

HB

246

SENATE COMMITTEE REPORT

DATE: 5/17/03

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 5-18-03

Resources Committee considered CS FOR HOUSE BILL NO. 246(RES)(title am)

HB 246 LIMIT ON OIL & GAS LEASE ACREAGE

"An Act relating to certain audits regarding oil and gas royalty and net profits, to audits regarding costs relating to exploration incentive credits and oil and gas exploration licenses, and to the limitation on upland acreage that a person may take or hold under oil and gas leases; and providing for an effective date."

and recommends:

be replaced with 5 CS CS HB 246 (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	5/14/03		✓	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>Paul Byrne</i>			✓	
<i>Ben [unclear]</i>			✓	
<i>Ben [unclear]</i>	✓			
CHAIR: <i>Scott [unclear]</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CS HB 246 (RES)
 () Publish Date: _____

Revision Date/Time (Note if correction): 5/14/2003 Dept. Affected: Natural Resources
 Title Limit on Oil & Gas Lease Acreage BRU Resource Development
 Component Oil and Gas Development
 Sponsor House Rules
 Requester House Rules 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)						
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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
 Mark 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)

By increasing the maximum onshore acreage to 750,000 but limiting the 250,000 acreage increase to south of the Umiat Meridian Baseline, companies would be able to lease and explore acreage in some of Alaska's frontier basins while still maintaining their interests on the North Slope.

No increase in cost to the state is expected as a result of the transfer of the auditor functions from DOR to DNR. DOR will RSA the funds to DNR for FY04. DOR will do a budget transfer for FY05.

Prepared by: Mark D. Myers Phone 269-8800
 Division Oil and Gas Date/Time 5/14/2003
 Approved by: Tom Irwin, Commissioner Date 5/14/2003
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: Draft
Bill Version: CSSB172 (RES) wkdr
() Publish Date: _____

Revision Date/Time (Note if correction): 5/15/2003 Dept. Affected: Natural Resources
Title Limit on Oil & Gas Lease Acreage BRU Resource Development
Component Oil and Gas Development
Sponsor Senate Rules
Requester Senate Resources 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)						
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FUND SOURCE (Thousands of Dollars)

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TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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:

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Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

By increasing the maximum onshore acreage to 750,000 but limiting the 250,000 acreage increase to south of the Umiat Meridian Baseline, companies would be able to lease and explore acreage in some of Alaska's frontier basins while still maintaining their interests on the North Slope.

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Prepared by: Mark D. Myers Phone 269-8800
Division Oil and Gas Date/Time 5/15/2003
Approved by: Tom Irwin, Commissioner Date 5/15/2003
Agency Natural Resources



SENATOR SCOTT OGAN Alaska State Legislature

Senate District H Lazy Mountain * Butte * Chugiak * Peters Creek
Knik-Goose Bay * Big Lake * Houston * Willow * Talkeetna * Trapper Creek

State Capitol, Room 103, Juneau Alaska 99801 * (907) 465-3878 * 1 (800) 862-3878 * Fax (907) 465-3265
Senator_Scott_Ogan@legis.state.ak.us Http://www.akrepublicans.org/ogan

FACSIMILE TRANSMITTAL SHEET

TO: LegLegal FROM: Linda Hay - In Res
COMPANY: Jack Chenoweth DATE: 5-18-03
FAX NUMBER: TOTAL NO. OF PAGES INCLUDING COVER: 3
PHONE NUMBER: RE: CS for HB246

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Please prepare & send over a
Senate Resources CS for
CS HB246(Res)(title am)
23-COH135\H.A

Attached are 2 amendments for
this bill. We will need the
draft ASAP - trying to hear it
@ 10:30 today & then it goes to
Senate Finance. Thank You

Room 103

AMENDMENT

OFFERED IN SENATE RESOURCES

BY _____

TO: CSHB 246(RES) (title am)

1 Page 3, lines 4 and 5, after "section":

2

3 Delete "is punishable by a fine of not more than \$5,000, by imprisonment for not
4 more than two years, or by both."

5

6 Insert "commits the crime of misuse of confidential information under AS
7 11.56.860."

8

— 1 year imprisonment
— \$10,000 fine
— Class A misdemeanor

AMENDMENT

OFFERED IN SENATE RESOURCES

BY _____

TO: CSHB 246(RES) (title am)

1 Page 4, line 10:

2 Delete "Meridian"

3

4

*move to
adopt
u.c. ✓ -Dyson*

23-GH1135I
Chenoweth
5/18/03

SENATE CS FOR CS FOR HOUSE BILL NO. 246(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to certain audits regarding oil and gas royalty and net profits, to audits
2 regarding costs relating to exploration incentive credits and oil and gas exploration
3 licenses, and to the limitation on upland acreage that a person may take or hold under
4 oil and gas leases; and providing for an effective date."

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

6 * Section 1. AS 38.05.036(a) is amended to read:

7 (a) The department may conduct audits regarding [DEPARTMENT OF
8 REVENUE SHALL AUDIT REPORTS, PAYMENTS, AND PAYMENTS DUE
9 RELATING TO] royalty and net profits under oil and gas contracts, agreements, or
10 leases under this chapter and regarding costs related to oil and gas exploration
11 licenses and exploration incentive credits under this chapter or under AS 41.09.
12 For purposes of audit under this section.

13 (1) the department may examine the books, papers, records, or
14 memoranda of a person regarding matters related to the audit; and

1 (2) the records and premises where a business is conducted shall
2 be open at all reasonable times for inspection by the department.

3 * Sec. 2. AS 38.05.036(b) is amended to read:

4 (b) The Department of Revenue may obtain from the department [INSPECT
5 ALL REPORTS AND OTHER] information [FILED IN SUPPORT OF OR] relating
6 to royalty and net profits payments and to exploration incentive credits under this
7 chapter or under AS 41.09, whether or not that information is confidential. The
8 Department of Revenue may use the information in carrying out its functions and
9 responsibilities under AS 43, and shall hold that information confidential to the
10 extent required by an agreement with the department or by AS 38.05.035(a)(9),
11 AS 41.09.010(d), [UNDER OIL AND GAS AGREEMENTS, CONTRACTS, OR
12 LEASES, OR BY THIS CHAPTER] or AS 43.05.230.

13 * Sec. 3. AS 38.05.036(c) is amended to read:

14 (c) The department may obtain from the Department of Revenue all
15 [ALL] information obtained under AS 43 [BY THE DEPARTMENT OF REVENUE]
16 relating to royalty and net profits and to exploration incentive credits. The
17 department may use the information for purposes of carrying out its
18 responsibilities and functions under this chapter and AS 41.09 [PAYMENTS,
19 INCLUDING INFORMATION OBTAINED UNDER AS 43, MAY BE MADE
20 AVAILABLE TO THE DEPARTMENT, IN THE FORM OF SUMMARIES AND,
21 WHEN IN FURTHERANCE OF THE DEPARTMENT'S ROYALTY AND NET
22 PROFITS FUNCTIONS, RELEVANT PORTIONS OF THE AUDITS]. Information
23 made available to the department that was obtained under AS 43 is confidential and
24 subject to the provisions of AS 43.05.230.

25 * Sec. 4. AS 38.05.036 is amended by adding new subsections to read:

26 (f) Except as otherwise provided in this section or in connection with official
27 investigations or proceedings of the department, it is unlawful for a current or former
28 officer, employee, or agent of the state to divulge information obtained by the
29 department as a result of an audit under this section that is required by an agreement
30 with the department or by AS 38.05.035(a)(9) or AS 41.09.010(d) to be kept
31 confidential.

1 (g) Nothing in this section prohibits the publication of statistics in a manner
2 that maintains the confidentiality of information to the extent required by an
3 agreement with the department or by AS 38.05.035(a)(9) or AS 41.09.010(d).

4 (h) A person who knowingly violates (f) of this section commits the crime of
5 misuse of confidential information under AS 11.56.860. In this subsection,
6 "knowingly" has the meaning given in AS 11.81.900.

7 (i) In the course of carrying out its responsibilities under this section, the
8 department may subpoena any person to appear and produce books, records, papers, or
9 memoranda bearing upon matters relating to an audit under this section and to give
10 testimony or answer interrogatories under oath regarding those matters. The
11 department may administer oaths to persons who are so subpoenaed. A subpoena
12 issued under this section may compel attendance of a witness or production of a
13 document or thing, located inside or outside the state, to the maximum extent
14 permitted by law.

15 (j) A subpoena may be served by the commissioner of public safety or a peace
16 officer designated by the commissioner of public safety, by a person designated by the
17 department, or as otherwise provided by law. A subpoena may also be served by
18 registered or certified mail for delivery restricted only to the person subpoenaed. The
19 return delivery receipt must be addressed so that the receipt is returned to the
20 department.

21 (k) If a person who is subpoenaed neglects or refuses to obey the subpoena
22 issued as provided in this section, the department may report the fact to the superior
23 court or the appropriate court of another jurisdiction, and may seek an order from the
24 court compelling obedience to the subpoena. The court, to the maximum extent
25 permitted by law, may compel obedience to the subpoena to the same extent as
26 witnesses may be compelled to obey the subpoenas of the court.

27 (l) The department may conduct audits under this section concurrently with
28 Department of Revenue audits or investigations under AS 43.

29 * Sec. 5. AS 38.05.140(c) is amended to read:

30 (c) A person may not take or hold at one time phosphate leases on state land
31 exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases

1 or permits during the life of sodium leases on state land exceeding in the aggregate
2 acreage 5,120 acres, except that the commissioner may, where it is necessary in order
3 to secure the economic mining of sodium compounds, permit a person to take or hold
4 sodium leases or permits for up to 15,360 acres. A person may not take or hold at any
5 one time oil or gas leases exceeding in the aggregate 500,000 acres granted on tide and
6 submerged land, including leases held both as lessee and under option or
7 operating agreement from others. A person may not take or hold at any one time
8 oil or gas leases exceeding in the aggregate 750,000 [AND 500,000] acres on all
9 land other than tide and submerged land, of which not more than 500,000 acres may
10 be located north of the Umiat baseline, including leases held both as lessee and
11 under option or operating agreement from others. Where more than a single person
12 holds an interest in an oil or gas lease, each person shall be charged only with that
13 percentage of the total acreage that [WHICH] corresponds to its percentage share of
14 the total beneficial interest in the lease.

15 * Sec. 6. AS 43.05.040(a) is amended to read:

16 (a) The department may examine the books, papers, records, or memoranda of
17 any person to ascertain the correctness of a return filed or to determine whether a tax
18 [OR A PAYMENT FOR OIL OR GAS ROYALTY OR NET PROFITS SHARES
19 UNDER A CONTRACT, AGREEMENT, OR LEASE UNDER AS 38.05] is due, or
20 in an investigation or inspection in connection with tax matters [OR MATTERS
21 RELATING TO OIL AND GAS ROYALTY OR NET PROFITS UNDER
22 CONTRACTS, AGREEMENTS, OR LEASES UNDER AS 38.05]. The records and
23 the premises where a business is conducted shall be open at all reasonable times for
24 official inspection, and the department may subpoena any person to appear and
25 produce books, records, papers, or memoranda bearing upon tax matters [OR
26 MATTERS RELATING TO OIL AND GAS ROYALTY OR NET PROFITS
27 UNDER CONTRACTS, AGREEMENTS, OR LEASES UNDER AS 38.05], and to
28 give testimony or answer interrogatories under oath respecting tax matters [OR
29 MATTERS RELATED TO OIL AND GAS ROYALTY OR NET PROFITS UNDER
30 CONTRACTS, AGREEMENTS, OR LEASES UNDER AS 38.05], and the
31 department may administer oaths to persons who are so subpoenaed. A subpoena

1 issued under this section may compel attendance of a witness or production of a
2 document or thing, located either inside or outside the state, to the maximum extent
3 permitted by law.

4 * Sec. 7. AS 43.05.230(a) is amended to read:

5 (a) It is unlawful for a current or former officer, employee, or agent of the
6 state to divulge the amount of income or the particulars set out or disclosed in a report
7 or return made under this title, except

8 (1) in connection with official investigations or proceedings of the
9 department, whether judicial or administrative, involving taxes due under this title;

10 (2) in connection with official investigations or proceedings of the
11 child support enforcement agency, whether judicial or administrative, involving child
12 support obligations imposed or imposable under AS 25 or AS 47;

13 (3) as provided in AS 38.05.036 pertaining to audit functions of the
14 Department of Natural Resources;

15 (4) as provided in AS 43.05.400 - 43.05.499; and

16 (5) as otherwise provided in this section.

17 * Sec. 8. AS 38.05.036(d), 38.05.036(e), and AS 43.05.010(15) are repealed.

18 * Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 TRANSITION. (a) Litigation, hearings, investigations, and other proceedings
21 pending under a law amended or repealed by secs. 1 - 4 and 6 - 8 of this Act, or in connection
22 with functions transferred by secs. 1 - 4 and 6 - 8 of this Act, continue in effect and may be
23 continued and completed notwithstanding a transfer or amendment or repeal provided for in
24 secs. 1 - 4 and 6 - 8 of this Act.

25 (b) Contracts, rights, liabilities, and obligations created by or under a law amended or
26 repealed by secs. 1 - 4 and 6 - 8 of this Act and in effect on June 30, 2003, remain in effect
27 notwithstanding this Act's taking effect. Records and appropriations of agencies of the state
28 whose functions are transferred under secs. 1 - 4 and 6 - 8 of this Act shall be transferred to
29 implement those provisions of this Act.

30 * Sec. 10. Section 5 of this Act takes effect immediately under AS 01.10.070(c).

31 * Sec. 11. Except as provided in sec. 10 of this Act, this Act takes effect July 1, 2003.

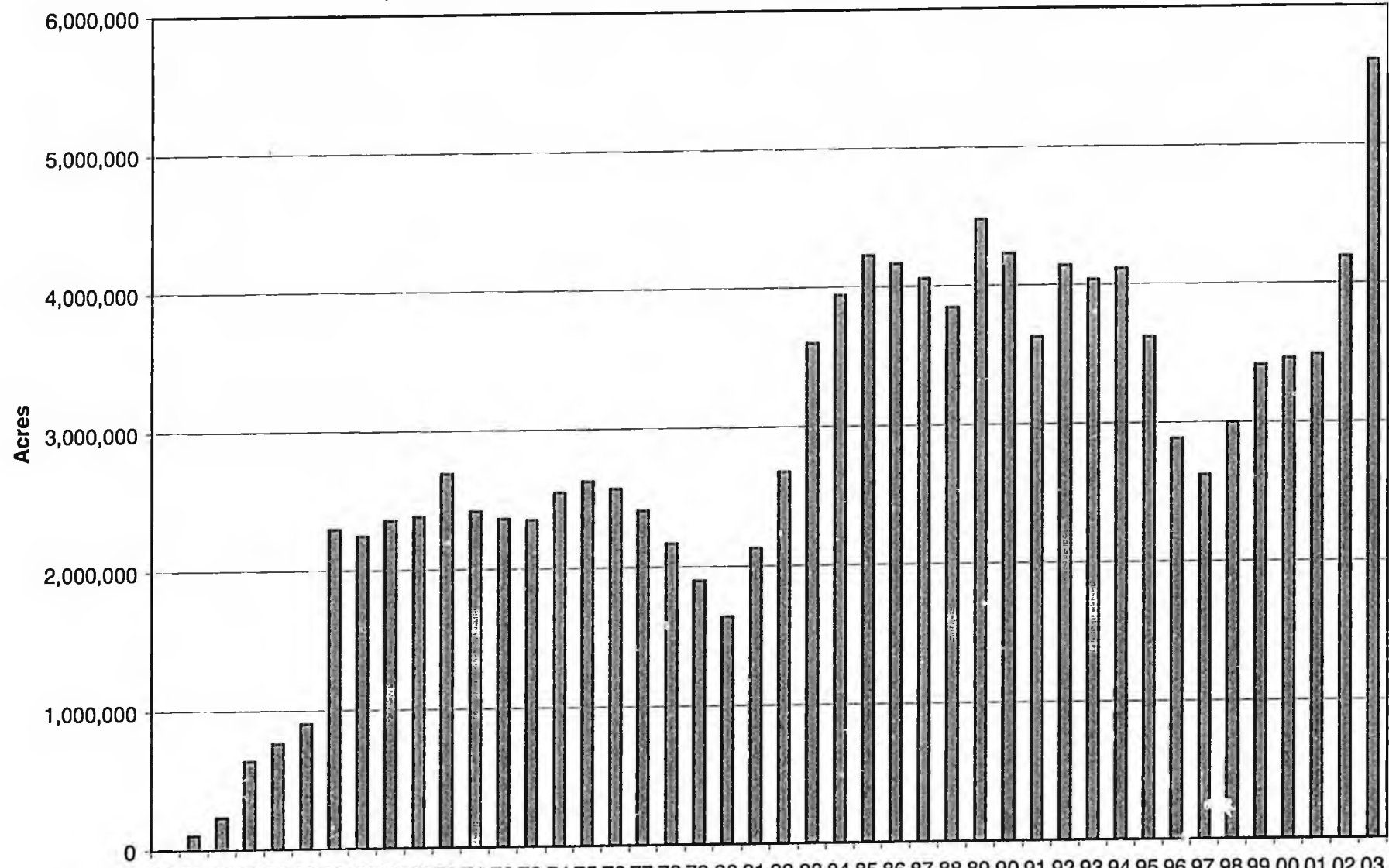
**DEPARTMENT OF NATURAL RESOURCES
TALKING POINTS – CSSB 172(RES)**

- Current statutes (AS 38.05.140(c)) limit oil and gas lessees to a total of:
 - 500,000 acres on tide and submerged land
 - 500,000 acres on all land other than tide and submerged land.
- Many operating oil and gas companies are already either at the acreage limited by statute or close to the limit. The bulk of this acreage is located on the North Slope and Beaufort Sea.
- DNR, during the last few years, has been encouraging the exploration of frontier areas such as the North Slope Foothills and Alaska's interior basins.
- By increasing the maximum onshore acreage to 750,000 but limiting the 250,000 acre increase to south of the Umiat Meridian, companies would be able to lease and explore acreage in some of Alaska's frontier basins while still maintaining their interests on the North Slope.

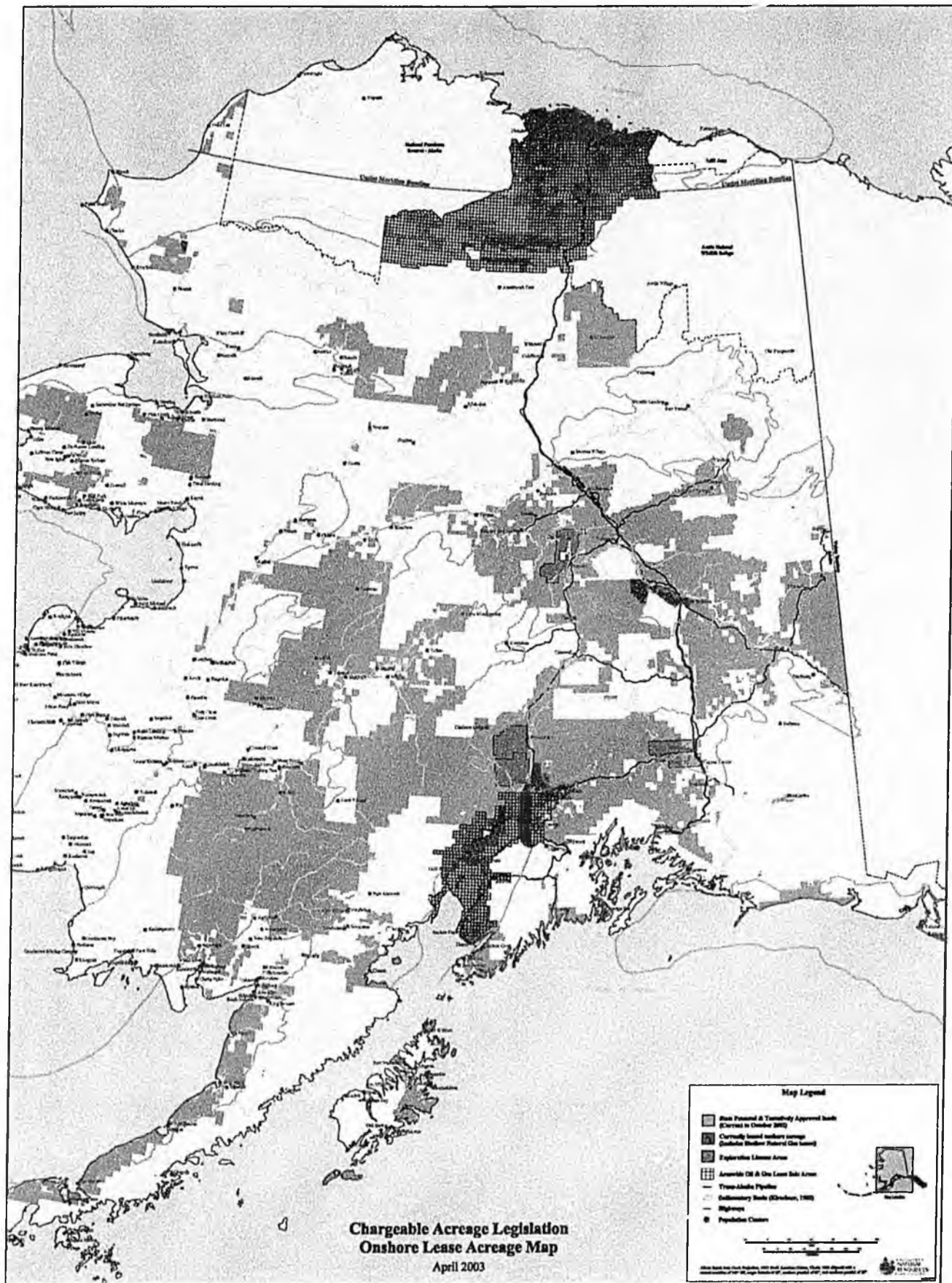
- In 1980, the oil and gas audit responsibilities for royalties and net profit share leases were transferred to Dept. of Revenue based on the belief that a cost savings could be achieved by having one staff of auditors simultaneously review both tax and royalty data. Since that time, however, the state has entered into royalty settlement agreements and has made changes to its tax regulations. As a result, there is no longer the synergy between the simultaneous tax and royalty audit of a single product for a given field in a given year.
- DNR has been charged with the duty to administer and enforce oil and gas contracts, agreements, and leases. Moreover, the expertise in oil and gas lease agreements and settlements rests with DNR.
- It makes sense from a knowledge and efficiency stand point to place the auditing duties in DNR which administers, enforces, and therefore has the most expertise with the oil and gas leasing program.
- The current sharing of responsibilities between Dept. of Revenue and DNR has resulted in government inefficiencies (Dept. of Revenue audits oil and gas royalties and net profit share lease matters, then DNR audits the audit to make sure it reflects DNR policy). This proposed bill would transfer responsibilities for auditing oil and gas royalties and net profit share lease matters back to DNR.

Acreage under Oil & Gas Lease 1960 – 2003

(Does not include acreage under Exploration License)



Acreage figures for 2003 current to April 1.
Includes conventional, shallow natural gas, lease expirations and relinquishments.



**Chargeable Acreage Legislation
Onshore Lease Acreage Map**
April 2003

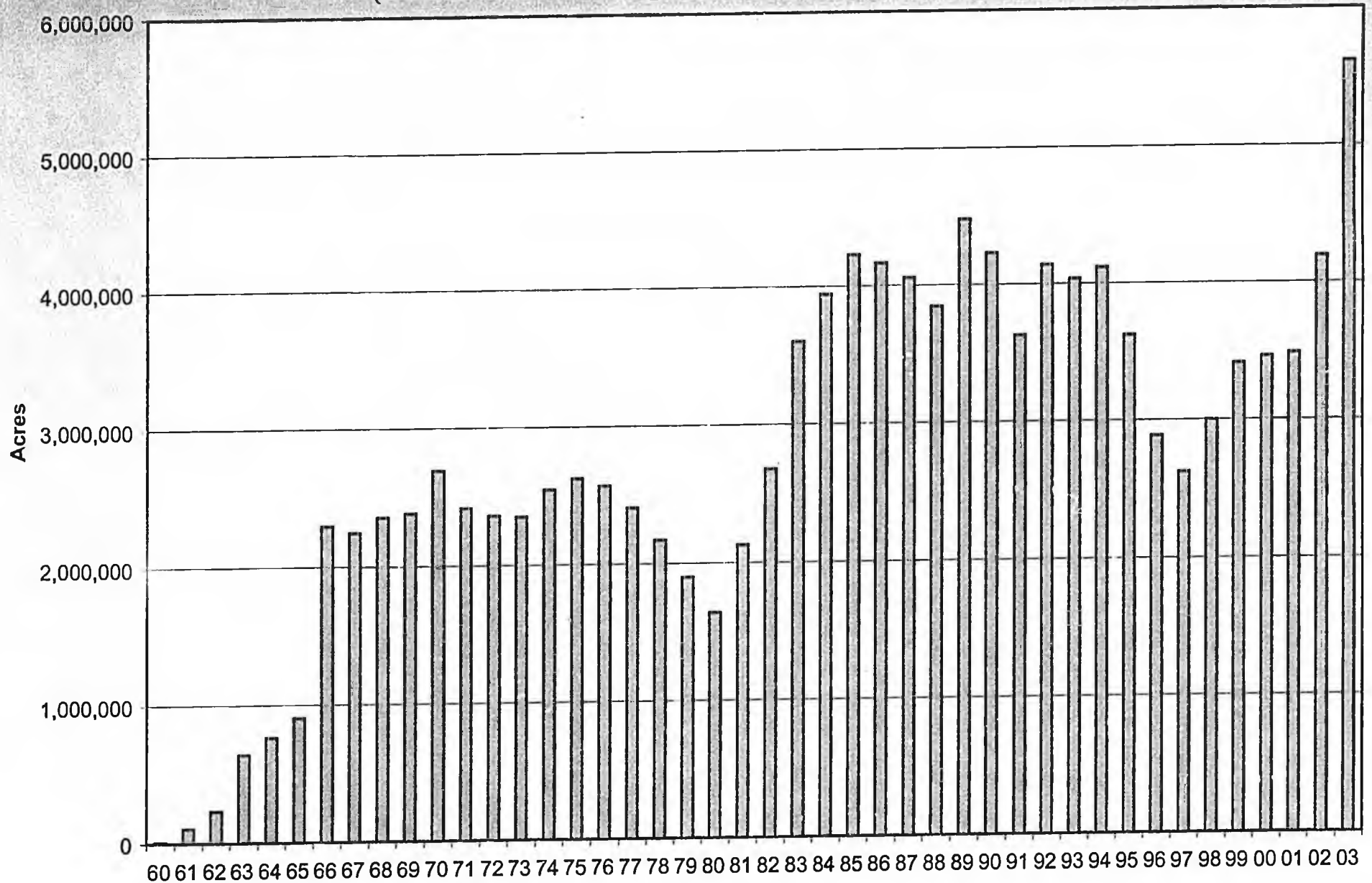
Map Legend

- Final Proposed & Tentatively Approved Lease (Entered in October 2002)
- Currently leased surface acreage (includes Surface Mineral Gas Lease)
- Exploratory License Area
- Alaska Oil & Gas Lease Sale Area
- Three-Phase Pipeline
- Subterranean Lease (Baldwin, 1986)
- Highway
- Population Center

Alaska State Department of Natural Resources, Division of Land Management, 1400 West Northern Lights Blvd., Anchorage, Alaska 99574

Acreage under Oil & Gas Lease 1960 – 2003

(Does not include acreage under Exploration License)



Acreage figures for 2003 current to April 1.

Includes conventional, shallow natural gas, lease expirations and relinquishments.

Year

STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

April 4, 2003

The Honorable Scott Ogan, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol, Room 103
Juneau, AK 99801

Dear Senator Ogan:

I am writing to request a hearing next week for SB 172, an act to increase the amount of chargeable oil and gas acreage. This bill would amend AS 38.05.140(c) to increase the upland acreage limit for oil and gas leases from 500,000 acres to 750,000 acres, except for land north of the Umiat Meridian baseline.

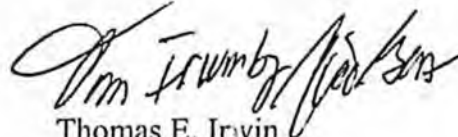
Currently, under AS 38.05.140(c) oil and gas lessees may not hold more than a total of 500,000 acres on tide and submerged and no more than 500,000 acres on uplands. While oil and gas leases with certified wells and those included within units are excluded from these acreage limitations, many operating oil and gas companies are already either at the existing 500,000 acres limitation or close to it. The bulk of this acreage is located on the North Slope and Beaufort Sea.

In the past few years the Department of Natural Resources has been encouraging exploration of frontier areas such as the North Slope foothills. The bill would increase the maximum upland acreage to 750,000, of which no more than 500,000 acres could be located north of the Umiat Meridian baseline. Thus companies would be able to lease and explore acreage in Alaska frontier basins while still maintaining their interest on the North Slope.

There will be a positive fiscal impact from additional bonus bids, rentals and eventually, production royalties. At this time it is impossible to accurately predict what this increase in revenue might be.

Thank you for your consideration. Please contact Janet Burleson Baxter at (907) 465-4730 if you have any questions. You may also contact Mark Myers, Director of the Division of Oil and Gas at (907) 269-8800.

Sincerely,



Thomas E. Irwin
Commissioner



APR 14 2003

Richard P. Mott
Vice President
Exploration & Land
P.O. Box 100360
Anchorage, AK 99510-0360
Phone 907.263.4556

April 9, 2003

Representative Vic Kohring, Chairman
House Special Committee on Oil and Gas
Legislature of the State of Alaska
Alaska State Capitol, Room 24
Juneau, Alaska 99801-1182

Senator Scott Ogan, Chairman
Resources Committee
Legislature of the State of Alaska
Alaska State Capitol, Room 103
Juneau, Alaska 99801-1182

Re: House Bill No. 246
Senate Bill No. 172

ConocoPhillips Alaska, Inc. supports House Bill No. 246, and Senate Bill No. 172 both of which provide for an increase in the limitation on acreage that a person may take or hold under oil and gas lease in the State of Alaska. An increase in the acreage limitation will encourage additional investment by the oil and gas industry in the exploration and development of Alaskan resources.

A handwritten signature in cursive script that reads "Richard P. Mott".

Richard P. Mott
Vice President
Exploration & Land

Cc: Mike Tibbles
Legislative Liaison
Office of the Governor
P.O. Box 110001
Juneau, Alaska 99811-0001

Mark Myers, Director
State of Alaska
Department of Natural Resources
Division of Oil & Gas
550 West 7th Avenue, Suite 800
Anchorage, Alaska 99501-3510