

**HB**

**380**

# ALASKA STATE LEGISLATURE



*Session:*

State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-3779 - Phone  
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*Interim:*

145 Main St. Loop Suite 221  
Kenai, Alaska 99611  
(907) 283-7223 - Phone  
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**REPRESENTATIVE MARK D. HODGINS**  
**House District 9**

**SPONSOR STATEMENT**  
**HB 380**

**Reduce Royalty on Cook Inlet Oil & Gas**

The intent of House Bill 380 is to encourage the development of gas reserves within the Cook Inlet sedimentary basin. New gas reserves developed as a result of the proposed legislation could be instrumental in maintaining reliable and economically priced gas supplies for South-central consumers, including residential and commercial users.

In addition to stimulating the development of several known undeveloped fields, many of which were discovered more than 30 years ago, House Bill 380 has the potential to leverage additional exploration and development in the vicinity of new infrastructure, including pipelines and associated facilities, required to develop those known fields. Any new oil and gas production resulting from the development of these fields will in turn reduce the average cost of producing existing reserves, and extend the economic life of both existing and new Cook Inlet production and transportation infrastructure.

Under the terms of the proposed legislation, lessees owning leases overlying previously discovered oil or gas fields in the Cook Inlet basin which have remained undeveloped or shut-in from at least January 1, 1988 through December 31, 1997, would have an incentive to develop those fields as rapidly as possible. The legislation would provide that, for oil and gas produced from undeveloped or shut-in fields brought into production before January 1, 2004, lessees would pay a reduced royalty of five percent, instead of the 12 1/2 percent specified in the lease, for a period of 10 years following the date on which oil or gas production begins.

By establishing a short period of eligibility—ending on December 31, 2003 – House Bill 380 ensures that lessees diligently pursue development or forfeit the opportunity to pay reduced royalties. By limiting the period of reduced royalty payments from qualifying fields to 10 years following the beginning of production, the legislation provides a reasonable and measurable limit to the state's foregone royalties in exchange for oil and gas production that may otherwise not occur. The state's royalties from currently producing Cook Inlet oil and gas fields will not be effected by House Bill 380.

By encouraging the development of existing uneconomic oil and gas fields, House Bill 380 will benefit the state and local economies through taxation and royalties, encourage future development of new oil & gas discoveries by lowering the costs of industry infrastructure, as well as taking care of job #1 - providing jobs for Alaskans.

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## REPRESENTATIVE MARK D. HODGINS House District 9

### HB 380

- Since it's introduction, HB 380 has been amended to protect the state's interest by imposing caps on oil & gas production from each field to which reduced royalty may apply - 25 million barrels of oil and 35 billion cubic feet of gas. There were no limits in the original bill.
- All of the oil & gas fields, which will qualify for a royalty reduction, were discovered more than 30 years ago and have remained undeveloped due to poor economics. HB 380 encourages the expedited development of the qualified oil & gas fields, by providing a short window of opportunity to begin production. Production must begin before January 1, 2004 to qualify for the royalty reduction.
- The State of Alaska will receive a five- percent royalty on oil & gas production, which may not otherwise occur. Considering both the history of the fields involved and the approaching abandonment of Cook Inlet production and transportation infrastructure needed to continue the areas production.
- In addition to stimulating new production from these old fields - from which the state is receiving NO royalties - HB 380 has the potential to leverage additional exploration and development in the vicinity of the new infrastructure. This could result in additional revenues to the state through added royalties and taxes.
- New jobs, new oil and gas reserves, lower production costs, new sources of severance and property taxes to maintain public services - HB 380 has the potential to provide all of these benefits from the development of old fields which have set idle for more than 30 years and have yet to produce any meaningful revenues to the state.

# SENATE COMMITTEE REPORT

DATE: 4/8/98

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/16/98

Resources Committee considered CS FOR HOUSE BILL NO. 380(FIN)(title am)  
 REDUCE ROYALTY ON COOK INLET OIL & GAS

and recommends:

- be replaced with S CS HB 380 (RES)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical title
  - new: SCR# \_\_\_\_\_

SIGNING DP/PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>John Ingram</i>	✓	<i>Dominic Lincoln</i>			✓
<i>Frank A. Roman</i>	✓	<i>Bob [unclear]</i>	✓		
		<i>Dylan [unclear]</i>	✓		
<b>CHAIR:</b> <i>Rick Halford</i>	✓	<b>CHAIR:</b>			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal
<i>DNR</i>	<i>4/16</i>		<i>**</i>

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO. SCSCSHB380(RES)**

Revision Date: 16-Apr-98 Dept Affected: Natural Resources  
 Title: An Act relating to a temporary reduction of BRU: Resource Development  
royalty on oil and gas produced ... from ... Cook Inlet ... Component: Oil & Gas Development  
 Sponsor: Rep. Hodgins  
 Requestor: S (RES) Component Serial No. #439

Expenditures/Revenues (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
<b>OPERATING EXPENDITURES</b>						
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>
<b>CAPITAL EXPENDITURES</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>
<b>CHANGE IN REVENUES (fund code)</b>	<b>0.0</b>	<b>0.0 ?</b>	<b>? ?</b>	<b>? ?</b>	<b>? ?</b>	<b>? ?</b>

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<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>

Estimate of any current year (FY98) 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)

It is impossible to quantify the effect of this bill since no economic analysis has been performed. Using the 25MMBBL "cap" the attached spreadsheet shows the effect of this bill on state revenues and the Permanent Fund. This is for oil only.

The known gas reserves in the four fields comes to about 47 BCF. Using that number and a price of \$1.50/mcf the effect on the treasury would be approximately \$5 million (i.e. the State would receive about \$5 million less in royalties).

47 bcf = 47,000 mmcf. 47,000 mmcf @ \$1.50 mcf = \$70,500,000

\$70,500,000 x (.125 - .05) = \$5,287,500

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 16-Apr-98  
 Approved by Commissioner: *Paula Cannon* Date: 4/16/98  
 Agency: Natural Resources

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

Attachment to fiscal note CSHB380(FIN)(Title am)

	Barrels	Royalty Barrels	Ten Dollar	Eleven Dollar	Twelve Dollar	Fifteen Dollar	Twenty Dollar	
At 12.5%	25,000,000	3,125,000	\$31,250,000	\$34,375,000	\$37,500,000	\$46,875,000	\$62,500,000	
At 5.0%	25,000,000	1,250,000	\$12,500,000	\$13,750,000	\$15,000,000	\$18,750,000	\$25,000,000	
			Forgiven Royalty (one field)	\$18,750,000	\$20,625,000	\$22,500,000	\$28,125,000	\$37,500,000
			Perm Fund (50% - one field)	\$9,375,000	\$10,312,500	\$11,250,000	\$14,062,500	\$18,750,000
			Forgiven Royalty (two fields)	\$37,500,000	\$41,250,000	\$45,000,000	\$56,250,000	\$75,000,000
			Perm Fund (50% - two fields)	\$18,750,000	\$20,625,000	\$22,500,000	\$28,125,000	\$37,500,000

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO. CSHB380(FIN)(Title am)**

Revision Date: 14-Apr-98 Dept Affected: Natural Resources  
 Title: An Act relating to a temporary reduction of BRU: Resource Development  
royalty on oil and gas produced ... from ... Cook Inlet ... Component: Oil & Gas Development  
 Sponsor: Rep. Hodgins  
 Requestor: (S)RES Component Serial No. #430

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
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 (fund code)</b>	0.0	0.0 ?	?	?	?	?

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) 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)*

It is impossible to quantify the effect of this bill since no economic analysis has been performed. Using the 25MMBBL "cap" the attached spreadsheet shows the effect of this bill on state revenues and the Permanent Fund. This is for oil only.

The known gas reserves in the four fields comes to about 47 BCF. Using that number and a price of \$1.50/mcf the effect on the treasury would be approximately \$5 million (i.e. the State would receive about \$5 million less in royalties).  
 47 bcf = 47,000 mmcf. 47,000 mmcf @ \$1.50 mcf = \$70,500,000  
 \$70,500,000 x (.125 - .05) = \$5,287,500

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 14-Apr-98  
 Approved by Commissioner: \_\_\_\_\_ Date: 4-14-98  
 Agency: Natural Resources

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 For further distribution information call the Governor's Legislative Office

Attachment to fiscal note CSHB380(FIN)(Title am)

	Barrels	Royalty Barrels	Ten Dollar	Eleven Dollar	Twelve Dollar	Fifteen Dollar	Twenty Dollar	
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At 5.0%	25,000,000	1,250,000	\$12,500,000	\$13,750,000	\$15,000,000	\$18,750,000	\$25,000,000	
			Forgiven Royalty (one field)	\$18,750,000	\$20,625,000	\$22,500,000	\$28,125,000	\$37,500,000
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			Forgiven Royalty (two fields)	\$37,500,000	\$41,250,000	\$45,000,000	\$56,250,000	\$75,000,000
			Perm Fund (50% - two fields)	\$18,750,000	\$20,625,000	\$22,500,000	\$28,125,000	\$37,500,000

0-LS1503\R  
Glover  
4/20/98

SENATE CS FOR CS FOR HOUSE BILL NO. 380( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES HODGINS, Kohring, Rokeberg

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a temporary reduction of royalty on oil and gas produced  
2 for sale from certain fields described as being located within the Cook Inlet  
3 sedimentary basin, as having been discovered before January 1, 1988, and as  
4 having been undeveloped or shut in from at least January 1, 1988, through  
5 December 31, 1997."

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

7 \* Section 1. AS 31.05.030 is amended by adding a new subsection to read:

8 (i) The commission shall accept written plans submitted by lessees for  
9 purposes of AS 38.05.180(f)(5). If a lessee submits a plan, the commission shall hold  
10 a public hearing on the plan and, within 45 days after receipt of the plan, grant  
11 approval of the plan if the plan contains a voluntary agreement by the lessee to use its  
12 best efforts to employ residents of this state, consistent with law, and to contract with  
13 firms in this state for work in connection with the development of the field, including

1 the fabrication and installation of required facilities, whenever feasible. The decision  
2 of the commission to grant approval may not be appealed.

3 \* Sec. 2. AS 38.05.180(f) is amended by adding a new paragraph to read:

4 (5) notwithstanding and in lieu of a requirement in the leasing method  
5 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases  
6 unitized as described in (p) of this section, leases subject to an agreement described  
7 in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or  
8 part of an oil or gas field identified in this section that has been granted approval of  
9 a written plan submitted to the Alaska Oil and Gas Conservation Commission under  
10 AS 31.05.030(i) shall, subject to (dd) of this section, pay a royalty of five percent on  
11 the first 25,000,000 barrels of oil and the first 35,000,000,000 cubic feet of gas  
12 produced for sale from that field that occurs in the 10 years following the date on  
13 which the production for sale commences; the fields eligible for royalty reduction  
14 under this paragraph, all of which are located within the Cook Inlet sedimentary basin,  
15 were discovered before January 1, 1988, and have been undeveloped or shut in from  
16 at least January 1, 1988, through December 31, 1997, are

- 17 (A) Falls Creek;  
18 (B) Nicolai Creek;  
19 (C) North Fork;  
20 (D) Point Starichkof;  
21 (E) Redoubt Shoal; and  
22 (F) West Foreland.

23 \* Sec. 3. AS 38.05.180 is amended by adding a new subsection to read:

24 (dd) A lessee is eligible for the royalty in (f)(5) of this section only if  
25 production of oil or gas for sale begins from the eligible field before January 1, 2004.  
26 However, if the state or an agency of the state is a party to a suit, other than a suit  
27 brought by the lessee or agent of the lessee, and if the suit challenges (f)(5) of this  
28 section or AS 31.05.030(i) or an act under (f)(5) of this section or AS 31.05.030(i), the  
29 January 1, 2004, deadline is extended by the number of days the state or agency of the  
30 state is a party to the suit, including any appeals.

0-LS1503VIA.6  
Glover  
4/15/98

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR HALFORD

TO: CSHB 380(FIN)(title am)

1 Page 2, line 3, following "commences;":

2 Insert "a lessee that has not been granted approval of a production plan by the Alaska  
3 Royalty Oil and Gas Development Advisory Board under AS 38.06.040(a)(5) before the date  
4 production for sale commences from the field described by the plan is ineligible for the  
5 royalty reduction described in this paragraph on oil or gas produced from the field; subject  
6 to the approval of a plan by the board under AS 38.06.040(a)(5)."

7 Page 2, following line 12:

8 Insert a new bill section to read:

9 "\* Sec. 2. AS 38.06.040(a) is amended to read:

10 (a) The board shall

11 (1) in accordance with the criteria set out in AS 38.06.070, develop  
12 a plan for the wise development of the state's oil and gas royalty interests; the plan  
13 of development shall be consistent with

14 (A) growth of the private sector of the economy;

15 (B) environmental standards required by law; and

16 (C) public fiscal stability;

17 (2) hold public hearings on proposed sales, exchanges, or other  
18 disposals of royalty oil or gas to determine whether the proposals comply with  
19 AS 38.06.070;

20 (3) examine proposed sales, exchanges, or other disposal of, and  
21 recommend to the legislature that it approve or disapprove a proposed sale, exchange,  
22 or other disposal of

23 (A) the oil or gas that is obtained by the state as royalty under  
24 AS 38.05.182; or

0-LS1503\HA.6

1 (B) the rights to receive future oil or gas production under state  
2 leases; [AND]

3 (4) recommend to the commissioner of natural resources the conditions  
4 relating to the sale, delivery, transportation, refining, or processing of oil or gas which  
5 the commissioner may include in the offer and sale of oil or gas obtained by the state  
6 as royalty under AS 38.05.182; and

7 (5) grant approval within 45 days after receipt of a production  
8 plan for production for sale of oil or gas from a field described in  
9 AS 38.05.180(f)(5) if the plan includes provisions for the lessee to use all  
10 reasonable efforts to obtain from a manufacturer in this state the reasonably  
11 necessary materials for the construction of facilities used to produce oil or gas  
12 from that field; in determining whether a lessee has used all reasonable efforts  
13 in this paragraph, the board shall consider

14 (A) the relative cost of materials in proportion to the  
15 benefits to manufacturers in this state; and

16 (B) the health, safety, and environmental conditions and  
17 requirements to ensure maintenance of the lessee's operational standards."

Alaska Support Industry  
**ALLIANCE**  
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# THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

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### GENERAL MANAGER

Karen Cowart

March 31, 1998

Members of the Alaska State Legislature  
State Capitol  
Juneau, AK 99811

RE: *HB 380 - An act relating to a temporary reduction of royalty on oil and gas produced for sale from fields within the Cook Inlet sedimentary basin where production is commenced in fields that have been discovered and undeveloped or that have been shut in*

Dear Representatives and Senators:

For two decades, The Alliance has served as a statewide trade organization for Alaska's support industry. Today, The Alliance represents over 300 businesses that provide products and services to the oil and gas industry. We are oilfield service companies, transportation enterprises, wholesale and retail businesses, professional firms and private citizens. Collectively, we employ over 25,000 people in Alaska, 23,000 of which are permanent Alaska residents.

While our members' livelihood is directly linked to oil and gas activity, the truth is that every trade, business and citizen in Alaska relies on a healthy petroleum industry, now and well into the future. For this reason, we strongly advocate legislation and government policy that encourages responsible oil and gas exploration, development and production.

Those of us with the Alliance have watched production from the Cook Inlet fields decline consistently since 1970 (when production was almost 83 million barrels per year) to current levels, which jeopardize the continued operation of several Cook Inlet platforms. In fact, most of the Cook Inlet oil fields currently in production are over 90 percent depleted, and it is inevitable that we will see a decline in gas production in the near future.

Therefore, The Alliance supports the Legislature's efforts to pass legislation, such as House Bill 380 - An act relating to a temporary reduction of royalty on oil and gas produced for sale from fields within the Cook Inlet sedimentary basin where production is commenced in fields that have been discovered and undeveloped or that have been shut in. We believe the bill's tax holiday incentives could provide the catalyst to develop smaller fields currently left dormant due to economic conditions.

HB 380 was passed from the House Finance Committee on March 28, 1998, and will be forwarded to the House floor for a vote on final passage later this week. We believe passage this session is important. Under the terms of the proposed legislation, owners of leases with previously discovered fields that have been undeveloped or shut in between January 1, 1988 to December 31, 1997, would have an incentive to bring those fields into production as rapidly as possible. The legislation would provide for a reduced royalty of 5% (as opposed to 12-1/2 %) for the first 25 million barrels of oil and the first 35 billion cubic feet of gas that is brought into production before January 1, 2004. Royalty relief would be afforded for up to 10 years.

By establishing a short period of eligibility, ending on December 31, 2003, HB 380 effectively ensures that lessees diligently pursue development or forfeit the opportunity to pay reduced royalties. By limiting the period of reduced royalty payments from qualifying fields to 10 years following the beginning of production, the legislation provides a reasonable and measurable limit to the state's forgone royalties in exchange for oil and gas production that may otherwise not occur. The state's royalties from currently producing Cook Inlet oil and gas fields are not effected by HB 380.

We know that oil and gas development is ultimately driven by demand, which is beyond the control of state government and private industry. Nonetheless, it is important to address those factors that are within our control. As the market evolves and ripens, incentives such as those presented in House Bill 380 will help ensure that Alaska is in a much better position to attract and keep major resource investors.

Thank you for your continued support of the oil and gas industry.

Sincerely,



Karen Cowart  
General Manager

# Forcenergy Inc

---



March 30, 1998

Mr. John Shively  
Commissioner  
Department of Natural Resources  
3601 C Street, Suite 1210  
Anchorage, Alaska 99503  
Fax: (907) 562-4871

Dear Commissioner:

The purpose of this note to you is to both eliminate any misunderstandings that may have surfaced during the House Finance Committee hearing on CS11B380 this past Saturday, and to extend an offer to supply the State with data that would help the Department of Natural Resources in their evaluation of activities taking place in the Cook Inlet in general.

As you know, I was alarmed to hear from Ken Boyd that Forcenergy had an obligation to supply data and a report concerning the 3-D seismic program that was conducted on behalf of Forcenergy last summer, as part of our obligations under the Redoubt Unit Agreement, to his office by March 31, 1998. Immediately following the hearing, I reviewed the agreement to see if our company had inadvertently missed some detail in the requirements. I was relieved to find out that Forcenergy's sole obligation, related to the 3-D seismic data, was to conduct the survey, process the data, and proceed with interpretation. Initial processing was completed on schedule and we are presently refining the processing and doing initial interpretation. We can not find any obligation to the State that we have to meet by March 31<sup>st</sup>.

I also feel that the reputation of my company was damaged by the exchange between Ken Boyd and the members of the House Finance Committee which implied that we were withholding data until the last minute purposefully. Separate from our support of the incentive legislation that is being considered, it is critical to me that Forcenergy has a credible reputation in all our activities here in Alaska. It is for that reason that I believe it is important to clarify the record in these matters.

---

#### HEADQUARTERS

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Miami, Florida 33129-2237

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305/856-8500  
FAX  
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#### REGIONAL OFFICE

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Suite 700  
Anchorage, Alaska 99501

TELEPHONE  
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FAX  
907/258-8601

It is our understanding the Department of Natural Resources has the authority to request data from permittees under the terms of geophysical permits issued by the department. Northern Geophysical of America worked for Forcenergy and other operating companies under their permit, and continues to do so at this time. On Sunday I spoke with Jeff Hastings, Northern Geophysical's Vice President for Alaska Operations, who confirmed that he is unaware of any obligation on Forcenergy's behalf to provide data to the division by March 31, 1998; and that, to date, he has not been requested by the division to provide copies of the 3-D data.

In the spirit of cooperation with the State, Forcenergy would be willing to have DNR come to our office and review the initial interpretation of the Redoubt Shoal area; and, of course, we are prepared to provide copies of all data to which the state is entitled under its regulation once the division identifies the data it desires to receive. The main reason for obtaining the 3-D seismic survey over Redoubt was to explain past dry holes and to pick potential locations for exploratory wells. These maps do not verify reserve numbers and are not designed to do so. We are confident that your people will see the logic of the project application to set an exploratory drilling platform and drill up to four wells to confirm the commerciality of this project.

As I mentioned to you and Ken after the hearing, we will be at a decision point in May to proceed with exploratory drilling or to relinquish the leases. I anticipate the cost will be substantial to drill the first exploratory well. If we proceed, our next decision point would come after drilling exploratory wells. The decision at that point will be to proceed with development or again, to relinquish the leases.

In addition, I hope that during our conversation, I was able to clarify any misconceptions that the department may have concerning the 3<sup>rd</sup> party evaluation of proven reserves to date at Redoubt. In order to develop a field like Redoubt Shoal, it will take several times that amount to justify development.

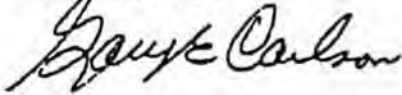
Also, I mentioned my concern that the administration was considering this a Forcenergy/Redoubt Shoal Bill. That, of course, is not the case; and I hope this bill will have the desired effects of incentive-precipitated activity on the other fields. The fact that companies like Forcenergy, Arco, Unocal, and Anadarko have committed some leasing funds to position themselves for future development in the Point Starichkof area does not mean that the real substantial capital needed to move forward will be committed. I have enclosed a copy of Table 3 from the Redoubt Unit Application that describes the number of times some of these leases have been dropped without any substantial development activity.

Mr. John Shively, Commissioner  
March 30, 1998

Page 3

John, I want to reaffirm our support of this Bill and I hope that after additional review of the potential benefits to the State, you and Ken Boyd can support it also.

Yours very truly,



Gary E. Carlson, Vice President

Attachment

cc: Representative Gail Phillips  
Speaker of the House

Representative Gene Therriault  
Co-Chair, House Finance Committee

Representative Mark Hanley  
Co-Chair, House Finance Committee

Members of the House Finance Committee

Representative Mark Hodgins  
Chair, House Oil & Gas Committee

Ken Boyd  
Director, Division of Oil & Gas

TABLE 3

PRIOR LEASING ACTIVITY AFFECTING ALL OR  
PORTIONS OF THE REDOUBT LEASES

(1963—1993)

<u>Lease ADL No.</u>	<u>Competitive Sales In Which Leased Previously *</u>	<u>Sale Date</u>	<u>Status</u>	<u>Date</u>
378114	Sale 12	12/11/63	Terminated	11/01/70
	Sale 26	12/11/72	Expired	04/23/87
	Sale 33	05/13/81	Expired	06/30/88
	Sale 40	09/28/83	Expired	11/30/90
	Sale 74	09/24/91	Active	12/01/91
374002	Sale 15	09/28/65	Expired	12/01/75
	Sale 20	07/25/67	Expired	09/30/77
	Sale 33	05/13/81	Expired	06/30/88
	Sale 67A-W	01/29/91	Active	04/01/91
381203	Sale 12	12/11/63	Terminated	11/01/70
	Sale 26	12/11/72	Expired	02/28/83
	Sale 46A	02/26/85	Expired	04/30/92
	Sale 76	01/26/93	Active	12/01/94
381003 **	Sale 20	07/25/67	Terminated	10/01/73
	Sale 33	05/13/81	Expired	06/30/88
	Sale 67A-W	01/26/93	Active	12/01/94
381201	Sale 20	07/25/67	Expired	07/31/77
	Sale 35	02/02/82	Terminated	04/01/91
	Sale 76	01/26/93	Active	12/01/94

\* The configuration of the previously leased areas changed over time, depending upon the land status prior to each succeeding sale in which then available acreage was offered.

\*\* In addition to the previous sales in which portions or all of the acreage currently contained in ADL 381003 was leased, acreage was also offered for lease in Sale 67A (January 29, 1991), but no bids were received.

Source: Lease Administration System records, Alaska Department of Natural Resources, Division of Oil and Gas, February 20, 1997.

**OWNERSHIP OF SHUT-IN AND UNDEVELOPED  
COOK INLET OIL AND GAS FIELDS  
IDENTIFIED AS POTENTIALLY QUALIFYING  
FOR TEMPORARY ROYALTY REDUCTION  
UNDER THE PROVISIONS OF  
SENATE BILL 256 / HOUSE BILL 380**

<u>Field</u>	<u>Type</u>	<u>Discovered</u>	<u>Affected Lessees *</u>
Falls Creek	Gas	1961	ARCO Alaska (50%); Cliff Burglin (22%); Other Private Individuals (28%)
Nicolai Creek	Gas	1966	UNOCAL (50%); Marathon (50%)
North Fork	Gas	1965	Gas-Pro Alaska (64.721%); ARCO Alaska (27.375%); and Marathon (7.904%)
Pt. Starichkof	Oil	1967	Mobil (25%); Pennzoil (25%); Placid (16.07143%); Rosewood Resources (4.726890%); Hunt Petroleum Corp. (4.201680); and Forcenergy Inc (25%)
Redoubt Shoal	Oil	1968	Forcenergy Inc (70%); UNOCAL(30%) **
West Foreland	Gas	1962	Forcenergy Inc (100%) ***

\* For those fields which are within approved units—Falls Creek, Nicolai Creek, North Fork and Redoubt Shoal fields—includes both the identity of the Working Interest Owners (WIOs) and their respective ownership interests in the State of Alaska leases within the unit. For Pt. Starichkof Field, which is not unitized, WIOs and ownership interest percentages noted are for the lease upon which the discovery well was drilled. Additional delineation drilling in all fields may confirm reserves extending beneath adjacent leases. Accordingly, lessees in addition to those noted above may potentially be affected by expedited delineation and production of these fields.

\*\* Forcenergy Inc currently holds 100% Working Interest in the Redoubt Unit. However, under the terms of an agreement between the companies, UNOCAL has the option, which it is expected to exercise, to acquire a 30% Working Interest in the unit.

\*\*\* The discovery well for the West Foreland Field is located onshore on a federal lease held by Phillips Petroleum Company. However, there is evidence to suggest that the gas accumulation confirmed by the discovery well may extend offshore onto one or more leases owned by Forcenergy Inc.

**COOK INLET, ALASKA  
OIL & GAS  
DEVELOPMENT**



MAPMAKERS  
ALASKA  
Palmer, AK

Houston

Palmer

Parks Hwy  
Wasilla

Kenai

LEWIS RIVER  
Unocal

PRETTY CREEK  
Unocal

STUMP LAKE  
Unocal

BELUGA RIVER  
Aico

IVAN RIVER  
Unocal

MATANUSKA-SUSTINA REGION  
FIRE ISLAND

ANY ROUGE

MOQUAWKIE

N. COOK INLET  
Phillips

NIKOLAI Cir.  
Unocal

GRANITE POINT  
Unocal

McARTHUR RIV  
Unocal

N. TRADING BAY  
Unocal

TRADING BAY  
Unocal

N. MIDDLE GROUND  
SHOAL  
Unocal

BIRCH HILL  
ARCO

MIDDLE GROUND  
SHOAL - Shell

SWANSON RIVER  
Unocal

S. MIDDLE GROUND  
SHOAL - Unocal

SOLDOTNA CREEK  
Unocal

BEAVER CREEK  
Marathon

STERLING  
Marathon

WEST FORK  
CIRI

Redoubt  
Shoal

REDoubt  
Energy

KALGIN  
ISLAND

Kenai  
CANNERY LOOP  
Marathon

KENAI  
Marathon

Soldotna

*Kenai  
Peninsula*

COOK

Clam Gulch

FALLS CREEK

CHISIK IS

Nimilchik

Anchor Co

Homer

Kachemak Bay

**LEGEND**

- Oil and Gas Leases
- Offshore Platforms and Wells
- Gas Field
- Oil and Gas Unit
- Oil Pipelines
- Gas Pipelines
- Seismicity Prospect for Royalty Reduction

# OILWATCH ALASKA

PO Box 101553 Anchorage, AK 99510 © © Ph: 907-277-8910 Email: oilwatch@alaska.net

April 15, 1998

Chairman Holford and Members of the Senate Resources Committee  
State Capitol  
Juneau, AK 99801

Dear Members of the Senate Resources Committee,

I ask you today to kill HB380 and the companion SB256 which reduces Cook Inlet oil and gas royalties. Proponents of this bill have offered no firm evidence that a royalty reduction is needed or even desirable. On the contrary, the Division of Oil and Gas has offered plenty of evidence that similarly situated fields in Cook Inlet are developing very energetically at present royalty rates. Additional reasons to oppose the 60% oil and gas royalty reduction for six specific Cook Inlet fields include:

- There is no evaluation that oil companies need or deserve a break—increased profit potential for is for oil companies and revenues for the Federal government at the State's expense. The state could lose \$14 million to \$27 million dollars which would affect the Permanent Fund and General Operating Fund.
- Other similar Cook Inlet fields are increasing their activity without any special breaks. It would be surprising if other similarly situated fields didn't ask for similar handouts and/or threaten litigation.
- Costs for recovering oil and gas have come down so dramatically that there is no reason to give such an enormous break. 3-D seismic costs are less than half from 4 years ago.
- Prudent business and policy practice should take back nonperforming wells and then put them out for competitive bid, (which has been done in the past), instead of creating an incentive where none is needed.
- HB380 is contrary to our current laws which require an evaluation of economic need for royalty breaks, that the Alaska's upside revenue potential be protected, and that Alaska citizens be allowed to participate in a very thorough public process. [HB207 amendments]
- HB380 does not create any additional jobs or provide additional taxes and it unnecessarily gives away royalties on our valuable resources. Our constitution requires that we get maximum benefit from our resources, not minimum or no benefit.

Please vote against HB 380, it is not in the best interests of Alaskans. Thank you for opposing this bill.



Jim Sykes, Executive Director