SB

319

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SB 319
() Publish Date:

Revision Date/Time (Note if correction):
Title: Shallow Natural Gas Leasing
Sponsor: Sen. Torgerson
Requester: Senate Resources

Dept. Affected: DNR
BRU: Oil and Gas Development
Component: Oil and Gas Development
Component No. 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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	275.0*	250.0**	250.0**	250.0**	250.0**	250.0**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type–Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

*Positive revenue flow anticipated in FY 03 from the conversion of approximately 50 shallow gas leases. Lessees would have a one-time chance to convert the lease to the specifications allowed under the new amendments if they pay the difference in the application fee (estimated at $4,500 if fees are set at $5,000 in the regulation process), bonding requirement, and rental fees. Under this example the state could receive $225,000 additional application fees, plus an additional $0.50 per each acre converted under the proposed amendments. DNR also assumes that it will receive 10 new applications ($50,000) during FY03.

** In the ensuing years, activity in shallow gas leasing is expected to increase leading to additional revenues to the state. These figures assume that DNR receives 50 new applications each year. This amount does not include additional rental income nor royalties from production.

Prepared by: Mark Myers — Phone 269-8800
Division: Oil and Gas — Date/Time 2/25/2002
Approved by: Pat Pourchot — Date 2/25/2002
Agency: Natural Resources

(Revised 8/2001 OMB)

ALASKA STATE LEGISLATURE

SENATOR JOHN TORGERSON

CHAIR, SENATE RESOURCES COMMITTEE
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
CHAIR, JOINT COMMITTEE ON NATURAL GAS PIPELINES

Session:
State Capitol, Room 427, Juneau, AK 99801
Telephone 907/465-2828 Fax 907/465-4779

District:
45457 Kenai Spur Hwy.Suite 101B,
Soldotna, AK 99669
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Sponsor Statement

SB 319 - "An act relating to shallow natural gas leasing; and providing for an effective date."

Shallow gas leasing was originally proposed as a program that would enable exploration and production of shallow natural gas deposits. One of the features of the program was to encourage a new energy supply to villages, mines, and other rural users. The program is fully operational with over 100 leases processed and nearly 200 more pending. The program has become a vehicle for commercial gas development in Fairbanks, Big Delta, Matsu Valley, and the lower Kenai Peninsula. SB 319 is intended to advance the program into a more robust and viable commercial program that should benefit all parties.

Because the program has become more commercial in nature, increasing revenues from application fees and annual rental fees is appropriate. The program will still neither involve competitive bidding nor require bonus bids. However, application fees for shallow gas leases have been increased from $500 to $5,000 and annual rental fees have been increased from $0.50 to $1 per acre. The increased fees are designed to increase revenue and pay for the program costs, while not discouraging parties of genuine interest and ability from developing shallow natural gas resources.

The requirement that DNR annually notify a lessee by certified mail of rental due has been deleted. Rent would automatically be due on the date determined in the lease. Deadlines have proven to be unworkable and do not recognize the work required by DNR to prepare leases in areas that are populated and may have complex land ownership patterns.

The limitation on depth to 3,000 feet has been replaced with the requirement that some portion of the field must be within 3,000 feet of the surface. The total amount of acreage that may be held by shallow natural gas lessees has been increased from 46,080 acres to an aggregate of 100,000 acres. The acreage increase reflects the fact that large acreage may be necessary to a shallow gas program.

The requirement that the applicant conduct a title search will be removed. DNR routinely conducts a title search for land before leases are issued. Additionally, there are no title companies who will conduct a thorough title search of the subsurface estate and warranty title. These changes will improve reservoir management and increase the value to the lessee and the state.

New bonding provisions would demonstrate lessees are fiscally responsible and would help protect surface owners. The lessee must secure the bond as a precondition to obtaining the lease. In the event that the surface estate is owned by a private party, an additional bond may be required if the lessee and the private party cannot reach an agreement.

Lessees will have from July 1, 2002 through September 30, 2002 (roughly 90 days) to convert leases from the existing program to the new program, if they so choos

Alaska Reserves and Production

- **36% of total U.S. oil reserves.**
- 8.0 billion barrels of oil
- **17% of total U.S. gas reserves**
- 35 trillion cubic feet of gas
- **20% of total U.S. oil production**
- 1.04 million barrels of oil per day

Sources: Alaska data are from Department of Natural Resources, Division of Oil and Gas, 2001 Annual Report
U.S. data are from U.S. Crude Oil, Natural Gas, and NGL Reserves, 2000 Annual Report, U.S.D.O.E.-E.I.A.

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The State Revenue Pie

Petroleum Revenue Sources, (FY 2001)

Total Royalties, Bonuses, Rents & Settlements:

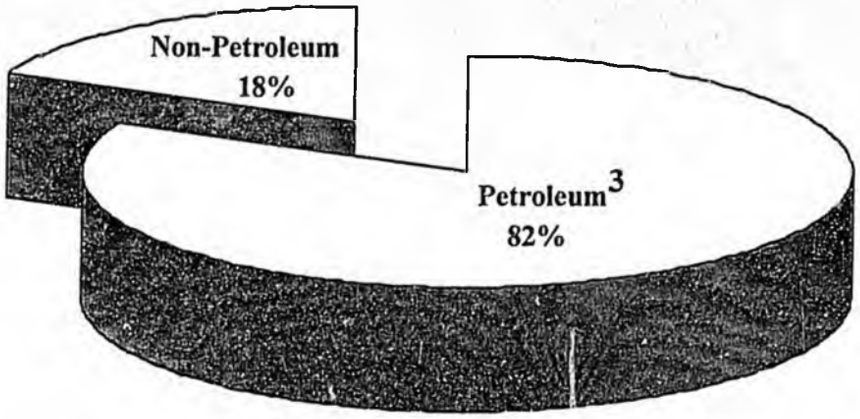
$1,145.9 Million

General Fund Royalties, Bonuses & Rents[1,2]:
$798.8 Million

Royalties to Permanent Fund & School Fund[4]:
$337.1 Million

Settlements to CBRF[4]:
$10.0 Million
(Includes Royalties & Taxes)

FY 2001 Unrestricted Revenue



Taxes:

$1,125.4 Million[2]

(Oil & Gas Property Tax + Tax Settlements + Income Tax + Severance Tax)

1 Includes Federally shared rentals

2 Source: pg. 23, DOR Fall 2001 Revenue Sources Book

3 Source: pg. 22, DOR Fall 2001 Revenue Sources Book

4 Source: pg. 19, DOR Fall 2001 Revenue Sources Book

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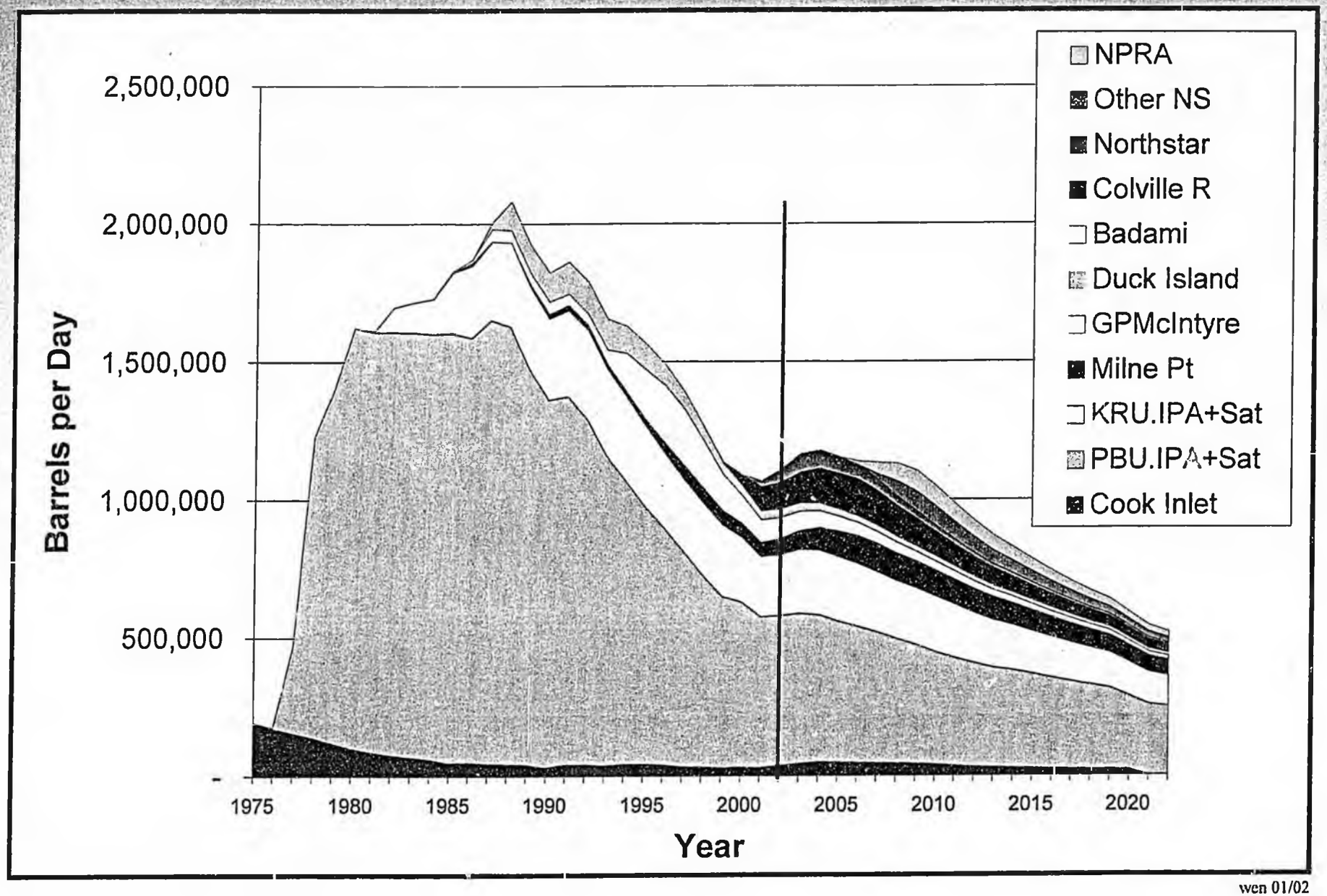
Historic and Projected Alaska Oil Production

1975 - 2022



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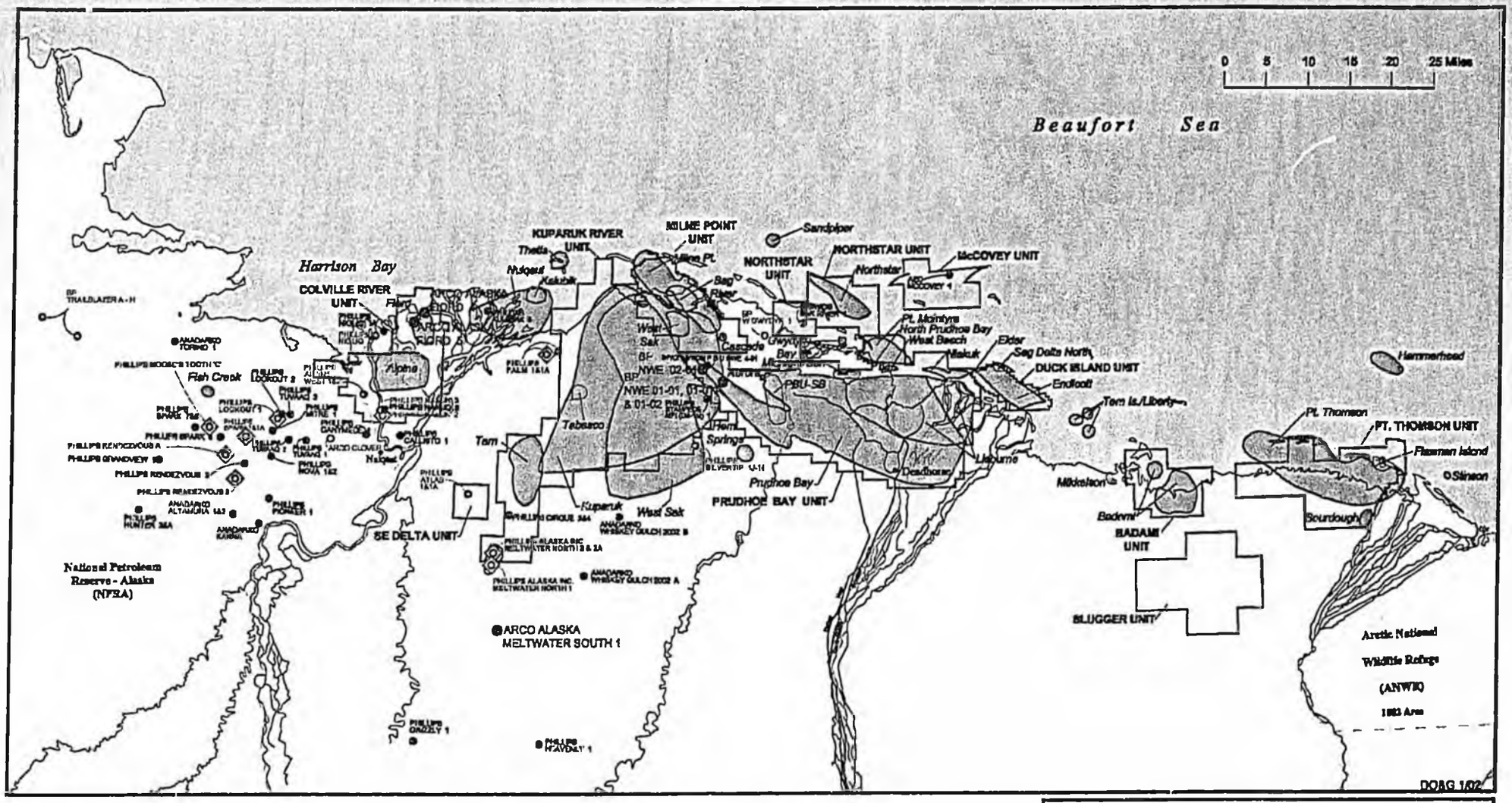
North Slope Oil & Gas Activity and Discoveries
2002



Map Legend

- Units
- Oil Field / Accumulation
- 2000 Exploration Wells
- 2001 Exploration Wells
- 2002 Proposed Wells
- Active Wells
- Recent Discoveries
- Road
- Trans-Alaska Pipeline

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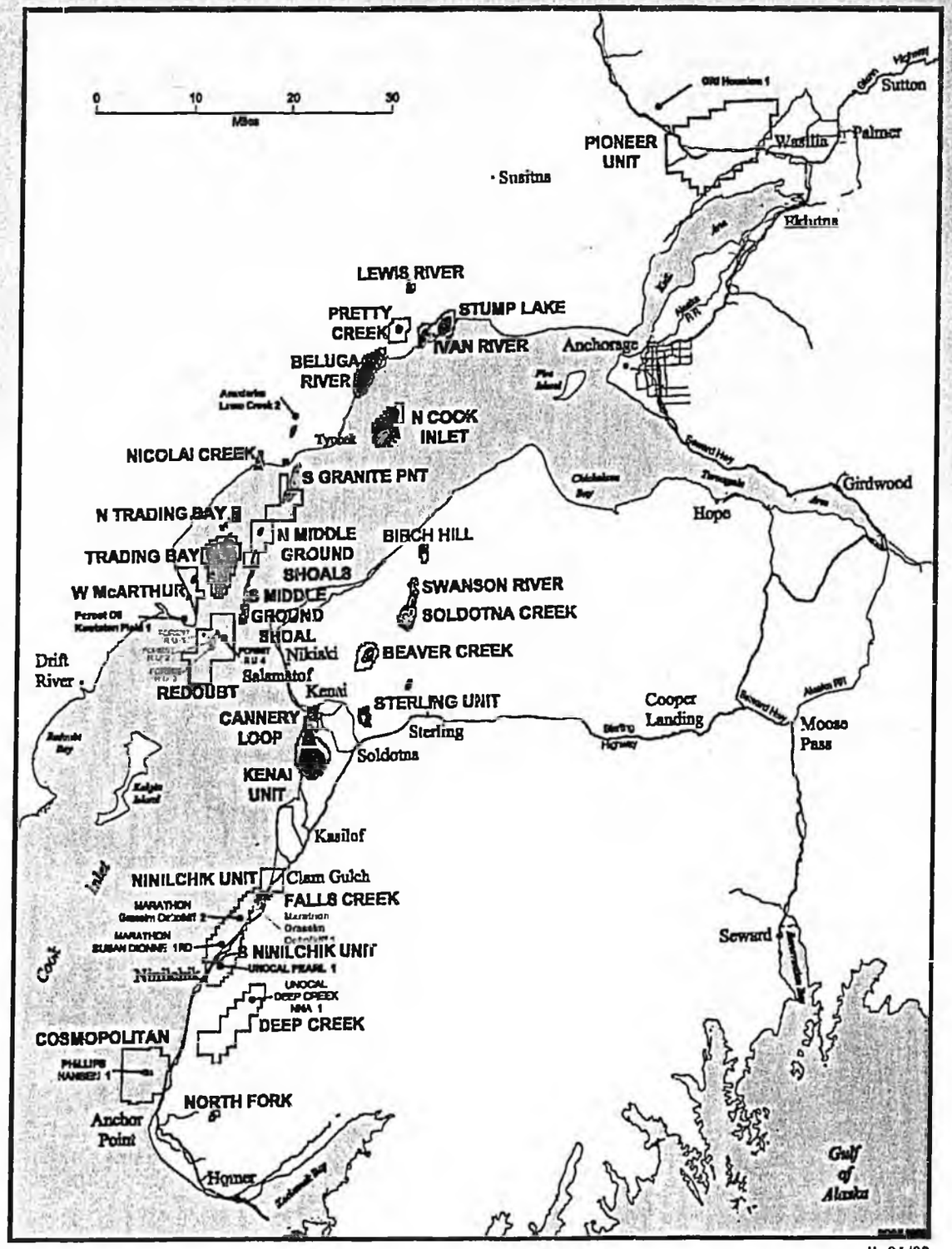
Cook Inlet
Oil & Gas Activity
January 2002



Map Legend

- Units
- *Oil Field / Accumulation*
- *Gas Field / Accumulation*
- *2001 Exploration Wells*
- *Proposed Wells*
- *Platforms*
- Road
- Alaska Rail Road

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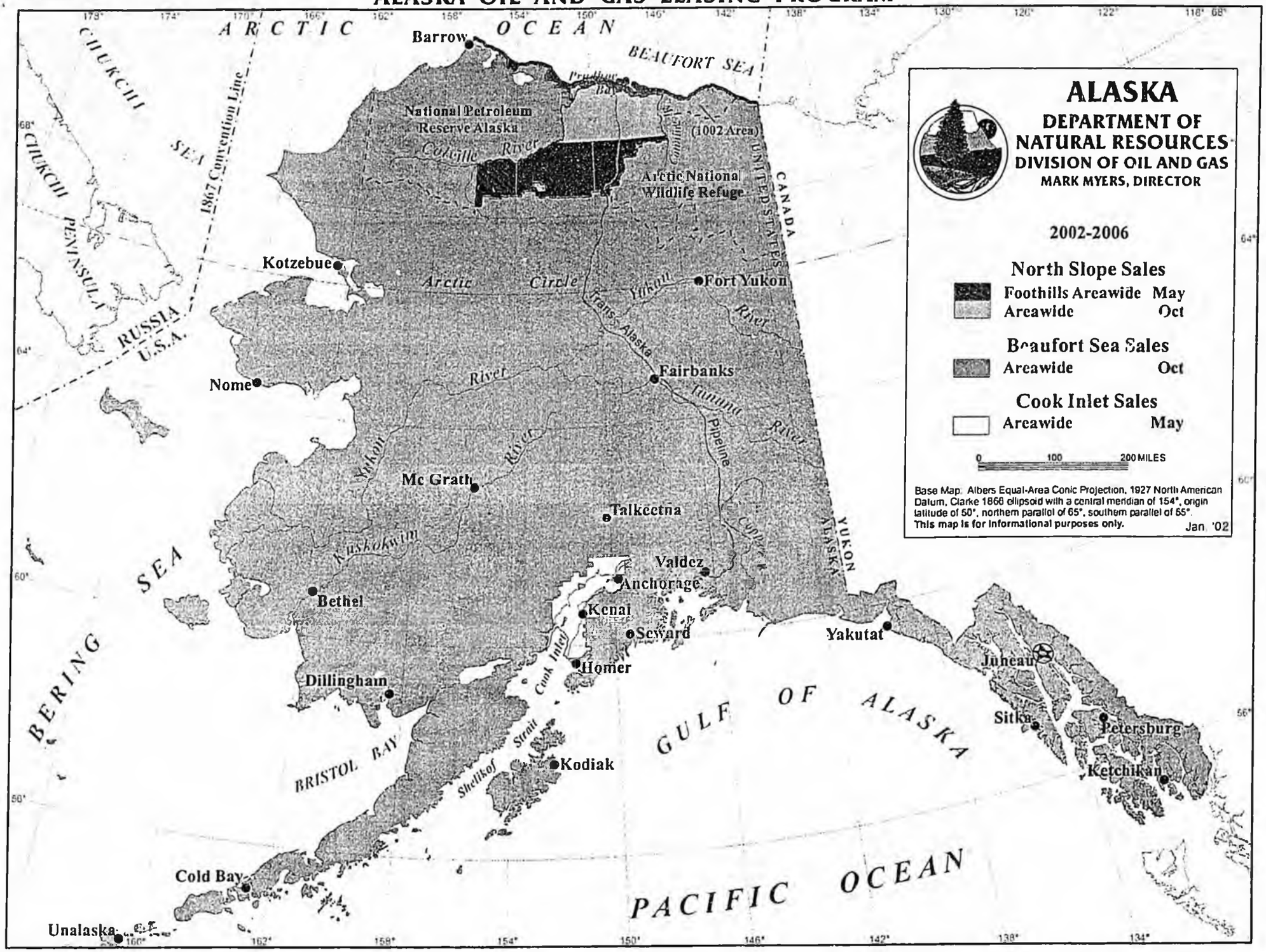
ALASKA OIL AND GAS LEASING PROGRAM



ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL & GAS

FIVE-YEAR OIL AND GAS LEASING PROGRAM
PUBLIC NOTIFICATION SCHEDULE

January
2002

Proposed Sale Area & Date		2002	2003	2004	2005	2006
North Slope Foothills Areawide 2002	May	F, S				
Cook Inlet Areawide 2002	May	F, S, S				
North Slope Areawide 2002	Oct	C—E, F, S, S				
Beaufort Sea Areawide 2002	Oct	C—E, F, S, S				
North Slope Foothills Areawide 2003	May	A, C—E	F, S, S			
Cook Inlet Areawide 2003	May	C—E	F, S, S			
North Slope Areawide 2003	Oct		C—E, F, S, S			
Beaufort Sea Areawide 2003	Oct		C—E, F, S, S			
North Slope Foothills Areawide 2004	May	A	C—E	F, S, S		
Cook Inlet Areawide 2004	May		C—E	F, S, S		
North Slope Areawide 2004	Oct			C—E, F, S, S		
Beaufort Sea Areawide 2004	Oct			C—E, F, S, S		
North Slope Foothills Areawide 2005	May	A		C, E	F, S, S	
Cook Inlet Areawide 2005	May			C, E	F, S, S	
North Slope Areawide 2005	Oct				C—E, F, S, S	
Beaufort Sea Areawide 2005	Oct				C—E, F, S, S	
North Slope Foothills Areawide 2006	May	A			C—E	F, S, S
Cook Inlet Areawide 2006	May	A			C—E	F, S, S
North Slope Areawide 2006	Oct	A			P—E	F, S
Beaufort Sea Areawide 2006	Oct	A				C—E, F, S, S

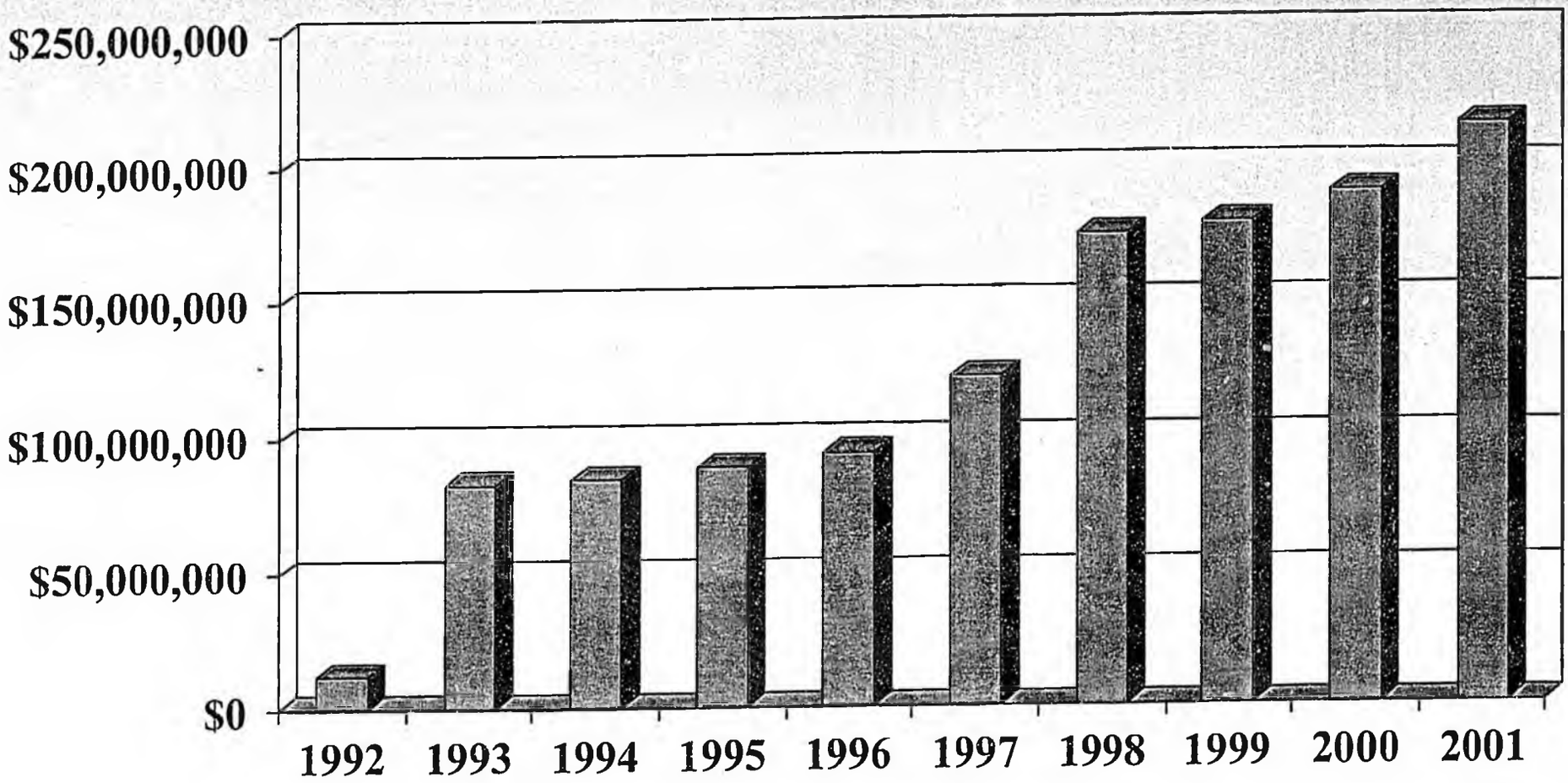
A = Sale Added to Schedule.
C = Call for Comments:
Request for New Information Made Available Since Last Finding.
E = End of Comment Period.
P = Preliminary Best Interest Finding / ACMP Consistency Analysis.

F = Final Finding and Notice of Sale and Terms.
F, S = Supplement to Final Finding and/or Notice of Sale and Terms.
S = Sale.

Public Process

Visit our Website at "www.dog.dnr.state.ak.us/oil"

Cumulative Bonus Bids



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2001 Areawide Lease Sales

Total Acres Leased = 1.6 Million

Total Bonus Bids = $24.5 Million

North Slope Foothills

- Area's First Lease Sale
- Largest State Sale Ever
- 8 Bidding Groups
- 978,560 Acres Leased
- $10.7 Million in Bonus Bids

North Slope

- 16 Bidding Groups (Shell returns after 13 yrs)
- 469,760 Acres Leased
- $7.4 Million in Bonus Bids

Cook Inlet*

- 6 Bidding Groups
- 102,523 Acres Leased
- $928,085 in Bonus Bids

(* Final Results)

Beaufort Sea

- 7 Bidding Groups
- 60,800 Acres Leased
- $5.4 Million in Bonus Bids

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Exploration Licensing

Proposed – Susitna Valley

- Forest Oil Corp. submitted two proposals
- 873,600 Total Acres, located west of Susitna R.
- Total Exploration Commitment over $5 Million
- Final Finding and Decision – February 2002

Proposed – Nenana Basin

- Andex Resources submitted only proposal
- 499,800 Acres, located north and west of Nenana
- Exploration Commitment = $2.5 Million
- Preliminary Finding – February 2002
- Final Finding and Decision – Late Summer 2002

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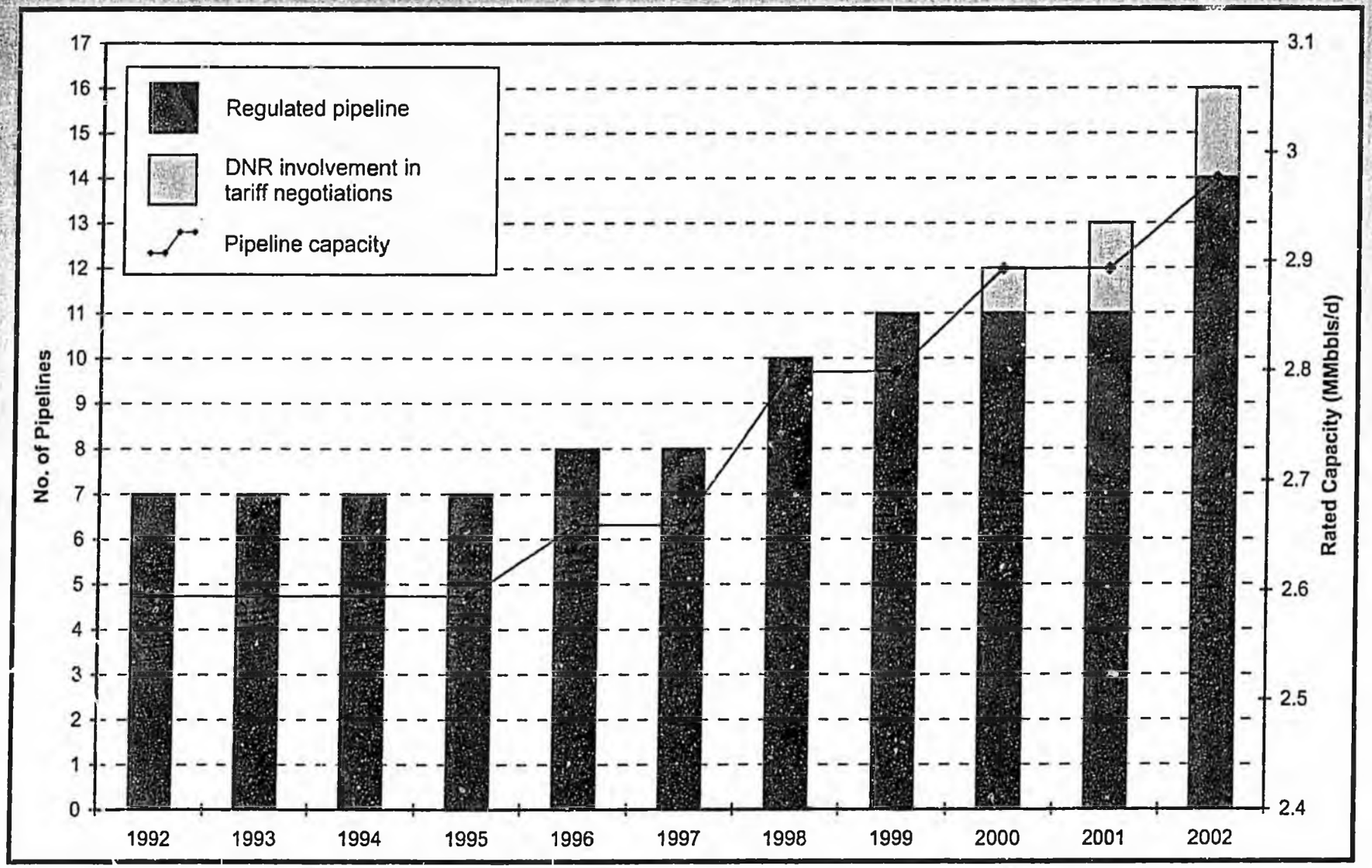
Alaska Regulated Pipelines



Source: Division of Oil and Gas, January 2002

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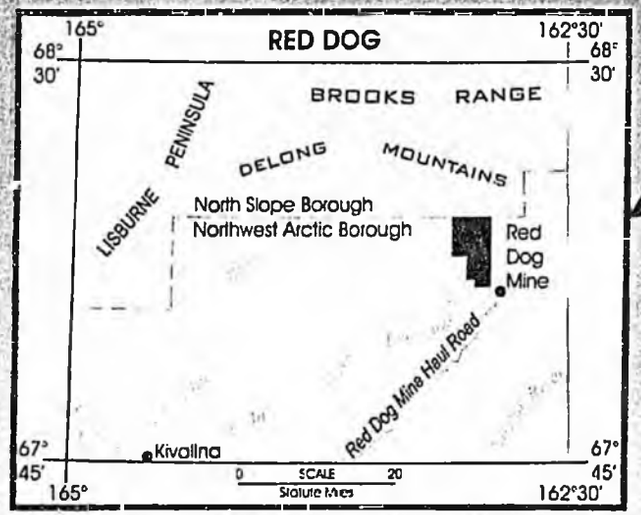
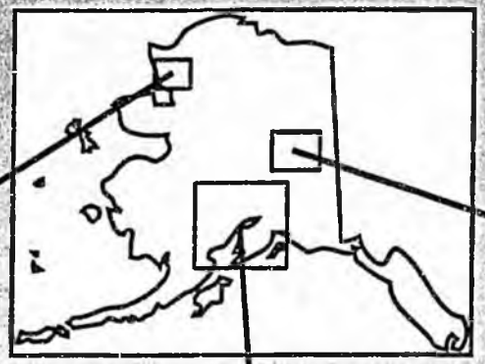
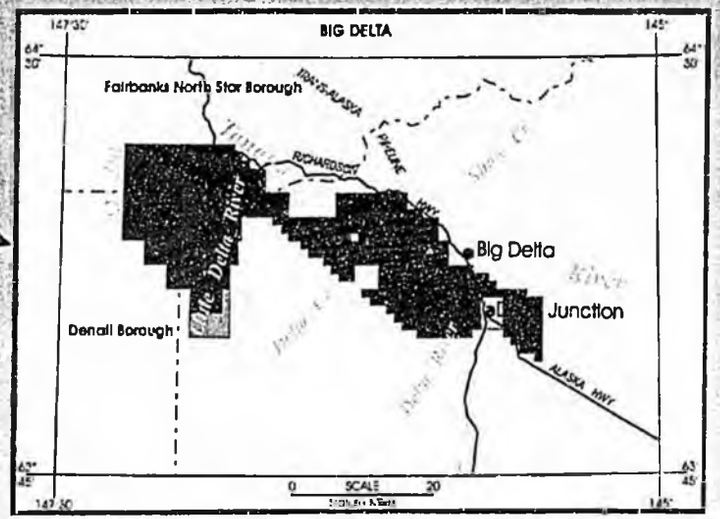
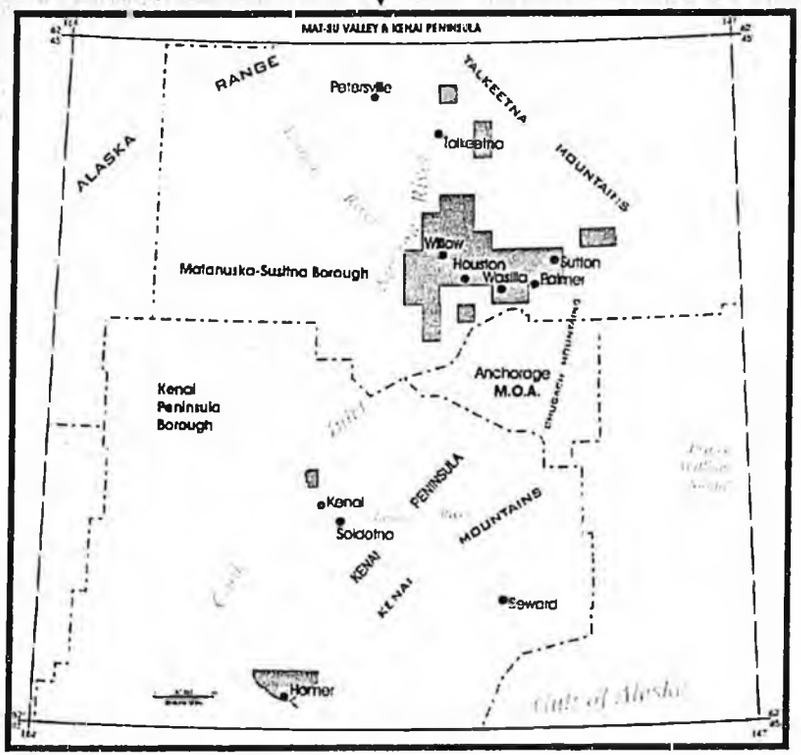
Shallow Natural Gas Leasing Program









Issued Leases

Applications

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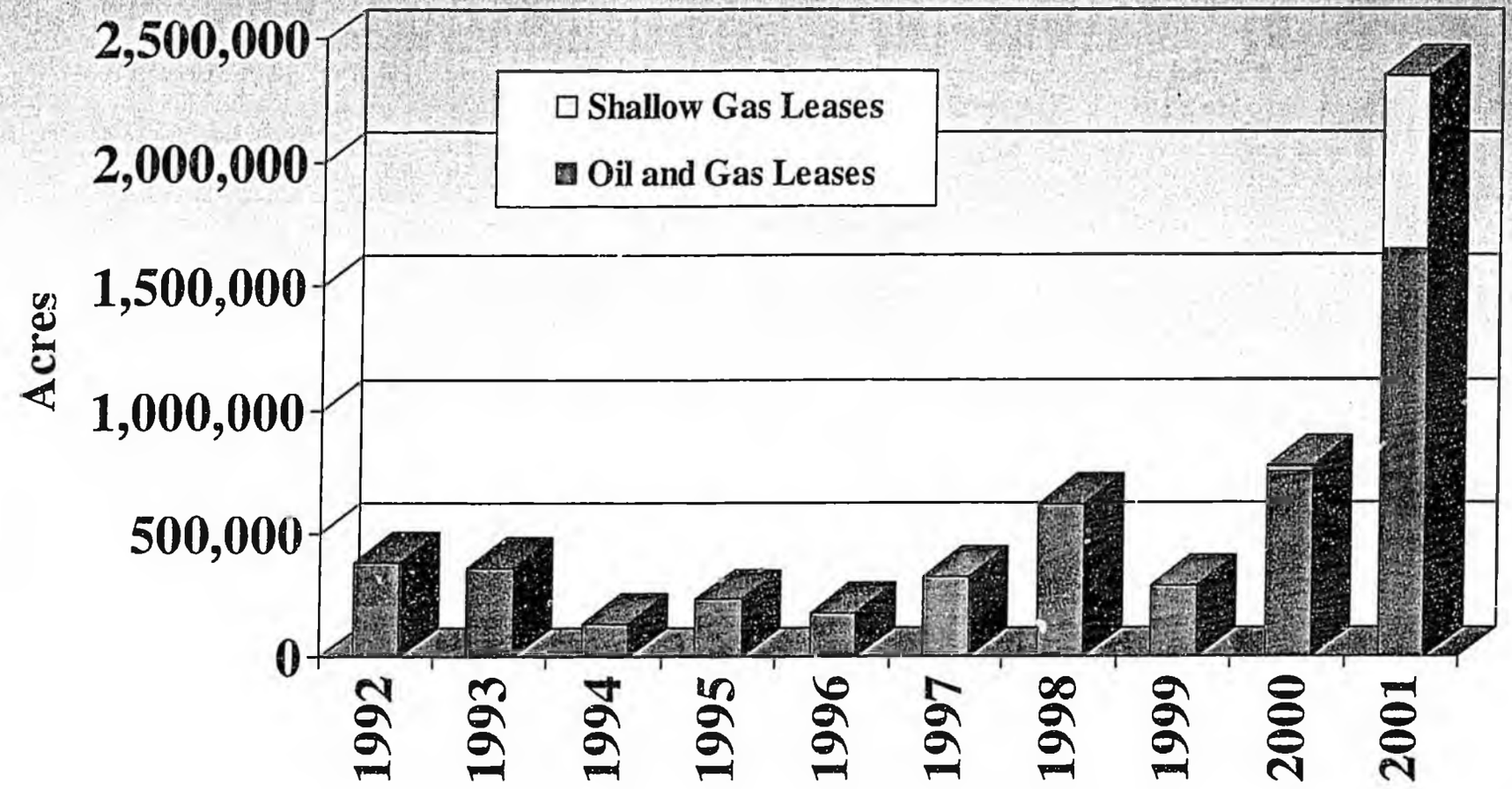
Acreage Leased



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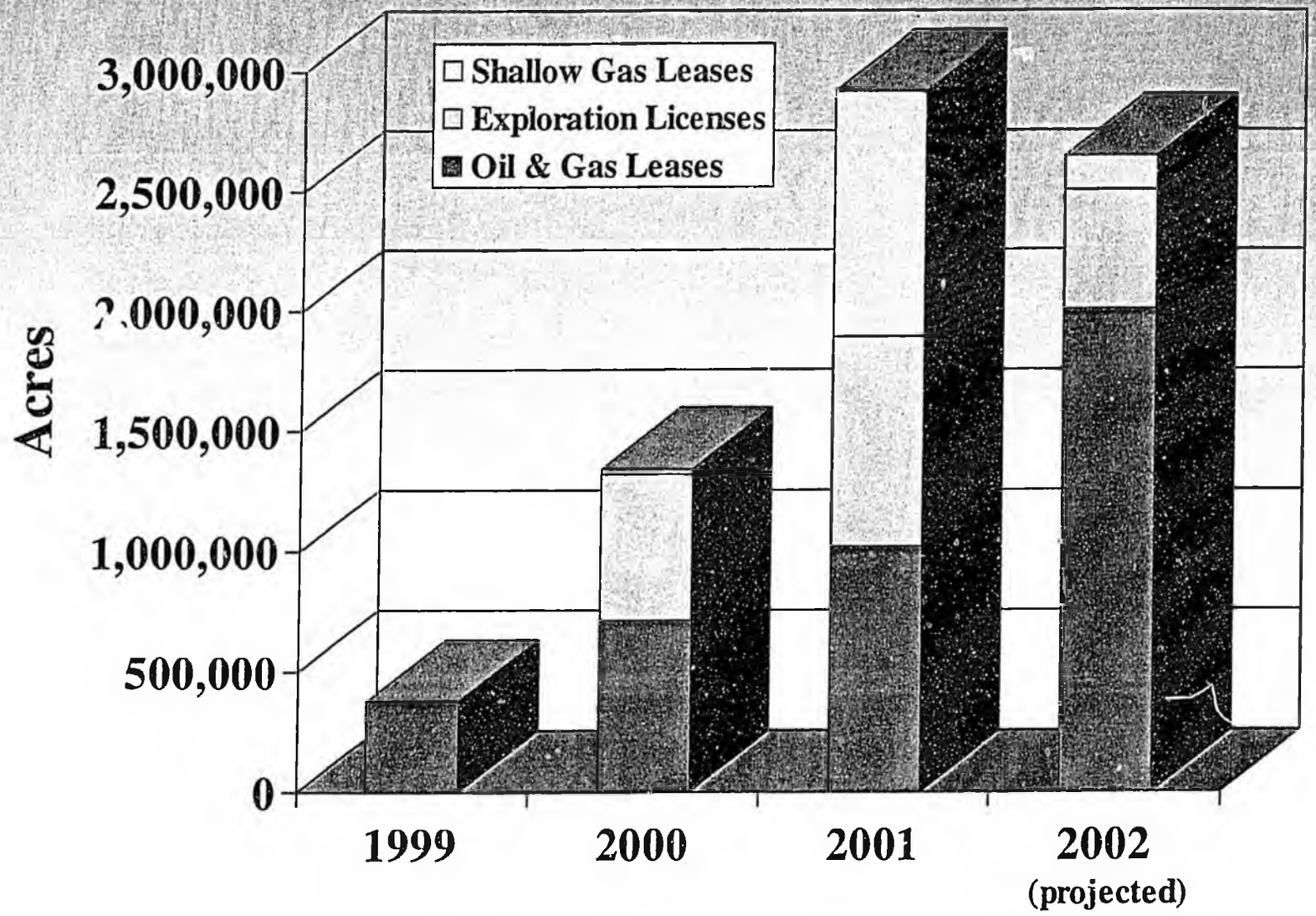
Title Work



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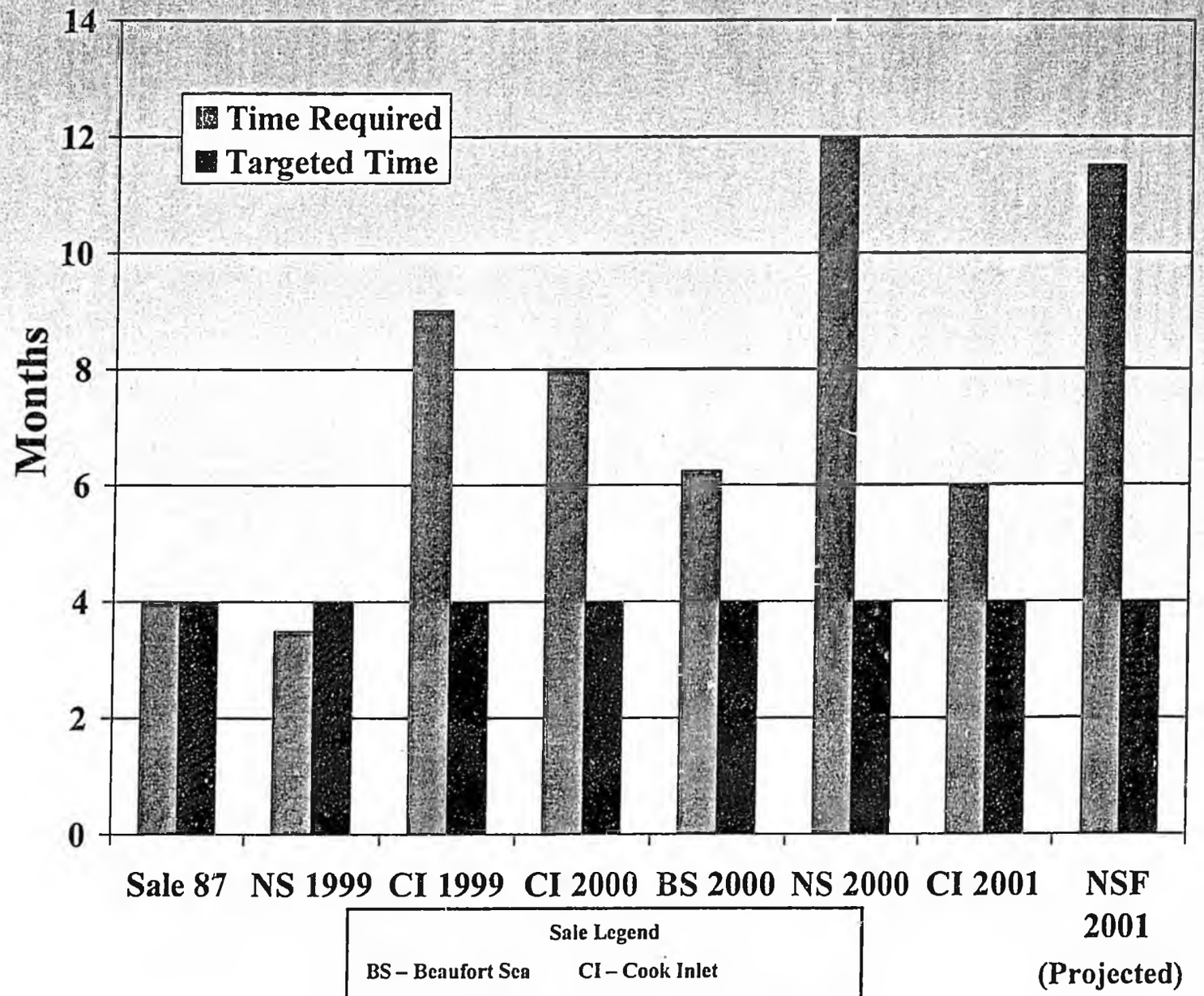
Time Required to Issue a Lease



Sale Legend

BS – Beaufort Sea	CI – Cook Inlet
NS – North Slope	NSF – North Slope Foothills

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Delays in Title = Delays in $$

- It Takes up to 1 Year to Issue Leases

- FY 01 Revenue Delayed to FY 02

  Balance on Bonus Bids = $8.9 Million

  1st Yr Lease Rentals = $1.3 Million

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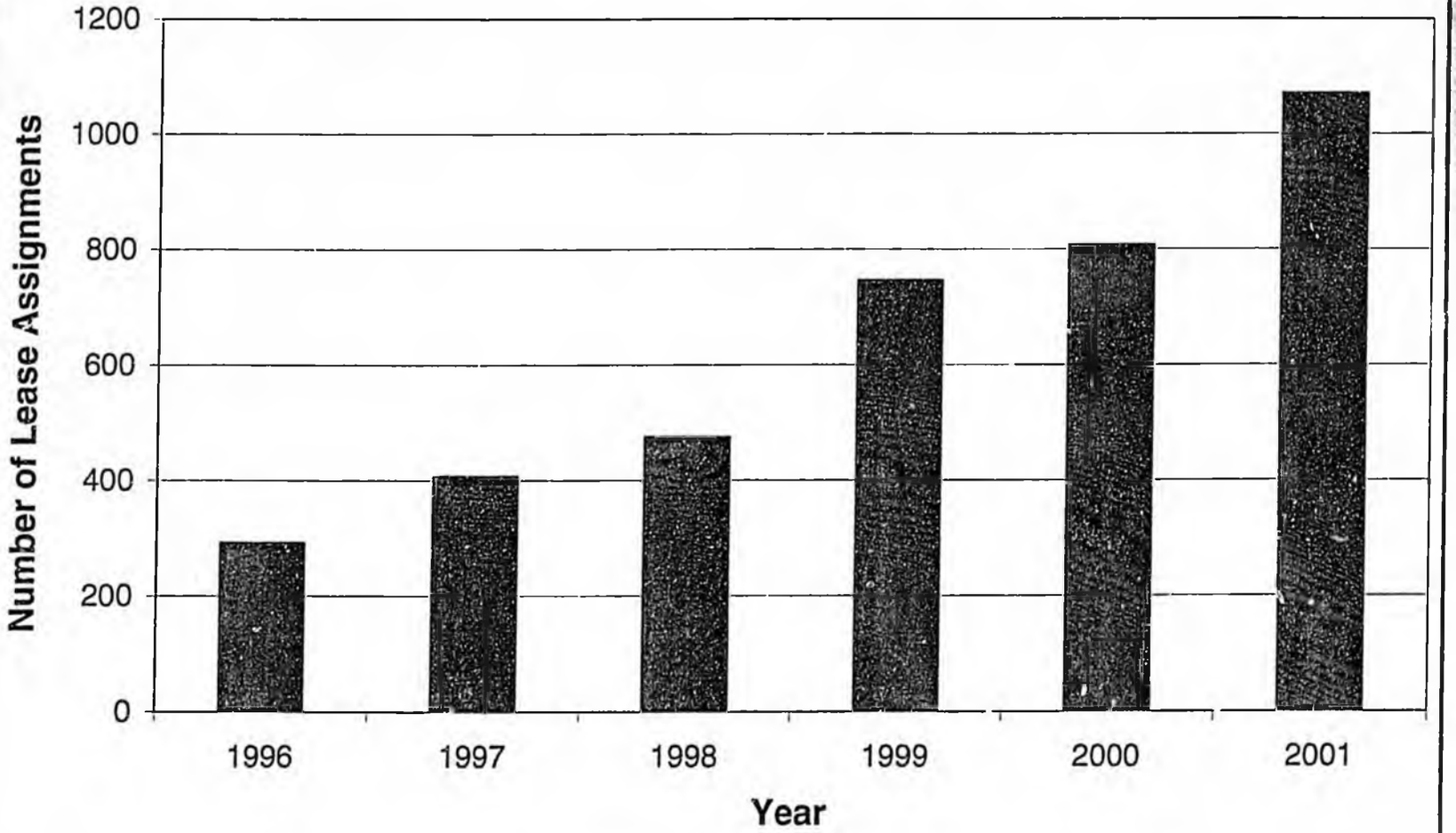
Lease Assignments in Alaska



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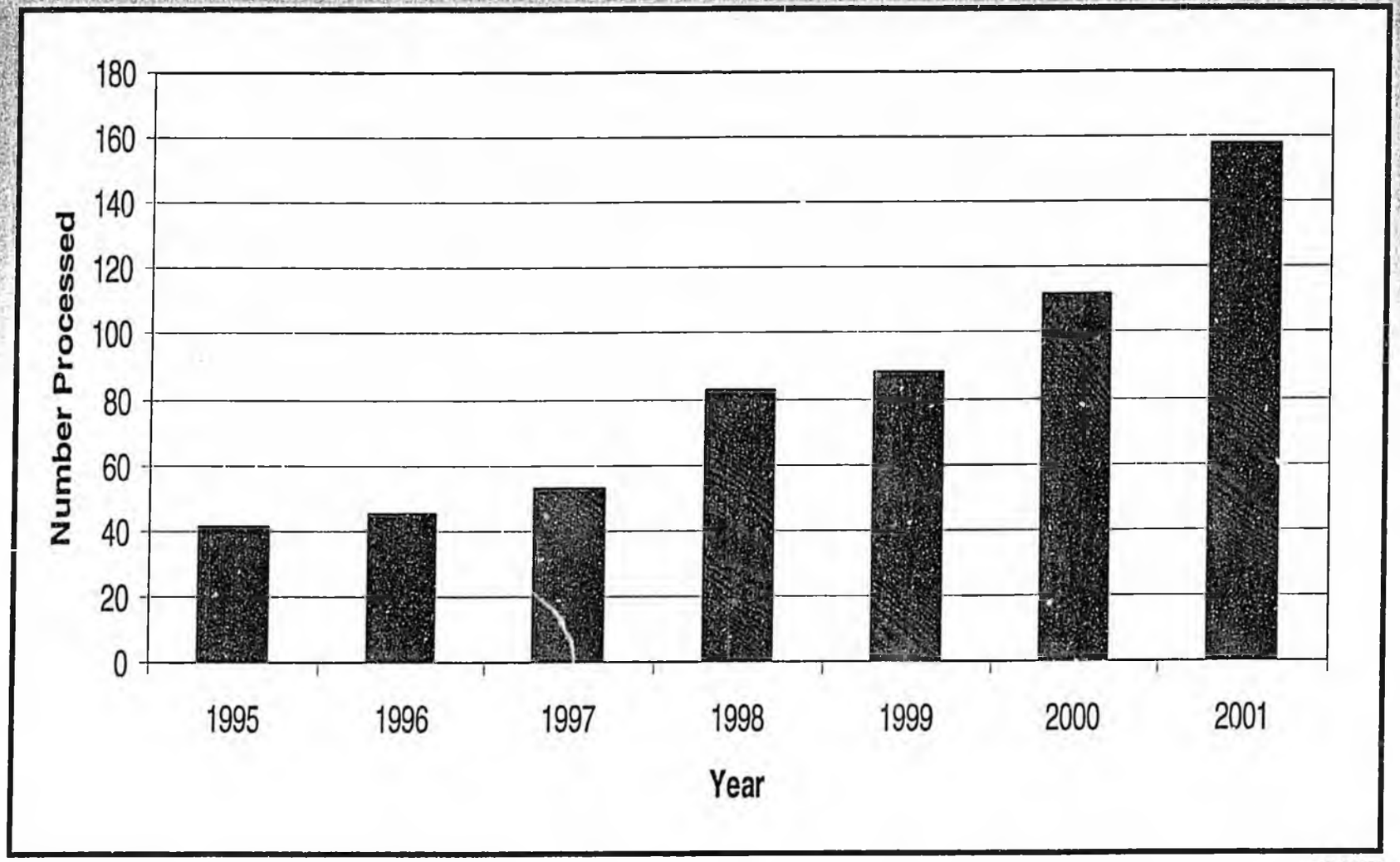
Unit Actions



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Actions include Units and Participating Areas formed, expanded, contracted, and terminated; Unit decisions appealed; Unit Plans of Exploration and Development reviewed and approved.

PBU Mechanisms

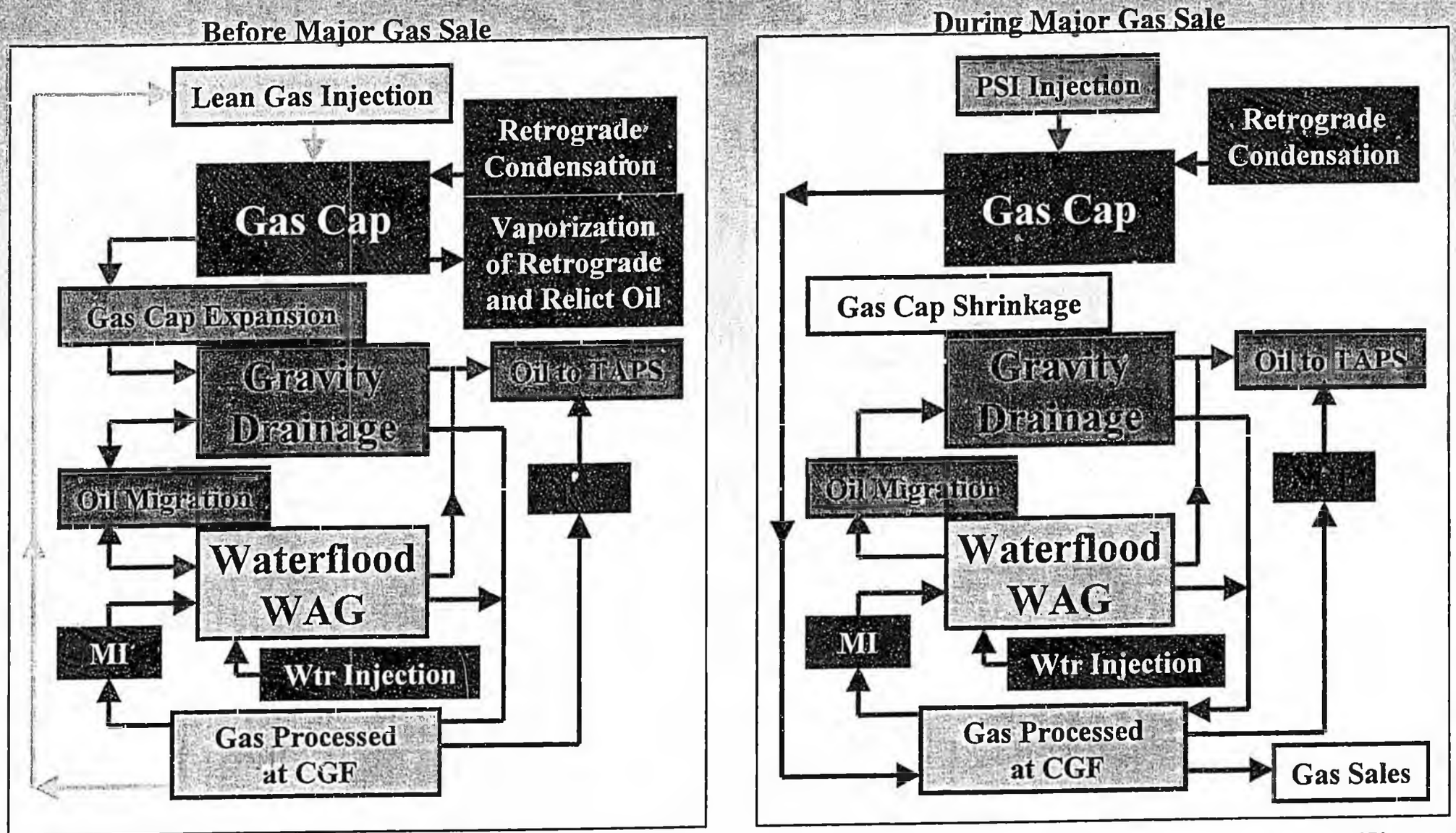
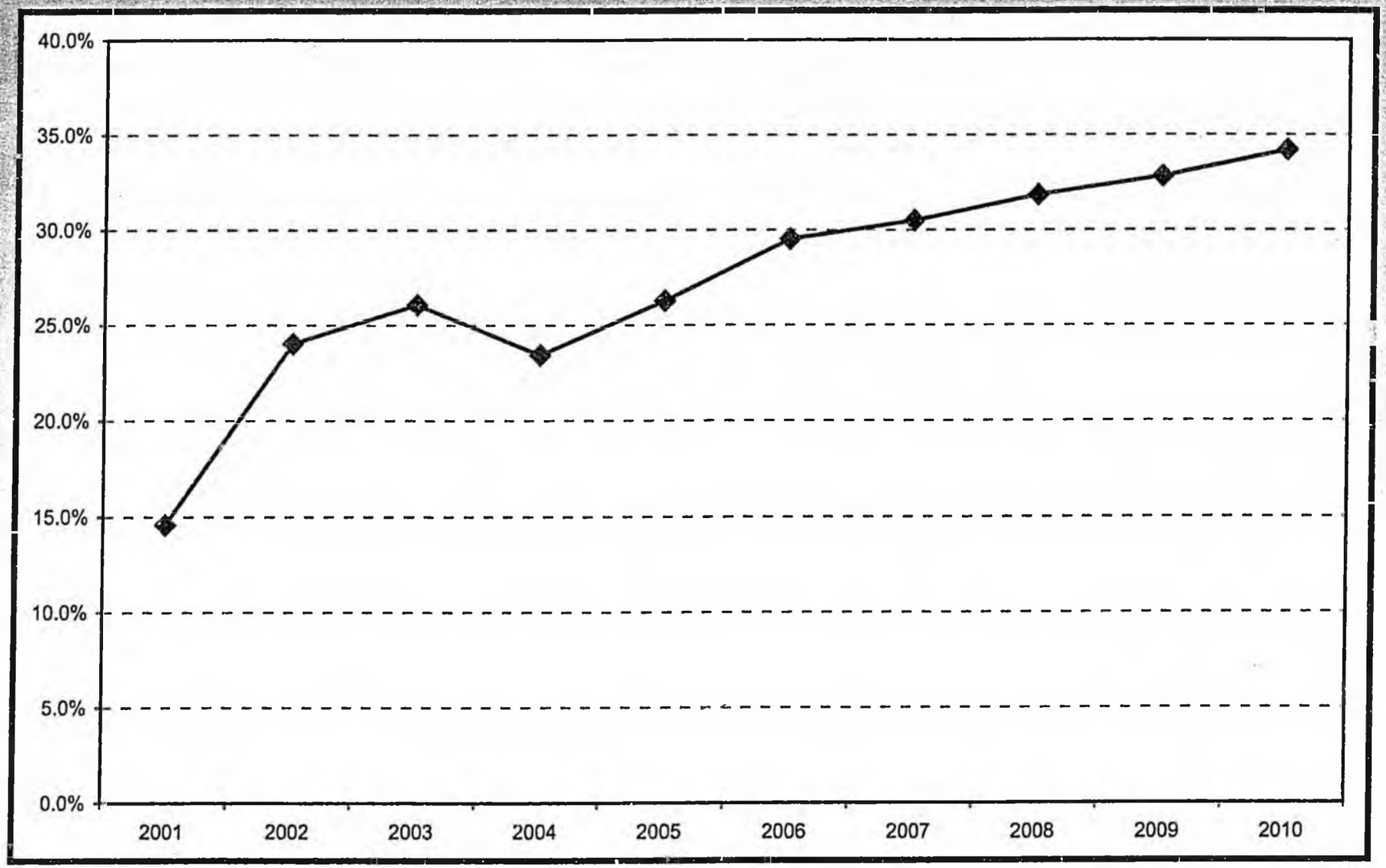


Figure 10

Projected Pipeline Tariffs as a Percent of ANS Wellhead Price



Source: DOR, Revenue Sources Book, Fall 2001

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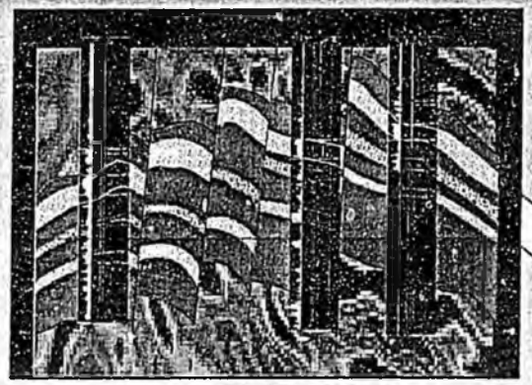
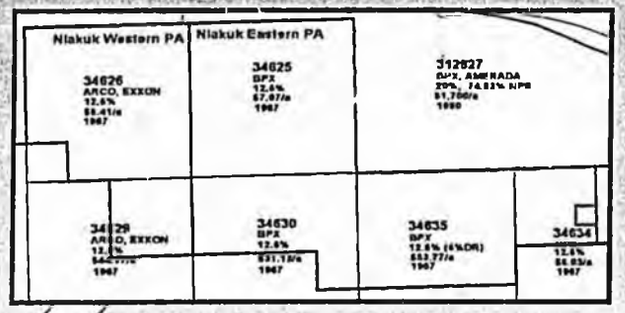
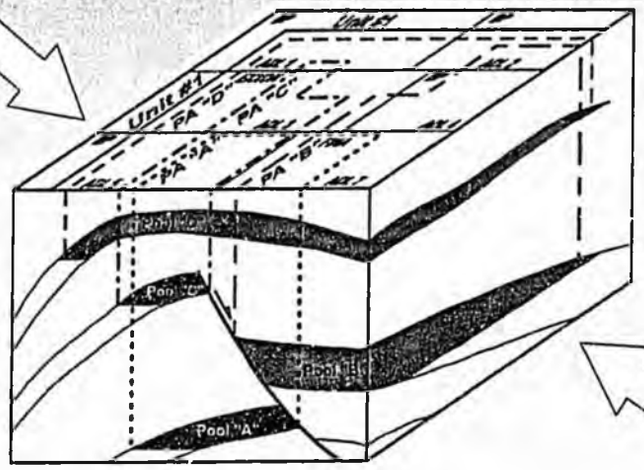
Different databases and data managed and merged to create 3-D pictures of oil fields and royalty share

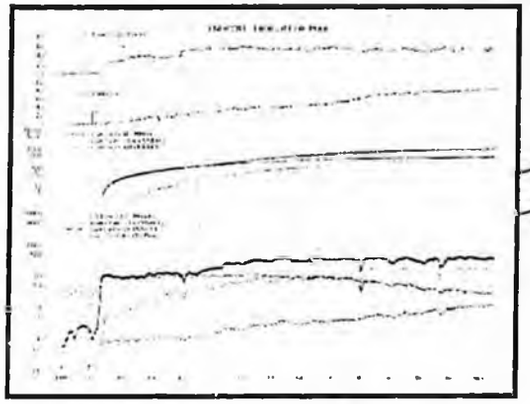


Geologic Data
(Well logs, Directional Surveys, Geochemistry, Paleontology, & Formation data)

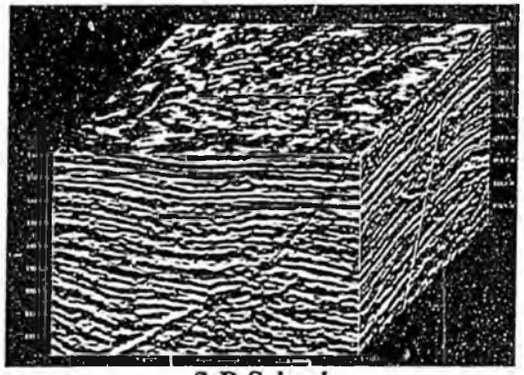


Royalty, Lease, Unit/Participating Areas, Ownership & Economic Data



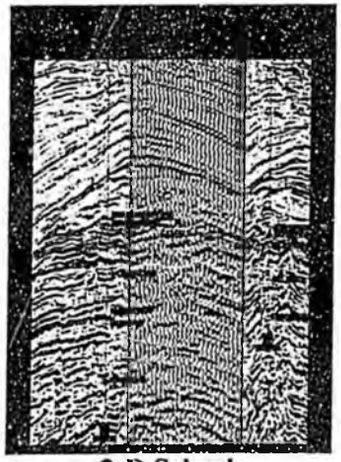


Engineering & Production Data

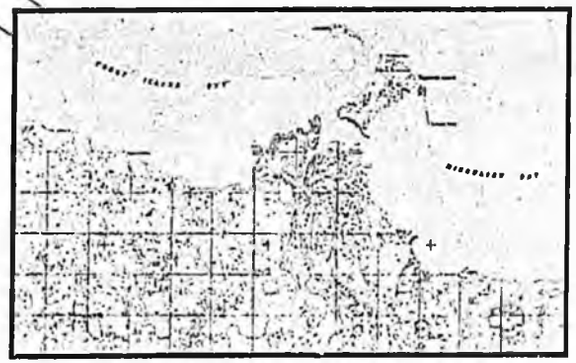


3-D Seismic

Geophysical Data
(Seismic, Gravity, Magnetic, Velocity, & Shothole data)



2-D Seismic



Geographic Information
Cultural & Physical Data
Aerial & Satellite Imagery

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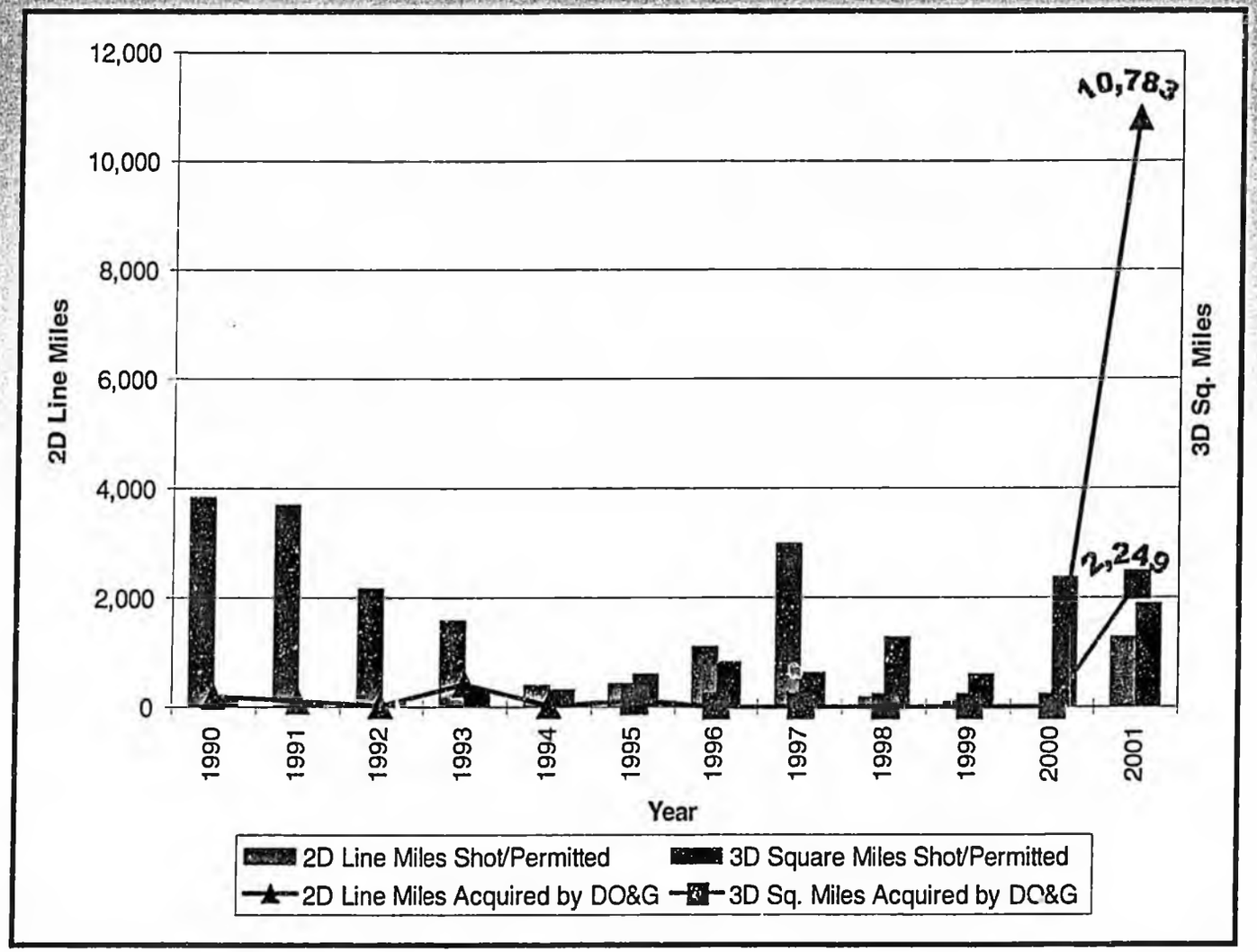
Seismic Data Status

1990 - 2001



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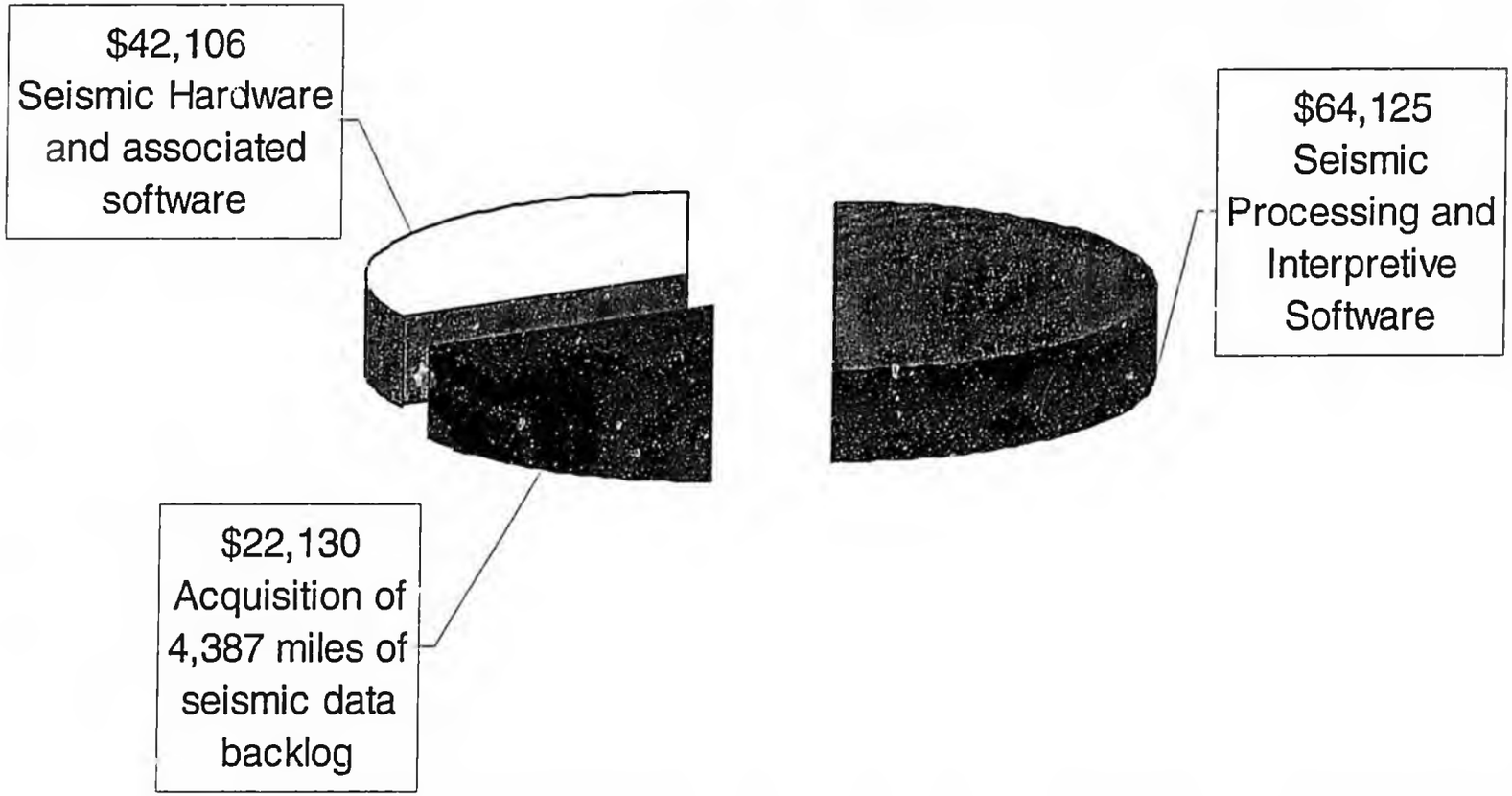
FY02 Seismic Increment Expenditures



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