

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 11, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR HOUSE JOINT RESOLUTION NO. 7(FSH)
Opposing the proposed designation of an Aleutian Islands
National Marine Sanctuary.

- MOVED CSHJR 7(FSH) OUT OF COMMITTEE

OVERVIEW: MIDDLE EARTH OIL & GAS DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HJR 7

SHORT TITLE: OPPOSE ALEUTIAN NATIONAL MARINE SANCTUARY

SPONSOR(S): REPRESENTATIVE(S) EDGMON

01/21/15	(H)	READ THE FIRST TIME - REFERRALS
01/21/15	(H)	FSH, RES
02/05/15	(H)	FSH AT 10:00 AM CAPITOL 120
02/05/15	(H)	Moved CSHJR 7(FSH) Out of Committee
02/05/15	(H)	MINUTE(FSH)
02/06/15	(H)	FSH RPT CS(FSH) 7DP
02/06/15	(H)	DP: HERRON, FOSTER, MILLETT, JOHNSON, ORTIZ, KREISS-TOMKINS, STUTES

02/27/15 (H) RES AT 1:00 PM BARNES 124
02/27/15 (H) Moved CSHJR 7(FSH) Out of Committee
02/27/15 (H) MINUTE(RES)
03/02/15 (H) RES RPT CS(FSH) 6DP 1NR
03/02/15 (H) DP: HERRON, HAWKER, OLSON, TARR,
SEATON, TALERICO
03/02/15 (H) NR: JOSEPHSON
03/04/15 (H) TRANSMITTED TO (S)
03/04/15 (H) VERSION: CSHJR 7(FSH)
03/06/15 (S) READ THE FIRST TIME - REFERRALS
03/06/15 (S) RES
03/09/15 (S) RES AT 3:30 PM BUTROVICH 205
03/09/15 (S) Scheduled but Not Heard
03/11/15 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE EDGMON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of HJR 7.

ERNIE WEISS, Director
Natural Resources
Aleutians East Borough
Anchorage, Alaska

POSITION STATEMENT: Supported HJR 7.

JAMES MERY, Senior Vice President
Lands and Natural Resources
Doyon Limited

POSITION STATEMENT: Provided an overview of Middle Earth oil & gas development from Doyon's perspective.

JOE BOVEE, Vice President
Land and Resources
Ahtna Incorporation
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of Middle Earth oil & gas development from Ahtna's perspective.

GRETA SCHUERCH, Corporate and Public Policy Liaison
External Affairs
NANA Regional Corporation, Inc.
Kotzebue, Alaska

POSITION STATEMENT: Provided an overview of Middle Earth oil & gas development from NANA's perspective.

PAUL DECKER, Acting Director
Division of Oil and Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the state's Middle Earth oil & gas leasing structures.

JOHN LARSON, Audit Master
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Clarified the state's oil and tax exploration and development credits under AS 43.55.023 and AS 43.55.025.

ACTION NARRATIVE

[3:30:07 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Costello, Stedman, Wielechowski and Chair Giessel.

HJR 7-OPPOSE ALEUTIAN NATIONAL MARINE SANCTUARY

[3:30:39 PM](#)

CHAIR GIESSEL announced HJR 7 to be up for consideration [CSHJR 7(FSH) was before the committee].

SENATOR STOLTZE joined the committee.

REPRESENTATIVE EDGMON, Alaska State Legislature, Juneau, Alaska, sponsor of HJR 7, said this resolution expresses the legislature's opposition to the formation of what would have been called an "Aleutian Islands National Marine Sanctuary" brought forward by a Washington, D.C., group called the Public Employees for Environmental Responsibility that took it upon themselves through a couple of their Alaskan members to submit an application to form a sanctuary that would have encompassed Alaska in and around the Aleutian Islands and the Alaska Peninsula area.

This application was done without any consultation or any involvement of the local entities and it was rejected by the West Coast Office of the National Oceanic Atmospheric Administration (NOAA) in late January, because of that.

The resolution also argues that there is essentially a scrupulously managed emergency fisheries regime already in place through the North Pacific Fisheries Management Council (NPFMC), the Alaska Department of Fish and Game (ADF&G), the National Marine Fisheries Service (NMFS), and the Board of Fisheries, and there has been a recently completed Aleutian Islands risk assessment study, a multi-dimensional study of all the shipping hazards along the Great Circle trade route.

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SENATOR COGHILL joined the committee.

REPRESENTATIVE EDGMON said there was no support from any of the communities or tribes for this designation.

CHAIR GIESSEL noted the NOAA application, the letter to the Public Employees for Environmental Responsibility and numerous letters of support for HJR 7 in their packets.

SENATOR WIELECHOWSKI asked if he was aware of any opposition to HJR 7.

REPRESENTATIVE EDGMON answered no, but rather that everyone supported it up and down the Coast.

SENATOR COSTELLO said that all members of Congress need to be educated on Alaska issues and this communication was a nice one to send to them. She suggested a friendly amendment on page 3, line 16, to add an "s" to "U.S. Representative".

[3:35:44 PM](#)

REPRESENTATIVE EDGMON said his version reads "and the Honorable Don Young, U.S. Representative" and asked if that wasn't correct.

CHAIR GIESSEL explained that the two Senators are listed there and "U.S. Senators" refers to them, then there is "Don Young, U.S. Representative."

SENATOR COSTELLO thanked her for the clarification.

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ERNIE WEISS, Director, Natural Resources) Aleutians East Borough, said they are one of the many entities, municipalities and tribes that publicly oppose the Aleutian Island National Marine Sanctuary by letter or resolution. There are two main problems with it. One, the sheer size; it encompasses 554,000

nautical square miles and would have completely encompassed their borough, and, two, there is zero community support. His borough wasn't even consulted or notified of the nomination.

SENATOR STOLTZE wondered if listing oil and gas leasing was a gratuitous gesture, because he wants resolutions, in general, to be meaningful.

REPRESENTATIVE EDGMON said that it is not included to be gratuitous, but to factually say that the President withdrew that area from oil and gas leasing in December and asks why a marine sanctuary would be needed.

CHAIR GIESSEL, finding no further comments, closed public testimony.

SENATOR COSTELLO moved to report CSHJR 7(FSH), version 29-LS9368\E, from committee with individual recommendations and attached zero fiscal note. There were no objections and it was so ordered.

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At ease from 3:42 to 3:44 p.m.

OVERVIEW: Middle Earth Oil & Gas Development

[3:44:23 PM](#)

CHAIR GIESSEL announced the overview of Middle Earth oil and gas development and welcomed Mr. James Mery with Doyon Limited.

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JAMES MERY, Senior Vice President, Lands and Natural Resources, Doyon Limited, said his entire 35-year career with Doyon has been involved with natural resource development.

He said a large number of Frontier Basins still exist they as part of what is generally known as "Middle Earth" that consists of all areas outside of Cook Inlet and south of the Brooks Range. Today he would focus on two basins where Doyon had been active: the Nenana Basin, which is where 100 percent of their efforts over the past three years have been, including drilling a fairly deep well and two seismic programs (one 3D seismic in 2014) in the Yukon Flats area.

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Both basins have the presence of all the elements of a potentially prolific hydro-carbon system and an extensive column

of wet gas. He said the exploration credits were and are important in bringing Doyon to this point. Their leases in the Nenana Basin are mostly on State of Alaska lands and lands on the Yukon Flats that are all owned by Doyon and village corporations.

He said Doyon holds about 400,000 acres of leases from the State of Alaska for seven-year terms that will end in 2019/20 and it pays yearly rentals of about \$1.2 million. Doyon owns about 42,000 acres of subsurface lands with the Toghoththele Corporation (the Nenana Village Corporation) in conjunction with surface owners. No federal ownership is nearby, however the northern third of the leases are in the Minto Flats State Game Refuge where oil and gas is allowed conditionally. It's tougher to permit there, but they have done seismic programs that have worked out okay.

Yukon Flats, in contrast, is a much larger prospective area that is where they own Alaska Native Claims Settlement Act (ANCSA) lands. It has three separate sub-basins that have no time constraints or holding costs as there are with state lands. In part, that is what drives their current strategy of focusing on the Nenana and Minto areas where they are closer to infrastructure. If their efforts are successful at Nenana, it will blow the doors open on the whole Yukon Flats area, because of their geological similarities.

MR. MERY said they work with three villages in the Yukon Flats: Stevens Village, Beaver and Birch Creek. The adjacent area is a National Wildlife Refuge, which doesn't allow anything.

SENATOR STOLTZE asked him to talk about transportation infrastructure in the Nenana Basin.

MR. MERY said an upcoming slide would show that. He continued that the two basins have similar geology in terms of age and style of deposition. Things that work at Nenana should also work at Yukon Flats. They believe it is an oily system and oil is their primary target.

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MR. MERY said prior exploration was done by the majors in the 1960s and 80s, but they left for different reasons. More recently, Doyon conducted three seismic programs and drilled two wells, one down to 11,000 feet and one to a little over 9,000 feet. In addition, a lot of oil is seen in surface seeps

indicating that both basins have oil. The big question is how much.

Doyon had partners earlier in 2010, but without them the pace of exploration has accelerated. Doyon does oil field support services and creates new markets for all of the oil field service companies they have. So, the money stays here in Alaska.

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MR. MERY said the planned North Slope gasline route comes right next to their leases in case they discover gas. They are next to the Parks Highway, the Intertie and the Alaska Railroad; they are close to Fairbanks and refineries; Pump Station 7 is a little to the north. There are access points to the TAPS at the refineries, as well. They have also built a road out to both well sites along an existing right-of-way (ROW) that the city has wanted to develop for many years. The bridges over some of the slews were deeded to the city and the road it is a public asset.

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MR. MERY explained that the Nenana Basin petroleum system has excellent source rocks. It's very deep, long and narrow. They have seen "plenty" of migrated wet gas in a well bore over very thick packages of sands. A wet gas system is generally indicative of an oily system. It is a "world-class" reservoir with 24 percent porosity rock, clean quartz sands and good shales above the sands.

A lot of permits were needed for the Nunivak Number 2 well (N2), but they worked closely with the state agencies to get them.

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SENATOR WIELECHOWSKI asked what kind of oil he is finding in that area.

MR. MERY answered all conventional oil and wet gas, propanes and butanes with a lot of methane (80-90 percent). He added that Doyon has a good relationship with the city and has community support.

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MR. MERY said that Doyon thinks the hydrocarbon system is extensive and can be recovered. Even though they are convinced it is a robust system, because they are so close to infrastructure, big accumulations aren't need. But more seismic is needed to better define areas that may be worth drilling.

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CHAIR GIESSEL asked him to describe "trap failure."

MR. MERY described a recent trap failure that was a three-way closure up against a fault (half of an inverted teacup up against a fault). Because the fault didn't close, there wasn't adequate sealing. "Plenty" of wet gas was seen, but it was not under pressure and had too much water. The reservoir looked depleted. The chance for success in the next well given all the work they have done to date is somewhere between 1:5 and 1:10 for oil, but gas is a head scratcher. It could be stranded for quite a while and no one knows what the Fairbanks market will be then. However, commercial gas discoveries are so de-risked in the Nenana Basin that chance of success in the next well is 1:2.

He concluded thanking the legislature and the people who administer the laws on the exploration credits that are essential to hydrocarbon exploration in Interior Alaska. Middle Earth exploration would not have happened without state support. The Frontier Basin Credits program, which is Middle Earth specific, is not used on the drilling piece, because even though it is an 80 percent credit, it comes out closer to 60-65 percent and no one has used it at all. It sunsets next year and maybe it could be extended and made a little more workable.

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SENATOR WIELECHOWSKI said he appreciated the update and what Doyon is doing out there. One of the big reasons legislators supported this is because they were trying to get gas to the Interior and it seems like that is no longer an option.

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SENATOR MICCICHE joined the committee.

MR. MERY responded that gas was their focus initially, but in 2009 there started to be a lot of noise about gas getting trucked from the North Slope. Doyon saw that it would get locked out of that market potentially because they wouldn't be able to deliver gas fast enough and would have walked away then, but for the fact that in that 2009/10 well they saw evidence of an oil opportunity. That is what has kept them going.

SENATOR WIELECHOWSKI said he didn't represent Fairbanks, but he was a huge supporter of Fairbanks getting gas. Maybe state resources need to be redirected to make sure gas comes out of

this project, because it seems a lot more economic than trucking gas off the North Slope.

SENATOR MICCICHE joined the committee.

[4:12:29 PM](#)

JOE BOVEE, Vice President, Land and Resources, Ahtna Incorporation, Anchorage, Alaska, said Ahtna means "The People of the River." Their Alaska Native Claims Settlement Act (ANCSA) boundaries extend from Canada west almost all the way into and through parts of Denali National Park. They are located 150 north of Valdez, 180 miles from Anchorage and 250 miles southwest of Fairbanks.

He said the State of Alaska (SOA) established six oil and gas basins in Alaska referred to as Middle Earth. Glennallen is the area they are now exploring. The New Frontier Basin Tax credit allows 75 percent of seismic and 80 percent of exploration wells in Middle Earth for tax credit purposes. Certain things in the credit regulations work better than others and Ahtna recommended merging the .025 credits with .023 credits for faster recovery of the credits. Now it takes over a year to get .025 credits versus half that time for getting the .023 credits. Also, the Middle Earth tax credits are going to expire on June 30, 2016 and they would support a couple-year extension. Without the current tax credits, they would not be where they are today.

SENATOR WIELECHOWSKI asked how much in tax credits the state has paid out for Middle Earth so far.

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MR. BOVEE suggested asking Paul Decker for that information. He said the geological structure of Copper River Valley is currently under state land and \$100 million had been invested in exploration over the past 30 or 40 years exploring it. The geological data and past exploration give strong natural gas indications and to a lesser amount for some conventional types of oil. Their project is focused strictly on natural gas development. The formation is accessible to southcentral population centers, the state highway road system and 115 miles from Valdez (tidewater).

He said that some technical drilling challenges due to high water pressure were identified in the previous wells and they will compensate for that in the next exploration phase of drilling a new well.

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The Copper River Basin has eight oil and gas exploration wells; all are on state land except for two or three that are on Ahtna land. They have identified porous, permeable, and hydrocarbon-bearing lower Cretaceous, several large fault-bounded geologic structures that may hold economic accumulations of natural gas, and a highly pressurized water zone with natural gas at 1,100 feet with pressure of 1,000 PSI.

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SENATOR MICCICHE said there is a big difference between commercially viable and residential use and asked if he had investigated the potential of locally available gas tax credits versus commercially viable production.

MR. BOVEE answered no, because their whole emphasis at this point is on finding enough natural gas to supply the local community. The .023 and .025 credits are production credits and a certain amount of royalty to the state, because they are on state-owned land.

SENATOR MICCICHE commented that at some point they will have to separate locally available gas from commercially producible gas.

MR. BOVEE related Ahtna's current prospects as follows:

-In December 2013 Ahtna was awarded an Exploration License on 44,000 acres of State land.

-In early 2014 Ahtna partnered with two exploration partners: Rutter & Wilbanks-Midland, Texas and Santa Petroleum-Welland, Australia.

-Later in 2014, they reprocessed 90-miles of pre-existing seismic from the 1970's-1980's and 1990's. All that data is being turned over to the state as conditions of the license agreement.

-Identified a structure within the license area and conducted an additional 40-miles of new seismic. It was finished in December and was fairly successful except that they had trouble getting their equipment over some lowlands.

-Preliminary data shows outline of crest of gas structure 14-miles west of Glennallen and 2-miles from the Richardson Hwy.

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SENATOR MICCICHE asked if any targets are deeper than 1,300 feet.

MR. BOVEE answered yes; the Moose Creek and Ahtna 119 wells have been drilled to about 6,000 feet. They think the exploration

target on state land will be similar, 5,000-7,000 feet, but they aren't real sure yet.

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Ahtna's range of market opportunities:

-If there are only thousands of BTUs/day there would be no development.

-If there's millions of BTUs/day their foremost priority is to develop the local market with the utilities companies, which would mean cost savings in terms of tax credits back to the explorers and investors, but also some reduction in the power-cost-equalization credits, and some help to the school district and local communities.

-If the best happens and billions of BTUs/day available they would look at some sort of pipeline to in-state or international markets.

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Ahtna's development options:

The local market is viable; diesel fuel is \$4/gallon and the estimate natural gas market delivered is about \$1.67; so, a 50-60 percent savings.

Ahtna Gas Development timeline:

Completed in Dec. 2014:

- \$3 Million in Seismic/Contractual Preliminary Work,
- Procured Additional Investors
- Acquired existing seismic data Well Location restrictions
- DNR Meetings

Permitting needs:

- Seismic Permitting
- Bonding/License
- Seismic
- Define new lines

Over the next 6-8 months they will invest \$1.3-\$1.5 Million in:

- Drilling Planning Schedule
- Procuring Drilling Rig
- Procuring Sub-Contractors
- Permit Process
- Pad/Construction design & Schedule
- Well Design & Drilling Schedule

After this preliminary work they are anticipating spending another \$10-12 million to drill another well on state land.

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Conclusions and next steps:

- Engineer and design a new well with completion prior to June - 2016 dependent on tax credit scenarios.
- Finalize RCA application for local gas distribution. He explained that they have a fallback plan, but the first one is to develop the local natural gas (pipeline). The second, is trucking LNG, such as a micro-Fairbanks natural gas plant for the hub around Glennallen. The RCA permit is required to do either and they are a year into that process.
- Determine and develop markets depending on the size, quality and quantity of the gas. Or an electric Intertie could be cheaper. His initial assessment is that it is probably cheaper to ship electricity than it is to build a small 6 or 8 inch gas pipeline.

[4:26:47 PM](#)

GRETA SCHUERCH, Corporate and Public Policy Liaison, External Affairs, NANA Regional Corporation, Inc., Kotzebue, Alaska, At NANA, said:

Our mission is to improve the quality of life for our more than 13,500 Iñupiat shareholders by maximizing economic growth, protecting and enhancing our lands, and promoting healthy communities with decisions and behaviors guided by our Iñupiat Ilitqisiat, which is our traditional value system.

They believe that working to lower the cost of energy in their communities will help achieve this mission, and, therefore, NANA has a keen interest in the natural gas potential.

MS. SCHUERCH said the Kotzebue Basin is very similar to the Cook Inlet Basin in gas potential. Their main targets are onshore and on NANA land. NANA shares Doyon and Ahtna's position on the Middle Earth tax credits, because of the dire need for affordable energy in Northwest Alaska where residents are paying from \$6-11/gallon for gasoline and heating fuel. In addition to the 11 communities in the NANA Region, the Red Dog Mine is a potential anchor customer for natural gas.

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She presented the Kotzebue Basin Oil and Gas Project History:
Chevron

- Extensive regional seismic studies, 1970-1974
- Two wells drilled in 1974 & 1975,
- Chevron lost interest once it determined it was a gas prone basin (oil was the company's focus)

NANA Consultant - Intera Report - 1993-1995

- Postulated oil prone sources and potential for gas
- Relatively high risk for exploration for relatively small field sizes ignoring local market needs
- Yet showed gas potential

Trio Petroleum

- Exploration Agreement and Option to lease dated 2008
- Firm well commitments in every year commencing April 1, 2010
- No wells drilled agreement terminated 2011 after failing to fund drilling

NANA Consultant - Moyes & Co.

- Retained August 2012 to provide technical and commercial assistance
- Assembled existing data, Reprocessed seismic data
- Evaluating technical and commercial issues
- Attracted company for on-site reviews in 2014

MS. SCHUERCH said the two wells drilled in the 70's were on Baldwin Peninsula near Kotzebue and the other near Cape Espenberg. Her map indicated prospect areas for natural gas in tan.

MS. SCHUERCH said that NANA's efforts have led to signing five confidentiality agreements in 2014 and one in 2015. The 2015 company that visited twice deemed the basin was too high of a geological risk to fund the exploration in total and there is no deal with them yet. Because of this, NANA is continuing to evaluate how they can help fund the seismic work to help de-risk the geology and technical aspects of the Kotzebue Basin.

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Getting more information will help them find more targets for drilling. The state incentives have definitely helped in the exploration and NANA appreciates the work and support the legislature has given them to help decrease the cost of living and energy in their communities.

SENATOR MICCICHE commented that she captured something perfectly in the slide that says: "Relatively high risk for exploration for relatively small field sizes ignoring local market needs" and said everyone who has looked in the past looked for commercial viability, but he hoped NANA would continue focusing on the value of the local market.

[4:33:08 PM](#)

PAUL DECKER, Acting Director, Division of Oil and Gas, Department of Natural Resources (DNR), Anchorage, Alaska, launched into the page 2 schematic rendering of the main sedimentary basins in Alaska. It indicated the vast resources and reserves north of the Brooks Range that have been producing for a long time now, Cook Inlet and other "yellow areas" that are still in "Frontier Basin" exploration status. The onshore ones, exclusive of the North Slope and Cook Inlet, were typically referred to as "Middle Earth." Slide 3 compiled statewide oil and gas resource assessments viewed by the U.S. Geological Survey (USGS) and the Bureau of Ocean Energy Management for the offshore OCS waters into five regions.

He pointed out that the Interior Basins are not fully assessed, even by the federal government. One quantitative assessment has been done for the Yukon Flats and Kandik Basins. The Nenana, Kotzebue, Copper River, Holitna, and Susitna Basins don't have quantitative assessments. The other southern Alaska basins are mostly assessed in federal OCS waters, but not in the Alaska Peninsula onshore area. The point of this slide is that they really aren't necessarily "elephant hunting" in the Frontier Basins.

SENATOR MICCICHE noted a typo for mean gas estimates on slide 3: the 23 BCF should be 23 TCF.

[4:37:27 PM](#)

MR. DECKER explained that the terms "Middle Earth" and "Frontier Basins onshore" are mostly synonymous and cover the Alaska lands south of 68 degrees north latitude and outside of Cook Inlet. Frontier Basins can be construed to include any of those areas outside of Cook Inlet and the North Slope.

When they talk about the frontier exploration status they mean the most significant oil or gas discoveries made to date that are not producing, are definitely underexplored and, therefore, lack proven petroleum systems, meaning economically producible oil or gas has not been discovered. Many of these basins have positive indications, but so far they are not considered "proven" petroleum systems with economic fields.

Middle Earth (versus Frontier Basin) tax credits are the credits in AS 43.55.024(a) that allow up to \$6 million in production credits. Frontier Basin credits under AS 43.55.025(a)(6) are for exploration: drilling the first four exploration wells in the Frontier Basin areas defined by the circles in paragraph (o) of the statute. Credits in AS 43.55.025(a)(7) apply to acquiring

the first four seismic programs in those areas. The wells would come with an 80 percent credit up to \$25 million per well and the seismic credit would pay for 75 percent up to \$10 million per survey.

SENATOR WIELECHOWSKI asked him if the .025(a)(6) credits are for exploration wells in total or four exploration wells per company, and the same question would apply to .025(a)(7).

MR. DECKER answered that the .025(a)(6) credit is for the first four wells in any of the Frontier Basins spelled out in (o), no more than two of which can be within the seamed area. The seismic credit would be the first four seismic surveys total, no more than one of which can be within one of the circles.

SENATOR WIELECHOWSKI followed up asking the maximum liability the state would have for four exploration wells as follows: 80 percent of \$25 million is \$20 million times four. So, the maximum (a)(6) liability would be \$20 million times four for \$80 million and the maximum (a)(7) liability would be \$10 million times four which equals \$40 million, multiplied by 75 percent would be \$30 million?

MR. DECKER answered that was correct.

SENATOR WIELECHOWSKI asked how much the state has paid out in tax credits so far.

MR. DECKER answered it appears that \$7.5 million has been paid out for one seismic program. The well credits have not been used to date.

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SENATOR WIELECHOWSKI said he had heard about people exploring and maybe they just hadn't submitted their bill for the credits yet and asked why they hadn't heard about them.

MR. DECKER answered that some drilling had been conducted under other credits. Doyon had used the .023 credits, which include other provisions. He couldn't say for certain that they have not applied for the .025(a)(6) credit on any of those wells.

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MR. MERY clarified that Doyon has used different programs for different projects. They have only used one of the credits for one seismic program. They figured out that they would actually get as much money back under .023 and get it three times faster

than under the .025 credits. That is why they went with the .023 credits.

SENATOR WIELECHOWSKI wanted someone to explain how much the .023 credits are and what they apply to and explain why the .025 credits were passed up.

MR. MERY answered that there was a lack of understanding on a lot of peoples' parts, including theirs, because they had never operated a project when that bill passed. When you start operating and moving the numbers around, it becomes clear.

SENATOR WIELECHOWSKI asked if the .023 credits are also 80 percent.

MR. MERY answered that they are an aggregation of different types of credits amounting to about 65 percent.

CHAIR GIESSEL asked Mr. Larson if he had further comments.

[4:45:57 PM](#)

JOHN LARSON, Audit Master, Department of Revenue, Anchorage, Alaska, clarified that the 65 percent under the .023 credits is a combination of the well lease expenditure credits and the AS 43.55.023 (1), 40 percent of well lease expenditures. Added onto that is .023 (b) carry forward loss credit of 25 percent.

SENATOR WIELECHOWSKI asked what the tax rate would be if a find was brought to production.

MR. LARSON replied that the gross value reduction (GVR) applies only to oil, so it would depend on whether the find was gas or oil.

MR. MERY commented that there are special tax rates for the Interior Frontier Basins, a 4 percent flat gross well-head value tax for the first seven years of production on new fields. Then, depending on whether it is oil or gas, after seven years, it would flip to the North Slope rate.

SENATOR WIELECHOWSKI asked if the deductions could be below 4 percent.

MR. MERY answered no.

SENATOR WIELECHOWSKI asked after seven years if that would be eligible for a GVR.

MR. LARSON answered that the GVR credit would apply for oil production after the seven-year period. [Mr. Larson wrote in an email later that day that he was incorrect; the GVR cannot apply to the basin in question.]

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SENATOR WIELECHOWSKI asked if these have 12.5 percent royalty.

MR. MERY answered yes.

[4:49:05 PM](#)

MR. DECKER took up his presentation on page 6 that described the coordinates for the AS 43.55.025(o) areas in circles, the method for defining some of the criteria for where the Frontier Basin tax credits could apply. He said they have to be within a sedimentary basin as well as within the circle. Both Nenana and Yukon Flats are within the large circle around Fairbanks, the Kotzebue Selewick Basin is within reach of the Kotzebue circle and the Copper River Basin is within reach of the circle around Glennallen. A couple of other areas were also intended to help stimulate exploration in the Yukon River Delta and the Alaska Peninsula.

Page 8 had to do with exploration licensing as an alternative to area-wide lease sales (like what happens on the North Slope, in Cook Inlet and on the Alaska Peninsula). Some areas of the state are not as easy to get leases where people can apply for exploration licenses; five are listed as active and two are pending.

[4:52:55 PM](#)

MR. DECKER said the Nenana has been entirely converted to lease. Susitna has one large area that has been converted to lease as well as two adjoining areas that are still in the active exploration license stages. There is a proposed exploration license near Houston/Willow, presumably for coalbed methane, and a recent one in southwest Cook Inlet with oil shales. He said the individual companies have been active, Doyon being the most active.

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SENATOR MICCICHE said looking at the locations in AS 43.55.0.025(o), that there was some focus on providing local gas to communities and asked if those were from previous exploration or was there now a focus on providing credits for residential use in that subsection.

MR. DECKER replied that was one of the criteria the statute the DNR commissioner needs to evaluate: "the proximity to a community in need of a local energy source" in determining whether a project qualifies for this credit.

CHAIR GIESSEL thanked the participants.

[4:56:51 PM](#)

CHAIR GIESSEL adjourned the Senate Resources Standing Committee meeting at 4:56 p.m.