

**HB**

**280**

<target><bill>HB 280</bill><subject>HB  
280</subject><comm>SF26</comm></target>

# Representative Mike Hawker

## Alaska State Legislature



### House Bill 280

### "The Cook Inlet Recovery Act"

### Sponsor Statement

*Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 direct  
800 478-4950 toll free  
907 465-4979 fax

*Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

*House District 32:*

*Eagle River*  
*Anchorage*  
*Rainbow*  
*Indian*  
*Bird*  
*Girdwood*  
*Portage*  
*Whittier*  
*Sunrise*  
*Hope*

Residents of South Central Alaska are at risk that in the near future there will not be enough natural gas produced in Cook Inlet to heat and light their homes and businesses. Legislative action now can help address this challenge before it becomes a crisis.

A critical and universally recognized part of the solution is large-scale gas storage, allowing utilities to purchase gas during lower demand periods; hold the gas in storage; then withdraw it when needed. Establishing gas storage is crucial, and the state needs to promote the rapid development of storage facilities. House Bill 280, the Cook Inlet Recovery Act (CIRA), provides tax incentives and regulatory assurances to attract the private investment necessary to develop storage facilities and help reduce the cost of storage to consumers.

Specifically, CIRA provides a 10-year exemption from state land lease fees and rents to owners of new gas storage facilities. Since storage is needed urgently, these financial incentives will be available only for facilities put into operation before December 31, 2015. CIRA sets standards, such as minimum size and access requirements, for qualifying projects. Consumers will benefit from increased energy security and lower energy costs, as any financial incentives are required to pass through the supply chain to utilities and, in turn, to their customers.

In addition to storage, South Central also needs new gas discoveries. CIRA increases the incentives for exploration in Cook Inlet and allows explorers and producers to take their full benefit in one year rather than over two years.

CIRA also provides statutory guidance to the Regulatory Commission of Alaska in its consideration of utility gas supply contracts to help ensure adequate supplies of reasonably priced gas in the years ahead.

2/5/10

Rep.Mike.Hawker@legis.state.ak.us • <http://www.akrepublicans.org/hawker/>

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## House Bill 280

### "The Cook Inlet Recovery Act"

#### Summary of Changes

#### **Senate Resources Committee:**

Most of the changes adopted in the Senate Resources were requested by the Department of Revenue to clarify the intent of the legislation. This includes the addition of Section 14, which ensures that passage of CIRA will not affect the Department of Revenue's existing authority and discretion in valuing gas.

The substantive changes, also to respond to concerns by the Department of Revenue, were:

- In addition to other qualifications for tax credits in this bill, requires AOGCC to certify that a proposed facility meet the statutory definition of a gas storage facility.
- Allows the Department of Revenue to buy back a refundable credit from a taxpayer that has tax liability for previous years, as long as the tax due for the calendar year is zero.
- Rewords the definition for "well lease expenditure" and removed the tax credit for overhead expenses.

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/10/10

FURTHER:

DATE TURNED IN TO OFFICE: 4/18/10

**Finance Committee** considered CS FOR HOUSE BILL NO. 280(FIN) am

## HB 280 NATURAL GAS: STORAGE/ TAX CREDITS

"An Act relating to a gas storage facility; relating to the Regulatory Commission of Alaska; relating to the participation by the attorney general in a matter involving the approval of a rate or a gas supply contract; relating to an income tax credit for a gas storage facility; relating to oil and gas production tax credits; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to production tax credits for certain losses and expenditures, including exploration expenditures; relating to the powers and duties of the director of the division of lands and to lease fees for a gas storage facility on state land; and providing for an effective date."

and recommends:

- be replaced with  SCS or  CS CS#B 280 (FIN)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

**SENATE BILL:**

- Same Title
- New Title

**HOUSE BILL:**

- Same Title
- Technical Title Change
- New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/10	✓			

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
ADM	2/8			✓	1
CED	2/8			✓	2
REV	3/23			✓	5

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	DO NOT PASS	NO REC	AMEND
	Huggins	✓			
	Thomas	✓			
	EGAS	✓			
	ELLIS	✓			
				✓	
				✓	

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: Sen CS for CSHB 280  
 ( ) Publish Date: \_\_\_\_\_

Identifier (file name): HB 280-DNR-OG-04-10-10 Dept. Affected: Natural Resources  
 Title: Cook Inlet Recovery Act RDU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Rep. Hawker, Chenault, et al.  
 Requester: (H) Labor & Commerce Committee Component Number: 439

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>				Indeterminate				
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FUND SOURCE		(Thousands of Dollars)					
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

Senate Bill (SB) 280 offers tax credits for Cook Inlet gas storage facilities and provides a 40 percent production tax credit intended to promote gas extraction and production in the Cook Inlet.

There is no anticipated fiscal impact to the Division of Oil and Gas for the management of gas storage on state land. However, Sec 3 of the bill will provide a 1st year holiday on all storage fees and rents for the storage lease. Also, the accounting convention described in this section means that non-flammable gas will be withdrawn from storage first and no royalty revenue will accrue to native gas until all non-flammable gas is withdrawn. Non-flammable gas industry will respond to the tax credits offered by this bill and therefore the impact of fees, rents and royalty revenues is indeterminate.

Prepared by: Kevin Banks  
 Division: Director  
 Approved by: \_\_\_\_\_  
Natural Resources

Phone: 269-8800  
 Date/Time: 4/10/10 4:00 PM  
 Date: \_\_\_\_\_

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 5  
Bill Version: CSHB 280(FIN)  
(H) Publish Date: 3/24/10

Identifier (file name): CSHB280(FIN) -REV-TAX-3-23-10 Dept. Affected: Revenue  
Title: Cook Inlet Recovery Act RDU: Taxation and Treasury  
Sponsor: Representative Hawker Component: Tax Division  
Requester: House Finance Committee Component Number: 2476

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2012	FY 2013	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other-AHFC Receipts								
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2009) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: Co-Chair Rep. Stoltze Phone 465-4958  
House Finance Committee Date/Time 3/23/2010 4:55PM  
Co-Chair Rep. Hawker Date 3/23/2010  
House Finance Committee

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 280(L&C)  
(H) Publish Date: 2/17/10

Identifier (file name): HB280-CED-RCA-02-08-10 Dept. Affected: DCCED  
Title: Natural Gas RDU: Regulatory Commission of Alaska (399)  
Component: Regulatory Commission of Alaska  
Sponsor: Hawker, Chenault  
Requester: House Labor & Commerce Component Number: 2417

## Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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## FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: 0.0

### POSITIONS

Full-time								
Part-time								
Temporary								

### ANALYSIS: *(Attach a separate page if necessary)*

The proposed legislation would provide financial incentives for natural gas storage facilities and for exploration in the Cook Inlet basin, and provide general guidance to the Regulatory Commission of Alaska (RCA) on natural gas pricing. Statutes governing the general powers and duties of the RCA would be revised to require the RCA, when considering whether approval of a natural gas supply contract is in the public interest, to (1) recognize the public benefits of a utility's ability to negotiate different pricing mechanisms with different suppliers and maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive costs that may arise from a single pricing mechanism, and (2) consider whether the utility could meet its responsibility to the public in a timely manner should the rate of gas supply contract not be approved.  
(ANALYSIS CONTINUED)

Prepared by: Robert M. Pickett, Chairman  
Division: Regulatory Commission of Alaska  
Approved by: Emil R. Notti, Commissioner  
Commerce, Community, and Economic Development

Phone 907.276.6222  
Date/Time 2/8/10 11:30 AM  
Date 2/8/2010

**FISCAL NOTE #2**

**STATE OF ALASKA  
2010 LEGISLATIVE SESSION**

**BILL NO. CSHB 280(L&C)**

**ANALYSIS CONTINUATION**

This legislation would require that certain factors be recognized or considered when the RCA determines whether to approve natural gas supply contracts. The RCA expects to implement the provisions of this legislation with existing resources. The RCA can incorporate this review into the existing review process for natural gas supply contracts.

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 280(L&C)  
(H) Publish Date: 2/17/10

Identifier (file name): HB280-DOA-AOGCC-02-08-10 Dept. Affected: Admin  
Title: "An Act relating to natural gas; relating to a gas storage facility; relating to the Regulatory Commission of Alaska..." RDU: AOGCC  
Component: AOGCC  
Sponsor: Representatives Hawker and Chenault  
Requester: (H) L&C Component Number: 2010

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Interagency Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** (Attach a separate page if necessary)

Additional work for the Alaska Oil and Gas Conservation Commission resulting from this bill could be managed by existing staff. The agency therefore submits a zero fiscal note.

Prepared by: Jody J. Colombia, Special Assistant I Phone (907) 793-1221  
Division: Alaska Oil and Gas Conservation Commission Date/Time 02/08/10 12:00pm  
Approved by: Rachael Petro, Deputy Commissioner Date 2/8/2010  
Department of Administration

Hawker 4-14-10

## HB 280

### Cook Inlet Recovery Act - Sectional Analysis

Prepared by Representative Mike Hawker's Office

- Section 1:** Sets out a short title for the legislation: Cook Inlet Recovery Act (CIRA).
- Section 2:** Establishes an application process, criteria and timeline for the Alaska Oil and Gas Conservation Commission (AOGCC) to certify that a gas storage facility (GSF) meets the qualifications in statute to be eligible for the financial incentives provided in this bill, including minimum working gas storage capacity and daily delivery rate requirements.
- Requires a GSF owner to notify the AOGCC if the facility ceases operation.
- Provides definitions for terms used in CIRA.
- Section 3:** Requires the Director of the Division of Mining, Land and Water to give priority to and expedite "when reasonably possible" any applications, permits and lease assignments needed for development and operation of a GSF.
- Section 4:** Prohibits the Director of the Division of Mining, Land and Water from denying a lease application for a natural gas storage facility solely because the facility would be used exclusively or primarily to store gas owned by the owner or operator of the facility.
- Section 5:** Directs the Department of Natural Resources (DNR) to waive any state land lease fees or rents for the first 10 years of a GSF's operation. The waiver would stop if the storage facility ceases commercial operations.
- States that any waivers of lease fees or rents would be public record.
- Requires that the GSF pass on the financial benefits of any lease exemption to utilities that use its service.
- Clarifies that any gas withdrawn from a GSF is considered to be non-native gas and not subject to royalty until all non-native gas is withdrawn.
- Section 6:** Directs the Regulatory Commission of Alaska (RCA), when considering the approval of a utility's gas supply contract, to consider the impact on consumers if the commission rejects a utility's gas supply contract and to recognize the value of a utility holding a diversified portfolio of gas supply contracts with different pricing mechanisms in order to protect consumers from inadequate gas supplies and the risk of a single pricing mechanism.
- Section 7:** Requires that a utility's cost of gas storage that is passed on to consumers reflect the financial benefits of any tax credits and state lease exemptions provided in this legislation.
- Section 8:** Clarifies that a natural gas storage facility that is part of a regulated natural gas pipeline (regulated under AS42.06) shall not also be regulated as a utility under the new provisions of AS42.05 in this bill.

**Section 9:** Specifies that the RCA has jurisdiction over natural gas storage services provided for gas that is owned by a regulated utility.

**Section 10:** Further defines "natural gas storage facility" and clarifies what equipment and facilities are considered part of the storage facility.

Further defines that RCA regulation of gas storage facilities is limited to facilities operated primarily or exclusively for third-party customers; regulation does not extend to a proprietary storage facility operated exclusively or primarily to hold gas owned by the storage facility owner or operator.

**Section 11:** Clarifies that the names of taxpayers and the amount of credits received for a GSF under this legislation shall be public information. Requires the Department of Revenue (DOR) to furnish the information to the RCA.

**Section 12:** Establishes a credit against corporate income taxes of \$1.50 per thousand cubic feet of new gas storage capacity opened in Alaska during 2011-2015. The credit is limited to the lesser of \$15 million or 25% the costs incurred to establish the GSF. This section sets out minimum capacity and deliverability requirements to qualify for the credit, including that the GSF must be available for use by regulated utilities and, if utilizing state land, must be in compliance with its DNR storage lease. The credit can be refunded by the state at full value if the owner does not have enough taxable income to fully utilize it.

**Section 13:** Sunsets on January 1, 2011, the rule that limits how certain oil and gas production tax credits arising from activity in Cook Inlet or from producing gas for in-state use are used. This would allow a Cook Inlet explorer or producer to explore or produce elsewhere in the state and have full access to the credits it earned from its Cook Inlet activities.

**Section 14:** Clarifies that DOR's existing authority and discretion in valuing gas also applies to gas produced and stored in a gas storage facility. This section was added to ensure that passage of CIRA did not affect DOR's current practice.

**Section 15:** Clarifies that any native gas in a gas storage facility shall be deemed not to be produced for production tax purposes until all of the non-native gas injected into the storage facility has been withdrawn.

**Section 16:** Allows explorers in Cook Inlet to receive their full production tax credit in the first year rather than over two years (as in current statute).

**Section 17:** Makes additional statutory changes to allow explorers in Cook Inlet to receive their full production tax credit the first year rather than over two years (as in current statute).

**Section 18:** Adds the new Cook Inlet-related well tax credits to the section in statute dealing with audits of transferred tax credits.

- Section 19:** Provides a 40% credit for exploration expenses in Cook Inlet against production taxes, rather than the two-tiered 30% / 40% credit in existing statute. In addition, all well-related lease expenditures in Cook Inlet, including non-capital and non-exploration related lease expenditures, also qualify for the credit. The section also defines which expenses qualify as a "Cook Inlet well lease expenditure" to be eligible for the tax credit.
- Section 20:** Allows the state to use funds from the oil and gas tax credit fund to refund the tax credits issued to a GSF.
- Section 21:** Makes additional changes to make it easier for a company to sell its Cook Inlet exploration credits to the state. Current law requires that before a company can sell credits back to the state it must prove it has spent an amount equal to the credit in Alaska. HB 280 would eliminate that requirement for Cook Inlet exploration credits.
- Section 22:** Authorizes DOR to write regulations implementing certain aspects of Section 17.
- Section 23:** Directs the Office of Public Advocacy & Regulatory Affairs (RAPA) at the Department of Law, when considering whether to participate in a utility rate case regarding a utility's gas supply contract before the RCA, to consider the impact to consumers if the commission rejects a utility's gas supply contract and to recognize the value of a utility holding a diversified portfolio of gas supply contracts with different pricing mechanisms in order to protect consumers from inadequate gas supplies and the risk of a single pricing mechanism.
- Section 24:** Immediate effective date clause.

**HB 280****Cook Inlet Recovery Act (CIRA) - Overview**

Prepared by Representative Mike Hawker's Office

CIRA provides a statutory framework and financial incentives for developing large-scale natural gas storage facilities and also makes changes to Cook Inlet exploration tax credits to encourage exploration and development of new gas discoveries.

**Gas Storage Facilities**

- ◇ Incentives include:
  - Land lease and fee exemption for 10 years
  - NEW income tax credit
    - Credit is based on capacity, certified by AOGCC: \$1.50/1,000 cubic feet (cf) of working storage capacity
    - Maximum credit is the lesser of \$15 million per facility or 25% of costs incurred to establish the GSF
    - Credit is fully refundable by the state
    - Expedited/priority processing of applications by DNR, when reasonably possible

◇ Incentives apply to gas storage facility that meets minimum capacity and delivery requirements, certified by AOGCC:

- Minimum Working Storage Capacity: 500 million cf
  - Minimum Daily Delivery Capacity: 10 million cf
- ◇ Available for a GSF that commences operations between Jan. 1, 2011, and Dec. 31, 2015

- ◇ All financial benefits and the names of those receiving the benefits are public information
- ◇ All financial benefits must be passed on to utilities, which then pass on to consumers
- ◇ All financial benefits stop when a project ceases operation
- ◇ CIRA also mandates RCA regulation of gas storage facilities that hold gas owned by regulated utilities.

**Gas Exploration in Cook Inlet**

- ◇ Changes to existing credits:
  - Allows 100% of credits earned by explorers in the Cook Inlet to be used elsewhere in the state; current statute generally limits those credits to be applied only to actual taxes paid on Cook Inlet production
  - Allows the full amount of the credit to be used in the year issued; current statute allows only half of the credit to be used in one year
  - Provides a 40% credit for exploration within Cook Inlet; current statute contains a variable (30% or 40%) credit based on the proximity of the exploration to an existing well.

## **HB 280 Overview (cont.)**

### **Definitions**

**Gas storage facility:** A depleted or nearly depleted reservoir or aboveground tank used to store natural gas produced offsite and delivered to the storage facility to hold until needed. The owner of the gas — a utility, for example — would inject gas into the facility and would pay the facility operator for storage service.

**Working gas storage capacity:** The maximum amount of natural gas the storage facility could safely hold for its storage customers.

**Cushion gas (also known as pad gas):** The volume of gas that must be maintained in the storage facility to provide adequate pressure for operations. The storage operator, not the storage customers, would own the cushion gas.

**Native gas:** In the case of a nearly depleted reservoir, native gas is the natural gas that exists in the reservoir at the time it is developed for use as a storage facility. Native gas is used as cushion gas to maintain pressurization. If all of the non-native working gas that was injected for storage is withdrawn and native gas is eventually produced, state tax and royalty would be assessed.

**Non-native working gas:** Natural gas that is produced from another reservoir and delivered to the storage facility and held until needed. For example, a utility could purchase gas from a Cook Inlet producer and have it delivered to the storage facility for safekeeping until the utility needs the gas to meet customer demand. At that point, the utility would instruct the gas storage operator to deliver the quantity of gas required. The utility, not the storage operator, would own the gas in storage. State tax and royalty would be assessed on the non-native working gas when it is first produced and sold to the utility; no additional taxes or royalties would be due when it is withdrawn from storage for delivery to the utility.

## HB 280 Overview (cont.)

### FAQs

1. What are the minimum requirements for a gas storage facility (GSF) to qualify for financial incentives in the Cook Inlet Recovery Act? Who determines if a GSF meets these requirements?

*In order to qualify for the financial incentives in CIRA, a GSF must have the capacity to store more than 500 million cubic feet of working gas and deliver gas at a rate of at least 10 million cubic feet per day. The Alaska Oil and Gas Conservation Commission (AOGCC) will be required to certify these capacities within six months of receiving an application and provide the certification to the applicant, the Department of Natural Resources and the Department of Revenue.*

2. What happens if the GSF stops operating?

*A GSF ceases operations if it doesn't inject or withdraw at least 100 million cubic feet of gas in a calendar year. The operator is required to notify the AOGCC by April 1<sup>st</sup> of the following year. If this happens, the GSF will no longer be eligible for state lease fees exemptions or tax credits.*

3. Sections 5 and 15 of the bill state that gas withdrawn from a GSF is considered to be non-native gas and not considered to be produced until all non-native gas has been withdrawn. What does this mean and why do we need this language?

*This language requires that state follow last-in, first-out accounting rules for gas in a GSF. "Native gas" is any gas that is already in a storage facility and will be subject to existing royalty and production taxes when it is produced. "Non-native gas" includes all gas that is injected into the facility for temporary storage - royalty and production taxes were assessed when it was produced. By including this language, it is clear that non-native gas extracted from a GSF is not taxed twice and native gas is not subject to royalty and production taxes until all non-native gas is withdrawn.*

4. Gas storage companies are receiving lease exemptions and tax breaks under CIRA. Are these savings passed on to the consumer?

*Yes. Language in sections 5 and 7 require the owner of a GSF to reflect the savings of any financial benefits enacted in CIRA in their gas storage price.*