

HB

71

HFIN

FILE

24-GH1040P
Chenoweth
4/15/05

CS FOR HOUSE BILL NO. 71()

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act extending and amending the requirements applicable to the credit that may be
2 claimed for certain oil and gas exploration expenses incurred in Cook Inlet against oil
3 and gas properties production (severance) taxes, and amending the credit against those
4 taxes for certain exploration expenditures from leases or properties in the state; and
5 providing for an effective date."

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

7 * Section 1. AS 43.55.025(a) is amended to read:

8 (a) Subject to the terms and conditions of this section, on oil and gas produced
9 on or after July 1, 2004, from an oil and gas lease, or on gas produced from a gas
10 only lease, ~~[ON OR AFTER JULY 1, 2004.]~~ a credit against the production tax due
11 under this chapter is allowed for exploration expenditures that qualify under (b) of
12 this section in an amount equal to one of the following:

13 (1) 20 percent of the total exploration expenditures that qualify only

1 under [(b) AND] (c) of this section;

2 (2) [,] 20 percent of the total exploration expenditures that qualify only
3 under [(b) AND] (d) of this section [, OR BOTH, FOR A TOTAL CREDIT THAT
4 DOES NOT EXCEED 40 PERCENT OF THE TOTAL EXPLORATION
5 EXPENDITURES];

6 (3) 40 percent of the total exploration expenditures that qualify
7 under both (c) and (d) of this section; or

8 (4) [(2)] 40 percent of the total exploration expenditures that qualify
9 only under [(b) AND] (e) of this section [, FOR A TOTAL PRODUCTION TAX
10 CREDIT THAT DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED
11 EXPLORATION EXPENDITURES].

12 * Sec. 2. AS 43.55.025(b) is amended to read:

13 (b) To qualify for the production tax credit under (a) of this section, an
14 exploration expenditure must be incurred for ~~work performed~~ formed on or after July 1, 2003,
15 and before July 1, 2010, except that an exploration expenditure for a Cook Inlet
16 prospect must be incurred for work performed on or after July 1, 2005, and
17 before July 1, 2010 [2007], and

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

20 (2) if for an exploration well,

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

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

24 and

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

30 (3) may not be for testing, stimulation, or completion costs;
31 administration, supervision, engineering, or lease operating costs; geological or

1 management costs; community relations or environmental costs; bonuses, taxes, or
2 other payments to governments related to the well; or other costs that are generally
3 recognized as indirect costs or financing costs; and

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

7 * Sec. 3. AS 43.55.025(c) is amended to read:

8 (c) To be eligible for the [A] 20 percent production tax credit authorized by
9 (a)(1) of this section or the 40 percent production tax credit authorized by (a)(3)
10 of this section, exploration expenditures must

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

12 (2) be for an exploration well, subject to the following:

13 (A) for an exploration well other than a well that is
14 described in (B) of this paragraph, the well must be [THAT IS] located and
15 drilled in such a manner that the bottom hole is located not less than three
16 miles away from the bottom hole of a preexisting suspended, completed, or
17 abandoned oil or gas well; in this subparagraph [PARAGRAPH],
18 "preexisting" means a well that was spudded more than 150 days but less than
19 35 years before the exploration well was spudded;

20 (B) for an exploration well that explores a Cook Inlet
21 prospect, the well must be located at least three miles from any other well
22 drilled for oil and gas with all distances measured as the horizontal
23 distance between exploration targets, except that the exploration well that
24 is located within three miles of a well drilled for oil and gas qualifies for
25 the tax credit authorized by this subsection if the exploration well tests
26 potential hydrocarbon traps that the commissioner of natural resources
27 determines, after analyzing evidence submitted by the explorer and from
28 other information that the commissioner of natural resources determines
29 relevant, constitute a distinctly separate exploration target.

30 * Sec. 4. AS 43.55.025(d) is amended to read:

31 (d) To be eligible for the [AN ADDITIONAL] 20 percent production tax

1 credit authorized by (a)(2) of this section or the 40 percent production tax credit
2 authorized by (a)(3) of this section, an exploration expenditure must
3 (1) qualify under (b) of this section; and
4 (2) be for an exploration well that is located not less than 25 miles
5 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a
6 plan of development, except that for an exploration well for a Cook Inlet prospect
7 to qualify under this paragraph, the exploration well must be located not less
8 than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any
9 unit that is under a plan of development.

10 * Sec. 5. AS 43.55.025(e) is amended to read:

11 (e) To be eligible for the 40 percent production tax credit authorized by
12 (a)(4) [IN (a)] of this section, 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 * Sec. 6. AS 43.55.025(f) is amended to read:

20 (f) For a production tax credit under this section,
21 (1) an explorer shall, in a form prescribed by the department and
22 within six months of the completion of the exploration activity, claim the credit and
23 submit information sufficient to demonstrate to the department's satisfaction that the
24 claimed exploration expenditures qualify under this section:
25 (2) an explorer shall agree, in writing,
26 (A) to notify the Department of Natural Resources, within 30
27 days after completion of seismic or geophysical data processing, completion of
28 a well, or filing of a claim for credit, whichever is the latest, for which
29 exploration costs are claimed, of the date of completion and submit a report to
30 that department describing the processing sequence and providing a list of data
31 sets available; if, under (e)(2)(B) of this section, an explorer submits a

1 claim for a credit for expenditures for an exploration well that is located
2 within three miles of a well already drilled for oil and gas, in addition to
3 the submissions required under (1) of this subsection, the explorer shall
4 submit the information necessary for the commissioner of natural
5 resources to evaluate the validity of the explorer's claim that the well is
6 directed at a distinctly separate exploration target, and the commissioner
7 of natural resources shall, upon receipt of all evidence sufficient for the
8 commissioner to evaluate the explorer's claim, make that determination
9 within 60 days;

10 (B) to provide to the Department of Natural Resources, within
11 30 days after the date of a request, specific data sets, ancillary data, and reports
12 identified in (A) of this paragraph;

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

17 (3) if more than one explorer holds an interest in a well or seismic
18 exploration, each explorer may claim an amount of credit that is proportional to the
19 explorer's cost incurred;

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

23 (5) if the department is satisfied that the explorer's claimed
24 expenditures are qualified under this section, the department shall issue to the explorer
25 a production tax credit certificate for the amount of credit to be allowed against
26 production taxes due under this chapter; however, notwithstanding any other
27 provision of this section, the department may not issue to an explorer a
28 production tax credit certificate if the total of production tax credits submitted
29 for Cook Inlet production, based on exploration expenditures for work
30 performed during the period described in (b) of this section for that production,
31 that have been approved by the department exceeds \$20,000,000.

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* Sec. 7. AS 43.55.025(k) is amended to read:

(k) In this section,

(1) "Cook Inlet production" means oil or gas production from the Cook Inlet sedimentary basin, as that term is defined by regulation adopted to implement AS 38.05.180(f)(4);

(2) "Cook Inlet prospect" means a location within the Cook Inlet sedimentary basin, as that term is defined by regulation adopted to implement AS 38.05.180(f)(4);

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

* Sec. 8. AS 43.55.025 is amended by adding a new subsection to read:

(l) The provisions of this section do not apply to taxes applicable under this chapter attributable to production from oil and gas produced from an oil and gas lease, or to gas produced from a gas only lease, located north of 68 degrees, 15 minutes, North latitude or on the Arctic National Wildlife Refuge.

* Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

ALASKA STATE LEGISLATURE



Official Business

SENATE RESOURCES COMMITTEE

Senator Tom Wagoner, Chair

State Capitol, Room 427

Juneau, AK 99801-1182

Phone: (907) 465-4907 Fax: (907) 465-4779

Senator Ralph Seekins, Vice-Chair

Senator Ben Stevens

Senator Kim Elton

Senator Fred Dyson

Senator Bert Stedman

Senator Gretchen Guess

Sectional Analysis

~~SB 163: Cook Inlet Oil & Gas Credit~~

Used in HB 71

- Sec. 1: Extends the dates of the 2003 incentive credits legislation out to 2010 for the Cook Inlet basin.
- Sec. 2: Provides language that allows exploration wells in the Cook Inlet to be within the 3-mile limit, subject to review and approval by the commissioner. This provide a 20% credits.
- Sec. 3: Provides language that decreases the 25-mile boundary limit to 10 miles for the Cook Inlet basin. This provides a 20% credit.
- Sec. 4: Requires the commissioner to evaluate the explorer's claim for a 29% credit (within 3-mile) within 60 days of receipt of the information.
- Sec. 5: Provides language that caps the exploration credits in the Cook Inlet to a maximum of \$20,000,000.
- Sec 6: Language that provides a definition to "Cook Inlet basin" and references the definition currently provided in another statute.

Adopted
4/15/05

AMENDMENT |

OFFERED IN THE HOUSE
TO: CS HB 71 ()

BY REPRESENTATIVE

- 1 Page 2, lines 13-17
- 2 Delete All Material
- 3 Insert New Material

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,
6 2003, and before July 1, 2007, except that an exploration expenditure, in whole or in
7 part, south of 68 degrees, 15 minutes, North latitude must be incurred for work
8 performed before July 1, 2010, except that an exploration expenditure for a Cook
9 Inlet prospect must be incurred for work performed on or after July 1, 2005, and
10 before July 1, 2010, and

- 11
- 12 Page 6, line 12
- 13 Following: "do not apply to"

14 Delete: "taxes applicable under this chapter attributable to production from oil and
15 gas produced from an oil and gas lease, or to gas produced from a gas only lease,
16 located north of 68 degrees, 15 minutes, North latitude or on"

17

18 To read:

19 (l) The provisions of this section do not apply to the Arctic National Wildlife
20 Refuge.

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adopted 4-15-05

4-15-05

AMENDMENT 2

OFFERED IN THE HOUSE
TO: CS HB 71 ()

BY REPRESENTATIVE

- 1 **Page 2, line 1**
- 2 Following: "under"
- 3 Delete: [(b) AND]
- 4 Insert: (b) and
- 5
- 6 **Page 2, line 3**
- 7 Following: "under"
- 8 Delete: [(b) AND]
- 9 Insert: (b) and
- 10
- 11 **Page 2, line 7**
- 12 Following: "under"
- 13 Insert: (b).
- 14
- 15 **Page 2, line 9**
- 16 Following: "under"
- 17 Delete: [(b) AND]
- 18 Insert: (b) and
- 19
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THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB071CS(RES)-DNR-06
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Credit for certain exploration expenses against RDU Resource Development
oil and gas properties production taxes on oil and gas ... Component Oil & Gas Development
Sponsor Rules by Request of Governor
Requester House Resources Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 ()	***					
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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 (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill extends the sunset date on the oil and gas exploration credit against production tax (SB 185, CH 59, SLA 03) for the Nenana basin exploration license (issued October 2002) and the proposed Alaska Peninsula sale area. The proposed Alaska Peninsula sale is tentatively scheduled for fall of 2005. It is anticipated that leases would not be issued until spring 2006. It is likely that exploration expenditures on these leases would occur after the current July 1, 2007 deadline, in which case they would not be credited against future production taxes unless the current statute is amended.

*** An extension of the sunset deadline to the proposed Alaska Peninsula sale area may encourage additional or higher competitive bids, although these additional revenues are impossible to predict or quantify.

Prepared by: Sean Parnell, Deputy Director Phone 269-8800
Division Oil & Gas Date/Time 4/5/2005
Approved by: Tom Irwin, Commissioner Date 4/6/2005
Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 71
 (H) Publish Date: 1/12/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Credit for Certain Exploration Expenses RDU: Revenue Operations
Against Oil & Gas Properties Production Taxes Component: Tax Division
 Sponsor: Rules Committee
 Requester: Governor Component No: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 ()	See Analysis					
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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 (FY2005) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

Currently the State plans to hold a Bristol Bay lease sale in October of 2005 assuming a favorable preliminary best interests finding. If both are received and accepted at this lease sale, lease 9 will be issued in spring 2006, with exploration of this region beginning that summer, FY 2007-FY2008. It is possible that 1 to 2 wells per year will be drilled on average over the period 2007 to 2009. Wells will be drilled from onshore facilities, but given the remoteness of the area and lack of infrastructure, we estimate that the wells could cost roughly \$10 million per well. We anticipate that on average these wells would qualify for a production tax credit equal to 50% of qualified costs, that qualifying for the 40% credit and half for the 20% credit. (continued on Pg 2)

Prepared by: Tom Boutin Phone: _____
 Division: Department of Revenue Date Time: 1/12/05 2:59 PM
 Approved by: Tom Boutin Date: 1/11/2005
 Agency: Department of Revenue

ANALYSIS CONTINUATION

As a result the credit would be worth around \$7 million per year to the exploration firms from fiscal year 2008 through fiscal year 2010 (assuming a year lag between exploration expense and claiming of the credit). The adoption of this severance tax credit could yield revenue in two ways. First, the existence of an exploration credit over the period of likely exploration could prompt companies to participate in a lease sale when they otherwise would not. Currently, the State does not include any revenue from the lease sale in its revenue forecast. Such a lease sale could yield around \$10 million if bids were based on the possibility of finding a field containing a minimum economic field size of between 100 and 200 million barrels of oil. Such a field, if discovered and developed, would yield about \$50 million dollars a year in revenue (royalty, severance tax, and corporate income tax) over the first 10 years of production.

4-15-05

adopted 4/15/05 into
amended / concept only

AMENDMENT 1

OFFERED IN THE HOUSE
TO: CS HB 71 ()

BY REPRESENTATIVE

1 Page 2, lines 13-17

2 Delete All Material

3 Insert New Material

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,
6 2003, and before July 1, 2007, except that an exploration expenditure, in whole or in
7 part, south of 68 degrees, 15 minutes, North latitude must be incurred for work
8 performed before July 1, 2010, and

9

10 Page 6, line 12

11 Following: "do not apply to"

12 Delete: "taxes applicable under this chapter attributable to production from oil and
13 gas produced from an oil and gas lease, or to gas produced from a gas only lease,
14 located north of 68 degrees, 15 minutes, North latitude"

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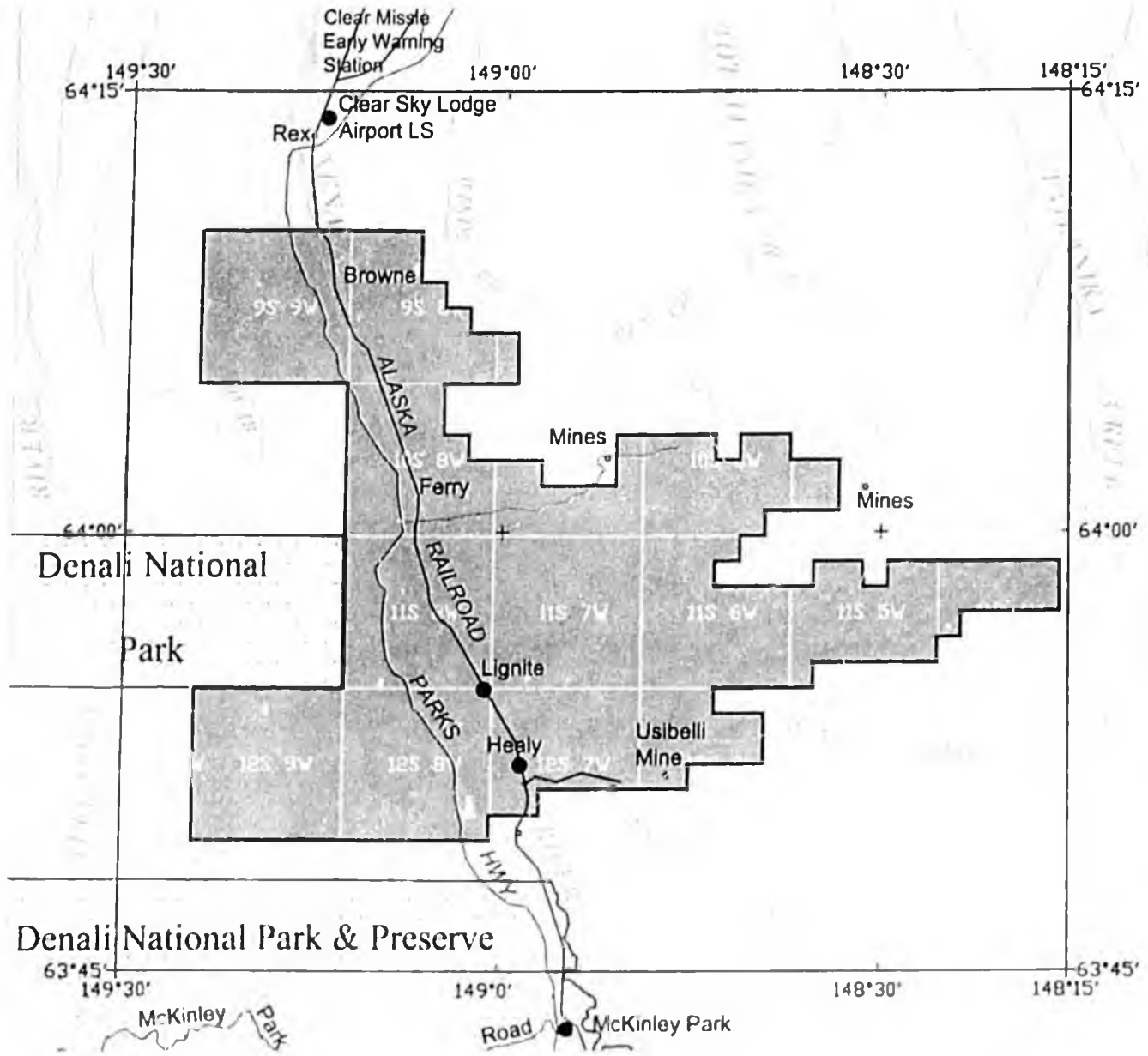
24

Held

Amendment 1 – Weyrauch

Add conceptual amendment as a new subsection (3) or (b), whichever fits on page 2, line 11.

“In no case shall total credits exceed 40 percent of the total exploration expenditures, or qualified exploration expenditures.”



Proposed Healy Basin Exploration License

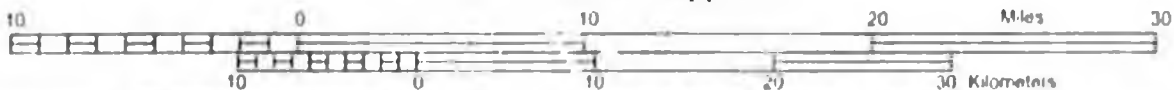
Proposed Exploration License Area = 

Federal Lands = 



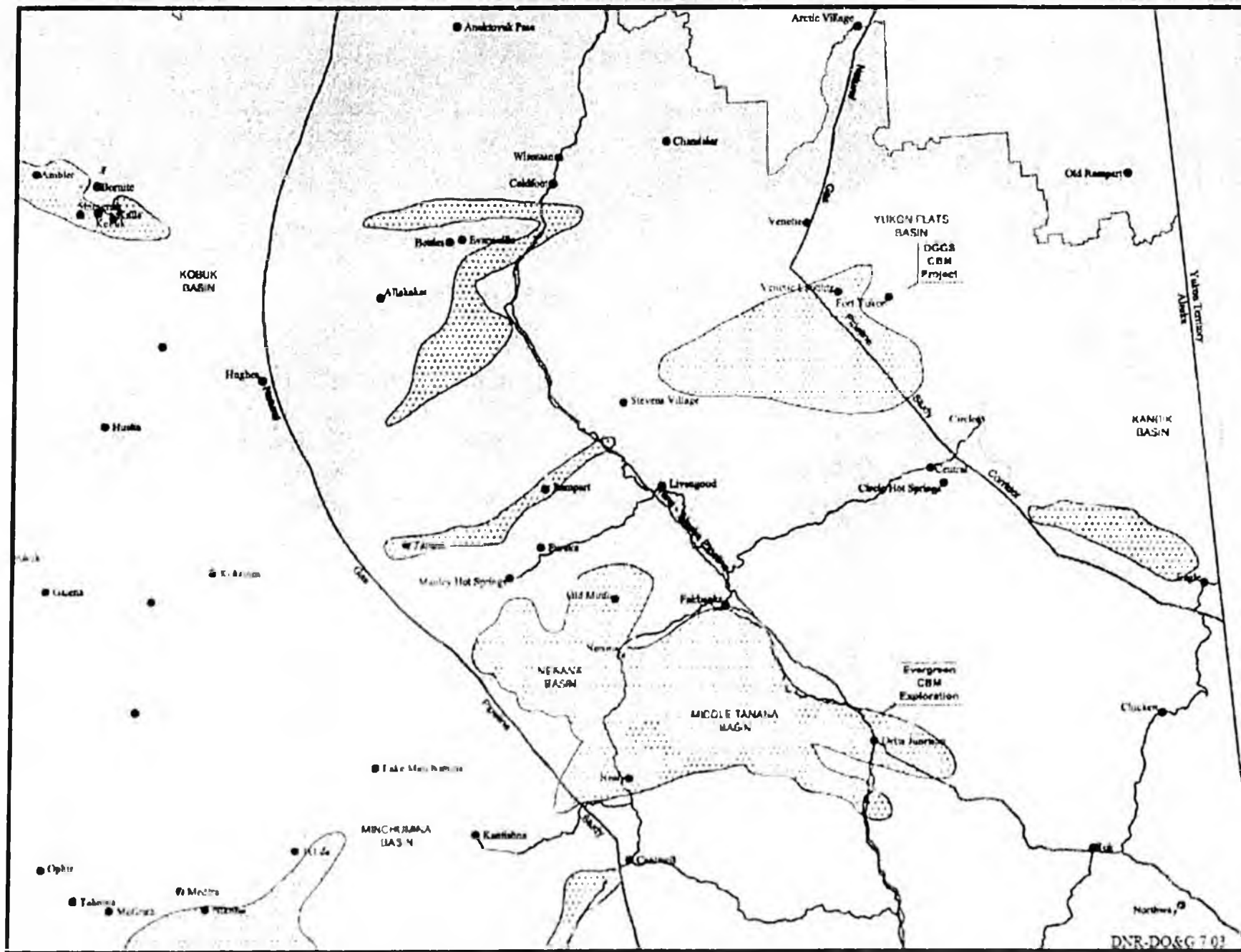
Scale 1:380,000

One Inch = 6 Miles Approx.



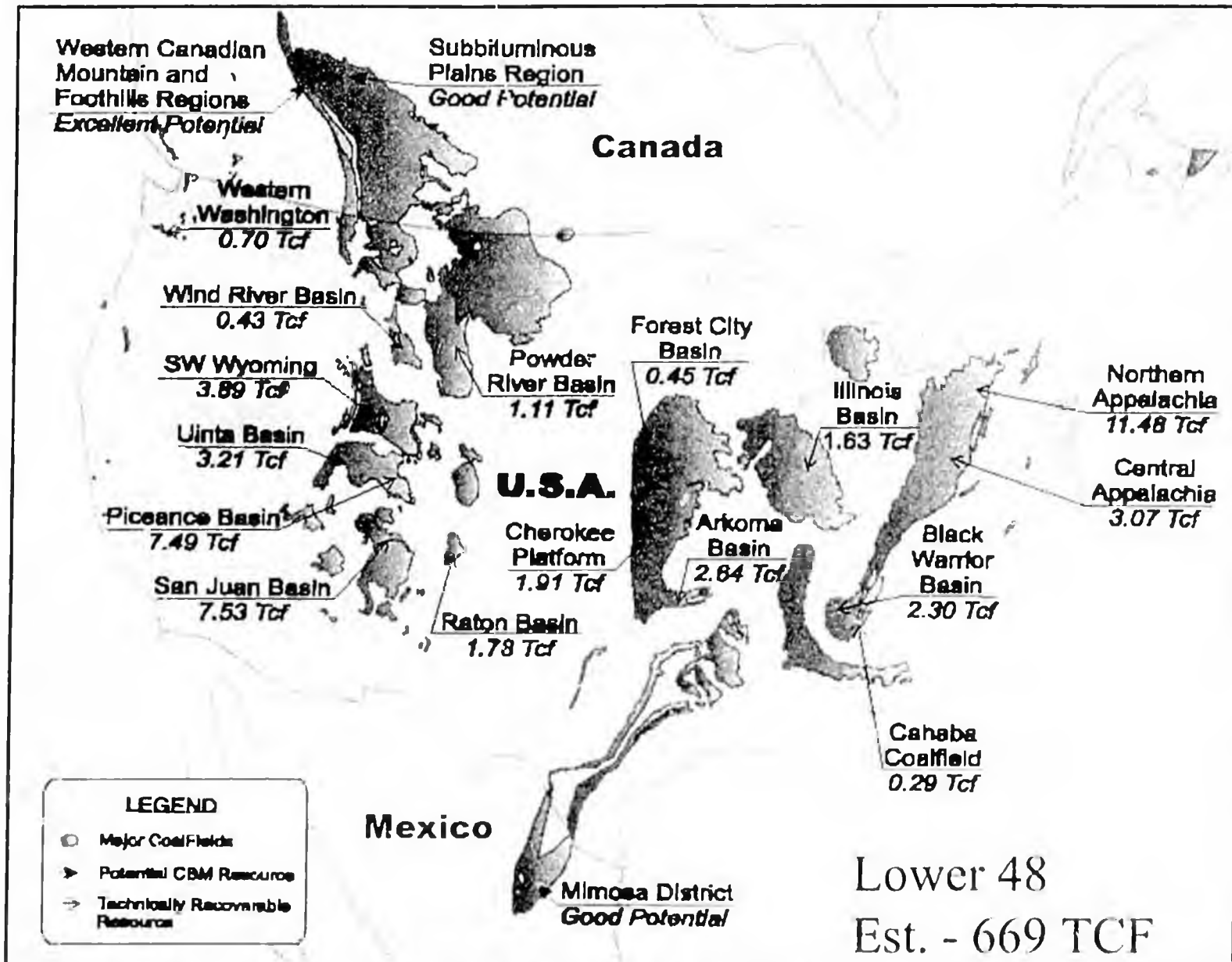
Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.
 Albers Equal Area Conic Projection, 1227 North American Datum, Clarke 1856 ellipsoid with a central meridian of 148° 52' 47", origin latitude of 50°, northern parallel of 55°.
 This is not an official license map, but is for informational purposes only. DNRF makes no claim as to its accuracy.

Gas Potential – Interior Area



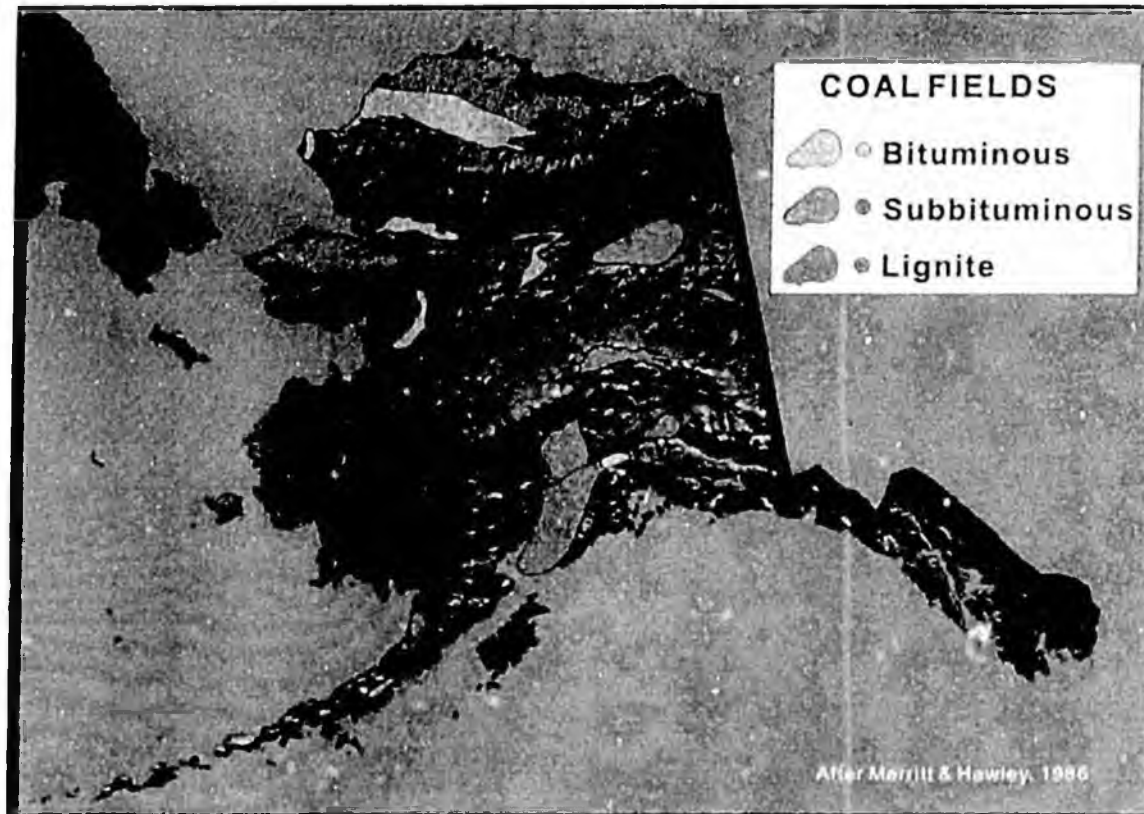
From: Powerpoint Presentation by Mark D. Myers, Director
State of Alaska, Department of Natural Resources, Division of Oil and Gas
PAC COM Expo and Conference 2004

CBM in the Lower 48



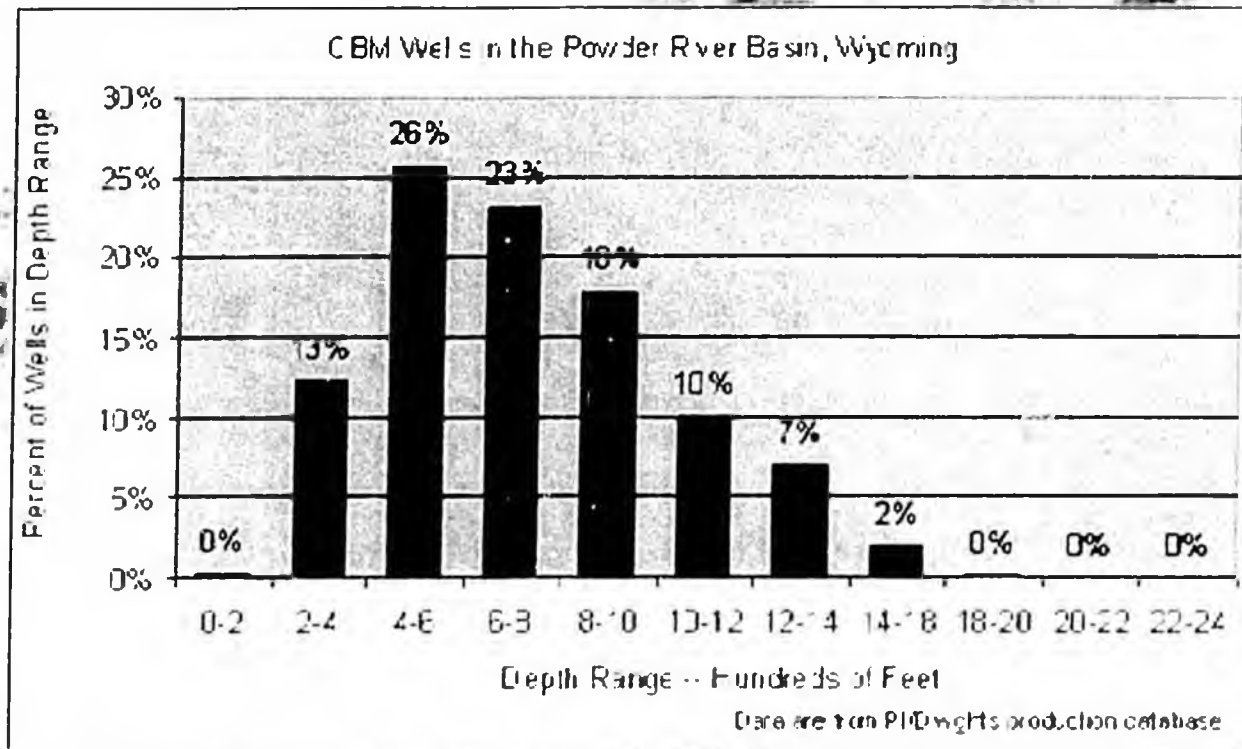
Source: Robert McCurdy, NorWest Mine Services, Inc., Salt Lake City, UT, 2001, Coal Bed Methane (CBM) and Coal Mine Methane (CMM) in North America: Where and Why?, http://pecc.utulsa.edu/lpec/Conf/mccurdy_85.pdf

How Much Coalbed Gas In Alaska?



- **Coalbed Methane Resources: 1,037 trillion cubic feet estimated**
(Barker, 2000)

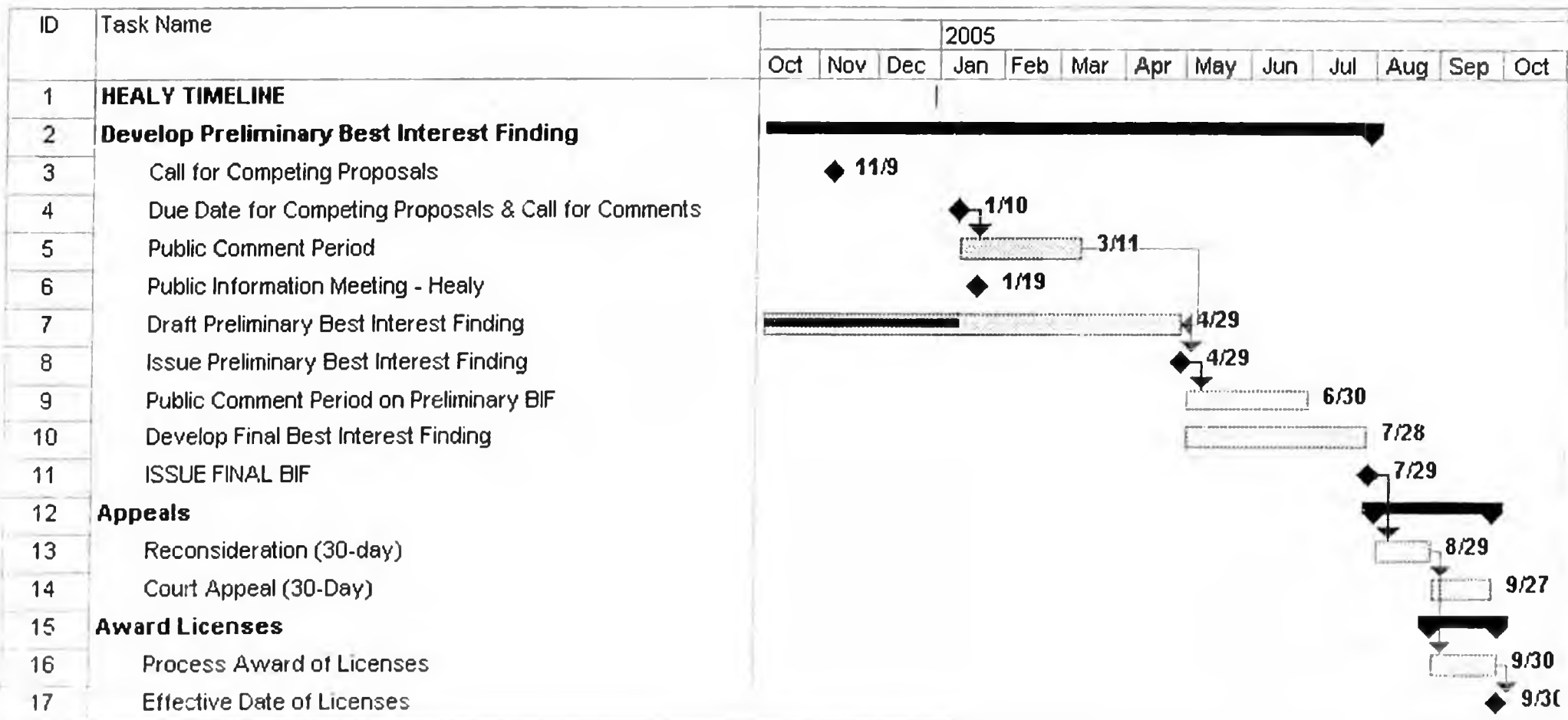
Coal Depths and CBM



In the Powder River Basin, coals range in depths to below 2500' but cleat reduces with depth and the majority of CBM is produced at shallower depths. At the same time, many coals outcrop at the surface but many shallow coals have undergone burning and most have expelled their methane.

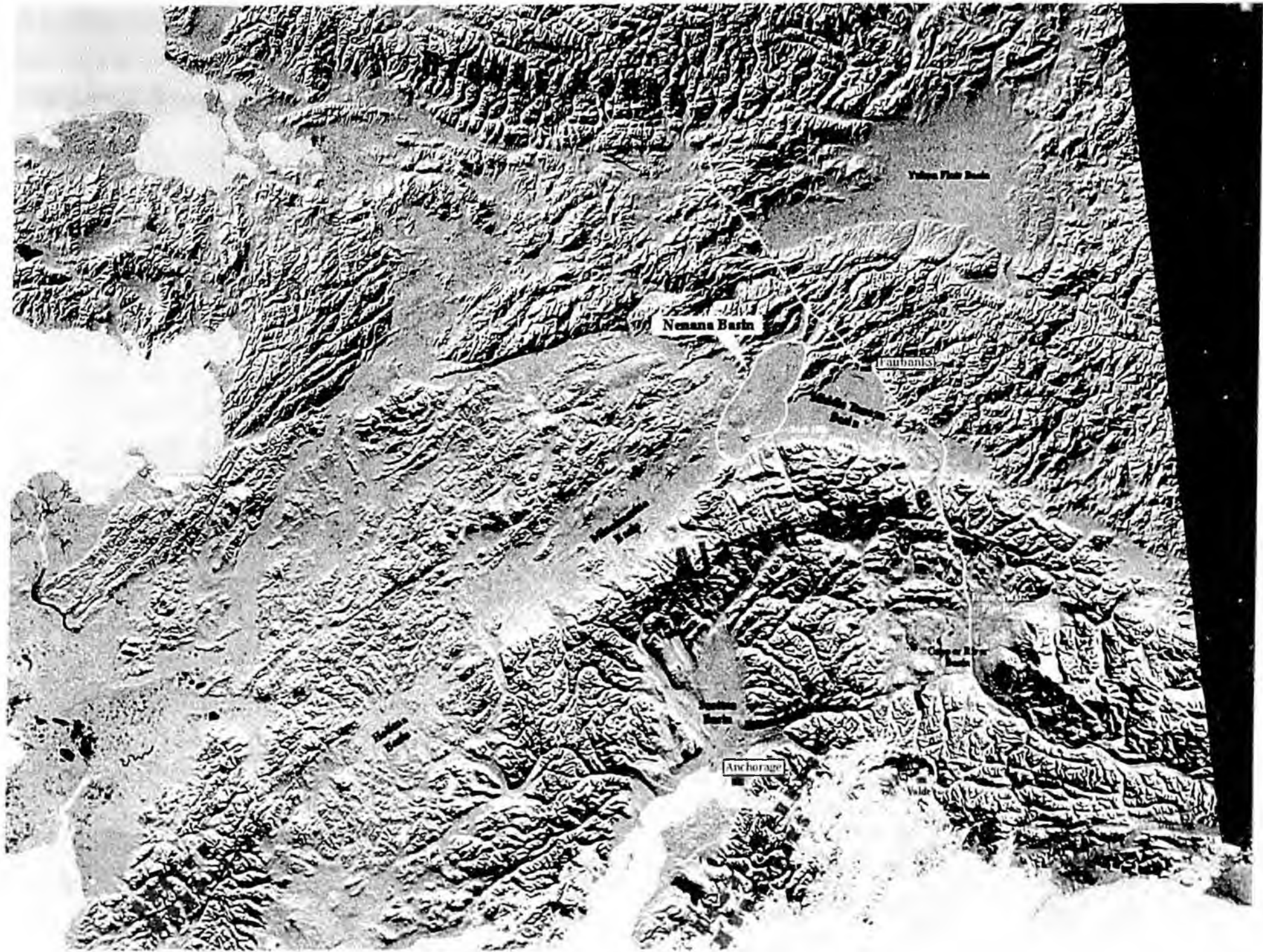
HEALY EXPLORATION LICENSE APPLICATION

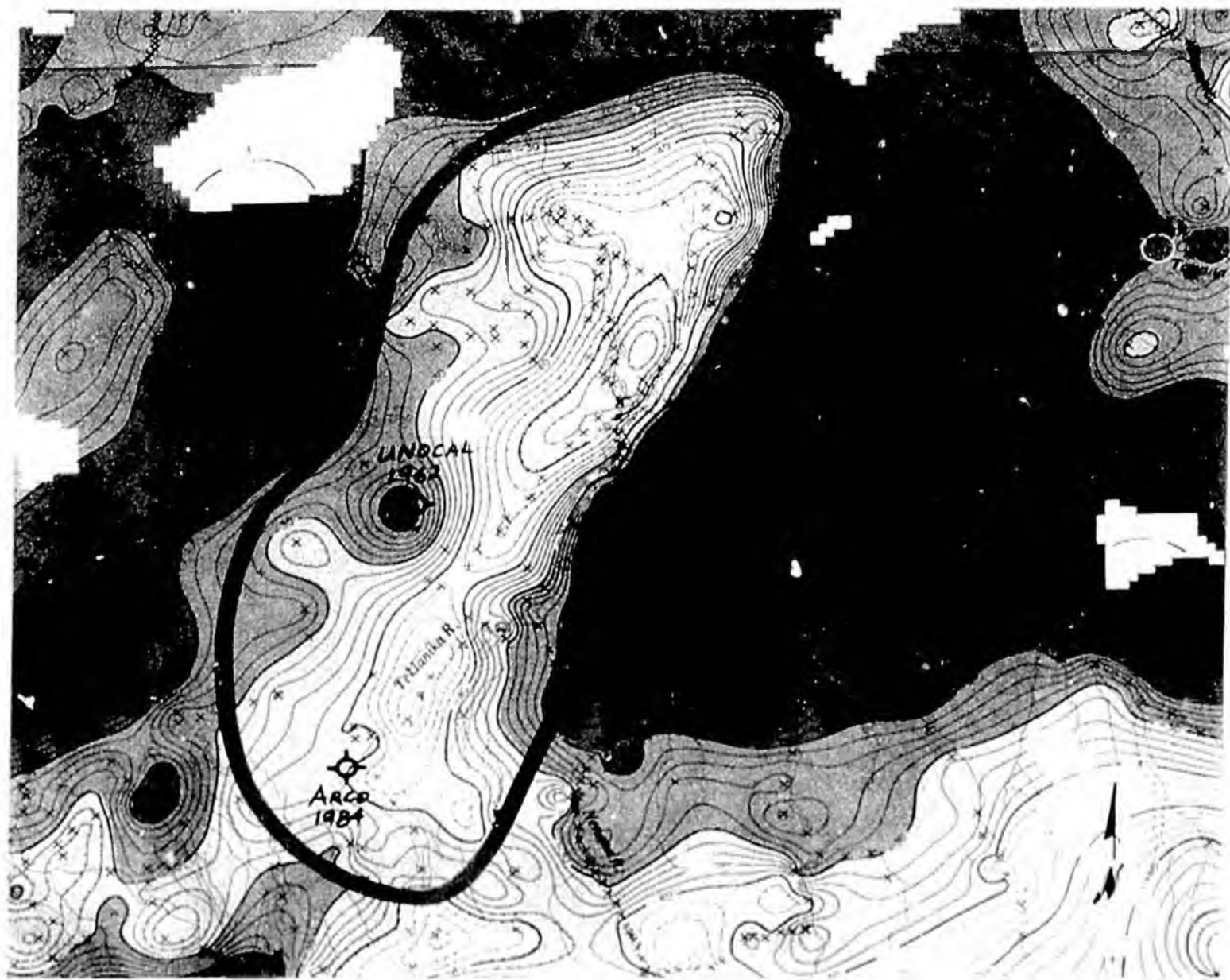
- **208,630 Acres State General Selection Land**
- **40,000 Acres (approx.) Additional ARRC, AMHT and University Lands**
- **Gas Only Exploration License**
- **Proposed Work Commitment of \$500,000**
- **Proposed Term of 10 Years**
- **Best Interest Finding Process in 2005**
- **Original Application in 2003 under Shallow Gas Leasing Program delayed & started over under current program**



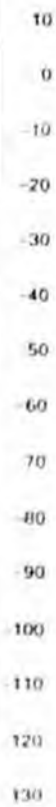
NENANA BASIN ALASKA

- **ANDEX RESOURCES, LLC**
- **USIBELLI ENERGY**
- **DOYON, LTD**
- **ARCTIC SLOPE REGIONAL CORP.**



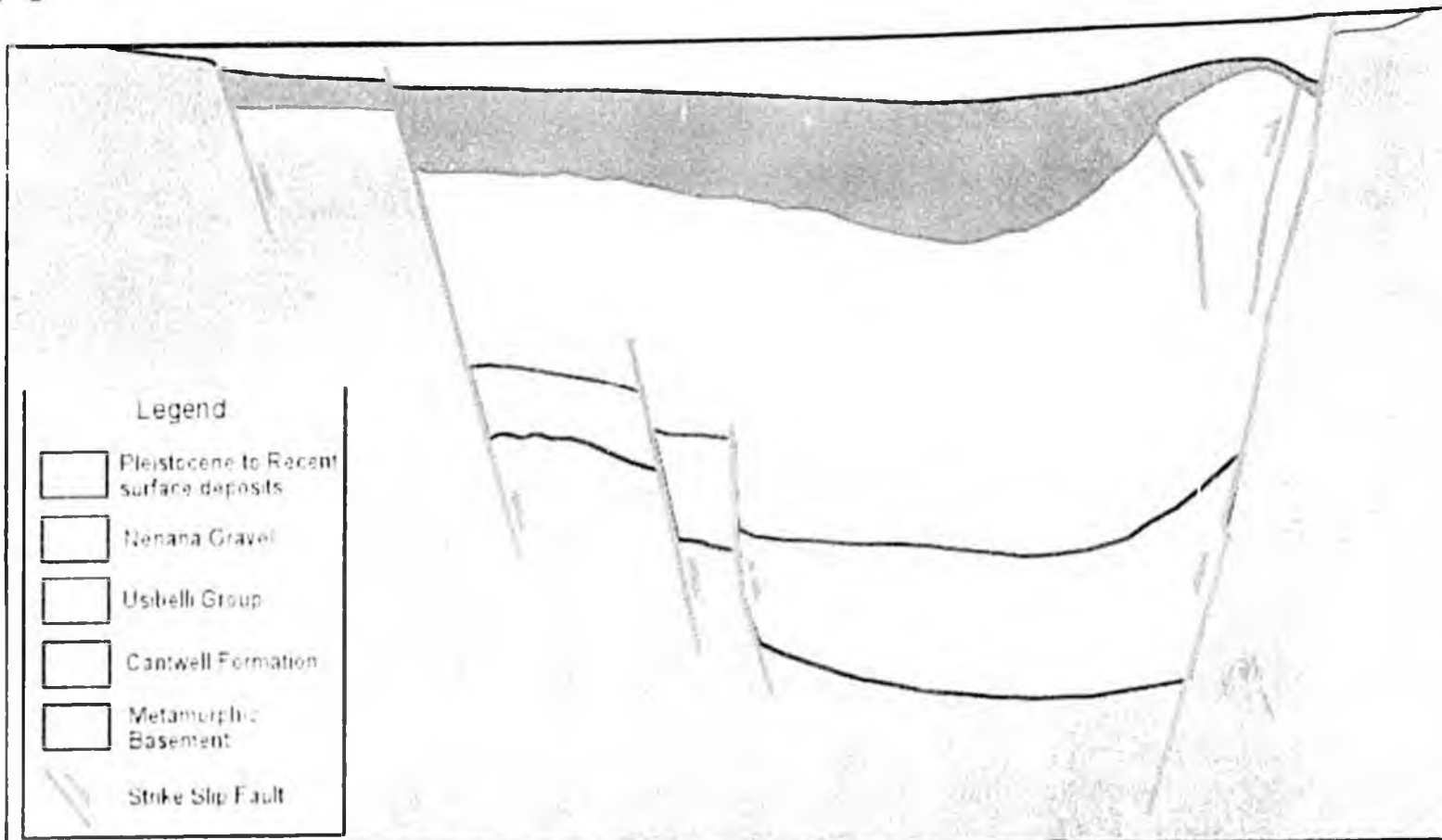


mGal



W

E



EXPLORATION LICENSE

- **483,174 ACS**
- **OCTOBER 1, 2002**
- **PRIMARY TERM: 7 YEARS**
- **LEASE OPTION: 7 YEARS**
- **WORK COMMITMENT: \$2,500,000**

Exploration Incentive Credit (EIC) Programs

Program III - AS 43.55.025 Exploration Tax Credits

- Result of SB 185.
- Implemented as 15 AAC 55.220.
- Effective for exploration well and seismic and geophysical exploration activities conducted July 1, 2003, through June 30, 2007, except those included in a unit plan of development or plan of exploration on May 13, 2003.
- Applicable only to production occurring on or after July 1, 2004.
- Applicable to all unleased and leased state, federal and private land within the state.
- Applicable to production taxes only.
- Application must be made within six months following completion of exploration activity.
- Production tax credit is transferable.
- Exploration well tax credits:
 - 20% if the bottom hole location is 3 or more miles from the bottom hole location of a preexisting completed, suspended or plugged and abandoned oil or gas well that was spud more than 150 days, but less than 35 years, prior to spud date of the eligible exploration well.
 - 40% if the bottom hole location is 25 or more miles from the boundary as of July 1, 2003, of any unit under a plan of development.
- Seismic exploration tax credits:
 - 40% of eligible costs for those portions of activities outside of units under plan of development or plan of exploration.
 - Seismic data submitted to state will be held confidential for 10 years and 30 days following activity completion date.

FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 71
LL 18
P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

January 11, 2005

The Honorable John Harris
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state and relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004.

The Bristol Bay area is one of the largest onshore tracts in Alaska to potentially open for oil and gas leasing in the last 20 years. The northerly portion of the basin is believed to be gas prone. Extending the timeframe for exploration incentives will benefit the residents of the region with the potential for a natural gas supply that could lower their fishing costs, provide heat for their homes and result in less expensive power.

In the interest of providing tax incentives to encourage exploration in Alaska, new AS 43.55.025, which allows oil producers to credit exploration expenditures against production tax on oil and gas produced after July 1, 2004, was added in the 2003 session (HCS CSSB 185(O&G) am H; ch. 59, SLA 2003 (effective September 9, 2003)).

In order to qualify for the production tax credit under that statute, exploration expenditures must be incurred on or after July 1, 2003, and before July 1, 2007. It has become apparent that the July 1, 2007, deadline will come too soon for oil producers that obtain leases in the proposed Bristol Bay (Alaska Peninsula) Competitive Oil and Gas Areawide Lease Sale Area described in ch. 9, SLA 2004 (which took effect March 18, 2004). In this proposed lease sale area, the Department of Natural Resources anticipates that leases would

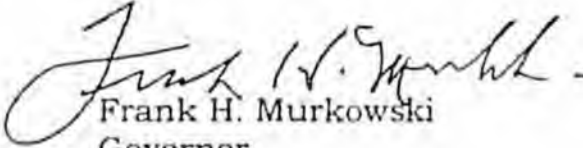
The Honorable John Harris
January 11, 2005
Page 2

not be issued until the spring of 2006. Given this timetable, it is likely that exploration expenditures on these leases would occur after July 1, 2007, in which case they could not be credited against future production taxes.

In order to provide similar tax incentives to the bidders on these proposed oil and gas leases, this bill would extend the deadline for exploration expenditures in the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas acrewide lease sale area to July 1, 2010. This bill also would make some minor technical changes to AS 43.55.025 to clarify the intent and harmonize terms used in that recently enacted section.

I urge your support of this important legislation.

Sincerely yours,


Frank H. Murkowski
Governor

Enclosure

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

House Bill 71 is intended to encourage exploration and development of one of the largest undeveloped onshore oil and gas fields remaining in Alaska, outside of the north slope. Development of this field has the potential to bring stable, high paying, year round jobs to an area which has traditionally relied on a seasonal commercial fishing economy. Gas from this field can provide an efficient relatively low cost energy source for heating and the production of electricity to the Alaska Peninsula area. Oil and gas development can provide transportation infrastructure and lower the cost of living in this area. Local residents and commercial interests including native corporations in the Alaska Peninsula area support development of the gas and oil resources in this area.

The exploration credit enacted last year provides oil and gas explorers a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit, or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it can be either carried forward month to month until fully applied, or sold or transferred to another taxpayer and applied to Alaskan production tax liabilities. The work must be performed between July 1, 2003 and July 1, 2007. In general allowable expenses include the direct costs of the work performed and exclude overhead, administration and environmental costs.

This bill extends the period for performing qualifying exploration work for the tax credit until July 1, 2010, for exploration in the proposed Alaska Peninsula competitive oil and gas area wide lease sale area. Exploration as a result of that lease sale is not expected to occur until after the expiration of the current production tax credit on July 1, 2007, therefore we are proposing extending the qualifying period four years.

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

January 17, 2005

SUBJECT: Draft House Ways & Means Committee Substitute for House Bill 71 [CSHB 71(W&M)] prepared solely for the purpose of conformity with Legislative Drafting Manual (Work Order No. 24-GH1040\G)

TO: Representative Bruce Weyhrauch, Chair
House Special Committee on Ways and Means

FROM: Jack Chenoweth
Assistant Revisor 

Ginny Austerman has asked this office to prepare a draft committee substitute that conforms House Bill 71, a governor's bill, to the requirements of the Legislative Drafting Manual.

These are the changes to HB 71 that are incorporated into the draft committee substitute:

-- page 2, line 15: I have deleted reference in the amendment to a permanent law provision of a reference to "section 5 of this Act". Our practice, with a very limited number of exceptions made where it is not possible to substitute an appropriate permanent law cross-reference, has been to omit temporary law bill section references in the body of permanent law.

-- page 3, line 27 through page 5, line 6:

Based on examples appearing in AS 16.20.036(a)(10) and AS 16.20.615(a), I have omitted the first reference to "West" in the legal description of the range numbers of the land proposed for inclusion in the Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area.

I have also opted to recommend that the legal description of the areawide lease sale area be incorporated as an addition to the permanent law. The test of whether the provision should be treated as permanent law or as temporary law, as recommended in the administration bill, turns on language in the Legislative Drafting Manual directing that "[b]ills creating uncodified law are generally . . . most laws of a temporary or special character." Drafting Manual at page 23. While the provision in question might be treated as "special [in] character," in point of fact the description of the withdrawn areawide oil and gas lease sale may hold the land and water areas in that status for a longer period than most provisions that are typically treated as "temporary."

Drafting Changes to HB 71

Representative Bruce Weyhrauch
January 17, 2005
Page 2

Finally, I would propose that the legal description, codified, not appear as part of AS 43.55.025, a provision that is already fairly technical, but that it stand apart in a section of its own.

-- page 5, following line 13: Bill section 7 makes the contingently effective amendments to AS 43.55.025(b) [bill section 2] and the legal description of the proposed Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area [bill section 5] effective "the day the commissioner of natural resources notifies the revisor of statutes that the lease sale . . . has occurred." There is no corresponding duty or obligation imposed on the commissioner to transmit that report. Section 6(b), new in the draft committee substitute, adds that obligation.

*

There are some other potential problems with the bill that I am unable to address, which the committee may want to question the administration representative(s) who appear to testify on it:

--page 1, line 5: The bill title refers to "expenditures" claimed as credits "on production tax on oil and gas produced from a lease sale . . . after July 1, 2004," but the authorization in the body of the bill, at page 2, lines 13 - 15, refers to activity occurring on or after July 1, 2003; should the title date reference be conformed? It is the opinion of at least one of the revising attorneys in that office that it should.

-- page 3, line 10: In the text of bill section 3, eligibility is extended for the second 20 percent credit covering an exploration well located within 25 miles outside of the outer boundary, as delineated on July 1, 2003, of a unit that is under a plan of development. If exploration wells associated with, but located outside the proposed Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area are intended to be covered by this provision, does the fact that the outer boundary might not have been delineated by that date prevent eligibility? Should the date be altered?

Finally, as a policy consideration -- you do understand, do you not, that the change of the "or" to "and" on page 2, line 5 of the measure as introduced allows for a doubling of the potential cumulation of expenditures that may be claimed as credits from the 40 percent maximum of current law to a possible maximum of 80 percent.

JBC:jad
05-015.jad

Enclosure

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

October 22, 2003

RECEIVED
OCT 27 2003
DIVISION OF
OIL AND GAS

Commissioner Tom Irwin
Department of Natural Resources
550 W 7th Avenue, Suite 1400
Anchorage, Alaska 99501

RE: Bristol Bay Region: Oil and Gas Programs
Public Comments - Due October 30, 2003

Commissioner Irwin:

Please consider the following comments from the Bristol Bay Borough:

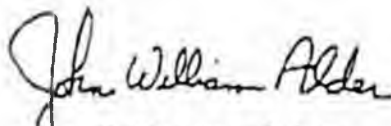
1. The Bristol Bay Borough Assembly is in strong support of the State of Alaska's recent efforts to advance oil & gas exploration in the Bristol Bay region.
2. The Bristol Bay Borough is committed to finalizing a Memorandum of Understanding with the Alaska Department of Natural Resources outlining critical areas of interest with respect to regional oil & gas development and outstanding municipal lands issues.
3. The Bristol Bay Borough is supportive of the continued public outreach evidenced to date by the State of Alaska on the Bristol Bay oil & gas exploration initiative and anticipates that this outreach effort will remain constant throughout the proposed development timeline.

DEPARTMENT OF
NATURAL RESOURCES

Letter to Commissioner Irwin
October 22, 2003
Page 2

4. The residents of the Bristol Bay Borough are heavily dependent upon the robust regional fish & wildlife resources for subsistence needs. While the Bristol Bay Borough Assembly is in support of resource development, all development must proceed with due diligence in order to minimize potential negative impacts to the fish & wildlife resources.
5. Local knowledge of regional environmental conditions and fish & wildlife characteristics is one of our greatest resources in the Bristol Bay region. Accordingly, the Bristol Bay Borough recommends that all state agencies proceed throughout the oil & gas development process in a method that relies heavily upon local input. Any subcommittees or advisory panels empowered by the state should include local knowledgeable residents.
6. The Bristol Bay region has long suffered from seasonally sporadic employment. The regional oil & gas development initiative offers an exciting departure from the long winter season low employment cycle. The Bristol Bay Borough Assembly strongly urges the State of Alaska to continue in its expressed commitment to channel oil & gas employment training through the newly established Southwest Alaska Vocational Education Center (SAVEC) in King Salmon thereby enabling optimal local hire during exploration and development of potential oil & gas prospects.

Sincerely,



John William Alder
Borough Manager

cc: Mayor Michael Swain
Borough Assembly members

ALEUTIANS EAST BOROUGH

SERVING THE COMMUNITIES OF

■ KING COVE ■ SAND POINT ■ AKUTAN ■ COLD BAY ■ FALSE PASS ■ NELSON LAGOON

October 14, 2003

James Hansen,
Leasing Manager
Division of Oil & Gas
Department of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501

Ref.: Proposed Alaska Peninsula & Bristol Bay
Oil & Gas Leasing Program

Dear Mr. Hansen,


The Assembly of the Aleutians East Borough wants to thank you and your team for the presentation on October 7, 2003. Even though the weather did not allow everyone to get to Cold Bay, the Assembly's comments after the meeting included their appreciation of your efforts to brief the Assembly and the residents of the Aleutians East Borough.

First, it is the Borough's understanding that if there is Best Interest Finding, all development will take place within the State's jurisdiction and that there will be no development off shore. Furthermore, the Borough understands that the majority of the development will likely be on State owned land. Second, the concerns voiced by the people of Nelson Lagoon are symptomatic of the concerns of the majority of the Aleutians East Borough's residents. They were:

1. We need to protect our fish and game resources.
2. We need local jobs and employment at all stages of development. This must be at all levels, management, technical and labor, union and non union, should oil or gas be produced within the Aleutians East Borough.
3. We need any and all exploration sites returned to their original nature.

To this end, the Assembly passed a motion supporting the State of Alaska's efforts to conduct a Best Interest Finding process for the proposed oil & gas leasing program on the Alaska Peninsula.

Sincerely,


Stanley A. Mack
Mayor

RECEIVED

OCT 16 2003

DIVISION OF
OIL AND GAS

CLERK/PLANNER
P.O. BOX 349
SAND POINT, AK 99661
(907) 383-2889
(907) 383-3498 FAX
e-mail: AEBCLERK@aol.com

BOROUGH ADMINISTRATOR
3380 C STREET, SUITE 205
ANCHORAGE, AK 99503-3952
(907) 274-7555
(907) 276-7569 FAX
e-mail: aebsanc@aol.net

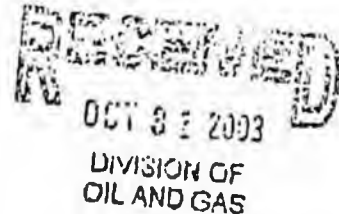
FINANCE DIRECTOR
P.O. BOX 40
KING COVE, AK 99612
(907) 497-2688
(907) 497-2388 FAX
e-mail: aeoffinance@aol.com



Lake and Peninsula Borough

P.O. Box 495
King Salmon, Alaska 99613

Telephone: (907) 246-3421
Fax: (907) 246-6602



October 27, 2003

Patrick Galvin, Petroleum Land Manager
Division of Oil & Gas
550 W 7th Ave, Suite 800
Anchorage, Alaska 99501-3560

RE: Call for Comments, AK Peninsula Area-wide 2005 Oil & Gas Lease Sale

Dear Mr. Galvin:

First, we would like to thank the Governor, the Governor's staff and those within DNR's Oil & Gas Division for the recognition of the extra attention required "to get the word out" to those who live on the Alaska Peninsula concerning the upcoming oil and gas lease sales. There are many communication gaps in bush Alaska making your task that much more difficult.

The regional meetings in Dillingham, Bristol Bay Borough (Naknek) and in the Lake & Peninsula Borough offices (King Salmon) were instrumental in ensuring accurate information is "passed along" to others. However, due to the size of the Lake and Peninsula Borough and the steep transportation costs to travel between villages, some over 1 hour away from King Salmon by plane, I would encourage you consider additional informational meetings to be held in Port Heiden, Iliamna, and the Chignik, ASAP. We will be glad to provide you with local contacts for those communities.

Lake & Peninsula Borough responded earlier to Mr. James Hansen's request for information providing copies of the borough's latest Community Economic Development Strategies document. Additionally, community profile maps will soon be available (expected by June 2004) on-line at DCED's website of all the villages within the Borough. These maps will contain several layers of information readily accessible by the user. Local information pertaining to sensitive cultural areas, traditional hunting or gathering areas and local historic sites are included on most community maps (local preference so not every village map contains this information). These maps will no doubt prove to be invaluable relating to potential exploration that might be considered in close proximity to a village.

Finally, the Lake and Peninsula Borough supports onshore exploration and development but are concerned that the Best Interest Findings developed from this "call for comment period" also apparently apply to the 1.5 million acres of offshore acreage included in the lease sale, and further, that those findings are valid 10 years out.

We want to make it perfectly clear that while we are in support of onshore exploration and leasing, "the jury is still out" in most Borough villages when it comes to offshore exploration. I suspect much more information and discussion with the village leaders around the Bay will be required before offshore activities receive a majority of local support.

By supporting the current lease sale proposal, the resulting exploration and possible development of onshore sites within the next 5 years, we want to ensure we do not lose the ability to consider through separate actions, any potential exploration and development of offshore acreage in the future.

Thank you for the opportunity to provide this input. Please feel free to contact me as may be necessary.

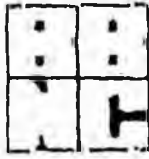
Sincerely,



Jeff Currier
Borough Manager

4184

JP
TS



Bristol Bay Native Corporation

Enriching Our Native Way of Life

600 Cordova Street, Suite 200 / Anchorage, Alaska 99501-6299 / (907) 278-3602 / fax (907) 276-3924

VIA FEDEX & FAX: (907) 465-3532

June 26, 2003

Honorable Frank Murkowski, Governor
P.O. Box 110001
Juneau, Alaska 99811

Fax Received
JUN 26 2003
Office of the Governor

Subject: Support for Leasing Program in the Bristol Bay Region

Dear Governor Murkowski:

Residents of the Bristol Bay region sorely need your help in order for them to help themselves. We need you to institute an oil and gas leasing program in Bristol Bay. We've compared and contrasted the pros and cons of exploration licensing and leasing, and we believe that, for several reasons, the State's best option is to put its uplands on the leasing schedule.

First, the "leasing notice" is announced to a wider audience than the exploration licensing notice is. Second, leasing, since it includes rental, bonus, and minimum work commitment terms, generally generates more revenue and more information for the State. Lastly, the land leased can be more than the 500,000-acre "cap" imposed by the exploration-licensing program, and this may be more desirable from the industry's standpoint.

BBNC has embarked on a mission to reinvigorate the environmentally responsible exploration for, and development of, oil and gas resources in Bristol Bay. We've also received the blessing, by resolution, of several Bay-area organizations that recognize the need for more jobs and cheaper energy. I've attached copies of the fourteen resolutions I've received so far, which include both regional and village-level organizations.

If you have any questions, please call me at 1-800 478-3602.

Sincerely,

Paul C. Roehl
V.P., Land & Resources

Cc: Tom Irwin, DNH Commissioner
Randy Ruiderich, AOGCC Commissioner
Mark Myers, DUG Director
BBNC Board of Directors

Post-It® Fax Note	7671	DATE	6/26/03	TIME	10:21 AM
To	Gov. Murkowski	From	Paul Roehl		
Company	State of Alaska	Co.	BBNC		
Phone #		Phone #			
Fax #	(907) 465-3532	Fax #			

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

BRISTOL BAY BOROUGH RESOLUTION 2002-02

A RESOLUTION SUPPORTING OIL & GAS EXPLORATION ON NATIVE CORPORATION LANDS NEAR BRISTOL BAY BOROUGH

WHEREAS, Bristol Bay Borough and Communities throughout Western Alaska face difficult economic conditions due in part to high costs of living, high costs of energy and depressed fish prices and;

WHEREAS, all refined petroleum products required to operate home heating furnaces, electrical generators, cannery retorts and fish harvesting vessels are imported into the region and stored, both at very high costs and;

WHEREAS, the oil & gas industry has in the past expressed interest in exploring for reserves on the Alaska Peninsula on or near lands currently owned by the Alaska Peninsula Corporation and Bristol Bay Native Corporation as well as other lands in the region and;

WHEREAS, the interest was significant enough for the private sector to invest considerable capital in seismic and actual drilling exploration and;

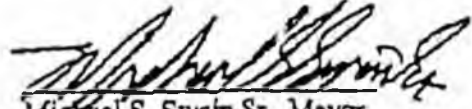
WHEREAS, Senator Stevens in recent conversations with Bristol Bay Borough officials and before the Alaska State Legislature indicated a willingness to petition Congress to add funding to the United State Geologic Survey in order to enable regional oil & gas assessments throughout rural Alaska and;

WHEREAS, potential development of oil & gas reserves on the Alaska Peninsula would likely yield direct benefits to the Bristol Bay Borough, borough residents and businesses and economic development efforts to revive our ailing economy and,

FEB 07 2002 3:10PM OF LABORER, SCUB.

NOW THEREFORE BE IT RESOLVED, that the Bristol Bay Borough Assembly strongly encourages the local & regional Bristol Bay ANCSA corporations to work closely with the Borough, private sector oil & gas firms and the Congressional delegation in the wise development of our natural oil & gas resources in an effort to optimize benefits to the overall Bristol Bay region and State of Alaska.

PASSED AND APPROVED, by a duly constituted quorum of the Bristol Bay Borough Assembly on this 4th day of February, 2002.


Michael S. Swain Sr., Mayor

ATTEST:


Betty J. Borja, Borough Clerk

SEP-25-03 15:28 From:BRISTOL BAY NATIVE CORPORATION

9072783924

T-213 P.02/02 Job-240



King Salmon Tribe

People of the Village

P.O. BOX 68 KING SALMON, AK 99613
TEL: 907/246-3553 FAX: 907/246-3449
E-MAIL: ksaiva@bristolbay.com

September 15, 2003

Bristol Bay Native Corporation
800 Cordova Street
Suite 200
Anchorage, AK 99501-6299

VIA FACSIMILE: 907/276-3924

Dear Mr. President:

As you know, Bristol Bay has been faced with economic failure year after year, due to the low return of salmon and the low prices paid to the fisherman. Because of the failure in our fishery, our people are faced with having to live in poverty. We can no longer pretend that our fisheries will be, as we knew it. Other than fishing, most of our people in our villages have very few economic opportunities. As a result, we have friends and family fighting amongst themselves for these limited jobs. Until there are economic changes in place, we will forever be faced with economic despair because there are no other means to provide for ourselves other than what we have today. We need economic diversity.

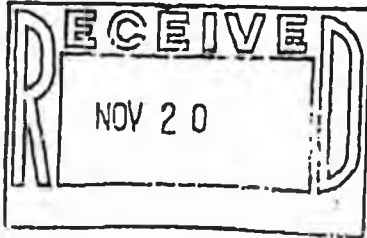
The village of King Salmon is in support of developing our oil and gas reserves both onshore and offshore and developing our mineral deposits here in Bristol Bay. We also support ground transportation from King Salmon to Anchorage so that we can reduce transportation costs to promote economic opportunities. This would also reduce the cost of living in our villages and region. Whether any of these development issues take place remains to be seen. However, we cannot continue to impoverish our people because of differences of opinions in regards to economic development.

It is unfair of people and organizations who criticize development in our region when in fact they offer no solutions to address our current short and long-term needs. In addition, many people who are opposed to economic development have good paying jobs, or work and live outside our region. Yet, many try to dictate what is best for us and our villages.

In closing, the village of King Salmon asks that we all put aside any differences that we may have of economic development in Bristol Bay. Our people deserve more than having to live in poverty and the consideration of going on welfare.

Sincerely,

Ralph Augason, Sr.
President



NEWHALEN TRIBAL COUNCIL
100 POWER LANE
P.O. Box 207
NEWHALEN, AK 99606
PHONE (907) 571-1410 OR (907) 571-1317
FAX (907) 571-1537
EMAIL NEWHALENTRIBAL@STARBAND.NET

November 12, 2003

Fred Angasan
Bristol Bay Native Association
P.O. Box 310
Dillingham, Alaska 99576

NOV 25 2003
L. S. G. C.
OIL AND GAS

Re: Native Village of Newhalen Statement of Interest

Dear Mr. Angasan:

The Newhalen Tribal Council has become increasingly aware of potential resource development activities within our area. In particular, we are aware of the increasing interest in the Pebble Copper mine. We believe resource development has the ability to bring economic opportunities to our community. However, we are concerned that improper management, poor planning and the lack of consideration of our local concerns can adversely affect our interests.

- On November 12, 2003 the Newhalen Tribal Council discussed our understanding of the potential commercial viability of the Pebble Copper mine. In addition, we discussed our understanding of the State of Alaska's Roads to Resources program and the current efforts to revise the Bristol Bay Area Plan. Through our discussion we identified the need to ensure the opportunity for active participation, effective public involvement and cooperative consultation regarding these matters.

We are writing to notify you that we have identified Joanne Wassillie as the primary point of contact for the Native Village of Newhalen. Joanne can be reach at:

Joanne Wassillie, Administrator
Newhalen Tribal Council
P.O. Box 207
Newhalen, Alaska 99606
(907) 571-1410 (907) 571-1537 fax

- We request that you add our designated point of contact to all public/stakeholder distribution lists so that the Newhalen Tribal Council will receive adequate advance notice of all upcoming public meetings related to the development of the Pebble Copper mine, including planning efforts by the State of Alaska to promote natural resource development within our region.

Newhalen Tribal Council
100 Power lane
P.O. Box 207
Newhalen, AK 99606
phone (907) 571-1410.or (907) 571-1317
Fax (907) 571-1537
EMAIL NEWHALENTTRIBAL@STARBAND.NET

RESOLUTION 03-24

A RESOLUTION OF THE NEWHALEN TRIBAL COUNCIL FOR DEVELOPING AND MAINTAINING AN ACTIVE VOICE AND PARTNERSHIP WITH ALL APPROPRIATE GOVERNMENTAL, PUBLIC AND PRIVATE SECTOR ENTITIES FOR THE SUSTAINABLE DEVELOPMENT OF NATURAL RESOURCES AND FOR RELATED PURPOSES.

WHEREAS: the Native Village of Newhalen is a federally recognized tribal government possessing the powers of a sovereign entity and the rights of self-determination; and

WHEREAS: the Newhalen Tribal Council is the governing body for the Native Village of Newhalen and is authorized and responsible to protect its members, property, resources and interests; and

WHEREAS: the protection of the health, safety, and welfare of our tribal members, families and village is critical to the exercise of tribal self-governance and self-determination; and

WHEREAS: the tribal members of Newhalen rely on subsistence resources and the subsistence way of life which is essential to meet the nutritional, cultural and traditional needs and values of the tribe; and

WHEREAS: the health, productivity and availability of our subsistence resources are critical to the health, safety and welfare of our tribal members, families and village; and

WHEREAS: the development of natural resources, including mining, oil and gas development, and associated transportation infrastructure, may adversely affect the health, safety and welfare of our tribal members, families and village, and the subsistence resources we rely on, if not properly planned, designed, sited, operated, managed or maintained; and

WHEREAS: proper planning, design, siting, operation, and management of development projects, and all associated activities and infrastructure, requires the active involvement, cooperation, coordination and consultation at all levels (tribal, federal, state, local and international governments and private and public sectors); and

WHEREAS: the Tribal Council is aware that Northern Dynasty Minerals Limited is actively accessing the economic viability of the Pebble Copper mine which is considered to be one of the largest copper-gold deposits in the world; and

WHEREAS: the Tribal Council is aware that the Pebble Copper mine is being considered under the Department of Transportation & Public Facilities 'Roads to Resources' program and that Department of Natural Resource is revising the Bristol Bay Area Plan which governs resource management on state land; and

WHEREAS: the Tribal Council wishes to ensure its active involvement, participation and consultation through governmental, public and political processes to ensure protection of tribal interests and rights and the protection of the health, safety and welfare of our tribal members, families and village.


NOW THEREFORE BE IT RESOLVED, that the Newhalen Tribal Council hereby authorizes the Tribal President, with the assistance of the Tribal Administrator, to serve as the lead point of contact for all correspondence related to the development of the Pebble Copper mine, including all correspondence related to the state's Roads to Resource program and the Bristol Bay Area Plan revisions.

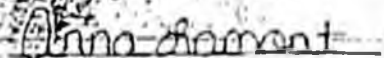
BE IT FURTHER RESOLVED, that the Newhalen Tribal Council hereby directs the Tribal President to forward a letter to all appropriate governmental, public and private sector entities notifying them of Newhalen Tribal Council's interest in being actively involved, informed, and consulted regarding matters related to the development of the Pebble Copper mine and associated activities.

BE IT FURTHER RESOLVED, that this resolution is intended for the stated purpose of establishing and fostering cooperative relationships with Tribal, State, Federal and local governments and private and public sector entities and should not be used as an approval or disapproval of the Pebble Copper mine, and shall not be interpreted in any way to diminish the protected rights and interests and unique legal status of the Native Village of Newhalen as a federally recognized tribe.

BE IT FURTHER RESOLVED, that Mr. Raymond Wassilie, President of the Newhalen Tribal Council, or his designee, hereby authorized to sign and or negotiate any terms, or conditions, or modifications to this "638" contract with the Bureau of Indians Affairs.

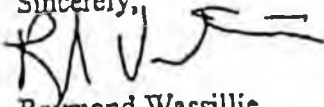
This resolution was duly considered and adopted at the general meeting of the Newhalen Tribal Council called and convened this 12 day of Nov, 2003 by a vote of 6 in favor and 0 against 0 abstain.


Raymond Wassilie, President


Anna Lament, Secretary

The Newhalen Tribal Council wishes to establish and foster on-going cooperative relationships with those governmental, public and private sector entities associated with the potential development of the Pebble Copper mine to ensure the interests of the Native Village of Newhalen are protected. We look forward to working with you in the future and if we can be of any assistance please contact Joanne.

Sincerely,



Raymond Wassilie
President

2832
JP

CITY OF ALEKNAGIK

P.O. Box 93, MAIN STREET
ALEKNAGIK, ALASKA 99555-0033
PHONE: 907-842-5953 OR 842-2528
FAX: 907-842-2107
EMAIL: cityalek@nushtel.com

April 11, 2003

Governor Frank H. Murkowski
Office of the Governor
3rd Floor State Capital, Mail Stop 0001
P.O. Box 110001
Juneau, Alaska 99811-0001

RECEIVED

APR 16 2003

GOVERNOR'S OFFICE

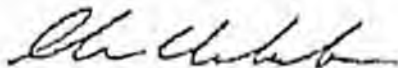
RE: Oil and Gas Development in Bristol Bay

Dear Governor Murkowski:

The City Council of the City of Aleknagik passed Resolution 03-11 supporting OCS 92 lease sales for oil and gas development in Bristol Bay at their regularly meeting on April 8, 2003. The City of Aleknagik supports economic development, local jobs, lower energy costs, less dependence on foreign oil, and protection of the fisheries and environment.

Please support oil and gas development in Bristol Bay and help to move up the OCS sales from 2011 to the earliest possible date. Thank you for your time and favorable consideration.

Sincerely,



Chris Chuckruk
Mayor

Enclosure: Resolution 03-11

cc: Senator Ted Stevens
Senator Laura Murkowski
Congressman Don Young
Alaska State Legislature
Paul Roehl, Bristol Bay Native Corporation

CITY OF ALEKNAGIK
RESOLUTION 03-11

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ALEKNAGIK SUPPORTING OCS 92 LEASE SALES FOR OIL AND GAS DEVELOPMENT IN BRISTOL BAY.

WHEREAS, Outer Continental Shelf (OCS) Sale 92, which occurred in October 1988, garnered nearly \$96 million in oil and gas bids for 127,000 acres contained in 23 leases; and

WHEREAS, the lease sale happened at a time when the price for sockeye salmon was high (up to \$2.60/lb.) and the price for oil was relatively low (\$17.30/bbl.); and

WHEREAS, the high commercial value of salmon in the late 1980's, coupled with the threat posed by the oil industry to salmon and wildlife habitat (particularly after the March 1989 Exxon Valdez oil spill), resulted in widespread opposition to the OCS 92 lease sales, and eventually led to the cancellation of those lease sales and the return of the bid proceeds to the respective oil companies; and

WHEREAS, lease sale area OCS 92 is not scheduled to be revisited by the U.S. Minerals Management Service until 2011; and

WHEREAS, the environmentally responsible exploration for, and development of, Bristol Bay oil and gas resources could create needed high-paying, rewarding jobs for the people of the region, especially given the recent, disastrous Bristol Bay commercial salmon seasons; and

WHEREAS development of these oil and gas resources could also result in substantially reduced heating and energy costs for residents in the Bristol Bay region, and could enhance the competitiveness of the Bristol Bay commercial salmon and other industries, such as mining; and

WHEREAS, given the rising tensions in the Middle East, it is becoming increasingly clear that America's dependence on foreign oil imports is highly undesirable, both from a strategic and domestic standpoint.

NOW THEREFORE BE IT RESOLVED that the City Council of the City of Aleknagik find that the City of Aleknagik strongly supports oil and gas exploration and development in the Bristol Bay region provided maximum protection be given to the fishery resources and that exploration and development be done in an environmental manner; and

BE IT FURTHER RESOLVED that the City of Aleknagik supports immediate exploration and development of the OCS 92 area and request the assistance of Senator Stevens, Senator Murkowski, Congressman Young, Governor Murkowski, and the

Alaska State Legislature to assist in moving the OCS sales schedule up from 2011 to 2004 or as earliest as possible.

PASSED AND APPROVED this 7 day of April, 2003 at Aleknagik, Alaska.

SIGNED:

Chris Cluckwuk
Chris Cluckwuk, Mayor

ATTEST:

Pauline Kohler
Pauline Kohler, City Clerk

MEMORANDUM OF UNDERSTANDING

Between

ALASKA DEPARTMENT OF NATURAL RESOURCES

And

THE ALEUT CORPORATION

To

**HOLD CONCURRENT OIL AND GAS LEASE SALES OF STATE AND TAC
LAND IN THE ALEUT REGION &
TO FACILITATE CONSTRUCTION OF A TRANSPORTATION
INFRASTRUCTURE THAT WILL SUPPORT THESE DEVELOPMENT
PROJECTS**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and The Aleut Corporation (TAC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and TAC is responsible for managing its 1.572 million acre mineral estate on behalf of its 3,250 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin including portions of the Aleut region on the Alaska peninsula has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Any discoveries of, and subsequent development of, commercial quantities of oil, gas, & mineral deposits in the Aleut region should benefit both the State of Alaska and TAC's shareholders.
- D. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent landowners to have similar land management and leasing programs in place.
- E. With TAC's support, the Alaska Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant to further evaluate the oil and gas potential of the Bristol Bay basin.
- F. The development of transportation infrastructure, as recommended by the Southwest Alaska Regional Transportation Plan, such as deep water ports, roads and airports, along the Alaska Peninsula should make oil, gas, and other mineral prospects more accessible, and thereby more economically feasible to explore and develop.

- G. The Alaska DNR, TAC, and BLM have been working collaboratively to rationalize ANCSA 17(b) and RS 2477 access issues.
- H. The Alaska DNR, TAC, and BLM have been working collaboratively to revoke obsolete federal land withdrawals in the Bristol Bay region.
- I. TAC supports the construction of an access road from Cold Bay to King Cove.

Agreements:

- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities, the Parties will work cooperatively to ensure that exploration and development activities are consistent with the land management and development plans of both Parties.
- The Parties agree that they will cooperate to ensure all development projects in the Aleut region are pursued in an environmentally responsible manner with maximum efforts to minimize impacts to fishery resources.
- TAC and the State of Alaska will work cooperatively to re-open offshore oil and gas prospects to exploration.
- Where reasonable to do so, the Parties will endeavor to synchronize the timing of their oil and gas-leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities.
- The Parties will communicate their development goals to other interested parties in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent legally permissible, information generated pursuant to this MOU may be kept confidential when requested in writing by a party to this MOU. Information released by a party to this MOU must credit the source of the information.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
State of Alaska DNR
550 W. 7th Ave., Suite 1400
Anchorage, AK 99501-3561

Chief Executive Officer
The Aleut Corporation
4000 Old Seward Hwy, #300
Anchorage, AK 99503

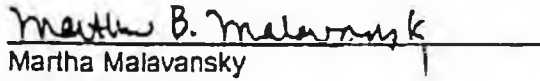
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Tom Irwin, Commissioner
Alaska Dept. of Natural Resources

12/18/03
Date



Martha Malavansky
President, TAC

12/18/03
Date

MEMORANDUM OF UNDERSTANDING**Between****ALASKA DEPARTMENT OF NATURAL RESOURCES****And****BRISTOL BAY NATIVE CORPORATION****To****FACILITATE OIL AND GAS LEASE SALES ON STATE AND BBNC LAND IN
THE BRISTOL BAY REGION**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and the Bristol Bay Native Corporation (BBNC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and BBNC is responsible for managing its 3.1 million acre mineral estate on behalf of its 7,100 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Exploration of oil and gas resources is a vital component to stimulating the local economy and providing jobs and economic opportunities in the region.
- D. The discovery of commercial quantities of oil and gas would provide an opportunity for low cost energy in the region, further stimulating the local economy.
- E. Any discoveries of commercial quantities of oil and gas in the Bristol Bay region will benefit both BBNC's shareholders and the State of Alaska, so it is in the best interest of the Parties to encourage exploration for such resources.
- F. BBNC has requested that the State facilitate on-shore oil and gas exploration in the region by holding annual areawide leasesales, beginning as soon as possible.
- G. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent

landowners to have similar land management and leasing programs in place.

- H. With BBNC's support, the DNR's Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant (\$150,000 of cash and in-kind contributions to be provided by BBNC) to further evaluate the oil and gas potential of the Bristol Bay basin.

Agreements:

The Parties agree to the following provisions:

- The Parties will work cooperatively to facilitate oil and gas leasesales of state and BBNC lands in the region to be held as soon as feasible.
- The Parties will cooperate to ensure all development projects in the Bristol Bay region will be pursued in an environmentally responsible manner and will minimize impacts to fishery resources.
- The Parties will work cooperatively to convince the federal government to re-open federal offshore oil and gas prospects in the region to exploration.
- The Parties will endeavor to synchronize the timing of their oil and gas leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities in the region.
- The Parties will communicate their development goals to other interested entities in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent allowable by statutes and regulations, the Parties will share information that will assist in accomplishing the objectives of this agreement.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):


DNR Commissioner
State of Alaska
550 W. 7th Ave., Suite 1450
Anchorage, AK 99501

Chief Executive Officer
Bristol Bay Native Corporation
800 Cordova Street
Anchorage, AK 99501

- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

- Others may become party to this MOU upon written consent of the Parties.

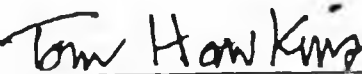
Approved:



Thomas E. Irwin, Commissioner
Alaska Dept. of Natural Resources

7/10/03

Date



Tom Hawkins
SR P & COO, BBNC

7.10.03

Date

15 AAC 55.220 ADMINISTRATIVE CODE SUPPLEMENT 15 AAC 55.220

(3) a vessel is in allowable lay up if the vessel is laid up during a calendar year, but only to the extent that the total number of days it is or has been laid up while owned or effectively owned by the producer through the end of that calendar year does not exceed the total number of days it is or has been in allowable service while owned or effectively owned by the producer through the end of that calendar year;

(4) a vessel is in allowable dry dock if the vessel is in dry dock during a calendar year, but only for that fraction of the total days in dry dock that equals the sum of the number of days during the year that the vessel is in allowable service and the number of days during the year that the vessel is in allowable lay up, divided by the sum of the number of days during the year that the vessel is in allowable service, the number of days during the year that the vessel is laid up, and the number of days during the year that the vessel is in alternative service;

(5) a vessel is in alternative service if it is not in lay up, dry dock, or allowable service; and

(6) if necessary to determine a vessel's status during a month, the vessel's status at later times will be considered. (Eff. 1/1/2003, Register 164; am 1/1/2004, Register 168)

Authority: AS 43.05.080	AS 43.55.030	AS 43.55.110
AS 43.55.020	AS 43.55.040	AS 43.55.150

Editor's note: Copies of Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements, adopted by reference in 15 AAC 55.196(d), may be obtained from the Tax Division, Department of Revenue, 550 W. Seventh Ave., Suite 500, Anchorage, Alaska 99501-3566.

15 AAC 55.220. Oil and gas exploration tax credit. (a) An explorer may request an oil and gas exploration tax credit by filing an application with the department no later than six months after the completion date of the exploration activity for which the tax credit is claimed.

(b) For a particular exploration well, an explorer may claim a tax credit of

(1) 20 percent of exploration expenditures,

(A) if those expenditures qualify under AS 43.55.025(b) and (c); and

(B) regardless of whether the well is less than 25 miles from an existing unit that is under a plan of development;

(2) 20 percent of exploration expenditures,

(A) if those expenditures qualify under AS 43.55.025(b) and (d), and

15 AAC 55.225

REVENUE

15 AAC 55.225

(B) regardless of whether the bottom hole of the exploration well is less than three miles away from the bottom hole of a preexisting suspended, completed, or abandoned oil or gas well; or

(3) 40 percent of exploration expenditures, if those expenditures qualify under AS 43.55.025(b), (c), and (d).

(c) For a particular seismic or geophysical exploration activity, an explorer may claim a tax credit of 40 percent of exploration expenditures, if those expenditures qualify under AS 43.25.025(b) and (e). (EE. 1/1/2004, Register 168)

Authority: AS 43.05.080

AS 43.55.025

AS 43.55.110

15 AAC 55.225. Oil and gas exploration tax credit claim.

(a) An application for an exploration tax credit for a particular exploration activity may, on a form provided by the department, be filed by

(1) a single explorer that

(A) holds the entire interest in the particular well or seismic or geophysical exploration activity; and

(B) incurred 100 percent of the expenditures for which the credit is claimed; or

(2) a designated joint applicant that is authorized in a writing, signed by each explorer that incurred expenditures, to file a joint tax credit application on behalf of all those explorers; a joint application must be for the total qualified expenditures incurred by all the explorers for the exploration activity for which the credit is claimed and must include a copy of the written authorization signed by each explorer.

(b) A tax credit application for an exploration well must include the following information:

(1) the applicant's name, permanent contact address, and telephone number;

(2) if the applicant is a designated joint applicant, under (a)(2) of this section, the name and address of each explorer represented in the application and the percentage of the total qualified exploration expenditures incurred by each explorer;

(3) a description of the exploration activities for which the credit is claimed;

(4) an accounting of the qualified exploration expenditures for which credit is claimed;

(5) the date the exploration well was spudded, the date it was drilled, and the completion date;

(6) the bottom hole location and the surface location of the exploration well;

(7) for an application under AS 43.55.025(b) and (c), the

(A) bottom hole location of the nearest preexisting well,

(B) date the nearest preexisting well was drilled,