

Alaska Legislature Weekly Report

Week of February 13, 2012

Legislation

A bi-partisan bill to delay implementation of new campaign reporting requirements passed the House and the Senate this week. Current law requires candidates to file these reports online but the Alaska Public Officers Commission (APOC) has experienced numerous problems with their computer system. This law was created in 2007 in response to a federal corruption probe that involved some members of the Alaska Legislature. HB 311 passed Wednesday (Feb. 15) and will now go to Governor Parnell to be signed.

SB 135 cleared the Senate Judiciary Committee Friday (Feb. 10) and is moving to Senate Finance. This bill would speed up trial proceedings by giving victim's rights by requiring judges to consider the victim's right to a speedy trial when considering continuances.

Some state agencies are trying to implement a health insurance plan exchange, which is a requirement in the Affordable Care Act that was introduced by President Obama. The legislature has also introduced a bill, sponsored by Senator Hollis French, to create a state exchange that would not be run by the federal government. An exchange would allow people to view various health insurance plans online and choose the one they want. The governor doesn't support this bill.

President Obama's 2013 budget plan proposes \$338 million in reductions to the US Coast Guard budget. Fortunately, this reduction won't affect Alaska as the federal budget includes \$8 million to start looking for a new polar icebreaker and \$6.1 million to expand the helicopter hangar at Cold Bay. The Coast Guard will start performing regular patrols in the Arctic Ocean this year. These patrols are needed because of increasing traffic through the area. From 2008 to 2010 the number of ships passing through the Bering Strait grew from 245 to 325. It is estimated that about 1000 ships will pass through this summer. With Shell Oil expected to begin exploratory offshore drilling and cruise ships becoming more frequent in the American Arctic, a Coast Guard presence is vital to assure continued safety of the Arctic Coastline. Right now, the closest Coast Guard base to the Arctic is in Kodiak. New support locations would be places in Dutch Harbor, Nome, and Barrow.

A Coastal Management bill (HB 325) was introduced in the House this week. An initiative has already collected enough signatures to qualify for the next appropriate election ballot, but will not be included if the legislature passes "substantially similar" legislation. Governor Parnell says that the people of Alaska should decide on the Coastal Management program on a ballot.

SB 121 that would let public employees opt in to a traditional pension moved out of the Senate State Affairs Committee on Thursday (Feb. 16). The bill was reworked last week after an actuary's analysis that showed initial cost savings would be lost. The change would require

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employees who choose the traditional pension program to share the risk if health care costs rise. SB 121 will now go to the Senate Finance Committee.

Oil & Gas

Senate Finance and Resource Committees held joint hearings this week on oil tax legislation. Pedro van Meurs, an oil and gas consultant provided a comprehensive analysis of Alaska's oil tax structure. Van Meurs warned lawmakers against excessive progressivity taxes saying, "Most investors accept some price progressivity. But if it is too price progressive, then it becomes a very strong disincentive for new investors to come... Because if the price goes up there are no profits to be made in Alaska while there are extra profits to be made in other countries." He also suggested new architecture for an oil tax regime that would:

- Separate all elements of oil and gas production
- Put more emphasis on new oil production through lower tax rates
- Make no change in the tax on existing production and exploration
- Cut all links between oil and gas tax (decouple)

Van Meurs told the committee that the three major oil companies in Alaska are "harvesting" money. He said that these oil companies are only investing about \$1 per barrel to expand operations on the North Slope. Governor Parnell is still pushing for HB 110 to pass through the Senate.

New estimates from the Department of Revenue show that HB 110 would cost the state \$1.5 billion in FY13 as opposed to last year's estimate of \$872 million. From FY12 to FY17 estimated losses are \$7.8 billion, decreased from last year's estimate of \$8.2 billion.

Scott Jepsen and Bob Heinrich of ConocoPhillips Alaska presented to the Senate Resources Committee on Wednesday (Feb. 15) on behalf of the oil tax bill. Jepsen told the committee that the most troubling thing for their company is the "progressivity" in Alaska's Clear and Equitable Share Act (ACES) oil tax regime. He also acknowledged that the company told Wall Street that it was making "very good returns" on investments in Alaska, but to encourage more development the state should reduce taxes at high profit levels. Heinrich agreed that progressivity is the problem from their perspective.

Jepsen declined to identify projects that have been negatively affected by ACES and declined to promise any new projects if HB 110 is passed. They think the governor's plan is a good first step, but even that might not be enough.

ConocoPhillips is the largest oil producer in Alaska with operations in Kuparuk, Alpine fields and in the Prudhoe Bay field. He said that lower taxes could mean more development in places like Kuparuk where they are learning how to develop viscous and heavy oil.

A well blowout on the North Slope occurred Wednesday (Feb. 15) morning at about 9 am at the Spanish company Repsol's drill site, Qugruk 2, near the mouth of the Colville River. The well was in the early phase of drilling when they hit a pocket of natural gas, causing drilling mud and methane gas to come up and out of the well. The blowout is now under control.

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Since 1949, Alaska's 7553 wells have generated only 19 blowouts. None of these have resulted in oil spills and before this week, the last blowout on the North Slope was in 1994 in the Endicott field.

United States Representative Jim Gerlach from Pennsylvania has proposed an amendment that would cancel the provision that has been proposed to open ANWR to oil drilling. This amendment would make ANWR off-limits until "all petroleum reserves" have been used up from offshore areas around the U.S. and onshore in the National Petroleum Reserve. It would also strike all ANWR opening language from the current bill. Alaska Representatives who traveled to Washington D.C. last week to convince U.S. lawmakers to open ANWR discussed their efforts in a news conference in the Speaker's Chambers on Thursday (Feb. 16). More legislators are expected to travel to Washington D.C. around March 8 for the Energy Council meeting.

HB 9 "Relating to the Joint In-State Gasline Development Team report" was heard again in the House Resources Committee. An amendment was adopted that removes a provision calling for state and municipal entities to provide gravel and other materials for free. The gas line agency will pay fair market value for materials, but costs won't be included when calculating the tariff base rate.

Education

The Senate Finance Committee discussed a bill to create a fund for student scholarships on Wednesday (Feb. 15). The bill establishes a fund that would provide a long-term funding source for merit scholarships, the governor's personal project. Last year the legislature approved \$400 million as a set-aside for the fund.

SB 3 is currently in the House Finance Committee. This bill would provide a state match for federal funds provided for a school meals program. It would allow expansion of Alaska's program for 22,000 students to have breakfast at school. The bill's sponsor is Senator Bill Wielechowski.

Budget

Governor Parnell released amendments to his original budget proposal. The amendments add \$19.4 million to the operating budget and \$14.8 million to the capital budget. Most of these changes come from supplemental budget requests from the low-income heating assistance program, the Office of Public Advocacy, the Public Defender Agency, and community jails.

The Senate Transportation Committee heard testimony on SB 163, general obligation bond bill. The proposed bill authorizes the sale of \$350 million in bonds for port and harbor projects including \$200 million for the Port of Anchorage, \$110 million for the Matanuska-Susitna Port Mackenzie rail extension, and \$10 million for projects in Seward, Bristol Bay, Emmonak, and Ketchikan. The sale of these bonds would need to be approved by a majority statewide general

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election vote. The fiscal note anticipates borrowing at a rate of 2.61% with annual debt service payments of \$28 million starting in FY17 after all bonds have been sold. In order for the state to save money and use the federal tax-exempt status, it is necessary to track expenditures and fully spend the bond proceeds within three years of issuance.

The committee adopted a committee substitute adding \$100 million for the Cape Blossom Deep Water Port near Kotzebue and harbor improvements in Nome so that they may be more accessible for things like Coast Guard operations. Some members of the committee were wary of the growing budget so Kookesh suggested cutting the Port of Anchorage's allotment in half if necessary. The bill then moved out of the Senate Transportation Committee and will now go to Senate Finance.

The governor has implied that he might accept \$50 million to \$75 million added to the proposed \$350 million port bonds bill. Revenue Deputy Commissioner for Treasury, Angela Rodell, said the state has about \$628 million in current outstanding general obligation bond debt and pays about \$19 million in annual debt service on those bonds. The state sold \$175.5 million in refunding bonds in January to refinance some of that debt, getting an interest rate of 1.24%.

Energy

The supply of natural gas is running low in Southcentral Alaska, which is the sole source of heating and a big part of power generation. There is not currently a LNG backup or a gas storage facility. However, the Municipality of Anchorage and the electric utilities have an emergency plan to reduce power use to preserve the gas supply for Enstar, which has no fuel alternative. Enstar and Beluga gas field owners have invested in new compression facilities to keep the gas pressure high. Buccaneer, a new Cook Inlet gas producer, is selling to Enstar from its gas well near Kenai. Later this spring Buccaneer will be drilling oil and gas prospects in the Inlet with a second jack-up rig and Escopeta Oil will return with its jack-up rig to test an offshore gas discovery they made last fall.

A bill sponsored by Senator Joe Thomas was introduced in the Senate that would provide energy relief to adult recipients of the Alaska Permanent Fund Dividend this fall. SB 203 would provide a voucher for 250 gallons of heating oil, an equivalent amount of natural gas, or 1500 kilowatt hours of electricity. This bill came about in result of the extremely high energy costs most Alaskans have been experiencing. There is no fiscal note yet. There is an estimated \$3.7 billion surplus this year and the goal is to use about 9 cents of every surplus dollar to provide this energy relief.