



MEMORANDUM

January 29, 2018

Honorable Co-Chairs and Members of the House Resources Committee:

During our department presentation to your committee on January 19, 2018, members requested additional information related to our approach to fees for the release of seismic data obtained through tax credits. This memorandum is intended to provide insight into our decision.

During the past 2 years, DNR staff put considerable effort into developing a framework for distributing the tax credit seismic data. Industry began generating this data in 2006, when the legislature authorized tax incentives as a mechanism to encourage expanded exploration efforts in Alaska. The legislation authorized tax credits that allowed a portion of exploration expenses to be deducted from a production tax liability.

In exchange, the legislature required that any data related to the expenses from which the company received these tax credits would be provided to the state. In order to retain value for the exploration company, the state was required to keep the data confidential for a 10-year period. Upon the expiration of the confidentiality period, the data was required to become publicly available. See Alaska Statute 43.55.025(f)(2)(C)(ii). In 2016, the 10-year confidentiality periods began to expire. As the statute required the data to be released, we began working on a process to do so.

In addition to confirming data quality and integrity, we had to develop a fee structure for distributing the data. Making the data publicly available without charge would likely result in its broad distribution, potentially increasing interest in developing our resources, creating more competition in areas of interest, and improving the likelihood of additional resources being located. On the other hand, charging a fee for the data would provide near-term revenues and help defray the cost of verifying the data to make it ready for distribution, but the information likely would not be as widely distributed. So, we faced a question of trade-off between near-term and long-term revenues.

Part of the mission of the Division of Geologic and Geophysical Surveys (DGGS) is data collection, evaluation, and distribution. DGGS manages the Geologic Materials Center, which has expertise in providing geologic materials and information to industry and the public. Alaska Statute 41.08.045(a)(5) authorizes DGGS to charge fees for facilities, equipment, products, or services that the division offers, including geophysical data.

This statute clearly gives the division the authority to collect the cost of preparing the data for public release, and instructs DGGS to consider what other governmental and private entities charge for releasing similar data, as well as the public interest, when determining fee amounts. Ensuring the

maximum value certainly serves the public interest. However, encouraging exploration activity that will generate new ongoing sources of revenue through new exploration, development, and production also serves the public interest, and is most likely to be accomplished by ensuring that the data is widely distributed.

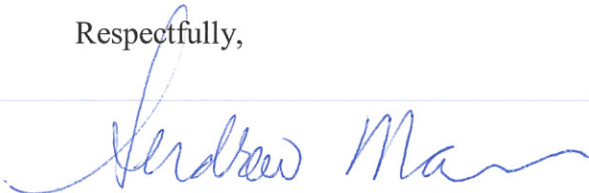
Most of the tax credit seismic data is in the form of a "library shoot." That is, an exploration company will shoot seismic on speculation that people want the information. Then, they license the data to interested companies, hopefully selling it enough times to generate more revenue than it cost to conduct the shoot.

Our statutes protected the company with a 10-year confidentiality period, thus allowing the company to sell the data for 10-years without competition from the State. Any company wishing to get out in front of their competitors would value the advanced information enough to pay full price to the exploration company. Those companies that were interested, but not eager, would wait for the State to release the data. Therefore, potential buyers of the state's release would not be interested in paying the market rate for the data. When a private company is in this position, they maximize revenues through volume, meaning a low price is required. We realized we were in a similar position and must discount our product to attract buyers.

Additionally, as explained above, our ownership of the underlying resources reinforced this approach. We are motivated to not only maximize revenue from selling the data, but also to generate new revenue streams from discoveries facilitated by the data. Therefore, there was a strong incentive to get the data into as many hands as possible. The real value would not come from the fees we collected, but from the increased bonus payments related to discovered prospects, then from the royalties and rents that followed.

We believe that the real and positive economic impact to the State will be in the form of additional oil production from the use of the data, rather than revenue from data sales. Higher fees would likely limit distribution and use of the data, and reduce the likelihood that the data would lead to increased production. Increased production provides a direct economic benefit to the State, but it also provides an ancillary economic benefit of sustaining an operational level of throughput in the Trans-Alaska Pipeline System. In short, attempting to maximize the sales revenue from seismic data might generate tens of millions of dollars, a number that would be overcome by the discovery of even one oil field by the wider distribution.

Respectfully,



Andrew T. Mack
Commissioner
Department of Natural Resources