

**SB**

**163**

**SB 163 Materials List**

- Sponsor Statement: 1 page
- Sectional Analysis: 1 page
- Bill: 5 pages
- Fiscal Note: DNR: 1 page

NOTE: Have not received fiscal note from DOR, will be handed out at meeting.

# 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

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### Sponsor Statement

#### **SB 163: Cook Inlet Oil & Gas Credit**

The Senate and House Resources Committees held a joint committee meeting in Kenai in February 2005.

The purpose of the meeting was to receive testimony from individuals and companies doing oil and/or natural gas business in the Cook Inlet basin. The committee heard comments and suggestions on methods to improve the business conditions in the oil and natural gas industry.

One of those suggestions was the need to revise the exploration incentive credits that were passed in 2003 for the Cook Inlet basin.

The Cook Inlet basin differs substantially from other areas of the state and subsequently warrants this approach. It was the first area of the state to be explored and then developed for oil and gas production. As a result, it has some of the oldest fields in Alaska and most of the currently producing platforms are declining annually. With few exceptions, drilling an exploration well that is "outside" the existing 3-mile limitation effectively exempted the entire Cook Inlet basin from any credits.

This bill remedies that situation but at the same time, requires the commissioner to review information submitted by the explorer within a 60-day time frame and further, limits the maximum credits allowed to not exceed \$20,000,000.

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### Sectional Analysis

#### **SB 163: Cook Inlet Oil & Gas Credit**

- 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.

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number \_\_\_\_\_  
 Bill Version SB163-DNR-O&G-04-12-  
 ( ) Publish Date \_\_\_\_\_

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Natural Resources  
 Title Cook Inlet Oil & Gas Tax Credit RDU Resource Development  
 Component Oil and Gas Development  
 Sponsor Senate Resources  
 Requester Senate 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						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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 would allow the Dept. of Revenue to grant an oil and gas production tax credit for Cook Inlet exploration wells located within 3-miles of a previous well if the DNR Commissioner determines that the well tests a distinctly separate exploration target (hydrocarbon trap)

SB 163 would require DNR to make a technical determination of whether an exploration well constitutes a distinctly separate exploration target. The Division of Oil and Gas is staffed in part by highly specialized technical experts schooled and experienced in the areas of petroleum geology, geophysics, and engineering who make similar determinations for other incentives under Title 38. Any technical analysis and staff costs would be absorbed by the current budget.

Prepared by Mark D. Myers, Director Phone 269-8800  
 Division Oil and Gas Date/Time 4/12/2005  
 Approved by Tom Irwin, Commissioner Date 4/12/2005  
 Agency Natural Resources

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(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.

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SB 163  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue 04  
 Title: Cook Inlet Oil & Gas Tax Credit RDU: Tax and Treasury  
 Component: Tax  
 Sponsor: Senate Resources  
 Requester: Senate Resources Component No.: 2476

**Expenditures/Revenue:** (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						
<b>TOTAL OPERATING</b>	*	*	*	*	*	*

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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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)						
<b>TOTAL</b>	*	*	*	*	*	*

Estimate of any current year (FY2005) cost: 00

Check 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)

Discussion

This bill builds on the AS 43 55 025 exploration credit that was passed into law in 2003, by creating rules tailored to Cook Inlet conditions. The original credit expires in 2007, and for Cook Inlet prospects, this bill extends the eligibility to 2010. Specifically the bill creates the following conditions:

- Section 1 AS 43 55 025 (b) makes "Cook Inlet prospects" where work is performed on or after July 1, 2005, and before July 1, 2010 eligible for the AS 43 55 025 credit.

Prepared by: Dan Dickinson & Greg Bidwell Phone 269-6620  
 Division: Tax Division Date/Time 4/13/05 9:14 AM  
 Approved by: Jerry Burnett, Special Assistant to the Commissioner Date 4/13/2005  
 Agency: Department of Revenue

## FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. SB 163

### ANALYSIS CONTINUATION

- Section 2 AS 43 55.025(c)(2) adds sub (A) and sub (B) which means that for a Cook Inlet prospect the well must be 3 miles from any other well, with all distances measured as the horizontal distance between exploration targets, except that the exploration well that is located within 3 miles of a well drilled for oil and gas qualifies if commissioner of natural resources determines the prospect to be a distinctly separate exploration target.
- Section 3 (d)(2) is amended so that for a Cook Inlet prospect to qualify the exploration well must be located not less than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development (outside of Cook Inlet 25 miles are required)
- Section 4(f)(5) establishes a limit on total Exploration production tax credits for Cook Inlet under these rules of \$20 million.
- Section 5 (k) (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).
- Section 5 (k)(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).

\*\*Effect on Revenues is indeterminate based on both how much the credit is used (thought that is capped at \$20 million dollars), and the success of the exploration.

This bill will allow wells drilled in the Cook Inlet after July, 2007 (and before July, 2010) to qualify for the exploration credit. In addition, wells can be within three miles of another well and qualify for a 20% deduction if DNR finds the well is targeting a separate exploration target. Wells can also qualify for 20% if they are between 10 and 25 miles from a producing unit. (The old standard of 25 miles from a producing unit would have been virtually impossible to meet in the Cook Inlet). Under this standard virtually every exploration well would qualify for at least a 20% credit.

DOR believes that the Cook Inlet remains a prospective enough basin to justify enough exploration to reach the \$20 million limit between 2006 and 2010. There were 10 exploration wells drilled in both 2002 and 2003. These wells, though more expensive than wells in the onshore lower-48, are less expensive than the remote wildcat wells in Northern Alaska. They tend to be shallow (around 6,000 feet) and be gas exploration wells (70% of the wells drilled in 2002 and 2003 were for gas). DOR estimates that at least \$30 million is being spent on exploration in the Cook Inlet per year currently, and that all of that expenditure will at least qualify for the 20% credit. If 2005 and 2006 expenditures are claimed in fiscal year 2007, then the State will provide \$12 million in credits in that year, and \$6 million the following year (FY 2008). The \$20 million cap will be reached in the FY2009.

Some additional language will need to be crafted either in the bill or in our implementing regulations to clarify how the \$20 million cap works. The process for qualifying for the credit is a multi-step process involving at least two agencies, and subject to appeal. Thus if the last applicant to cross a certain line gets the last dollar, that line needs to be clearly defined.

Cook Inlet discoveries are economic at smaller field sizes than similar discoveries on the North Slope. Oil finds should be economic at 50 million barrels and gas finds of 50 bcf. Just one such find should more than repay the cost of the credit.

Operating Expenditures. The department views this as an extension of current programs, and thus will require no increment above the baseline division funding.