

SB

185

HFIN

FILE

Amended / Adopted R/O

AMENDMENT \ A

OFFERED IN HOUSE FINANCE
TO: CSSB 185 Z Version

BY REPRESENTATIVE BERKOWITZ
& Kerttula
& Whitaker

1 Page 9, Line 9; add a new section to read:

2

3 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section
4 to read:

5 REPORT TO THE LEGISLATURE. On or before the first day of the Second
6 Regular Session of the Twenty-Third Alaska State Legislature, the commissioner of
7 natural resources shall prepare a report to the legislature. The report must include a
8 discussion of

9 (1) Specific incentives which could be used to spur oil and gas
10 exploration;

11 (2) A comprehensive plan to lower pipeline tariffs for independent (oil)
12 producers; *an analysis of the distribution*

13 (3) A comprehensive plan for reasonably priced access to facilities
14 and infrastructure; *analysis of the*

15 (4) An informational study on the higher cost of exploration and
16 development in the state and plans to mitigate that higher cost; *analysis of the*

17 (5) The potential costs and benefits inherent to each incentive and
18 plan. *option*

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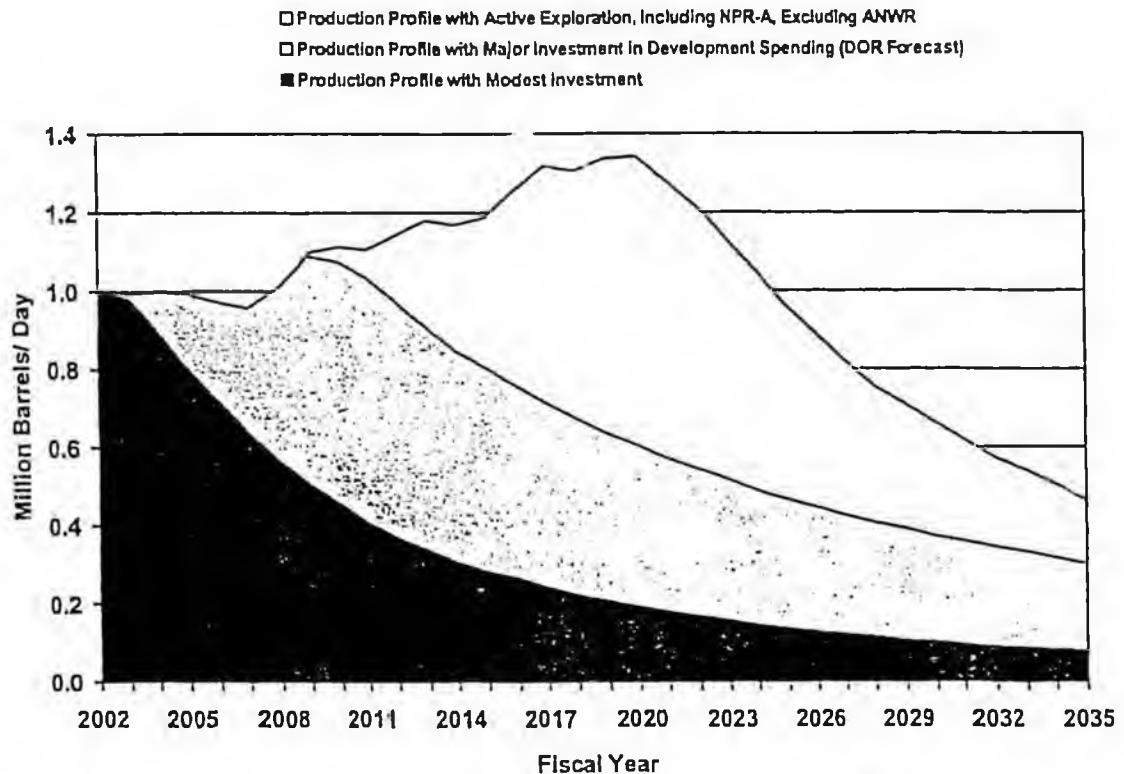
May 12, 2003

Cost of Exploration

Azerbaijan	\$ 0.05
Canada, Northwest Ter.	\$ 0.10
Australia	\$ 0.18
Norway	\$ 0.22
Qatar	\$ 0.22
Brunei	\$ 0.25
Malaysia	\$ 0.30
Canada, Nova Scotia	\$ 0.35
Oman	\$ 0.35
Venezuela - Orinoco Belt	\$ 0.35
Indonesia	\$ 0.38
Thailand	\$ 0.45, less depending on level of production
Colombia	\$ 0.45
Trinidad & Tobago	\$ 0.45
Abu Dhabi	\$ 0.50
Kazakhstan	\$ 0.55, some agreements much less
Alberta	\$ 0.58
China	\$ 0.60, less depending on level of production
United Kingdom	\$ 0.60
Sakhalin, Russia	\$ 0.62, much less depending on level of production
US Gulf of Mexico	\$ 0.65
Alaska - Current	\$ 0.65

Source: PEDRO VAN MEURS

Figure 3. ANS Production Forecast
Modest Investment vs. Significant Investment vs. New Discoveries



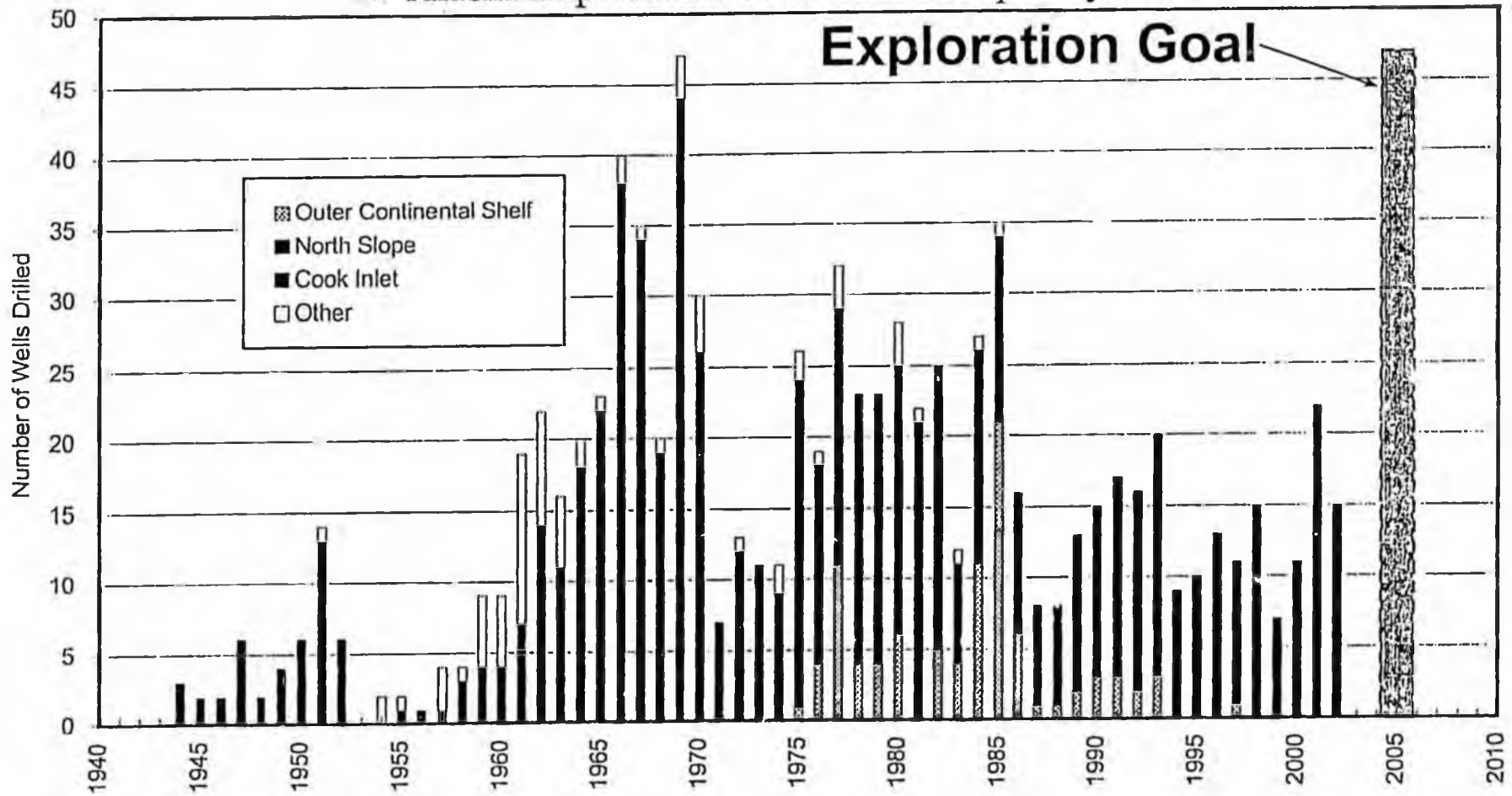
For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already discovered on the slope that require significant investment, as opposed to the 3.8 billion barrels that could be produced with more moderate investments in the operations, safety and integrity of the facilities.) Therefore, to fully replace the 365 million barrels of reserves (1 million barrels per day) produced each year, the companies must spend around \$1.1 billion per year (\$3 per barrel x 365 million barrels).⁽⁶⁾ In addition, the companies must spend \$300 million per year in LTO capital just to preserve the safety and integrity of their facilities and to maintain a base flow of oil.

For undiscovered fields, and to maintain at least a million barrels a day of production in the following decade, new fields will need to be discovered this decade at a projected finding cost of \$1 per barrel.

(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.

In Order to Increase Alaskan Oil Production the Number of Exploration Wells Drilled per Year Must Dramatically Increase.

Alaska Exploration Well Data Grouped by Area



Number of Alaskan Exploration Wells Drilled per Year

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 19, 2003

SUBJECT: HCS CSSB 185 (Finance) (Work Order No. 23-LS0962\E)

TO: Representative John Harris
Representative Bill Williams
Co-chairs of the House Finance Committee

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The committee substitute incorporates the amendment debated and adopted in committee with minor grammatical changes that are not intended to change the content or meaning of the committee's language as I understand it.

In its paragraphs (2) and (3), the new bill section requests coverage in the proposed report of material that expands beyond the two specific items identified in the bill title -- Cook Inlet production royalty reduction and exploration expenses credited against the severance tax. It speaks of "pipeline tariffs" and "costs of access" -- items not easily squared with the content of the draft reported by the House Special Oil and Gas Committee. The only connection that we perceive between these two specific elements of the proposed report and the content of the remainder of the bill ties to the commissioner and the legislature's evaluation of the need to grant or approve the exploration credit against the severance tax. The relationship is present, albeit tenuous.

Will you want a title amendment, or are you prepared to report the bill with the current title and risk an objection that the title of HCS CSSB 185 (Finance) is defective?

JBC:med
03-576.med

AMENDMENT 1 am

OFFERED IN HOUSE FINANCE
TO HCSSB 185 (O & G) Z VERSION

BY REPRESENTATIVES BERKOWITZ
KERTTULA
WHITAKER

Page 9, Line 9; add a new section to read:

Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to read:

REPORT TO THE LEGISLATURE. On or before the first day of the Second Regular Session of the Twenty-Third Alaska State Legislature, the commissioner of natural resources shall prepare a report to the legislature. The report must include a discussion of

- (1) Specific incentives which could be used to spur oil and gas exploration;
- (2) An analysis of the impact of pipeline tariffs on independent oil producers;
- (3) An analysis of the costs of access to facilities and infrastructure;
- (4) An analysis of the costs of exploration and development in the state and opportunities or approaches to mitigate that higher cost;
- (5) The potential costs and benefits inherent to each option.

AMENDMENT 1 am

OFFERED IN HOUSE FINANCE
TO HCSSB 185 (O & G) Z VERSION

BY REPRESENTATIVES BERKOWITZ
KERTTULA
WHITAKER

Page 9, Line 9; add a new section to read:

Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to read:

REPORT TO THE LEGISLATURE. On or before the first day of the Second Regular Session of the Twenty-Third Alaska State Legislature, the commissioner of natural resources shall prepare a report to the legislature. The report must include a discussion of

- (1) Specific incentives which could be used to spur oil and gas exploration;
- (2) An analysis of the impact of pipeline tariffs on independent oil producers;
- (3) An analysis of the costs of access to facilities and infrastructure;
- (4) An analysis of the costs of exploration and development in the state and opportunities or approaches to mitigate that higher cost;
- (5) The potential costs and benefits inherent to each option.



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
VICE-CHAIR, SENATE RESOURCES COMMITTEE

SPONSOR STATEMENT

SB – 185: ROYALTY REDUCTION ON CERTAIN OIL

SB 185 amends statutes to provide for reduction of royalty on oil produced in certain Cook Inlet fields and platforms as they near the end of their production capability.

The intent of the legislation is to provide a monetary incentive in the form of royalty relief to maximize production from old fields and extend the longevity of Cook Inlet oil platforms. In return, there is continued employment in the area rather than a loss of jobs due to abandonment of the fields.

There is also more production than would otherwise be realized because the fields will have become more economical due to the reduced costs. That results in more oil production than would have originally been realized, and subsequently more unexpected royalty revenues, even at a reduced rate.

Encouraging production in these marginal fields will extend their life by a minimum of 18 to 24 months – a considerable extension of employment opportunities in the Cook Inlet basin.

SB 185 also offers exploration severance tax credits to explorers for work performed on or after July 1, 2003 and before July 1, 2007.

At the present time, maximum tax credits for exploration in Alaska results in costs of about 65 cents out of \$1, which compares very poorly with the credits of our near competitors in Canada – Northwest Territory where the costs are 10 cents. Alaska is at the bottom of the list in terms of exploration credits.

This bill will result in a 40% tax credit for exploration applied against severance taxes that would reduce the costs in Alaska to some 39 cents – about the middle of the range.

SS SB 185 S(FIN) 5-14-03



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
VICE-CHAIR, SENATE RESOURCES COMMITTEE

H-O&G Amendment to SB 185 (version "U")

- Page 7, line 3, following "spudded":
Revised language regarding "preexisting" so that it is "more than 150 days but less than 15 years" (old version was not less than 150 days)
- Page 7 line 20, following "department", insert "and within six months of the completion of the exploration activity,"
- Page 7, line 26, following "geophysical data", inserted additional language regarding filling of a claim for credit and adding "whichever is later"
- Page 8 line 5, deleted "if the claimed expenditures are for an exploration well and"
- Page 8, line 6, following "interest in", delete "that well" and insert "a well or seismic"
- Page 8, line 7, delete "interest in the exploration well" insert and "cost incurred"

SB 185 5-18-03: mj

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSSB 185(FIN)
 (S) Publish Date: 5/14/03

Revision Date/Time (Note if correction): 5/9/2003 Dept. Affected: Natural Resources
 Title: Royalty Reduction on Certain Oil BRU: Resource Development
 Component: Oil and Gas Development
 Sponsor: Wagoner
 Requester: Senate Finance Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
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CHANGE IN REVENUES (1004)	(436.9)	(847.4)	(1042.1)	(938.6)	(561.5)	(485.1)
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 SB 185 amends AS 38.05.180(f)(5) to permit reduced royalty rates to as low as 5 percent for oil production from submerged lands in Cook Inlet. This royalty reduction would apply primarily to oil produced from offshore platforms and is tied to the daily rate of oil production. While SB 185 will result in a net loss in state revenues, it is expected to extend the field or platform life, thereby increasing future field or platform production and revenues in the out-years beyond what is likely to occur otherwise. Cumulative estimated net royalty revenue lost over the six-year forecast horizon FY 2004-09 is estimated to be (\$4,312) thousand or about (\$719) thousand per year (undiscounted). These estimates include cumulative undiscounted royalty revenue benefits of about \$800 thousand (\$570 thousand when discounted) from field-life extension that could arise as a result of royalty relief of the type offered in SB 185. These fiscal impacts do not consider the broader employment and regional economic effects from extended platform life. Also, field-life extension also provides an opportunity for additional exploration from existing platforms.

Prepared by: Mark D. Myers Phone 269-8802
 Division: Oil and Gas Date/Time 5/9/2003
 Approved by: Tom Irwin, Commissioner Date 5/9/2003
 Agency: Natural Resources

FISCAL NOTE #2

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSB 185(FIN)

ANALYSIS CONTINUATION

SB 185 recognizes three broad groups of platforms, distinguished primarily by economic attributes associated with the degree of water handling and water injection. Platforms with major water handling and/or injection include: Dolly, Grayling, King Salmon, Steelhead, and Monopod. When oil production on these platforms falls below 1,200 barrels of oil per day (BPD) for at least one calendar quarter as certified by AOGCC, then the royalty percentage associated with that production would fall from whatever rate applies under the lease to a rate of 5 percent "for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day." If average production from the field or platform that had declined below 1,200 BPD rises above this threshold for a period of at least one calendar quarter, then the bill provides for a schedule of upward royalty adjustments to production beyond the one-quarter term.

Platforms that presently employ moderate water handling and/or injection include those associated with the Middle Ground Shoal Field: Baker, Dillon, XTO.A and XTO.C. SB 185 contemplates 975 barrels of oil per day as the economic limit rate of production for this group of moderate water-handling platforms. Platform oil production below this threshold would trigger royalty reduction from whatever rate applies under the lease to a rate of 5 percent. Stepwise upward adjustments in the royalty percentage, similar to those described above apply as oil production recovers to a rate of 1,350 BPD for a sustained period of at least one calendar quarter.

Platforms that do not presently employ substantial water handling and/or injection include: Granite Point, Anna, and Bruce in the Granite Point Field. SB 185 provides for 750 barrels of oil per day as the economic limit rate of production for this group of platforms that would trigger royalty reduction from whatever rate applies under the lease to 5 percent. Royalty percentage upward adjustments, similar to those described under the 1,200 BPD threshold apply when oil production recovers for a sustained period of at least one calendar quarter. Note, the 750 BPD economic-limit rate of production also, applies to the West McArthur River field.

Over the past three-to-four decades, fifteen offshore, oil-production platforms have facilitated oil and gas operations in six offshore oil fields in the Cook Inlet Basin. Oil production on most of these platforms began around 1965-to-1967. The Osprey Platform, owned by Forest Oil, started continuous oil production in December 2002. Oil production from the Spark and Spurr platforms was shut-in in January 1992 and July 1992, respectively. The Dillon Platform, which served the Middle Ground Shoal oil field since September 1967, was shut-in by Unocal in January 2003. At present, twelve platforms support oil-production operations in the Cook Inlet Basin.

Three of the twelve active platforms currently produce oil at daily rates below the 750 barrels of oil per day (BPD) threshold contained in SB 185. These platforms, and the dates that corresponding production fell below 750 BPD are:

Platform	Field	Operator	Gross Production FY2002 / FY2003 (BPD)	Date Production falls below 750 BPD
Bruce	Granite Point	Unocal	612 / 476	July 1987
Dillon	Middle Ground Shoal	Unocal	423 / 374	March 1987
Baker	Middle Ground Shoal	Unocal	723 / 558	June 2002

The royalty revenue loss to the state would be approximately \$1.03 million FY 2002 and \$0.9 million in FY 2003 had SB 185 been in effect during these periods.

Several platforms would be expected to trigger royalty relief under SB 185 during the FY2004 - FY2009 forecast horizon. If the rates of platform production continue to follow the historic patterns of decline, then the rate of production is expected to fall below 1,200 BPD for the King Salmon Platform in August 2004 and Steelhead in April 2005; platform production for XTO.C is expected to fall below 750 BPD in February 2004, as indicated in the following table:

Platform	Field	Operator	Gross Production (BPD) FY2002 / FY2003	Expected Date Production falls below	
				975 BPD	1,200 BPD
King Salmon	McArthur River	Unocal	7,468 / 3,891		Aug 2004
Steelhead	McArthur River	Unocal	1,914 / 1,584		April 2005
XTO.C	Middle Ground Shoal	XTO	1,047 / 1,099	Feb 2004	

FISCAL NOTE #2

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO.

CSSB 185(FIN)

ANALYSIS CONTINUATION

The Dillon platform was shut-in in January 2003 and Baker is subject to imminent shut-in based on representations made by Unocal. These platforms are assumed to be shut-in for purposes of the forward fiscal impact analysis. The value of Cook Inlet crude oil in future years is assumed to be \$20.00 per barrel. The estimated cumulative gross royalty revenue loss is (\$5.1) million undiscounted over the six-year forecast period (equals (\$4.1) million when discounted at 8% per year), based on the difference between expected royalty revenue with and without the provisions contained in SB 185, not counting potential incremental production from extended field or platform life. When the cash-flow impact of royalty reduction under SB 185 is taken into account, delayed platform shut-in is expected for four platforms (including Bruce, described above) during the forecast horizon. The shut-in deferment would range between 2 and 14 months for a given platform. The resulting shut-in delays would generate between 500-to-900 thousand barrels of total incremental production (includes working-interest and royalty), of which approximately one-third would occur in the FY 2005-06 timeframe. The remainder of incremental production would occur during FY 2008-09 and beyond. The cumulative, upside royalty impact of the expected incremental production would range between \$400-to-\$800 thousand, depending on assumptions regarding threshold rates of production, discounting, and timing of ultimate platform shut-in.

Taking all short- and long-run factors into consideration, the overall royalty revenue impact of SB 185 would be approximately (\$4.3) million [(\$5.1) million in royalty foregone plus about \$0.8 million in royalty gain from extended platform life] or about (\$719) thousand per year (net) over the six-year period, FY 2004-2009. Note that these fiscal impacts do not consider the broader employment and regional economic effects from extended platform life.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

No. 3
Bill Version: CSSB 185(FIN)
(S) Publish Date: 5/14/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Royalty Reduction / BRU Revenue Operations
Production Tax Credit Component Tax Division
Sponsor Senator Wagoner
Requester Senate Finance Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	81.9	81.9	81.9	81.9	81.9	81.9
Travel	10.0	10.0	10.0	10.0	10.0	10.0
Contractual	10.0	1.0	1.0	1.0	1.0	1.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	107.9	93.9	93.9	93.9	93.9	93.9

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	107.9	93.9	93.9	93.9	93.9	93.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	107.9	93.9	93.9	93.9	93.9	93.9

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

** See attachment for analysis

Prepared by: Dan Dickinson, Director Phone 269-1033
Division: Tax Division Date/Time 5/11/03 12:11 PM
Approved by: Bill Corbus, Commissioner Date 5/11/2003
Agency: Department of Revenue

This legislation is intended to provide financial incentives for increased oil and gas exploration in Alaska.

The Department of Revenue's fiscal note deals only with the changes to AS 43.55 (oil and gas production tax) and not the changes in this legislation to AS 38.05 (royalties), which are addressed by the Department of Natural Resources.

This legislation creates a 20% credit against oil and gas production taxes for exploration wells drilled more than three miles from other wells, and a second 20% production tax credit for exploration wells drilled more than 25 miles from established units (including Point Thomson). The second credit may be additive to the first, for a maximum 40% production tax credit. In addition, this legislation creates a 40% credit against oil and gas production taxes for seismic operations outside of existing units.

Oil and gas exploration spending in Alaska totals approximately \$200 million per year. This is in addition to maintenance and operations spending, development costs of new wells, and the cost of enhancing existing production.

For purposes of this discussion, the Department assumes 75% of current total exploration expenditures would be eligible for the 20% production credit and that 30% of total exploration expenditures would be eligible for the 40% credit. This would create a reduction in revenues of approximately \$50 million per year (a 20% credit against 75% of \$200 million a year, or \$30 million, plus a 40% credit against 25% of \$200 million a year, or \$20 million per year).

If the credit doubles the amount of exploration at the same ratio, the annual reduction in oil and gas production tax revenues to the state would total \$100 million per year. However, if the exploration leads to further production, there could be additional royalties, oil production taxes, oil and gas property taxes and corporate income taxes totaling hundreds of millions of dollars in subsequent years. During the four years the exploration credit in this legislation would be available, there likely would be minimal new revenues to offset the revenue loss, with significant new production likely to start flowing after the credit has expired.

This credit brings Alaska more in line with international competitive practices, removing a disincentive for exploration in Alaska relative to other oil regions.

Operating Expenses

This new credit will require one Revenue Auditor V to write emergency regulations in time for the 2003-2004 winter drilling season and to audit between \$200 million and \$400 million of activity per year.

Representative Berkowitz WITHDREW his MOTION and MOVED Amendment #1.a

Vice-Chair Meyer OBJECTED. He asked what is meant by independent oil producers. Does this reflect a concern for Cook Inlet or TAPS? Mr. Porter? Indicated that //

Representative Kerttula stated that mostly North Slope and mostly //Mr. Porter indicated that removing "independent oil producers" would be more inclusive.

Representative Berkowitz noted that that the cost of exploration expenses might be anywhere in the state.

Representative Whitaker maintained that the intent is that pipeline tariffs, TAPS, prohibit some producers?? He asked if this needed to be specifically spelled out. Mr. Porter stated that this intent was sufficiently

Representative Hawker offered to clarify lines 4 and 5. He suggested that (4) be changed to read "an analysis of the costs of exploration and development in the state and opportunities or approaches to mitigate that higher cost".

Representative Whitaker suggested that the report need not be overly comprehensive. Representative Hawker concurred that his suggested was to focus on viable and immediate opportunities.

Representative Hawker also MOVED to AMEND the Amendment (5) to finish "inherent to each option."

~~NO OBJECTION. Amendment 1.A was ADOPTED.~~

Mr. Porter clarified that the Department would not be able to analyze the impacts immediately the impacts of the bill. Representative Berkowitz emphasized that this was his concern with the bill. Mr. Porter clarified that they would not be able to analyze the effectiveness of the bill until the following year.

Representative Berkowitz pointed out that his intent was that next session, when an oil and gas bill was introduced, the research would give adequate background information.

Representative Joule MOVED to report CSSB 185 (FIN) out of Committee with the accompanying fiscal note NO OBJECTIONS.

was REPORTED out of Committee with

Senator Thomas Wagoner, Sponsor

Please Call Joyce at 2156

"An Act relating to the longevity bonus program; and providing for an effective date."

CS FOR SENATE BILL NO. 185 (FIN)

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land, and for a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state."

Representative Berkowitz observed that the incentives were being made available without adequate knowledge of the level of exploration throughout the state. He suggested that not being able to address all concerns within the available time constraints was limiting. He ///

Representative Berkowitz MOVED Amendment #1, by Representative Berkowitz and Representative Kerttula. Co-Chair Williams OBJECTED.

In response to a question by Co-Chair Harris, Representative Berkowitz stated that the Department had been apprised of the changes proposed by the amendment. He pointed out that the amendment requires a comprehensive plan and report from Department of Natural Resources regarding oil exploration. He maintained that the areas contained in the amendment needed further study.

Representative Whitaker asked that his name be added to the amendment.

Commissioner, Department of Revenue stated that his original understanding was that report was required about the bill at hand. He commented that the report indicated by the amendment was more comprehensive than anticipated. He asked about the detail of the report.

Representative Berkowitz MOVED to AMEND the Amendment to delete the word "comprehensive" from lines 11 and 13. Co-Chair Williams OBJECTED.

Representative Hawker noted that "plan" indicated that there was not sufficient intent at this point. He MOVED to AMEND the amendment to change plan to "feasibility".

The Commissioner suggested a wording to the amendment.

- (2) an analysis of the impact of pipeline tariffs on independent oil producers;
- (3) an analysis of the costs of access to facilities and infrastructure.

**Revenue impact from exploration
incentive credit for different field
analogs (in millions of dollars)**
(Alpine and Tam analog in NPR-A, Meltwater
analog on state lands)

	Alpine analog (one 485 mmbbl discovery)	Tam analog (four 114 mmbbl discovery)	Meltwater analog (eight 57 mmbbl discovery)
2004	\$ (51.0)	\$ (51.0)	\$ (51.0)
2005	(68.0)	(68.0)	(68.0)
2006	(68.0)	(68.0)	(68.0)
2007	(68.0)	(68.0)	(68.0)
2008	92.3	17.9	9.8
2009	184.7	35.9	29.5
2010	184.7	53.8	49.1
2011	177.4	70.1	68.7
2012	152.0	82.1	86.2
2013	130.6	94.1	101.8
2014	115.9	104.1	115.6
2015	99.8	110.0	127.9
2016	86.2	102.6	129.1
2017	74.6	93.5	119.2
2018	64.6	82.1	108.3
2019	56.2	72.2	96.3
2020	48.9	63.6	85.7
Total	\$ 1,212.7	\$ 730.1	\$ 872.3
IRR	33.83%	17.44%	18.28%
Total Credit	\$ (255.0)	\$ (255.0)	\$ (255.0)

DOR
5/15/2003

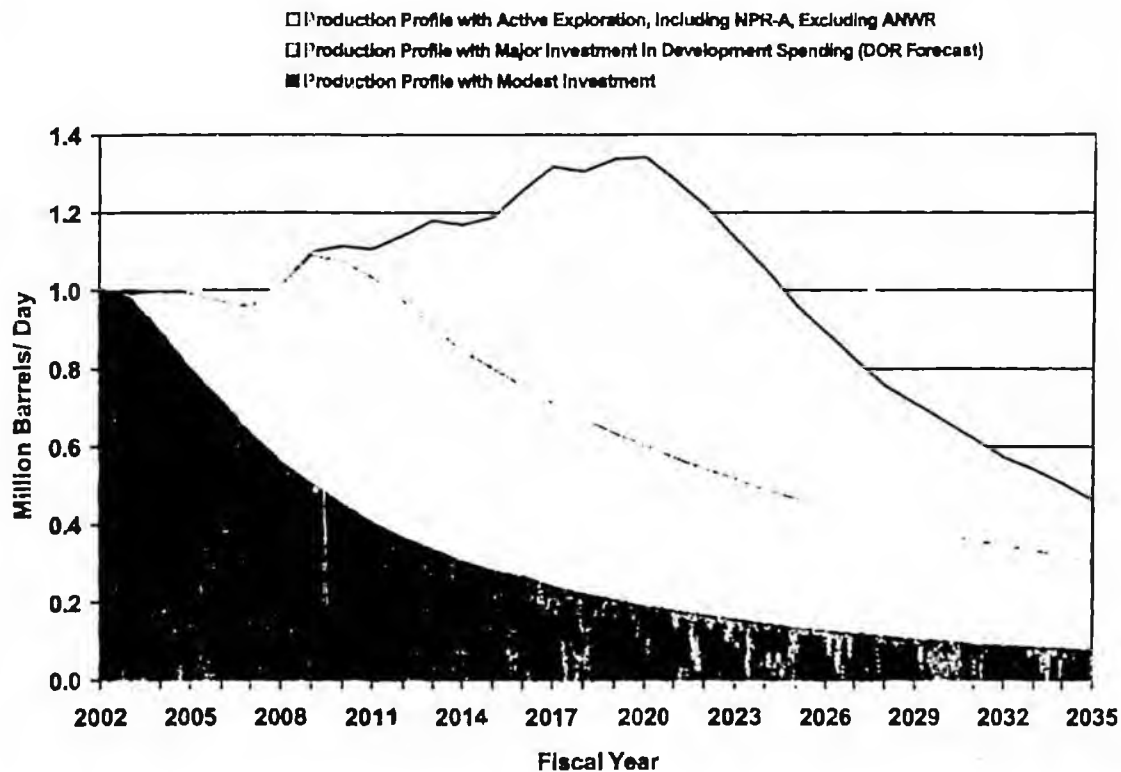
May 12, 2003

Cost of Exploration

Azerbaijan	\$ 0.05
Canada, Northwest Terr	\$ 0.10
Australia	\$ 0.18
Norway	\$ 0.22
Qatar	\$ 0.22
Brunei	\$ 0.25
Malaysia	\$ 0.30
Canada, Nova Scotia	\$ 0.35
Oman	\$ 0.35
Venezuela – Orinoco Belt	\$ 0.35
Indonesia	\$ 0.38
Thailand	\$ 0.45, less depending on level of production
Colombia	\$ 0.45
Trinidad & Tobago	\$ 0.45
Abu Dhabi	\$ 0.50
Kazakhstan	\$ 0.55, some agreements much less
Alberta	\$ 0.58
China	\$ 0.60, less depending on level of production
United Kingdom	\$ 0.60
Sakhalin, Russia	\$ 0.62, much less depending on level of production
US Gulf of Mexico	\$ 0.65
Alaska - Current	\$ 0.65

Source: Pedro van Meurs

**Figure 3. ANS Production Forecast
Modest Investment vs. Significant Investment vs. New Discoveries**



Attracting and Monitoring Investment Dollars.

Additions to North Slope production can come in two ways: 1) recovering a greater proportion of the oil in already discovered fields, or 2) discovering new fields or satellites to discovered fields. Over the next decade we project that adequate spending on discovered fields would maintain North Slope production near the million-barrels-a-day level. To keep production at or above a million barrels a day in the following decade, however, companies will have to discover new fields and new satellites to existing fields this decade. Then as discovered field production spending declines, companies will have to spend more money to bring production online from new satellites and new fields.

The figure on the next page illustrates the relationship between investment dollars spent to find and develop oil on the North Slope and the vitality of the oil industry in Alaska over the next two decades and beyond.

- If North Slope producers invest only at the level required to maintain the safety and integrity of the current production infrastructure, the dark-colored dotted area reflects the likely production profile.
- If the companies involved invest significantly to produce oil that has already been discovered, then the production forecast reflected by the light and dark dotted areas is, we believe, the likely profile. Our current revenue forecast is based upon this production profile.
- If immediate, substantial, successful and continuing exploration occurs, the top line volume profile — or more — may be attainable.
- Finally, even if exploration investments and successes are less than these optimistic hopes, unexpected additional discoveries would add to our forecast projections.

For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already discovered on the slope that require significant investment, as opposed to the 3.8 billion barrels that could be produced with more moderate investments in the operations, safety and integrity of the facilities.) Therefore, to fully replace the 365 million barrels of reserves (1 million barrels per day) produced each year, the companies must spend around \$1.1 billion per year (\$3 per barrel x 365 million barrels).⁽⁶⁾ In addition, the companies must spend \$300 million per year in LTO capital just to preserve the safety and integrity of their facilities and to maintain a base flow of oil.

For undiscovered fields, and to maintain at least a million barrels a day of production in the following decade, new fields will need to be discovered this decade at a projected finding cost of \$1 per barrel.

(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.