SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 4/11/03

FURTHER:

Date of 5-Day Notice:________________
(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:

[X] 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:
[X] 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	✓		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

[ ] **APPROPRIATION - no fiscal note**

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
[signature]			✓	
[signature]			✓	
[signature]			✓	
[signature]	✓			
[signature]	✓			
[signature]	✓			
CHAIR: [signature]	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 185(RES)
(S) Publish Date: 5/7/03

Revision Date/Time (Note if correction): 5/7/2003
Title: Royalty Reduction on Certain Oil
Sponsor: Wagoner
Requester: Senate Resources

Dept. Affected: Natural Resources
BRU: Resource Development
Component: Oil and Gas Development
Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 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)	(220.9)	(358.5)	(591.4)	(589.5)	(561.5)	(485.1)

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS

Full-time						
Part-time						
Temporary						

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

SB 185 amends AS 38.05.180(f)(5) to permit reduced royalty rates to as low as 5 percent for oil production from submerged lands in Cook Inlet. This royalty reduction would apply primarily to oil produced from offshore platforms and is tied to the daily rate of oil production. While SB 185 will result in a net loss in state revenues, it is expected to extend the field or platform life, thereby increasing future field or platform production and revenues in the out-years beyond what is likely to occur otherwise. Cumulative estimated net royalty revenue lost over the six-year forecast horizon FY 2004-09 is estimated to be ($2,807) thousand or about ($468) 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 5/7/2003
Approved by: Tom Irwin, Commissioner — Date 5/7/2003
Agency: Natural Resources

(Revised 9/2002 OMB)

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSB 185(RES)

ANALYSIS CONTINUATION

SB 185 recognizes two 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 do not presently employ substantial water handling and/or injection include: Granite Point, Anna, Bruce, Baker, Dillon, XTO.A and XTO.C. 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.

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSB 185(RES)

ANALYSIS CONTINUATION

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 May 2007, as indicated in the following table:

Platform	Field	Operator	Gross Production (BPD) FY2002 / FY2003	*Expected* Date Production falls below	
				750 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	May 2007	

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 ($3.6) million undiscounted over the six-year forecast period (equals ($2.8) 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-700 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 ($2.8) million [($3.6) million in royalty foregone plus about $0.8 million in royalty gain from extended platform life] or about ($468) 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.

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: Jack Chenoweth	FROM: Linda Hay - Sen Resources
COMPANY: Leglegal	DATE: 5-6-03
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER: 2.
PHONE NUMBER:	RE: final for SB185

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

CSSB 185 (RES)
23-LS0926\H Chenoweth 5/6/03
passed out of Senate Resources
this afternoon - We also
conceptually adopted your
memo + agreed to allow the drafter
latitude to correct the language
you highlighted - the sponsor / Div of O+G
+ committee agreed on choice
two.

Thank You.

LEGAL SERVICES

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

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

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

MEMORANDUM May 6, 2003

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

TO: Senator Scott Ogan
Senate Resources Committee Chair

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Per request of Linda Hay, in three places "on and after the ***day***" has been changed to "on and after the ***month***". "On . . . the month" is a somewhat ambiguous construction. Would it not be clearer if the phrase, instead, read "During and after the month" (to pick up all production for the month in which the increased production exceeds the limits) or, alternatively, "On and after the first day of the month following the month" (to pick up all production commencing with the first of the month following the month in which the increased production exceeded the limits)?

Please check with the bill sponsor: his staff had indicated in a recent conversation that the reference on page 4, line 24, should be to "choke-back *factors*" [plural, not singular as in the previous "D" draft], and I have incorporated that change into this draft.

JBC:med
03-491.med

23-LS0926\H
Chenoweth
5/6/03

CS FOR SENATE BILL NO. 185(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:
Referred:

Sponsor(s): SENATOR WAGONER

A BILL

FOR AN ACT ENTITLED

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

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

* **Section 1.** AS 38.05.180(f) is amended by adding a new paragraph to read:

(6) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil field located offshore in Cook Inlet on which an oil production platform specified in (A) or (C) of this paragraph operates, or the lessee of all or part of the field located offshore in Cook Inlet and described in (E) of this paragraph,

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

(i) Dolly;

(ii) Grayling;

(iii) King Salmon;

(iv) Steelhead; and

(v) Monopod;

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

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

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

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

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

(C) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 750 barrels a day; the provisions of this subparagraph apply to

(i) Granite Point;

(ii) Anna;

(iii) Bruce;

(iv) Baker;

(v) Dillon;

(vi) XTO.A; and

(vii) XTO.C;

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

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

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

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

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

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

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

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

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

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

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

(G) may obtain the benefits of the royalty adjustments set out in (A) - (D) of this paragraph only if the reduction in production from the platform, or as set out in (E) and (F) of this paragraph only if the reduction of production from the field, is calculated

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

(ii) without consideration of short-term production declines due to mechanical or other choke-back factors, temporary shutdowns or decreased production due to environmental or facility constraints, or market conditions.

ALASKA STATE LEGISLATURE

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

Explanation of Amendment to SB 185 – Exploration Severance Tax Credit

Alaska's revenues are dependant on the oil & gas industry – they generate most of the revenues we need to pay for services.

However, our recent data clearly shows that we are losing ground in the world market– the number of wells drilled annually in Alaska has decreased dramatically. Only 4 new exploratory wells are planned for Alaska next winter. A primary reason for that decrease is related to the costs of exploration in Alaska, costs that range from 5 cents per dollar in Azerbaijan to 65 cents on the dollar in Alaska.

The mechanism the State of Alaska has to bring those costs of exploration into line with other areas, to be more competitive in the world market, is to offer tax credits to the industry.

This amendment puts on the table for discussion, credits that will enable the oil and gas industry the opportunity to make investment decisions in Alaska so that we will benefit from the increased activity.

The amendment:

- Provides a tax credit of 20% for exploration in an area that is more than 3 miles from an existing well or a previously produced well.
- Provides a tax credit of 40% if it is more than 25 miles from an existing production cent and 40% for seismic activity outside of boundaries of existing production unit or exploration unit boundary
- Work must be accomplished between July 1, 2003 and June 30, 2007

SB 185 (S-FIN) 5-12-03: mj

State Capitol, Room 427, Juneau, AK 99801 Telephone 907/465-2828 Fax 907/465-4779
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SENATOR SCOTT OGAN   Alaska State Legislature

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Senator_Scott_Ogan@legis.state.ak.us   Http://www.akrepublicans.org/ogan

FACSIMILE TRANSMITTAL SHEET

TO: Jack Chenoweth	FROM: Linda Hay
COMPANY:	DATE: 5-6-03
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER: 2
PHONE NUMBER:	RE: Res CS SB 185

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Jack - would you please prepare a Senate Resources CS for SB 185 - use version - 23-LS0926\D with the attached amendment. We will be hearing this bill @ 4pm in a special meeting.

Thank You

Sorry for the short notice

Amendment #___

OFFERED IN THE SENATE BY: Senator Tom Wagoner

To: Work Draft CSSB 185 Version\D: ROYALTY REDUCTION ON CERTAIN OIL

Page 2, line 15:

Delete "day"

Insert "month"

Page 3, Line 14:

Delete "day"

Insert "month"

Page 4, Line 7:

Delete "day"

Insert "month"

23-LS0926\D
Chenoweth
5/5/03

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

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

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

* **Section 1.** AS 38.05.180(f) is amended by adding a new paragraph to read:

(6) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil field located offshore in Cook Inlet on which an oil production platform specified in (A) or (C) of this paragraph operates, or the lessee of all or part of the field located offshore in Cook Inlet and described in (E) of this paragraph,

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

(i) Dolly;

(ii) Grayling;

(iii) King Salmon;

(iv) Steelhead; and

(v) Monopod;

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

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

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

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

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

(C) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 750 barrels a day; the provisions of this subparagraph apply to

(i) Granite Point;

(ii) Anna;

(iii) Bruce;

(iv) Baker;

(v) Dillon;

(vi) XTO.A; and

(vii) XTO.C;

(D) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the platform that was certified by the Alaska Oil and Gas Conservation Commission under (C) of this paragraph later increases to 750 or more barrels a day and remains at 750 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (C) of this paragraph; on and after the day the increased production exceeds the period specified in this paragraph, the royalty payable under this subparagraph is

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

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

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

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

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

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

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

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

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

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

(G) may obtain the benefits of the royalty adjustments set out in (A) - (D) of this paragraph only if the reduction in production from the platform, or as set out in (E) and (F) of this paragraph only if the reduction of production from the field, is calculated

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

(ii) without consideration of short-term production declines due to mechanical or other choke-back factors, temporary shutdowns or decreased production due to environmental or facility constraints, or market conditions.

ALASKA STATE LEGISLATURE

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

DATE: April 17, 2003

TO: Senator Scott Ogan, chair
Senate Resources Committee

FROM: Senator Tom Wagoner Tom Wag

RE: SB 185 Hearing Request

I respectfully request that you schedule this bill for hearing at your earliest convenience. This is an issue of importance to my district and it needs to pass this legislative session.

I am attaching information for your bill packet.

Thank you for your time and consideration.

State Capitol, Room 427, Juneau, AK 99801 Telephone 907/465-2828 Fax 907/465-4779
SERVING THE KENAI PENINSULA

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(RES) 4-20-03 mj

State Capitol, Room 427, Juneau, AK 99801 Telephone 907/465-2828 Fax 907/465-4779
SERVING THE KENAI PENINSULA

RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

May 5, 2003

MAY - 9 2003

Senator Scott Ogan, Chair
Senate Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Re: Senate Bill 185 — Royalty Reduction on Certain Oil

Dear Senator Ogan:

On behalf of the Resource Development Council for Alaska, Inc. (RDC), I am writing in support of SB185 — Royalty Reduction on Certain Oil. RDC is a private, non-profit, business association representing individuals and companies from Alaska's oil and gas, mining, timber, tourism and fisheries industries. Our mission is to help grow Alaska's economy through the responsible development of the state's natural resources. SB185 encourages development of Alaska's resources while protecting the interests of the State. The bill deserves your committee's strong support, and we urge you to move it forward.

As you are well aware, many of the oil fields in Cook Inlet have begun to reach the threshold of economic productivity. UNOCAL's recent decision to close two of its Cook Inlet platforms is evidence of this trend. Because the Cook Inlet basin is a maturing oil province, it is appropriate for the State to consider incentives designed to prolong the life of existing fields, protect critical infrastructure and encourage opportunities for future investment. SB185 addresses each of these goals.

SB185 creates a royalty reduction schedule triggered by specific production volume levels — 1,200 barrels per day and 750 barrels per day depending upon the field. By establishing a fixed royalty reduction schedule this legislation provides operators with an economic incentive that is predictable, simple and can be put into place quickly. In other words, it is something companies can count on when making investment decisions. The bill also protects the State by increasing the royalty rate if production from a participating field subsequently increases above either 750 or 1,200 barrels per day.

If passed this bill will generate a host of benefits. Most importantly SB185 will add one to three years of life to several Cook Inlet oil fields. Extended life for

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
Phone: 907/276-0700 Fax: 907/276-3887 Email: Resources@akrdc.org Website: www.akrdc.org

these fields will in turn prolong the utility of critical infrastructure and offset the State's reduced royalty share. It is important to note that maintaining Cook Inlet's existing infrastructure may facilitate future exploration, development and production of currently undiscovered reserves. At a community level SB185 will delay workforce reductions and help maintain the region's property tax base.

Thank you for considering our position on this important piece of legislation. Please feel free to contact me with any questions.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.

Tadd Owens

Tadd Owens
Executive Director

Union Oil Company of California
Testimony on SB 185
Senate Resources Committee
May 7, 2003

Mr. Chairman and members of the Senate Resources Committee--My name is Kevin A. Tabler, Manager of Land and Govt. Affairs for Union Oil Company of California (Unocal) in Alaska. I appreciate this opportunity to be heard today and to present a few comments regarding Senate Bill 185. As I have previously testified in House Committee hearings, we are encouraged with the positive atmosphere and efforts made by the Legislature and Administration to craft legislation to encourage further exploration and development and to protect our states most prolific revenue generating industry. We appreciate your consideration of SB 185 which specifically targets those endangered Cook Inlet oil fields and platforms which are rapidly approaching their economic life.

Unocal is the predominant operator in Cook Inlet and where our infrastructure base and manpower are best defined. It's also a place where our infrastructure, manpower and capital investments are continually threatened by internal global competition for investment dollars. For the last several years, Unocal has consolidated and restructured its Alaskan operations and focused on becoming the safest lowest cost producer in Cook Inlet. We have, either through purchase and/or exchange of properties, positioned ourselves to have the most cost effective operation possible. The Cook Inlet, with its mature and declining fields, low margin properties, high operating costs and regulatory uncertainty, is a challenging environment in which to stay profitable, let alone risk capital. Cost cutting in and of itself is only a temporary fix. The only sustainable solution to longevity is to increase the reserve base.

Although SB 185 will not necessarily increase the reserve base of a field or platform, it will extend economic viability and prolong the utility of the existing infrastructure, leading to the ultimate recovery of more reserves and have an offsetting effect on any reduction awarded. Equally as important is the possibility for royalty reduction to increase the attractiveness for making additional investment in a field which might lead to an increase in the overall recoverable reserve base of that field.

One thing is certain, if the economic viability of the field or platform is left unchecked, shutdown will be accelerated and lead to a lower tax base, unemployment and loss of monetary cycling throughout a community. Such events are beginning to occur with Unocal's recent announcement to suspend production on the Dillon Platform. Layoff's have occurred and it is a short period of time before additional platforms will be suspended.

With mature fields, such as those in Cook Inlet, when royalty relief is justifiable and needed, the volumes of production and corresponding royalty associated therewith are such that life extension of the facility and that facilities importance to the overall infrastructure is the primary benefit. If you wait until the field is truly uneconomic to qualify, there is little benefit to the state or the producer since royalty relief does not generate enough revenue to significantly extend field life but merely prolong the inevitable.

In reviewing the language of this bill, we appreciate the recognition that different platforms and fields have different thresholds for economic viability. Although each platform is different, we must not loose sight of the overall economics of the Cook Inlet. These economics are extremely sensitive, not only to price but, to the impact of cost sharing. As each platform or facility becomes uneconomic, the remaining facilities must absorb more of the overall costs of the Cook Inlet operation. Such additional costs place an increased burden on the remaining facilities and therefore shorten their life. The time to get relief is when you are still economic and there is potential to extend field life by investing more capital or expense dollars to increase production, or implement systematic process changes if necessary in an operation. With such an extension you have the ancillary benefits of jobs, taxes and the multiplying effect of money in a community. With royalty reduction, it truly is a case of sooner is better than later.

SB 185 is a very specific, clear, concise, automatic and easily understood and administered vehicle for delaying the inevitable elimination of jobs, extending the life of critical infrastructure which will support future development and exploration projects and creating certainty around investment strategies for producers.

In conclusion, we believe the necessity for and utility of SB 185 is well overdue in Cook Inlet and therefore encourage passage out of this committee. I'd be happy to answer any questions

Thank You

TESTIMONY
Larry Houle
Alaska Support Industry Alliance
Before
Senate Resources
Re: SB 185, "An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land"

Mr. Chairman and members of the Committee my name is Larry Houle and I am the General Manager of the Alaska Support Industry Alliance more widely known as The Alliance. The Alliance is a non-profit state-wide trade association with chapters in Anchorage, Fairbanks and Kenai. The Alliance is comprised of over 420 member companies who derive their livelihood from Alaska's Oil and Gas industry. The employment base represented by Alliance membership exceeds is over 25,000 Alaska residents.

As the oil fields in Cook Inlet approach the end of their economic life certain steps can and need to be taken to extend field life and maximize the irreplaceable infrastructure that is in place to serve these fields. Extended facility life can and will facilitate exploration, discovery and development of undiscovered reserves. SB 185 is designed to encourage continued production and maintenance of these facilities by reducing the royalty from 12.5% to 5% on oil produced from these platforms as they approach their economic limits.

Reducing royalties under these special circumstances may extend production by one to three years. Although the royalty percentage will be reduced, actual royalties received over time will more than compensate and make up for losses. Representing the Contracting community that employs hundreds of Alaskans that work in the oil patch we believe this to be the proper role of government and this legislature.

Extended production will delay the loss of jobs in those communities adjacent Cook Inlet. In addition, local municipalities where the platforms reside will benefit from continued property taxes. SB 185 triggers royalty reduction only at specific production volume levels – the bill has been thoughtfully crafted to provide predictable and timely royalty reduction to allow operators to plan maintenance and staffing to extended field life. The State's interests are further protected as the bill identifies those specific platforms eligible for royalty reduction and defines the daily volume where reduction will occur. The bill provides for a graduated scale for royalty rate increases should production rates increase above specific levels.

Clearly, the metaphor one-half a loaf of bread is better than no loaf applies to SB 185. Passage of this legislation is in the best interest of the state, local communities and most of all the many Alaskan families that rely on Cook Inlet oil production for their livelihood.

Speaking on behalf of the 420 company members that make up the Alaska Support Industry Alliance we encourage House Resources Committee to move the bill forward for further action by the full House.

Sincerely,

Larry Houle
General Manager
Alaska Support Industry Alliance

Testimony HB 198
May 9, 2003

My name is Gary Carlson. I am Senior Vice President for Forest Oil Corporation, a major investor in the Cook Inlet these past 5 years.

My testimony on HB 198 will focus on the maintenance of critical and scarce infrastructure associated with the mature oil fields in the Cook Inlet. The platforms, associated pipelines, and related onshore facilities represent irreplaceable infrastructure which may facilitate the exploration, discovery and development of as yet undiscovered reserves if their useful lives can be extended. Any delay in abandoning or decommissioning of this infrastructure will provide opportunities to the industry to develop smaller scale oil and gas prospects that won't stand the economics if new infrastructure needed to be developed.

As the mature fields approach their economic life, the operators <u>need to get</u> creative and manage costs carefully which includes changing the way they operate and they <u>need the cooperation</u> of their vendors and contractors to share in these efforts. I believe that it is appropriate for the State to step in as a partner also. This bill provides a way for the State to make a difference.

Keeping the current Cook Inlet oil fields on line a few more years will maintain good jobs, provide local taxes, and the possibility of new development that could easily exceed any anticipated future short fall in State revenues resulting from reducing the State's royalty.

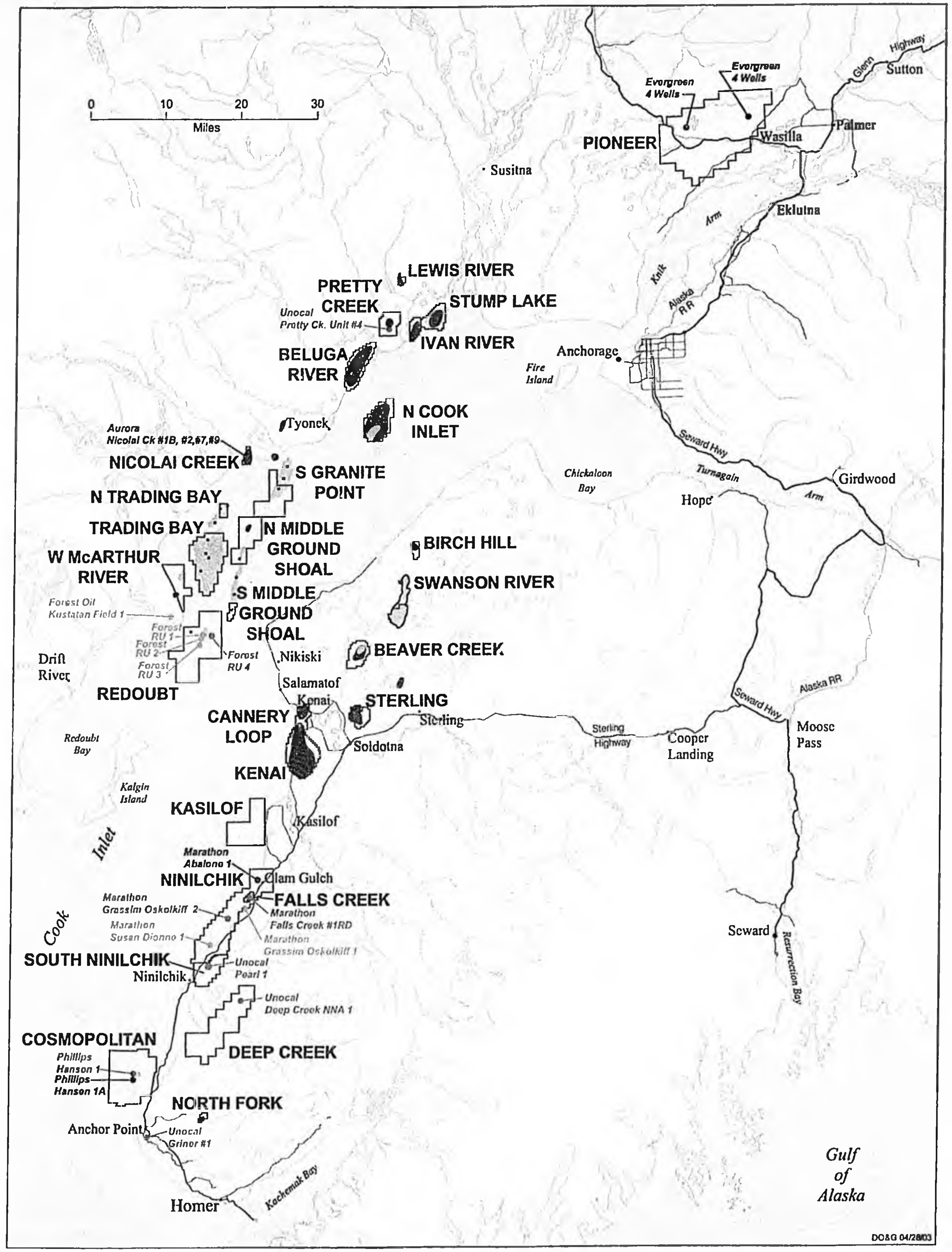
I want to commend the bill sponsors and the Department of Natural Resources for their foresight in supporting this bill. I want to thank the committee for the opportunity to provide testimony on this legislation.

Cook Inlet Oil & Gas Activity & Discoveries April 2003

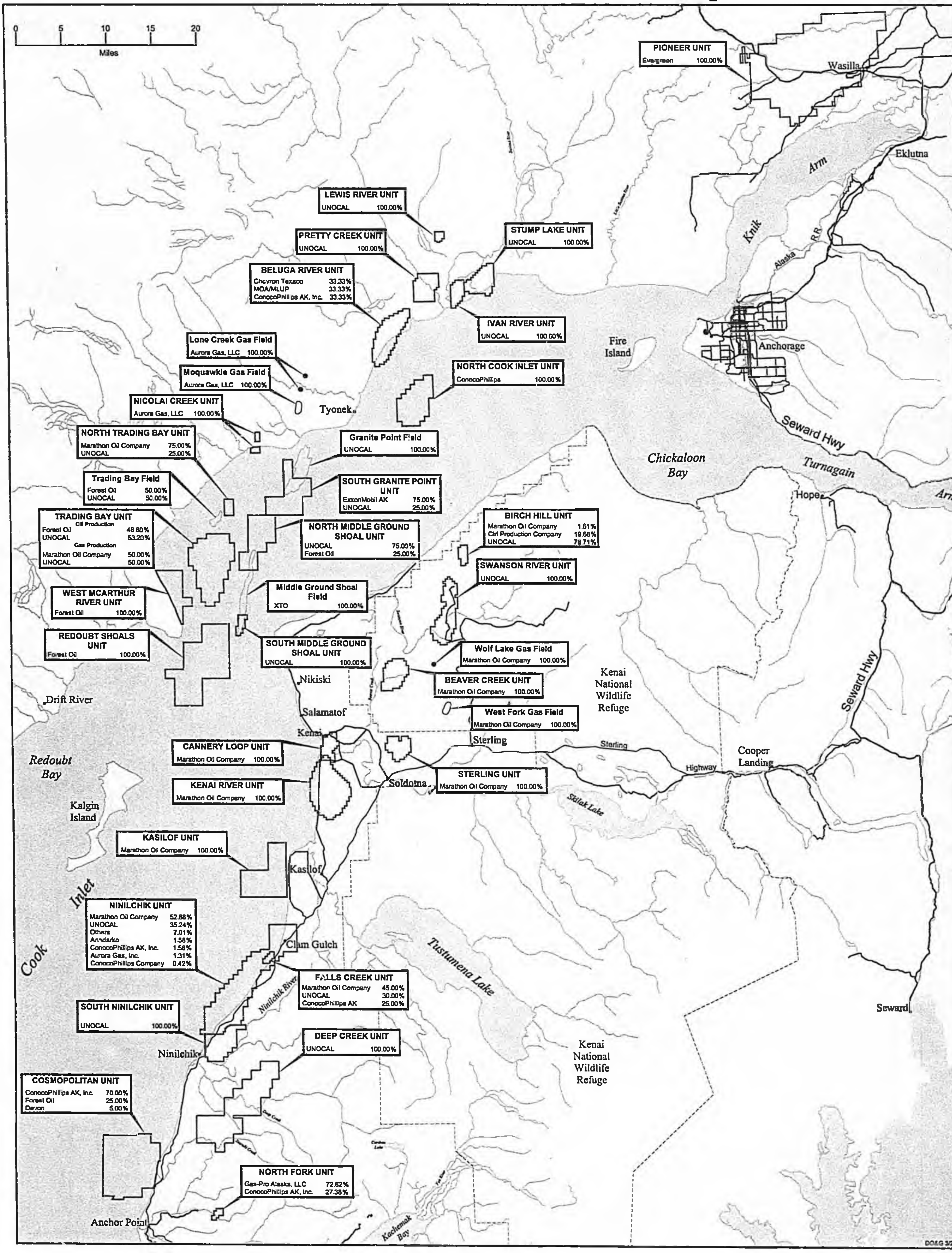
Map Legend

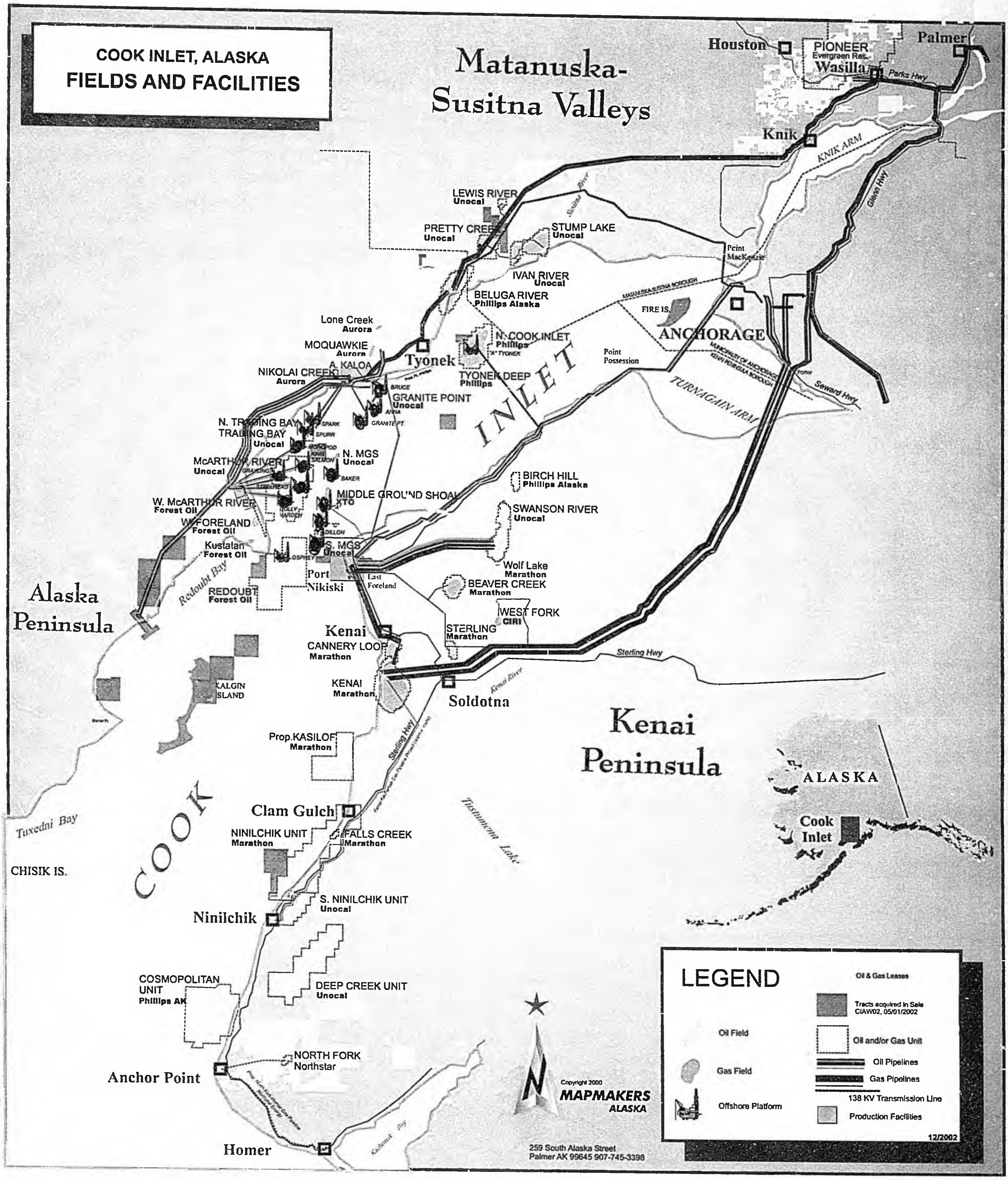
- Units
- *Oil Field / Accumulation*
- *Gas Field / Accumulation*
- Recent Discoveries
- *Proposed 2003 Exploration Wells*
- *2002 Exploration Wells*
- *2001 Exploration Wells*
- Platforms
- Road
- Alaska Railroad

Alaska Department of
NATURAL RESOURCES
Division of Oil and Gas
http://www.dog.dnr.state.ak.us/oil/



Cook Inlet Oilfield and Pool Ownership




COOK INLET, ALASKA
FIELDS AND FACILITIES
Matanuska-Susitna Valleys
Houston
PIONEER
Evergreen Res.
Wasilla
Palmer
Parks Hwy
Knik
KNIK ARM
Glenn Hwy
LEWIS RIVER
Unocal
PRETTY CREEK
Unocal
STUMP LAKE
Unocal
Point MacKenzie
IVAN RIVER
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BELUGA RIVER
Phillips Alaska
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ANCHORAGE
Lone Creek
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Aurora
Tyonek
N. COOK INLET
Phillips
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Phillips
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A. KALOA
NIKOLAI CREEK
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GRANITE POINT
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Forest Oil
Kustatan
Forest Oil
S. MGS
Unocal
Wolf Lake
Marathon
Redoubt Bay
Port Nikiski
Last Foreland
BEAVER CREEK
Marathon
Alaska Peninsula
REDOUBT
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CIRI
STERLING
Marathon
Kenai
CANNERY LOOP
Marathon
Sterling Hwy
KALGIN ISLAND
KENAI
Marathon
Soldotna
Kenai River
Kenai Peninsula
Prop.KASILOF
Marathon
Sterling Hwy
ALASKA
Cook Inlet
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Tuxedni Bay
Clam Gulch
Tustumena Lake
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Marathon
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Marathon
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LEGEND
Oil & Gas Leases
Tracts acquired in Sale CIAW02, 05/01/2002
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Oil and/or Gas Unit
Gas Field
Oil Pipelines
Gas Pipelines
138 KV Transmission Line
Offshore Platform
Production Facilities
12/2002