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FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: February 28, 1994

FURTHER REFERRALS:

Date of Committee Action: 3/1/94

The FINANCE Committee considered:

HB 199

HOUSE BILL NO. 199

OIL & GAS EXPLORATION LICENSES/LEASES

"An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 199 (O.G.) the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) DNR 2/9/94 ; ~~_____~~

| SIGNING DO PASS | DP | OTHER RECOMMENDATIONS | DNP | NR | AM |
|---------------------------------|----|------------------------|-----|----|----|
| <i>Ronald J. Larson</i> Larson | X | <i>Kay Brown</i> Brown | | | ✓ |
| <i>Mark Hanley</i> Hanley | X | | | | |
| <i>Terry Martin</i> Martin | X | | | | |
| <i>Sean P. Farrell</i> Farrell | X | | | | |
| <i>Tom Theriault</i> Theriault | X | | | | |
| <i>Richard J. Foster</i> Foster | X | | | | |
| <i>Edward P. McLean</i> McLean | X | | | | |
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| | | | | | |

Edward P. McLean *Ronald J. Larson*
 CO CHAIRMAN'S SIGNATURE
McLean *Larson*

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

No. 1
Bill Version: HB 199
(H) Publish Date: 3/5/93

Revision Date: _____ Dept. Affected: Revenue
Title: Oil & Gas Exploration Licenses and Leases BRU: Revenue Operations
Component: Oil & Gas Audit Division
Sponsor: Governor
Requestor: Governor COMPONENT SERIAL NO. 115

Expenditures/Revenues: (Thousands of Dollars)

| | FY94 | FY95 | FY96 | FY97 | FY98 | FY99 |
|-------------------|------|------|------|------|------|------|
| OPERATING | | | | | | |
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|----------------------|--|--|--|--|--|--|
| REVENUE FUND SOURCE: | | | | | | |
|----------------------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

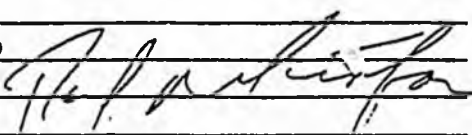
| | | | | | | |
|--------------------------|-----|-----|-----|-----|-----|-----|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1006 GF/MHTIA | | | | | | |
| Other | | | | | | |
| TOT. L | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

Estimate of current year (FY93) impact: \$ 0.00

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Rod R. Mourant Phone: 465-2300
Division: Commissioner's Office Date: 3/2/93
Approved by Commissioner: Darrel J. Rexwinkel  Date: 3/2/93
Agency: _____

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FISCAL NOTE

No. 2

Bill Version: CSHB 199 (O&G)

BILL (H) Publish Date: 2/9/94

STATE OF ALASKA

1994 LEGISLATIVE SESSION

Revision Date: 7-Feb-94

Dept Affected: Natural Resources

Title: "An Act providing for oil and gas exploration

BRU: Resource Development

licenses, and oil and gas leases, in certain areas of the state...

Component: Oil & Gas Development

Sponsor: House Rules by request of the Governor

Requestor: House Oil & Gas

Component Serial No. 439

Expenditures/Revenues

(Thousands of Dollars)

| OPERATING EXPENDITURES | FY95 | FY96 | FY97 | FY98 | FY99 | FY00 |
|-------------------------------|------|------|------|------|------|------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CAPITAL EXPENDITURES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CHANGE IN REVENUES () | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

IND SOURCE

(Thousands of Dollars)

| | | | | | | |
|--------------------------|-----|-----|-----|-----|-----|-----|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1006 GF/MHTIA | | | | | | |
| Other | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY94) cost: \$ None

POSITIONS

| | | | | | | |
|-----------|---|---|---|---|---|---|
| FULL-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY | 0 | 0 | 0 | 0 | 0 | 0 |

ANALYSIS:

(Attach a separate page if necessary)

The zero fiscal note is predicated on the Division of Oil & Gas being funded to the full level of the Governor's budget request. The Division of Oil & Gas will be the primary administrators of this program and need to be fully staffed to accomplish this task.

Prepared by: Jim Eason, Director Phone: 762-2548
 Division: Oil & Gas Date: 7-Feb-94
 Approved by Commissioner: Harry A. Noah Date: 7-Feb-94
 Agency: Natural Resources

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Withdrawn

AMENDMENT

II

OFFERED IN THE HOUSE
TO: CSHB 199(O&G)

BY REPRESENTATIVE BROWN

Page 2, line 27:

Delete "and"

Page 3, line 3, after "Seward Meridian":

Insert "; and

(3) the area described in AS 38.05.140(f)"

AMENDMENT III
* (amended) adopt

Failed

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 3, line 9, after "AS 38.05.132.":

Insert "The commissioner may, at any time after issuance of a written determination under this subsection, revise the description of the land that may be ^{OFFERED UNDER} [subject to] the provisions of AS 38.05.132 based upon the commissioner's receipt of new information."

Failed

(2-6)

AMENDMENT I

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 6, line 29, after "The regulations":

Delete "must"

Insert "may"

AMENDMENT 4 Failed

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 8, lines 26 - 27:

Delete all material and insert:

"(3) must be conditioned upon payment to the state of a fixed royalty share

(A) of not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(B) of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state; or

(C) based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;"

Amendment to CSHB 199 (Oil and Gas)

5

Failed

Page 3

between lines 3 and 4, insert a new sub-section to read:

"(3) tide and submerged lands"

Purpose and effect of amendment:

Licensing for oil and gas exploration would not apply to Alaska's marine areas if the amendment were to be adopted.

Rationale:

1) Licensing very large areas for oil exploration makes it even more difficult for the department and the public to determine what impacts may occur and where they will happen

Reasonably detailed information on potential impacts is necessary if the best interest determinations and consistency findings are to have any validity.

This detail may become vague when up to 500,000 acres (say, a parcel that is 20 miles wide and almost 40 miles long) is being considered.

The present leasing law has a well-publicized schedule, and deals with much smaller areas. This allows a more focused review, necessary in the sensitive marine environment.

Back-up

**ALASKA OIL AND GAS ASSOCIATION
POSITION
ON
LARGE BLOCK EXPLORATION LICENSING LEGISLATION
(HB 199/SB 150)**

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies account for the majority of oil and gas exploration, production, transportation and marketing activities in Alaska.

AOGA believes that large block licensing is an attractive addition to the State's leasing program to accelerate exploration and potential development of Alaska's frontier areas.

The Association has established the following position on large block exploration licensing legislation:

- AOGA supports a large block licensing program that does not apply to lands (1) north of the Umiat baseline; (2) lands south of the Umiat baseline that are within proposed Competitive Oil and Gas Lease Sales 80, 87 and 88 prior to the initial sale; and (3) in the vicinity of Cook Inlet that are within the area bounded by the north boundary of Township 17 North S.M., the Seward Meridian, the south boundary of Township 7 South S.M., and the west boundary of Range 19 West S.M.
- AOGA supports a program in which a license is conditioned upon the posting of an annual bond or other security in favor of the state and in which the annual bond or other security is calculated as the entire work commitment expressed in dollars less the cumulative expenditures as of the last day of the most recent project-year, divided by the remaining years of the exploration license.
- AOGA supports a competitive program in which all licenses are awarded on the basis of written, sealed bids for total dollar work commitment. The commissioner should adopt regulations to evaluate competing proposals.

AOGA Position on HB 199/SB 150

Page 2

- AOGA supports a program in which conversion from license to lease is under existing state leasing statutes AS 38.05.180 (j)-(m), (o)-(u), and (x)-(z), and upon conversion, such a lease is subject to the acreage chargeability of AS 38.05.140(c).
- AOGA supports a program in which any relinquishment of the License area does not occur before the fourth anniversary of the License and each year thereafter is a percentage relinquishment of the remaining License area not to exceed 50 percent of the original License area. As an incentive for early evaluation of a License area, AOGA believes no relinquishment should be required if the Licensee has expended 50 percent of the approved work commitment by the fourth anniversary of the License.

The House Oil and Gas Committee Substitute for HB 199 is consistent with the AOGA position on exploration licensing legislation. AOGA supports CSHB 199.

AOGA MEMBERS:

Amerada Hess Corporation
Anadarko Petroleum Corporation
ARCO Alaska, Inc.
BP Exploration (Alaska), Inc.
Chevron U.S.A. Inc.
Cook Inlet Region, Inc.
Exxon Company, U.S.A.
MAPCO Alaska Petroleum Inc.
Marathon Oil Company

Mobil Oil Corporation
Petrofina Delaware, Inc.
Petro Star, Inc.
Phillips Petroleum Company
Rowan Companies, Inc.
Shell Western E&P Inc.
Texaco Inc.
Union Texas Petroleum Alaska Corp.
UNOCAL

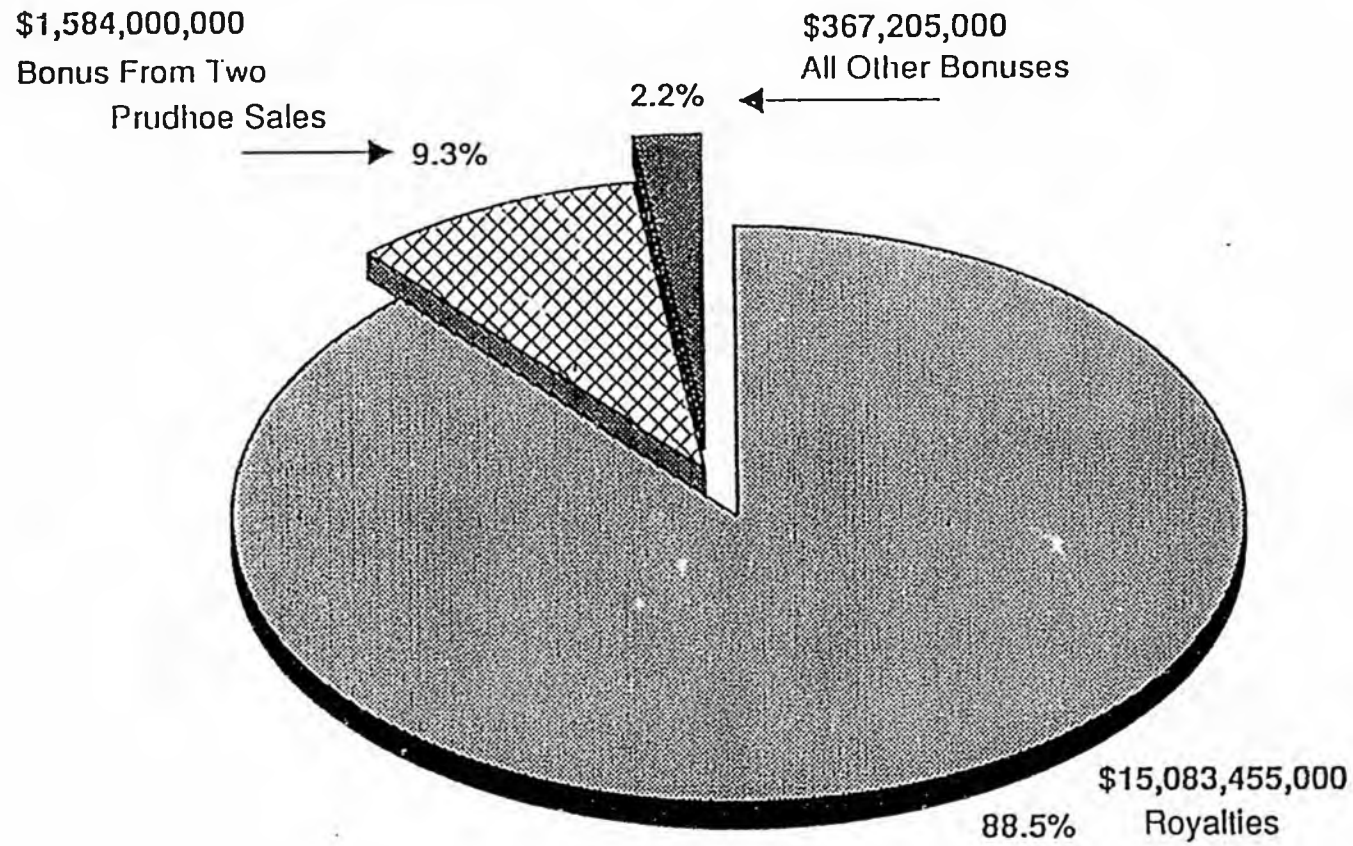
Exploration Licensing - 1/18/94

(CSHB 199) Version I

ARCO supports the October 25 DNR version as a strong , frontier licensing bill. We particularly want to point out its strengths in providing a level playing field for potential competitors.

- 1) The bonding formulation strikes an appropriate balance amongst a variety of interests to provide equal financial footing for bidders and solid protection of the State's interest.
- 2) Leases are achieved only after the entire work commitment is completed, which minimizes chances for speculation.
- 3) The bonding and relinquishment provisions provide incentives to conduct the work early and vigorously.
- 4) The bonding provisions allows the licensee the maximum flexibility to pursue a work program that makes sense.
- 5) The licensing supplements, and also dovetails into the proven state leasing system, providing licensees with maximum certainty of the long term rules.
- 6) Finally, the winning bid, in any competition is selected based upon the objective standards of total dollar amount using sealed bids.

Comparison of Royalties and Bonuses FY'65-FY'92



WALTER J. HICKEL
GOVERNOR



P. O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

LB 199

March 5, 1993

*The Honorable Ramona L. Barnes
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182*

Dear Speaker Barnes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.

The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.

Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the

~~ORIGINAL~~

COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

HB 199

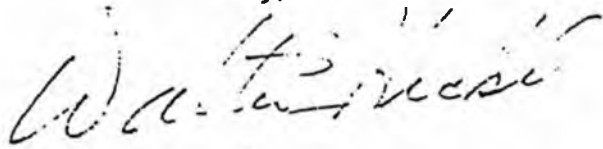
acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Walter J. Hickel".

Walter J. Hickel
Governor

Context

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(13) "park and recreation land" means land chiefly valuable for public park and recreation use:

(14) "preference right forest lease" means a lease granted to a lessee whose United States Forest Service term special use permit was cancelled to allow the land under permit to be selected by the state:

(15) "preference right grazing lease" means a grazing lease granted to a lessee whose federal grazing lease was cancelled to allow the land under lease to be selected by the state:

(16) "public water" means navigable water and all other water, whether inland or coastal, fresh or salt, that is reasonably suitable for public use and utility, habitat for fish and wildlife in which there is a public interest, or migration and spawning of fish in which there is a public interest;

(17) "rule of approximation" is the rule which is applied in determining whether or not a lease complies with the area limits set forth in this chapter and regulations adopted under it and in keeping the boundaries of leased land coincidental with legal subdivisions; under the rule, if the area covered by a lease in excess of the permitted maximum is smaller than the area of any deficiency that would result by eliminating from the lease the smallest legal subdivision covered by the lease or application for lease, the excess area will be permitted to remain in the lease; if the excess area is greater than the deficient area would be, then the smallest legal subdivision will be eliminated from the lease;

(18) "shoreland" means land belonging to the state which is covered by nontidal water that is navigable under the laws of the United States up to ordinary high water mark as modified by accretion, erosion, or reliction;

(19) "state land" or "land" means all land, including shore, tide and submerged land, or resources belonging to or acquired by the state;

(20) "submerged land" means land covered by tidal water between the line of mean low water and seaward to a distance of three geographical miles or further as may hereafter be properly claimed by the state;

(21) "tideland" means and that is periodically covered by tidal water between the elevation of mean high water and mean low water;

(22) "timber land" and "material land" mean state land chiefly valuable for materials, including, but not limited to, sand, stone, gravel, pumice, common clay, or timber and other forest products;

(23) "university land"

(A) means

(i) all sections 33 reserved to the university under 38 Stat. 1214, as amended;

(ii) all land granted to or reserved for the benefit of the university that retains its designation as university land;

BUSINESS

Bills aim to speed oil exploration

Licensing, data exchange plans hoped to offset Prudhoe decline

By IAN MADER
The Associated Press

JUNEAU — The Hickel administration has proposed legislation that it says would promote quicker exploration of the state's oil reserves.

One bill would allow oil companies to apply for licenses to explore large tracts at once, bypassing the need to collect enough contiguous smaller tracts at state lease auctions to make exploration practical.

Under Senate Bill 150 and House Bill 199, a company would get a large-area license by committing to do the exploration soon and posting a bond to guarantee the work.

Ken Boyd, deputy director of the state Oil and Gas Division, said auctions often leave several contiguous tracts in the hands of different companies, which would have to team up for exploration. They often do not agree on when to start drilling.

Licensing would remove that delay, he said. "There's no hemming and hawing. You put down your bond and away you go."

Competition would not end under licensing, he said. Once a company applied for a license, other companies could make counterproposals to the state. State officials would choose the best proposal. If the company found oil, it would have the option

to lease the land.

Arco Alaska Inc., the biggest supporter of "exploration licensing," says the idea could help make Alaska more attractive to new oil companies and those that have been leaving the state for foreign prospects.

"We think it will attract new investors by cutting as much as a decade from the time required to find and develop a new Alaska oil field," Arco vice president James M. Davis told the Juneau Chamber of Commerce last week.

BP Exploration (Alaska) Inc. says it

Please see D-6, LICENSING

LICENSING: Hoped to entice more oil firms

Continued from Page D-4

prefers the competitive lease process for known oil-rich areas such as the North Slope and Cook Inlet, but would support licensing for basins in interior Alaska.

Rep. Joe Green, R-Anchorage and chairman of the House Oil and Gas Committee, said a company's support for the idea "will depend how cash-rich they are at the moment."

Arco apparently has the cash. The company says it will spend \$900 million on Alaska exploration in the next five years.

BP recently slashed its Alaska operations and has not announced an exploration spending plan, but has said it will drill three wells this year and take part in a fourth.

Boyd said the legislation is not necessarily intended for the North Slope, and that the natural resources commissioner could say that licensing would only apply in remote basins in interior Alaska.

BP spokesman Tom Williams said the company would not support the bill unless it had more provisions to guarantee millions of acres of unleased North Slope land would not be licensed in large blocks.

"We like the bidding process," Williams said. "In large-block licensing there's enough blanks to be filled in that we just don't know."

Smaller companies have worried that they won't have enough capital to apply for a large-block license, Boyd said. Unless such companies team up with others, they probably should not be drilling in the interior anyway, he said.

"I don't want somebody to go out into a basin and not be financially responsible to do the work," Boyd said. "Unfortunately, Alaska is not a good place for the smaller independents. It's remote, it's large, it's cold."

"The commitment to exploration also will prevent speculators from holding potential oil fields for years," Boyd said.

Rep. John Davies, D-Fairbanks, said he's concerned the speedy timetable under licensing might compromise public review that would examine environmental effects and look at alternative uses for the land.

"It seems to me that both Arco and BP have announced increased exploration in the next decade," he said. "I'm skeptical as to whether we really need any incentives."

Under another Hickel proposal, the state would pay up to half of a company's exploration costs on non-state lands in exchange for data that could shed light on the prospects for nearby state land, Boyd said.

Under SB151 and HB200, the state would use that information to market the nearby state land, Boyd said.

"Any information we can get on these strange interior basins, so much the better," Boyd said.

Green said both proposals could help offset the decline in Prudhoe Bay oil production.

"OK, we've driven a lot of oil companies out with unstable licensing," Green said. "These measures say, 'Look, we're trying to come up with ways of enticing you back into the state.'"

COMPARISON OF HB199, OCTOBER 25 DRAFT
& PROPOSED HSE O&G CS (VERSION "I")

Prepared by O&G Committee Staff 1-28-94

| | HB 199 | October 25 Draft | Proposed O&G CS (version "I") |
|-----------------------------|--|--|---|
| Geograph Restricti | All state land with insufficient geological or geophysical information, unleased state land and land previously available for lease is available for exploration licensing. | Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available. | Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available. |
| Minimum Work Commitments | Must fulfill work commitment by the end of the license term. | Must complete at least 25% of work commitment by end of the 4th year. | Must complete at least 25% of work commitment by end of the 4th year. |
| Relinquishmen | No requishment provisions. | No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%. | No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%. |
| Bonding | Bonding required for the total work commitment. If work commitment not completed, forfeit remaining amount of bond. | Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining. | Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining. |
| Competitive Bidding | Oral outcry auction. Bid awarded to highest work commitment expressed in dollars. | Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.) | Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest, & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.) |
| Acreage Chargeability | License area of not more than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with 30,000 tracts. Not subject to AS 38.05.140(c) acreage limitations. Annual rental is \$3 per acre. | License area of not <i>less</i> than 20,000 acres, and not <i>more</i> than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS 38.05.140(c). Annual rental is \$3 per acre. | License area of not <i>less</i> than 20,000 acres, and not <i>more</i> than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS38.05.140(c). Annual rental is \$3 per acre |

Exploration License

Summary

OBJECTIVE

- ENCOURAGE MORE EXPLORATION
- MINIMIZE DIRECT COST TO STATE
- SHORTEN TIME TO DISCOVERIES
- REDUCE RISK/COSTS OF EXPLORATION
- DISCOURAGE LAND SPECULATION
- MAINTAIN COMPETITION FOR STATE RESOURCES

CONCEPT

- SUPPLEMENTS LEASING PROGRAM
- LICENSE GRANTED FOR ACTIVITY COMMITMENT
- COMMITMENT SECURED BY PERFORMANCE BOND
- LEASE CONVERSION UPON WORK COMPLETION
- LEASE TERMS ATTACHED TO LICENSE

PROCEDURE

- UNLEASED STATE LAND IDENTIFIED
- EXPLORATION EXPENDITURES PROPOSED
- COMPETITIVE PROPOSALS INVITED
- SELECTION/BEST INTEREST FINDING MADE
- LICENSE/LEASE TERMS FINALIZED
- ACTIVITY PERMITS ACQUIRED
- ACTIVITY CONDUCTED
- LICENSE CONVERTED TO LEASES

EXPLORATION LICENSING

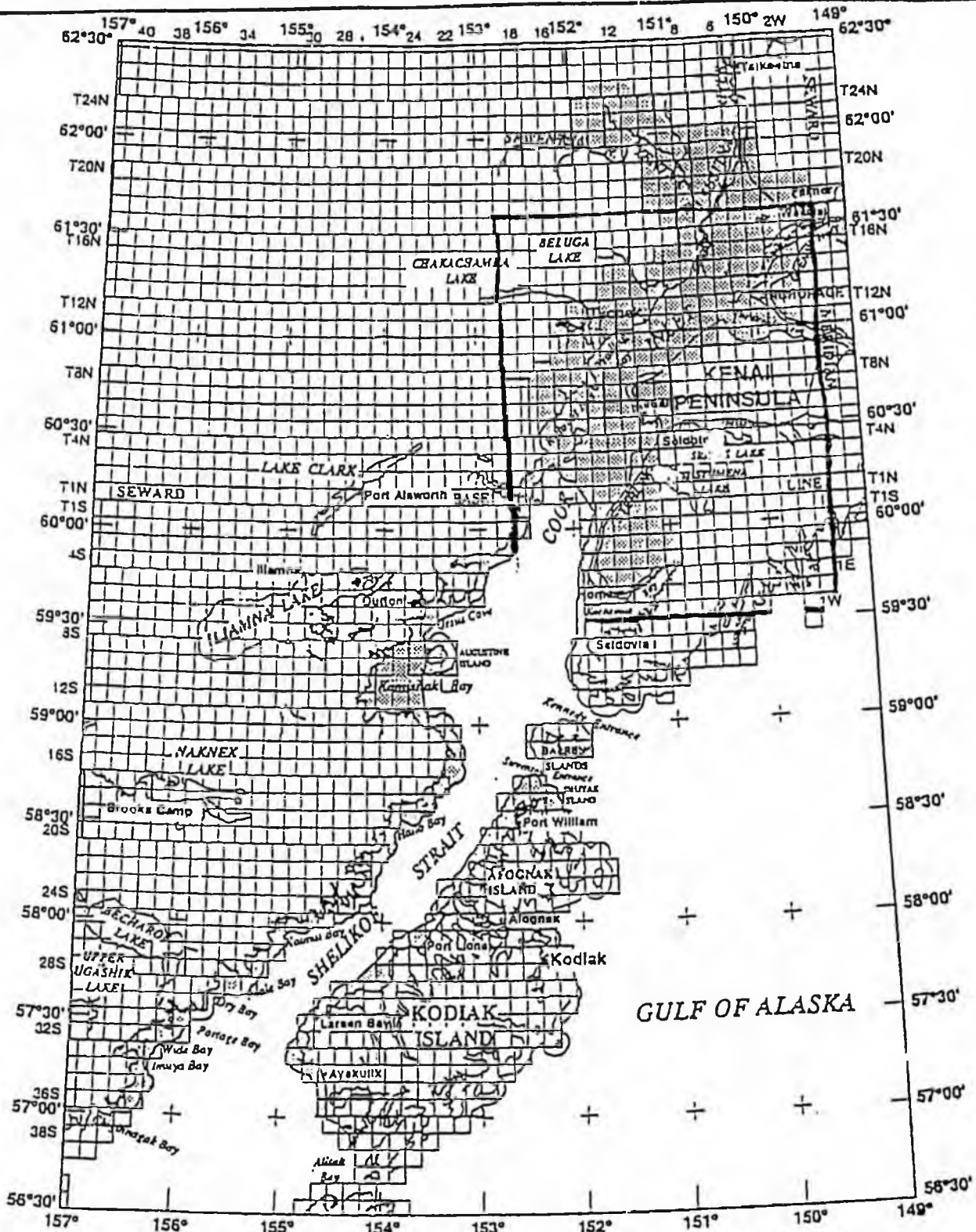
KEY ASPECTS

PROTECTS STATE'S INTEREST

- ENOUGH TIME FOR COMPETITION TO MATURE
- STATE CAN REJECT ANY PROPOSAL
- SUPPLEMENTS EXISTING LEASE PROGRAM
- LICENSE CONVERTS TO SMALLER LEASES
 - EXISTING RULES THEN APPLY
- PUBLIC BEST INTEREST FINDING MADE
- PERFORMANCE BOND ENSURES WORK GETS DONE
- SHIFTS ANALYSIS TO INDUSTRY
- COMMERCIAL DEVELOPMENT YIELDS ROYALTY TAXES

ENCOURAGES EXPLORATION/DEVELOPMENT

- CAPITAL GOES TO ACTIVITY NOT BONUS/RENTAL
- SHORTENS TIME FOR EXPLORATION
- FITS WITH TAPS INFRASTRUCTURE TIMING
- LAND SIZE FITS WITH EXPLORATION
- SECURITY OF TITLE ACHIEVED
- OWNERSHIP WORKED OUT AHEAD OF DISCOVERY
- REDUCED COSTS/RISKS



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

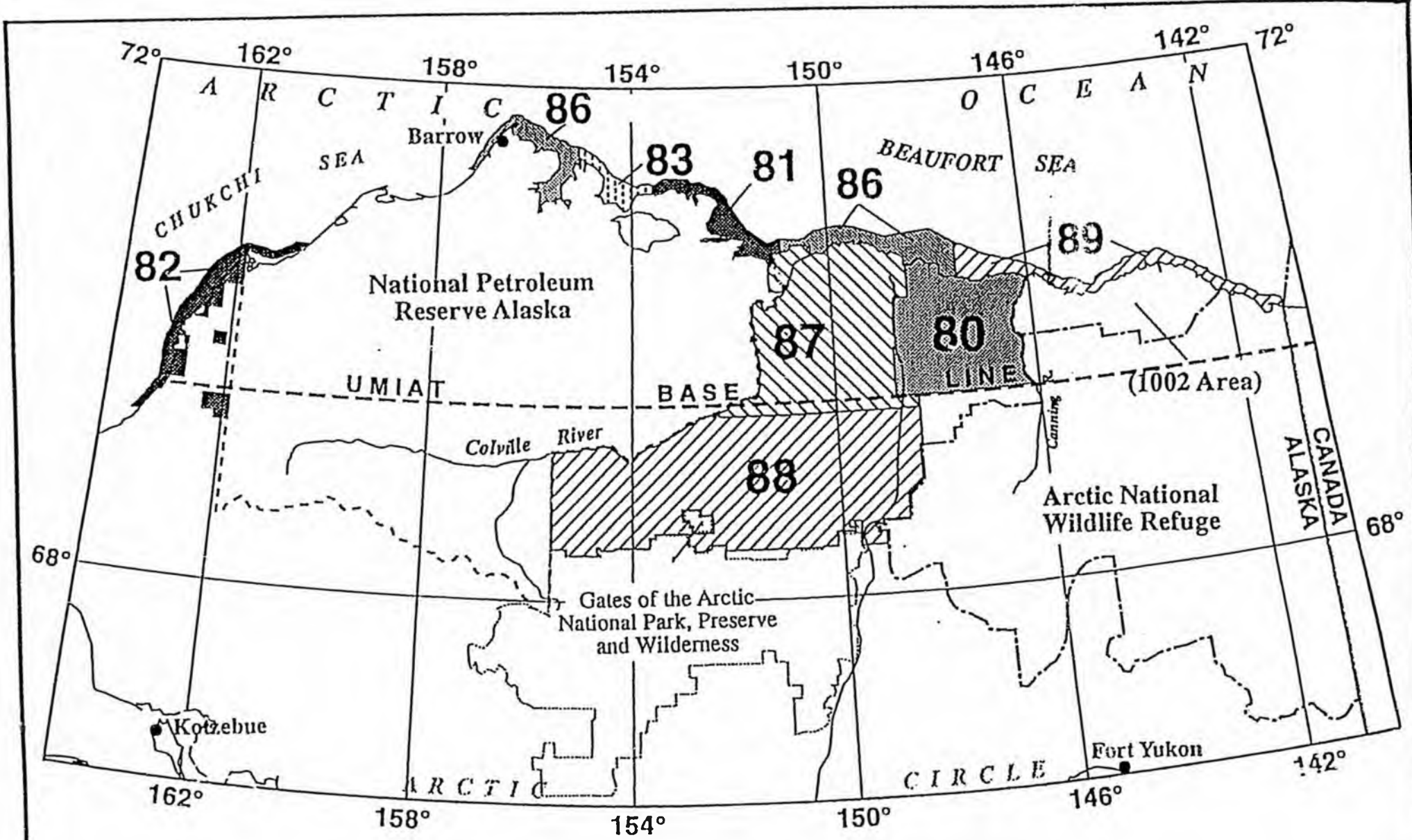
PROPOSED OIL AND GAS LEASE SALE 85 COOK INLET / SHELIKOF STRAIT

SCALE 1: 3,500,000 ONE INCH = 56 MILES approx.
0 10 100 200 Miles

| | |
|--|---|
| DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i> | DRAWN BY: M.P. & O.D.S. DATE APPROVED: 12-21-92 |
| PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i> | CHECKED BY: <i>[Signature]</i> BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD. |

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.





North Slope Areas Proposed For Leasing

| Sale | Date |
|------|-------|
| 80 | 11-94 |

| Sale | Date |
|------|-------|
| 81 | 4-95 |
| 82 | 7-95 |
| 83 | 11-95 |

| Sale | Date |
|------|-------|
| 87 | 4-97 |
| 88 | 7-97 |
| 89 | 11-97 |

| | |
|----|-------|
| 86 | 11-96 |
|----|-------|

Scale 1: 5,000,000 Approx.
 0 100 200 Miles
 11/93

State of Alaska Revenues

\$ Millions

| Fiscal Year | Oil & Gas Severance Tax | + | Oil & Gas Gross Royalties | + | Lease Bonus Sales | + | Petroleum: Other Tax & Settlements | = | Total Petroleum Revenues |
|----------------|-------------------------------|---|---------------------------------|---|-------------------------|---|--|---|--------------------------------|
| 1959-69 | 9 | | 29 | | 96 | | 89 | | 223 |
| 1970 | 8 | | 19 | | 900 | | 12 | | 939 |
| 1971 | 11 | | 24 | | 0 | | 12 | | 47 |
| 1972 | 11 | | 25 | | 0 | | 12 | | 48 |
| 1973 | 12 | | 24 | | 4 | | 11 | | 50 |
| 1974 | 15 | | 29 | | 25 | | 12 | | 80 |
| 1975 | 27 | | 40 | | 1 | | 23 | | 90 |
| 1976 | 28 | | 43 | | 0 | | 320 | | 392 |
| 1977 | 24 | | 46 | | 0 | | 421 | | 491 |
| 1978 | 108 | | 199 | | 0 | | 185 | | 492 |
| 1979 | 174 | | 332 | | 0 | | 399 | | 906 |
| 1980 | 507 | | 918 | | 457 | | 720 | | 2,601 |
| 1981 | 1,170 | | 1,502 | | 14 | | 1,011 | | 3,697 |
| 1982 | 1,582 | | 1,553 | | 10 | | 838 | | 3,983 |
| 1983 | 1,494 | | 1,447 | | 73 | | 443 | | 3,457 |
| 1984 | 1,393 | | 1,409 | | 17 | | 418 | | 3,237 |
| 1985 | 1,389 | | 1,390 | | 24 | | 321 | | 3,124 |
| 1986 | 1,108 | | 1,098 | | 70 | | 753 | | 3,029 |
| 1987 | 649 | | 592 | | 1 | | 337 | | 1,578 |
| 1988 | 819 | | 954 | | 11 | | 607 | | 2,391 |
| 1989 | 699 | | 819 | | 23 | | 533 | | 2,074 |
| 1990 | 1,002 | | 1,004 | | 0 | | 385 | | 2,391 |
| 1991 | 1,285 | | 1,293 | | 38 | | 690 | | 3,306 |
| 1992 | 1,053 | | 936 | | 5 | | 628 | | 2,622 |
| | <u>14,573</u> | | <u>15,724</u> | | <u>1,770</u> | | <u>9,181</u> | | <u>41,248</u> |

Source: Alaska Dept. of Revenue, Revenue Sources Book, Fall 1992

ALASKA POLICY FORUM : A paid message for Alaskans about oil and the economy

LEGISLATIVE DIGEST Aug/SEPT 93

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Bangladesh does it. Greenland does it. Mongolia does it.

There's probably lots of undiscovered oil in Alaska, enough to keep the trans-Alaska pipeline operating for years after our known North Slope fields run down.

But we'll never produce it unless we find it.

And we'll never find it if we don't drill.

We need to stimulate more oil exploration, in all parts of Alaska.

To do this, we need a new tool added to our existing state oil and gas leasing program. It's a concept new to Alaska, but commonly used for years overseas, and even by Alaska Native corporations on private lands in Alaska.

A proposal to create that tool, as a supplement to Alaska's existing leasing program, is now before the state legislature.

"Exploration licensing" has been used for years in at least 63 countries, including the U.S.

All over the world, variations of exploration licensing are used. From Abu Dhabi and Dubai; to Angola, and Chad; Argentina to Columbia, Ecuador and Costa Rica; China and India to Ireland, Denmark and Greece, exploration licensing is used to stimulate new oil exploration. Mongolia and Greenland have just adopted it. The U.S. government uses it on certain federal lands.

Basically, exploration licensing gives an oil company the right to explore in large blocks of land, which gives the company's geologists the flexibility to test new theories of how oil is deposited deep underground.

It streamlines the process of exploration by making large areas of land available sooner than under the state's current leasing system,

All over the world, variations of exploration licensing are used. From Abu Dhabi and Dubai; to Angola, and Chad; Argentina to Columbia, Ecuador and Costa Rica; China and India to Ireland.

A paid message for Alaskans about oil and the economy

and without changing environmental requirements.

It is also "market driven." The companies can tell the state which lands they are interested in exploring. The state doesn't have to guess what acreage the industry is interested in acquiring.

ARCO Alaska's recent discoveries on the North Slope and in Cook Inlet show what just one company can do when it turns its exploration staff loose to test new geologic theories.

Those theories led directly to new oil finds in the Sunfish discovery in the inlet and on the Colville River delta of the North Slope.

We need a lot of companies like ARCO exploring.

Senate Bill 150 and House Bill 199, now in advanced stages of consideration in the legislature, would provide the tool to get more companies exploring in Alaska.

Exploration licensing streamlines the process of exploration by making large areas of land available sooner than under the state's current leasing system, and without changing environmental requirements.

There's nothing wrong with Alaska's current leasing system. It works fine in parts of the state with known oil discoveries and production.

But it doesn't do much to attract exploration dollars into high-risk, unknown parts of the state, where there is geologic potential but no previous discoveries.

Exploration licensing is designed precisely for these new, unknown areas.

Our current system leases tracts in relatively small sizes, about 5,600 acres, and in competitive "bonus bid" sales. These are auctions where the winner is the company, or group of companies, that offers the largest cash "bonus" payment to the government, in addition to paying rentals on the lease and royalties from any production.

The problem with small lease tracts is that it takes time for companies to consolidate land rights over several geologic targets its geologists are interested in, which which are usually broadly dispersed in a new, unexplored basin.

(Continued next page)

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(Continued from preceding page) That's because competitive bidding can create complex lease ownership over geologic prospects. If different companies wind up owning small-size leases over a prospect with marginal potential, it may take years to negotiate the complex agreements needed to finance the drilling of a well. That often happens under Alaska's current leasing system.

Another problem with competitive bonus-bid sales, in new and unexplored regions, is that it puts money into the government's treasury that could have gone for drilling wells. In the long term, drilling wells and finding new oil will make much more money for the public treasury.

A better approach in frontier areas is to give exploration companies, either by themselves or in groups, the opportunity to get a "hunting license" over a larger area.

That's the idea behind the legislation now pending in Juneau.

Companies whose exploration staffs have new ideas can propose an exploration program to the State of Alaska. The Commissioner of Natural Resources would be free to invite competing proposals, and then choose which group offers the best exploration proposal.

A performance bond, or some other instrument, guarantees to the state that the exploration work promised will get done. All existing environmental laws will apply.

When the proposed work is done, the explorers have the option of converting their discovery into a conventional state oil and gas lease. That gives them the incentive to invest in exploration.

After a discovery, the state has the option to bring its current leasing system into play, leasing nearby unleased acreage under competitive bonus bids.

Another problem with competitive bonus-bid sales, in new and unexplored regions, is that it puts money into the government's treasury that could have gone for drilling.

Exploration licensing can speed up the discovery and development of new oil fields, generating new revenues for the state.

A paid message for Alaskans about oil and the economy

In the legislature, the problems in SB-150 and HB-199 are being worked out. It's no surprise that there are differences of opinion over a new idea like exploration licensing. There are differences between the major oil companies operating in Alaska, and concerns by independent oil companies and small investors who fear being "locked out" of exploration licensing. Most differences between oil companies have been worked out, and other concerns are

being addressed by the legislature. The senate version of the bill, SB-150, has already gone through substantial modifications. Legislative committees will consider both bills again in 1994. Among problems still being worked out is the bonding provision, which is intended to guarantee that exploration commitments are actually carried out. The bond needs to be large enough to provide a serious penalty to a company that abandons its commitment to explore. But it also must be structured to allow smaller companies, not just large oil firms, to participate in exploration licensing.

Another problem is "relinquishment" of acreage, where a certain amount of acreage in a license is given up each year as an exploration program proceeds. This is intended to guarantee a company will aggressively explore, and not just "warehouse" acreage.

But there are differing views. Some feel it will do the opposite, and encourage warehousing (the feature may become an incentive to accumulate more acreage than is really needed). Another problem: Periodic review of ongoing exploration by state officials. The State of Alaska needs some mechanism to oversee the progress of exploration under licenses, but some in industry worry that this could inject bureaucratic, or political, meddling. Exploration licensing can speed up the discovery and development of new oil fields, generating new revenues for the state and economic opportunities for Alaskan businesses and workers. The whole idea of licensing is to turn the explorers loose to find oil.

In the legislature, the problems in SB-150 and HB-199 are being worked out. It's no surprise that there are differences of opinion over a new idea like exploration licensing.

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(Continued next page)

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Around the world, exploration licensing is the way things are done

(Continued from preceding page) Exploration licensing is really the normal method for exploring for oil and gas. It is used by the U.S. government on certain federal lands, and even in Alaska, by Alaska Native corporations, on their own private lands.

Here are the countries around the world that allow exploration licenses on large blocks of land:

| | |
|--------------------|---------------------|
| Abu Dhabi | Israel |
| Algeria | Italy |
| Angola | Ivory Coast |
| Argentina | Jamaica |
| Australia | Jordan |
| Bahamas | Kenya |
| Bangladesh | South Korea |
| Belize | Malaysia |
| Benin | Malta |
| Bolivia | Morocco |
| Burma | Netherland Antilles |
| Chad | Nicaragua |
| Chile | Niger |
| China | Nigeria |
| Columbia | Panama |
| Costa Rica | Paraguay |
| Denmark | Portugal |
| Dominican Republic | Qatar |
| Dubai | Ras Al-Khaimab |
| Ecuador | Somali |
| Egypt | Sudan |
| Fiji | Switzerland |
| French Guiana | Syria |
| Gambia | Taiwan |
| Greece | Tunisia |
| Greenland | Turkey |
| Guatemala | Umm al-Qaiwain |
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A paid message for Alaskans about oil and the economy

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Part Two: Exploration Incentive Tax Credits

In addition to licensing, Alaska has another tool to encourage new exploration, particularly by smaller companies. The program, DNR's Exploration Incentive Credit (EIC) system is already in existence. It allows, on certain leases, explorers to apply for a credit against tax or royalty paid to the state of up to 50% of drilling and geophysical costs on new exploration.

Modeled after Alberta's successful tax credit system, it has been law since the late 1970s, and was implemented by DNR in the 1980s. It has been underutilized because its scope is limited to just state lands and it can be administered only through the present leasing system. Nonetheless, the system has helped in at least two new discoveries on the North Slope.

What is proposed in Senate Bill 151 and House Bill 200 is an expansion of the EIC program that would broaden its scope to include federal and private lands, thus making it more usable by explorers, including smaller Alaska-based companies, exploring for oil outside the present state leasing system.

Another problem has been that the program allows credits only where they have been provided for ahead of time in leases, before those leases were issued. SB-151 and HB-200 make it possible for companies to petition the commissioner of DNR for tax credits after the lease is in place or, in the case of non-state lands, where there is no state lease involved.

Including non-state lands makes sense because on both federal and private lands the state still receives severance taxes. In fact, under present law, 90% of oil and gas tax revenues from federal land go the state, and just 10% are remitted to the federal government.

Unexplored basins often include a combination state, private and federal lands. Therefore, if a successful prospect is drilled on private or federal land, it could yield tax revenues, as well as enhance the value of nearby state lands.

SB-151 and HB-200 would impose a \$50 million "cap" on the EIC program. It would be in effect for 10 years, after which the legislature would evaluate the program.

What is proposed in SB 151 and HB 200 is an expansion of the Exploration Incentive Credits program that would broaden its scope to include federal and private lands.

If a successful prospect is drilled on federal or private land, it could yield tax revenues, as well as enhance the value of nearby state lands.

In fact, under present law, 90% of oil and gas tax revenues from federal lands go to the state, and just 10% are remitted to the federal government.

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Conclusion

The bad news is, the decline of Prudhoe Bay production has begun, as has the exodus of the petroleum industry from Alaska. This pattern reflects a national trend. US oil companies are going outside the country with their exploration and development capital, and domestic production is in decline.

The good news is, our state lawmakers can do something about it. Alaska is largely unexplored, and most of what has been explored was

done by using now out-dated concepts and technology. Government and oil industry experts believe Alaska has vast quantities of oil that is recoverable at today's prices. Some oil companies, including some with significant investments in Alaska's petroleum infrastructure, are

interested in stepping up exploration activity in Alaska. They are pushing for an updated licensing program that will allow them to do just that. Others want an extension of the EIC program to provide further incentive for exploration.

The enhancement of our oil and gas leasing program proposed in the legislation should be viewed as part of a long-term economic strategy to create a stable economic base for Alaska. The problem of revenue shortfalls is attributed to declining oil production from the Prudhoe Bay field. But the real source of the problem is Alaska's historical reliance on megaprojects.

Our good fortune in the past has limited our vision of the future. We want to believe in the discovery of a second Prudhoe Bay, in ANWR, in gas and water pipelines. We hope for grandiose projects to secure our economic future, instead of creating state policy that is conducive to long-term, sustained development of more modest resources, such as smaller oil fields. The result has been a boom and bust economy.

At its peak, Prudhoe Bay was responsible for 25% of all the oil produced in the US. It accounts for 80% of Alaska's oil production. Fields of this size are rare, and it's the only one discovered to date in the Western Hemisphere.

It would be less risky to have several smaller fields in production at any one time, with new ones coming on-line as production from existing fields declines. As mentioned earlier, exploration for new discoveries has declined in recent years. Alaska has just one, possibly two, new fields scheduled to come on-line under current economic conditions.

Increased exploration will probably not yield another Prudhoe Bay and hence singlehandedly recharge Alaska's economy or solve the state's fiscal shortfalls, but it can make a very important economic contribution for years to come.

We hope for grandiose projects to secure our economic future, instead of creating state policy that is conducive to long-term, sustained development of more modest resources, such as smaller oil fields.

ALDEZ STAR
JAN 5, 94

OPINION

CLIFF BURGLIN

At Large



by Cliff Burglin
Special To The Star

The legislature convenes January 10. Balancing the budget with less oil income will be high on the legislative agenda.

Isn't it amazing that the Governor and the majority of the legislators only consider raising taxes or adding taxes as the only means to make state ends meet.

Despite billions of acres of federal and state land that could and should produce billions of dollar worth of oil, gas and minerals that would make Alaska the wealthiest piece of real estate on the face of the earth, all the Governor and the legislators and our two, statewide "Daily News" papers can think of or talk about is raising and imposing taxes on Alaska's minimum wage workers and the middle class small businesses and their employees.

The Governor and the legislators don't even discuss putting more land into private hands or leasing oil and gas basins that would bring in tens of millions of dollars per year in rentals and production. Plus jobs. Jobs by the thousands.

The only effort to bring more land into exploration is HB199, the so called "licensing bill" that would cost Alaska even more money by paying the major oil companies from the state coffers to take all of Alaska's last, best onshore and offshore state oil basins. This licensing bill would legalize the corruption of the multinational oil companies and the state government.

This bill (HB199) allows companies at no cost, except for attorney's fees, to take millions of acres of the best state land and tie it up for decades.

Basically, these contracts would be negotiated by one man, the head of the Division of Oil and Gas. Who also turns out to be an ex Arco employee. Arco, as I have pointed out, has written HB 199. Governor Hickel is using all of his formidable powers to push it through the legislature into law. If this bill becomes law, Alaskans might just as well deed the state over to the multinational oil cartel.

It will mean fewer jobs, higher costs, lower pay, and will close off all of the licensed land to any other activity. Just as the North Slope oil fields and the pipeline corridor already are.

No one but multinational personnel will be able to hunt, fish, snowmachine, backpack, or sightsee on any of these contract licensing areas: The oil company security, backed by the state police, will take care of trespassers. Every Alaska citizen would become a trespasser. Is this the future that we have promised our children and their children? A Police State run by the multinational oil companies and their professional econ-hypocrite, multinational, Alaskan accomplices.

In case you missed one of my columns, the private environmentalists have a yearly budget of \$1 billion \$180 million dollars and answer to no one. Contrary to popular belief, their main purpose is to protect the multinational corporations from competition. Eco hypocrites get most of their money from multinational corporations and their affiliate foundation and families.

Alaskan should not become too concerned about Arco's 15 thousand gallon oil spill. Oil is a natural product and there are oil seeps throughout the state of Alaska that naturally spill this much oil every month.

Two large seeps are in the Barrow and Umiat area. There are thousands more throughout the state. Maybe the Governor and the legislature should pass a law against their favorite girl friend (Mother nature).

By this time, Alaskans should know that no laws can keep or prevent a multinational oil company from having careless accidents.

Alaskans, we don't need higher taxes, or more taxes or fees. We need a Governor and legislators who will not sell us out to the major oil companies, the non-Alaskans eco hypocrites, and the overpaid, too numerous, state bureaucrats.

Feel free to send a copy of any of my articles to Governor Hickel or your legislators.

A citizen's position on HB199/SB150

Gregory J. Garrels
1176 Broadview Drive
Fairbanks, Alaska 99712-1849
February 20, 1994

As a citizen I find myself quite concerned about the exploration licensing provisions contained in House Bill 199 and Senate Bill 150. It would appear that the declared purpose of the bills is to provide a way to prove out the levels of resources in areas of the state that have not been fully explored as to resource content. I have some concerns as to the true reason for these provisions. In many of the places where it has been used, exploration licensing has not been terribly successful in bringing product to market. It would appear that the provisions of these bills would allow a large company to prevent productive use of large tracts of land for long periods of time at relatively little expense. A company will not often enter into an expensive out and out lease unless it has plans to actually do something with the area in question.

An Inflated Ambition

The president of a great corporation went into a dry-goods shop and saw a placard which read:

"If You Don't See What You Want Ask For It"

Approaching the shopkeeper, who had been narrowly observing him as he read the placard, he was about to speak, when the shopkeeper called to a salesman:

"John, show this gentleman the earth."

— Ambrose Bierce in Fractured Fables

The determination of the level of the work requirements is very vague. It appears quite easy for very large companies to insure that no local or small operators are able to participate. They can simply up the ante beyond what the smaller competition can bear. Having done so, they don't have to accomplish anything toward the goal of proving out resources for 4 years, and then must only do half of what they originally proposed in order to keep the land tied up for the duration of the license plus any extensions that the all powerful commissioner may decide to grant them. What about disputes over the amount of work commitment that has been completed? It would seem likely that a very large corporation with tremendous legal assets at hand would have only to dispute the level of work that has been done or not done, and then tie the whole matter up in court while the land remains unproductive, and of course is not competing with that company's assets that are in production elsewhere. The 20,000 acre low limit on size also serves to prevent small operators from participating. It is no secret that the major oil companies have moved many of their operations overseas. While they may or may not be terribly interested in expanding their operations in Alaska at this juncture, they would most certainly be interested in preventing anyone else from competing with them. It would be pure naivety to disregard this possibility. Indeed, I see this as the main reason for the major oil companies' support of these bills. Let us be cautious that we are not, like the shopkeeper, saying, "Mr. Noah, show these gentlemen Alaska."

What about conflicts with the Mental Health Trust? Generating a conflict and causing a protracted litigation would also be a marvelously effective way for a large outfit to lock up a great

Cliff Burglin

February 25, 1994

I have a request to make of each and everyone of my readers. Please go to your local Legislative Information Office (LIO) and ask for a copy of House Bill 199 and Senate Bill 150. Read and study these bills and discuss them with your Representative and Senator. The chances are good that few legislators have ever read these bills and fewer yet have studied them. It is extremely doubtful if ten percent of the total legislature knows what effect the passage of these bills in any form will have on every Alaskan citizen.

Ask the owners and editors of your local paper to print a copy. Demand to know what his or her stand is.

This legislation will determine the economic future of this state. If either of these bills are passed in any form, Alaskans will have no future.

Prices of energy products will be high. Wages in every sector of Alaska's economy will be low. Competition will be non-existent. The only choice of jobs in Alaska will be with federal, state or local government, multinational corporations, or minimum wage jobs with banks, small businesses or fast food chains. All Alaskans are getting a taste of the future now. If these bills are passed, Alaska's economy will get worse.

You readers need to understand the implications of this legislation even if your legislators and the news media do not know or care.

This legislation has been prepared and is being powered by over a dozen of the worlds largest oil companies. It has been well prepared and thoughtfully organized and authored. The multinational oil companies are sneaking this evil legislation through with the help of Governor Mickel (the sponsor). The oil companies are curtailing their Alaskan operations. The bills will ensure that no one else can develop.

It is moving through the legislature faster than Tommy Moe in the downhill race in Lillehammer.

Please read and study the legislation and contact your local legislators and the Governor's Office. Time is short.

By the way, did you know that Governor Mickel is in Russia meeting with Russia's top economist? He evidently feels that he (Governor Mickel) can make communism work. Governor Mickel was elected and ran as an independent. Not as a cross between an "owner state" socialist and a communist masquerading as an advocate for freedom and opportunity for all Alaskans.

HB 199 and SB 150 are two of the worst pieces of legislation that have ever been proposed. If enacted, this legislation will wipe out all access to Alaska's land. There are no safeguards or oversight provisions.

This legislation will turn over all of Alaska's major economic resource (oil and gas) to the same corporations that the State of Alaska is now suing for having underpaid their taxes for 25 years to the tune of \$6 to \$10 billion dollars.

The very same state employees who have allowed this to happen will be in charge of administrating the vague guidelines in this legislation. None of these state administrators are elected.

The very least affect that the passage of this legislation in any form will be that most of Alaska's land will be tied up in endless litigation.

Alaskans, we need to stop these bills.

To Resource Committee
Alaska Delegation

My name is Clifford Burglin. I represent at least 500 people in the Fairbanks area.

I am opposed to HB 199 in any form for the following reasons:

Amerada Hess; Amoco (alias Standard of Indiana); Arco; BP; Chevron (alias Standard Oil Company of California and also a part of the Saudi-Aramco consortium that markets eight to ten million barrels per day of Saudi oil); Conoco; Exxon (alias Standard Oil of New Jersey and also part of Saudi-Aramco consortium); Marathon; Mobil (also known as Standard Oil Company of New York and also part of Saudi-Aramco consortium); Murphy Oil; Petrofina; Phillips Petroleum; Texaco (also a partner in the Aramco consortium); Union-Texas and Unocal all own and have under lease three to four million acres in the State of Alaska that they have not fully explored or developed.

You legislators can find this information on any status map which should be readily available from the Department of Natural Resources.

I also keep track, on a daily basis, of oil industry activity throughout the world. For instance, how many of you legislators know that BP, Alaska's largest producer has recently discovered five hundred million to a billion barrels of oil in the North Sea with Shell Oil as their partner?

BP also has discovered in excess of one billion barrels of oil in Columbia, which is much closer to their Gulf of Mexico refineries than is Alaskan oil.

These companies are the ones who are pressuring you to pass HB 199 not so that they can increase development and exploration in Alaska, but only to keep any competition out. The proponents of this bill claim that it will increase revenue to the State of Alaska, provide jobs and help find more oil. The main reason the above companies promote this legislation is to make sure that no other companies or individuals will have access to state land.

It is true that they have these exploration licensing agreements in other countries. It is also true that the citizens of these other countries standard of living is among the lowest in the world. The rulers are rich and their people are poor.

If this Alaska legislature passes this bill in any form, the oil companies will have no need for any of you or us. You will have given them absolute and complete control of the states land and resources, both surface and subsurface.

If you pass the bill or anything like it, you will find the companies that have been financing your campaigns will not be so

generous in handing out their money for your re-election. You will be representatives of a state that no longer controls its own land and resources. Alaska will be like a corporation that no longer has any land and resource assets.

Another point that I would like to make is that the people who will be administering the licensing program are in the Department of Natural Resources, a department that has proven itself to be unstable, unreliable and incompetent. An example of this instability is that during the Hickel administration there have been three commissioners in three years.

Another point to make is that the reason production in Alaska is declining is not for lack of discoveries. Alaska could produce another two million barrels per day. It is because of the worldwide oil glut and the non competitive price of Alaskan oil due to the high overhead of the producing companies and lack of competition. BP's overseas discoveries only add to Alaska's non competitiveness, these are other good reasons not to let these companies have more of Alaska's land.

It will take great courage for you legislators to stand up to the multinational oil companies on behalf of the people who elected you. If you don't kill this bill and any other bill like it, you will have destroyed the productive economy of Alaska for all time.

A copy of this newsletter is being faxed to all of the news media in the state of Alaska.

WALTER J. HICKEL, GOVERNOR

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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March 10, 1994

The Honorable Ron Larson
Co-Chairman, House Finance Committee
Alaska State Legislature
State Capitol, Room 502
Juneau, Alaska 99801-1182

Dear Representative Larson:

First, I am sorry I was unable to participate in the Finance Committee hearing this morning regarding HB-199. The telephone is a marvelous means of communicating—when it works. In any case, I hope to be “tuned-in” at tomorrow’s hearing.

Through Jerry Gallagher, DNR’s legislative liaison, I understand there were several issues raised for which committee members requested additional information. Following are the questions (as I understand them) and my responses:

Question 1: Does the Bristol Bay “exclusion” apply to the licensing program?

Answer: Absolutely. Areas off-limits to leasing are also off-limits to licensing since the ultimate “product” of licensing is a lease.

Question 2: What is the public notice process at the license-to-lease transition?

Answer: There is none because ALL the public processes (Best Interest Finding, ACMP review, public notice and hearings etc.) are done PRIOR to issuing the license. The lease will be attached to the license so the terms and conditions of the lease—including any mitigating measures—will be known to the potential licensee prior to accepting the license. All the requirements for permits, Plans of Exploration etc., remain intact.

Question 3: What is the purpose of Section 5? (This question may have been more specific, but I’ll try to explain what I think is the question)

Answer: Section 5 is the recognition that Exploration Licensing is “different” than our current method of competitive leasing. For example, there is no “cash bonus” in exploration licensing so methods of leasing that use bonus bidding do not apply. The minimum royalty provisions DO remain as part of licensing with a royalty rate “. . . amount or value of not less than 12.5 per cent of production.” [38.05.134 (3): (Page 8, line

The Honorable Ron Larson
Co-Chairman, House Finance Committee
March 10, 1994
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26-27)]. The Commissioner thus has the ability to set the royalty rate at any value above 12.5%—the same as in our conventional leasing program.

Question 4: How many licenses can be issued or held?

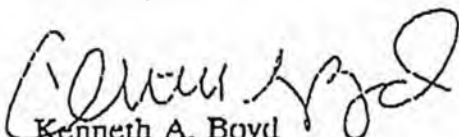
Answer: There is no limit to the number of licenses that may be issued, nor is there any limit to the number of licenses any company may hold. The acreage limitations of AS 38.05.140(c) or 38.05.180(m) do not apply to licenses, however, the limits of 38.05.140(c) DO apply to leases subsequently converted from the license area.

We see no need to limit the number of licenses because Exploration Licensing, unlike our current lease program, REQUIRES work to be done. Under our current system any number of leases may be held (up to the acreage cap) but no work HAS to be done. At the end of the term of the lease, if no wells certified capable of production exist on the lease, then the lease reverts to the state. Exploration Licensing REQUIRES that a minimum of 25% of the total work commitment must be accomplished in the first four years or the bond in-place is forfeited and the license is lost. The more licenses issued, the more exploration work that will get done. The more exploration work that is done, the greater the likelihood of a discovery.

Remember that the majority of State income is derived from royalties and taxes, not bonuses and rent. To get more royalties and taxes we must have new discoveries. Exploration Licensing provides the means to get more exploration dollars "into the ground" and this increases the chances for new discoveries to be made.

I hope this answers the questions. I will be pleased to respond to any further questions the committee members may have.

Sincerely,


Kenneth A. Boyd
Deputy Director

cc: House Finance Committee members

Position Paper
Department of Natural Resources
Exploration Licensing Legislation
HB 199 & SB 150

The Exploration Licensing Bill allows the State to offer large tracts of land (up to 500,000 acres) to potential licensees, with the option of later converting part (or all) of the license to lease, contingent upon the successful completion of the required work commitments. Exclusive licenses will be granted to the company submitting the most comprehensive work plan as expressed in dollars of work commitment.

A bond covering the proposed work commitment expense is required, and will be forfeited for that portion of the work that is not completed. The same Best Interest Finding procedures that are currently used for competitive leasing under the state's Five Year leasing program, and the public process that is part of the Finding, remains in-place for exploration licensing. At the end of the license period a lease covering some (or all) of the license area may be awarded.

The Department of Natural Resources will administer this program as it administers competitive lease sales under the existing Five Year Oil and Gas leasing program. The Departments of Fish and Game, Environmental Conservation and Law, as well as other interested local, state and federal agencies, will be involved in the Best Interest Finding. In addition, there will be ample opportunity for public review and comment on the award of proposed licenses, as well as on the terms and conditions of those licenses and any resulting leases.

Governor Hickel's proposal in HB 199 and SB 150 expands the exploration options available in, but does not replace, competitive leasing under the existing Five Year program. Its main purpose is to get companies working in areas of the State that have drawn little (or no) attention under the current leasing program. Similar license/lease programs are offered by most countries worldwide.

The Governor's goal is to get more money "into the ground." The State makes the majority of its income from royalties and severance taxes on oil and gas production, not bonuses and lease rentals. In order to obtain new royalties and severance taxes, we must have new oil being explored for and produced. The only way to find new reserves that may eventually be produced is to have companies actually drilling wells. This bill is intended to expedite the exploration process, which, hopefully, will lead to new commercial discoveries of oil and gas.

Oil and gas exploration always means money and jobs. Likewise, increasing the opportunity to explore and develop new areas can only mean more money and more jobs. Exploring the remaining "underexplored" basins in the state will certainly provide jobs during the exploration phase—jobs for all sorts of people—from geologists to camp cooks. If discoveries are made, more jobs will be created and new revenues will accrue from taxes and royalties. These jobs will be created in geographically diverse areas of the state, contributing to the expansion and diversification of the state's economy.