

SENATE FINANCE COMMITTEE  
April 14, 2010  
3:19 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 3:19 p.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

Larry Hartig, Commissioner, Department of Environmental Conservation; Representative Mike Hawker, Sponsor; Marsha Davis, Deputy Commissioner, Department of Revenue; Dan Sullivan, Mayor, Anchorage; Tadd Owens, Director, Government and Public Affairs, Pioneer Natural Resources

PRESENT VIA TELECONFERENCE

Kevin Banks, Director, Division of Oil and Gas, Department of Natural Resources

SUMMARY

SB 4 COASTAL MANAGEMENT PROGRAM

CSSB 4 (FIN) was REPORTED out of Committee with a "do not pass" recommendation and with a new fiscal note by the Department of Revenue and a

new fiscal note by the Department of Environmental Conservation.

SB 309 GAS EXPLORATION\DEVELOPMENT TAX CREDIT

SB 309 was scheduled but not heard.

HB 365 FISH PROCESSOR FEES, LICENSES, RECORDS

HB 365 was scheduled but not heard.

HB 424 G.O. BONDS:EDUC./LIBRARY/RESEARCH FACIL.

HB 424 was scheduled but not heard.

HB 280 NATURAL GAS: STORAGE/ TAX CREDITS

HB 280 was heard and HELD in Committee for further consideration.

#sb4

SENATE BILL NO. 4

"An Act relating to the Alaska coastal management program; and establishing the Alaska Coastal Policy Board."

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LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, stated that the bill is important to the committee, as well as to the sponsors. The Department of Environmental Conservation works with the North Slope Borough and other communities on Village Safe Water Projects. He stressed that the department understands how important this bill is to rural communities and to all Alaskans. He related that the bill provides for a fundamental change in state policy to allow for the transfer of Alaskan resource projects from state agencies to local boards. He expressed respect for the community leaders in coastal communities, but maintained that the department has a fundamental difference in policy.

Commissioner Hartig emphasized that the state believes that the decisions on major projects, like oil, gas, and port projects, must reside with state agencies. One reason for this belief is fairness throughout the state. The same

rules should apply to every community. Every Alaskan is entitled to the same level of environmental protection and each community should have the same standards in order to be assured of protection from the consequences from a project. He stated that the department has research and studies available to them. He noted that the projects are not easy and come with a lot of pressure and opposing interests. He maintained that fair, open, and impartial decisions would be difficult to make at a community level. Mr. Hartig concluded that the bottom line, with a shift in policy that SB 4 represents, is that the administration does not support transferring the authority and creating the risk just described.

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Mr. Hartig reported that the governor and the administration would like to see communication continue, but does not see the legislation as the vehicle toward the objective because of the differences in philosophy as to how decisions are made. The department could not come to terms with the language in the bill. He wished to keep communication open. He spoke of respect for local issues.

Co-Chair Hoffman took issue with the words "continue the dialogue" saying that he had requested dialogue with the governor's office, as has the mayor of the North Slope Borough, and no dialogue has taken place. He suggested that the dialogue needs to begin. He asked what changes in Version S need to be addressed.

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Mr. Hartig maintained that the governor's door is always open. He thought there was a misunderstanding and he apologized. As far as changes, until the administration comes to terms with the philosophical underpinnings, especially regarding large resource projects that affect the whole state, not much can be accomplished. He did not want to close the door on communication.

Senator Olson thanked the commissioner for coming. He thought it was not a good indication of the administration's good will to not have a representative in the discussion. He stressed that prior to 2003 when the Coastal Management Plan was gutted, there was plenty of development money. He wanted to get back to the previous

model. He talked about the issue of fairness. He emphasized the level of frustration felt by his district.

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Senator Olson MOVED to report CSSB 4 (FIN) out of Committee with individual recommendations and the accompanying fiscal notes.

Senator Huggins OBJECTED for discussion purposes. He commented on the extreme frustration regarding this legislation.

Senator Huggins WITHDREW his OBJECTION.

There being NO further OBJECTION, it was so ordered.

CSSB 4 (FIN) was REPORTED out of Committee with a "do not pass" recommendation and with a new fiscal note by the Department of Revenue and a new fiscal note by the Department of Environmental Conservation.

RECESSED [3:33:14 PM](#)

RECONVENED [5:16:58 PM](#)

#hb280

CS FOR HOUSE BILL NO. 280(FIN) am

"An Act relating to a gas storage facility; relating to the Regulatory Commission of Alaska; relating to the participation by the attorney general in a matter involving the approval of a rate or a gas supply contract; relating to an income tax credit for a gas storage facility; relating to oil and gas production tax credits; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to production tax credits for certain losses and expenditures, including exploration expenditures; relating to the powers and duties of the director of the division of lands and to lease fees for a gas storage facility on state land; and providing for an effective date."

REPRESENTATIVE MIKE HAWKER, SPONSOR, explained his reasons for proposing HB 280, the "Cook Inlet Recover Act". It addresses a very critical issue that all communities in the Railbelt are facing. Consumer energy is based nearly 100

percent on natural gas from Cook Inlet. The productivity of those fields has reached its natural decline point and peak demands won't be met within two winters becoming a life safety issue. It is a lead priority of Anchorage's administration. Stakeholders have reached conclusions as to what is needed to meet and to resolve this issue.

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Representative Hawker referred to a study that listed seven immediate needs for Cook Inlet. HB 280 addresses four of those needs. Most importantly, there is a need to develop major gas storage facilities for new gas and increasing deliverability in order to meet peak requirements. The bill provides a Facilities Development Credit against income taxes. He emphasized that the facilities would be delivering gas for utilities.

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Representative Hawker explained the credit would become a mandatory "flow through" to reduce the cost of gas to the consumers.

Representative Hawker discussed the storage facilities and whether they would be regulated by the Regulatory Authority of Alaska (RCA). The bill defines RCA's responsibilities. The bill also provides for storage for a company's own gas, which is not RCA regulated. It also provides for technical requirements.

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Representative Hawker spoke of the difficulty RCA has had in approving long-term contracts. The bill provides guidance when evaluating such contracts. The Regulatory Commission of Alaska is directed to consider the impact on consumers if it rejects a proposed contract - the "consequence of saying no" provision. The RCA is also directed to recognize the value of a utility holding a diversified portfolio of gas supply contracts with different pricing mechanisms. The bill provides for the Regulatory Affairs and Public Advocacy Division of the Department of Law (RAPA) to peruse the proposed contracts and abide by the same requirement to consider the consequence of denying a contract.

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Representative Hawker stated that the bill provides for increased access to existing development incentives the state offers in current statute. This will help promote the exploration of remaining gas in Cook Inlet, which exists in much smaller concentrations than in previous "domes", and costs more to extract.

Representative Hawker added that the bill eliminates the Cook Inlet penalty, which was built around North Slope issues. He recalled the ELF process and the allowing of ELF to apply to Cook Inlet, which does not have a progressivity feature. Cook Inlet has a lower tax rate than the North Slope and the penalty should not apply. The ELF provision is counterproductive to Cook Inlet. The bill allows "a dollar spent and credits earned" in Cook Inlet to be applied universally across the state as anyone else's credit.

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Representative Hawker talked about production credit amortization. The bill allows credits to be amortized in full the year incurred, instead of over a two-year period. The bill also allows for CAPEX credit for well enhancement and recovery work. That language has been carefully drafted with the Department of Revenue.

Representative Hawker noted that the bill eliminates tiered credit and goes straight to 40 percent. Cook Inlet is a small region that is in need of promotion. Production credits are allowed to be sold back to the state in order to capitalize explorers. The Cook Inlet region is not particularly attractive to international companies. The bill intends to attract the appropriate scale of explorers and developers.

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Senator Thomas asked if the tax credits could be applied to a producer in Prudhoe Bay or sold. Representative Hawker clarified that the benefit of having a credit is in order to receive a tax refund. He added that the credit section of the bill is for Cook Inlet; however, the gas facility development section would apply to the North Slope, as well to anyone developing gas storage facilities.

Senator Thomas asked if it was for storage, not drilling. Representative Hawker said credits apply to Cook Inlet only. Senator Thomas asked for the reason. Representative Hawker noted concern about expanding credits across the state. The intent of the bill is to leave that issue to a statewide bill.

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Senator Thomas noted some are concerned about not drawing and storing gas consistently and the loss of a percentage of gas when shutting down. He wondered if exporting is the solution to maintaining consistency. Representative Hawker replied that it is a multi-faceted approach issue. Storage is one element. Maintaining an export component is a production buffer. He said that gas wells don't turn up and turn down well. It would be ideal to maintain a continuous flow. The export buffer expires March 31, 2011. ConocoPhillips said they would pursue an extension of the export permit. He suggested that storage facilities were needed in order to meet peaking demands.

Co-Chair Stedman noted the remaining agenda would be taken up in the morning.

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Senator Egan asked how many facilities are needed. Representative Hawker did not know. Anecdotally, DOT envisions one large, open access facility and other facilities to address storage requirements. He spoke of credit limits which determine facility size, and other sidebars.

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Co-Chair Stedman noted four zero fiscal notes: Department of Natural Resources, Department of Commerce, Community and Economic Development, Department of Administration, and House Finance Committee.

MARSHA DAVIS, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, introduced herself.

Co-Chair Stedman asked why the committee should pass the bill. Ms. Davis explained that the department was satisfied with the size criteria for the gas storage facility, the capital credit, and the reinvestment requirements.

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Co-Chair Stedman asked if the administration supports the bill. Ms. Davis said it did.

Co-Chair Stedman referred to page 7 and requested more information about the jack up drill. He wondered if the credits could "go negative" with the state ending up paying over 100 percent. Ms. Davis asked if he was referring to SB 309. Co-Chair Stedman said yes. Ms. Davis explained that a review of the jack up rig has been done and the department is satisfied with it. It would cost up to \$54 million for the three rigs with the potential for the state to receive a 50 percent reimbursement of about \$27 million.

Co-Chair Stedman asked if Kevin Banks supported the bill.

KEVIN BANKS, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), related the department's view of HB 280. The bill expands tax credits to pay for the kinds of wells needed in Cook Inlet. Under today's tax system, only exploration wells would have received a credit. He commented that the department has spent a good deal of time on the storage facility language and has reached a compromise regarding how storage leases would be administered.

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DAN SULLIVAN, MAYOR, ANCHORAGE, testified in support of the bill. He said energy is of critical concern to his area. He highlighted the current lack of gas in Cook Inlet and the creation of a task force to find solutions. He said it was a top priority. Gas storage is one solution on high demand days. He noted that HB 280 addresses three of the task force's goals: storage and credit for storage, incentives and credits for production, and working with RCA on deliverability and contract terms.

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Mr. Sullivan spoke of the uniqueness of Cook Inlet and the challenges there of a small, expensive, isolated market. He thought the bill was a short-term solution for about 10 to 15 years. He restated the key components of the bill.

Mr. Sullivan spoke of the balance between the state's needs and producers' needs. He maintained that people in Southcentral are willing to pay more for gas as long as they have reliability.

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TADD OWENS, DIRECTOR, GOVERNMENT AND PUBLIC AFFAIRS, PIONEER NATURAL RESOURCES, listed his company's projects and history. He suggested Cook Inlet could be a valuable asset in spite of its challenges. He testified in support of HB 280.

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Co-Chair Stedman asked Senator Thomas if there were amendments forthcoming. Representative Hawker noted that the administration is working with ENSTAR to extend a line to Homer. The administration is proposing an amendment to that affect.

HB 280 was heard and HELD in Committee for further consideration.

#sb309

SENATE BILL NO. 309

"An Act amending and extending the exploration and development incentive tax credit under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of gas from a lease or property in the state; providing for an effective date by amending the effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date."

SB 309 was scheduled but not heard.

#hb365

HOUSE BILL NO. 365

"An Act relating to sharing records regarding fish purchased by fish processors with certain federal agencies, to requirements to obtain and maintain a fisheries business license, and to payment of industry fees required of fish processors; and providing for an effective date."

HB 365 was scheduled but not heard.

#hb424

CS FOR HOUSE BILL NO. 424(FIN) am

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of design and construction of library, education, and educational research facilities; and providing for an effective date."

HB 424 was scheduled but not heard.

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ADJOURNMENT

The meeting was adjourned at 6:03 PM.