

**HOUSE FINANCE SUBCOMMITTEE-LAW
DEPARTMENT OF LAW, NATURAL RESOURCES SECTION
OUTSIDE COUNSEL AND EXPERT BUDGET
& OIL AND GAS ATTORNEY RESOURCES**

WEDNESDAY, FEBRUARY 15, 2017 AT 12:15 PM

I. SUMMARY OF NATURAL RESOURCES SECTION OIL & GAS WORK

The Natural Resources Section handles issues and disputes involving the state's proprietary interests in its oil, gas and mining resources. The Section protects the state's interests in oil and gas leasing, royalties, taxes and other issues. We advise our state agency clients and the governor, and are involved in litigation and also transactional matters with oil companies, environmental organizations, the federal government and others relating to oil and gas issues. Much of the tax and royalty information we work with is confidential under state law. We work with our clients from the start to the finish of a matter, not just after litigation has been filed.

Staffing levels: We are doing oil and gas work, the state's major revenue source, with far fewer attorneys today than three years ago.

In FY2014, 30 total authorized attorney positions were in the Natural Resources and Oil, Gas & Mining Sections.

In FY2017, after the merger of the two sections, 22 attorney positions are authorized and there are 19 attorneys actually working today.

II. STATE AGENCY CLIENTS

Department of Natural Resources (DNR)

- the Commissioner's office
- the Division of Oil and Gas
- the Division of Mining, Land and Water
- the State Pipeline Coordinators Office (SPCO)

Department of Revenue (DOR)

- the Commissioner's office
- Tax Division

Alaska Oil and Gas Conservation Commission (AOGCC)

Alaska Gasline Development Corporation (AGDC)

III. SUBJECT AREAS

TAXES (DOR)

- Production taxes (AS 43.55)
- Corporate Income taxes (AS 43.20)
- Property taxes (AS 43.56)
- Forums are Office of Administrative Hearings (OAH), the State Assessment Review Board (SARB) and the courts

ROYALTIES (DNR)

- State's share of production as specified in state oil and gas leases
- DNR audits royalty reports and issues audit findings
- Royalty Settlement Agreement (RSA) reopeners
- Royalty-in-Kind (RIK) contracts (e.g., Petro Star contract)
- Forums are DNR Commissioner's Office, arbitration (RSAs) and the courts

LEASING AND UNITS (DNR)

- Lease sales
- Lease assignments
- Unit formation, expansion and contraction
- Participating area formation
- Plans of exploration, development and operations

PIPELINE TARIFFS¹

- Deductions for production taxes and royalties
- High tariffs mean lower taxes and royalties
- State protests tariffs if costs included are unreasonable
- Forums are Federal Energy Regulatory Commission (FERC) and the Regulatory Commission of Alaska (RCA), and the courts

AOGCC

- Regulation of wells and reservoir pressure
- Protection of adjacent property owners (correlative rights)
- Metering
- Well spacing and permits
- Compulsory unitization
- BOP (blowout preventer tests)
- Hydraulic fracturing of wells
- Well clean-up

¹ The RAPA Section has done pipeline tariff work since FY2016.

AKLNG GAS PIPELINE PROJECT (AGDC, DNR AND DOR)

- Regulatory issues
- Commercial and fiscal issues

MINING (DNR)

- Lease sales
- Mining taxes
- Mining royalties

LEGISLATION AND REGULATIONS

- Tax and royalty statutes and regulations
- AKLNG statutes (SB 138)
- HB 70/SB 30 (Petro Star RIK sale)