

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

March 16, 2006

5:14 p.m.

**MEMBERS PRESENT**

Representative Vic Kohring, Chair  
Representative Norman Rokeberg  
Representative Ralph Samuels  
Representative Nancy Dahlstrom

**MEMBERS ABSENT**

Representative Lesil McGuire  
Representative Berta Gardner  
Representative David Guttenberg

**COMMITTEE CALENDAR**

HOUSE BILL NO. 386

"An Act making uniform throughout the state the deadline for certain exploration expenditures used as credits against the production tax on oil and gas produced from a lease or property in the state by extending to July 1, 2010, the deadline for those expenditures on leases or properties located north of 68 degrees, 15 minutes, North latitude."

- MOVED CSHB 386(O&G) OUT OF COMMITTEE

HOUSE BILL NO. 372

"An Act delaying to June 30, 2010, the last date by which hydrocarbon exploration geophysical work must be performed or drilling of a stratigraphic test well or exploratory well must be completed in order for a person to qualify for an exploration incentive credit under the oil and gas exploration incentive credit that is not authorized by the Alaska Land Act."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 386

SHORT TITLE: EXTEND NORTH SLOPE SEVERANCE TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) KOHRING

01/20/06            (H)            READ THE FIRST TIME - REFERRALS

01/20/06	(H)	O&G, RES, FIN
02/23/06	(H)	O&G AT 5:00 PM CAPITOL 124
02/23/06	(H)	NATURAL GAS PIPELINE INCENTIVE/ GAS TAX
03/02/06	(H)	O&G AT 5:00 PM CAPITOL 124
03/02/06	(H)	NATURAL GAS PIPELINE INCENTIVE/ GAS TAX
03/07/06	(H)	O&G AT 5:30 PM CAPITOL 124
03/07/06	(H)	Scheduled But Not Heard
03/08/06	(H)	O&G AT 6:00 PM CAPITOL 124
03/08/06	(H)	Scheduled But Not Heard
03/16/06	(H)	O&G AT 5:00 PM CAPITOL 124

**WITNESS REGISTER**

CHARISSE MILLETT, Staff  
to Representative Vic Kohring  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Presented CSHB 386, Version F, on behalf of the sponsor, Representative Kohring.

MARK HANLEY, Manager  
Public Affairs for Alaska  
Anadarko Petroleum Corporation  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 386.

BILL VAN DYKE, Acting Director  
Central Office  
Division of Oil & Gas  
Department of Natural Resources (DNR)  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 386.

RICHARD TREMAINE, Economist  
Department of Revenue (DOR)  
Anchorage, Alaska

POSITION STATEMENT: Discussed the economic implications of HB 386.

**ACTION NARRATIVE**

**CHAIR VIC KOHRING** called the House Special Committee on Oil and Gas meeting to order at [5:14:38 PM](#). Representatives Kohring, Rokeberg, Samuels, and Dahlstrom were present at the call to order.

HB 386-EXTEND NORTH SLOPE SEVERANCE TAX CREDIT

5:14:53 PM

CHAIR KOHRING announced that the only order of business would be HOUSE BILL NO. 386, "An Act making uniform throughout the state the deadline for certain exploration expenditures used as credits against the production tax on oil and gas produced from a lease or property in the state by extending to July 1, 2010, the deadline for those expenditures on leases or properties located north of 68 degrees, 15 minutes, North latitude." Speaking as the sponsor, he explained that HB 386 extends the production tax credits in existing statute, which expire in 2007, by three years to 2010. He further explained that he's [proposing to] extend [the production tax credits] at this time, as opposed to next year, to present those in the industry with interest in [the production tax credits] the opportunity to plan in advance. He is proposing this bill in order that the credits are more uniform across the state, all expiring in 2010. He noted that the verbiage of HB 386 is a section of the CS proposed [for HB 488] in the House Resources Standing Committee today. He expressed his belief that it's still prudent to move this bill forward because HB 488 has the potential to be "volatile." Therefore, he would like to have HB 386 on a stand-by basis in the event that the provisions in this bill are not ultimately contained in HB 488. He acknowledged that there are substantial risks involved for companies and opined that these credits will help mitigate those risks. He remarked that [this bill] will encourage "independent" companies which are more marginal in terms of their bottom line to develop. He mentioned that if the existing tax credits weren't in statute, certain wells wouldn't have been drilled, notably one in Glennallen. He expressed his belief that this program has been beneficial and has a lot of potential for the future. He noted that there have been 12 applications thus far, seven of which have been granted, in terms of the credits, and there are currently five applications being processed. The total credits which have been authorized by the State of Alaska totals nearly \$15 million. He further remarked that the program is in fact working and attracting companies, and thus capital in the state.

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CHARISSE MILLETT, Staff to Representative Vic Kohring, Alaska State Legislature, explained that the changes in [Version F] are regarding the use of credits. Currently, the credits are authorized to be used against production tax. [The bill proposes to] expand the credits in order that they be available

for use for bonus bids, lease rental [payments], state property tax, and corporate [income] tax. In response to Representative Rokeberg, she noted that the changes made in the [Version F] are located on page 2, lines 15-17.

[5:18:54 PM](#)

CHAIR KOHRING clarified that the original version of HB 386, which reflects existing statute, would provide a credit toward production tax credits, and [Version F] expands that to include the aforementioned by Ms. Millett.

REPRESENTATIVE ROKEBERG inquired as to whether HB 386 takes the sunset date off of Cook Inlet.

MS. MILLETT responded no and added that [Version F] extends the North Slope credits in order that they're all uniform.

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REPRESENTATIVE SAMUELS, in response to Representative Rokeberg, clarified that last year, the legislation that began as HB 71 and ended up as HB 286, originally extended credits for the Alaska Peninsula and ended up doing so for everything south of the Brooks Range. He added that the North Slope was not included.

MS. MILLETT reiterated that all of the credits will be uniform until 2010. In response to Representative Rokeberg, she further added that last year, the Cook Inlet credits were extended to 2007 and HB 386 would extend them again.

REPRESENTATIVE ROKEBERG expressed his confusion regarding the title. He noted that [HB 386] applies to all forms of taxation.

CHAIR KOHRING noted letters of support from Davis Keane, BG North America; Mark Hanley, Anadarko Petroleum Corporation; and Pioneer Natural Resources Company.

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MARK HANLEY, Manager, Public Affairs for Alaska, Anadarko Petroleum Corporation ("Anadarko"), relayed that Anadarko believes that these incentives are important and are working. By adding some of these incentives and credits, the State of Alaska is encouraging investment and trying to help reduce the risk [involved]. He noted that Anadarko supports the credits,

particularly with the existing tax system. Anadarko had pitched that [the credits] be extended this year, rather than waiting until [the sunset date], because companies are making more long-term decisions. The addition of the ability to utilize [the credits] against other sources of income is important, particularly for companies which Anadarko is partnering with who don't have existing production.

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BILL VAN DYKE, Acting Director, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR), expressed his belief that the exploration incentive credit program has finally "taken off." He added that it takes a few years for companies to "roll" [such programs] into their economics. He remarked that it makes perfect sense for the State of Alaska to invest in its future by extending the program.

CHAIR KOHRING noted that [the committee] is dealing with a bill which has a proven track record of reasonable success. He added that it makes it that much more important to extend this legislation.

[5:27:24 PM](#)

RICHARD TREMAINE, Economist, Department of Revenue (DOR), relayed that companies have benefited economically. The DOR expects the State of Alaska to benefit economically as it accrues property taxes, royalties, and severance taxes.

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REPRESENTATIVE ROKEBERG asked, "Could you refresh my memory of what revenues we received for on the federal leases in NPR-A, from the State's perspective, and the applicability of the credits here to those particular lease activities?"

MR. VAN DYKE informed the committee that the State [of Alaska] substantially benefits from [oil and gas] activities in the National Petroleum Reserve-Alaska (NPR-A). [The State of Alaska] shares in 50 percent of the royalty revenues, although those revenues don't go directly into the general fund (GF). [The funds] go through a separate process and a lot of that money ends up in the communities on the North Slope, which is how it was designed by the federal government. He added that [the State of Alaska] will share in production taxes when there

is production from NPR-A. In addition, [the State of Alaska] shares in 50 percent of the bonuses and rents.

REPRESENTATIVE ROKEBERG surmised that the corporate income tax is included.

MR. TREMAINE stated that corporate income tax is increased with corporate revenues in the state. The DOR's models don't have severance tax under the current ELF system for NPR-A. He added HB 488, or a substitute bill that deals with production taxes, would generate revenue for the State.

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REPRESENTATIVE ROKEBERG asked, "Would that be 100 percent of the production tax applicable to the State, or is there a sharing with the federal government or any other entity?"

MR. TREMAINE responded that he's not familiar with how the severance tax coming out of NPR-A is. In further response to Representative Rokeberg, he confirmed that the bonus bids are 50/50.

REPRESENTATIVE ROKEBERG added, "We'd get 100 percent of the corporate tax because they pay a federal tax separately."

MR. TREMAINE confirmed, "We do, after deductions for other things."

[5:31:07 PM](#)

REPRESENTATIVE ROKEBERG said, "As much as the tax credits under this are applicable to Cook Inlet, we have the bottom whole restrictions still applying." He asked, "Is that correct where we have the differential between the 20 percent and 40 percent?" He expressed his concern regarding this bill impacting Cook Inlet offshore development. He said that it seems as if the majority of areas of interest would be excluded from a tax credit under this particular provision.

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MR. VAN DYKE responded that it's very difficult to get that 20 mile distance in Cook Inlet. He stated that the 20 percent credit still applies and the geophysical credits still apply - the seismic credits, which are at 40 percent. He said, "It's

pretty difficult in Cook Inlet to drill a real rank wildcat well and get that 40 mile distance."

REPRESENTATIVE ROKEBERG asked, "What about 25 miles?" He surmised that nearly all of Cook Inlet is under a development plan, or at least within 25 miles of a boundary.

MR. VAN DYKE confirmed that Representative Rokeberg is correct and added that it's pretty difficult to get 25 miles away from a boundary.

REPRESENTATIVE ROKEBERG surmised that this bill would have little or no impact in Cook Inlet.

MR. VAN DYKE responded that it effects the geophysical activity and added that some of the wells in Cook Inlet are earning credits, but not at the higher rate.

[5:34:57 PM](#)

MR. TREMAINE, in response to Representative Rokeberg, noted that of the seven sets of credits that have been granted thus far, three were in Cook Inlet - two for seismic and one for well. He clarified that was for work in fiscal year (FY) 2006.

REPRESENTATIVE ROKEBERG inquired as to whether the granting of an application is confidential.

MR. TREMAINE clarified that the location of the well would be confidential.

[5:36:29 PM](#)

REPRESENTATIVE DAHLSTROM moved to adopt CSHB 386, Version 24-LS1510\F, Chenoweth, 3/7/06, as the working document. There being no objection, Version F was before the committee.

REPRESENTATIVE ROKEBERG expressed his concern regarding the problems in sharing of NPR-A revenues. Under the current impact funding, the North Slope Borough gets the first opportunity to ask for impact aid. He further expressed his concern regarding the applicability of this credit on the Cook Inlet basin.

CHAIR KOHRING expressed his concern regarding the effect of HB 488 and his hope that there will be substantial benefits in the form of credits.

5:39:53 PM

REPRESENTATIVE DAHLSTROM moved to report CSHB 386, Version 24-LS1510\F, Chenoweth, 3/7/06, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 386(O&G) was reported out of the House Special Committee on Oil and Gas.

5:40:16 PM

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 5:40 p.m.