

S B

151

FISCAL NOTE

No. 1

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BI

Bill Version: SB151

(S) Publish Date: 3-5-93

Revision Date:	Dept. Affected: Revenue
Title: <u>Oil & Gas Exploration Incentive Credits</u>	BRU: <u>Revenue Operations</u>
Sponsor: <u>Governor</u>	Component: <u>Oil & Gas Audit Division</u>
Requestor: <u>Governor</u>	COMPONENT SERIAL NO. <u>115</u>

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
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						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

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

ANALYSIS: (Attach a separate page if necessary)

* Over the 15 year term exploration credits could total between \$0 and \$50 million. It is impossible to predict the actual year of amount.

Prepared by: <u>Rod R. Mourant</u>	Phone: <u>465-2300</u>
Division: <u>Commissioner's Office</u>	Date: <u>3/2/93</u>
Approved by Commissioner: <u>Dr. J. Rexwinkel</u>	Date: <u>3/2/93</u>
Agency: <u>Revenue</u>	

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB151

Revision Date:	Dept. Affected: Revenue
Title: <u>Oil & Gas Incentive Credits</u>	BRU: <u>Revenue Operations</u>
	Component: <u>Income and Excise Audit</u>
Sponsor: <u>Governor</u>	
Requestor: <u>Governor</u>	COMPONENT SERIAL NO. <u>113</u>

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
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						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

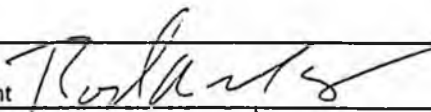
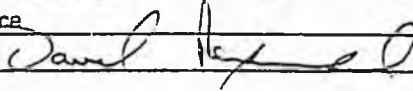
POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

** Over the 15 year term exploration credits could total between \$0 and \$50 million. It is impossible to predict the actual year or amount.

Prepared by:	<u>Rod R. Mourant</u> 	Phone: <u>465-2300</u>
Division:	<u>Commissioner's Office</u>	Date: <u>3/15/93</u>
Approved by Commissioner:	<u>Darrel J. Rexwinkel</u> 	Date: <u>3/16/93</u>
Agency:	<u>Revenue</u>	

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 2

STATE OF ALASKA
1993 LEGISLATIVE SESSION

Bill Number: SB 151

(S) Publish Date: 3-5-93

Revision Date Original Department Affected: Natural Resources
 Title: "An Act providing for exploration incentive credits for certain activities on certain land in the state" BRU: Resource Development
 Components: Oil & Gas Development
 Sponsor: Senate Rules for the Governor
 Requestor: _____ Component Serial No. 439

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE fund source:	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (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

POSITIONS:

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

Estimate of current year (FY93) impact: \$ No fiscal impact anticipated

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 Development Date: 2-Mar-93
 Approved by Commissioner: Glenn A. Olds Date: 2-Mar-93
 Agency: Department of Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further information, contact _____

EIC SALES

Sale 43/43A Beaufort Sea/Colville River Delta/Prudhoe Bay Uplands May 22, 1984

Tracts

EIC

43A-70 - 78
43A-79 - 84

\$ 1,200/ft drilled to 30% of well costs, 1st well/tract, 10 yr limit
\$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

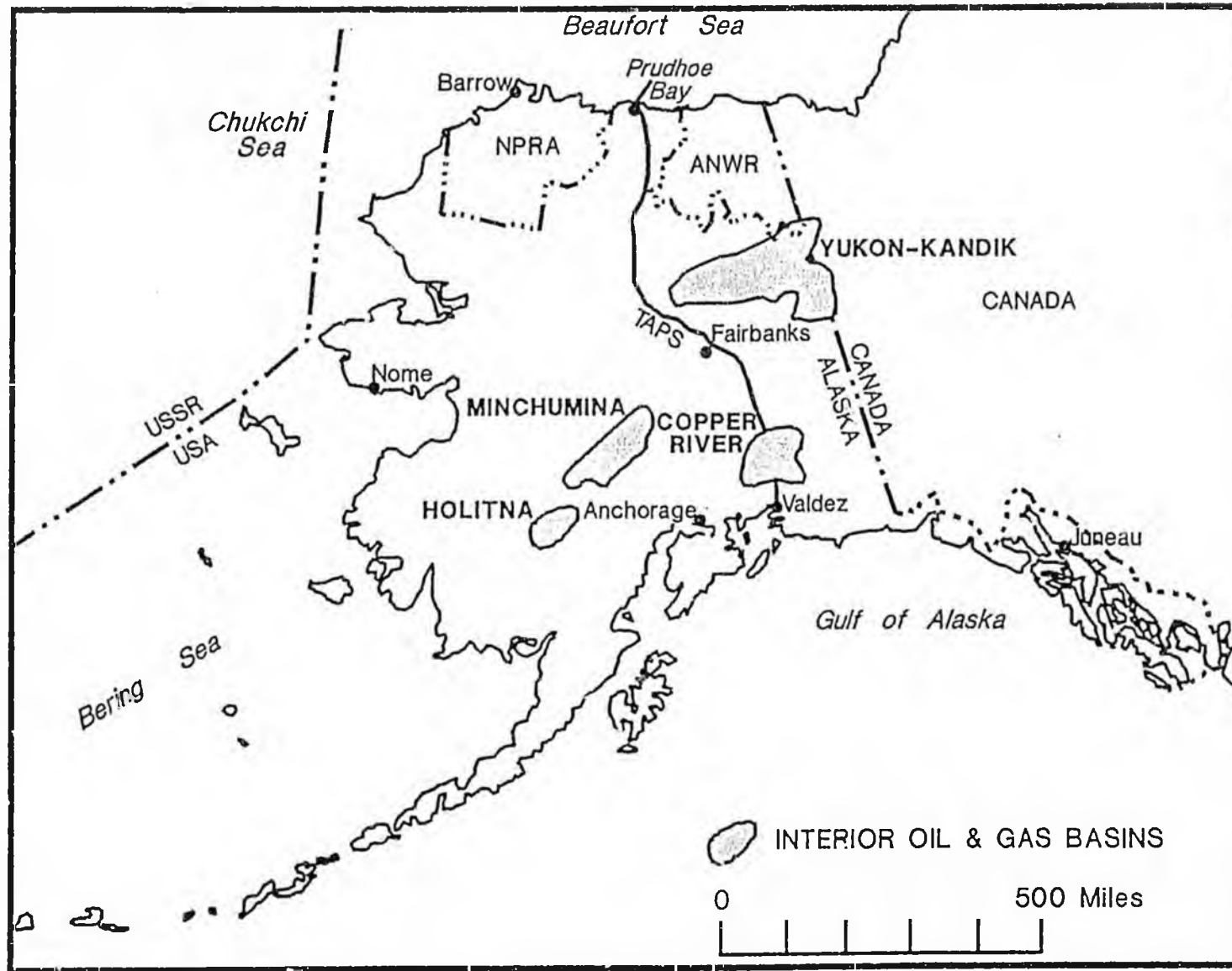
EXPLORATION INCENTIVE CREDITS

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
		BPAL	10/05/83	2,045,216.25
344010	Lefvingwell	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 AHC 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
GRAND TOTAL				\$38,863,952.54

- (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



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.

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

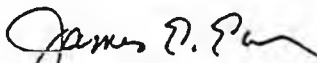
Dear Senator Adams:

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

031693an.je

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.

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.