

HB

289

<TARGET><BILL>HB 289</BILL><SUBJECT>HB
289</SUBJECT><COMM>HFIN27</COMM></TARGET>

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 29, 2012

FURTHER REFERRALS:

Date of Committee Action: 3/30/12

The FINANCE Committee considered:

HB 289

HOUSE BILL NO. 289

"An Act relating to a gas storage facility; relating to the tax credit for a gas storage facility; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the regulation of natural gas storage as a utility; 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."

HB 289-NATURAL GAS STORAGE TAX CREDIT/REGULATION

Recommends it be replaced with HCS or CS for HB 289 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - CEC
 - COR
 - CRT
 - EED
 - DEC
 - DFG
 - GOV
 - DHS
 - LWF
 - LAW
 - LEG
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

<u>NEW FISCAL NOTES</u>				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	DNR	✓		
	ADM			✓
	REV		✓	
	CEC			✓
	DNR		✓	

<u>PREVIOUS FISCAL NOTES</u>				
FN#	List by Dept(s):	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
<i>Anna Fairclough</i>	FAIRCLOUGH		✓	✓	
<i>Gara</i>	Gara	✓			
<i>Jammie Wilson</i>	T. Wilson	✓			
<i>Christina Berger</i>	CHRISTENBERG	✓			
<i>Neyman</i>	NEYMAN	✓			
<i>Costello</i>	COSTELLO	✓			
<i>Mike Doogan</i>	DOOGAN	✓			
Chair: <i>[Signature]</i>	<i>State</i>		✓		
Chair: <i>[Signature]</i>	<i>Hoopes</i>				

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB289CS(FIN)
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) HB289CS(FIN)-DNR-DOG-03-30-12 Dept. Affected Natural Resources
Title Natural Gas Storage Tax Credit/Regulation Appropriation Oil and Gas
Allocation Oil and Gas
Sponsor Rep. Thompson
Requester House Finance Committee OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

The House Finance committee substitute bill changes our bill analysis because the CS changes the credit ceiling, gas storage volume, credit clawback provision, and now includes all LNG storage provisions instead of just above-ground facilities.

Prepared by William C. Barron, Director
Division Division of Oil and Gas
Approved by Daniel Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8800
Date/Time 3/30/12 12:00pm
Date 3/13/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB289CS(FIN)

Analysis

CSHB289(FIN) extends provisions encouraging gas storage in certain liquefied natural gas storage facilities. Section 1 provides that the lessee of a surface lease for gas storage can receive a 10-year exemption from making lease payments on state lands.

Section 2 amends AS 42.05.381(k) so that payments or tax credits granted under this bill shall be reflected in the utility's rates. Section 3 amends the definitions "public utility" or "utility" to include furnishing liquefied natural gas to the public. Section 4 adds new definitions of "liquefied natural gas storage facility" and "reservoir" and "service of liquefied natural gas storage".

Section 5 of CSHB289(FIN) provides for an Alaska corporate income tax credit for new liquefied natural gas (LNG) storage facilities with storage volumes of 25,000 gallons of LNG or more. A person can also claim the credit for an expansion of storage facilities that increases the capacity by more than 25,000 gallons to claim the tax credit noted below.

Section 5 also allows a person not subject to the Alaska Corporate Income tax to receive the credit in the form of a cash payment. A taxpayer that is entitled to a credit exceeding their tax liability can also receive a cash payment for the amount the credit exceeds their tax liability. The credit or payment under AS 43.20.047(a) may not exceed the lesser of \$15,000,000 or 50 percent of the costs incurred to establish or expand a LNG gas storage facility. If a gas storage facility ceases operation before the end of the nine calendar years following the first year of operation, the person receiving the credit must refund a pro-rata portion of that credit. The credit does not apply to storage facilities put into operation after 2020.

The impact of CSHB289(FIN) is indeterminate on revenues but is not expected to need additional operating expenditures.

To the extent new markets are not accessed, the credit might not increase the netback value of the gas for royalty purposes because a gas storage facility is regulated under this section, with the value of the credit required to be passed on to the consumer. The State's royalty value also might be more or less for gas removed from a lease and put into storage versus gas removed from the lease and sold.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB289
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB289CS(FIN)-DOA-AOGCC-03-13-2012 Dept. Affected Administration
 Title Natural Gas Storage Tax Credit/Regulation Appropriation AK Oil & Gas Conservation Commission
 Allocation Alaska Oil and Gas Conservation
 Sponsor Representative Thompson
 Requester House Finance OMB Component Number 2010

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Update to reflect the requirements affecting AOGCC

Prepared by Cathy P. Foerster, Chair, Commissioner
 Division Alaska Oil and Gas Conservation Commission
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 907-793-1228
 Date/Time 3/13/12 8:27 AM
 Date 3/13/2012

FISCAL NOTE

**STATE OF ALASKA
2012 LEGISLATIVE SESSION**

BILL NO. CSHB289

Analysis

The committee substitute for HB289 has removed any requirements affecting Alaska Oil and Gas Conservation Commission (AOGCC) from the bill. Therefore AOGCC submits a zero fiscal note.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289\E
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) 27-LS1216\E Dept. Affected Revenue
Title Natural Gas Storage Tax Credit/Regulation Appropriation Taxation and Treasury
Allocation Tax Division
Sponsor Representative Thompson
Requester House Finance Committee OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is version X of the bill.

Prepared by Lennie Dees, Audit Master
Division Tax
Approved by _____

Phone 907-269-6624
Date/Time 3/30/12; 11am
Date _____

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289\E

Analysis

***The revenue impact of this bill is indeterminate.

This bill adds a new section (.047) to AS 43.20 establishing an above-ground liquefied natural gas (LNG) storage facility tax credit.

The person that is owner of an above ground storage facility that commences operation before January 1, 2020 may apply a refundable credit against a tax liability imposed by AS 43.20 or receive the amount of the credit in the form of a cash payment in the year in which the facility commences commercial operation.

The amount of the credit is established as the lesser of \$15 million or 50% of the costs incurred to establish or expand the above-ground LNG storage facility.

To qualify for the credit, an above-ground liquefied natural gas storage facility must have a volume capacity of not less than 25,000 gallons. If the credit is claimed for an expansion, the expansion must have increased the capacity of an existing above-ground LNG storage facility by more than 25,000 gallons. The facility may not have been in operation as an above-ground LNG storage facility before January 1, 2011 unless the tax credit is based on the expansion of the above-ground LNG storage facility after December 31, 2011.

The above-ground LNG storage facility must be regulated under AS 42.05 as a utility.

If located on state land and leased or subject to a lease under AS 38.05, must be in compliance with the lease.

The facility must have commenced commercial production or before the date the person takes a credit or applies for a payment under this section.

This bill amends AS 42.05.381(k) to include a LNG storage facility, to ensure that a credit received under .047 is reflected in the cost to determine a just and reasonable rate by the RCA.

To claim the credit or request a payment, a person shall submit to the department a certification of the capacity of the above-ground LNG storage facility measured in gallons or the capacity of an expansion to an existing above-ground LNG storage facility measured in gallons and the date that the facility commenced commercial operations.

For purposes of determining the amount of the credit, the cost incurred to establish or expand an above-ground LNG storage facility shall be submitted to the department with verification by a CPA licensed in the state. The volume of working LNG storage or volume of the expansion to an existing above ground LNG storage facility shall be verified by a professional engineer licensed in the state.

The bill has an immediate effective date.

The Department of Revenue anticipates that it would be able to administer the provisions of this bill with existing resources.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289 (RES)
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) HB289-DCCED-RCA-03-09-12 Dept. Affected DCCED
Title Natural Gas Storage Tax Credit/Regulation Appropriation Regulatory Commission of Alaska
Allocation Regulatory Commission of Alaska
Sponsor Representative Thompson
Requester House Finance OMB Component Number 2417

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1141	RCA Rcpts (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							
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Estimated **SUPPLEMENTAL (FY12) operating costs** _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This fiscal note is updated to include changes in the CS for House Bill No. 289. The Analysis section is changed to be consistent with the committee substitute.

Prepared by T. W. Patch, Chairman
Division Regulatory Commission of Alaska
Approved by JoEllen Hanrahan, Director Administrative Services
Commerce, Community and Economic Development

Phone 276-6222
Date/Time 3/9/2012 5:00 p.m.
Date 3/10/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289 (RES)

Analysis

This legislation makes existing tax credits and lease payment exemptions currently available to certain natural gas storage facilities available to liquefied natural gas storage facilities, amends the definition of natural gas storage facility in the Public Utilities Regulatory Act to encompass storage of liquefied natural gas, and makes existing tax credits currently available to certain natural gas storage facilities available to liquefied natural gas storage facilities and requires that the facility be regulated as a utility under AS 42.05.

The RCA expects to implement the provisions of this legislation with existing resources.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB289CS(FIN)
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) HB289CS(FIN)-DNR-MLW-03-30-12 Dept. Affected Department of Natural Resources
Title Natural Gas Storage Tax Credit/Regulation Appropriation Land & Water Resources
Allocation Mining Land & Water
Sponsor Rep. Thompson
Requester House Finance OMB Component Number 3002

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time	0						
Part-time	0						
Temporary	0						

CHANGE IN REVENUES	(12.5)	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This fiscal note is changed to reflect the fact that there is an anticipated \$12.5 loss in unrestricted GF revenues from loss of lease revenue for existing gas facilities and not a reduction in restricted GF funds, as previously indicated. Also, Section 2 was added in which RCA must consider exemptions from lease payments in determining an utility's rates.

Prepared by Brent Goodrum, Director
Division Mining, Land & Water
Approved by Daniel S. Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8625
Date/Time 03-30-2012/12:00
Date 3/30/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB289CS(FIN)

Analysis

Section 1 of CSHB289(FIN) creates an exemption from land lease payments (for leases issued under AS 38.05.070-105), for up to ten calendar years from date of issuance, for lands leased for gas storage facilities (other than under AS 38.05.180(u)). Section 2 states that the cost to the utility of storing gas in a gas storage facility or storing LNG in a LNG storage facility must reflect exemptions from lease payments under AS 38.05.096 or 38.05.180(u).

This lease payment exemption will reduce revenues equal to the lease payments due to the state related to these types of leases for the years the exemption is allowed. Currently there is one qualifying lease with an annual rent of \$12,500 based on the fair market value of the land leased. The total fiscal impact of this proposed legislation after FY 13 is indeterminate because the number of gas storage leases that may be issued in the future is unknown. Future leases may be issued under oil and gas leases issued under AS 38.05.180.

The legislation will not affect the lease issuance or maintenance operations of the department.

CS FOR HOUSE BILL NO. 289(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES THOMPSON, Tammie Wilson, Feige, Dick, Neuman, Kawasaki, Miller

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a liquefied natural gas storage facility; relating to the tax credit for**
2 **an investment in a liquefied natural gas storage facility; relating to the regulation of**
3 **liquefied natural gas storage as a utility; relating to the powers and duties of the director**
4 **of the division of lands and to lease fees for a liquefied natural gas storage facility on**
5 **state land; and providing for an effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 38.05 is amended by adding a new section to read:

8 **Sec. 38.05.096. Exemption from rental payments on land leased for certain**
9 **liquefied natural gas storage facilities.** (a) A person leasing state land for a liquefied
10 natural gas storage facility other than a gas storage facility subject to AS 38.05.180(u)
11 may request an exemption from lease payments as provided in this section. The
12 exemption is applicable for the periods described in (b) of this section.

13 (b) The exemption is available for the calendar year in which the liquefied

1 natural gas storage facility commences commercial operation and for each of the nine
 2 calendar years immediately following the first year of commercial operation.
 3 However, an exemption is not applicable for the calendar year after the facility ceases
 4 commercial operation or for any subsequent calendar year.

5 (c) The lessee shall provide the director with any information the director
 6 requests to determine whether the lessee qualifies for the exemption.

7 (d) Information related to state land leased for a liquefied natural gas storage
 8 facility qualifying for the exemption in this section is public information and may be
 9 furnished to the Regulatory Commission of Alaska. On request, the director shall
 10 provide the name of each person using state land leased for a liquefied natural gas
 11 storage facility, the years for which an exemption was granted, and the amount of the
 12 exemption.

13 (e) A person receiving an exemption for a payment under this section that
 14 contracts to store liquefied natural gas for a utility regulated under AS 42.05 shall
 15 reduce the storage price to reflect the value of the exemption.

16 (f) In this section,

17 (1) "ceases commercial operation" and "commences commercial
 18 operation" have the meanings given in AS 31.05.032;

19 (2) "liquefied natural gas storage facility" has the meaning given in
 20 AS 42.05.990.

21 * **Sec. 2.** AS 42.05.381(k) is amended to read:

22 (k) The cost to the utility of storing gas in a gas storage facility **or storing**
 23 **liquefied natural gas in a liquefied natural gas storage facility** that is allowed in
 24 determining a just and reasonable rate shall reflect the reduction in cost attributable to
 25 any exemption from a payment due under **AS 38.05.096 or 38.05.180(u), as**
 26 **applicable**, [AS 38.05.180(u)] and the value of a tax credit that the owner of the gas
 27 storage facility received under AS 43.20.046 **or 43.20.047, as applicable**. The
 28 commission may request the (1) commissioner of natural resources to report the value
 29 of the exemption from a payment due under **AS 38.05.096 or 38.05.180(u), as**
 30 **applicable**, [AS 38.05.180(u)] that the gas storage facility received; and (2)
 31 commissioner of revenue to report information on the amount of tax credits claimed

1 under AS 43.20.046 and 43.20.047, as applicable, for the gas storage facility or
 2 liquefied natural gas storage facility. In this subsection,

3 (1) "gas storage facility" has the meaning given in AS 31.05.032;

4 (2) "liquefied natural gas storage facility" has the meaning given
 5 in AS 42.05.990.

6 * Sec. 3. AS 42.05.990(5) is amended to read:

7 (5) "public utility" or "utility" includes every corporation whether
 8 public, cooperative, or otherwise, company, individual, or association of individuals,
 9 their lessees, trustees, or receivers appointed by a court, that owns, operates, manages,
 10 or controls any plant, pipeline, or system for

11 (A) furnishing, by generation, transmission, or distribution,
 12 electrical service to the public for compensation;

13 (B) furnishing telecommunications service to the public for
 14 compensation;

15 (C) furnishing water, steam, or sewer service to the public for
 16 compensation;

17 (D) furnishing by transmission or distribution of natural or
 18 manufactured gas to the public for compensation;

19 (E) furnishing for distribution or by distribution petroleum or
 20 petroleum products to the public for compensation when the consumer has no
 21 alternative in the choice of supplier of a comparable product and service at an
 22 equal or lesser price; ·

23 (F) furnishing collection and disposal service of garbage,
 24 refuse, trash, or other waste material to the public for compensation;

25 (G) furnishing the service of natural gas storage to the public
 26 for compensation;

27 (H) furnishing the service of liquefied natural gas storage to
 28 the public for compensation;

29 * Sec. 4. AS 42.05.990 is amended by adding new paragraphs to read:

30 (11) "liquefied natural gas storage facility" means a facility that
 31 receives natural gas volumes in a liquid or gaseous state from customers, holds the gas

1 volumes in a liquid state in a reservoir, and delivers the gas volumes in a liquid or
 2 gaseous state to the customer; in this paragraph, "facility" includes

3 (A) all parts of the facility from the point at which the natural
 4 gas volumes are received by the facility from the customer to the point at
 5 which the natural gas volumes are delivered by the facility to the customer;

6 (B) a facility consisting of a reservoir, either underground or
 7 aboveground, and one or more of the following components of the facility:

8 (i) pipe;

9 (ii) compressor stations;

10 (iii) station equipment;

11 (iv) liquefaction plant or facility;

12 (v) gasification plant or facility;

13 (vi) on-site or remote monitoring, supervision, and
 14 control facilities;

15 (vii) gas processing plants and gas treatment plants, but
 16 not including a manufacturing plant or facility;

17 (viii) other equipment necessary to receive, place into
 18 the reservoir, monitor, remove from the reservoir, process, and deliver
 19 natural gas;

20 (12) "reservoir" means a receptacle or chamber, either natural or man-
 21 made, holding a gas or liquid, and includes a tank or a depleted or nearly depleted
 22 pool;

23 (13) "service of liquefied natural gas storage" means the operation of a
 24 liquefied natural gas storage facility; "service of liquefied natural gas storage" does
 25 not include the storage of liquefied natural gas

26 (A) owned by or contractually obligated to the owner, operator,
 27 or manager of the liquefied natural gas storage facility;

28 (B) that is incidental to the production or sale of natural gas to
 29 one or more third-party customers; or

30 (C) for which the price of storage is not separately itemized.

31 * **Sec. 5.** AS 43.20 is amended by adding a new section to article 1 to read:

1 **Sec. 43.20.047. Liquefied natural gas storage facility tax credit.** (a) A
 2 person that is an owner of a liquefied natural gas storage facility described in (b) of
 3 this section that commences commercial operation before January 1, 2020, may apply
 4 a refundable credit against a tax liability that may be imposed on the person under this
 5 chapter or receive the amount of the credit in the form of a payment for the taxable
 6 year in which the liquefied natural gas storage facility commences commercial
 7 operation. The tax credit or payment under this section may not exceed the lesser of
 8 \$15,000,000 or 50 percent of the costs incurred to establish or expand the liquefied
 9 natural gas storage facility. The tax credit in this section is in addition to any other
 10 credit under this chapter for which the person is eligible.

11 (b) To qualify for the credit in this section, a liquefied natural gas storage
 12 facility

13 (1) must have a liquefied natural gas storage volume of not less than
 14 25,000 gallons of liquefied natural gas, or, if the credit is claimed for an expansion, the
 15 expansion must have increased the capacity of an existing liquefied natural gas storage
 16 facility by more than 25,000 gallons;

17 (2) may not have been in operation as a liquefied natural gas storage
 18 facility before January 1, 2011, unless the tax credit in this section is based on the
 19 expansion of the liquefied natural gas storage facility after December 31, 2011;

20 (3) must be regulated under AS 42.05 as a utility and be available to
 21 furnish the service of liquefied natural gas storage to customers, utilities, or industrial
 22 facilities; in this paragraph, "service of liquefied natural gas storage" has the meaning
 23 given in AS 42.05.990;

24 (4) if located on state land and leased or subject to a lease under
 25 AS 38.05, must be in compliance with the terms of the lease; and

26 (5) must have commenced commercial operation on or before the date
 27 the person takes a credit under (a) of this section or applies for a payment under (a) of
 28 this section.

29 (c) To claim the credit or request a payment, a person shall submit to the
 30 department a certification of the capacity of the liquefied natural gas storage facility
 31 measured in gallons or the capacity of an expansion to an existing liquefied natural gas

1 storage facility measured in gallons, the date that the liquefied natural gas storage
2 facility commenced commercial operation, the date that any expansion to the liquefied
3 natural gas storage facility commenced commercial operation, and other information
4 required by the department.

5 (d) A person applying the credit under this section against a liability under this
6 chapter shall claim the credit on the person's return. A person entitled to a tax credit
7 under this section that is greater than the person's tax liability under this chapter may
8 request a refund or payment in the amount of the unused portion of the tax credit.

9 (e) The department may use money available in the oil and gas tax credit fund
10 established in AS 43.55.028 to make a refund or payment under (d) of this section in
11 whole or in part if the department finds that (1) the claimant does not have an
12 outstanding liability to the state for unpaid delinquent taxes under this title; and (2)
13 after application of all available tax credits, the claimant's total tax liability under this
14 chapter for the calendar year in which the claim is made is zero. In this subsection,
15 "unpaid delinquent tax" means an amount of tax for which the department has issued
16 an assessment that has not been paid and, if contested, has not been finally resolved in
17 the taxpayer's favor.

18 (f) For the purpose of determining the amount of the credit under this section,
19 the costs incurred to establish a liquefied natural gas storage facility or to expand a
20 liquefied natural gas storage facility shall be submitted to the department with
21 verification by an independent certified public accountant, licensed in the state. The
22 volume of working liquefied natural gas storage or volume of the expansion to an
23 existing liquefied natural gas storage facility shall be verified by a professional
24 engineer licensed in the state with relevant experience.

25 (g) A person may not receive a credit under this section for the acquisition of a
26 liquefied natural gas storage facility for which a credit has been taken under this
27 section.

28 (h) If the liquefied natural gas storage facility for which a credit was received
29 under this section ceases commercial operation during the nine calendar years
30 immediately following the calendar year in which the liquefied natural gas storage
31 facility commences commercial operation, the tax liability under this chapter of the

1 person who claimed the credit shall be increased, and a person not subject to the tax
2 under this chapter that received a payment under (d) and (e) of this section shall be
3 liable to the state in the amount determined in this subsection. The amount of the
4 increase in tax liability or liability to the state

5 (1) for a person subject to the tax under this chapter, shall be
6 determined and assessed for the taxable year in which the liquefied natural gas storage
7 facility ceases commercial operation, regardless of whether the liquefied natural gas
8 storage facility subsequently resumes commercial operation;

9 (2) for a person not subject to the tax due under this chapter, shall be
10 determined and assessed as of December 31 of the calendar year in which the liquefied
11 natural gas storage facility ceases commercial operation, regardless of whether the
12 liquefied natural gas storage facility subsequently resumes commercial operation; and

13 (3) is equal to the total amount of the credit taken or received as a
14 payment under (d) of this section, as applicable, multiplied by a fraction, the
15 numerator of which is the difference between 10 and the number of calendar years for
16 which the liquefied natural gas storage facility was eligible for a tax credit under this
17 section and the denominator of which is 10.

18 (i) The issuance of a refund under this section does not limit the department's
19 ability to later audit or adjust the claim if the department determines, as a result of the
20 audit, that the person that claimed the credit was not entitled to the amount of the
21 credit. The tax liability of the person receiving the credit under this chapter is
22 increased by the amount of the credit that exceeds that to which the person was
23 entitled. If the tax liability is increased under this subsection, the increase bears
24 interest at the rate set by AS 43.05.225 from the date the refund was issued.

25 (j) A person claiming a tax credit under this section for a liquefied natural gas
26 storage facility that ceases commercial operation within nine calendar years
27 immediately following the calendar year in which the liquefied natural gas storage
28 facility commences commercial operation shall notify the department in writing of the
29 date the liquefied natural gas storage facility ceased commercial operation. The notice
30 must be filed with the return for the taxable year in which the liquefied natural gas
31 storage facility ceases commercial operation.

1 (k) A refund under this section does not bear interest.

2 (l) In this section,

3 (1) "ceases commercial operation" means that the liquefied natural gas
4 storage facility fails to add or withdraw 20 percent or more of its working capacity of
5 liquefied natural gas during a calendar year after the calendar year in which the
6 liquefied natural gas storage facility commences commercial operation;

7 (2) "commences commercial operation" means the first input of
8 liquefied natural gas into a liquefied natural gas storage facility for purposes other than
9 testing;

10 (3) "liquefied natural gas storage facility" has the meaning given in
11 AS 42.05.990.

12 * **Sec. 6.** AS 43.55.028(a) is amended to read:

13 (a) The oil and gas tax credit fund is established as a separate fund of the state.
14 The purpose of the fund is to purchase transferable tax credit certificates issued under
15 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
16 pay refunds **and payments** claimed under AS 43.20.046 **or 43.20.047**.

17 * **Sec. 7.** AS 43.55.028(g) is amended to read:

18 (g) The department may adopt regulations to carry out the purposes of this
19 section, including standards and procedures to allocate available money among
20 applications for purchases under this chapter and claims for refunds **and payments**
21 under AS 43.20.046 **or 43.20.047** when the total amount of the applications for
22 purchase and claims for refund exceed the amount of available money in the fund. The
23 regulations adopted by the department may not, when allocating available money in
24 the fund under this section, distinguish an application for the purchase of a credit
25 certificate issued under AS 43.55.023(m) or a claim for refund under AS 43.20.046 **or**
26 **AS 43.20.047**.

27 * **Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).

*Adopted
3/13/2012*

27-LS1216X
Bullock
3/12/12

CS FOR HOUSE BILL NO. 289(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES THOMPSON, Tammie Wilson, Feige, Dick, Neuman, Kawasaki, Miller

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a liquefied natural gas storage facility; relating to the tax credit for**
2 **an investment in a liquefied natural gas storage facility; relating to the regulation of**
3 **liquefied natural gas storage as a utility; relating to the powers and duties of the director**
4 **of the division of lands and to lease fees for a liquefied natural gas storage facility on**
5 **state land; and providing for an effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** AS 38.05 is amended by adding a new section to read:

8 **Sec. 38.05.096. Exemption from rental payments on land leased for certain**
9 **liquefied natural gas storage facilities.** (a) A person leasing state land for a liquefied
10 natural gas storage facility other than a gas storage facility subject to AS 38.05.180(u)
11 may request an exemption from lease payments as provided in this section. The
12 exemption is applicable for the periods described in (b) of this section.

13 (b) The exemption is available for the calendar year in which the liquefied

1 natural gas storage facility commences commercial operation and for each of the nine
2 calendar years immediately following the first year of commercial operation.
3 However, an exemption is not applicable for the calendar year after the facility ceases
4 commercial operation or for any subsequent calendar year.

5 (c) The lessee shall provide the director with any information the director
6 requests to determine whether the lessee qualifies for the exemption.

7 (d) Information related to state land leased for a liquefied natural gas storage
8 facility qualifying for the exemption in this section is public information and may be
9 furnished to the Regulatory Commission of Alaska. On request, the director shall
10 provide the name of each person using state land leased for a liquefied natural gas
11 storage facility, the years for which an exemption was granted, and the amount of the
12 exemption.

13 (e) A person receiving an exemption for a payment under this section that
14 contracts to store liquefied natural gas for a utility regulated under AS 42.05 shall
15 reduce the storage price to reflect the value of the exemption.

16 (f) In this section,

17 (1) "ceases commercial operation" and "commences commercial
18 operation" have the meanings given in AS 31.05.032;

19 (2) "liquefied natural gas storage facility" has the meaning given in
20 AS 42.05.990.

21 * **Sec. 2.** AS 42.05.381(k) is amended to read:

22 (k) The cost to the utility of storing gas in a gas storage facility **or storing**
23 **liquefied natural gas in a liquefied natural gas storage facility** that is allowed in
24 determining a just and reasonable rate shall reflect the reduction in cost attributable to
25 any exemption from a payment due under **AS 38.05.096 or 38.05.180(u), as**
26 **applicable**, [AS 38.05.180(u)] and the value of a tax credit that the owner of the gas
27 storage facility received under AS 43.20.046 **or 43.20.047, as applicable**. The
28 commission may request the (1) commissioner of natural resources to report the value
29 of the exemption from a payment due under **AS 38.05.096 or 38.05.180(u), as**
30 **applicable**, [AS 38.05.180(u)] that the gas storage facility received; and (2)
31 commissioner of revenue to report information on the amount of tax credits claimed

1 under AS 43.20.046 and 43.20.047, as applicable, for the gas storage facility or
2 liquefied natural gas storage facility. In this subsection,

3 (1) "gas storage facility" has the meaning given in AS 31.05.032;

4 (2) "liquefied natural gas storage facility" has the meaning given
5 in AS 42.05.990.

6 * Sec. 3. AS 42.05.990(5) is amended to read:

7 (5) "public utility" or "utility" includes every corporation whether
8 public, cooperative, or otherwise, company, individual, or association of individuals,
9 their lessees, trustees, or receivers appointed by a court, that owns, operates, manages,
10 or controls any plant, pipeline, or system for

11 (A) furnishing, by generation, transmission, or distribution,
12 electrical service to the public for compensation;

13 (B) furnishing telecommunications service to the public for
14 compensation;

15 (C) furnishing water, steam, or sewer service to the public for
16 compensation;

17 (D) furnishing by transmission or distribution of natural or
18 manufactured gas to the public for compensation;

19 (E) furnishing for distribution or by distribution petroleum or
20 petroleum products to the public for compensation when the consumer has no
21 alternative in the choice of supplier of a comparable product and service at an
22 equal or lesser price;

23 (F) furnishing collection and disposal service of garbage,
24 refuse, trash, or other waste material to the public for compensation;

25 (G) furnishing the service of natural gas storage to the public
26 for compensation;

27 (H) furnishing the service of liquefied natural gas storage to
28 the public for compensation;

29 * Sec. 4. AS 42.05.990 is amended by adding new paragraphs to read:

30 (11) "liquefied natural gas storage facility" means a facility that
31 receives natural gas volumes in a liquid or gaseous state from customers, holds the gas

1 volumes in a liquid state in a reservoir, and delivers the gas volumes in a liquid or
2 gaseous state to the customer; in this paragraph, "facility" includes

3 (A) all parts of the facility from the point at which the natural
4 gas volumes are received by the facility from the customer to the point at
5 which the natural gas volumes are delivered by the facility to the customer;

6 (B) a facility consisting of a reservoir, either underground or
7 aboveground, and one or more of the following components of the facility:

8 (i) pipe;

9 (ii) compressor stations;

10 (iii) station equipment;

11 (iv) liquefaction plant or facility;

12 (v) gasification plant or facility;

13 (vi) on-site or remote monitoring, supervision, and
14 control facilities;

15 (vii) gas processing plants and gas treatment plants, but
16 not including a manufacturing plant or facility;

17 (viii) other equipment necessary to receive, place into
18 the reservoir, monitor, remove from the reservoir, process, and deliver
19 natural gas;

20 (12) "reservoir" means a receptacle or chamber, either natural or man-
21 made, holding a gas or liquid, and includes a tank or a depleted or nearly depleted
22 pool;

23 (13) "service of liquefied natural gas storage" means the operation of a
24 liquefied natural gas storage facility; "service of liquefied natural gas storage" does
25 not include the storage of liquefied natural gas

26 (A) owned by or contractually obligated to the owner, operator,
27 or manager of the liquefied natural gas storage facility;

28 (B) that is incidental to the production or sale of natural gas to
29 one or more third-party customers; or

30 (C) for which the price of storage is not separately itemized.

31 * **Sec. 5.** AS 43.20 is amended by adding a new section to article 1 to read:

1 **Sec. 43.20.047. Liquefied natural gas storage facility tax credit.** (a) A
2 person that is an owner of a liquefied natural gas storage facility described in (b) of
3 this section that commences commercial operation before January 1, 2020, may apply
4 a refundable credit against a tax liability that may be imposed on the person under this
5 chapter or receive the amount of the credit in the form of a payment for the taxable
6 year in which the liquefied natural gas storage facility commences commercial
7 operation. The tax credit or payment under this section may not exceed the lesser of
8 \$15,000,000 or 50 percent of the costs incurred to establish or expand the liquefied
9 natural gas storage facility. The tax credit in this section is in addition to any other
10 credit under this chapter for which the person is eligible.

11 (b) To qualify for the credit in this section, a liquefied natural gas storage
12 facility

13 (1) must have a liquefied natural gas storage volume of not less than
14 25,000 gallons of liquefied natural gas, or, if the credit is claimed for an expansion, the
15 expansion must have increased the capacity of an existing liquefied natural gas storage
16 facility by more than 25,000 gallons;

17 (2) may not have been in operation as a liquefied natural gas storage
18 facility before January 1, 2011, unless the tax credit in this section is based on the
19 expansion of the liquefied natural gas storage facility after December 31, 2011;

20 (3) must be regulated under AS 42.05 as a utility and be available to
21 furnish the service of liquefied natural gas storage to customers, utilities, or industrial
22 facilities; in this paragraph, "service of liquefied natural gas storage" has the meaning
23 given in AS 42.05.990;

24 (4) if located on state land and leased or subject to a lease under
25 AS 38.05, must be in compliance with the terms of the lease; and

26 (5) must have commenced commercial operation on or before the date
27 the person takes a credit under (a) of this section or applies for a payment under (a) of
28 this section.

29 (c) To claim the credit or request a payment, a person shall submit to the
30 department a certification of the capacity of the liquefied natural gas storage facility
31 measured in gallons or the capacity of an expansion to an existing liquefied natural gas

1 storage facility measured in gallons, the date that the liquefied natural gas storage
2 facility commenced commercial operation, the date that any expansion to the liquefied
3 natural gas storage facility commenced commercial operation, and other information
4 required by the department.

5 (d) A person applying the credit under this section against a liability under this
6 chapter shall claim the credit on the person's return. A person entitled to a tax credit
7 under this section that is greater than the person's tax liability under this chapter may
8 request a refund or payment in the amount of the unused portion of the tax credit.

9 (e) The department may use money available in the oil and gas tax credit fund
10 established in AS 43.55.028 to make a refund or payment under (d) of this section in
11 whole or in part if the department finds that (1) the claimant does not have an
12 outstanding liability to the state for unpaid delinquent taxes under this title; and (2)
13 after application of all available tax credits, the claimant's total tax liability under this
14 chapter for the calendar year in which the claim is made is zero. In this subsection,
15 "unpaid delinquent tax" means an amount of tax for which the department has issued
16 an assessment that has not been paid and, if contested, has not been finally resolved in
17 the taxpayer's favor.

18 (f) For the purpose of determining the amount of the credit under this section,
19 the costs incurred to establish a liquefied natural gas storage facility or to expand a
20 liquefied natural gas storage facility shall be submitted to the department with
21 verification by an independent certified public accountant, licensed in the state. The
22 volume of working liquefied natural gas storage or volume of the expansion to an
23 existing liquefied natural gas storage facility shall be verified by a professional
24 engineer licensed in the state with relevant experience.

25 (g) A person may not receive a credit under this section for the acquisition of a
26 liquefied natural gas storage facility for which a credit has been taken under this
27 section.

28 (h) If the liquefied natural gas storage facility for which a credit was received
29 under this section ceases commercial operation during the nine calendar years
30 immediately following the calendar year in which the liquefied natural gas storage
31 facility commences commercial operation, the tax liability under this chapter of the

1 person who claimed the credit shall be increased, and a person not subject to the tax
2 under this chapter that received a payment under (d) and (e) of this section shall be
3 liable to the state in the amount determined in this subsection. The amount of the
4 increase in tax liability or liability to the state

5 (1) for a person subject to the tax under this chapter, shall be
6 determined and assessed for the taxable year in which the liquefied natural gas storage
7 facility ceases commercial operation, regardless of whether the liquefied natural gas
8 storage facility subsequently resumes commercial operation;

9 (2) for a person not subject to the tax due under this chapter, shall be
10 determined and assessed as of December 31 of the calendar year in which the liquefied
11 natural gas storage facility ceases commercial operation, regardless of whether the
12 liquefied natural gas storage facility subsequently resumes commercial operation; and

13 (3) is equal to the total amount of the credit taken or received as a
14 payment under (d) of this section, as applicable, multiplied by a fraction, the
15 numerator of which is the difference between 10 and the number of calendar years for
16 which the liquefied natural gas storage facility was eligible for a tax credit under this
17 section and the denominator of which is 10.

18 (i) The issuance of a refund under this section does not limit the department's
19 ability to later audit or adjust the claim if the department determines, as a result of the
20 audit, that the person that claimed the credit was not entitled to the amount of the
21 credit. The tax liability of the person receiving the credit under this chapter is
22 increased by the amount of the credit that exceeds that to which the person was
23 entitled. If the tax liability is increased under this subsection, the increase bears
24 interest at the rate set by AS 43.05.225 from the date the refund was issued.

25 (j) A person claiming a tax credit under this section for a liquefied natural gas
26 storage facility that ceases commercial operation within nine calendar years
27 immediately following the calendar year in which the liquefied natural gas storage
28 facility commences commercial operation shall notify the department in writing of the
29 date the liquefied natural gas storage facility ceased commercial operation. The notice
30 must be filed with the return for the taxable year in which the liquefied natural gas
31 storage facility ceases commercial operation.

1 (k) A refund under this section does not bear interest.

2 (l) In this section,

3 (1) "ceases commercial operation" means that the liquefied natural gas
4 storage facility fails to add or withdraw 20 percent or more of its working capacity of
5 liquefied natural gas during a calendar year after the calendar year in which the
6 liquefied natural gas storage facility commences commercial operation;

7 (2) "commences commercial operation" means the first input of
8 liquefied natural gas into a liquefied natural gas storage facility for purposes other than
9 testing;

10 (3) "liquefied natural gas storage facility" has the meaning given in
11 AS 42.05.990.

12 * **Sec. 6.** AS 43.55.028(a) is amended to read:

13 (a) The oil and gas tax credit fund is established as a separate fund of the state.
14 The purpose of the fund is to purchase transferable tax credit certificates issued under
15 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
16 pay refunds **and payments** claimed under AS 43.20.046 **or 43.20.047**.

17 * **Sec. 7.** AS 43.55.028(g) is amended to read:

18 (g) The department may adopt regulations to carry out the purposes of this
19 section, including standards and procedures to allocate available money among
20 applications for purchases under this chapter and claims for refunds **and payments**
21 under AS 43.20.046 **or 43.20.047** when the total amount of the applications for
22 purchase and claims for refund exceed the amount of available money in the fund. The
23 regulations adopted by the department may not, when allocating available money in
24 the fund under this section, distinguish an application for the purchase of a credit
25 certificate issued under AS 43.55.023(m) or a claim for refund under AS 43.20.046 **or**
26 **AS 43.20.047**.

27 * **Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289(RES)
 Fiscal Note Number 4
 (H) Publish Date 2/29/12

Identifier (file name) HB289-DNR-O&G-02-17-12 Dept. Affected Department of Natural Resources
 Title Natural Gas Storage Tax Credit/Regulation Appropriation Oil & Gas
 Allocation Oil & Gas
 Sponsor Representative Thompson
 Requester House Resources Committee OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES

	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Not applicable, Initial Version

Prepared by William C. Barron, Director
 Division Division of Oil and Gas
 Approved by Daniel S. Sullivan, Commissioner
 Department of Natural Resources

Phone 907-269-8800
 Date/Time 2/17/12 5:00 PM
 Date 2/18/2012

FISCAL NOTE #4

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289(RES)

Analysis

HB 289 extends provisions encouraging gas storage in subsurface gas storage to also cover tank storage. Section 2 provides that the lessee of a surface lease for gas storage can receive a 10 year exemption from making lease payments. Sections 4 and 5 extend the Alaska corporate income tax credit for subsurface gas storage facilities to tank storage, requiring that a tank be able to store 1,000,000 gallons of gas to qualify.

There is no anticipated fiscal impact to the Division of Oil and Gas. The application of tax credits will have an indeterminate impact on the revenues acquired by the Division.

HB 289 also allows a business entity not subject to the Alaska Corporate Income tax to receive the credit in the form of a cash payment. In addition, for both surface and subsurface storage, the credit under AS 43.20.046(a) can also now exceed 25% of the storage facility cost as long as the total credit for a single facility does not exceed \$15 million.

To the extent new markets are not accessed, the impact of the credit is indeterminate. The credit might not increase the netback value of the gas for royalty purposes because a gas storage facility is regulated under this section, with the value of the credit likely passed on to the consumer. The State's royalty value also might be more or less for gas removed from a lease and put into storage versus gas removed from the lease and sold.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289(RES)
 Fiscal Note Number 3
 (H) Publish Date 2/29/12

Identifier (file name) HB289-DNR-MLW-02-17-12 Dept. Affected Department of Natural Resources
 Title Natural Gas Storage Tax Credit/Regulation Appropriation Land & Water Resources
 Allocation Mining Land & Water
 Sponsor Rep. Thompson
 Requester House Resources OMB Component Number 3002

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	***	***	***	***	***	***

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	***	***	***	***	***

POSITIONS								
Full-time	0							
Part-time	0							
Temporary	0							

CHANGE IN REVENUES	(12.5)	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Version

Prepared by Brent Goodrum, Division Director
 Division Mining Land & Water
 Approved by Daniel S. Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8625
 Date/Time 02-17-2012/ 5:00
 Date 2/18/2012

FISCAL NOTE #3

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289(RES)

Analysis

HB 289 creates an exemption from land lease payments (for leases issued under AS 38.05.070-105), for up to ten calendar years from date of issuance, for lands leased for gas storage facilities (other than under AS 38.05.180(u)).

This lease payment exemption will reduce revenues equal to the lease payments due to the state related to these types of leases for the years the exemption is allowed. Currently there is one qualifying lease with an annual rent of \$12,500 based on the fair market value of the land leased. The total fiscal impact of this proposed legislation after FY 13 is indeterminate because the number of gas storage leases that may be issued in the future is unknown. Future leases may be issued under oil and gas leases issued under AS 38.05.180.

The legislation will not affect the lease issuance or maintenance operations of the department .

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB289CS(FIN)
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) HB289CS(FIN)-DNR-MLW-03-30-12 Dept. Affected Department of Natural Resources
Title Natural Gas Storage Tax Credit/Regulation Appropriation Land & Water Resources
Allocation Mining Land & Water
Sponsor Rep. Thompson
Requester House Finance OMB Component Number 3002

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time	0						
Part-time	0						
Temporary	0						

CHANGE IN REVENUES	(12.5)		***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This fiscal note is changed to reflect the fact that there is an anticipated \$12.5 loss in unrestricted GF revenues from loss of lease revenue for existing gas facilities and not a reduction in restricted GF funds, as previously indicated. Also, Section 2 was added in which RCA must consider exemptions from lease payments in determining an utility's rates.

Prepared by Brent Goodrum, Director
Division Mining, Land & Water
Approved by Daniel S. Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8625
Date/Time 03-30-2012/12:00
Date 3/30/2012

FISCAL NOTE

**STATE OF ALASKA
2012 LEGISLATIVE SESSION**

BILL NO. HB289CS(FIN)

Analysis

Section 1 of CSHB289(FIN) creates an exemption from land lease payments (for leases issued under AS 38.05.070-105), for up to ten calendar years from date of issuance, for lands leased for gas storage facilities (other than under AS 38.05.180(u)). Section 2 states that the cost to the utility of storing gas in a gas storage facility or storing LNG in a LNG storage facility must reflect exemptions from lease payments under AS 38.05.096 or 38.05.180(u).

This lease payment exemption will reduce revenues equal to the lease payments due to the state related to these types of leases for the years the exemption is allowed. Currently there is one qualifying lease with an annual rent of \$12,500 based on the fair market value of the land leased. The total fiscal impact of this proposed legislation after FY 13 is indeterminate because the number of gas storage leases that may be issued in the future is unknown. Future leases may be issued under oil and gas leases issued under AS 38.05.180.

The legislation will not affect the lease issuance or maintenance operations of the department.

3/13/12

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional Analysis for Committee Substitute for HB 289(FIN) version \X (dated 3.12.12)

Section 1. AS 38.05.096 Creates a new section under AS 38.05 that allows eligible above ground liquefied natural gas tank storage facilities, sited on state lands, to request an exemption from rental payments. The exemption could extend for up to ten years following the commencement of commercial operations as long as the facility continues to operate. Information regarding the rental exemption is deemed to be “public” and is available to the RCA upon request. A person receiving a rental exemption must adjust the storage charge downward to reflect this state benefit and pass it through to the storage customers.

Section 2. AS 42.05.381(k) Amends the statute to state that payments or tax credits granted under this bill shall be reflected in the utility’s rates.

Section 3. AS 42.05.990(5) Amends the definitions “public utility” or “utility” to include furnishing liquefied natural gas to the public.

Section 4. AS 42.05.990(11)-(13) Adds the definitions of “liquefied natural gas storage facility” and “reservoir” and “service of liquefied natural gas storage” to apply to liquefied natural gas.

Section 5. Adds a new section to AS 43.20

AS 43.20.047. Creates a new credit for a liquefied natural gas storage facility of 25,000 gallons or more or an expansion of an existing facility of 25,000 gallons or more. The credit is capped at fifteen million dollars or 50 percent of the development cost whichever is less. This credit is in addition to any other credits for which the storage facility is eligible under this chapter. States that the liquefied natural gas storage facility must be regulated by the Regulatory Commission of Alaska and establishes how the credit or payment shall be disbursed. Sets forth how a person who has received a credit shall repay the credit if the facility ceases commercial operations within the nine calendar years immediately following the calendar year in which the facility commenced commercial operations. This section also defines “liquefied natural gas storage facility”, “ceases commercial operation” and “commences commercial operation”.

E-mail [Representative Steve Thompson@legis.state.ak.us](mailto:Representative_Steve_Thompson@legis.state.ak.us)

Sections 6 & 7. Make conforming amendments to accommodate the new tax credits under AS 43.20.047.

Section 8. Establishes an immediate effective date for the legislation.

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional Analysis for Sponsor Substitute for HB 289 version \D (dated 2.29.12)

Section 1. AS 38.05.096 Creates a new section under AS 38.05 that allows eligible above ground liquefied natural gas tank storage facilities, sited on state lands, to request an exemption from rental payments. The exemption could extend for up to ten years following the commencement of commercial operations as long as the facility continues to operate. Information regarding the rental exemption is deemed to be "public" and is available to the RCA upon request. A person receiving a rental exemption must adjust the storage charge downward to reflect this state benefit and pass it through to the storage customers. The intent of this new section of law is to mirror the existing benefit offered to natural gas storage operations that eligible to apply for a rental payment exemption under AS 38.05.180(u).

Section 2. AS 42.05.990(3) Amends the definition of "natural gas storage facility" and "facility" in AS 42.05.990(3) to assure that tank storage, or storage in a depleted or nearly depleted pool are afforded the same benefit that geologic natural gas storage already enjoys.

Section 3. Adds a new section to AS 43.20

AS 43.20.047. Creates a new credit for a liquefied natural gas storage facility of 25,000 gallons or more or an expansion of an existing facility of 25,000 gallons or more. The credit is capped at fifteen million dollars or 50 percent of the development cost whichever is less. This credit is in addition to any other credits for which the storage facility is eligible under this chapter. States that the liquefied natural gas storage facility must be regulated by the Regulatory Commission of Alaska and establishes how the credit or payment shall be disbursed. Sets forth how a person who has received a credit shall repay the credit if the facility ceases commercial operations within the nine calendar years immediately following the calendar year in which the facility commenced commercial operations. This section also defines "liquefied natural gas storage facility", "ceases commercial operation" and "commences commercial operation".

Sections 4 & 5. Make conforming amendments to accommodate the new tax credits under AS 43.20.047.

E-mail [Representative Steve Thompson@legis.state.ak.us](mailto:Representative_Steve_Thompson@legis.state.ak.us)

Section 6. Establishes an immediate effective date for the legislation.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289(RES)
 Fiscal Note Number 2
 (H) Publish Date 2/29/12

Identifier (file name) HB289-DCCED-RCA-02-03-12 Dept. Affected DCCED
 Title Natural Gas Storage Tax Credit/Regulation Appropriation Regulatory Commission of Alaska
 Allocation Regulatory Commission of Alaska
 Sponsor Representative Thompson
 Requester House Resources OMB Component Number 2417

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	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
Services	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1141	RCA Rcpts (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required;
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Not applicable, initial version

Prepared by T. W. Patch, Chairman
 Division Regulatory Commission of Alaska
 Approved by JoEllen Hanrahan, Director Administrative Services
Commerce, Community, and Economic Development

Phone 276-6222
 Date/Time 2/3/2012 3:30 p.m.
 Date 2/3/2012

FISCAL NOTE #2

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289(RES)

Analysis

This legislation is relating to a gas storage facility; relating to the tax credit for a gas storage facility; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the regulation of natural gas storage as a utility; 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.

The RCA expects to implement the provisions of this legislation with existing resources.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289(RES)
Fiscal Note Number 5
(H) Publish Date 2/29/12

Identifier (file name) HB289-DOR-TAX-02-20-12 Dept. Affected Revenue
Title Natural Gas Storage Tax Credit/Regulation Appropriation Taxation and Treasury
Allocation Tax Division
Sponsor Representative Thompson
Requester House Resources OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES	***	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the initial version of the bill.

Prepared by Cherie Nienhuis, Commercial Analyst
Division Tax
Approved by Alicia Egan, Legislative Liaison
Department of Revenue

Phone 907-269-1019
Date/Time 2/20/12; 3pm
Date 2/20/2012

FISCAL NOTE #5

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289(RES)

Analysis

The revenue impact of this bill is indeterminate.

This bill makes several amendments to the corporate income tax credit authorized at AS 43.20.046 and exempts certain gas storage facilities from lease rental payments. Significant amendments include the following:

1. A new section is added that exempts from lease rental payments the gas storage facilities identified in this bill. Therefore, the revenue impact should include only the additional natural gas storage facilities that may be added under this bill. The revenue impact of this provision is indeterminate at this time.
2. The definition of "natural gas storage facility" has been changed to differentiate tanks and depleted or nearly depleted pools, and distinctions have been made in the volumes that qualify for each type of storage facility. Nontank storage must have a working capacity of at least 500 million cubic feet of gas and tank storage must have a capacity of at least 1 million gallons. One cubic foot of gas equals about 7.4805 gallons; therefore 1 million gallons equals 133,681 cubic feet (or 133.681 thousand cubic feet) of gas.
3. The basis for the maximum tax credit has been changed from the lesser of \$15 million or 25% of the costs incurred to establish a gas facility, to a maximum of \$15 million, earned at a rate of \$1.50 per 1,000 cubic feet of working gas storage capacity. With this change, a 10 million gallon storage facility would earn a tax credit of approximately \$2,000, regardless of how much it cost to establish the facility (10 million gallons divided by 7.4805 gallons per cubic foot, divided by 1,000, times \$1.50).
4. In the case of a gas storage facility ceasing commercial operation during the nine calendar years following the year that the facility commences commercial operation, the liability to the state must be assessed as of December 31 of the year that the facility ceases operation. For practical purposes, this means that audits must be completed on the facility operations in the year that the operation is ceased. As written, a change of this nature would place a greater burden on the auditors to initiate and conclude an audit in a much shorter timeframe for these operations.

The bill has an immediate effective date.

The Department of Revenue anticipates that it would be able to administer the provisions of this bill with existing resources.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 289(RES)
Fiscal Note Number 1
(H) Publish Date 2/29/12

Identifier (file name) HB289-DOA-AOGCC-2-3-12 Dept. Affected Administration
Title Natural Gas Storage Tax Credit/Regulation Appropriation AOGCC
Allocation Alaska Oil and Gas Conservation
Sponsor Representative Thompson Commission
Requester House Resources OMB Component Number 2010

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES

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Estimated **SUPPLEMENTAL (FY12) operating costs** _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Not Applicable, Initial version.

Prepared by Dan Seamount, Commissioner
Division DOA-Alaska Oil and Gas Conservation Commission
Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone (907) 793-1221
Date/Time 2/18/12 3:06 PM
Date 2/3/2012

FISCAL NOTE #1

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 289(RES)

Analysis

There would be a minimal amount of additional work for the Alaska Oil and Gas Conservation Commission (AOGCC) resulting from this bill and it could be managed by existing staff members. Therefore, the AOGCC submits a zero fiscal note.

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

MEMORANDUM

To: Members of the House Finance Committee

From: Representative Steve Thompson

Date: March 16, 2012

Re: Answers to questions from House Finance Committee members on HB289

P.6 Line 6: terminology "persons' means corporations, businesses, non-profits, etc.
Answer: yes.

Line 8- Requesting more information on requesting a refund. Representative Fairclough has concerns on how to request a refund that may exceed a person's tax liability. What are the qualifying costs for an entity to declare?

Answer: Under HB289 a person may qualify for payment, if the credit is greater than the corporation tax liability or a payment if they do not pay corporate taxes. Qualifying costs are listed in the new definition of "liquefied natural gas storage facility" on page 3, line 29 – page 4, line 19.

Page 6, Line 25- "A person may not receive a credit... under this section for the acquisition of a liquefied natural gas storage..." but does this mean that they can receive a credit for purchasing a facility? What is available in the Fairbanks area that a person may want to purchase or modify? And does the state pick up a portion of the cost?

Answer: Currently, there are no facilities available in Fairbanks, which is why this bill is desperately needed in Fairbanks. A credit could be received for purchasing a facility, but it is unlikely. A credit could only be received if the facility has not already received a credit, and the facility may not have been in operation before January 1, 2011, unless the credit or payment is for an expansion of the facility after December 31, 2011 (page 5, lines 17 – 19).

If this proposal benefits GVEA do they have an asset that someone can purchase and does the state pay for ½ of that?

Answer: No.

Referred to page 7, lines 23-24 Interest rate set be AS 43.05.225

Answer:

(1) when a tax levied in this title becomes delinquent, it bears interest in a calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last day of that quarter;...

On page 8, line 1. Under (k) a refund “, is there a section where there is an interest borne by someone?

Answer: Yes, there is interest accrued if a storage facility’s tax liability increases, due to a state audit.

Money from the credits would be under the oversight of the RCA? Naturally occurring storage falls under the RCA as well?

Answer: Yes, see section 2 of the bill. Naturally occurring storage also is overseen by the RCA.

Costello: Explain what it means to be under the oversight.

Answer: Oversight by the RCA ensures that credits/payments made to gas storage facilities under this bill are passed on to the consumer.

Does this achieve equal parity with Anchorage?

Answer: Yes, the bill strives to achieve equal parity.

Is this bill just for gas storage just for above ground?

Answer: yes.

Subsurface storage would open it up for additional opportunities from around the state.

Answer: The bill deals with above-ground liquefied natural gas storage. Liquefied natural gas is not stored underground.

In Anchorage we did everything to get rid of above ground storage due to leaks and fires from the earthquake. What conversations has your community had about safety issues using above ground storage?

Answer: There is already LNG above-ground storage in Fairbanks. New above-ground LNG storage is much safer, with higher safety standards that must be met, including the ability to withstand earthquakes.

Copper Valley Electric



Copper Valley Electric Association, Inc.

P.O. Box 45 • Glennallen, Alaska 99588 • www.cvea.org

Telephone: 907-822-3211 • Facsimile: 907-822-5586 • Valdez: 907-835-4301

March 27, 2012

email: wilkinson@cvea.org

House Finance Committee
Alaska State Legislature
120 4th Street State Capitol Room 3
Juneau, Alaska 99801-1182

SUBJECT: House Bill 289

Dear House Finance Committee:

The purpose of my letter is to express strong support for House Bill 289 which relates to above ground storage of liquefied natural gas (LNG).

Copper Valley Electric Association (CVEA) provides electric service to 160 miles of the Richardson and 80 miles of the Glenn Highway; including the communities of Valdez, Glennallen, and Copper Center, among others.

This region will be severely challenged by the high cost of electricity and heat as the following statistics attest:

- Average electric revenue per kWh in the Copper River Valley is \$.3257 per kWh.
- Cost of diesel fuel delivered to CVEA's Glennallen power plant is \$27.54/ mmbtu
- Cost of #1 home heating fuel in the Copper Valley is \$ 31.88/ mmbtu

CVEA owns one hydro facility and we are developing a second, which when completed, will enable CVEA to generate 2/3 of our annual energy requirements with clean renewable hydroelectric energy.

A potential source of fuel to high cost diesel fuel could be LNG. House Bill 289 recognizes the challenges associated with handling LNG and provides incentives to developers to fairly evaluate this resource.

CVEA urges the House Finance Committee to move House Bill 289.

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert A. Wilkinson'.

Robert A. Wilkinson
Chief Executive Officer

S:\RAW\12-22da House Bill 289.docx

Your Member-Owned Cooperative



ALASKA POWER & TELEPHONE COMPANY
PORT TOWNSEND, WA 98368
(360) 385-1733 – (800) 982-0136
FAX (360) 385-5177

March 27, 2012

To whom it may concern:

Alaska Power and Telephone (AP&T) is pleased to write this letter in support of SB 153, sponsored by Senator Joe Thomas and its House companion HB 289, sponsored by Representative Steve Thompson.

AP&T is a privately-owned utility operating 23 power plants in primarily rural communities in Alaska. We have worked hard to incorporate renewable energy resources into our generation mix whenever possible. Several of our communities are served by small hydro projects, and we have also been involved in pilot projects involving local biomass and hydrokinetic turbines.

Unfortunately, fuels like diesel will always be needed in rural Alaska. However, we believe that LNG is a new concept that will lower the cost for electrical generation by providing a cost effective alternative to oil. Unfortunately, the infrastructure for LNG does not yet exist. These bills will provide an incentive to get this LNG infrastructure in place and as a result save our customers and the State PCE program significant sums of money by advancing the concept of LNG usage in rural Alaska.

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert S. Grimm', written over a horizontal line.

Robert S. Grimm
President and CEO of
Alaska Power & Telephone Co.

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Explanation of Changes HB289 Version A to Version X (3.12.12)

- Moves above-ground natural gas storage facilities into their own section of law in AS 43.20.047.
- The size of a storage tank facility applying for a credit must be verified by a professional engineer.
- The size of a storage tank facility for LNG that would qualify for a credit was lowered in House Resources from 1,000,000 gallons to 25,000 gallons.
- Added language in Section 2 of the bill to ensure credits or payments made under this bill will be passed on to customers
- The definitions in Sections 3 and 4 (AS 42.05.990(5) and (11) – (13)) were amended or added to apply to liquefied natural gas and liquefied natural gas storage.
- For the purposes of determining the amount of the credit, the costs incurred to establish an above ground facility shall be submitted to the department with verification by an independent certified public accountant, licensed in the State of Alaska.
- Clarifies how a person not subject to taxes under this chapter can claim a payment.
- An editorial change was made regarding the terms defined in AS 43.20.047(l) in sec. 3 of the bill, the terms are now listed in alphabetical order.

3/13/12

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sponsor Statement HB 289 version X

"An Act relating to an above-ground liquefied natural gas storage facility; relating to the tax credit for an investment in an above-ground liquefied natural gas storage facility; relating to the regulation of gas storage as a utility; relating to the powers and duties of the director of the division of lands and to lease fees for a liquefied natural gas storage facility on state land; and providing for an effective date."

The cost of energy is crippling a good portion of Interior Alaska's economy. The ever increasing expense of heating homes and operating businesses during the long, cold, dark winter hurts the ability of Interior Alaskans to put food on the table today and plan for the future. The Fairbanks community spends over \$600 million per year on space heating, pays the highest natural gas prices in the country and does not receive the state energy incentives or subsidies available to residents and communities in other regions of our state.

House Bill 289 incents the private sector's delivery of lower cost natural gas to Interior Alaska by extending tax credits to a liquid natural gas trucking project for the Interior. A new credit for construction of above-ground liquefied gas storage tanks makes this program more flexible to fit the varying needs of gas delivery throughout the state. This legislation applies to tanked storage with a minimum volume of 25,000 gallons. The amount of the credit is limited to 50% of construction costs up to \$15 million. This allows areas of Alaska that do not have depleted gas reservoirs available, as Cook Inlet does, to receive a monetary incentive for costs associated with constructing above-ground tanks for storing LNG.

HB 289 would allow gas suppliers to take concrete steps toward delivering sizeable volumes of trucked natural gas to Alaska. All money from these credits for tanked storage would be under the oversight of the Regulatory Commission of Alaska, ensuring that any savings are passed along to the rate payer thereby lowering costs and keeping more dollars in the local community.

I urge you to join me in lowering Interior Alaska's energy costs by supporting House Bill 289.

E-mail [Representative Steve Thompson@legis.state.ak.us](mailto:Representative_Steve_Thompson@legis.state.ak.us)

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sponsor Statement HB 289 version D

"An Act relating to an above-ground liquefied natural gas storage facility; relating to the tax credit for an investment in an above-ground liquefied natural gas storage facility; relating to the regulation of gas storage as a utility; relating to the powers and duties of the director of the division of lands and to lease fees for a liquefied natural gas storage facility on state land; and providing for an effective date."

The cost of energy is crippling a good portion of Interior Alaska's economy. The ever increasing expense of heating homes and operating businesses during the long, cold, dark winter hurts the ability of Interior Alaskans to put food on the table today and plan for the future. The Fairbanks community spends over \$600 million per year on space heating, pays the highest natural gas prices in the country and does not receive the state energy incentives or subsidies available to residents and communities in other regions of our state.

House Bill 289 incents the private sector's delivery of lower cost natural gas to Interior Alaska by extending tax credits to a liquid natural gas trucking project for the Interior. A new credit for construction of above-ground liquefied gas storage tanks makes this program more flexible to fit the varying needs of gas delivery throughout the state. This legislation applies to tanked storage with a minimum volume of one million gallons. The amount of the credit is limited to 50% of construction costs up to \$15 million. This allows areas of Alaska that do not have depleted gas reservoirs available, as Cook Inlet does, to receive a monetary incentive for costs associated with constructing above-ground tanks for storing LNG.

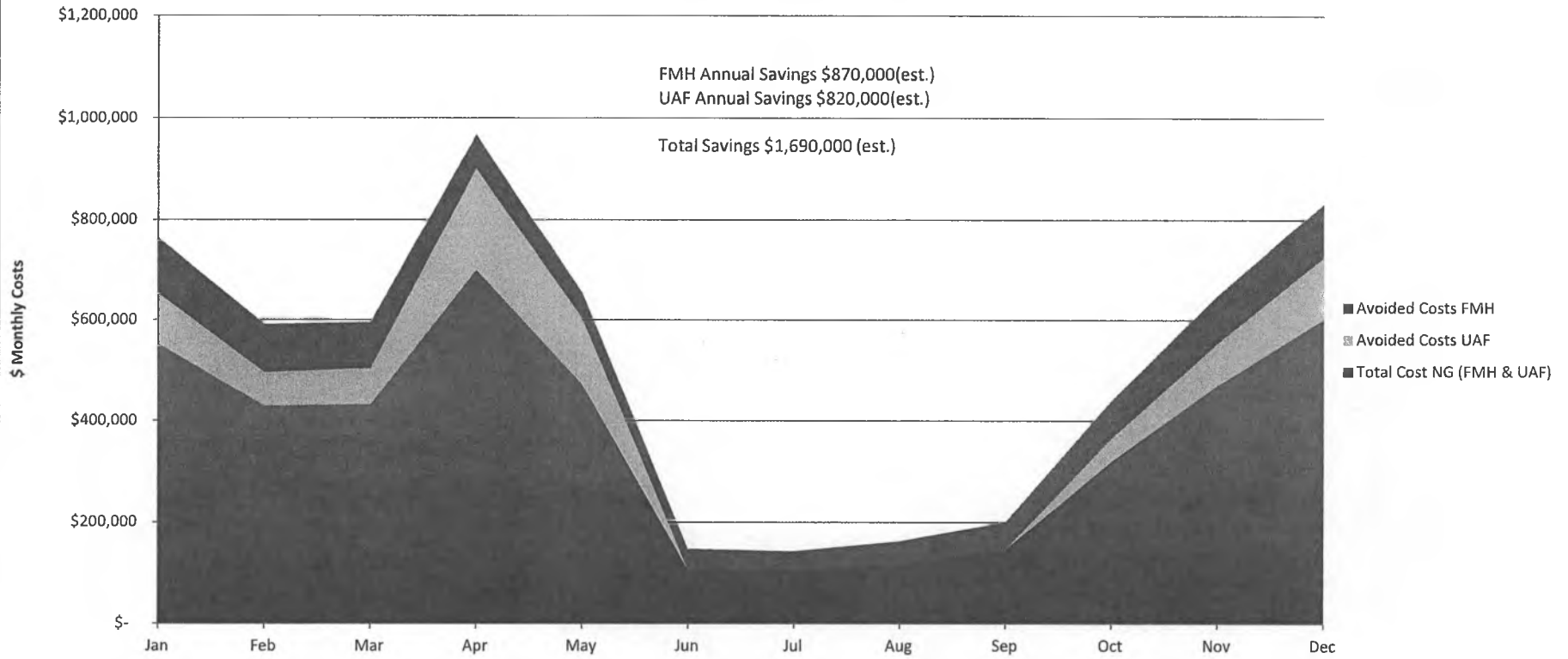
HB 289 would allow gas suppliers to take concrete steps toward delivering sizeable volumes of trucked natural gas to Alaska. All money from these credits for tanked storage would be under the oversight of the Regulatory Commission of Alaska, ensuring that any savings are passed along to the rate payer thereby lowering costs and keeping more dollars in the local community.

I urge you to join me in lowering Interior Alaska's energy costs by supporting House Bill 289.

E-mail [Representative Steve Thompson@legis.state.ak.us](mailto:Representative_Steve_Thompson@legis.state.ak.us)

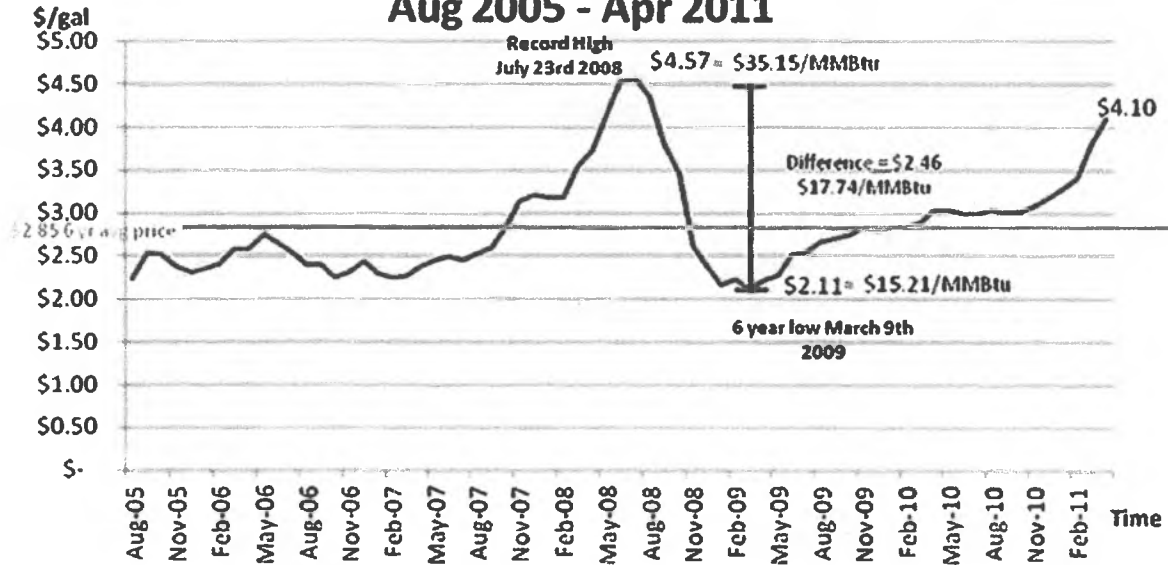
FMH & UAF Fuel Oil vs Natural Gas

FMH Annual Savings \$870,000(est.)
 UAF Annual Savings \$820,000(est.)
 Total Savings \$1,690,000 (est.)

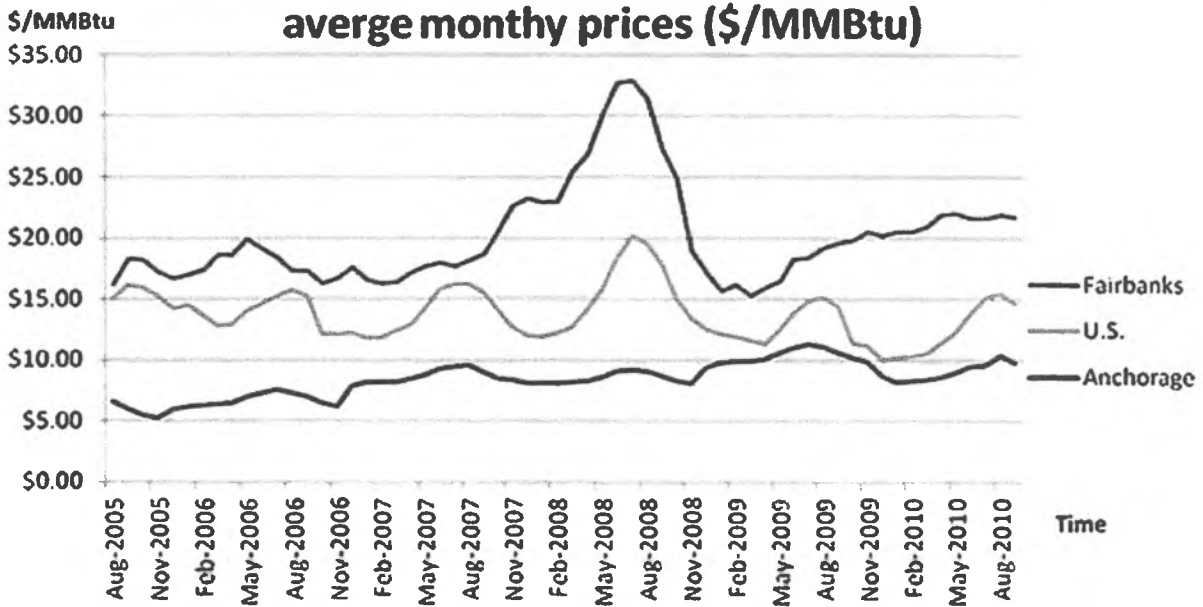


Monthly Average Home Heating Fuel Price FNSB

Aug 2005 - Apr 2011



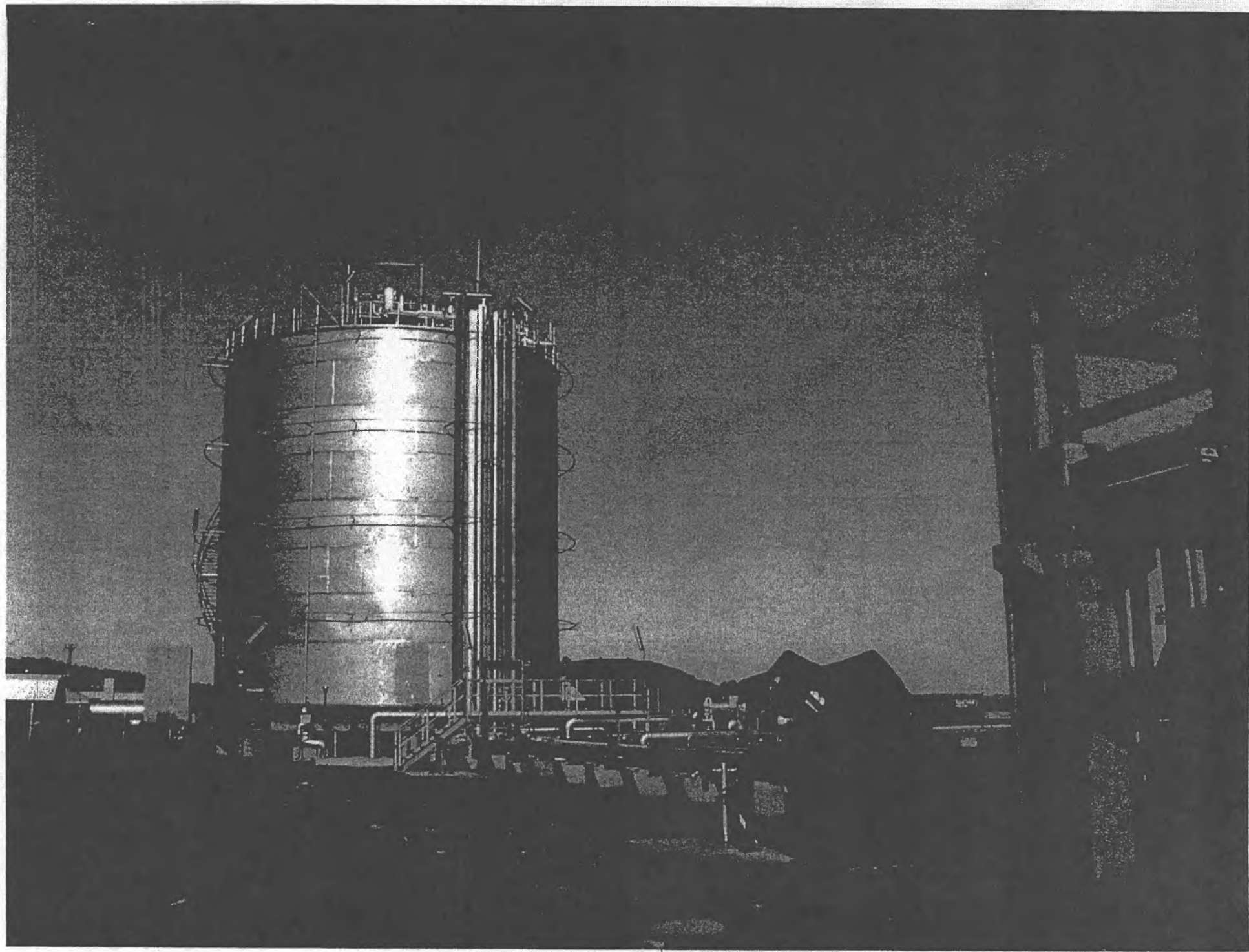
Anch (nat gas), FBKS(heating fuel), U.S. (nat gas) average monthly prices (\$/MMBtu)



Source: Data obtained from Energy Information Administration 2011



Knutsen OAS
Shipping



Louie Flora

From: Hans R. Tveitaskog <hrt@knutsenot.com>
Sent: Thursday, February 03, 2011 3:23 AM
To: Louie Flora
Subject: RE: Coastal LNG distribution in Alaska

Louie,

The delivery ports for Pioneer Knutsen in Norway would have population from let's say 200 up to 2-3000. However, we do not have any grid for household distribution. The LNG is used for small industry, aluminium industry, ferries running on LNG, and offshore support vessels also running on LNG.

The batches could be between 200 cub.m. up to full cargo. The biggest receiving terminal today I believe is approx 2000 cub.meters. Reason for being approximate on these figures is that receiving terminals have not been within our scope of delivery. For some reason I neither have the investment costs at this stage.

Most of them, however, are very simple. Fenced in insulated tanks with a minimum of piping, valves, and instrumentation. Gasification module has to be included. These simple plants are unmanned, and operated by vessel's crew during cargo transfer. This requires location of plant in close vicinity of the vessel.

For more large scale supply, we are also looking into supply of LNG for a planned gas power station for electric power supply to a community of approx 400.000 people, farming and small industry. Just to show that we are looking into "all sizes" of supply.

Please also note that we are presently developing a vessel that will take both LNG and oil products like Heavy fuel, Diesel, or gas-oils in separate tanks in order to satisfy various consumers on the same roundtrip.

Sorry not to be able to answer your cost question at this stage.

Best regards

Hans Tveitaskog

From: Louie Flora [mailto:Louie_Flora@legis.state.ak.us]
Sent: 2. februar 2011 17:19
To: Hans R. Tveitaskog
Subject: RE: Coastal LNG distribution in Alaska

Thank you for your prompt response. Can you provide our office with population details about the ports that you deliver small batches of LNG to, and the sizing and cost of the storage tanks for these small communities?

Louie Flora
Staff, Representative Paul Seaton
Alaska State Legislature
(907) 465-3923

From: Hans R. Tveitaskog [<mailto:hrt@knutsenot.com>]
Sent: Wednesday, February 02, 2011 3:43 AM
To: Louie Flora
Subject: Coastal LNG distribution in Alaska

Good morning,

HAND-CARRIED

Introduced By: Mayor Cleworth
Date: March 5, 2012

RESOLUTION NO. 4516

A RESOLUTION SUPPORTING HOUSE BILL 289 AND SENATE BILL 153 TO EXTEND TAX CREDITS FOR THE COSTS OF CONSTRUCTION OF NATURAL GAS STORAGE FACILITIES IN INTERIOR ALASKA

WHEREAS, as stated in State Representative Steve Thompson's Sponsor Statement to House Bill 289:

The cost of energy is crippling Interior Alaska's economy. The ever increasing expense of heating homes and operating businesses during the long, cold, dark winter hurts the ability of Interior Alaskans to put food on the table today and plan for the future. The Fairbanks community spends over \$600 million per year on space heating, pays the highest natural gas prices in the country and does not receive the state energy incentives or subsidies available to residents and communities in other regions of our state.

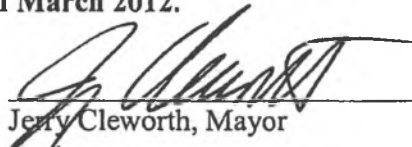
WHEREAS, House Bill 289 and Senate Bill 153, the companion bill sponsored by Senators Joe Thomas and John Coghill, provide an incentive for the private sector's delivery of lower cost energy to Interior Alaska by extending tax credits available for natural gas storage in Cook Inlet to a liquid natural gas trucking project for the Interior; and

WHEREAS, natural gas provides energy at a lower cost than fuel oil, even when transported by truck. Construction of new storage facilities would increase the availability of natural gas for additional residential, commercial and industrial users; and

WHEREAS, enlarged gas storage facilities will still be a valuable asset when a natural gas pipeline is constructed to serve the Interior.

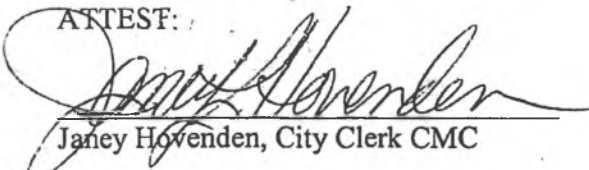
NOW, THEREFORE, BE IT RESOLVED, that the City of Fairbanks supports House Bill 289 and Senate Bill 153.

PASSED and APPROVED this 5th Day of March 2012.

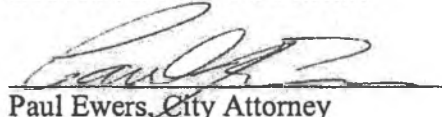

Jerry Cleworth, Mayor

AYES: Matherly, Hilling, Roberts, Eberhart.
NAYS: None
ABSENT: Stiver, Gatewood
PASSED: March 5, 2012

ATTEST:


Janey Hovenden, City Clerk CMC

APPROVED AS TO FORM:


Paul Ewers, City Attorney



Fairbanks North Star Borough

Office of the Mayor

809 Pioneer Road

P.O. Box 71267

Fairbanks, Alaska 99707-1267

907/459-1300

Fax: 907/459-1102

Email: mayor@co.fairbanks.ak.us

March 6, 2012

Honorable Steve Thompson
State Capitol, Room 428
Juneau, AK 99801

Re: House Bill 289 Letter of Support

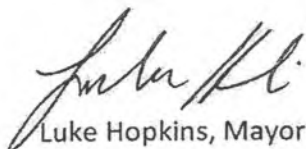
Dear Representative Thompson:

The cost of energy is crippling a large section of Interior Alaska's economy. The Fairbanks community spends over \$600 million per year on space heating, the highest natural gas prices in the nation. House Bill 289 incentivizes private sector delivery of low cost energy to Interior Alaska by extending tax credits for above ground LNG storage facilities. A new credit for construction of above-ground liquefied gas storage tanks makes this program more flexible to fit the varying needs of gas delivery throughout the state. As I understand the bill, this legislation applies to tanked storage with a minimum volume of 25,000 gallons. The amount of the credit is limited to 50% of construction costs up to \$15 million. This legislation allows areas of Alaska that do not have depleted gas reservoirs available, as Cook Inlet does, to receive a monetary incentive for costs associated with constructing above-ground tanks for storing LNG.

House Bill 289 and its companion Bill in the Senate SB 153 would allow gas suppliers to take concrete steps toward delivering sizeable volumes of trucked natural gas to Alaska-the first step in addressing our community's space heating needs. All money from these credits for tanked storage would be under the oversight of the Regulatory Commission of Alaska, ensuring that any savings are passed along to the rate payer thereby lowering costs and keeping more dollars in the local community.

On behalf of the residents of the Fairbanks North Star Borough, thank you for sponsoring this important and much needed legislation to assist in bringing natural gas to Alaskans.

Sincerely,



Luke Hopkins, Mayor



CITY OF NORTH POLE

"Where the Spirit of Christmas Lives Year Round"

125 Snowman Lane • North Pole, Alaska 99705-7708
E-mail: mayor@northpolealaska.com • Website: www.northpolealaska.com

March 2, 2012

Representative Steve Thompson
State Capitol Building
Room 428
Juneau, Alaska 99801-2186

Via E-mail Representative_Steve_Thompson@legis.state.ak.us

RE: Supporting HB 289

Dear Representative Thompson:

As you know, North Pole residents, and Interior Alaska as a whole, are in dire need of switching to an affordable energy source. We have a terminal cycle that, if kept on the present trajectory, will end up as an economic disaster not just for the Interior but also for all Alaska, both economically and the drain on general fund budget to provide a massive social services safety net.

The cycle starts with the expense of refining and electric generation: the cost of oil is crippling the cost of refining heating oil, and other petroleum products, and generating electricity, which in the Interior is 30% driven by petroleum derivatives but which accounts for a doubling of the cost to the consumer. The cycle impacts the average consumer whose disposable income has been spent by having to pay energy costs to heat and light their home and drive to work (to afford paying the bills!) and who often maxed out their credit cards just to stay afloat for another winter. Some residents have already packed up and moved Outside! The cycle then hits the businesses, who not only have to pay for ever increasing energy costs just to keep the business open, but then often has less customers willing to part with money due to their own budget crisis.

We need help! HB 289 will provide some of the assistance we need by making it possible to deliver lower cost natural gas to Interior Alaska—which will dynamically change the cost of providing space heating and electricity to the consumer, which hopefully will bring the necessary relief to consumers and businesses and ending the tyranny of a currently unbreakable cycle.

Natural gas storage is also necessary to ensure that we have adequate reserves to ensure a steady supply of natural gas to our homes, providing for a reliable alternative to burning wood, coal or other substances which prevent us from attaining the air quality standards which currently put us at risk of EPA sanctions in 2014.

Thank you for introducing HB 289 and I urge your legislative colleagues to support the passage of this bill.

Sincerely,

Douglas W. Isaacson
Mayor

City Hall
907-488-2281
Fax: 907-488-3002

Mayor
907-488-8584

City Clerk
907-488-8583

Police
Department
907-488-6902

Fire
Department
907-488-2232

Utilities
907-488-6111

Director of
City Services
907-488-8593

Finance
907-488-8594