

HB

325

<TARGET><BILL>HB 325</BILL><SUBJECT>HB
325</SUBJECT><COMM>HRES28</COMM></TARGET>



REPRESENTATIVE CATHY MUÑOZ

SPONSOR STATEMENT HOUSE BILL 325

"An Act increasing the balance of the oil and hazardous substance release prevention and response fund required to suspend the surcharge levied on oil produced in the state; increasing the amount of the surcharge levied on oil produced in the state that may be appropriated to the oil and hazardous substance release prevention account; and providing for an effective date."

House Bill 325 would raise the per-barrel surcharge on oil from four cents to seven cents to help replenish the state spill prevention account. This funding source pays for the Division of Spill Prevention and Response to investigate the release of oil and other hazardous contaminants; review discharge prevention and contingency plans; conduct training, response drills, inspections, and tests; and, verify an organization's proof of financial responsibility to clean up spills.

Besides money from the per-barrel surcharge, the prevention account also has funds from fines, penalties, settlements, and investment earnings. For the current budget year, Fiscal Year 2014, it has enough revenue to pay for the division's \$17 million annual expenses. However, it is expected to run out by the end of Fiscal Year 2015, according to the Department of Environmental Conservation. Tapping unrestricted general funds will be needed as soon as Fiscal Year 2016 – some \$6.6 million. By Fiscal Year 2022, that amount is expected to grow to \$8.3 million – and these figures do not even include inflation.

Today, the four-cent surcharge generates nearly \$7 million a year. If it were raised to seven cents and if oil production were to remain at current levels, it could generate approximately \$12 million – still short of the \$17 million needed to run the division; however, the additional revenue would lead to a smaller draw on unrestricted general funds during a time of expected deficits.

HB 325 also would increase the size of the spill response account from \$50 million to \$75 million. This funding source is used for emergency responses and is supported by a one-cent per-barrel surcharge on oil. Under current law, the surcharge stops when the account reaches \$50 million – a cap that was set 20 years ago in 1994. It has not kept up with inflation since then.

HB 325 is intended to help start a discussion on how best to protect the public good of having funds available to prevent and respond to a spill of oil or other toxic pollutants and assure Alaskans that measures are in place to keep their water and land pristine.



REPRESENTATIVE CATHY MUÑOZ

MEMORANDUM

To: Honorable Eric Feige, Co-chair
Honorable Dan Saddler, Co-chair
House Resources Committee

From: Christopher Clark, Aide
Rep. Cathy Muñoz

Date: March 11, 2014

Re: Sectional analysis of HB 325, spill response fund

Kindly note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself. The legislation is the best statement of its contents.

Section 1. The state oil and hazardous substance release prevention and response fund, Alaska Statute (AS) 43.55.200-.310, has two accounts: the response account and the prevention account. The response account pays for emergency responses to spills of oil or hazardous substances. It is funded by a one-cent surcharge on each barrel of oil. Under current law, the surcharge is suspended when the response account exceeds \$50 million. This section would amend AS 43.55.221(d) by increasing the response account's one-cent surcharge suspension limit from \$50,000,000 to \$75,000,000.

Section 2. Amends AS 43.55.221(e) to increase the response account's one-cent surcharge suspension limit from \$50,000,000 to \$75,000,000.

Section 3. The prevention account pays for operational costs, spill response drills, and other readiness activities within the Division of Spill Prevention and Response. It is funded by a four-cent surcharge on each barrel of oil. This section would amend AS 43.55.300(a) to increase the surcharge to seven-cents-a-barrel.

Section 4. Provides for an immediate effective date.

28-LS1486\U
Nauman
4/13/14

CS FOR HOUSE BILL NO. 325()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION**

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES MUÑOZ, Seaton, Peggy Wilson, Kawasaki, Kito III

A BILL

FOR AN ACT ENTITLED

1 **"An Act increasing the balance of the oil and hazardous substance release prevention**
2 **and response fund required to suspend the surcharge levied on oil produced in the state;**
3 **increasing the amount of a surcharge levied on oil produced in the state; creating a new**
4 **surcharge on petroleum products refined from crude oil and refined in the state or**
5 **imported into the state; relating to oil discharge prevention and contingency plans;**
6 **relating to the oil and hazardous substance release prevention account; relating to the**
7 **oil and hazardous substance release prevention and response fund; and providing for an**
8 **effective date."**

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

10 *** Section 1.** AS 43.55.221(d) is amended to read:

11 (d) If the commissioner of administration reports that the sum reported under
12 (b) of this section equals or exceeds \$75,000,000 [\$50,000,000], the commissioner of

1 revenue shall suspend imposition and collection of the surcharge levied and collected
2 under AS 43.55.201. Suspension of the imposition and collection of the surcharge
3 begins on the first day of the calendar quarter next following the commissioner's
4 receipt of the commissioner of administration's report under (b) of this section. Before
5 the first day of a suspension authorized by this subsection, the commissioner shall
6 make a reasonable effort to notify all persons who are known to the department to be
7 paying the surcharge under AS 43.55.201 that the surcharge will be suspended.

8 * **Sec. 2.** AS 43.55.221(e) is amended to read:

9 (e) Except as provided in AS 43.55.231, if the commissioner of administration
10 reports that the sum reported under (b) of this section is less than \$75,000,000
11 [~~\$50,000,000~~], the commissioner of revenue shall require imposition and collection of
12 the surcharge authorized under AS 43.55.201. If the surcharge is not in effect,
13 reimposition of the surcharge begins on the first day of the calendar quarter next
14 following the commissioner's receipt of the commissioner of administration's report
15 under (b) of this section. Before the first day of reimposition of the surcharge
16 authorized by this subsection, the commissioner shall make a reasonable effort to
17 notify all persons who are known to the department to be required to pay the surcharge
18 under AS 43.55.201 that the surcharge will be reimposed.

19 * **Sec. 3.** AS 43.55.300(a) is amended to read:

20 (a) **There is levied** [EVERY PRODUCER OF OIL SHALL PAY] a surcharge
21 **(1) on a producer of oil, of \$.07 for each** [OF \$.04 PER] barrel of oil
22 produced from each lease or property in the state, less any oil the ownership or right to
23 which is exempt from taxation;

24 **(2) on a refiner of crude oil, of \$.005 for each gallon of petroleum**
25 **products refined from crude oil in the state; or**

26 **(3) on an importer of petroleum products refined from crude oil**
27 **for resale, of \$.005 for each gallon of petroleum products refined from crude oil**
28 **imported into the state not subject to a tax under AS 43.40.**

29 * **Sec. 4.** AS 43.55.300(b) is amended to read:

30 (b) The surcharge imposed by (a)**(1)** of this section is in addition to the tax
31 imposed by AS 43.55.011, **A surcharge imposed by (a) of this section** [AND] is due

1 on the last day of the month [ON OIL PRODUCED FROM EACH LEASE OR
2 PROPERTY DURING THE PRECEDING MONTH]. The surcharge is in addition to
3 the surcharge imposed by AS 43.55.201 - 43.55.231.

4 * **Sec. 5.** AS 43.55.300(c) is amended to read:

5 (c) A producer of oil shall make a report of production on March 31 of the
6 year following the calendar year of production and in the same manner and under the
7 same penalties as required under AS 43.55.011 - 43.55.180. **A refiner of crude oil or**
8 **an importer of petroleum products refined from crude oil for resale shall report**
9 **the volume of refined crude oil imported or refined to the department on**
10 **March 31 of the year following the calendar year of the importation of petroleum**
11 **products refined from crude oil or the refining of the crude oil.**

12 * **Sec. 6.** AS 43.55.310 is amended to read:

13 **Sec. 43.55.310. Use of revenue derived from surcharge.** The legislature may
14 appropriate the annual estimated balance of the account maintained under
15 AS 37.05.142 for deposits into the general fund of the proceeds of **a** [THE] surcharge
16 levied under AS 43.55.300 to the oil and hazardous substance release prevention
17 account in the oil and hazardous substance release prevention and response fund
18 established by AS 46.08.010.

19 * **Sec. 7.** AS 46.04.030(a) is amended to read:

20 (a) A person may not cause or permit the operation of an oil terminal facility
21 in the state unless an oil discharge prevention and contingency plan for the facility has
22 been approved by the department and the person is in compliance with the plan. **The**
23 **department may require a plan to be submitted in a word searchable electronic**
24 **format.**

25 * **Sec. 8.** AS 46.04.030 is amended by adding a new subsection to read:

26 (s) The department may collect a fee for approving a plan under this section.

27 * **Sec. 9.** AS 46.08.040(c) is amended to read:

28 (c) Notwithstanding other provisions of this section, money from the fund
29 may not be used for a purpose specified in (a)(1)(B) or (C) or (a)(2) of this section
30 unless money is available from an appropriation made specifically for that purpose.
31 [THE LEGISLATURE MAY USE NOT MORE THAN THREE PERCENT OF THE

1 ESTIMATED ANNUAL BALANCE OF THE PREVENTION ACCOUNT TO
2 MAKE APPROPRIATIONS FOR THE PURPOSES DESCRIBED IN (a)(2)(E) OF
3 THIS SECTION.]

4 * **Sec. 10.** AS 46.08.040(a)(2)(E) and 46.08.040(a)(2)(H)(iii) are repealed.

5 * **Sec. 11.** This Act takes effect immediately under AS 01.10.070(c).



REPRESENTATIVES
CATHY MUÑOZ & PAUL SEATON

HB 325 VERSION U – OIL SPILL PREVENTION FUND
SUMMARY OF CHANGES

House Bill 325 Version U decreases Department of Environmental Conservation bureaucracy and broadens participation in funding spill prevention and response.

- The original bill proposes a \$0.07 conservation surcharge – which is expected to generate roughly \$4.6 million next year, according to a Department of Revenue fiscal note. Version U adds a ½ penny per gallon surcharge on petroleum products refined or imported into Alaska. The estimated revenue increase from this new provision is approximately \$4 million.
- Version U allows DEC to collect a fee for state reviews of contingency plans (C-plans) which are costly and require thousands of hours in staff time each year. Adding a fee for service puts the onus on a company to make a complete and correct filing and will decrease state agency staff costs.
- Version U requires C-plans to be submitted in a searchable electronic format that is acceptable to DEC. This is a common-sense approach in the digital era and allows the public to have better access to information.
- Two programs are removed from the statutes because they are no longer funded by the spill response fund: the fuel storage grant program and the local planning committee program.
- Version U deletes language authorizing legislative appropriations from the response account for local planning committees.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 325
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB325-DEC-RFA-03-14-14
Title: OIL SPILL PREVENTION FUND
Sponsor: MUNOZ
Requester: House Resources Committee

Department: Department of Environmental Conservation
Appropriation: Spill Prevention and Response
Allocation: Response Fund Administration
OMB Component Number: 2259

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
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 (Operating Only)

None							
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 (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: <u>Kristin Ryan, Director</u>	Phone: <u>(907)269-7604</u>
Division: <u>Spill Prevention and Response</u>	Date: <u>03/13/2014 12:00 PM</u>
Approved By: <u>Lynn Kent, Deputy Commissioner</u>	Date: <u>03/14/14</u>
Agency: <u>Department of Environmental Conservation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 325

Analysis

Analysis/Assumptions:

This bill would increase the per barrel surcharge that funds the Prevention Account within the Oil and Hazardous Substance Release Prevention and Response Fund from \$.04 to \$.07. This bill would also raise the threshold at which the \$.01 per barrel Response Account surcharge is suspended from \$50 million to \$75 million.

Please refer to the fiscal note prepared for the Department of Revenue for the projected change in surcharge receipts. Note that funds from the surcharge are available for appropriation to the Department of Environmental Conservation in the fiscal year **after** they are collected by the Department of Revenue. Surcharge revenues fund expenses for existing programs as set forth in AS 46.08.040, including activities related to prevention, preparedness, response, cleanup, and program administration.

A change to the per-barrel surcharge does not change the operating budget authority of the Department.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 325
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB325-DOR-TAX-3-14-14
Title: OIL SPILL PREVENTION FUND
Sponsor: MUNOZ
Requester: (H) Resources

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
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 (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	4,770.0		4,670.0	4,640.0	4,410.0	4,120.0	3,830.0
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial version.

Prepared By: <u>Timothy Harper, Petroleum Economist II</u>	Phone: <u>(907)269-1020</u>
Division: <u>Tax</u>	Date: <u>03/12/2014 01:00 PM</u>
Approved By: <u>Angela Rodell, Commissioner</u>	Date: <u>03/14/14</u>
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 325

Analysis

Bill Language:

This bill amends the provisions of one of the two production tax surcharges that fund the oil and hazardous substance release prevention and response fund. Currently, the surcharge is made up of two components: The surcharge that funds the prevention account (AS 43.55.300) is currently four cents on each taxable barrel of oil produced, with no cap. There is an additional 1 cent per taxable barrel surcharge that funds the response account (AS 43.55.221); this 1 cent surcharge is suspended when the balance in the account exceeds \$50 million. Therefore, the total hazardous release surcharge is currently either 5 cents per taxable barrel or 4 cents if the response surcharge is suspended.

This bill would increase the prevention surcharge from 4 to 7 cents per taxable barrel, and would also increase the threshold for suspending the response surcharge from \$50 million to \$75 million. This would increase the total hazardous release surcharge to 8 cents per taxable barrel, or 7 cents if the response surcharge is suspended.

This bill has an immediate effective date; for the purposes of this fiscal note we show changes in revenue beginning July 1, 2014 (FY 2015).

Revenues:

According to the fall 2013 revenue forecast, the increase in the prevention surcharge under AS 43.55.300 will raise additional revenues (in thousands), as shown in the table below. Our forecast assumes that the one cent response surcharge under AS 43.55.221 will be in place, so we do not anticipate a revenue impact from that provision; however this bill does reduce the likelihood of the one cent portion being suspended in the future.

Additional revenues raised by increasing the surcharge from 4 cents to 7 cents

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues @ \$0.07	11,130.0	10,900.0	10,840.0	10,290.0	9,610.0	8,950.0
Revenues @ \$0.04	6,360.0	6,230.0	6,190.0	5,880.0	5,490.0	5,110.0
Additional Revenues	4,770.0	4,670.0	4,640.0	4,410.0	4,120.0	3,830.0

Expenditures:

We anticipate the provisions within this bill can be implemented in the Tax Division using existing staff and resources.

Alaska Statute: Conservation Surcharge on Oil

Updated: 3/10/2014 2:34 PM

Article 02. CONSERVATION SURCHARGE ON OIL

Sec. 43.55.200. Surcharge levied. [Repealed, Sec. 43 ch 128 SLA 1994].

Repealed or Renumbered

Article Notes -

Cross References. For legislative findings and purpose in connection with the enactment of this article, see Sec. 1, ch. 112, SLA 1989 in the Temporary and Special Acts.

Editors Notes. Section 5, ch. 112, SLA 1989 provides that chapter 112 "does not relieve a person responsible for an oil terminal facility, offshore exploration or production facility, or a vessel that transports crude oil, or a person who has control of a hazardous substance, from the responsibility for containing and cleaning up a discharge of oil or the hazardous substance as required by law."

Sec. 43.55.201. Surcharge levied.

(a) Every producer of oil shall pay a surcharge of \$.01 per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to the tax imposed by AS 43.55.011 and is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge is in addition to the surcharge imposed by AS 43.55.300 - 43.55.310.

(c) A producer of oil shall make a report of production on March 31 of the year following the calendar year of production and in the same manner and under the same penalties as required under AS 43.55.011 - 43.55.180.

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

History -

(Sec. 13 ch 128 SLA 1994; am Sec. 26, 27 ch 2 TSSLA 2006)

Sec. 43.55.210. Disposition of proceeds of surcharge. [Repealed, Sec. 43 ch 128 SLA 1994].

Repealed or Renumbered

Sec. 43.55.211. Use of revenue derived from surcharge.

The legislature may appropriate the annual estimated balance of the account maintained under AS 37.05.142 for deposits into the general fund of the proceeds of the surcharge levied under AS 43.55.201 to the response account in the oil and hazardous substance release prevention and response fund established by AS 46.08.010.

History -

(Sec. 14 ch 128 SLA 1994)

Sec. 43.55.220. Use of revenue derived from surcharge. [Repealed, Sec. 43 ch 128 SLA 1994].

Repealed or Renumbered

Sec. 43.55.221. Suspension and reimposition of the surcharge.

(a) Not later than 30 days after the end of each calendar quarter, the commissioner of administration shall determine, as of the end of that quarter, the fiscal year's

(1) unreserved and unobligated balance in the response account of the oil and hazardous substance release prevention and response fund established in AS 46.08.010; for purposes of this paragraph, the "unreserved and unobligated balance in the response account" means the cash balance of the account less the sum of

(A) reserves for outstanding appropriations from the account;

(B) encumbrances of money in the account; and

(C) other liabilities of the account;

(2) balance of the account maintained under AS 37.05.142 that accounts for the proceeds of the surcharge that are deposited in the general fund;

(3) the balance of the response mitigation account established by AS 46.08.025(b) that originated from the sources described in AS 46.08.025(a)(3) and that is available for appropriation to the response account of the fund established in AS 46.08.010.

(b) Within 15 days after making the determinations required by (a) of this section, the commissioner of administration shall

(1) add the amounts determined under (a)(1) - (3) of this section; and

(2) report the sum calculated under (1) of this subsection to the commissioner of revenue.

(c) In making the determination required by (a) of this section, the commissioner of administration may not consider money described in (a) of this section that is subject to a dedication imposed by law that restricts the use of the money to a specific purpose for which the response account of the oil and hazardous substance release prevention and response fund established in AS 46.08.010 may not be lawfully expended.

(d) If the commissioner of administration reports that the sum reported under (b) of this section equals or exceeds \$50,000,000, the commissioner of revenue shall suspend imposition and collection of the surcharge levied and collected under AS 43.55.201. Suspension of the imposition and collection of the surcharge begins on the first day of the calendar quarter next following the commissioner's receipt of the commissioner of administration's report under (b) of this section. Before the first day of a suspension authorized by this subsection, the commissioner shall make a reasonable effort to notify all persons who are known to the department to be paying the surcharge under AS 43.55.201 that the surcharge will be suspended.

(e) Except as provided in AS 43.55.231, if the commissioner of administration reports that the sum reported under (b) of this section is less than \$50,000,000, the commissioner of revenue shall require imposition and collection of the surcharge authorized under AS 43.55.201. If the surcharge is not in effect, reimposition of the surcharge begins on the first day of the calendar quarter next following the commissioner's receipt of the commissioner of administration's report under (b) of this section. Before the first day of reimposition of the surcharge authorized by this subsection, the commissioner shall make a reasonable effort to notify all persons who are known to the department to be required to pay the surcharge under AS 43.55.201 that the surcharge will be reimposed.

History -

(Sec. 15 ch 128 SLA 1994)

Sec. 43.55.230. Suspension and reimposition of the surcharge. [Repealed, Sec. 43 ch 128 SLA 1994].

Repealed or Renumbered

Sec. 43.55.231. Surcharge not imposed.

(a) The surcharge authorized by AS 43.55.201 is not levied during any fiscal year for which

(1) the legislature does not, during the regular or a special legislative session preceding the first day of the fiscal year, appropriate at least an amount equal to the amount determined under (b) of this section from the general fund to the response account in the oil and hazardous substance release prevention and response fund; or

(2) the legislature, during the regular or a special legislative session preceding the first day of the fiscal year, appropriates at least the amount of money equal to the amount determined under (b) of this section from the general fund to the response account in the oil and hazardous substance release prevention and response fund and that appropriation is vetoed or reduced by the governor.

(b) The amount of money required to be appropriated from the general fund to the response account in the oil and hazardous substance release prevention and response fund by (a) of this section is the amount, determined for the last day of the preceding fiscal year, that is the sum of the actual or estimated balance of

(1) the account maintained under AS 37.05.142 to account for all proceeds of the surcharge that are deposited into the general fund; and

(2) the portion of the balance of the response mitigation account established by AS 46.08.025(b) that originated from the recovery of money described in AS 46.08.025(a)(3).

History -

(Sec. 16 ch 128 SLA 1994)

Sec. 43.55.240. Surcharge not imposed. [Repealed, Sec. 43 ch 128 SLA 1994].
Repealed or Renumbered

Sec. 43.55.299. Definitions.

In AS 43.55.201 - 43.55.299,

(1) "response account" means the oil and hazardous substance release response account established in AS 46.08.010(a)(2);

(2) "response mitigation account" means the oil and hazardous substance release response mitigation account established in AS 46.08.025(b).

History -

(Sec. 17 ch 128 SLA 1994)

Article 03. ADDITIONAL CONSERVATION SURCHARGE ON OIL

Sec. 43.55.300. Surcharge levied.

(a) Every producer of oil shall pay a surcharge of \$.04 per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to the tax imposed by AS 43.55.011 and is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge is in addition to the surcharge imposed by AS 43.55.201 - 43.55.231.

(c) A producer of oil shall make a report of production on March 31 of the year following the calendar year of production and in the same manner and under the same penalties as required under AS 43.55.011 - 43.55.180.

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

History -

(Sec. 17 ch 128 SLA 1994; am Sec. 28, 29 ch 2 TSSLA 2006)

Sec. 43.55.310. Use of revenue derived from surcharge.

The legislature may appropriate the annual estimated balance of the account maintained under AS 37.05.142 for deposits into the general fund of the proceeds of the surcharge levied under AS 43.55.300 to the oil and hazardous substance release prevention account in the oil and hazardous substance release prevention and response fund established by AS 46.08.010.

History -

(Sec. 17 ch 128 SLA 1994)



Department of Environmental Conservation

2014 Report on Financing and Managing the Prevention Account of the Oil & Hazardous Substance Release Prevention & Response Fund

Legislative intent language contained in the Operating budget (Ch14, SLA2013, page 13, line 19):

“It is the intent of the Legislature that the Department of Environmental Conservation provide recommendations to the Legislature on or before the start of the second session of the Twenty-eighth Alaska State Legislature, January 21, 2014, that identify ways to finance and manage the oil and hazardous substance release prevention and response fund as a viable, long-term funding source for the state's core spill prevention and response initiatives. The plan should include an analysis of prior expenditures from the fund for the remediation of state-owned contaminated sites, a proposal to expeditiously remediate state-owned contaminated sites, and a report on the Department's effort to achieve program efficiencies to restrain a draw on the oil and hazardous substance release prevention and response fund.”

Background

The Legislature established The Oil and Hazardous Substance Release Prevention and Response Fund (or “Response Fund”) in 1986 to provide a ready and reliable source of payment of the expenses incurred by the Department of Environmental Conservation’s (DEC) in responding to a release or threatened release of oil or hazardous substances and the expense of establishing and maintaining spill prevention, preparedness and response programs that reduce the risk of oil and hazardous substance spills (A.S. 46.08.005 and .010). Also, in 1986, the Legislature adopted A.S. 46.08.030, which provides:

“It is the intent of the Legislature and declared to be the public policy of the State that funds for the abatement of a release of oil or a hazardous substance will always be available.”

In the wake of the *Exxon Valdez* disaster in 1989, the Alaska Legislature passed a bill to levy a \$.05 per barrel “conservation surcharge” on crude oil production, to be deposited into the Response Fund and used to fund the State’s spill prevention, preparedness and response programs.

Legislation passed in 1994 changed the 1989 conservation surcharge structure and created two separate accounts, the Response Account and the Prevention Account. The \$.05 per barrel surcharge was divided so that \$.02 was dedicated to building and maintaining a \$50.0 million Response Account and \$.03 was dedicated to funding a Prevention Account. The Response Account is a reserve that may be used to finance the State’s response to an imminent and substantial release or threat of release of oil or another hazardous substance. The Prevention Account is used to pay the operating expenses for the State’s spill prevention, preparedness and response programs.

The 1994 legislation and declining oil production has eventually resulted in the Prevention Account being unsustainable for operational funds for the Division of Spill Prevention and Response. In 2006, legislation changed the division of receipts so that \$.04 per barrel was dedicated to funding the Prevention Account, and \$.01 to the Response Account. This helped to slow the decline, but was not a complete solution.

As described below, the current and past administrations have worked with the Legislature to explore and implement different measures to slow the rate of drawdown of the Response Fund. Again, these measures have not been sufficient to counteract the effect of declining production and make the Response Fund sustainable. In the Office of Management and Budget's response to the legislative Intent in HB284 passed in 2012, OMB provided the following: "The options to address the declining balance of the Fund are clear: increase production, and utilize general funds to address the shortfall in the interim... Additional general funds, estimated to be \$6 million, will be needed on an annual basis for spill prevention and response until such time as there are increases in oil production that will offset the general fund requirements."

Prevention Account Funding Sources

The three primary sources of funds going into the Prevention Account are: the four-cent per barrel surcharge on crude oil produced in the State, interest earned on the principal balance held in the fund, and spill response costs recovered by the State from responsible parties. The amounts generated by the surcharge have historically been much larger than amounts generated by either interest on the balance in the account or cost recoveries. Due to the continued decline in crude oil production in the State, the amounts in the Prevention Account will not be sufficient in FY16 to fund the current level of services by SPAR even assuming no increases in costs from inflation and labor agreements. Without additional appropriations to the Prevention Account or fund source changes in SPAR's operating budget, there will be a continuing operating budget shortfall starting in FY16. The projected estimated shortfalls through FY22 are shown on Attachment 1.

This shortfall has been anticipated for a number of years and there have been discussions between the Legislature and the Administration on how to address the problem, at least until crude oil production rises sufficiently that the four cent per barrel surcharge once again generates sufficient funds to cover continuing operating costs (1,012,100 bbls/day would be needed).

Means to Help Sustain the Prevention Account

A number of measures have been implemented to increase the amounts going into the Prevention Account or to slow the draw down on the Prevention Account thus extending it to a point that increased crude oil production will again make the account sustainable. Measures to reduce the rate of the draw down on the account include:

- Restraining growth of SPAR and instituting program efficiencies

Over a ten year period (from the FY2005 Authorized budget to the FY2015 Governor's request), the Division of Spill Prevention and Response has grown by just 2 PCNs. Over that same period, the Department's appropriation from the Prevention Account has increased just 1.6% annually, a rate lower than inflation and the State's growth in negotiated personal services costs over the same period. This lower than expected rate of growth is the result of \$1,062,000 in budget decrements in FY2006, FY2007, and FY2011. During this same time period, SPAR avoided compromising its level of service delivery by increasing the efficiency of program operations. Meanwhile, the Division also

took on new responsibilities such as regulating the operation of flow lines, non-tank vessels over 400 gross ton and the transportation of fuel by the railroad.

- Cutting back on uses of the Prevention Account

The Legislature also eliminated expenditures from the Response Fund to Local Emergency Planning Committees (LEPCs), Department of Military and Veteran Affairs (DMVA), and Department of Transportation and Public Facilities (DOT&PF) to offset declining surcharge revenue.

DEC has eliminated a loan and grant program for the removal of underground storage tanks, withdrew efforts to fund a statewide hazmat team, and eliminated funding for any purposes outside SPAR's core mission. While these activities were all allowable uses of the account, in light of declining funds, they were eliminated in favor of only the most germane activities.

Most significantly, after FY 2011, DEC stopped requesting capital appropriations from the Prevention Account for cleanup of state-owned contaminated sites¹. DEC had been coordinating cleanup on state-owned sites since 1991 under a Memorandum of Agreement (MOA) with other state agencies. Funds from the Prevention Account, totaling \$17.090 million, had been spent on assessment, management and cleanup of state-owned or managed contaminate sites. Again, this was an appropriate use of the Prevention Account², but by stopping this practice and turning to general funds for appropriations to pay for expenses on these sites, this significantly reduced the rate of drawdown of the Prevention Account. This does not mean that DEC has reduced the level of effort in addressing these sites. As explained below, DEC anticipates a relatively level amount of requests for general funds for state clean-up projects going forward that will allow DEC to timely and efficiently address priority sites.

Measures designed to increase amounts going into the Prevention Account include:

- The 2006, legislative increase in the surcharge from \$.03 to \$.04 per barrel to the Prevention Account to compensate for declining surcharge revenue from reduced crude oil production.
- Appropriations into the Prevention Account from other sources:
 - a. FY2006: \$655,500 underground storage tank revolving loan funds³
 - b. FY2007: \$1,800,000 commercial passenger vessel funds⁴

¹ Several legislative appropriations from FY2011 and prior funded by the Prevention Account for state-owned/lead contaminated site cleanup remain active, but the remaining balances are nearly fully expended.

² The account was audited by the Legislature in 2008 and no unauthorized uses of the account were noted.

³ Ch4, FSSLA05, p73, 128 – due to an insufficient balance in the USTRLF, only \$665,500 of the \$991,187 appropriated was transferred into the fund. This transfer was for the full final balance of the USTRLF, which was subsequently closed with no remaining balance.

⁴ Ch33, SLA06, p75, 13

c. FY2008: of \$2,000,000 general funds⁵

- Increase collections from Potentially Responsible Parties. DEC and the Department of Law have been evaluating cost recovery procedures with an aim to making them more efficient and effective. In 2013, DEC overhauled the administrative cost recovery process and automated many cost tracking and accounts receivable activities. By automating this process, DEC now issues cost recovery statements that are more accurate and timely, and has much better data available to pursue aged receivables.

Other potential means to increase amounts going into the Prevention Account include expanding the surcharge to apply it to refined products produced, stored or transported within the State, initiate fees for services currently funded through the Prevention Account and increasing the amount of the surcharge on crude oil production. Each of these would require legislation. Among the factors that the Legislature might want to consider if it entertains any of these potential options is the financial and reporting burdens it might impose on the public and industry, the costs of administering the collection of the new fees or taxes and what, if any, impact the fees and costs would have on efforts to increase crude oil production and lower energy costs in the State. These issues are beyond the purview of DEC's authorities.

Conclusion:

DEC will continue to only fund maintenance of existing core prevention and response services and only fund increases related to inflation (no increment in services, despite increases in oil and gas development and production).

Once oil production increases to 1,012,100 bbls/day, surcharge receipts will once again provide sufficient funding for the prevention and response programs at current levels. Until then, DEC will require general funds to address anticipated annual shortfalls and continue critical programs. Projections provided by DEC show that the Prevention Account will be depleted by the end of FY2015. General funds will likely be required in FY2016. DEC will provide the Legislature with the updated analysis of the balance and expenditures from the oil and hazardous substance release prevention and response funding during the upcoming legislative session.

Any further efforts to reduce expenditures from the Prevention Account, without support from other fund sources, would impair DEC's ability to prevent and respond to spills both large and small. With increasing exploration and production, and so much new activity in Cook Inlet and the Arctic, DEC must maintain its robust spill prevention and response capacity.

Remediation of State-owned contaminated sites

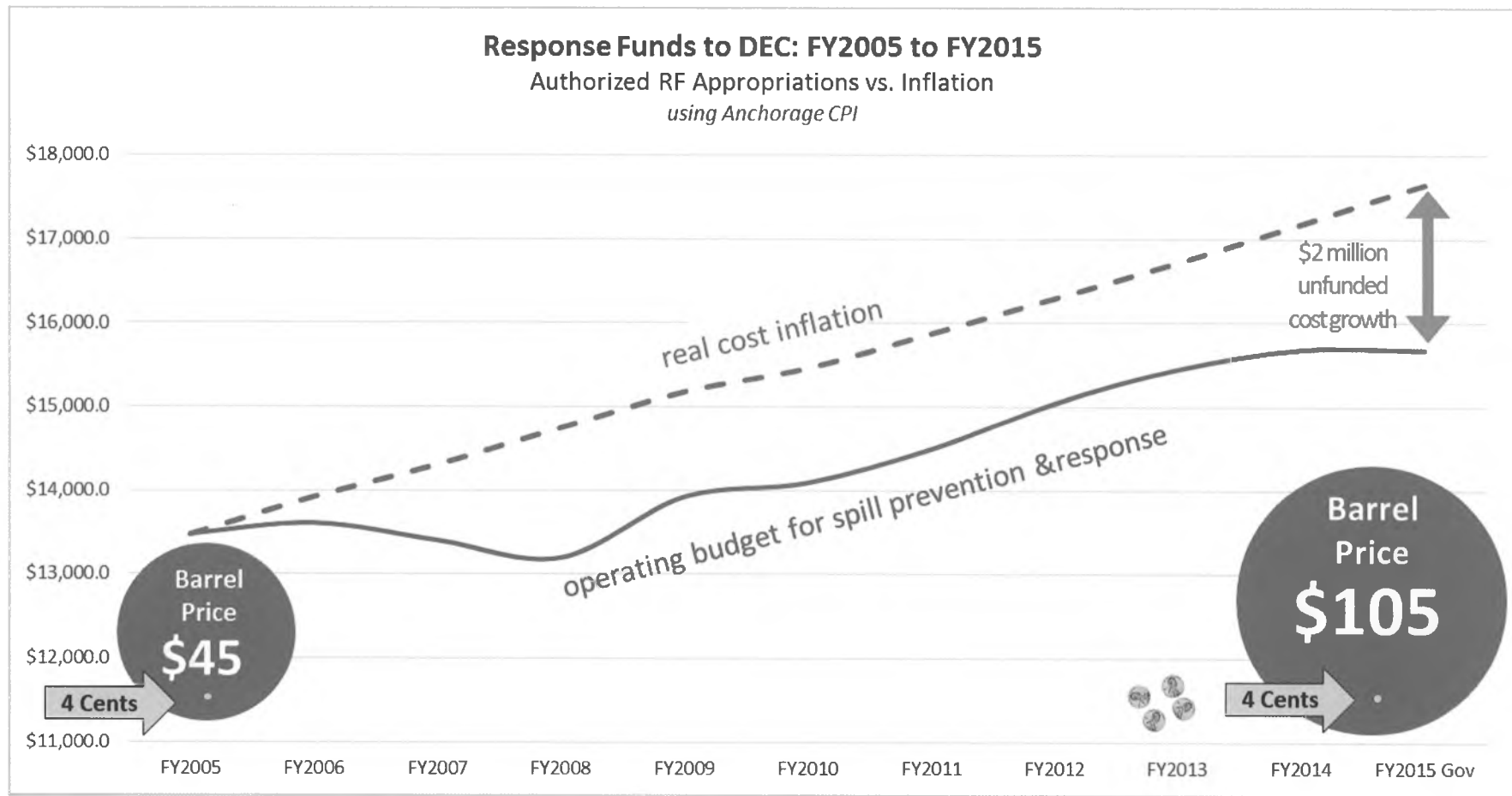
DEC stopped requesting capital appropriations from the Prevention Account for the clean-up of contaminated sites after FY2011, however, the clean-up work continued using the balances from previous Capital appropriations beyond FY2011. Between FY1999 and FY2012, the Department expended \$17.09

⁵ Ch29, SLA08, p211, 131

million from the Prevention Account for the remediation of state-owned contaminated sites. DEC estimates a backlog of over \$50 million for sites where work remains to be done. Expeditious remediation of these sites will require significant general fund investment in the coming years. The Legislature appropriated \$3.0 million in the FY2014 budget, and DEC is actively engaged in cleanup efforts with these funds.



Prevention Account & Inflation





Response Fund Structure & Purpose





How does the Response Fund Work?

- *“It is the intent of the Legislature and declared to be the public policy of the State that funds for the abatement of a release of oil or a hazardous substance will always be available.” (A.S. 46.08.030)*
- Response Account
 - Funded by 1¢ surcharge on each barrel of oil.
 - Surcharge suspended when fund exceeds \$50 Million.
 - Pays for emergency response activities.
 - Department recovers costs from identified responsible parties.
- Prevention Account
 - Funded by a 4¢ surcharge on each barrel of oil.
 - Pays for operational costs and readiness activities within the Spill Prevention & Response Division.
 - Pays for non-emergency response activities.
 - Department recovers costs from identified responsible parties.

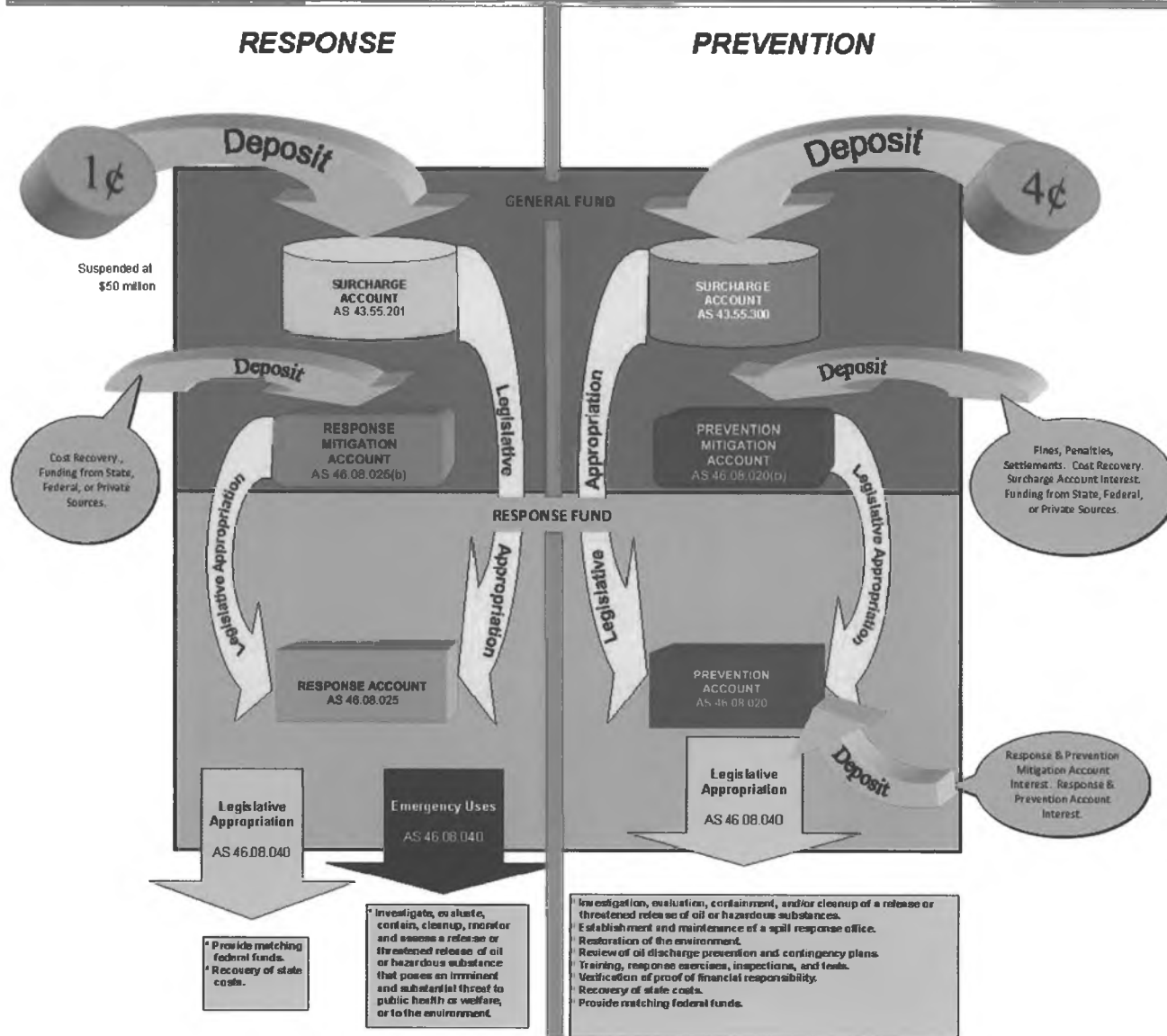


Statutory Authority

- **Funds from the Response Account are used to:**
 - investigate and evaluate the release or threatened release of oil or a hazardous substance, and contain, clean up, and take other necessary action, such as monitoring and assessing, to address a release or threatened release of oil or a hazardous substance that *poses an imminent and substantial threat* to the public health or welfare, or to the environment -- AS 46.08.040(1)(A)
 - recover the costs to the state, a municipality, a village, or a school district of a containment and cleanup resulting from the release or the threatened release of oil or a hazardous substance for which money was expended from the response account; -- AS 46.08.040(1)(C)
- **Funds from the Prevention Account are used to:**
 - investigate and evaluate the release or threatened release of oil or a hazardous substance... and contain, clean up, and take other necessary action, such as monitoring and assessing, to address a release or threatened release of oil or a hazardous substance-- AS 46.08.040(2)(A)
 - pay all costs incurred to establish and maintain the oil and hazardous substance response office; to review oil discharge prevention and contingency plans; to conduct training, response exercises, inspections, and tests; and to verify or establish proof of financial responsibility-- AS 46.08.040(2)(B)
 - recover the costs to the state, a municipality, a village, or a school district of a containment and cleanup resulting from the release or threatened release of oil or a hazardous substance for which money was expended from the prevention account -- AS 46.08.040(2)(I)
 - restore the environment by addressing the effects of an oil or hazardous substance release. -- AS 46.08.040(2)(K)



Oil & Hazardous Substance Release Prevention and Response Fund





Where do Recovered Costs go?

- Cost recovery receipts are generally deposited to the account from which the State made expenditures
 - Cost recovery receipts for a site that was responded to using funds from the Response Account (emergency responses) are generally deposited back to the Response Account
 - Cost recovery receipts for a site that was responded to using funds from the Prevention Account (non-emergency responses) are generally deposited back to the Prevention Account
- However, all cost recovery receipts deemed “settlements, fines, and penalties” are deposited to the Prevention Account, regardless of which account was used to respond to the site in question



Breakdown of Spills

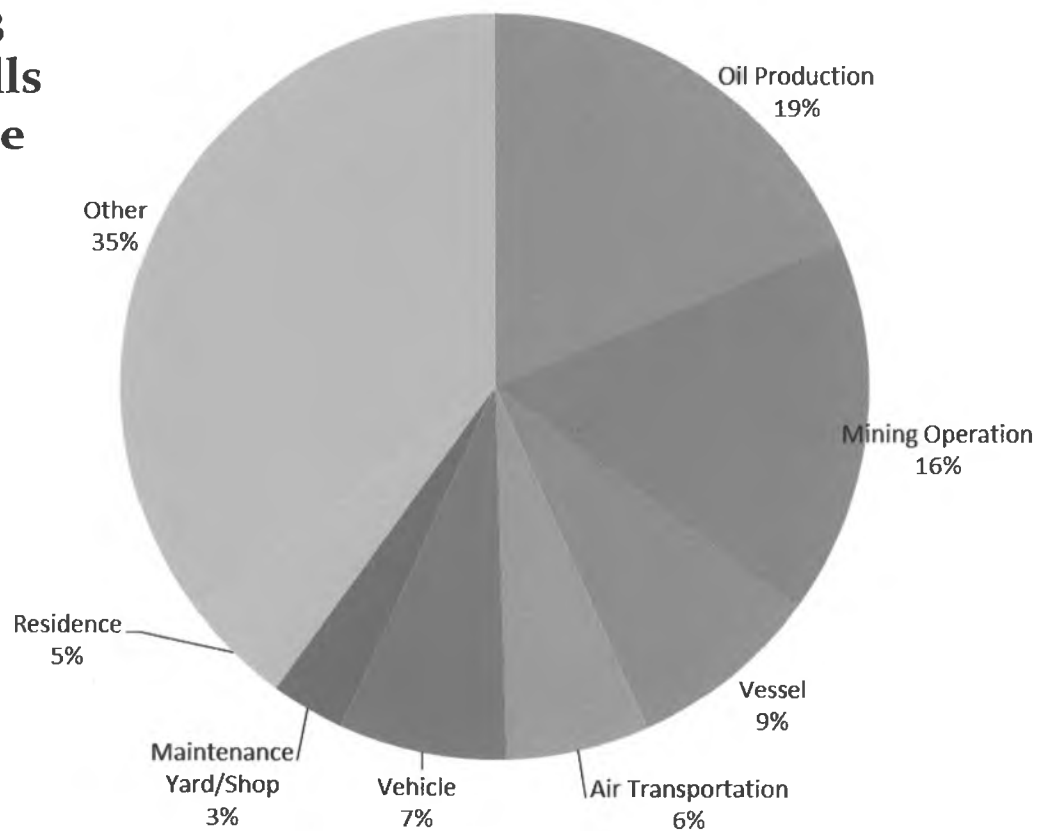




Spills by Industry Type

FY 2009 - 2013 Number of Spills by Facility Type

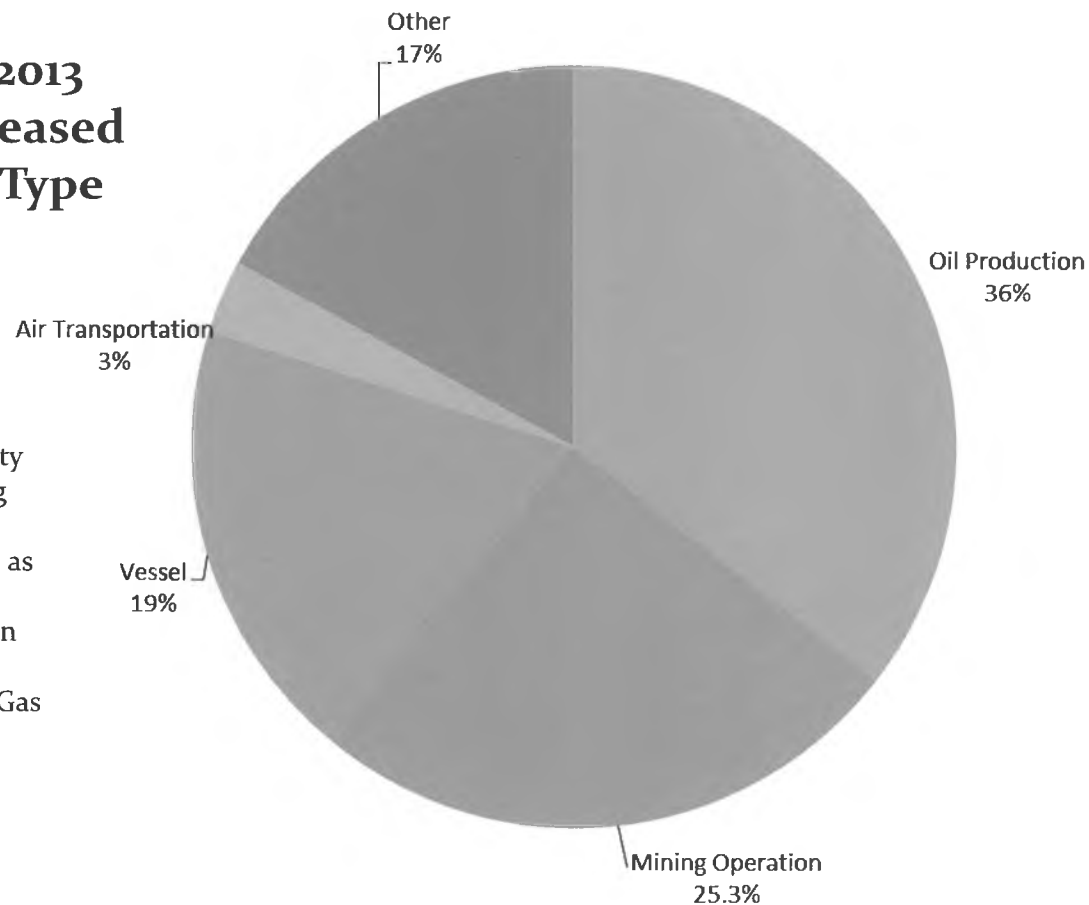
'Other' includes facility categories comprising less than 3% of total number of spills such as Harbors/Ports, Gas Stations, Transmission Pipelines, Oil Exploration, Natural Gas Production, Schools, Canneries, Logging Operations, and Landfills/Dumps





Spill Volume by Industry Type

FY 2009 - 2013 Volume Released by Facility Type

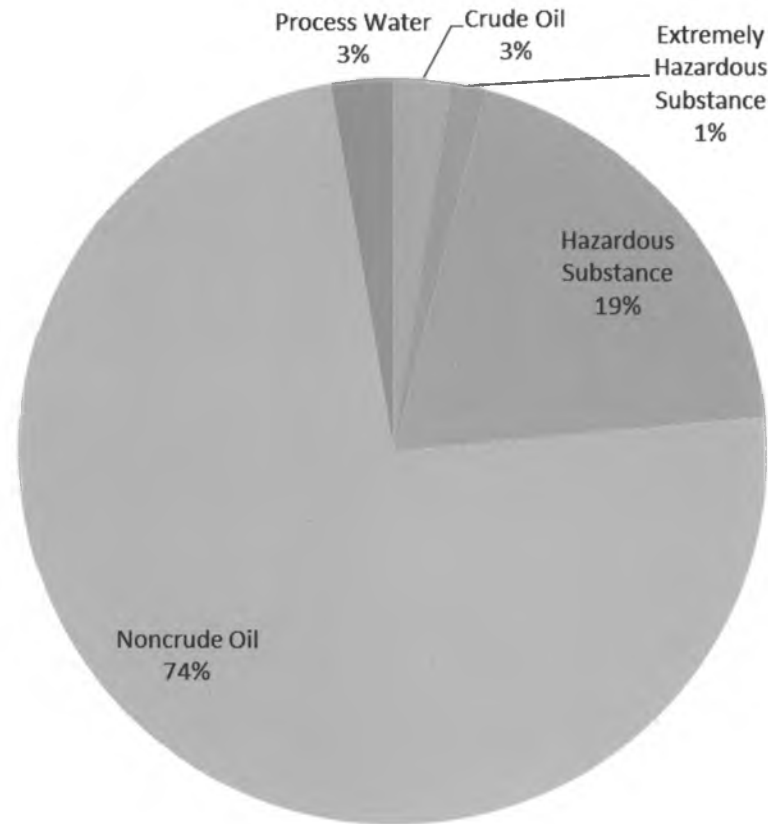


'Other' includes facility categories comprising less than 3% of total volume released such as Harbors/Ports, Gas Stations, Transmission Pipelines, Oil Exploration, Natural Gas Production, Schools, Canneries, Logging Operations, and Landfills/Dumps



Spills by Product Type

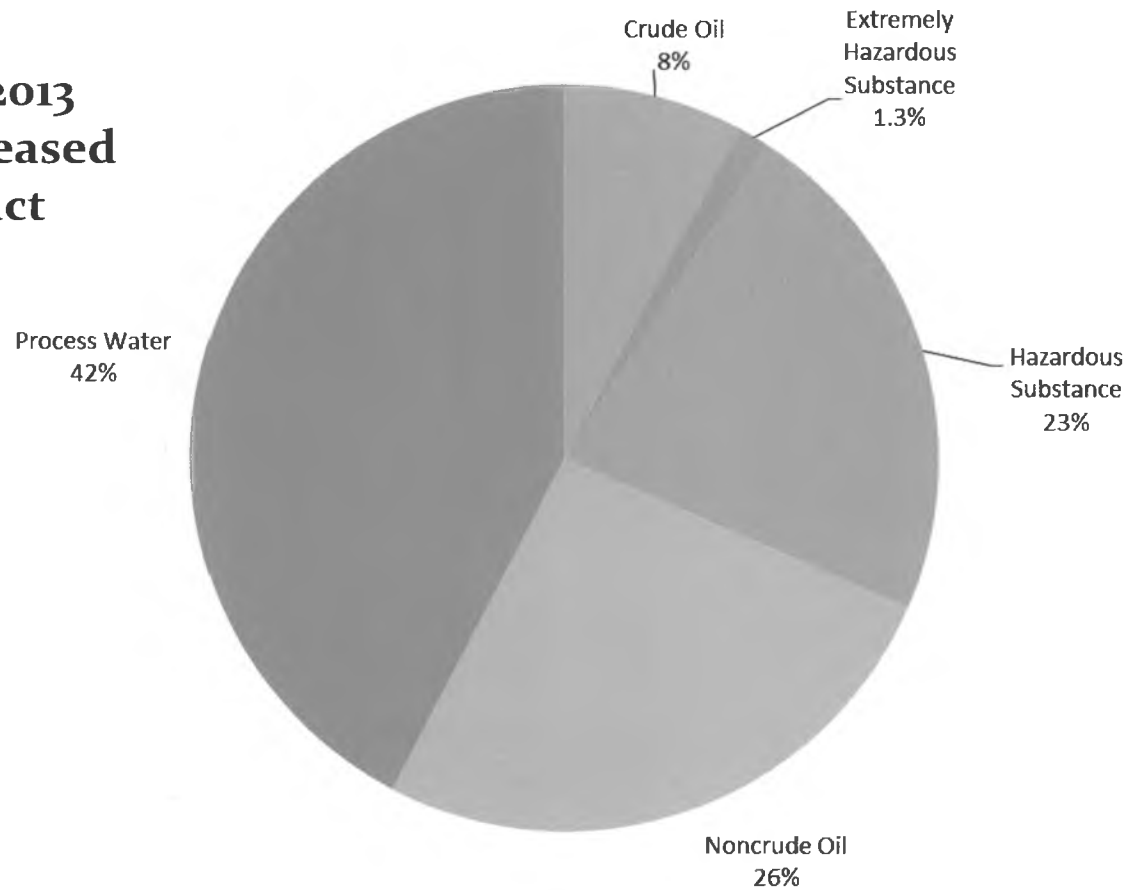
**FY 2009 - 2013
Number of Spills
by Product**





Spill Volume by Product Type

**FY 2009 - 2013
Volume Released
by Product**





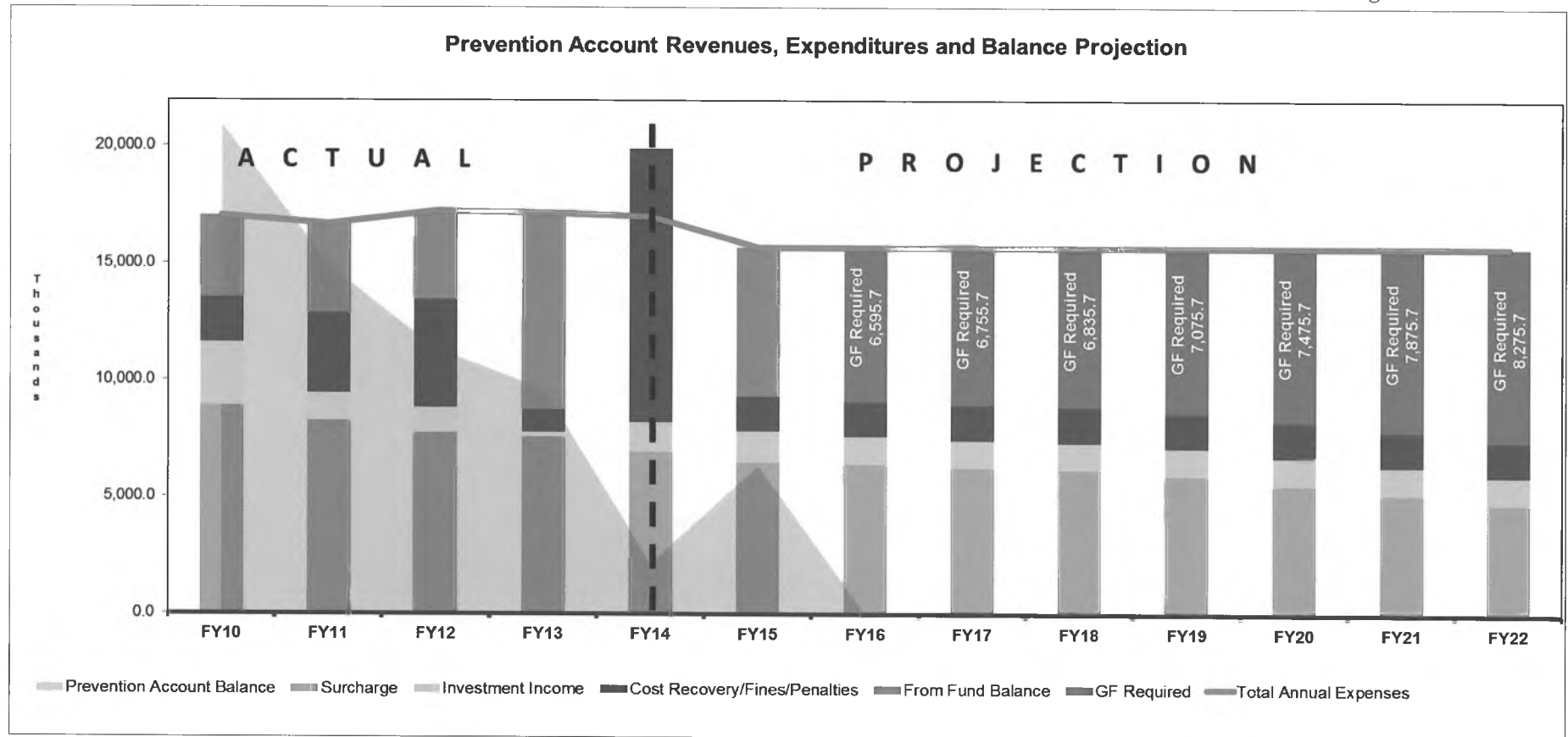
Sustaining the Prevention Account





Status of the Prevention Account

PREVENTION ACCOUNT REVENUES, EXPENDITURES, AND BALANCE PROJECTION
Actuals FY2010 - FY2013, Projected FY2014 - FY2022 based on 12.05.2013 Fall 2013 Forecast - 4¢ Surcharge





Status of the Prevention Account

PREVENTION ACCOUNT REVENUES, EXPENDITURES, AND BALANCE PROJECTION
Actuals FY2010 – FY2013, Projected FY2014 – FY2022 based on 12.05.2013 Fall 2013 Forecast - 4¢ Surcharge

Line	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1 Unobligated Beginning Balance	20,891.9	14,870.3	11,323.0	9,599.2	2,139.3	6,325.6	(40.2)	0.0	0.0	0.0	0.0	0.0	0.0
2 REVENUE to PREVENTION ACCOUNT													
3 Surcharge Revenue	8,922.5	8,255.2	7,736.1	7,558.6	6,951.2	6,480.0	6,400.0	6,240.0	6,160.0	5,920.0	5,520.0	5,120.0	4,720.0
4 Cost Recovery/Fines/Penalties	1,911.9	3,425.0	4,625.4	976.4	11,689.3	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
5 Investment Income	2,690.2	1,199.7	1,079.8	215.8	1,238.5	1,334.9	1,185.0	1,185.0	1,185.0	1,185.0	1,185.0	1,185.0	1,185.0
6 Total Annual Revenue	13,524.6	12,879.9	13,441.3	8,750.8	19,879.0	9,314.9	9,085.0	8,925.0	8,845.0	8,605.0	8,205.0	7,805.0	7,405.0
7 EXPENSES from PREVENTION ACCOUNT													
8 Operating	13,334.3	14,447.3	15,030.7	15,344.8	15,692.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7
9 Capital	3,710.3	2,250.4	2,210.5	1,806.3	1,320.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10 Total Annual Expenses	17,044.6	16,697.7	17,241.2	17,151.1	17,013.5	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7	15,680.7
11 Use of Fund Balance	3,520.0	3,817.8	3,799.9	8,400.3	0.0	6,365.8							
12 Obligations and Other Activity													
13 New Capital Appropriations	5,750.0	2,000.0	100.0	750.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 Less: Capital Expenses	(3,710.3)	(2,250.4)	(2,210.5)	(1,806.3)	(1,320.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 Increase (Decrease) in Outstanding Capital Appropriations	2,039.7	(250.4)	(2,110.5)	(1,056.3)	(1,320.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Other Activity - Changes in Receivables and Liabilities	461.9	(20.1)	34.4	115.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17 Total Increase (Decrease) in Obligations and Other Activity	2,501.6	(270.5)	(2,076.1)	(940.4)	(1,320.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18 Summary													
19 Unobligated Beginning Balance	20,891.9	14,870.3	11,323.0	9,599.2	2,139.3	6,325.6							
20 Add: Total Annual Revenue	13,524.6	12,879.9	13,441.3	8,750.8	19,879.0	9,314.9							
21 Less: Total Annual Expenses	(17,044.6)	(16,697.7)	(17,241.2)	(17,151.1)	(17,013.5)	(15,680.7)							
22 Less: Total Increase (Decrease) in Obligations and Other Activity	(2,501.6)	270.5	2,076.1	940.4	1,320.8	0.0							
23 Unobligated Ending Balance	14,870.3	11,323.0	9,599.2	2,139.3	6,325.6	(40.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
24 Other Appropriations:													
25 General Fund Other							6,595.7	6,755.7	6,835.7	7,075.7	7,475.7	7,875.7	8,275.7
26 Transfers from Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	6,595.7	6,755.7	6,835.7	7,075.7	7,475.7	7,875.7	8,275.7



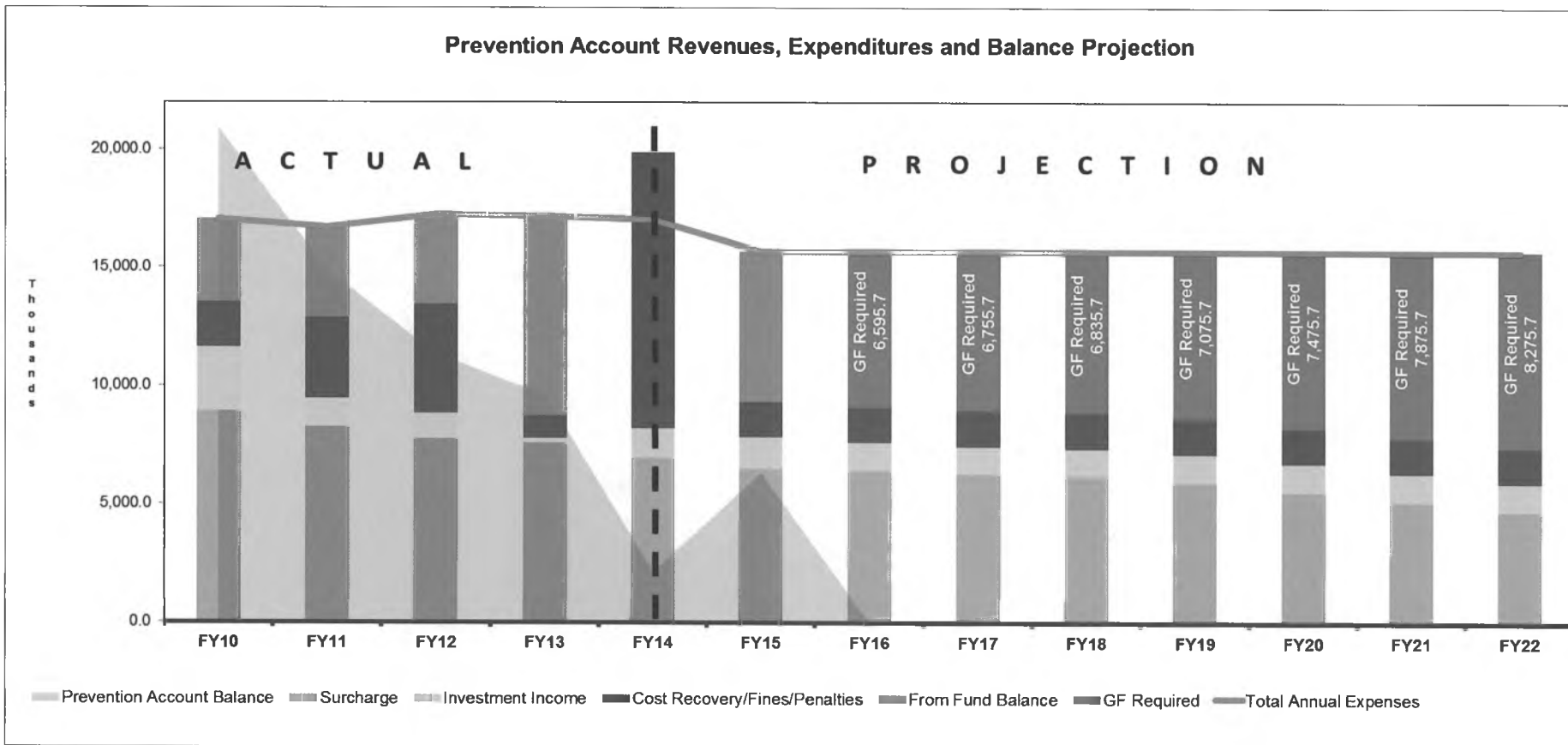
Response Fund Projection Variables & Outcomes





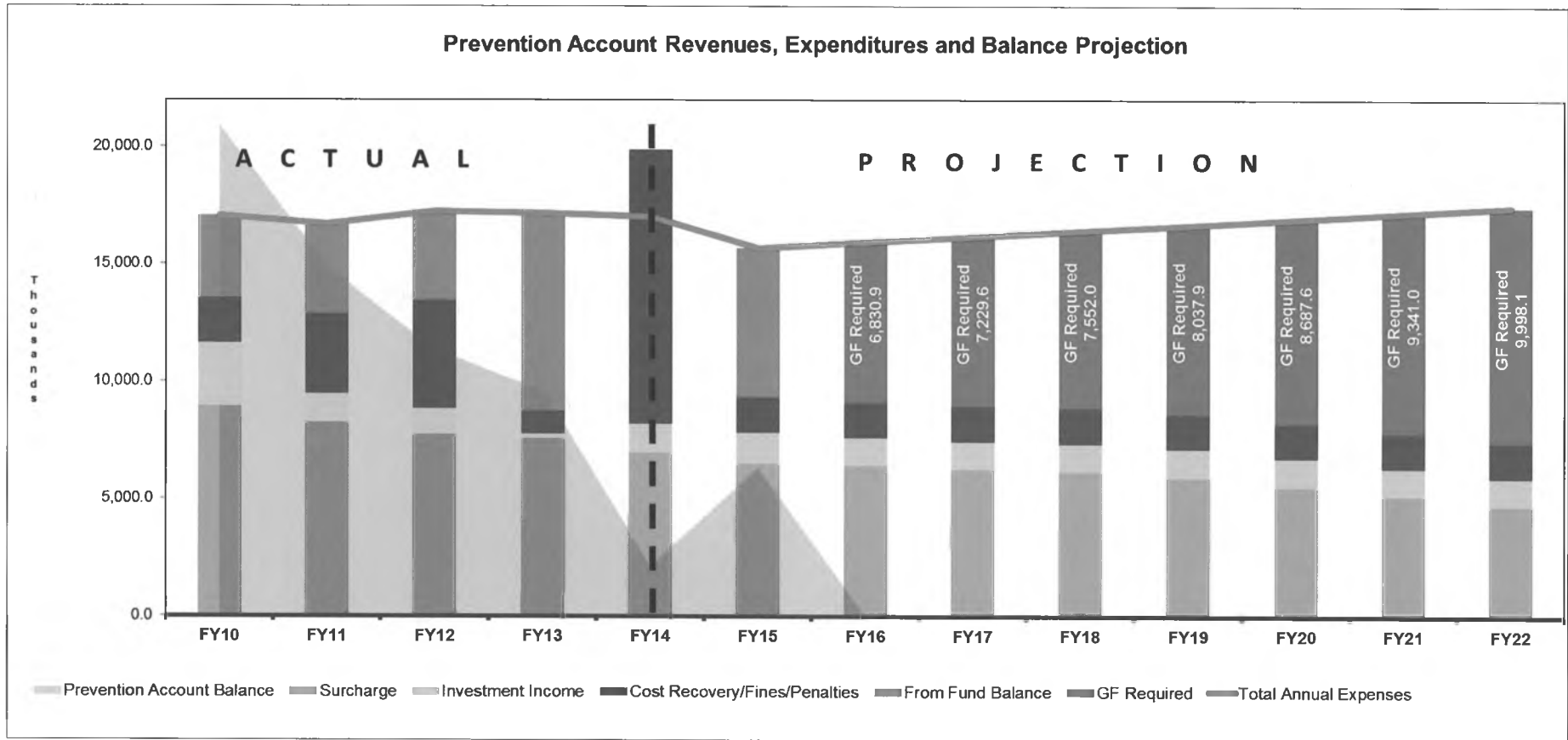
Status Quo – No Change & No Growth

Prevention Account Revenues, Expenditures and Balance Projection



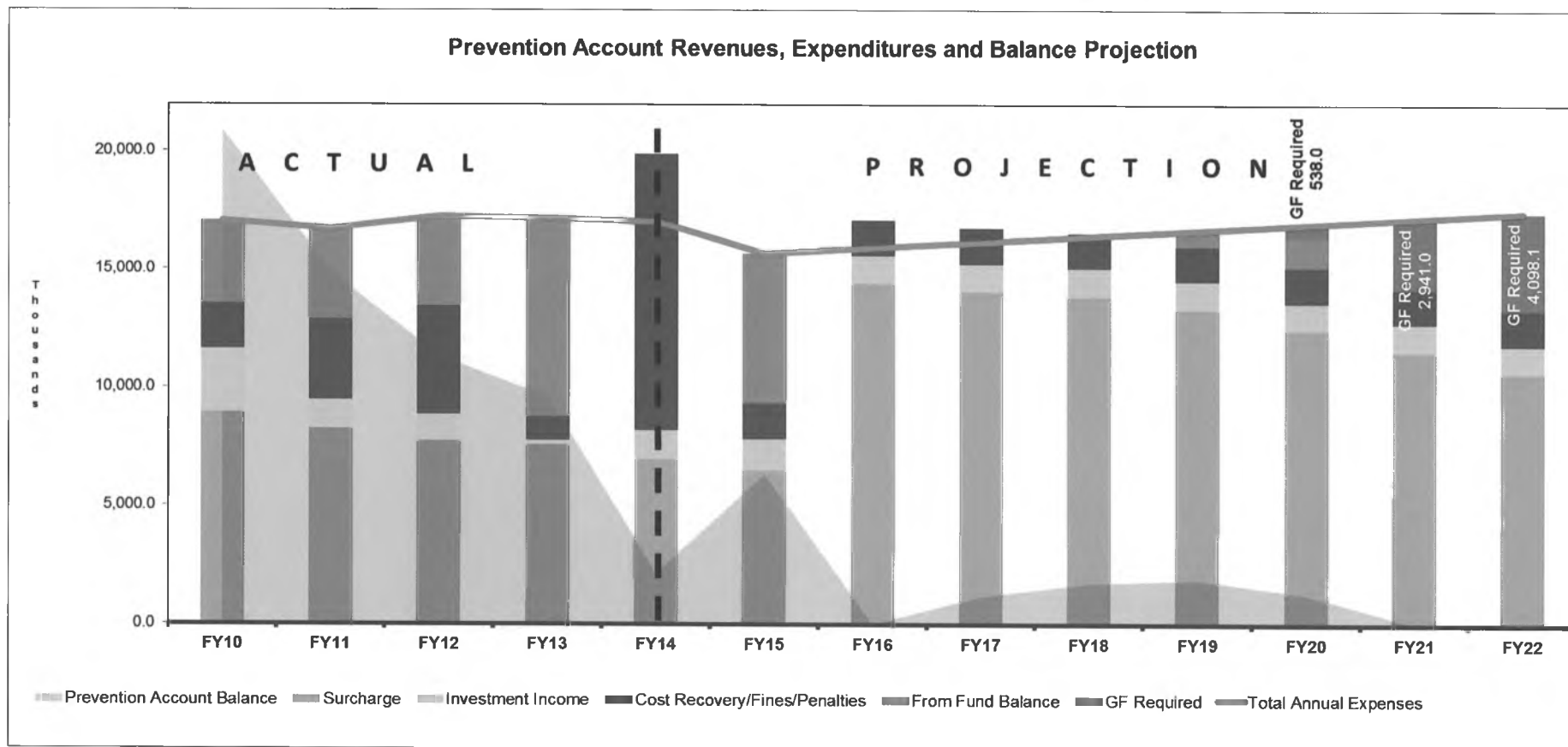


Typical Expense Growth (1.5%)





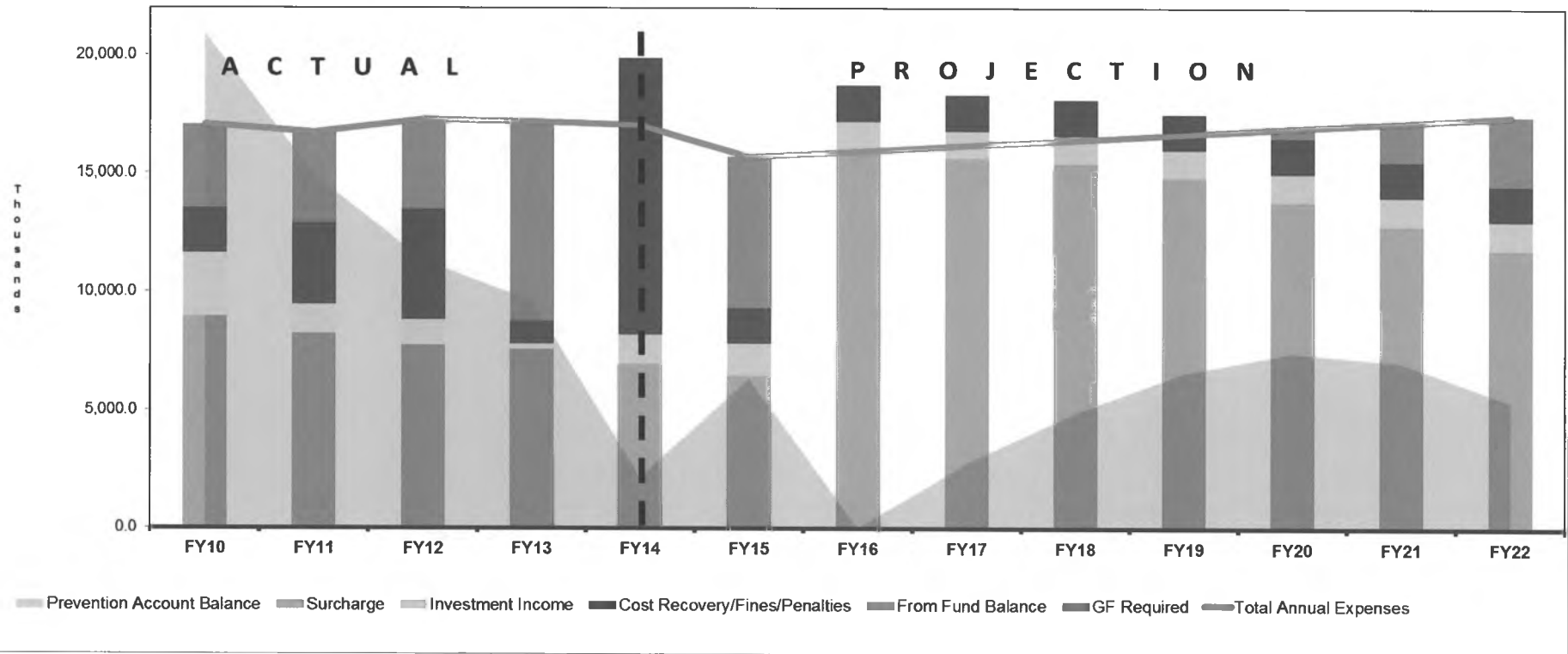
Typical Expense Growth (1.5%) & Surcharge Increase to 9-cents





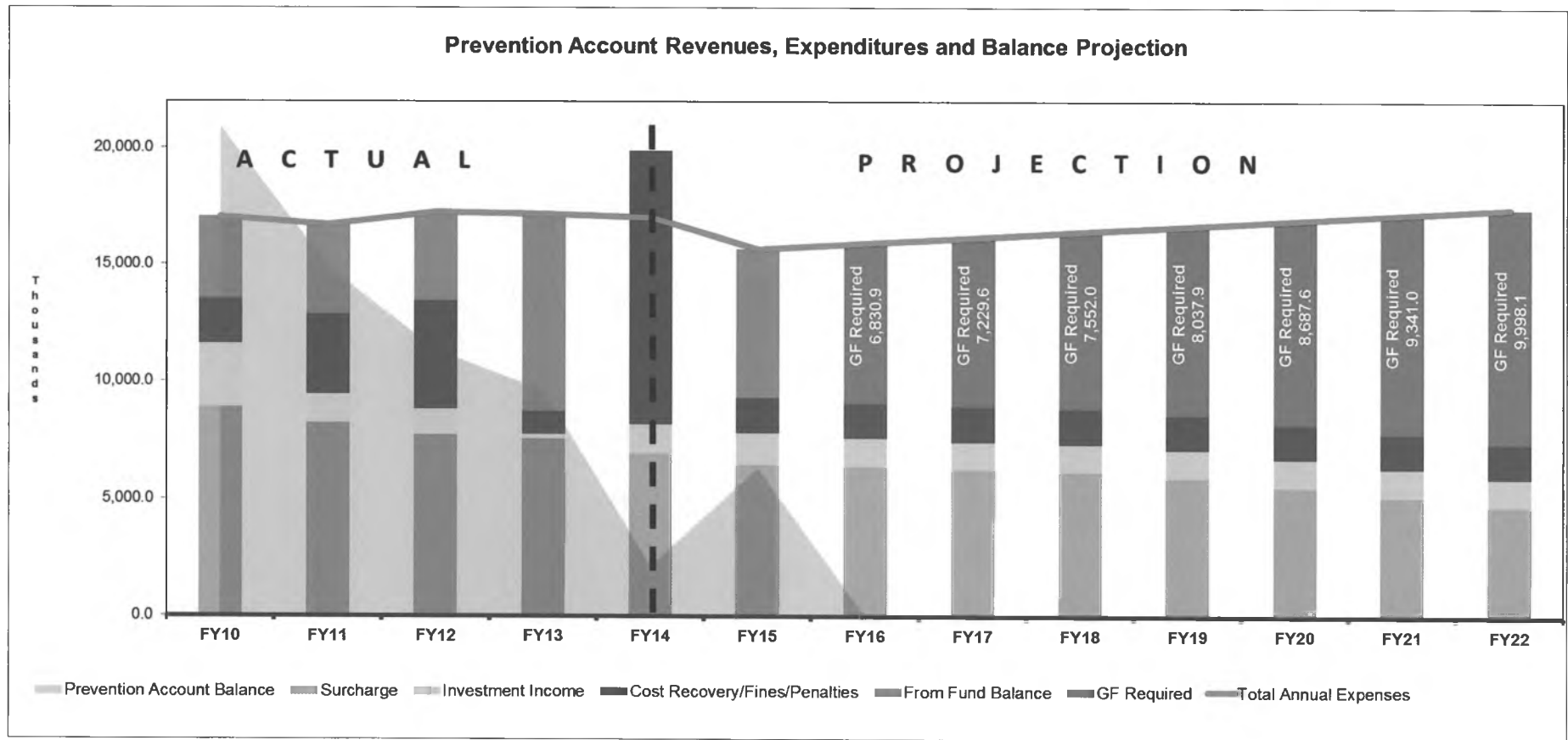
Typical Expense Growth (1.5%) & Surcharge Increase to 10-cents

Prevention Account Revenues, Expenditures and Balance Projection



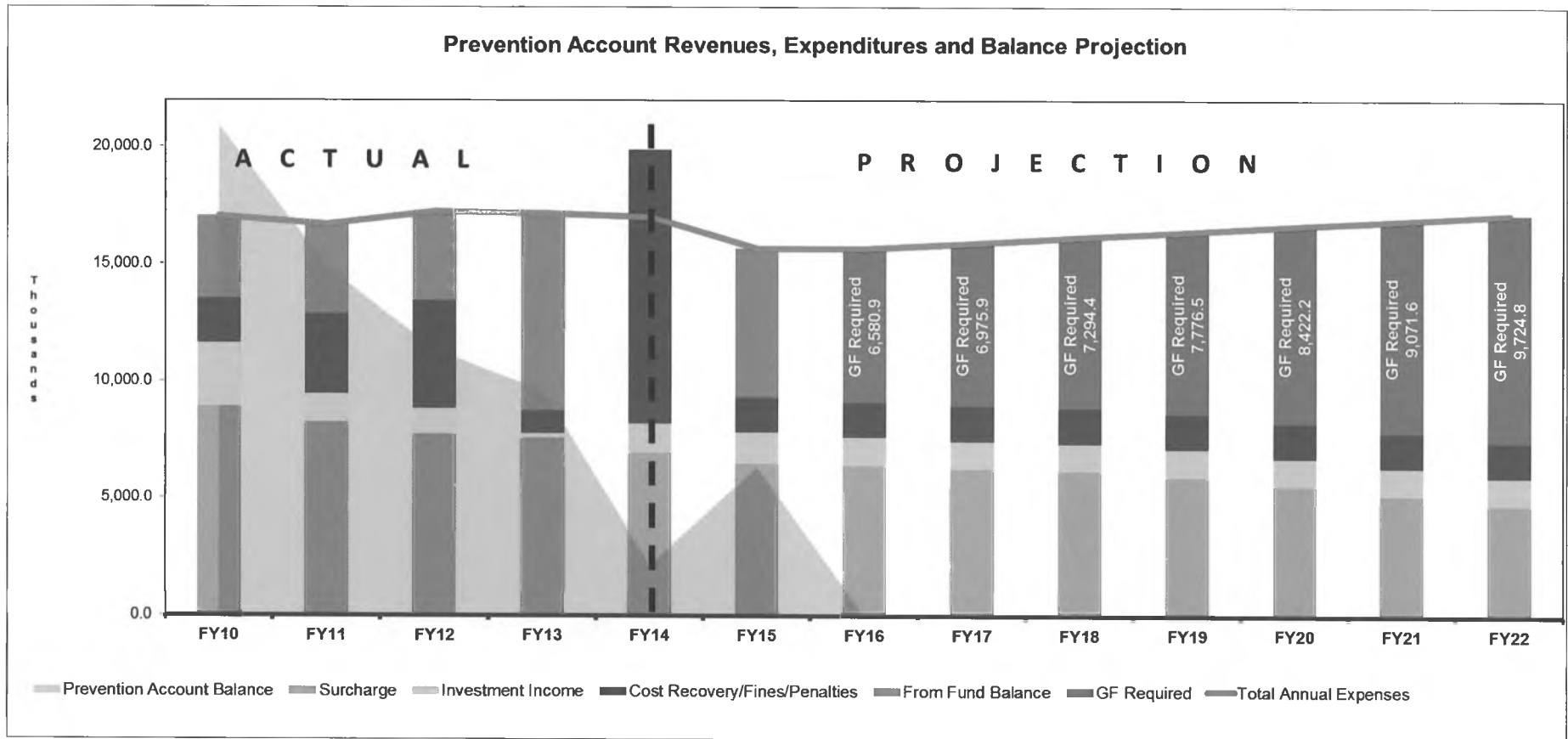


Typical Expense Growth (1.5%)





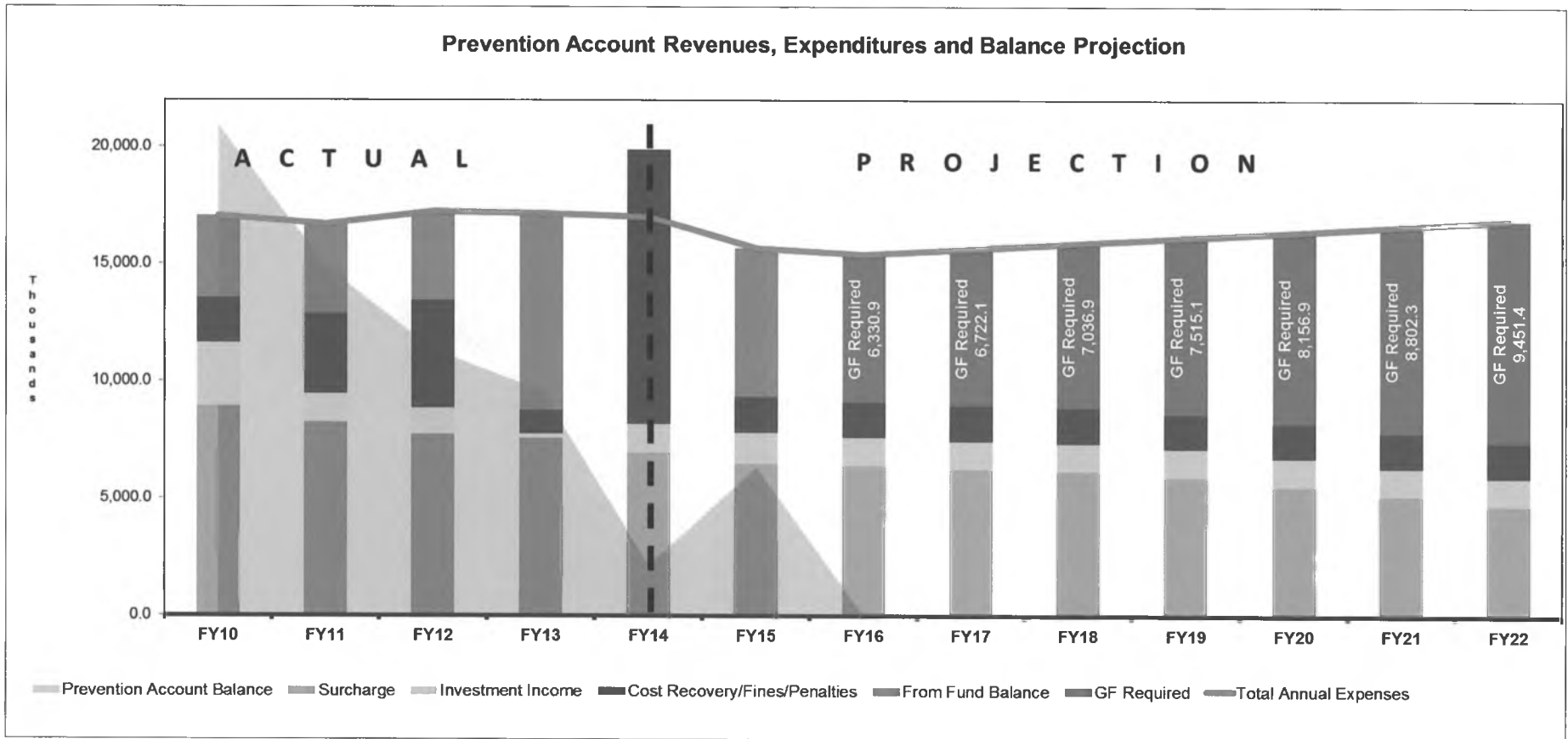
Typical Expense Growth (1.5%) & \$250.0 Operating Decrement





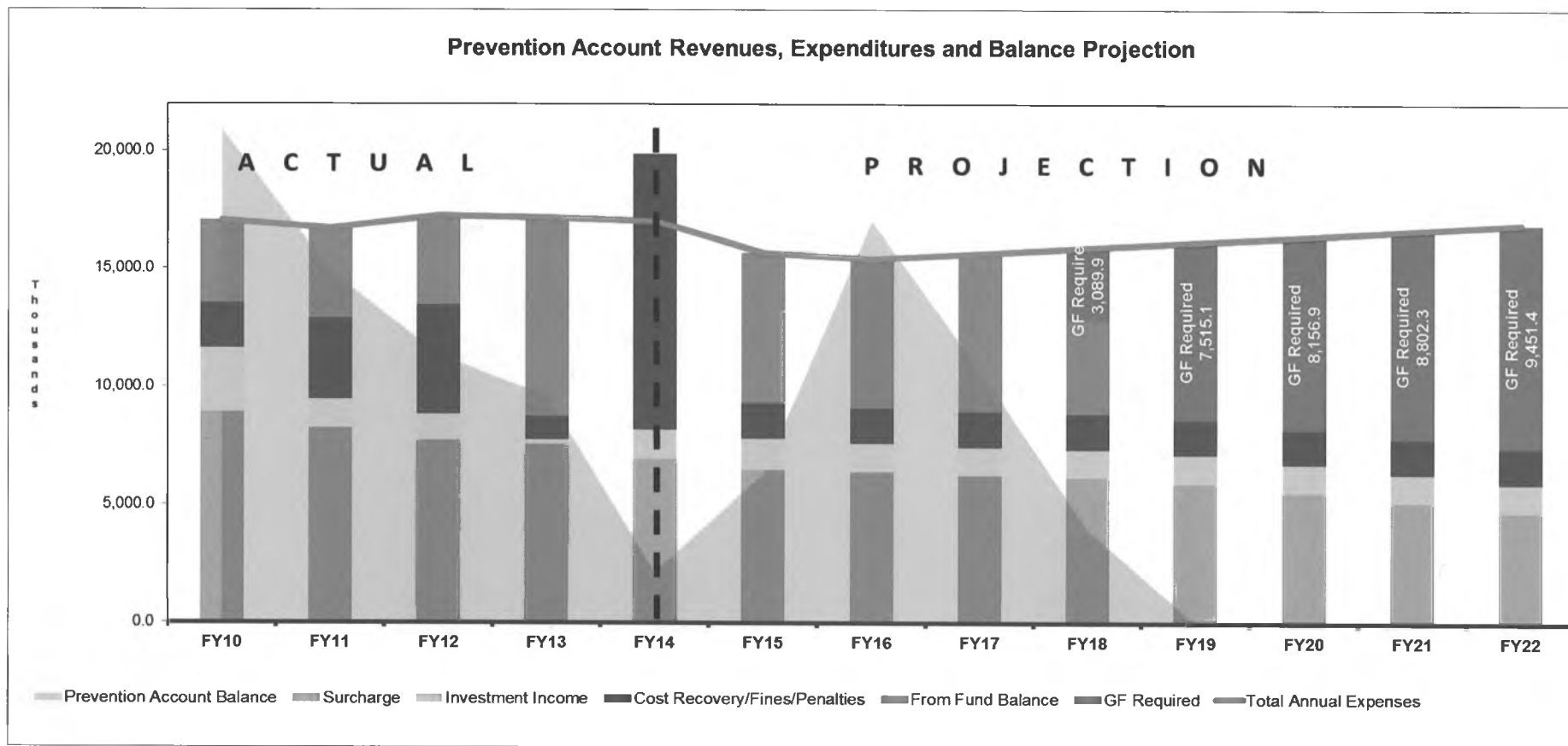
Typical Expense Growth (1.5%) & \$500.0 Operating Decrement

Prevention Account Revenues, Expenditures and Balance Projection





Typical Expense Growth (1.5%) & Repay State-Owned Contaminated Sites



Division seeks funds for spill-prevention account

By Becky Bohrer

Associated Press

February 13, 2014 Updated 2 hours ago

JUNEAU, Alaska — An account used for the cleanup of contaminated sites, non-emergency spill response and other activities soon will not have enough money to keep up with costs, the director of the state's Division of Spill Prevention and Response told lawmakers Thursday.

Kristin Ryan told a House subcommittee the shortfall in the prevention account is projected to happen in fiscal year 2016, and the account will likely need an appropriation from the general fund.

The account gets its money from a four-cent surcharge on each barrel of oil. But the surcharge hasn't been increased to keep pace with inflation, Ryan said, and declining oil production means less money generated by the fee.

In 2010, the surcharge generated \$8.9 million. It's estimated the surcharge will produce \$7 million this year. Money from fines, penalties and settlements also go into the fund, which helps pay for inspections, readiness activities and other costs.

The account will likely need anywhere from \$6.6 million in 2016 to \$8.3 million in 2022 from the general fund.

If the surcharge were raised to nine cents a barrel, it would largely sustain the account through 2020, assuming a 1.5 percent annual growth in expenses, though the account would still need money from the general fund, Ryan said.

The Legislature last year passed a cut in oil-production taxes in the hope it would lead to more production.

In a recent report, the Department of Environmental Conservation, under which the Division of Spill Prevention and Response falls, said oil production would have to top 1 million barrels a day for the current surcharge to generate enough money to cover the division's costs.

For the year so far, oil flowing through the trans-Alaska pipeline is averaging just over 560,000 barrels per day.

The account evolved from a response fund created by the Legislature in the wake of the Exxon Valdez oil spill in 1989.

A five-cent-per-barrel surcharge on production was levied for prevention, preparedness and response programs after the disaster, according to the department. That was changed in 1994, with the creation of separate response and prevention accounts, and the five-cent surcharge divided so three-cents a barrel went to the prevention account and the rest toward building and maintaining a \$50-million response account for emergencies and major events.

In 2006, amid concerns with the prevention account being able to meet the division's costs, the allocation was changed again, resulting in the current allocation of four cents a barrel to the prevention account and one cent a barrel to the response account, the department said.

At the end of 2013, the balance for the response account was \$48 million.

Steps have been taken to slow the draw on the prevention account, such as eliminating a grant and loan program for the removal of underground storage tanks and requesting general funds to clean up state-owned contaminated sites rather than drawing that money from the account, the report says.

Ryan said she also wants to see more efforts to recover the costs of cleanup from the parties responsible for spills.

The department, in its report, said other possible ways to increase the amount going into the prevention account include expanding the surcharge to apply it to refined products produced, stored or moved within the state; imposing fees on services funded through the account; and raising the surcharge on oil, something that Rep. Peggy Wilson noted the industry has resisted.

Ryan told the subcommittee the division is working to get better numbers on where it spends its time and money in response efforts.

Douglas Mertz, an attorney who serves legislative monitor for the Prince William Sound Regional Citizens' Advisory Council, told the subcommittee it is risky to rely on general-fund money for the prevention account in the current state budget climate. He said two options would be raising the surcharge to what he called a sustainable level of nine cents or 10 cents a barrel or considering some way in which the burden could be spread to transporters, refiners and users of refined petroleum products.

Mertz also said the response account should be protected from the effects of inflation.

Proposal would raise prevention account surcharge

By Becky Bohrer

Associated Press

February 21, 2014 Updated 18 hours ago

JUNEAU, Alaska — A bill introduced in the Alaska House on Friday would raise the per-barrel surcharge on oil from four cents to seven cents to help bolster a state account used for the cleanup of contaminated sites, non-emergency spill response and other activities.

The bill, from Rep. Cathy Munoz, R-Juneau, also would keep in place a one-cent-per-barrel surcharge for a separate emergency response account until that account hits \$75 million.

The one-cent surcharge is currently suspended when the account hits \$50 million.

As to why she proposed raising the cap, she said what was considered a feasible amount for a response fund in the 1990s might not be the right amount today.

Last week, Kristin Ryan, director of the state's Division of Spill Prevention and Response, told a subcommittee chaired by Munoz that the prevention account would soon not have enough money to keep up with costs and would likely need a general fund appropriation as early as fiscal year 2016.

The account gets its money from the four-cents-per-barrel-of-oil surcharge, but declining oil production means less money generated by the fee.

Money from fines, penalties and settlements also go into the fund, which helps pay for inspections, readiness activities and other costs.

Munoz said increasing the surcharge to seven cents is a good starting point.

She said she and her co-sponsors looked at the possibility of a refined products tax but said that idea required further debate and analysis.

She said she hoped the House Resources Committee would be able to look at that issue.

She said she decided to introduce the bill because prevention account funding has been a continuing concern.

On her subcommittee, she said there's a "broader awareness and an acceptance that we have to make the operations sustainable, and that this is one option to do that. It might not be what ultimately gets through the process, but it's a good starting point."



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

**Department of Environmental
Conservation**

DIVISION OF ADMINISTRATIVE SERVICES

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Juneau, Alaska 99801
Main: 907-465-5010
fax: 907-465-5097

March 17, 2014

The Honorable Dan Saddler
Co-Chair, House Resources Committee
State Capitol Room 104
Juneau AK, 99801

The Honorable Eric Feige
Co-Chair, House Resources Committee
State Capitol Room 126
Juneau AK, 99801

Dear Representatives Saddler and Feige:

During today's House Resources hearing of House Bill 325: Oil Spill Prevention Fund, several questions arose regarding the use of Prevention Account funds and the activities of the Division of Spill Prevention and Response. I will answer two fiscal questions, and a response regarding the other program-related questions will follow from Kristin Ryan, Director of the Division of Spill Prevention and Response.

First, please allow me to address the figures noted in the letter submitted by the Alaska State Chamber. The letter refers to a 2007 Special Audit of the use of funds from the Prevention Account. Specifically, the letter refers to figures in a table on page 12 of the report. The letter notes that 72% of expenditures for the Prevention and Emergency Response program and 53% of the expenditures for the Contaminated Sites program were used for "Program Administration." In this audit, "Program Administration" was a category used to capture all expenses that were not recorded to specific response events or sites, including all of the programs' prevention and preparedness activities, such as contingency plan reviews, response planning, drills, inspections, and training. This category also captures all response expenditures that were too minor to be accounted for by site. In sum, the "Program Administration" category used in the audit refers primarily to the prevention and preparedness activities of the division.

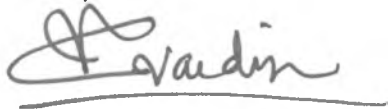
Second, members of the committee had some concern about the amount of funds from the Prevention Account used to pay expenditures in the Division of Administrative Services. The Division of Administrative Services is an administrative support unit that provides the majority of the finance, procurement, human resources, information technology, and budget services to the Department. It also pays the majority of the overhead expenses, including lease costs. This Division of Administrative Services is intentionally funded in direct proportion to the funding source breakdown of the Personal Services costs in the Department. This method complies with an approved federal indirect cost allocation plan.

	FY2013 Actual		FY2014 Authorized		Difference
	DEC Personal Services		DAS Funding ¹		
Federal Receipts	14,848,393.41	28.7%	3,649,234.00	35.7%	7.1%
Oil & Hazd Subst Resp & Prev Fund	11,303,004.36	21.8%	2,299,600.00	22.5%	0.7%
Commercial Passenger Vessel Fund	848,132.26	1.6%	54,800.00	0.5%	-1.1%
Ocean Ranger Fund	282,864.41	0.5%	105,400.00	1.0%	0.5%
Clean Air Protection Fund	2,904,278.85	5.6%	172,200.00	1.7%	-3.9%
General Funds (PR, I/A, CIP, and GF)	21,610,663.23	41.7%	3,934,846.00	38.5%	-3.2%
Total	51,797,336.51	100%	10,216,080.00	100%	

In the table above, you can see that the Division of Administrative Services is funded in close proportion to the Department's total Personal Services by funding source. You may note that Division is somewhat proportionally over-funded by Federal Receipts, and somewhat under-funded by Clean Air Protection Funds and General Funds. It is funded proportionally within a small margin of error from funds from the Prevention of Account of the Oil and Hazardous Substance Release and Prevention Fund.

If you would like any additional information, please let me know.

Sincerely,



Tom Cherian
Director, Division of Administrative Services

Enclosure:

Cc: Representative Cathy Muñoz
David Teal & Danith Watts, Legislative Finance Division
Trevor Fulton, Staff to Representative Saddler
Christopher Clark, Staff to Representative Muñoz

¹ FY2014 Actual Division of Administrative Services funding is the FY2014 Authorized budget adjusted for indirect federal and general fund receipts accounted for in Capital Improvement Projects.



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

**Department of Environmental
Conservation**

DIVISION OF SPILL PREVENTION &
RESPONSE
SPAR Director's Office

555 Cordova Street
Anchorage, AK 99501
Main: 907.269-7604
Fax: 907.269-7687

March 26, 2014

The Honorable Dan Saddler, Co-Chair
House Resources Committee
Alaska State Capitol, Room 104
Juneau AK, 99801

The Honorable Eric Feige, Co-Chair
House Resources Committee
Alaska State Capitol, Room 126
Juneau, AK 99801

Dear Representatives Saddler and Feige:

During the March 17th House Resources Committee hearing on House Bill 325, several questions were asked by committee members regarding uses of the Oil and Hazardous Substances Release Prevention and Response Fund (the Response Fund) and the Prevention Account, within the Response Fund. The following are responses to the questions the department has not yet answered.

How many spills are reported each year vs. how many historical contaminated sites are there?

The Department receives approximately 2,000 spill reports each year. All but about 100 of those are addressed and closed out. Those 100 spills are transferred to the Contaminated Sites Program for long term remediation needs. There are 2,334 known, open contaminated sites. The Department works on contaminated sites based on a risk-based prioritization.

What costs associated with cleaning up spills and contamination are not recovered?

The Division of Spill Prevention and Response (SPAR) spends about \$10 million/year from the Prevention Account to respond to spills (Emergency Response) and oversee the cleanup of historic spills (contaminated sites). The remaining activities conducted by SPAR include \$3.5 million to prevent spills from occurring (Industry Preparedness), which includes review of oil industry discharge prevention and response plans, training, inspections, and spill response drills, and \$1.5 million in administrative costs (cost recovery, accounting, budgeting, and information technology including improvements to databases and the cost tracking system).

Of the roughly \$10 million in SPAR expenses for spills and contaminated sites, the Department bills responsible for parties for \$3 to \$3.5 million and recovers \$1.5 to \$1.9 million. The Department is in the process of revamping its cost recovery system and data tracking mechanisms to improve cost recovery rates and better inform decisions.

Does the Division separate costs by spills and product type?

On January 30th, the Department provided to the House Resources Committee a report of spills that occurred during the last fiscal year. The same report is included again with this letter. In summary, the majority of spills (by number) that SPAR responds to are petroleum products spilled by a variety of industries and private citizens. At this time, SPAR cannot break down Department expenses by product type, but hopes to do so in the future.

Typically, the most expensive contamination to cleanup (and for DEC to oversee) is solvents that have migrated to groundwater which are used by a variety of industries. Cleanup of these solvents take longer and are more difficult to cleanup. Contaminated sites typically have more than one contaminant. To simplify, we have provided the main contaminant of concern by percentage for the 2,334 known, open contaminated sites:

- 81% Petroleum compounds
- 15% Metals (lead, arsenic, chromium, cadmium, copper, antimony, mercury, manganese, nickel, barium, selenium, zinc, silver)
- 12% Chlorinated Solvents (TCE and PCE and primary breakdown product Vinyl Chloride)
- 5% PCBs and Dioxins
- 2% Unexploded Ordinance
- 1% Pesticides (Aldrin, DDT, Dieldrin)

The percentages vary little from year-to-year as sites are closed and new sites are discovered. However, SPAR is expecting an increase in the number of chlorinated solvent sites as old dry cleaner operations are assessed. For example, there are now 260 open PCE and TCE sites compared to three years ago when there were just over 200.

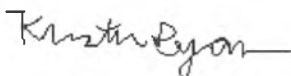
The majority of contaminated sites initially identified by the state were associated with federal activities, oil and gas exploration, and mining. Today, the majority (about 50%) of contaminated sites are still federal facilities. While the Division strives to recover costs associated with federal sites, it often takes years.

Other than federal sites, about 30% are in private ownership (oil and gas, mining, gas stations, and home heating oil), while state and local governments consist of the remaining 20%, which includes airfields, vehicle maintenance facilities, and bulk fuel storage.

There also seems to be concern expressed by some committee members that the Department may be using the Response Fund for ineligible activities¹. The legislative history of the Response Fund indicates there was much discussion on the use of the Fund, specifically about using the Response Fund to address long-term, non-crude oil cleanup activities. While the Department has curtailed use of the Response Fund for certain activities to help preserve the balance in the Response Fund accounts, we believe all expenditures from the fund have been eligible under the statutorily allowed uses.

If you have additional questions, please don't hesitate to ask.

Respectfully,



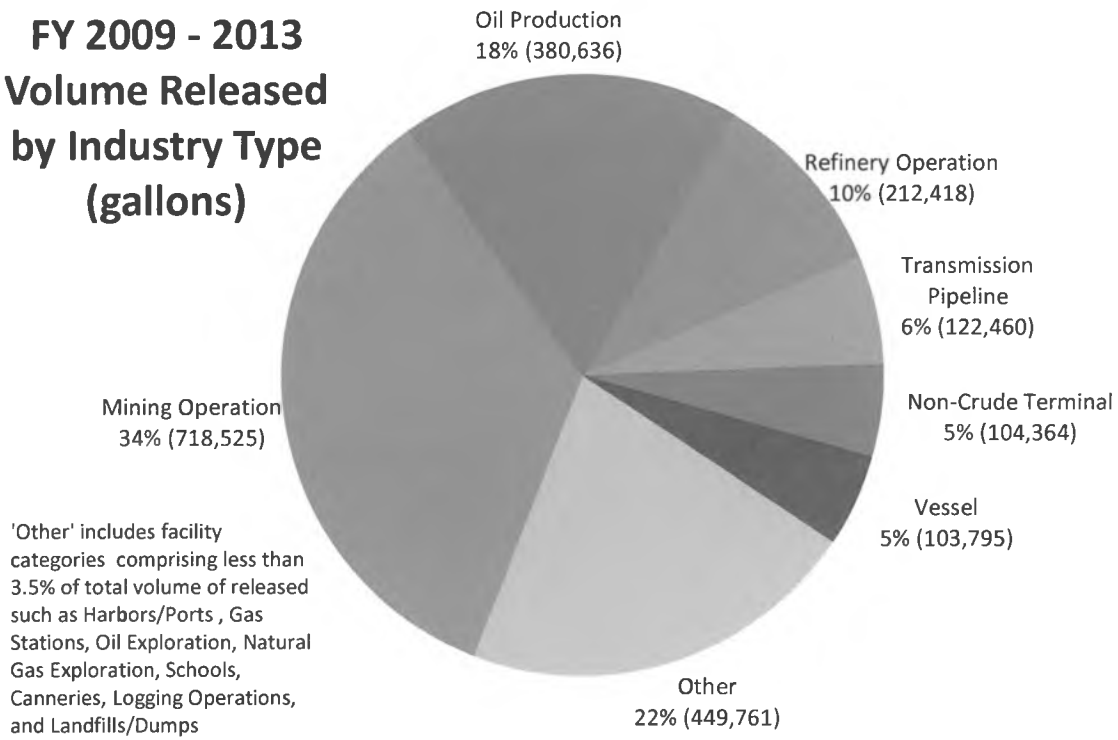
Kristin Ryan
Director

¹ Department response to Legislative Intent language contained in the Operating budget (CH 14, SLA 2013 (HB 65)) Ch 14, SLA 2013, Page 13, line 19

Enclosure: FY 13 Annual Summary of Oil and Hazardous Substance Spills
Annual Summary of Oil and Hazardous Substance Spills, Fiscal Year 2013

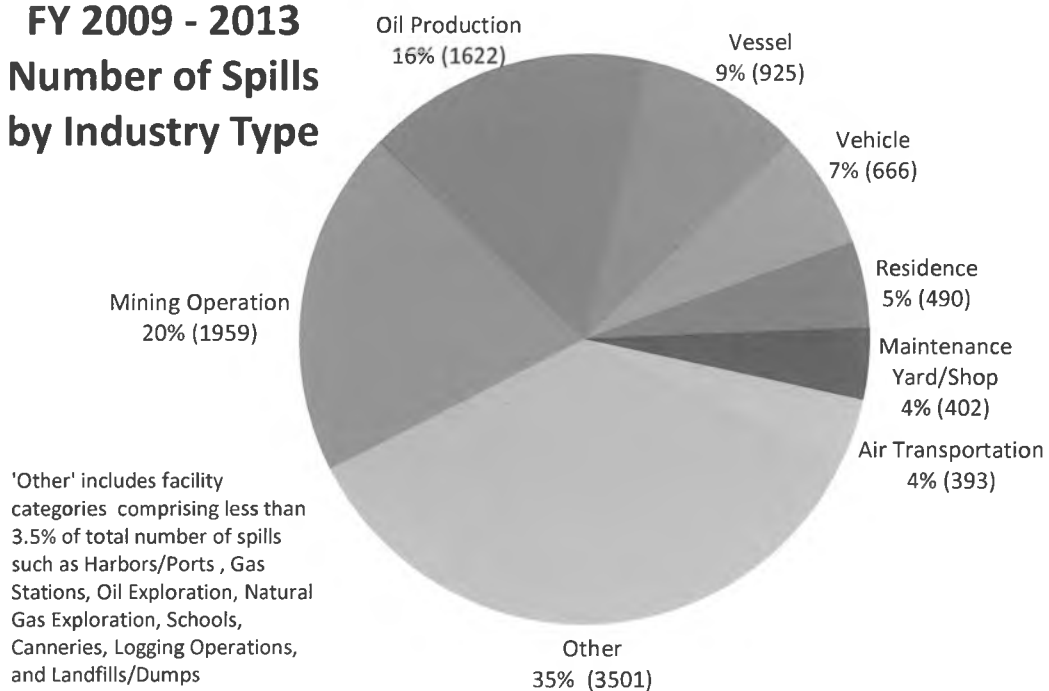
cc: Representative Cathy Muñoz
Representative Peggy Wilson
Representative Mike Hawker
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Scott Kawasaki
Representative Geran Tarr
Trevor Fulton, Staff to Representative Saddler
Linda Hay, Staff to Representative Eric Feige
Christopher Clark, Staff to Representative Muñoz

FY 2009 - 2013 Volume Released by Industry Type (gallons)



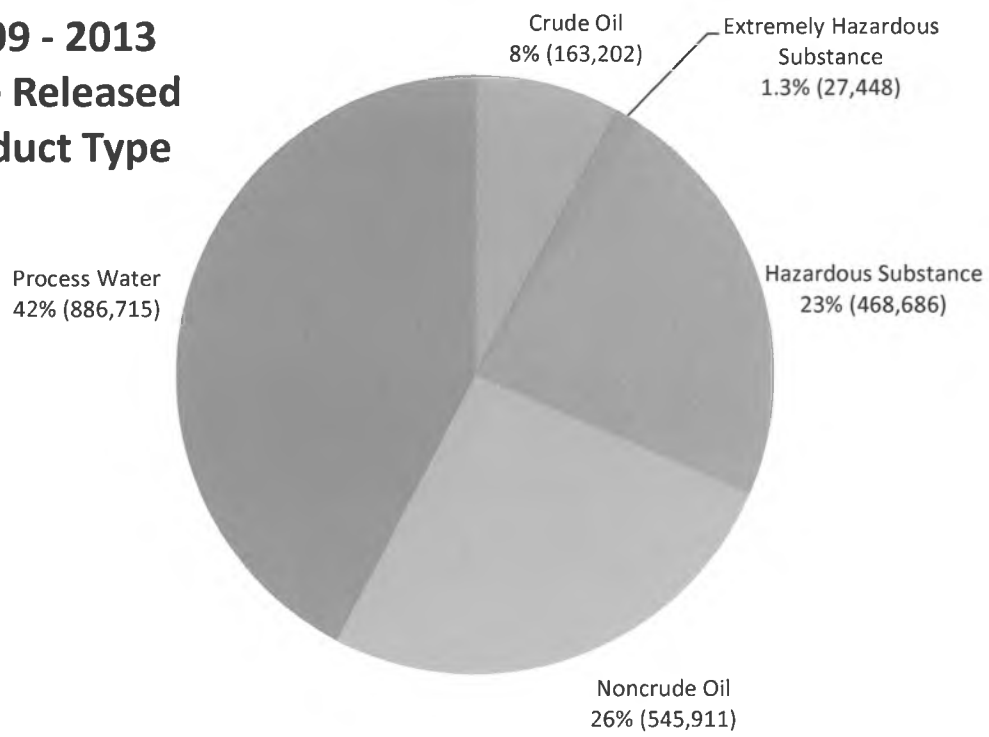
Source: ADEC PERP Database

FY 2009 - 2013 Number of Spills by Industry Type



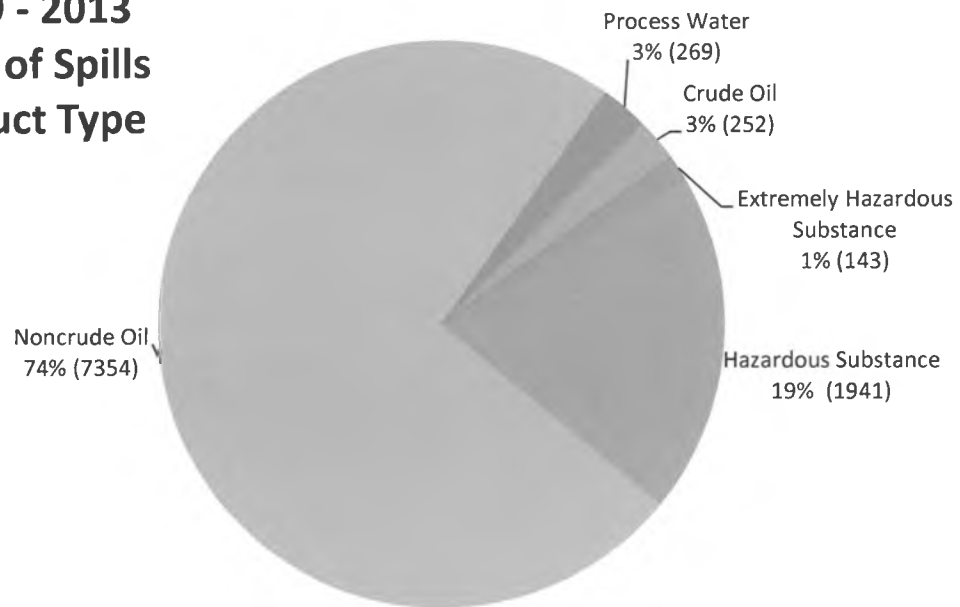
Source: ADEC PERP Database

FY 2009 - 2013 Volume Released by Product Type



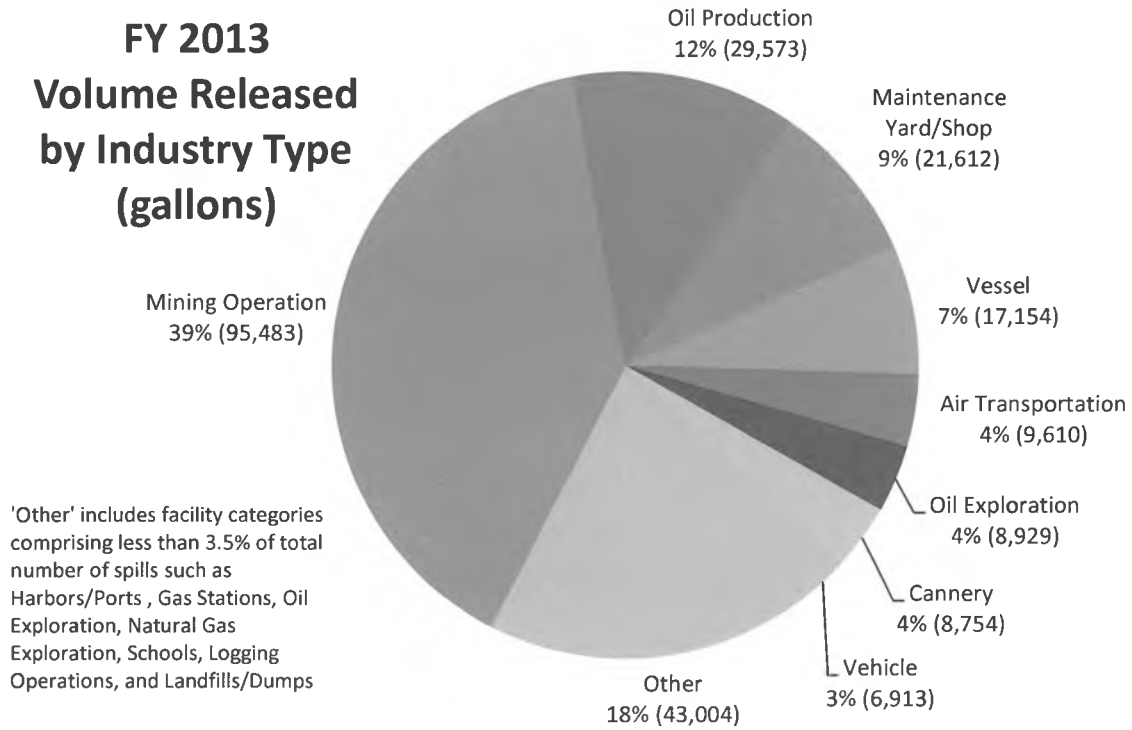
Source: ADEC PERP Database

FY 2009 - 2013 Number of Spills by Product Type



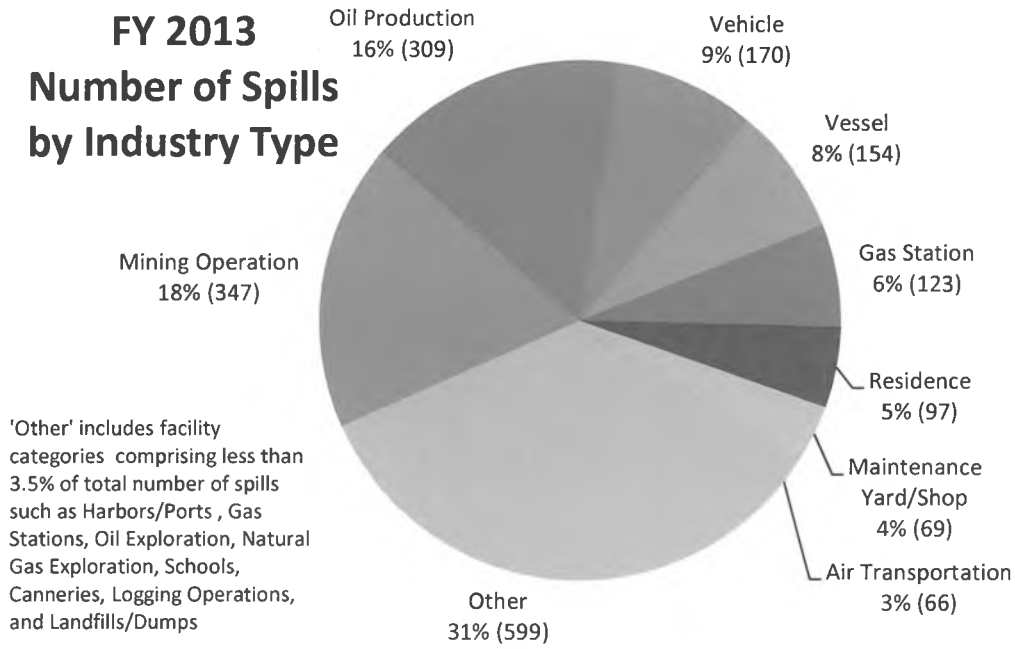
Source: ADEC PERP Database

FY 2013 Volume Released by Industry Type (gallons)



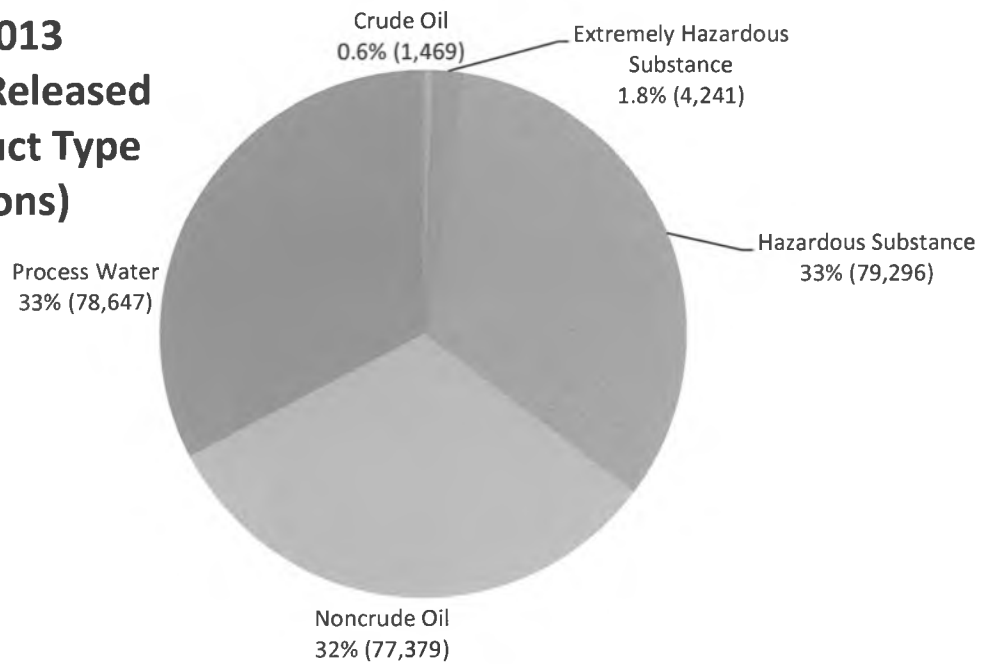
Source: ADEC PERP Database

FY 2013 Number of Spills by Industry Type



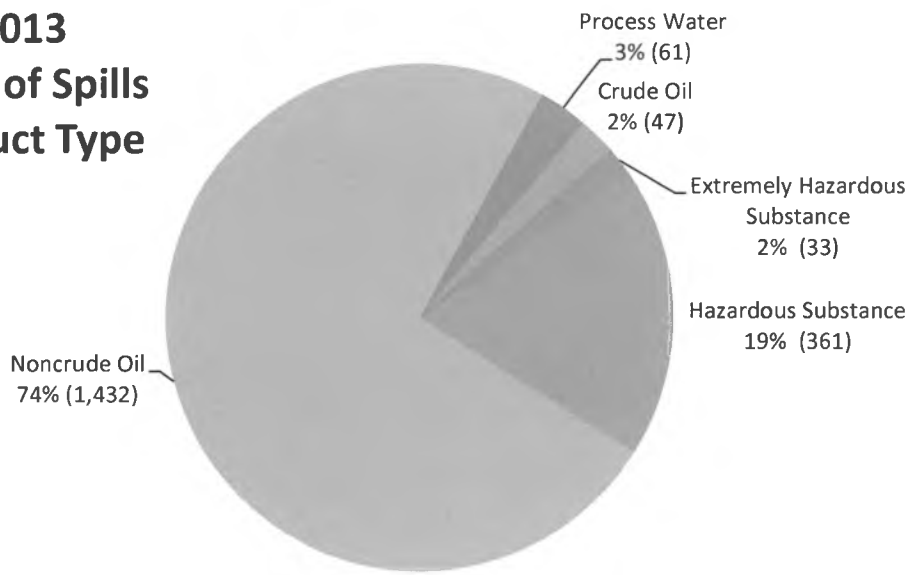
Source: ADEC PERP Database

**FY 2013
Volume Released
by Product Type
(gallons)**



Source: ADEC PERP Database

FY 2013 Number of Spills by Product Type



Source: ADEC PERP Database



Annual Summary of Oil and Hazardous Substance Spills

Fiscal Year 2013 (July 1, 2012 - June 30, 2013)

Alaska Department of Environmental Conservation ■ Division of Spill Prevention and Response ■ December 2013

Significant Responses

Rampart Tanker Fuel Release

On April 11, 2013, a tank trailer rollover near the village of Rampart spilled approximately 2,750 gallons of diesel fuel onto forestland along the Yukon River. Prevention and Emergency Response (PERP) staff worked with village residents to recover nearly 1,200 gallons fuel from the damaged trailer and keep spilled fuel out of the river. Long-term cleanup and monitoring of the spill site is continuing under the supervision of DEC's Contaminated Sites Program.



Tanker rollover near Rampart, April 11, 2013. (Photo by ADEC - P. Lhotka)

Kulluk Tow Incident

On December 27, 2012, approximately 50 miles south of Kodiak, Shell's arctic drilling rig *Kulluk* broke free of its tow. Following several failed attempts to recover the non-self-propelled rig and successful evacuation of its crew, the *Kulluk* grounded on Sitkalidak Island on December 31, with 139,000 gallons of diesel and 12,000 gallons of other oils on board. On January 6, after the Unified Command's Potential Places of Refuge review and inspections of the rig were complete, the *Kulluk* was towed to Kiluda Bay, on Kodiak Island, where it spent the next 49 days being undergoing temporary repairs for transit to Dutch Harbor. At its height, the response to the *Kulluk* grounding involved more than 750 people

Kulluk drilling rig aground at Sitkalidak Is -- January 2, 2013 overflight. (Photo by ADEC - S. Russell)

from numerous federal, state and local agencies, companies, and other organizations. Staff from every PERP section and across the department contributed. Approximately 316 gallons of diesel fuel were released from tanks aboard lifeboats that were swept from the rig, but no other evidence of an oil spill was reported. Though it did not result in a major spill, the incident attracted significant statewide and national attention and fueled controversy over offshore drilling in the Arctic.

F/V *Evening Star* Sinking

On August 2, 2012, the 50-foot fishing vessel *Evening Star* capsized and sank in Slocum Arm, approximately 40 miles northwest of Sitka, with more than 1,000 gallons of diesel fuel, lube and hydraulic oil on board. Observers reported a mile-long sheen emanating from the wreck, which initially lay on a steep incline approximately 10 feet underwater. But as responders prepared to remove oil from the vessel, it sank out of sight and became entangled in its net on a ledge at a depth of 390 feet, where it was deemed unsalvageable. DEC staff believe the majority of fuel aboard the vessel was released. The Alaska Department of Fish and Game closed the salmon fishery in Slocum Arm during the incident, but no impacts to fish or other wildlife were reported.



FY 2013 Summary

Top 5 Products

Product	Spills	Gallons
Process Water	22	55,838
Diesel	513	53,163
Zinc Concentrate	3	31,254
Calcium Chloride (solid)	1	18,300
Produced Water	35	17,136

Top 5 Facility Types

Facility Type	Spills	Gallons
Mining Operation	347	95,483
Oil Production	309	29,573
Maintenance Yard/Shop	69	21,612
Vessel	154	17,154
Other	223	16,540

Top 5 Causes

Cause	Spills	Gallons
Human Error	295	70,906
Rollover/Capsize	32	40,783
Equipment Failure	525	27,786
External Factors	26	19,177
Overfill	103	13,448

Galena Flooding

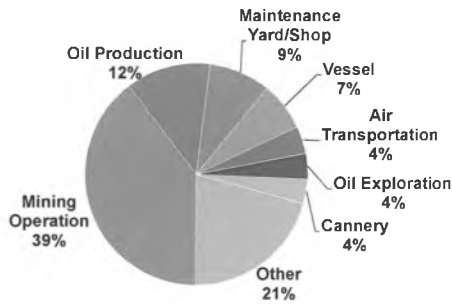
On May 27, 2013, water backed up behind an ice jam on the Yukon River began to flood the city of Galena. The floodwaters dislodged, relocated and/or damaged thousands of items containing hazardous materials, including fuel storage tanks, electrical transformers, lead-acid batteries, vehicles, gas cylinders, drums and a variety of other containers. At the request of the state's Division of Homeland Security and Emergency Management and the City of Galena, DEC assumed direction of flood-related hazardous materials cleanup. Materials collected by cleanup crews and Galena residents included various petroleum products, solvents, paint, and glycol, as well as potentially hazardous solid wastes such as refrigerators, electronic devices, and fire extinguishers. The

continued on page 7

All Products - FY 2013

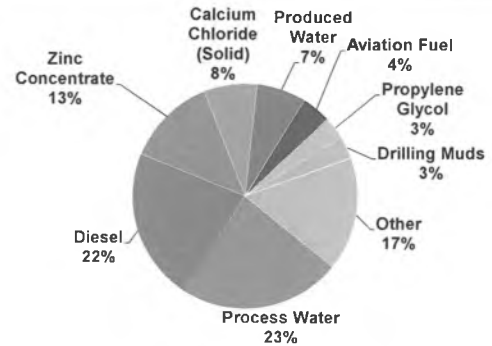
Number of Spills Reported 1,934
 Total Gallons 241,032

Volume Released by Facility Type



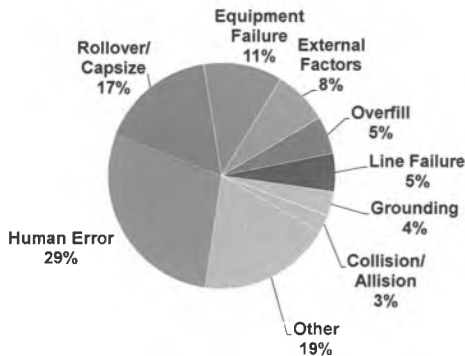
'Other' includes facility categories comprising 3% or less of the total volume released.

Volume Released by Product



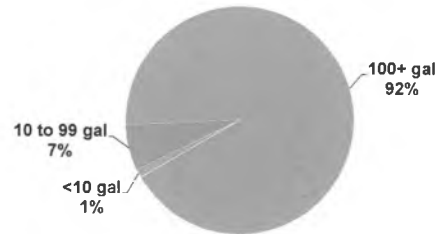
'Other' includes product categories, including crude oil, comprising 3% or less of the total volume released. Crude oil releases accounted for 0.6% of the total volume released.

Volume Released by Cause



'Other' includes cause categories comprising 3% or less of the total volume released.

Volume Released by Size Class



18-Year Trend

Number of Spills by Fiscal Year

Fiscal Year	Count
1996	2,300
1997	2,500
1998	2,200
1999	2,300
2000	2,200
2001	2,300
2002	2,200
2003	2,300
2004	2,200
2005	2,300
2006	2,200
2007	2,300
2008	2,200
2009	2,300
2010	2,200
2011	2,300
2012	2,200

Total Volume by Fiscal Year*

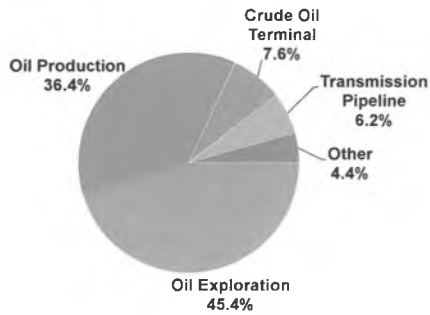
Fiscal Year	Gallons
1996	500,000
1997	4,500,000
1998	500,000
1999	500,000
2000	500,000
2001	500,000
2002	500,000
2003	500,000
2004	500,000
2005	500,000
2006	500,000
2007	500,000
2008	500,000
2009	500,000
2010	500,000
2011	500,000
2012	500,000

***Notes:** 1/25/1997 (FY 1997) - a barge capsized and lost 3,125,000 gal of Urea (Solid).
 3/17/1997 (FY 1997) - 995,400 gal of Seawater released at ARCO DS-14 in Prudhoe Bay

Crude Oil - FY 2013

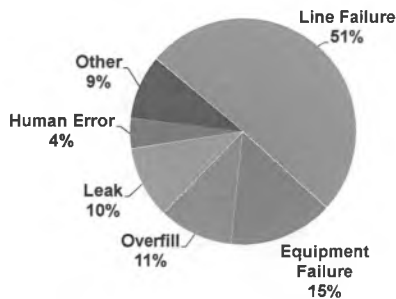
Number of Spills Reported 47
 Total Gallons 1,469

Volume Released by Facility Type



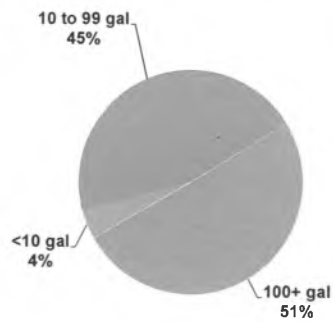
Other includes facility categories comprising 4% or less of the total volume released.

Volume Released by Cause

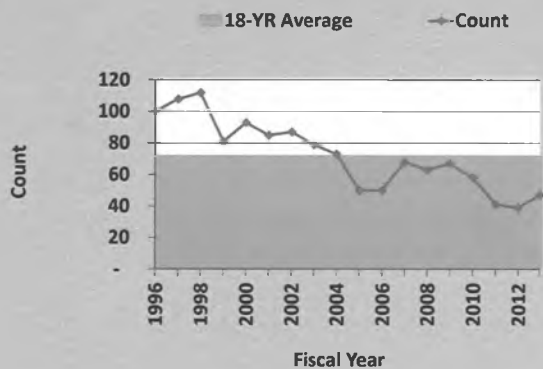


Other includes cause categories comprising 3% or less of the total volume released.

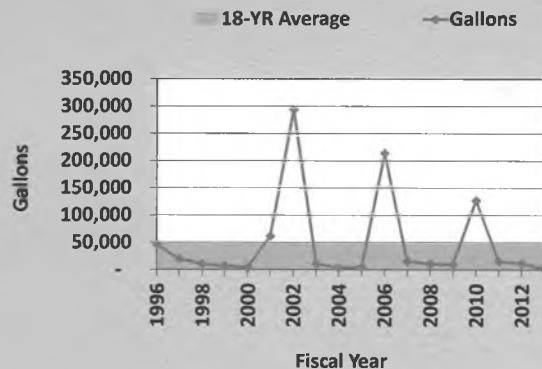
Volume Released by Size Class



Number of Spills by Fiscal Year



Total Volume by Fiscal Year*



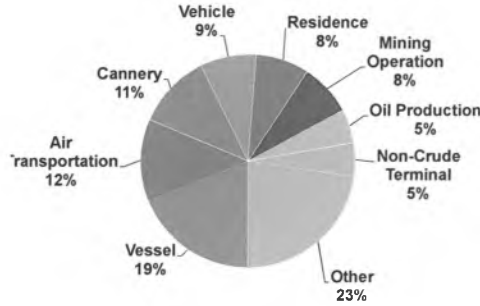
*Notes: 10/4/2001 (FY 2002) - TAPS Bullet Hole Release; 285,600 gal Crude
 3/2/2006 (FY 2006) - BP GC-2 Oil Transit Line Release; 212,252 gal Crude

18-Year Trend

Non-crude Oil - FY 2013

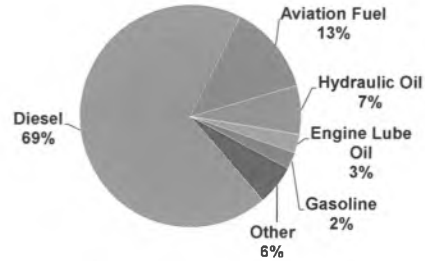
Number of Spills Reported 1,432
 Total Gallons 77,379

Volume Released by Facility Type



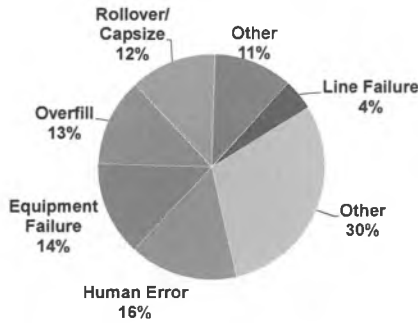
'Other' includes facility categories comprising 4% or less of the total volume released.

Volume Released by Product



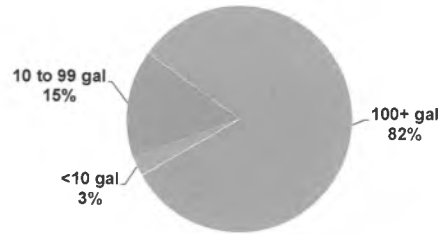
includes product categories comprising 2% or less total volume released.

Volume Released by Cause



'Other' includes cause categories comprising 3% or less of the total volume released.

Volume Released by Size Class



18-Year Trend

Number of Spills by Fiscal Year

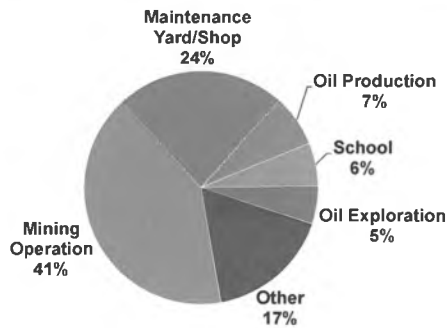
Total Volume by Fiscal Year*

**Notes: 12/8/2004 (FY 2005) - the M/V Selendang Ayu broke apart, releasing 321,052 gal of IFO 380 and 14,680 gal of Diesel*

Hazardous Substances - FY 2013

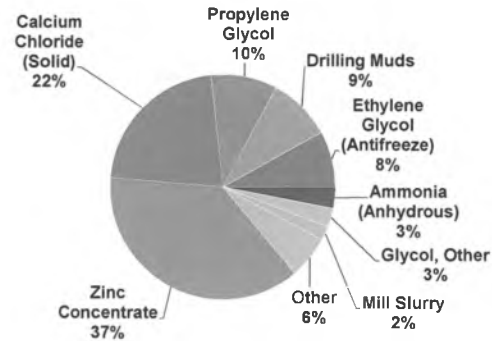
Number of Spills Reported 394
 Total Gallons 83,537

Volume Released by Facility Type



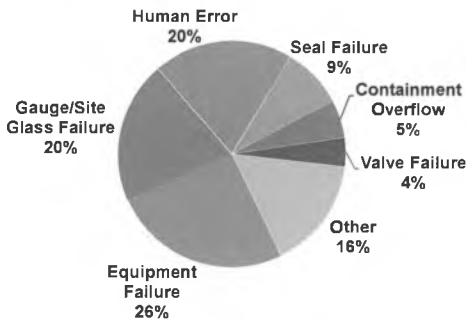
'Other' includes facility categories comprising 4% or less of the total volume released.

Volume Released by Product



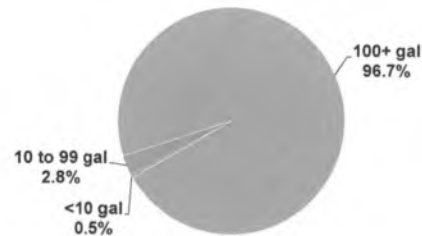
'Other' includes product categories comprising 2% or less of the total volume released.

Volume Released by Cause

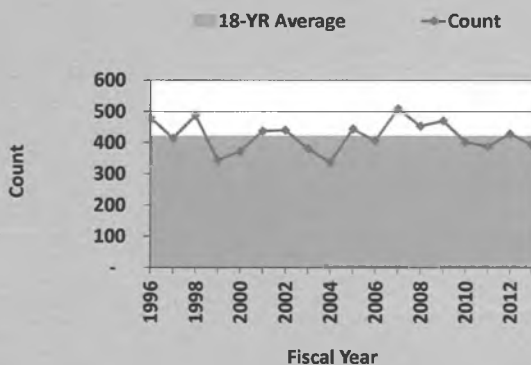


'Other' includes cause categories comprising 3% or less of the total volume released.

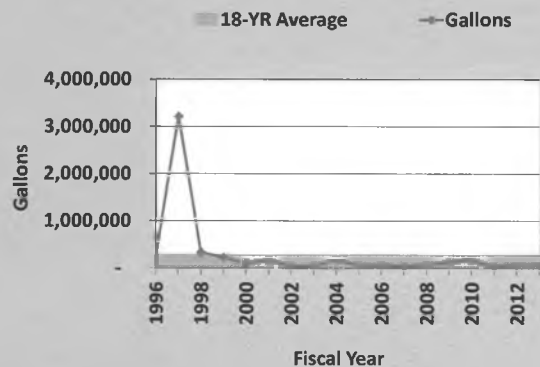
Volume Released by Size Class



Number of Spills by Fiscal Year



Total Volume by Fiscal Year*



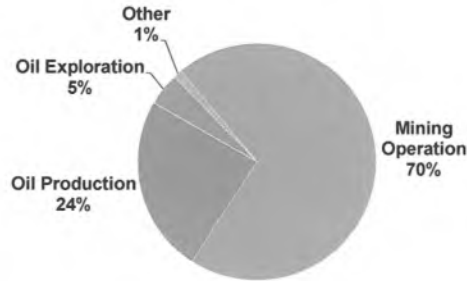
*Notes: 1/25/1997 (FY 1997) - a barge capsized and lost 3,125,000 gal of Urea (Solid).

18-Year Trend

Process Water - FY 2013

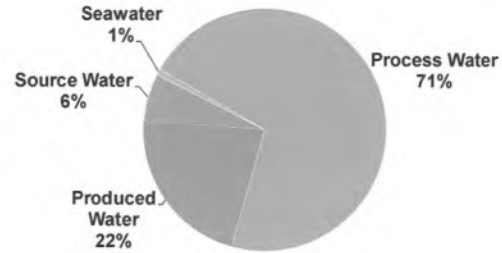
Number of Spills Reported 61
 Total Gallons 78,647

Volume Released by Facility Type

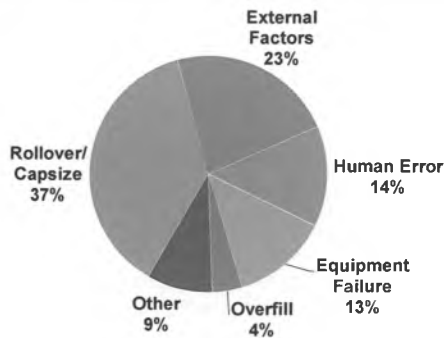


'Other' includes facility categories comprising 2% or less of the total volume released.

Volume Released by Product

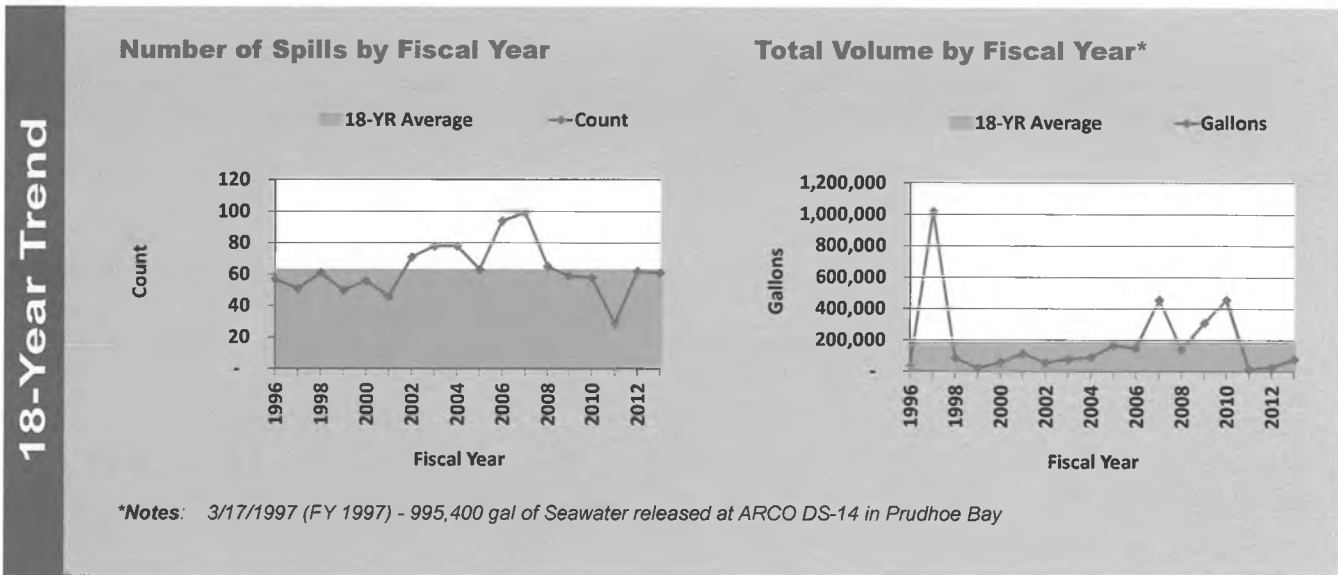
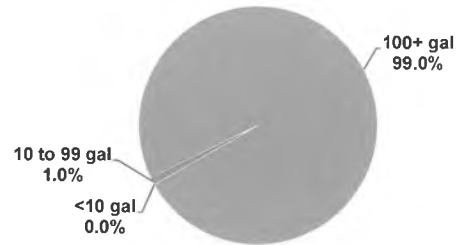


Volume Released by Cause



'Other' includes cause categories comprising 3% or less of the total volume released.

Volume Released by Size Class



Process Water (Oil Exploration and Production Operations): Process water includes seawater (and occasionally freshwater), produced water and commingled or mixed water.

Seawater is typically from the Beaufort Sea that has undergone primary treatment at the Seawater Treatment Plant.

Produced Water is water that was included with crude oil and natural gas pumped from the formation then separated from the oil and gas and treated for disposal or reuse. Produced water includes some level of crude oil but the amount varies. Commingled or mixed water is typically a mix of seawater and produced water, although other combinations exist in the operations on the North Slope.

The percentage of crude oil occurring in process water can vary somewhat based on the source of the spill.

Process Water (Mining Operations): Process water for mining operations includes water taken from tailing ponds for the milling process (reclaim water), water that has been through the water treatment plant but not the sand filter (process water), water that has been through both the water treatment and sand filter (discharge water), water mixed with ground ore materials (slurry) or water used in the milling and product recovery process (process solution water).

Spill: a discharge or release of oil or a hazardous substance to the lands, waters or air of the State of Alaska as defined in Alaska Statutes 46.03.826(9).

DISCLAIMER

The data presented and summarized in this report is provisional due to ongoing quality assurance/quality control on the part of data entry staff and primary users. Additional on-going reviews will further refine the accuracy of the data.

NOTES:

- Some spill incidents involve releases of multiple substances. In FY 2013, there were 1,926 spill incidents, resulting in 1,934 oil and hazardous substance releases.
- Some releases (such as gases and solids) are reported in pounds rather than gallons. In FY 2013, thirty six (36) releases totalling 438,102 pounds were reported to DEC. For graphing purposes, spill quantities reported in pounds were converted to gallons using a conversion factor of 8 pounds per gallon.

Significant Responses - continued from page 1

response involved staff from every program in SPAR and every PERP section. PERP personnel were present in Galena throughout the cleanup, helping determine the extent of contamination and overseeing cleanup activities.



ADEC responder documenting drums, June 21, 2013 (Photo/ADEC)

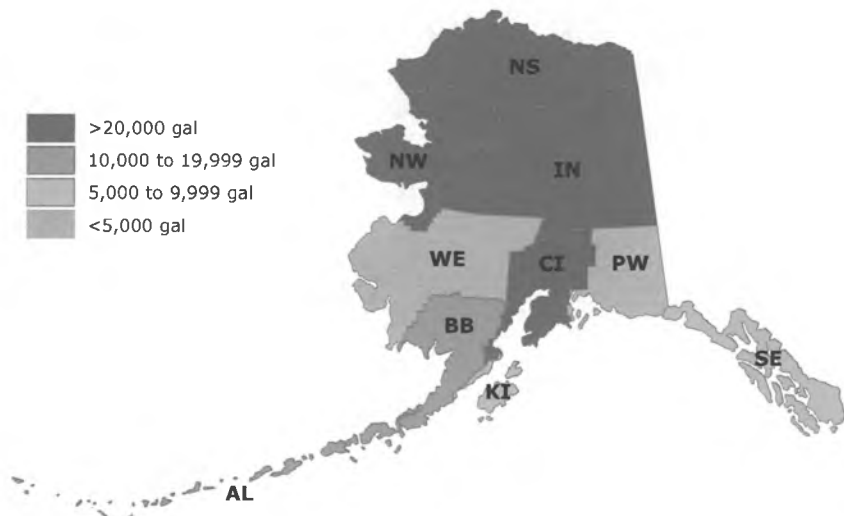
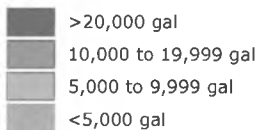
10 Largest Releases FY 2013



Map Key	Spill Date	Spill Name	Product	Gallons
1	08/23/12	Fort Knox Heap Leach Cyanide Solution	Process Water	45,000
2	08/12/12	Red Dog Mine 250K lbs Zinc Concentrate	Zinc Concentrate	31,250
3	05/29/13	MP 325 Dalton Highway Sag River Sacks	Calcium Chloride (solid)	18,300
4	10/28/12	Eielson, 27k feet JP-8 Jettison	Aviation Fuel	8,134
5	03/27/13	GSA Fed Bldg, Motor Pool Annex	Propylene Glycol	6,500
6	11/13/12	Polar Wind Tug and Barge Grounding	Diesel	6,000
7	04/03/13	BPXA Spine Road, 972 Loader fire	Source Water	5,000
8	05/09/13	UAF, Wood Center 5,000 Gal Ethylene Glycol	Ethylene Glycol (Antifreeze)	5,000
9	07/18/12	Trident Seafoods Chignik spill within containment	Diesel	4,200
10	04/07/13	Mine Site- Under 2011 Module	Process Water	3,700

Total Volume by Subarea FY 2013

Subarea	Gallons
Interior Alaska	85,166
North Slope	48,134
Northwest Arctic	47,011
Cook Inlet	21,051
Aleutian	10,687
Bristol Bay	10,052
Southeast Alaska	7,562
Kodiak Island	6,541
Western Alaska	2,971
Prince William Sound	1,857





March 13, 2014

The Honorable Cathy Muñoz
State Capitol Room 421
Juneau AK, 99801

Re: House Bill 325 – Oil Spill Prevention Fund

Dear Representative Muñoz,

The Alaska Chamber is writing to respectfully state our opposition to House Bill 325 (HB 325), legislation that will increase the fund cap and per barrel tax on eligible oil produced in state. Like you, we do support the effort to begin a discussion on how best to protect the public good of having funds available to prevent and respond to a spill of oil or other toxic pollutants.

The Alaska Chamber is an organization dedicated to improving the business environment in Alaska. The Alaska Chamber represents hundreds of businesses from Ketchikan to Barrow that share a common goal: to make Alaska a viable and competitive place to do business. To ensure a strong, competitive economic environment, we must ensure that our regulatory and tax structures are reasonable and appropriate.

The per barrel tax increase proposed in HB 325 affords us an opportunity to share several concerns about the Response Fund (Fund) which we believe need to be addressed before any increases to revenue sources for the Fund are considered. Specifically, Alaska Chamber members are dismayed about the current usage with respect to the funding sources as well as the Department of Environmental Conservation's stewardship of the Fund.

Since its inception, the allowable usage for the Fund has steadily expanded. However, the primary funding mechanism has remained substantially unchanged. The vast majority of funds come from a single industry, yet the proceeds from the tax have been increasingly used for administrative costs and costs unrelated to the intent of the Fund. Over time financial responsibility for incident, spill and civil charges has been increasingly defined as a liability of the responsible parties, which makes sense in the context of the original intent of the Fund. However, the intent of the Fund has changed and oversight requirements have become lax while a single industry maintains the burden of funding the vast majority of the program.

Of particular concern is that the Fund has grown to increasingly cover state administrative and general environmental program costs unrelated to spill clean up.



Yet the Fund continues to be funded with a targeted industry tax. Interestingly, the oil producing industry already bears complete financial responsibility for environmental and civil damages that may result from a potential spill.

The expenditure allocations from the Fund demonstrate how it is actually being used. Looking at the most recent publicly available report from FY '05-07 for the Prevention and Emergency Response Program, 72% of the costs were attributed to Program Administration. That program includes expenditures for canneries, telecommunications, power generators, Alaska Railroad, and schools. Of course, it also includes very high administrative costs.

Similarly, reports on the Contaminated Sites Program show 53% of costs were attributed to Program Administration. Less than half of the program expenditures were for contaminated sites and of that amount, and only 3% of the contaminated sites were attributed to "Businesses" or "Fuel Suppliers/Oil Producers." The rest were "State Agencies", "Cities, Boroughs, and School Districts", the "U.S. Government", etc.

The Fund today differs significantly from its original intent. Poor stewardship of a large public resource created for a specific purpose has Alaska targeting a single industry to cover state administrative costs, liabilities of various industries, and environmental support of Alaska's cities and schools. On behalf of Alaska's business community, we respectfully request a thoughtful dialogue about the intent of the Fund, the funding sources of the Fund, and use of the Fund prior to any increases to Fund being advanced through HB 325.

Sincerely,

A handwritten signature in cursive script that reads 'Rachael Petro'.

Rachael Petro
President/CEO

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114
Email: moriarty@aoga.org
Kara Moriarty, President/CEO

April 14, 2014

Representative Eric Feige, Co-Chairman
Representative Dan Saddler, Co-Chairman
House Resources Committee
Juneau, AK 99801

Dear Co-Chairmen Feige & Saddler;

The Alaska Oil & Gas Association (AOGA) is the professional trade association for the majority of oil and gas exploration, production, refining, marketing and transportation activities in Alaska.

AOGA does not support HB 325, nor does it support the draft Committee Substitute (Version 28-LS1486\U).

AOGA has been engaged in the policy decisions surrounding the Oil and Hazardous Substance Release Response Fund, commonly referred to as the "470 Fund", since its inception in 1989, when a tax of five cents per barrel was added for emergency oil spill containment and cleanup.

Although the original purpose was for emergency oil spill containment and cleanup, from the very beginning, this fund has been used for a variety of purposes. For example, in the first four years of the fund, the money appropriated was for things like campgrounds, state airports, privately-owned greenhouses and buying new ferries. While those were important concerns, they were not oil spill emergencies.

In 1994, we supported the bill that split the initial surcharge into two different accounts; a "oil spill preparedness account" (at the time was two cents per barrel) and a "catastrophic oil discharge account" (at the time was three cents per barrel). AOGA did not oppose the modification to the surcharge in 2006, as the total tax remained 5 cents per barrel.

According the Alaska Department of Environmental Conservation, oil production and exploration facilities accounted for 16% of the volume of released product in FY 2013. The other type of facilities that reported spills were mining, maintenance yard/shops, vessels, air transportation, canneries and a variety of other facilities. [Source: Annual Summary of Oil & Hazardous Substance Spills, December 2013].

For the last 25 years, the oil and gas industry has been the only industry to make any contributions to this fund and this bill only seeks to continue that policy by increasing the surcharge on oil and gas producers to seven cents per barrel.

Additionally, we cannot support the attempt to add a surcharge for in-state refineries and those that import refined product into Alaska. It is already challenging at best to operate a refinery in Alaska, and this proposed surcharge would not improve the business climate for refining.

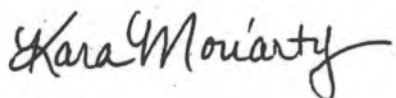
Furthermore, the proposed surcharge for refineries is inappropriate in the proposed chapter [AS 43.55]. If you want refineries to pay a surcharge, it might fit more logically in the motor fuel tax chapter [AS 43.40] versus the production tax chapter for oil and gas producers.

While the ADEC and the Division of Spill Prevention and Response have worked hard to ensure the fund is used for its designated purpose, the fact remains that majority of the volumes reported are outside the oil and gas industry.

AOGA cannot support a policy that offers only one solution by continually adding additional taxes on oil and gas producers and instituting a new tax on refineries.

Thank you for your consideration of our position.

Sincerely,

A handwritten signature in black ink that reads "Kara Moriarty". The signature is written in a cursive, flowing style.

KARA MORIARTY
President/CEO



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Revenue

COMMISSIONER'S OFFICE
Angela Rodell, Commissioner

333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

March 7, 2014

Representative Paul Seaton
State Capitol Room 102
Juneau, AK 99801

Dear Representative Seaton,

This letter is in response to the February 21, 2014 email from your office requesting an estimate of the revenue potential of "a ½ cent per gallon surcharge on the first wholesale value of all refined petroleum products that are both produced in Alaska and imported into Alaska."

In response to this question, we consulted three different sources of data to estimate consumption of refined petroleum products in Alaska, since it is difficult to find exact consumption data. DOR collects and maintains data regarding fuel subject to the motor fuel tax, but the proposed surcharge would apply to a broader tax base than just fuel subject to the motor fuel tax. As a result, we encourage you to regard the estimates provided as a preliminary range of potential revenues that could be generated by the surcharge. Depending on how broadly the surcharge is applied, the revenue potential ranges from roughly \$3.2 million to \$11.6 million per year.

The Energy Information Agency (EIA) reported that in 2011, Alaska consumed 2.3 billion gallons total of distillate fuel oil, jet fuel, LPG (liquefied petroleum gas), motor gas, residual fuel oil, and "other" fuels. Applying the ½ cent surcharge would generate \$11.6 million using these estimates. Please note that the EIA reports total estimated gallons of petroleum products consumed and not all of those gallons are taxed by the state. Therefore, the estimate above, which was derived from the EIA consumption data, is probably inflated.

The 2009 DNR Annual Report reported annual fuel sales volumes between 1995-2008, including gasoline, aviation gasoline, kerosene type jet fuel, propane, No. 1 Distillate, No. 2 Fuel Oil, and No. 2 Diesel Fuel. On average, DNR estimated that 1.5 billion gallons of fuel were sold in Alaska per year, which would generate \$7.3 million in revenues on average.

Finally, if the surcharge was only placed on motor fuel subject to the motor fuel tax, it may generate about \$3.2 million per year. This is based on an average of 600,000 total gallons of motor fuel reported on tax returns each year according to DOR's Annual Reports from FY 2005 to FY 2013

Sincerely,

A handwritten signature in cursive script that reads "Angela Rodell". The signature is written in black ink and is positioned above the printed name and title.

Angela Rodell
Commissioner



PO Box 1368, Cordova, Alaska 99574
Phone: 1-907-424-5701
www.pwsoundkeeper.org
emailpwsk@pwskeeper.org
Tax id # 45-0538213

Alaska State 28th Legislature
House Resource Committee

RE: HB325

Dear Sirs:

This letter is in support of House Bill 325 – The Oil Spill Prevention Fund Bill currently up for consideration under the House Resource Committee.

Prince William Soundkeeper fully supports the Oil Spill Prevention Fund, understanding that those monetary resources are invaluable to protecting our ecosystem and the renewable natural resources that depend upon its lands and waters being clean and healthy. Prevention is always better than cleanup and remediation. An increase into the Fund through the raising of the surcharge to be collected on oil revenue is very needed and necessary.

The continuing need for oil spill prevention work and education is proven by the 25 year old lingering Exxon Valdez Oil Spill oil in Prince William Sound, which many of the younger generation seems to be unaware of the spill's long term, insidious impacts; offshore oil and gas drilling continuing to expand in Alaska; marine vessel traffic continues to increase; and the possibility of an Arctic shipping route in the near future. Prevention education and infrastructure is a necessity along our coastline and in our ports and harbors.

Please support House Bill 325 and fund to the fullest possibility the Oil Spill Prevention Fund.

Sincerely,

Kate McLaughlin, President & Executive Director
Prince William Soundkeeper

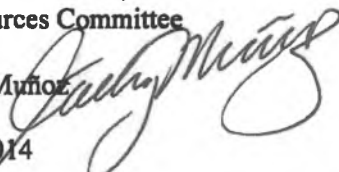
cc: Senator Alan Austerman
Representative Gary Stevens



REPRESENTATIVE CATHY MUÑOZ

MEMORANDUM

To: Honorable Eric Feige, Co-chair
Honorable Dan Saddler, Co-chair
House Resources Committee

From: Rep. Cathy Muñoz 

Date: March 11, 2014

Re: Request for a hearing on HB 325, spill response fund

I respectfully request a hearing on House Bill 325, relating to the state spill response fund's response and prevention accounts.

Attached is a bill packet that contains:

- HB 325, spill response fund
- A sponsor statement
- A sectional analysis
- Various back-up documents
- Recent stories about the spill response fund

The contact for the bill is Christopher Clark, 465-4712.

Thank you.