

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 9, 2016

1:29 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability

for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 247

SHORT TITLE: TAX;CREDITS;INTEREST;REFUNDS;O & G

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/03/16	(H)	RES AT 1:00 PM BARNES 124
02/03/16	(H)	Heard & Held
02/03/16	(H)	MINUTE(RES)
02/05/16	(H)	RES AT 1:00 PM BARNES 124
02/05/16	(H)	-- MEETING CANCELED --
02/10/16	(H)	RES AT 1:00 PM BARNES 124
02/10/16	(H)	Heard & Held
02/10/16	(H)	MINUTE(RES)
02/12/16	(H)	RES AT 1:00 PM BARNES 124
02/12/16	(H)	Heard & Held
02/12/16	(H)	MINUTE(RES)
02/13/16	(H)	RES AT 1:00 PM BARNES 124
02/13/16	(H)	-- MEETING CANCELED --
02/22/16	(H)	RES AT 1:00 PM BARNES 124
02/22/16	(H)	Heard & Held
02/22/16	(H)	MINUTE(RES)
02/24/16	(H)	RES AT 1:00 PM BARNES 124
02/24/16	(H)	Heard & Held
02/24/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 8:30 AM BARNES 124
02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 1:00 PM BARNES 124
02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/26/16	(H)	RES AT 1:00 PM BARNES 124
02/26/16	(H)	Heard & Held
02/26/16	(H)	MINUTE(RES)

02/27/16 (H) RES AT 10:00 AM BARNES 124
 02/27/16 (H) Heard & Held
 02/27/16 (H) MINUTE(RES)
 02/29/16 (H) RES AT 1:00 PM BARNES 124
 02/29/16 (H) Heard & Held
 02/29/16 (H) MINUTE(RES)
 02/29/16 (H) RES AT 6:00 PM BARNES 124
 02/29/16 (H) Heard & Held
 02/29/16 (H) MINUTE(RES)
 03/01/16 (H) RES AT 1:00 PM BARNES 124
 03/01/16 (H) Heard & Held
 03/01/16 (H) MINUTE(RES)
 03/02/16 (H) RES AT 1:00 PM BARNES 124
 03/02/16 (H) Heard & Held
 03/02/16 (H) MINUTE(RES)
 03/02/16 (H) RES AT 6:00 PM BARNES 124
 03/02/16 (H) Heard & Held
 03/02/16 (H) MINUTE(RES)
 03/07/16 (H) RES AT 1:00 PM BARNES 124
 03/07/16 (H) Heard & Held
 03/07/16 (H) MINUTE(RES)
 03/07/16 (H) RES AT 6:00 PM BARNES 124
 03/07/16 (H) Heard & Held
 03/07/16 (H) MINUTE(RES)
 03/08/16 (H) RES AT 1:00 PM BARNES 124
 03/08/16 (H) Heard & Held
 03/08/16 (H) MINUTE(RES)
 03/09/16 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

THOMAS RYAN, Managing Director
 Structured Solutions Group
 ING Bank
 New York City, New York

POSITION STATEMENT: During the hearing on HB 247, provided a PowerPoint presentation, "Alaska State Legislature: HB 247."

LARRY PERSILY, Oil and Gas Assistant to Mayor Mike Navarre
 Kenai Peninsula Borough
 (No address provided)

POSITION STATEMENT: During the hearing on HB 247, provided a PowerPoint presentation, "DIFFERENT WAYS TO LOOK AT TAX CREDITS."

ACTION NARRATIVE

[1:29:51 PM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 1:29 p.m. Representatives Olson, Seaton, Josephson, Herron, Talerico, and Nageak were present at the call to order. Representatives Johnson and Tarr arrived as the meeting was in progress.

HB 247-TAX;CREDITS;INTEREST;REFUNDS;O & G

[1:30:34 PM](#)

CO-CHAIR NAGEAK announced that the only order of business is HOUSE BILL NO. 247, "An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

1:31:09 PM

THOMAS RYAN, Managing Director, Structured Solutions Group, ING Bank, provided a PowerPoint presentation entitled, "Alaska State Legislature: HB 247." He noted that ING is a Dutch domiciled commercial bank and recounted that at a fall [2015] hearing he discussed the tax credit financing done by ING and the tax credit program in general. He explained that slides 3 and 4, "Overview of Alaska State Tax Credit Program, and "Lender Feedback on Tax Credit Program as Currently Structured," respectively reiterate some of that discussion. Rather than revisiting those slides, he said he will address what could change should HB 247 be passed as currently drafted.

REPRESENTATIVE SEATON requested that Mr. Ryan review ING's fall [2015] testimony because not every committee member was present for that hearing.

1:33:33 PM

MR. RYAN turned to slide 4, "Lender Feedback on Tax Credit Program as Currently Structured," and addressed what ING likes about the program. Key about the program, he said, is that the tax credits are assignable. If ING lends to somebody on the basis of tax credits earned, those credits are assignable to ING and ING can take a security interest in them, which is extremely positive. The ability to monetize the tax credits is extremely helpful. He explained that when lending to an exploration or development company that has earned tax credits, it is uncertain that the company will ever actually be able to monetize those credits and that uncertainty would make it pretty much impossible to lend against them. However, the credits being exchangeable for cash from the state makes them financeable, which is a key positive of the program. Also very helpful is that the Department of Revenue (DOR) will, once the credits are assigned, pay the money to ING directly, which avoids the risk of the money getting waylaid. Another positive is that historically any changes to the program have been prospective, not retroactive. It is very important to ING that the program not change in the middle of transactions; that changes in the law are not retroactive such that ING finds itself in a very different position from when it entered into the transactions from a legal perspective. Of comfort to ING is that the State of Alaska's credit risk is extremely good, it is a very highly rated state. Further, ING likes that the program supports all developers equally so that some of the smaller developers are significantly helped by the program. The actual qualification

of credits themselves, what expenses do and do not qualify, is fairly well codified and there are clear milestones in terms of what is to be delivered and what has to be done to actually qualify for the credits. That is important to ING because when lending against credits ING wants to make sure that nothing can come up after the fact that could jeopardize the actual ability for the exploration and development company to qualify for them.

[1:36:31 PM](#)

MR. RYAN, regarding the neutral elements of Alaska's credit program, stated that a key piece of the program for ING is the appropriations issue. Historically there was an open-ended appropriation and the willingness of the state to fund the program was always fairly clear. Last year, ING started to get concerned about where the money will come from to actually fund the program going forward. Another neutral element is that the credits are tradeable. While cash refund is ideal, if that is not available the credits are tradeable. Having to find somebody to buy the credits is not something that ING would care to do if it could not get a cash refund for them; however, if that had to be done, it would be possible.

MR. RYAN addressed where the credit program could be improved. Key for ING is the appropriation risk. Every year having to wait to see whether there is an appropriation made to fund the program the following year is something that can be very worrisome. The governor's veto risk is also something that causes a lot of concern. Another concern is a bankruptcy risk issue in federal bankruptcy law, wherein if a borrower files for bankruptcy before actually filing its tax returns, uncertainty exists as to whether the assignment of those credits in the previous year will be respected by the bankruptcy courts. A hope of ING is that this point could be clarified so that the risk is taken off the table. A related point is delay in the lien perfection.

[1:39:33 PM](#)

REPRESENTATIVE SEATON recalled Mr. Ryan saying the certificates are tradeable. He inquired whether Mr. Ryan meant they are tradeable among financiers instead of just among oil companies.

MR. RYAN replied he meant tradeable amongst taxpayers. If an entity never actually has taxable income and [cannot] use the credits itself and the credits are not exchangeable for cash,

there is the opportunity to trade those credits and sell them to another taxpayer that could use them against its tax liability.

[1:40:14 PM](#)

MR. RYAN [addressed slide 6, "Tax Credit Amendment."] He noted that at the fall [2015] presentation ING acknowledged the world has changed significantly given what has happened with commodity prices and given the size of Alaska's program as it has evolved. Therefore, ING recognizes the program is unsustainable in its current form and welcomes modifications to it. As a lender ING is reasonably agnostic as to the size of credits and only asks that the payouts on those credits be predictable and that any changes be prospective. From ING's perspective, an improvement would be solving the appropriations issue and that any changes be prospective and add some clarity to the program. Reiterating that ING is agnostic as to the actual size of the credits, he qualified that it would be bad for ING if the credits were so small that its borrowers went out of business or could not complete their projects. But, he added, for operation of the program itself, ING is looking for more predictability in appropriations and functioning of the program.

MR. RYAN explained slide 7, "Key Risk Factors and Considerations - Lender Perspective," is a list of risk issues that a bank like ING worries about, what the lender considerations are, and what HB 247 actually does to make that risk worse or better. If the bill makes a risk worse or neutral, the slide offers potential solutions for how it could be changed to make it function better for ING. Regarding the risk issue of borrower liquidity, he said a lender's consideration is that a borrower requires sufficient liquidity to continue to finance exploration and extraction activities over the medium term. The tax credits are a significant source of liquidity for a lot of these borrowers. The proposal in HB 247 would cap tax credit refunds at \$25 million per year. This is problematic to ING from a liquidity perspective. Because drilling in Alaska is incredibly expensive and unpredictable, a cap of \$25 million per year would put these borrowers under extreme liquidity pressure. A fix to that would be that if there is a bankruptcy event, or these entities go out of business or are acquired, the lender be able to continue to earn/receive the \$25 million going forward. This comes down to the functioning of the program so that it would be assignable to the lender, would give the lender senior claim, and if there is a bankruptcy then that claim would be respected and the lender would continue to earn the credits as they are paid over time; the credit payment does not stop if the borrower goes bankrupt.

1:44:25 PM

MR. RYAN, continuing on slide 7, pointed out that the tax credit qualification risk is a key issue for ING. He said ING needs to be able to rely on the fact that once the credit is earned it will become the property of the borrower and in turn can be assigned to ING. If a performance component happens after the fact, it is obviously a concern for ING because if the company does not comply or ING cannot comply on the borrower's behalf, then there is a danger that the company's credits are no longer available. The addition of the employment requirement in HB 247 concerns ING because what if the borrower does not comply with that? Would the credits then go away, would they cease to be refundable, and then how would that affect ING? It would be helpful to ING, and the easiest, to not have that requirement. But, if it is important that this stays in, then ING would look for a way that it could satisfy it somehow on behalf of the borrower or that ING can satisfy it in a quantifiable way such that ING is able to continue to claim the credit refund.

MR. RYAN, continuing on slide 7, said the lien perfection risk is where the lender worries about the bankruptcy of a borrower before the lender actually has a perfected claim. Last fall, ING requested that if there is legislation that it somehow strengthen that analysis and reduce that risk for the lender. However, ING does not see anything in HB 247 that would change that position. Therefore, ING would ask that a change be made that would somehow improve the legal position or at least strengthen the security interest in the case of a bankruptcy.

1:46:50 PM

REPRESENTATIVE SEATON understood Mr. Ryan to not be opposing the cap, but that ING would like to be able to own the credit certificate and then get it reimbursed at that cap amount in future years. He further understood that Mr. Ryan is wanting the state to protect ING from federal bankruptcy law by saying something like the state's general fund will be liable even if the federal bankruptcy takes some of the credit obligation and absorbs it to other creditors.

MR. RYAN confirmed this is what he is asking. Bankruptcy risk happens in one of two ways, he said. One is that there is a bankruptcy before the tax returns are filed and therefore there is actually an assignable tax credit. The second is what happens during the earn-out period because the cap on the refund

would make the term longer over which the payout occurs; ING would ask for some clarity as to what would happen in that instance. So, if there was a bankruptcy, then what would happen to those unclaimed or unrefunded credits? Would they continue to become the property of the assignee and would the refunds continue to be paid long after the company is gone?

REPRESENTATIVE SEATON asked whether that would be like a double payment. For example, if the bankruptcy court assigned that to another creditor, the state is supposed to then obligate further money from the general fund to pay the tax credits.

MR. RYAN replied he does not know that he is being that specific as to how it would be solved and he is not sure that he has a specific solution in mind. But that would be one solution - if credits that the state had already agreed to and assigned to ING were reassigned to somebody in a bankruptcy, the state would pay twice. However, he added, he has not spent a lot of time with bankruptcy attorneys and legislators and does not know if there is another way to fix it legally such that that situation could not arise, so he is not saying that that is the only answer.

[1:50:01 PM](#)

REPRESENTATIVE JOSEPHSON posed a scenario of a vendor of a product in the Cook Inlet who uses secured transactions under the Uniform Commercial Code (UCC) to get a security risk and a lien of some sort. He asked whether Mr. Ryan is saying that ING should always get in the queue before that creditor.

MR. RYAN qualified he isn't sure he understands the question, but thinks he is saying yes. If ING is lending against these tax credits and they are assigned to ING, and ING has a UCC filing/claim on those credits, then that seniority should be respected in the case of the unsecured creditors. He asked if that is Representative Josephson's question.

REPRESENTATIVE JOSEPHSON replied yes, and then inquired whether Mr. Ryan is asking for some statutory presumption of seniority, of which the state may not be able to afford to ING anyway under federal law. He said he is unsure what Mr. Ryan is asking for that the state could guarantee.

MR. RYAN responded that as he understands it, and as ING's experience has been, most times the bankruptcy court is very fact circumstance specific. He allowed he does not believe there is an easy state legislated fix for this. Last fall, ING

requested that any legislation proposing to change the credit program make it clear that the state's intention is that the assignee of tax credits should rank senior to all those creditors in the case of a bankruptcy that occurs prior to the actual filing of the tax return. This would improve ING's position in the bankruptcy and that would be helpful.

[1:53:18 PM](#)

REPRESENTATIVE JOSEPHSON, in regard to borrower liquidity on slide 7, recalled Mr. Ryan's statement that ING is agnostic on the tax credit refund cap of \$25 million, although Mr. Ryan said it increases the risk of bankruptcy before all credits are paid out. Representative Josephson posited that a conservative-paced exploration and development project that wasn't absorbing lots of credits suddenly would be a sign of more predictability and stability. As an example he posed a scenario in which the tax credit system is uncapped like it is today and someone qualifies for \$100 million all of a sudden. He inquired whether there is some risk associated with that approach, because he would surmise there is less risk with someone who has a more conservative approach to exploration and development by having a more cautious practice of borrowing since the company must match 35 or 45 cents with what the state is paying.

MR. RYAN posed an example of a project that qualifies for \$100 million in credits in the first two years. Under the existing system of no cap, the company would get the \$100 million in, say, 9-12 months after the date of filing its tax return. He explained that when ING finances a company it is a short-term transaction, so the interest rates are very, very low because ING expects to get the money back fairly quickly. As a result, the advance rates are higher. The borrower therefore pays less interest and gets more of that money quicker to pay its bills, stay liquid, and stay in business. If the borrower was capped to \$25 million [a year] in the amount of credit refunds and received that amount over a period of four to five years, it would then be a longer term loan for ING and so the interest rates would be higher and the advance rates would be lower against the same amount of credits, meaning the company would get less cash. There is also the risk of what will happen to those credits if the company gets into trouble in the short term. If there is uncertainty around that, then ING may not be willing to lend against the full amount, maybe ING would only lend against the first two years of the credits.

REPRESENTATIVE JOSEPHSON thanked Mr. Ryan and said the aforementioned helps to explain the context.

1:56:42 PM

REPRESENTATIVE HERRON brought attention to the tax credit qualification risk on slide 7. He said Alaska hire is near and dear to legislators for many reasons and inquired why ING is asking for a solution when the lay of the land is known.

MR. RYAN replied he is absolutely sympathetic to the situation; from his perspective, hiring in Alaska should not really matter as far as ING's willingness to lend against the credits. However, if it is a future obligation to hire Alaskans, then what happens if the company doesn't comply and no longer qualifies for the right to get a refund of the credits? In that case ING will have loaned money against the refund of a credit that then does not materialize and ING would make a significant loss on that loan simply because the company didn't comply with its requirements to hire a certain number of Alaskans in a given period. Ideally, what he is asking for, is whether there is a way that if that should happen that he can actually perform that responsibility on the company's behalf in order for the company to continue to qualify for the refund of the credits.

REPRESENTATIVE HERRON said he believes it is ING's best interest that a company maintains Alaska hire. Therefore it would seem somewhat odd for a policymaker to say the state is going to protect ING when actually the company should be protecting ING.

MR. RYAN noted there are different kinds of financing that these companies can get. He explained that if he took an "operation project success risk" on a company, then he would not be a secured bank lender charging 5-7 percent interest on his loan. Rather, he would be an equity investor or some kind of mezzanine investor earning 17-18 percent return on his money. This is purely about trying to keep the cost of funding for these companies as low as possible. He is the cheap funding here, the guy who comes in on a secured basis and doesn't take a lot of project risk. If he were to take a lot of project risk, which would mean that if the company isn't successful and doesn't hire the people and he is going to lose his money, then he would expect a much higher return on his investment. So, while what Representative Herron is saying is perfectly valid for somebody who is taking equity risk on a project, that would not be the case for him because his is a different type of credit.

2:00:49 PM

MR. RYAN resumed his discussion of slide 7, turning to the key risk factor of intercreditor risk. Reiterating that there are different sources of capital for these projects, he noted that with the credits at today's levels and the refund program in place now, the tax credit component and therefore the cheap bank financing component of the capital structure of these borrowers is a lot larger. This means the borrower needs less of the really expensive money and less of the equity investors in a project. If the mix is switched so that it is more risky capital, and less credits and bank financing that monetizes those credits, then the bargaining power of the banks would be reduced significantly. This would mean that banks have much less control over how the loans are structured and the terms and operations of the borrower. That would increase ING's funding costs and make ING's funding more expensive for the borrower.

MR. RYAN moved to slide 8, "How has 247 effected risks - Lender Perspective," and discussed appropriation risk. He pointed out that the annual appropriation process has become a little more unpredictable and is causing ING some concern. A solution to the short-term appropriation issue is proposed in HB 247 in that it would contain a large appropriation to cover all credits that had been earned up to the point of the change of law. However, while that is helpful because it would cover credits up to July 1, it would increase the appropriation risk on the backend because there would now be longer term earn-outs and there would be no certainty that the appropriation and the funds would be there to pay those credits over a longer period of time into the future. Therefore, ING would suggest either a legislative or permanent funding fix such that if there was a cap for the credits of \$25 million a year over several years that something be put in place that would essentially remove that annual appropriation risk.

MR. RYAN, regarding the construction/project operating risk, explained that the [current] credit program creates certainty for the lender that there will be cash to pay back the loan it has made, that ING does not necessarily take success risk on the project. The proposed annual cap on the credit refund would push that repayment much further into the future, so it would increase the risk that if there is a significant event in the future or the project does not get completed, ING would be faced with the issue of getting its money back in the future.

2:05:14 PM

REPRESENTATIVE SEATON interpreted Mr. Ryan to be saying that the credits give the opportunity for someone to get a lot more reasonably priced capital without bringing in partners. However, he posited, it would seem that bringing in partners with good balance sheets would create less risk for ING because there are more parties that have stronger balance sheets than if it is just a single small company relying on financing by the credits. Therefore, he continued, he is trying to figure out the balance between risk, the level of credits, and the amount that is needed. He recalled Mr. Ryan saying that ING does not mind the cap because that is not ING's portion of the problem; rather, it is the payout later. He postulated that the more the credits, the greater the risk to ING, because it would be smaller companies just working off this loan capital instead of having a balance sheet that supports the project risk.

MR. RYAN agreed, but pointed out that what ING likes about Alaska's program is that it allows ING to bank some of these smaller companies. He understood that one of the objectives of the credit program in general is to encourage these smaller exploration companies. The larger oil and gas exploration and development companies have significant balance sheets of their own and so do not particularly need ING's funding. Many of them have tax liabilities for which they can actually use the tax credits and therefore do not need to finance them. One of the impacts of the proposed changes, he predicted, will be to put some of these smaller companies out of business, they will not be doing the projects that they currently plan to do, which, he allowed, means less business for ING, too.

REPRESENTATIVE SEATON remarked that he is trying to balance the risk situation, the amount of return here, and also the creation of bigger risk by having smaller companies not taking on other partners to have a stronger balance sheet to undergo these projects, and then asking for bankruptcy protection.

MR. RYAN concurred that reducing the credits would force the smaller exploration companies to partner with companies with larger balance sheets, or, if they could, to find larger sources of equity funding, as opposed to being able to finance themselves on a stand-alone basis by monetizing credits.

[2:08:56 PM](#)

MR. RYAN continued his review of slide 8, stating that the interest rate risk is a fairly neutral risk. He explained that

it is a purely operational issue with the loans in that draws happen periodically and the draws are at the interest rate prevailing at the time. The interest rates are set for the period of loan, which is the period from the date of the draw to the date that the credit refunds are paid out. To the extent the terms would be stretched out by the proposed cap, the interest rate exposure would be increased because the borrower would be dealing with interest rates over a longer period of time. This is not particularly a material issue in HB 247, he allowed, as it is easy to hedge that risk, but there is a slight cost associated with it.

MR. RYAN addressed the change in law risk, noting that it is particularly important to ING that any laws be prospective rather than retroactive. He offered his appreciation to the governor and the legislature for being careful to make sure any changes to the program are prospective. Regarding potential fixes, he said he does not think anything needs to be done there, but it would be nice if the effective date was pushed back a bit farther in 2016 to provide more time from when the legislation is finalized so that ING's deals can be restructured if necessary.

MR. RYAN stated that the rest of the slides in his presentation cover ING's background, the companies, what ING is active in, and ING's position in the oil and gas exploration field. He added that because of the uncertainty around the changes in the program, ING has not closed any new deals since fourth quarter 2015 and currently ING's advances against 2016 are on hold pending some clarity as to what the changes to the program are. The sooner these proposed changes can be clarified, he said, the better for everybody. In response to Representative Tarr, he confirmed that in regard to ING's advances for 2016 he means calendar year 2016.

[2:11:58 PM](#)

REPRESENTATIVE SEATON understood Mr. Ryan to have said that the size of the loans or credits is not the issue as much as is the predictability of the repayments.

MR. RYAN responded yes and no. He said yes, ING is agnostic, predictability is key, but stretching the credits over too long of a period, or making them too small, increases other risks. The other risks include the success of the project, the viability of the borrower, and potential bankruptcy issues should the borrower file for bankruptcy before ING gets all its

money back. In an ideal world banks like their money to come back quickly and predictably; therefore anything that stretches out the repayment period is an issue for ING.

REPRESENTATIVE SEATON surmised ING would probably be happier if the credit percentage was smaller because that would represent less portion of the project itself, but that ING wants very predictable repayment terms.

MR. RYAN answered that smaller does not mean it is less risky. He said ING generally looks to the importability of its claim to get the refunds and looks to the creditworthiness of the State of Alaska. The larger the credits the more that ING can advance and that is better for ING because for the same amount of effort it can do larger deals. Smaller credits mean ING would be doing smaller deals and earning less. The creditworthiness of the State of Alaska would not have changed, but ING would now be doing a smaller deal. Also, the viability of ING's borrowers and the bargaining would now be diminished because they would have less credits, and the bargaining power of the equity investors would go way up because they would be putting in much more of the money. So, while ING is kind of agnostic in regard to the size of the credits, at a certain point in time the credits become too small, which would jeopardize both ING's business and the viability of its borrowers, and then for ING it would become detrimental to the program.

[2:15:13 PM](#)

REPRESENTATIVE SEATON understood Mr. Ryan to be saying that ING is not having to do much due diligence on the project because ING is relying on the enforceability of the claim and the balance sheet of the State of Alaska, not that of the project sponsor, as to whether ING is going to make the loan. Whether the project has problems, other than somebody going bankrupt before the credits are issued, would not be ING's worry.

MR. RYAN replied he is saying the opposite. If he is worried about getting his money back, it would be for one of two reasons: the State of Alaska does not pay out or defaults, or appropriations. Given the state's creditworthiness, not paying out or defaulting is less of a concern than is appropriations. He stressed that he cares very much about his underlying companies. Bankruptcy is one thing, but he likes his borrowers to stay in business, to be viable, to be liquid, and to be successful. If everything goes to plan - the company doesn't file for bankruptcy and stays in business and ING's security

interest is perfected - then what ING really has at the end of the day is State of Alaska risk. He said he does not think he ever said that he does not look at the viability or care about the viability of the project; it is the opposite.

REPRESENTATIVE SEATON clarified he didn't mean that Mr. Ryan did not care at all, but that ING's issues and ING's security were really with the State of Alaska.

[2:17:32 PM](#)

REPRESENTATIVE TARR noted that the issue of the annual refund cap has come up in other conversations. She said it sounds like Mr. Ryan is saying he does not have a specific number. However, she continued, [a number] might be interesting from a lending perspective because the state's division of taxation provided a graph showing that without the cap the state could be getting into hundreds of millions of dollars per year in the early years of development versus having a cap of \$25 million. From a lender's perspective it seems that Mr. Ryan might have some insight into the area in between those numbers if he is saying that increasing the annual cap might be a possible solution. Regarding the statement on slide 7, "for smaller explorers and developers," she noted that the committee talks about explorers, development, and then operators. She asked whether Mr. Ryan is saying that the developers are also the operators or is talking about the stage of development for projects prior to them being in operations.

[2:18:48 PM](#)

MR. RYAN opined that Representative Tarr was asking two questions, and he thought the first question was whether he had a number in mind between the \$25 million and the 100 percent refund. He asked whether she was asking him to suggest a number, or just a general question of how he feels about something in between the two.

REPRESENTATIVE TARR clarified that HB 247 proposes a cap of \$25 million and that the committee saw graphs depicting the state's spending in the range of \$300-\$700 million. She inquired whether Mr. Ryan has anything to offer from a lender's perspective as far as a number in between.

MR. RYAN responded that it is a balancing act. First, ING would like to see the program be sustainable and be a program that everybody is supportive of in the current oil and gas price

environment. Second, ING recognizes that the program has gotten very, very big and the annual payouts are extremely large; therefore ING would be happy to see a reduction in the amount of payouts. Also, in some ways the caps would be good for ING because it would mean the money is outstanding longer and ING would be earning more interest. But reducing and extending would not be good for ING if it is so much that it actually jeopardizes the project. Where is the right number? That is a very difficult question to answer and he does not have an answer, but certainly somewhere in between is the ideal answer but he cannot say whether it is halfway in between the two. Additionally, it may be different depending upon the project.

[2:21:13 PM](#)

REPRESENTATIVE TARR reiterated her second question regarding "smaller explorers and developers."

MR. RYAN answered that ING's interest is in companies before they are actually paying tax. The exploration and development phase are when a company is spending the money and not earning any revenue. Once in production a company is actually earning revenue, in theory is paying taxes, and can use the tax credits themselves. It is at that point that these facilities are no longer of interest; it is the two phases prior to actually generating revenue.

REPRESENTATIVE TARR, in regard to suggesting a different amount for a tax cap, asked whether Mr. Ryan could see using a percentage of overall project cost.

MR. RYAN replied that that would be a good solution because that would allow it to be tailored to the actual size of the spend that the companies are making and therefore their need for liquidity. So, a percentage of the actual credits would be a better solution than a dollar number.

[2:22:56 PM](#)

REPRESENTATIVE SEATON observed slide 10, "A Leader in Alaska State Tax Credit Financings," states that ING has financed Caracol Petroleum, LLC, a North Slope exploration project, at \$30 million, and Cornucopia Oil and Gas Company, LLC, a Cook Inlet exploration project, at \$150 million. He asked whether ING has financed any other companies.

MR. RYAN responded that ING has only closed those two. Three other deals were in the pipeline that are now on hold pending some clarity on the changes to the program. Similarly, the borrowers themselves are a bit concerned because their capital spend and planning for the future are also on hold pending the proposed changes to the program.

[2:24:05 PM](#)

REPRESENTATIVE SEATON noted that Alaska's statutes provide for an amount that is appropriated for paying credits, dependent on the price of oil, at either 10 percent of the production tax paid or 15 percent of the production tax paid in Alaska. He inquired whether that statutory limit is something that ING recognizes or is something ING has ignored because all the credits submitted a few years ago were paid.

MR. RYAN replied that if he understands the question, the issue has not been material for ING because all credits that were issued were paid out and there was a sort of open-ended appropriation historically. The statutory limit has not been in effect historically.

[2:25:16 PM](#)

REPRESENTATIVE SEATON concurred that it has not been utilized, but said high production tax values were coming to the state so it was not much of an issue. Under the tax credit program, he explained, there is some assurance that there will be some because it is in statute that that amount will be appropriated. He asked whether that seems to Mr. Ryan to be an appropriate mechanism to ensure that there will be money for paying those.

MR. RYAN replied that as a mechanism to solve the appropriations risk issue, it would seem to him to be a way to fix it if it was set at the right level commensurate with the expected payout.

[2:26:59 PM](#)

The committee took a brief at-ease.

[2:27:47 PM](#)

LARRY PERSILY, Oil and Gas Assistant to Mayor Mike Navarre, Kenai Peninsula Borough, provided a PowerPoint presentation entitled, "DIFFERENT WAYS TO LOOK AT TAX CREDITS." He said he will mostly talk about Cook Inlet and Kenai Peninsula oil and

gas exploration development tax credits. Responding to Representative Josephson, he said he is speaking for the mayor and the Kenai Peninsula Borough. He added that he is a former deputy commissioner at the Department of Revenue and a former federal official on the Alaska gasline, but his testimony today is on behalf of the Kenai Peninsula Borough.

MR. PERSILY brought attention to slide 2, "Return on state investment," and pointed out that when looking at what to do with tax credits there is no production tax on oil in Cook Inlet, and there has not been since the 1980s. For natural gas the production tax is hardwired at the minimal rate of about 2.5 percent of today's gas prices to the utilities. There is royalty, property tax, and corporate income tax on C corporations as opposed to other business entities. However, when looking at the payback to the state over the years, with discount inflation and opportunity cost of what could have been done with the money elsewhere, there realistically is not a positive return on the investment to the state general fund. That does not make it wrong, he said, it is just something that people should be aware of as the legislature wrestles with tough decisions. Certainly, return to the general fund is not the only way to look at what the state gets for those tax credits.

[2:30:32 PM](#)

MR. PERSILY turned to slide 3, "Local benefits count," and said the local benefits are substantial. Over the last 10 years the assessed value of oil and gas property in the Kenai Peninsula Borough has more than doubled, reaching more than \$1.4 billion in 2016. Much of the past year's increase comes from Furie Operating Alaska, LLC, ("Furie") developing the Kitchen Lights Unit offshore, and BlueCrest Energy, Inc., ("BlueCrest") developing the Cosmopolitan Unit on a pad onshore. The assessed value of those two entities in 2016 approaches \$300 million. These two companies are the borough's top property taxpayers. Of the top 20 taxpayers in the borough a few years ago, 17 were oil and gas related. The three non-oil and gas taxpayers were Fred Meyer, WalMart, and NACS. Income is up, the unemployment rate is down, and sales tax is back to where it was before taking a dive a few years ago. The borough and the communities are capturing economic benefits from that activity through sales tax, property tax, and new homes. However, the state, without a state sales tax or state income tax, has no way to capture any benefit from the economic activity that is spurred by new oil and gas development. The state is relegated to production tax royalty, corporate income tax, and such. The borough knows that

an upward trajectory is not going to continue; for example, Apache Corporation left the Cook Inlet despite knowing there was oil and having its federal permit.

MR. PERSILY addressed slide 4, "More oil, more gas," noting that [oil production in Cook Inlet has doubled since 2010]. Average oil production in 2015 was 18,000 barrels a day, the best in a decade, with nearly 20,000 barrels a day in April 2015. Natural gas production is ahead [of 2013 numbers]. ENSTAR Natural Gas Company ("ENSTAR") has signed a contract with Hilcorp Energy Company ("Hilcorp") to meet most of ENSTAR's gas needs through 2023. Furie signed a contract with Homer Electric Association, Inc., that starts in April. There is potential for more gas in Cook Inlet, but the problem is that no one is going to look for gas unless there is a market for it, regardless of tax credits.

[2:33:37 PM](#)

MR. PERSILY drew attention to slide 5, "It's been more than just credits," and looked at what has created, added to, and incentivized the resurrection of Cook Inlet oil and gas. First, he said, was that with higher oil prices it paid to explore because good money could be made selling the oil. Second, state tax credits helped because credits reduced the capital risk to the explorers and provided financing. Third, several years ago the Regulatory Commission of Alaska (RCA) changed how it looked at gas supply contracts for Southcentral Alaska utilities and that reassured producers they could get a fair return on their investment. Fourth, the Cook Inlet Natural Gas Storage Alaska (CINGSA) facility created a year-round market for the gas for the first time. Fifth, there is a market for the gas as long as ConocoPhillips Alaska, Inc. ("ConocoPhillips") can continue to export liquefied natural gas (LNG) during the summer when gas is surplus to local needs. The U.S. Department of Energy has granted ConocoPhillips export authority, but whether ConocoPhillips or any other producer in Southcentral Alaska liquefies and sends gas overseas is going to depend on the market. Currently the spot market prices in Asia for LNG are under \$5 per thousand cubic feet (Mcf) of gas. In its filings with federal regulators, ConocoPhillips shows it was receiving \$7-\$8 in 2015 and \$15-\$16 in 2014. He advised that low prices in Asia are going to make it harder to export LNG from Southcentral Alaska, and those exports have been important in creating and enabling that year-round market.

[2:35:46 PM](#)

MR. PERSILY presented slide 6, "Why credits worked," and said credits worked for a lot of reasons. For example, there were explorers that did not have deep pockets and did not have easy access to investment capital. Oil prices were high, investors were looking to earn an interest rate higher than 1-3 percent, and opportunities were good in Southcentral Alaska. There was someone who needed money and someone who was looking to lend money to get a higher rate of return, so it was a marriage made in Wall Street and it worked for everyone. Because the State of Alaska was rich with high oil prices it could afford to take that risk, shoulder some of the burden, to hopefully lead to more oil and gas production, gas in particular for the local market. It was an era of relatively risk-free payback on the part of the state. It was not like the state said it was only going to loan to prospects that it judged to be in the state's best interest or see a company's reservoir data to decide if it was worth putting money into. It was a "check the box" - the company spends the money, turns in the application, and if all goes well the investor gets the check. That reduced the risk to the investor, worked out well, and there was public support in recent years for tax credits to bring new entrants into Alaska because as a maturing oil and gas province Alaska needed more money and new players.

[2:37:46 PM](#)

MR. PERSILY showed slide 7, "Looking ahead," and pointed out that regardless of credits, producers must have a market. Even if the exploration is funded, if the producer has no place to sell that gas the producer is not going to look for gas. Oil is a little different because a producer can send as much oil as it has to [Tesoro's Kenai Refinery]. BlueCrest's plan for the Cosmopolitan Unit is to start producing oil this year, get it to the Tesoro refinery, and hold off on gas production until it has contracts and a market for the gas. Cook Inlet's history shows that large customers are needed - the fertilizer plant and the liquefaction and export terminal in the 1960s and 1970s justified the investment. Looking ahead, the issue for Cook Inlet is finding that demand growth to justify large-scale production. For example, the state has now selected its preferred participant in the LNG trucking project from Cook Inlet to Fairbanks. About 8 million cubic feet a day is being looked at, which is about 4 percent of Cook Inlet production. This is great for Fairbanks if it works, and certainly it could work for the producer's contractor, but that volume is not enough to justify someone going out and spending a lot of money to develop a huge resource, or even a large resource.

2:39:58 PM

MR. PERSILY displayed slide 8, "What industry/investors need," and noted that certainty [of payback] is what an investor needs. As was discussed by ING, right now the refundable tax credits are essentially short-term, one-year loans. There certainly are investors that would be interested in longer-term paybacks. For example, a pension fund may take a 10-year payback because that fits into its investment portfolio and earns more interest. Going in, the pension fund just needs to know the certainty of whether this will be a 1-year, 10-year, or 5-year payback. Even with a longer payback, he advised, investors will still be found to buy those refundable credits. Those investors want to see that Alaska is tax stable, which gets to the point of the state's budget deficit and fiscal crisis or non-crisis. Investors are looking at Alaska and starting to get nervous as to whether the state will fund this. So, in addition to dealing with tax credits and finding some solutions that the state can afford going ahead, the fiscal problems must also be dealt with so that investors, be they oil and gas companies or the people who loan them money, feel confident that they are not going to go through this every year.

MR. PERSILY turned to slide 9, "The elusive best answer," and said he does not have proposed amendments for the perfect answer. But, he continued, he thinks the elusive best answer is the same that all committee members are looking for - to not hurt a development investment that is underway. Reducing credits, changing credits, and amending credits may mean that someone who might have come here before might not come otherwise, so members don't want to discourage future investment any more than they have to by the fact that the State of Alaska is not as rich as it used to be and is cutting services and reducing funding. But, as members try to make those decisions, clearly it pays to look at the benefits to the state economy and local benefits, not just the gain to the general fund, and then balance the benefits against all the other public needs that members are having to make tough choices on every day on the fiscal year 2017 budget and those budgets further ahead.

2:43:07 PM

REPRESENTATIVE HERRON requested Mr. Persily to provide examples regarding the statement on slide 8: "Phase-in of any changes should reflect lead time for multiyear investment spending before production."

MR. PERSILY replied that BlueCrest, for example, plans to start oil production this year, but is going to keep drilling wells, adding storage tanks, expanding to get up to full production, and looking at gas. While he is not speaking for BlueCrest or proposing specific changes, he said he thinks the legislature would want to be careful that any changes made do not jeopardize a development that is midway through construction, because that is more painful than for a project not yet off the ground. If someone has not spent any money yet and changes are made, there is no harm done other than the time that was spent on it. But when someone has sunk a lot of money, has a business plan that is based on getting to X barrels a day, and is at a percentage of that because more needs to be spent to finish the buildout, the state must consider that out of fairness and because production will actually be seen from them.

[2:44:47 PM](#)

REPRESENTATIVE SEATON noted that the legislature's consultant, analytica, provided information showing that \$5-\$7 per Mcf has been an adequate price to develop even the most expensive gas projects around the world. Given the new contracts extending to 2023 and ending at \$8.19, he requested Mr. Persily's opinion as to whether price support of those contracts basically should take care of making those economical and profitable for gas for the Cook Inlet, Southcentral, and the Fairbanks region.

MR. PERSILY responded he is not privy to the capital costs and operations expenses of the companies. However, Hilcorp has signed a multi-year contract with ENSTAR without any assurances that in years 2017-2020 it is going to be getting back any tax credits, so Hilcorp must feel comfortable enough in the economics to sign a deal through 2023 based on what it knows today. If credits were eliminated, the question is whether that would show up in a lower return to the producer or higher gas prices to customers. His guess is that it might be a little bit of both, but is probably company specific. As required by RCA regulation, the 2010 gas storage legislation mandated that any tax credit benefit to the gas storage [facility] must flow through to the customers and RCA must watch over that. It is a little different here because there is no guarantee that the credits flow through to the customers. The initial concern with Cook Inlet was to just get gas and worry about the price later. It may be very difficult to put in statute that every dollar of credit show up at a dollar reduction in the bill. Any change in the credits would change the economics for sponsors, but he does

not know how much of it, if any, would flow through to customers in future contracts.

2:48:20 PM

REPRESENTATIVE OLSON asked whether Mr. Persily knows of any other jurisdictions that have changed their tax regime six times in ten or eleven years.

MR. PERSILY answered he is unaware of any that have changed it as much, however he is also unaware of any that have had as robust of a tax credit program as Alaska. British Columbia gives some credits for road building if a company is developing oil and gas fields and Alberta had some royalty relief for cost recovery. But he is unaware of any other jurisdiction in the free world that changes as much. On the other hand, he said, he is unaware of another that has as varied and multi-layered a system of tax credits as Alaska. So, Alaska has sort of dug its own hole on this one, although a well-meaning hole.

2:49:51 PM

REPRESENTATIVE TARR observed the bullet on slide 8 that states, "Investor needs to know the 1-year loan will not be stretched into a 10-year payback." She recalled Mr. Persily stating an investor would not mind that as long as the investor knew that was going to happen. She requested Mr. Persily to comment on the idea that \$25 million is too small of a cap. She posed a scenario in which the cap is amended to be larger and is paid over a certain number of years, and asked whether something like that is what Mr. Persily is suggesting.

MR. PERSILY replied he is talking about what the investor wants to know going in. Pension funds are different than day traders. A pension fund might look for longer-term investments. Investors just want to know when it pays off. As long as it is stated upfront, there will still be investors, as opposed to saying payoff will be in one year and then changing it to five years.

2:51:47 PM

REPRESENTATIVE JOSEPHSON, regarding slide 9, recalled Mr. Persily saying that one of the benefits is that the state will get production. He offered his understanding that the state has spent over \$7 billion on credits. He said if a citizen were to ask him what the state has gotten from that, he would be able to

answer that. Relative to the Cook Inlet renaissance, there is absolute provable correlation and causation that the first made the second. However, as to the North Slope, he does not know what he would say. Noting he has data saying that everyone agrees [the pipeline] is going to be down to 350,000 barrels in about 6-7 years, he requested Mr. Persily to comment on the merits of what the state is doing on the North Slope.

MR. PERSILY concurred it is easier to look at the Cook Inlet and say credits have been a significant part of the growth in oil production, and also gas production. Certainly in the North Slope there is not gas production in the sense of going to homeowners. The difference is that most of the refundable tax credits, cash out of the treasury, have gone to Cook Inlet; whereas the North Slope has received a much smaller portion of refundable tax credits, given its structure of three major producers. Much of the tax credits in the North Slope have gone against tax liability. If the question is how much more oil is in the pipe today that might not have been there had there not been credits, he said he thinks maybe some but he couldn't point out which barrels. That is the dilemma in Cook Inlet and the North Slope, he continued. Yes, there has been increased oil and gas investment and spending in Alaska and that is good for local property taxes, for those Alaskans who have a sales tax, and for businesses. It is tough to argue that long-term net present value adjusted for inflation is a profit to the general fund, but it is good for the state economy. That is the conundrum because a lot of constituents want to know it is a profit to the general fund.

[2:55:06 PM](#)

REPRESENTATIVE JOSEPHSON referred to the last words on slide 9, "Alaska is oil and gas dependent." He said his view on this is that that dependency has paid huge dividends for decades and now it does not. He recalled Mr. Armstrong [of Armstrong Oil & Gas Inc.] who testified that [legislators] need to concede that Alaska is a petro state. He surmised this dependency is something Alaska needs to shake loose from and that a means needs to be found to break away from that.

MR. PERSILY responded, "No doubt." Even with an income tax and use of permanent fund earnings, he said, Alaska will still be an oil and gas state. What is being learned is that Alaska cannot be as dependent on oil and gas as it has in the past, there just is not enough money there. He related that Norway's sovereign wealth fund is \$800 billion, which is much bigger than Alaska's

permanent fund. If Alaska had not paid dividends and had just built up its savings account like Norway did, Alaska's permanent fund on a per capita basis would be about equal to Norway, which has about 5 million residents. That is not to attack the dividends, it is that Alaska can no longer live off of [oil] and is going to have to make some tough choices while acknowledging that oil and gas will always be the number one industry, but the revenue stream needs to be diversified because [oil] cannot carry the state, and throwing tax credits into it is not going to change that.

[2:57:35 PM](#)

REPRESENTATIVE SEATON recounted that one of the presentations to the committee about tax credits looked at a hypothetical big field of about 120,000 barrels a day, which there may be on the North Slope. The problem [with such a field] is that over the next six years the state would have to put in \$3 billion as tax credits under the current bill, and over time maybe make some of that back. Plus, there would be other projects in addition to this hypothetical field requiring \$3 billion. He asked whether Mr. Persily thinks such draws on the state budget would be sustainable or would force Alaska to go through another oil and gas tax rewrite.

MR. PERSILY quipped that he is turning 65 this year and the last thing he wants to live through is another oil and gas tax rewrite. But, he said, it raises a good point as legislators look at what to do with oil and gas tax credits, the floor with the minimum, and the other issues in HB 247. As pointed out by Representative Olson, Alaska's tax provisions have been changed frequently. Legislators want to come up with the right answer given he does not think members want to do something that means in two years there will be special sessions on oil and gas taxes all over again. Just like with the fiscal plan, legislators need to come up with a plan that sets up future earnings and reasonable spending so there is not a budget crisis every year. There needs to be that perfect answer on oil and gas taxes that is stable for at least a decade, given nothing lasts forever. Even though it may be wanted and needed to bring more oil and gas investment into Alaska, the state is not in great shape to write those checks. So, maybe spreading refundable credits out over time cushions it because not all of them would be written at \$35 oil, and maybe there are other things.

[3:00:55 PM](#)

REPRESENTATIVE TARR recounted industry stating something that is transitional over the next year or two and then something that could be stable for eight to ten years after that. She inquired whether Mr. Persily thinks something like that would put Alaska more in line with other jurisdictions.

MR. PERSILY replied that it would be cause for celebration if industry and policymakers could come up with something that everyone grumbled about but could live with for 8-10 years. It would be impossible to come up with something that would last for 50 years. For example, Alberta just went through a royalty review and does that on a fairly regular basis.

REPRESENTATIVE TARR, in looking at what other jurisdictions do, such as British Columbia helping with road building and infrastructure, asked whether Mr. Persily sees any of those opportunities as being advantageous for Alaska. It is frequently heard that it is much more expensive to do business in Alaska, so she is trying to think if there are things outside of just refundable tax credits that could be of interest.

MR. PERSILY answered that the state has talked about helping to build roads, "roads to resources" being an example, but that has its own problems. Since dollars are so precious right now, it needs to be ensured that something will be gotten back from it. He pointed out that British Columbia has some road building credits but it is different there because roads can actually be built to the fields, whereas in Alaska that cannot be done. He related that British Columbia recently held a monthly oil and gas land lease sale and for the first time in years there were absolutely no bids. The market is just that bad and sometimes trying with credits, incentives, or attractive acreage just does not work.

[HB 247 was held over.]

[3:05:22 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:05 p.m.