

SB

151



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 99801-1182*

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 dark ink and is positioned above the printed name and title.

Walter J. Hickel
Governor

FISCAL NOTE

No. 2

STATE OF ALASKA
1993 LEGISLATIVE SESSION

Bill Y on: 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

call the Governor's Legislative Office

FISCAL NOTE

No. 1

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BI

Bill Version: SB 151

(S) Publish Date: 3-5-93

Revision Date: _____	Dept. Affected: <u>Revenue</u>
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:	Rod R. Mourant <i>[Signature]</i>	Phone: 465-2300
Division:	Commissioner's Office	Date: 3/2/93
Approved by Commissioner:	Darrel J. Rexwinkel <i>[Signature]</i>	Date: 3/2/93
Agency:	Revenue	

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

Position Paper
Department of Natural Resources
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.