

**HB**

**307**

**HFIN**

**FILE**



# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 307  
 (H) Publish Date: 2/1/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title: Oil/Gas Exploration Incentive Credit BRU: Oil and Gas Developmen  
 Component: Oil and Gas Developmen  
 Sponsor: Rep. Fate  
 Requester: (H) Oil and Gas Component Number: 439

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

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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>						
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<b>CHANGE IN REVENUES ( )</b>		0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil
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**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 (FY2002) cost: none  
 Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This bill extends the deadline for completion of activity qualifying for exploration incentive credits under AS 41.09.010 until July 1, 2007. The credits may be applied against royalties, rentals, taxes, and bonus bids. These credits may also be assigned to other companies so that they may be applied to their royalties, rentals, taxes, and bonus bids. However, under AS 41.09.010(f), a credit may not exceed \$5 million per eligible project and the entire program may not exceed \$30 million. Within one basin a single exploration program could cost as much as \$30 million.

Prepared by: Mark D. Myers, Director Phone 269-8800  
 Division: Oil and Gas Date/Time 30-Jan-02  
 Approved by: Pat Pourchot Date 30-Jan-02  
 Agency: Natural Resources

ANALYSIS: (continued) HB 307 FN#1

The DNR Commissioner has discretion whether to grant EICs. If he does decide to grant EICs, he may grant anywhere between 10 percent and 50 percent on state land and between 10 percent and 25 percent on non-state lands.

\*If the program is fully utilized, the state could grant as much as \$30 million in credits that would normally be deposited in the general fund.

# FISCAL NOTE

STATE OF ALASKA  
2002 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: HB 307  
(H) Publish Date: 2/1/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Oil / Gas Exploration BRU Revenue Operations  
Incentive Credit Component Tax Division  
Sponsor Representative Fate  
Requester House Committee on Oil and Gas Component No. 2476

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

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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>						
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>See Analysis</b>			
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Estimate of any current year (FY2002) cost: 0.0  
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**POSITIONS**

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Part-time						
Temporary						

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

The exploration incentive credit in statute is designed to accelerate the exploration of state oil and gas leases and to acquire geological and geophysical information on state, federal and private land. This credit is approved at the discretion of the Commissioner of Natural Resources. The credit is transferable, so that it would have value to entities that do not have current royalty obligations or tax liabilities as well as to those that do.

This bill would delay the sunset provision in the current law from an expiration date of June 30, 2004 to June 30, 2007. No exploration credits have been applied against corporate income tax (AS 43.20) or royalties under the current law. The maximum amount of credits that can be taken is \$30 million. The revenue effect of this bill would therefore be between \$0 and \$30 million.

Prepared by: Chuck Logsdon, Petroleum Economist Phone 269-1019  
Division Tax Division Date/Time 1/30/02 3:25 PM  
Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002  
Agency Department of Revenue

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<b>CAPITAL EXPENDITURES</b>						
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Prepared by: Chuck Logsdon, Petroleum Economist Phone 269-1019  
 Division: Tax Division Date/Time 1/30/02 3:25 PM  
 Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002  
 Agency: Department of Revenue

REPRESENTATIVE  
**HUGH "BUD" FATE**

Mailing Address:  
119 N. Cushman, Suite 101  
Fairbanks, AK 99701  
(907)488-0862  
Fax: 488-4271

## Alaska State Legislature



House Of Representatives

While in session:

State Capitol  
Juneau, Alaska  
99801-1182  
(907)465-4976  
Fax: (907)465-3862

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House District 33

# SPONSOR STATEMENT

## HB 307

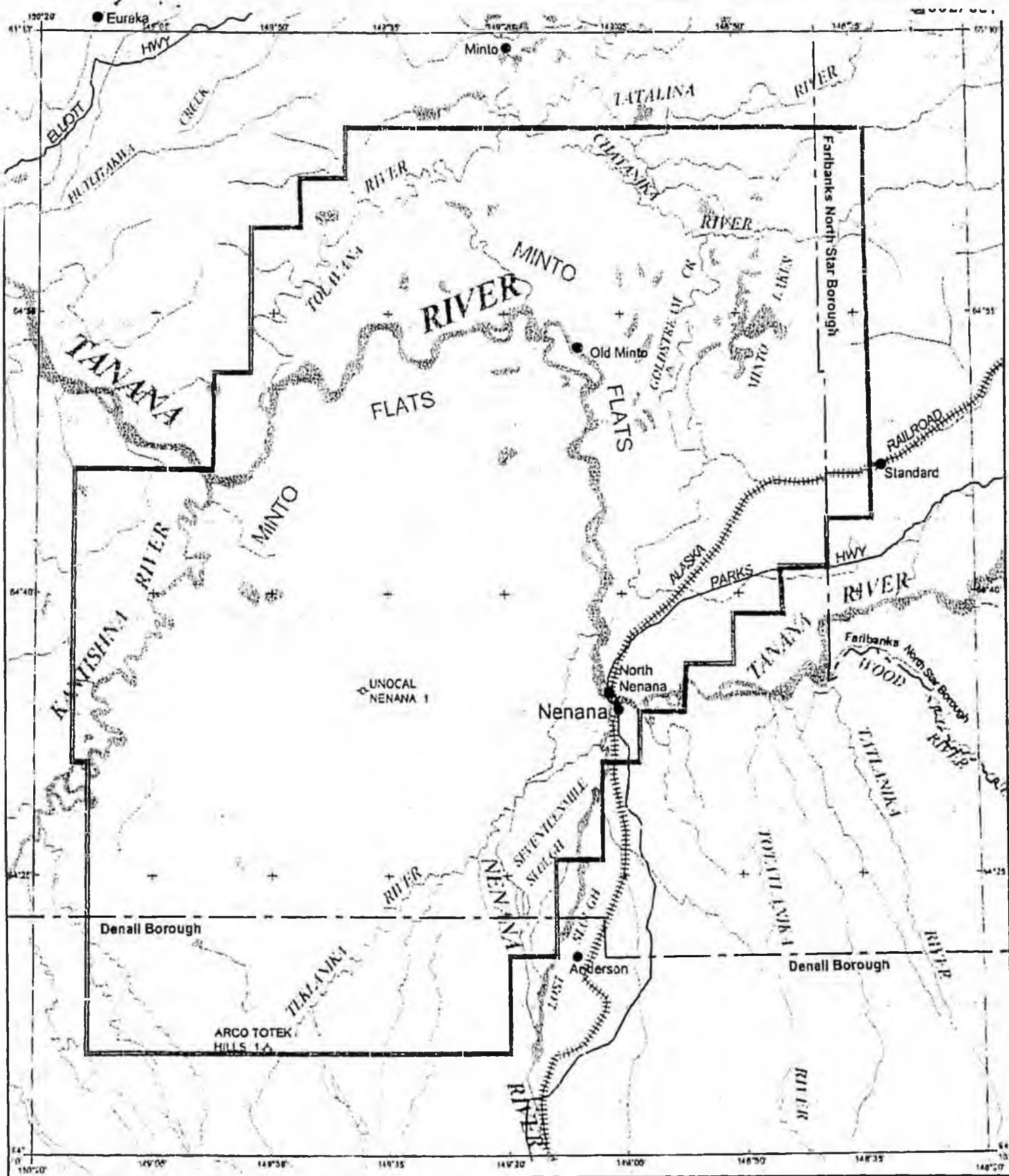
### OIL/GAS EXPLORATION INCENTIVE CREDIT

House Bill 307 will extend the exploration incentive credit for petroleum for an additional three (3) years. This will allow for further exploration into the possibility of natural gas and oil in the Tanana River Drainage Basin.

There is presently renewed interest in exploring for natural gas in the above described basin near Nenana. This simply extends its sunset provision from 2004 to 2007.

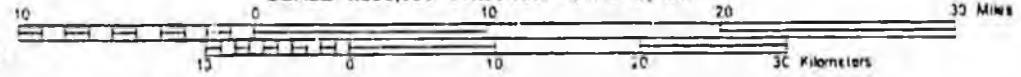
The development of natural gas resources in the Fairbanks, Alaska area could be assisted by two changes to Alaska law. The pertinent statutes and the changes to those statutes which would help to develop natural gas in central Alaska are as follows:

- 1) AS 41.09.010 provides for exploration incentive credits (EIC's) to be granted to parties who explore for natural gas within interior basins of Alaska. The EIC's created by this statute create an added incentive for interior Alaska exploration and could reduce the financial risk of exploration for an oil and gas company. This statute has a sunset provision of July 1, 2004. A three year extension of this statute would grant companies interested in central Alaskan exploration more time to qualify for the exploration incentive credits, which would make them more likely to take on the financial risks of drilling exploratory wells.
- 2) AS 38.05.180(f)(4) provides a reduced royalty for new discoveries of oil or natural gas in the Cook Inlet Region as a way of stimulating exploration activity that could increase the supply of natural gas to the Anchorage area. It reduces the royalty on a state lease on which a new discovery is made from 12.5% down to 5% for the first 10 years of production from that lease. This royalty reduction only applies within the Cook Inlet Sedimentary Basin. Amending this statute to grant equal dignity to the sedimentary basins of interior Alaska would act as a powerful incentive to companies interested in exploring for oil and natural gas in central Alaska.



# Nenana Basin Study Area

SCALE 1:500,000 ONE INCH = 8 Mi. Approx.



Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas  
 Albers Equal-Area Conic Projection, 1927 North American Datum. Central meridian 149° 20' 00" W, origin latitude of 50°, northern parallel of 65° and southern parallel of 55°  
 This is not an official sec. map, but is for informational purposes only. DNR makes no claim as to its accuracy.