

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

January 29, 2010

1:02 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Bryce Edgmon  
Representative Peggy Wilson

**COMMITTEE CALENDAR**

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

**PREVIOUS COMMITTEE ACTION**

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       |
| 04/13/09 | (H) | Heard & Held                    |
| 04/13/09 | (H) | MINUTE(RES)                     |
| 01/29/10 | (H) | RES AT 1:00 PM BARNES 124       |

**WITNESS REGISTER**

GARY ROGERS, Oil & Gas Revenue Specialist  
Tax Division  
Department of Revenue (DOR)

Anchorage, Alaska

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

DAN STICKEL, Petroleum Economist

Tax Division

Department of Revenue (DOR)

Juneau, Alaska

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

MARCIA DAVIS, Deputy Commissioner

Office of the Commissioner

Department of Revenue

Anchorage, 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.

BILL NOLL

Seward, Alaska

**POSITION STATEMENT:** Supported HB 217.

#### **ACTION NARRATIVE**

[1:02:36 PM](#)

**CO-CHAIR CRAIG JOHNSON** called the House Resources Standing Committee meeting to order at 1:02 p.m. Present at the call to order were Representatives Olson, Seaton, Tuck, Neuman, and Johnson. Representatives Guttenberg and Kawasaki arrived as the meeting was in progress.

#### **HB 217-TAX ON GAS FOR IN STATE MANUFACTURING**

[1:02:36 PM](#)

**CO-CHAIR JOHNSON** announced that the only 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."

1:03:23 PM

REPRESENTATIVE NEUMAN, sponsor of HB 217, stated that the bill deals with the five percent production tax for gas, including liquefied natural gas (LNG) for in-state electrical generation and home heating [AS 43.55.900(24)]. It is an effort to do everything possible to provide opportunities for an anchor tenant for an in-state gas pipeline, such as a gas-to-liquids (GTL) plant or natural gas liquid (NGL) export. Thus, HB 217 would provide a production tax rate of five percent for gas that is used to create jobs in Alaska rather than the current rate of 25 percent plus progressivity.

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REPRESENTATIVE SEATON inquired whether this would apply to all basins across the state.

REPRESENTATIVE NEUMAN answered, "If it is in Alaska."

REPRESENTATIVE SEATON asked how the proposed differential tax rate on gas would work as far as the allocation of costs under the State's current production tax credits and production taxes for wells that are both oil and gas on the North Slope.

REPRESENTATIVE NEUMAN replied that the production profits tax (PPT) applies to oil, whereas the tax rate under HB 217 would apply to gas production. Currently, there are many different rates, deductions, and credits depending upon whether it is downstream, midstream, upstream, or what field the production is from. If the gas is put into a factory to create jobs in the state, then HB 217 would provide a lower production tax rate for that gas.

1:08:11 PM

REPRESENTATIVE SEATON noted he is not opposed to HB 217, he is just trying to figure out how it would work. He asked whether the term manufactured would apply to liquefied natural gas under HB 217.

REPRESENTATIVE NEUMAN responded that liquefied natural gas is gas, and under current law the production tax rate for liquefied

natural gas that is used for home heating or electrical generation is five percent.

CO-CHAIR JOHNSON interjected that [electrical] generation is already in statute, and HB 217 would add "or used as fuel stock in manufacturing."

[1:09:10 PM](#)

REPRESENTATIVE SEATON said he is asking for clarification on whether conversion of gas to liquefied natural gas (LNG) is considered a manufacturing process.

CO-CHAIR JOHNSON referred the question to Gary Rogers.

GARY ROGERS, Oil & Gas Revenue Specialist, Tax Division, Department of Revenue (DOR), explained that under current State law, LNG is not treated as a manufactured product; it is treated as gas, and it is netted back from its ultimate disposition point or sales delivery point. The conversion of natural gas to LNG is presently considered a transportation process.

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REPRESENTATIVE SEATON inquired whether that is an interpretation or a statutory definition. He said he is concerned the State could get into the argument of an LNG export facility that has very little tax rate on it, which he believes is not the sponsor's intention.

MR. ROGERS answered he believes it is in regulation and the State's past history of practice, but is not statutory. That would be an item that would certainly be recommended for clarification, he added.

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REPRESENTATIVE TUCK offered his support for the intent of HB 217 and the encouragement of manufacturing in the state. He requested a review the areas that Representative Neuman would like to see promoted under this bill.

REPRESENTATIVE NEUMAN said he would like to see HB 217 provide the opportunity to create jobs in Alaska by being an incentive to inspire gas operations, such as a gas-to-liquids plant doing alternative fuels. A specific purpose is to create an anchor tenant for an in-state gas pipeline as a pipeline would help

create jobs. Another possibility is gas to Donlin Creek Gold Mine as he understands the mine owners may not go forward because of the lack of energy supply. This is just the beginning of the discussion of what can be done, he noted.

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REPRESENTATIVE NEUMAN returned to Representative Seaton's previous line of questioning. He explained that in regard to manufacturing there is the law and there is dictionary terminology. Manufacturing is described as a molecular change. Export of LNG would compete against the Alaska Gasline Inducement Act (AGIA) and exports from a large diameter pipeline, and this is not what is being talked about here. In a manufacturing process the gas would be changed into a product other than gas. In the case of a gas-to-liquids processing plant it would go through a Fischer-Tropsch process to create an alternative fuel, such as a jet, diesel, or marine fuel.

[1:14:07 PM](#)

REPRESENTATIVE TUCK understood that the conversion of gas to fertilizer is a feedstock situation which would be included under HB 217. He asked whether a smelter plant that uses natural gas for the heating process already receives the five percent production tax rate under current statute.

REPRESENTATIVE NEUMAN deferred [to Mr. Rogers].

MR. ROGERS replied that [DOR] issued an advisory bulletin in February 2009 in response to a company asking whether gas used as part of the feedstock in manufacturing qualifies as gas used in-state, and the answer is no, it does not. However, gas used as fuel to generate electricity, run equipment, or generate heat does qualify as used in-state.

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REPRESENTATIVE KAWASAKI noted that Fairbanks has a production plant for jet fuel. He asked how this plant would be affected by HB 217. For example, this plant currently uses portions of the oil to generate heat.

CO-CHAIR JOHNSON pointed out that HB 217 affects natural gas and the aforementioned plant uses oil. He said that plant would love to have the opportunity to use natural gas.

REPRESENTATIVE NEUMAN understood that the aforementioned plant purchases its electricity from Golden Valley Electric and Golden Valley Electric has a gas pipeline that delivers gas used for electrical generation.

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DAN STICKEL, Petroleum Economist, Tax Division, Department of Revenue (DOR), stated that he, Deputy Commissioner Marcia Davis, and Gary Rogers are available to answer questions.

[1:18:40 PM](#)

REPRESENTATIVE SEATON inquired how HB 217 would influence the credits and deductions for the expenses of a North Slope field that is both oil and gas.

MR. STICKEL responded that [DOR] has not looked specifically at how HB 217 would relate to a facility on the North Slope.

MR. ROGERS explained that because gas used in-state is considered a favored tax rate under Section 43.55.011(o) of Alaska's Clear and Equitable Share (ACES), the allocation of costs is not based on credits or tax rates, but is based on equivalent British Thermal Unit (BTU) barrels. So, in a unit with both oil and gas, costs would be allocated based on the BTU equivalents of each. In regard to credits, some credits such as the exploration tax credit, might have a reduction. There are some tax savings due to the favored tax rate for gas used in-state and that could limit a company on the application of some of its credits if it had unused tax credits under AS 43.55.025. Other than that there is not much effect.

[1:20:57 PM](#)

REPRESENTATIVE SEATON understood Mr. Rogers' answer to mean that the allocation of lease costs is then on the BTU of what is coming out of the well as oil or gas and not on the monetary value of oil and gas.

MR. ROGERS answered correct.

CO-CHAIR JOHNSON added that ACES has a BTU equivalent to treat oil and gas similarly, which is something that will have to be dealt with in the future.

[1:21:35 PM](#)

REPRESENTATIVE SEATON noted he is trying to understand the consequences. He asked whether it would be a positive or negative incentive for a field that has credits or upstream costs if the BTU equivalent is 6:1 and the value difference is 15:1, which is about where it is today.

MR. ROGERS replied he does not have an answer off the top of his head because this would require some modeling. He said there is also a provision under [43.55.011(m)] of ACES that affects credits and he does not believe that ACES specified how to allocate costs between oil and gas. He thinks the use of BTU equivalent barrels was established by [DOR] regulation.

[1:23:24 PM](#)

CO-CHAIR JOHNSON inquired whether Mr. Rogers is saying [DOR] has the regulations written.

MR. ROGERS responded that some regulations were written, and he thinks it was one of the very first packages of regulations that [DOR] did.

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REPRESENTATIVE SEATON requested that members receive this information for background as the bill is considered further.

CO-CHAIR JOHNSON said it is his intention to hold HB 217 today and to bring it up again on Monday [February 1] and report it from committee provided a major problem is not found.

[1:25:14 PM](#)

REPRESENTATIVE GUTTENBERG asked whether there are regulations defining exactly what a feedstock is.

MR. ROGERS answered that [DOR] does not presently have a regulatory definition of what a feedstock is; more or less it is a term commonly used in the industry.

REPRESENTATIVE GUTTENBERG interjected, "You know it when you see it."

MR. ROGERS said yes.

[1:26:12 PM](#)

REPRESENTATIVE GUTTENBERG inquired whether there is any conflict with the "commerce clause" given this deals with both oil and gas used in-state.

MR. ROGERS pointed out that the used in-state only applies to gas used in-state under AS 43.55.011(o), and this is the only used in-state reduced tax rate; oil is not included.

[1:27:20 PM](#)

MARCIA DAVIS, Deputy Commissioner, Office of the Commissioner, Department of Revenue, in response to Representative Guttenberg, explained that [AS 43.55.011] of ACES establishes all of the various tax rates. Subsection (o) was added late in the process and was a specific provision targeting only gas that was used in-state; it was put in place to provide some mitigation of the costs of use of gas for the citizens of Alaska. She recalled that at the time subsection (o) was inserted, the Department of Law discussed the constitutionality of this particular provision and determined that it is a privileges and immunities type of an argument that makes this provision perhaps somewhat vulnerable. However, at that time it was concluded that until gas was exported and used as fuel outside of the state, such that there were people who could claim disparity or unequal protection of the laws, there were no fouls being committed by this particular section. For that reason a sunset was put on subsection (o) which requires it to go away at the end of calendar year 2021.

[1:29:26 PM](#)

REPRESENTATIVE SEATON posed a scenario on the allocation for expenses that a company would get to write off for lease expenses for tax credit on a gas and oil well on the North Slope. He asked if he is correct in understanding that if it is an oil well, the company would be looking at the tax credit, plus the tax rate on the oil, including progressivity depending on profits, and if it is on gas and the tax rate is 5 percent, that basically the maximum the company could get is 5 percent plus its tax credit instead of having State participation such as 45-50 percent in the well drilling process and lease expenses.

MS. DAVIS replied that this particular provision says that if gas from a location other than Cook Inlet is burned and used as fuel in-state it will have the lower tax rate. That means that a North Slope producer that has gas that is burned as heat for

the Deadhorse airport or elsewhere on the North Slope will have the lower tax rate. She pointed out that gas consumed to produce the oil and gas is not taxed as it is a cost of doing business. She said she therefore is not sure how it would detriment the operations on the North Slope or impact the State's calculations of credits and so forth in the overall oil and gas production operation on the North Slope.

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MR. ROGERS added that the tax rate is the lower of the tax calculated by taking the value less the lease expenditures or the five percent tax rate on gas used in-state. A significant difference between the ACES tax rate on the value less the lease expenditures - i.e. the 25 percent progressivity, and the 5 percent tax rate on gas used in-state - may reduce the availability of some of the tax credits that the company could otherwise apply that year. However, there is not a direct impact on lease expenditures themselves of the 5 percent used-in-state tax rate.

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REPRESENTATIVE SEATON noted that the general philosophy of ACES was that there would be a fairly high profits tax and really good credits, and those two things added together would give a lot of State participation in the lease expenditures. He asked whether a production tax rate of 5 percent would limit the State's participation to 20 percent tax credit for drilling plus 5 percent, so that the maximum incentive that the State gives a company to explore and drill, as long as it is not over 25 miles away, is then 25 percent participation rather than the 60-65 percent participation that has occurred in some exploration and development wells. He said he wants to understand whether by doing this the incentive is actually lowered for investment in the field.

MR. ROGERS responded he thinks it is just the opposite. The State is providing an incentive by telling a producer that its tax rate is limited to five percent on gas that is used in-state that meets the qualifications proposed by HB 217. It is difficult to produce the exact incentive in numbers unless scenarios are modeled with prices, price levels, and lease expenditure levels, but if a company has gas used in-state the tax may not exceed the 5 percent limitation rate and that in itself is an incentive compared to the ACES tax rate which is 25 percent base plus progressivity, which depends on a combined

production tax value of oil and gas. Lease expenditures are not being lost, they would still be there. While some of the credits might have to be deferred, they would still be available.

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REPRESENTATIVE SEATON said he is still unclear on this because when the [ACES] system was created he understood that while the 25 percent base tax rate with progressivity was a fairly high tax rate, a company got to deduct that tax rate from its lease expenditures which could result in the State participating at 60-70 percent or even over 100 percent under certain scenarios. While a company would [still] get its full tax credit for its lease expenditures [under HB 217], it seems that State participation is based on the PPT or the ACES tax rate.

CO-CHAIR JOHNSON offered his understanding that the in-field expenditure is based on the expenses using a sliding scale, not the tax rate. Basically, HB 217 would treat North Slope gas just like Cook Inlet gas.

[1:38:59 PM](#)

REPRESENTATIVE TUCK understood that under current law the same deal that is applied to Cook Inlet gas is also applied to others as long as the gas is consumed within state as fuel or to generate electricity. Under HB 217, this tax benefit would be extended to gas used in the manufacturing process. However, the company doing the manufacturing may not be the same company producing the gas. Given that the tax cap is for the producer, not the manufacturer, he asked if the hope under HB 217 is that the manufacturer will have a preferred gas supply due to the tax break offered to the producer.

CO-CHAIR JOHNSON responded that HB 217 would lower the price and lowering the price would give the incentive for a manufacturer to come in, which would create jobs. He said he does not think "a ConocoPhillips, or BP, or an Exxon" will come in and build a gas-to-liquids plant; rather, a third party would be able to buy that fuel at a lesser rate because the State is giving a tax reduction to the producer. So, the price will flow down, and if it does not, then a third party would not build and the producer would not have that market.

[1:40:51 PM](#)

KEVIN BANKS, Director, Division of Oil & Gas, Department of Natural Resources, said he understands Representative Seaton's questions and concerns. He offered to meet with Representative Seaton privately to provide further response and explanation.

REPRESENTATIVE SEATON agreed and requested that all members receive diagrams depicting the consequences of HB 217. He reiterated he is not unsupportive.

[1:42:00 PM](#)

MS. DAVIS, in response to Co-Chair Johnson, agreed to prepare information comparing the situation of a North Slope producer providing gas with and without the HB 217 incentive. This would show the economics, and how it would appear from the perspective of a North Slope producer, which should answer Representative Seaton's question.

REPRESENTATIVE SEATON said he wants to ensure that members look at the effect on the incentives for drilling and production as well as just the sale of gas that a producer has.

MS. DAVIS agreed, saying she understands that Representative Seaton's dominant concern is what HB 217 would do to the inherent incentives that were the structure of ACES.

REPRESENTATIVE SEATON replied correct.

[1:43:11 PM](#)

REPRESENTATIVE GUTTENBERG said he shares Representative Seaton's concerns about unintended consequences. In reference to the situation brought up by Representative Tuck, he pointed out that it is the producer, not the manufacturer, that is getting the break and he is therefore concerned the manufacturer might not see that break. For example, Fairbanks has an oil pipeline going through it and residents there do not get a break. He suggested that in HB 217, "use" for consumption might be more appropriate than "delivered" for consumption.

CO-CHAIR JOHNSON agreed to come back to this, but said he thinks that is a commercial arrangement that needs to be made between the manufacturer and the producer; HB 217 provides an incentive. [The legislature] should not get involved in commercial agreements unless something comes up. There are people genuinely interested in doing business in Alaska who need this natural gas but who cannot function under the current tax rate.

This would provide incentive and send a message that the State is open for business, which is not currently the case.

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REPRESENTATIVE TUCK inquired whether there are any other statutes that could potentially be affected by HB 217 and whether anything beyond natural gas could be affected.

CO-CHAIR JOHNSON deferred to Ms. Davis.

MS. DAVIS responded that [DOR] has looked at this, and it should be okay as long as the manufacturing process is thought through to ensure that the characteristics of the gas are not changed; for example, conversion to LNG is merely changing the form of the gas for transportation. One area needing more thought is the gas-to-liquids type of process where gas is transformed into a diesel product; that transformation process needs further consideration to determine whether it is more analogous to the LNG situation. While that is truly a molecular transformation into another product, it has the manufacturing characteristics, so it must be thought through as to how to value that. One of the challenges is whether to look at it as gas sold and if the point of production is looked at, then how should it be valued. As far as other standard manufacturing, [DOR] has already gotten its arms around the use of gas as fuel. There may be issues about liquefied petroleum gas (LPG) in which gas is taken off and transformed into propane. However, as long as it is understood which side of the fence the extraction of the various forms of liquids falls on, it should be okay. She said she does not see HB 217 reaching into any other statutory structures like credits or allocation of costs.

[1:49:42 PM](#)

MS. DAVIS, in further response to Co-Chair Johnson, agreed that she, too, thinks of manufacturing as changing one thing into another. However, she has found that people very knowledgeable about the petroleum industry may see a particular process as a transformation process rather than a manufacturing process. Therefore, she would like to step back and make sure [DOR] thinks this through with the experts and draws a line that is clear enough for the taxpayers to understand which side of the line they are on in regard to the various processes.

[1:50:23 PM](#)

REPRESENTATIVE SEATON inquired whether there is already in place a good definition of natural gas which distinguishes the point at which propane is or is not natural gas.

MS. DAVIS replied that Section 43.55.900(8), of ACES describes gas as: all hydrocarbons that are recovered by mechanical separation of well fluids or by gas processing in a gas processing plant, and exist in a gaseous phase at the completion of the mechanical separation in any gas processing. [Section 43.55.900(9)] identifies gas processing as something that involves use of absorption, adsorption, externally applied refrigeration, artificial compression followed by adiabatic expansion using the Joule-Thomson effect, or another physical process that is not mechanical separation. She said she thinks that externally applied refrigeration picks up the LNG.

[1:51:55 PM](#)

REPRESENTATIVE SEATON asked whether propane is considered natural gas.

MS. DAVIS answered she thinks propane is clearly gas because it is pulled out due to chilling and compression processes applied to the gas stream. Gas-to-liquids is a different thing, she continued, and she is unsure whether it falls under gas processing or manufacturing, so [DOR] needs to look at this to see what can be done to provide more clarity as to where the line is drawn. In response to Co-Chair Johnson, she said [DOR] may not be able to look at this by Monday [2/1/10] as expertise from people in the industry will need to be brought in.

[1:53:15 PM](#)

REPRESENTATIVE TUCK said it is important that members understand the manufacturing definition as it applies to liquid natural gas. If gas that is turned into liquid natural gas is defined as being manufactured, then under this provision that definition would also apply to liquid natural gas that is manufactured for export. He offered his belief that if LNG is excluded from the definition of manufacturing, then LNG can still be used for fuel for power generation and for other needs based on the first part of AS 43.55.900(24).

[1:54:20 PM](#)

CO-CHAIR JOHNSON asked whether it is Representative Tuck's intention that gas sold as jet fuel and flown out of the state be exported.

REPRESENTATIVE TUCK responded that in that case the gas would be a feedstock for a manufactured process because that would be a gas-to-liquids process and he would hope that gas-to-liquids would fall into the definition of manufacturing. Liquid natural gas is the one he is concerned about because it could be more of a transport definition than manufacturing.

[1:55:00 PM](#)

CO-CHAIR JOHNSON opened public testimony.

BILL NOLL testified that HB 217 looks like a proper and useful tool to prospective manufacturers and developers around the world. How to move Alaska's tremendous natural gas resource has been a puzzle ever since the discovery of oil on the North Slope in 1968. Although there may be unexpected negative consequences, there might be unexpected positive consequences. The bill would provide an opportunity to monetize some of that tremendous asset. The benefits in terms of jobs, other tax-based development, indirect jobs, transportation, and marketing are easy to enumerate. He said he therefore enthusiastically supports HB 217. At Co-Chair Johnson's request, Mr. Noll said his background experience includes his current membership in Alaska Ratepayers, a nonprofit that is seeking ways to level rates for ratepayers, particularly those residing in the Railbelt. He was also commissioner and deputy commissioner of the Department of Commerce, Community, & Economic Development during the Murkowski Administration, as well as deputy commissioner under the Hickel Administration. He listed other private and public positions he has held over the years. He added that he sees this as a giant economic development project that is quite different from the pipeline to Alberta or the conversion of gas to LNG for export to Asia. Should legislators, producers, and developers get this on line, the state could easily be looking at 1,000 jobs for a very long period of time, which he greatly encourages.

[2:00:35 PM](#)

CO-CHAIR JOHNSON closed public testimony after ascertaining that no one else wished to testify. He agreed that HB 217 is an economic opportunity because there are people looking at Alaska

but the State's tax structure is standing in the way. He announced that he is holding over HB 217.

REPRESENTATIVE NEUMAN said he worked hand-in-hand with the administration while drafting HB 217. He noted that many of Representative Seaton's questions have to do with ACES, the Alaska Gasline Inducement Act (AGIA), and other legislation, and HB 217 has nothing to do with that. He reiterated that HB 217 would provide for using gas as a feedstock which would supply jobs. He reiterated that manufacturing is described as a molecular change. He further noted that the Fischer-Tropsch process is the fuel of the future and has strong world-wide demand.

MS. DAVIS, in response to Representative Olson and Co-Chair Johnson, said [DOR] will strive to have a fiscal note for HB 217 by Monday [2/1/10].

[2:05:39 PM](#)

REPRESENTATIVE TUCK asked whether it is possible to create difficulty for ratepayers by having the incentive increase demand so much that it ends up raising the rates. He said he wants to ensure that the gas is not just shipped out and that there is enough supply.

CO-CHAIR JOHNSON explained that without this kind of anchor tenant for any kind of in-state gas pipeline the tariffs would be huge and would double or triple the current cost of gas in Anchorage. Regardless of the tax structure, an anchor tenant would result in the taking of enough gas to lower the tariffs and generate a savings to the consumers. The desire with this tax break is to attract anchor tenants which would allow an in-state gas pipeline to go from 250 [million cubic feet per day (MMcfd)] to 500 MMcfd, which would lower the tariff.

REPRESENTATIVE TUCK concurred that an anchor is the key as this is what would bring the volume. However, this legislation alone may not be enough and other things may still need to be looked at so as to benefit Alaskans to the maximum.

[2:08:51 PM](#)

CO-CHAIR JOHNSON said that HB 217, coupled with "Agrium" and export, might get the state where it needs to be. All the doors need to be kept open and HB 217 is the first step to get serious

players into Alaska to allow the economics of an in-state pipeline to work.

REPRESENTATIVE NEUMAN stated he is available to answer questions at any time. He pointed out that right now the fiscal note for HB 217 is zero.

[2:10:20 PM](#)

REPRESENTATIVE SEATON said he fully agrees with the aforementioned, but HB 217 is about a production tax, not an anchor tenant. This tax rate would not go to the manufacturer, it would go to the producer, and that is why he is concerned about the effects of the bill. A 5 percent production tax has been in effect in Cook Inlet for 20 years, yet there still has not been the exploration. Other types of credits and incentives have also been implemented and still there has not been the exploration. He advised that as the program goes forward, the legislature will have to come back to see whether it is accomplishing the goal. He said he is not arguing against the bill, he is pointing out that lowering the tax does not mean the profit margin will be there.

CO-CHAIR JOHNSON agreed that those are valid points and members will have a chance to look at some spread sheets to see exactly what HB 217 has.

[2:12:07 PM](#)

REPRESENTATIVE OLSON related that [a potential] anchor tenant come down to the Kenai Peninsula three years ago. The [potential] tenant met with numerous people and the borough had vacant land available along with existing infrastructure and gas lines. However, the conversation ended when the [potential] tenant learned that 1 billion cubic feet per day (Bcfd) of gas for the next 10 years was not available. He concurred with Representative Neuman that an in-state gasline must carry a surplus of at least 1 Bcfd to attract an anchor tenant.

[2:13:20 PM](#)

REPRESENTATIVE NEUMAN again urged members to come talk to him.

MS. DAVIS, in response to Co-Chair Johnson, said [DOR] will work on the modeling that will respond to the concerns about impact to the current incentives under ACES.

CO-CHAIR JOHNSON encouraged members to talk to the sponsor and to Ms. Davis directly.

[2:14:18 PM](#)

MR. ROGERS, in response to Co-Chair Johnson, pointed out that the reference [in today's conversation] has been to a 5 percent tax rate. However, it is 5 percent times a value, which works out to 17.7 cents per Mcf [thousand cubic feet]. It is not like 5 percent on the gross value, it is 5 percent times an average historical value of about \$3.65, so 17.7 cents is the 5 percent that is being talked about here and that is fairly low.

[HB 217 was held over.]

[2:14:55 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:15 p.m.