

**9-01-10
Presentation
Cook Inlet
Natural Gas
Storage**

<target><bill></bill><subject>9-01-10 Presentation Cook Inlet
Natural Gas Storage</subject><comm>HENE26</comm></target>

**Alaska Legislature
House Special Committee on Energy**



Rep. Charisse Millett

State Capitol Building, Room 412

Juneau, AK 99801

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State Capitol Building, Room 416

Juneau, AK 99801

Phone (907) 465-4451

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Rep_Bryce_Edgmon@legis.state.ak.us

AGENDA

Wednesday, September 1, 2010

1:30 p.m.

Anchorage LIO (#220)

TOPIC: Cook Inlet Natural Gas Storage (CINGS)

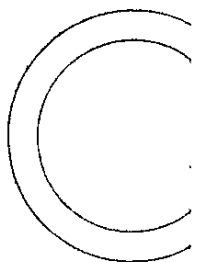
- 1) Coleen Starring, Rick Gentges, ENSTAR
- 2) Kevin Banks, Alaska Division of Oil and Gas
- 3) Bob Pickett, Regulatory Commission of Alaska

4) DAN SEAMOUNT / AOGCC

Invited testimony only

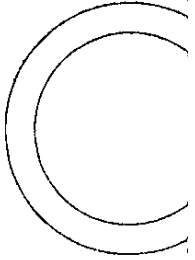
Meeting will be Teleconferenced

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Cook Inlet Natural Gas Storage- Alaska

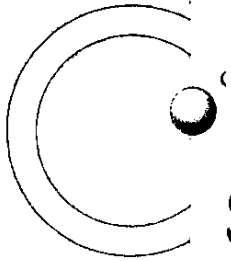
Cook Inlet Natural Gas
● STORAGE ● ●



Presentation Agenda

- CINGSA, LLC
- Purpose and Need
- Gas Storage 101
- Site Selection
- Site Specifics
- Customers
- Q&A

Who is CINGSA?



SEMCO ENERGY



- 70/30 Joint Venture
- CINGSA will provide storage service to:
 - ENSTAR
 - Chugach Electric
 - Municipal Light & Power

Cook Inlet Natural Gas
STORAGE

Project Purpose and Need

- Construct and operate a new underground natural gas storage facility in Kenai, Alaska
- Peak winter gas demand is forecast to exceed delivery capability of local production – causing potential shortages
- Project will provide operational peaking flexibility and greater security of supply
- Project will enhance system reliability

Winter vs. Summer Demand

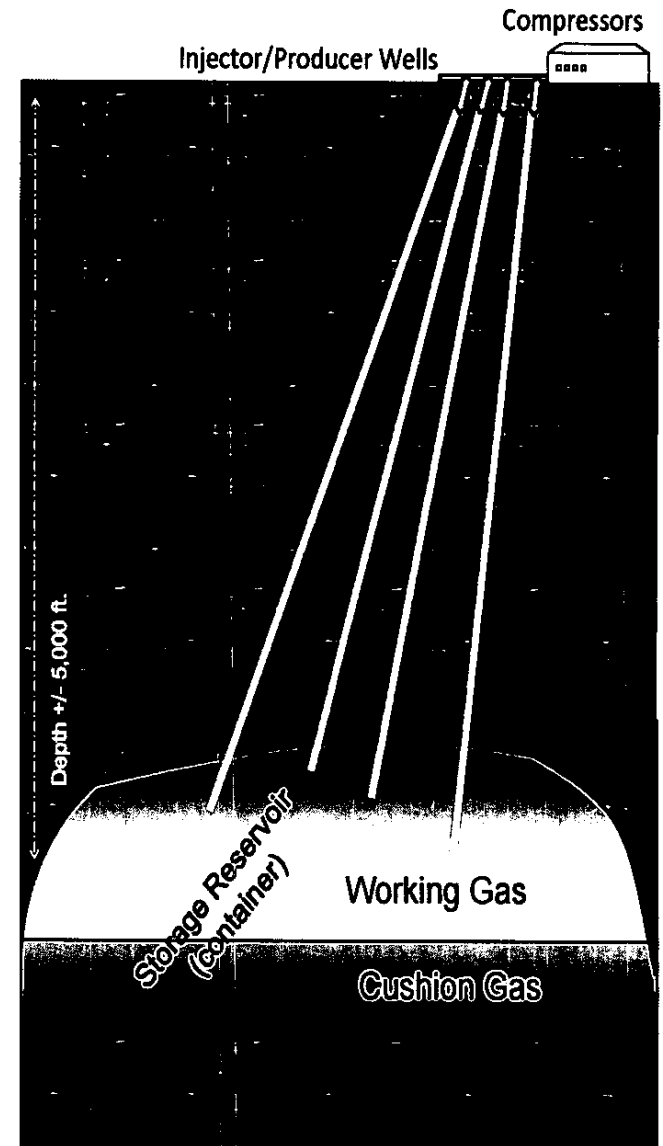
- For all utilities, the demand for natural gas in the winter months is 5X higher than in the summer months
- ENSTAR's demand for natural gas heating load in the winter months is 14X higher than in the summer months

Benefits from this Project

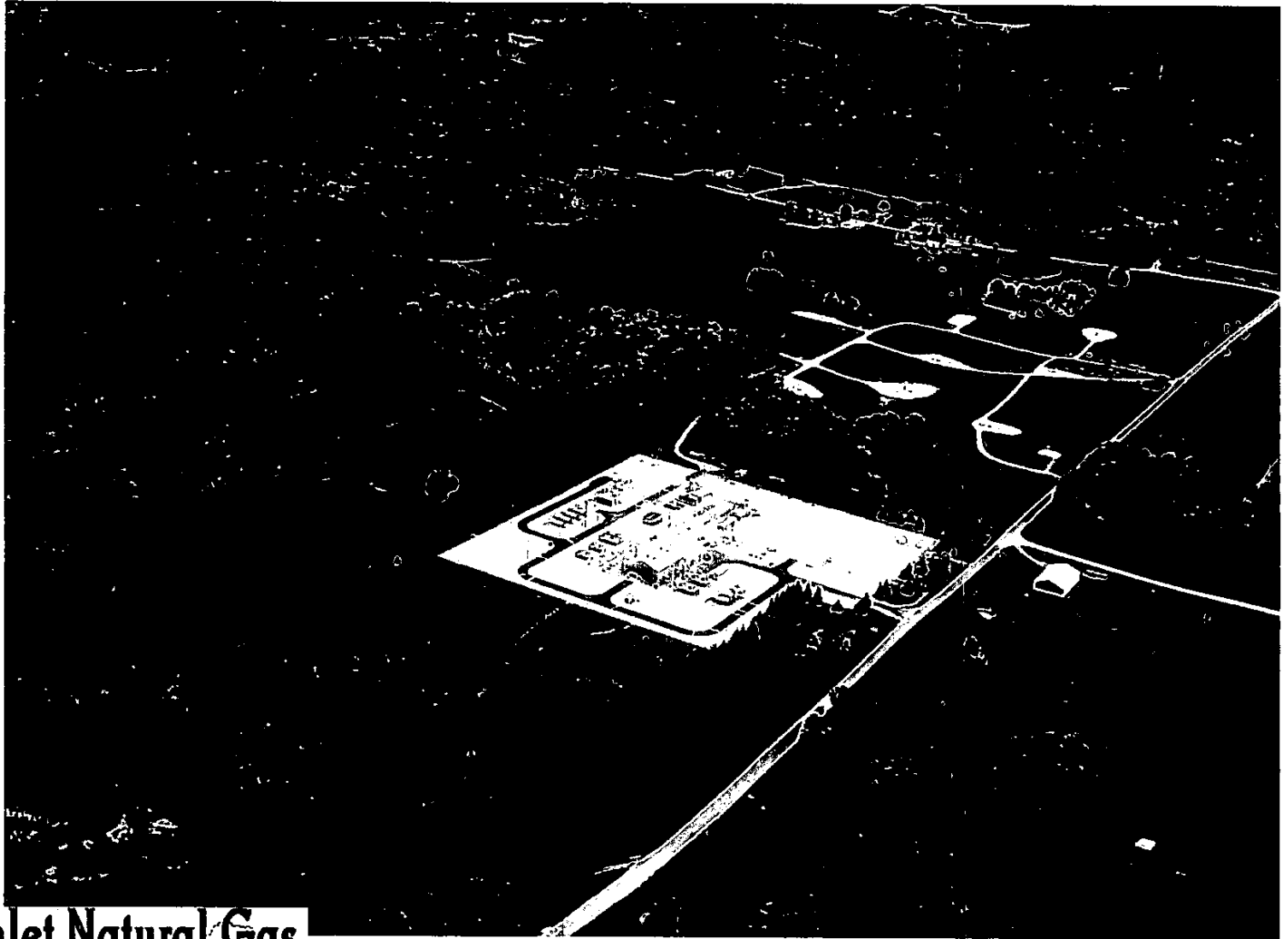
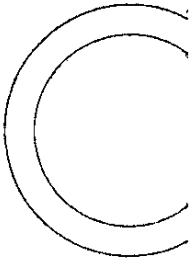
- Reliable deliverability – short and long term benefits
- Less volatile pricing
- May encourage natural gas development in Cook Inlet

Gas Storage 101

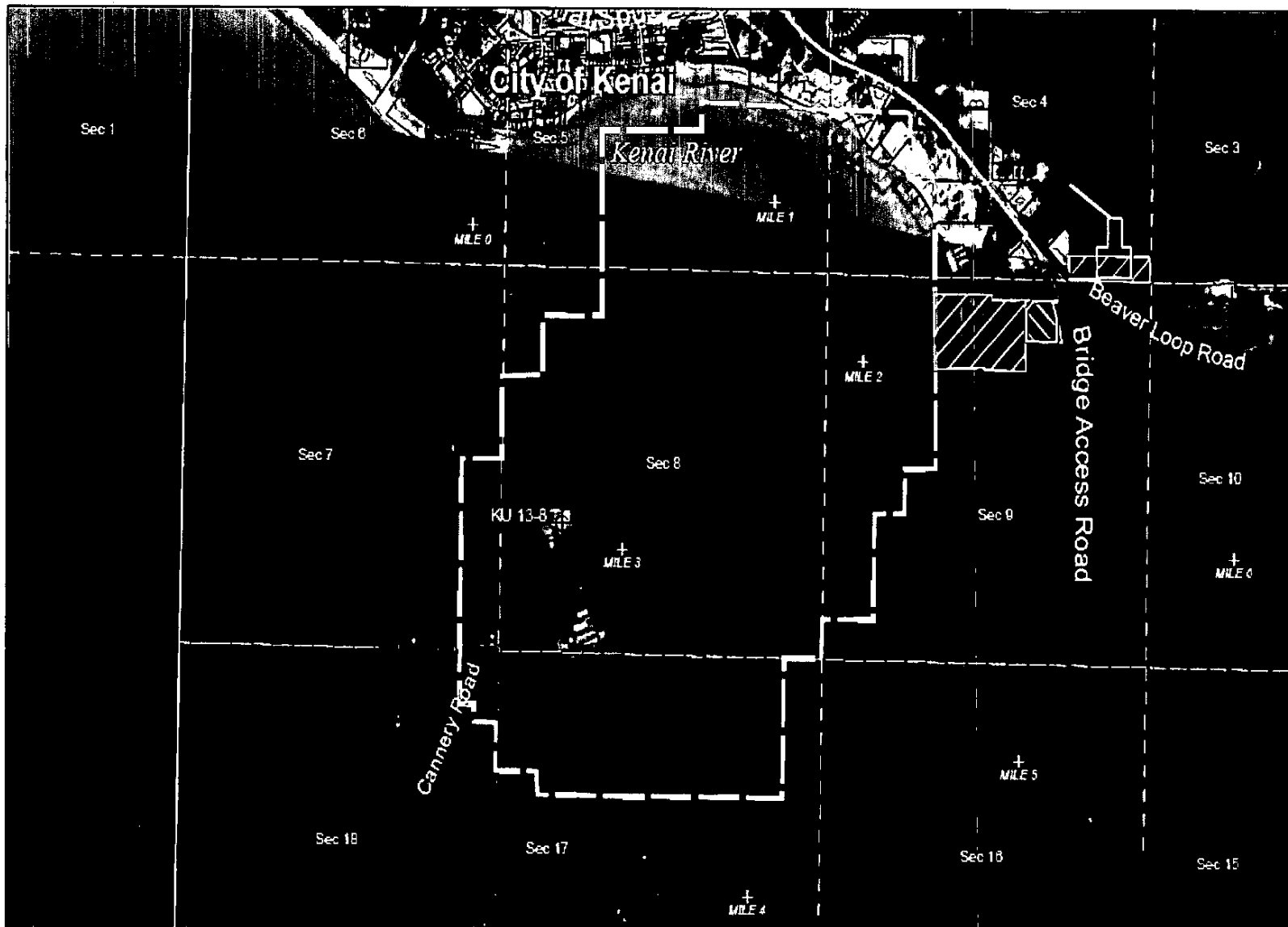
- First natural gas storage in Weland County, Ontario, Canada, in 1915, 1930 in Buffalo, New York
- Most commonly stored in depleted gas reservoirs, over 400 in use in North America storing 4 TCF
- Geologic considerations:
 - Porous and permeable structure
 - Impermeable cap rock
 - Well defined geologic structure



Similar Size Storage Station and Wells (Charlton, MI)



Cook Inlet Natural Gas
STORAGE



AECOM

AECOM ENVIRONMENT
 1835 E. Bragaw Street, Suite 430
 Anchorage, Alaska 99503
 phone: (907) 561-5700
 fax: (907) 73-4553
 web: <http://www.aecom.com>

Project No. 60157426







Cook Inlet Natural Gas Storage

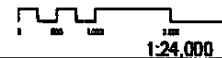
Cook Inlet Natural Gas Storage Alaska, LLC

Kenai, Alaska

August 5, 2010

LEGEND:

-  Proposed Underground Storage Boundary
-  Proposed Interconnecting and Gathering Pipeline Routes
-  Proposed Surface Footprint of Well Pad and of Compression/Gas Conditioning Facility
-  Proposed Subsurface Easement Area
-  Proposed Lease Area of Well Pad
-  Kenai City Limits

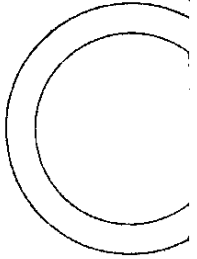


Project Considerations

- Minimize Social Impacts: neighborhoods, travel patterns, rights-of-way
- Promote Positive Economic Impacts (locally, regionally)
- Preserve Local Land Use and Traditional Uses
- Avoid Cultural Resources
- Proper Waste Disposal
- Protect Air Quality
- Minimize Noise
- Avoid Wetlands
- Protect Fish and Wildlife
- Maintain Water Quality
- Avoid Floodplains

Decisions and Authorizations

- State
 - DNR, Division of Oil and Gas: Gas Storage Lease and Lease Plan of Operations
 - DNR, Division of Mining, Land and Water: Surface Lease, Pipeline Easement and Land Classification Order
 - DNR, Division of Coastal and Ocean Management: Consistency Determination
 - DOA, Alaska Oil and Gas Commission: Injection Orders
 - Regulatory Commission of Alaska: Tariffs
 - DEC, Air Permit, 401 Water Quality Certification*
 - DNR, NAWCA*
- Federal
 - U.S. Army Corps of Engineers Wetlands Permit
- Local
 - Kenai Peninsula Borough Requirements



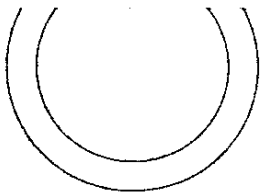
Process and Schedule

- Permitting Complete – 11/2010
- Surface Construction – 10/2010 to 8/2012
- Subsurface Construction – 9/2011 to 4/2012
- Commission Withdrawal Facilities 10/2012

Customer Profiles

- ENSTAR
 - 5 Bcf
 - 113 Mmcf/d injection
 - 91 Mmcf/d withdrawal
- CEA
 - 2.4 Bcf
 - 27 Mmcf/d injection
 - 35 Mmcf/d withdrawal
- ML&P
 - .6 Bcf
 - 10 Mmcf/d injection
 - 10 Mmcf/d withdrawal

Cook Inlet Natural Gas
STORAGE



Questions

8/31/10

Background and Talking Points for House Energy Committee Meeting on 9/1/2010

1. Description of Project

- CINGSA is a 70/30 partnership between Semco Energy (ENSTAR's parent company) and MidAmerican energy. The estimated cost of the project is \$180MM.
- The project is intended to provide reliable delivery and encourage development of Cook Inlet gas. For example, ENSTAR's peak winter demand can be up to 14X higher than the summer lows.
- The initial capacity of the project is 11 BCF, expandable to 18 BCF. The maximum injection/withdrawal rate is 150 MMCFD.
- The project will consist of 5 injection/withdrawal wells on a 7 acres lease from DNR, a separate 7.5 acre compression/gas conditioning facility on land CINGSA purchased from the University, and associated pipelines connecting these facilities with the gas storage lease (which will be within the current Cannery Loop unit) and the Kenai-Nikiski Pipeline. The wellpad area has been designed to allow for the installation of 2 additional injection/withdrawal wells, if necessary.
- CINGSA's schedule has permitting complete by November 2010; surface and sub-surface construction completed and first injection by late summer of 2012, and first withdrawal by winter 2012/13.

2. Non-DNR Regulatory Issues

- The AOGCC has scheduled a public hearing on CINGSA's Storage Injection Order application for October, 2010. To the best of our knowledge, there are no outstanding issues.
- The current agreement between CINGSA and ENSTAR could fall apart if the RCA does not approve CINGSA's application for a CPCN by 1/31/11. CINGSA has requested expedited consideration, which is likely to be approved. Interestingly, MEA has opposed expedited consideration asserting that approval of the project would represent a de facto commitment of credit capacity of Southcentral utilities and raise the bar for other projects. RAPA has raised issues regarding CINGSA's rate structure, maintaining inception rates for 5 years (rather than being subject to an earlier "true-up) and other factor, such as a proposed 50/50 dept equity structure.

3. Tariffs and Third Party Access

- **Tariffs - Capacity Rate:** $\$0.13 / \text{MCF} / \text{Month} * 11 \text{ BCF} * 12 \text{ months} / \text{year} = \$17 \text{ MM} / \text{year}$
Volumetric Rate: $\$9.95 / \text{MCF} / \text{Month} * 150000 \text{ MCF} * 12 \text{ months} / \text{year} = \$18 \text{ MM} / \text{year}$
Total Fixed cost of system for firm service is \$35 MM per year: Usage charge is \$0.016 / MCF

- If all of the capacity were used one time each year the effective cost would be about \$3.30 / MCF. Assuming the system uses 90 BCF per year, the average cost per MCF is about \$0.40 / MCF. While the \$3.30 / MCF charge is high for the stored gas, when averaged across the gas consumption the cost seen by the consumer is more palatable.
- Third Party Access –
 - a) Any Customer may request CINGSA to increase design capacity
 - b) CINGSA is obligated to hold an open season “on a commercially reasonable basis”.
 - c) All open season bids “shall be evaluated on a non-discriminatory basis”; bidders must meet the existing tariff terms on creditworthiness
 - d) Post open season, CINGSA informs bidders of non-discriminatory capacity award, and indicative costs and rates that are consistent with the pre-existing tariff.
 - e) Bidders have 30 days to sign an expansion firm storage service agreement (precedent agreement)
 - f) After bids have been tendered; “seller shall proceed with the expansion if it is technically feasible and commercially reasonable.”
- CINGSA, in other words, commits to expand if doing so is “commercially reasonable and technically feasible”. Should there be a dispute about this from an aggrieved shipper, the RCA can be brought in to help resolve the question of what “commercially reasonable” means in a given instance.
- Because of the existence of a regulatory backstop this is, in essence, all that is necessary to ensure adequate third party (so long as the regulators do their job).

B. DNR Issues

1. The Oil and Gas Lease

- The Division has met with both Marathon and CINGSA (when it was CING) about assigning Marathon’s interest in the underlying oil and gas leases to CINGSA. Marathon and CINGSA have not yet completed their negotiations. There are a number of outstanding issues.

2. Gas Storage Lease

- Major terms of the storage lease are agreed upon. It’s for an initial term of 15 years, with a 5 year renewal provision. It consistent with the provisions HB 280. Under HB 280, the fee is waived for 10 years, and withdrawn gas is considered to be non-native until the cumulative withdrawn volume of gas exceeds the cumulative injected volume.

3. DNR Land Use and Permitting

- In addition to the gas storage lease discussed above, the project requires the following State permits and approvals: plans of development and operations; a surface lease; a pipeline easement and land classification order; an ACMP consistency determination; an AOGCC

storage injection order; an RCA issued CPCN; and a DEC issued air permit and 401 water quality certification.

- All of these permits are on track to being noticed and finalized consistent with CINGSA's schedule.
- The DNR surface lease, pipeline easement, land classification and ACMP consistency determination all went out for public review on July 26, 2010 (the gas storage lease was also included in the package but is not subject to public review), and there was a public meeting held in Kenai on August 5, 2010. Seven comments, both critical and supportive, were received by the August 24th deadline. The department is currently reviewing and preparing to respond to the public comments.
- The final ACMP determination is scheduled for September 13, 2010, and agency permits may be issued as soon as five days after that.
- There are, however, two land issues that must still be resolved. The first involves the 7 acre surface lease from DNR for the wetlands that lies within lands purchased under a North American Wetlands Act (NAWCA) grant for conservation purposes. The 7 acres must be "converted" from its current conservation status and substitute lands acceptable under the NAWCA grant must be provided. CINGSA must therefore purchase substitute lands of equal or greater value and donate those lands to DNR for management under terms acceptable to NAWCA. Finalization of the acquisition, and NAWCA acceptance, of suitable replacement lands may delay start up of wellpad clearing.
- The second involves an old Chevron well that sits next to a fish cannery. CINGSA has said, to ensure safe operation of the gas storage facility, it must re-enter and completely plug to a higher standard an old plugged and abandoned exploration well which intercepts the gas storage reservoir. That exploration well is beneath pavement immediately adjacent to a building on land leased by the City of Kenai for the fish cannery operation. Re-entry and plugging the well would require demolishing the adjacent building and CINGSA is still trying to come to terms with the lessee about this.

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Application for Natural Gas Storage Filed.

Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA") has filed an application under AS 42.05.221-.241 for a certificate of public convenience and necessity authorizing the provision of natural gas storage services to customers in the Cook Inlet area. The proposed facility would allow gas to be injected into underground storage during times of lower demand and withdrawn for use at times of higher demand. The CINGSA application is the first request filed by the owner of a natural gas storage facility since the passage of the Cook Inlet Recovery Act, which amended AS 42.05.990(4) to clarify the RCA's jurisdictional authority over natural gas storage facilities. CINGSA has requested a decision on its application by December 1, 2010. The RCA issued a public notice on August 4, 2010, requesting comments on the application due by 4:30 p.m., August 25, 2010.

For information pertaining to the CINGSA Application and Docket U-10-051 please click the link below:
[U-10-051](#)

Date Issued: 8/5/2010

701 West Eighth Avenue, Suite 300 Anchorage, Alaska 99501-3469
 Phone: (907) 276-6222 Fax: (907) 276-0160 TTY: (907) 276-4533
 Toll Free: (1-800) 390-2782 (outside Anchorage, within Alaska)
 Webmaster: webmaster.rca@alaska.gov

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Matter Number: U-10-051

In the Matter of the Application for a New Certificate of Public Convenience and Necessity for COOK INLET NATURAL GAS STORAGE ALASKA, LLC

- [Summary](#)
 - [RCA Assignments](#)
 - [Service List](#)
 - [Matter Calendar](#)
 - [Event Dates](#)
 - [Documents](#)
 - [Hearings & Meetings](#)
 - [Pending Actions](#)
- [Public Notices & Comments](#)

SUMMARY

Matter Type U - Docket **Short Description** Application - New Certificate (Gas Storage Facilities)
Matter Subtype Application - New Certificate
Status Open **Tariff Status**
Certificates
Utility Type Gas Storage
Regions
Communities

MATTER TIMEFRAMES

Opened 7/28/2010
Notice Issued 8/4/2010
Public Comment Deadline 8/25/2010
Comment - Reply Deadline
Statutory Timeline 1/31/2011
Closed

PARTIES

To sort by a column, click the column heading

Total Results: 1

Name
COOK INLET NATURAL GAS STORAGE ALASKA, LLC

RELATED MATTERS

No related matters found

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In the Matter of the Application for a New Certificate of Public Convenience and Necessity for COOK INLET NATURAL GAS STORAGE ALASKA, LLC

- Summary
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- Event Dates
- Documents
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DOCUMENTS


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Total Results: 15

	Tracking Number	Date	Type	Description	Related Matters
<input checked="" type="checkbox"/>	TR1005057 View File(s)	8/30/2010	Petition for Intervention	PETITION TO INTERVENE for HOMER ELECTRIC ASSOCIATION, INC. and ALASKA EDISON ELECTRIC CORPORATION Filed By: ANDREW E HOGE More Details	U-10-051
<input type="checkbox"/>	10-0447 View File(s)	8/27/2010	Procedural-Panel	U-10-051(2): ORDER ACKNOWLEDGING COMMENTS AND REQUIRING REPLY COMMENTS More Details	U-10-051
<input type="checkbox"/>	TR1004979 View File(s)	8/25/2010	Comments	COMMENTS from THE ATTORNEY GENERAL Filed By: DANIEL PATRICK O'TIERNEY More Details	U-10-051
<input type="checkbox"/>	TR1004975 View File(s)	8/25/2010	Comments	COMMENTS from MAYOR DAN SULLIVAN URGING THE RCA TO EXPEDITIOUSLY APPROVE U-10-051 SO CINGSA CAN PROVIDE NATURAL GAS STORAGE SERVICES IN SOUTHCENTRAL ALASKA. Filed By: Mayor Dan Sullivan More Details	U-10-051
<input type="checkbox"/>	TR1004969 View File(s)	8/25/2010	Comments	COMMENTS from UNION OIL COMPANY OF CALIFORNIA REGARDING CINGSA'S APPLICATION FOR NEW CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR COOK INLET NATURAL GAS STORAGE, LLC Filed By: Gary Orr More Details	U-10-051
<input type="checkbox"/>	TR1004960 View File(s)	8/25/2010	Public Comments	PUBLIC COMMENTS from M. HAWKER FOR THE REGULATORY COMMISSION OF ALASKA Filed By: Mike Hawker More Details	U-10-051
<input type="checkbox"/>	TR1004973 View File(s)	8/25/2010	Certificate of Service	CERTIFICATE OF MAILING FOR COMMENT OF GARY ORR for UNION OIL COMPANY OF CALIFORNIA Filed By: PATTI JULIUSSEN More Details	U-10-051
<input type="checkbox"/>	TR1004971 View File(s)	8/25/2010	Petition for Intervention	COMMENTS from MATANUSKA ELECTRIC ASSOCIATION, INC. and PETITION TO INTERVENE Filed By: DAVID PEASE More Details	U-10-051
<input type="checkbox"/>	10-0441 View File(s)	8/25/2010	Initiating-Chair	U-10-051(1): ORDER DESIGNATING COMMISSION PANEL, APPOINTING ADMINISTRATIVE LAW JUDGE, AND ADDRESSING TIMELINE FOR DECISION More Details	U-10-051
<input type="checkbox"/>	TR1004954 View File(s)	8/24/2010	Supplemental Filing	SUPPLEMENTAL CLARIFICATION OF OWNERSHIP INFORMATION FOR COOK INLET GAS STORAGE ALASKA, LLC Filed By: MATTHEW T. FINDLEY More Details	U-10-051
<input type="checkbox"/>	TR1004608 View File(s)	8/4/2010	Public Notice-Incoming	PROOF OF PUBLIC NOTICE for ENSTAR NATURAL GAS COMPANY, A DIVISION OF SEMCO ENERGY, INC. Filed By: DANIEL M DIECKGRAEFF More Details	U-10-051
<input type="checkbox"/>	TR1004595 View File(s)	8/4/2010	Public Notice-Outgoing	U-10-051 Public Notice Filed By: James Keen; Colleen Starring More Details	U-10-051
<input type="checkbox"/>	TR1004556	8/3/2010	Supplemental	NOTICE OF SUPPLEMENTAL FILING OF A SUPPLEMENTAL	U-10-051

	View File(s)		Filing	EXHIBIT TO COOK INLET NATURAL GAS STORAGE ALASKA, LLC'S COMPLETED APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY Filed By: A WILLIAM SAUPE More Details		
<input type="checkbox"/>	TR1004519 View File(s)	8/2/2010	Supplemental Filing	NOTICE OF SUPPLEMENTAL FILING OF EXHIBITS TO COOK INLET NATURAL GAS STORAGE ALASKA, LLC'S COMPLETED FILING FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY Filed By: MATTHEW T. FINOLEY More Details	U-10-051	
<input type="checkbox"/>	TR1004453 View File(s)	7/28/2010	Application-Certificate-New	APPLICATION FOR NEW CERTIFICATE OF PUBLIC CONVENIENCE and NECESSITY for COOK INLET NATURAL GAS STORAGE, LLC Filed By: A WILLIAM SAUPE More Details	U-10-051	

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SENATE CS FOR CS FOR HOUSE BILL NO. 280(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 4/18/10

Referred: Today's Calendar

Sponsor(s): REPRESENTATIVES HAWKER AND CHENAULT, Johnson, Olson, Thomas, Ramras, Harris, Millett, Lynn, Neuman, Tuck, Stoltze

SENATORS McGuire, Dyson, Wagoner, Menard, Wielechowski, Meyer, Ellis, French

A BILL

FOR AN ACT ENTITLED

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

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

10 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
 11 to read:

12 SHORT TITLE. This Act may be known as the Cook Inlet Recovery Act.

13 * Sec. 2. AS 31.05 is amended by adding a new section to read:

HB0280G

-1-

SCS CSHB 280(FIN)

New Text Underlined [DELETED TEXT BRACKETED]

1 **Sec. 31.05.032. Certification of gas storage capacity.** (a) An owner of a gas
2 storage facility that seeks an exemption under AS 38.05.180(u) or a credit under
3 AS 43.20.046 shall apply to the commission for certification of the facility's working
4 gas storage capacity and certification of the facility's gas withdrawal capability. The
5 application shall be on a form prescribed by the commission.

6 (b) Within six months after receiving an application under (a) of this section,
7 the commission shall determine and certify

8 (1) the working gas storage capacity of the facility on the date the
9 facility commences commercial operation rounded to the nearest 500,000,000 cubic
10 feet;

11 (2) whether the gas storage facility is capable of withdrawing a
12 minimum of 10,000,000 cubic feet of gas a day; and

13 (3) that the facility qualifies as a gas storage facility for the purposes of
14 this section.

15 (c) The commission shall provide a copy of the certifications required by (b)
16 of this section to the owner of the gas storage facility that requested the certification,
17 the commissioner of natural resources, and the commissioner of revenue.

18 (d) If a gas storage facility ceases commercial operation, an owner of the gas
19 storage facility shall give written notice to the commission that commercial operation
20 has ceased. The notice must be filed with the commission before April 1 of the year
21 immediately following the year in which the gas storage facility ceases commercial
22 operation.

23 (e) In this section,

24 (1) "ceases commercial operation" means that the gas storage facility
25 fails to inject or withdraw more than 100,000,000 cubic feet of gas during a calendar
26 year following the year in which a gas storage facility commences commercial
27 operation;

28 (2) "commences commercial operation" means the first injection of
29 non-native gas into a gas storage facility for purposes other than testing;

30 (3) "cushion gas" means native and non-native gas in a gas storage
31 facility that is needed to pressurize the facility and that allows the facility to function;

1 (4) "gas storage facility" means a tank or a depleted or nearly depleted
2 reservoir or pool in the state that is available for the storage of gas;

3 (5) "native gas" means gas in a gas storage facility that was not
4 injected;

5 (6) "non-native gas" means gas that is produced elsewhere and injected
6 into a gas storage facility;

7 (7) "pool" has the meaning given in AS 31.05.170;

8 (8) "working gas storage capacity" means the maximum volume of
9 non-native gas a gas storage facility may safely contain without creating or causing
10 waste; the maximum volume of non-native gas does not include the volume of cushion
11 gas present or the volume required for proper functioning of the gas storage facility at
12 the working gas storage capacity certified under (b) of this section.

13 * Sec. 3. AS 38.05.035(a) is amended to read:

14 (a) The director shall

15 (1) have general charge and supervision of the division and may
16 exercise the powers specifically delegated to the director; the director may employ and
17 fix the compensation of assistants and employees necessary for the operations of the
18 division; the director is the certifying officer of the division, with the consent of the
19 commissioner, and may approve vouchers for disbursements of money appropriated to
20 the division;

21 (2) manage, inspect, and control state land and improvements on it
22 belonging to the state and under the jurisdiction of the division;

23 (3) execute laws, rules, regulations, and orders adopted by the
24 commissioner;

25 (4) prescribe application procedures and practices for the sale, lease, or
26 other disposition of available land, resources, property, or interest in them;

27 (5) prescribe fees or service charges, with the consent of the
28 commissioner, for any public service rendered;

29 (6) under the conditions and limitations imposed by law and the
30 commissioner, issue deeds, leases, or other conveyances disposing of available land,
31 resources, property, or any interests in them;

1 (7) have jurisdiction over state land, except that land acquired by the
 2 Alaska World War II Veterans Board and the Agricultural Loan Board or the
 3 departments or agencies succeeding to their respective functions through foreclosure
 4 or default; to this end, the director possesses the powers and, with the approval of the
 5 commissioner, shall perform the duties necessary to protect the state's rights and
 6 interest in state land, including the taking of all necessary action to protect and enforce
 7 the state's contractual or other property rights;

8 (8) maintain the records the commissioner considers necessary,
 9 administer oaths, and do all things incidental to the authority imposed; the following
 10 records and files shall be kept confidential upon request of the person supplying the
 11 information:

12 (A) the name of the person nominating or applying for the sale,
 13 lease, or other disposal of land by competitive bidding;

14 (B) before the announced time of opening, the names of the
 15 bidders and the amounts of the bids;

16 (C) all geological, geophysical, and engineering data supplied,
 17 whether or not concerned with the extraction or development of natural
 18 resources;

19 (D) except as provided in AS 38.05.036, cost data and financial
 20 information submitted in support of applications, bonds, leases, and similar
 21 items;

22 (E) applications for rights-of-way or easements;

23 (F) requests for information or applications by public agencies
 24 for land that is being considered for use for a public purpose;

25 (9) account for the fees, licenses, taxes, or other money received in the
 26 administration of this chapter including the sale or leasing of land, identify their
 27 source, and promptly transmit them to the proper fiscal department after crediting
 28 them to the proper fund; receipts from land application filing fees and charges for
 29 copies of maps and records shall be deposited immediately in the general fund of the
 30 state by the director;

31 (10) select and employ or obtain at reasonable compensation cadastral,

1 appraisal, or other professional personnel the director considers necessary for the
2 proper operation of the division;

3 (11) be the certifying agent of the state to select, accept, and secure by
4 whatever action is necessary in the name of the state, by deed, sale, gift, devise,
5 judgment, operation of law, or other means any land, of whatever nature or interest,
6 available to the state; and be the certifying agent of the state, to select, accept, or
7 secure by whatever action is necessary in the name of the state any land, or title or
8 interest to land available, granted, or subject to being transferred to the state for any
9 purpose;

10 (12) on request, furnish records, files, and other information related to
11 the administration of AS 38.05.180 to the Department of Revenue for use in
12 forecasting state revenue under or administering AS 43.55, whether or not those
13 records, files, and other information are required to be kept confidential under (8) of
14 this subsection; in the case of records, files, or other information required to be kept
15 confidential under (8) of this subsection, the Department of Revenue shall maintain
16 the confidentiality that the Department of Natural Resources is required to extend to
17 records, files, and other information under (8) of this subsection;

18 (13) when reasonably possible, give priority to and expedite the
19 processing of an application for a lease or assignment of a lease of state land for
20 development and operation of a gas storage facility, for a right-of-way to a gas
21 storage facility, for a change to the allocation of production within a unit, and for
22 a permit necessary for the operation of a gas storage facility; in this paragraph,
23 "gas storage facility" has the meaning given in AS 31.05.032.

24 * Sec. 4. AS 38.05.035 is amended by adding a new subsection to read:

25 (n) The director may not deny an application for a lease or assignment of a
26 lease of state land for the development and operation of a gas storage facility solely
27 because the gas storage facility would be used exclusively or primarily to store gas
28 owned by the owner or operator of the gas storage facility. In this subsection, "gas
29 storage facility" has the meaning given in AS 31.05.032.

30 * Sec. 5. AS 38.05.180(u) is amended to read:

31 (u) To avoid waste or to promote conservation of natural resources, the

1 commissioner may authorize the subsurface storage of oil or gas, whether or not
2 produced from state land, in land leased or subject to lease under this section. This
3 authorization may provide for the payment of a storage fee or rental on the stored oil
4 or gas, or, instead of the fee or rental, for a royalty other than that prescribed in the
5 lease when the stored oil or gas is produced in conjunction with oil or gas not
6 previously produced. A lease on which storage is so authorized shall be extended at
7 least for the period of storage and so long thereafter as oil or gas not previously
8 produced is produced in paying quantities. Notwithstanding the authorization for
9 payments under this subsection, when requested by a lessee, the commissioner
10 shall exempt a gas storage facility that qualifies for a tax credit under
11 AS 43.20.046 from any payment described in this subsection for the periods
12 described in this subsection. The exemption is available for the calendar year in
13 which the facility commences commercial operation and for each of the nine
14 calendar years immediately following the first year of commercial operation;
15 however, an exemption is not applicable for the calendar year after the facility
16 ceases commercial operation or for any subsequent calendar year. The lessee
17 shall provide the commissioner with any information the commissioner requests
18 to determine if the exemption applies. The information related to state land
19 leased for a gas storage facility under this subsection is public information and
20 may be furnished to the Regulatory Commission of Alaska. On request, the
21 commissioner shall provide the name of each person using state land leased for a
22 gas storage facility under this chapter, the years for which an exemption was
23 granted, and the amount of the exemption. Gas withdrawn from a gas storage
24 facility regulated under AS 42.05 is considered to be non-native gas and is not
25 considered to be produced and subject to royalty until all non-native gas injected
26 into the gas storage facility has been withdrawn from the gas storage facility. A
27 person receiving an exemption for a payment under this section that contracts to
28 store gas for a utility regulated under AS 42.05 shall reduce the storage price to
29 reflect the value of the exemption. In this subsection, "ceases commercial
30 operation," "commences commercial operation," "gas storage facility," and
31 "non-native gas" have the meanings given in AS 31.05.032.

1 * **Sec. 6.** AS 42.05.141 is amended by adding a new subsection to read:

2 (d) When considering whether the approval of a rate or a gas supply contract
3 proposed by a utility to provide a reliable supply of gas for a reasonable price is in the
4 public interest, the commission shall

5 (1) recognize the public benefits of allowing a utility to negotiate
6 different pricing mechanisms with different gas suppliers and to maintain a diversified
7 portfolio of gas supply contracts to protect customers from the risks of inadequate
8 supply or excessive cost that may arise from a single pricing mechanism; and

9 (2) consider whether a utility could meet its responsibility to the public
10 in a timely manner and without undue risk to the public if the commission fails to
11 approve a rate or a gas supply contract proposed by the utility.

12 * **Sec. 7.** AS 42.05.381 is amended by adding a new subsection to read:

13 (k) The cost to the utility of storing gas in a gas storage facility that is allowed
14 in determining a just and reasonable rate shall reflect the reduction in cost attributable
15 to any exemption from a payment due under AS 38.05.180(u) and the value of a tax
16 credit that the owner of the gas storage facility received under AS 43.20.046. The
17 commission may request the (1) commissioner of natural resources to report the value
18 of the exemption from a payment due under AS 38.05.180(u) that the gas storage
19 facility received; and (2) commissioner of revenue to report information on the
20 amount of tax credits claimed under AS 43.20.046 for the gas storage facility. In this
21 subsection, "gas storage facility" has the meaning given in AS 31.05.032.

22 * **Sec. 8.** AS 42.05.711 is amended by adding a new subsection to read:

23 (q) The service of natural gas storage furnished by operating a natural gas
24 storage facility that is (1) part of a pipeline facility operated by a pipeline carrier, (2)
25 part of a natural gas pipeline facility operated by a natural gas pipeline carrier, or (3)
26 part of a North Slope natural gas pipeline facility operated by a North Slope natural
27 gas pipeline carrier is exempt from this chapter. In this subsection, "natural gas
28 pipeline carrier," "natural gas pipeline facility," "North Slope natural gas pipeline
29 carrier," "North Slope natural gas pipeline facility," "pipeline carrier," and "pipeline
30 facility" have the meanings given in AS 42.06.630.

31 * **Sec. 9.** AS 42.05.990(4) is amended to read:

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

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

7 (B) furnishing telecommunications service to the public for
 8 compensation;

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

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

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

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

19 (G) furnishing the service of natural gas storage to the
 20 public for compensation;

21 * Sec. 10. AS 42.05.990 is amended by adding new paragraphs to read:

22 (9) "natural gas storage facility" means a facility that receives natural
 23 gas volumes from customers, holds the gas volumes in a reservoir, and delivers the gas
 24 volumes to the customer; in this paragraph, "facility" includes

25 (A) all parts of the facility from the point at which the natural
 26 gas volumes are received by the facility from the customer to the point at
 27 which the natural gas volumes are delivered by the facility to the customer;

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

30 (i) pipe;

31 (ii) compressor stations;

1 (iii) station equipment;
 2 (iv) injection and extraction wells;
 3 (v) on-site or remote monitoring, supervision, and
 4 control facilities;

5 (vi) gas processing plants and gas treatment plants, but
 6 not including a liquefied natural gas or manufacturing plant or facility;

7 (vii) other equipment necessary to receive, place into
 8 the reservoir, monitor, remove from the reservoir, process, and deliver
 9 natural gas;

10 (10) "service of natural gas storage" means the operation of a natural
 11 gas storage facility primarily or exclusively for the benefit of third-party customers,
 12 and not for the benefit of the owner, operator, or manager of the natural gas storage
 13 facility; "service of natural gas storage" does not include the storage of natural gas

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

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

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

19 * **Sec. 11.** AS 43.05.230 is amended by adding a new subsection to read:

20 (j) The name of each person claiming a credit and the amount of credit
 21 received for each gas storage facility by that person under AS 43.20.046 is public
 22 information. The commissioner shall furnish the information to the Regulatory
 23 Commission of Alaska on request.

24 * **Sec. 12.** AS 43.20 is amended by adding a new section to article 1 to read:

25 **Sec. 43.20.046. Gas storage facility tax credit.** (a) A person that is an owner
 26 of a gas storage facility described in (b) of this section that commences commercial
 27 operation after December 31, 2010, and before January 1, 2016, may apply a
 28 refundable credit against a tax liability that may be imposed on the person under this
 29 chapter for the taxable year in which the gas storage facility commences commercial
 30 operation. The tax credit under this section shall be an amount equal to \$1.50 for each
 31 1,000 cubic feet of working gas storage capacity that is certified under AS 31.05.032

1 less any amount of credit received under this section taken in earlier tax years for that
2 capacity. The total amount of the credit that may be received for a single gas storage
3 facility under this section may not exceed the lesser of \$15,000,000 or 25 percent of
4 the costs incurred to establish the gas storage facility. The tax credit in this section is
5 in addition to any other credit under this chapter for which the person is eligible.

6 (b) A gas storage facility qualifying for the credit in this section

7 (1) must have a working gas storage capacity of at least 500,000,000
8 cubic feet of gas other than cushion gas;

9 (2) must have a minimum withdrawal capability of 10,000,000 cubic
10 feet a day as certified by the Alaska Oil and Gas Conservation Commission under
11 AS 31.05.032;

12 (3) may not have been in operation as a gas storage facility before
13 January 1, 2011;

14 (4) must be regulated under AS 42.05 as a utility and be available to
15 furnish the service of natural gas storage to the public for compensation; in this
16 paragraph, "service of natural gas storage" has the meaning given in AS 42.05.990;
17 and

18 (5) if located on state land and leased or subject to a lease under
19 AS 38.05.180, must be in compliance with the terms of the lease.

20 (c) To claim the credit, the person shall submit to the department a copy of the
21 certification of working gas storage capacity and withdrawal capability issued under
22 AS 31.05.032, the date that the gas storage facility commenced commercial operation,
23 and other information required by the department. A person applying the credit against
24 a liability under this chapter shall claim the credit on the person's return.

25 (d) A person entitled to a tax credit under this section that is greater than the
26 person's tax liability under this chapter may request a refund in the amount of the
27 unused portion of the tax credit.

28 (e) The department may use available money in the oil and gas tax credit fund
29 established in AS 43.55.028 to make the refund applied for under (d) of this section in
30 whole or in part if the department finds that (1) the claimant does not have an
31 outstanding liability to the state for unpaid delinquent taxes under this title; and (2)

1 after application of all available tax credits, the claimant's total tax liability under this
 2 chapter for the calendar year in which the claim is made is zero. In this subsection,
 3 "unpaid delinquent tax" means an amount of tax for which the department has issued
 4 an assessment that has not been paid and, if contested, has not been finally resolved in
 5 the taxpayer's favor.

6 (f) For the purpose of determining the amount of the credit under this section,
 7 the working gas storage capacity on which the credit is based shall be the capacity
 8 certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.032.

9 (g) A person may not receive a credit under this section for the acquisition of a
 10 gas storage facility for which a credit has been granted under this section.

11 (h) If the gas storage facility for which a credit was received under this section
 12 ceases commercial operation during the nine calendar years immediately following the
 13 calendar year in which the gas storage facility commences commercial operation, the
 14 tax liability under this chapter of the person who claimed the credit shall be increased.
 15 The amount of the increase in tax liability

16 (1) shall be determined and assessed for the taxable year in which the
 17 gas storage facility ceases commercial operation, regardless of whether the gas storage
 18 facility subsequently resumes commercial operation; and

19 (2) is equal to the total amount of the credit taken multiplied by a
 20 fraction, the numerator of which is the difference between 10 and the number of
 21 calendar years for which the gas storage facility was eligible for a tax credit under this
 22 section and the denominator of which is 10.

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

30 (j) A person claiming a tax credit under this section for a gas storage facility
 31 that ceases commercial operation within nine calendar years immediately following

1 the calendar year in which the gas storage facility commences commercial operation
2 shall notify the department in writing of the date the gas storage facility ceased
3 commercial operation. The notice must be filed with the return for the taxable year in
4 which the gas storage facility ceases commercial operation.

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

6 (l) In this section, "ceases commercial operation," "commences commercial
7 operation," "gas storage facility," and "working gas storage capacity" have the
8 meanings given in AS 31.05.032.

9 * Sec. 13. AS 43.55.011(m) is amended to read:

10 (m) Notwithstanding any contrary provision of AS 38.05.180(i),
11 AS 41.09.010, AS 43.55.024, or 43.55.025, the department shall provide by regulation
12 a method to ensure that, for a calendar year for which a producer's tax liability is
13 limited by (j), (k), or (o) of this section, tax credits based on a lease expenditure
14 incurred before January 1, 2011, that are otherwise available under
15 AS 38.05.180(i), AS 41.09.010, AS 43.55.024, or 43.55.025 and allocated to gas
16 subject to the limitations in (j), (k), and (o) of this section are accounted for as though
17 the credits had been applied first against a tax liability calculated without regard to the
18 limitations under (j), (k), and (o) of this section so as to reduce the tax liability to the
19 maximum amount provided for under (j) or (o) of this section for the production of gas
20 or (k) of this section for the production of oil. The regulation must provide for a
21 reasonable method to allocate tax credits to gas subject to (j) and (o) of this section.
22 Only the amount of a tax credit remaining after the accounting provided for under this
23 subsection may be used for a later calendar year, transferred to another person, or
24 applied against a tax levied on the production of oil or gas not subject to (j), (k), or (o)
25 of this section to the extent otherwise allowed.

26 * Sec. 14. AS 43.55.020(f) is amended to read:

27 (f) If oil or gas is produced but not sold, gas is produced but is stored in a
28 gas storage facility, or [IF] oil or gas is produced and sold under circumstances where
29 the sale price does not represent the prevailing value for oil or gas of like kind,
30 character, or quality in the field or area from which the product is produced, the
31 department may require the tax to be paid upon the basis of the value of oil or gas of

1 the same kind, quality, and character prevailing for that field or area during the
2 calendar month of production or sale.

3 * **Sec. 15.** AS 43.55.020 is amended by adding new subsections to read:

4 (i) Cushion gas in a gas storage facility is not considered to be gas used in the
5 operation of a lease or property or gas used for repressuring as described in (e) of this
6 section. Gas withdrawn from a gas storage facility regulated under AS 42.05 is
7 considered to be non-native gas until all non-native gas injected into the gas storage
8 facility has been withdrawn from the gas storage facility. Non-native gas withdrawn
9 from a gas storage facility is not considered to be gas produced for the purposes of
10 AS 43.55.011 - 43.55.180. Gas withdrawn from a gas storage facility after all non-
11 native gas previously injected into the gas storage facility has been withdrawn is gas
12 considered to be produced from the lease or property for the purposes of AS 43.55.011
13 - 43.55.180. In this subsection, "native gas" and "non-native gas" have the meanings
14 given in AS 31.05.032.

15 (j) In this section, "gas storage facility" has the meaning given in
16 AS 31.05.032.

17 * **Sec. 16.** AS 43.55.023(g) is amended to read:

18 (g) The issuance of a transferable tax credit certificate under (d) or (n) of this
19 section or the purchase of a certificate under AS 43.55.028 does not limit the
20 department's ability to later audit a tax credit claim to which the certificate relates or to
21 adjust the claim if the department determines, as a result of the audit, that the applicant
22 was not entitled to the amount of the credit for which the certificate was issued. The
23 tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is
24 increased by the amount of the credit that exceeds that to which the applicant was
25 entitled, or the applicant's available valid outstanding credits applicable against the tax
26 levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is
27 increased under this subsection, the increase bears interest under AS 43.05.225 from
28 the date the transferable tax credit certificate was issued. For purposes of this
29 subsection, an applicant that is an explorer is considered a producer subject to the tax
30 levied by AS 43.55.011(e).

31 * **Sec. 17.** AS 43.55.023 is amended by adding new subsections to read:

1 (m) A producer or explorer may apply for a tax credit for a well lease
 2 expenditure incurred in the state south of 68 degrees North latitude after June 30,
 3 2010, as follows:

4 (1) notwithstanding that a well lease expenditure incurred in the state
 5 south of 68 degrees North latitude may be a deductible lease expenditure for purposes
 6 of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a
 7 credit for that expenditure is taken under (a) of this section, AS 38.05.180(i),
 8 AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a
 9 well lease expenditure in the state south of 68 degrees North latitude may elect to
 10 apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 40 percent
 11 of that expenditure; a tax credit under this paragraph may be applied for a single
 12 calendar year;

13 (2) a producer or explorer may take a credit for a well lease
 14 expenditure incurred in the state south of 68 degrees North latitude in connection with
 15 geological or geophysical exploration or in connection with an exploration well only if
 16 the producer or explorer

17 (A) agrees, in writing, to the applicable provisions of
 18 AS 43.55.025(f)(2); and

19 (B) submits to the Department of Natural Resources all data
 20 that would be required to be submitted under AS 43.55.025(f)(2).

21 (n) For a lease expenditure incurred in the state south of 68 degrees North
 22 latitude after June 30, 2010, that qualifies for tax credits under (a) and (b) of this
 23 section, and for a well lease expenditure incurred in the state south of 68 degrees
 24 North latitude that qualifies for a tax credit under (m) of this section, the department
 25 shall issue transferable tax credit certificates to the person entitled to the credit for the
 26 full amount of the credit. The transferable tax credit certificates do not expire.

27 (o) For the purposes of (m) and (n) of this section, a well lease expenditure
 28 incurred in the state south of 68 degrees North latitude is a lease expenditure that is

29 (1) directly related to an exploration well, a stratigraphic test well, a
 30 producing well, or an injection well other than a disposal well, located in the state
 31 south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure

1 and an intangible drilling and development cost authorized under 26 U.S.C. (Internal
2 Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made
3 under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well
4 includes an expenditure for well sidetracking, well deepening, well completion or
5 recompletion, or well workover, regardless of whether the well is or has been a
6 producing well; or

7 (2) an expense for seismic work conducted within the boundaries of a
8 production or exploration unit.

9 * **Sec. 18.** AS 43.55.028(a) is amended to read:

10 (a) The oil and gas tax credit fund is established as a separate fund of the state.
11 The purpose of the fund is to purchase [CERTAIN] transferable tax credit certificates
12 issued under AS 43.55.023, [AND CERTAIN] production tax credit certificates issued
13 under AS 43.55.025, **and to pay refunds claimed under AS 43.20.046.**

14 * **Sec. 19.** AS 43.55.028(e) is amended to read:

15 (e) The department, on the written application of a [THE] person to whom a
16 transferable tax credit certificate has been issued under AS 43.55.023(d) or (n) or to
17 whom a production tax credit certificate has been issued under AS 43.55.025(f), may
18 use available money in the oil and gas tax credit fund to purchase, in whole or in part,
19 the certificate if the department finds that

20 (1) the calendar year of the purchase is not earlier than the first
21 calendar year for which the credit shown on the certificate would otherwise be allowed
22 to be applied against a tax;

23 (2) **except for the application of a person for the purchase of a**
24 **transferable tax credit certificate issued under AS 43.55.023(n),**

25 **(A)** within 24 months after applying for the transferable tax
26 credit certificate or filing a claim for the production tax credit certificate, the
27 applicant incurred a qualified capital expenditure or was the successful bidder
28 on a bid submitted for a lease on state land under AS 38.05.180(f);

29 **(B)** [(3)] the amount expended for the purchase would not
30 exceed the total of qualified capital expenditures and successful bids described
31 in **(A)** [(2)] of this **paragraph** [SUBSECTION] that have not been the subject

1 of a finding made under this **subparagraph** [PARAGRAPH] for purposes of a
2 previous purchase of a certificate;

3 **(3)** [(4)] the applicant does not have an outstanding liability to the state
4 for unpaid delinquent taxes under this title;

5 **(4)** [(5)] the applicant's total tax liability under AS 43.55.011(e), after
6 application of all available tax credits, for the calendar year in which the application is
7 made is zero;

8 **(5)** [(6)] the applicant's average daily production of oil and gas taxable
9 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
10 the application is made was not more than 50,000 BTU equivalent barrels; and

11 **(6)** [(7)] the purchase is consistent with this section and regulations
12 adopted under this section.

13 * Sec. 20. AS 43.55.028(g) is amended to read:

14 (g) The department may adopt regulations to carry out the purposes of this
15 section, including standards and procedures to allocate available money among
16 applications for purchases **under this chapter and claims for refunds under**
17 **AS 43.20.046 when** the total amount of **the applications for purchase and claims**
18 **for refund exceed** [WHICH EXCEEDS] the amount of available money in the fund.
19 **The regulations adopted by the department may not, when allocating available**
20 **money in the fund under this section, distinguish an application for the purchase**
21 **of a credit certificate issued under AS 43.55.023(n) or a claim for refund under**
22 **AS 43.20.046.**

23 * Sec. 21. AS 44.23.020(e) is amended to read:

24 (e) There is established within the Department of Law the function of public
25 advocacy for regulatory affairs. The attorney general shall participate as a party in a
26 matter that comes before the Regulatory Commission of Alaska when the attorney
27 general determines that participation is in the public interest. **When considering**
28 **whether participation is in the public interest, the attorney general shall consider**
29 **the issues the Regulatory Commission of Alaska must take into consideration**
30 **under AS 42.05.141(d).**

31 * Sec. 22. This Act takes effect immediately under AS 01.10.070(c).