ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
April 4, 2018
1:37 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative John Lincoln, Vice Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 331
"An Act establishing the Alaska Tax Credit Certificate Bond Corporation; relating to purchases of tax credit certificates; relating to overriding royalty interest agreements; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 27
"An Act relating to chemicals that are of high concern for children and to the manufacture and sale of products containing certain flame-retardant chemicals; relating to an interstate chemicals clearinghouse; adding an unlawful act to the Alaska Unfair Trade Practices and Consumer Protection Act; and providing for an effective date."

- MOVED CSHB 27(RES) OUT OF COMMITTEE

HOUSE BILL NO. 399
"An Act disallowing a federal tax credit as a credit against the corporate net income tax; repealing a provision allowing the exclusion of certain royalties accrued or received from foreign corporations for purposes of the corporate net income tax;

repealing the reduced rate for the alternative tax on capital gains for corporations; repealing an exemption from filing a return under the corporate net income tax for a corporation engaged in a contract under the Alaska Stranded Gas Development Act; and providing for an effective date."

- MOVED HB 399 OUT OF COMMITTEE

HOUSE BILL NO. 260
"An Act relating to electronic possession of certain licenses, tags, and identification cards issued by the Department of Fish and Game; and providing for an effective date."

- MOVED CSHB 260(RES) OUT OF COMMITTEE

HOUSE BILL NO. 397
"An Act relating to a surcharge on oil produced in the state; establishing the Arctic transportation and resource access fund; and providing for an effective date."

- HEARD & HELD

PRESENTATION(S): BP ENERGY OUTLOOK 2018 EDITION

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 331
SHORT TITLE: TAX CREDIT CERT. BOND CORP; ROYALTIES
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/07/18	(H)	READ THE FIRST TIME - REFERRALS
02/07/18	(H)	RES, FIN
03/30/18	(H)	RES AT 1:00 PM BARNES 124
03/30/18	(H)	Heard & Held
03/30/18	(H)	MINUTE(RES)
04/04/18	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 27
SHORT TITLE: HIGH-RISK CHEMICALS FOR CHILD EXPOSURE
SPONSOR(s): TARR

01/18/17	(H)	PREFILE RELEASED 1/9/17
01/18/17	(H)	READ THE FIRST TIME - REFERRALS
01/18/17	(H)	RES, L&C
03/09/18	(H)	RES AT 1:00 PM BARNES 124

03/09/18	(H)	Heard & Held
03/09/18	(H)	MINUTE(RES)
03/19/18	(H)	RES AT 1:00 PM BARNES 124
03/19/18	(H)	Heard & Held
03/19/18	(H)	MINUTE(RES)
03/23/18	(H)	RES AT 1:00 PM BARNES 124
03/23/18	(H)	-- MEETING CANCELED --
03/26/18	(H)	RES AT 1:00 PM BARNES 124
03/26/18	(H)	-- Meeting Postponed to 3/27/18 at 6:30 pm--
03/27/18	(H)	RES AT 6:30 PM BARNES 124
03/27/18	(H)	Scheduled but Not Heard
04/02/18	(H)	RES AT 1:00 PM BARNES 124
04/02/18	(H)	Scheduled but Not Heard
04/04/18	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 399
SHORT TITLE: CORP. TAX: REMOVE EXEMPTIONS/CREDITS
SPONSOR(s): FINANCE

02/23/18	(H)	READ THE FIRST TIME - REFERRALS
02/23/18	(H)	RES, FIN
03/28/18	(H)	RES AT 1:00 PM BARNES 124
03/28/18	(H)	Heard & Held
03/28/18	(H)	MINUTE(RES)
03/30/18	(H)	RES AT 1:00 PM BARNES 124
03/30/18	(H)	Scheduled but Not Heard
04/02/18	(H)	RES AT 1:00 PM BARNES 124
04/02/18	(H)	Scheduled but Not Heard
04/04/18	(H)	RES AT 1:00 PM BARNES 124
04/04/18	(H)	FIN AT 1:30 PM ADAMS ROOM 519

BILL: HB 260
SHORT TITLE: FISH & GAME LICENSES;ELECTRONIC FORM
SPONSOR(s): SADDLER

01/16/18	(H)	PREFILE RELEASED 1/8/18
01/16/18	(H)	READ THE FIRST TIME - REFERRALS
01/16/18	(H)	FSH, RES, FIN
02/20/18	(H)	FSH AT 11:00 AM GRUENBERG 120
02/20/18	(H)	Heard & Held
02/20/18	(H)	MINUTE(FSH)
02/27/18	(H)	FSH AT 10:00 AM GRUENBERG 120
02/27/18	(H)	Moved HB 260 Out of Committee
02/27/18	(H)	MINUTE(FSH)
02/28/18	(H)	FSH RPT 6DP

02/28/18	(H)	DP: EDGMON, EASTMAN, NEUMAN, KREISS-TOMKINS, CHENAULT, STUTES
03/14/18	(H)	RES AT 1:00 PM BARNES 124
03/14/18	(H)	<Bill Hearing Canceled>
03/16/18	(H)	RES AT 1:00 PM BARNES 124
03/16/18	(H)	Heard & Held
03/16/18	(H)	MINUTE(RES)
03/21/18	(H)	RES AT 1:00 PM BARNES 124
03/21/18	(H)	<Bill Hearing Canceled>
03/26/18	(H)	RES AT 1:00 PM BARNES 124
03/26/18	(H)	-- Meeting Postponed to 3/27/18 at 6:30 pm--
03/27/18	(H)	RES AT 6:30 PM BARNES 124
03/27/18	(H)	Scheduled but Not Heard
04/02/18	(H)	RES AT 1:00 PM BARNES 124
04/02/18	(H)	Scheduled but Not Heard
04/04/18	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 397
SHORT TITLE: SURCHARGE ON CRUDE OIL;ARCTIC TRANS. FUND
SPONSOR(s): FINANCE

02/23/18	(H)	READ THE FIRST TIME - REFERRALS
02/23/18	(H)	RES, FIN
04/04/18	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

THOMAS RYAN, Managing Director
Structured Finance Group
ING Capital, LLC
New York, New York
POSITION STATEMENT: Testified in support of HB 331 and answered questions.

PETER CLINTON, Managing Director
Credit Restructuring
ING Capital, LLC
New York, New York
POSITION STATEMENT: Testified in support of HB 331 and answered questions.

SHELDON FISHER, Commissioner Designee
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "HB 331: Oil and Gas Tax Credit Bond Proposal," dated 3/30/18, and answered questions.

KEN ALPER, Director
Tax Division
Department of Revenue (DOR)
Juneau, Alaska
POSITION STATEMENT: Participated in the PowerPoint presentation entitled, "HB 331: Oil and Gas Tax Credit Bond Proposal," dated 3/30/18, and answered questions.

DEVEN MITCHELL, Debt Manager
Treasury Division
Department of Revenue (DOR)
Juneau, Alaska
POSITION STATEMENT: Answered questions during the hearing of HB 331.

KARA MORIARTY, President/CEO
Alaska Oil and Gas Association (AOGA)
Anchorage, Alaska
POSITION STATEMENT: Testified during the hearing of HB 311.

BARBARA HUFF TUCKNESS, Director
Governmental and Legislative Affairs
Teamsters Local 959
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 331.

JOE MATHIS
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 331.

BRODIE ANDERSON, Staff
Representative Neal Foster
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Summarized HB 399 on behalf of Representative Foster, Co-Chair of the House Finance Committee (FIN), sponsor.

REPRESENTATIVE DAN SADDLER
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Reviewed HB 260, as prime sponsor.

MORGAN FOSS, Legislative Liaison
Office of the Commissioner
Alaska Department of Fish & Game (ADF&G)
Juneau, Alaska
POSITION STATEMENT: Answered questions during the hearing of HB 260.

THATCHER BROUWER, Staff
Representative Geran Tarr
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: On behalf of Representative Tarr, provided information related to Amendment 2 during the hearing of HB 260.

BERNARD CHASTAIN, Major, Deputy Director
Headquarters
Division of Alaska Wildlife Troopers
Department of Public Safety (DPS)
Anchorage, Alaska
POSITION STATEMENT: Answered questions during the hearing of HB 260.

REPRESENTATIVE PAUL SEATON
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Introduced HB 397, as co-chair of the House Finance Committee (FIN), sponsor.

ARNOLD LIEBELT, Staff
Representative Paul Seaton
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Provided a sectional analysis of HB 397 on behalf of Representative Seaton, co-chair of the House Finance Committee (FIN), sponsor.

MARK FINLEY, General Manager
Global Energy Markets and U.S. Economics
BP America
Washington, D.C.
POSITION STATEMENT: Provided a PowerPoint presentation entitled, "BP Energy Outlook 2018 Edition".

ACTION NARRATIVE

1:37:23 PM

CO-CHAIR ANDY JOSEPHSON called the House Resources Standing Committee meeting to order at 1:37 p.m. Representatives Josephson, Parish, Talerico, Rauscher, Drummond, and Lincoln were present at the call to order. Representatives Birch, Johnson, and Tarr arrived as the meeting was in progress.

HB 331-TAX CREDIT CERT. BOND CORP; ROYALTIES

1:37:59 PM

CO-CHAIR JOSEPHSON announced that the first order of business would be HOUSE BILL NO. 331, "An Act establishing the Alaska Tax Credit Certificate Bond Corporation; relating to purchases of tax credit certificates; relating to overriding royalty interest agreements; and providing for an effective date."

1:39:44 PM

THOMAS RYAN, Managing Director, Structured Finance Group, ING Capital, LLC, recapped ING business interests in Alaska. The company financed two large borrowers in Alaska and monetized their tax credits in 2014 and 2015; the outstanding loans as of 2016 have now been in default because of the delays in the monetization of the tax credits; and the transactions have been transferred to the credit restructuring department. He emphasized that ING has not foreclosed on the loans but stays committed to the original transactions that proved liquidity to the projects. He said that both projects are very close to being profitable: one is generating cash; the other is expected to generate cash next year. The company remains committed to the two projects; it has not foreclosed and taken the tax credits, even though it would be entitled to do under the terms of the transaction.

MR. RYAN relayed that ING personnel recognize that circumstances have changed; the fall in oil prices had a significant effect on Alaska; and ING has been committed to remaining patient. He offered that the company's request in the last two years has been for some certainty and for restructuring of the debt. He claimed that certainty in knowing how much the company will be paid and when to expect the payment would allow for it to restart the lending process. The company is very committed to the state. The four largest sectors to which it lends are: natural resources - metals and mining, infrastructure projects; agriculture and fisheries; and telecommunications. He maintained that HB 331 would create the certainty concerning the future of the tax credit program that ING welcomes.

1:42:12 PM

PETER CLINTON, Managing Director, Credit Restructuring, ING Capital, LLC, relayed that when the loans were made, they were given serious underwriting considerations, and ING understood [state] appropriation of the funds was one of the risks of the transactions. He maintained that at the time ING made the loan and at the time the state developed the programs, no one could have foreseen that the price of oil would fall so far so rapidly as it did, leaving numerous parts of the energy sector throughout the U.S. in great distress. He stated that ING invested about $2.5 billion in the exploration and production (E&P) sector in Houston; that sector has seen 60-70 bankruptcies of energy sector companies since the start of the energy crisis.

MR. CLINTON maintained that the difference between Houston and Alaska is that in Houston, there was a predictable process for how the effects [of the energy crisis] would play out, which allowed for significant capital to be available as the energy prices rebounded. The capital was available for investments and acquisitions, both on the debt and equity sides. He maintained that ING, which had 12 clients file for bankruptcy, still lends to every one of those clients and still looks for new business in that segment.

MR. CLINTON reiterated that those at ING understand that not everything included in a contract plays out as intended, and credit restructuring may be warranted. He reiterated that in resolving situations such as described, ING looks for predictability in future cash flows and participation in the solution by all constituents affected by the situation. He said that in the current situation, the entities impacted are the state, the small E&P companies relying on the tax credits for further investments, and ING, looking for repayment of loans. He conceded that it is the nature of the business at ING that not every penny that is lent out is repaid.

MR. CLINTON maintained that as ING personnel value predictability, the proposed legislation would allow ING a discounted payout in exchange for that predictability; it represents a classic restructuring and it makes sense. He offered that the alternative - paying out "to the formula" - is not a viable option because it lacks dependability. It would be subject to the political ramifications of state appropriations. He opined that investors of the future will look for that kind of predictability as well. He offered ING's support for the proposed legislation and maintained that it is a good proposal and should be given serious consideration.

1:47:00 PM

REPRESENTATIVE BIRCH related that he was initially skeptical of the proposed legislation; however, after considering it in the context of the rate of return and the borrowing rate of the Alaska Permanent Fund, he maintained that he now considers the proposal reasonable. He stated his belief that the Alaska State Legislature has a duty and responsibility to settle its debts. He opined that HB 331 offers a reasonable solution, provides predictability, and gives closure to small operators who were invited to Alaska to work but now find themselves in financial constraints. He offered his support for HB 331.

1:48:30 PM

REPRESENTATIVE PARISH requested to know the value of ING's assets and debts.

1:48:42 PM

MR. RYAN responded that ING's total outstanding debts are about $100 million, and it has $140 million in credits. He added that if ING were to foreclose and sell its credits to a secondary market, it would probably recoup its money, but there would be nothing left for the projects. He maintained that as of now, there is still value for the projects. The proposed legislation would allow ING to recoup most of its money and leave significant value for the projects themselves, which is desperately needed to comply with the contracts.

1:49:30 PM

MR. CLINTON added that in addition to providing liquidity directly, the proposal would "clean up" companies' balance sheets in an audit opinion, allowing them go back out to the capital markets. The capital markets are currently not welcoming the companies due to the defaulted loans.

1:49:54 PM

REPRESENTATIVE PARISH asked for clarification that $140 million in outstanding credits could cancel out the $100 million in outstanding debt, if ING resold them.

MR. RYAN answered that the amount represents an aggregation so cannot be described quite that way. He added that if ING sold all the credits, the entire proceeds would pay off the loan, more or less, and there would be nothing left. He stated that since ING personnel have not been actively canvasing the secondary market, it is difficult to say for sure.

1:50:51 PM

REPRESENTATIVE PARISH asked whether at the time ING made the loans, ING and the lawyers of the borrowers of the loans contemplated the pertinent statute.

MR. RYAN responded yes.

REPRESENTATIVE PARISH asked whether it was reasonable to assume than no party entered into the agreements with ignorance or illusions regarding the responsibilities of the state.

MR. RYAN answered, that's right.

1:51:41 PM

CO-CHAIR JOSEPHSON asked Mr. Clinton if he is at liberty to reveal the penalties that the independents are incurring, assuming the loans are in forbearance.

MR. CLINTON responded that the penalties are standard. He clarified that the agreements are not in forbearance; initially they were for the short term, but those have expired. He explained that both loans are in default, can be called at any time, and there is no existing agreement with either of the borrowers. He offered that there is excellent communication between ING and the borrowers; ING has communicated to the borrowers its desire to "see this through" in a cooperative manner and in a manner that will return some of the liquidity to them. He added that the only penalty that the borrowers are incurring today is the default interest rate - usually 2 percent higher than would be charged on the loan - which is typical of any transaction.

MR. CLINTON related that there are other remedies available to ING, such as foreclosing on the certificates, which is an option at any time. He explained that ING has not done that for several reasons; first and foremost, ING has faith that the situation will be and should be remedied by the legislature. He stated that the spirit of the original agreement was that ING was to be paid by the State of Alaska; to the extent that there were excess tax credits, ING would return the money to the investors. One of the investors currently is depending on these funds for further investment; the money is not available to the investor. Because of the uncertainty, the investor is unable to access the additional equity and risks losing upwards of $350 million of equity that has been invested in the project. He added that the project will continue with another investor; however, that investor will not offer the money without penalties to the existing investors.

MR. CLINTON reiterated that ING has not pursued the rights and remedies available to it; if there was a very active secondary market, it is possible ING might have pursued that option. He said that ING prefers a solution that would allow it to continue relationships with its clients. He maintained that just because a company has financial issues, that doesn't mean it will forever have financial issues. If one has faith in management teams and faith in the projects, there is nothing wrong with reexamining the opportunity to work with the company again.

1:55:36 PM

CO-CHAIR JOSEPHSON offered that the 2 percent on some of the accounts may date back to the summer of 2015.

MR. RYAN agreed that ING incorporated some extension periods to cover eventualities such as appropriation delay; therefore, the percent does not date back quite that far. He said that to be clear, the real value for the risk for the projects is that there are some credits that were not lent against and were reserved by ING as extra collateral; ING would like to either lend against [the credits] or release them back to the company. He offered that the beauty of HB 331 is that there would be some cash against those credits as well, which would be released directly back to the company.

1:56:23 PM

REPRESENTATIVE PARISH asked for clarification: ING has lent against $140 million in cashable tax credits, upon which approximately $100 million has been loaned; ING has another set of tax credit against which it has not needed to borrow.

MR. RYAN responded that the $140 million has two components: the portion that ING lent against, which amounts to about 85 percent; and the portion that came after the appropriation issues began, at which time ING stopped advancing against the funds.

REPRESENTATIVE PARISH commented, "That covers your risk."

MR. RYAN concurred.

MR. CLINTON added that as more time passes without any principle reduction, the interest accrual "eats into it."

1:57:35 PM

REPRESENTATIVE PARISH asked if given $100 million, ING would be able to eliminate the companies' debts.

MR. RYAN answered that if the loan were paid off in exchange for all the credits, ING would be satisfied; however, ING has a philosophical obligation to the borrowers. He offered that ING has worked hard with the borrowers to keep them solvent, and it would not want to see their $40 million gone.

1:58:27 PM

REPRESENTATIVE BIRCH stated that the [tax credit] program began in 2011; it was not unreasonable to expect a full payment of the tax credits. He mentioned that the payment occurred every year for several years; the governor vetoed two successive years [of payment] due to financial shortfalls. He said that it was reasonable to expect predictability; the tax credits were fully paid as obligated over five to six years.

MR. CLINTON responded that ING appreciated the credit and came into the agreement with "eyes wide open." The personnel at ING expected the credits to be paid off as they had been historically and as had been promoted.

1:59:41 PM

SHELDON FISHER, Commissioner Designee, Department of Revenue (DOR), continued the PowerPoint presentation entitled, "State of Alaska Department of Revenue HB331: Oil & Gas Tax Credit Bond Proposal" dated 3/30/18, which was begun during the hearing of HB 331 on 3/30/18. He returned attention to slide 9, entitled "Oil & Gas Tax Credit Background: The Challenge." He stated that the revised estimated statutory payment for the spring forecast was elevated slightly in fiscal year 2019 (FY 19); the levels in the following years were lower and more consistent.

COMMISSIONER FISHER turned to slide 10, entitled "Proposed Solution: Issue Bonds and use proceeds to pay off Tax Credits." He related the example on the slide, involving the assumption that the credit holder has $100 million in credits payable equally over four years, or $25 million per year. He discussed that the program would have two discount rates - 10 percent and 5.1 percent. He directed attention to the charts on the right of the slide. Under the 10 percent discount rate, year one shows no discount; there is a 10 percent annual discount for future years; and the buyout offer is $87.17 million. The 5 percent scenario shows similar logic with a buyout offer of $92.95 million. He explained that someone would agree to accept $87 million for $100 million of debt because money has a time value associated with it. The belief is that even at the 10 per cent discount rate, the cost is lower compared with the weighted average cost of capital (WACC); that is, the rate is lower than the rate at which the credit holder could secure money from other sources.

COMMISSIONER FISHER further explained the difference between the two rates. All credit holders would be eligible to utilize the 10 percent rate. To achieve the 5 percent rate, the credit holder would be required to make one of four commitments. The first is agreeing to give the state an additional overriding royalty interest, and the value of the royalty interest over time would be structured to be equal to the difference between the two discounts. In the example shown on slide 10, that difference would be approximately $6 million; therefore, the overriding royalty interest would have a present value of $6 million. The second option is committing to reinvest the money in Alaska. The third is agreeing to waive confidentially associated with seismic data as it relates to the credit. The fourth involves certain refinery or gas storage credits, which would allow the credit holder to qualify automatically for the lower rate.

COMMISSIONER FISHER mentioned that the 5.1 percent is based on a formula that is the true cost of interest, and in the current example, that would be about 3.6 percent, or what DOR believed to be the market rate for the debt at the time it goes to market. It may turn out to be slightly higher or lower, but this is the percentage chosen as a conservative estimate. An additional 1.5 percent was added by DOR as a cushion, resulting in 5.1 percent, which DOR represents as the state's borrowing cost. He added that even under the state's borrowing cost in the scenario demonstrated on the slide, the discount will pay for the cost of interest. The 10 percent rate was chosen by DOR arbitrarily; it was intended to be roughly the midpoint between the state's borrowing cost of 5 percent and what DOR perceives to be the market rate for the companies, which is a weighted average cost of capital in the high- to mid-teens.

COMMISSIONER FISHER related that the important concept from the state's perspective is that the state had a commitment to the credit holders to pay them over time; under the proposed legislation, the credit holders would accept a reduced payment so that the state can commit to pay a bond holder over time. Under either the 5 percent or the 10 percent discount rate, the state is modestly better off. He maintained that the state's goal is not to try to make money on this program but to create a structure in which the state is neutral in the different scenarios.

2:05:54 PM

CO-CHAIR JOSEPHSON referred to the second bullet under the 10 percent rate on slide 10 - committing to reinvest the money in Alaska. He offered that if the money is owed to ING, meeting that condition would be difficult. He suggested that doing so would depend on what was borrowed and how it was borrowed during the exploration phase; it would be an individual exercise.

COMMISIONER FISHER conceded that much of the money likely would be used to pay the debts; however, doing so would allow the companies to "clean up" their balance sheets. The elimination of outstanding debt would enable them to receive clean audits. Consequently, they could access other sources of capital that they would reinvest. It would not necessarily be the exact same money coming back into the Alaska economy, but it would allow the companies to attract money. He said that the way HB 331 is structured, to qualify for that condition, the company would have to present a plan satisfactory to DOR that evidences the ability to reinvest the money over a three-year period.

2:07:32 PM

REPRESENTATIVE PARISH referred to the commitments needed to qualify for the lower rate and mentioned that the discount rate would represent approximately a 7 percent reduction in the asking price relative to the total base value of the credits. He asked if the commitment to reinvesting in Alaska must be an amount equivalent to the overall amount purchased.

COMMISIONER FISHER answered, "That is correct."

2:08:22 PM

REPRESENTATIVE PARISH referred to the commitment regarding the early waiver of confidential seismic data and asked whether a company having one small shoot of low monetary value that is about to expire could use it against any amount of credits to reduce the rate.

2:08:47 PM

KEN ALPER, Director, Tax Division, Department of Revenue (DOR), explained that seismic data goes to the Department of Natural Resources (DNR) and becomes public after a ten-year period. Currently DNR is going through the process of releasing seismic data that it received nine and ten years ago. The credits that are unpaid are all based on work that was done for the most part in 2015 and 2016; there is nothing "ripe" for publication. The companies would be authentically giving up nine- or ten-years' worth of confidentiality in exchange for an incremental $6 million.

MR. ALPER mentioned that Representative Parish raised another question not addressed by HB 331: What happens when a company has some seismic credits and some non-seismic credits for drilling an exploration well? He said that according to DOR's interpretation, DOR would only allow the company to buy down the discount rate for the seismic credits by giving up the seismic data. Another commitment would have to be made for a lower rate on the drilling credits, such as the reinvestment commitment.

2:10:26 PM

REPRESENTATIVE PARISH asked whether that interpretation is included explicitly in the proposed legislation.

MR. ALPER responded that it is a detail that would need to be put into regulation; it is DOR's interpretation, and DOR would support including information to clarify that point.

2:10:48 PM

REPRESENTATIVE PARISH asked for an explanation of the fourth condition for a lower rate, as shown on the slide as "Have Refinery or Gas Storage Credits".

MR. ALPER replied that most of the credits have been sunset through legislation passed [in 2017 during the Thirtieth Alaska State Legislature]. Several smaller programs had pre-existing sunsets - in 2020 and 2021 - which represent credits not under the oil and gas statutes but under the corporate income tax statutes. The gas storage credit is a one-off; it has never been used but was put into statute for the benefit of the Interior Gas Utility (IGU). Once the main storage tank is built in Fairbanks and if is completed before the deadline, there will be a tax credit due from the state to contribute to the cost.

MR. ALPER mentioned that the impacted entities have nothing to offer: they have no royalties to give; the projects are finite; the credits are capped; and the dollar amount is fixed so that there is a limit on what they earn. The work that has been done to earn the refinery credits has already been put to economic use by the State of Alaska. He gave as an example Petro Star Inc., which built an asphalt plant as an addition to its refinery in North Pole. Asphalt is now manufactured in Alaska, and the Department of Transportation & Public Facilities (DOT&PF) and other large consumers of asphalt now can obtain cheaper asphalt than that from the Lower 48. He offered that the state decided to default these entities into the lower discount rate because of the benefits they offer.

2:13:07 PM

REPRESENTATIVE PARISH asked whether the credits are transferable.

MR. ALPER expressed his belief that the credits could be sold to a tax payer; however, he conceded that he was not sure if this was true of refinery credits.

2:13:31 PM

REPRESENTATIVE PARISH also asked if there is a threshold for how many credits could be bought and used for a discount.

MR. ALPER agreed to research Representative Parish's two questions. He added that in drafting the proposed legislation, DOR contemplated many scenarios for "gaming" the system. He gave as an example: when a company offers their credits into the program, it must offer all of them; there is no ability to pick and choose which credits it will offer. The concern was that companies would hold out for a better buyout. He reiterated that DOR does not want to create the opportunity to game the system. He offered that DOR supports creating a "bullet-proof" system to protect the state's interest.

2:14:59 PM

COMMISIONER FISHER referred to slide 11, a continuation of the proposed solution, and explained the process as follows. The first step would be to provide the credit holders with a definitive statement of the proceeds that will be available under the program and secure irrevocable commitments from them to participate. He mentioned that this contact would occur a couple weeks before the actual issuance of the bond. Staff at DOR have already reached out to the credit holders twice - with an estimate based on the fall forecast and updated estimate based on the spring forecast; DOR has been in communication with them regarding their interest and view of the program.

COMMISIONER FISHER relayed that if and when HB 331 passes and once DOR receives the irrevocable commitment, it will determine if a credit holder qualifies for the 10 percent discount or the 5 percent discount. He said that DOR will then go to market and issue the bonds. He added that the reason for the irrevocable commitment is that DOR does not want to borrow more money than necessary in order to pay off the debt.

COMMISIONER FISHER referred to "Step 2: Issue Bonds" on slide 11 and reported that there is just over $800 million in outstanding credits presently. For the purpose of the current analysis, DOR assumed that no credits would be sold to the major producers to offset taxes. He added that there is a possibility that some credits may be sold to producers between now and when this program is launched.

COMMISIONER FISHER stated that the resulting bond issuance would be between $683 million and $738 million; DOR could be in the market place as soon as August, if the proposed legislation passes in May.

COMMISIONER FISHER related that DOR anticipates future issuances for certificates issued between August 2019 and August 2021; the additional issuances are expected to be between $130 million and $180 million in the aggregate.

COMMISIONER FISHER referred to "Step 3" on slide 12, also a continuation of the proposed solution. He relayed that the next step would be to purchase the tax credits. He referred to "Option 1" under Step 3 and said that the standard rate, for which all credit holders would qualify, would be 10 percent. He offered that this rate represents a balance between both the state's and the credit holders' interests; it would cover the cost of capital as well as the state's financing cost and offer a modest benefit to the state. Under "Option 2," the credit holders would qualify for a lower interest rate of just over 5 percent; that percentage is based on today's market of 3.62 percent true interest rate cost plus 1.5 percent. He added that as the time of issuance approaches, the percentage rate may vary and DOR would notify the credit holders based on the market conditions at the time. He restated the four scenarios qualifying a credit holder for the 5.12 percent rate, as listed under Option 2 on slide 12.

2:19:07 PM

COMMISSIONER FISHER referred to slide 13, also a continuation of the proposed solution. He relayed that the state would issue bonds, and the bonds would have a ten-year term for the first issuance. He stated that the bonds would have a back-loaded debt service, meaning that in the first two years DOR anticipates interest only, years three to five increasing debt service, and years six through ten a flat payment to fully pay off the debt. He mentioned that future bond issuances would consist of interest only in years one through nine and a balloon payment in year ten. It is expected that the discount would cover the cost of debt service.

2:19:52 PM

REPRESENTATIVE BIRCH asked what protections the bond holders would have for being reimbursed by the state.

COMMISIONER FISHER replied that the bonds would be subject to appropriation; each legislature would have the opportunity to appropriate the money to repay the debt. He opined that there is a general appreciation for the state's obligation to incurring and repaying debt. He maintained there is a moral obligation and a strong presumption for the state's repayment of the debt. He added that the interest rate is a little higher than one with a general obligation (GO) bond; it reflects a modest amount of appropriation risk for these debts.

2:21:47 PM

REPRESENTATIVE PARISH asked what the bond holder's recourse would be if future legislatures failed to appropriate the money.

COMMISIONER FISHER deferred the question to his DOR colleague.

2:22:20 PM

DEVEN MITCHELL, Debt Manager, Treasury Division, Department of Revenue (DOR), responded that there would be no ability for the lenders to extract funds from the State of Alaska. He added that this situation would be different than other subject-to-appropriation commitments. He mentioned that the lease for the controversial [Anchorage Legislative Information (LIO)] building was subject to appropriation; however, that lease was not authorized by law. The bond commitment would be authorized by stand-alone law; therefore, would represent a different level of commitment by the legislature. He said that the municipal bond market is recognized as a form of commitment that has the state's good word behind it; a failure to pay would result in a downgrading of the state's GO bond credit rating; and the state's ability to access the capital market would be restricted.

2:23:47 PM

REPRESENTATIVE PARISH asked for the current bond rating and the expected decline of that rating should the legislature decline to repay the debt.

MR. MITCHELL replied that the state has had subject-to-appropriation commitments for many years, and there have been many tough times; however, there have always been appropriations. He maintained that the expectation is that there will be payment on these bonds. He emphasized that the bonds will not be issued if there isn't an expectation of payment. He said that the state's current credit rating is "double a, double a, double a three" from Standard and Poor's Financial Services LLC (S&P) and Moody's Investor Service (Moody's) respectively. If there is a failure of repayment, one might expect a significant downgrade of the three ratings to a low A category. He stated that, more importantly, the state would be locked out of the capital markets. He said that examples of that are Puerto Rico and Detroit.

2:25:23 PM

REPRESENTATIVE PARISH asked what the security was behind the [Anchorage LIO] building and whether the security consisted of the state's "good name" only.

MR. MITCHELL replied that the legislature entered an operating lease agreement regarding that building. He stated that to acquire real property, the statutes require stand-alone legislation that identifies the anticipated expenditure to acquire the real property, the estimated annual payment, and the total payment for the acquisition. With that stand-alone legislation, comes the authorization to pledge the state's credit. In this case, the loan would include information about the state's balance sheet, the state's forecast, and such; the lease would be one into which the State of Alaska would enter on a more regular basis on an operating level, and it wouldn't carry the same credit commitment [as for the bonds.] He added that there are several reasons why the lease failed, but that is the reason from DOR's perspective.

2:26:48 PM

REPRESENTATIVE PARISH asked what recourse the creditors had when the lease failed.

MR. MITCHELL offered his belief that the creditors sued the state. He added that he did not know the outcome. He said that he recently read an article in the Anchorage Daily News (ADN) about a bank in Florida now owning the building and Alaska no longer having an interest in the building.

MR. MITCHELL offered that there are layers of commitments that the state can make, and the credit commitment, as is being discussed in the present hearing, is very different from the example of the building in Anchorage or default due to non-renewal of a lease.

2:28:21 PM

REPRESENTATIVE PARISH asked whether the state has made such a credit commitment in the past.

MR. MITCHELL replied yes. He said that the state has made many credit commitments on a subject-to-appropriation basis through law. He added that most recently in 2015, the Alaska Native Tribal Health Consortium's (ANTHC's) residential housing facility in Anchorage was funded through a certificate of participation via a stand-alone law.

2:28:49 PM

CO-CHAIR JOSEPHSON referred to the letter to Senator Cathy Giessel from Mr. Mitchell and Assistant Attorney General Bill Milks, dated 3/2/18 and included in the committee packet. He asked for DOR's position on the appropriateness of the proposed legislation considering Article 9, Section 8 and Section 11, of the Alaska State Constitution.

MR. MITCHELL restated that the question for discussion is the constitutionality of the use of certificate of participation of lease revenue bonds or subject-to-appropriation commitments. He referred to the case, Carr-Gottstein Properties v. State [1991], which was critical for determining that it is legal to allow such obligations. He stated that the Alaska State Constitution prohibits dedication of state revenues except where required by federal law, where dedication was established prior to statehood or through the creation of statehood, or for general obligation funds. He relayed that it was determined that the subject-to-appropriation clause and the requirement that the legislature annually consider and make an appropriation for the payment of the obligations excluded it from the limitations of the constitution and allowed the financial structures to be deemed legal. He suggested that the Department of Law (DOL) can provide more detail.

2:31:55 PM

COMMISIONER FISHER referred to slide 14, entitled "Benefits of Program" and relayed that the chart on the slide demonstrates in numerical formula the repayment [schedule] under the different scenarios. He directed attention to the second column, which lists the statutory payments over time. He referred to the columns entitled Cohorts 1,2,3, and 4 and relayed that they represent the various years of financing. Cohort 1 consists of the $807 million mentioned on slide 11; the chart shows two years of interest only at about $27 million per year; three years of increasing interest and principle amortization; and five years at about $123 million per year. He continued by saying that the subsequent cohorts - 2,3, and 4 - represent interest only payments for each of the first nine years followed by a bullet payment at the end to cover the outstanding amount.

COMMISIONER FISHER noted a couple of interesting features of the program. The cost would be relegated to future years, which was done by design and not to avoid addressing the [payment] issue in the present. He stated two reasons for doing it thus: the forecast is that revenues will grow over time, and the outstanding deficit to the state will decline; and, more importantly, the opportunities that the credit holders are pursuing will not produce revenue until some point in the future, therefore, moving the payment into the future puts the payment and the benefit more in alignment with the period in which the payments will be paid and the benefits of royalties and tax revenues are realized by the state.

COMMISIONER FISHER relayed that the chart shows that in the first five years, the aggregate payment is always less than what the statutory payment would have been, which provides some budgeting flexibility to the state for the next couple of years as it continues to work on its fiscal plan. He called attention to the bottom row of the chart, entitled "NPV5," to point out that the entire scheme assumes that everyone qualifies for the 5 percent discount rate; if the discount rate is 10 percent, then the amounts will be slightly less for the state. The net present value (NPV) basis attempts to capture the notion that a dollar five years from now is worth less today because of the potential interest earned; in other words, money has a time value.

COMMISIONER FISHER relayed that NPV tries to put all the money streams into a current dollar value so that a comparison can be made between the different streams. He said that the statutory payment formula has an NPV of just under $810 million, as shown at the bottom of the first column, whereas the payment stream contemplated and shown at the bottom of the last column, entitled "Aggregate Payment," shows an NPV of just over $780 million. He mentioned that the difference between the two is about $27 million in the state's favor.

COMMISIONER FISHER related that the intent was not for this amount to be a big gain to the state but to balance several competing interests and be fair to everyone. He insisted that DOR wants to assure the legislature, as well as all Alaskans, that the discount rate that the credit holders accept would compensate the state and Alaskans for the structure and the interest that the state incurs.

2:36:48 PM

REPRESENTATIVE PARISH asked for clarification as to the discount rate used in the chart.

MR. ALPER responded that the assumption behind the table is that all the credits are sold at the lower discount rate; hence, the larger amount of bonding, the larger payout to the taxpayer, and more payments over time. If several credit holders accepted the 10 percent discount rate and didn't offer one of the four additional benefits to the state [under Option 2], the amounts would be smaller and, therefore, the state's incremental gain would be slightly more.

REPRESENTATIVE PARISH asked for the amount that next year's dollar is worth compared to this year's dollar.

MR. ALPER responded that the assumption is that a dollar gains 5 percent per year or roughly the equivalent of the state's cost of capital. He added that if the state had $809.75 million and set it aside in a 5 percent interest earning account, the state could pay that $946 million worth of statutory appropriations over time; likewise, the state could make the bond payments by setting aside $783 million using the same 5 percent investment pool.

2:38:06 PM

COMMISIONER FISHER referred to slide 15, entitled "Impact on debt capacity and credit rating." He said that the obligations are already listed as debt on the state's Comprehensive Annual Financial Report (CAFR) - the state's balance sheet; therefore, because one form of obligation would be converted into a different form of obligation, there would be limited impact on the state's credit rating. He turned to the numbers on slide 16, also entitled "Impact on debt capacity and credit rating," to demonstrate the impact of the state's existing debt. He mentioned that the 3.8 percent for FY18 listed under the third column - "State G.O. Debt Service" - represents the percent of the state's unrestricted general funds that are GO bond debt service. Also listed on the chart are other state supported debts, school reimbursement, and the Public Employees' Retirement System (PERS)/Teacher Retirement System (TRS) obligations, which [for FY18] add up to 17.5 percent, shown under the seventh column, entitled "Subtotal: Current Obligations without Tax Credits." Looking down that column, the percentages grow to just under 25 percent before dropping back down to about 20 percent.

COMMISIONER FISHER drew attention to the eighth column, entitled "Statutory Payment of Tax Credits," and explained that these percentages represent what the tax credits would be under the state's current obligations. He pointed out they are substantial in the next few years. In FY19 the tax credits would consume just over 8 percent of the unrestricted general funds (UGF), bringing the total payment obligations up to 31 percent. He stated that under the proposed solution, the tax credit debt service payment, shown in the second to the last column, starts low at just over 1 percent of UGF, and grows to over 4 percent and levels off. He referred to the far-right column, entitled "Total: Current Obligations with Credit Bond Payments," to point out the more even distribution over time of the debt service as a percent of the UGF. He stated his belief that this plan represents a prudent method of restructuring the obligation: it would level the amount over time; it would provide some opportunity for the legislature to level out the obligation and address priorities that are currently pressing at this time; and it would be viewed favorably by the credit agencies.

2:42:17 PM

REPRESENTATIVE PARISH asked for alternate calculations for slides 14 and 16 based on the actual rate of payment, not just the hypothetical rate of payment.

COMMISIONER FISHER asked for clarification of what is meant by "alternative calculations."

REPRESENTATIVE PARISH responded that he is looking for the tax credit rate payable according to the co-chair of the House Finance Committee (FIN) and the Legislative Finance Division.

COMMISIONER FISHER, responded that slide 14 represents the administration's interpretation of statute; Legislative Legal and Research Services has indicated that the statutory interpretation is ambiguous. He emphasized that the statutory interpretation is not something that came about as an attempt to justify the program: it has been the interpretation for several years; it has been published in the state's revenue sources book for several years; and it has been debated on the floor by the members of both houses and treated as the correct statutory interpretation. He relayed that he believes the interpretation to be correct and does not believe it should be reinterpreted. He stated that he is concerned that consistency be maintained.

2:45:20 PM

MR. ALPER relayed that the statutory appropriation language discusses the [AS 43.55.011] calculation; the actual tax itself is based on 35 percent of production tax value of net profits, which is the percentage currently in law. He said that as prices have increased, the use of the per barrel credit to offset them has grown, as seen in the last several forecasts. He stated, "The alternate appropriation that the [FIN] co-chair was using would have subtracted the per barrel credit from that number to get to the ... actual tax received - the net received - and take a percentage of it." He added that even if that was the legal determination, which DOR personnel do not believe it is - it is the position of DOR that it is not in the state's best interest. He said that delaying the payments for 15-20 years would have "seismic" ramifications inside the oil industry. He opined that the level of uncertainty - knowing that they would not get paid for over a decade - would drive companies that are currently "on the edge" over the edge into bankruptcy, which would not be in the state's interest. The companies would then lose their leases and the leases would find their way back to the major producers. He maintained that the intent of the program was to diversify the North Slope and bring new players into Alaska, and having the leases revert to the major producers would upend a decade of work by the state.

MR. ALPER, in response to Representative Parish, said that DOR could do the calculation as requested but stressed that doing so would change "both sides of the equation." He referred to slide 14 and offered the hypothetical of smaller payments over a longer period. He said that the proposed legislation has a mechanism to calculate the payout based on the statutory interpretation of a higher payout; in other words, when the company expects to receive $25 million per year over four years, that includes the assumption that the larger formula is being used. If the alternate formula were used, that same company would get $10 million per year over 10 years. Without the deep compounding rate, a company, instead of getting $87 or $93 million, might be getting $40 or $30 million from the state, therefore, would probably not participate in the program, which would cause the program to fail. Secondly, the state would be borrowing a smaller amount of money. The payment amounts on the last column on slide 14 would be smaller because the state would have borrowed less money; therefore, there would be a difference in the NPV5 amount in the state's favor, but the amounts on both the Statutory Payment Schedule column and the Aggregate Payment column would be dramatically smaller.

2:48:53 PM

COMMISIONER FISHER turned to slide 17, entitled "Conclusion: Oil & Tax Credit Solution," and said that the intent of the program was to try to balance several competing interests. He offered that firstly, the goal was to provide an economic stimulus to the state's oil industry, which has been the hardest hit sector with more than 30 percent reduction in employment. He pointed out that not just the oil industry has suffered, and as the oil industry improves, it will have a multiplier effect on other dimensions within the state economy. He maintained that within the framework of providing a stimulus, DOR wanted to take an action that would benefit the state in the short term by reducing the current fiscal year's budget; it would offer a discount rate to the credit holders, which would be budget neutral in the long term. He continued by saying that secondly, the proposal would support the small producers, allow them to clean up their balance sheets, attract capital from other sources, invest again, and employ Alaskans. These are the companies that the state attracted by offering credits in order to diversify and increase competition in the oil industry. He stated that lastly, the proposal represents a strong statement from the State of Alaska that it intends to be an oil and gas exploration and production partner. The state is offering a solution that is mature and sophisticated - one that balances all the interests and in which all parties share in "the pain."

2:51:21 PM

CO-CHAIR JOSEPHSON opened public testimony on HB 331.

2:51:58 PM

REPRESENTATIVE RAUSCHER asked that the "reputational issues" mentioned on slide 17 be addressed.

COMMISIONER FISHER referred to the box on the right of slide 3 to point out that the state had marketed the tax credit program. He maintained that it is appropriate to recognize that the state had a statutory framework, but also to recognize that the state made statements that were intended to attract companies to Alaska. He added that as the state has deviated from some of the expectations, even though not legal commitments, the state's reputation does suffer somewhat. He emphasized that he is not suggesting that the state disadvantages itself to protect its reputation. The proposed legislation offers a solution that balances the cost burden. He conjectured that the state bears the least cost in the scenario, because the state's cost is covered by the discount that the credit holders are accepting. He maintained that the state's credibility would be enhanced by the proposed program.

2:54:10 PM

REPRESENTATIVE BIRCH expressed his appreciation for DOR's efforts.

2:54:23 PM

REPRESENTATIVE PARISH suggested that a direct payoff to the lender is more favorable to the state.

COMMISIONER FISHER responded that the goal of the proposed program is not to maximize the value to the state, but to eliminate companies' debts in a manner fair to the state and fair to the credit holders. He mentioned that the testimony from ING indicated that a payoff such as Representative Parish suggests might preserve ING's financial standing; however, ING wants to see the companies succeed and wants to continue its lending relationships with the companies. He conceded that a program could have been designed that would have resulted in a larger discount to the state; however, he does not believe that a program with, for example, a 30 percent discount would have cleared all the debts. Many credit holders have already indicated that even the 10 percent discount is too high. He also expressed his belief that a 30 percent discount would result in a longer recovery time for companies, delaying production and employment. He reiterated that the intent was not to maximize the value to the state but to balance multiple objectives, as shown on slide 3.

2:57:27 PM

KARA MORIARTY, President/CEO, Alaska Oil and Gas Association (AOGA), paraphrased from the following written testimony [original punctuation provided]:

> Co-Chair Josephson, Co-Chair Tarr, members of the Committee, thank you for the opportunity to testify on House Bill 331. For the record, my name is Kara Moriarty and I am the President/CEO of the Alaska Oil & Gas Association, commonly referred to as "AOGA." AOGA is a private trade association that represents the majority of oil and gas producers, explorers, refiners, and transporters of Alaska's oil and gas. The following testimony reflects the opinion of our membership.

AOGA supports an expedited resolution this year to refund the earned credits. Companies earned these credits by investing hundreds of millions of dollars to hire Alaskans for the exploration and production of oil. The delay in the rebates has damaged the state's reputation and chilled future investment; caused projects to be shelved, resulting in negative economic impacts to the state and local communities; and many Alaskans are now out of work, especially within the oil and gas industry.

AOGA believes the state should honor all outstanding earned tax credits in full, and in as expedited process as possible. The Governor's bill is an innovative approach that seeks to refund a portion of the earned credits via bonding to raise the money, then refunding the credits at a reduced rate. The Governor proposes to lower the refunding rate to cover the state's bond finance costs. AOGA has concerns about the steep discount rates and other provisions of the bill. But AOGA is committed to working with the administration and legislature to finding an equitable solution - it's simply too important. AOGA does applaud the administration for acknowledging that refunding these payments is a critical step this year.

AOGA supports an equitable plan that will refund the entirety of the earned credits this year: Let's send a strong signal to investors that Alaska is open for business and attract much needed new investment to employ Alaskans, produce more oil, and drive Alaska's economy forward. Thank you.

3:00:31 PM

BARBARA HUFF TUCKNESS, Director, Governmental and Legislative Affairs, Teamsters Local 959, testified in support of HSB 331. She expressed her belief that the proposed legislation is an innovative solution providing certainty for those operators who are looking to attract new investment and to the state in the current uncertain financial times. She stated that the state would pay less under the tax credit bond proposal, putting less strain on the state's current fiscal crisis and providing "face-saving" in respect to the promises that were made in the past. Her organization believes that the proposed legislation represents an important message: that Alaska is true to its word even in tough times. She concluded by saying that HB 331 would not place an undue burden on the state's fiscal budget, would support small producers, would encourage investment in Alaska, and would provide an opportunity for new jobs in the state. She opined that HB 331 is a win for the members she represents, all Alaskans, the state, and the operators.

CO-CHAIR JOSEPHSON relayed some housekeeping information.

3:04:08 PM

JOE MATHIS testified in support of HB 331. He stated that he worked in the resource development industry and is the owner of a small business in the Matanuska-Susitna (MAT_SU) Valley. He offered two reasons for supporting HB 331: integrity and commitment. He said that integrity is defined as adherence to a moral and ethical principle and soundness of moral character. He stated that commitment follows integrity. He maintained that in his personal experience, one's integrity and one's word, or commitment, is paramount. He opined that the state has lost the respect of the financial and business community and needs to regain faith in its integrity and its commitments. The legislature has a great opportunity to repair the damage done to its integrity. He said that Alaska is about to embark on a major trade mission with a potential partner and overseas investor. He emphasized that potential partners and investors will look for integrity. He maintained that in the national and worldwide financial communities, Alaska ranks dead last as a place to do business. He stated that he worked 28 years for a company whose core values were: honesty and integrity governing its activity, commitments fulfilled, and people treated with dignity and respect. He maintained that these core values are applicable to government as well. He conceded that the proposed legislation does not completely fulfill its original commitment, but it does signal that the state wants to restore and repair its integrity and its commitment.

3:07:39 PM

CO-CHAIR JOSEPHSON, after ascertaining no one else wished to testify, closed public testimony.

[HB 331 was held over.]

3:07:59 PM

CO-CHAIR JOSEPHSON recessed the meeting to 6:30 p.m.

6:34:45 PM

CO-CHAIR Tarr called the House Resources Standing Committee meeting back to order. Representatives Tarr, Birch, Talerico, Parish, and Josephson were present at the call back to order. Representatives Johnson, Rauscher, and Drummond arrived as the meeting was in progress.

HB 27-HIGH-RISK CHEMICALS FOR CHILD EXPOSURE

6:36:05 PM

CO-CHAIR TARR announced that the next order of business would be HOUSE BILL NO. 27, "An Act relating to chemicals that are of high concern for children and to the manufacture and sale of products containing certain flame retardant chemicals; relating to an interstate chemicals clearinghouse; adding an unlawful act to the Alaska Unfair Trade Practices and Consumer Protection Act; and providing for an effective date."

[Before the committee, adopted as a work draft on 3/9/18, was the committee substitute (CS) for HB 27, Version 30-LS0264\D, Bannister, 3/5/18, referred to as "Version D."]

CO-CHAIR TARR reminded the committee that the bill addresses flame retardants found in some home products that could cause health problems. The concern is for children and firefighters. She explained that Version D is scaled back from the original Version A. The amendment that she intends to propose removes the requirement for the Department of Environmental Conservation (DEC) to develop a list of chemicals of high concern and to review and revise that list periodically. This change would reduce staff time required, and thus, substantially lower the amount of the fiscal note. A prohibition for the chemicals that are of concern would remain in Version D.

6:38:38 PM

CO-CHAIR TARR moved to adopt Amendment 1, labeled 30-LS0264\D.1, Bannister, 3/21/18, which read:

Page 1, line 1:
Delete "**chemicals that are of high concern for children and to**"

Page 1, line 2, following "**of**":
Insert "**child-related**"

Page 1, line 11:

Delete "**Chemicals of High Concern for Childhood Exposure.**"

Insert "**Flame Inhibiting Chemicals in Child-Related Products.**"

Page 1, line 12, through page 2, line 24:

Delete all material.

Page 2, line 25:

Delete "**Sec. 18.31.640**"

Insert "**Sec. 18.31.610**"

Page 2, line 28, following "chemical":

Insert "contains

(1) 100 or more parts per million of a nonpolymeric organohalogen flame retardant; or

(2) antimony (chemical abstracts service number 7440-36-0)."

Page 2, line 29, through page 3, line 4:

Delete all material.

Page 3, line 8:

Delete "**Sec. 18.31.650**"

Insert "**Sec. 18.31.620**"

Page 3, line 12:

Delete "**Sec. 18.31.660**"

Delete "**Sec. 18.31.630**"

Page 3, lines 12 - 13:

Delete "AS 18.31.640 or 18.31.650"

Insert "AS 18.31.610 or 18.31.620"

Page 3, line 18:

Delete "AS 18.31.640 or 18.31.650"

Insert "AS 18.31.610 or 18.31.620"

Page 3, line 22:

Delete "**Sec. 18.31.670**"

Insert "**Sec. 18.31.640**"

Page 3, line 23:

Delete "department shall"

Insert "Department of Environmental Conservation may"
Following "to":
Insert "learn about flame inhibiting chemicals used in consumer products."

Page 3, line 24, through page 4, line 1:
Delete all material.

Page 4, line 2:
Delete "**Sec. 18.31.690**"
Insert "**Sec. 18.31.650**"
Delete "AS 18.31.610 - 18.31.690"
Insert "AS 18.31.610 - 18.31.650"

Page 4, line 5, following "bedding,":
Insert "mattresses,"

Page 4, line 7:
Delete ";"
Insert "."

Page 4, lines 8 - 19:
Delete all material.

Page 4, line 21:
Delete "AS 18.31.640 or 18.31.650"
Insert "AS 18.31.610 or 18.31.620"

Page 4, lines 23 - 28:
Delete all material.

Renumber the following bill sections accordingly.

Page 5, line 2:
Delete "AS 18.31.640, 18.31.650, and 18.31.660"
Insert "AS 18.31.610, 18.31.620, 18.31.630, and 18.31.650"

REPRESENTATIVE PARISH objected for the purpose of discussion.

6:38:52 PM

CO-CHAIR TARR explained that Version D consists of two parts: the first is a prohibition on the chemicals of concern; the second involves DEC developing a list of the chemicals and participating in the interstate clearing house. She referred to the deletions contained in Amendment 1 and mentioned that the prohibition on the chemicals of concern, the definitions, and the effective dates would remain in the proposed legislation.

6:40:28 PM

REPRESENTATIVE PARISH referred to page 1, lines 20-22, of Amendment 1, which read. "(1) 100 or more parts per million of a nonpolymeric organohalogen flame retardant; or (2) antimony (chemical abstracts service number 7440-36-0)." He asked if these chemicals were familiar to retailers.

CO-CHAIR TARR responded yes. She added that the proposed legislation would put the onus on manufacturers; they would be aware of the chemical additives. She explained that the removal of paragraph (1) on page 2, line 29, in Version D is due to the elimination of the requirement for a list; and the chemicals listed in Version D on page 2, lines 30 and 31, and page 3, line 1, under paragraphs (2), (3), and (4), are included on page 1, lines 20-21, of Amendment 1.

6:42:46 PM

REPRESENTATIVE PARISH asked if the advocates of the proposed legislation have expressed support for the amendment.

CO-CHAIR TARR replied yes. She said that there is support for the amendment because the prohibition on the use of the chemicals [of concern] would remain in the proposed legislation, and that is the part that advocates are most interested in moving forward. She relayed that removing the requirements for DEC to list, review, and revise the group of chemicals [of high concern] reflects the difficulty and expense for individual states to conduct long-term health research. She maintained that the participation of Alaska in the national effort via the interstate clearing house gives it the benefit of sharing information and best practices with other states without the significant cost of building capacity within DEC, which is difficult to justify at this time. Currently DEC is trying to maintain status quo and keep its core functions intact.

6:44:23 PM

REPRESENTATIVE PARISH removed his objection. There being no further objection, Amendment 1 was adopted.

6:44:34 PM

REPRESENTATIVE DRUMMOND objected for further discussion. She asked for confirmation that Amendment 1 would limit the entry of the chemicals into the state that are on child related products, however, would not address furniture containing flame retardants that result in firefighter deaths.

CO-CHAIR TARR disagreed. She said that the products referred to in the proposed legislation are the products containing fire retardant chemicals that cause exposure when released in a fire. She added that, for example, the upholstered furniture listed in the proposed legislation is not just upholstered furniture for a child, but upholstered furniture for anyone.

6:45:33 PM

REPRESENTATIVE DRUMMOND directed attention to the change in the title of Article 5 as seen on Amendment 1, page 1, lines 8-9.

CO-CHAIR TARR clarified that the removal of Section 18.31.640 precipitated the title change.

REPRESENTATIVE DRUMMOND asked for confirmation that the proposed legislation, as amended, would prohibit flame retardants in general from coming into the state on any furniture, carpeting, or other product.

CO-CHAIR TARR concurred and referred to the consumer product definitions on page 4, lines 4-7, of Version D.

REPRESENTATIVE DRUMMOND removed her objection.

6:46:15 PM

REPRESENTATIVE RAUSCHER objected for discussion purposes. He asked for clarification for why the title was removed.

CO-CHAIR TARR reiterated that because the accompanying sections - identification of chemicals, requirements for listing, the production and review of the list - were removed, the titled was changed.

REPRESENTATIVE RAUSCHER removed his objection. There being no further objection, Amendment 1 was adopted.

6:47:11 PM

REPRESENTATIVE TALERICO mentioned that of the two fiscal notes, the one that will accompany HB 27 in its amended version will be Office of Management & Budget (OMB) Component Number 2717.

CO-CHAIR TARR confirmed that the revised fiscal note has no expenditure.

6:48:21 PM

CO-CHAIR JOSEPHSON moved to report CSHB 27, Version 30-LS0264\D, Bannister, 3/21/18, as amended, out of committee with individual recommendations and the accompanying fiscal note 2717. There being no objection, CSHB 27(RES) was reported from the House Resources Standing Committee.

HB 399-CORP. TAX: REMOVE EXEMPTIONS/CREDITS

6:49:18 PM

CO-CHAIR TARR announced that the next order of business would be HOUSE BILL NO. 399, "An Act disallowing a federal tax credit as a credit against the corporate net income tax; repealing a provision allowing the exclusion of certain royalties accrued or received from foreign corporations for purposes of the corporate net income tax; repealing the reduced rate for the alternative tax on capital gains for corporations; repealing an exemption from filing a return under the corporate net income tax for a corporation engaged in a contract under the Alaska Stranded Gas Development Act; and providing for an effective date."

6:49:46 PM

BRODIE ANDERSON, Staff, Representative Neal Foster, Alaska State Legislature, relayed that HB 399 would address foregone revenue by the elimination of certain indirect expenditures identified in the [Department of Revenue (DOR) 2015 Legislative Finance Indirect Expenditure Report]. The indirect expenditures that would be eliminated are: certain federal tax credits, the foreign royalty exclusion, the reduced rate for capital gains; and credit associated with the Alaska Stranded Gas Development Act (ASGDA) [passed during the Twentieth Alaska State Legislature, 1997-1998, and updated during Twenty-Third Alaska State Legislature, 2003-2004]. He stated that the estimated potential new revenue generated by these indirect expenditures combined is $6.9 million.

CO-CHAIR TARR asked for confirmation that the work on indirect expenditures began in 2015, and Mr. Anderson has been involved throughout the process.

MR. ANDERSON concurred. He mentioned that [during the Twenty-Eighth Alaska State Legislature, 2013-2014, HB 306 was passed and signed into law 9/9/14] creating the requirement that every two years DOR and the Legislative Finance Division create a report to identify indirect expenditures that address foregone revenue - revenue that could be collected but for some reason is not captured by the state. Since that time, there have been two indirect expenditure reviews; the last review includes nine agencies and was published in the 2015 Legislative Finance Indirect Expenditure Report.

6:51:52 PM

CO-CHAIR JOSEPHSON moved to report HB 399 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 399 was reported out of the House Resources Standing Committee.

6:53:30 PM

The committee took an at-ease from 6:52 p.m. to 6:54 p.m.

HB 260-FISH & GAME LICENSES;ELECTRONIC FORM

6:54:11 PM

CO-CHAIR TARR announced that the next order of business would be HOUSE BILL NO. 260, "An Act relating to electronic possession of certain licenses, tags, and identification cards issued by the Department of Fish and Game; and providing for an effective date."

6:54:30 PM

REPRESENTATIVE DAN SADDLER, Alaska State Legislature, paraphrased from the sponsor statement, which read as follows [original punctuation provided]:

> Smart phones have become an indispensable part of modern Alaska life. They provide users with inexpensive, convenient and reliable information and services, including communications, navigation, scheduling, research, photography, and entertainment.

There is almost no aspect of life that smartphones don't make easier and better.

HB 260 seeks to leverage modern communications technology to enhance the timeless pleasures of traditional Alaskan activities of hunting, fishing, and trapping, by allowing state licenses for these activities to be displayed on digital devices, as well as in paper form.

State law currently requires outdoorsmen and women to carry paper licenses while enjoying licensed activities. But as anyone who's ever tumbled into a stream while landing a king salmon or sat in the rain in a duck blind knows, paper licenses can be damaged or lost at the worst possible time. And while a person might misplace their wallet, their smartphone is almost always within arm's reach.

Alaskans have been authorized since 2013 to display secure proof of insurance on a digital device, and the benefits of extending that capability to outdoors recreational licenses are clear. They would:

- Make it easier and more convenient for hunters, fishers and trappers to obtain and carry required licenses
- Help entice new participants in these activities, by lowering one barrier to entry
- Make Alaska a more attractive tourist destination by making it easier for visitors to get licenses
- Improve compliance with state fish and wildlife management laws, by making it easier for enforcement officials to verify users are legal • Save money for the state and private license vendors, by reducing or eliminating printing costs
- Enhance licensing security with harder-to-counterfeit digital licenses

HB 260 also lays the foundation for smartphone-based "apps" that will eventually let ADF&G deliver timely information on local regulations, opening dates and times, and hazards to users; while letting outdoorsman reciprocate by sending back real-time data on harvest effort and success. Until then, the advantages of digital licenses are significant enough to warrant swift passage of HB 260.

REPRESENTATIVE BIRCH spoke in support of the proposed legislation.

6:57:17 PM

REPRESENTATIVE PARISH questioned whether Alaska Department of Fish & Game (ADF&G) enforcement officers are available for comment.

REPRESENTATIVE SADDLER responded that in his conversations with ADF&G personnel and Alaska Wildlife Troopers (AWT), he learned that their only concern was the liability of handling a person's device. He maintained that the enforcement officers would be grateful for another way for constituents to obtain a license, comply with the law, and demonstrate that they have complied with the law.

6:59:01 PM

MORGAN FOSS, Legislative Liaison, Office of the Commissioner, Alaska Department of Fish & Game (ADF&G), offered that she cannot speak to the enforcement side of the equation but is available for questions.

6:59:35 PM

REPRESENTATIVE PARISH asked whether there is a penalty for someone failing to produce a hard copy of his/her license but providing electronic proof.

MS. FOSS responded that it is her understanding that AWT will not issue a citation if the individual has a valid signed license in electronic format on his/her phone. She affirmed that the proposed legislation would provide clarification in statute.

7:00:27 PM

CO-CHAIR TARR stated that currently if someone is caught fishing without his/her license, it is a misdemeanor with a maximum penalty of up to six months in jail or a fine of up to $1000. She relayed that her office is working with ADF&G to reduce the penalty. She explained that Amendment 1, labeled 30-LS1000\A.1 and included in the committee packet, was the first attempt to do that. She stated that since there were issues with that amendment, it will not be offered.

7:01:49 PM

CO-CHAIR TARR moved to adopt Amendment 2, labeled 30-LS1000\A.4, Bullard, 3/27/18, which read:

Page 1, line 1:
Delete "**electronic**"

Page 1, lines 1 - 2:
Delete "**identification cards**"
Insert "**permits**"

Page 1, line 4, through page 2, line 2:
Delete all material and insert:
"* **Section 1.** AS 16.05.330(a) is amended to read:
(a) Except as otherwise permitted in this chapter, without having the appropriate license**,** [OR] tag**, or permit** in actual possession, a person may not engage in
(1) sport fishing, including the taking of razor clams;
(2) hunting **or** [,] trapping [, OR FUR DEALING];
(3) the farming of fish, fur, or game;
(4) taxidermy **or fur dealing**; or
(5) control of nuisance wild birds and nuisance wild small mammals for compensation.
* **Sec. 2.** AS 16.05.330 is amended by adding new subsections to read:
(f) A person charged with violating (a)(1) or (2) of this section for failure to have a license in actual possession may not be convicted if the person produces, in an office of the arresting or citing agency, not later than 30 days after the issuance of the citation, a license previously issued to the person that was valid at the time of the offense.
(g) A license in actual possession may be in paper or electronic form.
(h) A peace officer presented with an electronic device under (g) of this section is immune from any liability resulting from damage to the device.
* **Sec. 3.** AS 16.05.430(a) is amended to read:
(a) Except as provided in **AS 16.05.330(f), 16.05.407(b)** [AS 16.05.407(b)] and (d), 16.05.408(b), and 16.05.420(b), a person who violates AS 16.05.330 - 16.05.420 or a regulation adopted under AS 16.05.330 -

16.05.420 is guilty of a misdemeanor and upon conviction is punishable by a fine of not more than $1,000, or by imprisonment for not more than six months, or by both."

Renumber the following bill section accordingly.

CO-CHAIR JOSEPHSON objected for the purpose of discussion.

7:02:09 PM

CO-CHAIR TARR explained that Amendment 2 would allow someone to have a charge dismissed for failing to have a fishing or hunting license on him/her as long as he/she had a valid license and submitted it within 30 days. The fine would be waived upon showing the valid license to ADF&G. If the person was illegally hunting or fishing because he/she did not have a license at the time, he/she would be subject to the fine.

REPRESENTATIVE SADDLER relayed that the goal of AWT is not to "bust" people but to encourage them to comply. He maintained that being given the opportunity to correct incorrect behavior and being rewarded for correcting that behavior with a waived fine, incentivizes future positive behavior.

7:03:43 PM

CO-CHAIR JOSEPHSON asked whether ADF&G and the Department of Public Safety (DPS) support the amendment.

7:04:01 PM

THATCHER BROUWER, Staff, Representative Geran Tarr, Alaska State Legislature, responded that DPS fully supports the amendment.

7:04:31 PM

CO-CHAIR JOSEPHSON asked for confirmation that Amendment 2 would not change the penalty but change the opportunity to prove the existence of a license.

MR. BROUWER answered, that's correct.

REPRESENTATIVE SADDLER pointed out that Section 3 of the proposed legislation specifies two exemptions to the penalty for the failure to have a license; one in AS 16.05.330(f) and the other in AS 16.05.407(b). He said that AS 16.05.330(f) refers to the 30-day "fix-it ticket," and AS 16.05.407(b) refers to the requirement that non-resident hunters must affirm that they will use a guide under penalty of perjury. Violation of that requirement is a class-B felony.

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

7:05:50 PM

REPRESENTATIVE PARISH asked what the outcome would be if he showed AWT a picture of his license on his phone. He asked if the proposed legislation would change that outcome.

7:06:41 PM

BERNARD CHASTAIN, Major, Deputy Director, Headquarters, Division of Alaska Wildlife Troopers (AWT), Department of Public Safety (DPS), responded that currently electronic versions of licensing are not allowed for display; the proposed legislation would allow for electronic licensing to be developed and displayed. He stated that currently a person is required to have his/her license and tags in his/her possession to hunt. If HB 260 passes, ADF&G would develop electronic licensing allowing for display on a device and, if enforceable, it would suffice for display of licensing.

7:07:48 PM

REPRESENTATIVE SADDLER asked for AWT's position on the proposed legislation.

MAJOR CHASTAIN answered that AWT will support any attempt to make electronic licensing the future of license display for the state. He stated that enforcement is a key element; therefore, any effort to develop electronic licensing must involve both ADF&G and DSP. He brought up the example of the requirement to record the number king salmon caught in certain locations of the state and emphasized that there must be a way to enter such data through the electronic license, so it can be accessed and reviewed by enforcement. He offered that the method of license display does not matter to AWT, as long as the license can be displayed in electronic format and stored so it cannot be altered.

7:10:10 PM

REPRESENTATIVE PARISH pointed out the zero-fiscal note and asked if building the technological capacity for electronic licensing can be addressed without additional staff time or cost.

MS. FOSS replied that the proposed legislation does not mandate ADF&G to develop the technology but allows it the authority to do so in the future. She said that electronic licensing is something ADF&G has received funding for in the past, has worked on, and hopes to develop; it may require additional funds at some point.

7:11:32 PM

REPRESENTATIVE DRUMMOND suggested that with the all the features that smart phones have today, there must be a way to record data. Cell phones have applications to help you find what you are looking for on your phone as well. She pointed out the possibility of a dead battery preventing one from displaying a document and stated that the "forgiveness" allowance in the proposed legislation should alleviate that problem. She confirmed that electronic records are useful for just about anything.

REPRESENTATIVE SADDLER said that he posed the question to DPS, "Can a digital license be counterfeited?" and the answer he received was, "It is equally possible to counterfeit a fishing license." He relayed that the driver's license number is on the fishing license and an AWT officer may ask to see a driver's license to compare the two documents. He added that the penalty for false attestation is the same as for perjury. He mentioned that there are several "red flags" that an enforcement officer can look for on the license showing up inconsistencies.

CO-CHAIR TARR stated that she appreciated the fact that the proposed legislation allows an electronic license but does not mandate it.

7:15:34 PM

CO-CHAIR JOSEPHSON moved to report HB 260, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 260(RES) was reported out of the House Resources Standing Committee.

HB 397-SURCHARGE ON CRUDE OIL;ARCTIC TRANS. FUND

7:16:13 PM

CO-CHAIR TARR announced that the next order of business would be HOUSE BILL NO. 397, "An Act relating to a surcharge on oil produced in the state; establishing the Arctic transportation and resource access fund; and providing for an effective date."

7:16:42 PM

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, read from the "Letter of Intent for HB 397," included in the committee packet, as follows [original punctuation provided]:

> It is the intent of the committee in creating the Arctic Transportation and Resource Access Fund (ATRA) that the initial project funded from the fund will aid in the construction of approximately 15 miles of gravel road from the Colville River East to the Kuparek [sic] road network, replacing the annual temporary ice road.
>
> Furthermore, it is the intent of the committee that commercial tolls be collected from the use of this road. All tolls collected will be deposited into the ATRA fund. Proceeds from these tolls are intended to be used to offset future state maintenance costs of this initial project, as well as construction and maintenance costs of other projects constructed from this fund source.

REPRESENTATIVE SEATON explained that the goal is to improve efficiency on the North Slope; yet, a fund source is needed. He stated that the 9¢ per barrel charge on all oil refined in the U.S. was terminated as of January 1, 2018. He suggested that during the time the federal government puts this charge in abatement, the state could collect the 9¢ per barrel and put it into a fund used to improve the efficiencies on the North Slope.

REPRESENTATIVE SEATON continued with the use of a PowerPoint presentation, entitled "HB 397 Surcharge on Crude Oil; Arctic Trans Fund," dated 4/4/18 and included in the committee packet. Referring to slide 2, entitled "HB 397 - Background," he reiterated that the federal 9¢ per barrel tax at the refineries applies to all oil refined in the U.S. and, therefore, includes Alaska oil. The funds are deposited into the federal Oil Spill Liability Trust Fund (OSLTF), which is used for cleanup; the tax generates about $500 million per year; and the fund currently contains about $5.7 billion. He offered that since the federal government has abated the fund, it is a potential source of funding for Alaska - generating about $16 million per year.

REPRESENTATIVE SEATON turned to slide 3, entitled "HB 397 - What the bill does," and relayed that the proposed legislation is proactive and was drafted after the federal government abated its program. The intent was to collect the surcharge retroactively and cease to collect it if the federal government reinstated the tax. He continued by saying that the federal program was reauthorized effective March 1, 2018. Consequently, a committee substitute (CS) was introduced, which has no retroactivity or transition. The CS states that in the future, if the federal government stops collecting the surcharge, the state would collect the surcharge for as long as the federal government is not collecting it; or if the federal government does not collect the full 9¢ per barrel, the state will collect the balance. He added that HB 397 would establish the Arctic Transportation and Resource Access Fund (ATRA) to be used to improve efficiency on the North Slope.

7:21:48 PM

REPRESENTATIVE SEATON turned to slide 4, entitled "HB 397 - History of Federal Fund," and pointed out the sunsets and reinstatements of the fund to demonstrate the potential for an on-and-off source of money for Alaska. He said that with the low oil company taxes that Alaska receives currently, there is no [other] source of money for Alaska to invest [in the fund]. He stated that the U.S. Bipartisan Budget Act [of 2018] temporarily reinstated the tax effective March 1, 2018; however, the tax expires December 31, 2018.

REPRESENTATIVE SEATON turned to the graph on slide 5, entitled "Projected Revenue," to demonstrate the projected revenue for Alaska under the proposed legislation, if the federal program is not reinstated beyond December 31, 2018. He maintained that the charges and lowering of the price for Alaska North Slope (ANS) West Coast is already occurring and built into the price; therefore, if the 9¢ per barrel is not collected [by the federal government], then Alaska should use it to help with the infrastructure of the North Slope.

7:23:42 PM

CO-CHAIR TARR moved to adopt the CS for HB 397, labeled 30-LS1310\O, Nauman, 3/30/18, as the working document, referred to as "Version O". There being no objection Version O was before the committee.

7:24:22 PM

ARNOLD LIEBELT, Staff, Representative Paul Seaton, Alaska State Legislature, pointed out that Version O is identical to the original version for Sections 1-8; Section 9, containing transitional language, was removed; Section 10, addressing retroactivity back to January 1, 2018, was removed; and Section 11, containing an immediate effective date, was removed. He paraphrased from the sectional analysis for Version O, which read as follows [original punctuation provided]:

> Section 1 (page 1, line 4) - Adds new surcharge to AS 43.55.023(c) preventing tax credits under this section from offsetting this surcharge.
>
> Section 2 (page 2, line 4) - Adds new surcharge to AS 43.55.023(e) preventing tax credits under this section from offsetting this surcharge.
>
> Section 3 (page 2, line 27) - Adds new surcharge to AS 43.55.025(h) preventing tax credits under this section from offsetting this surcharge.
>
> Section 4 (page 3, line 14) - Adds new surcharge to the list of expenditures in AS 43.55.165(e) not deductible for the purpose of calculating net production tax
>
> Section 5 (page 6, line 15) - Makes clear that all three surcharges are cumulative.
>
> Section 6 (page 6, line 21) - Makes clear that all three surcharges are cumulative.
>
> Section 7 (page 6, line 27) - Adds new section AS 43.55.350 Alaska Conditional Surcharge on Oil
>
> Subsection (a) (page 6, line 29) Creates a new per barrel surcharge equal to 9c per barrel, less the amount of any imposed under 26 USC 4611 (c) (2) (B).
>
> Subsection (b) (page 7, line 4) States that the surcharge under section (a) is in addition to tax imposed by AS 43.55.011 and the two existing

surcharges under AS 43.55.201 and 43.33.300. Also states the surcharge imposed is due on the last day of the month on oil produced during the preceding month.

Subsection (c) (page 7, line 8) Requires reporting of production by the producer on March 31st of the following calendar year as required for tax imposed under AS 43.55.011 - 43.55.180

Subsection (d) (page 7, line 11) Exempts for the new surcharge oil used for operation of a lease or for re-pressuring determined to be waste by the Alaska Oil and Gas Conservation Commission.

Subsection (e) (page 7, line 14) The surcharge will be deposited in the general fund.

Subsection (f) (page 7, line 16) describes the conditional imposition of the surcharge. Requires the commissioner to determine if the federal government is collecting a tax under 26 USC 4611 (c) (2) (B) and impose or suspend the surcharge as appropriate.

Subsection (g) (page 8, line 6) makes clear that failure of the commissioner to notify producers does not waive the surcharge under this section.

Subsection (h) (page 8, line 8) makes clear that if the surcharge under this section and a federal tax are imposed simultaneously because of retroactivity of the federal tax, the surcharge paid will not be refunded.

Subsection (i) (page 8, line 11) surcharge proceeds will be accounted for separately and deposited into the Arctic Transportation and Resource Access Fund, created under AS 43.55.360

Section 7 (page 8, line 14) - Adds a new section AS 43.55.360 establishing the Arctic Transportation and Resource Access Fund (ATRA) as a separate account in the general fund. Describes the fund as proceeds from the surcharge and tolls collected from infrastructure constructed with funds from the ATRA fund. Clearly states that the legislature may appropriate the actual balance of the fund for infrastructure projects north of 68 degrees.

Section 8 (page 8, line 24) - Defines the term surcharge as used in the AS 43.550.350 and AS 43.55.360.

REPRESENTATIVE SEATON referred to the Department of Natural Resources (DNR) PowerPoint presentation, dated 4/4/18 and included in the committee packet; it reports on the condition of the arctic roads, which have been deteriorating in the winter seasons. He mentioned that the construction of the gravel road from Colville River to the North Slope pad would cost about $27 million.

7:31:22 PM

REPRESENTATIVE BIRCH posed the question: Why not leave the money in the industry's hands and let them build the roads? Additionally, he pointed out that if the Stand for Salmon initiative passes, there would be no road building. He suggested that the $8-9 million in prospective receipts be redirected to the Stand for Alaska initiative.

REPRESENTATIVE TARR responded that, of course, the legislature would not appropriate money to a ballot initiative.

REPRESENTATIVE SEATON commented that if one believes that efficiency is gained through gravel roads and the industry has not built them, then possibly the state can help.

[HB 397 was held over.]

PRESENTATION(S): BP Energy Outlook 2018 Edition

7:33:35 PM

CO-CHAIR TARR announced that the final order of business would be a presentation by Mark Finley, General Manager of Global Energy Markets and U.S. Economics at BP America.

7:34:13 PM

MARK FINLEY, General Manager, Global Energy Markets and U.S. Economics, BP America, relayed that he has about 35 years of experience in the public and private sector working at the intersection of energy, economics, and public policy. He stated that the purpose of his visit is to present the recently published long-term outlook. The outlook assists BP America ("BP") in making informed decisions. It is shared externally to allow others to be part of the conversation and as a way for the analysts at BP to test their thinking and expose their ideas to other perspectives and challenges.

MR. FINLEY stated further that the report is not about predicting the future; the view of BP is that the world's energy system is too complicated to be able to predict a point outcome 25 years into the future. He stated that it is about understanding the nature of the uncertainty; identifying the key variables that could drive the energy outcome into significantly different directions; and designing a portfolio that is robust in the face of a highly uncertain framework.

MR. FINLEY began the PowerPoint presentation, entitled "BP Energy Outlook 2018 edition." He turned to slide 2, entitled "Alternative scenarios," and offered that BP uses a scenario-based approach. The outlook is built around the idea that there are many potential outcomes; BP does not know which outcome is most likely; and the analysts try to design scenarios that encompass a range of outcomes for key dimensions of the energy complex. He stated that for the purpose of discussion, one of the scenarios would be considered, and that scenario is labeled the "evolving transition" scenario [also referred to as the narrative scenario]. He said that the evolving transition scenario is consistent with the continued evolution of the energy system, of public policy, and of technology, in ways that are broadly consistent with what has occurred over the past 25 years. He added that the scenario does not reflect the most likely outcome but serves as a vehicle for exploration and conversation.

MR. FINLEY relayed that in the presentation, he would give an overview of some of the key observations on energy and the uncertainties, then explore some key questions that BP receives.

7:39:16 PM

REPRESENTATIVE PARISH asked about the history of accuracy of BP's projections and whether there have been variances or identified systemic biases.

MR. FINLEY replied that in the outlook document is an appendix that shows what has changed over time. He gave an example: in recent years China's energy demand has slowed dramatically and quicker than BP anticipated; BP has consistently revised its forecast higher for renewable energy; yet, it has revised its forecast for shale [oil] production as well. He stated that the technology surprises apply to both oil and gas, as well as to renewable energy.

MR. FINLEY relayed that the other change that BP has made over time is moving away from a deterministic forecast and toward a scenario-based approach. Acknowledging the uncertainty helps the company in deciding how to communicate the outlook.

7:40:45 PM

REPRESENTATIVE PARISH asked what the confidence intervals are on the averages presented.

MR. FINLEY replied that there are very large ranges of uncertainty in the outcomes for some issues. He stated that BP has reasonable confidence that worldwide demand for energy is likely to grow. On the other hand, the distribution of fuels in the mix, as shown on the left panel of slide 2, can vary dramatically depending on the scenario and the assumptions around public policy, technological evolutions, and other variables.

7:41:47 PM

MR. FINLEY turned to slide 3, entitled "Three windows on the energy transition," and relayed that the three panels on the slide portray 70 years' worth of global energy demand using three different perspectives - the how, where, and what of energy demand around the world. The first panel, entitled "End-use sector," shows the "how." He said, "At the end of the day, what drives decisions of consuming energy is not 'do I consume oil or gas or wind or solar?'; its 'am I going to use this energy in an industrial process, am I going to use it to heat my home, or drive my kids to work?'" He concluded that the sectoral basis was the driver for key energy demand decisions; therefore, much of the analysis and outlook presentation document is organized around that perspective. He added that insights can be gained by looking at the regional and fuel basis; slides 3 and 4 explore those perspectives.

7:43:01 PM

CO-CHAIR TARR expressed her surprise at the uptick of energy use in transportation in the 2030-2040 period, as shown in the first panel, considering the push on efficiency and alterative fuels in that sector. She asked if he knew to what that was attributed.

MR. FINLEY responded that in the narrative scenario, there is no growth in oil consumed by cars because of efficiency standards; however, there is continued growth in oil through demand by shipping, trucking, and aviation. He pointed out that the growth in transport by percentage makes it the weakest of the sectors. He maintained that the real growth is in industrial applications, including industrial feedstocks that are not combusted in petrochemical feedstocks.

7:44:12 PM

MR. FINLEY turned to slide 4, entitled "Regional energy demand," and relayed that on a regional basis, one of the interesting insights is that all the growth of energy demand is taking place in emerging economies. In the U.S. and other mature economies in the Organization for Economic Cooperation and Development (OECD), portrayed by the green bars in the left panel, energy demand is essentially flat even with continued economic growth, because these countries increasingly focus on the greater efficiency of energy use. He stated that the energy growth in the scenario continues and is driven by emerging economies - China and India account for half of the growth; however, the distribution of the growth changes dramatically, as seen on the panel on the right. He said that overall in the scenario, the growth of energy demand slows dramatically even though the growth of the world's economy does not, because of greater focus on efficiency. He further stated that within the emerging economies, the significant slowdown is driven by the significant slowdown in the rapid growth of energy experienced by China over the past 20 years. The projection by BP is that the trend will continue as China's economy moderates and it pushes to diversify its economy away from heavy industry and more into goods and services, requiring less energy and intensive activity. Consequently, India would become the leading source of energy growth in the later years of the forecast.

MR. FINLEY turned to slide 6, entitled "Global energy by fuel," and pointed out the unit of measure - "toe" - which stands for tons of oil equivalent. He posed the question: How do you compare wind and solar energy with coal? He stated that BP analysists base the comparison on the energy content of the fuel; hence, all fuel energies are converted to the equivalent of a ton of oil, or about 7 barrels. He said that the left panel shows the continued growth of energy overall, the rapid growth of renewables - accounting for 40 percent of all the growth of energy demand in the scenario, the continued growth of oil and natural gas, and the broadly flat consumption of coal. The right panel shows the changes in market share among the fuels. He pointed out the dramatic gain of market share by coal in the last 20 years due to China's economic development; however, currently coal is losing market share in the energy mix. The fuel gaining market share is natural gas and, to an even greater extent, renewable energy.

7:47:29 PM

CO-CHAIR TARR asked whether BP considers itself an energy provider only in its traditional role of oil and gas production or whether it would transition to renewables due to market demand and emerging opportunities.

MR. FINLEY responded that the answer includes both. He said that BP provides light, heat, and mobility for its customers. He pointed out that currently 87 percent of the energy consumed in the world is in in the form of fossil fuels. He cited the dual challenge of BP - meeting the energy needs of today and working toward a future energy system that is more sustainable.

MR. FINLEY referred to slide 7, entitled "Diversified fuel mix," and reported that the chart extends slide 6 data further back in time to show the long-term perspective on the evolution of the world's energy shares. He emphasized that the slide 7 chart highlights two key points: 1) in the scenario the world will cease to have a dominant form of energy, and 2) the world's energy system is trending toward becoming significantly more competitive. He offered as explanation that the energy pie is unlikely to grow as rapidly in the future as demand growth slows down, and the greater diversity of the world's energy mix will provide more opportunities for fuels to compete against one another. He predicted that increasingly there will be competition between potential providers of energy within individual fuels. He stressed that in all the scenarios BP considered, the trend is toward more competition over time.

7:50:38 PM

MR. FINLEY turned to slides 8 and 9, entitled "Five key questions, and asked the first question, "What have we learnt about electric cars and the mobility revolution?" He stated that BP's forecast is for 300 million electric cars by the year 2040 out of a total car fleet of 2 billion cars; it is a significant upward revision from last year because batteries have become less expensive. He suggested that the number of cars is the wrong metric; it is the miles driven that matters.

MR. FINLEY referred to the left panel on slide 10, entitled "Electric cars, shared mobility and autonomy," which shows the number of kilometers driven. He offered that the world's car fleet will double largely because people in the emerging economies are getting richer and can afford to buy cars; and doubling the number of cars will roughly double the number of miles driven. He explained that in the scenario, by 2040, battery cars, which would make up only 15 percent of the total car fleet, would deliver 30 percent of the miles driven, as shown in the left panel of the slide. He stated that what would cause electric cars to be driven more miles is autonomy, as shown on the right panel of the slide. He relayed that BP's prediction is that autonomy will begin to enter commerciality at scale in the middle of the next decade. Initially autonomous cars are more expensive to buy, but then cheaper to operate. The driver of a commercial car is 40-50 percent of [the cost of] operating the car. An autonomous car can be more economical, even if it is more expensive, if it is driven more; therefore, its use as a fleet vehicle, taxi, or ride sharing service is logical. He added that economics will also spur a rapid growth in electric cars, and municipalities may be more tolerant of experimentation with autonomous cars if they are electric. He stated that BP's analysis concludes that as autonomy ramps up, it is more likely to be electrified for fleet vehicles and, therefore, deliver greater than proportional share of the miles driven.

MR. FINLEY stated that the effect on oil demand is shown on slide 11, entitled "Liquid fuel demand from passenger cars." He relayed that in 2016, the base year of the forecast, about 19 million barrels per day of oil was consumed by cars. Doubling the number of cars would double the amount of oil consumed by cars given no other variables - shown by the green bar in the chart; however, there are other variables - the greatest of which is a significant improvement in the fuel efficiency of the cars on the road. The aggressive improvement in fuel efficiency is seen in the emerging economies as well as the mature economies.

7:55:55 PM

MR. FINLEY pointed out that the blue bar on the slide 11 chart represents the additional reduction in energy demand due to electric cars being driven more intensively. He maintained that the outcome in the scenario is that oil consumed by cars in 2040 is at exactly the level of 2016, even with double the number of cars on the road, shown by the last bar in the chart.

MR. FINLEY said that in testing this theory, BP analysts developed a much more aggressive scenario in which there is a global ban on the sale of internal-combustion engine (ICE) cars by 2040. On slide 12, entitled "Global ban on internal-combustion engine (ICE) cars," the left panel shows the effect of the ban on the share of vehicles sold that are electric compared with the share in the narrative scenario; the right panel shows the effect on miles driven. The question is: If you ban the sale of the ICE cars, why are only two-thirds of the miles driven from electric cars? He said that the answer is that even if you ban the sale of ICE cars worldwide by 2040, about one-third of the miles driven would still be driven by legacy ICE cars still on the road.

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CO-CHAIR JOSEPHSON asked whether it is BP's belief that there will be a ban on the sale of ICE cars by 2040.

MR. FINLEY responded that the scenario is purposely speculative; none of the scenarios reflect situations that BP desires. He said it is an exercise in being analytically objective - to show the effect of a very extreme scenario on the demand for oil. Looking at slide 13, entitled "Impact of ICE ban," he pointed out that even though this scenario would cut the amount of oil consumed by cars by more than 10 million barrels per day, oil for cars makes up only 20 percent of the world's oil demand. The other 80 percent - for trucks, airplanes, ships, and industrial applications - is still growing. The conclusion is that even after banning the sale of ICE cars, worldwide demand for oil in 2040 would be higher than it is today.

MR. FINLEY referred to the right panel of slide 14, entitled "Impact of ICE ban," to demonstrate the effect of the ban on carbon dioxide (CO_2) emissions: the blue line shows the profile of CO_2 emissions from energy consumption in the narrative scenario; the orange line shows the profile of CO_2 emissions under global commitments made under the Paris Agreement [of 2015, aka Paris Climate Accord]; and the green line shows the profile of CO_2 emissions under an ICE ban. He pointed out that the ICE ban profile differs very little from the narrative scenario profile. He added that the underlying assumption in the scenario is that all the incremental electricity needed to fuel the electric cars comes from renewable sources of energy; therefore, any "kickback" CO_2 emissions from a power generation site are not included. He concluded that oil accounts for one-third of CO_2 emissions; oil consumption is cut about 10 percent in the scenario; therefore, the impact to CO_2 emissions is 10 percent of one-third or 3 percent. He suggested that for policy makers, trying to "move the needle" on a systemic challenge such as climate [change] by changing one variable - the sale of ICE - is very difficult. He maintained that a system wide set of policies is needed to address a system wide challenge.

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MR. FINLEY turned to slide 15, entitled "Five key questions," and asked, "What does it mean for oil demand?" He stated that the left panel on slide 16, entitled "Demand for oil and other liquid fuels," demonstrates the growth [of the demand] by sector; the right panel shows the change in the growth profile over time. He said, "In total oil demand in this scenario growing by about 13 million barrels per day ... that's a growth of about 13 percent over the next 25 years; but you can see that the rate of growth slows dramatically." Today there is very strong growth of oil demand; however, as the fuel efficiency improvements kick in, demand growth in the transportation sector fades away, as demonstrated by the diminishing blue areas of the graph. He stated that what is left is the growth of non-combusted fuels, primarily oil consumed in petrochemical feedstocks; those are the basic building blocks of the world economy. Since they are not burned, they do not emit CO_2.

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REPRESENTATIVE PARISH asked whether most of the oil or other liquid fuels used in the building sector, as specified in the chart, is for heating.

MR. FINLEY answered yes; for buildings it is largely space heat. He turned to slide 17, entitled "Demand for oil and other liquid fuels," and indicated that the chart shows a range of scenarios for future oil demand. He conceded that analysts at BP do not know when oil demand will peak and start to decline; it could grow throughout the forecast interval or it could peak quickly; it depends on the scenario and underlying assumptions. He added that the range of possible outcomes [in volume of liquid fuel] of these scenarios are all about 25 million barrels per day. He said that for BP, the important observation is what follows: acknowledging the tremendous uncertainty around future oil demand; if BP were to take the current base of today's oil production and apply a relatively conservative 3 percent annual decline to it, the projection for oil demand would follow the gray line on the chart on slide 18, entitled "Demand for oil and other liquid fuels." He stated that under almost any conceivable future scenario for oil demand, including a profile consistent with meeting the Paris Agreement, significant amounts of money are needed to invest in new production of oil to meet future demand.

MR. FINLEY posed the question, "Where does that supply come from to meet this?" He said that at a stylized level in BP's narrative scenario, it comes half from U.S. shale [oil production] and half from the Organization of the Petroleum Exporting Countries (OPEC). He turned to slides 19-21, entitled "US tight oil: alternate scenarios." He pointed to the blue line representing the reference scenario and said that the assumption is that production will grow about 5 million barrels per day then plateau, a view based on BP's understanding of the resource and the constraints in the system, including financial discipline, bottlenecks in the availability of access to pipelines, and other uncertainties. The green line on slide 20 represents a more aggressive development of the resource in a scenario in which the restraints were alleviated. Since the underlying resource did not change, there would be more oil production up front, but it would deplete quicker causing production to fall off sooner. The red line on slide 21 represents the discovery of a greater resource than expected. For example, if the resource was 50 percent greater, production would increase to 15 million barrels per day and plateau; it would be at a level that would allow the U.S. to capture all the growth in worldwide oil demand and leave no room for other regions to grow production; it is a very bullish scenario. He added that all the scenarios are consistent with historical levels of industry activity; they are not outlandish assumptions for a range of outcomes. He mentioned that the red and green lines follow a similar path; therefore, if there were rapid growth of U.S. production of oil in the near future, it would be difficult to discern if it were due to a greater resource or more aggressive exploitation of the resource. He maintained that the potential difference between the two scenarios has profound implications for the oil market outlook over the long-term. He emphasized that understanding the driver of the scenario is key to knowing which path oil production will take.

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REPRESENTATIVE LINCOLN asked if BP analysts have evaluated the impact that the different supply and demand scenarios have on the price of oil.

MR. FINLEY responded that BP's economists use prices to equilibrate supply and demand; however, BP does not publish the price forecasts underlying the outlooks or discuss them publicly.

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REPRESENTATIVE BIRCH asked whether standardization is used to count oil rigs.

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MR. FINLEY replied that the numbers on the right panel of slide 21 represent the numbers of rigs; however, underlying the numbers are assumptions about the number of wells each [rig] can drill. He stated that the industry has become more efficient both in the number of wells drilled and the productivity of the well, which at times has grown 20-30 percent per year. He relayed that BP has seen a continued growth of productivity, but it is slower than has been seen historically. As the industry and technology have matured, there is hope for greater efficiency but not at the rate of gain that has been seen historically.

MR. FINLEY continued by saying that as there is growing talk about a potential plateau in oil demand, and as there is a growing realization that resources are abundant, especially considering the technological innovation associated with shale oil extraction, BP analysts believe there has been a shift in strategic thinking of some of the key producers of oil in the countries that hold large, conventional, low cost resources. He expressed that in the short term these countries are highly dependent on oil revenues to run their budgets and their economies. Faced with a more competitive world, they have been pursuing significant economic reforms aimed at diversifying their economies and reducing their dependence on oil revenues, which over time will enable them to compete more aggressively for market share, because they are the countries that hold large low-cost resources. He cited that trend to be an important assumption behind the way the scenario has been constructed.

MR. FINLEY moved to slide 22, entitled "Five key questions," to address BP's forecast for renewable energy. Analysts at BP have revised the outlook for renewable energy higher every year; however, the outlook has not been revised for all regions - only India and China. He stated that upon research, they found that the driver in those countries has been sustained aggressive public support. He turned to slide 23, entitled "Rapid growth in renewable energy," to discuss renewable energy. Referring to the left panel he stated that historically the growth of renewables was driven by the richer countries of the world, because they were the ones that could afford the subsidies. He declared, "That's changing." He said that China already has surpassed the U.S. as the largest producer of renewable energy in the world, driven by a combination of factors; China has become a richer country, and it has a desire to rapidly deploy renewable energy within its economy. He said that in later years, renewables will spread even more widely around the world. He pointed out that looking at the historical record on the right panel, the penetration of renewables in the energy system has more aggressively gained market share in the world's energy mix than any other form of energy going back over the last 150 years. The closest historical precedent is nuclear energy during its heyday in the '70s and '80s. He concluded that in a historical context, there is already a very aggressive set of assumptions for the penetration of renewable energy.

MR. FINLEY referred to slides 24 and 25, entitled "'Renewables push' scenario," to demonstrate a scenario that assumes that government support remains at aggressive levels throughout 2040. In the narrative scenario, renewables get about half the growth of all the world's power generation. In a scenario in which government support remains much more aggressive, renewables could capture 100 percent of the growth of power generation. He explained that what that would mean for the carbon content of the world's power generation is shown in the right panel of slide 25. He pointed out that while an aggressive push for renewables could improve the carbon intensity of power generation, it by itself is unlikely to achieve the scenario consistent with achieving the Paris Agreement for the simple reason that "you're only pushing one button." He maintained that only pushing for renewables will result in diminishing returns - the need for more batteries and grid management. He stated that a more comprehensive solution - one that contributes to the Paris Agreement compliant scenario - would include policies, such as a carbon price that encourages the greater use of natural gas in favor of coal in power generation, or policies encouraging greater efficiency or greater carbon capture; such an approach would be more systemic, allowing for the discovery of lower cost solutions for the system.

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CO-CHAIR JOSEPHSON asked whether it is BP's expectation that the next federal administration [under President Donald J. Trump] would resume the policies of the previous administration [under President Barak Obama] regarding fuel efficiencies, mercury rule making, and the carbon power plant issue. He asked whether the expectation was that progress would continue in the same direction.

MR. FINLEY answered that those issues do not affect the hypothetical constructs that BP analysts use to build the scenarios; the scenarios are not based on specific assumptions around BP's position on such issues.

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CO-CHAIR JOSEPHSON asked whether BP has a public position on the fact of climate change and the causes.

MR. FINLEY responded that for 20 years, BP has had a position for the company worldwide; it upholds the science of climate change; maintains the belief that more action is needed; and it supports being a party of the [climate change] transition while still maintaining the commitment to ensuring that the world has the energy it needs today to run its economy. He said that, moreover, BP's view is that a systemwide approach is the economically efficient one; it advocates for the global adoption of a carbon pricing mechanism.

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MR. FINLEY referred to slide 26, entitled "Five key questions," to address the topic of natural gas. He stated that natural gas is the fossil fuel that gains market share. He said that BP, along with many other companies, is investing to grow the role of natural gas in its portfolio. He offered that it is natural to ask, "How could we be wrong?" He referred to the example in which future natural gas demand could be challenged by more aggressive environmental policies.

MR. FINLEY pointed out in slide 27, entitled "Growth in natural gas demand," that on a regional basis, the growth of natural gas consumption is widely spread, but on a sectoral basis, it is concentrated in power generation and industrial application. Looking at slide 28, entitled "Possible risks to the outlook for natural gas," he asked, "As gas gains market share, how much of the growth of gas is due to just everything getting bigger, and how much of it is due to gas ... winning market share from other sources of energy?" He relayed, "The answer is, a lot." He offered that in a scenario with less aggressive environmental policy geared to reducing coal and favoring natural gas, the future growth of natural gas could be reduced by half; it is the difference between natural gas gaining market share in the world and losing market share.

MR. FINLEY referred to slide 29, also entitled "Growth in natural gas demand," and reported that the narrative scenario is a "Goldilocks" outcome for future natural gas demand; however, what the scenario research shows is that underlying natural gas demand is highly sensitive to one's assumptions around the prevailing policy environment. He stated that natural gas could lose in scenarios with more aggressive environmental policies, and it could lose in scenarios with less aggressive environmental policies.

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REPRESENTATIVE BIRCH referred to the possibility of marketing natural gas to China and asked about China's ability to have its own shale [oil] "revolution." He cited the possible risk of depending on that market.

MR. FINLEY replied that the underlying assessment is that China has a significant resource base and shale [oil production] potential; for a variety of reasons - geology, availability of water, and industrial capability - the pace of development would not likely match the U.S. He mentioned that there is a significant increase in Chinese production of natural gas through shale; in the scenario, Chinese imports of liquified natural gas (LNG) still grow significantly. He added that there has been a large effort to diversify China's energy mix away from coal, which currently accounts for two-thirds of the energy consumed in China; China would build a new nuclear power plant every three months for the next 20 years in the scenario; China is the largest source of growth of renewable energy and it has the largest growth of natural gas demand as well. He stated that the growth of natural gas demand in China in the scenario is enough to accommodate both a significant increase in domestic production and an increase in importation as well.

MR. FINLEY referred to slide 30, entitled "LNG continues to grow," to further answer the question posed by Representative

Birch. He relayed that the two panels on slide 30 show the projections in the scenario for the growth of LNG trade both on the supply side and on the demand side. He stressed the point that as the growth of LNG doubles over the scenario, it provides the opportunity to connect the world's gas markets in a way that they are not connected currently; that is, to make the gas market look more like the oil market. He declared that flexibility will be a key element in providing new opportunities. He gave an example: if China were to have a warm winter and not use much gas, a flexible global system would provide the opportunity to ship the gas to South American countries experiencing drought. In an integrated global marketplace, a specific destination would be less important than the ability to connect to a diverse global marketplace. It is BP's position that the growth of LNG and changes in the underlying contract terms that are occurring will provide those opportunities.

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MR. FINLEY turned to slide 31, entitled "Five key questions," to pose the question: Is the transition of the world's energy system to a lower carbon future happening fast enough? He stated that the answer is no - at least not in BP's narrative scenario. In looking at slide 32, entitled "Carbon emissions continue to rise in the ET scenario," he relayed that in the narrative scenario, [the level of] CO_2 emissions grow significantly less rapidly than has occurred historically due to: 1) less rapid growth of energy demand, and 2) the fuels that are gaining market share are the lower carbon sources of energy - renewable energy and natural gas. He added that, even so, the level is still increasing. He mentioned that in the scenario in which CO_2 emissions meet the Paris Agreement commitments, the level would fall by about 50 percent. He said that the key question is, How would the world's energy system look different to meet that?

MR. FINLEY referred to slide 33, entitled "Impact of faster transition on global energy system," and said that it is BP's position that for the transition to be sustainable, power needs to be the focus: first, because the majority of the world's energy is consumed to generate electricity; and second, because that is the sector in which all of the fuels compete with each other. He pointed out that in the scenario that represents meeting the Paris Agreement commitments, the biggest reductions in CO_2 emissions are in the power sector, as shown in the left panel of slide 33. He continued by saying that the right panel demonstrates what the world's energy system would look like, in terms of demands for different fuels, across different scenarios. He relayed several observations. In any scenario, future energy demand grows, but the source of that growth varies depending upon the scenario. In the sustainability scenario, renewable energy contributes to all the net growth in energy; however, he pointed out that even in the scenario consistent with meeting the Paris Agreement commitments, the need for oil and gas production in 2040 is roughly equivalent to that of today.

MR. FINLEY turned to slide 34, entitled "Conclusion," and reiterated that BP performs its outlook report not to predict the future, but to understand uncertainty. The exercise identifies for BP the dimensions of the energy system with which it is comfortable and the dimensions needing attention. He stated that BP is reasonably satisfied that in any scenario, for continued growth of the world's economy, for improvement in quality of life, and for escape from poverty, demand for energy is likely to grow, albeit less rapidly than it has historically due to efficiency gains. He expressed his belief that on the supply side, with the slower growth of energy demand combined with the availability of supply, the world will become increasingly competitive regarding energy. He mentioned that despite the significant ramp up in the importance of renewable energy, there is room for significant investments in oil and natural gas.

MR. FINLEY addressed the uncertainties by saying that BP is watching with great interest the revolution changing the transport sector, not only electrification, but the interplay of electrification with other factors such as autonomy. He stated that through its scenario research, BP has seen that future pathways for natural gas and renewables are highly dependent on underlying assumptions for policy and for technology. He concluded with a key uncertainty of the system: What's going to happen to deliver a more decisive break from past trends that is needed to put the world on a more sustainable trajectory regarding carbon emissions?

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CO-CHAIR TARR asked for information about BP's plan for involvement in renewables.

MR. FINLEY responded that BP is already heavily invested in renewables in the form of wind turbines and biofuels. He added that BP's approach is to invest in different potential technology ventures - both for renewable energy and for other alternative energies. He relayed that BP is seeking to identify the activities that play to its corporate strength and to identify any changes in corporate practices that would enhance its ability to compete in the "new reality."

REPRESENTATIVE TARR expressed her interest in additional information on Alaska's future partnership with BP and opportunities to work with BP in the transition period.

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:29 p.m.