

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 14, 2012

1:11 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Alan Dick  
Representative Bob Herron  
Representative Cathy Engstrom Munoz  
Representative Berta Gardner  
Representative Scott Kawasaki

**MEMBERS ABSENT**

Representative Peggy Wilson, Vice Chair  
Representative Neal Foster

**COMMITTEE CALENDAR**

SENATE JOINT RESOLUTION NO. 17

Welcoming the Arctic Council Task Force for Arctic Marine Oil Pollution Preparedness and Response to the state for its March 2012 meeting and urging the task force to use its time in the state to inform and inspire the work of the task force.

- MOVED SJR 17 OUT OF COMMITTEE

HOUSE BILL NO. 361

"An Act relating to the Alaska Land Act, including certain lease, sale, and other disposal of state land and materials; relating to production royalties from miners; relating to rights to use state water; and providing for an effective date."

- MOVED CSHB 361(RES) OUT OF COMMITTEE

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."

- MOVED CSHB 276(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SJR 17

SHORT TITLE: ARCTIC COUNCIL TASK FORCE

SPONSOR(s): SENATOR(s) MCGUIRE

02/06/12 (S) READ THE FIRST TIME - REFERRALS  
02/06/12 (S) STA  
02/28/12 (S) STA AT 9:00 AM BUTROVICH 205  
02/28/12 (S) Moved SJR 17 Out of Committee  
02/28/12 (S) MINUTE(STA)  
02/29/12 (S) STA RPT 5DP  
02/29/12 (S) DP: WIELECHOWSKI, KOOKESH, PASKVAN,  
MEYER, GIESSEL  
03/05/12 (S) TRANSMITTED TO (H)  
03/05/12 (S) VERSION: SJR 17  
03/05/12 (H) READ THE FIRST TIME - REFERRALS  
03/05/12 (H) RES  
03/14/12 (H) RES AT 1:00 PM BARNES 124

BILL: HB 361

SHORT TITLE: DISPOSALS OF STATE RESOURCES/ROYALTIES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/29/12 (H) READ THE FIRST TIME - REFERRALS  
02/29/12 (H) RES, FIN  
03/05/12 (H) RES AT 1:00 PM BARNES 124  
03/05/12 (H) Heard & Held  
03/05/12 (H) MINUTE(RES)  
03/14/12 (H) RES AT 1:00 PM BARNES 124

BILL: HB 276

SHORT TITLE: OIL/GAS PROD. TAX CREDITS/RATES/VALUE

SPONSOR(s): THOMPSON, DICK, MILLETT, TUCK, MILLER

01/17/12 (H) PREFILE RELEASED 1/13/12  
01/17/12 (H) READ THE FIRST TIME - REFERRALS  
01/17/12 (H) RES, FIN  
01/30/12 (H) RES AT 1:00 PM BARNES 124  
01/30/12 (H) Heard & Held  
01/30/12 (H) MINUTE(RES)  
02/01/12 (H) RES AT 1:00 PM BARNES 124  
02/01/12 (H) Heard & Held  
02/01/12 (H) MINUTE(RES)  
02/03/12 (H) RES AT 1:00 PM BARNES 124  
02/03/12 (H) Heard & Held  
02/03/12 (H) MINUTE(RES)  
02/17/12 (H) RES AT 1:00 PM BARNES 124  
02/17/12 (H) Heard & Held

02/17/12 (H) MINUTE(RES)  
03/12/12 (H) RES AT 1:00 PM BARNES 124  
03/12/12 (H) Heard & Held  
03/12/12 (H) MINUTE(RES)  
03/14/12 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

MICHAEL PAWLOWSKI, Staff  
Senator Lesil McGuire  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced SJR 17 on behalf of Senator McGuire, sponsor.

NILS ANDREASSEN, Managing Director  
Institute of the North  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SJR 17.

WYN MENEFEE, Chief of Operations  
Central Office  
Division of Mining, Land and Water  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Explained proposed amendments to HB 361.

PAUL VERHAGEN, Staff  
Representative Alan Dick  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding a proposed amendment to HB 361 offered by Representative Dick.

JANE PIERSON, Staff  
Representative Steve Thompson  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** On behalf of Representative Thompson, joint prime sponsor, answered questions regarding HB 276.

JOHN LARSEN, Audit Master  
Tax Division-Production Audit Group  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified regarding HB 276.

MATTHEW FONDER, Director  
Anchorage Office  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding HB 276.

ELIZABETH SAADULIK HENSLEY, Corporate and Public Policy Liaison  
NANA Regional Corporation  
Kotzebue, Alaska

**POSITION STATEMENT:** Testified in support of HB 276.

#### **ACTION NARRATIVE**

[1:11:01 PM](#)

**CO-CHAIR PAUL SEATON** called the House Resources Standing Committee meeting to order at 1:11 p.m. Representatives Herron, Gardner, Munoz, Feige, and Seaton were present at the call to order. Representatives Dick and Kawasaki arrived as the meeting was in progress.

#### **SJR 17-ARCTIC COUNCIL TASK FORCE**

[1:11:22 PM](#)

CO-CHAIR SEATON announced that the first order of business would be SENATE JOINT RESOLUTION NO. 17, Welcoming the Arctic Council Task Force for Arctic Marine Oil Pollution Preparedness and Response to the state for its March 2012 meeting and urging the task force to use its time in the state to inform and inspire the work of the task force.

[1:11:49 PM](#)

MICHAEL PAWLOWSKI, Staff, Senator Lesil McGuire, Alaska State Legislature, introduced SJR 17 on behalf of Senator McGuire, sponsor, reporting that on March 20-22, 2012, the Arctic Council Task Force for Arctic Marine Oil Pollution Preparedness and Response will be holding a hearing in Girdwood, Alaska. He said the resolution is designed to be presented to the task force to encourage them to use their time in the state to inspire their work on this arctic instrument. He added that the task force was created under the Arctic Council.

[1:12:45 PM](#)

MR. PAWLOWSKI explained that the points of particular interest to Alaska start on page 2, line 14, of the resolution. He said lines 14-18 recognize that in terms of shipping it is not just the Arctic region of Alaska that will be affected, but also the Aleutian Islands; therefore, the Aleutian Islands are included throughout the resolution as well. According to page 16 of the Aleutian Islands Risk Assessment Project Phase A Summary Report [August 2011], included in the committee packet, roughly 2,000 vessels are currently transiting the Aleutians. The [2004] spill by the M/V Selendang Ayu was one of the larger spills in state history. The purpose of HJR 17 is to express to the task force - which has the responsibility to create the instrument for Arctic cooperation on oil spills and response - that Alaska would like to see vessels in innocent passage acknowledge the critical role of local response organizations, indigenous people, state and local governments, and response organizations in preparedness and response. When a vessel in international waters loses control and ends up in state waters, it is the state that must respond and deal with the mess.

[1:14:11 PM](#)

MR. PAWLOWSKI noted that lines 19-22 of the resolution urge that ships in the Bering Strait and Aleutians regions voluntarily engage local authorities in contingency planning, and that the Instrument on Cooperation on Marine Oil Pollution Preparedness and Response in the Arctic encourages that engagement. It is putting the point that while the State of Alaska does not have jurisdiction, it can participate through this resolution at this international body to encourage items that are in the state's interest. He related that Senator McGuire sees this resolution as part of the broader strategy of engaging on these Arctic issues that the legislature has taken the lead on.

[1:14:59 PM](#)

MR. PAWLOWSKI, in response to Representative Gardner, understood that "innocent" passage involves ships that are outside the waters of the state and transiting not to a port within the state. Directing attention to the map on page 16 of the summary report, he said the "great circle route" is one of the shortest distances between Asia and the West Coast of the U.S. and runs through the Aleutian Islands. A ship on this route would be in innocent passage because it is not heading into the jurisdiction of the State of Alaska.

1:15:50 PM

REPRESENTATIVE GARDNER inquired as to how confident the State of Alaska is that every vessel coming to an Alaska port is meeting the standards being requested in SJR 17, aside from oil and gas which is carefully monitored in the state's waters.

MR. PAWLOWSKI replied the standards requested in the resolution are voluntary. He understood that vessels coming into an Alaska port must comply with State of Alaska rules. However, vessels currently moving through the Arctic and the Aleutians by and large do not have to; they are covered under the International Maritime Organization. Through these international bodies the state advocates for stricter standards. For example, the M/V Selendang Ayu was a Malaysian freighter that functioned under international rules, not State of Alaska rules. In that the Arctic nations through the Arctic Council are getting together to develop a framework, the State of Alaska through SJR 17 is expressing an interest in seeing the stricter standards that Alaska has to protect its coasts showcased at this meeting and encouraging this group to adopt stricter standards for the Arctic than currently exist.

1:17:15 PM

REPRESENTATIVE HERRON inquired whether Alaskans will be involved in these discussions.

MR. PAWLOWSKI understood Alaskans would not officially be involved. He directed attention to page 2 of the resolution, beginning on line 30, which directs where copies of the resolution are to be sent. He said he does not believe Alaskans are on the task force given it is an international group. However, he understood that Alaskans will be at the meeting to advocate for issues that are in Alaska's interest.

REPRESENTATIVE HERRON offered his support for SJR 17 saying it is artfully written to send a memorandum to this group asking it to consider Alaska's concerns during the development of its comprehensive Arctic strategy.

MR. PAWLOWSKI, in response to Representative Munoz, reiterated that the task force meeting is taking place March 20-22, 2012, at [Hotel Alyeska].

CO-CHAIR SEATON opened public testimony on SJR 17.

1:19:15 PM

NILS ANDREASSEN, Managing Director, Institute of the North, stated he is testifying in his capacity as co-chair of the host committee for the coming Arctic Council Oil Spill Task Force meeting. He said the Institute of the North has had a long history of interaction with the Arctic Council - it has chaired projects under the working groups, including a circumpolar infrastructure task force, and was co-editor of the [2009] Arctic Marine Shipping Assessment Report, which is considered the bible of Arctic marine shipping. The Arctic Marine Shipping Assessment Report recommended there be a search and rescue agreement, which was approved [May 2011] by the senior Arctic officials. At that May meeting the Arctic Council decided to form the Task Force for Arctic Marine Oil Pollution Preparedness and Response. That task force has now met in Norway and Moscow. Since its intent was to next meet in America, some Alaskans successfully urged that that meeting be held in Alaska. Eight delegations from around the Arctic are bringing nearly a hundred experts on oil spill response and preparedness to this meeting in Alaska. This is a great opportunity for Alaskans to take a leadership role in welcoming these delegations and helping to shape some of the negotiations that will be taking place.

1:21:04 PM

MR. ANDREASSEN said this is an important time for Alaska because the U.S. will be the chair of the Arctic Council in a few years and the U.S. is forming its strategy for its chairmanship. This is a good first opportunity for Alaskans to weigh in on these issues. He said the host committee is encouraged by SJR 17 because it sends a great message to these guests from around the Arctic. From the host committee's perspective there will be a number of public opportunities for engagement. While the sessions themselves are closed, he and several Alaskans will be observers and will have opportunities for interaction. The Institute of the North is hosting a reception on March 19 for the attendees. Ambassador [David] Balton of the U.S. Department of State will host a debriefing of the three-day session on the afternoon of March 22. He reiterated that [the host committee] is glad to see SJR 17 as it sends a great welcoming message to these foreign dignitaries and experts. In response to Co-Chair Seaton, said he has not seen a full list of meeting participants, but U.S. Senator Begich's office will be represented at each of the public forums.

1:23:18 PM

CO-CHAIR SEATON closed public testimony after ascertaining that no one else wished to testify.

REPRESENTATIVE MUNOZ moved to report SJR 17 out of committee with individual recommendations and the accompanying zero fiscal note. She thanked the sponsor, saying Senator McGuire has been a leader in Arctic issues. There being no objection, SJR 17 was reported from the House Resources Standing Committee.

**HB 361-DISPOSALS OF STATE RESOURCES/ROYALTIES**

[1:24:15 PM](#)

CO-CHAIR SEATON announced that the next order of business would be HOUSE BILL NO. 361, "An Act relating to the Alaska Land Act, including certain lease, sale, and other disposal of state land and materials; relating to production royalties from miners; relating to rights to use state water; and providing for an effective date."

The committee took a brief at-ease.

CO-CHAIR SEATON opened public testimony on HB 361, but closed it after ascertaining that no one from the public wished to testify. He noted that HB 361 is by the House Rules Standing Committee at the request of the governor.

[1:26:53 PM](#)

CO-CHAIR SEATON moved to adopt [Amendment 2], labeled 27-GH2717\A.5, Bailey, 3/13/12, which read [original punctuation provided]:

Page 5, following line 19:

Insert a new bill section to read:

"\* **Sec. 11.** AS 38.05.115 is amended to read:

**Sec. 38.05.115. Limitations and conditions of sale.** (a) The commissioner shall determine the timber [AND OTHER MATERIALS] to be sold [,] and the limitations, conditions, and terms of sale. The limitations, conditions, and terms shall include the utilization, development, and maintenance of the sustained yield principle, subject to preference among other beneficial uses. The commissioner may negotiate sales of timber [OR MATERIALS] without advertisement and on the limitations, conditions, and terms that are

considered to be in the best interests of the state. Within a one-year period, the commissioner may not negotiate a sale without advertisement to the same purchaser of

[(1)] more than 500 M.B.M. or equivalent other measure of timber [;

(2) EXCEPT AS PROVIDED IN (3) OF THIS SUBSECTION, MORE THAN 25,000 CUBIC YARDS OF MATERIALS; OR

(3) MORE THAN 100,000 CUBIC YARDS OF MATERIALS TO A COMMON CARRIER HOLDING A LEASE UNDER AS 38.35].

(b) Negotiated sales not exceeding 50 M.B.M. or the equivalent other measure of timber [OR 2,500 CUBIC YARDS OF MATERIALS] are exempt from the provisions of AS 34.15.150.

(c) The limitations of this section are not applicable to timber that [WHICH] becomes state property under the provisions of AS 45.50.210 - 45.50.235."

Renumber the following bill sections accordingly.

Page 13, line 28:

Delete "sec. 18"

Insert "sec. 19"

Page 16, line 9:

Delete "Section 19"

Insert "Section 20"

Page 16, line 10:

Delete "sec. 23"

Insert "sec. 24"

CO-CHAIR FEIGE objected for discussion purposes.

CO-CHAIR SEATON invited Mr. Wyn Menefee of the Department of Natural Resources to explain the amendment.

[1:27:49 PM](#)

WYN MENEFEE, Chief of Operations, Central Office, Division of Mining, Land and Water, Department of Natural Resources (DNR), reminded members of the committee's [3/5/12] discussion about splitting out the statutes between timber sales and material sales to alleviate confusions. However, he explained, this

proposed provision was inadvertently omitted from the original draft of the bill. Amendment 2 would add a new bill section, Section 11, to separate the two by eliminating materials. All the pertinent aspects on doing materials sales are already covered by what has been submitted and Amendment 2 would just take it out of the portions that remain in AS 38.05.115 that deal with timber sales. Due to the addition of this new section, Section 11 would also renumber the following sections in the bill.

[1:29:43 PM](#)

CO-CHAIR SEATON noted that "2,500 cubic yards of material" would be removed by the amendment but not inserted anywhere else in the bill. He requested an explanation of that removal.

MR. MENEFFEE replied that the bill would add a new section, Section 38.05.550, which would establish material sites or disposal areas from which materials would be sold through negotiated sales. Because the division would have already notified the public with a notice and best interest decision that it will be progressively selling all of the materials out of an area, a volumetric restraint is no longer needed. The proposed new Section 38.05.555 on page 7, line 22, deals with negotiated sales and personal use of materials. Under this proposed section the director may negotiate the sale of any amount of materials from a source or site designated under AS 38.05.550(b), so once a site was established the materials could be extracted until gone. Therefore, this restriction of volume would not need to be re-referenced.

CO-CHAIR FEIGE removed his objection. There being no further objection, Amendment 2 was adopted.

[1:32:03 PM](#)

CO-CHAIR SEATON moved to adopt Amendment 3, labeled 27-GH2717\A.6, Bailey, 3/13/12, which read [original punctuation provided]:

Page 6, line 22:  
Delete "in fee"

CO-CHAIR FEIGE objected.

[1:32:24 PM](#)

MR. MENEFFEE, at the request of Co-Chair Seaton, said the purpose of Amendment 3 is to make a correction. He explained there is a two-step process when the state receives title to the land. First, is a tentative approval from the U.S. Bureau of Land Management (BLM); second, is that after BLM surveys the land the state gets patent to it. The connotation of "in fee" means patented land and would not include tentative approval land, yet the state sells material from tentative approval land all the time. By removing "in fee", line 22 would state "All materials owned by the state ...." This would incorporate both tentative approval lands and the patented lands.

CO-CHAIR FEIGE removed his objection. There being no further objection, Amendment 3 was adopted.

[1:33:45 PM](#)

CO-CHAIR SEATON moved to adopt Amendment 4, labeled 27-GH2717\A.7, Bailey, 3/13/12, which read [original punctuation provided]:

Page 15, line 23:

Delete "and quarry stone"

Insert "stone, pumice, and common clay"

CO-CHAIR FEIGE objected.

[1:34:01 PM](#)

MR. MENEFFEE, at the request of Co-Chair Seaton, said Amendment 4 deals with the definition of materials. He explained the word "includes" [on line 22] means that the materials could be more than what is listed on lines 22-23. However, the division felt that by specifically stating "quarry stone" people in the future might think there was an obvious reason why it stated only quarry stone. Stone is a general term that includes quarry stone, and use of the word "stone" will preclude any connotation that the division was purposely trying to get rid of pumice, common clay, or general stone. He specified that locatable minerals are not included as stone; for example, a diamond is a locatable mineral

CO-CHAIR FEIGE removed his objection. There being no further objection, Amendment 4 was adopted.

[1:35:44 PM](#)

CO-CHAIR SEATON moved to adopt Amendment 5, labeled 27-GH2717\A.8, Bailey, 3/14/12, which read [original punctuation provided]:

Page 15, following line 23:

Insert a new bill section to read:

"\* **Sec. 21.** AS 41.23.470(b) is amended to read:

(b) The commissioner may conduct only a negotiated timber [OR MATERIAL] sale under AS 38.05.115 to provide for personal use, including house logs and firewood, or for a use incidental to the construction of access, or for habitat enhancement."

Renumber the following bill sections accordingly.

Page 16, line 10:

Delete "sec. 23"

Insert "sec. 24"

CO-CHAIR FEIGE objected.

[1:36:12 PM](#)

MR. MENEFFEE, at the request of Co-Chair Seaton, explained that Legislative Legal and Research Services brought another statute to the division's attention that mixed references of timber and material sales and that referred back to the old AS 38.05.115. Because [the old statute] included material in that definition, a new citation for the new statute would have to be referenced. This provision sits within the Susitna Recreation River's section of statute, so it deals only with recreational rivers. The division would not need this material statute here to conduct negotiated material sales because it would already be addressed under the proposed new Section 550 to AS 38.05. Therefore, this would not benefit the division for selling materials even in recreational rivers. To eliminate confusion, the division proposes to take out "or material" so there is no "or material" referencing back to the old AS 38.05.115; thus clarifying that there is not a conflict.

CO-CHAIR FEIGE removed his objection. There being no further objection, Amendment 5 was adopted.

[1:37:48 PM](#)

REPRESENTATIVE DICK moved to adopt Amendment 6, labeled 27-GH2717\A.4, Bailey, 3/13/12, which read [original punctuation provided]:

Page 8, following line 17:

Insert a new subsection to read:

"(f) Notwithstanding (a) - (e) of this section, for the purpose of creating incentives for the development of peat as a source of heat or power, the director shall negotiate the sale of peat to individuals, organized or unorganized communities, tribal governments, or private profit or nonprofit organizations. Under this subsection, the director shall provide,

(1) for personal use by an individual or for testing or product development for commercial use, not more than 20,000 cubic yards of peat a year at no cost for a period not to exceed 10 years; or

(2) for users requiring more than 20,000 cubic yards a year, the amount of peat required by the user for a period not to exceed 10 years at the price of

(i) 20 percent of the representative regional sales price determined by the director under AS 38.05.550(d)(1); or

(ii) 20 percent of the fair market value determined by an appraisal completed under AS 38.05.550(d)(2), if the applicant provides the appraisal at the applicant's expense and the appraisal is approved by the commissioner."

CO-CHAIR FEIGE objected.

[1:38:03 PM](#)

REPRESENTATIVE DICK explained that his idea is to make it possible for people in Western Alaska, one of the most economically depressed areas in the state, to explore whether peat is viable for home heating and for economic development. Peat development is currently too stringent; for example, a person in McGrath has tried for 15 years to develop peat but the obstacles have been too great. This would lower the obstacles.

[1:39:24 PM](#)

PAUL VERHAGEN, Staff, Representative Alan Dick, Alaska State Legislature, explained that during the committee's 3/5/12

hearing on HB 361, Representative P. Wilson asked how much peat it would take to heat an average home. During that same meeting Representative P. Wilson talked about a man in Petersburg who heated his home with peat. Mr. Verhagen reported that he contacted the man in Petersburg who said he cuts his peat into six-inch cubes and burns them in a Blaze King stove but did not know how much he burned on a yearly basis. Mr. Verhagen said he therefore did "a very unscientific calculation" with how much the man is currently burning and extrapolated it out to come up with a figure of 13.5 cubic yards per year. He did this calculation because he understood that Representative P. Wilson's question was really going to whether 20,000 cubic yards is way more than a person would need to heat his or her home. The answer is yes, way more. However, the purpose is to incentivize the use of peat as a source of heat or power. The sponsor's hope is that anyone wanting to heat with peat would be able to harvest it like a person would do with firewood. An additional hope is that it might dawn on some of those people that with these large numbers available they might want to start a business based on peat and, further, that peat pellets could be produced for peat stoves. Perhaps on the Kuskokwim River someday, peat pellets will be shipped downriver for fuel rather than bringing fuel oil upriver. Perhaps biomass boilers will someday be installed to burn the local peat. This would provide protection from what might happen if oil prices continue to rise and oil production continues to decline.

[1:41:34 PM](#)

MR. VERHAGEN added that while doing research he learned that 20 percent of all home heat in Ireland comes exclusively from peat. It would be nice if people in rural Alaska could almost entirely cut their dependency on oil. He reiterated that the sponsor put the large numbers in his amendment as an incentive for those wishing to begin experimenting with whether to start a peat business. This way, the significant expenditures to do this would not have to include the price of peat along with the price of the other very expensive necessary equipment.

[1:42:12 PM](#)

CO-CHAIR SEATON moved to adopt Conceptual Amendment 1 to Amendment 6, which he had written as follows [original punctuation provided except for some formatting changes]:

Line 7: Delete material

Insert: (1) for personal use by an individual not to exceed 200 cubic yards per year for personal use at no cost

Line 8 and line 9: Delete material

Insert: (2) for testing or product development for commercial use, not more than 2000 cubic yards per year at no cost for a period not exceed 5 years

Renumber accordingly

Line 10: Delete "20,000"

Insert "2,000"

REPRESENTATIVE DICK objected for discussion purposes.

[1:42:42 PM](#)

CO-CHAIR SEATON explained he has expressed his concern to Representative Dick that these numbers are so large they will hinder support and passage of the bill. He said he talked to the person in Petersburg who has been burning about three cords of wood. He estimated that in Interior Alaska about 10 cords of wood would be burned. Using these figures he calculated that an equivalent amount of peat would be about 160 cubic yards per year. Amendment 1 to Amendment 6 would add a cushion by providing 200 cubic yards of peat per year at no cost. He said this figure for personal use would prevent the opening of other unintended things.

[1:44:21 PM](#)

CO-CHAIR SEATON continued his explanation of Conceptual Amendment 1 to Amendment 6, explaining that his reason for deleting lines 8 and 9 and inserting "(2) for testing or product development for commercial use, not more than 2000 cubic yards per year at no cost for a period not exceed 5 years" is because anybody wanting to develop commercial use would have a prove-up time along with the free 2,000 cubic yards of peat. This is a lot of peat and would allow for product and market development. He further explained that Amendment 1 to Amendment 6 would replace "20,000" with "2,000" cubic yards for the 10-year period at 20 percent of the regional sales price. This would give the person developing a business a break for an additional 10 years after which time the peat would be at the regional sales price.

The objective of Conceptual Amendment 1 to Amendment 6 is to provide usage by Alaskans to get development going and to allow a cushion time for faster recovery of expenses incurred and to encourage future business, without the state giving away commercially valuable materials all the time into the future.

[1:46:55 PM](#)

REPRESENTATIVE DICK said these numbers have been bantered around quite a bit. He estimated it would take about \$150,000 in equipment and a good quality pellet machine to begin an industrial operation. Saying a startup time of five years would likely not be enough time to determine whether it would work, he suggested a startup time of at least eight years.

CO-CHAIR SEATON pointed out that his proposed five years would be at no cost and then it would go for another ten years at one-fifth of the regional sales price amount. Thus, there would be state participation in the commercial aspect. He requested Mr. Menefee to provide DNR's perspective on this.

[1:48:47 PM](#)

MR. MENEFEE agreed that Co-Chair Seaton's recalculation for personal use is correct and people probably would not exceed 200 cubic yards. Regarding the number of years and volume, he said the committee can decide what those thresholds are. He said he thinks the division would interpret "for testing or product development for commercial use" to be that the individual would have to see if the peat can actually be manipulated into pellets and packaged for commercial development. As such, the actual physical testing would obviously not take over 2,000 cubic yards. If the interpretation of "product development for commercial use" includes developing a market, it is hard to say exactly how long that will take. Once it is figured out how to harvest efficiently and make the pellets, it must be determined who the pellets will be sold to, how far the pellets will need to be shipped, and other normal business startup things. The real question is how far to go supporting business development versus just product testing, because in his view 2,000 is plenty sufficient for actual testing. If talking about whether a business can really be developed, then it is the committee's call. If the committee is trying to give the free value to develop the market, a longer time period really does incentivize it. Since there is no market at this point the market value right now is going to be pretty low and therefore 20 percent will be pretty near free to start with. Establishing a market

could be for one individual in one area, but if talking about a broader market it is probably going to take multiple developers to do that. If that is the case it is going to take a while for that market value to climb to start making a significant difference.

[1:52:00 PM](#)

REPRESENTATIVE MUNOZ asked whether the division's interpretation would be that the products developed during that product development phase could be sold.

MR. MENEFEE replied he thinks the intention is that it could be sold because the language says it is for commercial use and he therefore thinks the division would interpret it that way. The real question is how long does product development take versus running a business and that is the part that is hard to call.

[1:52:41 PM](#)

CO-CHAIR SEATON surmised that whatever the number of years chosen for inclusion in the bill, that number will be the term for "at no cost" for the 2,000 cubic yards, even if product development takes less time. He asked whether it would be a problem if somebody did not want to use 2,000 cubic yards and would this require changing the language in some manner.

MR. MENEFEE responded that the way the language currently reads in [Amendment 6] a person wanting only 10,000 cubic yards of peat instead of 20,000 could do that, and a person wanting a no-cost time period of 5 years instead of 10 years could do that. The division would not necessarily issue it automatically for the 10 year period; it would depend on what the person asked for. Moving on to the second provision [in Amendment 6], he said that if somebody wants the peat at no cost for only two years to figure out whether the product will work and then wants to begin paying the 20 percent after the two years, the division would sell it for 20 percent. The division would not automatically make the contract for 10 years if someone is asking for a shorter period of time. If, however, the committee wants the division to make it an automatic 10 years, then the language would need to say "will issue for a period of 10 years" rather than "a period not to exceed 10 years".

[1:55:27 PM](#)

MR. MENEFEE, in response to Co-Chair Seaton, confirmed that under the current language any developer could come to the division and request whatever the developer desires.

CO-CHAIR SEATON inquired whether the language would need to be changed to accommodate somebody requesting 1,000 cubic yards for 10 years instead of more than 20,000.

MR. MENEFEE first noted that there is a differentiation between personal use and commercial development. If somebody wanted 10,000 cubic yards for commercial purposes for a certain number of years, the division would ask whether it is for testing or product development. If not, and the person is investing in starting a business in a market that already exists, he said he would interpret the language in Amendment 1 to Amendment 6 to say that the 2,000 cubic yards would be sold at the 20 percent for another 10 years. So, if the committee wants a business to get that 20 percent in its first 10-year cycle, then the language probably would need to be modified because that is not what it currently says.

[1:58:26 PM](#)

REPRESENTATIVE DICK related his conversation with Mr. Jim Vanderpool of McGrath in which Mr. Vanderpool said it would take at least 25,000-30,000 cubic yards just to begin to test whether this was viable, although Mr. Vanderpool did not specify whether this was per year. Therefore, the intent of Amendment 6 is to make it wide open to incentivize this without jeopardizing the bill itself. He suggested either increasing the cubic yards per year and the number of years, or saying that the first 30,000 cubic yards will be for development and everything after that will be at the 20 percent.

CO-CHAIR SEATON asked whether Representative Dick is meaning that after the first 30,000 cubic yards the person would pay 20 percent of the fair market value of the regional sales price instead of the regional sales price.

REPRESENTATIVE DICK replied he is suggesting the first 30,000 cubic yards be free and after that it would be at the 20 percent for the next 10 years.

[2:01:13 PM](#)

REPRESENTATIVE MUNOZ commented it is difficult because it is unknown what amount would be practical for a new business. She

inquired whether it could be left up to the Department of Natural Resources to determine an appropriate price.

REPRESENTATIVE DICK responded he has had that conversation and the thought was that as long as the current staff was in place he would be happy. However, if the department or staff changes down the road then the whole landscape might change. He allowed the committee is trying to make a decision without any real facts. If he errs, he said he would like to err on the side of incentivizing because peat in the ground does not make the state any money and it would provide an industry in Western Alaska, which currently has no industry.

[2:02:44 PM](#)

REPRESENTATIVE MUNOZ requested Representative Dick to repeat his conversation with [Mr. Jim Vanderpool of McGrath].

REPRESENTATIVE DICK answered that Mr. Vanderpool said it would take a minimum of 25,000-30,000 cubic yards to find out what was doable and whether it was marketable.

REPRESENTATIVE MUNOZ asked what Mr. Vanderpool's background is.

REPRESENTATIVE DICK replied Mr. Vanderpool has been passionate about peat and has studied it on the Internet, but this has not been done. He added that Mr. Vanderpool has only gotten as far as sending out peat from McGrath to be pelletized.

[2:03:57 PM](#)

MR. VERHAGEN said he is getting the idea that maybe three things are being discussed when only two things were being asked for. He inquired if Co-Chair Seaton is asking whether after the first 30,000 [cubic yards] suggested by Representative Dick the price would be at 20 percent forever. He said he does not think that is what the co-chair is referring to; but rather after it gets to the end of the second [10 years] it goes to the fair market value.

CO-CHAIR SEATON responded that that is not what he heard, which is why he was asking.

The committee took an at-ease from 2:04 p.m. to 2:06 p.m.

[2:06:06 PM](#)

CO-CHAIR FEIGE understood that under Conceptual Amendment 1 to Amendment 6, an amount under 200 cubic yards a year would be considered personal use, above 200 and up to 2,000 would be incentivized a bit more by not requiring a "royalty", and an amount of more than 2,000 would be considered a commercial operation. He said the quantity gates seem to be reasonable, but suggested that 10 years is a more reasonable timeframe than 5 years. The only other thing is the differentiation between testing or product development because the amendment to the amendment does not cover a situation of somebody wanting 1,500 cubic yards a year for a small commercial sales operation. To address this he suggested deleting "testing or product development".

CO-CHAIR SEATON confirmed there is no disagreement among the committee members on the personal use issues in the proposed Amendment 1 to Amendment 6. Regarding product development, he understood the suggestion is for less than 2,000 cubic yards to be at no cost for 10 years and more than 2,000 cubic yards would cost the 20 percent.

[2:08:23 PM](#)

CO-CHAIR FEIGE said it would be fair to say that somebody using more than 200 but less than 2,000 would not necessarily be a full-blown sales operation and it could reasonably be assumed to be a testing or product development. An individual in a village may try to supply just that village. It therefore should be left open that it could be for commercial use. He asked whether he should offer an amendment to delete "testing or product development" from Conceptual Amendment 1 to Amendment 6.

The committee took a brief at-ease.

[2:09:50 PM](#)

REPRESENTATIVE DICK removed his objection. There being no further objection, Conceptual Amendment 1 to Amendment 6 was adopted.

CO-CHAIR FEIGE moved to adopt Amendment 2 to Amendment 6, as amended.

The committee took an at-ease from 2:10 p.m. to 2:11 p.m.

[2:11:09 PM](#)

CO-CHAIR SEATON clarified Amendment 6 has not yet been adopted and the committee has adopted Conceptual Amendment 1 to Amendment 6.

CO-CHAIR FEIGE moved to adopt Conceptual Amendment 2 to Amendment 6 to: remove from (f)(2) the phrase "for testing or product development"; and replace "5" years with "10" years.

REPRESENTATIVE DICK objected for discussion purposes.

[2:13:09 PM](#)

REPRESENTATIVE DICK maintained that 2,000 cubic yards a year is not very much - perhaps a couple hundred dump trucks. He asked whether the committee would agree to 5,000 cubic yards.

REPRESENTATIVE GARDNER commented that by taking out "for testing or product development" this would be purely for commercial use. Allowing that Amendment 6 is to get something going, she asked at what point the state does not give something away that belongs to everybody.

REPRESENTATIVE DICK conceded it is blurry, but said the idea is to incentivize that which does not yet exist. Removing testing and product development from the language does not mean it is not going to happen; there is going to be a tremendous amount of testing and product development. He can see this individual investing \$150,000 in real equipment and trying to get that money back through this operation. He maintained that 2,000 cubic yards would not be commercial because it would only be a couple hundred dump trucks or less than one truck per day.

REPRESENTATIVE GARDNER said she would be comfortable with a larger quantity for a shorter time because if that was inadequate the person could come make the case.

REPRESENTATIVE DICK said he is willing to discuss numbers.

[2:15:55 PM](#)

CO-CHAIR FEIGE said the concept he is pushing is that anything less than 200 cubic yards a year is a reasonable amount for personal use. The next gate above that is 2,000 cubic yards a year. The question is where the appropriate gate is for what would be considered testing and product development because 5,000 cubic yards a year is an awful lot of testing. Besides testing it would also include establishing a market and lining

out product transportation to that market. Few people live in the region being discussed, so 2,000 cubic yards a year will go a long way. Once 2,000 cubic yards is exceeded, it will be actual sales to people and it would therefore be reasonable to assess some kind of a royalty.

REPRESENTATIVE HERRON noted that 2,000 cubic yards per year for 10 years is 20,000 cubic yards total. A friendly conceptual amendment could be 4,000 cubic yards per year for 5 years because it would still be a total of 20,000 cubic yards. There could be two categories.

REPRESENTATIVE MUNOZ reminded members of Mr. Menefee's statement that there is currently not a commercial market for peat, so 20 percent of the [regional sales price or fair market value] for that material is going to be very, very cheap.

[2:18:26 PM](#)

CO-CHAIR SEATON asked whether DNR would interpret that the 2,000 cubic yards would be free and anything above that would fall into the 20 percent of the regional sales price.

MR. MENEFEЕ said his interpretation would be four categories, provided he is understanding all of the amendments correctly: personal use of less than 200 would be free; up to 2,000 would be free for a certain period of time; 2,000-20,000 would be at 20 percent of the fair market value or regional sales price for a certain period of time; and once any of the aforementioned is exceeded the price would be at full value.

[2:20:31 PM](#)

REPRESENTATIVE HERRON said he thinks Co-Chair Feige is trying to get to 4,000 per [year] for 5 years, which still keeps the 20,000. Addressing Representative Munoz's comment about determining a value for the peat given there is not currently a market, he said the value is going to be the sweat equity and equipment put in by the investor to get a business going, not the product.

REPRESENTATIVE DICK related that Mr. Vanderpool has spoken to DNR in the past, and the problem was that DNR had to set a value. However, there was only one person in the state who was able to assess the value of peat and that person had only assessed peat in regard to the road system. The assessed value given by that person was prohibitive for Mr. Vanderpool to even

get started. Therefore, what is being done here is to come up with something that is more realistic that could function on the Kuskokwim and Yukon rivers.

[2:22:14 PM](#)

REPRESENTATIVE GARDNER asked whether Mr. Vanderpool would be available to provide an idea of what these proposed quantities mean to him. For example, how much he is likely to need at the outset and what would be a successful amount for him to use. She further asked whether Representative Herron's proposal is for 2,000 [cubic yards] a year for 10 years or 4,000 a year for 5 years, or is the proposal that just one of those two elements be picked.

REPRESENTATIVE DICK replied that Mr. Vanderpool told him it would take a minimum total of 25,000-30,000 cubic yards to find out whether it is doable.

REPRESENTATIVE GARDNER subsequently suggested that the amount be a total of 20,000 cubic yards without any mention of number of years.

REPRESENTATIVE DICK said he could live with a first sum total of 30,000 and everything after that to be paid at full value.

REPRESENTATIVE GARDNER noted there would then be no need for a time limit.

[2:23:59 PM](#)

REPRESENTATIVE KAWASAKI, regarding royalty provisions, inquired whether there might be other statutes where this amendment would be more appropriate.

MR. MENEFEE confirmed there other statutes that have deferred payments, but said those statutes are referring to other types of activities like oil and gas leasing. In looking at statutory construction for how division staff would figure out a process and what to charge, it would make sense to put peat in the area of material and that is what is at hand right now. Logically, this is the best place in statute to deal with the peat question. He said the real issue is that he cannot tell the committee whether now is a good time to do it.

[2:25:27 PM](#)

REPRESENTATIVE DICK said he could live with 200 cubic yards per year for personal use, and for commercial use the first 30,000 free with everything after that at full market value.

CO-CHAIR FEIGE withdrew Conceptual Amendment 2 to Amendment 6 and moved to adopt Conceptual Amendment 3 to Amendment 6, which would "in [paragraph] (2) delete 'for testing or product development', delete '2,000', replace it with '30,000 total', delete 'per year'".

REPRESENTATIVE GARDNER objected.

[2:26:48 PM](#)

CO-CHAIR SEATON clarified that adopting Conceptual Amendment 3 to Amendment 6 would amend [paragraph 2 in Amendment 6, as amended,] to state "for commercial use, not more than 30,000 total cubic yards at no cost for a period not to exceed 5 years".

REPRESENTATIVE DICK objected, saying 10 years would be a more realistic period.

[2:27:36 PM](#)

CO-CHAIR FEIGE modified his proposal for Conceptual Amendment 3 to Amendment 6 to state in paragraph (2) "for commercial use, not more than 30,000 total cubic yards at no cost for a period not to exceed 10 years".

CO-CHAIR SEATON pointed out that Conceptual Amendment 3 to Amendment 6 would eliminate the change from "20,000" to "2,000" cubic yards that was adopted in Conceptual Amendment 1 to Amendment 6.

[2:28:22 PM](#)

MR. MENEFFEE inquired whether the 20 percent in the original paragraph (2) of Amendment 6 would still be there under the modified Conceptual Amendment 3 to Amendment 6.

CO-CHAIR FEIGE said it is still there and needs to be addressed in the next conceptual amendment.

There being no objection, modified Conceptual Amendment 3 to Amendment 6 was adopted.

[2:28:45 PM](#)

CO-CHAIR SEATON noted that modified Conceptual Amendment 3 to Amendment 6, as adopted, changes Amendment 6, as amended by Conceptual Amendment 1, by: deleting "for testing or product development", deleting "2,000" and substituting "30,000 total", deleting "per year", and changing "5" years to "10" years.

The committee took a brief at-ease.

[2:30:59 PM](#)

CO-CHAIR FEIGE maintained the language needs to be clarified to delineate that these are "either/or" propositions. He moved to adopt Conceptual Amendment 4 to Amendment 6 which would insert "or" after [paragraph] 1, as amended, and insert "or" after [paragraph] 2, as amended. Thus, an individual could receive personal use at no cost; or could receive 30,000 cubic yards over a period of [10] years; or could receive no more than 2,000 cubic yards per year, not to exceed 10 years.

CO-CHAIR FEIGE, in response to Representative Gardner, explained that if a person took a total of 30,000 over a period of 10 years that is 3,000 a year. However, the next paragraph states that for users taking more than 2,000 cubic yards a year the 20 percent must be paid. Therefore, it cannot be both of those; it must be one or the other.

[2:32:49 PM](#)

CO-CHAIR SEATON objected for discussion purposes, stating that quantity amounts are now being used. So, to make things consistent, the first 30,000 cubic yards would be free, after that first 30,000 the price would be 20 percent for the next 10 years, and after that 10 years the price would be the regional sales price.

CO-CHAIR FEIGE concurred.

CO-CHAIR SEATON added that with the change in structure a per year amount would conflict with how everything would work. He said it is now 200 for an individual, up to 30,000 is free for a commercial operation, after 30,000 the price would be 20 percent for the next 10 years, and after those 10 years the price would be the regional sales price.

CO-CHAIR FEIGE withdrew Conceptual Amendment 4 to Amendment 6.

2:34:31 PM

CO-CHAIR SEATON moved Conceptual Amendment 5 to Amendment 6 to insert "or" between the [paragraphs]. He said it would then read, "for users requiring more than 30,000 total cubic yards, the amount of peat required by the user for a period not to exceed 10 years at the price of" and then continue on at "20 percent of the regional sales price".

There being no objection, Conceptual Amendment 5 to Amendment 6 was adopted.

REPRESENTATIVE DICK thanked the committee for its work on his proposed amendment.

2:35:29 PM

REPRESENTATIVE KAWASAKI objected to Amendment 6, as amended, noting that the entire state has ownership of state-owned materials. He pointed out that AS 38.05.555 deals with negotiated sales and personal use of materials and that all of the text in this statute states the director "may" negotiate sales and "may" negotiate sales under certain circumstances. However, Amendment 6 very clearly states that the director "shall" negotiate the sales and "shall" provide under the various circumstances which the committee has just amended. He said he objects to that sort of principle because the director should have some latitude in making those discretionary negotiations. He moved to adopt Conceptual Amendment 6 to Amendment 6 that would strike "shall" in line 4 and line 6 and insert "may".

REPRESENTATIVE DICK objected for discussion purposes, expressing his fear that future DNR staff may not be as friendly as the current staff in regard to this issue; continuing with "shall" would put a degree of certainty into this provision. He maintained that any loss to the State of Alaska would be next to nothing and if any problems developed in the future the legislature could step in.

2:39:05 PM

CO-CHAIR SEATON requested that DNR offer its comment on "shall" and "may", given that peat sales could occur throughout the state, not just in Representative Dick's district. He pointed out that while the intent is to incentivize this in rural Alaska

it would apply to all of Alaska, so some discretion is needed because this could happen in an urban area like Fairbanks.

MR. MENELEE replied that DNR would prefer "may" because no matter how much the department tries it cannot anticipate all of the scenarios than can play out. For example, under "shall" the indication is that DNR would have to provide peat to someone wanting to develop it in an area such as Juneau, even though a best interest decision must still come in which the division director must decide whether it is in the state's best interest to sell the peat in the first place; there could be other competing uses for the land. "May" gives the flexibility to determine in the best interest decision whether it is a good idea to sell the peat in the first place.

[2:42:08 PM](#)

REPRESENTATIVE DICK removed his objection. There being no further objection, Conceptual Amendment 6 to Amendment 6 was adopted.

The committee took a brief at-ease.

CO-CHAIR FEIGE moved to report HB 361, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 361(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 2:43 p.m. to 2:47 p.m.

**HB 276-OIL/GAS PROD. TAX CREDITS/RATES/VALUE**

[2:47:57 PM](#)

CO-CHAIR SEATON announced that the final order of business would be 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." [Before the committee was the proposed committee substitute, Version D, labeled 27-LS1193\D, Nauman/Bullock, 3/2/12, adopted as the working document and amended by Conceptual Amendment 1 on 3/12/12.]

[2:48:21 PM](#)

JANE PIERSON, Staff, Representative Steve Thompson, Alaska State Legislature, on behalf of Representative Thompson, joint prime

sponsor, explained that Conceptual Amendment 1, adopted on 3/12/12, would delete subsection "(c)" from line 17 of page 2.

CO-CHAIR SEATON added that Conceptual Amendment 1 would also take out "(7)" from line 17 of page 2. He asked whether Ms. Pierson wished to offer any other amendments to the bill.

MS. PIERSON replied she has no further amendments to offer, but reported that the Department of Revenue (DOR) is working through some non-substantive changes to provide a bit of clarity. Otherwise, she added, DOR is in agreement with the wording.

[2:49:20 PM](#)

CO-CHAIR SEATON invited the Department of Revenue to provide testimony.

JOHN LARSEN, Audit Master, Tax Division-Production Audit Group, Department of Revenue (DOR), noted that in some of the proposed basin areas there are existing exploration licenses that could be converted to a lease without a competitive bid; therefore, the department would like to point out that HB 276 could be perceived as special purpose legislation. Also, he pointed out, HB 276 was modeled after the Cook Inlet jack-up rig credit which had a 50 percent repayment provision, and while that was in the original version of HB 276 it is not in this current version.

REPRESENTATIVE HERRON requested an explanation of special interest.

MR. LARSEN replied the word he used was special "purpose". He said the concern is that in some of the basin areas there are existing exploration licenses issued by the Department of Natural Resources (DNR) and an exploration license can be converted to a lease without having to go through the competitive bid process.

[2:51:51 PM](#)

CO-CHAIR FEIGE inquired which basins are being talked about besides the Nenana Basin.

MR. LARSEN responded there are as many as four exploration licenses in the Nenana Basin.

CO-CHAIR SEATON clarified that HB 276 would not eliminate people from applying for exploration licenses which can then get

converted to leases without a competitive bid process. The bill would not change exploration license provisions or eliminate future exploration licenses from being applied for.

CO-CHAIR FEIGE asked whether there are any active exploration licenses in basins designated by HB 276, other than the Nenana.

MR. LARSEN said he will check with DNR and get back to the committee.

[2:53:48 PM](#)

REPRESENTATIVE KAWASAKI inquired whether the tax credits proposed by HB 276 can be stacked with credits for research and development (R&D), corporate income tax credits, and credits under AS 43.55.023.

MATTHEW FONDER, Director, Anchorage Office, Tax Division, Department of Revenue (DOR), replied that should HB 118 pass, page 2, subsection (d), of the that bill specifies that if a credit is taken for R&D the person would be ineligible for any other credit under Title 43, which would include any oil and gas tax credits or any other tax credits.

[2:55:30 PM](#)

CO-CHAIR SEATON [opened public testimony].

ELIZABETH SAADULIK HENSLEY, Corporate and Public Policy Liaison, NANA Regional Corporation, offered NANA's support for HB 276 and expressed the corporation's appreciation for the collaboration involved in creating the bill.

CO-CHAIR SEATON closed public testimony after ascertaining that no one else wished to testify.

[2:57:00 PM](#)

REPRESENTATIVE KAWASAKI drew attention to page 4, lines 14-16, and page 5, lines [21]-22, and inquired about use of the word "shall".

CO-CHAIR SEATON read aloud from page 5, lines 21-23: "Before approving a seismic exploration project, the commissioner shall make an affirmative finding that the seismic exploration project is in the best interest of the state". He understood this language to mean that the commissioner must make this

affirmative finding before a seismic exploration project can be approved.

MS. PIERSON interjected that the language says this credit shall be approved before the credit will be available.

CO-CHAIR FEIGE added that the intent and reason for "shall" is that the applicant is being asked to apply to DNR and the department will approve the proposal in order for the applicant to get a credit, as opposed to someone conducting seismic anywhere around the state that he or she wants to. If the state is going to spend the money to grant the credit then the state must make sure that it is in the best interest of the state and that it is in a reasonable location.

[2:59:46 PM](#)

REPRESENTATIVE KAWASAKI pointed out that on page 5 the word "shall" is used and on page 4 the word "must" is used, which he said is confusing if the language is basically the same for the best interest findings for both exploration wells and for exploration drills.

CO-CHAIR SEATON agreed and asked whether the sponsor had a reason for this difference.

CO-CHAIR FEIGE said he thinks it means the same.

CO-CHAIR SEATON concurred.

MS. PIERSON confirmed it means the same. She said she has been working with two different drafters and it is just use of the English language.

CO-CHAIR SEATON noted this is a work draft and that a committee substitute (CS) will be coming out in which the language can be made parallel. He asked Representative Kawasaki whether this would be sufficient.

REPRESENTATIVE KAWASAKI responded that it would.

[3:01:14 PM](#)

REPRESENTATIVE KAWASAKI drew attention to the language regarding experience and safety records on page 4, line 19, and on page 5, line [26]. He asked how that would be applied and whether that is language used in other lease terms.

MS. PIERSON answered that this language is also used in AS 43.55.025. She explained DNR wants to ensure that the people out there are actually qualified and have background in doing this.

[3:02:51 PM](#)

CO-CHAIR FEIGE moved to report HB 276, version 27-LS1193\D, Nauman/Bullock, 3/2/12, as amended, out of committee with individual recommendations and the accompanying two fiscal notes. There being no objection, CSHB 276(RES) was reported from the House Resources Standing Committee.

[3:03:41 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:03 p.m.