

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 11, 2015

1:02 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Bob Herron  
Representative Kurt Olson  
Representative Geran Tarr  
Representative Craig Johnson  
Representative Paul Seaton  
Representative Andy Josephson

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 100

"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 132

"An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation."

- HEARD & HELD

PRESENTATION(S): MIDDLE EARTH TAX CREDITS

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 100

SHORT TITLE: UREA/AMMONIA FACILITY TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

02/09/15            (H)            READ THE FIRST TIME - REFERRALS

02/09/15 (H) RES, FIN  
03/11/15 (H) RES AT 1:00 PM BARNES 124

BILL: HB 132

SHORT TITLE: AGDC SUPPORT OF NATURAL GAS PROJECTS

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

03/02/15 (H) READ THE FIRST TIME - REFERRALS  
03/02/15 (H) RES, L&C  
03/06/15 (H) RES AT 1:00 PM BARNES 124  
03/06/15 (H) Heard & Held  
03/06/15 (H) MINUTE(RES)  
03/11/15 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

TOM WRIGHT, Staff  
Representative Mike Chenault  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 100 on behalf of  
Representative Chenault, prime sponsor.

STEVE WENDT, Manager  
Agrium Kenai Nitrogen Operations Facility  
Kenai, Alaska

**POSITION STATEMENT:** During the hearing on HB 100, offered  
testimony.

ADAM DIAMOND, Manager  
Government Relations  
Agrium U.S. Headquarters  
Denver, Colorado

**POSITION STATEMENT:** During the hearing on HB 100, offered  
testimony.

RENA DELBRIDGE, Staff  
Representative Mike Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented changes in committee substitute  
Version P, CSHB 132.

JAMES MERY, Senior Vice President  
Lands and Natural Resources  
Doyon, Limited  
Fairbanks, Alaska

**POSITION STATEMENT:** Doyon, Limited presented "Interior Oil and Gas Exploration," Park of "Middle Earth."

JOE BOVEE, Vice President  
Land and Resources  
Ahtna, Incorporated  
Glennallen, Alaska

**POSITION STATEMENT:** Presented "Ahtna Natural Gas Opportunities."

KEN ALPER, Director  
Tax Division  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** During the presentation of "Ahtna Natural Gas Opportunities," answered questions."

GRETA SCHUERCH, Corporate and Public Policy Liaison  
NANA Regional Corporation  
Kotzebue, Alaska

**POSITION STATEMENT:** Presented "NANA Regional Corporation Hydrocarbon Exploration Efforts."

#### **ACTION NARRATIVE**

[1:02:26 PM](#)

**CO-CHAIR BENJAMIN NAGEAK** called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Hawker, Herron, Olson, Talerico, and Nageak were present at the call to order. Representatives Seaton, Josephson, Tarr, and Johnson arrived as the meeting was in progress.

#### **HB 100-UREA/AMMONIA FACILITY TAX CREDIT**

[1:03:38 PM](#)

CO-CHAIR NAGEAK announced that the first order of business is HOUSE BILL NO. 100, "An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; and providing for an effective date."

[1:04:29 PM](#)

TOM WRIGHT, Staff, Representative Mike Chenault, Alaska State Legislature, paraphrased from the following statement [original punctuation provided]:

House Bill 100, Mr. Chairman, creates a new corporate income tax credit for owners of facilities used in the manufacture and sale of urea and ammonia.

When gas is produced from a state lease the state receives a royalty. If an "in-state processing facility" that "manufactures and sells urea and ammonia" purchases gas as feed stock from a state lease, a credit is established under this bill. The amount of the credit is the amount of the royalty paid to the state. The credit can be used to abate state income taxes under AS 43.20. The amount of the credit cannot be used to reduce the taxpayer's liability below zero.

According to a McDowell study, conducted by Agrium, a reopened Agrium facility using a single train, would consume approximately 28 billion cubic feet (BCF) a year of gas with an estimated 21 BCF coming from state leases. It is anticipated the total royalty payment to the state would be approximately \$15 million annually, assuming a wellhead value of \$5.70 per MCF.

Benefits from a single train production would result in 140 direct jobs with a payroll of \$14 million. Approximately 340 total jobs to include direct, indirect, and induced, within the state with a payroll of approximately \$30 million. It is anticipated all employees will be Alaska residents.

Plant rehabilitation would cost about \$275 million and require a temporary work force of 440 workers which translates to a payroll of \$75 million over the two year rehabilitation timeframe.

It would place Agrium as one of the top local taxpayers in the Kenai Peninsula Borough, with approximately \$2.2 million in tax revenue. This doesn't include sales tax revenue new jobs will be generated ... will generate.

In light of the Cook Inlet tax credits, small producer's tax credits expiring in 2016, a new user of

Cook Inlet gas would continue to encourage additional exploration and development of gas fields in Cook Inlet.

[1:07:04 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the improvements would be \$275 million or \$75 million.

MR. WRIGHT advised Representative Josephson that improvements would be \$75 million.

[1:07:37 PM](#)

The committee took a brief at-ease.

[1:08:23 PM](#)

STEVE WENDT, Manager, Agrium Kenai Nitrogen Operations Facility, stated he has been with Agrium U.S., Inc., for 23-years.

[1:08:52 PM](#)

ADAM DIAMOND, Manager, Government Relations, Agrium U.S. Inc., Headquarters, introduced himself.

[1:09:01 PM](#)

MR. WENDT corrected the testimony of Mr. Wright and advised that rehabilitation costs will be \$275 million. He stated that Agrium is headquartered in Calgary, Alberta, Canada and Agrium U.S. Incorporated, which owns the Kenai Nitrogen Operations (KNO) facility in Kenai is located in Denver, Colorado. Agrium produces all three major NPK fertilizers [NPK represents the value of the three macro-nutrients used by plants, the macro-nutrients are nitrogen (N), phosphorus (P) and potassium (K)]. He pointed out that its products are sold worldwide, and the Kenai Nitrogen Operations (KNO) facility started initially in 1968 with production beginning in 1969. By 1978 it had doubled in size and he pointed out that Agrium U.S. Incorporated is considering restarting that 1968 model of a facility. It is capable of producing approximately one million tons of ammonia and urea on an annual basis. He offered that when it was previously open it had approximately 300 employees, was a major contributor to the Kenai Peninsula Borough property tax rolls, spent approximately \$75 million annually in Alaska for natural gas of approximately \$15 million on an annualized basis went to

approximately 400 vendors in-state. He opined that it was difficult to close KNO and believes Agrium took every opportunity to keep the facility open, but were unable to do so. When KNO shut down it partnered with the Department of Labor and opened a transition center in Kenai to help transition its workforce to other jobs and training was involved. The legislation that has passed in the last few years to incentivize exploration and production in Cook Inlet has been successful. In 2007, when the plant shut down, the company considered selling the plant and subsequently the activity in Cook Inlet inspired KNO to take another look at restarting the facility. He remarked that it is encouraged by new gas discoveries and the potential for KNO to restart. He asked that the committee consider taking a subsequent action to support KNO thereby creating an additional market for gas, and additional incentives for explorers and producers in Cook Inlet. He pointed out that with the assistance of the legislature, KNO will make the Kenai project the most compelling project it can make before its board of directors - as it will have to compete with other projects for a limited amount of capital that Agrium would be putting forward.

[1:14:05 PM](#)

REPRESENTATIVE HERRON asked Mr. Wendt why that site was initially chosen.

MR. WENDT opined that the Cook Inlet gas resource was significant and that UNICAL desired to monetize that resource.

[1:14:57 PM](#)

MR. DIAMOND advised that Agrium Kenai Nitrogen Operations Facility (KNO) supports HB 100. He highlighted that in order for any facility to benefit from HB 100 they would have to be operating, and would have to be purchasing gas from state leases thereby generating state revenue in the form of royalty payments. In the case of KNO, the plant is not open as it would take an upfront commitment on the part of Agrium of approximately \$275 million to get the plant to that point. He further highlighted that there is nothing in HB 100 that will directly impact the royalty payments the state receives as the royalty number is there as a reference to ensure that the bill would remain revenue neutral or revenue positive to the state. He said that KNO recognizes the budget situation in Alaska is tenuous at this point and it is important to note that HB 100 would not impact any existing revenue stream in the case of KNO.

The plant is not operating and its Alaska income tax bill is currently approximately \$30,000-\$40,000. He opined that there is not a current stream of revenue this will impact. In fact, he suggested, that if this helps the project proceed it would generate a significant new revenue stream in the form of royalty payments from the gas.

[1:16:54 PM](#)

REPRESENTATIVE HAWKER questioned whether Mr. Diamond would guarantee it will not make this business decision without this credit, and whether he will guarantee it will make this business decision with the credit.

MR. DIAMOND advised that this credit will help the project, but he could not guarantee whether it will or will not push it over the edge as that decision is over his pay grade. He highlighted that there is a limited amount of capital expenditures a company has and this project will compete with other projects. He advised that he is trying to put the best project before those decision makers, and the bill will absolutely help the process.

[1:17:57 PM](#)

REPRESENTATIVE HAWKER asked whether there are other corporate operations outside of Alaska, and will the corporate operations be solely inside Alaska if the plant is reopened.

MR. WENDT replied that there are corporations worldwide as Agrium U.S. has facilities in: Alaska; Kennewick, Washington; Sacramento, California; Border, Texas; Northland, Ohio; and Conda, Idaho; are the major manufacturing facilities associated with Agrium U.S. Inc.; and it has an extensive retail outlet system through the lower-48.

REPRESENTATIVE HAWKER noted that Agrium has extensive worldwide holdings and the credit it is proposing in the bill is credit against its Alaska State Corporate Income Tax. He noted that the taxable income is determined by factors within Agrium's control relating to its apportionment of its income and expenses on a worldwide basis to Alaska. He asked whether its corporate tax allocation policy would result in the legislature granting a credit in Alaska for earnings that were actually attributable under an allocation policy to activities outside the state.

MR. DIAMOND responded that the credit being discussed here would be against the state income tax and that income tax is

determined partially based on U.S. Federal Tax, which would vary depending on how well Agrium does. In the event Agrium has a good year the state apportionment will be higher and conversely if it has a bad year it would go the other way. He advised that on initial conversations with Agrium's accountants it anticipates the Alaska State Income Tax would be in the neighborhood of \$3-\$4 million annually.

[1:20:29 PM](#)

REPRESENTATIVE HAWKER advised Mr. Diamond that he did not answer the question because that taxable income ... is that determined on an Alaska statewide water's edge basis, or is that an allocation of its various ... allocations are a multiplicity of factors in the case of Agrium with payroll gross revenue and assets. He explained that the state corporate income tax allocation is not resultant from Agrium's discreet activities within the State of Alaska. He pointed out that it is important for him to understand where that taxable income is coming from and whether the legislature is giving a credit that is subsidizing taxable activity outside the State of Alaska.

MR. DIAMOND advised he does not have the answer but will take the question back to Agrium and provide him with an answer.

[1:21:25 PM](#)

REPRESENTATIVE JOSEPHSON pointed to the McDowell Group study "The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant," assumes that gas used by Agrium will be new gas. He asked the dynamics of the Cook Inlet market and why that assumption is made.

MR. WENDT stated he was not sure he understood Representative Josephson's question regarding the dynamics of Cook Inlet. He advised that through incentives the legislature previously put into place there is considerable increased activity, equipment, and manpower, working in Cook Inlet to explore and produce not only from existing fields but looking at new fields. He advised they are meeting regularly with all of the producers in the state and found that although they'll need to be proved up with infrastructure put in place to put into production that there are potentially significant new discoveries in state.

[1:22:57 PM](#)

REPRESENTATIVE JOSEPHSON stated he is not unsympathetic to this bill and asked whether this is a matter of the industry priming the pump, turning the valve, and producing the gas Agrium needs, or whether that (indisc.) has already been purchased and the state is earning royalty on it.

MR. WENDT responded that the majority, if not all, of the gas Agrium hopes to put under contract would be new gas that is not currently being produced and the state is not currently receiving a royalty.

[1:23:43 PM](#)

REPRESENTATIVE HAWKER pointed out that Agrium is essentially looking for a subsidization from the State of Alaska for a project specific activity within the borders and confines of the state. He asked whether Agrium considered a mechanism that would assure the legislature that the credit was generated by the investment and income producing assets in the state. He suggested a restrictive physical asset investment tax credit so the state is not subject to the vagaries of literally multi-state and, in this case, worldwide income tax allocations.

MR. WENDT said he could only comment on HB 100, and that he has not looked at other options.

[1:24:43 PM](#)

REPRESENTATIVE SEATON stated there is a situation where ConocoPhillips is not operating at full volume as it does not have enough gas. He pointed out that if ConocoPhillips had access to the additional gas then corporate income tax would be paid on that gas, the state would receive the royalty, and the \$0.17 per MCF production tax. He said he is trying to ascertain how the state indicates it is going to utilize the gas so that it doesn't generate any corporate income tax. He offered a scenario that Donlin Creek wanted to put in a gas line and build it and then asked how the state would be in position to tell Donlin Creek that it will have to pay corporate income tax, yet Agrium does not. He reiterated Agrium's comments saying, the amount of gas used and the royalty amount is always going to exceed its net income tax liability. He related that basically the state would be saying that for ten years Agrium doesn't have to pay any net income tax, and questioned how that relates to any other potential use of the gas.

MR. WENDT answered that for Alaska there are additional benefits to Agrium coming on line in that Agrium previously was a supporter and a supplier to the local agricultural community and it would be a positive impact on food security within the state. He offered that Agrium provides urea to the aviation industry in the state, and that all of the agricultural industry and aviation industry products were at a reduced cost to them because of transportation, et cetera. He pointed out that Agrium would become a Kenai Peninsula Borough tax payer, and would provide jobs which are substantial to the state. He opined there are a number of reasons Agrium would have a positive impact on the state.

[1:28:07 PM](#)

REPRESENTATIVE SEATON related that in a previous conversation Mr. Wendt had indicated Agrium would be a big carbon dioxide user and could use pipeline quality gas rather than liquefied natural gas quality carbon dioxide. He reminded Mr. Wendt that he had indicated he would provide the committee with the gross amounts of carbon dioxide Agrium could utilize in the Cook Inlet area in its manufacturing process thereby alleviating the huge expense for the gas treatment plant on the North Slope. He commented that another potential benefit to the state, in one of the proposals that had come forward, was looking at pipeline quality with gas coming down from the North Slope instead of the carbon dioxide all taken out on the North Slope.

MR. WENDT acknowledged that he does not have the number today and further stated his notes indicate that he does owe the committee that information and would get back to the committee. He advised that "Yes," Agrium can take natural gas off the pipeline that contains percentages of carbon dioxide and use that with no problem in its plant. He said that a previous governor set up a pipeline task force of which Agrium is a member. He described that it has been through many iterations now that the standard has gone so many different directions ... this has back as far as 2007, where Agrium has continued to have interest in gas pipeline from the North Slope. He remarked that Agrium has provided information to the state, or these committees, each time they have made a request for information. He posited that Agrium continues to be interested in being considered a potential customer.

[1:31:09 PM](#)

REPRESENTATIVE SEATON pointed out that there are two different kinds of projects the state has been looking at and one of the holdups on one of those projects is that it would have higher carbon dioxide levels than normal. He noted that it would be a substantial benefit to the state on that project, if it comes to fruition, of being able to use carbon dioxide in Agrium's manufacturing project. In that regard, he said, Agrium should provide the information to the committee in its proposal.

[1:31:55 PM](#)

CO-CHAIR NAGEAK held over HB 100.

**HB 132-AGDC SUPPORT OF NATURAL GAS PROJECTS**

[1:32:03 PM](#)

CO-CHAIR NAGEAK announced that the next order of business is HOUSE BILL NO. 132, "An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation."

[1:32:30 PM](#)

CO-CHAIR TALERICO moved to adopt the proposed committee substitute (CS), labeled 29-LS0623\P, Nauman, 3/11/15, as the working document. There being no objection, Version P was before the committee.

[1:33:13 PM](#)

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, paraphrased from the following summary of changes from HB 132\E to CS for HB 132\P, [original punctuation provided]:

Title

The CS expands on the bill title to more accurately reflect the contents of the bill. Previously, the title related to "the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation." However, the bill includes sections related to AGDC's purpose, powers and duties and to the instate natural gas pipeline fund. Also, the title now mentions an effective date, which is added in this CS.

Page 3, line 3, and Page 4, line 10

The bill temporarily prohibits AGDC from participating in an in-state project in which a majority of the gas is intended to be exported. The CS includes a project in which a majority of the gas is intended for export by AGDC or by another party.

Page 3, lines 8-9; Page 3, lines 19-20; Page 4, lines 16-17

The bill restricts AGDC's activities until the earliest of three dates. One of these dates is the time at which the state and other parties enter the next development phase of AK LNG. The CS requires "contractual agreements to undertake FEED", and deletes the word "study" after "FEED."

Page 5, line 26

Changes the term being defined from "front end engineering and design study" to "front end engineering and design."

Page 6, line 16

Adds an immediate effective date. Previously, there was no effective date.

[1:35:53 PM](#)

MS. DELBRIDGE stated that is extent of changes to the committee substitute and requested an opportunity to clarify two pieces of testimony made on Friday.

[1:36:25 PM](#)

CO-CHAIR NAGEAK brought a letter from the House Resources Standing Committee co-chairs to Governor Bill Walker, dated March 9, 2015, to the committee and public.

[1:36:37 PM](#)

MS. DELBRIDGE referred to the letter, and stated that last Friday there was a discussion related to statements made by the Governor Walker in a press conference regarding bringing the

market to Alaska in the 2012 TransCanada solicitation of interest held under the terms of the Alaska Gasline Inducement Act (AGIA) license. She advised that at the time of the hearing she had indicated that she did not think the letter from Alaska Gasline Port Authority (AGPA) back to TransCanada had been made public. She pointed to a letter, provided to the House Resources Standing Committee, which did not come from Alaska Gasline Port Authority (AGPA), but was within a collection of documents AGPA submitted to the U.S. Department of Energy (DOE) in pursuit of an export license for LNG. She related that the letter appeared to be a letter in response to the solicitation of interest that TransCanada held. She encouraged the House Resources Standing Committee to maintain its request for the actual letter as she was not able to ascertain that this letter is the response, yet it might be. She stated she was not certain whether the letter is the complete response to the solicitation of interest as the letter itself does not contain much detail. She further stated she has included a host of letters from potential Asian partners that AGPA also supplied in conjunction with its DOE export license application that appears to be part of the solicitation of interest letter. She noted that these letters may or may not be part of AGPA's solicitation response to TransCanada's non-binding offer, and stated her intention is to make certain the clarification was made in that the letter has not been in the public domain, but is certainly part of a public document.

[1:38:44 PM](#)

MS. DELBRIDGE offered that the second clarification is that during the hearing last Friday, she described AK LNG as essentially a structure in which there was equal ownership segments including, the state, ExxonMobil Corporation, BP, ConocoPhillips. She precisely advised that AK LNG is roughly commensurate with the gas share of each entity, in that the state has 25 percent presuming the state makes a royalty-in-kind decision and that tax is paid as gas, ExxonMobil Corporation has roughly 33 percent interest, ConocoPhillips roughly 22 percent interest, and BP roughly 21 percent. She remarked this was discussed in conjunction with a question regarding whether the state was a minority partner in AK LNG, and her response was that the state is one of four equal 25 percent each partners. In the regard, she wanted to put that clarification on the record.

[1:39:53 PM](#)

REPRESENTATIVE JOSEPHSON surmised that the 25 percent interest Ms. Delbridge asserts Alaska holds is subject to the conditions of the contract with TransCanada, which considerably diminishes the state's share.

MS. DELBRIDGE answered that the state has 25 percent of the liquid fraction facility, and within its agreement with the other entities it still has the 25 percent with the gas treatment plant and pipeline. She noted that the state has chosen to bring TransCanada in and turn over some of its share to TransCanada on that segment. She posited there were some avenues within the Memorandum of Understanding (MOU), and the agreements, for the state and TransCanada to periodically reevaluate that relationship as the FEED decision approaches. She related that while it is currently the case, it will be up to the legislature, and the state involved in the AK LNG negotiations, to determine the final shape.

[1:40:59 PM](#)

REPRESENTATIVE JOSEPHSON pointed out that HB 132 speaks to exporting no more than Alaska uses domestically. He questioned why that determination was made as opposed to something more or less than that, and whether it relates to the existing export project of ConocoPhillips.

MS. DELBRIDGE responded "in no way did it attempt to relate to ConocoPhillips's existing export project," as the decision was made in looking for a way to avoid a competing LNG project, and to somehow cap the size of the project that Alaska Gasline Development Corporation (AGDC) can go forward with to ensure it is not primarily an export project. She advised, at that point there are different avenues to review as there could be a volumetric limitation on it. She noted that the sponsor chose to go with simply a majority believing that then it could not be a dedicated LNG project called an in-state project. She stated that in-state demand currently is probably between 200 and 250 million cubic feet, and that being said the sponsor did not want to put a volumetric cap because if AGDC is able to build in-state demand and work that into its project, the sponsor wants that to be as great as possible. For example, she noted, regarding a value added industry desiring to participate in an in-state pipeline, it could grow significantly and, therefore, so could the availability for export projects.

[1:42:39 PM](#)

CO-CHAIR NAGEAK asked if there is an objection to a letter being written by staff.

MS. DELBRIDGE offered that the committee has already submitted the letter to Governor Walker requesting that information. She advised she wanted to clear up her statement on the record and explain that she believes the committee should keep that previously sent letter as an ask to make sure the committee has the correct document.

[1:43:16 PM](#)

REPRESENTATIVE JOSEPHSON asked the source of the documents she presented today.

MS. DELBRIDGE replied that they came from AGPA's application to the U.S. Department of Energy (DOE) for an LNG export license, and she could provide a docket number and link to the web site where they are all listed. She advised this was within several volumes of backup material AGPS provided to DOE after DOE had some questions on the original application.

[1:43:54 PM](#)

REPRESENTATIVE SEATON referred to the previous discussion regarding competing projects as if they were the same. At that time, Representative Seaton brought to her attention that the producers generally have a much higher hurdle rate or internal rate of return when doing production profit tax (PPT) that was a minimum of 15 percent, sometimes up to 25, 27 percent before they make final investment decision on a project. He opined that utilities generally have a final investment decision internal rate of return numbers more in the 6-9 percent range. In that regard, these projects might be contemplated quite differently because of the rates of return that might be required whether it is by a producer sponsored project and financed, or whether it is a buyer sponsored project through the long-term contract. He asked that Ms. Delbridge address those issues as the FEEDs are competitive projects for anything other than gas and whether they are quite dissimilar that way.

MS. DELBRIDGE answered that not enough is known about this alternative project to be conclusive that it would involve utilities. She advised there has been some indication among the people brought to Alaska as potentially interested parties in the past have included utilities. However, there are entities that are essentially trading companies, such as Mitsubishi, and

they certainly are not a utility and may have its own internal needs. Without any sense of guarantee that this goes to utilities and an understanding of what is what, she opined, it is difficult to be clear on whether or not they are competing in that manner as it depends on the system that is put together in the end. She stated that she cannot speak to what was garnered from the members during the PPT debate from who, from what. She advised that she has heard from the companies that while they have their hurdle rate, or their internal rate of return that they look to, but there can be a lot of other factors going into their decision making. They are the ones that need to be clear with the committee on what they are looking for in conjunction with that, she remarked.

[1:46:55 PM](#)

[HB 132 was held over.]

[1:47:05 PM](#)

The committee took an at-ease from 1:47 p.m. to 1:48 p.m.

**PRESENTATION(S): Middle Earth Tax Credits**

[1:48:09 PM](#)

CO-CHAIR NAGEAK announced that the next order of business is a presentation entitled "Interior Oil and Gas Exploration" conducted by Doyon, Limited.

[1:49:06 PM](#)

JAMES MERY, Senior Vice President, Lands and Natural Resources, Doyon, Limited, said he is the Senior Vice President of Lands and Natural Resources at Doyon, Limited, and has been with Doyon since 1980. He remarked that his presentation is offering an update on exploration Doyon has been involved in within Interior Alaska, which he described as part of "Middle Earth." He stated that Middle Earth is a creature of the legislature, but it is defined within the credit statutes as everything outside of Cook Inlet and south of the Brooks Range.

[1:49:22 PM](#)

MR. MERY referred to slide 2, and stated his presentation would cover Doyon exploration in Nenana and Yukon Flats basins in that there are similarities and difference between the two. His main

focus will be on Nenana as that is where most of Doyon's efforts have been over the last several years, including drilling and two seismic programs, and in the fall of 2014 a 3D program. He stated that within these two basins is the presence of prolific hydrocarbon systems, source traps, and seals. He noted their recent well in 2013 where a lot of wet gas was seen which is an indicator of an oil lease system. He remarked he will close out his presentation with the importance of the exploration credits program and what it has meant to the activities Doyon has been performing that enabled it to get as far as it has gotten.

1:50:21 PM

MR. MERY referred to slide 3, and described Doyon, Limited as the Alaska Native Claims Settlement Act (ANCSA) regional corporation for Interior Alaska, and is the largest private landowner in the state with over 19,000 shareholders of Native American descent. He pointed out that Doyon has a large operation focus in Alaska and most of the operating entities are oil field support, primarily Doyon Drilling, and a number of other support industry providers of services throughout the state. Doyon also focuses on Interior oil, gas and hard minerals exploration. In 2014 Doyon had profits, after tax of \$23 million in revenues, of over \$350 million.

1:51:16 PM

MR. MERY referred to slide 4, and indicated it is a general locator map of the Nenana Basin and Yukon Flats Basin relative to Cook Inlet and the North Slope. He referred to slide 5, and stated it is a focus on some of the land ownership issues, a sense of the scale, and also to note the proximity of infrastructure which is something a person doesn't see in a lot of places in Alaska. He said it is relatively gifted, especially the Nenana Basin with access to infrastructure.

1:51:53 PM

MR. MERY referred to slide 6, and pointed out that regarding the Nenana Basin, Doyon is focused on 400,000 acres of State of Alaska leases, with a small presence of Doyon lands. He advised that under the seven year terms, Doyon pays the state approximately \$1.2 million a year in rentals. He said that the Doyon lands are shared with the village corporation, Toghoththele Corporation, and that it has provided a number of services to Doyon. He noted there is no federal ownership nearby, however, the northern third of the lease bought is in the Minto Flats

State Game Refuge where oil and gas is conditionally allowed. He pointed out that with regard to Yukon Flats, Doyon owns approximately 1.5 million acres that are prospective oil and gas, and three separate sub-basins with no time constraints or holding costs. He pointed out that Nenana Basin is on-the-clock and is not on the lands Doyon owns in Yukon Flats. There are three ANCSA villages with surface ownership. The adjacent federal lands are within a national wildlife refuge and are off limits to any oil and gas exploration and, he described them as "a most uncooperative bunch of people."

[1:53:47 PM](#)

CO-CHAIR NAGEAK asked the name of the three village corporations.

MR. MERY replied that they are corporations for Stevens Village, Beaver and Birch Creek. He noted there are other areas in the Yukon Flats but those are the areas Doyon believes there is promise.

[1:54:07 PM](#)

MR. MERY referred to slide 7, and explained that the two basins have similar geology in that they are deep, young basins with potential source rock, coals, coal shales, and possibly lake bed shales, with trapping opportunities as well. He pointed out that oil is Doyon's primary target, and gas is its secondary.

[1:54:30 PM](#)

MR. MERY referred to slide 9, [no slide 8] and said it provides history of prior exploration by major oil companies, both in the 1960s and 1980s. He remarked there is some seismic left over from those projects, and two shallow wells on the basin flanks that were fundamental and stratigraphic test wells. More recently, during 2005, 2012, and 2014, there were three seismic campaigns basin-wide, and two deep well in the central part of the basin in 2009 and 2013, called Nunivak #1 and #2. He noted there have been numerous studies over time and has re-evaluated licensed heritage data from major oil companies out there in the earlier days. He pointed out that Doyon had partners in the early days that left Doyon, but Doyon has picked up the pace considerably since they've gone. He stated that Doyon believes it has more reasons to make this project work as it is in its back yard, Minto and Nenana are on the flanks of the basin, and

if it has success it is creating new markets for all of the oil field support industry groups that were in business then.

[1:55:57 PM](#)

MR. MERY referred to slide 10, and described it as a close-up of Nenana Basin plus an especially gifted infrastructure with respect to opportunities to monetize oil in particular. He referred to slide 12, and stated it depicts a geophysics defined Nenana Basin. He referred to slide 12, and stated the Nenana Petroleum System source is excellent oil and wet gas source rocks in coals and coal shales. Doyon has drilled wells and found that the source goes deep into the hot kitchen of the basin where oil and natural gas should be actively expelled today, actually. He offered that Doyon knows the basin is hot based on information from the wells and projections performed from the heat measurements in the wells to generate oil and gas. Doyon found migrated wet gases (propane, butane, pentane, and et cetera.) in the well bore. He described that a wet gas system is sometimes indicative of something that should be oily in most of the analogs for these kinds of basins, if they are productive, there will be gas and oil fields and mixed gas and oil fields. He described world class reservoirs out there that have been seen through the drill bit as well, and there should be many opportunities to trap hydrocarbons.

[1:58:47 PM](#)

REPRESENTATIVE JOSEPHSON referred to heritage lines and surmised Mr. Mery was referring to pre-1971 lines.

MR. MERY answered that the heritage lines are basically line that are out there that Doyon did not shoot in an earlier era, and in particular he is discussing shale lines that were shot in approximately 1981.

REPRESENTATIVE JOSEPHSON surmised they were shot after Doyon took title of the land.

MR. MERY explained that these were mostly on State of Alaska lands, where most of Doyon's leases are located.

[1:59:32 PM](#)

MR. MERY referred to slide 13, and advised it is a representation of the basin being over 20,000 feet deep, and there should be plenty of heat to generate hydrocarbons from the

immature source rocks seen higher up in the system. He stated they are much deeper in the system and can be tracked on the seismic.

[1:59:50 PM](#)

MR. MERY referred to slide 14, and advised it is regarding the Nunivak #2 well of which is the first well Doyon operated. He pointed out that a lot of permits are necessary to drill a well and most are run through the state system. He described the relationship between Doyon and the State of Alaska as "great" in that the state is helpful, diligent, and very professional. He further described Doyon as having "great" relationship with local communities who are supportive of Doyon's activities, and that Doyon hires and works locally with contractors.

[2:00:37 PM](#)

MR. MERY referred to slide 15, and offered it depicts a road system Doyon built which is focused a few miles west of Nenana. He referred to slide 16, and described it as the manner in which the Nenana River is crossed in the summer time when Doyon is drilling. He pointed out there will be a bridge over the Nenana River connecting to the Parks Highway System. He referred to slide 17, and noted it depicts the countryside and the road system. He referred to slide 18, and advised it is the most recent well site which is approximately 11 miles due west of Nenana.

[2:02:23 PM](#)

MR. MERY referred to slide 19, and addressed that Doyon believes it has all of the elements of an active and prolific wet gas and, hopefully, an oil system. Doyon knows that the hydrocarbon system should be extensive as it has performed seismic throughout the basin, through modeling in that it believes that the basin given the thick packages of source rock could produce billions of barrels of oil and trillions of cubic feet of gas. He said that Doyon saw a lot of wet gas in the well bore and not so much for oil and that Doyon substantially de-risked the gas promise in the Nenana Basin. He pointed out that with nearby infrastructure the North Slope size accumulations just simply are not needed, although \$50 per barrel (bbl) oil is not helpful. He opined that a relatively small accumulation can get Doyon started and there should be plenty more of those if it can get the first one going.

2:03:32 PM

MR. MERY referred to slide 20, and advised that Doyon needs more seismic, primarily on the north end of the basin where many of Doyon's State of Alaska's leases are located. He pointed out that Doyon is looking hard at drilling in 2016, within that area. He referred to slide 21, "Nenana 2014 3D and 2D Seismic Area," and said it depicts the 3D area, the road already there, with some of the multiple landownership issues and proximity to Nenana. He related that Doyon is right off the road system for this portion of the basin. He referred to slide 22, and stated this has been the wettest summer in the history of the Interior and the workers had a rough time of drilling the holes for the seismic program and collecting data was difficult because there are extensive areas of burn in the past and a lot of dead falls.

2:04:52 PM

MR. MERY referred to slide 23, and said that oil would be the best economic case for both Doyon and the state. Startup minimum economic field size for this part of the world, is somewhere between 25 and 50 million barrels of oil depending upon oil price. He stated that Doyon clearly sees structures out there that would hold that much and more. He pointed out that there is plenty of room in the Trans-Alaska Pipeline System (TAPS) via truck, rail, or feeder pipeline, and that Doyon views the chances of success with the next well as one in five, to one in ten. He explained that in the event gas is found it could be stranded for a number of years as there may not be much of a Fairbanks market for the next 10-12 years due to all of the other projects, Cook Inlet trucking, state take-over, those sorts of things. He clarified that he was not making a case that "people shouldn't do that," and Doyon does not have a product to offer right now but it is a complicated factor for Doyon. He questioned whether the producers and the state would allow Nenana gas into an export line and liquefaction plant, and if so under reasonable terms. He noted that gas has been so de-risked at this point that there is a 50/50 chance of commercial success the next time Doyon drills.

2:06:38 PM

MR. MERY referred to slide 24, and offered Doyon's thanks to the legislature for the credits program in place because they are essential to the activities Doyon has performed in the Interior. He noted there is one in particular that has not worked well for Doyon and with a bit of tweaking it could work better. In

general, he offered, these programs have worked exceptionally well and hopefully will result in a brand new industry for the interior part of the state, and new revenue for the state.

[2:07:28 PM](#)

REPRESENTATIVE HAWKER stated he appreciates Mr. Mery's testimony and that the credit structure has worked. He offered that he believes that the big money is a mega oil discovery, but sometimes a company gets gas. He asked when Doyon expects to be able to prove up and provide an estimate of proven reserves of gas on its properties as opposed to the probable and possible discoveries.

MR. MERY said that theoretically, realistically, and optimistically, if Doyon drills next winter with success it would be looking at a couple of seasons of delineation drilling and then Doyon would have a handle on its confidence level on the resource and 2018 is the most optimistic case.

[2:09:09 PM](#)

REPRESENTATIVE HAWKER asked whether Doyon intends to follow-up and prove-up its gas reserves.

MR. MERY answered that if Doyon was to find only gas ...

REPRESENTATIVE HAWKER restated his question in that Mr. Mery has indicated strong gas shows, wet gas shows, and gas substantially de-risked with a 50/50 chance of commercial success. He asked whether Doyon intends to prove-up its gas and pursue that resource.

MR. MERY responded that it is a decision for the Doyon, Limited Board of Directors, and in the event Doyon found only gas the next time it drills, Doyon would have to think long and hard about that because its focus is on oil. If Doyon can't monetize something for 10-20 years then Doyon would have to think hard about spending more money, he opined.

[2:10:20 PM](#)

REPRESENTATIVE HAWKER stated in that situation he was not sure which was cart and which was horse. He remarked that in the event Doyon cannot tell Representative Hawker it intends to pursue monetization of its resource, then naturally it will be stranded for a decade or more, and naturally it would not be

able to make the Fairbanks market. Although, he pointed out, if Doyon was aggressive and competitive that the market is out there for the grabbing today. He asked that Mr. Mery take that information back to the Doyon Board of Directors.

MR. MERY responded in the affirmative.

[2:10:48 PM](#)

REPRESENTATIVE SEATON asked how long the state leases run.

MR. MERY replied that they came out of several groupings, but basically somewhere in the 2019-2020 timeframe.

[2:11:10 PM](#)

REPRESENTATIVE JOSEPHSON requested a thumbnail sketch of the credits Doyon is receiving, how that is working, and what system is being used.

MR. MERY answered that Doyon tried different things over time and most recently used the .023 credits, although .025 credits have been used in the past.

REPRESENTATIVE JOSEPHSON asked the value of those credits.

MR. MERY said it depends if they are on the system as there are different programs with different requirements and different eligibility of costs, but roughly Doyon is receiving \$0.60 on the dollar, more or less.

[2:12:17 PM](#)

The committee took a brief at-ease.

[2:13:11 PM](#)

JOE BOVEE, Vice President, Land and Resources, Ahtna, Incorporated, said he is the Vice President of Land and Resources for Ahtna, Incorporated. In follow-up to Mr. Mery's testimony, he referred to the slide entitled "Oil and Gas Basins in Alaska" and stated that there are six oil and gas basins in Alaska. He referred to the slide entitled "New Frontier Basin Tax Credits," and said that currently Ahtna is exploring under the New Frontier Basin and Middle Earth tax credits. He offered that there are different provisions within tax credit scenarios, et cetera. He emphasized that without the tax credits Ahtna

would not be here today. He referred to the slide entitled "What is Currently Known About Gas Prospects in the Ahtna Region," and stated that the geologic structure of interest currently under state land is that it has a 44,000 acre exploration license with the State of Alaska, and over the previous 30-40 years and specifically the last 5-10 years Ahtna has spent millions of dollars exploring that region. Geological data and past exploration give strong natural gas indications, he offered, and the formation is accessible to south-central Alaska population centers, state highway road system and tidewater, however, technical drilling challenges are due to high pressure water zones identified in previous wells.

[2:14:28 PM](#)

MR. BOVEE referred to the slide entitled "Copper River Basin Natural Gas," and stated that the map shows the area outlined where most of the exploration is performed, and inside the red line is approximately 2 million acres primarily owned by the State of Alaska and to a lesser degree Ahtna. The white box depicts where the state exploration license is currently located. He referred to the slide entitled "Geological Summary," and offered that the chart depicts previous wells drilled and shows that it is conducive to natural gas deposits and entraps and holds the natural gas there. He referred to the slide entitled "Current Prospects," and stated that in 2013, Ahtna was awarded an exploration license on 44,000 acres of state land, approximately 10-15 miles west of Glennallen. He explained that in early 2014, Ahtna partnered with two exploration partners, Rutter & Wilbanks of Midland, Texas, and Santa Petroleum of Welland, Australia. He further explained that in early 2014, Ahtna re-processed approximately 90 miles of pre-existing seismic from the 1970s to 1980s, and basically tied in some of the previous seismic with what has been performed more recently in the 2000 era. Subsequent to re-processing the 90 miles, he said that Ahtna identified a structure within the State of Alaska license area and conducted an additional 40-miles of new seismic last winter. He pointed out that the job finished on time and slightly over budget in that there were problems with a warm winter in Copper Basin. He stated that usually between November and December there are days or weeks of at least 30 to 50 degrees below freezing. However, he remarked, this year there were only several days of below zero. Preliminary data shows the outline of a crest of gas structure 12-14 miles west of Glennallen, and less than 2 miles from the Richardson Highway. He pointed to a map depicting well target, state exploration license area, and oil and gas exploration

wells which are accessible. Ahtna is pleased with the results of the seismic data that has been re-processed and the new seismic performed last year. He referred to a cross-sectional of the seismic, and stated that Moose Creek was drilled by Rutter & Wilbanks in the early 2000 and the Ahtna 1-19, showing some structure was performed in the mid-2000s, and the exploration target now being pursued on state land is to the right. He described them as similar depths and similar structures, however, with lessons learned from previous experiences in exploration Ahtna has performed, it knows there will probably be high water pressures, certain amounts of depths so it hired and contracted with professional engineers to eliminate that.

[2:18:01 PM](#)

MR. BOVEE referred to the slide entitled, "Range of Market Opportunities," and stated Ahtna has a small market there which has probably withheld any development in the last 20-30 years. Ahtna was looking at options and basically if it can produce thousands of BTUs or cubic feet per day there would never be any development. In the event millions of BTUs a day, it would probably only be for local development, and if Ahtna can produce billions it would probably be in-state or international markets. Ahtna's focus would be to at least get gas to the local residents of the Copper Basin at this time. He referred to the slide entitled, "Development Options," and noted that it is an illustration regarding what Ahtna has looked at, and preliminary ideas and suggestions from experts. He referred to the slide entitled, "Local Market is Viable," and stated the local market price is approximately \$3.50 per gallon, but there is still a savings of roughly 40-50 percent over the current diesel market in the region. He opined that is consistent with Interior Alaska and rural Alaska rates so there is an undeniable savings from natural gas.

[2:19:11 PM](#)

MR. BOVEE referred to the slide entitled, "Ahtna Gas Development Timeline," and offered that currently Ahtna is in the green section. He highlighted that to date Ahtna has spent approximately \$3 million in the last year and one-half, and plans to spend another \$1.3-\$1.5 million in the next four-six months with the drilling plans scheduled for a drilling rig, subcontractors, permitting process, and so forth. He advised that if all things stand, Ahtna will drill a first well on the state license area sometime in December-January 2016, and at the

end Ahtna will have expended close to \$10-\$15 million, and expects to come up with gas for the local or in-state gas. He referred to the slide entitled, "Conclusion and Next Steps," and stated that Ahtna will engineer and design a new well with completion prior to June 2016. He pointed out that the New Frontier Basin tax credits expire June 30, 2016, but Ahtna would like to tweak some of these and possibly continue on for another year or two. He advised that some of the tax credit issues are confusing and when talking to DNR, a person should have a lawyer, accountant, and a world champion arm wrestler because it not all cut and dry. He opined that the legislature had intended to incentivize some of the under-explored Middle Earth areas which has helped a lot as Ahtna would not be where it is today. Additionally, Ahtna is 50-60 percent confident that gas would be found there as all the wells ever drilled in the basin, the previous 40-50 years have had gas shows, and the last well drilled had gas but Ahtna was not able to quantify it or give a quality assessment to it. He opined that Ahtna knows what it did wrong and will do it right the next time. In the process, Ahtna is processing a Regulatory Commission of Alaska (RCA) application for local gas distribution and continuing to determine and develop markets, such as a pipeline only to Glennallen, a pipeline to some of the neighboring communities, possibly a micro LNG plant, or an electrical intertie.

[2:21:37 PM](#)

REPRESENTATIVE HAWKER referred to the slide, "New Frontier Basin Tax Credits," wherein Ahtna requests changes to the .025 tax structure, wherein the first item is to reduce well depth. He asked whether the only well depth requirement for .025 credits had to do with the "Cook Inlet stampede."

MR. BOVEE opined that the wells have to be 10,000 feet or proven that the well has hit the ceiling or the floor of the structure.

REPRESENTATIVE HAWKER asked whether that requirement is a regulatory matter or a statutory matter.

MR. BOVEE answered that it is a statutory matter. With regard to .025, he opined, because there is .025 Middle Earth and New Frontier, that under the .025 the commissioner has the authority to determine whether the structure has been fully drilled to a certain depth. Under the New Frontier, he suggested, the provision is not there and the commissioner cannot make that decision. He reiterated that to extend allowable credits beyond 2016 ... 2022 would be preferable to give Ahtna more time as it

is not going to be out there just drilling one more well, and allow for a faster recovery of the tax credits. The way the .025 Middle Earth tax credits work, Ahtna is just now in the process of submitting its expenses and invoices but the Department of Revenue advised Ahtna that it will be over a year before Ahtna would receive any tax credits back. He pointed out that under the .023 it is usually less than 3-6 months so it is a shorter time period and the cost of money has to be assessed to before ...

[2:23:29 PM](#)

REPRESENTATIVE HAWKER asked whether the provision in .025 that you are concerned about a depth ... he advised he is pulling this out of the tax, (M) subsection of .025 talking about hydrocarbons likely to be found or reached 12,000 feet or more to a vertical depth, and asked whether that is the concern.

MR. BEVEE replied "I believe so, yes."

[2:24:43 PM](#)

KEN ALPER, Director, Tax Division, Department of Revenue, said the Frontier Basin credit regime was modeled in many ways on the Cook Inlet stampede which passed several years earlier. He described it is a higher level of credit in specific targeted areas that have a depth requirement in order to qualify for that specific credit.

REPRESENTATIVE HAWKER referred to the first line of subsection (M), regarding the persons that drill the first four exploration wells in the state. He asked whether this is limited to the first four wells or actually a much broader provision.

MR. ALPER responded that the Frontier Basin credit is tied to the first four wells ... you'll see some latitude and longitude type information in that statute which is talking about target areas, one of which is the area from which Ahtna is targeting. In that regard, until such time as the fifth application for a Frontier Basin credit comes in, the Department of Revenue is receiving them, he opined, and it is his understanding that Ahtna would be among those first four.

[2:26:14 PM](#)

REPRESENTATIVE SEATON pointed out that with the state's current deficit situation it is somewhat concerning when discussing

large tax credits to encourage activities ... normally, a company takes partners to supply part of the capital for explorations and when it is successful they are a partner in the income that comes from that. He further pointed out that in the past the state had the position that it would partner to encourage exploration and development, and as soon as there was production the state would back out of the partnership and not take anything other than the royalty or production tax. He said that as the committee moves forward and discusses expanding or extending credits to remember the state's current situation, and especially if the legislature has given special tax considerations to certain areas, he related that the state would have to look at being a true partner in some aspect if the state is extending capital credits and those kind of things. He said he wants the committee to start thinking in a manner of investing and not just giving away credits.

[2:28:13 PM](#)

REPRESENTATIVE HAWKER noted that with regard to the Frontier Basin tax credits, the legislature identified six particular areas, limited it to four wells, and specifically said that no more than two of those may be in any one of those individual areas - the one through six. He opined that it would seem to be a fairly constraining thing for Doyon. He surmised that Doyon was not discussing relief from that provision, but more from the 12,000 feet, vertical depth provision. He pointed out that the current requirement is that before approving the exploration well "the commissioner of natural resources shall consider," and it does not state "thou may or thou may not," but wanted it to consider that the targeted and planned depth and range are designed to penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and reach the level below which economic hydrocarbons are likely to be found. In other words, he stated, if the state is giving tax credits and Ahtna has a well mobilized, the state wants the company to go all the way down and not just hit a shallow pocket but look at the entire depth of the prospect there, but then it says, "or reach 12,000 feet." He described it as an "or" situation with a lot of complications that will take a fair amount of consideration before he would contemplate making a change.

MR. MERY answered that the problem is not the 10,000 foot depth as that just identifies a potential problem due to the nature of these basins including the extreme difficulties in going to depths that are not essential in Doyon's view to evaluate the opportunities. He described the bigger is the Frontier specific

credits sitting under .025. He stated that the list of allowable expenses under .025 is restrictive in that an 80 percent well and 80 percent credit is not an 80 percent credit as it is more like a 60-65 percent credit. He opined that it doesn't deliver what the legislature intended and through more recent discussions with DNR he is much more comfortable that they will ... because there is flexibility that they can accommodate Doyon. He highlighted that the real focus should be on picking up the special 80 percent credits for wells that are sitting under .025 and simply sliding them up under .023. He indicated that Doyon is not asking for more wells or money, just to put them in a place where the full benefit of the 80 percent, and the state will get the money back a little bit sooner. He pointed out that because of these problems no one has used these and now everyone is up against the wall on the sunset date.

[2:32:05 PM](#)

REPRESENTATIVE HAWKER asked whether the real element is the differential here ... he said he understands it is the velocity of money but is the real issue the .023's being a directly refundable credit, is that what is really facilitating this.

MR. MERY responded that they both are refundable, but there is a longer list of allowable credits under .023 than under .025.

REPRESENTATIVE HAWKER stated that the ultimate issue is the additional expenditures that are allowable under .023 and not .025.

MR. MERY answered "Correct." He further answered that Doyon can get 60-65 percent under .023 today and get the money back quickly. If Doyon uses the .025 specialty 80 percent credit it will still going to get the same 60-65 percent back and it will take Doyon a year or two to get it back, he explained.

[2:33:04 PM](#)

The committee took a brief at-ease.

[2:34:11 PM](#)

GRETA SCHUERCH, Corporate and Public Policy Liaison, NANA Regional Corporation, said NANA Regional Corporation appreciates the opportunity to provide comments on Middle Earth tax credits. She advised that in addition to being NANA's corporate and public policy liaison she is also a shareholder. She referred

to the slide entitled, "NANA Regional Corporation," and advised that NANA's mission is to improve the quality of life for more than 13,500 Inupiat shareholders by maximizing economic growth, protecting and enhancing lands, and promoting healthy communities with decisions and behaviors guided by the Inupiat Ilitqisiat, which is its traditional value system. She referred to the slide entitled, "Alaska - Kotzebue Basin Hydrocarbon Potential NANA Regional Corporation," and pointed out that the figures show the location of the area in the Kotzebue Basin with potential for gas. NANA shares Doyon and Ahtna's position on the Middle Earth tax credits due to a dire need for affordable energy in the region. She referred to the slide entitled, "Need for Energy," and advised that residents in Northwest Alaska are paying between \$6 and \$11.00 per gallon for gasoline and heating fuel. Lower energy costs through natural gas will offer sustainable solutions to the region's energy crisis. She referred to the slide entitled, "Kotzebue Oil and Gas Project History," and remarked it shows the history of exploration in the Kotzebue Basin and that the initial work in the basin was conducted by Chevron, in the 1970s, with two wells drilled to approximately 6-8,000 feet together with seismic work. She referred to a slide entitled, "Local Geography," and noted the map shows the Kotzebue Basin. She referred to the slide entitled, "Exploration History and Data," and advised it shows the seismic data collected and the red dots show the wells drilled by Chevron.

[2:37:39 PM](#)

MS. SCHUERCH referred to the slide entitled, "Primary Reservoir Targets," and pointed out that it is a cross section, or vertical slice through the earth. She said the geological section is a correlation between the two wells drilled 60 miles apart from the Chevron work. She addressed the stratigraphy of mixed shales and sandstones are interpreted by a geologist to have yielded some perspective zones and significant pole seams over 100 feet thick were also encountered in the well. She referred to the slide entitled, "TODAY - Advancing the Basin," and said that NANA's new efforts lead to five companies signing confidentiality agreements in 2014, and one company from overseas making two site visits. However, the company deemed the basin as too high of a geological risk to fund the exploration in total. She offered that there is no deal and because of this NANA continues to evaluate how it could help fund seismic work to de-risk the geology and technical aspects of the basin. She referred to the slide entitled, "How and why 'de-risk' the geology of the basin," and commented that in

receiving more information in the way of seismic data NANA will have a better chance of defining potential targets for drilling as companies want to see more geological information. If successful, more data will add greater value for NANA and additional seismic data is required to lower the risk, she said. She referred to the slide entitled, "Next Steps," and conveyed that NANA's next steps is continuing to look for partners which is challenging, although the state's incentives have helped the progress to date. NANA continues to evaluate self-funding of the seismic work, continues to work with interested parties on data review for potential funding, and aims for seismic work in 2015-2016 or 2016-2017. NANA thanks the legislature for its help to alleviate the cost of living and cost of energy in rural areas. She remarked that while NANA does not know if there is natural gas, it continues to move the project ahead to determine the potential in that discovery of natural gas would significantly help this area where some residents are paying \$11.00 per gallon to heat their homes.

[2:40:13 PM](#)

REPRESENTATIVE OLSON asked whether 10 years ago test drilling and test holes were bored within about 20 miles of Red Dog, possibly not by NANA's corporation.

MS. SCHUERCH replied that she does not know the answer but will get back to the committee.

[2:41:19 PM](#)

#### **ADJOURNMENT**

The House Resources Standing Committee meeting was recessed at 2:41 p.m. and reconvened at 6:00 p.m.