is taken off for use in-state, it could be any of the hydrocarbons.

[1:14:32 PM](#)

CO-CHAIR NEUMAN surmised that Amendment 1 would disallow running gas down a pipeline to Valdez for liquefaction and export.

REPRESENTATIVE GUTTENBERG responded that some component of such a pipeline would have to be used for in-state market.

CO-CHAIR NEUMAN said he is wary of the language.

CO-CHAIR JOHNSON said his understanding of Amendment 1 is that it would assure off-take points somewhere along the pipeline for use of in-state gas and is therefore consistent with what was done for the "big line". He said he thinks it is consistent with what is needed.

[1:15:48 PM](#)

CO-CHAIR NEUMAN moved that the line numbers in Amendment 1 be amended to conform to Version R.

REPRESENTATIVE GUTTENBERG agreed.

MR. BULLOCK clarified that to conform to Version R, Amendment 1 would need to be amended to read as follows:

Page 2, line 3:

Delete "the pipeline system project"

Insert "[THE] pipeline system **projects** [PROJECT]"

Page 2, line 12:

Delete "**markets**"

Insert "**a market**"

Page 2, line 12, following "**or**":

Insert "**to a market in the state and**"

There being no objection, the amendment to Amendment 1 was passed.

[1:16:49 PM](#)

REPRESENTATIVE SEATON outlined a scenario in which gas from the Nenana basin supplies Fairbanks prior to the building of ANGDA's line and then no one buys gas from an off-take on this line because it is more expensive than the Nenana gas. He asked whether Amendment 1 would then mean that the gas could not be exported because none is supplied for in-state use. In other words, a gas line could not be built unless it supplies gas to an in-state market, even if it provides access to supply.

REPRESENTATIVE GUTTENBERG replied that that reading would be right should the market in the state for gas be satiated and there are economics for another line, which is something he is unsure he will see in his lifetime. However, he continued, he

wants to ensure that the project description now, going forward, says that any project will have an in-state use component.

MR. BULLOCK pointed out that the focus of HB 163 is on a project by the Alaska Natural Gas Development Authority and therefore Amendment 1 would not be applicable to any other pipeline. He said he believes the original intent of part of ANGDA was not only to get gas produced, but also to get it to Alaskans, so Amendment 1 follows the original intent that Alaskans would benefit from an ANGDA project. Amendment 1 would have no effect on a project outside of ANGDA, he pointed out.

[1:19:28 PM](#)

REPRESENTATIVE EDGMON inquired whether the wording presently in HB 163 is sufficient to carry out the purpose of Amendment 1, which seems to add a finer level of detail to the meaning.

MR. BULLOCK answered that he thinks Amendment 1 specifically clarifies that whether the option is to a market in-state or to tidewater, there is going to be a market in the state. As the bill is currently written, it could be read as an alternative - either to a market in the state or to tidewater.

[1:20:15 PM](#)

REPRESENTATIVE SEATON argued that this constraint means that if Nenana comes on line and supplies gas cheaper to Fairbanks than could be supplied from the North Slope, ANGDA could not build a line to Valdez for export because it would not also be supplying gas for in-state. He said he thinks the taxation structure for exports provides a natural incentive for a supplier to first fill up as much of the local market as possible. He feared that, in the future, Amendment 1 could put a constraint on ANGDA's ability to build an export gasline.

REPRESENTATIVE GUTTENBERG responded that his job as a legislator is to ensure that ANGDA's project, at this point, has an in-state component, and someone else can build a project that is outside of this. Until such time as the in-state market is satiated, he said, ANGDA's proposals should have a component for in-state use.

[1:23:29 PM](#)

REPRESENTATIVE SEATON described a scenario in which gas is brought to [the Nikiski liquefied natural gas (LNG) plant] for

export and Cook Inlet gas provides the supply for in-state use in Southcentral Alaska. He asked whether it is a net amount of gas that is being talked about or molecules of gas as regards to how the restriction would work.

REPRESENTATIVE GUTTENBERG replied that when the development of projects in Southcentral, Southeast, and Interior Alaska have changed that much, there will likely be legislation brought forward that clarifies those purposes, the markets, and Cook Inlet exports. At that point he would consider all those changes, but right now on ANGDA's project he wants to make sure there is an in-state use component.

[1:26:03 PM](#)

CO-CHAIR JOHNSON said he sympathizes with Representative Seaton, but thinks it is acceptable for someone with a project from the North Slope to Valdez with no in-state use component to have to come back to the legislature. Therefore, based on what he has heard from his constituents, the mandate in Amendment 1 for in-state supply is appropriate. For now the message must be very loud and clear to ANGDA, the governor, and the citizens of Alaska that the in-state use of natural gas is the top priority. He withdrew his objection to Amendment 1.

[1:27:12 PM](#)

REPRESENTATIVE SEATON objected to Amendment 1, saying he wants to get the intent of the amendment on record. He asked whether it would be considered an in-state use of gas if a gasline is brought to Southcentral Alaska that is no larger than the export amount of gas from [the Nikiski LNG plant] and the plant could only get its export license renewed with that additional gas coming in, so it is a net export of that gas. Is it net, he asked, or since it comes into the pipeline system is it mixed gas and therefore the project could go forward, or would it have to come back to the legislature in order to be moved forward.

MR. BULLOCK clarified that the policy aspect of this is to determine what the basic purpose of ANGDA is and what the kind of project is that ANGDA is developing. If the purpose is only to get gas produced in the state to get the state royalties and production tax, then it does not matter where the pipeline goes. But, if the purpose of ANGDA is also to make sure that Alaskans have the benefit of the gas resources, then identifying or requiring a certain amount to be available to a market in the state would be an alternative purpose of ANGDA.

[1:29:21 PM](#)

REPRESENTATIVE TUCK outlined a scenario in which there is an existing ANGDA gasline serving both export and in-state uses, and a supplier wants to build a line that ties into the existing line, but that supplier's line would carry gas that is only for export. He offered his opinion that the supplier's line would fall outside of ANGDA's jurisdiction and would have to be done some another way.

CO-CHAIR NEUMAN agreed that it is a question of how to mix the molecules.

[1:30:07 PM](#)

REPRESENTATIVE SEATON said Mr. Bullock may have solved his problem with the word available. He moved to amend line 10 of Amendment 1 by adding the words "to be available" in front of "to a market in the state and". Thus, he explained, even if the economics are such that the market in the state does not wish to buy that gas, the gas would be made available in the proposed gasline.

CO-CHAIR NEUMAN objected to the amendment to Amendment 1.

REPRESENTATIVE GUTTENBERG said it is his hope that the gas be more than available should ANGDA builds a gasline from anywhere. Just saying make available does not make ANGDA responsible for guaranteeing that part of the project is in-state use, he argued. He said that he wants to ensure that a component of this project is specifically for in-state use and part of ANGDA's role is to make sure that happens.

[1:32:09 PM](#)

CO-CHAIR NEUMAN inquired whether the scenario described by Representative Tuck, the mixing of molecules, would have any effect on this.

MR. BULLOCK answered that the focus of ANGDA is for a project, more so than what goes into it. If this amendment is accepted and ANGDA's effort is toward the pipeline, then, whatever the gas source, there will be gas from somewhere flying through an ANGDA pipeline to a market somewhere in this state as well as possible export.

REPRESENTATIVE SEATON argued that the project needs to make the gas available, but it should not be vetoed if there are cheaper alternatives for local areas and those areas do not want to buy the gas. The amendment to Amendment 1 makes the gas available to a market, which is the critical factor that members are trying to get to. The state's tax rate will stimulate any owner of gas to want to sell as much gas in-state as possible to reduce taxes. He agreed that in-state use is definitely the priority, but maintained that not enough due diligence has been done for putting the onus on gas owners that the gas must be sold in-state, possibly at less than market price, in order to do the project. He said he thinks this amendment is a way out.

[1:34:37 PM](#)

REPRESENTATIVE TUCK said he thinks the language in the proposed original amendment allows for both export and in-state use of gas, which is the original intent of ANGDA. He expressed his concern that accepting the amendment to Amendment 1 will allow the building of pipelines for export only.

MR. BULLOCK recommended inserting "be available" before "to a market" on line 10 of Amendment 1. Thus, it would read: "or other regions of the state or be available to a market in the state and".

REPRESENTATIVE SEATON said he understands Mr. Bullock's recommendation and would consider that.

REPRESENTATIVE GUTTENBERG also understood Mr. Bullock's recommendation.

CO-CHAIR NEUMAN removed his objection to the amendment to Amendment 1. There being no further objection, the amendment to Amendment 1 was passed.

There being no objection, Amendment 1, as amended, was passed.

[1:36:41 PM](#)

REPRESENTATIVE SEATON understood that Amendment 1, as amended, was conceptual.

CO-CHAIR NEUMAN said correct.

CO-CHAIR JOHNSON removed any objections he may have had on the table.

CO-CHAIR JOHNSON moved to report the committee substitute for HB 163, labeled 26-GH1057\R, Bullock, 4/13/09, as amended, out of committee with individual recommendations and zero fiscal note. There being no objection, CSHB 163(RES) was reported out of the House Resources Standing Committee.

HB 217-TAX ON GAS FOR IN STATE MANUFACTURING

[1:38:19 PM](#)

CO-CHAIR NEUMAN announced that the next order of business is HOUSE BILL NO. 217, "An Act relating to the tax applicable to the production of natural gas used in the state as fuel or feedstock in producing a manufactured end product."

The committee took an at-ease from 1:38 p.m. to 1:39 p.m.

[Due to technical difficulties the audio for the time period from 1:39 p.m. to 1:41 p.m. is unavailable.]

[1:40:20 PM](#)

REPRESENTATIVE OLSON moved Amendment 1, labeled 26-LS0816\A.1, Bullock, 4/13/09, as follows:

Page 1, following line 8:

Insert a new bill section to read:

"* **Sec. 2.** AS 43.55.900 is amended by adding a new paragraph to read:

(25) "manufacturing process" means a process that involves a chemical transformation of feedstock gas or combination of feedstock gas with other components."

CO-CHAIR NEUMAN objected for purpose of discussion.

[1:41:04 PM](#)

REPRESENTATIVE GUTTENBERG asked what AS 43.55.900 is related to.

CO-CHAIR NEUMAN said he believes it has to do with the in-state five percent production tax on oil and gas.

DONALD BULLOCK JR., Legislative Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, Alaska State Legislature, first pointed out that the phrase "used in the

state" in HB 217 is important because there is a tax cap under the production tax in AS 43.55.0110, subsection (o), that caps gas that is produced outside of Cook Inlet and used in the state and the cap is equal to the tax cap that is on Cook Inlet gas. He said 43.55.900 is the section of the production tax that includes all the definitions for that chapter. He explained that HB 217 and Amendment 1 amend the definition in paragraph (24) and add the definition for manufacturing process in paragraph (25).

[1:42:58 PM](#)

REPRESENTATIVE SEATON understood that under Amendment 1 the conversion of gas to fertilizer or the petrochemical industry producing a different product would be considered a manufacturing process, whereas simply chilling and liquefying the gas or simply stripping out the propane without changing it would not be considered a manufacturing process.

CO-CHAIR NEUMAN responded that his intent with HB 217 is to ensure there is added value. Pulling out propanes, butanes, and ethanes from natural gas would be an added value because it would be creating jobs and industry within the state and therefore it would be considered manufacturing. Simply liquefying natural gas would not be included.

[1:44:19 PM](#)

REPRESENTATIVE SEATON said he is unsure that this definition qualifies for Representative Neuman's intent.

CO-CHAIR NEUMAN replied that HB 217 will be held so that work in this regard can continue.

MR. BULLOCK said he reads the description of the manufacturing process in Amendment 1 as meaning that something is coming out that is different than what went in. If the gas is just liquefied, it is the same thing that went in that is coming out. If it is combined with other chemicals to produce a product, or if it is used as the substance for something like fertilizer, then that is the manufacturing process that has changed the gas.

CO-CHAIR NEUMAN removed his objection to Amendment 1. There being no further objection, Amendment 1 was passed.

[1:45:31 PM](#)

CO-CHAIR NEUMAN said his intent in HB 217 is to ensure more added value processing of Alaska's natural gas. The processing of gas to liquids in Alaska by the military would fall under the definition of used in state and would fall under a 5 percent production tax. This was expanded to encompass all of the state when Alaska's Clear and Equitable Share (ACES) became law, he continued. Under current law, in-state use only applies to the generation of electricity or home heating, and HB 217 would expand this to include the use of gas as fuel or feedstock in manufacturing. Creating more added value through manufacturing would expand the economic opportunities to the state for its natural gas, as opposed to just exporting it. He noted that he will hold the bill because he is unsure whether the 5 percent is enough incentive and there may be something else that can be added.

REPRESENTATIVE GUTTENBERG cautioned that there might be processes of using the gas that people in Alaska are currently unaware of because there is presently so little of this industry in the state, and this limited knowledge could result in leaving the state on the short end.

[1:48:52 PM](#)

REPRESENTATIVE SEATON inquired whether taxes on natural gas liquids (NGLs) are oil taxes or gas taxes.

MR. BULLOCK said he is unsure.

KEVIN BANKS, Director, Division of Oil & Gas, Department of Natural Resources, deferred to the Department of Revenue.

LENNIE DEES, Audit Master, Tax-Production Audit Group, Department of Revenue, stated that, under statute, natural gas liquids are taxed as oil.

CO-CHAIR NEUMAN held over HB 217.

[1:51:13 PM](#)

The committee took an at-ease from 1:51 p.m. to 1:52 p.m.

SJR 16-OFFSHORE OIL & GAS REVENUE

[1:51:42 PM](#)

CO-CHAIR NEUMAN announced that the next order of business is CS FOR SENATE JOINT RESOLUTION NO. 16(RES), Expressing support for

responsible development of the oil and gas resources in federal waters offshore of Alaska's coast as a means to ensure energy independence, security for the nation, and jobs for Alaskans; and urging the United States Congress to provide a means for consistently sharing with all coastal energy-producing states, on an ongoing basis, revenue generated from oil and gas development on the outer continental shelf, to ensure that those states develop, support, and maintain necessary infrastructure and preserve environmental integrity.

1:51:53 PM

MICHELLE SYDEMAN, Staff, Senator Bill Wielechowski, Alaska State Legislature, introduced SJR 16 on behalf of the Senate Resources Standing Committee, sponsor, which is co-chaired by Senator Wielechowski. She paraphrased from the following written statement [original punctuation provided]:

SJR 16 expresses support for responsible development of the oil and gas resources in federal waters off Alaska coast. It also urges Congress to provide Alaska with a fair share of federal revenue from oil and gas leasing and development in federal waters.

Under current law, Alaska receives little revenue from oil and gas leasing and development that occurs more than six miles off our coast. This contrasts with how other states, including Louisiana, Mississippi, Alabama and Texas, are treated. Under the 2006 Gulf of Mexico Energy Security Act, these states receive 37.5 percent of revenues from newly leased federal waters off their coasts. This new law is expected to direct more than \$13 billion to Louisiana alone over the next three decades.

Alaska deserves to be treated in the same way as other states that contribute to our nation's energy security. Like other energy-producing states, Alaska bears the costs of infrastructure in support of offshore development, and our coastal resources and residents bear the impacts of offshore development. Alaskans deserves to share in the benefits of production, just as we do its costs.

The federal Minerals Management Service estimates that there could be as much a 55 billion barrels of technically recoverable oil and 280 trillion cubic

feet of technically recoverable gas off Alaska's coast. Last year companies bid \$2.6 billion for access to tracts in the Chukchi Sea. More than 1.4 million acres off Alaska's coast have already been leased by the federal government. The Chukchi Sea sale could result in the leasing of an additional 2.7 million acres, providing ongoing support for a robust oil and gas industry in Alaska.

As more lands off Alaska's coast are leased for offshore oil production, we need to ensure that Alaska gets its fair share of the benefits of that leasing and production. It's time Congress treated all coastal states equally and fairly. Please join me in supporting SJR 16.

MS. SYDEMAN urged that SJR 16 be considered quickly so it can be sent to U.S. Interior Secretary Ken Salazar while he is in Alaska.

[1:54:49 PM](#)

CO-CHAIR NEUMAN, in regard to the term responsible development, asked for Ms. Sydeman's definition of the word responsible because it seems to be different for everybody.

MS. SYDEMAN related that it is a word the Senate Resources Standing Committee adopted by recommendation of Senator Huggins. She said she thinks it is in the eye of the beholder, and to some extent by passing this resolution without a definition, which probably would be difficult to develop, it is left up to Secretary Salazar and others to interpret.

CO-CHAIR NEUMAN clarified that it is CSSJR 16(RES), labeled 26-LS0753\S (Version S), that is before the committee.

[1:55:44 PM](#)

REPRESENTATIVE GUTTENBERG noted that at a 2006 energy summit some U.S. Senators strongly opposed Alaska being included in the [2006 Gulf of Mexico Energy Security Act]. He asked what the historic perspective is from that happening.

MS. SYDEMAN responded that U.S. Senator Jeff Bingaman from New Mexico was one of the senators expressing objections, but she does not know the history. She related that last week U.S. Senator Begich and U.S. Senator Landrieu from Louisiana tried

again unsuccessfully to get Alaska included in this revenue sharing. Thus, she acknowledged, it is an uphill battle.

1:56:59 PM

CO-CHAIR NEUMAN closed public testimony after ascertaining that no one wished to testify.

REPRESENTATIVE EDGMON moved to report CSSJR 16(RES) out of committee with individual recommendations and zero fiscal note. There being no objection, CSSJR 16(RES) was reported out of the House Resources Standing Committee.

The committee took an at-ease from 1:58 p.m. to 1:59 p.m.

HJR 33-RESTART COOK INLET PRODUCTION

1:58:52 PM

CO-CHAIR NEUMAN announced that the next order of business is HOUSE JOINT RESOLUTION NO. 33, Urging immediate action by the governor, the Alaska Congressional delegation, and state and federal agencies to assist in the restart of oil production in Cook Inlet that was affected by the eruption of Mt. Redoubt.

1:59:04 PM

JENNIFER SENETTE, Staff, Representative Kurt Olson, Alaska State Legislature, introduced HJR 33 on behalf of Representative Olson, sponsor. She explained that HJR 33 urges the governor and state and federal agencies to assist in the restart of oil production in the Cook Inlet that was affected by the eruption of Mt. Redoubt. The March 22, 2009, eruption of Mt. Redoubt shut down the Drift River Oil Terminal, halting oil transfers to the terminal from intermediate facilities at "Trading Bay" and "Granite Point", as well as halting oil transfers from the terminal to [Tesoro Alaska's Kenai refinery (Tesoro)] in Nikiski. This is an economic issue that is important not only to the Kenai area, but the entire state, she pointed out.

MS. SENETTE said closure of the Drift River facility is impacting production throughout the Cook Inlet Basin because crude that used to go to the Drift River Oil Terminal must now be stored on platforms which have a finite storage capacity. As the shutdown has gone on, platform storage has become in short supply, requiring the platforms to shut their wells. If the shutdown continues, the Tesoro refinery will be forced to find

an oil supply from somewhere else. In addition, the old age of the Cook Inlet wells makes them very difficult to restart once shut down. Because it is expensive and time consuming to get these old wells re-started, their closure today affects production tomorrow.

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MS. SENETTE noted that a further complication is the drawdown of the Drift River storage tanks since the eruption. Transferring millions of gallons of oil from storage requires re-ballasting of the tanks, which has been done with sea water, she continued. Mixing sea water with the remainder oil in the tanks creates a corrosive material that can potentially damage the tanks. This material must be removed before oil can be returned to the tanks and will take months, at great expense, to do. This effect on current and future oil production is especially a problem for a region and state that depend so heavily on oil production, as well as for all of the workers in this industry.

REPRESENTATIVE OLSON added that the oil being talked about could be as much as 20-25 percent of what is going into "Tesoro" and "Tesoro" will replace it with either Trans-Alaska Pipeline System (TAPS) oil or Indonesian spot market oil, neither of which is of the same quality as Cook Inlet oil and which will impact the price.

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REPRESENTATIVE OLSON, in response to Co-Chair Neuman, explained that the Tesoro refinery originally operated on about 100 percent Cook Inlet oil and this oil is not coming back nearly as fast as it is needed for the plant or the state. The TAPS oil ends up with a waste product that Tesoro ships out of state at additional expense for asphalt and other uses.

CO-CHAIR NEUMAN understood that Cook Inlet production is now down to 15,000-20,000 barrels a day.

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REPRESENTATIVE GUTTENBERG inquired whether something happens structurally to the field when it is shut down.

KEVIN BANKS, Director, Division of Oil & Gas, Department of Natural Resources, explained that sea water was pumped into two of the Drift River Oil Terminal's active storage tanks which

contaminated the oil remaining in the tanks. Before the tanks can be returned to service they must be drained of the sea water and oil mixture and cleaned. The contaminated oil will require treatment before it can be used in a refinery, but he said he is unsure whether such treatment facilities are available in Alaska.

MR. BANKS, in regard to the first whereas and volcanic activity, pointed out that the first Mt. Redoubt volcanic eruption occurred on March 22, 2009, but the Alaska Volcano Observatory reported increasing volcanic unrest as early as September 2008. He said the committee may therefore want to consider a revision to this part of the resolution.

REPRESENTATIVE OLSON agreed.

[2:09:40 PM](#)

MS. SENETTE, in response to Representative Kawasaki, stated that the Drift River facility is operated by the Cook Inlet Pipeline Company and owned by Chevron and Pacific Energy Resources, Ltd.

REPRESENTATIVE KAWASAKI asked whether the storage tanks were drawn down in response to the March 22, 2009, eruption or during the period of increased activity before that.

MS. SENETTE said she believes the drawdown of the storage tanks happened only after the first eruption on March 22.

[2:10:59 PM](#)

REPRESENTATIVE KAWASAKI, in relation to HJR 33's request for immediate action by the governor and others, inquired what this action would be.

REPRESENTATIVE OLSON said the resolution is asking for any kind of expedited help that is within reason and legal, such as any permits that will be needed. In further response, he explained that permission will be needed to start making repairs, do the work, draw off the salt water and oil that are mixed, inspect the tanks and Drift River facility to certify that they can be utilized again without any contaminations to the Cook Inlet, and ascertain that the dikes are still able to provide containment.

CO-CHAIR NEUMAN added that, coupled with the close of [Agrium Inc.'s Kenai Nitrogen Operations plant (Agrium)], this is a huge issue for the Kenai Peninsula.

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REPRESENTATIVE TUCK understood the urgency and asked whether there is any indication that the governor, congressional delegation, U.S. Congress, and state and federal agencies are not looking at the same urgency and will instead be hindering this in some way.

REPRESENTATIVE OLSON said he believes the Kenai Peninsula Borough is putting in a request. In further response, he explained that the request is a declaration of emergency.

2:14:34 PM

REPRESENTATIVE SEATON proposed conceptual language for discussion later: [page 2], line 19, at the end of the sentence, add "after the current eruption cycle concludes." This would indicate that the legislature is not trying to urge people to go into an unsafe area, he explained. He then inquired whether immediate action to assist in the restart of oil production in Cook Inlet would include a pipeline from the platforms to the Kenai Peninsula, should that be the most advantageous way to restart those facilities.

REPRESENTATIVE OLSON responded that he does not know.

MR. BANKS said he supposes it would be possible and feasible to build a pipeline across the inlet as there used to be one in the past. A pipeline would mean that the oil production from the west side would be directed toward the Tesoro refinery, he added, which could possibly be a problem for Chevron.

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REPRESENTATIVE SEATON asked what the difference is between the produced water that comes up with the oil in the well and the ballast water and oil mixture in the Drift River storage tanks.

MR. BANKS replied that two storage tanks have oil and seawater in them now for ballast, and the other tanks are empty and open so that water could get into them if flooding occurred and they would not float. The mixture of oil and produced water is treated upstream of the terminal, either in production facilities near the platforms onshore or on the platforms themselves. Thus, the oil that is moved down the Cook Inlet pipeline to the terminal is pipeline ready, saleable crude.

REPRESENTATIVE OLSON said he believes the old "Amoco line" was shut down with the intention of never bringing it back online again.

MR. BANKS interjected correct.

REPRESENTATIVE OLSON continued, saying that bringing this pipeline back online would not be wanted.

2:18:11 PM

REPRESENTATIVE GUTTENBERG asked whether there are protocols in place for actions that the Drift River facility must take in the face of volcanic activity.

MR. BANKS said he is unsure what kind of plans or protocols are in place, but he knows there are contingency plans filed with the Department of Environmental Conservation (DEC). Following the 1989-1990 volcanic activities, Chevron made improvements to the facility to raise the tertiary dikes around the terminal.

REPRESENTATIVE OLSON added that there are plans in place, and the plan that attracted the most attention was keeping the tanks over half full in order to keep them from floating away should there be a major leak in the dikes.

REPRESENTATIVE EDGMON recognized the seriousness of the issue and inquired whether the sponsor plans to get HJR 33 through the whole process now or settle for a letter that members could sign.

REPRESENTATIVE OLSON responded that his intent is to get it through with Representative Seaton's verbiage.

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REPRESENTATIVE KAWASAKI inquired as to which agencies were involved in forcing the shutdown.

MR. BANKS explained that the decisions about the Drift River Oil Terminal over the last couple weeks, including the decision to shut it down, were made by the members of the Unified Command, which are the U.S. Coast Guard, DEC, and the leadership from Cook Inlet Pipeline Company. He clarified that the aforementioned contingency plans on file with DEC are normal course-of-business oil spill contingency plans. The U.S.

Department of Transportation has jurisdiction on the pipelines that go into the terminal and the U.S. Coast Guard has jurisdiction on the Christy Lee Platform and the flow lines from the terminal out to that loading platform.

[2:22:00 PM](#)

REPRESENTATIVE KAWASAKI asked whether the Unified Command forced the closure or suggested the closure.

MR. BANKS replied that the closure was through agreement by the Unified Command's three bodies. As the owner of the "Cook Inlet Pipeline terminal", Chevron agreed to those provisions.

REPRESENTATIVE OLSON noted that he, Representatives Seaton and Chenault, and Senators Waggoner and Stevens are on the distribution list and receive emails several times a week, and sometimes several times a day, about what is being done.

CO-CHAIR NEUMAN requested that this information go to all committee members. He opened public testimony on HJR 33.

[2:23:47 PM](#)

JACK WILES, Kachemak Bay Conservation Society, cautioned members to take a more thorough analysis of the situation because it is not as simple as it seems in HJR 33. For example, the last eruption happened during what was considered to be a low level of volcanic activity. Workers onsite when the volcano erupted for 35 minutes had to be placed in a safe building and then evacuated. He related that at a recent public hearing the Unified Command said the top priority is health and safety and the second priority is the environment. While he appreciated the economic impact of oil production, he said what is not mentioned in HJR 33 is the significant economic impact of an environmental disaster that could occur from a spill. A tremendous amount of sediment load has come down Drift River, which can be seen in a recent aerial photo. The river channel is very unpredictable, with the latest channel right next to and threatening the facility. He agreed that shutting down the terminal was a wise move and pointed out that it is still precarious with 2.5 million gallons of oil in the tanks.

MR. WILES urged that HJR 33 be tabled until testimony can be received from the Unified Command or, as an alternative, amended on page 2, line 19, to include wording that says to examine alternative technology to decommission the tanks and look at the

feasibility of increased storage in other locations or platforms or to look at the existing pipeline. If the directive is to put the tank farm back into production, the question that must be asked is, Where is the risk assessment and who assumes that risk?

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ROBERT ARCHIBALD, Kachemak Bay Conservation Society, said he has worked in that Cook Inlet area since 1965 and the Drift River Oil Terminal has been dodging the bullet since its inception 42 years ago. He commended both the Unified Command for its improved communication with the public and the people who went to the facility to pull down the tanks. He said there is no capability for removing the 2.5 million gallons of oil sludge still remaining in the tanks in the event of a catastrophic flood and that this is unacceptable. Given that it can take up to six months to clean out a tank, he asked whether the off-line tanks would have to be used should the facility go back into use. He urged that all stakeholders in the inlet be involved in the design of a new production facility that is not located in a floodplain of a volcanic river.

2:30:12 PM

CO-CHAIR NEUMAN inquired whether the Drift River Oil Terminal goes through regular inspections to ensure its integrity.

MR. BANKS answered that he thinks the U.S. Department of Transportation has a routine schedule of inspections. In further response, he noted that routine pressure tests and equipment inspections occurred prior to the terminal beginning the pumping of oil to the tanker last week.

2:31:21 PM

MR. BANKS, in response to Representative Edgmon, explained that the Petroleum Systems Integrity Office (PSIO) has been represented in the process of the past several weeks. Different agencies have jurisdictions over the terminal and the pipeline feeding the terminal, he continued. Now and in the future, the PSIO can provide a coordinated effort to ensure there are no gaps or overlaps in how the jurisdictions work. An incident command management process has been in place and the Unified Command has been the decision-making authority over the terminal during this particular incident, but it is not a permanent kind of management structure. Should the volcano settle, decisions

about whether to mothball, remove, repair, or replace the terminal will be made by the Cook Inlet Pipeline Company and the permitting will be done by various agencies. Having a volcano nearby will factor in to how those permits are awarded.

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ELISE WOLF urged the Drift River Oil Terminal not be restarted and encouraged that a pipeline instead be constructed from Granite Point to the east side. She argued that HJR 33 would work to usurp the authority of the Unified Command. She said she thinks HJR 33 is inappropriate legislation because if the committee was qualified to be an oversight agency it would have answers to what the contingency plans are. She proposed that instead there be legislation requiring Chevron to pay for all of the workers who have been laid off and any economic impacts that might result from the items listed in the whereas clauses of the resolution. Chevron has had 42 years to realize that a terminal and tanks at the base of a volcano are a bad idea and a risk to other industries in the Cook Inlet. There is no mention in HJR 33 of the economic impact of fishing and tourism and what would happen if these industries were impacted by an oil spill, she continued. This reeks of trying to find ways to skirt oversight and mitigation plans, she charged.

2:38:46 PM

WHITNEY LOWE offered his belief that when deciding whether to shut the Drift River Oil Terminal, the Unified Command considered the significant economic impacts that would result and determined that the workers' safety and the safety of the environment were potential enough problems to warrant closing of the facility. It cannot be guaranteed right now that those potential dangers have dissipated, he argued, and it therefore seems shortsighted and inappropriate to now determine it is time to re-open the terminal; the potential long-term costs of such an action must be looked at. He supported the idea of a pipeline across the east side so the terminal could be closed and agreed with Representative Seaton's proposed conceptual amendment.

CO-CHAIR NEUMAN closed public testimony. He said he thinks there are some members of the public and the legislature that would not mind seeing the words "that was affected by the eruption of Mt. Redoubt" taken out [from page 2, line 19] in order to get some production of Cook Inlet going.

[2:41:35 PM](#)

REPRESENTATIVE OLSON said he would like to take HJR 33 back so he can incorporate the amendments suggested by Representative Seaton and Mr. Banks into a committee substitute. He pointed out that the Drift River Oil Terminal has been in that location for 42 years and he does not believe it has ever had a major leak or spill.

CO-CHAIR NEUMAN asked whether there have been any safety issues at the Drift River facility.

MR. BANKS said he does not know; he deferred to DEC.

CO-CHAIR NEUMAN requested the sponsor to ask DEC to come to the next hearing on HJR 33 to answer this question.

[2:42:51 PM](#)

REPRESENTATIVE KAWASAKI requested that someone from Unified Command also attend the hearing.

REPRESENTATIVE OLSON offered to get copies to members of the most recent communications from the Unified Command.

CO-CHAIR NEUMAN held over HJR 33.

[2:43:21 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:43 p.m.