

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 20, 2006

1:10 p.m.

MEMBERS PRESENT

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 Jay Ramras, Co-Chair
Representative Mary Kapsner

COMMITTEE CALENDAR

HOUSE BILL NO. 498

"An Act authorizing tax credits against the production tax on oil and gas for qualified expenditures for challenged or nonconventional oil or gas and for qualified expenditures for nonconventional or renewable energy resources; giving the Act contingent effect; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 501

"An Act relating to the possession of horns or antlers of big game animals."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 498

SHORT TITLE: TAX CREDITS NONCONVENTIONAL OIL/GAS

SPONSOR(S): RULES

04/03/06	(H)	READ THE FIRST TIME - REFERRALS
04/03/06	(H)	O&G, RES, FIN
04/11/06	(H)	O&G AT 8:00 AM CAPITOL 120
04/11/06	(H)	Moved Out of Committee

04/11/06 (H) MINUTE(O&G)
 04/12/06 (H) O&G RPT 2DP 1NR 3AM
 04/12/06 (H) DP: ROKEBERG, KOHRING;
 04/12/06 (H) NR: SAMUELS
 04/12/06 (H) AM: GUTTENBERG, DAHLSTROM, MCGUIRE
 04/12/06 (H) LETTER OF INTENT WITH O&G REPORT
 (FORTHCOMING)
 04/19/06 (H) RES AT 1:00 PM CAPITOL 124
 04/19/06 (H) Heard & Held
 04/19/06 (H) MINUTE(RES)
 04/20/06 (H) RES AT 1:00 PM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE NORMAN ROKEBERG
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Presented HB 498, Version L, on behalf of the House Rules Standing Committee, sponsor, that he chairs.

ROBYNN WILSON, Director
 Tax Division
 Department of Revenue
 Anchorage, Alaska

POSITION STATEMENT: Answered questions regarding HB 498.

JEFF SPENCER, Supervisor
 Heavy Oil Development
 ConocoPhillips Alaska, Inc.

POSITION STATEMENT: Answered questions regarding HB 498.

FRANK PASKVAN, Western Prudhoe Bay Heavy Oil Team Leader
 BP

POSITION STATEMENT: Answered questions regarding HB 498.

BILL VAN DYKE, Director
 Division of Oil and Gas
 Department of Natural Resources

POSITION STATEMENT: Answered questions regarding HB 498.

ACTION NARRATIVE

CO-CHAIR RALPH SAMUELS called the House Resources Standing Committee meeting to order at 1:10:06 PM. Representatives Olson, Elkins, LeDoux, Gatto and Samuels were present at the call to order. Representative Crawford arrived as the meeting was in progress.

HB 498-TAX CREDITS NONCONVENTIONAL OIL/GAS

CO-CHAIR SAMUELS announced that the only order of business would be HOUSE BILL NO. 498, "An Act authorizing tax credits against the production tax on oil and gas for qualified expenditures for challenged or nonconventional oil or gas and for qualified expenditures for nonconventional or renewable energy resources; giving the Act contingent effect; and providing for an effective date."

REPRESENTATIVE ELKINS moved to adopt the committee substitute (CS) for HB 498, Version 24-LS1817\L, Chenoweth 4/20/06, as a working document. There being no objection, Version L was before the committee.

[Due to technical difficulties the aforementioned motion was not recorded.]

REPRESENTATIVE NORMAN ROKEBERG, Alaska State Legislature, speaking on behalf of the sponsor of HB 498, the House Rules Standing Committee that he chairs, directed the committee's attention to the memorandum from Robynn Wilson, Director, Tax Division, dated April 19, 2006. He said that he has went through that memorandum and decided which of Ms. Wilson's recommendations to accept and incorporate into Version L.

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REPRESENTATIVE ROKEBERG turned attention to item number one regarding the renewable energy credit, which addresses AS .028. The term "qualified capital expenditure" was changed to "qualified renewable energy expenditure" in order to make a distinction. The term "qualified capital expense" was left in the legislation in regard to the heavy/challenged oil [provisions]. Ms. Wilson's item number two regarding the need to change the name wasn't accepted, although the definitions of those will be revisited. Representative Rokeberg highlighted the deletions of the safe harbor provisions or the 90 percent rules in order to be consistent with the language in HB 488. In regard to the specified page and line numbers for changes, Representative Rokeberg explained that Ms. Wilson's memorandum was in reference to Version Y.

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REPRESENTATIVE ROKEBERG said [the deletion of the language on page 2, lines 8-18 and page 6, lines 7-17 of Version Y] are the safe harbor provisions.

CO-CHAIR SAMUELS surmised, "That's the budgeted amount so that you're not trying to audit against somebody's budget."

REPRESENTATIVE ROKEBERG replied yes.

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ROBYNN WILSON, Director, Tax Division, Department of Revenue, clarified that item five of the April 19th memorandum is now located on page 2, lines 25-27 of Version L.

CO-CHAIR SAMUELS recalled that there was discussion of numbering that in order to eliminate any confusion regarding in-state research. He related his understanding that "all of it must be in-state, not just the research."

MS. WILSON noted her agreement. Depending upon the committee's intention, Ms. Wilson suggested that inserting small numbers would be helpful.

REPRESENTATIVE ROKEBERG, continuing his review of the changes, turned to the deletion of the "more than once" language on page 3, line 12 of Version Y.

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MS. WILSON, referring to her item number six regarding how the average is calculated, opined that it has been addressed in Version L on page 3, line 26. She mentioned that she had some concern with regard to the phrasing of sub-subparagraphs (i) and (ii).

MS. WILSON, returning to the deletion of the "more than once" language, pointed out that subsection (e) no longer includes paragraphs (1) and (2).

REPRESENTATIVE SEATON asked if removing that language means it can be taken more than once.

MS. WILSON reminded the committee that she had raised a concern with regard to what the language "more than once" meant. Under the PPT, for a qualified capital expenditure there is a deduction and a credit for the 20. Alternatively, if it's for

exploration, a credit can be taken under AS .025. "In effect, there is sort of the set up where its taken more than once," she said. Therefore, this legislation envisions a 15 percent credit on top of the 20 percent credit under the PPT, and thus deleting the phrase "more than once" is consistent with the sponsor's intent.

REPRESENTATIVE SEATON surmised then that this can be in addition to the 40 percent.

MS. WILSON said that is her understanding.

CO-CHAIR SAMUELS explained that one can qualify for the 40 percent and this as well, although in reality the .185 credits aren't used very much.

MS. WILSON replied, "That is correct."

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REPRESENTATIVE ROKEBERG asked if there is an election under the .185 credits and thus one can only take one or the other.

REPRESENTATIVE SEATON opined that if the language "more than once" is eliminated from HB 498, then the 15 percent could be used in addition to the 40 percent. Therefore, it would amount to 55 percent with a tax rate reduction of some 20 percent and [the state] would pick up 75 percent.

CO-CHAIR SAMUELS highlighted that currently it's at 60 percent.

REPRESENTATIVE CRAWFORD asked if the outlook would change if the PPT has a base credit of 25 percent, which is the proposal in the Senate.

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REPRESENTATIVE ROKEBERG explained that his intention is to use a 20 percent baseline and add on to it. He further explained that if another version [of the PPT] is passed [with a percentage higher than 20 percent], additional credits would offset some of those increases in taxes if the investment was in heavy oil. The testimony, he recalled, has been that at \$60 [per barrel] there would be a five to one ratio of credits to tax. Therefore, each five points of tax credit would be equivalent to one point of tax. The aforementioned, he said, is why he selected 15 percent and thus it would be equivalent to three

points in tax. With regard to Representative Seaton's concern regarding adding on, Representative Rokeberg related his understanding that the PPT includes a cap of 20 percent per annum.

REPRESENTATIVE SEATON clarified that is just in relation to the purchase credits.

CO-CHAIR SAMUELS mentioned that currently [one] receives up to 60 percent, but the 40 percent is for true exploration and isn't used very much.

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CO-CHAIR SAMUELS commented, "It kind of begs the question." Today oil is at \$70 per barrel, and he questioned whether an incentive is necessary at that price. He further questioned whether the incentives could decrease over time or vary based on the price of oil because at \$70 per barrel everything makes money.

JEFF SPENCER, Supervisor, Heavy Oil Development, ConocoPhillips Alaska, Inc., noted his disagreement that \$70 per barrel makes money, although he admitted that it helps.

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REPRESENTATIVE ROKEBERG remarked that he needs some help with policy calls. One of those is in regard to whether the 15 percent is appropriate with the 20/20 approach and/or the Senate legislation. He related his understanding that one of the rationales behind the Senate legislation going to the 25 percent credit was to ensure there is sufficient credit to incent this type of development. If [the 25 percent credit is established], then the 15 percent should be lowered to 10 percent. Another important issue is regarding whether to narrow the focus of this legislation to only new research and technology, and not apply it to ongoing development in heavy oil. The financial impact would be substantially decreased while the concept and policy to incent such technology would be enhanced. Therefore, a more narrow drafting that only applies to pilot projects could allow one to determine the rate of credit. He reminded the committee that an earlier version of HB 498 referred to 25,000 linear feet of extended reach drilling. He then recalled the new technology of spider patterns which takes a typical 400 barrel per day well to 1,500 barrels per well. Unfortunately, [the spider pattern] is expensive.

MR. SPENCER, in response to Representative Rokeberg, specified that the rough investment of 1E and 1J was \$8-\$10 million per million. He noted that excursions pushed [the cost] well beyond that.

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CO-CHAIR SAMUELS posed a situation in which a more standard credit mechanism is established, and asked if there is ever a situation in which the research and development is said to be done only for heavy oil. Can companies specify the amount of research and development they will spend on heavy oil, he asked. Is it that fine tuned, he asked. Furthermore, how would the state know what Conoco is doing.

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CO-CHAIR SAMUELS inquired as to how BP allocates money for research.

FRANK PASKVAN, Western Prudhoe Bay Heavy Oil Team Leader, BP, said that BP engages in a number of different areas of research. He then related that if the legislation was changed to refer only to research, it would be acceptable because there are other provisions for development credits. It would be appropriate, he opined, to give credit for research by Alaskan oil companies specifically for Alaska fields in order to incentivize activities related to particular fields of interest to Alaska. However, he noted that BP does have activities that can only be performed outside of Alaska and [some that can only be performed] by a third party.

CO-CHAIR SAMUELS asked whether funds allocated for research are specifically for heavy oil.

MR. PASKVAN answered that BP does have specific research budgets for particular fields. Typically, there are expense items that would be named and for which there would be a collaborative effort for the funding with the co-owners of a particular field. For instance, last year the Orion field study budget included specific line items for particular areas of research.

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CO-CHAIR SAMUELS returned to the notion that at \$70 per barrel there is no need to provide an incentive.

MR. PASKVAN returned to earlier dialogue regarding the notion that there isn't any particular use of exploration credits for wildcatting. The lack of the use of exploration credits, he opined, indicates that [exploration] isn't incentivized enough by existing statute or oil prices. Furthermore, these challenged oil fields are differentially challenged to the light oil. Since the bulk of current development comes from light oil, it may be that current legislation considers the bulk of activities and challenged oil will always face greater economic challenges.

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REPRESENTATIVE SEATON surmised then that all oil shouldn't be incentivized by 25 percent but rather there should be an incentive for heavy oil in order for there to be a differential.

MR. PASKVAN explained that, by definition, challenged oil has real productivity and economic challenges. For example, the Ugnu formation has only produced 17,000 barrels since its discovery 40 years ago because it is challenged. He said that economically and technically it's difficult to develop.

REPRESENTATIVE SEATON related his understanding that the tax rate was zero and there was no production [at Ugnu] under the current ELF.

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MR. PASKVAN informed the committee that Prudhoe Bay has had an aggregated ELF since January 12, 2005. Therefore, any oil produced within Prudhoe Bay pays the same severance tax rate under the aggregated ELF. In further response to Representative Seaton, Mr. Paskvan confirmed that prior to being aggregated, the tax rate was zero for the last 40 years. However, he pointed out that there hasn't been much production of that which this legislation attempts to incent.

REPRESENTATIVE SEATON inquired as to whether some of that relies on the technology of the horizontal wells and other [technology].

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MR. PASKVAN acknowledged that BP is making advances. In fact, BP's current investments are targeting the Schrader Bluff and

West Sak formations in which multilateral horizontal well drilling is being employed. In the aforementioned formations the zones are relatively thin, and therefore each zone has to have its own well drilled out horizontally.

REPRESENTATIVE CRAWFORD recalled that over the past few years there have been predictions regarding heavy oil production. He recalled estimates that \$40-\$50 per barrel might result in the production of 4-5 billion barrels of heavy oil while \$60 per barrel oil might produce 5-6 billion barrels of oil. He asked how much this legislation will change that scenario. He further asked how the floor and production will be impacted. "Does anybody have any idea what these incentives might get us, or is it really the price per barrel that's going to get us the oil no matter what we do here on the incentives? And where's the low end that this might advantage us to get more oil drilled," he asked. Representative Crawford related that his intent is to get more oil drilled, and therefore he questioned whether this legislation is the way to do so.

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MR. PASKVAN related that BP is looking at investments in the Western region development in the amount of \$1 billion and \$2 billion for a particular project in the aggregate. What happened with the ELF last year placed the [project] on hold for a year. Additional changes to the tax structure would substantially improve the likelihood of approval of the project, although BP would need to meet with its board of directors before stating such. "It will definitely help," he concluded.

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CO-CHAIR SAMUELS inquired as to how many places in the world BP is looking at heavy oil. Although there is the desire for the technology to be present, he opined that he doesn't want to pay for 100 percent of the research costs in [areas outside of Alaska]. He questioned how much of that research would be specifically for heavy oil and how much of that research would be used throughout the world for various types of oil and exploration. He then questioned: "How many other heavy oil projects do you have around the world and how much heavy oil do you have in the ground that you have trouble recovering?"

MR. PASKVAN answered that BP has a few heavy oil projects, although it's a new technology area for BP. However, BP does specifically target research activities and tailor them to a

particular field. He pointed out that through the audit function, there is a transparent audit of expenditures.

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MR. SPENCER returned to the discussion regarding research and development, and commented that he wasn't sure that was the correct terminology. He explained that there are company experts in Texas and Oklahoma with whom the company often contracts to perform a study specifically for an Alaska asset. The aforementioned are legitimate expenses for an Alaska asset, which is charged to co-owners. "That's the kind of stuff that ... should be covered in a bill like this because its stuff that's directly tied to an Alaska asset," he opined.

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MS. WILSON, recalling a question regarding federal credits for research, said there is a federal credit of 20 percent for research. Of interest is that activities outside of the country aren't creditable.

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CO-CHAIR SAMUELS asked if BP and Conoco take advantage of those credits.

MR. SPENCER said that he didn't know.

MR. PASKVAN said, "I sure hope so."

CO-CHAIR SAMUELS posed a situation in which the seismic data from the industry and the state's perspective showed that the oil in a particular area will be heavy. Once the first exploratory well is drilled, is that information publicly available, he asked. He said he would hate to give a credit to heavy oil when it really isn't.

BILL VAN DYKE, Director, Division of Oil and Gas, Department of Natural Resources, answered that if the well is located on state land, the state would have access to the data once the well is drilled. However, the information would be confidential for the first two years and wouldn't be public. On federal land, the state would not have access to that data. That doesn't mean the companies couldn't share that data, it would just mean that they would have to volunteer to do so.

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REPRESENTATIVE SEATON posed a situation in which the Senate legislation has a 25 percent tax credit, a 22.5 tax rate, a 15 percent credit for heavy oil, a 20 percent federal credit, and deductibility from federal income tax of 35 percent. The aforementioned amounts to 117 percent. Therefore, even without this 15 percent, the credits and tax rate deductions amount to 102 percent.

MS. WILSON said that she hasn't done the math for those [credits and deductions]. She further said that she hasn't done the federal credit for research because often federally when an entity takes a credit for an expenditure, that entity doesn't necessarily receive a deduction as well. Although the enhanced oil recovery (EOR) federal credit and deduction are received, they are limited, she mentioned.

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REPRESENTATIVE SEATON opined that at high oil prices, [the credits and deductions] don't make any difference because it's economic and should be sufficient incentive. However, at low oil prices, the state is at risk because there is no downside protection.

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CO-CHAIR SAMUELS asked Mr. Van Dyke if he has any philosophical thoughts on heavy oil tax credits or any thoughts regarding how to administer this proposal.

MR. VAN DYKE acknowledged that although viscous oil is challenging to develop and produce, it isn't impossible to do so. In fact, there is a relatively large project being considered at Prudhoe Bay. He opined that there will be additional viscous oil development and production with or without these additional tax credits. Therefore, he highlighted the need to determine what the [incentives] are trying to change because the incentives should be designed to change the behavior of the lessees in a specific way. Mr. Van Dyke said he would focus on changing behavior, incentivizing, with respect to the development of the known viscous oil on the North Slope. For the 20 billion-plus barrels of viscous oil on the North Slope, there has basically been no development in relative terms. Therefore, he preferred listing the units and formations where

these credits might be applied and include a catch-all phrase for future accumulations.

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REPRESENTATIVE SEATON inquired as to whether the specified 2016 date in HB 498 is reasonable or should it be sooner.

MR. VAN DYKE specified that he wouldn't make it any longer than 10 years. However, development takes three to five years.

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REPRESENTATIVE SEATON said he is interested in how it works with the corporate structure. He asked whether a change to seven years would make the corporations move more quickly. He then related his understanding that the research and development and capital expenditures would occur at the beginning.

MR. VAN DYKE said he agreed, adding that it will take a while to get through the formal approval process because these will be large expenditures. In further response to Representative Seaton, Mr. Van Dyke surmised that companies could get a fair amount of work done in the next seven years if they were motivated to do so.

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MR. SPENCER used Ugnu as an example. He explained that it would take a couple of years of study and a pilot project to test the concepts of the recovery process. Furthermore, the pilot project would need to be run for several years in order to understand the productivity of the reservoir. Then it would take at least five years to build a new plant and begin drilling the well. "So, the time horizons are fairly long so I believe 10 years is an appropriate timeframe and would help move some of those projects even faster," he opined.

MR. PASKVAN informed the committee that he returned to Alaska in 1998 and began planning the project that is moving ahead today. The first oil, he said he anticipated will arrive in 2010. The aforementioned amounts to a 12-year time span. He noted that this project develops the reservoir in which there was a West Sak pilot in 1988. Therefore, the lifecycle on these projects is long. For instance, when Alberta did its oil sands project some 20 years ago, it seemed laughable because of the price of

oil. This illustrates the need to take a longer view and that BP may turn to the legislature asking for an extension.

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CO-CHAIR SAMUELS posed a scenario in which this wasn't a credit just for research. If that were the case, would there be the need to include research, he asked. He then inquired as to the ability to audit that. He then posed a scenario in which West Sak is designated as a heavy oil field, and inquired as to how the audit would work.

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MS. WILSON, regarding the auditability of the API gravity, deferred to Mr. Van Dyke. With regard to research, she recalled testimony yesterday about pre-approving projects for research, and said that makes sense as long as criteria are articulated. In addition to approving a project for that purpose, the federal government could audit it precluding any foreign research. She agreed with earlier mention that perhaps a dollar limit on research would limit the state's exposure.

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CO-CHAIR SAMUELS posed a situation in which an expenditure is made to drill a well and the heavy oil tax credit isn't given until it's proven at a specific gravity. He then inquired as to what would occur if it's incorrect or fluctuates around the specified gravity. He asked if the gravity of oil changes over time.

MR. VAN DYKE explained that some of these wells have layers of oil that are different viscosity. The physics of it is that the lighter oil flows easier and first while the heavier oil will flow later. Therefore, the viscosity of the oil leaving the well could change over time, although it wouldn't change day-to-day. Certainly, the viscosity could change over the course of years. Mr. Van Dyke related, "That's why I think if you decide to give some credits for viscous oil, I could just live with the idea of saying ... in a given number of units we'll just give the credit, if that's the policy call. And then you don't have to measure the viscosity and ... API gravity ...," he said.

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REPRESENTATIVE SEATON recalled the microbial research, and opined that it seems there are attempts to stimulate and change the viscosity of the oil in order to enhance the recovery. Therefore, it wouldn't be eligible for the credit. He asked if incenting the technology being sought to reduce the viscosity of the oil could be problematic.

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MR. VAN DYKE said that is correct.

REPRESENTATIVE SEATON surmised that the aforementioned would lend itself to the suggestion of naming a field [to receive credits] rather than a field with a specific gravity.

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MR. VAN DYKE said he agreed with that in the context of a reasonable sunset of which could be 10 years.

CO-CHAIR SAMUELS inquired as to the industry's perspective in a situation in which a company plans on a certain tax credit for an expenditure and then suddenly the oil is the measurement. He further inquired as to whether a measurement, if that is used, should change over time.

MR. PASKVAN said the reservoir doesn't change much but processes do increase the API gravity above the threshold on occasion. "By pool inclusion would be sufficient because ... as it started we can characterize its distribution for viscosity for API gravity. If it meets those criteria, then it's in. And we do have to do special techniques to get the oil out because of its original characteristics."

MR. SPENCER echoed Mr. Van Dyke's comments that over a long period of time there might be some slight degradation in the oil quality because lighter oil flows first, which might drop over time.

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MS. WILSON acknowledged that the API [gravity] would be problematic from a timing aspect. Additionally, there is a chance that differential credits could be a constitutional problem. However, if the state has a clear business reason to target a certain area, it can be easily overcome.

CO-CHAIR SAMUELS opined that if "we're going to go down the road," it would make more sense to have designated heavy oil areas and thus methods of discovery can be overlooked and research and development can be discussed separately.

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REPRESENTATIVE SEATON commented that it makes sense because the state is encouraging techniques to change the viscosity of the oil.

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REPRESENTATIVE SEATON related his belief that basically pilot projects are being established [if DNR specifies what areas would receive a credit] and any [new areas] will have to come back to the legislature in order to determine whether it will receive a credit.

REPRESENTATIVE ROKEBERG highlighted that Version L includes monthly averaging in order to measure the monthly viscosity levels to deal with that. He said his concern is that there is application for credits for that, which have only been granted for some 40 percent. Elimination of the API gravity standard makes him a bit nervous, he remarked. However, the industry recommends a new definition of challenged oil, which includes the API standard as well as geographic and formation identification.

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REPRESENTATIVE SEATON asked if Representative Rokeberg disagrees with specifying the fields [that would receive a credit].

REPRESENTATIVE ROKEBERG replied no, adding that the legislation already does so. However, he acknowledged that the legislation also includes the 25 and 18 standards and thus there is some redundancy. One of the recommendations of industry is in regard to identifying the marker by calling out the formation. He specified that his only concern is in regard to the commissioner having too much discretion.

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CO-CHAIR SAMUELS related his view that certain areas could be designated as heavy oil and other areas with a specified gravity

would have to apply to the commissioner to determine whether the credit would apply to that area.

MR. VAN DYKE said he supported such an approach. He specified that the following areas could be designated as heavy oil receiving the credit: Prudhoe Bay, Kuparuk River Unit, Milne Point Unit, Tuvaag Unit, Nakaitchuq Unit, and Rock Flour Unit.

REPRESENTATIVE ROKEBERG inquired as to the fate of Princess Creek, which is south of Kuparuk River Unit. He asked if there would be a provision to allow the commissioner to decide.

REPRESENTATIVE SEATON clarified that his intent is for the division and the commissioner [upon receiving an application] to come to the legislature. The legislature would decide whether to designate another area as heavy oil to receive the credit.

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REPRESENTATIVE ROKEBERG noted his disagreement. He highlighted that Version L includes the following language: "future participating areas formed to develop West Sak, Schrader Bluff, Ugnu formation or their stratigraphic equivalents within the boundaries of the units named above or within these other units". He expressed concern because Chevron Unocal just took a large acreage position south of the Kuparuk River Unit for the exploration of heavy oil. He opined that Chevron Unocal shouldn't be restricted if it's strictly a heavy oil prospect. Therefore, he questioned why they would have to come to the legislature for approval of something in which they have made an investment. "I don't think we should be that strict," he further opined.

CO-CHAIR SAMUELS highlighted, "The flip side of that is you say that oil produced of API gravity of 18 or less so we were at 18.5 ... or 18.1 and you're on the bubble area ... do you have to go in there and test all the time?" In such a scenario, the company wouldn't know whether it'll receive the credit or not. In fact, he related his understanding that the company won't know whether the oil is heavy until the well is drilled.

MR. SPENCER noted his agreement, although he mentioned the company would have a good idea whether the oil is heavy. However, he said that he didn't believe it would be a huge issue because if there was any thought that the oil may be borderline heavy, then that would've been factored into the economic analysis. Many times, he opined, the oil will be below the

heavy oil criteria listed in HB 498 and thus it won't be a real issue.

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CO-CHAIR SAMUELS returned to Representative Rokeberg's question regarding Chevron Unocal's situation and whether it would have to come to the legislature [regarding the credit for heavy oil].

MR. VAN DYKE expressed his hope that the legislation would include a catchall provision that would provide the commissioner some discretion to add areas.

REPRESENTATIVE ROKEBERG said that would be his preference. He related his understanding that Representative Seaton is trying to ensure that there's not an abuse of the discretion. He suggested that a sunset may be the salvation in the future. He indicated that the suggested language still falls short.

REPRESENTATIVE SEATON clarified, "My only problem is that we're talking about giving the commissioner \$200 million or \$300 million option ... to a company." He reiterated that such decisions should come before the legislature.

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REPRESENTATIVE ROKEBERG related his belief that the commissioner would lean toward caution, and therefore may result in less development rather than more. Clearly, Representative Seaton's suggestion offers the company some remediation if it runs into difficulties with the department. In fact, he quipped, it's easier to get legislation through versus a suit.

CO-CHAIR SAMUELS said that the remaining issues are in relation to research and development and whether it should remain in the legislation and how it would be audited. There are also issues remaining in regard to the PPT rate, designating areas, and addressing new areas.

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REPRESENTATIVE SEATON referred to page 2, line 2, and the language "may be applied against any and all taxes", and asked if that's more than production taxes.

CO-CHAIR SAMUELS pointed out that the language in that provision goes on to refer to "the producer's taxable oil and gas

production." He asked if an income tax would count as a tax [for that provision].

MS. WILSON specified, "It identifies under this chapter, so that would be Chapter 55, which would cover production tax only. Within the Title 43, it is true that Chapter 20 is income tax." She opined that the language "under this chapter on the producer's taxable oil and gas production" restricts it to the production tax. Furthermore, on page 2, line 7, the language "any tax due under this chapter" would make this okay.

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REPRESENTATIVE ROKEBERG asked if the legislation should refer to new technology and research or should it be broader and applicable to all heavy oil activity. Once that decision is made, he opined, some of the other decisions will be easier and fall into place. For example, if the legislature develops a consensus for a baseline of 25 percent as a tax credit, then HB 498 has less value in it's current form and may benefit from being narrower in scope.

CO-CHAIR SAMUELS posed a scenario in which research is eliminated from HB 498, but specified that the development of West Sak would receive a credit. He then posed a scenario in which the legislation incentivized research in order that companies can come to West Sak on their own. He indicated his interest in which legislation Mr. Spencer would prefer.

MR. SPENCER opined that the real issue is trying to incentivize development of these heavy oil resources rather than research and development of new technology. He further opined that it's desirable to apply the technology to Alaskan fields in order to extract the oil out of the ground and through the pipeline in order for everyone to benefit. Therefore, Mr. Spencer said that from his perspective the research and development portion is minimal because it occurs around the world. The real value is actually using the [technology] to develop an Alaska asset. The industry needs help in this realm. Since these fields have been known for 30 years, any incentives would be a big boost to Alaska's economy.

MR. PASKVAN said he would concur. He reminded the committee of his submitted testimony last week that the current investment decisions are on higher viscosity fields. The hope is to apply what's learned today on tomorrow's oil fields. However,

development today should continue in order to get to reach the huge prize of the Ugnu.

[2:34:12 PM](#)

MR. SPENCER highlighted that tax incentives were a real boost with the use of the Section 29 tax credits for coal bed methane development in the San Juan Basin. Now the San Juan Basin in northwest New Mexico is one of the largest gas-producing regions in North America. The technology developed because there was an incentive to invest in that area. He opined that the original intent of this legislation was to incentivize development.

[2:35:31 PM](#)

REPRESENTATIVE SEATON said that another area requiring discussion is whether there is a dollar per barrel price at which this credit will apply.

REPRESENTATIVE ROKEBERG opined that much of that is being absorbed into the PPT legislation by creating all standards based on net profits. The argument can be made that heavy oil incentives aren't necessary because "they will get it anyway." On the other hand, he opined that there will be some type of progressivity. He then opined that the sunset and a time in which there is an incentive has merit. "So, I don't have that concern as much there" he said.

[2:37:28 PM](#)

MR. SPENCER reminded the committee that it was not so long ago, 1998, when oil was \$10 a barrel. One must keep in mind, he said, that the oil industry is a very capital intensive industry during which much money is spent up-front and the payout occurs over 30 years. Therefore, having these incentives will hopefully result in a sustainable heavy oil future for Alaska.

REPRESENTATIVE ROKEBERG related his agreement that investment cycles of things of this nature are so long that there will be some volatility of pricing throughout. He inquired as to the timeframe undertaken by the industry in the newer developments of Polaris and Orion.

[2:38:49 PM](#)

MR. PASKVAN answered that the Polaris and Orion developments were learned about in 1988 through the West Sak fields. Since

that time, work has proceeded on the Polaris oil field, while work began a year or two later on Orion. Still, significant investment decisions are being made with respect to projects to be developed in 2010. He then suggested that the committee recognize that the incentives placed in this legislation are associated with the production tax, which is one portion of the state's take and "we'd all be pretty happy with those kind of prices on royalty oil as well."

MR. SPENCER interjected that the West Sak J pilot was actually in the early 1980s.

CO-CHAIR SAMUELS advised the committee that he would like to get through all the large issues today and then tomorrow make some of the policy choices to be placed in a CS, perhaps, for Monday.

REPRESENTATIVE SEATON referred to page 2, line 16, of Version L. He posed a scenario in which the legislation goes to a field designation, and asked if those are "already tied up so we don't have to worry about any new players." He reminded the committee that part of the PPT are the transferable credits that would allow new players to benefit, while under this legislation it would seem that only three or four players would benefit from these credits.

[2:42:19 PM](#)

MR. VAN DYKE pointed out that if Kerr-McGee [Corporation] moves forward with its development, it would qualify from some Schrader Bluff credits. Kerr-McGee would have to use those credits themselves and given the other credits they would earn under the PPT from a new development project, the company would have to sit on these credits before they could use them. Therefore, these credits [in HB 498] would have some diminished value.

[2:42:57 PM](#)

REPRESENTATIVE ROKEBERG inquired as to the Chevron lease in a new areawide sale and whether it would be covered in any of the [specified] units or would it be an additional unit.

MR. VAN DYKE specified that it would be a new area.

REPRESENTATIVE ROKEBERG said that is of concern. He related his understanding that anything [a company] picks up in a North Slope areawide lease sale wouldn't qualify unless it was in one

of those units. The aforementioned is why the discretion [of the commissioner] has to be included. He then directed attention to page 2, subsection (f), which discusses what a qualified capital expenditure is and expressed the need to clarify that.

MR. VAN DYKE, referring to page 2, line 22, explained that the exploration expenditure identified would be for anywhere in the state and not just for challenged oil. Furthermore, it would include things like seismic activity. Mr. Van Dyke then suggested that the committee may want to review the title of the bill because the aforementioned expenditure isn't for challenged oil or nonconventional oil. He characterized it as a generic statewide exploration incentive credit.

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REPRESENTATIVE ROKEBERG questioned whether the aforementioned may need to be deleted.

MS. WILSON pointed out that the title has been changed and thus it should work. However, page 2, subsection (f) hasn't been changed and the definition doesn't match the qualified capital expenditure in the PPT. Therefore, it should either be consistent or reference the definition or the [definition in Version L] needs to be changed. She highlighted that, in fact, nothing in the definition embodies capital but rather merely targets an ordinary expense.

[2:46:19 PM](#)

REPRESENTATIVE ROKEBERG remarked that the scope of the legislation will drive the redraft of the legislation. He noted his agreement with Ms. Wilson. He then related his belief that this legislation should be consistent with the PPT unless a different area is being carved out.

MS. WILSON opined that the main problem is on page 2, lines 25-27, which is the main departure from the PPT. Still, she agreed that once the policy is set, drafting the language will easily follow.

[2:47:40 PM](#)

REPRESENTATIVE SEATON surmised then that the policy decisions are whether [the proposed tax credit in HB 498] will be limited to capital expenditures that may or may not include research

expenditures and whether [the tax credit] will be allowed statewide or for only those fields specified in the legislation.

MS. WILSON suggested that in addition to those policy calls, the committee should review the definition [of qualified capital expenditure] in the PPT, which includes exploration and things that are capitalized under the Internal Revenue Code. She expressed the need to be certain that the language reflects the intent.

REPRESENTATIVE SEATON related his understanding that another policy call is in regard to whether this legislation will address only heavy oil or include [other types of energy].

REPRESENTATIVE ROKEBERG opined that the renewable energy expenditures have to have a different definition. He noted that there are no windmills in the PPT.

MS. WILSON noted her agreement, although she highlighted that the PPT does specify that it would cover capital expenditures that have been capitalized under the Internal Revenue Code. Therefore, it's not the source of the expense but rather how it's treated. In further response to Representative Rokeberg, Ms. Wilson specified that on page 5, lines 12-16, the only restriction is that it be ordinary and necessary, which is true of all business expenses under the Internal Revenue Code and that includes things that are capitalized. Therefore, if the intention is to restrict it to capitalized items, the definition needs some work. However, if the intention is to apply any expenditure with regard to that energy source, then the definition is appropriate.

[2:51:22 PM](#)

REPRESENTATIVE ROKEBERG surmised, "Using the current language here and the way the PPT is drafted, using the 25 percent tax credit as expressed in the bill. If we left it this way, it would be both a deduction and a capex credit too."

MS. WILSON explained that the definition on page 5 would include things that were expensed under the Internal Revenue Code. For example, a purchase of biodiesel that was used, it would be expensed in the federal income tax return and subject to a credit. However, since it's not capitalized, it wouldn't be subject to a credit under the PPT whereas an investment in a windmill would be a capitalized expenditure. She said that the difference [with the definition in HB 498] is the expense items.

[2:52:38 PM](#)

REPRESENTATIVE SEATON related his discomfort with this entire section because it provides credits for development [of alternative energy] only to oil companies.

REPRESENTATIVE ROKEBERG highlighted that oil companies are energy companies. He opined that an energy company could develop another energy source with a tax credit against the specific revenue generator.

REPRESENTATIVE CRAWFORD asked if anyone developing Fire Island could take advantage of oil company credits by, perhaps, purchasing them in some way.

REPRESENTATIVE ROKEBERG noted that the credits aren't transferable.

[2:54:41 PM](#)

CO-CHAIR SAMUELS indicated that allowing such would be complicated.

MS. WILSON, regarding the topic of transferability, pointed out that the previous problem of transfer to an affiliate has been fixed on page 2, line 17, which now specifies that it's nontransferable. However, the same change wasn't made to the renewable energy portion of the legislation on page 5, lines 2-9.

REPRESENTATIVE ROKEBERG characterized it as an oversight.

[2:56:44 PM](#)

REPRESENTATIVE SEATON requested that Ms. Wilson provide the committee with scenarios regarding the amount of cumulative tax credit under [HB 498] and HB 488, including federal credits.

MS. WILSON, recalling her testimony last week, said she noted that under the PPT there is the potential for a 20 percent credit, a 20 percent deduction, and a potential 35 percent federal deduction. Furthermore, depending on the type of expenditure, say for an EOR there would be a 15 percent [credit] and this would provide an additional 15 percent. Although Version L doesn't include the provisions for EOR methods, she suggested that some of the oil recoveries could be subject to

that 15 percent federal credit even though that's not specifically targeted in HB 498. Therefore, it depends on which piece of HB 498 is being reviewed. In fact, the research can receive a 20 percent federal credit. After reading through the code section for that, Ms. Wilson said that she didn't find a requirement to not count it for a federal reduction. Therefore, if it's research that's being discussed, there would be a 20 percent federal credit and perhaps a 35 percent federal deduction.

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MS. WILSON, in response to Representative Rokeberg, explained that if a deduction is taken and a company is at a 35 percent marginal tax rate, then there is the potential of a 35 percent benefit. The state corporate income tax is a factor, although she suggested that it's fairly small because for corporate income tax purposes the federal credits times 18 percent are factored in and an apportionment factor is also included. She further explained that the worldwide combination is reviewed. Therefore, if a company did 10 percent of its business in Alaska, 18 percent of the federal credit would be taken and then 10 percent of that would be taken, which is the benefit that would be listed on the state income tax. "So, it's diluted quite a bit," she said.

REPRESENTATIVE SEATON inquired as to the corporate tax rate that is going to be paid on the income earned in Alaska.

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MS. WILSON posed a situation in which a company has income of \$100 million with a 10 percent apportionment factor. In such a situation the taxable Alaska income would amount to \$10 million and a graduated tax system with the top marginal rate of 9.4 percent of the \$10 million. Therefore, the [cumulative tax credit] takes into account [a company's] worldwide [earnings] and the amount of which was earned in Alaska. Therefore, it depends on the company.

REPRESENTATIVE SEATON posed a scenario in which a company has earned \$100 million in income in Alaska and \$1 billion worldwide. The apportionment factor would be 10 percent, and therefore it [the cumulative tax credit] would be \$100 million because it's 10 percent of the company's worldwide income. Then the 9.4 percent would be applied to the \$100 million.

MS. WILSON noted her agreement.

REPRESENTATIVE SEATON surmised then that with the apportionment, it should amount to about 9 percent.

MS. WILSON said, "Again, if the apportionment factor is much less, then if you're asking what the effective tax rate is on worldwide income; it's a little bit apples and oranges." She offered to work with Representative Seaton on a scenario that the division could present.

[3:04:23 PM](#)

MS. WILSON continued with comment 8 regarding the criteria to judge nonconventional. She related her understanding that the language remains, although there may be some ideas regarding how to define "nonconventional."

REPRESENTATIVE ROKEBERG said he left the definition [in Version L] because it included oil produced or recovered from or associated with tar sands and oil shale.

CO-CHAIR SAMUELS reminded the committee that the question as to whether to just use geography or not remains.

MR. SPENCER pointed out that the Energy Information Administration provides some definition as to what it considers nonconventional oil, which the committee may want to consider to use.

REPRESENTATIVE ROKEBERG recalled that the Red Dog shallow gas prospect is a shale prospect. Oil shale isn't an uncommon geological formation in North America, although there aren't many in Alaska.

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MS. WILSON moved on to comment 10 regarding the use of credits and the order. She recalled the sponsor asking whether that language is still necessary. Since the transfer problem has been fixed, it is fine. Comment 11, she continued, refers to page 2, line 22 of Version L. The concern was addressed by adding the language "as defined under". Continuing with comment 12, Ms. Wilson referred the committee to page 2, line 7, in which the language "taxes and surcharges" was and changed to "any tax due under this chapter" in order to remain consistent with the language used in that provision. She related her

understanding that the [the same language] has been utilized in the provision addressing nonrenewables.

REPRESENTATIVE ROKEBERG referred to subsection (d) on page 5, line 2, was left in because of the desire not to run afoul of transfers to affiliates. He surmised that as a policy, qualified renewable energy expenditures should be made nontransferable and the provision regarding the affiliate deleted.

MS. WILSON confirmed that such would be her recommendation, which was accomplished in the "first section."

REPRESENTATIVE ROKEBERG surmised, "So, we needed to replicate what we did there by making it nontransferable."

MS. WILSON noted her agreement.

REPRESENTATIVE ROKEBERG then referred to page 5, line 15, and recalled that Ms. Wilson had felt the language was too broad.

MS. WILSON replied yes, and pointed out that similar language is used on page 4, line 15.

[3:10:50 PM](#)

REPRESENTATIVE ROKEBERG indicated that he may need help with drafting on this matter.

MS. WILSON explained that she was concerned with regard to whether the language reflected the intent of the committee because "development and use" could include many expenses.

REPRESENTATIVE ROKEBERG asked if deletion of the language "or use" would resolve the matter.

MS. WILSON answered yes.

REPRESENTATIVE SEATON related his understanding that these [tax credits] could be applied to gas production. He further related, "Everything only is going to be in heavy oil and it can just be offset against taxes that are incurred on your PPT for oil and gas. I just want to make sure that we don't have any slips where we get into gas production at all Or are we giving credits for gas production in a heavy oil field?"

[3:13:38 PM](#)

REPRESENTATIVE ROKEBERG recalled BP's testimony with regard to its Lisburne prospect, which is carbonate and has significant gas production. The preference [of BP] is to maintain the carbonate in Lisburne and in fact, Lisburne carbonate field is included in the legislation. Therefore, there would be some gas production associated with the lift in Lisburne.

CO-CHAIR SAMUELS interjected that it wouldn't occur in the next 10 years because gas wouldn't be produced on the [North] Slope without a pipeline. The big question is whether there is heavy oil at Point Thomson.

MR. PASKVAN said the Lisburne field is an oil field and although it does have gas associated with it, he acknowledged that there wouldn't be a sales market until the pipeline is built. "In the envisioned life span of this bill, Lisburne is a challenged oil field," he said.

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REPRESENTATIVE SEATON opined that he doesn't want to be in a situation in which in an area some heavy oil can be identified and given a 15 percent credit on all the expenditures, although it's mainly a gas producing field. He further opined that he didn't believe it's the sponsor's intent to give a 15 percent tax credit on the development gas in Bristol Bay as any heavy oil can be associated with it.

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CO-CHAIR SAMUELS said he wasn't as concerned with Bristol Bay because of the 10-year timeframe. However, he reiterated his question with regard to Point Thomson and whether there are heavy oil fields within the entire leased area that is mostly controlled by Exxon.

MR. VAN DYKE confirmed that there are oil resources in the Point Thomson unit of which some of the oil is fairly viscous. Therefore, depending upon how viscous oil/heavy oil is defined some of the development [in Point Thomson] could qualify.

CO-CHAIR SAMUELS interjected, "But not if we don't name Point Thomson."

REPRESENTATIVE ROKEBERG opined that the aforementioned illustrates one of the benefits to specifying the sites in the definition.

REPRESENTATIVE SEATON related, "But that's one of the benefits of having to come back to the legislature instead of having the commissioner be able to." Representative Seaton then asked whether the legislation should specify that "it doesn't include gas development."

CO-CHAIR SAMUELS inquired as to what type of development could be used for both oil and gas, not including reinjecting the gas. "If there was a gas pipeline built, what could you get a 15 percent credit for and then use it for gas also ... when and if the gas pipeline gets built?"

[3:18:11 PM](#)

MS. WILSON said:

I'm looking now on page 2, line 26. And when you're talking about development of challenged or nonconventional oil, ... one of the things I think about is what is the purpose of whatever it is we're doing And when we talk about it's for the development of heavy oil, we start getting into sort of intent. And I think that brings up exactly your point about really the primary purpose of Point Thomson is ... the gas. And so, that's the intent, but then ... during audit two years later do I hear: "Oh well, our intention was to get heavy oil." ... I would reiterate your observation that if you go to a field ... or reservoir specific allowance, that does away with all that intention.

CO-CHAIR SAMUELS announced, "We will not be naming Point Thomson in this bill."

REPRESENTATIVE SEATON asked if gas development is a potential in fields such as West Sak. He opined, "We're just talking about physical areas now in which we could be at much greater depths for gas. And do we have that same criteria here?"

[3:19:53 PM](#)

MR. PASKVAN specified that the Schrader Bluff and Ugnu formations have very little gas, which is one of the characteristics that make those heavy [oil].

CO-CHAIR SAMUELS restated his earlier question regarding the type of facilities that could be used for both oil and gas extraction at a field such as Point Thomson.

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MR. PASKVAN said that he doesn't know that much about the Point Thomson field. However, he said that he could speak about the Prudhoe Bay accumulation, which has the following layers of gas, oil, heavy oil, and water. If one were to try and produce gas, he/she would be best served to drill a well or take a well originally drilled for oil and completing it up into the gas cap in order to obtain dry gas rather than developing the oil and the gas jointly. He informed the committee that the volume of the heavy oil taromat in Prudhoe Bay is about a billion barrels. However, it sits on top of water, which is highly mobile and thus fairly specialized techniques to drill wells would be required to produce taromat. "I can't say as we're actually having too much luck producing that yet," he said.

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REPRESENTATIVE ROKEBERG asked if any gas is associated with heavy oil production in a typical formation. He then asked if there could be a situation in which a company is doing an EOR that could result in the generation of gas and heavy oil.

MR. PASKVAN answered that typically the heavy oil accumulations don't have significant volumes of associated gas. For example the Ugnu might have 100 standard cubic feet of gas while Prudhoe Bay might have 1,000 standard cubic feet of gas dissolved in it per barrel. Again, the main target for gas sales is the free gas that's standing in a gas cap, as may be found in the original Prudhoe Bay gas cap. He stated that typically there isn't a gas cap associated with Schrader Bluff or Ugnu.

[3:23:55 PM](#)

REPRESENTATIVE SEATON highlighted that the legislation refers to Lisburne as a participating area in the Prudhoe Bay unit, and therefore it would be available for the 15 percent credit. Furthermore, if the gas was associated with Lisburne and facilities such as a compressor station for reinjection were

built, those would also be available for the 15 percent credit for gas handling if gas comes on line.

REPRESENTATIVE ROKEBERG said that the legislation could prohibit any credits against gas.

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CO-CHAIR SAMUELS opined that the economics of everything changes if a gas line is built.

REPRESENTATIVE SEATON indicated interest in eliminating credits for gas.

REPRESENTATIVE ROKEBERG questioned how gas used to develop oil would be handled. He further questioned how miscible injectant would be handled.

REPRESENTATIVE SEATON pointed out that if the [intent] is to refer to produced gas, then it isn't used for that purpose.

REPRESENTATIVE ROKEBERG countered, "But if it was, ... a credit might be applicable if we define it that way."

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REPRESENTATIVE SEATON related that under the definitions of gas that isn't produced.

REPRESENTATIVE ELKINS recalled that there was a lawsuit over that a few years back because BP wasn't paying any tax when it took out the resource and put it back into the ground. He further recalled that former Governor Knowles settled out of court on that case for \$3 billion.

CO-CHAIR SAMUELS clarified:

Is there a compressor station that is going to be built that the state is essentially going to pay ... another 15 percent of on top of all the other credits because it will be very truthfully said [that] this ... is a heavy oil facility or piece of equipment or whatever it is. And then a gas line gets built and now we'd paid 15 percent for something which was essentially there for the gas.

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MS. WILSON utilized the example of a road being built to a well. The road is being built to develop the well from which both oil and gas will come. If specific areas or reservoirs are identified as heavy oil and a credit is given for everything that happens with that, it simplifies matters because no judgments are being made with regard to the primary purpose of building the road. However, if the decision is to not credit investments that are gas specific, she questioned what would occur with regard to allocating costs for expenditures that brought up both oil and gas. The aforementioned is another reason to specify specific areas or leases.

MR. PASKVAN reminded the committee that about 100-200 standard cubic feet per barrel of oil may be dissolved in a heavy oil.

CO-CHAIR SAMUELS said that alleviates his concern because there isn't that much gas present.

MR. PASKVAN, returning to the discussion regarding gas facilities associated with oil production, said the project being reviewed in western Prudhoe Bay is an oil development project. However, BP uses recycled gas to lift the oil from the wells. The aforementioned requires the installation of a gas compressor to handle the gas lift gas and recycle it through the compressor, into the wells, back through the production facility, and to the compressor all of which produces the oil from the well. In that case, in order to develop the oil field, the company has to invest in water handling, water injection, and gas compression facilities to develop the oil field.

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MR. SPENCER clarified that the aforementioned is using gas to artificially lift the heavy oil from the ground.

CO-CHAIR SAMUELS said he doesn't have any problem with that, but he reiterated that he didn't want to pay for another 15 percent of a gas treatment plant.

REPRESENTATIVE SEATON pointed out that under the definition of challenged oil it refers to 5,500 feet or less, but now the discussion is revolving around specifying a geographic area. He surmised that if the definition [of heavy oil] referred to both 5,500 feet or less and specific geographic areas, there would be no concern in regard to producing conventional gas.

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MR. SPENCER, regarding the proposed definition of challenged oil, explained that subparagraph (C) attempts to list the oil pools that would meet the challenged oil definition while subparagraphs (A) and (B) remain the same as in the original legislation as they would provide some guide to the department regarding what would qualify as a viscous oil project in the future. Subparagraph (D) provides the department discretion to decide that an oil field is challenged beyond the reasons stated in subparagraphs (A) and (B).

REPRESENTATIVE SEATON requested that Mr. Van Dyke provide the committee with a list of the geographic areas he would propose be classified as challenged oil, realizing that there is only a 10-year horizon.

MR. VAN DYKE agreed to do so.

REPRESENTATIVE ROKEBERG noted his agreement that some standards in the definition of challenged oil have some merit, particularly the vertical depth of 5,500 feet. He then highlighted that there is an ongoing debate regarding what constitutes heavy oil. Therefore, he expressed concern with regard to a definition without some standard, particularly in regard to future situations.

MS. WILSON indicated that although including some standards in the definition section would be helpful, it will require some careful drafting.

[HB 498 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [3:38:00 PM](#).