

HB

289

<TARGET><BILL>HB 289</BILL><SUBJECT>HB
289</SUBJECT><COMM>HRES27</COMM></TARGET>

LEGAL SERVICES

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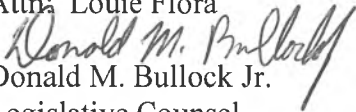
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 28, 2012

SUBJECT: One editorial change in CSHB 289(RES)
(Work Order No. 27-LS1216\D)

TO: Representative Paul Seaton
Co-Chair of the House Resources Committee
Attn: Louie Flora

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

Enclosed is the bill referenced above that includes the reduction in qualifying capacity and reduction in qualifying expanded capacity from 1,000,000 gallons to 25,000 gallons. Please read this draft carefully to ensure that it is consistent with the committee's intent.

Following a review of the final version of this bill, one editorial change was made. The terms defined in AS 43.20.047(*l*) in sec. 3 of the bill are now listed in alphabetical order, but were not in the previous version -- 27-LS1216\I. This editorial change is not a substantive change and is made to conform the bill to the drafting manual and style used in the Alaska Statutes.

If I may be of further assistance, please advise.

DMB:ljw
12-166.ljw

Enclosure

27-LS1216M
Bullock
2/20/12

CS FOR HOUSE BILL NO. 289()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE THOMPSON

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to a an above-ground liquefied natural gas storage facility; relating to**
2 **the tax credit for an investment in an above-ground liquefied natural gas storage**
3 **facility; relating to the regulation of gas storage as a utility; relating to the powers and**
4 **duties of the director of the division of lands and to lease fees for a liquefied natural gas**
5 **storage facility on 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" means a tank that is
20 available for the storage of liquefied natural gas.

21 * **Sec. 2.** AS 42.05.990(3) is amended to read:

22 (3) "natural gas storage facility" means a facility that receives natural
23 gas volumes either as gas or liquefied natural gas from customers, holds the gas
24 volumes in a reservoir, tank, depleted or nearly depleted pool, or other above-
25 ground containment structure, and delivers the gas volumes to the customer; in this
26 paragraph, "facility" includes

27 (A) all parts of the facility from the point at which the natural
28 gas volumes are received by the facility from the customer to the point at
29 which the natural gas volumes are delivered by the facility to the customer;
30 and

31 (B) [A FACILITY CONSISTING OF A RESERVOIR,

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EITHER UNDERGROUND OR ABOVEGROUND, AND] one or more of the following components of the facility:

- (i) pipe;
- (ii) compressor stations;
- (iii) station equipment;
- (iv) injection and extraction wells;
- (v) on-site or remote monitoring, supervision, and control facilities;
- (vi) gas processing plants and gas treatment plants, but not including a liquefied natural gas or manufacturing plant or facility;
- (vii) other equipment necessary to receive, place into storage [THE RESERVOIR], monitor, remove from storage [THE RESERVOIR], process, and deliver natural gas;

* Sec. 3. AS 43.20 is amended by adding a new section to article 1 to read: .

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

(b) To qualify for the credit in this section, an above-ground liquefied natural gas storage facility

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

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 2, mil gal tank
 350,000 gal
 1 mil = 15 days
 12.1q = 1mg

1 (2) may not have been in operation as an above-ground liquefied
 2 natural gas storage facility before January 1, 2011, unless the tax credit in this section
 3 is based on the expansion of the above-ground liquefied natural gas storage facility
 4 after December 31, 2011;

5 (3) must be regulated under AS 42.05 as a utility and be available to
 6 furnish the service of natural gas storage to customers, utilities, or industrial facilities;
 7 in this paragraph, "service of natural gas storage" has the meaning given in
 8 AS 42.05.990, except that, in this paragraph, the natural gas storage is limited to the
 9 service of liquefied natural gas storage;

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

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

15 (c) To claim the credit or request a payment, a person shall submit to the
 16 department a certification of the capacity of the above-ground liquefied natural gas
 17 storage facility measured in gallons or the capacity of an expansion to an existing
 18 above-ground liquefied natural gas storage facility measured in gallons, the date that
 19 the liquefied natural gas storage facility commenced commercial operation, the date
 20 that any expansion to the facility commenced commercial operation, and other
 21 information required by the department.

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

26 (e) The department may use money available in the oil and gas tax credit fund
 27 established in AS 43.55.028 to make a refund or payment under (d) of this section in
 28 whole or in part if the department finds that (1) the claimant does not have an
 29 outstanding liability to the state for unpaid delinquent taxes under this title; and (2)
 30 after application of all available tax credits, the claimant's total tax liability under this
 31 chapter for the calendar year in which the claim is made is zero. In this subsection,

1 "unpaid delinquent tax" means an amount of tax for which the department has issued
2 an assessment that has not been paid and, if contested, has not been finally resolved in
3 the taxpayer's favor.

4 (f) For the purpose of determining the amount of the credit under this section,
5 the costs incurred to establish an above-ground liquefied natural gas storage facility or
6 to expand an above-ground liquefied natural gas storage facility shall be submitted to
7 the department with verification by an independent certified public accountant,
8 licensed in the state. The volume of working liquefied natural gas storage or volume of
9 the expansion to an existing above-ground liquefied natural gas storage facility shall
10 be verified by a professional engineer licensed in the state with relevant experience.

11 (g) A person may not receive a credit under this section for the acquisition of
12 an above-ground liquefied natural gas storage facility for which a credit has been
13 taken under this section.

14 (h) If the above-ground liquefied natural gas storage facility for which a credit
15 was received under this section ceases commercial operation during the nine calendar
16 years immediately following the calendar year in which the liquefied natural gas
17 storage facility commences commercial operation, the tax liability under this chapter
18 of the person who claimed the credit shall be increased, and a person not subject to the
19 tax under this chapter that received a payment under (d) and (e) of this section shall be
20 liable to the state in the amount determined in this subsection. The amount of the
21 increase in tax liability or liability to the state

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

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

30 (3) is equal to the total amount of the credit taken or received as a
31 payment under (d) of this section, as applicable, multiplied by a fraction, the

1 numerator of which is the difference between 10 and the number of calendar years for
2 which the liquefied natural gas storage facility was eligible for a tax credit under this
3 section and the denominator of which is 10.

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

11 (j) A person claiming a tax credit under this section for a liquefied natural gas
12 storage facility that ceases commercial operation within nine calendar years
13 immediately following the calendar year in which the liquefied natural gas storage
14 facility commences commercial operation shall notify the department in writing of the
15 date the liquefied natural gas storage facility ceased commercial operation. The notice
16 must be filed with the return for the taxable year in which the liquefied natural gas
17 storage facility ceases commercial operation.

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

19 (l) In this section,

20 (1) "liquefied natural gas storage facility" means a gas storage facility
21 in which liquefied natural gas is stored in a tank or other above-ground containment
22 structure;

23 (2) "ceases commercial operation" means that the above-ground
24 liquefied natural gas storage facility fails to add or withdraw 20 percent or more of its
25 working capacity of liquefied natural gas during a calendar year after the calendar year
26 in which the above-ground liquefied natural gas storage facility commences
27 commercial operation;

28 (3) "commences commercial operation" means the first input of
29 liquefied natural gas into a liquefied natural gas storage facility for purposes other than
30 testing.

31 * **Sec. 4.** AS 43.55.028(a) is amended to read:

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

5 * **Sec. 5.** AS 43.55.028(g) is amended to read:

6 (g) The department may adopt regulations to carry out the purposes of this
7 section, including standards and procedures to allocate available money among
8 applications for purchases under this chapter and claims for refunds and payments
9 under AS 43.20.046 or 43.20.047 when the total amount of the applications for
10 purchase and claims for refund exceed the amount of available money in the fund. The
11 regulations adopted by the department may not, when allocating available money in
12 the fund under this section, distinguish an application for the purchase of a credit
13 certificate issued under AS 43.55.023(m) or a claim for refund under AS 43.20.046 or
14 AS 43.20.047.

15 * **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Explanation of Changes version A to Version I (2.22.12)

- Moves above-ground natural gas storage facilities into their own section of law in AS 43.20.
- The size of a storage tank facility applying for a credit must be verified by a professional engineer.
- 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.
- Clarifies how a person not subject to taxes under this chapter can claim a payment.

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sponsor Statement HB 289 version I

"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 Golden Valley Electric Association, Flint Hills Refinery or another gas supplier to take concrete steps toward delivering sizeable volumes of trucked natural gas to the Interior. 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)

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional Analysis for Sponsor Substitute for HB 289 version VI (dated 2.21.12)

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 1,000,000 gallons or more or an expansion of an existing facility of 1,000,000 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.

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

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB289
 Fiscal Note Number _____
 () Publish Date _____

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					
			FY13	FY13	FY14	FY15	FY16	FY17
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)

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
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

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES

	FY13	FY13	FY14	FY15	FY16	FY17	FY18

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

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB289

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.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB 289
 Fiscal Note Number _____
 () Publish Date _____

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							
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)

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

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB 289

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 HB 289
 Fiscal Note Number _____
 () Publish Date _____

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

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB 289

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 HB289
 Fiscal Note Number _____
 () Publish Date _____

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					
			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

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB289

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 HB289
 Fiscal Note Number _____
 () Publish Date _____

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	***	***	***	***	***	***	***	***

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

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.

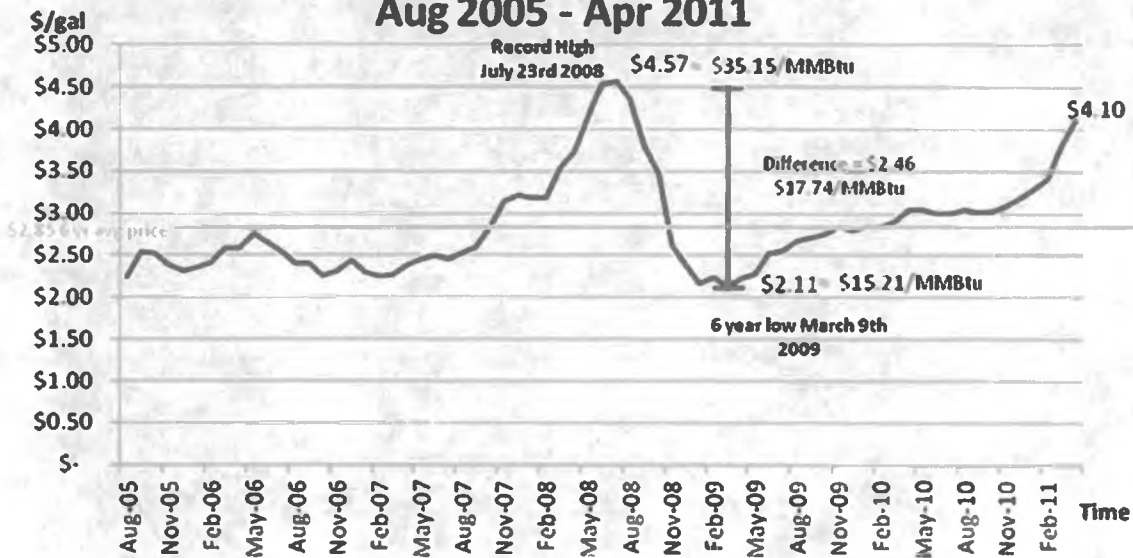
There is no anticipated fiscal impact to the Division of Oil and Gas. The application of tax credits will have an indeterminate impact on the revenues acquired by the Division.

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.

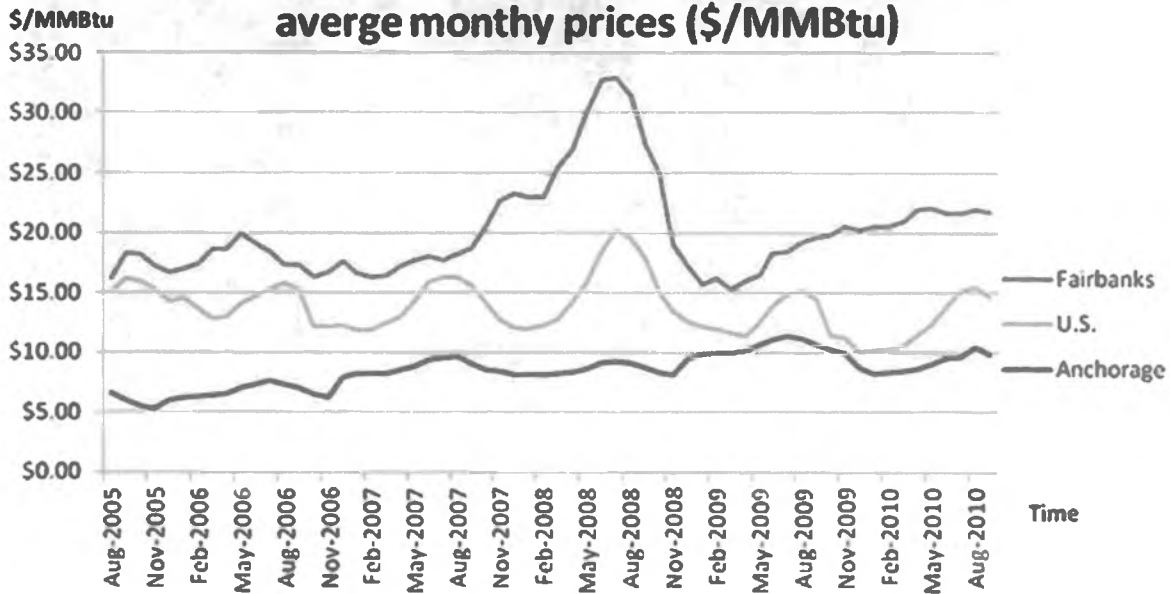
To the extent new markets are not accessed, the impact of the credit is indeterminate. The credit might not increase the netback value of the gas for royalty purposes because a gas storage facility is regulated under this section, with the value of the credit likely passed on to the consumer. The State's 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.

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)



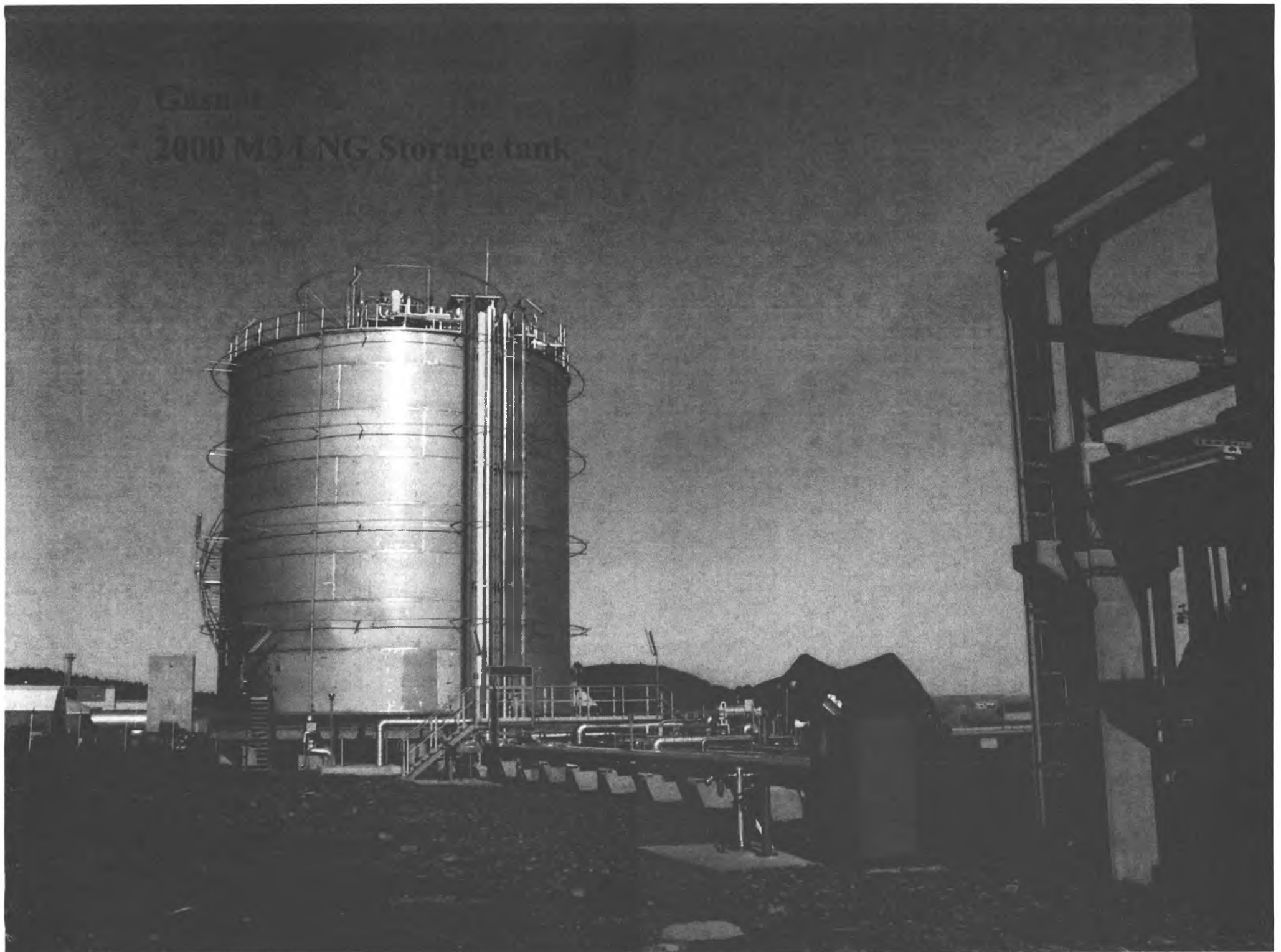
Source: Data obtained from Energy Information Administration 2011

Small Scale LNG Receiving Terminal



Knutsen OAS
Shipping

Gas
2000 M3 LNG Storage tank



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 same 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,