

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 4, 2005

2:48 p.m.

**MEMBERS PRESENT**

Representative Jay Ramras, Co-Chair  
Representative Ralph Samuels, Co-Chair  
Representative Jim Elkins  
Representative Carl Gatto  
Representative Gabrielle LeDoux  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Harry Crawford

**MEMBERS ABSENT**

Representative Mary Kapsner

**COMMITTEE CALENDAR**

HOUSE BILL NO. 71

"An Act relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state; relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and providing for an effective date."

- MOVED CSHB 71 (RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 71

SHORT TITLE: AK PENINSULA OIL & GAS LEASE SALE; TAXES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/12/05	(H)	READ THE FIRST TIME - REFERRALS
01/12/05	(H)	W&M, O&G, RES, FIN
02/11/05	(H)	W&M AT 8:30 AM CAPITOL 106
02/11/05	(H)	Moved CSHB 71(W&M) Out of Committee
02/11/05	(H)	MINUTE(W&M)
02/14/05	(H)	W&M RPT CS(W&M) NT 3DP 1AM
02/14/05	(H)	DP: MOSES, GRUENBERG, WEYHRAUCH;

02/14/05	(H)	AM: WILSON
02/17/05	(H)	O&G AT 5:00 PM CAPITOL 124
02/17/05	(H)	Heard & Held
02/17/05	(H)	MINUTE(O&G)
03/15/05	(H)	O&G AT 5:00 PM CAPITOL 124
03/15/05	(H)	Moved CSHB 71(O&G) Out of Committee
03/15/05	(H)	MINUTE(O&G)
03/18/05	(H)	O&G RPT CS(O&G) NT 1DP 5NR
03/18/05	(H)	DP: KOHRING;
03/18/05	(H)	NR: SAMUELS, GARDNER, KERTTULA, DAHLSTROM, ROKEBERG
04/01/05	(H)	RES AT 1:00 PM CAPITOL 124
04/01/05	(H)	Scheduled But Not Heard
04/04/05	(H)	RES AT 1:00 PM CAPITOL 124

**WITNESS REGISTER**

HENRY WEBB, Staff  
to Representative Ralph Samuels  
Alaska State Legislature  
Juneau, Alaska  
POSITION STATEMENT: Presented HB 71 on behalf of Representative Samuels.

MARK MYERS, Director  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska  
POSITION STATEMENT: Answered questions regarding HB 71.

GARY ROGERS, Senior Auditor  
Tax Division  
Department of Revenue  
Anchorage, Alaska  
POSITION STATEMENT: Answered questions regarding HB 71.

JERRY BURNETT, Special Assistant  
to the Commissioner  
Department of Revenue  
Juneau, Alaska  
POSITION STATEMENT: Answered questions regarding HB 71.

**ACTION NARRATIVE**

**CO-CHAIR RALPH SAMUELS** called the House Resources Standing Committee meeting to order at 2:48:12 PM. Representatives Ramras, Samuels, Elkins, Olson, and Gatto were present at the

call to order. Representatives LeDoux, Crawford, and Seaton joined the meeting as it was in progress.

HB 71-AK PENINSULA OIL & GAS LEASE SALE; TAXES

CO-CHAIR SAMUELS announced that the only order of business would be HOUSE BILL NO. 71 "An Act relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state; relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and providing for an effective date."

HENRY WEBB, Staff to Representative Ralph Samuels, Alaska State Legislature, said HB 71 is designed to extend exploration tax credits through 2010 on the Alaska Peninsula. The committee substitute (CS) clarifies how the tax credits work. He said there is a 20-percent credit for 2003-2007 exploratory wells, and the wells must be at least three miles from existing wells; there is a 40-percent credit for wells that satisfy the 3-mile requirement and are also over 25 miles from existing development units; and there is a 40-percent credit for seismic testing that occurs outside the boundaries of a production or exploration unit. The CS also extends the exploration credit regime to the Nenana Basin until 2008. He noted that there was an amendment from the previous committee exempting private and federal land from the existing credit, which runs through 2007. This CS removes that amendment, he said, except for the Arctic National Wildlife Refuge.

[2:51:26 PM](#)

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources, said the bill extends the exploration credit on the Alaska Peninsula to encourage a competitive sale this October, allowing a reasonable amount of time for the credit to be applicable. The credit is intended to increase competitive bidding in an area that has no infrastructure, he said. By only extending the credit to 2010, the state hopes to accelerate exploration and acquisition of speculative areas.

MR. MYERS said the Nenana Basin language is a judgment call for the legislature because there is active exploration going on. If the survey results are favorable, operators would only have one season to apply the credit. There is actually very little

good exploration data available, he added. There is exploration risk in the Nenana Basin, so the extended credit will allow for two drilling seasons. He said he thinks it will help encourage and accelerate a more aggressive evaluation of the basin.

[2:55:45 PM](#)

REPRESENTATIVE SEATON asked about the credit being applied to production tax, and if the credit is designed to stimulate production in the areas where the exploration credit is offered.

MR. MYERS said it is an exploration credit, and it is transferable and sellable. He said the credits will likely be sold to producers on the North Slope, and they usually sell for over 90 percent of their value. The bill will not allow its use in the Arctic National Wildlife Refuge.

[2:58:52 PM](#)

MR. MYERS said that for the Nenana Basin it applies only for state land, and in the Alaska Peninsula credit could be applied to state lands or Native lands.

CO-CHAIR SAMUELS asked if the bill changes the transfer rules.

MR. MYERS said it does not.

REPRESENTATIVE SEATON said transferring the credit is in direct contradiction with the title of HB 71, which says production in the Alaska Peninsula.

MR. MYERS said the title gives that impression, but the intent is to have transferability, so changing the title makes sense.

[3:01:35 PM](#)

GARY ROGERS, Auditor, Department of Revenue, said the transfer language is in the original statute. Last year's legislation allowed statewide application of the credit, he said.

[3:03:36 PM](#)

REPRESENTATIVE SEATON asked if HB 71 was an outgrowth of Representative Chenault's bill a few years ago.

MR. ROGERS said he is not sure, but that Senate Bill 185 became AS43.55.025 in statute.

JERRY BURNETT, Special Assistant to the Commissioner, Department of Revenue, said Senate Bill 185 passed in 2003, and it was Senator Wagoner's bill.

REPRESENTATIVE SEATON said Representative Chenault's intention was that the credit would be available for exploring and producing, so that the state wasn't spending money on finding oil without it being produced. "The entire purpose was to tie it to a production tax credit for producing wells," he said. The state will be paying for exploration of an area where people can decide not to produce it, and they get a tax credit anyway. It was a key provision on the floor, he said, and "it seems like we have lost it here."

MR. BURNETT said the bill that was introduced always allowed transferability. "There may have been some misimpression carried in some testimony at some point, but going back to the committee record, in each of the committees it was clearly explained," he said.

[3:06:50 PM](#)

CO-CHAIR SAMUELS said the bill is to encourage companies to explore on the peninsula.

MR. BURNETT said if a commercial quantity is found, it will be produced--that's the idea. He said he understands the concern about the title and will look into it.

[3:07:34 PM](#)

REPRESENTATIVE SEATON said the original title meant the bill was tied to production, and that is why the title is what it is--a tax credit applied to production.

CO-CHAIR SAMUELS said a company is not guaranteed to find anything so no one will explore. The point of the incentive is to encourage exploration, and if no one is willing to put their own capital on the peninsula, "which is a long ways away," the state will have to "sweeten the pot."

[3:09:27 PM](#)

REPRESENTATIVE GATTO said that is the nature of the business; that is the risk they take. Now we are also adding a reward for producing, he said.

[3:10:04 PM](#)

CO-CHAIR SAMUELS asked, "Do we want to sell the leases or don't we?"

REPRESENTATIVE LEDOUX said she agrees with Co-Chair Samuels, because getting the reward isn't needed once oil is found.

[3:10:45 PM](#)

CO-CHAIR SAMUELS said the front-end costs are minimal compared to a long-term process once oil is found.

CO-CHAIR RAMRAS said he thinks the bill is dead on. "We need to find resource wealth," he added.

[3:11:27 PM](#)

MR. ROGERS said he receives a number of calls regarding this credit. The explorers' concern is the sweetener in the exploration phase.

[3:12:10 PM](#)

MR. MYERS said the tax credit is only for the first part of the exploration, not for the expensive evaluation follow-up. It minimizes the cost to the state, and gives the credit for the riskiest activity in frontier areas, he said.

[3:13:59 PM](#)

CO-CHAIR SAMUELS said it is only an extension from 2007 to 2010. Operators will have to start exploring now or the credit will go away.

REPRESENTATIVE SEATON asked if there will be no exploration in Nenana without the credit.

MR. MYERS said the idea of the extension is to encourage multiple exploration targets. If operators found good fields this season, they would not need a credit. If the first exploration wells are so-so, the credit might be an incentive to spend additional exploratory funds.

[3:15:41 PM](#)

REPRESENTATIVE SEATON asked where in the bill does it say the credit is for just the exploratory phase.

MR. MYERS said the original bill has that language.

[3:18:09 PM](#)

REPRESENTATIVE SEATON asked how HB 71 differs from the Cook Inlet exploration tax credit from last year.

MR. MYERS said there are areas in Cook Inlet where this bill applies. Additionally there was a credit allowed against development costs for gas, he said, and it was more focused on actual development. It was the opposite approach, because only successful wells allowed the use of the exploration tax credit. All capital costs were included, he said.

REPRESENTATIVE SEATON asked if HB 71 will allow deeper drilling depths off the Cook Inlet platform if the wells are over 35 years old.

MR. MYERS said most of the platforms have newer wells, and there are very few cases with old wells that will qualify, because there is generally a unit around the well, and even outside the boundary of a unit, another well will likely be within three miles. The bill is envisioned to look at frontier exploration, not exploration for deeper targets, he said.

[3:21:40 PM](#)

CO-CHAIR SAMUELS offered Amendment 1 labeled 24-GH1040\I.1, Chenoweth, 4/4/05, as follows:

Page 4, lines 22 - 24:

Delete all material and insert:

"Sections 25 - 36;"

Page 5, line 22:

Delete all material and insert:

"Sections 1 - 4, 9 - 16, and 19 - 36;"

Page 5, line 24:

Delete all material and insert:

"Sections 19 - 36;"

There being no objection, Amendment 1 carried.

[3:22:28 PM](#)

CO-CHAIR SAMUELS said he would accept a conceptual amendment to the title to note that the credit can be transferable.

REPRESENTATIVE SEATON said he will offer it only to make it consistent.

REPRESENTATIVE GATTO asked if the amendment just deletes line 4.

CO-CHAIR SAMUELS said on line 4, after the word gas.

[3:24:28 PM](#)

REPRESENTATIVE SEATON said the intent [of conceptual Amendment 2] is for the title to say the exploration needs to be on the Alaska Peninsula or the Nenana Basin, but the production doesn't have to be from there. Conceptual Amendment 2 was treated as carried.

[3:25:09 PM](#)

REPRESENTATIVE GATTO asked if offshore exploration is included.

MR. MYERS said it includes state submerged waters, but not offshore beyond three miles. The bill itself does not include any of the outer continental shelf activity, he said. With the preliminary best interest findings, the commissioner has restricted any drilling from onshore directionally offshore, he said. So the sale as proposed would not allow the placement of offshore drilling facilities. In Cook Inlet, offshore facilities are allowed, he added.

[3:26:41 PM](#)

REPRESENTATIVE SEATON said he wants a letter of intent saying there will be no offshore exploration off the Alaska Peninsula.

MR. MYERS said it is also in testimony by Commissioner Irwin from last year.

REPRESENTATIVE SEATON suggested that the committee have it in legislative intent, instead of just in someone's testimony.

CO-CHAIR SAMUELS said if it is in the best interest finding, he feels it is covered.

3:28:00 PM

REPRESENTATIVE SEATON said it would be consistent to the committee to indicate what it means. He said he doesn't think anyone is supporting offshore drilling.

CO-CHAIR SAMUELS said, "Perhaps an amendment to page 7, at the end of line 31, saying the production tax credit does not apply to any offshore drilling."

REPRESENTATIVE SEATON said he will offer that conceptual Amendment 3.

REPRESENTATIVE GATTO asked if offshore means everything beyond three miles.

MR. MYERS said in the five-year schedule Commissioner Irwin put in the letter of intent that he would not allow offshore drilling. "The stipulations are pretty much in the lease sale, and I don't think we buy much by repeating that here. It would only tell you that you couldn't get the credit for something that is not going to be allowed in the lease sale anyway," he noted. The credit cannot be used on the federal outer continental shelf, he said. The letter of intent was on Senate Bill 266 and said companies are only allowed to access offshore drilling prospects from onshore drilling sites using directional drilling technology.

REPRESENTATIVE SEATON withdrew Amendment 3.

3:31:16 PM

CO-CHAIR RAMRAS moved to report HB 71 as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 71(RES) was passed out of the House Resources Standing Committee.

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:31p.m.