

**ALASKA STATE LEGISLATURE**  
**HOUSE RESOURCES STANDING COMMITTEE**

February 15, 2012

1:10 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Peggy Wilson, Vice Chair  
Representative Bob Herron  
Representative Cathy Engstrom Munoz  
Representative Berta Gardner  
Representative Scott Kawasaki

**MEMBERS ABSENT**

Representative Alan Dick  
Representative Neal Foster

**COMMITTEE CALENDAR**

HOUSE BILL NO. 229

"An Act relating to activities, including violations and penalties, under the supervision of the Big Game Commercial Services Board."

- HEARD & HELD

HOUSE BILL NO. 280

"An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil and gas exploration wells in the Kotzebue basin or the Selawik basin; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 229

SHORT TITLE: BIG GAME COMMERCIAL SERVICES BOARD

SPONSOR(S): REPRESENTATIVE(S) FEIGE

04/06/11	(H)	READ THE FIRST TIME - REFERRALS
04/06/11	(H)	RES, JUD
04/08/11	(H)	RES AT 1:00 PM BARNES 124
04/08/11	(H)	Heard & Held

04/08/11 (H) MINUTE(RES)  
02/15/12 (H) RES AT 1:00 PM BARNES 124

BILL: HB 280

SHORT TITLE: OIL & GAS TAX CREDITS: KOTEZBUE/SELAWIK  
SPONSOR(s): REPRESENTATIVE(s) JOULE

01/17/12 (H) READ THE FIRST TIME - REFERRALS  
01/17/12 (H) RES, FIN  
02/15/12 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

MICHAEL PASCHALL, Staff  
Representative Eric Feige  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 229 on behalf of the prime sponsor, Representative Feige.

JOE WANT, Registered Guide  
Fairbanks, Alaska

**POSITION STATEMENT:** Expressed concerns with HB 229.

WADE WILLIS  
Resident Hunter  
Anchorage, Alaska

**POSITION STATEMENT:** Expressed concerns with HB 229.

THOR STACEY  
Alaska Professional Hunters Association (APHA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support to HB 229.

PAUL JOHNSON, Chair  
Big Game Commercial Services Board  
Elfin Cove, Alaska

**POSITION STATEMENT:** Expressed hope that HB 229 would be forwarded from committee.

BRODIE ANDERSON, Staff  
Representative Reggie Joule  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 280 on behalf of the prime sponsor, Representative Joule.

LANCE KILVAGUIQ MILLER, PhD, Vice President - Resources  
NANA Regional Corporation, Inc.  
Kotzebue, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation during the hearing on HB 280.

ELIZABETH SAAGULIK HENSLEY, JD  
Corporate & Public Policy Liaison  
NANA Regional Corporation  
Kotzebue, Alaska

**POSITION STATEMENT:** During the hearing of HB 280, provided comments.

### **ACTION NARRATIVE**

[1:10:37 PM](#)

**CO-CHAIR ERIC FEIGE** called the House Resources Standing Committee meeting to order at 1:10 p.m. Representatives Herron, Munoz, P. Wilson, Seaton, and Feige were present at the call to order. Representatives Gardner and Kawasaki arrived as the meeting was in progress.

### **HB 229-BIG GAME COMMERCIAL SERVICES BOARD**

[1:10:59 PM](#)

CO-CHAIR FEIGE announced that the first order of business would be HOUSE BILL NO. 229, "An Act relating to activities, including violations and penalties, under the supervision of the Big Game Commercial Services Board."

[1:11:56 PM](#)

CO-CHAIR SEATON moved to adopt CSHB 229, Version 27-LS0764\I, Bullard, 2/13/12, as the working document. There being no objection, Version I was before the committee.

[1:12:19 PM](#)

MICHAEL PASCHALL, Staff, Representative Eric Feige, Alaska State Legislature, on behalf of Representative Feige, prime sponsor, informed the committee that the changes [encompassed in Version I] address the questions by the committee last year as well as questions that developed over time. The hope, he related, is to provide legislation that addresses the concerns of the Big Game

Commercial Services Board while allowing it to operate in an efficient and effective manner in terms of regulating the big game guiding industry. He then pointed out that the committee packet includes a sectional analysis of Version I. Section 1 provides additional authority to the Big Game Commercial Services Board to promulgate regulations to administer the regulation of big game guides. Existing statute specifies that the board is limited to regulations that are "required" under statute. The Big Game Commercial Services Board has been advised by the Department of Law that it can't promulgate regulations that aren't required in statute. Therefore, the language in Section 1 simply provides the board with a broader authority to adopt regulations. Section 2 creates a provision in statute for a retired master guide-outfitter license that recognizes those who have earned such a license, for which one pays a one-time fee. Such a license allows the individual to retain the title but the license holder wouldn't be able to function as a guide or provide guide services. Mr. Paschall likened this provision to that of a physician being able to say that he/she is a medical physician although he/she has retired and no longer practices. Section 3 has clarifying language that specifies a guide-outfitter may provide the services of a class-A assistant guide under employment with a contracting guide-outfitter. Therefore, it essentially allows [a guide-outfitter] to work at a lower level for another guide-outfitter. Section 5 merely inserts a provision in statute that allows the Big Game Commercial Services Board to suspend or revoke licenses of guides engaged in conduct involving unprofessionalism, moral turpitude, or gross immorality. He then turned to Section 6, which addresses penalties in existing statute. The concern of the board was that if someone made a procedural error in processing paperwork and violated a game law in the process current statute requires the judge to suspend the license when the individual is convicted of such a violation. Therefore, Section 6 changes the language such that for such [procedural] violations, the court could choose to suspend a license rather than having to order a suspension. Section 7 merely authorizes the department to establish a fee for the new retired master guide-outfitter license. The final section, Section 8, is conforming language to specify that the holder of a retired master guide-outfitter license may not guide.

[1:16:34 PM](#)

CO-CHAIR SEATON pointed out that on page 3, line 4, the language "the court may order" is used whereas on page 3, lines 8 and 12,

the language "the court shall order" is used. He inquired as to the difference between the provisions.

MR. PASCHALL answered that it's based upon the severity of the offense. For example, wasting game is obviously a serious offense and in that case "the court shall" suspend the license whereas for other more minor violations the court is afforded discretion with the use of the language "the court may". In further response to Co-Chair Seaton, Mr. Paschall confirmed that the offenses referred to on page 3, lines 4-7 are minor offenses while those referred to on page 3, lines 8-15 are more severe offenses. For example, guiding without a license or guiding while a license is suspended or revoked results in the court having to order a further relocation or suspension of the license versus providing the court an option.

1:18:36 PM

REPRESENTATIVE HERRON inquired as to the need for a retired status master guide license.

MR. PASCHALL clarified that it's nothing more than a recognition for the years, which he recalled is 25 years, someone has put into this profession.

1:19:33 PM

REPRESENTATIVE HERRON, referring to Section 5 that provides the opportunity for the board to suspend or revoke a guide's license, asked if the practice of hunting a drainage until there are no more animals is considered to be unprofessional.

MR. PASCHALL said he isn't qualified to speak to the practices in the field since he isn't a professional guide. However, in discussions with the board he has understood the concern to be regarding if someone engaged in an activity that is considered unprofessional, such as shooting a guide who infringes on another guides hunting area.

REPRESENTATIVE HERRON asked if the intent is to prevent what is occurring in many drainages in western Alaska where the resource is cleaned out and then the guides move to the next drainage, without conscience.

CO-CHAIR FEIGE related his perception that since existing statute doesn't have a catch-all for things that are not specifically defined, by specifying "unprofessionalism, moral

turpitude, or gross immorality" the board is provided some authority to address actions that aren't in the spirit of a professional guide.

[1:23:45 PM](#)

REPRESENTATIVE MUNOZ asked if the assistant class-A guide has the same requirements as a full guide.

MR. PASCHALL informed the committee that there are four different levels of guides: an assistant guide, a class-A assistant guide, a registered guide outfitter, and a master registered guide outfitter. All of the levels of guides have different requirements [that allow progression to higher levels of guides]. For example, a registered guide outfitter is only licensed in certain areas and has to be a class-A assistant guide for a period of time. At each level there is a higher level of experience. In further response to Representative Munoz, Mr. Paschall clarified that the registered guide outfitter is the only individual allowed to contract a hunt, and the registered guide outfitter can utilize a class-A guide for certain provisions of the hunt, such as running a camp or physically taking the hunter to track the animal. Statute specifies which type of guide can do what and HB 229 doesn't really change that.

[1:25:35 PM](#)

REPRESENTATIVE MUNOZ inquired as to the difference in the licensing requirement between a full guide and an assistant guide.

MR. PASCHALL, referring to AS 08.54, informed the committee that an assistant guide must be 18 years of age, legally hunted [big game] in the state for two years, possess a first aid card [issued by the] Red Cross [or similar organization], obtain a written recommendation from a registered guide-outfitter who intends to employ them as an assistant guide, or provide evidence that they have passed an assistant guide training course approved by the board. A class-A assistant guide must be 21 years of age, requires a fee, must have first aid training, has been employed during at least three calendar years as any class of licensed guide in the game management unit for which the license is sought, at least 10 years hunting experience in the state, evidence that the individual physically resides in the game management unit in which the assistant is employed, evidence that the individual has had at least 15 years hunting

experience in the game management unit in which the individual is to be employed, and a written recommendation from a registered guide-outfitter who intends to employ the individual as a class-A assistant guide, or physically resides in the game management unit, has 10 years of experience, and has passed a class-A assistant guide training course approved by the board.

[1:28:04 PM](#)

REPRESENTATIVE MUNOZ, referring to page 2, line 24, surmised then that a class-A assistant guide would be allowed to supervise and conduct a hunt. She then asked if the aforementioned is allowed now.

MR. PASCHALL stated that it's left a little up to interpretation as to what is expanding or constricting. The current statute requires that the contracting guide be present in the field with the client one time during the hunt, but there is no specification beyond that. Therefore, if the contracting guide meets the client at the lodge, the requirement has been met. Adding the language "supervising" and "conducting the hunt" allows the board to define the rules under this new statute in that a [registered guide-outfitter] who contracts for a guided hunt has to be in the field supervising, participating, and conducting the contracted hunt unless the hunt is conducted by a class-A assistant guide.

[1:30:15 PM](#)

REPRESENTATIVE P. WILSON commented that Representative Herron's statements regarding guides cleaning out drainage areas is very important to the residents of those areas. She expressed hope that there is some manner in which such immoral activity can be addressed.

[1:31:58 PM](#)

JOE WANT, Registered Guide, related that the problem with the existing situation is that even with the four different levels of guiding licenses an assistant guide can be placed in a camp to guide several hunters for sheep or brown bear. Such an assistant guide is an individual who [at a minimum] has lived in the state for two years, killed one animal, and hunted for 30 days per year. Mr. Want emphasized that there is no mandatory supervision of these young individuals entering the industry. Mr. Want interpreted the term "unless" [on page 2, line 25] to mean that he, a registered guide [for units 6-26], could work as

a class-A assistant guide in Southeast Alaska and the guide would no longer have to fulfill the supervising obligations mentioned in the first part of the legislation. Although Mr. Want has been involved in the guiding industry since 1968, he said that he has no business running a hunt in unit 4. He opined that HB 229 is going to exacerbate the problem rather than solve it. He then said that it's laudable for the legislation to specify that "the board may adopt regulations", but he suggested that it should say "the board shall adopt regulations". Mr. Want emphasized that creating a situation in which an 18 year old, [as a class-A assistant guide] takes clients on a hunt without any direct supervision is inappropriate and a misrepresentation to the public.

[1:38:04 PM](#)

CO-CHAIR SEATON inquired as to the definition of "unprofessionalism" that would be applied by the Big Game Commercial Services Board to suspend a license. He asked if there is some commonly accepted criteria within the guiding profession that would be considered "unprofessionalism."

MR. WANT stated that one of the main problems in the industry is the lack of a definition for unprofessionalism, which has led to problems with supervising. One of the main issues in the guiding industry, he opined, is placing individuals in the field without the necessary training or supervision. The aforementioned is exemplified in the licensing process in which the test percentages of individuals who have [guided for] three years continue to remain [the same as when they initially took the test]. Mr. Want stated that Co-Chair Seaton had identified the issue, the lack of a standardized or generally accepted definition of professionalism or other practices.

REPRESENTATIVE HERRON remarked that defining professionalism continues to be an issue for him because there are unethical practices that impact the resources in Alaska.

[1:40:19 PM](#)

WADE WILLIS, Resident Hunter, said he has great concerns about Version I. The proposed regulatory amendments in Version I attempt to liberalize the restrictions on the number of guide use areas in which a registered guide or class-A assistant guide can legally operate. The aforementioned is significant, particularly during a time when the Big Game Commercial Services Board is saying the industry should downsize while requesting

the legislature liberalize the areas in which the guides can work. As many know, the aforementioned is what the Department of Natural Resources (DNR) guide concession proposal program is all about. Mr. Willis pointed out that the amended language in Sections 3 and 4 allows a registered guide to operate in more than three guide use areas, which is the current regulatory restriction. A [registered] guide can accomplish the aforementioned by partnering with other registered guides that have game unit areas in which the guide isn't legally allowed to operate. By partnering with a registered guide, a [registered] guide can guide in up to 12 game unit areas, depending upon how many partners he has. Astonishingly, the [registered] guide who partners with other registered guides outside his/her game unit area is circumventing the standards the Big Game Commercial Services Board has in those areas, which includes having previous experience guiding in the location and knowledge of the area. Essentially, this revokes the intent of the professional licensing standards of the board and may provide the client with a substandard guide, in comparison to the current regulatory language that requires any guide to demonstrate a minimum knowledge of the area. However, most alarming is the proposed amendment in Section 4 that would allow the contracting registered guide-outfitter to never step foot in the field, never see the client, or even be in the state. Therefore, Mr. Willis questioned how the aforementioned improves the industry standards or benefits the client. This proposal, he stressed, seems to be nothing more than an attempt to expand the guiding industry at the expense of not only the highest quality experience for the client as well as the wildlife resources of Alaska. Mr. Willis requested that the committee consider the underlying intent of HB 229, which he believes is to deceive this committee for the benefit of a few contracting guides. This legislation is neither effective nor efficient at improving the industry, he opined. Mr. Willis further requested the committee review the administrative code changes that have occurred in the past year versus what is being proposed on the Big Game Commercial Services website. He opined that the committee is being asked to liberalize the statutes and [the board] is extensively liberalizing the code. He related his understanding that the board wants to allow an applicant to be an assistant guide without ever having hunted in Alaska.

[1:46:11 PM](#)

THOR STACEY, Alaska Professional Hunters Association (APHA), related support for the passage of CSHB 229, Version I. He noted that many of the professional members of the APHA as well

as APHA itself participated in the drafting of this legislation and the subcommittee process that created the Big Game Commercial Services Board. With regard to the clarification of the relationship of a registered guide working with another registered guide, he reminded the committee that a registered guide is a higher level of licensee than a class-A assistant guide. He explained that the association requested that to clarify the relationship that a registered guide be considered a class-A assistant guide because the registered guide holds a higher level of license and pays more fees and has to prove a higher level of competency in any game management unit in the state. The language "in any game management unit in the state" had to be clarified because class-A assistant guides are specific to units and individual experience in the unit, while a registered guide license enjoys privileges all over the state to test or qualify to contract services in any game management unit after qualifying. There has to be a definition of the relationship between two registered guides when one is employing the other. Furthermore, the clarification restricts the relationship by specifically removing the ability for a registered guide employed by another registered guide to subcontract or perform the specific functions of a registered guide, that being contracting a hunt. Therefore, the license is restricted by treating the registered guide who is employed by another registered guide as a class-A assistant guide rather than allowing him/her to remain a registered guide. Mr. Stacey opined that the charge the proposal is expanding the privileges is incorrect. With regard to the changes in the supervision requirement in Section 4, Mr. Stacey related that APHA is in support of meaningful supervision in the field. The APHA also supports the progression of assistant guides to registered guides and registered guides to master guides. Such progression is based on an apprenticeship program that requires a lot of supervision and personal recommendations. Mr. Stacey clarified that APHA isn't in favor of reducing supervision requirements rather it's in favor of meaningful supervision requirements. The current requirement [that a registered guide-outfitter who contracts for a guided hunt has to be physically present in the field with the client at least once during the contracted hunt] is easily circumvented by going outside of a borough or a town and signing a contract in what's technically considered "the field" and then the guide licensee being contracted by the contracting guide can say they fulfilled the requirement. The aforementioned isn't a meaningful supervision requirement and because it's in statute the board can't address it by regulation. Therefore, by removing that clause and inserting the language "supervising" and "and conducting the hunt" on page

2, lines 24 and 25, the board is provided the ability to approach meaningful supervision requirements through the regulatory process of the Big Game Commercial Services Board. The intent is not to relax supervision requirements but rather allow the creation, discussion, and adaptation of meaningful supervision requirements through regulation.

[1:51:02 PM](#)

CO-CHAIR FEIGE asked if "the field" is considered anywhere outside of a municipal boundary.

MR. STACEY said that "the field" is a very problematic definition as it's ambiguous and has been interpreted in various different manners by the various different enforcing agencies. The intent of the change [encompassed in Version I] was to maintain supervision and have a meaningful definition of it that will be adapted through the regulatory process with industry input. The term "conducting" implies a high level of supervision/participation of a hunt. The "unless" means that the actual conducting can be performed through a licensed professional, either a class-A assistant guide or a registered guide working for another registered guide, or an assistant guide. However, [the registered guide-outfitter] would still be required to supervise and participate in the contracted hunt. He said that "conducting" is only altered.

[1:53:14 PM](#)

MR. STACEY then turned to the language on page 2, line 31: "unprofessionalism, moral turpitude, or gross immorality." In discussions of the subcommittee and the Big Game Commercial Services Board, there was the perception that the aforementioned types of conduct were defined by a body of case law and weren't ambiguous terms. As qualified and responsible professionals, [APHA] supports having high quality individuals in the guide industry and is excited to have such language in HB 229. In conclusion, Mr. Stacey said he would appreciate the committee's support and rapid movement of the legislation from committee.

[1:54:48 PM](#)

CO-CHAIR SEATON stated that on page 2, line 25, the term "unless" definitely needs to be clarified because it reads that everything prior to the comma is modified by the "unless." Therefore, it's not clear that it would only apply to conducting the hunt but rather would also apply to supervising and

participating in the hunt. Co-Chair Seaton said he is glad to hear that APHA wants the provision to require supervision and participation in the hunt by the registered guide-outfitter while conducting the hunt can be performed through a contract with a class-A assistant guide.

MR. STACEY agreed with Co-Chair Seaton. He specified that the provision attempts to clarify whether a contracting registered guide can go and get supplies in the middle of the season and leave the hunt to be conducted by those in the field.

[1:56:32 PM](#)

MR. STACEY, in response to Representative Munoz, explained that a class-A assistant guide is a license fee that has a high level of experience in a specific game management unit or region of the state. A class-A assistant guide is a type of registered guide that can't contract a hunt, but is an expert in a local game management unit or area and has the ability to supervise a camp without a registered guide being physically present.

[1:57:31 PM](#)

REPRESENTATIVE MUNOZ, drawing from earlier testimony, asked if this provision could result in the hunt being conducted by a guide 18 years of age.

MR. STACEY said that a guide conducting an unsupervised hunt would have to be at least 20 year old, which is the threshold for a class-A assistant guide. An assistant guide could be 18 years of age.

CO-CHAIR FEIGE informed the committee that a class-A assistant guide must be at least 21 years of age.

MR. STACEY remarked that the question is what level of licensed professional will be allowed to supervise a camp. A registered guide needs to have the trust in either a class-A assistant or another registered guide to supervise a camp.

[1:58:37 PM](#)

REPRESENTATIVE P. WILSON surmised then that a class-A assistant or another registered guide supervising a camp is a temporary situation, such as when the registered guide-outfitter has to get supplies.

MR. STACEY pointed out that a registered guide can have two or three clients in the field at the same time as the contracting hunter and have licensed professionals with them in camps. Furthermore, the [registered guide] isn't required to be physically present through the beginning and end of each client's hunt; otherwise there would be no way to have three clients during a 10-day season. The goal of the supervision is to ensure that the registered guide, the experienced individual who holds the land use permit and has the right to contract hunts, has an adequate level of control and supervision over the guides in the field while protecting the interests of his clients. Therefore, the provision [in Version I on page 2, lines 24-27] clarifies [the contracting registered guide-outfitter's] ability to allow a class-A assistant guide or a registered guide working for [the contracting registered guide-outfitter] to supervise the camps, to the capacity their license status specifies. The contracting registered guide-outfitter still has to participate and supervise anyone who works for him/her and any hunts that he/she is contracting. Having a registered guide-outfitter in the field for every hunt and camp isn't necessarily the intent of supervision.

[2:01:00 PM](#)

MR. STACEY, in further response to Representative P. Wilson, said that most guides have one-on-one relationships with their assistant or client. There are cases in which a client may want to hunt with another client and the guide in the field would then have two clients. In such cases, the aforementioned is clearly laid out in the business arrangement between the registered guide and the clients. The goal with supervision is to ensure that the registered guide is supervising and administering as the highest qualified professional and the one that has the legal right to contract the hunt. The assistant guides have to be allowed to hunt as part of the progression of the responsibilities of the license.

[2:02:26 PM](#)

REPRESENTATIVE P. WILSON inquired as to the difference between a registered guide outfitter and a class-A assistant guide.

MR. STACEY clarified that a registered guide outfitter has the ability to contract a hunt and enter into a business agreement with a client. The only privilege a class-A assistant guide enjoys that an assistant guide doesn't is the ability to supervise a camp unattended in a game management unit for which

they are licensed. He characterized a class-A assistant guide as a regional expert. The registered guide and master guide license holders are the only two license statuses with the ability to contract and represent big game hunting in Alaska.

2:03:31 PM

REPRESENTATIVE HERRON related his understanding that the language "the field" as related to a business relationship means that it's a defined area or the area of business.

MR. STACEY posed a scenario in which a guide conducts hunts on state lands outside of Port Heiden, which is within the guide use area in which the guide conducts business. Port Heiden is considered an area of habitation because it has infrastructure, and thus it's not considered "the field." However, when one walks down to the river on state land, [it is considered the field]. He noted that the following existing statutory language: "physically present in the field with the client at least once during the contracted hunt" doesn't fulfill the intent of supervision. By approaching this definition in regulation, he opined that there's a better chance to get a handle on it. In further response to Representative Herron, Mr. Stacey indicated that debating the definition of "the field" in regulations would be preferable to in statute.

2:05:20 PM

CO-CHAIR SEATON posed a scenario in which three guides partner and provide services in nine areas rather than three. He asked if the aforementioned is a realistic possibility and something APHA supports.

MR. STACEY specified that APHA supports the three area restriction that is three guide use areas per registered guide licensee. The abuse or utilization of that is outside the sphere of two registered guides deciding to work together; it's slightly outside of the sphere of this legislation. He pointed out that the removal of the language on page 2, lines 16-19, would further restrict the ability to subcontract. A registered guide license has the specific power to sign or contract hunts. Therefore, by removing the aforementioned language and treating that registered guide as a class-A assistant guide would help clarify that another registered guide can't sign a contract for the registered guide by whom he is employed. He said that he would read the language [in Section 3] such that a registered guide-outfitter who is employed by another registered guide-

outfitter couldn't contract for the employing registered guide-outfitter.

2:08:33 PM

PAUL JOHNSON, Chair, Big Game Commercial Services Board, explained to the committee that originally many of the issues were addressed in regulation, but when the board sunset the overriding issues were placed in statute. He informed the committee that the [board] has a lot of regulations that define supervision and participation. With regard to Mr. Want's request to change the language on [page 1, line 8] from "may" to "shall" so that the board has to address these issues, Mr. Johnson said it's a reasonable request. Trying to sort out these matters in statute is impossible, but doing so through regulation would allow one to address the changes over time. [Under existing statute], subcontracting is occurring. Mr. Johnson emphasized the difficulty the board has had over the years as it has tried to define "in the field". He related his understanding that [the language in Version I] requests more of a registered guide-outfitter who contracts for a guided hunt than being physically present in the field with the client at least once. Being able to define supervision, participation, and what conducting a hunt means would then allow the board to define "conducting". Mr. Johnson said he understood Mr. Want's concern regarding the inclusion of the term "unless" on page 2, line 25. However, it was made clear [by the Department of Law (DOL)] that it would allow the board to define those. With regard to the inclusion of the language "unprofessionalism, moral turpitude, or gross immorality", he opined that most of the boards have such language. He then pointed out that the guiding industry, a \$300 million industry, has never asked the state for any funds. Although he acknowledged there are problems, he said was proud of the guiding industry. The standards of the guiding industry have been increased, but those standards that have been placed in statute don't allow the board to deal with them as things arise. Mr. Johnson stated that he would like to see the board deal with these issues and give the flexibility to sort them out over time.

2:12:46 PM

MR. JOHNSON returned to the inclusion of the language "unprofessionalism, moral turpitude, or gross immorality" and related that the state is forced to give applicants without a fine of up to \$2,500 a [guiding] license. Once an individual is given a license, it's a property right given to them by the

state and the cost to [revoke or suspend] it is huge. In fact, the cost of the hearing is \$30,000. These costs are borne by the guides through their licensing fees. The industry desperately needs that provision. The industry also needs to be able to address some of the lighter offenses so that the courts don't have to suspend a license for those type of violations. He then said he is always disappointed when he hears that a guide is unethical to the point of hunting a local drainage [to the point of no resource]. With regard to earlier mentioned concerns, he clarified that the board wants the contracting guide to participate [in the hunt] and be able to fly out and meet [supplies or other clients] as they are brought to the field. In conclusion, Mr. Johnson expressed hope that the legislation will be moved forward as there are some very important provisions in this legislation.

[2:16:13 PM](#)

CO-CHAIR FEIGE related his understanding that this legislation was developed from the Big Game Commercial Services Guide Board's recommendations for changes to the statute.

MR. JOHNSON confirmed that, and highlighted that there has been controversy in the guiding industry for a long time and the board would like legislation to clean up the guiding industry statutes over time. The board has been told that the language in Version I would allow them to define the terms "supervision", "participation", and "conducting" even with the inclusion of the term "unless".

[2:17:45 PM](#)

CO-CHAIR FEIGE surmised then that Mr. Johnson believes passage of Version I would provide the board the authority to make judgment calls and specify more clearly in regulation exactly the standard to which hunters and guides would be held.

MR. JOHNSON said that is correct. He then noted that the class-A assistant guide license was designed to ensure that rural residents have [guiding] work. He further noted that every landholder, including the federal government, the state government, and the private holders, have their own [guiding] provisions. He mentioned that the state, through the Department of Natural Resources (DNR) process, has been working on [the process].

[2:19:32 PM](#)

REPRESENTATIVE P. WILSON asked whether there are definitions of "supervising", "participating", and "conducting" or do those terms need to be defined.

MR. JOHNSON clarified that "supervising" and "participating" are defined and now [Version I] would provide the ability to define "conducting". "So, that word 'conducting' ... for both sides of ... the word 'unless' would allow us to define 'conducting' that they wouldn't, for instance, be able to conduct a hunt unless this level of supervision happens," he explained.

[2:20:15 PM](#)

CO-CHAIR SEATON related that although he is supportive of the legislation, he wanted to ensure that the board isn't saddled with statute that says the board can't do what it wants because the term "unless" was in the wrong place. Co-Chair Seaton thanked Mr. Johnson for the testimony regarding the intent of the legislation, which should be helpful.

MR. JOHNSON agreed that the intent discussion would be helpful.

[2:21:31 PM](#)

CO-CHAIR FEIGE announced that HB 229 would be held over.

**HB 280-OIL & GAS TAX CREDITS: KOTZEBUE/SELAWIK**

[2:21:42 PM](#)

CO-CHAIR FEIGE announced that the next order of business would be HOUSE BILL NO. 280, "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil and gas exploration wells in the Kotzebue Basin or the Selawik Basin; and providing for an effective date."

[2:22:13 PM](#)

BRODIE ANDERSON, Staff, Representative Reggie Joule, Alaska State Legislature, speaking on behalf of the prime sponsor, Representative Joule, explained that HB 280 proposes an oil and gas exploration tax credit for the underexplored area of the Kotzebue/Selawik Basin. The legislation incentivizes exploration drilling as past indicators have shown that exploration and development in the Kotzebue Basin is possible. However, due to its remote location exploration, economic

growth, and development has been difficult. Furthermore, the lack of reliable energy supplies and high energy prices has made exploration and development in the area even more difficult. Therefore, this legislation will strongly encourage companies to invest in this frontier basin such that rural Alaska can be provided with lower cost energy and provide opportunities for exploration and in-state use. Mr. Anderson then reviewed the sections of HB 280. He explained that Section 1 adds the Kotzebue Basin to the actual production tax credit. Sections 2 and 3 remove the definition of the Cook Inlet from the previous section and Section 3 creates a new set of definitions in its own subsection. Section 4 is the actual language establishing the Kotzebue Basin tax credit. Section 5 specifies an effective date.

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MR. ANDERSON, referring to Section 4, pointed out that the tax credit would be applicable for anyone drilling the first three holes down to 2,000 feet for the purpose of exploration of oil and gas. The first [exploration well] is entitled to a 100 percent tax credit of its exploration well expenditures or \$30 million, whichever is less. The second [exploration well] is entitled to a credit in the amount of 90 percent of the exploration well expenditures or \$27 million, whichever is less. The credit for the third [exploration well] would be in the amount of 80 percent of the exploration well expenditures or \$24 million, whichever is less. If these exploration wells move to production, 50 percent of the tax credit is required to be paid back.

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REPRESENTATIVE KAWASAKI observed that HB 280 is similar to legislation for the Nenana Basin. He inquired as to why the drilling depths are very different between HB 280 and HB 276.

MR. ANDERSON informed the committee that the state needs to look at frontier basin exploration as the next step to provide for the state's economy. When looking at the Kotzebue Basin there were indications that there could be shallow gas reserves that might be producible. Therefore, the legislation was drafted with the shallower ceiling in order to capture some potential reserves that wouldn't otherwise qualify because the cost to get the rig to the Kotzebue Basin will remain the same regardless of the depth of the well.

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REPRESENTATIVE MUNOZ inquired as to why the credit proposed in HB 280 is so much greater than the credit in the Nenana Basin legislation, HB 276.

MR. ANDERSON explained that the credit in HB 280 was modeled after the Cook Inlet jack-up rig credit and then considered the cost of transportation, the remoteness of the site, and other factors. Therefore, the cost of transporting materials to the site was added to the [base] credit.

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CO-CHAIR SEATON, referring to the jack-up rig, asked if this legislation refers to onshore or offshore.

MR. ANDERSON said that it's the expectation that this would at least begin onshore. In further response to Co-Chair Seaton, Mr. Anderson related his understanding that the language used was for the purpose of oil and gas, but he wasn't sure about the definition of wells. He offered to speak with the drafters to ensure that the clarifying language would only include wells and rigs that would classify for oil and gas.

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REPRESENTATIVE P. WILSON pointed out that the language in Section 2 on page 2, lines 18-19, specifies that "a person drilling an exploration well is not entitled to a credit for more than one exploration well under this subsection." However, the language in Section 4 on page 4, lines 6-8, specifies that "A person or an affiliate of a person may qualify for a drilling credit for more than one exploration well under this subsection."

MR. ANDERSON related his understanding that the language in Section 2 was referring to the Cook Inlet directly, while the language in Section 4 is the new language for the Kotzebue Basin. He offered to review whether there is a conflict and get back to the committee.

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LANCE KILVAGUIQ MILLER, PhD, Vice President - Resources, NANA Regional Corporation, Inc., began by clarifying that the Kotzebue/Selawik Basin is essentially the same area. He then

expressed excitement for this proposal in terms of the potential for energy independence for rural Alaska as well as the state. The map on the slide entitled "Kotzebue Basin Location" illustrates that the basin goes offshore and is part of the Chukchi Hope Basin system. However, the onshore potential is what's being considered. The basin is a fairly significant size that is about 20,000 feet thick with some Tertiary and Cretaceous sediments, which refers to the geologic age of the strata. He then moved on to the slide entitled "Basin Comparison" that provides an aerial view of the Kotzebue Basin in comparison to the Cook Inlet Basin. Although the two basins are similar in size, it doesn't mean the Kotzebue Basin will reach the same production as the Cook Inlet Basin. For perspective, Mr. Miller informed the committee that 40 years ago 2 wells were drilled by Chevron in the Kotzebue Basin as opposed to the numerous wells that have been drilled in the Cook Inlet Basin. He then directed attention to the slide entitled "Local Geography" that presents a map specifying the location of the two wells drilled in the Kotzebue Basin. This map illustrates the size of the Kotzebue Basin, which is 140 miles by 75 miles. This map also specifies the prospects that have been defined based on the geology of the region.

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MR. MILLER then moved on to the slide entitled "Exploration History and Data." He stressed that the Kotzebue Basin is an exploration play for which there has been some work. In 1972 Chevron approached NANA Regional Corporation and some seismic work led to the aforementioned two wells being drilled. In the course of that time, the companies wanted to look at the base, the rocks, and the basin [which resulted in the drilling of] stratigraphic holes rather than looking at the best potential geologic targets. The next slide, entitled "Primary Reservoir Targets" is a [60-mile] cross section between the two wells [drilled by Chevron in 1974]. The Nimuiuk Point well was drilled to 6,315 feet while the Cape Espenberg well was drilled to 8,360 feet. The geology of the area matched well as there were good source rocks and host rocks for hydrocarbon plays across the 60 miles of basin [between the two wells]. Although it's a geologist's best guess, it's definitely dated efficient. The slide entitled "Basin Overview" highlights the two basins and the good sources for hydrocarbon potential. The green lines are the faults, which when combined with the folding of the rocks combine to what are hopefully good traps for drilling.

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MR. MILLER pointed out that the slide entitled "2 of the 30 Prospects" highlights two of the potential targets, Cape Espenberg Prospect and Amaouk Creek Prospect, in relation to the wells drilled by Chevron in 1974. NANA Regional Corporation had an agreement, which has now lapsed, with California Independent to evaluate and drill some holes. Although the deal was signed in 2008 when gas prices began to decrease, the result was a lot of reinterpretation of the work. The tan areas of the aforementioned slide are the areas NANA Regional Corporation would like to drill. He then directed attention to the slide entitled "Amaouk Creek Prospect," which is just a seismic line in the Amaouk Creek prospect. To a geophysicist, this represents about a 10,000 foot cross section of the earth. The interpretation of the folds and closures is that the rock units are folded and some of the domes capped by reservoir seals could be good potential for hydrocarbons. The little map inset in the upper right is an illustration of a dome closure of the Amaouk Creek prospect; the blue line running through it is the cross section presented on the slide. Although this is old data from the 1970s, it has been reinterpreted. Referring to the slide entitled "Amaouk Creek Prospect", he pointed out that the data relates that there is coal, shale, and sand. The next component would be to find the proper structure, either folds or faults as illustrated on the prior slide. Therefore, Mr. Miller said that the Amaouk Creek Prospect is a fairly large sized dome with a 27 square mile closure that has potential for hydrocarbon accumulation. Again, Mr. Miller said he's not trying to say there will be 2 trillion cubic feet (tcf) of gas in this closure, but he directed attention to the slide entitled "Amaouk Creek Prospect: Comparison to Partial Analogues" that relates what the Kenai and Beluga River Gas Fields in the Cook Inlet has produced. The comparison illustrates that the Amaouk Creek Prospect has some fairly significant large structures showing per the geology and geophysics in the region.

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MR. MILLER, referring to the slide entitled "Key Points", reiterated that over 40 years ago two wells were drilled into this deep basin, which is similar in size to Cook Inlet and San Joaquin-Sacramento Basins. There are many indications of a significant hydrocarbon system. Although it remains to be seen whether the hydrocarbons are gas prone or oil prone, it's likely to be more of a gas play. As was discussed, it has been difficult to attract financing. In the past, the majors performed the [exploration] work for oil, but now the hand full

of majors leave the high risk work to the independents. Mr. Miller stressed that [Amaouk Creek prospect] is an exploration, wildcat play. Certainly, there are local needs in the region and Red Dog is a potential user. Although he hesitated to say it, Mr. Miller said that ideally the prospect could be large enough to export, which is specifically why he didn't include anything about commercialization as there is the need to be careful about expectations.

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CO-CHAIR SEATON recalled that part of the reason for the incentive in the Cook Inlet was that people had tapped into the upper levels and never gone to the lower areas. This proposal seems to only go to 2,000 feet and doesn't even reach the cap. With the Cook Inlet proposal the intent was to develop in order to gain information all the way to the tertiary level. Therefore, he inquired as to why the proposal for [Amaouk Creek] would be to drill relatively shallow wells and not assess. With the Nenana Basin, the [goal] has been to obtain information that would be applicable and beneficial to the state.

MR. MILLER clarified that NANA Regional Corporation isn't tied to the 2,000 feet. Of interest, Mr. Miller related that in the 1950s a water well was drilled near Kotzebue and it blew out mud and water for about 12 hours. Additionally, there are some targets located at levels less than 2,000 feet. Therefore, there is the potential for shallow gas. However, the reality is the desire to drill deeper. He noted that the maximum basement is likely about 10,000 feet and that is likely the intent. He further mentioned that the matter must also be vetted by DNR, which would thwart merely drilling a water well. In further response to Co-Chair Seaton, he stated that NANA Regional Corporation would be fine using the Nenana language.

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CO-CHAIR SEATON stated that the [committee] is trying to develop geologic information and resource assessment because producing the first thing that is hit doesn't give the state the information regarding the full potential of the basin.

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CO-CHAIR FEIGE related his assumption that NANA Regional Corporation wants to service Kotzebue and the local market with

a heating source. He asked if it would make sense to balance the risk and reward and drill a shallower well that is perhaps more likely to payout. He then asked if NANA Regional Corporation's main objective to find development suitable for export or for serving the local [energy] need.

MR. MILLER answered that it's really both. Certainly, there is incredible support for onshore drilling.

[2:48:44 PM](#)

ELIZABETH SAAGULIK HENSLEY, JD, Corporate & Public Policy Liaison, NANA Regional Corporation, interjected that it is one of the top four priorities of the Northwest Arctic leadership team, which consists of NANA Regional Corporation, the Northwest Arctic Borough, the Northwest Arctic Borough School District, and Maniiliq Association.

[2:49:08 PM](#)

CO-CHAIR FEIGE inquired as to how much of Kotzebue Sound is state waters versus federal waters.

MR. MILLER, referring to the earlier question, the goal is both to export oil and to provide it for local use. As the case with most resource projects in Alaska, it needs to be significant in order to make it economic and thus a goal of the project would be for it to be exportable. Mr. Miller couldn't specifically provide the amount of land in the Kotzebue Basin that's state land, but he did characterize it as a significant amount of state land in the water. He offered to obtain that information for the committee.

[2:50:36 PM](#)

REPRESENTATIVE GARDNER asked whether NANA Regional Corporation has spoken with any explorers regarding interest in this approach. Since this area is only a few miles from the coast, she asked if the water is deep enough to use tankers.

MR. MILLER informed the committee that NANA Regional Corporation has been fairly active in terms of explorers. In fact, even in the 1990s, NANA Regional Corporation engaged geologists who used to work with Chevron and the majors. More recently, NANA Regional Corporation has spoken with a fair number of independents. He related that there is interest and noted that people were unaware of the existing credits, and thus as the

word spreads more will be attracted. Still, the location is remote and a drill would be tied up for a year. With regard to the tanker question, Mr. Miller said that right outside of Kotzebue a tanker would have to be litered.

MS. HENSLEY confirmed that a tanker would have to liter. Although a tanker can get near Kotzebue, items would have to be barged. She noted that there is also a port at Red Dog. She then reminded the committee that the Northern Waters Task Force did recommend that the state consider more options in the Arctic north of Nome. There has been discussion and in fact, the port bond includes funds for a port at Kotzebue.

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REPRESENTATIVE GARDNER related her understanding that without a coastal zone management program, the state can't construct a deep water port in the Arctic. She asked if that's true for Kotzebue as well.

MS. HENSLEY said she is not sure about that, although she recalled hearing the same question. She opined that more research has to be performed on that matter, and thus she offered to provide the committee more information on that after more analysis is done.

[2:53:53 PM](#)

REPRESENTATIVE KAWASAKI, recalling Mr. Miller's comments regarding the difficulties of exploration in this location and Alaska, questioned how one can be sure gas will be produced even if it's found and the state subsidizes 100 percent of it.

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MR. MILLER said that if [the play] is large enough, liquefied natural gas (LNG) has been looked at conceptually which would be for Asian markets. Although the discussion is in terms of gas, the hope is that there will also be oil, which would change the game. What the true hydrocarbon system is, is still being evaluated, he highlighted. He agreed that commercialization needs to be significant to get it to markets, which is part of exploration.

MS. HENSLEY added that the Red Dog Mine is actively exporting. In fact, Red Dog is one-quarter of the \$4 billion in the [state's exports]. She emphasized, "So, if we do have the

amount, then ... we can find a way ...; we've done it with Red Dog."

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CO-CHAIR FEIGE cautioned that this is still speculation and depends upon how much information is available. The more information there is the more the risk is reduced for investors. He said that NANA Regional Corporation already seems to have a fair amount of seismic data that defines a lot of the area. He asked if more seismic information or seismic information with newer technology is needed.

MR. MILLER clarified that he isn't a petroleum geologist, but those he knows have provided mixed reviews. Some have said it's drill ready while others say that it would be nice to perform more 3-D [seismic]. He opined that he would leave it up to the person putting up the money.

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CO-CHAIR FEIGE asked if it's important for the company to have a stake in the game to keep them honest and tighten up their own decision making.

MR. MILLER replied yes, it's always good to have some skin in the game.

[2:59:03 PM](#)

REPRESENTATIVE KAWASAKI pointed out that one of the differences between the Nenana legislation and HB 280 is that HB 280 has an immediate effective date. He asked if that immediate effective date is in anticipation of folks drilling in the next season.

MR. MILLER related that the thought was that as this moves ahead if folks get interested this year, they probably wouldn't drill until the next year. He opined that it's already too late to drill in 2012-2013. The idea is that if it all worked out, a rig would be tied up and that would amount to \$5-\$6 million. Therefore, costs could be incurred well before drilling commenced.

[HB 280 was held over.]

[3:01:17 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:01 p.m.