

**SB**

**208**

<target><bill>SB 208</bill><subject>SB  
208</subject><comm>SF26</comm></target>

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/10/10

FURTHER: Rules

DATE TURNED  
IN TO OFFICE: 4-7-10

Finance Committee considered SENATE BILL NO. 208

## SB 208 DNR STUDY ON NATURAL GAS

"An Act requiring the Department of Natural Resources to evaluate current incentives and recommend additional incentives that would increase gas exploration, development, and production in the Cook Inlet sedimentary basin; and requiring the Department of Natural Resources to evaluate the means by which the department may explore for, purchase, and sell natural gas from newly proved gas reserves in the Cook Inlet sedimentary basin."

and recommends:

- adopt previous  SCS or  CS SB 208 (RES)
- adopt previous  SCS or  CS \_\_\_\_\_
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

<b>SENATE BILL:</b>	
<input type="checkbox"/> Same Title	
<input checked="" type="checkbox"/> New Title	
<b>HOUSE BILL:</b>	
<input type="checkbox"/> Same Title	
<input type="checkbox"/> Technical Title Change	
<input type="checkbox"/> New Title w/ SCR # _____	


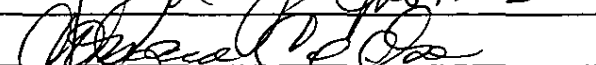

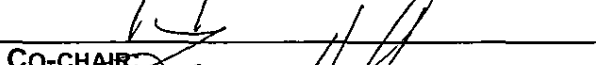
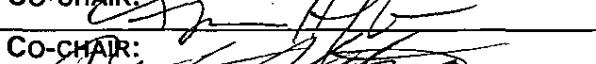
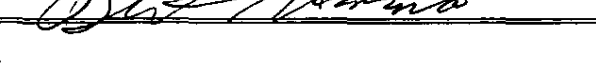
**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
SFIN for DNR	4/6			✓	2
REV	4/5			✓	3

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	HUGH DOWNS	<input checked="" type="checkbox"/>			
	THOMAS	<input checked="" type="checkbox"/>			
	OLSON			<input checked="" type="checkbox"/>	
	ELLIS	<input checked="" type="checkbox"/>			
CO-CHAIR: 	Hoffman	<input checked="" type="checkbox"/>			
CO-CHAIR: 	Feldman			<input checked="" type="checkbox"/>	

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2  
 Bill Version: CSSB 208 (RES)  
 ( ) Publish Date: 4/7/10

Identifier (file name): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title: Cook Inlet Gas Exploratoion Incentives RDU: Resource Development  
 Sponsor: Sen. Wielechowski Component: Oil and Gas Development  
 Requester: Senate Finance 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>								

**CHANGE IN REVENUES ( )**

**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: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

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

Funding for this report is included in the FY11 capital budget.

Prepared by: Darwin Peterson Phone 465-3873/465-4453  
Senate Finance Committee Staff Date/Time \_\_\_\_\_  
 Approved by: Senate Finance Committee Date 4/6/2010  
Co-Chair Bert Stedman/Co-Chair Lyman Hoffman

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 3  
 Bill Version: CSSB 208 (RES)  
 ( ) Publish Date: 4/7/10

Identifier (file name): CSSB208(RES)-REV-TAX-04-05-10 Dept. Affected: Revenue  
 Title: DNR Study on Natural Gas RDU: Taxation and Treasury  
 Component: Tax Division  
 Sponsor: Senator Wielechowski  
 Requester: Senate 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 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>								
<b>CHANGE IN REVENUES ( )</b>								

\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE** (Thousands of Dollars)

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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: 0.0

**POSITIONS**

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

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

SB 208 requires the Department of Natural Resources and Department of Revenue to complete a report by November 1, 2010 for the legislature dealing with potential measures to encourage the investment needed to bring on undeveloped and unproven gas resources in the Cook Inlet.

\$200,000 is included in the Natural Resources fiscal note for SB208 to cover the costs of an outside consultant and legal advice. Both departments will supplement this amount with existing resources, and will work together to complete the study by November 1, 2010. Because of the short timeline, the departments will evaluate whether an existing contract with an outside consultant can be modified to include this work.

Prepared by: Ian Laing, Project Manager  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone 907-392-9449  
 Date/Time 4/5/10; 5:05 pm  
 Date 04-05-10; 5:43pm

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/10/10

FURTHER:

DATE TURNED  
IN TO OFFICE: 4-7-10

Finance Committee considered SENATE BILL NO. 208

## SB 208 DNR STUDY ON NATURAL GAS

"An Act requiring the Department of Natural Resources to evaluate current incentives and recommend additional incentives that would increase gas exploration, development, and production in the Cook Inlet sedimentary basin; and requiring the Department of Natural Resources to evaluate the means by which the department may explore for, purchase, and sell natural gas from newly proved gas reserves in the Cook Inlet sedimentary basin."

and recommends:

- be replaced with  SCS or  CS SB 208 (RES)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

<b>SENATE BILL:</b>	
<input type="checkbox"/> Same Title	
<input checked="" type="checkbox"/> New Title	
<hr/>	
<b>HOUSE BILL:</b>	
<input type="checkbox"/> Same Title	
<input type="checkbox"/> Technical Title Change	
<input type="checkbox"/> New Title w/ SCR # _____	


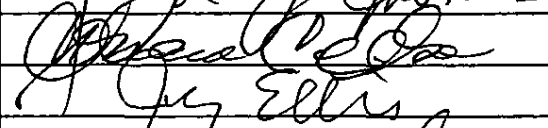



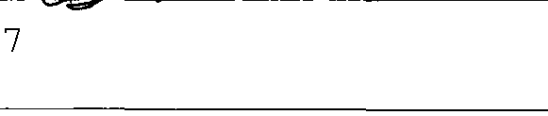
**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
SFIN for DNR	4/6			✓	
REV	4/5			✓	

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	HUGHMAS	<input checked="" type="checkbox"/>			
	THOMAS	<input checked="" type="checkbox"/>			
	OLSON			<input checked="" type="checkbox"/>	
	ELLIS	<input checked="" type="checkbox"/>			
CO-CHAIR: 	Hoffman	<input checked="" type="checkbox"/>			
CO-CHAIR: 	Stedman			<input checked="" type="checkbox"/>	

# FISCAL NOTE

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

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSSB 208 (RES)  
 () Publish Date: \_\_\_\_\_

Identifier (file name): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title Cook Inlet Gas Exploratoion Incentives RDU Resource Development  
 Sponsor Sen. Wielechowski Component Oil and Gas Development  
 Requester Senate Finance 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>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>

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

**POSITIONS**

Full-time								
Part-time								
Temporary								

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

Funding for this report is included in the FY11 capital budget.

Prepared by: Darwin Peterson Phone 465-3873/465-4453  
Senate Finance Committee Staff Date/Time \_\_\_\_\_  
 Approved by: Senate Finance Committee Date 4/6/2010  
Co-Chair Bert Stedman/Co-Chair Lyman Hoffman

# FISCAL NOTE

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

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SB 208  
 () Publish Date: \_\_\_\_\_

Identifier (file name): CSSB208(RES)-REV-TAX-04-05-10  
 Title: DNR Study on Natural Gas  
 Sponsor: Senator Wielechowski  
 Requester: Senate Finance Committee  
 Dept. Affected: Revenue  
 RDU: Taxation and Treasury  
 Component: Tax Division  
 Component Number: 2476

**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>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		0.0	0.0	0.0	0.0	0.0	0.0	0.0
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: 0.0

**POSITIONS**

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

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

SB 208 requires the Department of Natural Resources and Department of Revenue to complete a report by November 1, 2010 for the legislature dealing with potential measures to encourage the investment needed to bring on undeveloped and unproven gas resources in the Cook Inlet.

\$200,000 is included in the Natural Resources fiscal note for SB208 to cover the costs of an outside consultant and legal advice. Both departments will supplement this amount with existing resources, and will work together to complete the study by November 1, 2010. Because of the short timeline, the departments will evaluate whether an existing contract with an outside consultant can be modified to include this work.

Prepared by: Ian Laing, Project Manager  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone 907-392-9449  
 Date/Time 4/5/10; 5:05 pm  
 Date 04-05-10; 5:43pm

*replaced*

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSSB 208(RES)  
(S) Publish Date: 3/10/10

Identifier (file name): SB 208-DNR-O&G-02-04-10 Dept. Affected: Natural Resources  
Title: Cook Inlet Gas Exploration Incentives RDU: Resource Development  
Sponsor: Sen. Wielechowski Component: Oil and Gas Development  
Requester: Senate Resources 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	200.0							
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>200.0</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)						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts								
1003 GF Match								
1004 GF	200.0							
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>200.0</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)

SB 208 requires the Department of Natural resources to complete a report by November 1, 2010 for the legislature dealing with potential measures to encourage the investment needed to bring on undeveloped and unproven gas resources in the Cook Inlet.

It is estimated that \$200,000 will be required for an outside consultant and legal advice. If the study must be completed by November 1, 2010, DNR will evaluate whether an existing contract with an outside consultant can be modified to include this work. It will be a challenge to complete a thoughtful and comprehensive study in such a short period of time.

Prepared by: Kevin Banks  
Division: Director  
Approved by: Tom Irwin  
Natural Resources

Phone 269-8800  
Date/Time 2/4/10 5:00 PM  
Date 2/5/2010

(Revised 11/6/2009 OMB)

# ALASKA STATE LEGISLATURE

*Session*  
State Capitol, Rm. 115  
Juneau, AK 99801  
(907) 465-2435  
Fax: (907) 465-6615

*Interim*  
716 W. 4<sup>th</sup> Ave, Ste. 540  
Anchorage, AK 99501  
(907) 269-0120  
Fax: (907) 269-0122



Co-chair  
Senate Resources Committee  
Joint Armed Services Committee  
  
Vice-chair, Judiciary Committee  
  
Member, Energy Committee  
Member, World Trade and  
Technology

Senator\_Bill\_Wielechowski@legis.state.ak.us

## SENATOR BILL WIELECHOWSKI

### Sponsor Statement

#### CS for SB 208: Cook Inlet Energy Incentives Act

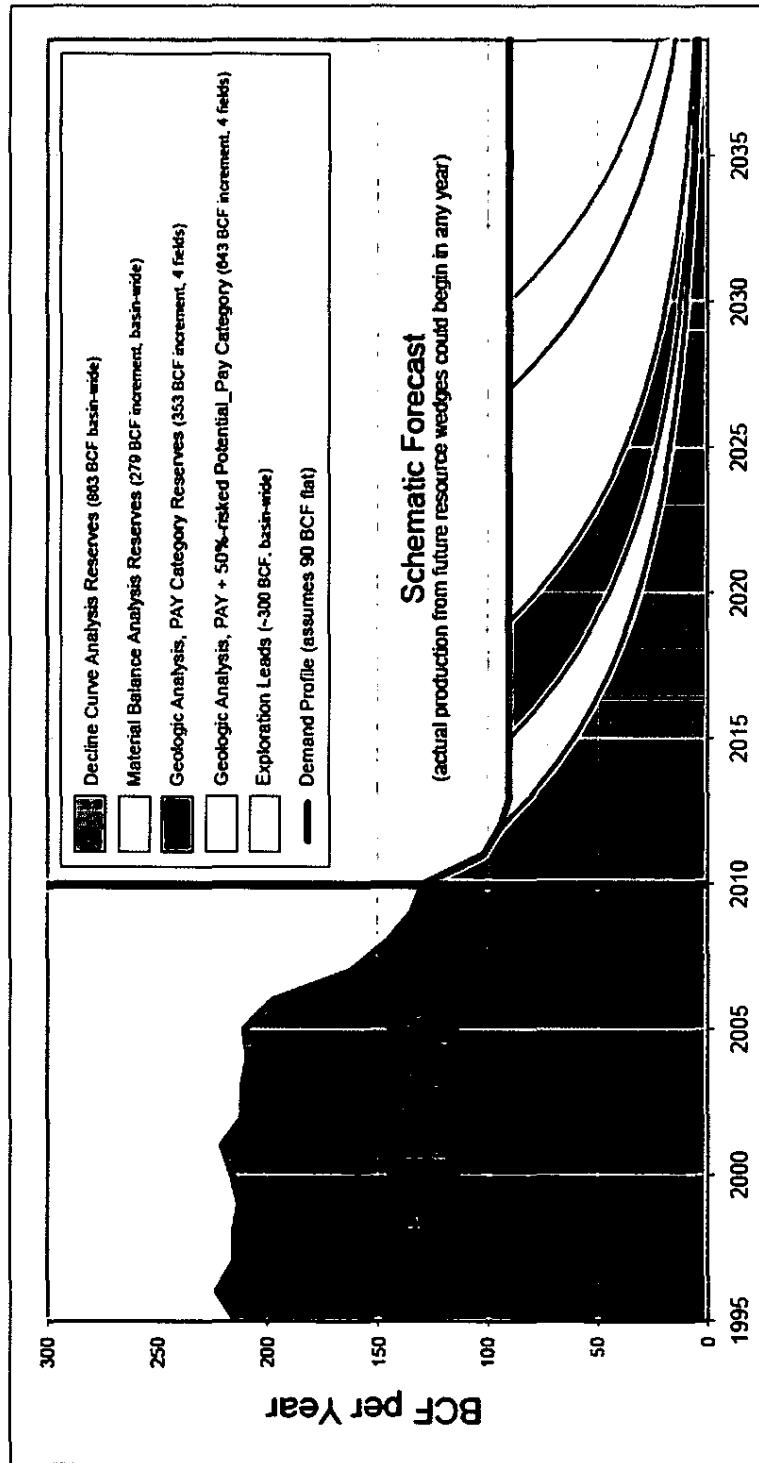
SB 208 tasks the Departments of Natural Resources and Revenue with evaluating existing incentives designed to promote more natural gas exploration and production in the Cook Inlet Basin and recommending additional strategies that might encourage greater levels of production. The departments would be required to complete this analysis and provide recommendations to the legislature by November 1, 2010, in time for legislative action in 2011.

For over three decades, Cook Inlet gas has been vital to the economic wellbeing of Southcentral Alaska. It has been an affordable source of fuel for more than half of the state's population, heating more than 130,000 homes and businesses. In addition, it has been used to generate approximately 90% of the electricity used in the region.

For many years, there was far more gas in Cook Inlet than could be consumed by Alaskans. Existing "proven" reserves of gas, however, have declined from more than 8 trillion cubic feet to just over 1 trillion, with relatively little replacement of what has been consumed or exported. Substantial exploration will be required to augment remaining reserves and maintain production levels necessary to meet the needs of the Railbelt. Without this, known reserves of gas within Cook Inlet may be depleted within two decades, and yearly in-state demand may exceed supply within one decade. Investment both within existing fields and in prospective new areas will be required.

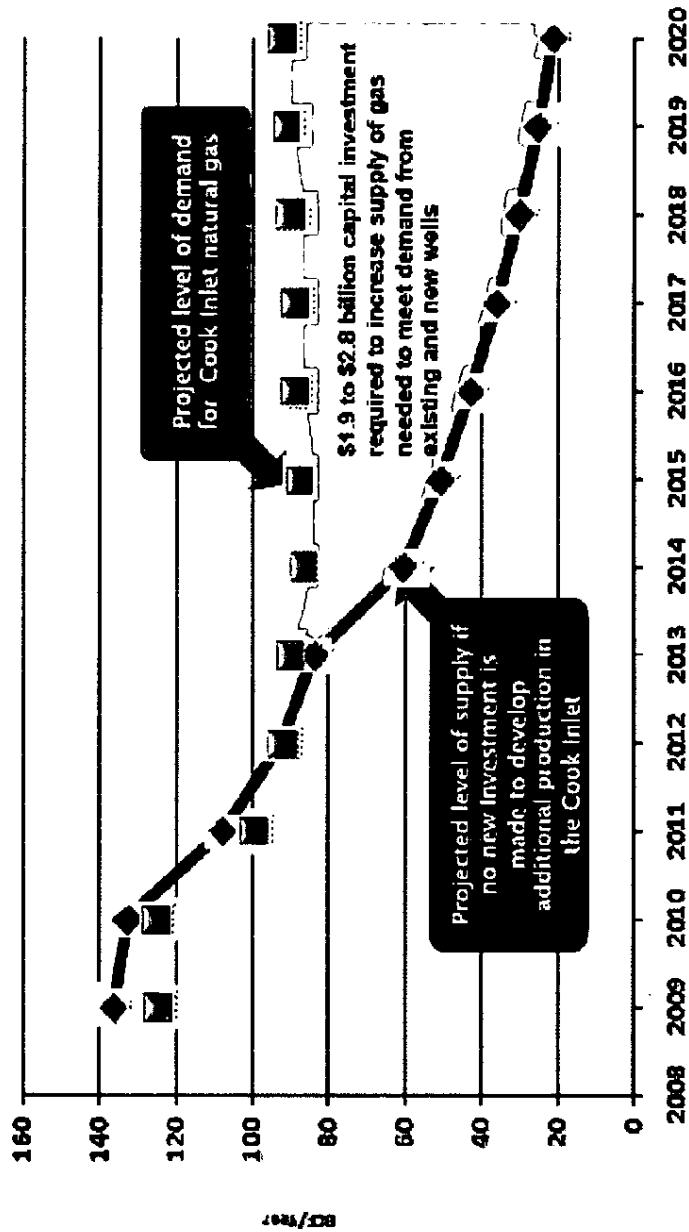
Fortunately geologists estimate there are trillions of cubic feet of undiscovered and technically recoverable gas in the Inlet. The challenge will be to encourage companies to invest in the Inlet and "prove up" these vast reserves, so that Alaskans will have access to this local, affordable supply of gas.

This bill tasks the Departments of Natural Resources and Revenue with the responsibility of identifying and evaluating new strategies to ensure that Alaskans have access to this gas. It sets an ambitious timeline for this analysis, mandating submission of recommendations to the legislature by November 2010.



**Figure 14. Hypothetical production forecast for the Cook Inlet basin showing increments of reserves and resources identified by engineering and geological analyses discussed in text.** This schematic diagram assumes that near-term production will come from gas volumes documented by the most conservative estimation techniques. Successive wedges are introduced with progressively lower certainty regarding commerciality, volume, and timing of first production. Production from future resource wedges could begin in any year, resulting in a more complex forecast, and extending the production lifespan of previous wedges. On the other hand, we are unable to predict the commercial thresholds at which volumes from future wedges become economic to recover. Wedges show gas volume increments from basin-wide decline curve analyses (red), basin-wide material balance analyses (orange), deterministic geologic mapping of PAY (green), and 50 percent-risked Potential\_Pay (yellow) in four large gas fields (Beluga River, North Cook Inlet, Nimichik, and McArthur River Grayling gas sands). The last wedge (gray) is a more speculative estimate of aggregated gas volumes that may be recoverable from the exploration leads discussed in text. See text for additional discussion. Excerpt from: Hartz, J.D., Kremer, M.C., Krouskop, D.L., Silliphant, L.J., Houle, J.A., Anderson P.C., and LePain, D.L., 2009, Decker, P.L., ed., Preliminary engineering and geological evaluation of remaining Cook Inlet gas reserves: Alaska Division of Oil and Gas report, 37 p., available online at: <http://www.dog.dnr.state.ak.us/oil/>

# Summary



# FISCAL NOTE

*Replaced*

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SB 208  
 ( ) Publish Date: \_\_\_\_\_

Identifier (file name): CSSB208(RES)-REV-TAX-04-05-10  
 Title: DNR Study on Natural Gas  
 Sponsor: Senator Wielechowski  
 Requester: Senate Finance Committee  
 Dept. Affected: Revenue  
 RDU: Taxation and Treasury  
 Component: Tax Division  
 Component Number: 2476

**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>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		0.0	0.0	0.0	0.0	0.0	0.0	0.0
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: 0.0

**POSITIONS**

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

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

SB 208 requires the Department of Natural Resources and Department of Revenue to complete a report by November 1, 2010 for the legislature dealing with potential measures to encourage the investment needed to bring on undeveloped and unproven gas resources in the Cook Inlet.

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Prepared by: Ian Laing, Project Manager  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone: 907-392-9449  
 Date/Time: 4/5/10; 5:05 pm  
 Date: 04-05-10; 5:43pm