

SB

185

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 5/7/03

FURTHER:

DATE TURNED
IN TO OFFICE:

REPORTED OFF
 MAY 14 2003
 SENATE FINANCE
 COMMITTEE
 14 May 2003

Finance Committee considered

SENATE BILL NO. 185

SB 185 ROYALTY REDUCTION ON CERTAIN OIL

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land."

and recommends:

- be replaced with _____ CS SB 185 (FIN)
- adopt previous _____ CS CS forthcoming (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

| Department | Date | Fiscal | Zero | FN# |
|------------|---------|--------|------|-----|
| DNR | 7/3/03 | | ✓ | |
| Revenue | 3/11/03 | 107.9 | | |
| | | | | |
| | | | | |

PREVIOUS FISCAL NOTE(S):

| Department | Date | Fiscal | Zero | FN# |
|------------|------|--------|------|-----|
| | | | | |
| | | | | |
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| | | | | |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|---------|-------------|--------|-------|
| <i>Chris T. ...</i> | ✓ | | | |
| <i>...</i> | | | ✓ | |
| <i>...</i> | | | ✓ | |
| <i>...</i> | ✓ | | | |
| <i>Ben Stevens</i> | ✓ | | | |
| COCHAIR: <i>Linda Green</i> | ✓ | | | |
| COCHAIR: <i>Lisa ...</i> | ✓ | | | |

MAY 14 2003

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSSB185(FIN)
() Publish Date: _____

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 | | | | | | |
|-----------------------------|--|--|--|--|--|--|

| | | | | | | |
|-------------------------------|----|----|----|----|----|----|
| CHANGE IN REVENUES () | ** | ** | ** | ** | ** | ** |
|-------------------------------|----|----|----|----|----|----|

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.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

FISCAL NOTE

IMPROVED
 MAY 14 2003
 SENATE FINANCE
 CLERK

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: DRAFT
 Bill Version: CSSB185(FIN) wk dr
 () Publish Date: _____

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 | | | | | | |
|-----------------------------|--|--|--|--|--|--|

| | | | | | | |
|----------------------------------|---------|---------|----------|---------|---------|---------|
| CHANGE IN REVENUES (1004) | (436.9) | (847.4) | (1042.1) | (938.6) | (561.5) | (485.1) |
|----------------------------------|---------|---------|----------|---------|---------|---------|

FUND SOURCE (Thousands of Dollars)

| FUND SOURCE | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---|---------|---------|---------|---------|---------|---------|
| 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

| POSITIONS | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|-----------|---------|---------|---------|---------|---------|---------|
| 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

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSB185(FIN) wk dr

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 up-ward 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 | 619 / 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

STATE OF ALASKA
2603 LEGISLATIVE SESSION

BILL NO.

CSSB185(FIN) wk or

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.

LEGAL SERVICES

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

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

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

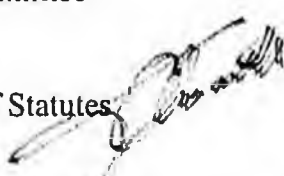
MEMORANDUM

May 14, 2003

SUBJECT: Adm. nal change to CSSB 185 (Finance)
(Work Order No. 23-LS0926\U)

TO: Mindy Rowland
Senate Finance Committee

FROM: Jack Chenoweth
Assistant Revisor of Statutes



At the request of Senator Wagoner's staff, at page 5, line 17, I changed "commission" to "commissioner" to correct our error. There is backup in the drafting file to what became amendment I.1 indicating that "commissioner" -- the reference is to the commissioner of natural resources -- and not "commission" -- presumably the reference would have been to the Alaska Oil and Gas Conservation Commission -- was intended.

Please share this with the Senate Finance Co-Chairs as appropriate.

JBC:lmb
03-208.lmb

cc: Senator Wagoner

adopted

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percent of the total exploration expenditures; or

(2) 40 percent of the total exploration expenditures that qualify under (b) and (e) of this section, for a total production tax credit that does not exceed 40 percent of the total qualified exploration expenditures.

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed on or after July 1, 2003, and before July 1, 2007, and

(1) may be for seismic or geophysical exploration costs not connected with a specific well;

(2) if for an exploration well,

(A) must be incurred by an explorer that holds an interest in the exploration well for which the production tax credit is claimed;

(B) may be for either an oil or gas discovery well or a dry hole;

and

(C) must be for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of an exploration well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned within 18 months after the date the well was spudded;

(3) may not be for testing, ~~cementing~~, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; or other costs that are generally recognized as indirect costs or financing costs; and

←
delete

(4) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit on May 13, 2003.

(c) To be eligible for a 20 percent production tax credit, exploration expenditures must

(1) qualify under (b) of this section; and

(2) be for an exploration well that is located and drilled in such a

CS FOR SENATE BILL NO. 185(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATOR WAGONER

*Pls. proof
OK sp*

A BILL

FOR AN ACT ENTITLED

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

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

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

7 (j) The commission shall certify to the Department of Natural Resources the
8 volume of oil production from a field or platform for the purposes of
9 AS 38.05.180(f)(6)(A), (C), (E), and (G).

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

11 (6) notwithstanding and in lieu of a requirement in the leasing method
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
13 unitized as described in (p) of this section, leases subject to an agreement described in
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

1 an oil field located offshore in Cook Inlet on which an oil production platform
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
6 day declines to less than that amount for a period of at least one calendar
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
8 as long as the volume of oil produced from the platform remains less than
9 1,200 barrels a day; the provisions of this subparagraph apply to

10 (i) Dolly;

11 (ii) Grayling;

12 (iii) King Salmon;

13 (iv) Steelhead; and

14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the
16 volume of oil produced from the platform that was certified by the Alaska Oil
17 and Gas Conservation Commission under (A) of this paragraph later increases
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
19 period of at least one calendar quarter; until the royalty rate determined under
20 this subparagraph applies, the royalty continues to be calculated under (A) of
21 this paragraph; on and after the first day of the month following the month the
22 increased production exceeds the period specified in this subparagraph, the
23 royalty payable under this subparagraph is

24 (i) for production of at least 1,200 barrels a day but not
25 more than 1,300 barrels a day - seven percent;

26 (ii) for production of more than 1,300 barrels a day but
27 not more than 1,400 barrels a day - 8.5 percent;

28 (iii) for production of more than 1,400 barrels a day but
29 not more than 1,500 barrels a day - 10 percent; and

30 (iv) for production of more than 1,500 barrels a day -
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the
2 platform if oil production that equaled or exceeded a volume of 975 barrels a
3 day declines to less than that amount for a period of at least one calendar
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
5 as long as the volume of oil produced from the platform remains less than 975
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;
8 (ii) Dillon;
9 (iii) XTO.A; and
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the
12 volume of oil produced from the platform that was certified by the Alaska Oil
13 and Gas Conservation Commission under (C) of this paragraph later increases
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a
15 period of at least one calendar quarter; until the royalty rate determined under
16 this subparagraph applies, the royalty continues to be calculated under (C) of
17 this paragraph; on and after the first day of the month following the month the
18 increased production exceeds the period specified in this subparagraph, the
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not
21 more than 1,100 barrels a day - seven percent;
22 (ii) for production of more than 1,100 barrels a day but
23 not more than 1,200 barrels a day - 8.5 percent;
24 (iii) for production of more than 1,200 barrels a day but
25 not more than 1,350 barrels a day - 10 percent; and
26 (iv) for production of more than 1,350 barrels a day -
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the
29 platform if oil production that equaled or exceeded a volume of 750 barrels a
30 day declines to less than that amount for a period of at least one calendar
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the
7 volume of oil produced from the platform that was certified by the Alaska Oil
8 and Gas Conservation Commission under (E) of this paragraph later increases
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a
10 period of at least one calendar quarter; until the royalty rate determined under
11 this subparagraph applies, the royalty continues to be calculated under (E) of
12 this paragraph; on and after the first day of the month following the month the
13 increased production exceeds the period specified in this subparagraph, the
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the
24 field if oil production that equaled or exceeded a volume of 750 barrels a day
25 declines to less than that amount for a period of at least one calendar quarter,
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long
27 as the volume of oil produced from the field remains less than 750 barrels a
28 day; the provisions of this subparagraph apply to the West McArthur River
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to
 2 750 or more barrels a day and remains at 750 or more barrels a day for a period
 3 of at least one calendar quarter; until the royalty rate determined under this
 4 subparagraph applies, the royalty continues to be calculated under (G) of this
 5 paragraph; on and after the first day of the month following the month the
 6 increased production exceeds the period specified in this subparagraph, the
 7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not
 9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but
 11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but
 13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -
 15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in
 17 (A) - (H) of this paragraph only if the commissioner determines that the
 18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the
 20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due
 22 to mechanical or other choke-back factors, temporary shutdowns or
 23 decreased production due to environmental or facility constraints, or
 24 market conditions.

25 * **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms
 27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a
 28 credit against the tax due under this chapter is allowed in an amount equal to

29 (1) 20 percent of the total exploration expenditures that qualify under
 30 (b) and (c) of this section, 20 percent of the total exploration expenditures that qualify
 31 under (b) and (d) of this section, or both, for a total credit that does not exceed 40

*tech.
correction*

1 percent of the total exploration expenditures; or

2 (2) 40 percent of the total exploration expenditures that qualify under
3 (b) and (e) of this section, for a total production tax credit that does not exceed 40
4 percent of the total qualified exploration expenditures.

5 (b) To qualify for the production tax credit under (a) of this section, an
6 exploration expenditure must be incurred for work performed on or after July 1, 2003,
7 and before July 1, 2007, and

8 (1) may be for seismic or geophysical exploration costs not connected
9 with a specific well;

10 (2) if for an exploration well,

11 (A) must be incurred by an explorer that holds an interest in the
12 exploration well for which the production tax credit is claimed;

13 (B) may be for either an oil or gas discovery well or a dry hole;
14 and

15 (C) must be for goods, services, or rentals of personal property
16 reasonably required for the surface preparation, drilling, casing, cementing,
17 and logging of an exploration well, and, in the case of a dry hole, for the
18 expenses required for abandonment if the well is abandoned within 18 months
19 after the date the well was spudded;

20 (3) may not be for testing, stimulation, or completion costs; ~~deleted~~
21 administration, supervision, engineering, or lease operating costs; geological or ~~"cementing"~~
22 management costs; community relations or environmental costs; bonuses, taxes, or
23 other payments to governments related to the well; or other costs that are generally
24 recognized as indirect costs or financing costs; and

25 (4) may not be incurred for an exploration well or seismic exploration
26 that is included in a plan of exploration or a plan of development for any unit on
27 May 13, 2003.

28 (c) To be eligible for a 20 percent production tax credit, exploration
29 expenditures must

30 (1) qualify under (b) of this section; and

31 (2) be for an exploration well that is located and drilled in such a

Amend.
#1
deleted
"cementing"

1 manner that the bottom hole is located not less than three miles away from the bottom
2 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this
3 paragraph, "preexisting" means a well that was spudded not less than 150 days before
4 the exploration well was spudded;

5 (d) To be eligible for an additional 20 percent production tax credit, an
6 exploration expenditure must

7 (1) qualify under (b) of this section; and

8 (2) be for an exploration well that is located not less than 25 miles
9 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a
10 plan of development.

11 (e) To be eligible for the 40 percent production tax credit in (a) of this section,
12 the exploration expenditure must

13 (1) qualify under (b) of this section;

14 (2) be for seismic exploration; and

15 (3) have been conducted outside the boundaries of a production unit or
16 an exploration unit; however, the amount of the expenditure that is otherwise eligible
17 under this subsection is reduced proportionately by the portion of the seismic
18 exploration activity that crossed into a production unit or an exploration unit.

19 (f) For a production tax credit under this section,

20 (1) an explorer shall, in a form prescribed by the department, claim the
21 credit and submit information sufficient to demonstrate to the department's satisfaction
22 that the claimed exploration expenditures qualify under this section;

23 (2) an explorer shall agree, in writing,

24 (A) to notify the Department of Natural Resources, within 30
25 days after completion of seismic or geophysical data processing or completion
26 of a well for which exploration costs are claimed, of the date of completion and
27 submit a report to that department describing the processing sequence and
28 providing a list of data sets available;

29 (B) to provide to the Department of Natural Resources, within
30 30 days after the date of a request, specific data sets, ancillary data, and reports
31 identified in (A) of this paragraph;

1 (C) that, notwithstanding any provision of AS 38, information
2 provided under this paragraph will be held confidential by the Department of
3 Natural Resources for 10 years following the completion date, at which time
4 that department will release the information after 30 days' public notice;

5 (3) if the claimed expenditures are for an exploration well and if more
6 than one explorer holds an interest in that well, each explorer may claim an amount of
7 credit that is proportional to the explorer's interest in the exploration well;

8 (4) the department may exercise the full extent of its powers as though
9 the explorer were a taxpayer under this title, in order to verify that the claimed
10 expenditures are qualified exploration expenditures under this section; and

11 (5) if the department is satisfied that the explorer's claimed
12 expenditures are qualified under this section, the department shall issue to the explorer
13 a production tax credit certificate for the amount of credit to be allowed against
14 production taxes due under this chapter.

15 (g) An explorer may transfer, convey, or sell its production tax credit
16 certificate to any person, and any person who receives a production tax credit
17 certificate may also transfer, convey, or sell the certificate.

18 (h) A producer that purchases a production tax credit certificate may apply the
19 credits against its production tax liability under this chapter. Regardless of the price
20 the producer paid for the certificate, the producer may receive a credit against its
21 production tax liability for the full amount of the credit, but for not more than the
22 amount for which the certificate is issued. A production tax credit allowed under this
23 section may not be applied more than once.

24 (i) For a production tax credit under this section,

25 (1) the amount of the credit that may be applied against the production
26 tax for each tax month may not exceed the total production tax liability of the taxpayer
27 applying the credit for the same month; and

28 (2) an amount of the production tax credit that is greater than the total
29 tax liability of the taxpayer applying the credit for a tax month may be carried forward
30 and applied against the taxpayer's production tax liability in one or more immediately
31 following months.

1 (j) Notwithstanding any other provision of this title, of AS 31.05, or of
2 AS 40.25.100, the department shall provide to the Department of Natural Resources
3 information submitted with a claim under this section to support the eligibility of an
4 exploration expenditure, including seismic exploration data and well data, and any
5 information described in (f)(2) of this section received by the department.

6 (k) In this section, "explorer" means a person who, in exploring for new oil or
7 gas reserves, incurs expenditures.



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 14 May 2003 TIME: 10:50 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 2

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
CS SB 185 23-LS0926\5
Chenoweth 5/14/03
plus attached amendment

SENATE FINANCE COMMITTEE
5/14/2003 COMMITTEE ACTION

| | | | |
|-----------------------------------|--------------------|--------------------|----------|
| Bill Number | SB 185 | | |
| Amendment | CS 8"5" as amended | | |
| Motion | report out | | |
| <u>Motion by</u> | Taylor | | |
| <u>Objection by</u> | Taylor | | |
| <u>Removed</u> | ✓ | | |
| <u>Second Objection by</u> | | | |
| <u>Committee Member</u> | Y | <u>Vote</u> | N |
| Senator Stevens | | | |
| Senator Taylor | | | |
| Senator Bunde | | | |
| Senator Hoffman | | | |
| Senator Olson | | | |
| Co-Chair Green | | | |
| Co-Chair Wilken | | | |
| | | | |
| <u>Tally</u> | | | |
| Yea | | | |
| Nay | | | |
| Absent | | | |
| | | | |
| <u>MOTION</u> | | | |

adopted 5/13/03

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-LS0926\Q
Chenoweth
5/13/03

CS FOR SENATE BILL NO. 185()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATOR WAGONER

A BILL

FOR AN ACT ENTITLED

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

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

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

7 (j) The commission shall certify to the Department of Natural Resources the
8 volume of oil production from a field or platform for the purposes of
9 AS 38.05.180(f)(5)(A), (C), (E), and (G).

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

11 (6) notwithstanding and in lieu of a requirement in the leasing method
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
13 unitized as described in (p) of this section, leases subject to an agreement described in
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

L

1 an oil field located offshore in Cook Inlet on which an oil production platform
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
6 day declines to less than that amount for a period of at least one calendar
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
8 as long as the volume of oil produced from the platform remains less than
9 1,200 barrels a day; the provisions of this subparagraph apply to

- 10 (i) Dolly;
11 (ii) Grayling;
12 (iii) King Salmon;
13 (iv) Steelhead; and
14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the
16 volume of oil produced from the platform that was certified by the Alaska Oil
17 and Gas Conservation Commission under (A) of this paragraph later increases
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
19 period of at least one calendar quarter; until the royalty rate determined under
20 this subparagraph applies, the royalty continues to be calculated under (A) of
21 this paragraph; on and after the first day of the month following the month the
22 increased production exceeds the period specified in this subparagraph, the
23 royalty payable under this subparagraph is

- 24 (i) for production of at least 1,200 barrels a day but not
25 more than 1,300 barrels a day - seven percent;
26 (ii) for production of more than 1,300 barrels a day but
27 not more than 1,400 barrels a day - 8.5 percent;
28 (iii) for production of more than 1,400 barrels a day but
29 not more than 1,500 barrels a day - 10 percent; and
30 (iv) for production of more than 1,500 barrels a day -
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the
2 platform if oil production that equaled or exceeded a volume of 975 barrels a
3 day declines to less than that amount for a period of at least one calendar
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
5 as long as the volume of oil produced from the platform remains less than 975
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;
8 (ii) Dillon;
9 (iii) XTO.A; and
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the
12 volume of oil produced from the platform that was certified by the Alaska Oil
13 and Gas Conservation Commission under (C) of this paragraph later increases
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a
15 period of at least one calendar quarter; until the royalty rate determined under
16 this subparagraph applies, the royalty continues to be calculated under (C) of
17 this paragraph; on and after the first day of the month following the month the
18 increased production exceeds the period specified in this subparagraph, the
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not
21 more than 1,100 barrels a day - seven percent;
22 (ii) for production of more than 1,100 barrels a day but
23 not more than 1,200 barrels a day - 8.5 percent;
24 (iii) for production of more than 1,200 barrels a day but
25 not more than 1,350 barrels a day - 10 percent; and
26 (iv) for production of more than 1,350 barrels a day -
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the
29 platform if oil production that equaled or exceeded a volume of 750 barrels a
30 day declines to less than that amount for a period of at least one calendar
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the
7 volume of oil produced from the platform that was certified by the Alaska Oil
8 and Gas Conservation Commission under (E) of this paragraph later increases
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a
10 period of at least one calendar quarter; until the royalty rate determined under
11 this subparagraph applies, the royalty continues to be calculated under (E) of
12 this paragraph; on and after the first day of the month following the month the
13 increased production exceeds the period specified in this subparagraph, the
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the
24 field if oil production that equaled or exceeded a volume of 750 barrels a day
25 declines to less than that amount for a period of at least one calendar quarter,
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long
27 as the volume of oil produced from the field remains less than 750 barrels a
28 day; the provisions of this subparagraph apply to the West McArthur River
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to
2 750 or more barrels a day and remains at 750 or more barrels a day for a period
3 of at least one calendar quarter; until the royalty rate determined under this
4 subparagraph applies, the royalty continues to be calculated under (G) of this
5 paragraph; on and after the first day of the month following the month the
6 increased production exceeds the period specified in this subparagraph, the
7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not
9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but
11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but
13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -
15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in
17 (A) - (H) of this paragraph only if the commission determines that the
18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the
20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due
22 to mechanical or other choke-back factors, temporary shutdowns or
23 decreased production due to environmental or facility constraints, or
24 market conditions.

25 * **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms
27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a
28 credit against the tax due under this chapter is allowed in an amount equal to 20
29 percent of the total exploration expenditures that qualify under (b) and (c) of this
30 section and an additional 20 percent of the total exploration expenditures that qualify
31 under (b) and (d) of this section, or in an amount equal to 40 percent of the total

1 exploration expenditures that qualify under (b) and (e) of this section, for a total
2 production tax credit that does not exceed 40 percent of the total qualified exploration
3 expenditures.

4 (b) To qualify for the production tax credit under (a) of this section, an
5 exploration expenditure must be incurred for work performed on or after July 1, 2003,
6 and before July 1, 2007, and

7 (1) may be for seismic or geophysical exploration costs not connected
8 with a specific well;

9 (2) if for an exploration well,

10 (A) must be incurred by an explorer that holds an interest in the
11 exploration well for which the production tax credit is claimed;

12 (B) may be for either an oil or gas discovery well or a dry hole;
13 and

14 (C) must be for goods, services, or rentals of personal property
15 reasonably required for the surface preparation, drilling, casing, and logging of
16 an exploration well, and, in the case of a dry hole, for the expenses required for
17 abandonment;

18 (3) may not be for testing, cementing, stimulation, or completion costs;
19 administration, supervision, engineering, or lease operating costs; geological or
20 management costs; community relations or environmental costs; taxes or other
21 payments to governments related to the well; or other costs that are generally
22 recognized as indirect costs or financing costs; and

23 (4) may not be incurred for an exploration well or seismic exploration
24 that is included in a plan of exploration or a plan of development for any unit in the
25 state at the time the expense is incurred.

26 (c) To be eligible for a 20 percent production tax credit, exploration
27 expenditures must

28 (1) qualify under (b) of this section; and

29 (2) be for an exploration well that is located and drilled in such a
30 manner that neither the bore hole nor any part of the bore hole is at any time located
31 less than three miles away from any part of a bore hole of a preexisting suspended,

1 completed, or abandoned oil or gas well.

2 (d) To be eligible for an additional 20 percent production tax credit, an
3 exploration expenditure must

4 (1) qualify under (b) of this section; and

5 (2) be for an exploration well that is located not less than 25 miles
6 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a
7 plan of development.

8 (e) To be eligible for the 40 percent production tax credit in (a) of this section,
9 the exploration expenditure must

10 (1) be for seismic exploration;

11 (2) qualify under (b) of this section; and

12 (3) have been conducted outside the boundaries of a production unit or
13 an exploration unit; however, the amount of the expenditure that is otherwise eligible
14 under this subsection is reduced proportionately by the portion of the seismic
15 exploration activity that crossed into a production unit or an exploration unit.

16 (f) For a production tax credit under this section,

17 (1) an explorer shall, in a form prescribed by the department, claim the
18 credit and submit information sufficient to demonstrate to the department's satisfaction
19 that the claimed exploration expenditures qualify under this section;

20 (2) an explorer shall agree, in writing,

21 (A) to notify the Department of Natural Resources, within 30
22 days after completion of seismic or geophysical data processing for a well for
23 which exploration costs are claimed, of the date of completion and submit a
24 report to that department describing the processing sequence and providing a
25 list of data sets available;

26 (B) to provide to the Department of Natural Resources, within
27 30 days after the date of a request, specific data sets, ancillary data, and reports
28 identified in (A) of this paragraph;

29 (C) that, notwithstanding any provision of AS 38, information
30 provided under this paragraph will be held confidential by the Department of
31 Natural Resources for 10 years following the completion date, at which time

1 that department will release the information after 30 days' public notice;

2 (3) if the claimed expenditures are for an exploration well and if more
3 than one explorer holds an interest in that well, each explorer may claim an amount of
4 credit that is proportional to the explorer's interest in the exploration well;

5 (4) the department may exercise the full extent of its powers as though
6 the explorer were a taxpayer under this title, in order to verify that the claimed
7 expenditures are qualified exploration expenditures under this section; and

8 (5) if the department is satisfied that the explorer's claimed
9 expenditures are qualified under this section, the department shall issue to the explorer
10 a production tax credit certificate for the amount of credit to be allowed against
11 production taxes due under this chapter.

12 (g) An explorer may transfer, convey, or sell its production tax credit
13 certificate to any person, and any person who receives a production tax credit
14 certificate may also transfer, convey, or sell the certificate.

15 (h) A producer that purchases a production tax credit certificate may apply the
16 credits against its production tax liability under this chapter. Regardless of the price
17 the producer paid for the certificate, the producer may receive a credit against its
18 production tax liability for the full amount of the credit, but for not more than the
19 amount for which the certificate is issued. A production tax credit allowed under this
20 section may not be applied more than once.

21 (i) For a production tax credit under this section,

22 (1) the amount of the credit that may be applied against the production
23 tax for each tax month may not exceed the total production tax liability of the taxpayer
24 applying the credit for the same month; and

25 (2) an amount of the production tax credit that is greater than the total
26 tax liability of the taxpayer applying the credit for a tax month may be carried forward
27 and applied against the taxpayer's production tax liability in one or more immediately
28 following months.

29 (j) Notwithstanding any other provision of this title, of AS 31.05, or of
30 AS 40.25.100, the department shall provide to the Department of Natural Resources
31 information submitted with a claim under this section to support the eligibility of an

1 exploration expenditure, including seismic exploration data and well data, and any
2 information described in (f)(2) of this section received by the department.

3 (k) In this section, "explorer" means a person who, in exploring for new oil or
4 gas reserves, incurs expenditures.

Adopted 5/14/03

(and amended)
WORK DRAFT

23-LS0926\S

Chenoweth

5/14/03

CS FOR SENATE BILL NO. 185()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

**Offered:
Referred:**

Sponsor(s): SENATOR WAGONER

A BILL

FOR AN ACT ENTITLED

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

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

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

7 (j) The commission shall certify to the Department of Natural Resources the
8 volume of oil production from a field or platform for the purposes of
9 AS 38.05.180(f)(6)(A), (C), (E), and (G).

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

11 (6) notwithstanding and in lieu of a requirement in the leasing method
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
13 unitized as described in (p) of this section, leases subject to an agreement described in
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

1 an oil field located offshore in Cook Inlet on which an oil production platform
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
6 day declines to less than that amount for a period of at least one calendar
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
8 as long as the volume of oil produced from the platform remains less than
9 1,200 barrels a day; the provisions of this subparagraph apply to

10 (i) Dolly;

11 (ii) Grayling;

12 (iii) King Salmon;

13 (iv) Steelhead; and

14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the
16 volume of oil produced from the platform that was certified by the Alaska Oil
17 and Gas Conservation Commission under (A) of this paragraph later increases
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
19 period of at least one calendar quarter; until the royalty rate determined under
20 this subparagraph applies, the royalty continues to be calculated under (A) of
21 this paragraph; on and after the first day of the month following the month the
22 increased production exceeds the period specified in this subparagraph, the
23 royalty payable under this subparagraph is

24 (i) for production of at least 1,200 barrels a day but not
25 more than 1,300 barrels a day - seven percent;

26 (ii) for production of more than 1,300 barrels a day but
27 not more than 1,400 barrels a day - 8.5 percent;

28 (iii) for production of more than 1,400 barrels a day but
29 not more than 1,500 barrels a day - 10 percent; and

30 (iv) for production of more than 1,500 barrels a day -
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the
2 platform if oil production that equaled or exceeded a volume of 975 barrels a
3 day declines to less than that amount for a period of at least one calendar
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
5 as long as the volume of oil produced from the platform remains less than 975
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;
8 (ii) Dillon;
9 (iii) XTO.A; and
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the
12 volume of oil produced from the platform that was certified by the Alaska Oil
13 and Gas Conservation Commission under (C) of this paragraph later increases
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a
15 period of at least one calendar quarter; until the royalty rate determined under
16 this subparagraph applies, the royalty continues to be calculated under (C) of
17 this paragraph; on and after the first day of the month following the month the
18 increased production exceeds the period specified in this subparagraph, the
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not
21 more than 1,100 barrels a day - seven percent;
22 (ii) for production of more than 1,100 barrels a day but
23 not more than 1,200 barrels a day - 8.5 percent;
24 (iii) for production of more than 1,200 barrels a day but
25 not more than 1,350 barrels a day - 10 percent; and
26 (iv) for production of more than 1,350 barrels a day -
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the
29 platform if oil production that equaled or exceeded a volume of 750 barrels a
30 day declines to less than that amount for a period of at least one calendar
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the
7 volume of oil produced from the platform that was certified by the Alaska Oil
8 and Gas Conservation Commission under (E) of this paragraph later increases
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a
10 period of at least one calendar quarter; until the royalty rate determined under
11 this subparagraph applies, the royalty continues to be calculated under (E) of
12 this paragraph; on and after the first day of the month following the month the
13 increased production exceeds the period specified in this subparagraph, the
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the
24 field if oil production that equaled or exceeded a volume of 750 barrels a day
25 declines to less than that amount for a period of at least one calendar quarter,
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long
27 as the volume of oil produced from the field remains less than 750 barrels a
28 day; the provisions of this subparagraph apply to the West McArthur River
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to
2 750 or more barrels a day and remains at 750 or more barrels a day for a period
3 of at least one calendar quarter; until the royalty rate determined under this
4 subparagraph applies, the royalty continues to be calculated under (G) of this
5 paragraph; on and after the first day of the month following the month the
6 increased production exceeds the period specified in this subparagraph, the
7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not
9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but
11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but
13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -
15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in
17 (A) - (H) of this paragraph only if the commission determines that the
18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the
20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due
22 to mechanical or other choke-back factors, temporary shutdowns or
23 decreased production due to environmental or facility constraints, or
24 market conditions.

25 * **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms
27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a
28 credit against the tax due under this chapter is allowed in an amount equal to

29 (1) 20 percent of the total exploration expenditures that qualify under
30 (b) and (c) of this section, 20 percent of the total exploration expenditures that qualify
31 under (b) and (d) of this section, or both, for a total credit that does not exceed 40

1 percent of the total exploration expenditures; or

2 (2) 40 percent of the total exploration expenditures that qualify under
3 (b) and (e) of this section, for a total production tax credit that does not exceed 40
4 percent of the total qualified exploration expenditures.

5 (b) To qualify for the production tax credit under (a) of this section, an
6 exploration expenditure must be incurred for work performed on or after July 1, 2003,
7 and before July 1, 2007, and

8 (1) may be for seismic or geophysical exploration costs not connected
9 with a specific well;

10 (2) if for an exploration well,

11 (A) must be incurred by an explorer that holds an interest in the
12 exploration well for which the production tax credit is claimed;

13 (B) may be for either an oil or gas discovery well or a dry hole:
14 and

15 (C) must be for goods, services, or rentals of personal property
16 reasonably required for the surface preparation, drilling, casing, cementing,
17 and logging of an exploration well, and, in the case of a dry hole, for the
18 expenses required for abandonment if the well is abandoned within 18 months
19 after the date the well was spudded;

20 (3) may not be for testing, cementing, stimulation, or completion costs;
21 administration, supervision, engineering, or lease operating costs; geological or
22 management costs; community relations or environmental costs; bonuses, taxes, or
23 other payments to governments related to the well; or other costs that are generally
24 recognized as indirect costs or financing costs; and

25 (4) may not be incurred for an exploration well or seismic exploration
26 that is included in a plan of exploration or a plan of development for any unit on
27 May 13, 2003.

28 (c) To be eligible for a 20 percent production tax credit, exploration
29 expenditures must

30 (1) qualify under (b) of this section; and

31 (2) be for an exploration well that is located and drilled in such a

1 manner that the bottom hole is located not less than three miles away from the bottom
2 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this
3 paragraph, "preexisting" means a well that was spudded not less than 150 days before
4 the exploration well was spudded;

5 (d) To be eligible for an additional 20 percent production tax credit, an
6 exploration expenditure must

7 (1) qualify under (b) of this section; and

8 (2) be for an exploration well that is located not less than 25 miles
9 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a
10 plan of development.

11 (e) To be eligible for the 40 percent production tax credit in (a) of this section,
12 the exploration expenditure must

13 (1) qualify under (b) of this section;

14 (2) be for seismic exploration; and

15 (3) have been conducted outside the boundaries of a production unit or
16 an exploration unit; however, the amount of the expenditure that is otherwise eligible
17 under this subsection is reduced proportionately by the portion of the seismic
18 exploration activity that crossed into a production unit or an exploration unit.

19 (f) For a production tax credit under this section,

20 (1) an explorer shall, in a form prescribed by the department, claim the
21 credit and submit information sufficient to demonstrate to the department's satisfaction
22 that the claimed exploration expenditures qualify under this section;

23 (2) an explorer shall agree, in writing,

24 (A) to notify the Department of Natural Resources, within 30
25 days after completion of seismic or geophysical data processing or completion
26 of a well for which exploration costs are claimed, of the date of completion and
27 submit a report to that department describing the processing sequence and
28 providing a list of data sets available;

29 (B) to provide to the Department of Natural Resources, within
30 30 days after the date of a request, specific data sets, ancillary data, and reports
31 identified in (A) of this paragraph;

1 (C) that, notwithstanding any provision of AS 38, information
2 provided under this paragraph will be held confidential by the Department of
3 Natural Resources for 10 years following the completion date, at which time
4 that department will release the information after 30 days' public notice;

5 (3) if the claimed expenditures are for an exploration well and if more
6 than one explorer holds an interest in that well, each explorer may claim an amount of
7 credit that is proportional to the explorer's interest in the exploration well;

8 (4) the department may exercise the full extent of its powers as though
9 the explorer were a taxpayer under this title, in order to verify that the claimed
10 expenditures are qualified exploration expenditures under this section; and

11 (5) if the department is satisfied that the explorer's claimed
12 expenditures are qualified under this section, the department shall issue to the explorer
13 a production tax credit certificate for the amount of credit to be allowed against
14 production taxes due under this chapter.

15 (g) An explorer may transfer, convey, or sell its production tax credit
16 certificate to any person, and any person who receives a production tax credit
17 certificate may also transfer, convey, or sell the certificate.

18 (h) A producer that purchases a production tax credit certificate may apply the
19 credits against its production tax liability under this chapter. Regardless of the price
20 the producer paid for the certificate, the producer may receive a credit against its
21 production tax liability for the full amount of the credit, but for not more than the
22 amount for which the certificate is issued. A production tax credit allowed under this
23 section may not be applied more than once.

24 (i) For a production tax credit under this section,

25 (1) the amount of the credit that may be applied against the production
26 tax for each tax month may not exceed the total production tax liability of the taxpayer
27 applying the credit for the same month; and

28 (2) an amount of the production tax credit that is greater than the total
29 tax liability of the taxpayer applying the credit for a tax month may be carried forward
30 and applied against the taxpayer's production tax liability in one or more immediately
31 following months.

1 (j) Notwithstanding any other provision of this title, of AS 31.05, or of
2 AS 40.25.100, the department shall provide to the Department of Natural Resources
3 information submitted with a claim under this section to support the eligibility of an
4 exploration expenditure, including seismic exploration data and well data, and any
5 information described in (f)(2) of this section received by the department.

6 (k) In this section, "explorer" means a person who, in exploring for new oil or
7 gas reserves, incurs expenditures.



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.

SS SB 185 S(FIN) 5-08-03 mj

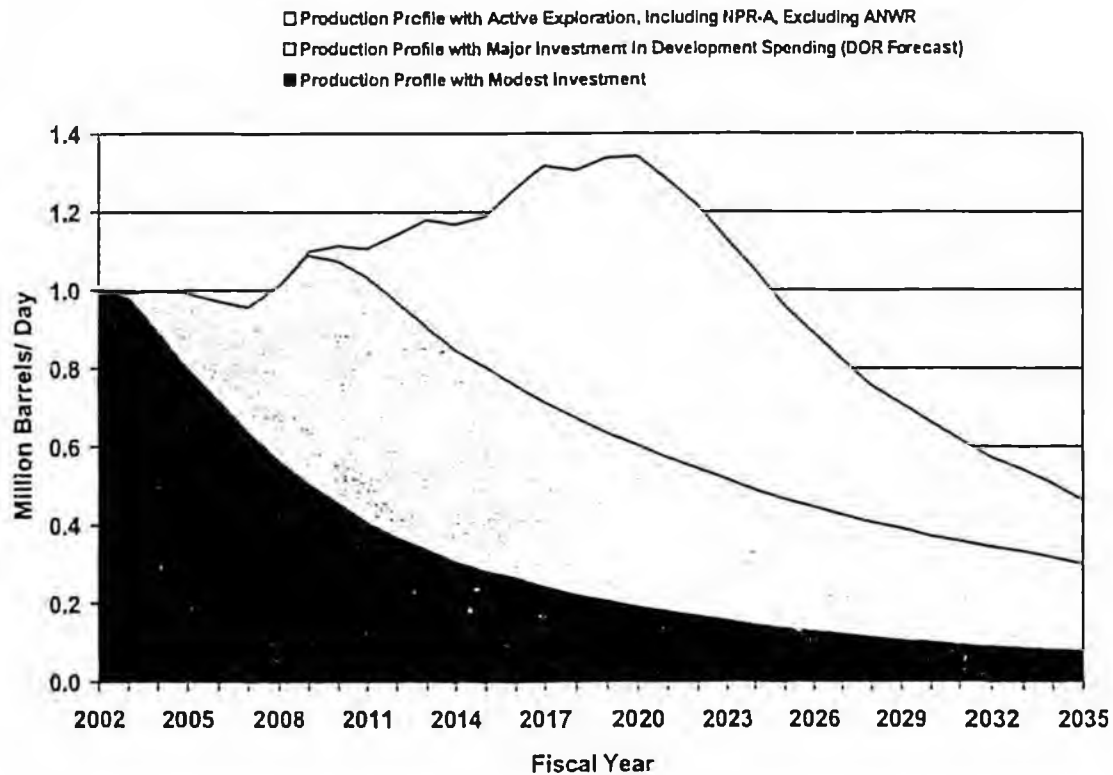
Provided by
 Senator Wilkie
 5/13/03

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 |

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



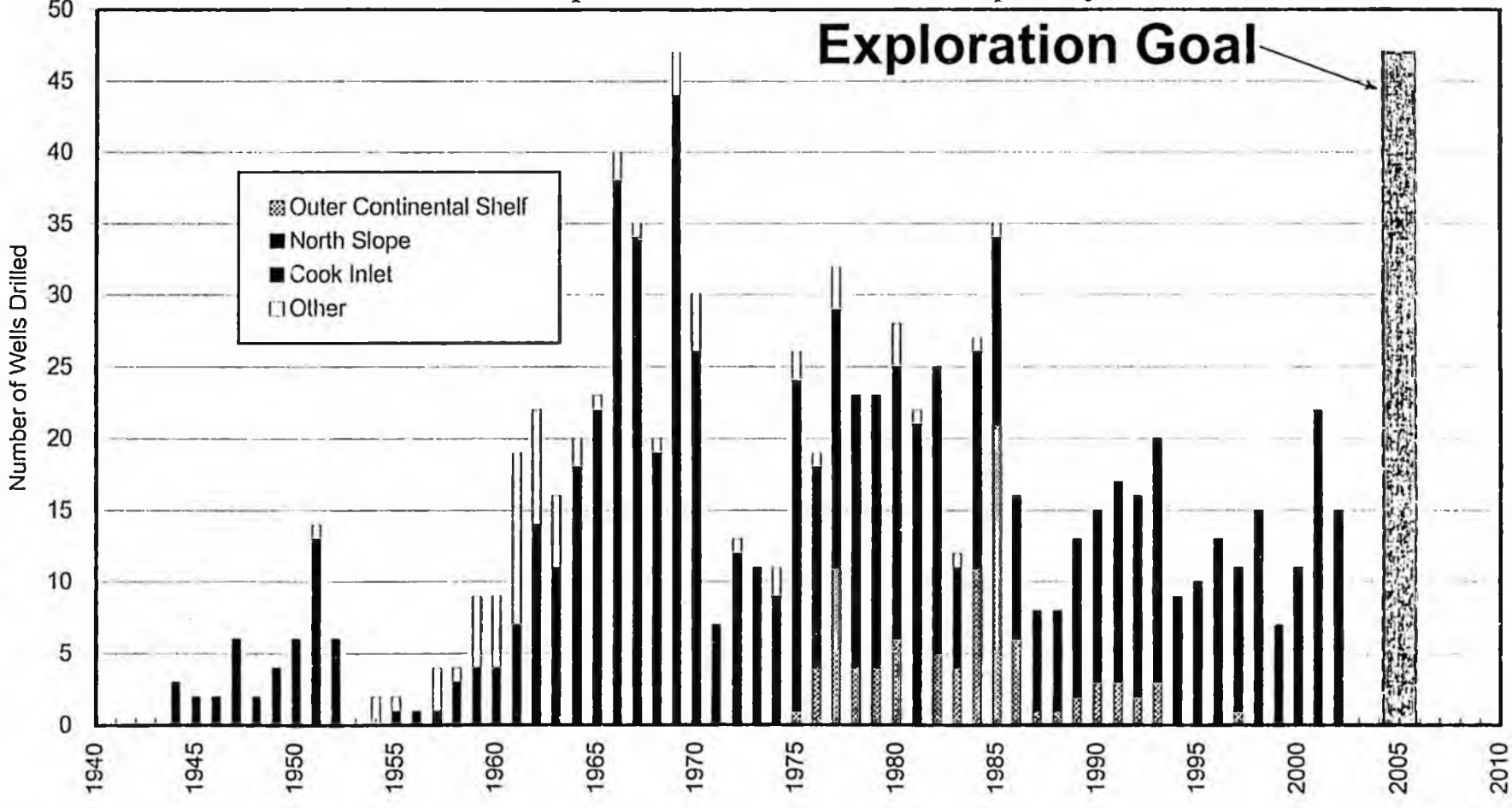
For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already 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.

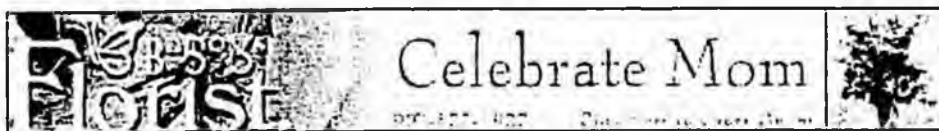
(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.

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

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Anchorage Daily News

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BP expects new data to improve oil exploration**PRUDHOE BAY: Seismic survey will update information gathered earlier and areas never studied.**By KRISTEN NELSON
Petroleum News*(Published: May 8, 2003)*

BP Exploration (Alaska) Inc. has completed a seismic survey over most of the Prudhoe Bay reservoir, updating seismic data from the 1980s and '90s, and shooting areas at Deadhorse never before surveyed.

Gordon Pospisil, field-wide depletion and forecasting manager for Greater Prudhoe Bay, said that even though the company had seismic data over most of the area, it was older technology.

Newer technology uses a network of geophones, Pospisil said, and "you get information from all the different angles ... that allows you to build a three-dimensional picture of these layers."

In the past, he said, we might be able to see something -- like a fault -- as little as 80-feet thick, but using new technology and a higher density of signal receivers, "now we can see something that's down in the 40- to 50-foot thick zone."

The new seismic data will help BP better understand what the remaining oil targets are throughout Prudhoe Bay, Pospisil said.

The seismic survey has just been completed, he said, and between now and September it will be processed and used to create new cross sections and maps. After that, he said, "we'll be generating field-wide maps and starting to influence the wells that we're drilling."

"We'll have on the order of 200 wells that will benefit from this new, improved picture," Pospisil said. "We'll drill better and different wells than we would have without the data."

Those penetrations, which Pospisil characterized as "200 -- plus or minus 50," will be drilled over the next five to eight years.

The purpose of the survey, he said, is to improve the quality of future wells. BP has been drilling 50 to 70 new wells a year in Prudhoe Bay, mostly sidetracking wells that have played out or have reached low oil rates either because natural gas has migrated to the well bore or water has broken through from offset water injectors.

"So we're actually sidetracking to new targets within the same region where we can identify higher oil saturation," Pospisil said.

Prudhoe has about 1,300 wells.

The seismic survey covered 180 square miles and included all of the facilities at Prudhoe Bay and the Deadhorse Airport, which has never been surveyed because of logistics problems involving airport operations. Seismic surveys were also shot through the town of Deadhorse itself, where many oil-service companies are based.

Pospisil estimates that the unsurveyed area was probably 600 to 800 acres, "several well spacings where we didn't have information."

Since this is all within Prudhoe Bay and within the footprint of the existing facilities, targets identified can be reached from existing pads. The improved imaging, he said, "lends itself to what we now understand is a game of pursuing smaller and smaller targets ... the remaining interval areas that haven't been swept effectively."

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Modest interest expressed during oil, gas lease sale

TRACTS: Companies spend nearly \$1 million for 119,440 acres.

By RICHARD RICHTMYER
Anchorage Daily News

(Published: May 8, 2003)

A sale of oil and gas leases in Cook Inlet and the North Slope Foothills drew moderate interest Wednesday as companies and independent speculators bid \$923,675 for 28 tracts covering 109,440 acres.

All but one of the tracts were in and around Cook Inlet, where Prodigy Alaska was the high bidder, picking up seven of them for \$415,385. Forest Oil, Marathon Oil, Pelican Hill Oil & Gas and Unocal also bought leases, as did four groups of independent investors.

"Those are the major players in Cook Inlet," said James Hansen, lease sales manager at the state Oil and Gas Division, which conducted the sale.

The state holds oil and gas sales each year, putting all the acreage that's not under lease up for bids.

Bidding was scattered for tracts all through the Inlet, both offshore and onshore, and most of the larger ones were adjacent to areas already claimed.

For its part, Prodigy Alaska bought seven leases covering 20,000 acres in the northern part of the Inlet to add to the 10,200 acres it picked up two years ago, according to Mark Landt, vice president of land and new-business development for the Dallas-based company.

The leases Prodigy now holds, in an area it calls the Northern Lights Anticline, had been held by Arco and Phillips in the early 1990s, and 16 wells have been drilled in the region over the past 40 years, according to Landt.

Forest Oil picked up three tracts for a total of \$56,396.

One of them is onshore near its off-shore Redoubt Shoal field, according to Gary Carlson, Forest Oil's senior vice president in charge of Alaska operations.

Redoubt Shoal, near the Kustatan River on the Inlet's west shore, is thought to contain more than 100 million barrels of oil, making it one of the most significant discoveries in years.

The two other tracts are north of Forest Oil's prospect in Middle Ground Shoal, which is eastern Cook Inlet about 10 miles north of Nikiski, Carlson said.

Independent speculators picked up 12 tracts.

Dan Donkel, who held the leases for the Redoubt Shoal field until he sold them in 1996, said he won nine out of the 10 tracts he bid for, and he picked them all up for \$5 an acre, which is the lowest allowable bid.

"I had a real good day," Donkel said.

Three of the tracts Donkel won were onshore, directly south of the Kenai gas fields. He also bought the leases for a series of tracts along the north coast of Nikiski.

Only one lease sold Wednesday was in the North Slope Foothills, where EnCana Oil & Gas was the sole bidder, picking up 5,760 acres for \$36,576.

Wednesday was the third time the state has sold leases in the North Slope Foothills, according to Hansen. The first was in 2001, when it sold 170 tracts. Last year, oil explorers bought 46 tracts, he said.

Anadarko and PetroCanada are the largest lease holders.

The area, on the north side of the Brooks Range between the Gates of the Arctic National Park and the Arctic National Wildlife Reserve, is thought to have large reserves of natural gas.

The tempered interest in Wednesday's sale could be because of limitations in the amount of leases any single company can hold, and uncertainty about whether and when a proposed multibillion-dollar North Slope natural gas pipeline will be built, Hansen said.

Daily News reporter Richard Richtmyer can be reached at richtmyer@adn.com or 257-4344.

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ALASKA STATE LEGISLATURE

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

SECTIONAL ANALYSIS SB - 185: ROYALTY REDUCTION ON CERTAIN OIL

Section 1. Amends existing statute by inserting new subsection (6) for certain platforms in Cook Inlet.

- (6) Provides for lessee operating in certain cook inlet fields to
- (A) Pay royalty of 5% if production that equaled or exceeded 1,200 barrels a day declines to less than that for at least one quarter, for platforms:
 - (i) Dolly;
 - (ii) Grayling
 - (iii) King Salmon;
 - (iv) Steelhead; and
 - (v) Monopod;
 - (B) Pay royalty on (A) according to following schedule if volume later increases to 1,200 or more barrels a day and remains there for a least one quarter
 - (i) 7% for 1,200 to 1,300 barrels per day
 - (ii) 8.5% for 1,300 to 1,400 barrels per day
 - (iii) 10% for 1,400 to 1,500 barrels per day
 - (iv) 12.5% for more than 1,500 barrels per day
 - (C) Pay royalty of 5% if production that equaled or exceeded 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, for platforms:
 - (i) Granite Point;
 - (ii) Anna;
 - (iii) Bruce;
 - (iv) Baker;
 - (v) Dillon;
 - (vi) XTO.A; and
 - (vii) XTO.C;

SA CSSB 185 – continued

- (D) Pay royalty on (C) according to following schedule if volume later increases to 750 or more barrels a day and remains there for at least one quarter,
 - (i) 7% for 750 to 850 barrels per day
 - (ii) 8.5% for 850 to 1,000 barrels per day
 - (iii) 10% for 1,000 to 1,200 barrels per day
 - (iv) 12.5% for more than 1,200 barrels per day

- (E) Pay royalty of 5% if production that equaled or exceeded 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, for the West McArthur River field;

- (F) Pay royalty on rigs in (E) according to following schedule if volume later increases to 750 or more barrels a day and remains there for at least one quarter,
 - (i) 7% for 750 to 850 barrels per day
 - (ii) 8.5% for 850 to 1,000 barrels per day
 - (iii) 10% for 1,000 to 1,200 barrels per day
 - (iv) 12.5% for more than 1,200 barrels per day

- (G) Specific requirement for obtaining royalty adjustment only when production reduction is calculated on:
 - (i) Average daily production during calendar quarter, based on reservoir conditions, and
 - (ii) No considering productions declines for mechanical or other temporary shutdowns, or market conditions.

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 99301-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 13, 2003

SUBJECT: Draft CSSB 185 () (Work Order No. 23-LS0926\Q)

TO: Senator Tom Wagoner

FROM: Jack Chenoweth
Assistant Revisor of Statutes

This draft incorporates amendments I.1, I.2, the content of my memo to Senate Finance Co-Chairs Green and Wilken on which you were copied, and the content of an amendment setting out new material that was provided by the Department of Law/Governor's Office and dated 5/13/03 at 10:10 a.m.

The amendments and memo were incorporated into the draft amended only to maintain consistency of subparagraph references.

The Department of Law/Governor's Office material is incorporated substantially as offered. The second clause of the bill title covers the addition of the new material and sets out the full name of the tax, the provisions of which are amended. The remainder of the material supplied appears as new bill section 3, in which

-- I changed the section designation to "AS 43.55.025" in order to keep available the section number as assigned in the material available for future use for other amendments bearing on the severance tax;

-- in subsection (a), I changed the "production start" date to refer to production "on or after" the date indicated so that activity undertaken on that first day qualifies;

-- in subsection (b), the "start" date for the credit is revised to read "work performed *on or* after July 1, 2003, and before *July 1, 2007*," so that activity undertaken on the first-referenced date supports the claim of the credit but not activity undertaken on the last-referenced.

Other changes are made to conform to provisions of the Drafting Manual and are not intended to alter substantive meaning.

I did not change date references. *It seems to me that the "July 1, 2004" reference at page 5, line 26, may be inconsistent with the "July 1, 2003" reference appearing on*

Senator Tom Wagoner

May 13, 2003

Page 2

page 6, line 3, and that the earlier reference should be conformed, but that is the Governor's office's call.

Do you want to include in the bill any provision addressing the right of an explorer or a purchaser of the credit to use any remaining portion of the credit after June 30, 2007, the last day on which qualifying activity may be taken to support the claim of the credit?

JBC:med

03-530.med

SITE: OFFNETS

COMMITTEE: Senate Finance

DATE: 5/13/03

SUBJECT OF MEETING: HB185

UPDATE #: 1



PLEASE SIGN IN

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ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

| P R I N T YOUR NAME | ADDRESS (MAILING & ZIP) | REPRESENTING | DO YOU WANT TO TESTIFY? Y or N |
|----------------------------|------------------------------------|---------------------|---|
| Doug Shultz | | | Y SB185 |
| Email address: | | | |
| Div. Oil & Gas | | | Answer Questions |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |

SITE: OFFNETS

COMMITTEE: Senate Finance

DATE: 5/13/03

SUBJECT OF MEETING: HB185

UPDATE #: 2



PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y OR N**

| P R I N T YOUR NAME | ADDRESS (MAILING & ZIP) | REPRESENTING | DO YOU WANT TO TESTIFY? Y OR N |
|----------------------------|------------------------------------|---------------------|---|
| ✓ Kevin Tabler | | | Y SB185 |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |
| | | | |
| Email address: | | | |

SENATE FINANCE COMMITTEE

SIGN-IN

SB 185-ROYALTY REDUCTION ON CERTAIN OIL

NAME: BILL CORBOS Subject/Bill No: 185

Co./Dept./Title: Comm, DEPT of REVI Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Dan Dickinson Subject/Bill No: 185

Co./Dept./Title: Director Tax Division, DOR Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

SB 185-ROYALTY REDUCTION ON CERTAIN OIL

NAME: Dan Dickensen Subject/Bill No: _____
Co./Dept./Title: Director, Tax Division Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: MARK MYERS Subject/Bill No: 185
Co./Dept./Title: DNR / OIL & GAS Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 4/11/03

FURTHER:

Date of 5-Day Notice: 24 Hour Rule
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 5-7-03

Resources Committee considered SENATE BILL NO. 185

SB 185 ROYALTY REDUCTION ON CERTAIN OIL

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land."

and recommends:

- be replaced with _____ CS SB 185 (RES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

| Department | Date | Fiscal | Zero | FN# |
|------------|--------|--------|------|-----|
| DNR | 5/7/03 | ✓ | | 1 |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

PREVIOUS FISCAL NOTE(S):

| Department | Date | Fiscal | Zero | FN# |
|------------|------|--------|------|-----|
| | | | | |
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| | | | | |
| | | | | |

APPROPRIATION - no fiscal note

Elton
Dyson
Lincoln
Wagoner
Seekins
B. Stevens
Ogan

| SIGNATURES AND RECOMMENDATIONS: | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|---------|-------------|--------|-------|
| <i>[Signature]</i> | | | ✓ | |
| <i>[Signature]</i> | | | ✓ | |
| <i>[Signature]</i> | | | ✓ | |
| <i>[Signature]</i> | ✓ | | | |
| <i>[Signature]</i> | ✓ | | | |
| <i>[Signature]</i> | ✓ | | | |
| CHAIR: <i>[Signature]</i> | ✓ | | | |

pg 7, line 2

delete:

"preexisting suspended"
+

"or abandoned"

following "well;"

insert:

certified by the
as capable of