

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 14, 2022

8:06 a.m.

MEMBERS PRESENT

Representative Sara Hannan, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Harriet Drummond
Representative Mike Prax
Representative Ken McCarty

MEMBERS ABSENT

Representative Josiah Patkotak, Vice Chair
Representative Kevin McCabe

COMMITTEE CALENDAR

HOUSE BILL NO. 349

"An Act relating to the establishment of oil and gas drilling units and patterns."

- HEARD & HELD

HOUSE BILL NO. 411

"An Act relating to municipal tax exemptions and deferrals on economic development property."

- HEARD & HELD

HOUSE BILL NO. 402

"An Act relating to identification requirements for contractors and home inspectors."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 349

SHORT TITLE: HEARING ESTABLISH DRILLING UNITS/SPACING

SPONSOR(S): REPRESENTATIVE(S) RAUSCHER

02/22/22	(H)	READ THE FIRST TIME - REFERRALS
02/22/22	(H)	CRA, RES
03/29/22	(H)	CRA AT 8:00 AM BARNES 124

03/29/22 (H) -- MEETING CANCELED --
 04/05/22 (H) CRA AT 8:00 AM BARNES 124
 04/05/22 (H) -- MEETING CANCELED --
 04/07/22 (H) CRA AT 8:00 AM BARNES 124
 04/07/22 (H) -- MEETING CANCELED --
 04/12/22 (H) CRA AT 8:00 AM BARNES 124
 04/12/22 (H) Heard & Held
 04/12/22 (H) MINUTE(CRA)
 04/14/22 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 411

SHORT TITLE: MUNICIPAL TAX EXEMPTIONS/DEFERRALS
 SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

04/04/22 (H) READ THE FIRST TIME - REFERRALS
 04/04/22 (H) CRA, L&C
 04/05/22 (H) CRA AT 8:00 AM BARNES 124
 04/05/22 (H) -- MEETING CANCELED --
 04/07/22 (H) CRA AT 8:00 AM BARNES 124
 04/07/22 (H) -- MEETING CANCELED --
 04/12/22 (H) CRA AT 8:00 AM BARNES 124
 04/12/22 (H) Heard & Held
 04/12/22 (H) MINUTE(CRA)
 04/14/22 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 402

SHORT TITLE: IDENTIFICATION OF CONTRACTOR IN ADS
 SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

03/18/22 (H) READ THE FIRST TIME - REFERRALS
 03/18/22 (H) CRA, L&C
 03/29/22 (H) CRA AT 8:00 AM BARNES 124
 03/29/22 (H) -- MEETING CANCELED --
 04/05/22 (H) CRA AT 8:00 AM BARNES 124
 04/05/22 (H) -- MEETING CANCELED --
 04/07/22 (H) CRA AT 8:00 AM BARNES 124
 04/07/22 (H) -- MEETING CANCELED --
 04/12/22 (H) CRA AT 8:00 AM BARNES 124
 04/12/22 (H) Heard & Held
 04/12/22 (H) MINUTE(CRA)
 04/14/22 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

RYAN MCKEE, Staff
 Representative George Rauscher
 Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Rauscher, prime sponsor, noted those who would be giving invited testimony on HB 349.

JEREMY PRICE, Public Commissioner
Alaska Oil and Gas Conservation Commission
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Described the intent and purpose of HB 349 and responded to questions.

JESSIE CHMIELOWSKI, Engineering Commissioner
Alaska Oil and Gas Conservation Commission
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Presented historical and technical information and answered questions during the hearing on HB 349.

GRAHAM SMITH, Petroleum Land Manager
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Discussed the issue of public notice and answered questions during the hearing on HB 349.

EMILY NAUMAN, Deputy Director
Legislative Legal Services
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Responded to a question during the hearing on HB 349.

RYAN JOHNSTON, Staff
Representative Calvin Schrage
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Schrage, prime sponsor, noted those who would give invited testimony during the hearing on HB 411 and provided brief comment on HB 402.

MIKE EDGINGTON, representing self
Girdwood, Alaska

POSITION STATEMENT: Provided invited testimony during the hearing on HB 422.

WILLIAM "BILL" FALSEY, representing self

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 411.

GLENN HOSKINSON, Deputy Director
Division of Corporations, Business, and Professional Licensing
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 402.

ACTION NARRATIVE

[8:06:38 AM](#)

CO-CHAIR SARA HANNAN called the House Community and Regional Affairs Standing Committee meeting to order at 8:06 a.m. Representatives Prax, McCarty, Schrage, and Hannan were present at the call to order. Representative Drummond arrived as the meeting was in progress.

HB 349-HEARING ESTABLISH DRILLING UNITS/SPACING

[8:07:23 AM](#)

CO-CHAIR HANNAN announced that the first order of business would be HOUSE BILL NO. 349, "An Act relating to the establishment of oil and gas drilling units and patterns."

[8:07:43 AM](#)

RYAN MCKEE, Staff, Representative George Rauscher, Alaska State Legislature, on behalf of Representative Rauscher, prime sponsor, noted those who would be giving invited testimony on HB 349.

[8:08:54 AM](#)

JEREMY PRICE, Public Commissioner, Alaska Oil and Gas Conservation Commission, Department of Commerce, Community & Economic Development, described the intent and purpose of HB 349. He said HB 349 would reduce administrative barriers by removing the requirement under AS 31.05.100(a) and (b) that the Alaska Oil and Gas Conservation Commission (AOGCC) must hold hearings for any changes to oil and gas pool unit designations, rules, or spacing patterns, even where all relevant properties within a given pool belong to a single owner. He advised that the requirement causes unnecessary delay to pool owners and

generates unnecessary cost to the state. He explained that this change is necessary because the concept of only one vertical well in a box on the map has been made obsolete by horizontal drilling.

MR. PRICE said Section 2 would amend AS 31.05.100(e) to make it discretionary rather than mandatory for AOGCC to issue notice and hold a hearing in each instance where an exception is granted to the rule or spacing pattern proscribed to a particular pool. With the proposed change, he explained, AOGCC could allow the operator to drill additional wells within the same pool without going through 30 days of notice and comments followed by the issuance of a conservation order. He reported that from 2016-2020, AOGCC publicly noticed 47 hearings on noncontroversial well spacing exceptions; these hearings were not requested by the public, and no testimony was submitted. Mr. Price pointed to a resolution [20 AAC 25.055, regarding drilling units and well spacing, shown on slide 1 of a PowerPoint in the committee packet], and he highlighted that there would be protection from draining resources from adjacent owners.

[8:12:57 AM](#)

JESSIE CHMIELOWSKI, Engineering Commissioner, Alaska Oil and Gas Conservation Commission, Department of Commerce, Community & Economic Development, stated that HB 349 would change a statute that has not been changed since its adoption in 1955, and it would not affect AOGCC's ability to fulfill its mission. She said the legislation addresses how far one well must be from another in the subsurface, in the targeted, productive reservoirs. She explained the history of vertical wells and how pressure would drop when people drilled too close to other wells. She mentioned a Conservation Act of the 1930s and prevention of waste through default drilling units. With today's geology, it is common for wells to drill closer for greater recovery. When Prudhoe Bay started 44 years ago, the estimated recoverable reserve was about 9 billion barrels of oil; today, with advancements in drilling and reservoir management, recoverable reserves are an estimated 14 billion barrels.

MS. CHMIELOWSKI referred to the PowerPoint utilized by Mr. Price. She explained that the reference to "sections" have to do with governmental grids. She showed how drilling is down from land and going offshore. She showed "a colorful drawing" [slide 2 of the PowerPoint] depicting the side view of one of

the wells in the Cosmopolitan Unit, and she pointed to "the mother board." She talked about lateral drilling and echoed the remarks of Mr. Price about the administrative burden of so many notifications.

[8:19:03 AM](#)

MS. CHMIELOWSKI, in response to a question from Co-Chair Hannan, clarified that in a case where there are seven spacing exceptions on one well, each would require a [notice of] hearing, because each is considered a separate well bore. In response to follow-up questions, she said the hearings could be scheduled on one day. The area that would benefit from HB 349 would be Cook Inlet because the fields on the North Slope are much larger. She offered her understanding that AOGCC has never turned down a request for an exception. She added that careful review is always done, and she noted that the cost to well owners is significant, thus, they are careful about [the drilling exception they seek].

[8:24:03 AM](#)

MS. CHMIELOWSKI returned to her presentation, directing the committee's attention to slide 4, which showed a bird's eye view of the Rendezvous oil pool development plan, and she noted the grid pattern and indicator of oil pool in the subsurface. Also shown are planned wells to be drilled; every well has multiple sections. She talked about using reservoir characteristics to plan a well. She referred to a drill pad. She drew attention to slide 5, which shows a zoomed in view [of the Rendezvous oil pool development plan] and the alternating of "injectors" and "producers," which is a method of recovering more oil. She said this is another example of the administrative burden. She said with passage of HB 349, AOGCC would continue its mission to prevent waste of hydrocarbon resources. She then offered feedback from a presentation given at a prior meeting.

[8:30:57 AM](#)

MS. CHMIELOWSKI, in response to Co-Chair Schrage, confirmed that HB 349 would pertain to all other areas beside Cook Inlet; Cook Inlet happens to be the primary location where [the requirement for hearings] is causing an issue. She mentioned that AOGCC sometimes issues guidelines for how best to use a reservoir. In response to another question from Co-Chair Schrage, she confirmed that there is a separate section pertaining to public notice that is being addressed. In response to a third

question, she said it is unlikely that someone would use an old method of drilling many vertical wells, and she pointed out that AOGCC has the option to notice a hearing at any time. She assured Co-Chair Schrage that even with Sections 3 and 4 struck from HB 349, AOGCC would still have the right to notice a hearing at its discretion. She echoed Mr. Price's comment that the bill changes the notice from being mandatory to being discretionary.

[8:36:29 AM](#)

MR. PRICE added that AS 31.05.060 states that any member of the public can request a hearing. He noted the technical aspect of having a hearing on spacing issues. He stated that the Department of Natural Resources (DNR) has "a very robust process and multiple opportunities for public comment long before the issue comes before the AOGCC."

[8:38:02 AM](#)

CO-CHAIR HANNAN, to clarify discussion on statute and regulation, asked for confirmation that the handout given by Mr. Price [shown on slide 1] relates to regulation.

MR. PRICE answered that's correct. In response to a follow-up question, he indicated that [the language of the resolution] offers what the language might look like [in statute, under HB 349].

CO-CHAIR HANNAN pointed out that "this is not an absolute." She requested a citation from Mr. Price, and she explained that she wants to ensure the committee understands the regulation in relation to the statute that would be changed under HB 349.

[8:40:50 AM](#)

CO-CHAIR HANNAN asked Graham Smith, from DNR, to describe the public notice requirements as they stand currently and under HB 349, and to address any concerns DNR has regarding well spacing.

[8:41:38 AM](#)

GRAHAM SMITH, Petroleum Land Manager, Division of Oil and Gas, Department of Natural Resources, replied that the constitutional obligation under Article 8, Section 10, states that no disposal to state interest shall be made without public notice. He said DNR has a robust public notice process before beginning the

leasing process. He said the public notice requirements in AS 38.05 are "fairly prescriptive" on the issue of public notice. Further, each phase of development has a public notice, and he described actions within those phases that would also get publicly noticed. He mentioned Sullivan v. Red, a 2013 court decision that determined that each phase must have its own assessment. He offered further details regarding public notice, explaining that DNR, in addition to statutorily mandated public notice, also gives discretionary public notice when warranted.

[8:46:05 AM](#)

MR. SMITH, in response to a question from Representative McCarty about possible overlap in public notice topics between AOGCC and DNR, explained that AOGCC is primarily interested in subsurface issues, while DNR focuses on surface issues. To a follow-up question, he indicated that the proposed legislation would not adversely affect DNR's process. He opined that the bill makes sense, because "a lot of things can be more onerous in nature than [is] proportional to the value that they provide to the public."

[8:48:16 AM](#)

CO-CHAIR HANNAN inquired whether DNR held an official position on HB 349.

MR. SMITH answered that he was not aware of a formulated position; however, he offered to check and get back to the committee with an answer.

CO-CHAIR HANNAN indicated she would be asking the same question of AOGCC. She then noted that Emily Nauman, from Legislative Legal Services, was available for questions.

[8:49:22 AM](#)

EMILY NAUMAN, Deputy Director, Legislative Legal Services, Legislative Affairs Agency, in response to a question from Representative McCarty, explained that the changes proposed under HB 349 from "that" to "which" are to modernize the language according to the drafting manual.

[8:51:07 AM](#)

CO-CHAIR HANNAN opened public testimony on HB 349. After ascertaining there was no one who wished to testify, she closed public testimony.

[8:51:44 AM](#)

CO-CHAIR HANNAN announced HB 349 was held over.

[8:52:33 AM](#)

The committee took an at-ease from 8:52 a.m. to 8:53 a.m.

HB 411-MUNICIPAL TAX EXEMPTIONS/DEFERRALS

[8:53:23 AM](#)

CO-CHAIR HANNAN announced that the next order of business would be HOUSE BILL NO. 411, "An Act relating to municipal tax exemptions and deferrals on economic development property."

[8:53:39 AM](#)

RYAN JOHNSTON, Staff, Representative Calvin Schrage, Alaska State Legislature, on behalf of Representative Schrage, prime sponsor, noted those who would give invited testimony during the hearing on HB 411.

[8:54:14 AM](#)

MIKE EDGINGTON, representing self, noted that he is the co-chair of the Girdwood Board of Supervisors, which had not developed a position on HB 411; therefore, he is speaking on his own behalf. He said under current law, some communities are unable to make full use of municipal tax exemptions [related to economic development property]. He said although Girdwood is a separate community in terms of government, it is within the Unified Municipality of Anchorage. Girdwood addresses this by having its own service area, including police, fire, roads and drainage, and parks and recreation. He said about 40 percent of Girdwood's taxes fund these services, and the rest go to schools. He reviewed that in 2007, the legislature expanded the ability of municipalities to provide tax incentives for local economic development but excluded service areas run by an elected board. He noted that Girdwood is affected by the high cost and low availability of housing. He stated that he is asking for a small, targeted change [to statute] so that Girdwood can qualify to offer the tax exemptions. He pointed

out that there are a number of other communities across the state that would also benefit from this change.

[8:58:20 AM](#)

MR. EDGINGTON, in response to a question from Representative McCarty, explained that the Girdwood Board gives a recommendation for the tax level to the Municipality of Anchorage, which then approves it. He said his recollection is that the Municipality of Anchorage has never disapproved a tax submitted by Girdwood. In response to a follow-up question, he said the Municipality of Anchorage is bound by state statute, and it has taken the language of the statute to apply the restrictions on taxes being imposed in service areas.

REPRESENTATIVE MCCARTY expressed concern that a service area will come to the state because it does not like the decision of the local home-rule [municipality].

MR. EDGINGTON clarified that the situation at hand is that both the service area of Girdwood and the Municipality of Anchorage are in agreement but cannot do anything about it because of statute.

[9:03:02 AM](#)

CO-CHAIR HANNAN noted there was a lawyer on line to testify.

[9:03:24 AM](#)

MR. EDGINGTON, in response to Representative Prax, confirmed that a service area cannot exempt general taxation. In response to a follow-up question, he maintained his understanding that the assembly has veto power over a service area's desire for a tax exemption.

[9:06:14 AM](#)

CO-CHAIR SCHRAGE clarified the issue is that even if a municipality wishes to allow the tax exemption to the service area, it is prohibited from doing so by statute.

[9:06:46 AM](#)

MR. EDGINGTON, in response to Representative Drummond, confirmed there is not a current project being considered for tax exemption, but if there were, both the Girdwood Board and the

Municipality of Anchorage would have to approve it for it to be allowed, provided HB 411 is passed in order to change the statute.

[9:07:46 AM](#)

MR. EDGINGTON, in response to Representative McCarty, clarified that the limitation is on elected boards; there are other service areas in Anchorage that do not have elected boards, and the restriction on tax exemption does not apply to them.

[9:09:09 AM](#)

WILLIAM "BILL" FALSEY, representing self, stated that he is a private practice attorney testifying today in his personal capacity. He specified that the limitation being discussed is found in AS 29.45.50(m). He noted that service areas are a concept authorized by Article 10, Section 5, of the Constitution of the State of Alaska, and they are common. He confirmed the information about the board operated service areas and the exclusion added in 2017 and the concern behind it. He said HB 411 is particularly meaningful in places like Girdwood; it would allow the Girdwood Board to opt out by passing a resolution of objection no later than 30 days after the local ordinance. He emphasized the 30-day window would come after all public notice requirements were made. He expressed his strong support of the proposed legislation.

[9:14:59 AM](#)

CO-CHAIR SCHRAGE noted that at the last committee hearing, there had been discussion about the notice requirement. He asked whether there would be a problem if the notice were changed to 60 days.

MR. FALSEY described the process to illustrate the ample public notice that would occur prior to the 30-day window. That said, he remarked that he did not see any reason to oppose a 60-day notice.

[9:17:00 AM](#)

MR. FALSEY, in response to a question from Representative McCarty as to whether there are things that state law should preclude local governments from doing in terms of taxation and exemption, said philosophically he is "more in the camp of trusting the local elected officials." He said he thinks if

there were no state restrictions, then the local governments would work those issues out appropriately.

[9:19:07 AM](#)

MR. FALSEY, in response to a question from Representative Drummond regarding other service areas, explained the differences between Girdwood's board-operated service area and others in terms of tax exemptions.

[9:22:39 AM](#)

CO-CHAIR HANNAN opened public testimony on HB 411. After ascertaining no one wished to testify, she closed public testimony.

[9:23:52 AM](#)

MR. JOHNSTON, in response to Co-Chair Hannan, concluded, "As the municipality might have a veto, the service area boards also still retain the ability to opt out, and we think that addresses the issue of the 2017 concerns."

[9:24:18 AM](#)

CO-CHAIR HANNAN expressed her understanding of Juneau's government, saying that she does not think there are elected boards in any of the borough's service areas.

[9:25:45 AM](#)

CO-CHAIR HANNAN announced that HB 411 was held over.

[9:25:50 AM](#)

The committee took an at-ease from 9:26 a.m. to 9:27 a.m.

HB 402-IDENTIFICATION OF CONTRACTOR IN ADS

[9:27:12 AM](#)

CO-CHAIR HANNAN announced that the final order of business would be HOUSE BILL NO. 402, "An Act relating to identification requirements for contractors and home inspectors."

[9:27:29 AM](#)

RYAN JOHNSTON, Staff, Representative Calvin Schrage, Alaska State Legislature, on behalf of Representative Schrage, prime sponsor of HB 402, noted that the bill sponsor's office had reached out to the Associated General Contractors of Alaska (AGCA) to testify, but AGCA members are at a conference. Notwithstanding that, he pointed out that AGCA had provided a letter of support for the Senate companion bill and had written a letter requesting that [HB 402] be introduced.

[9:28:28 AM](#)

CO-CHAIR HANNAN sought to find out whether the Division of Corporations, Business, and Professional Licensing had any concerns regarding the proposed change under HB 402 that would allow contractors to be directed to a web site as opposed to being required to display their license numbers on advertisements.

[9:29:16 AM](#)

GLENN HOSKINSON, Deputy Director, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community & Economic Development, responded that the division has no concerns with HB 402, which she described as "kind of a modernization that makes a lot of sense." In response to a follow-up question, she estimated that 6,270 licensed contractors in Alaska would be affected by HB 402.

[9:30:21 AM](#)

MR. JOHNSTON, in response to Representative McCarty, said there is no difference between HB 402 and the Senate companion bill.

[9:30:59 AM](#)

CO-CHAIR HANNAN opened public testimony on HB 402. After ascertaining there was no one who wished to testify, she closed public testimony.

[9:31:33 AM](#)

CO-CHAIR HANNAN announced HB 402 was held over.

[9:32:14 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:32 a.m.