

SENATE FINANCE COMMITTEE

April 6, 2010

9:09 a.m.

9:09:36 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Chris Maisch, Director, Division of Forestry, Department of Natural Resources; Senator Bill Wielechowski, Sponsor; Kevin Banks, Director, Division of Oil & Gas, Department of Natural Resources

PRESENT VIA TELECONFERENCE

Erin McLarnon, Board of Forestry, Willow; Carl Portman, Deputy Director, Resource Development Council; Dick Coose, Retired Forester, Ketchikan

SUMMARY

HB 162 SOUTHEAST STATE FOREST

HB 162 was heard and HELD in Committee for further consideration.

SB 208 DNR STUDY ON NATURAL GAS

SB 208 was heard and HELD in Committee for further consideration.

[9:10:36 AM](#)

#hb162

HOUSE BILL NO. 162

"An Act establishing the Southeast State Forest and relating to the Southeast State Forest; and providing for an effective date."

CHRIS MAISCH, DIRECTOR, DIVISION OF FORESTRY, DEPARTMENT OF NATURAL RESOURCES, addressed the Senate Committee Substitute for HB 162, which establishes the Southeast State Forest. He said he would go through a sectional analysis of the bill.

[9:11:34 AM](#)

Co-Chair Stedman suggested explaining the bill so the people listening at home could understand it. Mr. Maisch agreed to do so.

Mr. Maisch read the sectional analysis:

This bill would establish a new Southeast State Forest (SESF). The SESF would be managed as part of the State Forest System under AS 41.17.200.230. Lands in the State Forest would continue to be open for multiple uses, including wildlife habitat and harvest and recreational activities. The State Forest designation would not affect the Wrangell Borough municipal entitlement, nor would it affect calculation of entitlement acreage for future municipalities in southeast Alaska.

Section 1 - Southeast State Forest

Legal descriptions. Section 1, subsections (a) and (d) provide legal descriptions for the lands to be designated as the Southeast State Forest (SESF). Designated lands include 20 parcels totaling approximately 25,291 acres (see chart) on Prince of Wales, Tuxekan, Kosciusko, Heceta, Revilla, and Gravina islands, and on the mainland at Crittenden

Creek. These parcels are an important part of the state timber base, but are classified as General Use land, which may be sold in the future. Legislatively designating a State Forest would ensure that some land will remain available for long-term forest management, and enable thinning to increase timber volumes. Designated lands exclude areas identified as important sites for future state land disposals.

Management plan and transportation corridor. Subsection (b) directs DNR to prepare a management plan for the Southeast State Forest. Under AS 41.17.230 a management plan is required within three years after a State Forest is established. State Forest management plans must consider and permit multiple uses, include recreation and tourism, mining, use of fish and wildlife, and other traditional uses, unless the Commissioner issues a site-specific written finding that a use is incompatible with one or more other uses. Public, interagency, and Board of Forestry review is required prior to adoption of a State Forest management plan. As in other state forests, Subsection (c) states that the DNR Commissioner may also establish transportation corridors within the State Forest.

Municipal entitlements. Subsection (e) clarifies the relationship of the Southeast State Forest to current and potential municipal entitlements. State Forests can affect the amount of land a municipality is entitled to select, and the land available for selection. The amount of land a municipality may select is based on the maximum total acreage of vacant, unappropriated, unreserved (VUU) land in the borough boundaries within two years after the date of incorporation (AS 29.65.030). Municipal selections are limited to VUU land. Land classified as General Use land is VUU land, but State Forests are not.

The SESF is designed to have no impact on Wrangell Borough land selections. The amount of land that Wrangell Borough may select is already fixed by its date of incorporation, and this bill specifies that the Wrangell Borough may select State Forest land within the borough boundary. Three parcels in the SESF are within the Wrangell Borough boundary.

If new municipalities are incorporated before June 30, 2019, the SESF will not affect the amount of land that they can select. The bill specifies that State Forest lands that were VUU land before establishment of the State Forest will be included in the calculation of the entitlement acreage. However, parcels in the SESF may not be selected. If municipalities form after 2019, the amount and location of their entitlement would be based on the VUU land at that time.

Section 2. Regulations. This section authorizes DNR to immediately adopt regulations to implement the bill.

Section 3. Effective date for regulations. Under Section 3 the authority to adopt regulations (Section 2) takes effect immediately.

Section 4. Effective date for State Forest. Section 4 provides for an effective date of July 1, 2008.

[9:16:20 AM](#)

Mr. Maisch explained the process of developing the legislation. It is a project that has been in the works for about four years. There has been extensive public involvement.

Mr. Maisch related that he has spoken at two Southeast Conference annual meetings about the legislation, and Southeast Conference has submitted a letter of support. He also reported speaking to Tongass Futures on numerous occasions.

Mr. Maisch pointed out that the Board of Forestry has discussed the legislation. The Board is comprised of eight members who represent Alaska Native corporations, forest industry trade associations, non-governmental organizations, a professional forester, a professional fish and wildlife biologist, a mining organization, a commercial fish organization, a recreation seat, and an environmental organization. He referred to a letter of support from the Board. He also listed letters of support from the Resource Development Council, the Society of American Foresters, the City of Wrangell, Community of Coffman Cove, and the Alaska Forest Association.

Mr. Maisch said the department has discussed the proposal in numerous forums throughout the state.

[9:18:29 AM](#)

Senator Thomas asked if the RS 2477 trails are preserved. Mr. Maisch reported that they were. Access will be maintained.

Senator Olson inquired about an additional selection by the Wrangell Borough. Mr. Maisch reported on negotiations with Wrangell through the Division of Mining, Land, and Water which led to a compromise on the parcels selected. He noted a parcel near Wrangell that the borough will select as a part of their entitlement selection.

Senator Olson asked if Wrangell was in favor of the bill. Mr. Maisch reported a letter of support from Wrangell.

[9:20:34 AM](#)

Co-Chair Stedman noted one zero fiscal note by the Department of Natural Resources.

Co-Chair Stedman asked if there was any opposition to the bill. Mr. Maisch addressed parcels that were opposed; SEACC did not want to see two parcels on Gravina Island used for forest management purposes, and there was opposition to Crittenden Creek. He said the two parcels were already owned by the state and had been through an area planning process in Southeast Alaska. There were extensive public meetings and the lands were established as general use lands in the area plan with intent to use them for forest management.

[9:22:16 AM](#)

ERIN MCLARNON, BOARD OF FORESTRY, WILLOW (via teleconference), spoke in favor of the bill. She emphasized that not only will the new state forest provide long-term forest management, it will also provide recreational activities. As a representative of the Willow Dog Musers Association, she appreciated the more accessible trails. She shared her personal story and listed reasons why she supports the creation of state forests. She stressed the importance of the jobs the new state forest would provide.

[9:24:38 AM](#)

CARL PORTMAN, DEPUTY DIRECTOR, RESOURCE DEVELOPMENT COUNCIL (via teleconference), testified in support of HB 162. He stated that with the establishment of a new state forest in Southeast Alaska, the Division of Forestry would be able to manage state lands for a long-term supply of timber to local processors and retain the land in state ownership for multiple use. The forest would be managed as part of the state forest system.

[9:26:28 AM](#)

DICK COOSE, RETIRED FORESTER, KETCHIKAN (via teleconference), spoke in favor of HB 162. He stated that a Southeast Forest would maintain some semblance of a forest industry while practicing multiple-use management on state lands. He suggested obtaining additional acreage from the Tongass National Forest and designating it as state forest in order to build back what has been lost.

[9:28:17 AM](#)

HB 162 was heard and HELD in Committee for further consideration.

#sb208

SENATE BILL NO. 208

"An Act requiring the Department of Natural Resources to evaluate current incentives and recommend additional incentives that would increase gas exploration, development, and production in the Cook Inlet sedimentary basin; and requiring the Department of Natural Resources to evaluate the means by which the department may explore for, purchase, and sell natural gas from newly proved gas reserves in the Cook Inlet sedimentary basin."

[9:28:46 AM](#)

SENATOR BILL WIELECHOWSKI, SPONSOR, introduced SB 208 to the committee:

SB 208 calls on the departments of Natural Resources and Revenue to complete two tasks by December 1 of this year.

The first is to evaluate the effectiveness of existing incentives designed to increase exploration for and production of natural gas in Cook Inlet.

The second is to identify and evaluate additional steps the legislature could take to increase production of gas in Cook Inlet.

It is well known that reserves of natural gas in Cook Inlet are declining.

You have probably all seen this chart - known as the "waterfall chart" - which depicts a precipitous decline in the known reserves of Cook Inlet gas.

The chart and testimony indicate that as early as 2012, homes and businesses in Southcentral Alaska could be without sufficient supplies of natural gas.

Earlier this year, we received encouraging news about this looming gas shortage when DNR completed a new assessment of known, possible, and probably reserves in the Inlet.

This review concluded that if sufficient investment in Cook Inlet exploration were made, supplies could last a great deal longer.

While the new assessment provides welcome news, the challenge remains - What actions can and should the state take to encourage producers to invest more in the Inlet?

Which incentives are likely to work and which simply transfer revenue from the state treasury to companies which may already have sufficient incentive to drill, given proper market conditions.

Are there steps the state can take other than lowering tax rates or increasing credits which might have a greater effect on private sector behavior?

This question is particularly compelling in light of the very modest tax rates and generous tax credits that producers in the Inlet already enjoy.

The legislature has already gone to lengths to encourage more production in Cook Inlet. To what extent are these incentives working?

This bill seeks to answer this question and others. For example, what are other jurisdictions doing to promote more investment?

If the small size of the market in Alaska is an impediment to new exploration and production - which we have heard - are there steps the state can take to "enhance" the market to ensure that producers see a return on their investment in a reasonable timeframe?

For instance, could the state commit to buying a percentage of newly proven reserves upfront so investors don't have to wait decades to reap the benefits of their investment?

Earlier this session, you heard testimony that the state already reimburses companies for 45-65% of their exploration costs. Given this, how can the state partner more effectively with industry to ensure that the needs of Alaskans for a long-term, affordable and reliable source of gas are met?

This bill calls for a quick analysis of these questions.

It asks DNR and DOR to assess the effectiveness of existing fiscal inducements, propose new incentives it believes would be useful, and then look broadly at what other strategies the state might employ to make sure Alaskans don't tumble over the cliff depicted in DNR's "waterfall chart."

Most importantly, it calls for this work to be done expeditiously - by December 1 - so that the legislature can act swiftly next year once the foundation for a more informed decision has been laid.

[9:32:14 AM](#)

KEVIN BANKS, DIRECTOR, DIVISION OF OIL & GAS, DEPARTMENT OF NATURAL RESOURCES, explained that a couple months ago, the sponsor's staff asked if such a project was feasible and if it could be implemented in a short time. The department's

first recommendation was to make the bill with an immediate effective date. He informed the committee that there was a firm already under contract by the department which might be able to undertake this task. He suggested that Gaffney Cline & Associates' contract could be modified to provide the information needed.

[9:34:34 AM](#)

Co-Chair Stedman asked if there is any need to change the time constraint in order to meet the December 1 deadline. Mr. Banks thought the immediate effective date, along with using the existing contract, would work.

Co-Chair Stedman spoke of a concern about making good public policy calls instead of reactionary calls regarding the natural gas supply in the Railbelt. He said that there are currently many bills that offer incentives, some of which seem to be a little "detached" from a public policy process, which would define the issue and target governmental action to solve the problem of running out of gas. He requested an opinion from Mr. Banks about finding a solution in Cook Inlet.

Mr. Banks believed that most tax policy, with respect to incentives, either by reducing tax or by providing a credit is "like pushing a string". He further stated that there are contractual relationships with lessees that somewhat limit what the department can encourage producers to do. This bill asks the department to use creative thinking about whether the state can have a more active role in the market place, in exploration, and in the development of resources in the Cook Inlet. He maintained that it was worth examining the state's role using a measured approach.

Co-Chair Stedman explained that Cook Inlet does not have a tax structure like the North Slope does. The credits have been increased and broadened in the past years. The legislature ensured that Cook Inlet was not impacted by ACES. There is no direct connection between the tax structure in the Arctic and in Cook Inlet. He reported a concern that the taxes in Cook Inlet were approaching zero. He stressed that he is encouraged by this legislation.

[9:38:51 AM](#)

Mr. Banks said he would consider those comments as the department moves forward on the study, if it is the will of the legislature.

Senator Huggins complimented the sponsor for the legislation. He questioned why it takes legislation to produce common sense action. He asked what the department would do if the bill did not exist. Mr. Banks reported on actions taken in the past. The department has tried to make sure the markets are sustained. There were discussions about the sale of royalty-in-kind gas.

[9:40:41 AM](#)

Co-Chair Stedman asked if the study would include regulations and involve the Regulatory Commission of Alaska. Mr. Banks thought the instructions were broad enough to consider regulations. "The marketing of" allows for the inclusion of the Regulatory Commission of Alaska's involvement.

Co-Chair Stedman suggested looking at a broader view of Cook Inlet. Mr. Banks agreed.

[9:42:40 AM](#)

Co-Chair Stedman noted two fiscal notes; one by the Department of Natural Resources for \$200,000 in general funds to hire outside consultants to complete the study, and a zero fiscal note by the Department of Revenue.

Senator Wielechowski commented on the challenge of the issue. He agreed with Senator Huggins' comments. He thought the bill would help in the long term.

[9:43:54 AM](#)

SB 208 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 9:44 AM.