

HOUSE FINANCE COMMITTEE
April 6, 2012
1:47 p.m.

1:47:50 PM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:47 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Jane Pierson, Staff, Representative Thompson

PRESENT VIA TELECONFERENCE

Matthew Fonder, Director, Tax Division, Department of Revenue; Paul Decker, Geologist, Division of Oil and Gas, Department of Natural Resources

SUMMARY

HB 276 OIL/GAS PRODUCTION TAX CREDITS: NENANA

CSHB 276 (FIN) was REPORTED out of committee with a "do pass" recommendation and accompanying new fiscal notes from the

Department of Natural Resources and the
Department of Revenue.

#hb276

HOUSE BILL NO. 276

"An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin."

1:47:56 PM

Co-Chair Stoltze signified that Amendment 1 had been MOVED during the morning session, but had been interrupted to the Call of the Chair.

Amendment 1

Page 5, line 14, following "of"

Delete [\$22,500,000] insert "\$25,000,000"

Representative Neuman stated that he had checked in statute regarding credits for the jack-up rig in Cook Inlet. He indicated that he had no opposition to Amendment 1.

Co-Chair Stoltze expressed that the committee had wanted to address Amendment 1 properly.

Representative Neuman signified that his concern had been that credits for a jack-up rig seemed like a race to drill the first dry well.

Representative Doogan asked what would be the total cost of the increase.

JANE PIERSON, STAFF, REPRESENTATIVE THOMPSON explained that the total cost of the increase would be the difference between \$25 million and \$22.5 million. The amount could be spread over four wells at \$2.5 million per well. Representative Doogan commented that would be a total of \$10 million. Ms. Pierson said that was correct.

Co-Chair Stoltze asked if the Department of Revenue would like to make a statement.

MATTHEW FONDER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference) confirmed that the amendment would increase the fiscal impact by \$10 million.

Co-Chair Stoltze appreciated the verification from the department.

Representative Gara asked if the amount was per field or statewide. Ms. Pierson indicated that would be statewide.

Co-Chair Stoltze WITHDREW his objection. There being NO OBJECTION, Amendment 1 was adopted.

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Representative Gara MOVED to ADOPT Amendment 2:

Page 2, line 6, following "state":
Insert "that are outside the Cook Inlet
sedimentary basin and"

Page 2, lines 9-10:
Delete ",other than gas subject to (j) of this
section or oil subject to (k) of this section,"

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara noted that Amendment 2 concerned the designated area issue. He asked Representative Thompson's aid to explain if the amendment was appropriate for the bill.

Ms. Pierson indicated that the sponsor agreed that Amendment 2 was a clean-up to hold the bill strictly to the designated section. The amendment would not allow for any new production in Cook Inlet to fall into the production tax under subsection (p).

Co-Chair Stoltze WITHDREW his objection. There being NO further OBJECTION Amendment 2 was adopted.

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AT EASE

1:55:12 PM

RECONVENED

Vice-chair Fairclough reported that the two new fiscal notes replaced two older ones. The Department of Revenue is a zero fiscal note. The Department of Natural Resources fiscal note reflects \$211,400 in FY 13, \$204,400 for each year from FY 14 through FY 16, and \$102,200 in FY 17. There are two new full time positions added.

Representative Wilson questioned if the department would wait until a company came for the tax credit before hiring the two new positions.

PAUL DECKER, GEOLOGIST, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference) remarked that if the department knew that a company was going to file an application then the positions would be fill immediately.

Representative Wilson questioned how many wells would it take to make a difference between hiring one or two people.

Mr. Decker replied that there were two different positions. One position would be in the "best interest findings" category which would be needed first, and then the other position would be a Natural Resource Specialist in the resource evaluation section to handle correspondence and coordinate information between the all the involved parties.

2:00:14 PM

Vice-chair Fairclough mentioned on the Department of Natural Resources, Oil and Gas fiscal note that in FY 17 the amount drops to one full time position and in FY 18 there are zero positions.

Representative Neuman noted that a bill was passed recently that helped the Department of Natural Resources streamline their permitting activities and the committee had asked about a reduction of personnel for savings. He questioned the need for two more positions and all the equipment.

Co-Chair Thomas interjected that if the department does not hire the employees after the bill is passed, then the unused money is swept back into general funds. Representative Neuman commented that he was sure the

department would hire the employees. Co-Chair Thomas remarked that money as a rule is swept out of the department if they do not hire additional employees.

Co-Chair Stoltze commented there would probably be further fiscal note discussions.

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Representative Doogan signified that he was trying to understand what problem was being solved in the bill. He wondered if there was a lot of oil and gas, but the costs of exploring was too high or the state did not know if there was any gas and wanted to subsidize wildcatting.

Ms. Pierson stated that the answer was both. There are some underexplored areas that the state would like more information about and some areas already explored where the state would like to encourage drilling. She believed that more information on the underexplored and explored identified basins would provide a greater chance to bring a discovery to production for royalty taxes.

Co-Chair Stoltze believed that the bill provided a far better approach to finding a natural gas field of marketable value close to the Interior rather than using short term vouchers or some other proposals.

Representative Neuman remarked that the bill would provide a race with the other options to see who could offer gas to Fairbanks first.

Ms. Pierson disclosed that there might be other avenues if gas was discovered. She noted there could be a power plant or gas moved out to western Alaska. She judged local use is preferable, but other uses are possible.

[2:06:25 PM](#)

Representative Guttenberg commented it was amazing what is not known about the state. He thought it remarkable how different things are discovered. He believed it to be a good thing that the state be more proactive.

Representative Joule reported that he had been on the Nenana Board of Directors when looking to develop the Red Dog Mine. Early in the 70s Nenana had entered into an

agreement with an oil company to do some research and exploration and believed the bill to be a follow up and continuation. The bill has the full support of the Nenana Board of Directors as well as all the regional organizations in the surrounding areas. They all hope it will result in a find so consumers could start paying a lower rate for gas.

Representative Doogan voiced his concern about bill in two ways. He believed it put the state in the wildcatting and production business that does not do anything for the state as a whole. Some of the areas are on private land and could cost more than might actually be produced. He complained that both fiscal notes are indeterminate. The committee is in the process of passing a bill where the base is \$120 million and could possibly cost more without knowing exactly how much. He indicated he would not keep the bill from going forward, but he did not plan to vote for it. He warned that a lot of money was being thrown out with no idea what the total costs would be or what the state would get out of it.

[2:11:51 PM](#)

Vice-chair Fairclough MOVED to report CSHB 276(FIN) as amended out of committee with individual recommendations and the accompanying fiscal note (s).

Co-Chair Stoltze OBJECTED for discussion.

Representative Edgmon indicated that he was supportive of the bill, but did recognize the concerns of Representative Doogan. He questioned if there were any scenarios where a similar credit could be applied to geo-thermal drilling.

Ms. Pierson reported that geo-thermal had not been touched in the bill. She reported six hearings on the bill in the Resources Committee. There was an indication that some other things could be added to the bill, but the tight window was agreed on because, if the plan proved successful, other ideas would be considered. Representative Edgmon pointed out the two or three geo-thermal projects in his region and the potential energy benefit.

Ms. Person remarked that geo-thermal had not been brought up with the bill, but it was something to further explore.

Co-Chair Stoltze remarked that he would like a geologist to put his ideas on the record. He asked for an identification of land ownerships involved in the potential exploration areas.

Mr. Swenson replied that land ownership consisted of state land across the Nenana basin, Alaska Native-owned and federal land in the Yukon Flats and Kotzebue area, and a mix of federal, state, and Alaska Native land in the Bristol Bay area.

Co-Chair Stoltze asked who owned the subsurface rights. Mr. Swenson replied that the sub-surface rights were tied to the surface owners.

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Co-Chair Thomas announced a potential conflict since he was on the shareholder in Sealaska. Representative Joule offered that he was Nenana shareholder and a regional corporation shareholder. Representative Edgmon remarked he was a Bristol Bay shareholder.

Co-Chair Thomas disclosed that any natural resources developed and found on regional corporation land is shared with other regions in Alaska.

Co-Chair Stoltze WITHDREW his objection.

CSHB 276 (FIN) was REPORTED out of committee with a "do pass" recommendation and accompanying new fiscal notes from the Department of Natural Resources and the Department of Revenue.

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Representative Gara thanked his staff and all the hardworking people behind the scenes.

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ADJOURNMENT

The meeting was adjourned at 2:20 PM