

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 11, 2010

3:39 p.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Hollis French
Senator Bert Stedman
Senator Gary Stevens
Senator Thomas Wagoner

MEMBERS ABSENT

Senator Lesil McGuire, Co-Chair

COMMITTEE CALENDAR

SENATE BILL NO. 203

"An Act relating to a tax credit for a facility to store Cook Inlet gas for sale and delivery in the state; relating to an exemption from the oil and gas exploration, production, and pipeline transportation property tax for a facility that stores Cook Inlet gas for sale and delivery in the state; and providing for an effective date."

- HEARD AND HELD

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 20(FIN)

"An Act relating to commercial fishing loans for energy efficiency upgrades and increasing the maximum amount for certain loans under the Commercial Fishing Loan Act; and providing for an effective date."

- MOVED CSHB 20 (FIN) OUT OF COMMITTEE

SENATE BILL NO. 104

"An Act amending the boundaries of the Stan Price State Wildlife Sanctuary and relating to bear viewing in the sanctuary."

- SCHEDULED BUT NOT HEARD

SENATE BILL NO. 220

"An Act declaring a state energy policy; relating to energy efficiency and alternative energy; establishing the energy

efficiency grant fund, an emerging energy technology fund, a renewable energy production tax credit, and an energy use index; and relating to a fuel purchasing cooperative, to energy codes and efficiency standards, to energy conservation targets in public buildings, to a state agency energy use reduction plan, to the alternative energy revolving loan fund, and to the renewable energy grant fund."

- BILL POSTPONED

PREVIOUS COMMITTEE ACTION

BILL: SB 203

SHORT TITLE: COOK INLET GAS STORAGE FACILITIES

SPONSOR(s): SENATOR(s) FRENCH, WIELECHOWSKI

01/19/10	(S)	PREFILE RELEASED 1/8/10
01/19/10	(S)	READ THE FIRST TIME - REFERRALS
01/19/10	(S)	RES, FIN
02/08/10	(S)	RES AT 3:30 PM BUTROVICH 205
02/08/10	(S)	Heard & Held
02/08/10	(S)	MINUTE(RES)
02/11/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: HB 20

SHORT TITLE: FISHERIES LOANS:ENERGY EFFICIENCY/AMOUNT

SPONSOR(s): REPRESENTATIVE(s) EDGMON, BUCH

01/20/09	(H)	PREFILE RELEASED 1/9/09
01/20/09	(H)	READ THE FIRST TIME - REFERRALS
01/20/09	(H)	FSH, FIN
02/03/09	(H)	FSH AT 10:00 AM BARNES 124
02/03/09	(H)	Moved CSHB 20(FSH) Out of Committee
02/03/09	(H)	MINUTE(FSH)
02/04/09	(H)	FSH RPT CS(FSH) NT 3DP 3NR 1AM
02/04/09	(H)	DP: EDGMON, BUCH, MUNOZ
02/04/09	(H)	NR: JOHNSON, MILLETT, KELLER
02/04/09	(H)	AM: KAWASAKI
02/17/09	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/17/09	(H)	Heard & Held
02/17/09	(H)	MINUTE(FIN)
03/25/09	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/25/09	(H)	Heard & Held
03/25/09	(H)	MINUTE(FIN)
03/30/09	(H)	FIN AT 1:30 PM HOUSE FINANCE 519

03/30/09 (H) Moved CSHB 20(FIN) Out of Committee
03/30/09 (H) MINUTE(FIN)
04/01/09 (H) FIN RPT CS(FIN) NT 7DP 2NR
04/01/09 (H) DP: THOMAS, FOSTER, CRAWFORD, JOULE,
GARA, AUSTERMAN, FAIRCLOUGH
04/01/09 (H) NR: SALMON, STOLTZE
04/10/09 (H) TRANSMITTED TO (S)
04/10/09 (H) VERSION: CSHB 20(FIN)
04/11/09 (S) READ THE FIRST TIME - REFERRALS
04/11/09 (S) RES, FIN
02/03/10 (S) RES AT 3:30 PM BUTROVICH 205
02/03/10 (S) Heard & Held
02/03/10 (S) MINUTE(RES)
02/11/10 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

DONALD BULLOCK, Attorney
Legislative Legal Services
Juneau, AK

POSITION STATEMENT: Provided information for SB 203.

JOHANNA BALES, Deputy Director
Tax Division
Department of Revenue
Anchorage, AK

POSITION STATEMENT: Provided information for SB 203.

ROBYNN WILSON, Audit Income Tax Manager
Tax Division
Department of Revenue
Anchorage, AK

POSITION STATEMENT: Provided information for SB 203.

KEVIN BANKS, Director
Division of Oil and Gas
Department of Natural Resources
Anchorage, AK

POSITION STATEMENT: Provided information for SB 203.

TIM CLARK
Aide to Representative Edgmon
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Provided information for HB 20.

GREG WINEGAR, Director
Division of Investments
Department of Commerce, Community and Economic Development
(DCCED)
Juneau, AK

POSITION STATEMENT: Provided information for HB 20.

ACTION NARRATIVE

[3:39:24 PM](#)

CO-CHAIR WIELECHOWSKI called the Senate Resources Standing Committee meeting to order at 3:39 p.m. Present at the call to order were Senators French, Huggins, McGuire, Wagoner and Wielechowski.

SB 203-COOK INLET GAS STORAGE FACILITIES

[3:39:49 PM](#)

CO-CHAIR WIELECHOWSKI announced SB 203 to be up for consideration.

SENATOR FRENCH, sponsor of SB 203, said the bill addresses the need to make sure some gas is on hand in times of shortage during winter. He said all those involved in the energy issue in South Central Alaska, from Mayor Sullivan, to the Regulatory Commission of Alaska (RCA), to ENSTAR, to utilities, agree that gas storage is needed. He said SB 203 is a targeted way to create some incentives, such as tax credits for investments, for private industry to invest the \$100 to \$200 million necessary for building a well. He mentioned the well would be under the jurisdiction of the RCA to prevent price gouging.

SENATOR WAGONER asked how many different geological structures are being looked at for gas storage and by how many companies.

SENATOR FRENCH said he did not know. He said from July to October of 2009, when SB 203 was being put together, Cook Inlet Natural Gas Storage (CINGS) appeared and is negotiating a deal with ENSTAR. He believed ENSTAR would be reluctant to comment while in the process of negotiating that deal.

SENATOR WAGONER said he has heard up to three different companies are looking at doing storage, two already doing business in Cook Inlet and TransCanada. He said if other companies also do storage, taxes on up to three storage units would be forgiven.

SENATOR HUGGINS asked if storage of CO² would be applicable.

[3:44:00 PM](#)

SENATOR FRENCH said he felt natural gas should be the focus because it can be burned to keep warm in winter.

SENATOR FRENCH referred to a letter from the Department of Natural Resources (DNR) stating their concern about allowing tax payers to obtain credits simply by transferring assets among themselves. He asked Mr. Bullock if he thinks SB 203 addresses that issue.

SENATOR STEVENS joined the meeting.

DONALD BULLOCK, Attorney, Legislative Legal Services, referred to page 3, line 30 through page 4, line 9, particularly page 4 line 2 which says how [the tax payer] forfeits the portion of the credit accrued in previous years. He explained that any credit left is lost if the tax payer disposes of the investment or facility, takes the investment out of service or fails to use the storage facility primarily for the storage of gas for sale and delivery in the state. He pointed out the limited time period, through 2013, within which all transactions would have to happen. He said it is a policy question: whether or not you want to encourage the person that buys the facility from the first person. The first person loses the tax credit and the second person is basically still doing the thing that you want done: putting a gas storage facility into service. Limitations could be applied by saying that the credit is only applicable for one facility the first time it is acquired, by setting a dollar amount or by setting other parameters.

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SENATOR FRENCH said DNR presented several concerns but he thought most of them had been addressed by SB 203.

MR. BULLOCK said Section 1 of SB 203 gives the RCA jurisdiction over gas storage facilities; however, as it is written, it only applies for gas storage for the purposes of a distributor, such as ENSTAR. He said the committee may want to broaden the language to also apply to storage, for example, for an electrical utility storing and using gas. He mentioned that electricity is addressed on page 1, line 12 of SB 203.

SENATOR FRENCH asked if that would cover the regulation of possible new entrants into the market, as mentioned by Senator Wagoner.

MR. BULLOCK answered considering any existing facilities might also be necessary. Only regulating new gas storage facilities would create a discrepancy between existing gas utilities, which would have to come to the RCA with an independently negotiated price to figure into the rate, and new facilities, which are subject to RCA jurisdiction with fixed rates and RCA controlling both storage cost and the rate the utility would charge.

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SENATOR HUGGINS said in Gulf Coast nearly 4 trillion cubic feet of gas are in storage. He recalled that some companies have a Liquid Natural Gas (LNG) re-export permit because the LNG was imported. He asked if someone brought gas up Cook Inlet, under this provision, could they pump it into ground to be available for us or anyone else or for re-export it when the market was right.

MR. BULLOCK looked at SB 203 to see if the gas must be Alaska produced.

[3:51:21 PM](#)

SENATOR WAGONER read a written memo from the Department of Revenue related to his earlier question about the tax: "As currently written SB 203 would have no impact on Kenai Peninsula Borough's property tax revenues."

MR. BULLOCK answered Senator Huggins' previous question by referring to page 4, line 11 which defines a Cook Inlet gas storage facility as a storage facility for the storage of gas that is produced from the Cook Inlet sedimentary basin and designated for sale and delivery in the state. If the gas was trans-shipped or produced somewhere else and brought in, then it would not be subject to the tax credit.

CHAIR WIELECHOWSKI opened it up for committee members to ask questions to the Department of Revenue. He said he does not intend to move SB 203 today, as discussed with Senator French, but to work on it further.

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SENATOR FRENCH referred to an email from the Department of Revenue dated January 4, 2010, and asked for a summary of the concerns.

JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue asked for clarification of which version of SB 203 is currently being heard.

3:54:02 PM

SENATOR FRENCH moved to adopt the proposed committee substitute to SB 203, labeled CS SB 203 (), Version P, as the working document of the committee. There being no objection, the motion carried.

MS. BALES clarified that the Department of Revenue's memo, read by Senator Wagoner, does pertain to SB 203, Version P.

ROBYNN WILSON, Audit Income Tax Manager, Tax Division, Department of Revenue, asked if Senator French would like her to go over each point in the January 4th email or to summarize.

SENATOR FRENCH suggested she begin by summarizing so that the concerns are on the record.

MS. WILSON said interpretation of SB 203 in several places could lead to two credits being claimed for one expenditure or one facility. For example, SB 203 allows a credit for the owner of the facility and for the leasing of the facility; both the lessor and the lessee could conceivably take a credit for the same facility. She referred next to an allowance for capital investment with reference to cash expenditure or a payment due. She said one could conceivably read that as allowing two credits for the same expenditure if a payable was accrued in one period and then paid with cash in the next period.

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SENATOR FRENCH asked if cash expenditure or a payment due implies a choice of one or the other to get the capitol investment.

MS. WILSON said it may be clear that a person has to pick one but some people interpret statutes more broadly than others. She said if a person was sitting on the other side of the table and wanted to be aggressive, that person could read it [as both.]

SENATOR FRENCH asked for her suggestion in clearing up the language.

MS. WILSON said the language could be an expense or an expenditure by itself or some language that implies just one.

MS. BALES said using "the expense" would be best because that wording has an accounting terminology association as to whether or not it is an accrued expense or something that has been paid in a given year. An expense is generally just a single item. She said she really wanted the hearing minutes to reflect that the intent of the language is not to allow double-dipping of a singular accrued or paid expense.

SENATOR FRENCH clarified that his intent is "you only get to count it once." He said he would be happy to work to clear it up. He asked if the administration supports or opposes the idea of tax credits for gas storage in Cook Inlet.

[3:59:45 PM](#)

MS. BALES said she does not have any position from the Administration but her office has been tasked to work with Senator French and the Senate Resources Committee to make the best possible product.

CHAIR WIELECHOWSKI asked if the administration perceived a need for an incentive bill for Cook Inlet storage. He said something that would be done without incentives does not need to be incentivized.

MS. BALES said it might be a better question for DNR and that she would work on trying to get a position from the Governor's office.

KEVIN BANKS, Director, Division of Oil and Gas, said the evaluation, looking at the cost-structure, of these projects has not been done. He said another unknown is what price could be charged for the storage facility itself as a service to another utility.

CHAIR WIELECHOWSKI said some analysis would be helpful. He asked Mr. Banks if he foresees the ability to do some analysis.

MR. BANKS said, "We could take a stab at it." He said he is afraid that information about these kinds of costs will be hard to find.

CHAIR WIELECHOWSKI asked for an assessment within ten days.

MR. BANKS added that the three storage facilities already in existence, one of which is on federal land and two are on state land, are owned by producers. Gas stored in these facilities are

mingled with produced gas from other places and delivered to customers without a separate charge made for storage. Those three storage facilities and arrangements are very different from the proposed third party storage facility with unbundled service.

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SENATOR WAGONER asked Mr. Banks to talk about the geological structure of the different types of storage. He said he thought Senator Huggins was talking about mainly salt cavities or domes which Alaska does not have. He said structures in Alaska don't retain all of the gas like the salt domes.

SENATOR STEDMAN joined the meeting.

MR. BANKS said large storage facilities, salt dome caverns, are in the Gulf of Mexico. In the Cook Inlet, storage would be in some gas-bearing sand within, potentially, a producing unit where the native gas is nearly exhausted. A horizon would be selected and gas pumped in both to serve as a cushion to get the pressures up in the structure and then to have non-native gas stored. He explained storage gas, as opposed to cushion gas, is the gas that is coming in and out. He said all potential storage in Cook Inlet is old and existing gas fields that have produced for many years.

SENATOR HUGGINS asked if producers who divert gas are eligible for the tax credit.

MR. BANKS replied that the three current facilities would not get the tax credit and that a storage facility, as defined in SB 203, must be regulated by the RCA to get the credits. The existing storage units are not regulated in the sense that SB 203 is implying. Instead a contract has been entered into between a producer and customer, such as ENSTAR or Chugach, a price index is set up, perhaps with different prices for gas delivered at different times of the year. Gas that is supplied to that contract comes from all over the producing assets, including storage. The distinction of where gas is coming from is not seen, nor the cost of storage imbedded in that price.

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MR. BANKS said he thinks SB 203 is trying to provide an incentive for a third party storage where the sponsor of the project is really a warehouse and letting others use its facility to store their gas.

CHAIR WIELECHOWSKI said SB 203 would be held in committee.

HB 20-FISHERIES LOANS:ENERGY EFFICIENCY/AMOUNT

[4:08:29 PM](#)

CHAIR WIELECHOWSKI announced HB 20 to be the next order of business to come before the committee [CSHB 20(FIN) was before the committee].

SENATOR STEVENS asked Tim Clark to comment on eliminating the prohibition on people who have had loans in the past.

TIM CLARK, staff to Representative Edgmon, said in the past a prohibition prevented anyone who has ever had a loan under subsection A from becoming a borrower under subsection B. HB 20 eliminates that prohibition if the loan is for improving energy efficiency of the vessel or operation.

SENATOR STEVENS asked if the balance that a fisherman can owe according to the loan has changed.

MR. CLARK replied that the limits set in each program, A and B, would remain the same. However, the total amount that a single borrower can have outstanding from the combination of Program A and Program B would increase from \$300,000 to \$400,000.

SENATOR STEVENS thinks that is a major improvement.

[4:11:53 PM](#)

SENATOR STEDMAN said he is concerned the parameters are too broad and suggested targeting engines should be more specific. He thought some discussion should take place on what should be targeted.

GREG WINEGAR, Director, Division of Investments, said the division had the authority, under Section B, to make a loan for improving a vessel and went through a regulatory process to provide a lower interest rate for an engine. In the last year or so, the industry has suggested other types of improvements could qualify such as certain types of hulls or generators that are far more efficient. Some early testimony suggested that expanding the language could be beneficial.

SENATOR STEDMAN asked if engines, but not generators, were classified as qualifying in regulations.

MR. WINEGAR replied that is correct under Section B currently; when the regulation was put in place engines were targeted. Money can be borrowed for the other things, such as generators, but the loan for a more efficient engine has a lower interest rate.

[4:14:37 PM](#)

SENATOR STEDMAN asked if any engine qualifies in terms of energy efficiency.

MR. WINEGAR said the engine must be more energy efficient. The Division compares the efficiency rating of the engine being purchased versus the engine being replaced. In almost every case it is a "pretty substantial difference" because newer engines are much more efficient.

SENATOR STEDMAN asked what the increase in efficiency is.

MR. WINEGAR answered that the efficiency increase is generally in the 20 to 30 percent range with some as high as 40 percent. He said the current regulation is under 3 AAC 80.055.02 [Alaska Administrative Code, Title 3, Chapter 80, Section 55] and reads "for an engine efficiency upgrade, an applicant must establish to the satisfaction of the Department that the upgrade to be financed with the loan will reduce emissions or improve fuel productivity." He explained a set percentage does not have to be met.

SENATOR STEDMAN asked about comparing engines. For example: If an 8 year old Caterpillar was going to be replaced with a new Caterpillar, does the Division look at the original consumption specs from 8 years ago for the old Caterpillar engine or the current consumption with wear and tear.

MR. WINEGAR replied that the Division does compare the specs of the engine being replaced with the newer engine and gets input from the borrower.

SENATOR STEDMAN asked if the specs used for comparisons are from the 8 year old engine when it was new.

MR. WINEGAR replied that is correct.

[4:17:03 PM](#)

SENATOR STEDMAN said he is still concerned that HB 20 is too broad. He asked what the lending capacity is.

MR. WINEGAR answered the fund itself will have a balance of about \$30 million at the end of the fiscal year. He said the annual volume runs between \$10 and \$14 million.

SENATOR STEDMAN said some language exists adding another subsection on upgrading vessels and gear for the purposes of improving energy efficiency with a minimum 5 percent reduction. He felt that was extremely low. He said he understood going from a two stroke to a four stroke with a fuel consumption spread of 20 to 40 percent improvement, for example, but suggested HB 20 could allow any hull improvement or engine change to qualify.

MR. WINEGAR said he did not have an amendment in front of him. He said he has no objection to some sort of limit and he is not fixed on a certain percentage. He said the engine comparisons the Division has looked at have been much higher than 5 percent. He said he would defer to HB 20's sponsor but he has no objection to inserting some criteria. He said that would be a policy call by the Legislature.

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SENATOR STEVENS asked what the savings might be with the lower interest rate.

MR. WINEGAR said the rate is prime minus 2 percent with a floor of 3 percent. Right now, it would mean the difference between a 3 percent loan and a 5.5 percent loan because of the 3 percent floor at this time.

CHAIR WIELECHOWSKI said this was the second day HB 20 was before the committee and it has another referral to finance. He stated he would like to get an amendment or move HB 20 out of committee.

SENATOR STEVENS moved to report HB 20 from committee with individual recommendations and accompanying fiscal notes. There were no objections and CSHB 20(FIN) moved from the Senate Resources Standing Committee.

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CHAIR WIELECHOWSKI thanked everyone for their comments and adjourned the meeting at 4:20 p.m.