

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 3, 2024

1:03 p.m.

**MEMBERS PRESENT**

Representative Tom McKay, Chair  
Representative George Rauscher, Vice Chair  
Representative Thomas Baker  
Representative Kevin McCabe  
Representative Dan Saddler  
Representative Stanley Wright  
Representative Jennie Armstrong  
Representative Donna Mears  
Representative Maxine Dibert

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 394

"An Act relating to the Regulatory Commission of Alaska and regulation of the service of natural gas storage and liquefied natural gas import facilities; relating to records of the Regulatory Commission of Alaska; relating to rates established by the Regulatory Commission of Alaska; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 393

"An Act relating to oil and gas leases and royalty shares; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 388

"An Act relating to state loans for oil and gas projects in the Cook Inlet sedimentary basin; relating to the Alaska Energy Authority; relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 359

"An Act relating to the permanent fund dividend and a one-time permanent fund dividend payment and land voucher; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 394

SHORT TITLE: RCA REGULATE NATURAL GAS STORAGE FACILITY

SPONSOR(s): RESOURCES

03/20/24	(H)	READ THE FIRST TIME - REFERRALS
03/20/24	(H)	RES, L&C
04/01/24	(H)	RES AT 1:00 PM BARNES 124
04/01/24	(H)	<Bill Hearing Rescheduled to 04/03/24>
04/03/24	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 393

SHORT TITLE: COOK INLET/MIDDLE EARTH GAS ROYALTIES

SPONSOR(s): RESOURCES

03/18/24	(H)	READ THE FIRST TIME - REFERRALS
03/18/24	(H)	RES, FIN
04/01/24	(H)	RES AT 1:00 PM BARNES 124
04/01/24	(H)	<Bill Hearing Rescheduled to 04/03/24>
04/03/24	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 388

SHORT TITLE: COOK INLET RESERVE-BASED LENDING

SPONSOR(s): RESOURCES

02/26/24	(H)	READ THE FIRST TIME - REFERRALS
02/26/24	(H)	RES, ENE, FIN
02/28/24	(H)	ENE REFERRAL REMOVED
03/06/24	(H)	RES AT 1:00 PM BARNES 124
03/06/24	(H)	<Bill Hearing Rescheduled to 03/11/24>
03/08/24	(H)	RES AT 1:00 PM BARNES 124
03/08/24	(H)	<Bill Hearing Canceled>
03/11/24	(H)	RES AT 1:00 PM BARNES 124
03/11/24	(H)	<Bill Hearing Canceled>
03/20/24	(H)	RES AT 1:00 PM BARNES 124
03/20/24	(H)	<Bill Hearing Canceled>
03/22/24	(H)	RES AT 1:00 PM BARNES 124
03/22/24	(H)	Heard & Held
03/22/24	(H)	MINUTE(RES)

03/27/24 (H) RES AT 1:00 PM BARNES 124  
03/27/24 (H) <Bill Hearing Canceled>  
04/03/24 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

TREVOR JEPSEN, Staff  
Representative Tom McKay  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** On behalf of the sponsor, the House Resources Standing Committee, on which Representative McKay serves as chair, presented HB 394; introduced HB 393 with a PowerPoint presentation; and presented the committee substitute for HB 388.

BECKY ALVEY, Manager  
Advisory Section  
Regulatory Commission of Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation, titled "House Bill 394: RCA Regulation of Gas Storage Facilities."

ROBERT DOYLE, Chair  
Regulatory Commission of Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 394.

JOHN SIMS, President  
Enstar Natural Gas  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 394.

DEREK NOTTINGHAM, Director  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 394.

BRETT HUBER, Commissioner  
Alaska Oil and Gas Conservation Commission  
Anchorage, Alaska

**POSITION STATEMENT:** Made comments during the hearing on HB 394.

RANDY RUARO, Executive Director  
Alaska Industrial Development and Export Authority  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions on HB 393 and HB 388.

MARK DAVIS, Special Counsel  
Alaska Industrial Development and Export Authority  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 388.

#### **ACTION NARRATIVE**

[1:03:14 PM](#)

CHAIR MCKAY called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Mears, Armstrong, McCabe, Saddler, Dibert, Wright, Baker, Rauscher, and McCay were present at the call to order.

#### **HB 394-RCA REGULATE NATURAL GAS STORAGE FACILITY**

[1:04:36 PM](#)

CHAIR MCKAY announced that the first order of business would be HOUSE BILL NO. 394, "An Act relating to the Regulatory Commission of Alaska and regulation of the service of natural gas storage and liquefied natural gas import facilities; relating to records of the Regulatory Commission of Alaska; relating to rates established by the Regulatory Commission of Alaska; and providing for an effective date."

[1:05:08 PM](#)

CHAIR MCKAY, on behalf of the sponsor, the House Resources Standing Committee, on which he serves as chair, presented the sponsor statement for HB 394 [copy included in the committee packet] which read as follows [original punctuation provided]:

HB 394 is aimed at enhancing the energy security of Southcentral Alaska by providing a clear regulatory framework for third-party natural gas storage. This bill was designed to establish a regulatory framework that not only encourages the expansion of natural gas and liquefied natural gas (LNG) storage facilities but also ensures these critical pieces of energy

infrastructure operate efficiently and remain economically viable.

HB 394 provides for the Regulatory Commission of Alaska (RCA) to have clear oversight authority over natural gas and LNG storage facilities, which will bring stability and predictability to the sector and make it more attractive to operators and investors. HB 394 defines principles for the determination of just and reasonable rates, ensuring that operation costs, tax incentives, and the fair market value of storage assets are all considered. This approach aims to foster fair pricing practices that benefit both consumers and businesses.

This bill also introduces measures to protect sensitive financial information, mandating confidentiality for certain records. This move strikes a balance between protecting commercial sensitivities and fulfilling the need for regulatory transparency. Additionally, the bill recognizes the complexities of state and federal regulations by exempting LNG import facilities that are already regulated by the federal government from state oversight.

HB 394 is a necessary piece of legislation if the state of Alaska wants to see third-party gas storage from the private sector. I urge my colleagues of the 33rd legislature to join me in supporting this bill which represents a decisive step towards reinforcing Southcentral Alaska's energy infrastructure and ensuring the well-being of our state.

[1:08:30 PM](#)

TREVOR JEPSEN, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of the sponsor, the House Resources Standing Committee, on which Representative McKay serves as chair, presented HB 394 via a PowerPoint presentation [hard copy included in the committee packet]. He began on slide 2, stating that HB 394 would address the regulations for the storage of liquefied natural gas (LNG) and the Regulatory Commission of Alaska (RCA). Considering the projected gas production shortage, he stated, the proposed legislation was created to encourage third-party gas storage in Cook Inlet. He stated that currently Cook Inlet Natural Gas Storage Alaska (CINGSA) is the only gas storage facility in Cook Inlet, on which Southcentral

Alaska is dependent. In order to increase storage volume, he argued, the state needs to capitalize on the depleted reservoirs in Cook Inlet for storage, and this storage would need to be regulated in a manner to attract the private sector. He noted the gas production issues CINGSA had during the winter, as this brought attention to the need for more gas storage.

[1:10:03 PM](#)

MR. JEPSEN discussed the four depleted reservoirs in the state, which are currently acting as active gas storage facilities, as seen on slide 3. He listed the following: CINGSA, Kenai Gas Pool 6, Pretty Creek, and Swanson River.

MR. JEPSEN moved to slide 4 and directed attention to the graphic to explain gas storage in depleted reservoirs. He defined the types of gas stored, as follows: cushion or pad gas, working gas, and inventory gas. In an example, he pointed out the amounts of each type of gas CINGSA maintains in a reservoir.

MR. JEPSEN moved to slide 5, which delineated the duties between the three state organizations that engage in gas storage activities. The organizations listed were the Alaska Oil and Gas Conservation Commission (AOGCC), the Department of Natural Resources (DNR), and RCA.

[1:13:22 PM](#)

MR. JEPSEN moved to slide 6, titled "HB 394 Overview," which read as follows [original punctuation provided]:

- Clarifies the regulation of natural gas storage operations liquified natural gas storage to the RCA under Chapter 5 of Title 42
- Exempts LNG import facilities already regulated by the Federal Energy Regulatory Commission (FERC)
- Clarifies that fair market value (FMV) costs related to gas storage operations will be considered when determining a just and reasonable rate under 42.05
- Creates confidentiality requirements related to financial statements of entities providing gas storage operations

[1:15:04 PM](#)

BECKY ALVEY, Manager, Advisory Section, Regulatory Commission of Alaska, provided a PowerPoint presentation, titled "House Bill 394: RCA Regulation of Gas Storage Facilities" [hard copy included in the committee packet]. On slides 2 through 4, she discussed the changes that HB 394 would present to RCA. She stated that the proposed legislation would require RCA to regulate natural gas storage and LNG storage, including those that are connected to a facility by a pipeline. The legislation would also address the rates and costs of storing gas, classify records as confidential, exempt some requirements concerning pipeline facilities, and exempt LNG facilities that are under the Federal Energy Regulatory Commission (FERC). She noted that HB 394 would also amend some definitions.

MS. ALVEY moved to slides 5 and 6 and addressed the potential impacts of the proposed legislation on RCA, which include that RCA would need to process applications for instate pipeline carriers with storage facilities, review and approve tariff filings for these carriers, and implement terms and rates for natural gas service. She continued that RCA would also need to review and approve tariff filings for natural gas and electric utilities that request cost recovery for using storage facilities. She stated that application forms and regulations may need to be revised and additional regulations may need to be implemented on the cost recovery provisions. She added that new regulations may be needed to address the confidentiality of records.

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CHAIR MCKAY asked whether RCA is in support of HB 394.

[1:19:56 PM](#)

ROBERT DOYLE, Chair, Regulatory Commission of Alaska, expressed support for the proposed legislation on behalf of himself, clarifying that because RCA had not yet voted on the issue, he was not speaking for the commission.

[1:20:08 PM](#)

REPRESENTATIVE SADDLER questioned how the role of the fair market value of oil and gas fields would affect the setting of rates.

COMMISSIONER DOYLE expressed the understanding that there would need to be a level playing field among all the storage facilities, and to do this all the investments and depreciation would need to be considered, as these are pieces of revenue requirements. In terms of gas contracts that utilities are signing, he said, RCA does not negotiate these; however, RCA would review and approve them. He stated that the wellhead price of natural gas would not be regulated, so the negotiations would address this.

REPRESENTATIVE SADDLER questioned how the value of the gas fields would be determined when they are contributing to recoverable costs.

COMMISSIONER DOYLE provided an example with CINCA's two new wells. He pointed out that there would need to be a reasonable return on CINCA's investment, depreciation would need to be determined, and the overall operating cost of the field would need to be considered. He stated that this would all go through a hearing process. He added that this would also depend on the statute and regulations enacted from the proposed legislation.

REPRESENTATIVE SADDLER expressed the understanding that only injection wells were used with the CINGSA example. He questioned whether the proposed legislation would concern gas fields currently producing gas, with the potential for storage in a facility.

COMMISSIONER DOYLE expressed the understanding that BRU [Beluga River Unit] is operated in a partnership, and it is an operating field that is being considered for gas storage. He deferred to DNR on whether an operating oil and gas field could be segregated out for storage.

[1:23:36 PM](#)

CHAIR MCKAY clarified that BRU stands for "Beluga River Unit," and the two CINGSA wells in the example are producer wells, not injector wells.

[1:23:55 PM](#)

REPRESENTATIVE MEARS pointed out the confidentiality part of HB 394 and the fact that RCA already deals with the financial details of utilities throughout the state. She questioned how this would be different from the confidentiality that already exists within RCA.

COMMISSIONER DOYLE answered that RCA deals with confidentiality issues frequently, but the proposed legislation would make this a specific piece of the statute.

[1:25:12 PM](#)

MS. ALVEY added that the current statutes provide confidentiality upon request. She stated that the proposed legislation would make the pipeline records confidential immediately. Otherwise, currently RCA's regulations provide that records are public.

REPRESENTATIVE MEARS questioned whether having blanket confidentiality for an entire regulated service would be unusual.

MS. ALVEY stated that in regulation some items are already deemed confidential; however, she expressed uncertainty on any specifics. She expressed the understanding that having these records confidential from the beginning would be different.

[1:27:03 PM](#)

REPRESENTATIVE BAKER questioned whether the proposed legislation would affect any operations at Point Thomson, where gas condensate is collected.

MR. JEPSEN responded that it would not affect Point Thomson, as this area would still be regulated under the Trans-Alaska Pipeline Authorization Act.

[1:27:52 PM](#)

REPRESENTATIVE SADDLER referenced slide 2 of RCA's presentation and questioned the language concerning storage furnished by facilities that are operated by pipeline carriers.

MR. JEPSEN responded that the proposed legislation would use the same language as the Trans-Alaska Pipeline Authorization Act. He explained that, per the proposed legislation, storage facilities that are now regulated under this Act, including those related to pipeline carriers, would be regulated under RCA.

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REPRESENTATIVE MEARS expressed the understanding that FERC would not be setting rates; therefore, there would not be an overlap between RCA and FERC on imported LNG. She requested a conversation on this. She questioned how the fair market rate would be determined in a constrained market place.

COMMISSIONER DOYLE answered that regardless of whether production is coming from current fields or BRU, the negotiating parties would set the negotiated agreements for LNG and the fair market price, with a review by RCA. He reiterated that RCA's role is not to negotiate; rather, it is to approve the final rates charged by the utilities to the customers.

[1:32:04 PM](#)

JOHN SIMS, President, Enstar Natural Gas, expressed the opinion that what the entities would regulate is a good question. He expressed the belief that the utility companies currently do not know whether they would own the infrastructure, or the gas would be bought at a determined rate. If it is a utility-type asset where the services are purchased, he expressed the support for RCA to be the regulatory body, and this is because of transparency purposes; however, he expressed the opinion that it would be too early to make a determination which entity should regulate this.

[1:33:54 PM](#)

MR. JEPSEN addressed why the FERC regulation would be necessary. He stated that FERC regulates plants participating in interstate commerce with LNG. He stated that the carveout was put in the proposed regulation because without it these plants would also be regulated by RCA. He noted that double regulation is not being sought.

[1:35:09 PM](#)

REPRESENTATIVE RAUSCHER pointed out that the bill would "encourage" third-party gas storage. He questioned whether the intention of the proposed bill would be to provide a framework for utilities, as they understand that future gas storage would be needed.

MR. JEPSEN expressed confusion by the question. However, per the addressed language, he explained that the word "encourage" was used so private sector companies would allow their storage to be used for third-party gas storage. He added that if

legislation does not address this, private storage might not be opened for use by utilities.

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CHAIR MCKAY expressed the understanding that HB 394 was not written to impact CINGSA; rather, it would be asking the private sector in Cook Inlet to provide additional storage so any future shortages would be addressed.

[1:37:18 PM](#)

REPRESENTATIVE SADDLER questioned whether the proposed legislation was written so storage facilities could accept imported gas.

MR. JEPSEN responded that HB 394 would apply to local and imported gas.

CHAIR MCKAY pointed out that this is important because the year 2030 would be the earliest that LNG could be imported; therefore, the proposed bill looks to the future.

[1:38:52 PM](#)

MR. JEPSEN gave the sectional analysis for HB 394 [copy included in the committee packet], which read as follows [original punctuation provided]:

Sec. 1 Adds new subsections to AS 42.05.141 to include the regulation of natural gas storage and liquefied natural gas storage under the jurisdiction of the Regulatory Commission of Alaska (RCA), including storage facilities operated by a pipeline carrier or part of a pipeline facility.

Sec. 2 Amends AS 42.05.381(k) to further specify cost considerations for storing gas in a gas storage facility or liquefied natural gas in a liquefied natural gas storage facility in determining just and reasonable rates.

Sec. 3 Provides a definition of "gas storage facility".

Sec. 4 Adds a new section to AS 42.05 to address the confidentiality of records related to the finances of

gas storage facilities, liquefied natural gas storage facilities, or public utilities providing natural gas storage services.

Sec. 5 Amends AS 42.05.711(q) to limit the exemption from RCA gas storage regulatory authority to gas storage associated with a North Slope natural gas pipeline facility operated by a North Slope natural gas pipeline carrier.

Sec. 6 Adds a new subsection to AS 42.05.711 to specify an exemption from RCA gas storage regulatory authority for liquefied natural gas import facilities under the jurisdiction of the Federal Energy Regulatory Commission (FERC).

Sec. 7 Adds new subsections to AS 42.06.140 to clarify RCA regulation of natural gas and liquefied natural gas storage under 42.05, including storage facilities operated by a pipeline carrier or part of a pipeline facility.

Sec. 8 Conforming language which adds a new subsection to AS 42.06.370 to specify cost considerations related to pipeline carriers in determining just and reasonable rates.

Sec. 9 Amends AS 42.06.445(a) by adding the new subsection (g) to the exceptions related to the public inspection of records in the possession of the commission.

Sec. 10 Adds a new subsection (g) to AS 42.06.445 which specifies the confidentiality of records held by the commission related to the finances of pipeline carriers.

Sec. 11 Conforming change repealing AS 42.05.990(10)(B) and AS 42.05.990(11)(B) which exempt natural gas and liquefied natural gas storage which is incidental to the production or sale of natural gas to third-party customers from 42.05.

Sec. 12 Provides for an immediate effective date.

[1:42:34 PM](#)

REPRESENTATIVE MCCABE questioned whether the proposed legislation would apply to carbon sequestration storage.

MR. JEPSEN expressed uncertainty, and he deferred the question to DNR. He expressed the understanding that the storage would need to be separated into natural gas or carbon sequestration.

REPRESENTATIVE MCCABE clarified that his question concerned whether the incentives would be the same.

CHAIR MCKAY expressed the opinion that this would be impractical because carbon dioxide is considered a waste product.

[1:43:54 PM](#)

DEREK NOTTINGHAM, Director, Division of Oil and Gas, Department of Natural Resources, expressed the understanding that carbon capture and sequestration would be separate, handled under different regulatory authorities.

CHAIR MCKAY expressed agreement that carbon dioxide cannot be stored in a natural gas well.

REPRESENTATIVE MCCABE interjected that he was not speaking about putting carbon dioxide in a natural gas reservoir. He questioned whether the natural gas sector would be given the same incentives as companies storing carbon dioxide.

MR. JEPSEN explained that carbon sequestration would not be economical without the federal government tax subsidy. He stated that because third-party gas storage would be regulated by RCA, with a fair market value, it would be economical. He continued that carbon sequestration and gas storage would be done by different processes, and he expressed uncertainty concerning the comparative economics.

[1:46:29 PM](#)

CHAIR MCKAY stated that HB 394 would be setting up the regulatory framework so gas can be stored on a temporary basis for use during winter conditions. He stated that the only economic component would be the sell of the gas. He pointed out that there would be no tax breaks or discounts.

MR. SIMS concurred with Chair McKay.

[1:48:14 PM](#)

REPRESENTATIVE SADDLER questioned the difference between a pipeline carrier and a pipeline facility.

MS. ALVEY answered that "pipeline facilities" is defined in statute as all the facilities of the total system, while pipeline carriers would reference the owners, including any corporations.

[1:51:02 PM](#)

REPRESENTATIVE MEARS expressed support for HB 394 and spoke to the importance of gas storage.

[1:52:03 PM](#)

MR. JEPSEN clarified that under HB 394 third-party gas storage would be available to any utility company that wanted to purchase the storage, not just Enstar Natural Gas.

[1:52:39 PM](#)

MR. SIMS reiterated the importance of having short-term, medium-term, and long-term storage planning for utilities. He noted that most of the language in the proposed legislation would be a policy call.

[1:53:11 PM](#)

BRETT HUBER, Commissioner, Alaska Oil and Gas Conservation Commission, stated that the commission currently regulates the wells, whether producers or injectors. He expressed the understanding that under HB 394 the commission would continue to do this.

[1:54:00 PM](#)

CHAIR MCKAY stressed that this would create a tool for immediate action that the legislature and the state government could take to protect the Railbelt during the winter.

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CHAIR MCKAY opened public testimony on HB 394. After ascertaining there was no one who wished to testify, he closed public testimony.

CHAIR MCKAY announced that HB 394 was held over.

[1:55:18 PM](#)

The committee took an at-ease from 1:55 p.m. to 1:57 p.m.

**HB 393-COOK INLET/MIDDLE EARTH GAS ROYALTIES**

[1:57:17 PM](#)

CHAIR MCKAY announced that the next order of business would be HOUSE BILL NO. 393, "An Act relating to oil and gas leases and royalty shares; and providing for an effective date."

CHAIR MCKAY, on behalf of the sponsor, the House Resources Standing Committee, of which he serves as chair, presented the sponsor statement for HB 393 [copy included in the committee packet] which read as follows [original punctuation provided]:

In the coming years, Southcentral Alaska faces a critical challenge: a projected shortage and ever-increasing decline in Cook Inlet gas production. This looming shortage poses a significant threat to the energy security of our state, with the potential to lead to drastic increases in energy prices for the residents and businesses of Southcentral Alaska. The prospect of diminishing in-state gas supplies and a reliance on liquefied natural gas (LNG) imports not only threatens our economic stability but also our way of life.

Due to the nature of this issue, bold and decisive action is required. HB 393 makes a significant change to the Cook Inlet royalty structure based on the idea that the Inlet is not attracting enough investment dollars and activity for development and exploration drilling. At this critical juncture, royalties on Cook Inlet gas which decrease drilling activity, increase the cost of gas, or lead to costly LNG imports represent a tax on southcentral ratepayers in addition to jeopardizing the energy security of our state.

This legislation seeks to address the anticipated gas production shortfall by decreasing royalty rates on new wells for gas used by Alaskans to 0%, with the goal of fostering an environment which will lead to increased drilling and exploration activities in the

Cook Inlet region. This bill also reduces the base royalty on wells currently producing to 5%, which will extend the life of those wells leading to more gas production. HB 393 extends incentives to "middle earth" and allows drilling and development costs to be deducted against royalty burdens. The rationale behind HB 393 is straightforward: by enhancing project economics, we can attract more investment into natural gas exploration and production. This increased investment will not only mitigate the risk of a gas shortage but also has the potential to stabilize energy prices for Southcentral Alaskans.

HB 393 is an acknowledgment of the critical role that affordable and reliable energy plays in our lives and a recognition of the need for immediate action to secure our energy future. I urge my colleagues in the 33rd Alaska State Legislature to join me in supporting HB 393.

[2:01:12 PM](#)

TREVOR JEPSEN, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of the sponsor, the House Resources Standing Committee, of which Representative McKay serves as chair, introduced HB 393 with a PowerPoint presentation, titled "HB 393 - Cook Inlet/Middle Earth Gas Royalties" [hard copy included in the committee packet]. He pointed out that the graph on slide 2 shows the projected decline of gas production in Cook Inlet in the coming decades. He noted that when this low-cost gas supply disappears, the cost would be felt across the entire state, not just Southcentral Alaska. He added that this would take over 15 to 20 years to happen but could cause such effects as the loss of population and higher government costs. He expressed the opinion that royalty modifications would be the most impactful tool, so it is crucial for the legislature to pass the proposed legislation this session.

MR. JEPSEN moved to slide 3 and pointed out the results of polls, which show there is a high level of Southcentral support for the state to utilize incentives to private companies and utilities for the purpose of identifying and pursuing projects, as this would ensure energy deliverability. He added that this would be gas produced in Alaska for Alaskans. He pointed out that there is also support for creating incentives for oil and gas companies to find and produce more Cook Inlet gas, and there

is a high percentage of the population opposed to importing natural gas.

MR. JEPSEN moved to slide 4, which provided background on Cook Inlet gas reserves. He pointed out that the slide shows a hypothetical to help understand gas volume and production prices going forward. He stated that the graph shows that easily accessible gas reserves are the least expensive, with cost rising incrementally on the graph to undiscovered gas. He noted that the cost of undiscovered gas would be comparable to the cost of LNG imports. He argued that the proposed royalty changes would lower the cost to the producers, which would in turn lower consumer costs.

[2:06:36 PM](#)

MR. JEPSEN moved to slide 5 and stated that in evaluating energy policy, the state should consider three factors. The first factor is whether the policy should be short term or long term. The second factor is the level of risk the state would take, as importing LNG would be a higher cost with a lower risk. He noted that forgoing royalties on new gas wells, as in the proposed legislation, would be a higher risk option. He added that this would be aimed at lower energy costs for residents. The final consideration would be how policies interact and complement each other. He expressed the opinion that HB 393 would work in conjunction with other committee bills to further increase project economics, making investment in Cook Inlet more attractive.

MR. JEPSEN moved to slide 6, which reviewed the potential fiscal impacts of the proposed legislation to Alaskans. He pointed out that the chart compares the cost resulting from the decrease of Cook Inlet royalties with the cost increase to ratepayers from LNG imports. He noted that even if there is no change to royalty relief, there is a projected decrease in Cook Inlet royalties over the next few decades. He noted that the Southcentral utility revenues represent ratepayers' costs. He argued that if LNG is imported, there would be a large increase to the ratepayers.

[2:10:15 PM](#)

MR. JEPSEN moved to slide 7 and discussed the royalty structure modifications. Based on the current lack of interest in the Cook Inlet sedimentary basin, he suggested that the market is sending a message that the current tax and royalty structure is

not ideal. He stated that the rate of return on gas is much lower than oil. He maintained that if royalties are reduced, rates of return and the economics of projects would be boosted, making projects more viable. He continued to address the effects of reducing royalties in new and producing wells. He stated that HB 393 would also not allow the assessment of royalties until payout, which is the recuperation of costs for oil and gas development in Cook Inlet in middle earth. He suggested that this would allow costs to be recouped quicker, and he acknowledged the time value of money.

MR. JEPSEN moved to slide 8 and provided an overview of HB 393. The slide read as follows [original punctuation provided]:

- Changes royalty structure for Cook Inlet:
  - 0% for gas produced from new wells drilled starting in FY25
  - 5% for oil produced from new wells drilled starting FY25
  - 5% on oil and gas produced from wells drilled prior to FY25
- Capital expenditures associated with development of oil or gas can be deducted from royalty burden; Excludes North Slope
  
- Requires commissioner to enter into lease negotiations to comply with these terms

[2:13:32 PM](#)

MR. JEPSEN moved to slide 9 and provided the sectional analysis for HB 393, which read as follows [original punctuation provided]:

Sec. 1 Amends AS 38.05.180(f) to allow an exception for the new subsection (mm). Changes royalty structure for Cook Inlet leases to 0% on gas and 5% on oil for wells drilled after July 1st, 2024, and 5% on oil and gas for wells drilled prior to July 1st, 2024.

[2:13:42 PM](#)

REPRESENTATIVE SADDLER questioned what the exception would be in Section 1.

MR. JEPSEN responded that this has to do with the terms of the oil and gas leases. It would require the commissioner to issue

oil and gas leases according to the subsection which changes the lease terms.

REPRESENTATIVE SADDLER reiterated the question.

CHAIR MCKAY deferred the question until after the sectional analysis.

[2:15:11 PM](#)

MR. JEPSEN continued with the sectional analysis, which read as follows [original punctuation provided]:

Sec. 2 Adds a new subsection (mm) to AS 38.05.180, stating that for leases issued for property in the state excluding land north of 68 degrees North latitude, the royalty share reserved to the state may not exceed zero if the lessee is recovering costs associated with development of oil or gas produced from a well drilled on or after July 1, 2024.

Sec. 3 Adds uncodified law regarding transition to comply with the changes in royalty rates which requires the commissioner of natural resources to enter into lease negotiations with a lessee holding a lease issued before the effective date of this Act in the Cook Inlet sedimentary basin to modify the lease to meet the royalty rates required by AS 38.05.180(f)(7) and (mm).

Sec. 4 Provides for an effective date of July 1, 2024.

[2:16:21 PM](#)

DEREK NOTTINGHAM, Director, Division of Oil and Gas, Department of Natural Resources (DNR), responded to Representative Saddler's question. He expressed the belief that the exception would be for new leases, as they would be exempted from the minimum royalty of 12.5 percent.

[2:17:04 PM](#)

REPRESENTATIVE MEARS expressed the belief that HB 393 would be a giveaway by the state, with no accountability or no promises of new gas. She argued that there needs to be a justification on how this would save consumers in utility rates, as this has not been discussed.

CHAIR MCKAY expressed disagreement, stating, "I would not say that we could ever promise anything." He continued that legislation is often put forward to incentivize the private sector, but what the private sector will do is not guaranteed. He asked Mr. Jepsen to discuss what could possibly happen if energy rates were to double or triple at the raw material end of the supply chain.

[2:18:54 PM](#)

MR. JEPSEN stated that the example on [slide 6] is a rough calculation using the information on royalty revenues to the state and revenues to Southcentral utilities. He suggested that if there is a doubling in price for utility gas heat and electricity, this would be a straight pass to the consumer rates, which would then likely double. He expressed agreement that there would be no guarantees and there would be risks. He stated that currently there is little interest in [developing gas] in Cook Inlet and changing the royalty would be an effort to bring in new gas producers. He maintained that this is an idea and a tool the state has, but there would be no guarantees.

[2:20:22 PM](#)

REPRESENTATIVE SADDLER referenced past legislation that had "no promises" for Cook Inlet, but it had worked. He discussed how lowering the royalty share would make investment in Cook Inlet more advantageous. He stated that this would be a policy call "to see if we think the give is worth the get."

[2:21:04 PM](#)

CHAIR MCKAY expressed the opinion that Representative Mears's question was "excellent." He stated that the conversation is important because the free market has not been responding. He pointed out that low-cost energy is essential for Alaska. He discussed how there has been no interest in developing oil and gas in Cook Inlet. He opined that the free market in Alaska is unlike the Lower 48, as it is isolated. He stated that the oil and gas field in Cook Inlet is very mature and "barely hanging on." He reminded the committee of the projection that Alaska would not be importing LNG for six more years. He reiterated that the state is isolated and not connected to a real market. He discussed the issue of the limited market for gas in the Railbelt and urged the committee that the state should not wait for the free market to take care of the situation, as the state

has very few levers, and addressing royalties is one of these levers.

[2:25:14 PM](#)

The committee took an at-ease from 2:25 p.m. to 2:26 p.m.

[2:26:42 PM](#)

REPRESENTATIVE SADDLER pointed out that the fiscal note is indeterminate, and he questioned whether there would be additional [staff needed] for analysis and accounting functions.

[2:27:34 PM](#)

MR. NOTTINGHAM expressed the belief that DNR already has the staff to do the accounting functions. He added that these functions would be similar to other duties that staff already performs. He stated that the indeterminate fiscal note has nothing to do with staff; rather, it is more to do with the uncertain outcomes of the proposed legislation.

[2:28:42 PM](#)

REPRESENTATIVE MEARS, referencing her previous question, stated that there are many unanswered questions on the potential impacts to utility companies. She argued that a rough estimate [on the effects of cutting royalties] is insufficient when discussing the potential impacts to consumers.

CHAIR MCKAY countered that there would be a significant impact if energy prices increased dramatically.

REPRESENTATIVE MCCABE opined that the free market is not present in the state because of taxes and the government. He suggested that taking away the taxes could possibly increase the availability of gas. He said, "Gas is going away, that's a fact." He suggested that the proposed legislation's impact would be the availability of gas, even if there is an increase in price, but this would be up to economics and gas as a finite resource. He argued that HB 393 would incentivize the gas industry to come to Alaska, so consumers would not be effected, as the consumers will be effected [with higher rates] soon.

[2:30:52 PM](#)

CHAIR MCKAY opened public testimony on HB 393. After ascertaining there was no one who wished to testify, he closed public testimony.

[2:31:16 PM](#)

MR. JEPSEN, following on Representative Mear's concern on "give aways," argued that with the projections, there would be no Cook Inlet royalty money within 10 to 15 years.

[2:31:42 PM](#)

REPRESENTATIVE SADDLER questioned whether there had been any research on how production is effected by a change in royalties.

MR. NOTTINGHAM expressed uncertainty on any studies. He stated that there is literature that suggests royalty reduction would incentive new activity and new oil and gas production. He stated that he would follow up on this with the committee.

[2:33:22 PM](#)

CHAIR MCKAY announced that HB 393 was held over.

**HB 388-COOK INLET RESERVE-BASED LENDING**

[Contains discussion of HB 393.]

[2:33:27 PM](#)

CHAIR MCKAY announced that the final order of business would be HOUSE BILL NO. 388, "An Act relating to state loans for oil and gas projects in the Cook Inlet sedimentary basin; relating to the Alaska Energy Authority; relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." [Before the committee, adopted on 3/22/24 as a working document, was the proposed committee substitute (CS) for HB 388, Version 33-LS1237\U, Nauman, 3/15/24 ("Version U").]

[2:33:42 PM](#)

The committee took a brief at-ease at 2:33 p.m.

[2:34:26 PM](#)

REPRESENTATIVE RAUSCHER made a motion and corrected the motion following the upcoming at-ease.

[2:35:03 PM](#)

The committee took a brief at-ease at 2:35 p.m.

[2:35:57 PM](#)

REPRESENTATIVE RAUSCHER moved to adopt the proposed CS for HB 388, Version 33-LS1237\R, Nauman, 3/30/24, as a working document. There being no objection, Version R was before the committee.

[2:36:41 PM](#)

TREVOR JEPSEN, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of the sponsor, the House Resources Standing Committee, on which Representative McKay serves as chair, presented the summary of changes for Version R of HB 388 [copy included in the committee packet], which read as follows [original punctuation provided]:

Sec. 1 New section which conforms the Cook Inlet reserve-based lending fund to current AIDEA dividend policy.

Sec. 2 New section which allows the creation of subsidiaries under AIDEA to handle reserve-based lending projects.

Sec. 3 Amends section 1 of 33-LS1237\U to remove the projected rate of return and AIDEA recommendation on whether to pursue projects from the reporting requirements associated with reserve-based lending projects identified by AIDEA. Adds a reporting requirement on the amount necessary to be appropriated by the legislature for projects.

Sec. 4 Amends section 2 of 33-LS1237\U to conform 44.88.850(a) with other AIDEA investment funds, allowing flexibility regarding the transfer of funds into and out of the account instead of designating the fund consist solely of appropriations made by the legislature. Adds an additional subsection (c) which requires the authority to set the interest rate for reserve-based loans and allows them to be less than the cost of funds to the authority. Provides for a definition of "cost of funds".

Sec. 5 Same as section 3 in 33-LS1237\U

Sec. 6 Same as section 4 in 33-LS1237\U

[2:39:38 PM](#)

CHAIR MCKAY stated that the proposed legislation would set up a fund within the Alaska Industrial Development and Export Authority (AIDEA) to invest in oil and gas development projects, of which the legislature could incentivize.

MR. JEPSEN, in response to Chair McKay, stated that the intent of HB 388, Version R, would be to set up a designated fund for Cook Inlet reserve-based lending. He stated that the loans would be based on the gas reserves in Cook Inlet, with the value of a specific loan based on the size of the reservoir. He explained this in more detail, stating that the high costs associated with big development projects, along with the fact the gas cannot be sold as needed, has hampered projects economically. He stated that the proposed legislation was designed to set up the fund under AIDEA to allow it to invest in Cook Inlet gas projects. He further discussed the economics of the proposed legislation.

CHAIR MCKAY added that Version R would not direct the state to appropriate money; it would only set up the regulatory framework for this to happen if the legislature decides to proceed with projects. He stated that AIDEA would then be allowed to manage the investment.

MR. JEPSEN concurred. He added that there is a reporting requirement proposed under the bill, so AIDEA would report back to the legislature on prospective projects.

[2:42:58 PM](#)

RANDY RUARO, Executive Director, Alaska Industrial Development and Export Authority, in response to a question from Representative McCabe, estimated that there are 200 billion cubic feet (Bcf) of crude reserves in [the Cosmopolitan Oil and Gas Field].

REPRESENTATIVE MCCABE questioned the amount of proven reserves in Cook Inlet.

MR. JEPSEN responded that, per the Department of Natural Resources (DNR), there are 800 Bcf of proven reserves in Cook Inlet, which equals approximately a 10-year supply.

REPRESENTATIVE MCCABE suggested that HB 388, Version R, and [HB 393] would create tools to go forward. He stated that [HB 393] would provide an incentive for investors, while HB 388, Version R, would create a loan program. He suggested that these pieces of legislation would incentivize the free market to find more gas for the energy needs in Southcentral.

MR. JEPSEN concurred that these House Resources Standing Committee Bills would work together to provide an alternate pathway and improve project economics.

CHAIR MCKAY interjected that HB 388 would not create a tax credit, but companies would pay back AIDEA. He requested that Mr. Ruaro comment on this.

[2:46:33 PM](#)

MR. RUARO explained that AIDEA has broad authority. He explained that previous legislation has been passed giving AIDEA specific authority to provide investments and loans. He stated that AIDEA supports Version R, as it would provide a tool to do this.

REPRESENTATIVE SADDLER questioned the contradiction in funding between the Alaska Energy Authority (AEA) and AIDEA in the two fiscal notes.

MR. RUARO answered that the fund would be established in AIDEA.

REPRESENTATIVE SADDLER suggested that the fiscal note provided by AEA be changed.

MR. JEPSEN interjected that this fiscal note would be removed once Version R passed from committee.

[2:48:35 PM](#)

REPRESENTATIVE SADDLER expressed the understanding that Version R would first create a reserve-based lending fund in AIDEA, and then the legislature would capitalize this with an appropriation. He continued that AIDEA would then lend the money to finance production. He questioned whether oil and gas reserves would be the collateral for the loans.

MR. RUARO answered that this would be a form of credit AIDEA could take; however, Version R would not limit AIDEA to only this collateral. In response to a follow-up question, he stated that 25 percent of the fund would pay the AIDEA dividend. He explained that this would conform with other AIDEA programs. He clarified that this would be from the net income of the fund, not the net value of the fund.

[2:50:59 PM](#)

REPRESENTATIVE SADDLER requested an explanation on the collateral and loan process.

[2:51:08 PM](#)

MARK DAVIS, Special Counsel, Alaska Industrial Development and Export Authority, explained that this reserve-based lending would be based on the reserve value of the well, which can be monetized. In response to a follow-up question, he stated that there would be other collateral taken, such as equipment a company may own. He added that there would need to be assurance that AIDEA would be paid back.

[2:52:26 PM](#)

REPRESENTATIVE MEARS pointed out that these loans may be significantly larger than other loans AIDEA has provided, adding that these loans would be less expensive. She questioned how this would affect AIDEA's other projects in the state.

MR. RUARO expressed the understanding that Version R would not require a below market interest rate; rather, this would be at the discretion of AIDEA. He continued that individual decisions on each application would be made.

[2:53:32 PM](#)

MR. DAVIS explained Interior Natural Gas Utility (IGU) loans, as defined in the uncodified section of House Bill 105 [passed during the Twenty-Ninth Alaska State Legislature]. In this instance, the legislature directed AIDEA to make the loan lower than the market rate, with some conditions; however, Version R would not do this. He stated that the proposed legislation would allow AIDEA to see the reserves as collateral rather than only using the cash flow. He noted that in startup situations often the cash flow is less than the value of the company, so

the proposed legislation would allow the reserves to hold the value to secure the loan.

[2:54:42 PM](#)

REPRESENTATIVE MCCABE questioned whether AIDEA had paid back \$11 million to the state general fund last year.

MR. RUARO responded in the affirmative.

[2:54:59 PM](#)

REPRESENTATIVE SADDLER questioned the size and scope of the proposed loans.

MR. RUARO expressed uncertainty whether there would be a minimum or maximum amount of the loans, as there are large and small producers in Cook Inlet. In response to a follow-up question concerning the largest investment AIDEA has made, he gave the example of a \$90 million loan and a \$40 million loan.

[2:56:16 PM](#)

MR. DAVIS stated that another way of looking at this would be the cost of drilling a well in Cook Inlet, and the last time AIDEA provided a loan was for the Endeavor rig, which cost an estimated \$20 million.

[2:56:52 PM](#)

MR. JEPSEN provided the example that a new platform in Cook Inlet would be \$500 million. He expressed the opinion that AIDEA would not be the sole funder of this.

MR. RUARO added that AIDEA is often not the only financing entity involved.

MR. DAVIS interjected that a few years ago the Endeavor had cost \$144 million, with AIDEA's investment being \$23 million, so there were other partners.

[2:57:44 PM](#)

REPRESENTATIVE MCCABE referenced the \$11 million that AIDEA paid to the general fund and suggested that AIDEA is like a "state bank," and the state is earning money from this.

MR. RUARO responded in the affirmative. He stated that AIDEA has provided dividends to the state of around \$500 million. He noted that this is just a part of the net income.

[2:58:44 PM](#)

CHAIR MCKAY commented that, other than making a state-run oil company, all avenues are being looked at to help Cook Inlet. He pointed out that using the private sector is a benefit because it "knows how to do this work."

[2:59:29 PM](#)

REPRESENTATIVE MEARS questioned whether the uniqueness of the proposed program prohibits these types of loans to be issued through existing programs in AIDEA.

MR. RUARO answered that AIDEA has a very broad discretion, but the details and specificity helps "sharpen the tool in the toolbox." He stated that it is not uncommon for the legislature to provide specific tools. He expressed the opinion that AIDEA could do this without the proposed legislation; however, having specific definitions and details would be helpful.

[3:00:44 PM](#)

CHAIR MCKAY announced that HB 388 was held over.

[3:00:54 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [3:01] p.m.