

**SB**

**151**

**HFIN**

**FILE**

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 28, 1994

FURTHER REFERRALS:

Date of Committee Action: 4/22/94

The FINANCE Committee considered:

SB 151

SENATE BILL NO. 151

OIL & GAS EXPLORATION INCENTIVE CREDITS

"An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with \_\_\_\_\_

HCS CS SB 151 (FIN)

[ ] 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 2/2/94  
REV 3/7/94

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Donald J. Lawson</i>	X				
<i>Mike Lawrence</i> NAVARRE	✓				
<i>Mark Hanley</i> HANLEY	X				
<i>Terry Martin</i> MARTIN	X				
<i>Sean Parnell</i> PARNELL	X				
<i>Tom Hoff</i> HOFFMAN	✓				
<i>Ben Gussendorf</i> GUSSENDORF	X				
<i>Gene Therman</i> THERMAN	X				
<i>Fay Brown</i> BROWN	✓				

\_\_\_\_\_  
- CHAIRMAN'S SIGNATURE

*Donald J. Lawson*  
Lawson

# FISCAL NOTE

No. 4  
 Bill Version: HCSSB 151(RES)  
 (H) Publish Date: 3/7/94

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

**BILL NO.**

Revision Date: January 5, 1994 Dept. Affected: Revenue  
 Title: Oil and Gas Incentive-Credits BRU: Revenue Operations  
 Component: Income & Excise Audit  
 Sponsor: Governor  
 Requestor: House Oil and Gas COMPONENT SERIAL NO. 113

**Expenditures/Revenues:** (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>						
<b>REVENUE FUND SOURCE:</b>	**	**	**	**	**	**

**FUNDING:** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

**ANALYSIS:** (Attach a separate page if necessary.)

\*\* Over the 15 year term exploration credits could total between \$0 and \$50 million. It is not feasible to determine the actual year or amount. Amounts will vary depending on the year in which credits are claimed.

Prepared by: Rod R. Mourant *Rod R. Mourant* Phone: 465-2302  
 Division: Commissioner's Office Date: January 5, 1994  
 Approved by Commissioner: Darrel J. Paxwinkler *Darrel J. Paxwinkler* Date: January 5, 1994  
 Agency: Department of Revenue

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# FISCAL NOTE

No. 3  
 Bill Version: SB 151  
 (H) Publish Date: 2/2/94

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

**BILL:**

Revision Date: 31-Jan-94 Dept Affected: Natural Resources  
 Title: "An Act providing for oil and gas exploration SRU: Resource Development  
incentive credits for certain activities on certain lands..." Component: Oil & Gas Development  
 Sponsor: Senate Rules for the Governor  
 Requestor: House Oil & Gas Committee Component Serial No. 49

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS	FY95	FY96	FY97	FY98	FY99	FY00
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)

As the fiscal note indicates, there is no fiscal impact to the Department of Natural Resources related to this proposed bill. There would be, however, a potential reduction in the revenue stream to the state which should be reflected in the fiscal note prepared by the Department of Revenue.

Prepared by: Jim Eason, Director Phone: 762-2547  
 Division: Oil & Gas Date: 31-Jan-94  
 Approved by Commissioner: Harry A. Noah Date: 31-Jan-94  
 Agency: Natural Resources

COMMITTEE COPY

**HOUSE CS FOR SENATE BILL NO. 151(FIN)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**EIGHTEENTH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act providing for oil and gas exploration incentive credits for certain**  
2 **activities on certain land in the state; and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1. AS 41 is amended by adding a new chapter to read:**

5 **CHAPTER 09. OIL AND GAS EXPLORATION INCENTIVE CREDITS.**

6 **Sec. 41.09.100. EXPLORATION INCENTIVE CREDITS. (a) Under an**  
7 **incentive program distinct from the exploration incentive credit authorized by**  
8 **AS 38.05.180(i), the commissioner may extend to a qualified applicant an exploration**  
9 **incentive credit for each of the following activities performed on land in the state,**  
10 **regardless of whether the land is state-owned land:**

- 11 (1) **geophysical work on land that is not subject to a credit under**  
12 **AS 38.05.180(i);**  
13 (2) **drilling a stratigraphic test well; and**  
14 (3) **drilling an exploratory well.**

1 (b) An exploration incentive credit extended under (a) of this section may be  
2 applied against

3 (1) a payment or obligation against which a credit authorized by  
4 AS 38.05.180(i) may be claimed;

5 (2) taxes payable under AS 43.20; and

6 (3) oil and gas bonus payments due the state under AS 38.05.180(f).

7 (c) An exploration incentive credit may be extended under (a) of this section  
8 to a qualified applicant if

9 (1) application for the exploration incentive credit is made by the  
10 qualified applicant to the commissioner and is approved before drilling or geophysical  
11 work commences;

12 (2) all geophysical work is performed, and all stratigraphic test wells  
13 or exploratory wells are drilled, after the effective date of this section and before  
14 July 1, 2004; and

15 (3) copies of all raw and processed data derived from drilling a  
16 stratigraphic test well or exploratory well or performing geophysical work are provided  
17 by the qualified applicant to the commissioner within 30 days after the completion,  
18 abandonment, or suspension of the well or completion of the geophysical work.

19 (d) Data derived from drilling a stratigraphic test well or exploratory well that  
20 is provided to the commissioner under (c)(3) of this section shall be kept confidential  
21 for 24 months after receipt by the commissioner unless the owner of the well gives  
22 written permission to the state to release the well data at an earlier date, and,  
23 notwithstanding AS 31.05.035(c), confidentiality may not be extended beyond 24  
24 months. The provisions of AS 38.05.035(a)(9)(C) apply to other data provided to the  
25 commissioner under (c)(3) of this section, except that the commissioner, under  
26 appropriate confidentiality provisions and without preference or discrimination, may  
27 display to all interested third parties, but may not distribute or transfer in hard copy  
28 or electronic form, those data with respect to all land if the commissioner determines  
29 that the limited disclosure is necessary to further the interest of the state in evaluating  
30 or developing its land.

31 (e) The amount of an exploration incentive credit extended under (a) of this

1 section is determined by the commissioner and shall be based on eligible costs,  
2 approved by the commissioner, of performing geophysical work, drilling a stratigraphic  
3 test well, and drilling an exploratory well. The amount of an exploration incentive  
4 credit may not exceed 50 percent of eligible costs relating to activities performed on  
5 state-owned land and 25 percent of eligible costs relating to activities performed on  
6 land in the state not owned by the state.

7 (f) The amount of an exploration incentive credit extended under (a) of this  
8 section may not exceed \$5,000,000 per eligible project, as defined by the  
9 commissioner by regulation. The total of all credits extended by the commissioner  
10 under (a) of this section may not exceed \$30,000,000.

11 (g) An exploration incentive credit must be used within five years after it is  
12 extended under (a) of this section, and may be assigned by the qualified applicant to  
13 another person for the purposes described in (b) of this section.

14 (h) Amounts due the permanent fund under AS 37.13.010 may be calculated  
15 before the application of a credit extended under (a) of this section.

16 Sec. 41.09.170. REGULATIONS. The commissioner shall adopt regulations  
17 necessary to implement this chapter.

18 Sec. 41.09.180. RELATIONSHIP TO AS 38.05. Nothing in this chapter  
19 affects the exploration incentive credit system provided for in AS 38.05.180(i).

20 Sec. 41.09.190. DEFINITIONS. In this chapter,

21 (1) "eligible costs" means those direct costs incurred for activities in  
22 support of an exploration program, based upon the footage drilled or miles surveyed,  
23 that are reasonable in amount for the area of the state in which a well is drilled or  
24 geophysical activity is conducted;

25 (2) "exploratory well" means a well drilled for the purpose of oil and  
26 gas exploration that is

27 (A) located three or more miles from another well drilled for  
28 oil and gas, with all distances measured as the horizontal distance between  
29 exploration targets, also known as bottom hole distance; or

30 (B) within three miles of a well drilled for oil and gas, but tests  
31 potential hydrocarbon traps that the commissioner, after analyzing evidence

1 submitted by the qualified applicant and any other information, determines  
2 constitute a distinctly separate exploration target;

3 — (3) "geophysical work"

4 (A) means all geophysical data gathering methods used in  
5 hydrocarbon exploration;

6 (B) includes seismic, gravity, magnetic, and electromagnetic  
7 measurements;

8 (4) "qualified applicant" means

9 (A) a natural person who is at least 18 years of age;

10 (B) a corporation qualified to do business in the state;

11 (C) a legal guardian or trustee of a qualified natural person  
12 described in (A) of this paragraph;

13 (D) any association of persons listed in (A) - (C) of this  
14 paragraph;

15 (5) "stratigraphic test well" means a well that is not intended to  
16 encounter an oil or gas accumulation and that is drilled to a sufficient depth to measure  
17 the geological, geophysical, and engineering parameters used for determining an area's  
18 oil and gas potential.

19 \* Sec. 2. REGULATIONS. The commissioner of natural resources shall proceed to adopt  
20 regulations necessary to implement this Act. The regulations take effect under AS 44.62  
21 (Administrative Procedure Act), but not before the effective date of sec. 1 of this Act.

22 \* Sec. 3. Section 2 of this Act takes effect immediately under AS 01.10.070(c).

AMENDMENT

(1)

adopted  
NO OBJ

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: HCS SB 151(RES)

Page 2, line 21 after "commissioner":

Insert ", and notwithstanding AS 31.05.035(c), confidentiality shall not be extended beyond 24 months"

AMENDMENT

adopted  
NO OBJ

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: HCS SB 151(RES)

Page 3, line 15, after "commissioner":

Delete "may"

Insert "shall"

Page 4, line 18:

Delete "may"

Insert "shall"

AMENDMENT 3

adopted  
6-4

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: HCS SB 151(RES)

Page 3, line 9:

Delete "\$50,000,000"

Insert "\$30,000,000"

# Governor Hickel's Exploration Incentive Credit Bill

*HB 200 & SB 151*

The Exploration Incentive Credit Bill extends a program that already exists on State lands to all lands in the State. It provides a means for the State to obtain exploration data to which it would not normally be entitled. It may also encourage exploration on lands that will enhance the exploration of adjacent or nearby State lands.

Exploration Incentive Credits (EICs) are currently offered by the State as a means to encourage exploration on State lands. Under AS 38.05.180(i), the Commissioner of Natural Resources may authorize the use of incentive credits to encourage exploration of state leases through either geophysical work or the drilling of a well. Geophysical EICs can be earned if the work is performed during the two seasons immediately preceding an announced lease sale on land included within the sale area, and if the geophysical work is made public following the sale. Drilling EICs are based on the footage drilled and the region in which the well is situated. The decision whether or not to offer credits is sale specific and is determined by evaluating the perceived geologic potential of the sale area as well as the perceived cost of exploration.

Under the current program, credits may not exceed 50 percent of the cost of drilling or geophysical work. Credits may be used during a limited period established by the commissioner and may be assigned during that period. Credits may be applied against oil and gas royalties and lease rentals or taxes payable under AS 43.55. A credit must not exceed 50 percent of the payment toward which it is being applied. Amounts due the Alaska Permanent Fund must be calculated before the application of credits.

Governor Hickel's proposal in HB 200 and SB 151 is to expand the current EIC program to all areas of the state, with certain modifications and restrictions. This new legislation provides an amount of \$50 million that may be used over a period of ten years, with each individual project capped at \$5 million. Credits of up to 50 percent on state-owned land and 25 percent on non state-owned land will be allowed. In contrast, the current EIC program has no time limit and no cap. The new legislation also provides for credits to be applied against income and other taxes in addition to the severance tax. The credits remain transferable under the provisions of this bill and, as with the current plan, amounts due the Permanent Fund must be calculated prior to application of any credits.

All data acquired under the EICs must be submitted to the commissioner. Well data will be held confidential for 24 months after submission, but no extension of this period of confidentiality will be allowed (i.e. all well data will become public 24 months after submission unless the company gives permission to release it sooner). Geophysical data will be allowed to be shown, but not transferred to, any interested party.

The Governor recognizes that activities on lands adjacent to, or nearby, State lands may significantly affect State land. This new legislation allows the commissioner discretion to provide credits to obtain data that the State otherwise would not be able to get. The State, by statute, can now get all seismic data gathered on State land only—but has no mechanism to obtain data on non-state owned land. The data obtained as a result of this legislation will enhance our knowledge of State lands, and the geophysical data may be used as a marketing tool to attract investors to State land.

A M E N D M E N T 4

OFFERED IN THE HOUSE

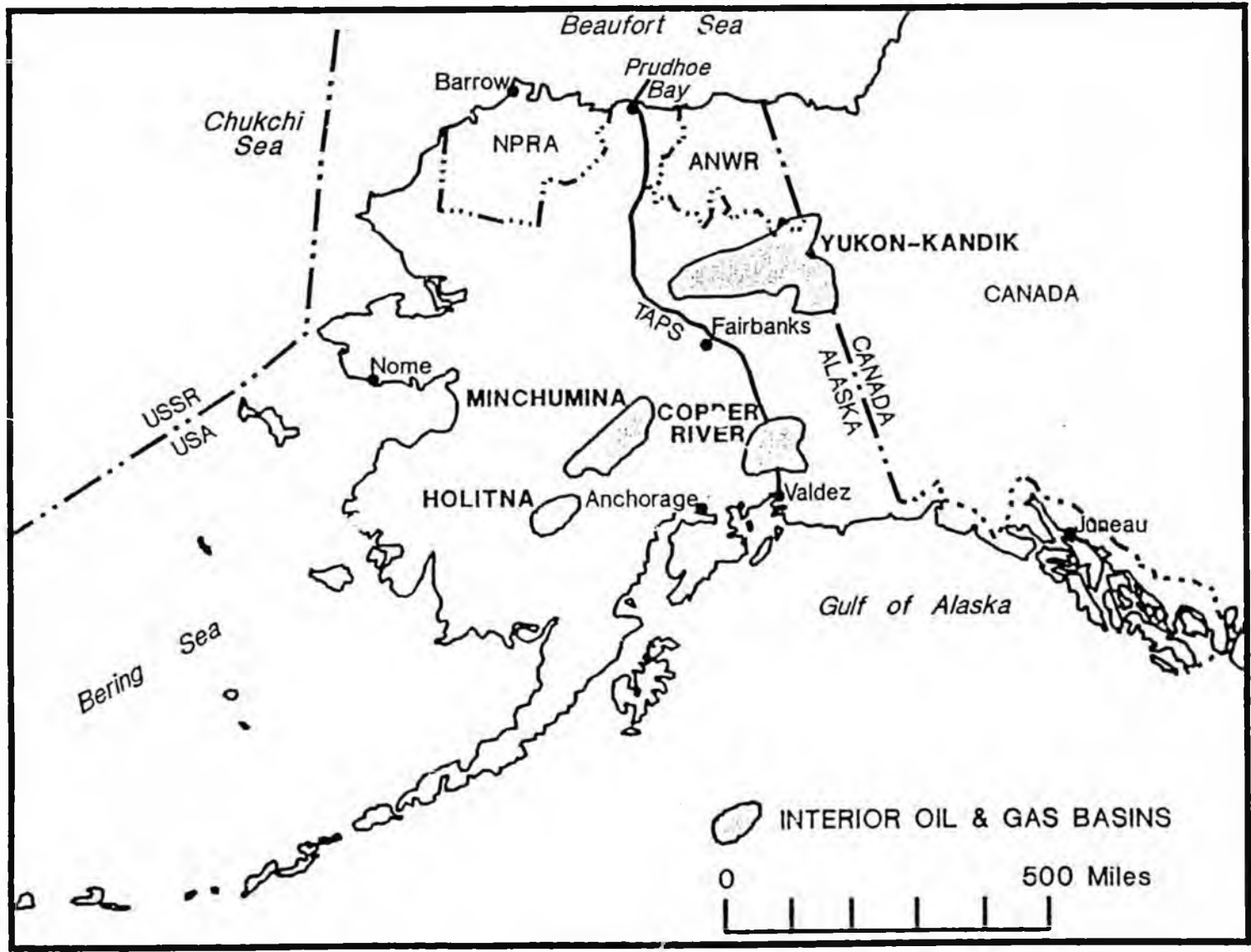
BY REPRESENTATIVE BROWN

TO: HCS SB 151(RES)

Page 3, following line 14:

Insert a new subsection to read:

"(i) The commissioner shall <sup>NOT allow</sup> ~~disallow the claim~~ of an exploration incentive credit under this chapter for an activity of a qualified applicant that occurs in any year in which the commissioner determines that the qualified applicant owes a debt to a state agency or to a public corporation of the state, unless the debt has been contested and an appeal is pending or unless the time limit for filing an appeal of the debt has not expired. Disallowance of the claim of the exploration incentive credit under this subsection precludes <sup>award</sup> ~~allowance~~ in any subsequent year of the claim based on that activity."



## BIDDING AND EXPLORATION INCENTIVES

### Bidding Terms

Alaska has adopted leasing terms designed to encourage the exploration of its lands for hydrocarbon potential. Minimum bids for state leases have ranged from a low of \$1 an acre to a high of \$25 an acre. In addition, Alaska has generous lease terms, offering ten year leases on the North Slope and leases of seven to ten years in length in Cook Inlet.

### Exploration Incentive Credits

Exploration Incentive Credits (EICs) may be offered by the state as a means to encourage exploration. Under AS 38.05.180(i), the commissioner may authorize the use of incentive credits to encourage exploration of state leases through either geophysical work or the drilling of a well. Geophysical EICs can be earned if the work is performed during the two seasons immediately preceding an announced lease sale on land included within the sale area, and if the geophysical information is made public following the sale. Drilling EICs are based upon the footage drilled and the region in which the well is situated.

Credits may not exceed 50 percent of the cost of the drilling or geophysical work. Credits may be used during a limited period established by the commissioner and may be assigned during that period. Credits may be applied against (1) oil and gas royalties and rentals payable to the state or (2) taxes payable under AS 43.55. A credit may not exceed 50 percent of the payment toward which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010) must be calculated before the application of credits. In most cases, the state has used EICs to offset the disincentives implicit in contingency payments, such as net profit shares, that are in addition to the royalty obligation.

The decision whether or not to use these credits is sale specific and is determined by evaluating the perceived geologic potential of the sale area as well as the perceived cost of exploration.

Since the state began offering exploration incentive credits, twelve exploratory wells qualifying for EICs have been drilled on state lands. To date, credits totaling approximately \$40.9 million have been claimed by lessees. Cost data for all twelve EIC wells are summarized in the table on page 58.

Green

	<b>Comparison of Existing and Proposed Exploration Incentive Credit Programs</b>	
	<b>EXISTING PROGRAM AS 38.05.180(i)</b>	<b>PROPOSED PROGRAM CSSB 151</b>
Applies to	Specific Leased Land at the discretion of the commissioner	Unleased State Land & Private Land
Dollar Limitation	No Cap	\$50M Total/\$5M per Project
Sunset	No Time Limit	Sunsets in 10 years
Confidentiality	Extended Confidentiality for wells may be allowed	No Extension 2 years max
Credit Allowance	Max of 50% of eligible costs	Max of 50% on State Land/ 25% on Private Land
Credit Applies To	Severance Taxes only	All Taxes

## Reasons to hold our ground on data confidentiality portion of EIC bill

- Under current statute—on State land— we keep wells confidential for 2 years after receipt, but there are provisions for extended confidentiality. The major test for extended confidentiality is the location of the well with respect to adjacent (within 3 miles) unleased State land. Other wells (those that don't meet the 3 mile test) may be considered for extended confidentiality on a case-by-case basis. There has to be an exceptionally strong reason to grant this extension. Geophysical data EIC conditions are spelled out in Title 38, but the bottom line is that any geophysical data that receives an EIC must be released to the public after the lease sale. No EIC for geophysical data has ever been requested.

- The EIC Bill says that wells will be held confidential for two years and then released with no opportunity for extended confidentiality. Some groups would like to see the extended confidentiality provision remain. It should NOT because:

- The state is offering this credit, in large measure, to obtain data to which it would not normally be entitled. We intend to offer this credit ONLY in cases where we believe the data will benefit the understanding of state lands. If we pay some costs of obtaining this data we want to be able to use it as we see fit—that may include showing it to others for "marketing" purposes. Remember, the private land-owner will be able to do whatever it wants with the data. But, if we agree to extended confidentiality the state will be foreclosed from using the data in ways it may wish to. Further, how would the state be able to set the terms of extended confidentiality since we have no "standing" on private land. The data could conceivably be forced to be held confidential indefinitely while the land owner could do what it pleases with the data. If the private land owner wants to hold their data confidential they should NOT ask for a credit.

- The state would actually prefer to remove extended confidentiality from the statutes that cover state land. Bills to that effect have been entered in the past, supported by the administration, but failed to pass. Thus it is the intent of the state that extended confidentiality be removed in all cases.

Regarding the geophysical data—the state will show, but not distribute these data. This is much like computer software (you can show it but not give it away). This benefits the state and the contractor since the contractor will make his profit on additional sales; giving the data away negates any benefit the contractor may receive. The state maintains the right to show the data to anyone and everyone, so our purposes are served as well. I don't believe there has been any opposition to this.

# STATE OF ALASKA

## DEPT. OF NATURAL RESOURCES

### DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034  
ANCHORAGE, ALASKA 99510-7034  
PHONE: (907) 762-2553

(907)762-2547

March 16, 1993

The Honorable Al Adams  
Alaska State Legislature  
Capitol Bldg., Room 417  
Juneau, Alaska 99801-1182

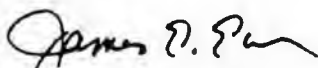
Dear Senator Adams:

This letter is in response to your request that we explain the basis for the decision to limit the state's participation in the funding of EICs to 25 percent of eligible costs for the drilling of wells or the gathering of geophysical data on privately-owned lands.

The reasons for limiting the state's participation to one-half that of its participation on state-owned lands are twofold. First, by their very nature, data gathered from adjacent or more remote lands will have less relevance to the interpretation and evaluation of state-owned lands. Second, the benefits which may flow from earlier exploration of privately-owned lands will accrue primarily to the private landowner. For example, any leasing and subsequent development that may occur will yield bonuses, annual rentals and, hopefully, royalties to the landowner. However, the state will not share in those revenues. It may, if discoveries occur, share in severance taxes, depending upon the size of any discoveries made and their relative productivity. Since there is a disproportionate sharing of benefits, the decision was made to reduce the state's participation accordingly. However, as a matter of policy, it was determined that it is appropriate to provide some incentive to encourage the evaluation and, hopefully, the development of all potential oil and gas lands within the state.

I hope this is responsive to your concerns. If you have additional questions, please feel free to call.

Sincerely,



James E. Eason  
Director

cc: Glenn A. Olds, Commissioner, DNR  
Raga Elim, Special Assistant, DNR  
Charles Cole, Attorney General

03169Jaa jc



# Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035  
Phone 907/276-0700 Fax 276-3887

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Bucky L. Gay

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## RDC Testimony on SB151 in House Oil and Gas Committee, January 31, 1994:

Chairman Green and members of the Committee, on behalf of the Resource Development Council for Alaska, Inc. (RDC), thank you for the opportunity to testify in support of SB151, "an act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

Most people think of oil and gas from a production or development standpoint, but exploration is the lifeblood of the oil and gas industry. Exploration is the basis for development, with huge up front costs, many unknowns, and a high risk of failure. Alaska, although it is considered a premier oil and gas region, is still largely unexplored. Acreage is increasingly off-limits, or not offered for exploration.

SB151 will encourage exploration, broaden the scope of the present leasing program, encourage initial prospecting and give a true incentive to explore Alaska, including non-state lands.

RDC believes this bill:

- Encourages new players in exploring for Alaska's oil and gas resources.
- Encourages prospecting for small local targets, such as village natural gas.
- Enhances the value of nearby or adjacent state lands.
- Maximizes the odds of discovery since it will encourage exploration on the best geological targets regardless of land ownership.
- Provides a long-term economic strategy for a more stable resource development climate, making the state less dependent on mega-projects, which is less risky, more sound policy.

It should be noted that the state will receive severance taxes on development on any lands, so the state stands to benefit regardless of the location of any find.

In conclusion (and especially in light of recent judicial rulings on oil and gas lease sales), SB151 sends a clear signal that oil and gas is still viewed by many, including the Legislature and the Administration, as a key component of Alaska's long-term future.

HOUSE COMMITTEE REPORT

3/28/94

Finance

(1)  
Date Referred: March 7, 1994

FURTHER REFERRALS:

Date of Committee Action: 3-25-94

The JUDICIARY Committee considered:

SB 151

SENATE BILL NO. 151

OIL & GAS EXPLORATION INCENTIVE CREDITS

"An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:  
 be replaced with HCS SB 151 (RES)  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 \_\_\_\_\_ (2)  zero fiscal note(s) Revenue, DNR 3/7/94 2/2/94

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i> Green	<input checked="" type="checkbox"/>	<i>[Signature]</i> Nordlund			<input checked="" type="checkbox"/>
<i>[Signature]</i> James	<input checked="" type="checkbox"/>				
<i>[Signature]</i> Kott	<input checked="" type="checkbox"/>				
<i>[Signature]</i> Porter	<input checked="" type="checkbox"/>				
<i>[Signature]</i> Phillips	<input checked="" type="checkbox"/>				
	(5)				(1)

*[Signature]* Porter  
 CHAIRMAN'S SIGNATURE

# HOUSE COMMITTEE REPORT

(9)

Date Referred: February 2, 1994

FURTHER REFERRALS:

Judiciary  
Finance

Date of Committee Action: 3/4/94

The RESOURCES Committee considered:

SB 151

SENATE BILL NO. 151

OIL & GAS EXPLORATION INCENTIVE CREDITS

"An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with HCS SB 151 (RES)  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 Revenue

zero fiscal note(s) DNR / 2-2-94

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Bill Hudson</i>	✓				
<i>Joseph [unclear]</i>	✓				
<i>Annette James</i>	✓				
<i>John [unclear]</i>	✓				
<i>Chris [unclear]</i>	✓				
<i>W.F. Williams</i>	✓				

*W.F. Williams*  
CHAIRMAN'S SIGNATURE

# HOUSE COMMITTEE REPORT

(7)  
Date Referred: April 24, 1993

FURTHER REFERRALS:

2-2-94  
Resources  
Finance

Date of Committee Action: 1/31/94

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS Committee considered:

SB 151

SENATE BILL NO. 151

OIL & GAS EXPLORATION INCENTIVE CREDITS

"An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:  the same title  
be replaced with \_\_\_\_\_  a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the House Judiciary Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

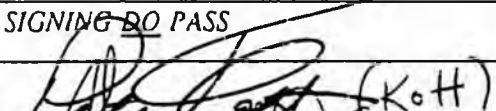
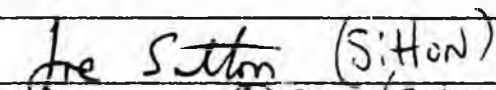

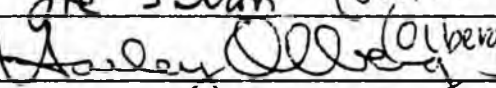
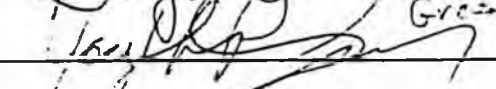
APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

fiscal impact \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note DNR

zero fiscal note(s) \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
 (Kott)	<input checked="" type="checkbox"/>	 (Sitton)		X	
 (G. Davis)	<input checked="" type="checkbox"/>	 (Olberg)		<input checked="" type="checkbox"/>	
 (Green)	<input checked="" type="checkbox"/>				
	(3)			(2)	

  
CHAIRMAN'S SIGNATURE  
(Green)

## EIC SALES

Sale 43/43A	Beaufort Sea/Colville River Delta/Prudhoe Bay Uplands	May 22, 1984
<u>Tracts</u>	<u>EIC</u>	
43A-70 - 78	\$ 1,200/ft drilled to 30% of well costs, 1st well/tract, 10 yr limit	
43A-79 - 84	\$375/ft drilled to 30% of well costs, 1st well/tract, 10 yr limit	
Sale 65	Beaufort Sea	June 4, 1991
All tracts	\$1,000/ft drilled up to 15% of well costs, 1st well/tract, 5yr limit	
Sale 67A	Cook Inlet Exempt	January 29, 1991
All tracts	\$200/ft drilled to 20% of well costs, 1 well /tract, 3 yr limit	
Sale 70A	Kuparuk Uplands Exempt	January 29, 1991
All tracts	\$300/ft drilled to 20% of well costs, 1 well /tract, 5 yr limit	
Sale 74	Cook Inlet	September 24, 1991
All tracts	\$200/ft drilled to 20% of well costs, 1 well /tract, 3 yr limit	

**EXPLORATION INCENTIVE CREDITS**  
Report Month: February 1992

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/05/83	\$6,197,625.00
		Standard Alaska	12/27/83	4,152,408.75
		BP&E	10/05/83	2,045,216.25
344010	Leffingwell	Arco	10/02/84	3,706,000.00
		Union	10/02/84	3,706,000.00
344033	J-1 Well	Exxon	10/31/84	5,119,500.00
355005	Long Island Well	Exxon	11/14/84	1,378,076.00
		Standard Alaska	11/14/84	1,378,076.00
245126	Totek Hills	Arco Alaska	08/02/85	715,530.81
355037	Colville Delta #1	Texaco	07/09/86	637,500.00
		Amerada Hess	07/09/86	888,594.00
		Diamond Shamrock (A)	07/09/86	100,128.00
		Mobil	02/05/87	432,511.00
		Placid Oil (C)	07/09/86	314,679.00
		Union Texas (B)	07/09/86	475,631.00
		Rosewood Resources	07/09/86	12,662.00
		Hunt Pet Co.	07/09/86	11,213.00
364478	Colville Delta Area AIC 25-13-6 #1 Well	Amerada Hess	10/12/87	677,853.00
		Union Texas (G)	10/12/87	508,390.00
		Texaco	10/12/87	225,951.00
		Maxus Expl. (G)	10/12/87	146,757.41
		Placid Oil	10/12/87	129,115.00
		Rosewood Res.	10/12/87	21,360.00
		Hunt Pet Co. (G)	10/12/87	18,987.00
		Texaco (E)	02/01/88	79,193.59
355038	Colville Delta #2	Amerada Hess	10/28/87	757,731.46
		Union Texas (G)	10/28/87	205,106.95
		Texaco	10/28/87	273,475.93
		Maxus Expl. (F)	10/28/87	273,475.93
		Placid Oil (H)	10/28/87	423,982.26
		Rosewood Res. (D)	10/28/87	77,561.49
		Hut Pet Co. (G)	10/28/87	68,943.50
355039	Colville Delta #3	Amerada Hess	10/28/87	364,048.13
		Union Texas (G)	10/28/87	91,012.03
		Texaco	10/28/87	364,048.13
		Maxus Expl. (G)	10/28/87	364,048.13
		Placid Oil (H)	10/28/87	178,918.37
		Rosewood Res. (D)	10/28/87	34,416.31
		Hut Pet Co. (G)	10/28/87	30,592.28
344176	Gyr #1	Arco Alaska, Inc.	11/ /90	719,560.56
		Conoco	11/ /90	761,481.20
		Amerada Hess	11/ /90	761,481.20
		Arco Alaska, Inc.	01/92	16,151.00
		Conoco	01/92	9,479.94
		Amerada Hess	01/92	9,479.93
<b>GRAND TOTAL</b>				<b>\$38,863,952.54</b>

- (A) Assigned \$432,511 of EIC to Mobil Oil Corp. effective 02/05/87
- (B) Assigned entire EIC to BP Alaska effective 02/03/87
- (C) Assigned entire EIC to Texaco Inc. effective 03/31/87
- (D) Assigned entire EIC to Texaco Producing Inc. effective 01/01/88
- (E) Assigned \$79,193.59 of EIC to Texaco Producing Inc. effective 02/01/88
- (F) Assigned entire EIC to Texaco Producing Inc. effective 02/01/88
- (G) Assigned entire EIC to Texaco Producing Inc. effective 05/17/88
- (H) Assigned entire EIC to Standard Alaska effective 05/17/88

Source: Alaska Department of Natural Resources, Division of Oil and Gas



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 5, 1993

*The Honorable Rick Halford  
President of the Senate  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1162*

*Dear Mr. President:*

*Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill providing for monetary incentives in the form of certain credits to be applied against taxes and other obligations to the state for oil- and gas-related geophysical and exploratory activities performed by a qualified applicant. This bill should provide a valuable tool for the state to encourage oil and gas exploration in Alaska.*

*The bill amends AS 41 by adding a new chapter, 09. The bill would permit a qualified applicant to receive certain credits that could be used to offset taxes, royalties, or bonuses due the state, if the applicant performed certain defined exploratory work. The bill does not require that the exploratory work be done exclusively on state land, since development on other land also benefits the state in the form of additional jobs, increased economic activity, and development of infrastructure. The bill, though, allows a credit not to exceed 50 percent of the eligible direct costs of activities performed on state-owned land as opposed to 25 percent of those costs on other land, to encourage development on state land. The applicant would be able to assign the credit to any other entity, including banks and security holders. The commissioner of natural resources is authorized to grant up to a total of \$50 million for all incentive credits to applicants under this program, with no single project receiving more than \$5,000,000 in credits.*

*The Honorable Rick Halford*

*March 5, 1993*

*Page 2*

*The applicant also must submit to the commissioner copies of all data derived from the exploratory activity.*

*The commissioner may display, but not distribute or transfer, certain geophysical data to others to generate interest in development of state oil and gas reserves. The bill provides protection for confidential data submitted similar to that already existing in other state laws for oil and gas exploration information submitted to the state.*

*I urge your prompt and favorable consideration of this bill.*

*Sincerely,*

A handwritten signature in cursive script, reading "Walter J. Hickel". The signature is written in black ink and is positioned above the printed name and title.

*Walter J. Hickel*  
Governor

## COMPARISON BETWEEN AS 38.05.180(i) and SB-151

### *Geographic Extent*

180 (i) - Limited to state land subject to an existing oil and gas lease that has an EIC provision.

*SB-151 - Applies to all lands, state, federal and private, within Alaska.*

### *Qualifications/Limitations*

180 (i) - Credits, if offered, are set by the commissioner. They are based on a percentage of the cost per foot of exploratory well footage drilled (for the region situated) or a percentage of geophysical work completed on state-leased land. They are limited to 50-percent of the cost of the project and a credit may not exceed 50-percent of the payment to which it is being applied.

*SB-151 - Credits must be pre-approved by the commissioner (for exploration and stratigraphic test wells and geophysical work) and may not exceed 50-percent of the cost of a project on state-owned land, nor more than 25-percent of the cost of a project on other than state-owned lands. In either case, the credits may not exceed \$5-million per project, nor \$50-million in cumulative credits granted by the state in total.*

### *Use Limitations*

180 (i) - Credits are assignable, but must be used during a limited period established by the commissioner.

*SB-151 - Credits are assignable and must be used within 5-years of the award of the credit.*

### *Application*

180 (i) - Credits may be applied against oil and gas rental and royalty payments as well as taxes under AS 43.55. Amounts due the Alaska permanent fund are calculated first.

*SB-151 - Credits may be applied against oil and gas rental and royalty payments as well as taxes under AS 43.20, which now includes income taxes. Amounts due the Alaska permanent fund are calculated first.*

### ***Endurance***

180 (i) - Until changed legislatively (there is no sunset provision).

*SB-151 - All work must be done within 10-years (July 1, 2004), or until cumulative credits reach \$50-million.*

### ***Confidentiality***

180 (i) - To qualify, geophysical work must be done during the two seasons preceding an announced lease sale and the data must be made public following the sale.

*SB-151 - All data must be made available to the commissioner. Well data remains confidential for 24-months. Geophysical data may be shown (but not distributed) to interested third parties ; the commissioner determines it to be in the best interest of the state.*

# FISCAL NOTE

No. 4

Bill Version: HCSSB 151 (RES)

BILL NO. (H) Publish Date: 3/7/94

**STATE OF ALASKA  
1994 LEGISLATIVE SESSION**

Revision Date: January 5, 1994

Dept. Affected: Revenue

Title: Oil and Gas Incentive Credits

BRU: Revenue Operations

Component: Income & Excise Audit

Sponsor: Governor

Requestor: House Oil and Gas

COMPONENT SERIAL NO. 113

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE:	--	--	--	--	--	--
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**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

**ANALYSIS: (Attach a separate page if necessary.)**

\*\* Over the 15 year term exploration credits could total between \$0 and \$50 million. It is not feasible to determine the actual year or amount. Amounts will vary depending on the year in which credits are claimed.

Prepared by:

Rod R. Mourant

Phone: 465-2302

Division:

Commissioner's Office

Date: January 5, 1994

Approved by Commissioner:

Darrel J. Rexwinkel

Date: January 5, 1994

Agency:

Department of Revenue

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# FISCAL NOTE

No. 3  
 Bill Version: SB 151  
 (H) Publish Date: 2/2/94

STATE OF ALASKA

BILL:

## 1994 LEGISLATIVE SESSION

Revision Date: 31-Jan-94 Dept Affected: Natural Resources  
 Title: "An Act providing for oil and gas exploration  
incentive credits for certain activities on certain lands..." BRU: Resource Development  
 Sponsor: Senate Rules for the Governor Component: Oil & Gas Development  
 Requestor: House Oil & Gas Committee Component Serial No. 499

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS	FY95	FY96	FY97	FY98	FY99	FY00
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)

As the fiscal note indicates, there is no fiscal impact to the Department of Natural Resources related to this proposed bill. There would be, however, a potential reduction in the revenue stream to the state which should be reflected in the fiscal note prepared by the Department of Revenue.

Prepared by: Jim Eason, Director Phone: 762-2547  
 Division: Oil & Gas Date: 31-Jan-94  
 Approved by Commissioner: Harry A. Noah Date: 31-Jan-94  
 Agency: Natural Resources

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